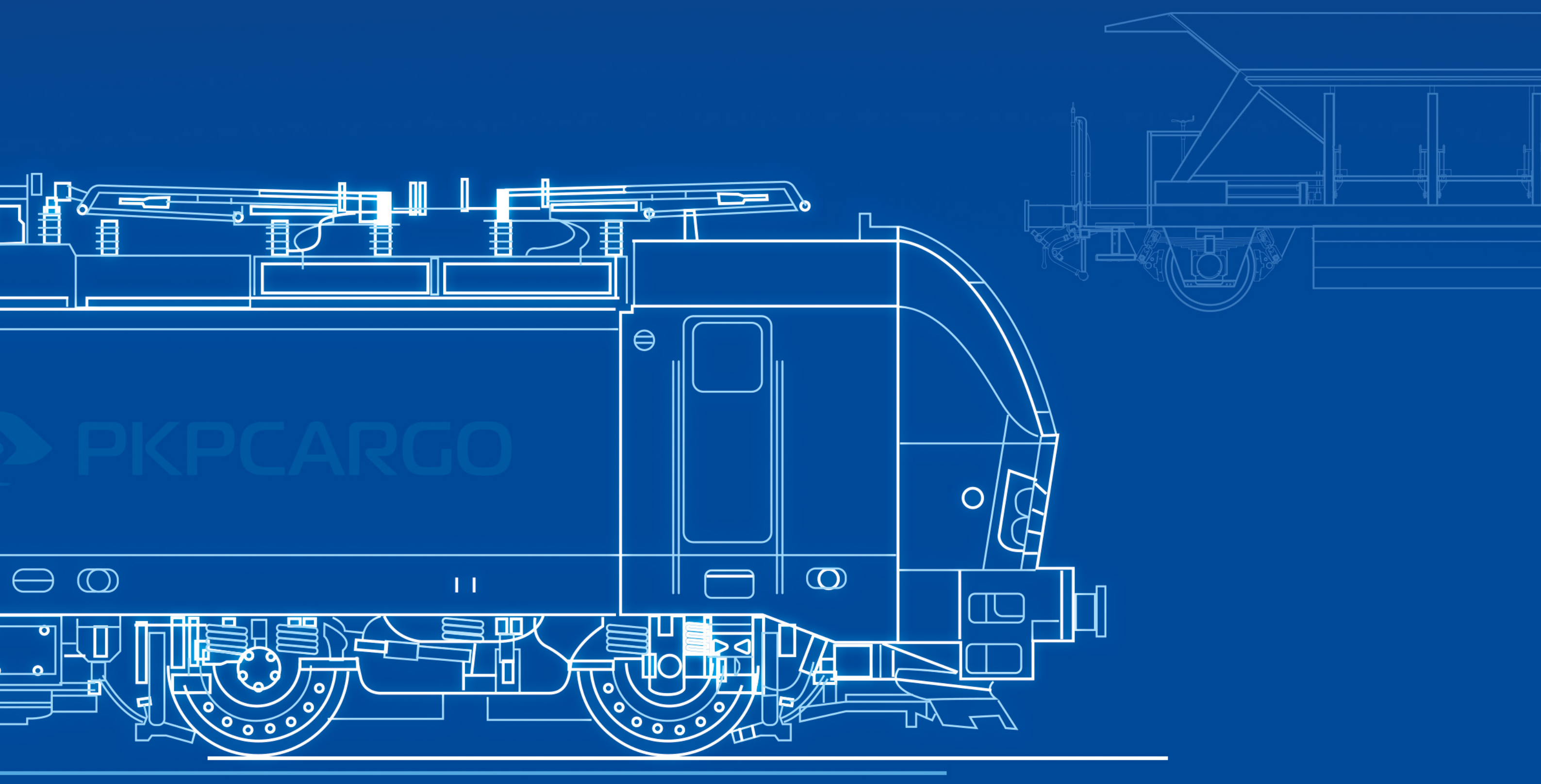
PKP CARGO GROUP'S CONSOLIDATED QUARTERLY REPORT FOR Q1 2018



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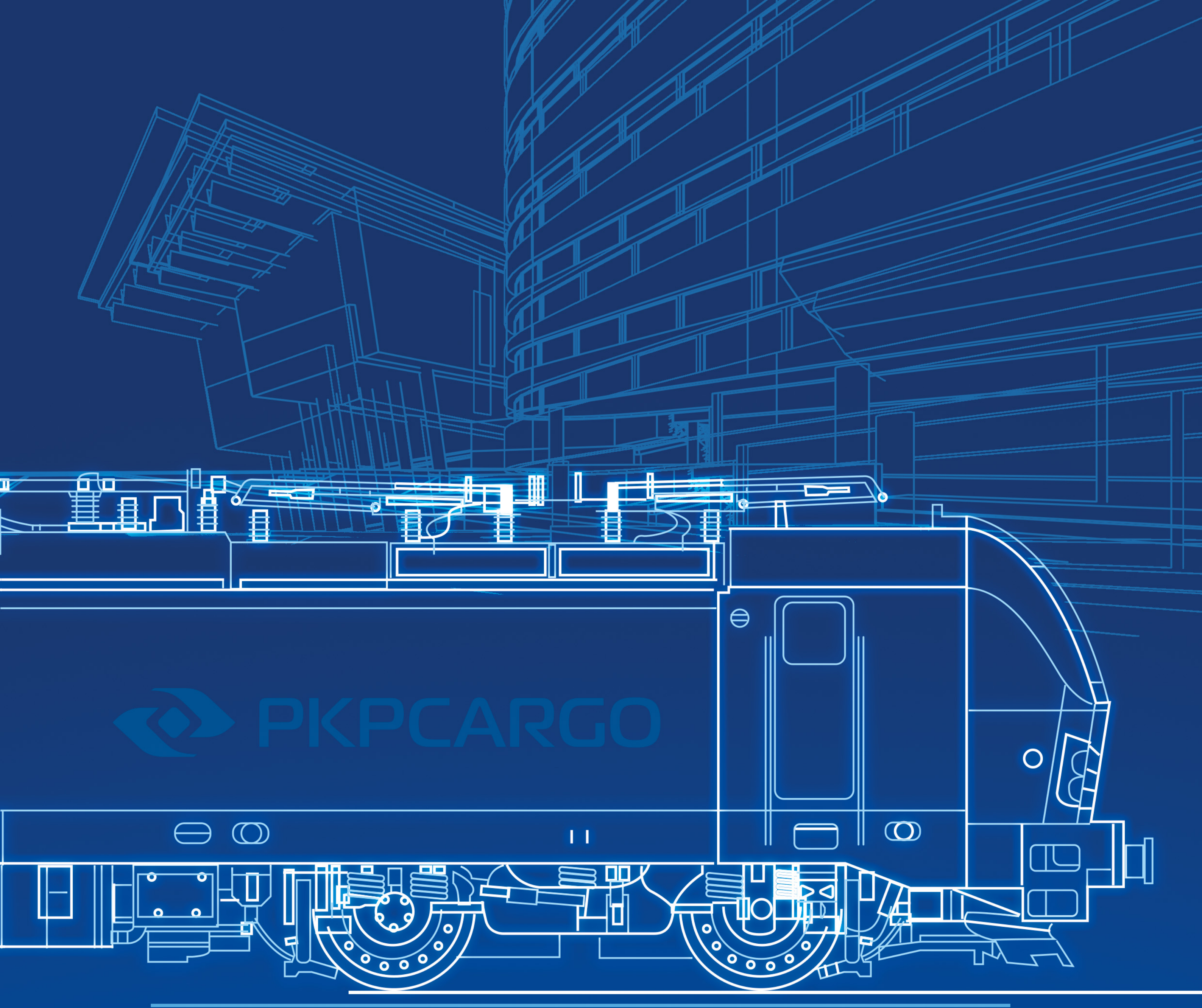

QUARTELY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE **PKP CARGO** GROUP FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2018 PREPARED IN ACCORDANCE WITH IFRS AS ENDORSED BY THE EUROPEAN UNION

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QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 MARCH 2018

	Note	3 months ended 31/03/2018	3 months ended 31/03/2017
Revenue from sales of services and finished products	5	1 192 507	1 077 406
Revenue from sales of goods and materials		12 437	9 920
Other operating revenue	7	10 932	12 701
Total operating revenue		**1 215 876**	**1 100 027**
Depreciation, amortization and impairment losses	6	137 015	143 841
Consumption of raw materials and energy	6	186 116	170 643
External services	6	393 997	372 006
Taxes and charges		5 904	10 310
Employee benefits	6	398 979	371 185
Other expenses by kind	6	13 260	13 056
Cost of goods and raw materials sold		7 802	7 396
Other operating expenses	7	9 547	8 414
Total operating expenses		**1 152 620**	**1 096 851**
Operating profit / (loss)		**63 256**	**3 176**
Financial revenue	8	2 683	10 087
Financial expenses	8	13 145	15 184
Share in the profit / (loss) of entities accounted for under the equity method	11	(3 071)	2 019
Profit / (loss) before tax		**49 723**	**98**
Income tax	9	14 114	1 532
NET PROFIT / (LOSS)		**35 609**	**(1 434)**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income subject to reclassification in the financial result			
Effective portion of gains / (losses) related to a hedging instrument to hedge cash flow		(7 869)	19 404
Income tax referring to the other comprehensive income line item	9	1 495	(3 687)
Foreign exchange differences resulting from translation of financial statements of foreign entities		11 567	(32 757)
Total other comprehensive income subject to reclassification in the financial result		**5 193**	**(17 040)**
Total other comprehensive income		**5 193**	**(17 040)**
TOTAL COMPREHENSIVE INCOME		**40 802**	**(18 474)**
Net profit / (loss) attributable:			
To shareholders of the parent company		35 609	(1 434)
Total other comprehensive income attributable:			
To shareholders of the parent company		40 802	(18 474)
Earnings / (losses) per share (PLN per share)			
Basic	18	0.80	(0.03)
Diluted	18	0.80	(0.03)

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QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018

	Note	As at 31/03/2018	As at 31/12/2017
ASSETS			
Non-current assets			
Property, plant and equipment	**10**	4 697 034	4 687 982
Intangible assets		41 370	43 927
Investment property		1 192	1 205
Investments in entities accounted for under the equity method	**11**	50 834	53 610
Trade and other receivables	**15**	1 412	1 836
Other non-current financial assets	**12**	7 465	10 537
Other non-current non-financial assets	**13**	14 195	14 726
Deferred tax assets		143 082	133 583
Total non-current assets		**4 956 584**	**4 947 406**
Current assets			
Inventories	**14**	146 361	148 464
Trade and other receivables	**15**	709 164	729 535
Income tax receivables		117	115
Other current financial assets	**12**	310 998	263 670
Other current non-financial assets	**13**	51 308	35 593
Cash and cash equivalents	**16**	397 768	516 776
Total current assets		**1 615 716**	**1 694 153**
TOTAL ASSETS		**6 572 300**	**6 641 559**
EQUITY AND LIABILITIES			
Equity			
Share capital	**17**	2 239 346	2 239 346
Supplementary capital		619 306	619 306
Other items of equity		(14 451)	4 872
Foreign exchange differences resulting from translation of financial statements of foreign entities		71 463	59 896
Retained earnings		456 106	411 358
Total equity		**3 371 770**	**3 334 778**
Long-term liabilities			
Long-term bank loans and borrowings	**19**	1 262 869	1 312 629
Long-term finance lease liabilities	**20**	84 913	91 055
Long-term trade and other payables	**23**	1 645	1 578
Long-term provisions for employee benefits	**24**	560 788	558 547
Other long-term provisions	**25**	22 235	22 446
Deferred tax liability		107 298	107 418
Total long-term liabilities		**2 039 748**	**2 093 673**
Short-term liabilities			
Short-term bank loans and borrowings	**19**	244 166	249 701
Short-term finance lease liabilities	**20**	43 390	48 040
Short-term trade and other payables	**23**	692 529	749 736
Short-term provisions for employee benefits	**24**	118 060	104 006
Other short-term provisions	**25**	60 781	59 726
Other short-term financial liabilities	**21**	66	272
Short-term tax liabilities		1 790	1 627
Total short-term liabilities		**1 160 782**	**1 213 108**
Total liabilities		**3 200 530**	**3 306 781**
TOTAL EQUITY AND LIABILITIES		**6 572 300**	**6 641 559**

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QUARTERLY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 MARCH 2018

			Other items of equity					Equity		
	Share capital	Supplementary capital	Gains / (losses) on measurement of equity instruments at fair value	Actuarial gains / (losses) on post-employee benefits	Gains / (losses) related to a hedging instrument to hedge cash flow	Foreign exchange differences resulting from translation of financial statements of foreign entities	Retained earnings	Attributable to the owners of the parent company	Attributable to non-controlling interests	Total
As at 1/01/2018 (audited)	**2 239 346**	**619 306**	**-**	**(15 625)**	**20 497**	**59 896**	**411 358**	**3 334 778**	**-**	**3 334 778**
Changes resulting from the implementation of IFRS 9	-	-	(12 949)	-	-	-	9 139	**(3 810)**	-	**(3 810)**
As at 1/01/2018 (restated)	**2 239 346**	**619 306**	**(12 949)**	**(15 625)**	**20 497**	**59 896**	**420 497**	**3 330 968**	**-**	**3 330 968**
Net result for the period	-	-	-	-	-	-	35 609	**35 609**	-	**35 609**
Other comprehensive income for the period (net)	-	-	-	-	(6 374)	11 567	-	**5 193**	-	**5 193**
Total comprehensive income	**-**	**-**	**-**	**-**	**(6 374)**	**11 567**	**35 609**	**40 802**	**-**	**40 802**
As at 31/03/2018	**2 239 346**	**619 306**	**(12 949)**	**(15 625)**	**14 123**	**71 463**	**456 106**	**3 371 770**	**-**	**3 371 770**
									-	
As at 1/01/2017	**2 239 346**	**618 666**	**-**	**13 521**	**(2 074)**	**59 970**	**313 440**	**3 242 869**	**-**	**3 242 869**
Net result for the period	-	-	-	-	-	-	(1 434)	**(1 434)**	-	**(1 434)**
Other comprehensive income for the period (net)	-	-	-	-	15 717	(32 757)	-	**(17 040)**	-	**(17 040)**
Total comprehensive income	**-**	**-**	**-**	**-**	**15 717**	**(32 757)**	**(1 434)**	**(18 474)**	**-**	**(18 474)**
As at 31/03/2017	**2 239 346**	**618 666**	**-**	**13 521**	**13 643**	**27 213**	**312 006**	**3 224 395**	**-**	**3 224 395**

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QUARTERLY CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 MARCH 2018

	Note	3 months ended 31/03/2018	3 months ended 31/03/2017
Cash flow from operating activities			
Profit / (loss) before tax		**49 723**	**98**
Adjustments:			
Depreciation of property, plant and equipment and amortization of intangible assets	6	137 015	143 841
(Gains) / losses on the sale and liquidation of property, plant and equipment, intangible assets and non-current assets held for sale		(733)	(5 215)
Foreign exchange (gains) / losses		(165)	(2 819)
(Gains) / losses on interest, dividends		5 711	7 445
Share in the (profit) / loss of entities measured by the equity method	11	3 071	(2 019)
Received / (paid) interest		1 127	491
Received / (paid) income tax		(23 113)	(2 410)
Other adjustments		(2 681)	9 589
Change in working capital:			
(Increase) / decrease in trade and other receivables		15 397	12 639
(Increase) / decrease in inventories		3 902	6 269
(Increase) / decrease in other assets		(12 183)	(33 212)
Increase / (decrease) in trade and other payables		4 341	(46 403)
Increase / (decrease) in other financial liabilities		(206)	(5 500)
Increase / (decrease) in provisions		17 140	9 844
Net cash from operating activities		**198 346**	**92 638**
Cash flow from investing activities			
Expenditures to acquire property, plant and equipment and intangible assets		(192 829)	(118 436)
Proceeds on the transfer of property, plant and equipment, intangible assets and non-current assets held for sale		1 120	7 854
Proceeds from interest received		2 197	1 092
Proceeds from dividends received		-	600
Outflows from loans granted		-	(120)
Proceeds from repayment of loans		251	-
(Outflows) / inflows from bank deposits over 3 months		(49 000)	(250 000)
Net cash from investing activities		**(238 261)**	**(359 010)**
Cash flow from financing activities			
Payments of financial leases liabilities	22	(12 328)	(12 610)
Payments of interest under finance leases	22	(1 329)	(1 580)
Proceeds from bank loans and borrowings	22	-	80 181
Repayments of bank loans and borrowings	22	(60 921)	(94 422)
Interest paid on bank loans and borrowings	22	(6 926)	(7 456)
Grants received		1 000	-
Other outflows from financing activities		(99)	(313)
Net cash from financing activities		**(80 603)**	**(36 200)**
Net increase / (decrease) in cash and cash equivalents		(120 518)	(302 572)
Cash and cash equivalents at the beginning of the reporting period	16	516 776	755 919
Impact of changes foreign exchange rates on the cash balance in foreign currencies		1 510	(5 673)
Cash and cash equivalents at the end of the reporting period	16	**397 768**	**447 674**

EXPLANATORY NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS AT 31 MARCH 2018

1. General information

Information about the Parent Company

PKP CARGO S.A. ("Company", "Parent Company") was established pursuant to a Notary Deed of 29 June 2001 (Rep. A No. 1287/2001). The Parent Company's registered office is Warsaw at Grójecka Street no 17. The Parent Company was registered in the National Court Register in the District Court in Katowice, Commercial Division of the National Court Register under file number KRS 0000027702. Currently, as a consequence of moving the Parent Company's registered office, the registration files are kept by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register. The Parent Company was assigned the REGON statistical number 277586360 and the NIP tax identification number 954-23-81-960.

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

The composition of the Parent Company's management and supervisory bodies and the Parent Company's shareholding structure as at 31 March 2018 are presented in the Additional Information to the Consolidated Quarterly Report of the PKP CARGO Group for Q1 2018 in **Notes 3.1** and **3.3**, respectively.

Information about the Group

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

As at the balance sheet date, the PKP CARGO Group (hereinafter Group) comprised of PKP CARGO S.A. as its parent company and 25 subsidiaries. In addition, the Group held shares in 4 associated entities and 2 joint ventures.

The duration of individual Group companies is unlimited.

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1. General information (cont.)

The detailed information about the subsidiaries consolidated using the full method as at 31 March 2018 and 31 December 2017 is as follows:

Item	Name of the subsidiary	Core business	Place of registration and business	Percent of shares held by the Group	
				As at 31/03/2018	As at 31/12/2017
1	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Service activity incidental to land transport, cargo handling and wholesale and retail sale of waste and scrap	Małaszewicze	100.0%	100.0%
2	PKP CARGO Centrum Logistyczne Medyka - Żurawica Sp. z o.o.	Service activity incidental to cargo transshipment in other transshipment points	Żurawica	100.0%	100.0%
3	PKP CARGO SERVICE Sp. z o.o.	Comprehensive siding services	Warsaw	100.0%	100.0%
4	PKP CARGO CONNECT Sp. z o.o.	Freight forwarding services	Warsaw	100.0%	100.0%
5	PKP CARGOTABOR Sp. z o.o.	Service activity incidental to repair and overhaul of rolling stock	Warsaw	100.0%	100.0%
6	PKP CARGOTABOR USŁUGI Sp. z o.o.	Activity related to collecting, processing and neutralizing waste and recovery of raw materials	Warsaw	100.0%	100.0%
7	CARGOTOR Sp. z o.o.	Management of logistic and service infrastructure in the form of rail sidings and railway tracks, providing access to such infrastructure to rail operators.	Warsaw	100.0%	100.0%
8	CARGOSPED Terminal Braniewo Sp. z o.o.	Freight transshipment, customs warehouse	Braniewo	100.0%	100.0%
9	Advanced World Transport B.V.	Holding and financial activity	Amsterdam	100.0%	100.0%
10	Advanced World Transport a.s.	Provision of comprehensive services: rail transport, railway shipping, sidings handling, rolling stock repairs	Ostrava	100.0%	100.0%
11	AWT ROSCO a.s.	Rolling stock management, rolling stock lease	Ostrava	100.0%	100.0%
12	AWT Čechofracht a.s.	Rail freight forwarding and customs service	Prague	100.0%	100.0%
13	AWT Rekultivace a.s.	Provision of comprehensive services: land reclamation, construction services, waste management, zoning design	Havířov-Prostřední Suchá	100.0%	100.0%
14	AWT Rail HU Zrt.	Provision of comprehensive services: rail transport, railway shipping, sidings handling	Budapest	100.0%	100.0%

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1. General information (cont.)

Detailed information about the remaining subsidiaries from the Group as at 31 March 2018 and 31 December 2017 is as follows:

Item	Name of the subsidiary	Core business	Place of registration and business	Percent of shares held by the Group	
				As at 31/03/2018	As at 31/12/2017
15	ONECARGO Sp. z o.o.	Cargo rail transport	Warsaw	100.0%	100.0%
16	ONECARGO CONNECT Sp. z o.o.	Service activities incidental to land transport	Warsaw	100.0%	100.0%
17	Transgaz S.A.	Transport agency	Zalesie near Małaszewicze	64.0%	64.0%
18	Trade Trans Finance Sp. z o.o.	Financial and accounting service	Warsaw	100.0%	100.0%
19	PKP CARGO CONNECT GmbH	Customs and freight forwarding service	Hamburg	100.0%	100.0%
20	PPHU "Ukpol" Sp. z o.o.	Freight transshipment, trading services	Werchrata	100.0%	100.0%
21	AWT Rail SK a. s.	Rail transport, freight forwarding	Bratislava	100.0%	100.0%
22	AWT DLT s.r.o.	Siding services	Kladno	100.0%	100.0%
23	AWT Trading s.r.o.	Trading in products for the army	Pietwałd	100.0%	100.0%
24	AWT Rekultivace PL Sp. z o.o.	Provision of comprehensive services: land reclamation, construction services, waste management, zoning design	Cieszyn	100.0%	100.0%
25	RND s.r.o.	Rail freight forwarding, transport monitoring	Olomouc	51.0%	51.0%

2. Basis for preparation of the Quarterly Condensed Consolidated Financial Statements

These Quarterly Condensed Consolidated Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34 – Interim Financial Reporting ("IAS 34") and in accordance with the relevant accounting standards applicable to interim financial reporting, as endorsed by the European Union ("EU IFRS)", published and in effect during the preparation of these Quarterly Condensed Consolidated Financial Statements and in accordance with the Finance Minister's Regulation of 29 March 2018 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2018 Item 757) ("Regulation").

These Quarterly Condensed Consolidated Financial Statements should be read together with the audited Consolidated Financial Statements of the PKP CARGO Group for the year ended 31 December 2017 prepared according to EU IFRS.

These Quarterly Condensed Consolidated Financial Statements have been prepared based on the assumption that the Group will continue to be a going concern in the foreseeable future. As at the preparation date of these Quarterly Condensed Consolidated Financial Statements, there are no circumstances indicating any substantial doubt about the Group's ability to continue its business as a going concern for a period of at least 12 months from the date of the financial statements.

These Quarterly Condensed Consolidated Financial Statements have been prepared in accordance with the historic cost principle, except for derivatives measured at fair value and investments in equity instruments.

The Group's business does not show any material seasonal or cyclical trends.

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.

2. Basis for preparation of the Quarterly Condensed Consolidated Financial Statements (cont.)

These Quarterly Condensed Consolidated Financial Statements have been prepared in Polish zloty (PLN). Polish zloty is the Group's functional and reporting currency. Data in these Quarterly Condensed Consolidated Financial Statements are presented in thousands of Polish zloty.

Transactions in foreign currencies are converted into the functional currency at the exchange rate at the date of the transaction or valuation upon their initial revaluation. As at the balance sheet date, cash assets and liabilities denominated in foreign currencies are converted according to the average NBP exchange rate binding on that date. Foreign exchange gains and losses obtained as a result of settlements of those transactions and balance sheet valuation of assets and liabilities denominated in foreign currencies are recognized in the result, provided they are not recognized in other comprehensive income when they are eligible for recognition as security for cash flows. Non-cash items carried at historical cost expressed in a foreign currency are converted using the exchange rate on the transaction date.

The financial data of foreign entities for the purpose of consolidation have been converted into the Polish currency in the following manner:
a) assets and liabilities items at the exchange rate at the end of the reporting period,
b) statement of comprehensive income items and cash flow statement items at the average exchange rate in the reporting period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in a given period.

FX differences resulting from the above conversions are presented in the equity as FX differences resulting from translation of financial statements of foreign entities.

As at 31 March 2018 and 31 December 2017, for the needs of valuation of the financial statements of foreign entities included in consolidation, the following exchange rates were adopted:

Currency	Items of the statement of financial position		Items of the statement of comprehensive income and cash flow statement	
	As at 31/03/2018	As at 31/12/2017	3 months ended 31/03/2018	3 months ended 31/03/2017
EUR	4,2085	4,1709	4,1784	4,2891
CZK	0,1659	0,1632	0,1648	0,1586
HUF	0,0135	0,0134	0,0134	0,0139

These Quarterly Condensed Consolidated Financial Statements have not been audited by a statutory auditor. The line items of the consolidated statement of financial position as at 31 December 2017 were audited by a statutory auditor during the audit of the Consolidated Financial Statements of the PKP CARGO Group for the year ended 31 December 2017 prepared according to EU IFRS.

The line items of the consolidated statement of comprehensive income for the period of 3 months ended 31 March 2017 have been restated due to the retrospective application of IFRS 15.

In these Quarterly Condensed Consolidated Financial Statements, certain items of the statement of financial position as at 1 January 2018 have been restated in connection with the implementation of IFRS 9. Data as at 31 December 2017 are presented based on IAS 39 "Financial Instruments: Recognition and Measurement".

The effects of restatement in connection with the implementation of IFRS 15 and IFRS 9 are described in **Note 3** to these Quarterly Condensed Consolidated Financial Statements.

These Quarterly Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 24 May 2018.

3. Applied accounting policies and improvements to International Financial Reporting Standards

Statement on accounting policies

The accounting policies and calculation methods adopted for the preparation of these Quarterly Condensed Consolidated Financial Statements are consistent with the policies described in the PKP CARGO Group's audited Consolidated Financial Statements for the year ended 31 December 2017 prepared in accordance with EU IFRS, taking into account the changes resulting from the implementation of IFRS 9 and IFRS 15, as described in this note.

3. Applied accounting policies and improvements to International Financial Reporting Standards (cont.)

Standards and interpretations adopted by the IASB and EU which have entered into effect

When approving these Quarterly Condensed Consolidated Financial Statements, the Group applied the following amendments to the standards and interpretations issued by the International Accounting Standards Board for application by the EU:

- **IFRS 15 "Revenue from Contracts with Customers"** – applicable to annual periods beginning on 1 January 2018 or afterwards. This standard has replaced IAS 18 "Revenues" and IAS 11 "Construction Contracts" and the related interpretations. The fundamental principle of the new standard provides for recognition of the revenues in the financial statements in such a way as to show the transfer of goods or services to customers in the amount that reflects the amount of the remuneration (i.e. payment) which the Company expects to receive in return for such goods or services. In accordance with the new regulations a revenue occurs at the time when control over the goods or services passes on to the customer. The standard has introduced a 5-step approach to revenue recognition:
  1) Identifying the contracts with customers, which are understood as parties which concluded a contract with the entity to purchase goods or services, resulting from ordinary activity of the entity, in exchange for consideration.
  2) Identifying the performance obligations in the contract.
  3) Determining the transaction price. Determining the transaction price, in addition to the base consideration, one should consider such other components as: variable consideration, non-cash consideration which should be carried at fair value, factors associated with financing the price (by the seller or buyer) e.g. discount resulting from a time difference between the performance of the obligation and the payment for its performance or amounts paid in connection with performance of the obligations of the contract.
  4) Allocating the transaction price to the performance obligations in the contract. The best basis to determine the individual price is the price for which the entity may separately sell the given good or service.
  5) Revenue recognition when the entity satisfies a performance obligation. The performance obligation is recognized as satisfied upon transfer of the control over the goods or services subject to the agreement to the customer.
- **Clarifications to IFRS 15 "Revenue from Contracts with Customers"** – applicable to annual periods beginning on 1 January 2018 or afterwards. The improvement has provided additional clarifications concerning certain requirements and has introduced an additional exemption for entities introducing IFRS 15 "Revenue from Contracts with Customers".
- **IFRS 9 "Financial Instruments"** – applicable to annual periods beginning on 1 January 2018 or afterwards. The key amendments introduced by the new standard pertain to:
  1) Changes of the rules of classification and valuation of financial assets which are based on the entity's business model for managing the assets and the cash flow characteristics. The existing categories of financial assets have been replaced with new ones, i.e. carried out at:
     – amortized cost,
     – fair value through other comprehensive income,
     – fair value through profit or loss.

     The amended standard imposes an obligation to carry shares in unlisted companies in fair value and significantly reduces the existing possibility of carrying assets at cost.
  2) Introduction of a new model for assessment of impairment of financial assets which replaces the concept of incurred losses with the concept of expected credit losses.
  3) Hedge accounting model.
- **Amendments to IFRS 2 "Share-based Payment"** entitled "Classification and valuation of share-based payment transactions" applicable to annual periods beginning on 1 January 2018 or afterwards. This amendment to IFRS 2 clarifies that the fair value of share-based payments settled in cash should be determined in the same way as in the case of payments settled in equity instruments. The amendment of the standard introduced a requirement of adjustment of the liability through taking into account each change of the value in the financial result before change of the classification from liabilities to equity. The cost recognized after modification is based on the fair value from the modification date. The amendment has introduced an exception according to which the payment of cash to the tax authority is treated as part of the settlement in the form of equity instruments. The entity should disclose the estimate amount that it expects to pay to the tax authority on account of such tax. As at the date of the first application of this amendment, the reclassification of the liability to equity will not have any impact on the financial result.
- **Amendments to IFRS 4 "Insurance Contracts": Application of IFRS 9 "Financial Instruments" together with IFRS 4 "Insurance Contracts"** – applicable to annual periods beginning on 1 January 2018 or afterwards. These amendments introduce the following two options for entities issuing insurance contracts: temporary exemption from the application of IFRS 9 and recognition in other comprehensive income of the effects of measurement of certain financial assets and liabilities which in accordance with IFRS 9 should be recognized in profit or loss.
- **Amendments to IFRS 1 and IAS 28 as a result of "Amendments to IFRS (cycle 2014-2016)" –** added changes as part of the procedure of annual improvements amendments to IFRS focused mainly on resolving inconsistencies and unifying the terminology. The amendments to IFRS 1 and IAS 28 apply to annual periods beginning on 1 January 2018 or afterwards.
- **Interpretation of IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** – applicable to annual periods beginning on 1 January 2018 or afterwards. The interpretation clarifies the recognition of transactions comprising receipt or payment of an advance consideration in a foreign currency.

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3. Applied accounting policies and improvements to International Financial Reporting Standards (cont.)

- **Amendments to IAS 40 "Investment Property"** entitled "Reclassification of investment property" – applicable to annual periods beginning on 1 January 2018 or afterwards. The amendments raise the question of whether an investment property under construction should be transferred from inventories to investment property if there is a significant change in its use.

Impact on consolidated financial statements:

Below we present the impact of the following published standards on the accounting policy (principles):

- **IFRS 9 "Financial Instruments"** – the entry of IFRS 9 into force has affected these Quarterly Condensed Consolidated Financial Statements of the Group as described below.

Change in the principles of classification and measurement of financial assets

The change in the principles of classification has cause changes in the classification of financial assets in the Group's financial statements. Certain instruments previously classified into the loans and receivables category satisfy the conditions of classification into assets carried at amortized cost, hence the entry of IFRS 9 into force has not caused a change in the principles of their valuation. Shares held by the Group in companies not listed on active markets were carried at purchase price minus impairment losses, if any. As at 31 December 2017 the Group, as part of shares in unlisted companies, presented mainly the value of the shares in Euroterminal Sławków Sp. z o.o. in the amount of PLN 6,021 thousand. As a result of the first application of IFRS 9, the Group measured the fair value of the shares in Euroterminal Sławków Sp. z o.o. The fair value of this shares was calculated as PLN 4,883 thousand. In accordance with the adopted amendments to the accounting policy, the effects of fair value valuation of investments in equity instruments is recognized in other comprehensive income. In the statement of financial position, the effects of the measurement of investments in equity instruments are presented as items of equity.
Shares in other companies not listed on active markets are measured at cost, which as at 1 January 2018 was PLN 2,096 thousand, taking into account impairment losses of PLN 832 thousand. In the Group's opinion, due to limitations in the extent of available information, this method of measurement reflects the fair value of these assets.
As at the date of the first application of IFRS 9, the Group restated the data resulting from the Group's Consolidated Financial Statements for the financial year ended 31 December 2017 as follows:
– the effects of measurement of the shares in Euroterminal Sławków Sp. z o.o. at fair value as at 1 January 2018 in the amount of PLN 1,138 thousand decreased other financial assets and other items of equity,
– the impairment loss on investment in equity instruments recognized in previous periods in the amount of PLN 11,811 thousand increased retained earnings and decreased other items of equity.

Presented below are the changes in the classification and measurement of financial assets in connection with entry of IFRS 9 into force.

IAS 39		IFRS 9	
Financial assets by category and class	**Valuation method**	**Financial assets by category and class**	**Valuation method**
Hedging financial instruments		**Hedging financial instruments**	
Derivatives	at fair value through other comprehensive income	Derivatives	at fair value through other comprehensive income
Available for sale financial assets		**Financial assets carried at fair value through other comprehensive income**	
Shares in unlisted companies	at cost minus impairment losses	Investments in equity instruments	at fair value through other comprehensive income
Loans and receivables		**Financial assets carried at amortized cost**	
Trade receivables	at amortized cost	Trade receivables	at amortized cost
Receivables from sale of non-current assets	at amortized cost	Receivables from sale of non-current assets	at amortized cost
Bank deposits above 3 months	at amortized cost	Bank deposits above 3 months	at amortized cost
Loans granted	at amortized cost	Loans granted	at amortized cost
Cash and cash equivalents	at amortized cost	Cash and cash equivalents	at amortized cost

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3. Applied accounting policies and improvements to International Financial Reporting Standards (cont.)

Model for the assessment of impairment of financial assets

The new financial assets impairment assessment model implemented by the Group is based on an analysis of the probability of expected credit losses on trade receivables. The probability of expected credit losses was estimated on the basis of the historical analysis of recoverability of the balances of trade receivables in specific aging ranges. The determined amount of the additional impairment loss on trade receivables resulting from implementation of IFRS 9 amounts to PLN 3,299 thousand.
The implementation of IFRS 9 has not affected the impairment of other debt-based financial assets.
Changes resulting from the application of IFRS 9 in respect of the model for the assessment of impairment of financial assets recognized as at 1 January 2018 are as follows:
– trade receivables decreased by PLN 3,299 thousand,
– deferred tax assets increased by PLN 627 thousand,
– retained earnings decreased by PLN 2,672 thousand.

Hedge accounting

The changes in hedge accounting in the case of the Group pertains mainly to documentation issues and hence the entry of IFRS 9 into force in this area has not impacted the Group’s asset or financial standing.

The Group has taken advantage of the IFRS 9 transition provisions allowing for refraining from the restatement of comparative data as regards the changes regarding classification and valuation and impairment of financial assets. Accordingly, the Group has restated its data only as at the date of the first application of IFRS 9, that is 1 January 2018. The restatement is presented in the following tables. The information presented in the notes to these Quarterly Condensed Consolidated Financial Statements has been restated accordingly.

Presented below is the impact of the implementation of IFRS 9 on the consolidated statement of financial position as at 1 January 2018:

	As at 1/01/2018 (audited)	Measurement of investments in equity instruments	Model for impairment of financial assets	As at 1/01/2018 (restated)
ASSETS				
Non-current assets				
Other non-current financial assets	10 537	(1 138)	-	9 399
Deferred tax assets	133 583	-	627	134 210
Total non-current assets	**4 947 407**	**(1 138)**	**627**	**4 946 896**
Trade receivables and other receivables	729 535	-	(3 299)	726 236
Total current assets	**1 694 153**	**-**	**(3 299)**	**1 690 854**
TOTAL ASSETS	**6 641 560**	**(1 138)**	**(2 672)**	**6 637 750**
EQUITY AND LIABILITIES				
Equity				
Other items of equity	4 872	(12 949)	-	(8 077)
Retained earnings	411 358	11 811	(2 672)	420 497
Total equity	**3 334 779**	**(1 138)**	**(2 672)**	**3 330 969**
TOTAL EQUITY AND LIABILITIES	**6 641 560**	**(1 138)**	**(2 672)**	**6 637 750**

- **IFRS 15 “Revenue from Contracts with Customers” –** since the Group generates revenues primarily from the provision of rail transport services, the entry of IFRS 15 into force has chiefly affected transportation agreements. As a result of completed works, it has been concluded that the commercial agreements contain a variable consideration component resulting from:
  – the possibility of imposing penalties on the client in connection with its failure to meet the contractual provisions pertaining to transportation of a specified freight volume during the term of the agreement,
  – the possibility of imposing a penalty on the Group by the client in the event of failure to transport the ordered freight volume.
  Previously, these penalties have been presented as other operating revenues or other operating expenses depending on the nature of the penalty. According to the new standard, these penalties are treated as a component of revenues from sales. Based on IFRS 15 C3 a) the Management Board of the Parent Company has decided that the standard will be implemented retrospectively in accordance with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, with the possibility of taking into account the instructions contained in clause C5. The application of this approach did not result in an adjustment of the Group’s equity as at the date of its first application of IFRS 15. In accordance with the previously applied accounting policies, in the period from 1 January 2017 to 31 March 2017 other operating expenses included provisions for penalties charged by the client resulting from failure to transport the ordered freight volume in the amount of PLN 174 thousand. In line with the above described changes, the Group has restated its comparative data.

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3. Applied accounting policies and improvements to International Financial Reporting Standards (cont.)

Presented below is the restatement of comparative data. The information presented in explanatory notes to this Quarterly Condensed Consolidated Financial Statements has also been amended accordingly.

Presented below is the impact of the implementation of IFRS 15 on the consolidated statement of comprehensive income for the three months ended 31 March 2017:

	3 months ended 31/03/2017 (published)	Penalties resulting from sales agreements	3 months ended 31/03/2017 (restated)
Revenue from sales of services and finished products	1 077 580	(174)	1 077 406
Total operating revenue	**1 100 201**	**(174)**	**1 100 027**
Other operating expenses	8 588	(174)	8 414
Total operating expenses	**1 097 025**	**(174)**	**1 096 851**
Operating profit / (loss)	**3 176**	**-**	**3 176**
Profit / (loss) before tax	**98**	**-**	**98**
NET PROFIT / (LOSS)	**(1 434)**	**-**	**(1 434)**
Total other comprehensive income	**(17 040)**	**-**	**(17 040)**
TOTAL COMPREHENSIVE INCOME	**(18 474)**	**-**	**(18 474)**

The Group has carried out an analysis of potential impact of the other standards, interpretations and amendments to the standards, as mentioned above, on the accounting policy (principles) applied by the Group and in the opinion of the Management Board of the Parent Company, they are irrelevant to the Group or will not have any material impact on the currently applied accounting policy (principles).

Standards and interpretations adopted by the IASB but not yet approved by the EU which have not entered into effect

IFRS as approved by the EU do not currently differ materially from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, their amendments and interpretations, which as at 31 March 2018 have not yet been approved by the EU and have not entered into effect:

- **IFRS 16 "Leases"** – applicable to annual periods beginning on 1 January 2019 or afterwards. In accordance with IFRS 16 the lessee recognizes the right to use an asset and lease liability. The right to use an asset is treated like other non-financial assets and amortized accordingly. Lease liabilities are initially carried at current value of the lease payments payable during the lease term, discounted by the lease rate, if it is not difficult to determine it. If such rate cannot be easily determined the lessee applies the marginal interest rate.
- **Amendments to IFRS 9 "Financial Instruments"** entitled Prepayment Features with Negative Compensation – applicable to annual periods beginning on 1 January 2019 or afterwards. The amendments make it possible for entities to carry some financial assets subject to prepayment with the so-called negative compensation at amortized cost.
- **Amendment to IAS 28 "Investments in Associates and Joint Ventures" –** Long-term interests in associates and joint ventures (applicable to annual periods beginning on 1 January 2019 or afterwards). The amendments were introduced to clarify that an entity applies IFRS 9 (including regulations pertaining to impairment) to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendments also delete paragraph 41 because it has been concluded that it merely reiterated requirements in IFRS 9 and had created confusion about the accounting for long-term shares.
- **Amendments to different standards "Amendments to IFRS (cycle 2015-2017)" -** changes made as part of the procedure of annual amendments to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) focused mainly on resolving inconsistencies and unification of terminology (applicable to annual periods beginning on 1 January 2019 or afterwards).
- **Amendments to IAS 19 Employee Benefits –** Amendment, limitation or settlement of the plan (applicable to annual periods beginning on 1 January 2019 or afterwards). The amendments require that after change of the plan, updated assumptions for valuation should be applied to determine the current costs of the services and interest (net) for the remaining part of the reporting period.
- **Interpretation of IFRIC 23 "Uncertainty over Income Tax Treatments"** – applicable to annual periods beginning on 1 January 2019 or afterwards. The interpretation applies to determining the income to be taxed (tax loss), taxation basis, unused tax losses, unused tax reliefs, tax rates, if there is uncertainty as the treatment of the income tax pursuant to IAS 12.
- **Amendments to references to the IFRS Framework** – applicable to annual periods beginning on 1 January 2020 or afterwards.

3. Applied accounting policies and improvements to International Financial Reporting Standards (cont.)

- **IFRS 17 "Insurance Contracts"** – applicable to annual periods beginning on 1 January 2021 or afterwards. The aim of the standard is to introduce uniform, formalized accounting principles applicable to insurance contracts. The new standard stipulates that insurance liabilities are carried at the current value of the obligation performance and introduces uniform rules for valuation and presentation for all types of insurance contracts. IFRS 17 replaces IFRS 4 Insurance Contracts and the related interpretations.

Impact on consolidated financial statements:

- **IFRS 16 "Leases" –** preliminary analysis of the impact of IFRS 16 on the applied accounting principles has shown that the Group will have to recognize retrospectively in the financial statements significant assets and liabilities that are currently included in long-term operating lease agreements, rental agreements or lease agreements. The implementation of IFRS 16 will affect the financial statements to the following extent:
  – in the statement of financial position, there will be an increase in non-current assets (mainly land, buildings and structures) and lease liabilities. The Group intends to present its rights to the use of assets in a separate line of the statement of financial position. This line item will also include assets used under current finance lease agreements in accordance with IAS 17,
  – in the statement of comprehensive income, the costs of depreciation and financial expenses will increase and the costs of external services will decrease.
  As a result of these changes, net debt and the ratio of net debt to EBITDA will increase.
  The Group is currently in the process of detailed identification of the agreements subject to the new requirements of the standard and preliminary preparation of possible valuation models and recognition of the aforementioned agreement in the financial statements. At this stage it is not possible to determine the numerical impact of IFRS 16 on the Group's financial statements.

The Group has carried out an analysis of potential impact of the other standards, interpretations and amendments to the standards, as mentioned above, on the accounting policy (principles) applied by the Group and in the opinion of the Management Board of the Parent Company, they are irrelevant to the Group or will not have any material impact on the currently applied accounting policy (principles).

4. Significant values based on professional judgment and estimates

In the period of 3 months ended 31 March 2018, changes to material estimates related to the following items:

- **property, plant and equipment** – as at 31 December 2017, the Group updated the residual value of rolling stock caused by the increase in the market prices of scrap metal compared to the prices adopted by the Group for measurement of the residual value of rolling stock in previous periods. The increase in the residual value and the decrease in the base for calculating depreciation charges caused a decrease in depreciation costs in Q1 2018 by approximately PLN 7,500 thousand.
- **provisions for employee benefits** – the movement in provisions for employee benefits as at 31 March 2018 results mainly from changes in the provision for unused holidays in the amount of PLN 12,465 thousand. The measurement of provisions for employee benefits calculated using the actuarial method is based on the assumptions adopted for measurement as at 31 December 2017. The effect of recalculation is presented in **Note 24** to these Quarterly Condensed Consolidated Financial Statements.
- **deferred tax** – the effect of recalculation balance of deferred tax as at 31 March 2018 is presented in **Note 9** to these Quarterly Condensed Consolidated Financial Statements.

During the 3 months ended 31 March 2018, no other changes were made to the assumptions adopted by the Parent Company's Management Board for the calculation of estimates that would have a material impact on the current period or any future periods.

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5. Revenue from sales of services and finished products

Structure of revenue from sales of services and finished products

The Group conducts its business within one segment only, i.e. domestic and international cargo freight and provision of comprehensive logistics services related to rail freight.

The Parent Company Management Board does not evaluate the Group's performance and does not make decisions concerning the allocation of resources to categories of services provided in consideration of the structure of revenue from sale of services and finished products presented below. Therefore, the specific categories of services and finished products may not be treated as the Group's operating segments. The Management Board of the Parent Company analyzes financial data in the layout in which they have been presented in these Quarterly Condensed Consolidated Financial Statements.

	3 months ended 31/03/2018	3 months ended 31/03/2017 (*)
Revenue from rail transportation and freight forwarding services	1 022 885	909 305
Revenue from other transport activity	42 539	39 407
Revenue from siding and traction services	61 970	60 803
Revenue from transshipment services	25 240	19 091
Revenue from reclamation services	15 492	16 218
Other revenues, including:		
Rent of assets	7 729	10 626
Revenue from customs agency services	3 828	4 060
Sales of finished products	1 648	4 705
Repair of rolling stock	2 629	5 511
Other	8 547	7 680
Total	**1 192 507**	**1 077 406**

(*) Data for the period of 3 months ended 31 March 2017 have been restated due to the retrospective application of IFRS 15, as has been described in **Note 3** to these Quarterly Condensed Consolidated Financial Statements.

Geography

The Group defines the geographical area of business as the location of the registered office of its customer, and not as the country of the service provision. Poland is the key geographic area of the Group's activity.

Revenue from sales of services and finished products generated on external customers and broken down based on their country of residence is presented below:

	3 months ended 31/03/2018	3 months ended 31/03/2017 (*)
Poland	838 621	737 887
Czech Republic	144 358	148 815
Germany	64 320	57 573
Slovakia	35 494	27 298
Italy	18 448	25 131
Other countries	91 266	80 702
Total	**1 192 507**	**1 077 406**

(*) Data for the period of 3 months ended 31 March 2017 have been restated due to the retrospective application of IFRS 15, as has been described in **Note 3** to these Quarterly Condensed Consolidated Financial Statements.

Non-current assets excluding financial instruments and deferred tax assets broken down by location are as follows:

	As at 31/03/2018	As at 31/12/2017
Poland	3 986 786	3 984 039
Czech Republic	804 112	804 841
Other countries	13 727	12 570
Total	**4 804 625**	**4 801 450**

Information on key customers

In the period of 3 months ended 31 March 2018 and in the period of 3 months ended 31 March 2017, the share of sales to a single group in total revenue from sales of services and finished products exceeded 10.8% and 12.3%, respectively.

(in PLN '000) (translation of a document originally issued in Polish)

6. Expenses by kind

Depreciation and impairment losses

	3 months ended 31/03/2018	3 months ended 31/03/2017
Depreciation of property, plant and equipment	132 524	139 543
Amortization of intangible assets	4 491	4 298
Total	**137 015**	**143 841**

Consumption of raw materials and energy

	3 months ended 31/03/2018	3 months ended 31/03/2017
Fuel consumption	54 296	45 592
Consumption of raw materials	22 763	24 395
Consumption of electricity, gas and water	108 229	100 710
Recognized / (reversed) impairment losses on inventories	102	(393)
Other	726	339
Total	**186 116**	**170 643**

External services

	3 months ended 31/03/2018	3 months ended 31/03/2017
Line access services from infrastructure managers	171 472	161 720
Repair services	8 700	6 704
Rent and fees for the use of real properties and rolling stock	46 915	39 525
Transport services	113 208	111 630
Telecommunication services	1 575	1 943
Legal, consulting and similar services	3 095	4 471
IT services	10 661	11 460
Maintenance and operation services for facilities and fixed assets	6 524	6 583
Transshipment services	3 808	5 133
Reclamation services	14 191	8 608
Other services	13 848	14 229
Total	**393 997**	**372 006**

Employee benefits

	3 months ended 31/03/2018	3 months ended 31/03/2017
Payroll	293 204	270 809
Social security expenses	62 879	58 957
Cost of charges for the Company Employee Benefit Fund	6 586	6 627
Other employee benefits during employment	10 194	10 987
Post-employment benefits	1 831	2 259
Movement in provisions for employee benefits	24 285	21 546
Total	**398 979**	**371 185**

Other expenses by kind

	3 months ended 31/03/2018	3 months ended 31/03/2017
Business travel expenses	7 974	7 538
Insurance	3 688	3 224
Advertising and representation	784	1 366
Other	814	928
Total	**13 260**	**13 056**

(in PLN '000) (translation of a document originally issued in Polish)

7. Other income and operating expenses

Other operating revenue

	3 months ended 31/03/2018	3 months ended 31/03/2017
Profit on disposal		
Profit on sale of non-financial non-current assets	922	6 186
Reversed impairment losses		
Trade receivables	4 525	1 129
Other receivables	9	5
Other		
Penalties and compensations	3 281	3 510
Reversal of other provisions	239	692
Interest on trade and other receivables	1 301	554
Net result on foreign exchange differences on trade receivables and payables	75	-
Grants	51	141
Other	529	484
Total	**10 932**	**12 701**

Other operating expenses

	3 months ended 31/03/2018	3 months ended 31/03/2017 (*)
Impairment losses recognized		
Trade receivables	4 004	785
Other		
Penalties and compensations	2 235	1 963
Costs of liquidation of non-current and current assets	595	738
Other provisions	1 568	155
Court and enforcement expenses	245	346
Expenses under benefits in the form of train fares for persons who are not employees	359	293
Interest on trade and other payables	164	141
Net result on foreign exchange differences on trade receivables and payables	-	2 611
Donations made	39	1 013
Other	338	369
Total	**9 547**	**8 414**

(*) Data for the period of 3 months ended 31 March 2017 have been restated due to the retrospective application of IFRS 15, as has been described in **Note 3** to theses Quarterly Condensed Consolidated Financial Statements.

8. Financial income and expenses

Financial revenue

	3 months ended 31/03/2018	3 months ended 31/03/2017
Interest income		
Bank deposits and accounts	2 495	2 500
Loans granted	188	81
Other	-	26
Other		
Profit on valuation of financial assets and liabilities measured at fair value through profit and loss, including:		
Valuation of liability related to put option for non-controlling interest	-	5 359
Valuation of FX forward contracts	-	114
Net result on foreign exchange differences	-	2 007
Total	**2 683**	**10 087**

(in PLN '000) (translation of a document originally issued in Polish)

8. Financial income and expenses (cont.)

Financial expenses

	3 months ended 31/03/2018	3 months ended 31/03/2017
Interest expenses		
Interest on loans and borrowings	6 686	7 353
Interest on finance lease liabilities	1 329	1 580
Interest on long-term liabilities	4	262
Other	2	813
Other		
Loss on valuation of financial assets and liabilities measured at fair value through profit and loss, including:		
Valuation of FX forward contracts	31	-
Settlement of discount on provisions for employee benefits	4 870	4 920
Net result on foreign exchange differences	2	-
Other	221	256
Total	**13 145**	**15 184**

9. Income tax

Income tax recognized in profit / loss

	3 months ended 31/03/2018	3 months ended 31/03/2017
Current income tax		
Current tax expense	22 609	10 609
Adjustments recognized in the current year with reference to past years' tax	663	395
Deferred tax		
Deferred income tax of the reporting period	(9 158)	(9 472)
Income tax recognized in profit / loss	**14 114**	**1 532**

Frequent differences of opinions as to legal interpretation of the tax regulations, both within the State bodies, and between the State bodies and enterprises, entail lack of certainty and give rise to conflicts. Therefore, the tax risk in Poland is much higher than usually observed in the countries with better developed tax systems. Tax returns may be subject to control for a period of five years, starting from the end of the year of the tax payment. As a result of such controls, the Group's tax settlements may be increased by additional tax liabilities.

Deferred income tax recognized in other comprehensive income

	3 months ended 31/03/2018	3 months ended 31/03/2017
Deferred tax on re-measurement of fair value of financial instruments designated as cash flows hedges	(1 495)	3 687
Foreign exchange differences resulting from translation of deferred tax balance of foreign entities recognized in other comprehensive income (1)	1 661	(4 863)
Deferred income tax recognized in other comprehensive income	**166**	**(1 176)**

(1) This item is disclosed under equity as FX differences resulting from translation of financial statements of foreign entities.

(in PLN '000) (translation of a document originally issued in Polish)

9. Income tax (cont.)

Movements in deferred tax

3 months ended 31/03/2018	As at 1/01/2018	Recognized in profit / loss	Recognized in other comprehensive income	Foreign exchange differences from translation of deferred income tax balance recognized in other comprehensive income	As at 31/03/2018
Temporary differences relating to deferred income tax items (liabilities) / assets:					
Property, plant and equipment, intangible assets and non-current assets held for sale (including finance lease)	(144 084)	(1 985)	-	(1 844)	**(147 913)**
Inventories	(1 924)	(1 007)	-	5	**(2 926)**
Receivables – impairment losses [1]	8 432	(63)	-	22	**8 391**
Accrued interest related to assets	(333)	(97)	-	-	**(430)**
Accrued interest related to liabilities	153	(4)	-	-	**149**
Provisions for employee benefits	125 819	2 459	-	44	**128 322**
Other provisions	6 386	86	-	37	**6 509**
Accrued expenses	1 151	3 869	-	-	**5 020**
Deferred income	(3 351)	534	-	-	**(2 817)**
Unpaid employee benefits	1 831	5 825	-	1	**7 657**
Foreign exchange differences	(1 671)	(197)	878	-	**(990)**
Valuation of derivative instruments	(2 647)	303	617	-	**(1 727)**
Other	-	1 460	-	(1)	**1 459**
Unused tax loss [2]	37 030	(2 025)	-	75	**35 080**
Total	**26 792**	**9 158**	**1 495**	**(1 661)**	**35 784**

[1] Data as at 1 January 2018 have been restated in connection with the implementation of IFRS 9, as described in Note 3 to these Quarterly Condensed Consolidated Financial Statements.
[2] As at 31 March 2018, deferred tax assets on tax losses for use in future periods represented loss of the Parent Company in the amount of PLN 138,594 thousand and of the subsidiaries in the amount of PLN 46,050 thousand. It will be possible to deduct tax losses in the amount of PLN 165,938 thousand within five tax years following the end of operation of the Tax Group. Other tax losses may be deducted within five tax years since they have occurred. According to the Parent Company Management Board there is no risk as at 31 March 2018 that it will be impossible to realize the above assets.

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9. Income tax (cont.)

3 months ended 31/03/2017	As at 1/01/2017	Recognized in profit / loss	Recognized in other comprehensive income	Foreign exchange differences from translation of deferred income tax balance recognized in other comprehensive income	As at 31/03/2017
Temporary differences relating to deferred income tax items (liabilities) / assets:					
Property, plant and equipment, intangible assets and non-current assets held for sale (including financial lease)	(183 033)	12 033	-	5 478	**(165 522)**
Long-term liabilities	(97)	50	-	-	**(47)**
Inventories	936	(1 328)	-	(15)	**(407)**
Receivables - impairment losses	7 138	(71)	-	(28)	**7 039**
Accrued interest related to assets	(241)	(244)	-	-	**(485)**
Accrued interest related to liabilities	182	(23)	-	-	**159**
Provisions for employee benefits	118 565	1 845	-	(120)	**120 290**
Other provisions	3 904	818	-	(126)	**4 596**
Accrued expenses	6 008	2 282	-	-	**8 290**
Deferred income	(3 080)	(3 237)	-	-	**(6 317)**
Unpaid employee benefits	7 375	(476)	-	(3)	**6 896**
Foreign exchange differences	2 235	(529)	(1 836)	-	**(130)**
Valuation of derivative instruments	218	(22)	(1 851)	-	**(1 655)**
Other	-	1 518	-	(2)	**1 516**
Unused tax loss (1)	40 769	(3 144)	-	(321)	**37 304**
Total	**879**	**9 472**	**(3 687)**	**4 863**	**11 527**

(1) As at 31 March 2017, deferred tax assets on account of tax losses for use in future periods represented loss of the Parent Company in the amount of PLN 139,330 thousand and of the subsidiaries in the amount of PLN 57,002 thousand.

Tax loss not recognized in calculation of deferred tax assets

	As at 31/03/2018	As at 31/12/2017
As at the balance sheet date, no deferred income tax assets related with the following tax losses were disclosed	122 250	113 508

The amount of tax losses not recognized in the calculation of deferred tax assets as at 31 March 2018 represented losses of the companies of the AWT Group in the amount of PLN 113,105 thousand (AWT B.V. in the amount of PLN 60,443 thousand, AWT a.s. in the amount of PLN 26,039 thousand, AWT Rail HU Zrt. in the amount of PLN 15,363 thousand) and AWT Cechofracht a.s. in the amount of PLN 11,260 thousand) as well as losses incurred by PKP CARGOTABOR USŁUGI Sp. z o.o. in the amount of PLN 7,540 thousand and CARGOSPED Terminal Braniewo Sp. z o.o. in the amount of PLN 1,605 thousand. As at 31 December 2017, the amount of tax losses not recognized in the calculation of deferred tax assets represented losses of the companies of the AWT Group in the amount of PLN 104,345 thousand (AWT B.V. in the amount of PLN 59,073 thousand, AWT a.s. in the amount of PLN 27,389 thousand, AWT Rail HU Zrt. in the amount of PLN 17,883 thousand) as well as losses incurred by PKP CARGOTABOR USŁUGI Sp. z o.o. in the amount of PLN 7,558 thousand and CARGOSPED Terminal Braniewo Sp. z o.o. in the amount of PLN 1,605 thousand.

The expiration dates of the tax losses to which deferred tax assets were not recognized as at 31 March 2018 were as follows:

Year	2018	2019	2020	2021	2022	2023 and later on	Total
Unused tax loss	983	20 920	22 603	41 909	7 619	28 216	**122 250**

The expiration dates of the tax losses to which deferred tax assets were not recognized as at 31 December 2017 were as follows:

Year	2018	2019	2020	2021	2022	2023 and later on	Total
Unused tax loss	2 229	20 895	19 886	36 741	12 476	21 281	**113 508**

(in PLN '000) (translation of a document originally issued in Polish)

10. Property, plant and equipment

Change in the balance of property, plant and equipment

3 months ended 31/03/2018	Land	Buildings, premises and civil and water engineering facilities	Technical machinery and equipment	Means of transport	Other non-current assets	Fixed assets under construction	Total
Gross value							
As at 1/01/2018	**157 192**	**757 406**	**405 900**	**6 125 175**	**39 432**	**41 263**	**7 526 368**
Increases / (decreases):							
Purchase	-	-	-	-	-	129 872	**129 872**
Finance lease	-	-	766	-	-	-	**766**
Exchange differences resulting from translation of financial statements of foreign entities	266	1 764	626	13 425	37	256	**16 374**
Settlement of fixed assets under construction	15	522	2 120	125 100	132	(127 889)	**-**
Sales	-	-	(267)	(1 641)	-	-	**(1 908)**
Liquidation	-	(15)	(836)	(70 157)	(75)	(1)	**(71 084)**
Other	-	1	630	22	(653)	-	**-**
As at 31/03/2018	**157 473**	**759 678**	**408 939**	**6 191 924**	**38 873**	**43 501**	**7 600 388**
Accumulated depreciation							
As at 1/01/2018	**-**	**195 696**	**270 627**	**2 189 999**	**31 610**	**-**	**2 687 932**
Increases / (decreases):							
Depreciation expenses	-	8 903	8 998	113 896	727	-	**132 524**
Exchange differences resulting from translation of financial statements of foreign entities	-	279	215	2 557	12	-	**3 063**
Sales	-	-	(210)	(1 556)	-	-	**(1 766)**
Liquidation	-	(15)	(725)	(68 173)	(75)	-	**(68 988)**
Other	-	1	612	(4)	(619)	-	**(10)**
As at 31/03/2018	**-**	**204 864**	**279 517**	**2 236 719**	**31 655**	**-**	**2 752 755**
Accumulated impairment							
As at 1/01/2018	**2 378**	**364**	**317**	**144 759**	**8**	**2 628**	**150 454**
Increases / (decreases):							
Exchange differences resulting from translation of financial statements of foreign entities	3	2	-	300	-	-	**305**
Liquidation	-	-	-	(160)	-	-	**(160)**
As at 31/03/2018	**2 381**	**366**	**317**	**144 899**	**8**	**2 628**	**150 599**
Net value							
As at 1/01/2018	**154 814**	**561 346**	**134 956**	**3 790 417**	**7 814**	**38 635**	**4 687 982**
including finance lease	-	-	*10 796*	*253 155*	-	-	***263 951***
As at 31/03/2018	**155 092**	**554 448**	**129 105**	**3 810 306**	**7 210**	**40 873**	**4 697 034**
including finance lease	-	-	*9 779*	*225 953*	-	-	***235 732***

(in PLN '000) (translation of a document originally issued in Polish)

10. Property, plant and equipment (cont.)

3 months ended 31/03/2017	Land	Buildings, premises and civil and water engineering facilities	Technical machinery and equipment	Means of transport	Other non-current assets	Fixed assets under construction	Total
Gross value							
As at 1/01/2017	**162 389**	**742 757**	**381 563**	**5 925 512**	**39 889**	**44 274**	**7 296 384**
Increases / (decreases):							
Purchase	-	-	-	-	-	85 734	**85 734**
Exchange differences resulting from translation of financial statements of foreign entities	(795)	(5 169)	(1 846)	(38 855)	(95)	(476)	**(47 236)**
Settlement of fixed assets under construction	10	1 382	5 947	80 426	96	(87 861)	**-**
Sales	(878)	(231)	(415)	(3 833)	(23)	-	**(5 380)**
Liquidation	-	(4 033)	(546)	(59 839)	(35)	-	**(64 453)**
Other	(686)	(3 280)	(343)	(4 303)	(1 161)	-	**(9 773)**
As at 31/03/2017	**160 040**	**731 426**	**384 360**	**5 899 108**	**38 671**	**41 671**	**7 255 276**
Accumulated depreciation							
As at 1/01/2017	**-**	**167 999**	**241 431**	**1 953 606**	**31 223**	**-**	**2 394 259**
Increases / (decreases):							
Depreciation expenses	-	8 308	8 691	121 883	661	-	**139 543**
Exchange differences resulting from translation of financial statements of foreign entities	-	(462)	(344)	(5 184)	(18)	-	**(6 008)**
Sales	-	(11)	(311)	(3 486)	(23)	-	**(3 831)**
Liquidation	-	(3 158)	(532)	(41 365)	(35)	-	**(45 090)**
Other	-	(3 280)	(342)	(4 108)	(1 161)	-	**(8 891)**
As at 31/03/2017	**-**	**169 396**	**248 593**	**2 021 346**	**30 647**		**2 469 982**
Accumulated impairment							
As at 1/01/2017	**2 380**	**1 924**	**317**	**194 486**	**8**	**2 460**	**201 575**
Increases / (decreases):							
Sales	-	-	-	(5)	-	-	**(5)**
Liquidation	-	(829)	-	(7 971)	-	-	**(8 800)**
Exchange differences resulting from translation of financial statements of foreign entities	(9)	(4)	-	(1 631)	-	-	**(1 644)**
As at 31/03/2017	**2 371**	**1 091**	**317**	**184 879**	**8**	**2 460**	**191 126**
Net value							
As at 1/01/2017	**160 009**	**572 834**	**139 815**	**3 777 420**	**8 658**	**41 814**	**4 700 550**
including finance lease	-	-	*8 633*	*319 689*	-	-	***328 322***
As at 31/03/2017	**157 669**	**560 939**	**135 450**	**3 692 883**	**8 016**	**39 211**	**4 594 168**
including finance lease	-	-	*7 247*	*309 960*	-	-	***317 207***

(in PLN '000) (translation of a document originally issued in Polish)

11. Investments in entities accounted for under the equity method

Detailed information on the entities accounted for under the equity method

Name of the entity accounted for under the equity method	Percent of shares held by the Group		Carrying amount	
	As at 31/03/2018	As at 31/12/2017	As at 31/03/2018	As at 31/12/2017
COSCO Shipping Lines (POLAND) Sp. z o.o.	20.0%	20.0%	656	483
Pol - Rail S.r.l	50.0%	50.0%	9 192	8 437
Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	50.0%	50.0%	14 529	18 885
Transgaz S.A.	64.0%	64.0%	6 614	6 362
Trade Trans Finance Sp. z o.o.	100.0%	100.0%	8 048	7 935
Rentrans Cargo Sp. z o.o.	29.3%	29.3%	7 761	7 889
PPHU "Ukpol" Sp. z o.o.	100.0%	100.0%	-	-
PKP CARGO CONNECT GmbH	100.0%	100.0%	765	465
AWT Rail SK a. s.	100.0%	100.0%	3 269	3 154
Total			**50 834**	**53 610**

Investments in entities accounted for under the equity method

	3 months ended 31/03/2018	3 months ended 31/03/2017
Balance as at the beginning of the reporting period	**53 610**	**58 219**
Share in the profit / (loss) of entities accounted for under the equity method	(3 071)	2 019
Change in equity arising from dividend payment	-	(600)
Exchange differences resulting from translation of financial statements of foreign entities	295	(241)
Balance as at the end of the reporting period	**50 834**	**59 397**

12. Other financial assets

Structure of other financial assets

	As at 31/03/2018	As at 31/12/2017
Derivative instrument	8 560	12 047
Shares and stock in Polish entities (1)	4 902	6 040
Shares and stock in foreign entities (1)	1 266	1 246
Loans granted to related parties	837	1 069
Bank deposits over 3 months	302 898	253 805
Total	**318 463**	**274 207**
Non-current assets	7 465	10 537
Current assets	310 998	263 670
Total	**318 463**	**274 207**

(1) As at 31 December 2017, impairment loss on the value of shares in unlisted companies was PLN 11,811 thousand. As at 31 March 2018, these shares were measured at fair value. The movement in the impairment loss on investments in shares is the effect of the first-time application IFRS 9, as described in **Note 3** to these Quarterly Condensed Consolidated Financial Statements.

(in PLN '000) (translation of a document originally issued in Polish)

13. Other non-financial assets

Structure of other non-financial assets

	As at 31/03/2018	As at 31/12/2017
Costs settled in time		
Lease rents	12 928	12 829
Transportation benefits for eligible persons	10 258	-
Insurance	6 079	7 934
Prepayments for purchase of electricity	27 623	23 433
Other costs settled in time	6 589	4 093
Other		
Prepayments for purchase of non-financial non-current assets	1 088	1 060
Other	938	970
Total	**65 503**	**50 319**
Non-current assets	14 195	14 726
Current assets	51 308	35 593
Total	**65 503**	**50 319**

14. Inventories

Structure of inventories

	As at 31/03/2018	As at 31/12/2017
Raw materials	147 878	145 820
Semi-finished products	2 252	5 912
Goods for resale	1 394	1 766
Impairment losses	(5 163)	(5 034)
Total	**146 361**	**148 464**

15. Trade and other receivables

Structure of trade and other receivables

	As at 31/03/2018	As at 31/12/2017
Trade receivables	834 498	844 834
Impairment loss on trade receivables	(160 123)	(156 028)
	674 375	688 806
Receivables from sale of non-financial non-current assets	-	111
Public law settlements	3 741	1 682
Guarantees, security deposits and bid bonds	1 351	1 474
VAT settlements	24 314	37 276
Other settlements	6 795	2 022
Total	**710 576**	**731 371**
Non-current assets	1 412	1 836
Current assets	709 164	729 535
Total	**710 576**	**731 371**

(in PLN '000) (translation of a document originally issued in Polish)

16. Cash and cash equivalents

Structure of cash and cash equivalents

	As at 31/03/2018	As at 31/12/2017
Cash on hand and on bank accounts	157 488	172 100
Bank deposits up to 3 months	240 280	344 676
Total	**397 768**	**516 776**
including restricted cash	25 708	35 444

As at 31 March 2018 and as at 31 December 2017, restricted cash included mostly cash accumulated on bank accounts kept for deposits and guarantees.

17. Equity

Share capital

	As at 31/03/2018	As at 31/12/2017
The share capital consists of:		
Common shares – fully paid up and registered	2 239 346	2 239 346

As at 31 March 2018 and as at 31 December 2017, the Parent Company's share capital consisted of ordinary shares with a par value of PLN 50 each. Fully paid common shares with the par value of PLN 50 are equivalent to one vote at the shareholder meeting and entail the right to dividend.

In the period of 3 months ended 31 March 2018 and the period of 3 months ended 31 March 2017, there were no movements in the share capital of the Parent Company.

Retained earnings

On 17 April 2018, the Parent Company's Management Board adopted a resolution to submit a motion to the Parent Company's Ordinary Shareholder Meeting for the distribution of the net profit earned in 2017 of PLN 93,967 thousand as follows:

a) allocate amount of PLN 7,517 thousand to increase the supplementary capital,

b) allocate amount of PLN 86,450 thousand to cover losses for previous years.

As at 1 January 2018, retained earnings were restated in connection with the implementation of IFRS 9, as described in **Note 3** to these Quarterly Condensed Consolidated Financial Statements.

18. Earnings / (losses) per share

Earnings / (losses) used for calculation of basic and diluted earnings / (losses) per share:

	3 months ended 31/03/2018	3 months ended 31/03/2017
Earnings / (losses) attributable to the owners of the Parent Company	35 609	(1 434)

Basic earnings / (losses) per share

	3 months ended 31/03/2018	3 months ended 31/03/2017
Weighted average number of common shares (pcs.)	44 786 917	44 786 917
Basic earnings / (losses) per share (PLN per share)	**0.80**	**(0.03)**

Net earnings / (losses) per share for every period are calculated as net profit / (loss) for the given period divided by the weighted average number of shares outstanding in that period.

Diluted earnings / (losses) per share

	3 months ended 31/03/2018	3 months ended 31/03/2017
Weighted average number of common shares (pcs.)	44,786,917	44,786,917
Diluted earnings / (losses) per share (PLN per share)	**0.80**	**(0.03)**

In the period of 3 months ended 31 March 2018 and the period of 3 months ended 31 March 2017, there were no transactions of a diluting nature.

(in PLN '000) (translation of a document originally issued in Polish)

19. Bank loans and borrowings

Structure of bank loans and borrowings

	As at 31/03/2018	As at 31/12/2017
Bank loans – secured on assets	96 963	99 430
Bank loans – other	1 407 833	1 460 651
Loans from related parties	1 339	1 311
Loans from other entities	900	938
Total	**1 507 035**	**1 562 330**
Long-term liabilities	1 262 869	1 312 629
Short-term liabilities	244 166	249 701
Total	**1 507 035**	**1 562 330**

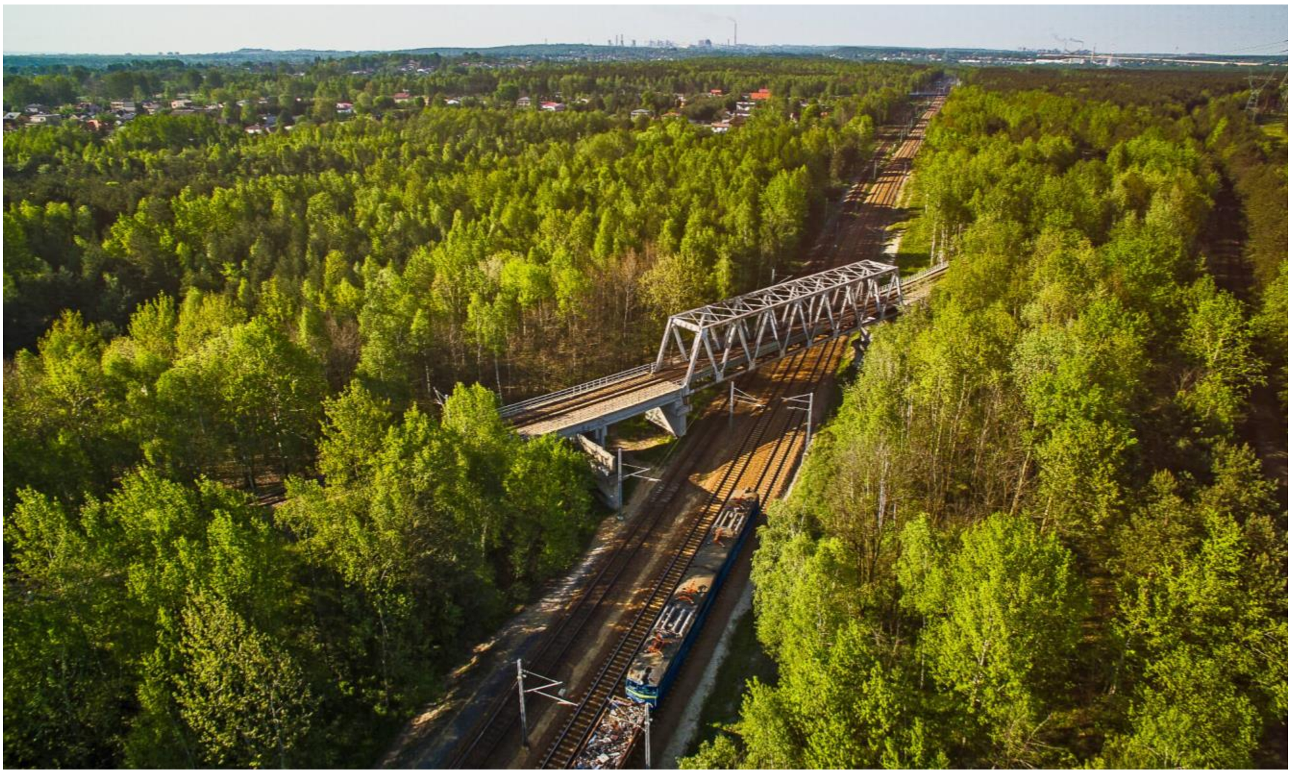
Summary of loan agreements

Loan agreements were concluded in the Group mostly for financing the investment plan, acquisition and day-to-day operations. The currencies of loan agreements include PLN, EUR and CZK.

Parent Company

Type of loan	Bank Name	Collateral	Maturity	As at 31/03/2018	As at 31/12/2017
Investment loan	Bank Polska Kasa Opieki S.A. (1)	Bank enforcement title	31/12/2017	-	822
Investment loan	Bank Gospodarstwa Krajowego	Bank enforcement title	31/03/2021	249 807	275 341
Investment loan	European Investment Bank	No collateral	29/05/2020	38 320	42 578
Investment loan	Bank Gospodarstwa Krajowego	Statement on submission to enforcement certified by a notary	20/12/2026	59 351	60 072
Investment loan	Bank Gospodarstwa Krajowego	Statement on submission to enforcement certified by a notary	20/12/2026	336 331	340 421
Investment loan	Bank Polska Kasa Opieki S.A.	Statement on submitting to enforcement certified by a notary	31/12/2026	602 861	617 489
Investment loan	European Investment Bank	No collateral	29/08/2031	92 905	93 777
Total				**1 379 575**	**1 430 500**

(1) Liability under the loan was repaid on 2 January 2018.



(in PLN '000) (translation of a document originally issued in Polish)

19. Bank loans and borrowings (cont.)

Subsidiaries

Type of loan	Bank Name	Collateral	Maturity	As at 31/03/2018	As at 31/12/2017
Overdraft	PKO Bank Polski S.A.	Capped mortgage, pledge on inventories	15/07/2019	-	25
Investment loan	Bank Polska Kasa Opieki S.A.	Statement on submission to enforcement certified by a notary	20/12/2021	5 628	6 004
Investment loan	Bank Polska Kasa Opieki S.A.	Statement on submission to enforcement certified by a notary	31/12/2021	3 536	3 771
Loan	WFOŚIGW Łódź	1) Blank promissory note 2) Irrevocable power-of-attorney to bank account 3) Surety of PKP CARGO S.A.	31/03/2024	900	938
Investment loan	Bank Polska Kasa Opieki S.A.	Statement on submission to enforcement certified by a notary	31/12/2021	8 291	8 844
Investment loan	Bank Polska Kasa Opieki S.A.	Statement on submission to enforcement certified by a notary	31/12/2021	10 803	11 532
Investment loan	ING Bank N.V. UniCredit Bank Czech Republic and Slovakia a.s. Raiffeisenbank a.s.	1) Pledge on tangible non-current assets and receivables 2) Pledge on bank accounts 3) Assignment of rights under insurance policy	26/09/2021	49 317	48 713
Investment loan	ING Bank N.V. UniCredit Bank Czech Republic and Slovakia a.s. Raiffeisenbank a.s.	1) Pledge on tangible non-current assets and receivables 2) Pledge on bank accounts 3) Assignment of rights under insurance policy	30/06/2021	47 646	50 692
Loan	AWT Rail SK a.s.	No collateral	31/12/2018	1 339	1 311
Total				**127 460**	**131 830**

Unused credit lines

Type of loan	Bank Name	Period of availability	Currency	As at 31/03/2018	As at 31/12/2017
Investment loan	European Investment Bank	19/07/2020	EUR	69 167	68 549
Overdraft	Bank Polska Kasa Opieki S.A.	25/05/2018	PLN	100 000	100 000
Overdraft	PKO Bank Polski S.A.	15/07/2019	PLN	1 000	974
Total				**170 167**	**169 523**

On 24 May 2018, the Parent Company concluded the overdraft facility agreement with Bank Polska Kasa Opieki S.A. in the amount of PLN 100,000 thousand. Overdraft facility will be available until 24 May 2019 with possibility of the extension by following 12 months until 24 May 2020.

Breach of the terms and conditions of the loan agreements

As at 31 March 2018, there were no breaches of any loan agreements.

(in PLN '000) (translation of a document originally issued in Polish)

20. Finance lease liabilities

Structure of finance lease liabilities

As at 31 March 2018, the Group was mainly using rolling stock components, vehicles, plant and equipment and IT hardware under the financial lease agreements in effect. The agreements that are currently in effect were concluded for the term from 3 to 10 years in PLN, EUR and CZK.

	As at 31/03/2018			As at 31/12/2017		
	Minimum fees	Future financial charges	Current value of minimum fees	Minimum fees	Future financial charges	Current value of minimum fees
No longer than 1 year	47 049	(3 659)	43 390	51 955	(3 915)	48 040
Longer than 1 year and up to 5 years	88 183	(6 786)	81 397	93 623	(7 444)	86 179
Over 5 years	3 578	(62)	3 516	4 991	(115)	4 876
Total	**138 810**	**(10 507)**	**128 303**	**150 569**	**(11 474)**	**139 095**
Long-term liabilities	91 761	(6 848)	84 913	98 614	(7 559)	91 055
Short-term liabilities	47 049	(3 659)	43 390	51 955	(3 915)	48 040
Total	**138 810**	**(10 507)**	**128 303**	**150 569**	**(11 474)**	**139 095**

21. Other financial liabilities

Structure of other financial liabilities

	As at 31/03/2018	As at 31/12/2017
Interest Rate Swap (IRS)	66	272
Total	**66**	**272**
Short-term liabilities	66	272
Total	**66**	**272**

22. Reconciliation of debt liabilities

As at 31 March 2018 and 31 December 2017, the Group's debt liabilities consist of the following two main categories: bank loans and borrowings and finance lease liabilities.

Net debt

	As at 31/03/2018	As at 31/12/2017
Bank loans and borrowings	1 507 035	1 562 330
Finance lease	128 303	139 095
Total debt	**1 635 338**	**1 701 425**
Cash and cash equivalents	397 768	516 776
Bank deposits over 3 months	302 898	253 805
Total net debt	**934 672**	**930 844**
EBITDA for the last 12 months	**755 139**	**701 885**
Net debt / EBITDA	**1.24**	**1.33**

(in PLN '000) (translation of a document originally issued in Polish)

22. Reconciliation of debt liabilities (cont.)

Debt liabilities – broken down into currencies / interest rate type

As at 31/03/2018	In functional currency PLN	In foreign currency EUR	In foreign currency CZK	Total
Bank loans and borrowings	920 145	537 573	49 317	**1 507 035**
Finance lease liabilities	62 265	59 020	7 018	**128 303**
Total	**982 410**	**596 593**	**56 335**	**1 635 338**
Variable-interest-rate liabilities	981 510	511 331	49 317	**1 542 158**
Fixed-interest-rate liabilities	900	85 262	7 018	**93 180**
Total	**982 410**	**596 593**	**56 335**	**1 635 338**

As at 31/12/2017	In functional currency PLN	In foreign currency EUR	In foreign currency CZK	Total
Bank loans and borrowings	967 344	546 273	48 713	**1 562 330**
Finance lease liabilities	64 089	67 336	7 670	**139 095**
Total	**1 031 433**	**613 609**	**56 383**	**1 701 425**
Variable-interest-rate liabilities	1 030 495	523 382	48 713	**1 602 590**
Fixed-interest-rate liabilities	938	90 227	7 670	**98 835**
Total	**1 031 433**	**613 609**	**56 383**	**1 701 425**

Reconciliation of movement in debt liabilities

	Bank loans and borrowings	Finance lease liabilities	Other	Total
As at 1/01/2018	**1 562 330**	**139 095**	**-**	**1 701 425**
Obtained debt	-	766	-	**766**
Commission expenses	95	-	-	**95**
Accrual of interest	6 686	1 329	-	**8 015**
Payments under debt, including:				
Repayments of the principal	(60 921)	(12 328)	-	**(73 249)**
Paid interest	(6 926)	(1 329)	-	**(8 255)**
Commission expenses	(95)	-	-	**(95)**
FX valuation	4 242	205	-	**4 447**
Foreign exchange differences resulting from translation of financial statements of foreign entities	1 624	565	-	**2 189**
As at 31/03/2018	**1 507 035**	**128 303**	**-**	**1 635 338**

	Bank loans and borrowings	Finance lease liabilities	Other	Total
As at 1/01/2017	**1 471 408**	**200 490**	**118 704**	**1 790 602**
Obtained debt	80 181	-	-	**80 181**
Commission expenses	51	-	-	**51**
Accrual of interest	7 370	1 580	-	**8 950**
Payments under debt, including:				
Repayments of the principal	(94 422)	(12 610)	-	**(107 032)**
Paid interest	(7 456)	(1 580)	-	**(9 036)**
Commission expenses	(51)	-	-	**(51)**
(Profits) / losses from revaluation of liability on account of the put option for non-controlling interest	-	-	(5 359)	**(5 359)**
FX valuation	(9 663)	(2 841)	-	**(12 504)**
Foreign exchange differences resulting from translation of financial statements of foreign entities	(5 689)	(2 542)	-	**(8 231)**
As at 31/03/2017	**1 441 729**	**182 497**	**113 345**	**1 737 571**

(in PLN '000) (translation of a document originally issued in Polish)

23. Trade and other payables

Structure of trade and other payables

	As at 31/03/2018	As at 31/12/2017
Trade payables	432 038	447 186
Liabilities related to purchase of non-financial non-current assets (1)	15 443	79 046
Liabilities related to received collateral (deposits, bid security guarantees, guarantees)	31 725	42 114
Public law liabilities (2)	103 456	78 360
Settlements with employees	85 926	87 261
Received grants	7 129	6 019
Other settlements (3)	11 366	3 070
VAT settlements	7 091	8 258
Total	**694 174**	**751 314**
Long-term liabilities	1 645	1 578
Short-term liabilities	692 529	749 736
Total	**694 174**	**751 314**

(1) This decrease was caused chiefly by the repayment of liabilities by the Parent Company to a counterparty on account of the purchase of multi-system locomotives amounting to PLN 39,231 thousand.

(2) This increase was caused largely by the higher liabilities toward the Social Insurance Institution (ZUS). In 2017, a portion of the liabilities maturing in 2018 were repaid by the Parent Company prior to their maturity date.

(3) As at 31 March 2018, other settlements include chiefly the payables for the Company Social Benefits Fund.

24. Provisions for employee benefits

Items recognized in the result in reference to employee benefits programs

	As at 31/03/2018	As at 31/12/2017
Post-employment defined benefit plans		
Retirement and disability severance benefits	165 821	166 898
Company Social Benefits Fund	144 678	143 522
Transportation benefits	33 823	33 665
Post-mortem benefits	7 171	7 145
Other employee benefits		
Jubilee awards	273 889	274 116
Other employee benefits (unused leaves/bonuses)	53 466	37 207
Total	**678 848**	**662 553**
Long-term liabilities	560 788	558 547
Short-term liabilities	118 060	104 006
Total	**678 848**	**662 553**

(in PLN ‘000) (translation of a document originally issued in Polish)

25. Other provisions

Structure of other provisions

	As at 31/03/2018	As at 31/12/2017
Provisions for penalties from the Office for Protection of Competition and Consumers (UOKiK)	14 224	14 224
Provision for land reclamation	5 102	5 000
Provision for onerous contracts	16 577	16 660
Provision for liabilities on account of VAT settlements	22 648	22 334
Other provisions	24 465	23 954
Total	**83 016**	**82 172**
Long-term provisions	22 235	22 446
Short-term provisions	60 781	59 726
Total	**83 016**	**82 172**

Provisions for penalties from the Office for Protection of Competition and Consumers (UOKiK)

As at 31 March 2018, the provision represented an estimate by the Parent Company’s Management Board in connection with the likelihood of payment of a fine imposed by the Office for Protection of Competition and Consumers (UOKiK) in the amount of PLN 14,224 thousand.

Provision for land reclamation

The provision has been established to cover future expenses associated with the duty to reclaim the land. The estimated amount of the provision corresponds to the current value of expected future expenses.

Provision for onerous contracts

As at 31 March 2018, this provision represented the amount of the anticipated loss for two procurement agreements for which the inevitable costs of fulfilling the resulting duties were higher than the predicted benefits achievable under those agreements.

Provision for liabilities on account of VAT settlements

The provision concerns settlements with the Tax Inspection Authority in connection with the pending inspection procedure in PKP CARGO CONNECT Sp. z o.o. to verify the declared taxable base and calculations and payments of the value-added tax for the period from April 2013 to July 2013.

Other provisions

This line item mostly includes the provisions established for disputed settlements, litigation and liquidated damages in the event of which it is more likely that there will be an outflow of cash in connection with the performance of those claims than it will not.

According to the Parent Company’s Management Board, the amount of other provisions as at 31 March 2018, and as at 31 December 2017, constitutes the best estimate of the amount that will likely have to be paid. The estimate is based on the management’s best knowledge, the experience and other factors which are considered to be the most reasonable in the given situation. As a result of the occurrence of future events, the Group’s estimates may be changed in subsequent reporting periods.

(in PLN '000) (translation of a document originally issued in Polish)

26. Financial instruments

Categories and classes of financial instruments

Financial assets by categories and classes	Note	As at 31/03/2018	Financial assets by categories and classes	As at 31/12/2017
Hedging financial instruments			**Hedging financial instruments**	
Derivatives	**12**	8 560	Derivatives	12 047
Financial assets carried at fair value through other comprehensive income			**Available for sale financial assets**	
Investments in equity instruments	**12**	6 168	Shares in unlisted companies	7 286
Financial assets carried at amortized cost			**Loans and receivables**	
Trade receivables	**15**	674 375	Trade receivables	688 806
Receivables on account of sale of non-financial non-current assets	**15**	-	Receivables on account of sale of non-financial non-current assets	111
Loans granted	**12**	837	Loans granted	1 069
Bank deposits over 3 months	**12**	302 898	Bank deposits over 3 months	253 805
Cash and cash equivalents	**16**	397 768	Cash and cash equivalents	516 776
Total		**1 390 606**	**Total**	**1 479 900**

Financial liabilities by categories and classes	Note	As at 31/03/2018	As at 31/12/2017
Hedging financial instruments (1)			
Derivatives	**21**	66	272
Bank loans and borrowings	**19**	488 489	494 171
Financial liabilities carried at amortized cost			
Bank loans and borrowings	**19**	1 018 546	1 068 159
Trade payables	**23**	432 038	447 186
Liabilities on the purchase of non-financial non-current assets	**23**	15 443	79 046
Financial liabilities excluded from the scope of IFRS 9 / IAS 39	**20**	128 303	139 095
Total		**2 082 885**	**2 227 929**

Impairment losses on the value of shares in unlisted companies and trade receivables are described in **Note 12** and **Note 15** to these Quarterly Condensed Consolidated Financial Statements, respectively.

(1) In the period from 1 January 2018 to 31 March 2018, the Group applied cash flow hedging accounting. The purpose of the hedging activity is to mitigate the impact of the FX risk within the EUR/PLN currency pair on the future cash flows. The hedged item is a highly probable cash flow denominated in EUR.

The Parent Company established the following hedging instruments:

- investment loans denominated in EUR. The hedged cash flows will be realized until August 2031. As at 31 March 2018, the nominal amount of the hedging instrument was EUR 116,072 thousand, which is an equivalent of PLN 488,489 thousand,
- in forward foreign exchange contracts. The hedged cash flows will be realized until March 2020. As at 31 March 2018, the value of the assets on account of the measurement of hedging instruments was PLN 7,962 thousand.

The item also includes measurement of hedging instruments in a subsidiary in the form of:

- forward interest rate swaps (IRS) hedging cash flows on account of future repayments of lease liabilities at variable interest rates. The hedged cash flows will be realized until May 2018. As at 31 March 2018, the value of the liabilities on account of the measurement of hedging instruments was PLN 66 thousand.
- forward foreign exchange contracts on the EUR/PLN currency pair, hedging future cash flows. The hedged cash flows will be realized until February 2019. As at 31 March 2018, the value of the assets on account of the measurement of hedging instruments was PLN 598 thousand.

(in PLN '000) (translation of a document originally issued in Polish)

26. Financial instruments (cont.)

Fair value hierarchy

As at 31 March 2018 and 31 December 2017, financial instruments measured at fair value were forward FX contracts and investments in equity instruments.

	As at 31/03/2018		As at 31/12/2017
	Level 2	Level 3	Level 2
Assets			
Derivative instruments – forward foreign exchange contracts	8 560	-	12 047
Investments in equity instruments – shares in unlisted companies	-	6 168	-
Liabilities			
Derivatives – forward foreign exchange contracts and IRS	66	-	272

Measurement methods for financial instruments carried at fair value

a) Forward foreign exchange contracts

The fair value of forward foreign exchange contracts is determined on the basis of discounted future cash flows on account of executed transactions calculated based on the difference between the forward price and the transaction price. A forward price is calculated based on NBP fixing and the interest rate curve derived from FX swap transactions.

b) Investments in equity instruments

This line item includes mainly an equity stake in Euroterminal Sławków Sp. z o.o. in amount of PLN 4,883 thousand, the value of which was measured by an independent adviser using the modified Swiss method. The Swiss method is a mixed measurement method as it combines the asset value aspect with the ability to generate future cash flows. According to the Swiss method, the value of the enterprise is calculated as the weighted average of the values determined by the asset-based approach and the income-based approach. This method attaches a greater weight (twice as large) to the value determined by the income-based approach. The adoption of the Swiss method is justified on the grounds that Euroterminal Sławków Sp. z o.o. has a moderate ability to generate profits in the future but owns significant assets in the form of a large number of land plots and real properties.

Shares in other companies not listed on active markets are measured at cost, which as at 31 March 2018 was PLN 2,117 thousand, taking into account impairment losses of PLN 832 thousand. In the Group's opinion, due to limitations in the extent of available information, this method of measurement reflects the fair value of these assets.

c) IRS contracts

The fair value of interest rate swaps is determined on the basis of discounted future cash flows on account of executed transactions based on the difference between the forward price and the transaction price. The fair value is calculated and discounted by the bank according to WIBOR 1M.

d) Other financial instruments

For the category of financial instruments which are not carried at fair value as at the balance sheet date, the Group does not disclose fair value because the fair values of these financial instruments as at 31 March 2018 and 31 December 2017 were not materially different from their values presented in the statement of financial position.

Changes to the measurement of financial instruments for Level 3 of the fair value hierarchy

	3 months ended 31/03/2018	3 months ended 31/03/2017
As at the beginning of the reporting period (1)	**6 147**	**(118 704)**
Gain / (loss) on revaluation	-	5 359
Exchange differences resulting from translation of financial statements of foreign entities	21	-
As at the end of the reporting period	**6 168**	**(113 345)**

(1) Data as at 1 January 2018 have been restated in connection with the implementation of IFRS 9, as described in **Note 3** to these Quarterly Condensed Consolidated Financial Statements.

In the period of 3 months ended 31 March 2018 and the period of 3 months ended 31 March 2017, there were no transfers between level 2 and level 3 of the fair value hierarchy.

(in PLN ‘000) (translation of a document originally issued in Polish)

26. Financial instruments (cont.)

Revenues, costs, profits and losses in the consolidated statement of comprehensive income by categories of financial instruments

3 months ended 31/03/2018	Hedging financial instruments	Financial assets carried at amortized cost	Financial liabilities carried at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Interest income / (expense)	(738)	3 850	(5 962)	(1 329)	**(4 179)**
Foreign income differences	47	601	(330)	(205)	**113**
Impairment losses / revaluation	(31)	521	-	-	**490**
Commission in connection with bank loans	-	-	(95)	-	**(95)**
Effect of settlement of cash flow hedging accounting [1]	2 810	-	-	-	**2 810**
Gross profit / (loss)	**2 088**	**4 972**	**(6 387)**	**(1 534)**	**(861)**
Revaluation	(7 869)	-	-	-	**(7 869)**
Other comprehensive income	**(7 869)**	**-**	**-**	**-**	**(7 869)**

[1] In the period of 3 months ended 31 March 2018, the effect of settling cash flow hedging accounting was presented in the following items of the statement of comprehensive income:
- revenue from sales of services and finished products in the amount of PLN 3,026 thousand,
- financial expenses - interest on financial lease liabilities in the amount of PLN 216 thousand,

3 months ended 31/03/2017	Hedging financial instruments	Loans and receivables	Financial liabilities carried at fair value through profit or loss	Financial liabilities carried at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
Interest income / (expense)	(257)	3 135	-	(7 499)	(1 580)	**(6 201)**
Foreign income differences	-	(4 955)	-	1 510	2 841	**(604)**
Impairment losses / revaluation	114	344	5 359	-	-	**5 817**
Commission in connection with bank loans	-	-	-	(51)	-	**(51)**
Effect of settlement of cash flow hedging accounting [1]	1 243	-	-	-	-	**1 243**
Gross profit / (loss)	**1 100**	**(1 476)**	**5 359**	**(6 040)**	**1 261**	**204**
Revaluation	19 404	-	-	-	-	19 404
Other comprehensive income	**19 404**	**-**	**-**	**-**	**-**	**19 404**

[1] In the period of 3 months ended 31 March 2017, the effect of settlement of cash flow hedging accounting was presented in the following items of the statement of comprehensive income:
- revenue from sales of services and finished products in the amount of PLN 1,480 thousand,
- financial expenses - interest on financial lease liabilities in the amount of PLN 237 thousand.

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27. Related party transactions

Transactions with the State Treasury and its other related parties

In the period of 3 months ended 31 March 2018 and the period of 3 months ended 31 March 2017, the State Treasury was a higher-level parent entity of the PKP CARGO Group. Accordingly, all companies owned by the State Treasury (directly or indirectly) are the Group's related parties and are presented separately as PKP Group related parties and other State Treasury related parties. In these Quarterly Condensed Consolidated Financial Statements, the Management Board of the Parent Company has disclosed transactions with significant related parties identified as such according to the best knowledge of the Management Board.

In the period of 3 months ended 31 March 2018 and the period of 3 months ended 31 March 2017, there were no individual transactions effected between the PKP CARGO Group and the State Treasury or other entities related to the State Treasury which would be significant due to a non-standard scope or amount. In the periods covered by these Quarterly Condensed Consolidated Financial Statements, the Group's most significant clients among other parties related to the State Treasury were Jastrzębska Spółka Węglowa S.A., the Azoty Group, the Enea Group, the Tauron Group and PGE Górnictwo i Energetyka Konwencjonalna S.A. However, in the periods covered by these Quarterly Condensed Consolidated Financial Statements, no purchase transactions were entered into with other entities related to the State Treasury which would be material in terms of value.

Transactions with PKP Group related parties

In the periods covered by these Quarterly Condensed Consolidated Financial Statements, the Group entered into the following commercial transactions with PKP Group related parties:

	3 months ended 31/03/2018		3 months ended 31/03/2017	
	Sales to related parties	Purchases from related parties	Sales to related parties	Purchases from related parties
Parent Company (PKP S.A.)	199	16 592	157	17 563
Subsidiaries / co-subsidiaries	2 711	3 608	2 104	4 502
Associates	1 271	84	985	89
Other PKP Group related parties	3 375	170 575	8 932	153 727

	As at 31/03/2018		As at 31/12/2017	
	Receivables from related parties	Liabilities to related parties	Receivables from related parties	Liabilities to related parties
Parent Company (PKP S.A.)	514	7 473	1 292	7 950
Subsidiaries / co-subsidiaries	2 219	2 917	1 226	1 580
Associates	1 264	8	179	-
Other PKP Group related parties	2 571	66 741	2 529	60 879

Purchase transactions with the Parent Company (PKP S.A.) pertain in particular to rental and lease of real estate, supply of utilities and occupational medicine services.

Sales transactions with other PKP Group related parties comprised, among others, train traction services, lease and operation of locomotives, services related to financial settlements with foreign rail freight companies, rolling stock maintenance services and sub-lease of real estate. Purchase transactions comprised, among others, access to rail infrastructure, lease of real estate, supply of utilities, maintenance of rail traffic facilities, purchase of network maintenance services, operation of IT systems.

(in PLN '000) (translation of a document originally issued in Polish)

27. Related party transactions (cont.)

Loans granted to / received from related parties

	As at 31/03/2018	As at 31/12/2017
Loans granted to related parties	837	1 069
Loans received from related parties	1 339	1 311

Remunerations of key management personnel

Remunerations of key management personnel presented in this note include the amounts of benefits disbursed in the relevant period.

Remunerations of the Parent Company's Management Board Members were as follows:	3 months ended 31/03/2018	3 months ended 31/03/2017
Short-term benefits	389	678
Post-employment benefits	225	568
Total	**614**	**1 246**

Remunerations of Supervisory Board Members of the Parent Company were as follows:	3 months ended 31/03/2018	3 months ended 31/03/2017
Short-term benefits	234	319
Total	**234**	**319**

Remunerations of other members of the key management personnel of the Parent Company were as follows:	3 months ended 31/03/2018	3 months ended 31/03/2017 (restated*)
Short-term benefits	1 486	1 450
Post-employment benefits	227	340
Termination benefits	-	267
Total	**1 713**	**2 057**

Remunerations of the Subsidiaries' Management Board Members were as follows:	3 months ended 31/03/2018	3 months ended 31/03/2017
Short-term benefits	1 844	1 899
Post-employment benefits	622	353
Termination benefits	48	-
Total	**2 514**	**2 252**

Remunerations of Supervisory Board Members of the Subsidiaries were as follows:	3 months ended 31/03/2018	3 months ended 31/03/2017
Short-term benefits	271	399
Total	**271**	**399**

Remunerations of other members of the key management personnel of the Subsidiaries were as follows:	3 months ended 31/03/2018	3 months ended 31/03/2017 (restated*)
Short-term benefits	5 266	5 173
Termination benefits	69	49
Total	**5 335**	**5 222**

[1] In the financial year ended 31 December 2017 the Group changed the presentation of other key management personnel, including into this group, in addition to Managing Directors, Head Office Department Directors and Directors of other organizational units responsible for individual areas of the Group's operations. In connection with the change of the presentation the Group accordingly restated the comparable data for the period of 3 months ended 31 March 2017.

In the period of 3 months ended 31 March 2018 and the period of 3 months ended 31 March 2017, members of the key management personnel of the Parent Company and the PKP CARGO Group subsidiaries did not enter into any loan or guarantee transactions with the Group.

All related party transactions were conducted on an arm's length basis.

(in PLN '000) (translation of a document originally issued in Polish)

28. Liabilities to incur expenditures for non-financial non-current assets

As at 31 March 2018, the Group's key future contractual investment liabilities were as follows:

Contractual liabilities on account of purchase of non-financial non-current assets	Contractual execution deadline	Unrealized contract value as at 31/03/2018
Delivery of 70 new wagons	by 28/02/2019	39 970
Completion of periodic repairs of wagons	by 31/05/2019	50 695
Completion of periodic repairs of locomotives	by 31/12/2018	5 490
Terminal expansion in Paskov	by 31/12/2018	21 815
Purchase of a real property in Paskov	by 30/04/2018	3 650
Other	by 31/12/2018	3 490
Total		**125 110**

On 4 April 2018, the Parent Company entered into an agreement to modernize 60 SM48 diesel engine locomotives in the period from October 2018 to May 2021. The estimated value of the agreement is PLN 388,148 thousand.

On 21 May 2018, the Parent Company signed an agreement to conduct level five maintenance repairs, including replacements of combustion engines, in 38 series ST44 diesel locomotives in the period from January 2019 to September 2020. The estimated value of the contract is PLN 176,334 thousand.

29. Contingent liabilities

Structure of contingent liabilities

	As at 31/03/2018	As at 31/12/2017
Guarantees issued on the Group's order	118 485	130 097
Other contingent liabilities	128 889	129 243
Total	**247 374**	**259 340**

Guarantees issued on the Group's order

As at 31 March 2018, the Group included in contingent liabilities guarantees issued by banks and insurance companies at the request of PKP CARGO Group companies. This line item comprises mainly commercial contract performance bonds, tender deposits and customs guarantees.

Other contingent liabilities

This line comprises the claims made against the group in court proceedings in the case of which the probability of outflow of cash is assessed as low, and claims in the case of which it is not possible to make a reliable estimate of the payment amount in the future by the Group. The amounts presented in this Note correspond to the value of the full claims reported by external entities. Assessment of the estimates may change in subsequent periods as a result of future events.

30. Subsequent events

There have been no material events affecting the Group's operations after the balance sheet date, except for the events described in **Note 17, Note 19** and **Note 28** to these Quarterly Condensed Consolidated Financial Statements.

31. Approval of the financial statements

These Quarterly Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 24 May 2018.

Parent Company's Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 24 May 2018

QUARTERLY FINANCIAL INFORMATION OF **PKP CARGO S.A**. FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2018 PREPARED ACCORDING TO EU IFRS

PKPCARGO

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PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

QUARTERLY SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 MARCH 2018

	3 months ended 31/03/2018 (unaudited)	3 months ended 31/03/2017 (unaudited restated)
Revenue from sales of services	903 411	811 706
Revenue from sales of raw materials	8 695	1 747
Other operating revenue	8 362	4 698
Total operating revenue	**920 468**	**818 151**
Depreciation, amortization and impairment losses	109 724	118 923
Consumption of raw materials and energy	150 815	132 694
External services	265 195	265 270
Taxes and charges	3 848	8 514
Employee benefits	305 126	282 774
Other expenses by kind	9 783	9 797
Cost of raw materials sold	6 159	684
Other operating expenses	5 254	5 202
Total operating expenses	**855 904**	**823 858**
Operating profit / (loss)	**64 564**	**(5 707)**
Financial revenue	2 294	8 205
Financial expenses	10 904	12 287
Profit / (loss) before tax	**55 954**	**(9 789)**
Income tax	12 219	(603)
NET PROFIT / (LOSS)	**43 735**	**(9 186)**
Other comprehensive income		
Other comprehensive income subject to reclassification in the financial result:		
Effective portion of gains / (losses) related to a hedging instrument to hedge cash flow	(7 171)	19 263
Income tax referring to the other comprehensive income line item	1 363	(3 660)
Total other comprehensive income subject to reclassification in the financial result	**(5 808)**	**15 603**
Total other comprehensive income	**(5 808)**	**15 603**
TOTAL COMPREHENSIVE INCOME	**37 927**	**6 417**
Earnings / (losses) per share (PLN per share)		
Basic	**0.98**	**(0.21)**
Diluted	**0.98**	**(0.21)**

PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

QUARTERLY SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 MARCH 2018

	As at 31/03/2018 (unaudited)	As at 31/12/2017 (audited)
ASSETS		
Non-current assets		
Property, plant and equipment	3 628 630	3 611 262
Intangible assets	37 120	39 561
Investments in subsidiaries, associates and joint ventures	804 629	804 629
Other non-current financial assets	6 179	8 647
Other non-current non-financial assets	4 284	4 484
Deferred tax assets	98 601	89 904
Total non-current assets	**4 579 443**	**4 558 487**
Current assets		
Inventories	82 479	86 426
Trade and other receivables	455 684	486 607
Other current financial assets	332 774	281 630
Other current non-financial assets	40 424	27 976
Cash and cash equivalents	193 456	295 910
Total current assets	**1 104 817**	**1 178 549**
Total assets	**5 684 260**	**5 737 036**
EQUITY AND LIABILITIES		
Equity		
Share capital	2 239 346	2 239 346
Supplementary capital	589 202	589 202
Other items of equity	(6 288)	12 469
Retained earnings	319 631	265 444
Total equity	**3 141 891**	**3 106 461**
Long-term liabilities		
Long-term bank loans and borrowings	1 159 099	1 211 148
Long-term finance lease liabilities	389	3 308
Long-term provisions for employee benefits	504 335	502 856
Other long-term provisions	14 224	14 224
Total long-term liabilities	**1 678 047**	**1 731 536**
Short-term liabilities		
Short-term bank loans and borrowings	220 476	219 352
Short-term finance lease liabilities	26 329	31 069
Short-term trade and other payables	507 191	549 188
Short-term provisions for employee benefits	91 533	81 424
Other short-term provisions	17 287	16 905
Short-term tax liabilities	1 506	1 101
Total short-term liabilities	**864 322**	**899 039**
Total liabilities	**2 542 369**	**2 630 575**
Total equity and liabilities	**5 684 260**	**5 737 036**

PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

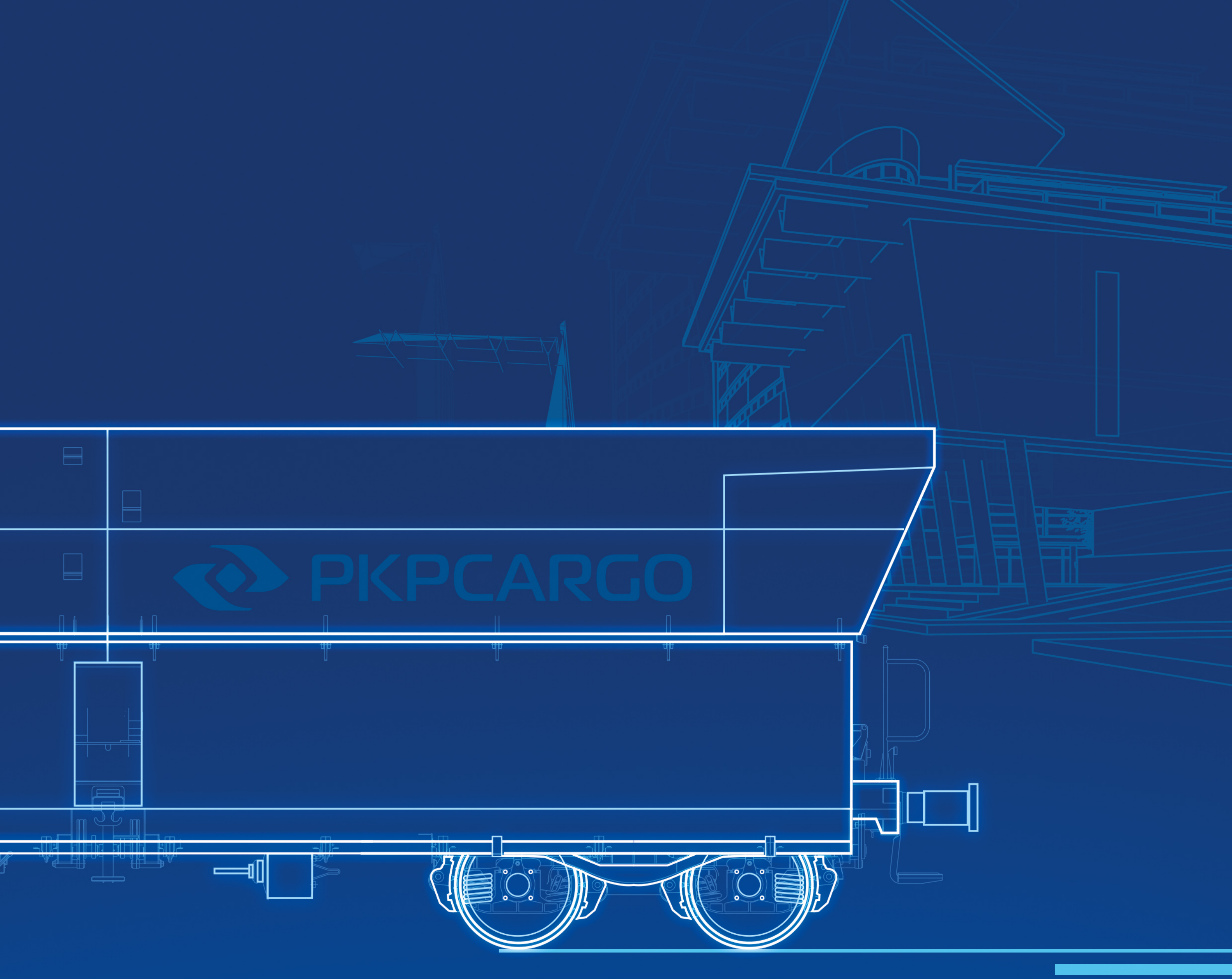
QUARTERLY SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 MARCH 2018

			Other items of equity				
	Share capital	Supplementary capital	Gains / (losses) on measurement of equity instruments at fair value	Actuarial gains / (losses) on post-employment benefits	Gains / (losses) related to a hedging instrument to hedge cash flow	Retained earnings	TOTAL
As at 1/01/2018 (audited)	**2 239 346**	**589 202**	**-**	**(4 278)**	**16 747**	**265 444**	**3 106 461**
Changes resulting from the implementation of IFRS 9	-	-	(12 949)	-	-	10 452	**(2 497)**
Balance as at 1/01/2018 (restated)	**2 239 346**	**589 202**	**(12 949)**	**(4 278)**	**16 747**	**275 896**	**3 103 964**
Net result for the period	-	-	-	-	-	43 735	**43 735**
Other net comprehensive income for the period (net)	-	-	-	-	(5 808)	-	**(5 808)**
Total comprehensive income	**-**	**-**	**-**	**-**	**(5 808)**	**43 735**	**37 927**
As at 31/03/2018 roku (unaudited)	**2 239 346**	**589 202**	**(12 949)**	**(4 278)**	**10 939**	**319 631**	**3 141 891**
As at 1/01/2017 (audited)	**2 239 346**	**589 202**	**-**	**22 249**	**(3 834)**	**171 477**	**3 018 440**
Net result for the period	-	-	-	-	-	(9 186)	**(9 186)**
Other net comprehensive income for the period (net)	-	-	-	-	15 603	-	**15 603**
Total comprehensive income	**-**	**-**	**-**	**-**	**15 603**	**(9 186)**	**6 417**
As at 31/03/2017 (unaudited)	**2 239 346**	**589 202**	**-**	**22 249**	**11 769**	**162 291**	**3 024 857**

PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

QUARTERLY SEPARATE STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 MARCH 2018

	3 months ended 31/03/2018 (unaudited)	3 months ended 31/03/2017 (unaudited)
Cash flows from operating activities		
Profit / (loss) before tax	**55 954**	**(9 789)**
Adjustments:		
Depreciation of property, plant and equipment and amortization of intangible assets	109 724	118 923
(Gains) / losses on the sale and liquidation of property, plant and equipment, intangible assets and non-current assets held for sale	125	1 048
Foreign exchange (gains) / losses	67	(2 853)
(Gains) / losses on interest, dividends	3 900	5 157
Received / (paid) interest	1 031	493
Received / (paid) income taxes	(17 195)	(596)
Other adjustments	(2 552)	9 600
Change in working capital:		
(Increase) / decrease in trade and other receivables	25 391	4 663
(Increase) / decrease in inventories	4 988	62
(Increase) / decrease in other assets	(9 665)	(28 247)
Increase / (decrease) in trade and other payables	3 705	(15 398)
Increase / (decrease) in other financial liabilities	-	(2 483)
Increase / (decrease) in provisions	11 971	8 497
Net cash from operating activities	**187 444**	**89 077**
Cash flows from investing activities		
Expenditures to acquire property, plant and equipment and intangible assets	(169 850)	(97 231)
Proceeds on the transfer of property, plant and equipment, intangible assets and non-current assets held for sale	16	36
Proceeds from interest received	1 700	949
Proceeds from dividend received	-	600
(Outflow) / inflows from bank deposit over 3 months	(52 000)	(250 000)
Net cash from investing activities	**(220 134)**	**(345 646)**
Cash flows from financing activities		
Payments of finance lease liabilities	(7 879)	(8 615)
Payments of interest under finance leases	(168)	(278)
Proceeds from bank loans and borrowings	-	40 349
Repayment of bank loans and borrowings	(55 341)	(86 597)
Interest paid on bank loans and borrowings	(6 193)	(7 068)
Inflow / (outflow) as part of cash pool	(179)	(26 048)
Other outflow from financing activities	(4)	(275)
Net cash from financing activities	**(69 764)**	**(88 532)**
Net increase / (decrease) in cash and cash equivalents	(102 454)	(345 101)
Cash and cash equivalents as at the beginning of the reporting period	295 910	611 990
Cash and cash equivalents as at the end of the reporting period	**193 456**	**266 889**



OTHER INFORMATION TO PKP CARGO GROUP'S CONSOLIDATED QUARTERLY REPORT FOR Q1 2018

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ADDITIONAL INFORMATION TO THE CONSOLIDATED QUARTERLY REPORT FOR Q1 2018

LIST OF TABLES

LIST OF FIGURES

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

Table 1 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN 000s[1]		EUR 000s	
	3 months of 2018	3 months of 2017	3 months of 2018	3 months of 2017
Operating revenue	920,468	818,151	220,292	190,751
Profit / loss on operating activities	64,564	-5,707	15,452	-1,331
Profit / loss before tax	55,954	-9,789	13,391	-2,282
Net profit / loss	43,735	-9,186	10,467	-2,142
Comprehensive income	37,927	6,417	9,077	1,496
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / loss per share (PLN/EUR)	0.98	-0.21	0.23	-0.05
Diluted earnings / loss per share (PLN/EUR)	0.98	-0.21	0.23	-0.05
Net cash flow from operating activities	187,444	89,077	44,860	20,768
Net cash flow from investing activities	-220,134	-345,646	-52,684	-80,587
Net cash flow from financing activities	-69,764	-88,532	-16,696	-20,641
Movement in cash and cash equivalents	-102,454	-345,101	-24,520	-80,460
	31/03/2018	31/12/2017	31/03/2018	31/12/2017
Non-current assets	4,579,443	4,558,487	1,088,141	1,092,926
Current assets	1,104,817	1,178,549	262,520	282,565
Share capital	2,239,346	2,239,346	532,101	536,898
Equity	3,141,891	3,106,461	746,558	744,794
Non-current liabilities	1,678,047	1,731,536	398,728	415,147
Current liabilities	864,322	899,039	205,375	215,550

Source: Quarterly Financial Information of PKP CARGO S.A. for the period of 3 months ended 31 March 2018 prepared according to EU IFRS

[1]In this document, i.e. in the “Additional Information to the Consolidated Quarterly Report of the PKP CARGO Group for Q1 2018”, to facilitate the reading, some figures were rounded off, which may cause slight deviations in the presented data. In all cases of possible distortions, the data were presented with greater accuracy.

Table 2 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN 000s		EUR 000s	
	3 months of 2018	3 months of 2017	3 months of 2018	3 months of 2017
Operating revenue	1,215,876	1,100,027	290,991	256,470
Profit / loss on operating activities	63,256	3,176	15,139	740
Profit / loss before tax	49,723	98	11,900	23
Net profit / loss	35,609	-1,434	8,522	-334
Total comprehensive income attributable to the owners of the parent company	40,802	-18,474	9,765	-4,307
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / loss per share (PLN/EUR)	0.80	-0.03	0.19	-0.01
Diluted earnings / loss per share (PLN/EUR)	0.80	-0.03	0.19	-0.01
Net cash flow from operating activities	198,346	92,638	47,469	21,598
Net cash flow from investing activities	-238,261	-359,010	-57,022	-83,703
Net cash flow from financing activities	-80,603	-36,200	-19,290	-8,440
Movement in cash and cash equivalents	-120,518	-302,572	-28,843	-70,544
	31/03/2018	31/12/2017	31/03/2018	31/12/2017
Non-current assets	4,956,584	4,947,406	1,177,755	1,186,172
Current assets	1,615,716	1,694,153	383,917	406,184
Share capital	2,239,346	2,239,346	532,101	536,898
Equity attributable to the owners of the parent company	3,371,770	3,334,778	801,181	799,534
Non-current liabilities	2,039,748	2,093,673	484,673	501,972
Current liabilities	1,160,782	1,213,108	275,818	290,850

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2018 prepared according to EU IFRS

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 Financial Information of PKP CARGO S.A. and the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2018:

1. exchange rate in force on the last day of the reporting period: 31 March 2018: EUR 1 = PLN 4.2085; 31 December 2017: EUR 1 = PLN 4.1709,
2. the average exchange rate in the period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in a given period: 1 January – 31 March 2018: EUR 1 = PLN 4.1784, 1 January – 31 March 2017: EUR 1 = PLN 4.2891.

2. Organization of the PKP CARGO Group

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

Both PKP CARGO S.A. and the PKP CARGO Group are the biggest in Poland and one of the biggest rail freight operators in the European Union ("EU"). The Group's development is focused on enhancing and extending its operations in terms of its product range and geographic area. At present, the Group is the leader on the Polish market (according to the Office of Rail Transport – UTK[3]) and it is the second largest operator on the Czech market (according to SZDC[4]). Notwithstanding the areas mentioned above, the Company and the Group conduct and constantly develop operations in Slovakia, Germany, Austria, the Netherlands, Lithuania and Hungary.

The Group (the Parent Company, AWT a.s., PKP CARGO SERVICE Sp. z o.o.) offers domestic and international transport of cargo as well as comprehensive logistics services for rail freight. In addition, the following services are provided to support clients and supplement the offering:

2.2 Consolidated entities

The Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group as at 31 March 2018 encompass PKP CARGO S.A. and 14 subsidiaries consolidated by the full method:

- **PKP CARGO SERVICE Sp. z o.o.**
- **PKP CARGOTABOR Sp. z o.o.**
- **PKP CARGOTABOR USŁUGI Sp. z o.o.**
- **PKP CARGO CENTRUM LOGISTYCZNE MAŁASZEWICZE Sp. z o.o.**
- **PKP CARGO CENTRUM LOGISTYCZNE MEDYKA-ŻURAWICA Sp. z o.o.**
- **CARGOSPED TERMINAL BRANIEWO Sp. z o.o.**
- **CARGOTOR Sp. z o.o.**
- **PKP CARGO CONNECT Sp. z o.o.**
- **Advanced World Transport B.V.**
- **Advanced World Transport a.s.**
- **AWT Rosco a.s.**
- **AWT Cechofracht a.s.**
- **AWT Rekultivace a.s.**
- **AWT Rail HU Zr**

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

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

In addition, the following companies are measured using the equity method as at 31 March 2018 in the PKP CARGO Group's Condensed Quarterly Consolidated Financial Statements:

- **COSCO Shipping Lines (POLAND) Sp. z o.o.**
- **Pol – Rail S.r.l.**
- **Terminale Przeładunkowe Sławków – Medyka Sp. z o.o.**
- **Transgaz S.A.**
- **Trade Trans Finance Sp. z o.o.**
- **Rentrans Cargo Sp. z o.o.**
- **PKP CARGO CONNECT GmbH**
- **AWT Rail SK a.s.**

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

PKP CARGO S.A.

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

PKP CARGO SERVICE Sp. z o.o.

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

PKP CARGOTABOR Sp. z o.o.

On 1 July 2014, the operations of companies belonging to the PKP CARGO Group dedicated to the repair and maintenance of rolling stock were consolidated. At present, the competences in this area are concentrated in PKP CARGOTABOR Sp. z o.o. This company's core business entails services in the area of repair and maintenance of rolling stock and the physical decommissioning of wagons and locomotives. Moreover, this company renders comprehensive services concerning repairs of electrical machines and wheel sets as well as weighing and regulating rolling stock. The 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. As at the delivery date of the report, the company does not conduct any operating activity.

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

PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. was established on 22 February 2010. This company's line of business is to provide comprehensive cargo handling through 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 cargo, 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 and as the only company on the country's eastern border has a 6-chamber thaw room with a technological capacity of concurrent defrosting of goods in 120 rail cars.

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 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 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 by 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 are 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.

Advanced World Transport B.V.

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. As a result of the acquisition, on 2 November 2017, of an additional 20% stake in AWT B.V., PKP CARGO S.A. became the owner of a 100% stake in the share capital of AWT B.V.

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 services are 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").

On 1 June 2017, Advanced World Transport a.s. acquired a wholly-owned subsidiary, namely AWT Coal Logistics s.r.o., as a result of which Advanced World Transport a.s. has become the legal successor of AWT Coal Logistics s.r.o, which itself has ceased to exist as a separate entity.

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 office in Hawierzów (Czech Republic). It specializes in civil engineering construction projects. The company's core offering consists of managing and revitalizing post-industrial areas (including mining areas), demolition works, managing waste utilization facilities, eliminating underground mining pits, decontaminating 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 a member of 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 Rail HU Zrt.

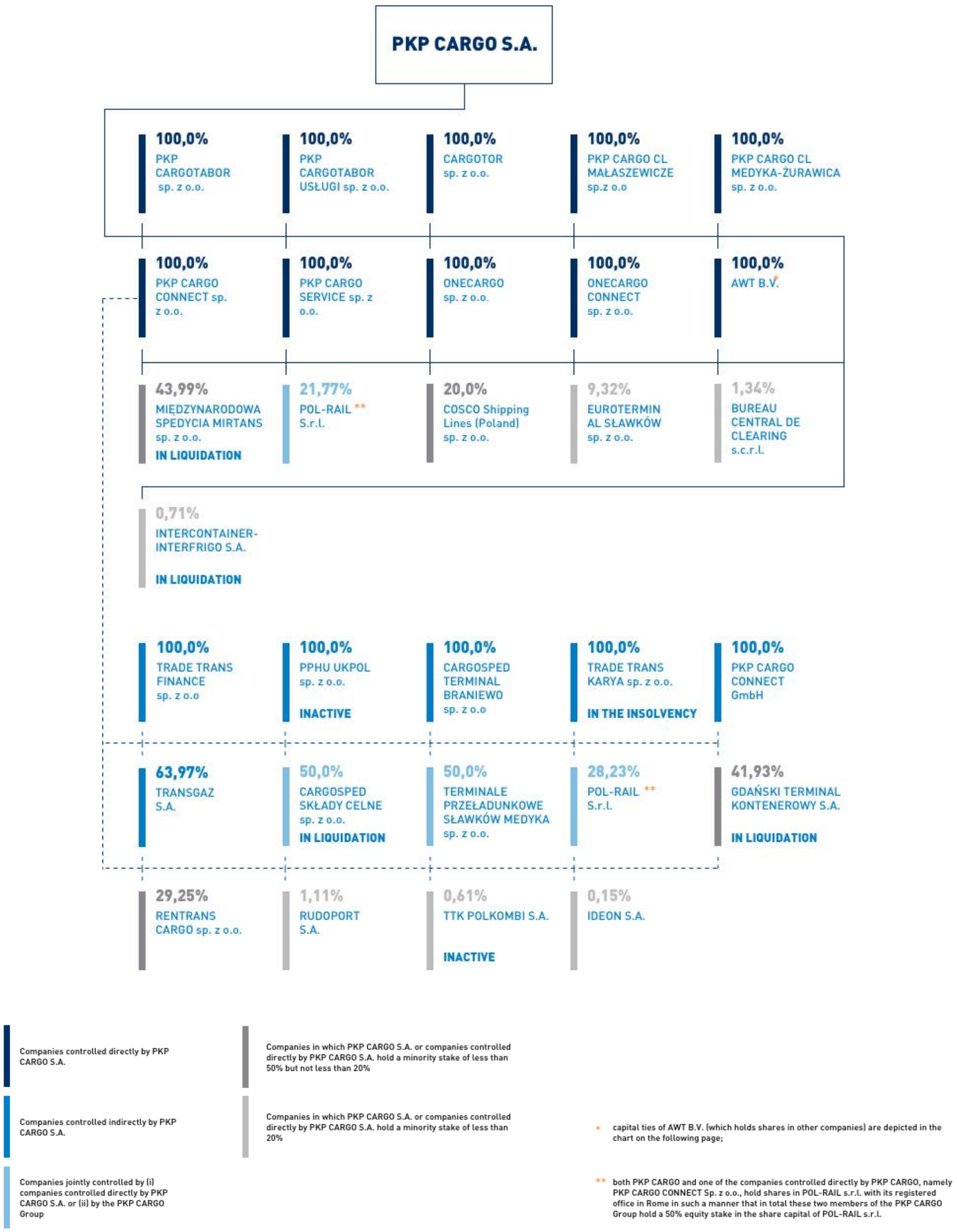
The company was registered on 31 December 2008. It offers rail transport services and rail siding handling in Hungary on the basis of its own rail operator's license. The company's development is an element of the Group's international expansion. At present, the company is participating in handling a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

2.3 Organizational structure of the PKP CARGO Group

As at 31 March 2018, the PKP CARGO Group comprised of PKP CARGO S.A. as its parent company and 25 subsidiaries. In addition the Group had 4 associated entities and shares in 2 joint ventures.

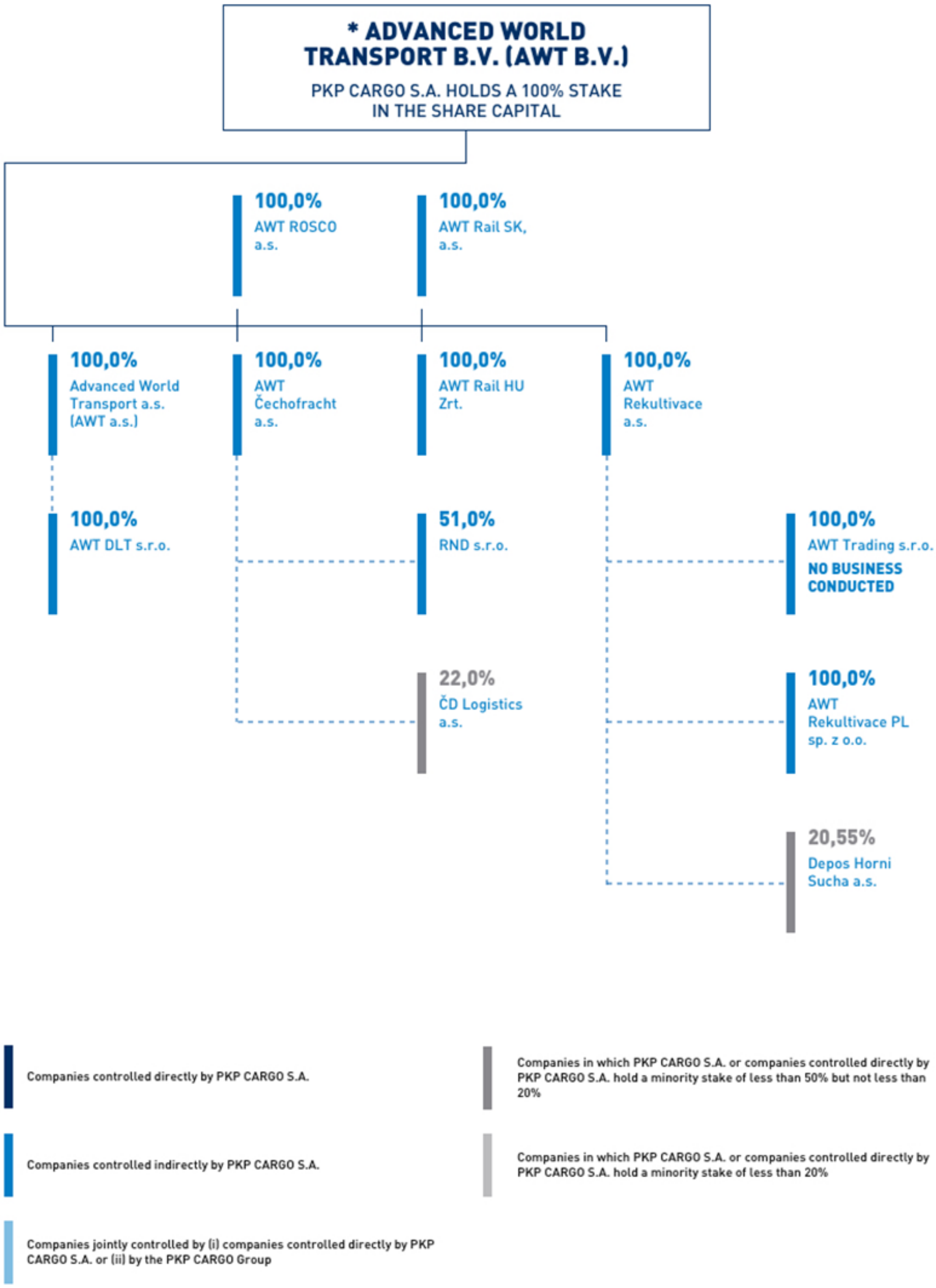
The figure below presents the organizational links between PKP CARGO S.A. and other entities as at 31 March 2018:

Figure 1 Structure of equity links of PKP CARGO S.A. as at 31 March 2018



Source: Proprietary material

Figure 2 Structure of the AWT Group as at 31 March 2018



Source: Proprietary material

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 Commercial Company Code (Journal of Laws No. 94 Item 1037, as amended);
2. Act of 8 September 2000 on the Commercialization and Restructuring of the State-Owned Enterprise "Polskie Koleje Państwowe" (Journal of Laws No. 84 Item 948, as amended);
3. Articles of Association of PKP CARGO S.A. (consolidated text adopted by Resolution No. 1682/VI/2017 of the PKP CARGO S.A. Supervisory Board dated 27 June 2017);
4. Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution No. 47/2018 of the PKP CARGO S.A. Management Board dated 7 February 2018;
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 Bylaws. The Bylaws are adopted by the Management Board and approved by the Company's Supervisory Board. According to the Management Board Bylaws, the Management Board makes decisions in the form of resolutions. Management Board resolutions are adopted by an absolute majority of votes, with at least half of the Management Board members attending the meeting; they may only be adopted if all the Management Board Members have been duly notified about the Management Board meeting. According to the Bylaws, if an equal number of votes is cast "for" and "against" together with abstentions, the President of the Management Board will have the casting vote. Management Board meetings are held at least once a week. In 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.

Table 3 Composition of the PKP CARGO S.A. Management Board from 1 January 2018 to the delivery date of the report

Name	Position	Period in office	
		from	to
Czesław Warsewicz	President of the Management Board	27 March 2018	to date
Leszek Borowiec	Management Board Member in charge of Finance	27 March 2018	to date
Witold Bawor	Management Board Member in charge of Operations	26 October 2017	to date
Grzegorz Fingas	Management Board Member in charge of Commerce	1 April 2016	to date
Zenon Kozendra	Management Board Member – Employee Representative	14 July 2016	to date
Krzysztof Mamiński	temporary discharge of duties of President of the Management Board	26 October 2017	26 January 2018 (in accordance with Article 383 of the Commercial Company Code)
		27 January 2018	25 March 2018 (in accordance with Article 383 of the Commercial Company Code)

Source: Proprietary material

On 05 January 2018, Supervisory Board adopted Resolution No. 1717/VI/2018 and on 07 February 2018, Supervisory Board adopted Resolution No. 1721/VI/2018 to extend the deadline for submission of applications and change the remaining deadlines in the recruitment procedure initiated by virtue of PKP CARGO S.A. Supervisory Board adopted Resolution No. 1712/VI/2017 of 05 December 2017 for the positions of: President of the PKP CARGO S.A. Management Board and PKP CARGO S.A. Management Board Member in charge of Finance.

On 25 January 2018, the Supervisory Board adopted resolution 1719/VI/2018 to delegate Supervisory Board Member Mr. Krzysztof Mamiński to perform the duties of President of the PKP CARGO S.A. Management Board from 27 January 2018 to 26 March 2018. On 23 March 2018 the Company received information on the tendering of a resignation, effective as of 25 March 2018, from the Company's Management Board by Mr. Krzysztof Mamiński.

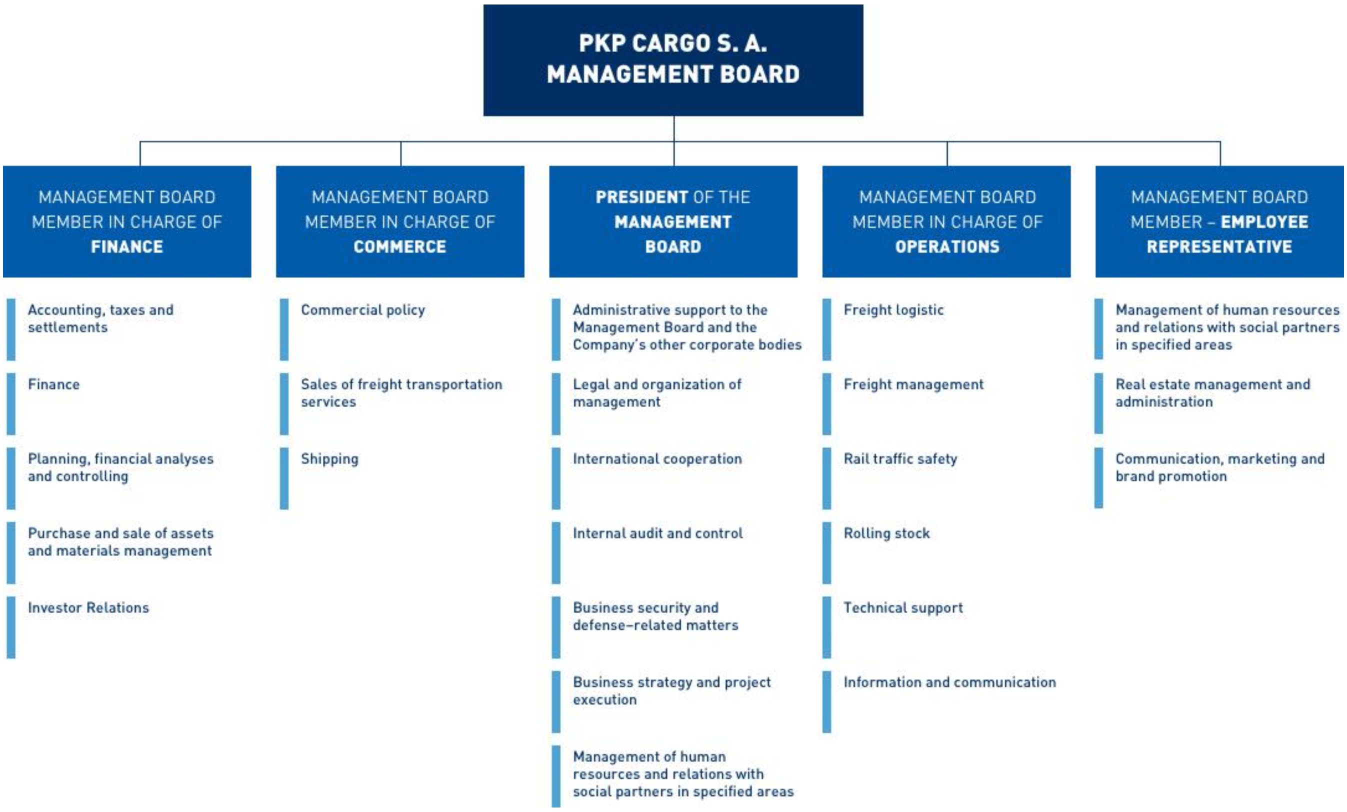
On 26 March 2018 the Supervisory Board adopted Resolution No. 1727/VI/2018 on appointing, as of 27 March 2018, Mr. Leszek Borowiec to the position of PKP CARGO S.A. Management Board Member in charge of Finance.

On 26 March 2018 the Supervisory Board adopted Resolution No. 1729/VI/2018 on appointing, as of 27 March 2018, Mr. Czesław Warsewicz to the position of President of the PKP CARGO S.A. Management Board.

On 23 April 2018 the Supervisory Board adopted Resolution No. 1762/VI/2018 to declare the appointment Mr. Jerzy Sośnierz to the position of the PKP CARGO S.A. Supervisory Board Member as of 01 May 2018.

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

Figure 3 Duties and responsibilities of the Parent Company's Management Board Members as at 31 March 2018



Source: Proprietary material

SUPERVISORY BOARD

In accordance with the adopted consolidated version of PKP CARGO S.A.'s Articles of Association (Resolution No. 1682/VI/2017 of the PKP CARGO S.A. Supervisory Board dated 27 June 2017), 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 Company 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 other Members of the Management Board, setting the number of Management Board Members, setting compensation rules for Management Board members, granting consent for the establishment or liquidation of the Company's branch, 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 Supervisory Board Bylaws adopted by the Supervisory Board. In accordance with the provisions of these Bylaws, the Supervisory Board makes decisions in the form of resolutions. For Supervisory Board resolutions to be valid, all the Supervisory Board members must have been invited and at least half of them must be present, including the Supervisory Board Chairperson. Resolutions of the Supervisory

Board are adopted by an absolute majority of votes. If an equal number of votes is cast “for” and “against”, the latter including abstentions, the Supervisory Board Chairperson has the casting vote. Supervisory Board resolutions in the matter of suspension of Management Board members or Management Board require the consent of the Supervisory Board Chairperson. Supervisory Board resolutions may also be adopted without holding a meeting, except for resolutions pertaining to the election of the Supervisory Board Chairperson or Deputy Chairperson, the appointment of a Management Board member and the dismissal or suspension of these persons in their duties. The Supervisory Board holds its meetings no less frequently than once every two months.

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, family or relatives (to the second degree next of kin) and personal relations, 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 of the Supervisory Board meeting.

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

Table 4 Composition of the PKP CARGO S.A. Supervisory Board from 1 January 2018 to the delivery date of the report

Name	Position	Period in office	
		from	to
Krzysztof Mamiński	Supervisory Board Member Supervisory Board Chairman (seconded to temporarily perform the duties of President of the Management Board) Supervisory Board Chairman	6 March 2017 20 March 2017 26 October 2017 26 March 2018	25 March 2018 to date
Mirosław Antonowicz	Supervisory Board Member Supervisory Board Deputy Chairman	1 June 2017 27 June 2017	to date
Krzysztof Czarnota	Supervisory Board Member	20 May 2016	to date
Zofia Dzik	Supervisory Board Member	11 May 2016	to date
Raimondo Eggink	Supervisory Board Member	13 April 2015*	to date
Małgorzata Kryszkiewicz	Supervisory Board Member	17 December 2015*	to date
Tadeusz Stachaczyński	Supervisory Board Member	20 May 2016	to date
Władysław Szczepkowski	Supervisory Board Member	14 March 2017	to date
Jerzy Sośnierz	Supervisory Board Member	01 May 2018	to date
Czesław Warsewicz	Supervisory Board Member	17 December 2015*	26 March 2018

* the 6th term of office of the PKP CARGO S.A. Supervisory Board began on 11 May 2016, the date of holding the Ordinary Shareholder Meeting (“OSM”) of PKP CARGO S.A.

Source: Proprietary material

SUPERVISORY BOARD AUDIT COMMITTEE

The PKP CARGO S.A. Audit Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of at least three Supervisory Board members, provided that the majority of the Committee members meet the independence criteria and are appointed in the manner specified in § 20 and § 21 of the Company’s Articles of Association. At least one member of the Audit Committee must have qualifications in the area of accounting or audit of financial statements and at least one member of the Audit Committee must have knowledge and skills in the specific industry in which the Company operates.Committee members are appointed for a term corresponding to the Supervisory Board’s term of office. Tasks of the Audit Committee include in particular: oversight of the organizational unit responsible for internal audit, monitoring the financial reporting process, monitoring the performance of internal control systems, risk management and internal audit systems, including the area of financial reporting, monitoring financial review activities, monitoring the independence of the statutory auditor and the entity authorized to audit financial statements, also when it provides to the Company other services than financial review, assessing the independence of a statutory auditor and giving consent for it to provide permitted auditing services, recommending an entity authorized to audit financial statements to the Supervisory Board to perform financial review activities for the Company, in compliance with the policies in force in the Company.

Table 5 Composition of the PKP CARGO S.A. Supervisory Board Audit Committee from 1 January 2018 to the delivery date of the report

Name	Position	Period in office	
		from	to
Raimondo Eggink	Committee Member	30 April 2015	11 May 2016*
	Committee Chairman	18 December 2015	11 May 2016*
	Committee Member	20 May 2016	
	Committee Chairman	31 May 2016	to date
Małgorzata Kryszkiewicz	Committee Member	18 December 2015	11 May 2016*
		20 May 2016	to date
Zofia Dzik	Committee Member	20 May 2016	to date

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

Source: Proprietary material

NOMINATION COMMITTEE

The PKP CARGO S.A. Supervisory Board appoints Nomination Committee. 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, to discharge the function of Committee Chairman. Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The Nomination Committee organizes and exercises ongoing oversight over the recruitment procedure for the positions of the Company's Management Board members and over the process of assessment and appointment of the Company's Management Board members, and supports the attainment of the Company's strategic objectives by presenting opinions and findings to the Supervisory Board pertaining to the employment structure and compensation for the Company's employees, including in particular the Company's Management Board Members and upper level management.

Table 6 Composition of the PKP CARGO S.A. Supervisory Board Nomination Committee from 1 January 2018 to the delivery date of the report

Name	Position	Period in office	
		from	to
Zofia Dzik	Committee Chairwoman	20 May 2016	to date
Mirosław Antonowicz	Committee Member	27 June 2017	to date
Władysław Szczepkowski	Committee Member	27 November 2017	to date

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

STRATEGIC COMMITTEE

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

Table 7 Composition of the Strategic Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2018 to the delivery date of this report

Name	Position	Period in office	
		from	to
Czesław Warsewicz	Committee Chairman	23 June 2016	26 March 2018
Raimondo Eggink	Committee Member	23 June 2016	to date
Mirosław Antonowicz	Committee Member	27 June 2017	to date
Władysław Szczepkowski	Committee Member	23 April 2018	to date

Source: Proprietary material

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

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

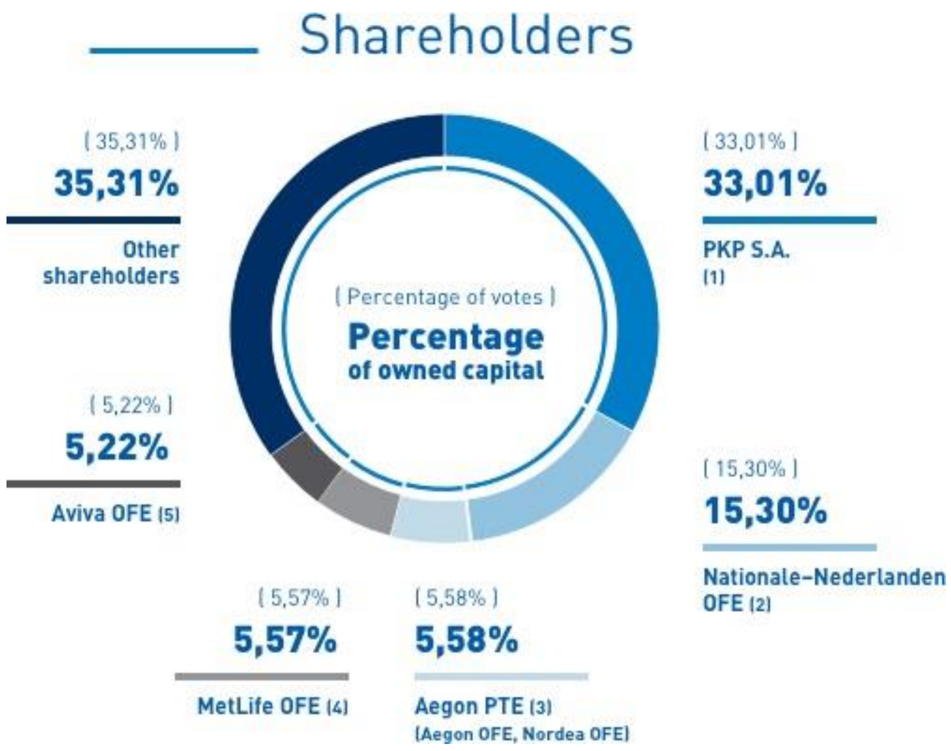
Table 8 Structure of PKP CARGO S.A.'s share capital

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

Figure 4 Shareholder structure of PKP CARGO S.A. as at 16 March 2018 and as at the delivery date of this report



(1) According to a notice sent by the shareholder on 24 June 2014.
(2) According to a notice sent by the shareholder on 18 October 2016.
(3) According to a notice sent by the shareholder on 23 November 2017.
(4) According to a notice sent by the shareholder on 18 August 2016.
(5) According to a notice sent by the shareholder on 13 August 2014.

Source: Proprietary material

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 16 March 2018, i.e. from the delivery date of the 2017 annual report to the date of submission of this report, were as follows:

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

Name	Number of PKP CARGO S.A. shares held by Management Board members
as at the delivery date of this report	
Czesław Warsewicz	0
Leszek Borowiec	0
Grzegorz Fingas	0
Witold Bawor	46
Zenon Kozendra	46
as at 16 March 2018	
Krzysztof Mamiński*	0
Grzegorz Fingas	0
Witold Bawor	46
Zenon Kozendra	46

Source: Proprietary material
**until 25 March 2018 temporary discharge of the duties of President of the Management Board*

The holdings of shares in the Company or rights to such shares by members of the Company's Supervisory Board from 16 March 2018, i.e. the delivery date of the 2017 annual report to the date of submission of this report, were as follows:

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

Name	Number of PKP CARGO S.A. shares held by Supervisory Board members
as at the delivery date of this report	
Krzysztof Mamiński	0
Mirosław Antonowicz	0
Krzysztof Czarnota	70
Zofia Dzik	0
Raimondo Eggink	0
Małgorzata Kryszkiewicz	0
Tadeusz Stachaczyński	0
Władysław Szczepkowski	0
Jerzy Sośnierz	70
as at 16 March 2018	
Krzysztof Mamiński	0
Mirosław Antonowicz	0
Krzysztof Czarnota	70
Zofia Dzik	0
Raimondo Eggink	0
Małgorzata Kryszkiewicz	0
Tadeusz Stachaczyński	0
Władysław Szczepkowski	0
Czesław Warsewicz	0

Source: Proprietary material

4. Key areas of operation of the PKP CARGO Group

4.1 Macroeconomic environment

Polish economy

In accordance with the update of national accounts for 2016 and 2017 published by GUS in April, Poland's GDP growth rate dropped in Q4 2017 to 4.9% yoy from 5.2% yoy in Q3 (data not adjusted for seasonality and calendar-related factors). The revision resulted also from lower than previously expected contribution of public sector investments and consumption, combined with better data on the foreign trade balance. In the face of the positive revisions of the Q1 and Q3 2017 data, the average annual GDP growth rate did not change compared to previous estimates and stood at 4.6% in 2017, which shows a strong acceleration in relation to 2016 (3.0%) and at the same time the strongest growth rate since 2011. The available monthly data on economic activity (industrial production, retail sales, construction) for the period January-March 2018 show that the GDP growth rate in Poland was 4.7-4.8% yoy.

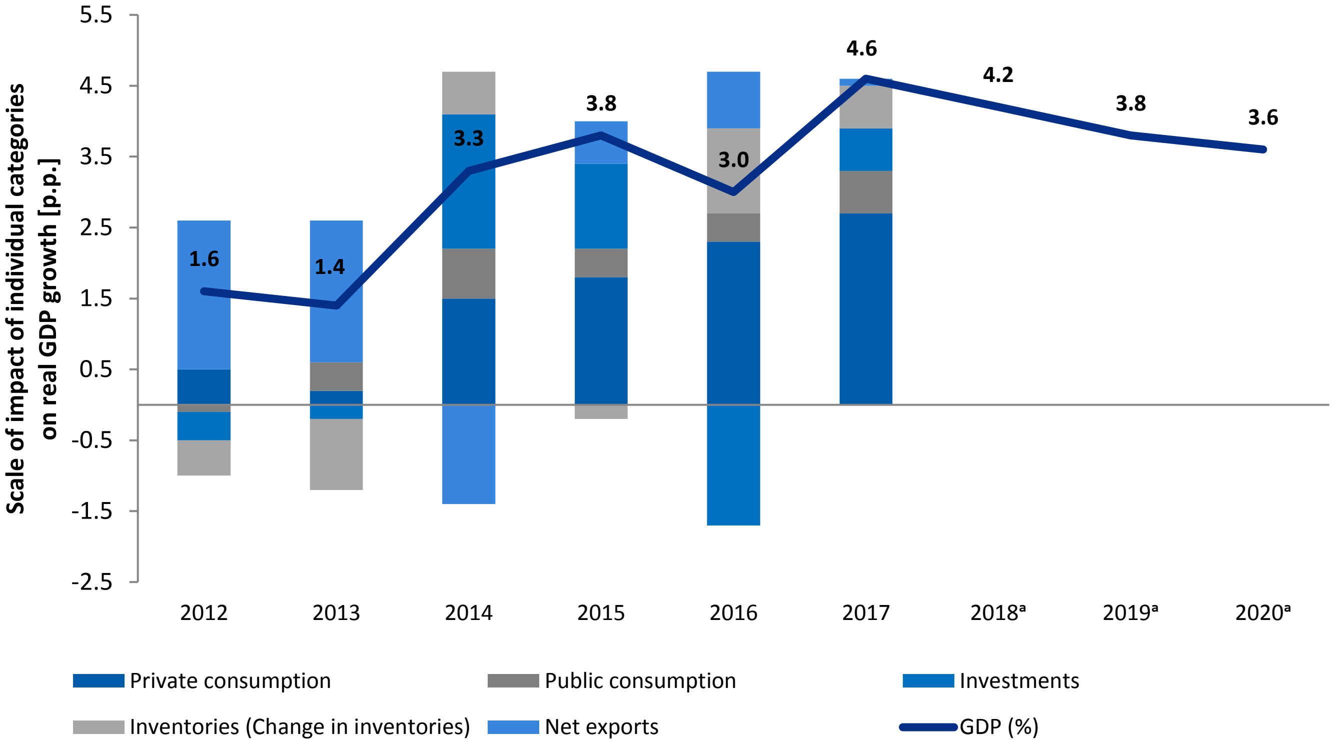
According to National Bank of Poland (NBP) economists, the key driver of Poland's economic growth in Q4 and the whole 2017 was household consumption[5]. Its growth rate in real terms in Q4 was 5.0% yoy, up from the growth rate observed in Q3 and H1 2017 (on average 4.7% yoy)[6]. The increase in consumption was also facilitated, in the opinion of NBP experts, by the trends in the domestic labor market (further stable increase in employment and strong acceleration of the salaries in H2 2017), disbursements associated with the government's program *Family 500+,* and very good sentiments among consumers, reflected in GUS analyses. Both the Current Consumer Confidence Indicator (BWUK) and Forward-looking Consumer Confidence Indicator (WWUK), which are strongly correlated with the general growth rate of consumption, recorded their historic highs in 2017[7]. Also the gradual decrease of the unemployment rate had a positive impact on the consumers' sentiments – in December 2017 it dropped to 6.6%, the lowest level since 1991[8].

Capital expenditures were the second driver of Poland's GDP growth in 2017; they gradually accelerated in individual quarters of 2017. In H2 2017, there was a clear recovery of investments and their growth rate in Q4 was 5.4% yoy, reaching the highest level since Q2 2015. The increase of capital expenditures was founded primarily on investments made by the public sector, including local government units, as a result of higher than in previous quarters utilization of EU structural funds granted to Poland as part of the financial perspective for 2014-2020. At the same time, Q4 2017 saw a slight recovery of investments made by private enterprises on the back of the highest since 2008 utilization of production capacity and favorable prospects of demand for their products[9].

Despite the strong appreciation of the Polish zloty observed in Q4 2017, which affected the foreign price competitiveness of Polish products, the continuing good situation in the economies of Poland's main partners (mainly the euro zone, in particular Germany), translated into a strong growth of exports, which increased on average by 8.2% yoy. At the same time, in Q4 2017 the imports to Poland increased 8.9% yoy, both due to high domestic demand and higher demand for raw materials and semi-finished products used for production of goods for export. As result the net contribution of exports (surplus of exports over imports) remained neutral in relation to the GDP.

[5] National Bank of Poland
[6] Central Statistical Office of Poland
[7] Ibidem
[8] Ibidem
[9] National Bank of Poland

Figure 5 Real GDP growth rate in Poland in 2012-2017, together with its decomposition, and 2018-2020 forecasts – data not adjusted for seasonality



a National Bank of Poland forecast – March 2018; data without decomposition
Source: Proprietary material based on the data of the Central Statistical Office of Poland and National Bank of Poland

The high level of economic activity (in particular better than expected results of the foreign trade sector) in Q4 and, consequently, in the whole 2017, translated into a positive revision of the GDP growth rate forecasts in Poland by the National Bank of Poland. According to the latest macroeconomic projections published in the March "Inflation Report", the average annual rate of economic growth will amount to 4.2% in 2018 (compared to 3.6% assumed in the November projection) and 3.8% in 2019 (3.3 % in the November projection)[10].

In the opinion of NBP economists, the main driver of the GDP growth will continue to be household consumption whose average growth rate will be 4.1% in 2018 (3.7 % in the November projection) and 3.9% in 2019 (3.5 % in the November projection). It will be supported by further gradual increase in disposable income of households as a result of increasing employment and salaries, and continuation of the unemployment rate decline trend and continuing positive sentiments among consumers. Over the next few quarters the consumption growth rate will be supported also by the possibility of financing it with relatively cheap loans in the face of continuing low interest rates. Individual consumption may be pushed down by increasing inflation, impairing the real purchasing power of the consumers and the weakening base effect of the governmental benefit program *Family 500+.*

Economic growth in 2018-2019 will be also supported by investments, whose growth rate, in accordance with the March projection, will amount to 8.6% in 2018 (7.6 % in the November projection) and 6.3% in 2019 (5.0 % in the November projection). NBP analysts expect further acceleration of infrastructural investments co-financed from EU funds. At the same time, the latest results of NBP's surveys carried out in the corporate sector suggest gradual acceleration of the capital expenditures financed from own funds, which is supported by better forecasts among entrepreneurs as regards future demand and production and the high utilization of available production capacities[11]. An improvement of sentiments among enterprises is also shown by the latest results of the GUS market situation research[12]. In the opinion of NBP economists, the growth rate

[10] Ibidem
[11] Ibidem
[12] Central Statistical Office of Poland

of capital expenditures will be also supported by the increased availability of such forms of funding as leases or access to cheap loans, which results from the fact that the Monetary Policy Council keeps the interest rates on historically low levels.

The GDP growth rate in 2018-2019 will be brought down, in turn, by net exports, whose contribution to GDP will become negative already in Q1 2018. In the opinion of NBP experts, this will be the result of weakening exports caused by the expected slow-down of economic activity in the external environment (especially in Germany and the euro zone) and further gradual appreciation of the Polish zloty against the main currencies. At the same time, the import growth rate will remain strong, which will be supported by the high internal demand (among others the high import intensity of investments).

A similar message is suggested by the economic forecasts of the International Monetary Fund (IMF) published in April 2018. IMF economists expect that the average annual GDP growth rate in Poland will amount to 4.1% in 2018 (compared to 3.3% assumed in the October projection) and in 2019 will amount to 3.5% (previously 3.0%)[13]. In the opinion of IMF analysts, the GDP growth rate in 2018-2019 will be driven primarily by private consumption, faster absorption of EU structural funds and the government's macroeconomic policy supporting the disposable incomes.

European Commission (EC), in turn, assume that the GDP growth rate will amount on average to 4.3% in 2018 and 3.7% in 2019. The current forecasts from May 2018 are 0.1 p.p. higher for both periods than the February 2018 projections. In the opinion of EC analysts, the main driver of the economic growth in the coming quarters will be internal demand[14].

According to NBP projections from March 2018, the average annual CPI inflation rate in Poland in 2018 will stabilize at the 2017 level and will amount to 2.1% (compared to 2.3% in the November projection), and in 2019 will increase on average to 2.7%. The decrease of the price path projections in 2018 results mainly from lower than expected base inflation (i.e. excluding the prices of food and electricity) growth rate in the last few months. At the same time, in the coming quarters, fast acceleration is expected due to the strengthening wage pressure (high growth rate of unit labor costs) and demand pressure (further widening of the positive demand gap as the current GDP growth rate is higher than the average trend in the period) in national economy. As opposed to domestic factors, the inflation rate will be slowed down, in turn, by continuing relatively low import prices as a result of moderate price growth rate in the euro zone economy and the expected strengthening of the Polish zloty in relation to the dollar and euro. Over the next few quarters, the inflation growth rate will be pushed down, in the opinion of NBP economists, also by the food and energy prices, which will be facilitated by decreasing energy fuel prices in global markets and the USD/PLN exchange rate, in which they are quoted (despite possible short-term turmoil).

The main factors that may impact the materialization of the GDP and CPI inflation projects from March 2018 include, in the opinion of NBP economists, among others:

- Possible weakening of the market situation in the US. In 2017 the US stock market grew strongly, which, combined with high valuations of companies, increases the probability of a significant correction in the stock exchange. A price fall, if any, would have a strong impact on the consumption growth rate and, as a result, the economic growth rate in the US.
- Slow-down of economic activity in the euro zone. Due to high apartment prices currently observed, the scale of future adaptation reactions in the housing market remains a risk to the GDP growth rate in the euro zone. This is particularly important in countries characterized by a high level of household debt. The economic prospects are adversely impacted also by the uncertainty associated with the final shape of the arrangements regarding future trade exchange between the United Kingdom and the European Union, after the UK finally leaves the EU.
- Reduction of the global trade exchange as a result of increasing protectionist trends in global economy. In March 2018, the US decided to impose import duties on certain Chinese goods, which resulted in reciprocation measures taken by the Chinese government[15]. Escalation of the conflict may lead to an outbreak of a global trade war which, in the face of the strong internationalization of the economies, would contribute to a general decline of the growth rate of the global GDP.
- Decline of supply of labor in Poland. The final scale of the outflow of workforce in response to the act lowering the retirement age in Poland remains uncertain. Additionally, the expected increase of professional activity in the oldest age groups (50+) may turn out lower than in the last quarters. As a result, lower supply of labor may have a negative impact on domestic production and, as a result, also on the GDP growth rate in the coming quarters.

[13] International Monetary Fund
[14] European Commission
[15] Business Insider

Czech economy

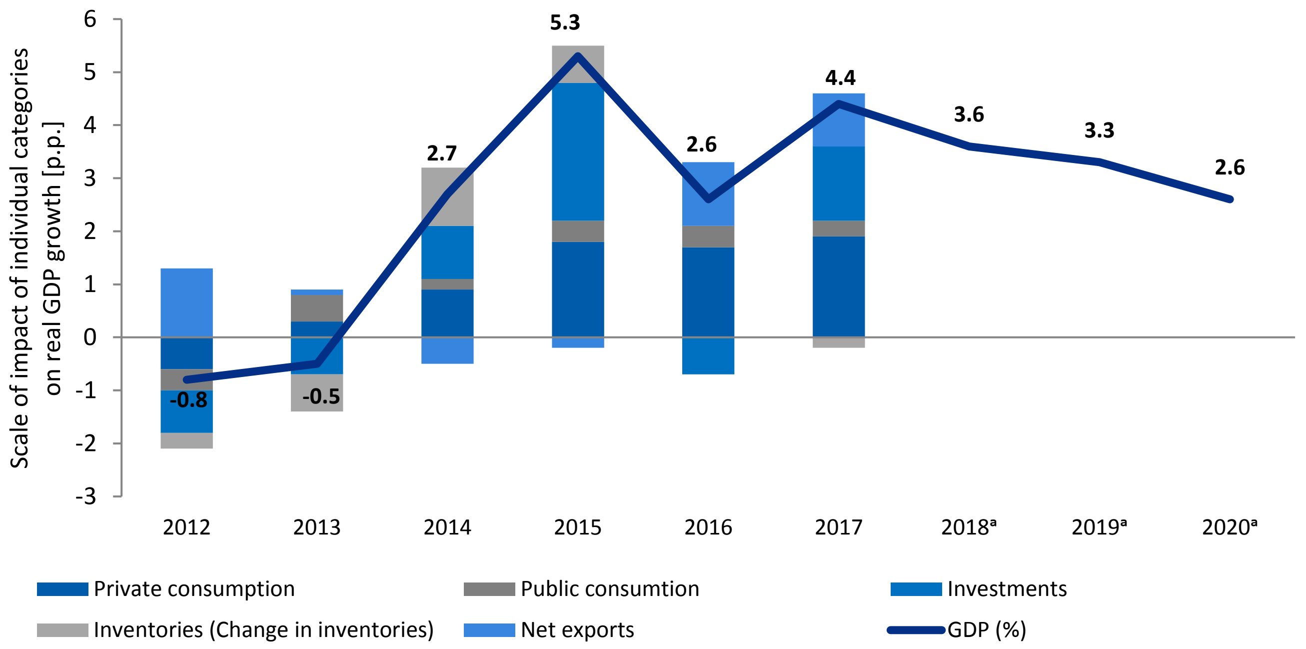
According to the Czech Statistical Office (CZSO), in Q4 2017 the Czech economy grew by 0.8% qoq, compared to the 0.7% qoq GDP growth rate in Q3 2017. At the same time, seasonally adjusted annual economic growth rate in Q4 2017 amounted to 5.5% and was the highest since Q3 2015, mainly as a result of settlement of the EU financial perspective for 2007-2013. The average GDP growth rate in 2017 amounted to 4.6%, which was a strong acceleration of the growth rate compared to 2016 (2.5%). Considering the figures not adjusted for seasonality and calendar-related factors, in 2017 the Czech economy was growing at the pace of 4.4%, compared to 2.6% the year before.

The main driver of GDP in the Czech Republic in Q4 and the whole 2017 was household consumption which in real terms increased by 4.0% compared to 2016 – the strongest growth since 2007, i.e. from before the crisis. Household consumption in 2017 was supported by a strong growth of disposable income in the face of still improving condition of the labor market. 2017 brought a decrease in the unemployment rate registered in the Czech Republic to the average level of 4.3% compared to 5.6% in 2016. In the face of increasing shortages of available labor, also the growth rate of wages increased – in real terms it increased in 2017 by 4.5% yoy (nominal wages increase rate by 7.0% yoy). The higher growth rate of private consumption was also driven by better consumer sentiments and further decrease in the savings rate.

Investments were another key driver of the economic growth in the Czech Republic; in 2017 they increased 5.4% yoy, after the 2.3% yoy decline in 2016. The strong recovery of investments was attributable mainly to the gradual increase of capital expenditures in the public sector, supported by the inflow of EU structural funds under the EU perspective for 2014-2020. In 2017 also the volumes of the investments made by private enterprises recorded a stable growth and the main categories of capital expenditures were transport vehicles, machinery and other equipment and non-residential construction.

Continuing good situation in the macroeconomic environment of the Czech economy (mainly the euro zone, in particular Germany) was reflected in the increase of exports by 6.5% yoy in relation to 2016, with the increase in imports on average by 5.8% yoy (which was indirectly the result of higher domestic consumption and increase in the investment activity using imported goods).

Figure 6 Real GDP growth rate in the Czech Republic in 2012-2017, together with its decomposition, and 2018-2020 forecasts – data not adjusted for seasonality



** Forecast of the Czech Republic's Finance Ministry – April 2018, data without decomposition*
Source: Proprietary material on the basis of data from the Czech Statistical Office and the Czech Republic Finance Ministry

Positive signals from the economy encouraged experts from the Czech Finance Ministry to revise upwards the GDP growth rate prospects for the Czech Republic for 2018-2020, although the pace of expansion is expected to decrease gradually in relation to 2017. According to the projections of the Czech Finance Ministry of April 2018, the average annual GDP growth rate, without taking into account seasonal and calendar-related factors,[16] will decrease to 3.6% (compared to 3.4% assumed in the January forecast) in 2018 and 3.3% (2.6% in the January projection) in 2019.

In the opinion of the experts from the Czech Finance Ministry, in 2018-2019 household consumption will remain the main economic growth factor. In yoy terms it will increase by 4.3% (3.7% in the January projection) in 2018 and 4.1% (2.7% in the January projection) in 2019. It will be supported by continuing increase in real disposable income among households (as a result of increasing employment and salaries), the highest level of consumer optimism since 1998, a decrease of the savings rate, availability of still relatively cheap consumer credit, and introduction of acts on pension increases and discount fares for pupils, students and senior citizens[17].

Finance Ministry economists also expect that the strong growth rate of capital expenditures among private and state-owned enterprises will continue. In the private sector, investments will be, in their opinion, positively affected by increasing gross operating surplus among enterprises, still relatively low cost of external financing, and high level of utilization of production capacities (in particular in the processing industry). Indirectly, the growth of investments will be also driven by the increasing difficulties with recruitment of employees, encouraging companies to invest in improving work efficiency. Investments in the public sector, in turn, should be supported by the increased inflow of EU structural funds. As a result, the investments growth rate, according to the Czech Finance Ministry economists, will amount to 5.7% (4.1% assumed in the January projection) in 2018 and 4.4% (3.4% in the January projection) in 2019.

Finance Ministry analysts also expect a slightly lower than assumed in January growth rate of the Czech exports in 2018-2019, which, combined with the expected acceleration of imports reflecting the strong internal demand, will lead, in their opinion, to a negative contribution of exports to GDP in this period.

At the same time, Finance Ministry economists expect that in Q1 2018 the economic growth rate in the Czech Republic will remain strong and amount to 4.3% yoy (data not adjusted seasonally), which is shown by the available monthly data on the economic activity (industrial production, construction and installation production and retail sales[18].

Also the European Commission (EC) recently revised upwards its GDP growth forecasts for the Czech economy compared to previous projections. The forecasts from May 2018 show that the EC analysts expect that the Czech economy will grow at the pace of 3.4% (3.2% in the February projection) and 3.1% (2.9% in the February projection) in 2018 and 2019, respectively[19]. The main factor supporting the GDP growth, in the opinion of the European Commission, will be domestic demand, including, in particular, household consumption and capital expenditures.

In accordance with the forecast of the Czech Republic Finance Ministry of April 2018, the inflation rate (CPI) will gradually drop in the coming quarters from 2.5% in 2017 to the average level of 2.1% (2.6% assumed in the January projection) in 2018 and 1.9% (2.1% in the January projection) in 2019, i.e. near the Czech National Bank's inflation target[20]. The downward revision of the inflation forecasts for 2018 compared to the January projection resulted mainly from the unexpected and significant drop of food prices at the beginning of 2018. At the same time, Finance Ministry economists expects stronger appreciation of the Czech crown against the dollar and euro, and slightly lower future fuel price path in the global markets, which in total will have a strong deflation impact on fuel prices and the prices of imported food. Price increases, in turn, can be stimulated by: further strong increase in unit labor costs (due to increasing shortages of qualified and unqualified workers and historically high numbers of vacancies, which translates into stronger pressure on salary increases), and the increasing demand pressure (high consumption in the face of the GDP growth rate exceeding the average trend in the period).

The external risk factors singled out by Finance Ministry economists include, just like in the case of Poland, possible slow-down of the global GDP and increase of protectionist trends which, for the Czech Republic, are even more important as the economy is strongly export-oriented (the share of exports in GDP accounts for nearly 80%). At the same time, the factors unique to the Czech economy, which are a risk for the development scenarios assumed by the Czech Republic's Finance Ministry, include, among others[21]:

- Entry of the Czech economy into a declining stage of the market cycle in response to the widening positive demand gap. The cyclical position of the economy (GDP growth rate significantly exceeding the average trend in the period) points to a high probability of a slow-down of the economic growth rate in the coming quarters.
- Weaker than expected increase in productivity. Due to the increasing shortages of labor force in the Czech labor market, further stable increase in productivity is a key driver of the GDP growth rate in the medium term.

[16] Czech Republic's Finance Ministry
[17] Ibidem
[18] Ibidem
[19] European Commission
[20] Czech Republic's Finance Ministry
[21] Ibidem

- Strong increase in unit labor costs. The decreasing resources of available labor force results in increasing pressure on salaries which, as a result, leads indirectly to increases of the prices of goods and, at the same time, impacts their international price competitiveness.

Global economy

The overall market situation in the global economy remains good, which is shown by the recent data of the International Monetary Fund (IMF). According to IMF economists, global GDP increased in 2017 on average by 3.8%, compared to 3.2% in 2016, which was the fastest growth of local economy since 2011[22]. At the same time, the volumes of global trade exchange showed a stable growth. In the opinion of IMF analysts, the higher growth rate of global GDP compared to previous years was driven by, among others, gradual reconstruction of investments in developed economies, continuation of the strong growth rate in Asian economies, good economic results of Central and Eastern European countries and signs of recovery in the economies focusing on raw material exports[23].

IMF analysts expect further acceleration of the growth rate of the global GDP which, in their opinion, will on average amount to 3.9% both in 2018 and 2019. The stronger growth of global economy over the coming quarters will be supported by the continuing positive market sentiment, still easy financial and monetary conditions (high availability of external financing and low cost of loans) and local and international effects of the fiscal easing in the US, i.e. tax cuts by president Donald Trump's administration. In the opinion of IMF economists, the global GDP will still be driven by the developing countries, in particular in Asia. They forecast that in the face of a gradual change of the growth structure to a more balanced one (lower share of investments and higher share of consumption), Chinese economy will grow by 6.6% and 6.4% in 2018 and 2019, respectively, compared to 6.9% in 2017. At the same time, GDP growth in India will gradually accelerate to 7.4% in 2018 and 7.8% in 2019 from 6.7% in 2017, driven by household consumption and implementation of structural reforms aimed at increasing the productivity of the economy.

Prospects for developed countries also remain good. IMF economists expect that the GDP growth rate in the US will accelerate on average to 2.9% yoy in 2018 from 2.3% yoy in 2017 and then slightly slow down to 2.7% yoy in 2019. In addition to the positive impact of the tax cuts, the economic growth in the US will, in their opinion, be supported by high domestic demand and exports. IMF analysts also expect that the euro zone economy will grow by 2.4% in 2018 and 2.0% in 2019, compared to 2.3% in 2017. The continuation of the strong GDP growth rate in the euro zone will be supported in their opinion by strong internal demand, continuation of eased monetary policy of the European Central Bank (ECB) and stronger demand from abroad.

The key risks which may impact the materialization of the projection, in the IMF analysts' opinion, include, among others:

- increase of trade tensions and imposition of high barriers, if any, in international trade, especially in the context of the import duties for Chinese goods imposed in March 2018 by the Donald Trump administration. This may affect not only directly the economic activity in the world but also have a negative impact on the investment sentiments, which would entail further negative repercussions,
- historically low interest rates and low inflation, in the opinion of IMF experts, may cause an imbalance in the global economy, which would force quick reactions of central banks and sudden tightening of the monetary policy. As a result this would translate into a decline of the global GDP growth[24].

The picture of the current condition and prospects of the euro zone economy outlined in the economic projections of the European Commission (EC) from May 2018 is similar to that in the IMF report from April 2018. EC analysts expect that the euro zone economy will grow by 2.3% in 2018 and 2.0% in 2019, compared to 2.4% in 2017[25]. The continuation of the strong GDP growth rate in the euro zone will be affected, among others, by such factors as the still easy monetary policy pursued by the ECB, translating directly into availability of cheap investment and consumer loans, further improvement of the situation in the European labor market increasing indirectly the disposable income in households and, as a consequence, their consumption, increasing corporate investments due to improving margin conditions in the face of increasing demand, and still strong exports, taking advantage of the good foreign market situation. The good prospects of economic growth will be also facilitated by continuing positive sentiments among consumers and investors.

EC experts expect, at the same time, that the average annual HICP inflation in the euro zone will be at 1.5% in 2018 and 1.6% in 2019, compared to 1.5% in 2017. In 2018-2019 they expect a gradual increase of base inflation due to the strengthening

[22] International Monetary Fund
[23] Ibidem
[24] Ibidem
[25] European Commission

demand pressure (the GDP growth rate exceeding the average trend in the period) and wages pressure in the euro zone economies. They also expect an increase of energy prices associated with the recent strong recovery of oil prices in global markets. A factor driving the inflation down may be, in their opinion, the appreciation of the euro against the main currencies, observed since H1 2017, translating into a decrease in import prices and relatively cheaper fuels (quoted in US dollars)[26].

Table 11 GDP growth rate (% yoy) in leading global economies

	2014	2015	2016	2017	2018[a]	2019[a]
World	**3.6**	**3.5**	**3.3**	**3.8**	**3.9**	**3.9**
Developing economies	**4.7**	**4.3**	**4.4**	**4.8**	**4.9**	**5.1**
PRC	7.3	6.9	6.7	6.9	6.6	6.4
India	7.4	8.2	7.1	6.7	7.4	7.8
Developed economies	**2.1**	**2.3**	**1.7**	**2.3**	**2.5**	**2.2**
United States	2.6	2.9	1.5	2.3	2.9	2.7
Euro area	1.3	2.1	1.8	2.3	2.4	2.0

** International Monetary Fund Forecast – April 2018*

Source: International Monetary Fund

Industry in Poland

Total industrial production sold in Q1 2018 [27]rose by 5.6% yoy compared to a 7.3% yoy increase in Q1 2017. This means that the industrial production growth rate slowed down compared to Q4 (+8.5% yoy) and the whole H2 (+7.5% yoy) 2017.[28]

During the first 3 months of 2018, an increase was recorded in industrial production sold, among others in production of coke and oil refinery products (+14.3% yoy), metal products (+12.0%) electrical equipment (+9.5% yoy), machinery and equipment (+9.0% yoy), other non-metallic mineral products (+8.1% yoy) and metals (+5.7% yoy). Thanks to the strong growth rate in March (+5.8% yoy) in Q1 2018 also production sold associated with hard coal and lignite mining increased (+0.2% yoy). A decrease of production in the period in question was recorded, among others, in the case of chemicals (-0.5% yoy).

A slightly weaker activity in the domestic industrial sector in Q1 2018 is suggested also by the readings of the PMI (*Purchasing Managers' Index)*, which is a synthetic measure of the situation in the processing industry. PMI for Poland dropped from 55.0 points in December 2017 to 53.7 points in March 2018, and on average in Q1 2018 stood at 54.0, i.e. 0.2 below the Q4 2017 level.[29] Despite the fact that the values of the index above 50.0 points are tantamount to the continuing recovery in the industrial sector, its decomposition in March (among others the weakest in months increase of new orders) suggests possible further slow-down of the sector over the coming months.

A better picture of the current and future situation in the industrial sector in Poland results from GUS survey carried out among entrepreneurs. The general economic climate indicator in industrial processing increased in Q1 2018 to the highest level since 2008. Companies have positive view of their current financial situation, production levels and new order volumes. At the same time, enterprises from the industrial processing sector expect continuation of the positive trends associated with the order portfolio, production and general condition of the economy over the next few months[30]. In accordance with GUS data, new orders in industry [31]in Q1 2018 rose on average by 0.5% yoy compared to a 16.3% yoy increase in Q1 2017.

[26] Ibidem
[27] enterprises employing more than 9 persons
[28] Central Statistical Office of Poland
[29] Markit IHS
[30] Central Statistical Office of Poland
[31] Enterprises employing more than 50 employees

In first two months of 2018, compared to a corresponding period of 2017, Poland increased its foreign trade exchange; exports grew by 0.8% yoy to PLN 140.3 billion, while imports by 4.2% yoy to PLN 143.9 billion. As a result the Polish economy recorded in this period a deficit in foreign trade equal to PLN 3.6 billion compared to a PLN 1.0 billion surplus the year before.

The most significant improvement of foreign trade was recorded in Central and Eastern Europe countries (exports denominated in PLN up by 7.4% yoy and imports up by 11.7% yoy). Also foreign trade with developed countries recorded a stable increase (exports grew by 0.7% yoy and imports by 1.9% yoy). At the same time, a decrease in exports to developed countries was recorded (-1.7% yoy), which, combined with simultaneous increase in imports (+7.8% yoy), resulted in further widening of the trade deficit with emerging markets to PLN 27.0 billion.

Mining industry

In 3M 2018, Poland mined 16.0 million tons of hard coal, compared to 16.8 million tons in the corresponding period of 2017 (-5.0% yoy)[32]. At the same time the supply of coal dropped – in Q1 2018 it stood at 16.0 million tons (-7.1% yoy). Also the inventories of this raw material dropped, reaching, as at the end of March 2018, the level of 1.6 million tons compared to 2.0 million tons in March 2017 (-21.3% yoy)[33]. Due to the strong demand from commercial power industry, heating industry and private off-takers, the progressing decrease of domestic mining translated into further acceleration of the growth rate of the imports of this raw material. Imports of hard coal to Poland in the first 2 months of 2018 stood at 2.9 million tons, i.e. 1.6 million tons more than in the corresponding period of 2017 (+122.1% yoy). The main directions from which this raw material was imported were Russia, USA and Colombia.[34] In the analysts' opinion, in the next quarters one should expect further decrease of domestic hard coal output[35]. In their opinion, this will result from underinvestment in the sector in previous years, as a result of which the level of new capital expenditures for opening up new longwalls and deposits is now not able to keep up with the reduction of the production in currently operated mines. The Ministry of Energy's plan for 2018 assumes that domestic hard coal production in this period will be slightly above 60 million tons, which, with continuation of the existing trends, means further strong decline of production compared to 2017.[36] With the continuing strong demand from domestic industry and commercial power sector for this raw material, one may expect further acceleration of hard coal imports to Poland[37].

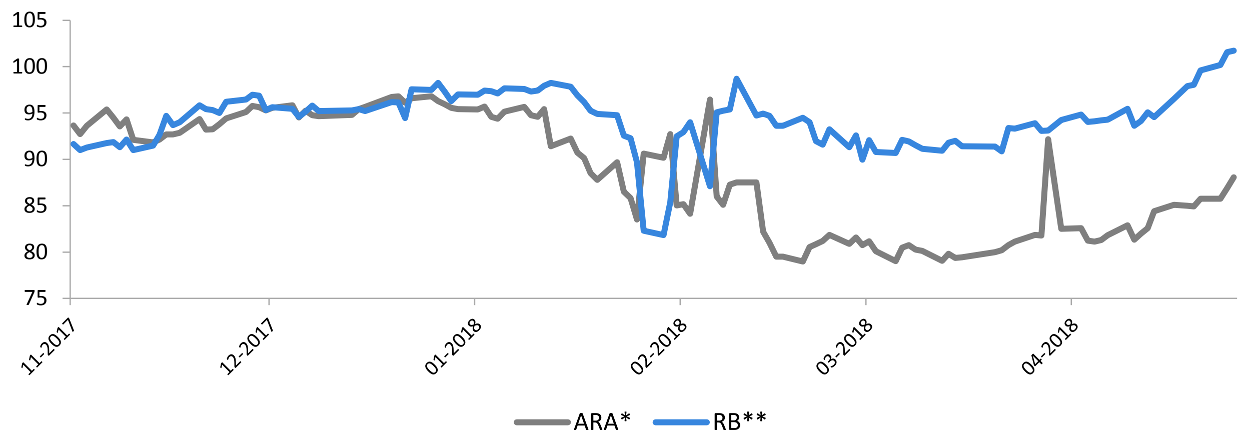
In accordance with the data of the Industrial Development Agency (ARP), commercial power sector remains to be the biggest hard coal buyer. In Q1 2018, production of electricity in Poland stood at 43,535 GWh (-1.7% yoy). At the same time production of electricity in commercial hard coal-fired heating plants increased in this period to 21,839 GWh (+1.0% yoy). This is attributable mainly to March 2018, when an increase in production of energy from hard coal by 14.1% yoy was recorded. As a result, the share of hard coal-fired power plants in total production of energy amounted to 50.5% (+3.8 p.p. yoy) in March 2018 and 50.2% (+1.3 p.p. yoy) in Q1 2018. [38]

Also further increase of the prices of steam and heating coal in the domestic market has positive impact on the condition of the domestic hard coal mining sector, which increases the revenues from the sale of this raw material. Over 3M 2018, Polish coal indices continued to grow and the electricity generation market index (PSCMI 1) in this period was on average PLN 228.6 per ton (+14.8% yoy). At the same time the heating coal index (PSCMI 2) in this period stood at PLN 295.1 per ton (+30.0% yoy)[39].

The coal prices in seaports, such as Amsterdam-Rotterdam-Antwerp and Richards Bay (ARA and RB) are also an important factor affecting the standing of the domestic hard coal mining industry. In February 2018, the upward trend in coal prices in ARA ports lasting since the spring of 2017 reversed in February 2018. In Q1 2018, they dropped on average to 87.8 USD/t from 93.3 USD/t in Q4 2017 (-5.9% qoq)[40]. In the opinion of the analysis from the Industrial Development Agency, the decrease of coal prices in ARA ports resulted partly from seasonal factors (end of winter) but also from increased production of wind energy in Germany and increasing availability of more competitive coal from Russia, which translated into decreasing demand for this raw material. However ARA prices are still on a much higher level (+8.2%) than in Q1 2017, when the average price of this raw material amounted to 81.0 USD/t.

[32] Central Statistical Office of Poland
[33] Industrial Development Agency (ARP)
[34] Eurostat
[35] Mining Chamber of Industry and Commerce
[36] Ministry of Energy
[37] biznesalert.pl
[38] Polskie Sieci Elektroenergetyczne
[39] Industrial Development Agency (ARP)
[40] Wirtualny Nowy Przemysł [Virtual New Industry]

Figure 7 Current coal price indices on the European ARA vs. RB markets



*ARA – Amsterdam, Rotterdam and Antwerp
**RB – Richards Bay (RSA)
Source: Virtual New Industry

Steel industry

In Q1 2018 production of raw steel in Poland amounted to 2.7 million tons and was 190 thousand tons higher than in the corresponding period of 2017 (+7.5% yoy)[41]. At the same time production of hot-rolled products in this period stood at 2.5 million tons (+7.6% yoy). During the 3M 2018, also producers' revenues from sale of metals continued to increase, reaching PLN 15.3 billion (in real terms +5.7% yoy). Also corporate revenues from the sale of metal products increased to PLN 24.1 billion (real growth of +12.0% yoy). Coke production in turn in the first 3 months of 2018 was 132 thousand tons higher than Q1 2017 (+5.9% yoy) and stood at 2.4 million tons.

The increase of steel and coke production and revenues from the sale of metal products in Poland is currently supported by increased demand for metallurgical industry products. The strong demand for steel is currently driven by intensification of investments, among others in housing, road and rail construction, and in the power sector[42]. In the opinion of the Mining Chamber of Industry and Commerce (HIPH), in the coming years, one may expect further stable increase of demand and as a result consumption of steel[43]. According to HIPH, steel consumption should increase by 2-3% per annum, provided that the consumption forecasts from steel-intensive industry sectors are maintained on the existing level. This will support domestic production and imports, which is responsible for approx. 70% of domestic consumption.

In Q1 2018, steel production and consumption increased also in the external environment of the Polish economy. When domestic companies often act as subcontractors for foreign enterprises, better situation abroad has a positive impact on their condition and financial performance[44]. According to the data published by the World Steel Association (WSA), steel production in the 64 member countries (whose share in total global production volume is 99%) in 3M 2018 increased by 4.1% yoy to 426.6 million tons[45].

In European Union countries, the total volume of produced steel increased in this period by 0.9% yoy to 43.1 million tons. In Germany, which is the European industry leader, steel production in Q1 2018 increased by 0.3% yoy to 11.0 million tons. Also other leading steel producers recorded increases, including Italy by 3.7% yoy to 6.4 million tons and France by 1.9% yoy to 4.0 million tons. The decrease of steel production yoy occurred, among others, in Spain (-1.7% yoy to 3.6 million tons), Austria (-1.8% yoy to 2.0 million tons), Belgium (-5.5% yoy to 1.9 million tons) and United Kingdom (-6.6% yoy to 1.8 million tons). Among countries included by WSA in the European region outside the EU, an increase was recorded in Turkey (+7.9% yoy to 9.5 million tons). The volumes of produced steel shrank in Russia (-6.7% yoy to 16.6 million tons) and Ukraine (-2.8% yoy to 5.2 million tons).

[41] Central Statistical Office of Poland
[42] nettg.pl
[43] Mining Chamber of Industry and Commerce
[44] Wirtualny Nowy Przemysł [Virtual New Industry]
[45] World Steel Association

Positive steel production growth rate was also recorded among the global leaders, including China, Japan and India. Each of these countries recorded in 3M 2018 an increase in production, including: China by 5.4% yoy to 212.2 million tons, India by 3.7% yoy to 26.7 million tons and Japan by 0.7% yoy to 26.4 million tons.

According to the WSA projection from April, global demand for steel will increase by 1.8% in 2018 and 0.7% in 2019.[46] According to WSA analysts, over the coming quarters, the increase of demand for steel and steel products will be supported by the recovery of investments in developed economies and stable increase of raw material prices, including ores. A slight decrease in the demand growth rate in 2019 will result from lower demand from the Chinese economy and slow-down of investments in the face of expected interest rate increases (increase of costs of loans). The projection of WSA experts is exposed to a threat from the possible further escalation of trade tensions (among other between the US and China), higher inflation and quicker than expected pace of tightening of the monetary policy in the US and in the euro zone.

Construction industry

In Q1 2018 the growth rate of the construction and installation production in Poland accelerated in real terms to 26.1% yoy compared to the average of 12.1% yoy in 2017.[47] Hence the domestic construction sector was developing at the fastest pace since 2007, i.e. the period preceding the global financial crisis. In 3M 2018, the increase in construction and installation production was observed in all the main sectors distinguished by GUS: land and water civil construction by 41.4% yoy, construction of buildings by 23.6% yoy, and specialized construction by 15.9% yoy.

The key determinants of the growth rate of the construction sector in Poland are currently the high infrastructural investments, co-funded with EU structural funds. The flagship projects based on the financial perspective for 2014-2020 include, among others: “National Road Construction Program in 2014-2023 (with an outlook to 2025)” and “National Railway Program to 2023”. In accordance with the current assumptions, total expenditures on execution of the first program are expected to total PLN 135.2 billion and PLN 66.4 billion in the case of the National Railway Program. An accumulation of investments will be seen in 2018-2020.

Already in Q1 2018 construction and installation production in the category “motorways, expressways, streets and other roads” increased at current prices by 41.5% yoy and expenditures in the category “railways and overhead and suspended railways” increased 109.3% yoy[48]. According to the data of the Ministry of Infrastructure, in 2018 only, plans provide for launch of road and rail investments worth nearly PLN 40 billion[49]. At the same time, nearly 450 km of new roads are slated to be commissioned for use in 2018, including sections of the following roads: S3 (Zielona Góra-Bolków), S7 (Koszwały-Kazimierzowo), S8 (Wyszków-Prosienica) and of the ring roads around Radom, Koszalin, Wałcz, Olsztyn and Kłodzko[50].

The intensification of the infrastructural investments in 2018 will be facilitated by higher than in previous quarters scale of utilization of EU funds. As at the end of April 2018, contracts were signed for PLN 300.6 billion, including the share of EU funds of PLN 185.5 billion[51]. This amount constitutes nearly 54% of the structural funds earmarked for Poland in the current financial perspective. In the case of agreements associated directly with investments in rail and road infrastructure, their total value was, at the end of April 2018, equal to PLN 72.9 billion, and the subsidiaries from EU funds amounted to PLN 40.0 billion.

Q1 2018 also saw continuation of the positive trends associated with housing construction. Construction of 48.0 thousand new apartments was launched (+8.5% yoy) and the number of completed properties was 44.9 thousand (+10.6% yoy)[52]. Also the number of apartments for which a building permit has been issued – increase by 10.8% yoy to 66.8 thousand – suggests that the good situation will continue. Stable development of residential construction currently reflects the high demand from households. The strong growth of their disposable income, as well as availability of the still relatively cheap loans (in the face of stabilization of interest rates in Poland) increases their capacity to finance apartment purchases[53].

[46] Ibidem
[47] Central Statistical Office of Poland
[48] Ibidem
[49] Ministry of Infrastructure and Construction
[50] General Directorate for National Roads and Motorways
[51] Ministry of Investments and Development
[52] Central Statistical Office of Poland
[53] National Bank of Poland

Industry in the Czech Republic

Industry in the Czech Republic

In Q1 2018, industrial production in the Czech Republic increased by 2.2% compared to the corresponding period of 2017.[54] This means a decrease in the growth rate of the industrial sector, both with regard to Q4 (+7.9% yoy) and the whole 2017 (+6.5% yoy). The main factor supporting the expansion of the Czech industry in Q1 2018 was the industrial processing sector (+3.3% yoy). Decrease of industrial production in this period was recorded in mining and quarrying (-8.2% yoy) and water, gas and electricity supplies (-3.5% yoy).

In the case of key industries (from the perspective of rail freight), an increase in production in Q1 2018 was recorded among others in production of chemicals and chemical products (+5.8% yoy), production of wood and wooden products (+5.5% yoy), production of other non-metallic raw materials (+4.8% yoy), production of metal products (+4.6% yoy) and production of metal (+3.7% yoy)[55]. However, extraction of hard coal and brown coal dropped (-10.3% yoy).

The weaker industrial production growth rate translated also into lower revenues from industrial production. In Q1 2018, they increased (in current prices) by only 0.4% yoy, which is attributable mainly to lower exports (decrease by 1.5% yoy). At the same time revenues from operations for the domestic market increased by 3.2% yoy.

In 3M 2018, also the volumes of new orders increased slower than in previous quarters. Their total value increased in this period by 2.3% yoy and domestic and foreign orders grew at the same pace.

In Q4 2017 the number of employees in the Czech industry was 1.4 million (+1.6% yoy). In the period in question the average monthly gross salary (in nominal terms) increased by 7.4% yoy, reaching the level of 31,439 Czech crowns (i.e. approx. PLN 5,175[56])[57].

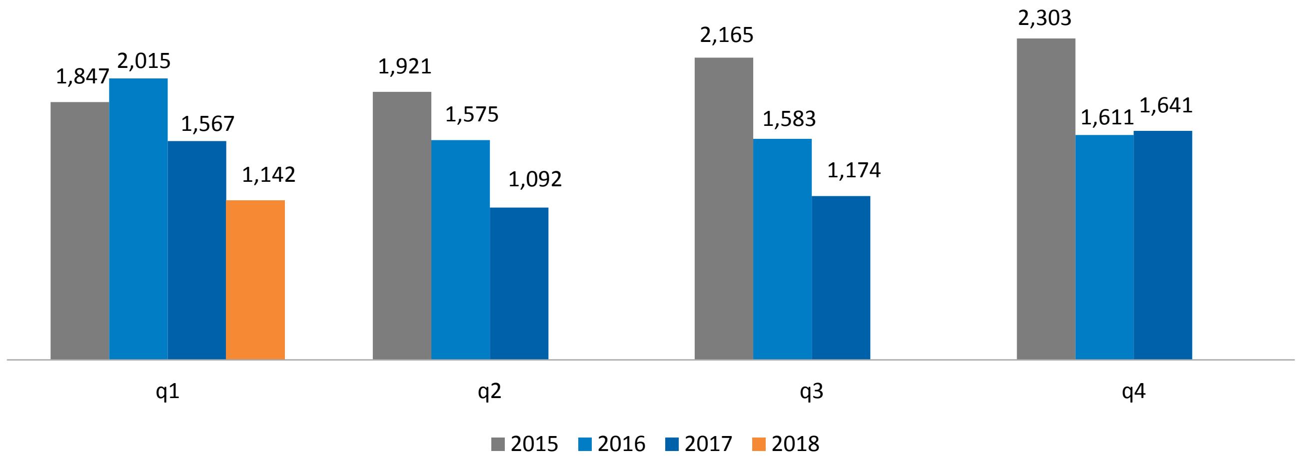
The slight deterioration of the market situation in the Czech industrial sector is also shown by the latest data on the forward-looking PMI (*Purchasing Managers' Index)*. From the beginning of 2018 it decreased gradually to reach the level of 57.3 points in March. In total, in Q1 2018, the Czech PMI index increased on average 58.6 points, i.e. 0.4 points less than in Q4 2017. The fact that the index is above the 50 points threshold (which is the boundary between expansion and recession in the industrial sector) however shows that the condition of the Czech industry is still very good. The levels of current production, new domestic and export orders, and employment continue to record a stable growth[58].

Mining industry

In Q1 2018, Czech Republic mined 1.1 million tons of hard coal, i.e. 0.4 million tons less (-27.1%) than in the corresponding period of 2017.[59]The progressing gradual decrease of coal mining since 2016 is the direct result of the pending adaptation processes in the Czech mining sector. At the beginning of April 2018, OKD (company controlling hard coal mining in the Czech Republic), under restructuring, was purchased for approx. CZK 80 million by a state-owned enterprise Prisko, which amounts to actual renationalization of the sector[60]. At the same time the owner has announced maintaining the existing company restructuring program which, in essence, comes down to gradual phasing out of individual mines. In 2018, the Darków and Łazy mines are to be closed down, followed by CSA in 2021 and CSM in 2023. As a result, in the opinion of OKD representatives, one should expect further decline of hard coal mining to approx. 2 million tons p.a. over the coming years[61].

[54] Czech Statistical Office
[55] Ibidem
[56] Assuming that the average CZK/PLN exchange rate for Q1 2018 was 0.1646 – NBP data
[57] Czech Statistical Office
[58] IHS Markit
[59]Czech Ministry of Industry and Trade
[60] http://www.ceskatelevize.cz
[61] Prague Business Journal

Figure 8 Quarterly extraction of hard coal in the Czech Republic in 2015-2018 (thousand tons)



Source: Czech Ministry of Industry and Trade

Q1 2018 also saw a decline in the mining of brown coal, which is a key component of the Czech energy mix and whose mining volumes are characterized historically by lower volatility. In the period in question it amounted to 10.1 million tons (-7.8% yoy)[62]. The key players operating in the lignite mining sector in the Czech Republic include among others: Severočeské doly a.s., Sokolovská uhelná a.s., Vršanská uhelná a.s. or Severní energetická a.s.

Over the next few years, the hard coal and brown coal production levels may be also affected by the likely change of the energy mix in the Czech Republic. The Czech Republic currently is inclined to base its power sector on nuclear energy and, in accordance with the assumptions of the “Nuclear Energy Program until 2040”, the share of nuclear power in the energy mix is expected to reach, by the end of this period, 58% compared to the existing level of approx. 30%[63]. The increase in production of nuclear energy is anticipated be achieved at the expense of energy generated from coal, especially lignite. The remaining part of the mix is to be filled with renewable energy sources (with the forecast share in the range of 25%) and gas power sector (15% share in the energy mix).

Steel industry

The main sectors of the metallurgical industry in the Czech Republic are: ferrous and non-ferrous metal processing and metal foundry industry. The market situation in the Czech metallurgical industry is affected primarily by the level of demand from other steel-intensive industries, among others construction or automotive industry. The development of the metallurgical industry may be hindered, in turn, by the quite high costs of transport of products due to the Czech Republic’s location away from seas and bigger navigable rivers and the related impossibility to use economical marine or inland transport. As a result, this translates into the necessity to use a relatively more expensive road or rail transport[64]. Additionally, companies from the industrial sector in the Czech Republic deal with increasing difficulties in recruitment of qualified employees, which indirectly drives up the pressure on salary increases and thus the costs of the companies. As a consequence, this translates into lower international price competitiveness of the products of the Czech metallurgical industry[65].

According to currently available data of Steel Federation a.s., in January 2018, the Czech Republic produced 0.4 million tons of raw steel (-0.6% yoy). In the period in question the volume of produced pig iron increased to 0.4 million tons (+4.6% yoy) and the volume of hot-rolled products rose to 0.5 million tons (+5.7% yoy)[66].

[62] Czech Ministry of Industry and Trade
[63] International Energy Agency
[64] National Training Fund, o.p.s., “Manufacture of basic metals and fabricated metal products”
[65] https://www.nordeatrade.com
[66] The Steel Federation a.s.

Construction industry

In Q1 2018, the construction and installation production in the Czech Republic increased 11.1% yoy, of which total construction output increased in the period by 12.5% yoy and the engineering construction output by 5.1% yoy[67]. This means that the construction sector growth rate accelerated in the Czech Republic compared to both Q4 (+3.0% yoy) and the whole 2017 (+3.3% yoy).

Gradual improvement of the situation in the construction sector is also illustrated by the data on the number and total value of construction orders, apartments under construction and apartments commissioned for use. The better market situation in the construction sector in the coming quarters will be also affected by the expected quicker absorption of EU structural funds under the financial perspective for 2014-2020[68]. The total value of funds granted to the Czech Republic in the current perspective equals to nearly EUR 22 billion, which will facilitate intensification of infrastructural investments[69].

In Q1 2018, the number of construction orders [70] amounted to 10,670 (-11.2% yoy). In the same period, their total value is estimated at CZK 47.5 billion, i.e. approx. PLN 7.8 billion (+22.1% yoy)[71].

In 3M 2018, in the territory of the Czech Republic the construction of 7,618 apartments was started (+16.8% yoy). In the case of single-family houses, the increase in the period in question was 11.0% yoy and in the case of multi-family buildings the growth was 16.0% yoy.

At the same time, in Q1 2018, the number of apartments commissioned for use increased to 6,907 (+18.9% yoy). The number of completed single-family houses increased in this period by 27.6% yoy and the number of multi-family facilities grew by 18.2% yoy.

Automotive industry

The Czech Republic is one of the biggest producer of motor vehicles in Europe, facilitated by the long-term tradition (know-how) of car production, relatively low labor and energy costs, and supportive economic policy of the state (applied grants and tax holidays)[72]. *Gradual increase in the number of produced vehicles and employment in the automotive sector makes this industry one of the key motors of growth of the Czech industry. According to 2017 data, the Czech automotive sector employed in this period over 150 thousand people and is responsible for over 20% of the Czech industrial production [73] and nearly 30% of the Czech export[74]. In the face of the strongly export-oriented Czech economy, the automotive industry constitutes approx. 9-10% of the Czech GDP.*

The biggest manufacturers of passenger cars in the Czech Republic include: Škoda Auto (a 63.1% share in the Czech passenger car production market in Q1 2018), Hyundai Motor Manufacturing Czech s.r.o. (22.0% market share) and TPCA Czech s.r.o. (Toyota, Peugeot, Citroën) with the market share of 14.9%[75]. The automotive industry branch manufacturing delivery vans and buses in this period was made up of the following entities: Iveco Czech Republic a.s. (a 91.0% market share), SOR Libchavy spol. s.r.o. (8.7% market share) and other smaller entities.

After the record-breaking 2017, when the Czech automotive industry produced the biggest in history number of motor vehicles, during the first 3 months of 2018, a slight decrease of production was recorded year over year. According to the data of the Automotive Industry Association (Auto SAP), in Q1 2018, in total 378.8 thousand road vehicles were produced (-2.7% yoy). The decline was mainly driven by the passenger car production sector, which recorded a 2.6% yoy decrease to 377.3 thousand cars. At the same time, the export of passenger cars decreased in Q1 2018 by 2.8% yoy and the domestic sales grew by 1.3% yoy. A decline of production was also recorded in the case of trucks (-58.6% yoy) and motorcycles (-48.9% yoy). The number of produced buses, in turn, increased (+7.2% yoy)[76].

In the opinion of Auto SAP, for the remaining part of the year one may expect a slightly lower production growth rate than in 2017, however it will grow after the decline in Q1 2018. This will be supported by the high demand for the products of the automotive industry from domestic buyers, stable demand for motor vehicles in the external environment (especially European Union) and acquisition of foreign contracts, which support the stable growth of bus producers[77].

[67] Czech Statistical Office
[68] Czech Republic's Finance Ministry
[69] Eurostat
[70] The data comprise companies employing more than 50 employees
[71] Assuming that the average CZK/PLN exchange rate for Q1 2018 was 0.1646 – NBP data
[72] Deloitte
[73] Czech Invest
[74] IHS Markit
[75] Auto SAP
[76] Ibidem
[77] Ibidem

Intermodal transport

Container transport is gradually becoming more and more significant in the volume of rail transport in the Czech Republic. According to most recently updated Eurostat data for 2016, the volume of containers transported in the Czech Republic by rail was 1.57 million twenty-foot equivalent units (TEUs), up 5.9% yoy. Since 2009, total container transport expressed in TEUs has increased 75.9%[78].

AWT, which belongs to the PKP CARGO Group, owns the Paskov intermodal terminal, established in 2007 in the area of the former Paskov mine. The strategic location of the terminal on the transport map of Europe allows for fast connections to leading European ports and terminals such as Hamburg, Rotterdam, Bremerhaven, Koper, Trieste, Gdańsk and Gdynia or other terminals in the Czech Republic: Prague, Mělník and Lovosicích. The present surface area of the terminal is 31 thousand m^2 and its total capacity is 2.4 thousand TEU. AWT provides there comprehensive services in the area of transshipment, storage or freight forwarding of containers.

The Paskov Terminal is being expanded, and these works are for the most part financed by UE funds (the total amount to support the project is EUR 5.9 million). After the expansion is completed (in 2020), the total surface area of the transshipment base will increase to 71 thousand square meters, and the total transshipment capacity of the terminal will double, reaching the level of 4.8 thousand TEU.

[78] Eurostat

4.2 Freight transportation activity

The rail transport market was presented taking into account the transport in the domestic and Czech markets where the transport activity in 2017 was the most important for the PKP CARGO Group, especially for PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and AWT a.s.

4.2.1 Rail transport market in Poland[79]

In Q1 2018, in the Polish market there were in total 62 carriers (including PKP CARGO S.A. and PKP CARGO SERVICE Sp. z o.o.) holding a license of the UTK President for transport of cargo using railways[80]. In the period of 3M 2018, the transported in total 61.9 million tons of goods, i.e. 7.6 million tons more than in the corresponding period of 2017 (+14.0% yoy). The freight turnover of the rail operators in this period amounted to 14.3 billion tkm up by 2.2 billion tkm compared to Q1 2017 (+18.4% yoy). At the same time, the average haul using railways increased by 8.6 km yoy (+3.9% yoy) to 231.9 km[81].

The main cause of the strong increase in the volume of cargo transported by rail in Q1 2018 was the increased transport of aggregates, sand, gravel and other construction materials.

In the period of 2M 2018, they amounted in total to 8.4 million tons, i.e. 3.7 million tons more than in the corresponding period of 2017 (+79.5% yoy)[82]. The very strong increase in transport of aggregates resulted primarily from the acceleration of infrastructural investments, among others under the "National Road Construction Program in 2014-2023 (with an outlook to 2025)" and "National Railway Program to 2023". In Q1 2018, the construction and installation production in total in Poland increased in real terms by 26.1% yoy and was growing faster than the average in 2017 (12.1% yoy). The intensification of the construction work was also supported by higher than in previous quarters co-financing under EU cohesion funds granted to Poland for 2014-2020.

In Q1 2018, hard coal transport continued to record a strong increase, which is attributable to the continuing high demand from the power sector and private customers. During the first 3 months of 2018, production of electricity in commercial power plants fired with hard coal increased by +1.0% yoy to 21,839 GWh, which, combined with the slight decrease of total electricity production, contributed to an increase of the share of hard coal in the domestic energy mix. In the face of the declining domestic output and as a result insufficient supply of the raw material, hard coal imports intensified further. In the period of 2M 2018, it totaled 2.9 million tons, i.e. 1.6 million tons more than in the corresponding period of 2017 (+122.1% yoy)[83]. In total, in the period of 2M 2018, 15.8 million tons of hard coal in Poland was transported by rail, i.e. 1.1 million tons more than the year before (+7.6% yoy)[84].

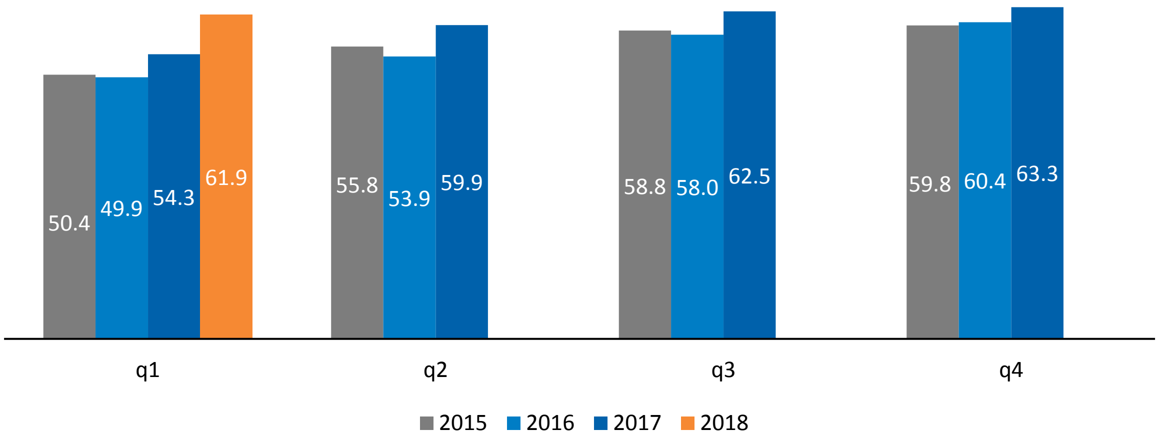
The continuing good economic situation in Poland and the neighboring countries (and as a result the high demand from buyers) translated also into a stable increase of transported volumes of iron ores, metals and metal products. During the period of 3M 2018, Poland produced 2.7 million tons of raw steel (+7.5 yoy) and 2.5 million tons of hot-rolled products (+7.6 yoy)[85]. In the same period, global steel production increased by +4.4% yoy to 426.6 million tons[86]. In total, rail transport of iron ore, metals and metal products in the period of 2M 2018 stood at 3.8 million tons, i.e. 19.5% more than in the corresponding period of 2017.

In the first 2M 2018, also an increase of transport in the timber and wooden products segment increased by 0.2 million tons yoy (+33.4% yoy) to 0.3 million tons. It resulted primarily from the low benchmark base for the corresponding period of 2017 as a result of suspension of the exports to Belarus in January 2017 and, after exports were reinstated, the relatively small volumes over the next months.

The period of 2M 2018 saw a decrease in transport of oil refinery products (-2.8% yoy to 2.5 million tons), foodstuffs (-25.3% yoy to 0.2 million tons) or cereals (-20.6% yoy to 0.1 million tons).

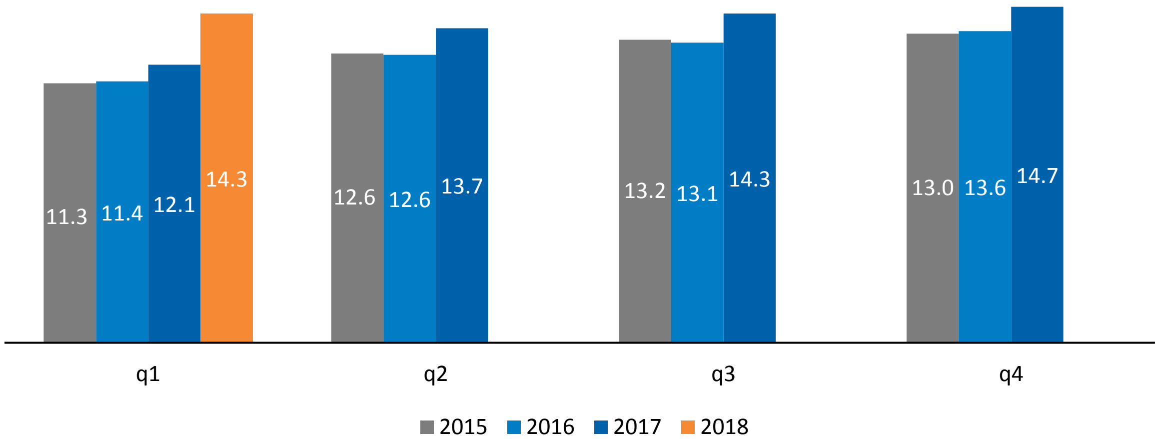
[79]The data for the period of 2M 2018 published in certain cases result from the fact that transport data were not available for Q1 2018
[80] Office of Rail Transport
[81] Ibidem
[82] Central Statistical Office of Poland
[83] Eurostat
[84] Central Statistical Office of Poland
[85] ibidem
[86] worldsteel.org

Figure 9 Rail freight volumes in Poland (in million tons) in individual quarters of 2015-2018



Source: Office of Rail Transport

Figure 10 Rail freight turnover in Poland (billion tkm) in individual quarters of 2015-2018



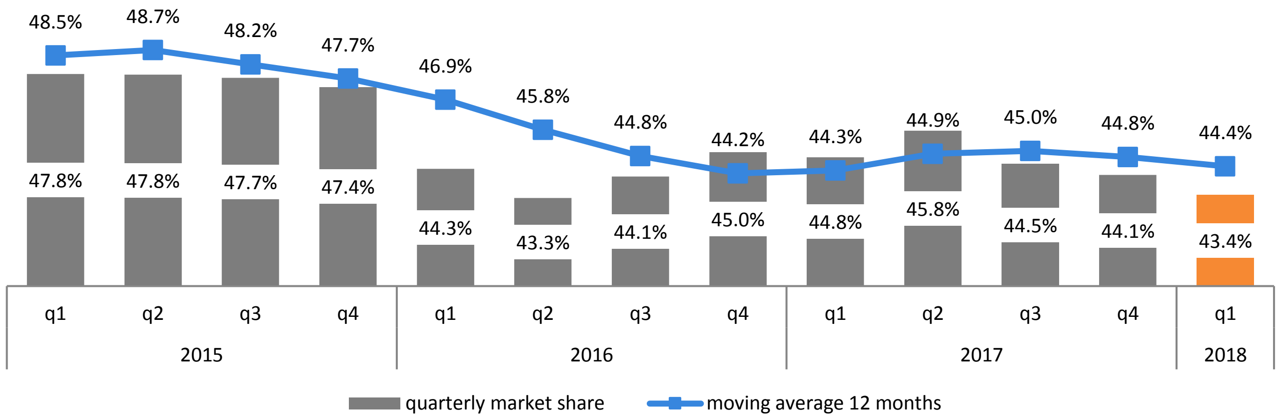
Source: Office of Rail Transport

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

In Q1 2018 the PKP CARGO Group (with the leading role in transport played by PKP CARGO S.A.) defended its leader position in the Polish rail freight market. The Group's share in the domestic market in this period amounted to 43.4% (-1.4 p.p. yoy) in terms of freight volume and 48.5% (-3.7 p.p. yoy) in terms of freight turnover. At the same time the Parent Company had a 42.6% market share (-1.7 p.p. yoy) in terms of freight volume and a 48.3% market share in terms of freight turnover (-3.6 p.p. yoy).

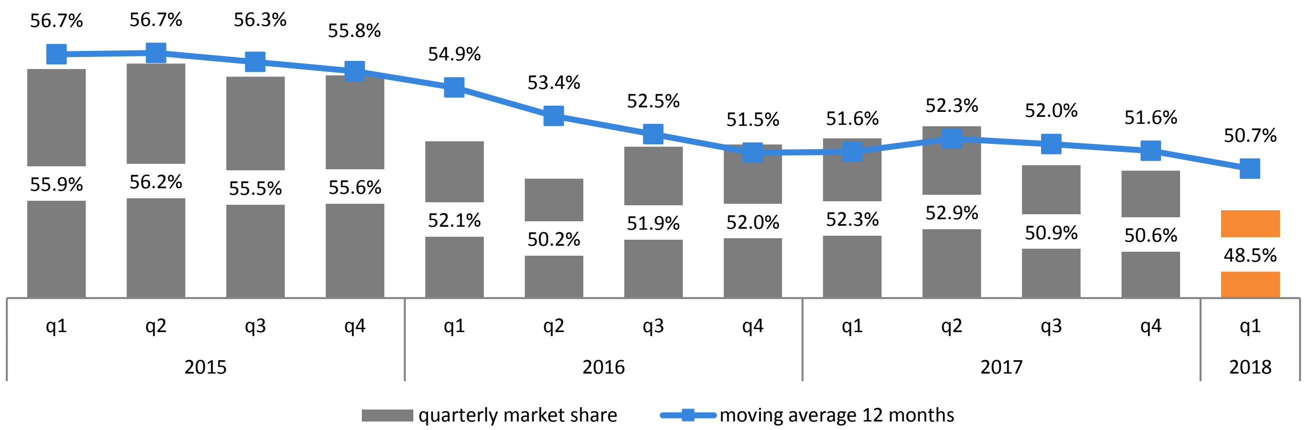
The shares of the PKP CARGO Group in the Polish rail freight market are presented in the charts below.

Figure 11 Share of the PKP CARGO Group in total freight volume in Poland in 2015-2018



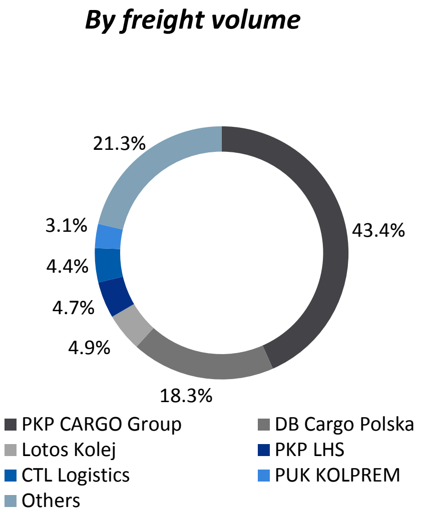
Source: Proprietary material based on the Office of Rail Transport's data

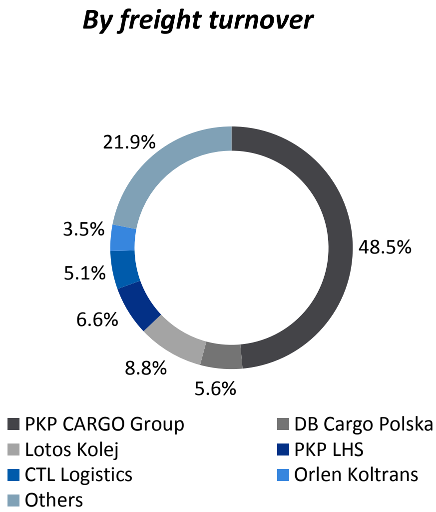
Figure 12 Share of the PKP CARGO Group in total freight turnover in Poland in 2015-2018



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

Figure 13 Market shares of the largest rail operators in Poland in Q1 2018 by freight volume and freight turnover





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

The key players in the rail freight market in Poland, which conduct activity competitive to PKP CARGO Group include the following carriers: DB Cargo Polska, Lotos Kolej, PKP LHS, CTL Logistics, PUK Kolprem, Freightliner PL, Orlen Kol-Trans and Pol-Miedź Trans.

In 3M 2018, competitive operators transported in total 35.0 million tons of cargo (+16.9% yoy), with the most transported by DB Cargo Polska (11.3 million tons and +9.4% yoy), Lotos Kolej (3.0 million tons and -0.7% yoy) and PKP LHS (2.9 million tons and +19.4% yoy). The share of these companies in the freight transport market was 18.3%, 4.9% and 4.7%, respectively. The freight turnover of the PKP CARGO Group's competitors in Q1 2018 stood at 7.4 billion tkm (+27.7% yoy), and the most active operators (apart from PKP CARGO Group) were Lotos Kolej (1.3 billion tkm and +7.5% yoy), PKP LHS (0.9 billion tkm and +21.4% yoy), and DB Cargo Polska (0.8 billion tkm and +13.9% yoy). The market shares of these companies stood at 8.8%, 6.6% and 5.6%, respectively[87].

In Q1 2018, all major rail freight carriers in Poland recorded increases in freight turnover (compared to the corresponding period in 2017). The largest year-on-year increase in freight turnover was recorded by the PKP CARGO Group (+629 million tkm yoy, although compared with smaller per-operator increases the sum of which turned out to have generated a significant increase in freight turnover posted by numerous small carriers, this translated into a 3.7 p.p. yoy decline in market share to 48.5%), followed by CD Cargo Poland (+216 million tkm yoy and, as a result, an increase in market share by 1.4 p.p. yoy to 2.1%), Inter Cargo (+187 million tkm yoy and an increase in market share by 1.1 p.p. yoy to 2.2%) and PKP LHS (+166 million tkm and an increase in market share by 0.2 p.p. yoy to 6.6%). Also in terms of freight volume, the largest increase in transported volumes in Q1 2018 was posted by the PKP CARGO Group (+2,542 thousand tons yoy, although compared with the total increase in freight volume recorded by numerous small carriers, this translated into a 1.4 p.p. yoy drop in the PKP CARGO Group's market share to 43.4%). The competing rail freight carriers which recorded increases in transported freight volume in Q1 2018 included DB Cargo Polska (+975 thousand tons yoy, despite which its market share declined by -0.8 p.p. yoy to 18.3%), CTL Logistics (+726 thousand tons yoy with an increase in market share by 0.7 p.p. yoy to 4.4%) and PKP LHS (+470 thousand tons yoy with an increase in market share by 0.2 p.p. to 4.7%). In turn, the following carriers suffered declines in freight volume in Q1 2018: Orlen Kol-Trans (-48 thousand tons yoy and a decrease in market share by -0.4 p.p. yoy to 2.2 %), Pol-Miedź Trans (-29 thousand tons yoy and a decrease in market share by -0.3 p.p. yoy to 1.8%) and Lotos Kolej (-20 thousand tons yoy and a decrease in market share by -0.7 p.p. yoy to 4.9%).

[87] Office of Rail Transport

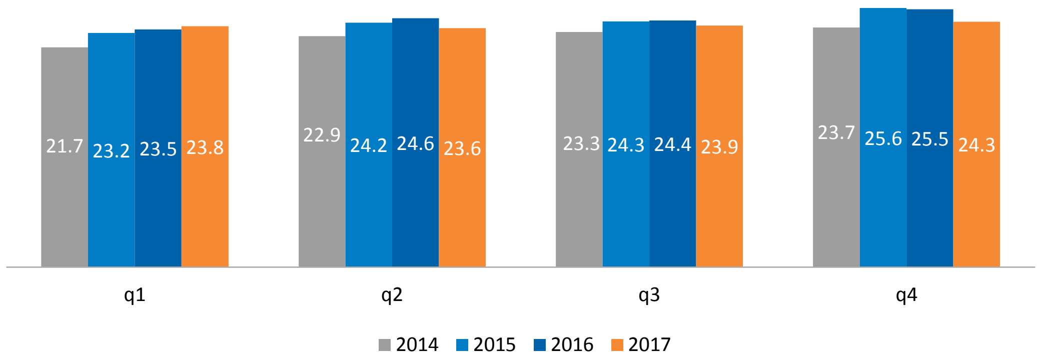
4.2.3 Rail freight transport market in the Czech Republic

According to the data published by the Czech Ministry of Transport, in 2017, total freight volume in the Czech Republic was 570.1 million tons and total freight turnover was 62.8 billion tkm[88]. The strongest mode of freight transport in the Czech Republic continues to be road transport whose share in 2017, in terms of total freight volume, increased by 0.5 p.p. yoy to 80.6%. In terms of freight turnover, the share of truck transport dwindled in 2017 by 3.3 p.p. yoy and stood at 70.5%. Throughout 2017, a total of 459.4 million tons of cargo was transported by road (+6.4% yoy), and freight turnover stood at 44.3 billion tkm (-12.0% yoy). Accordingly, the average distance covered by transported cargo also declined to 96.4 km, or 20.1 km less than in 2016 (-17.3% yoy).

The main beneficiary of the drop in market share of road transport in the overall freight transport sector was rail transport. Total freight turnover generated by all rail carriers in 2017 increased by 0.7% yoy and amounted to 15.7 billion tkm. This translated indirectly into an upturn in the share of rail transport in the whole sector by 2.1 p.p. yoy to 25.0%. However, in terms of freight volume, the share of rail transport declined by 1.4 p.p. to 16.8%, which was caused directly by the fall in freight volume by 2.4 million tones yoy to 95.6 million tons (-2.4% yoy). Conversely, the average haul of freight by rail in 2017 was 164.5 km, or 5.2 km more than in 2016 (+3.2% yoy).

In 2017, using other modes of transport (pipelines, inland waterway transport and air transport), 15.0 million tons of cargo was transported in the Czech Republic (+64.4% yoy) and its total share in total freight transport was 2.6%. Total freight turnover generated through pipelines, air transport and inland waterway transport reached 2.8 billion tkm (+25.9% yoy), accounting for 4.5% of the whole freight transport sector.

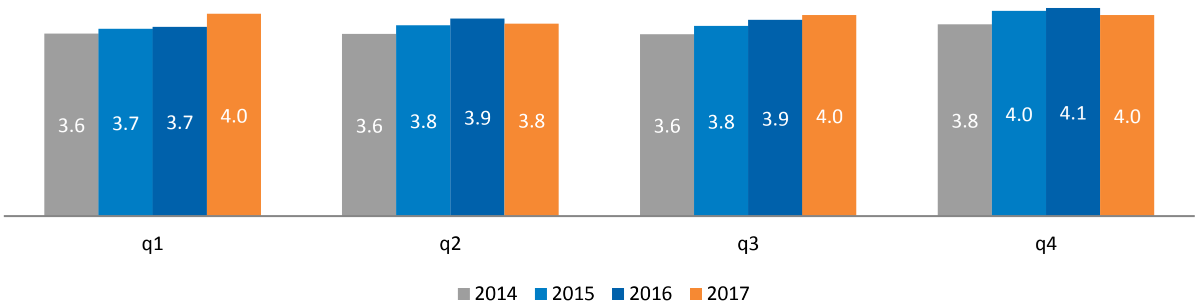
Figure 14 Quarterly rail freight transport in the Czech Republic by freight volume in 2014-2017 (million tons)



** data for Q1 2018 will be available at the turn of Q2 and Q3 2018.*

Source: Ministry of Transport of the Czech Republic

Figure 15 Quarterly rail freight transport in the Czech Republic by freight turnover in 2014-2017 (billion tkm)



** data for Q1 2018 will be available at the turn of Q2 and Q3 2018.*

Source: Ministry of Transport of the Czech Republic

[88] Ministry of Transport of the Czech Republic

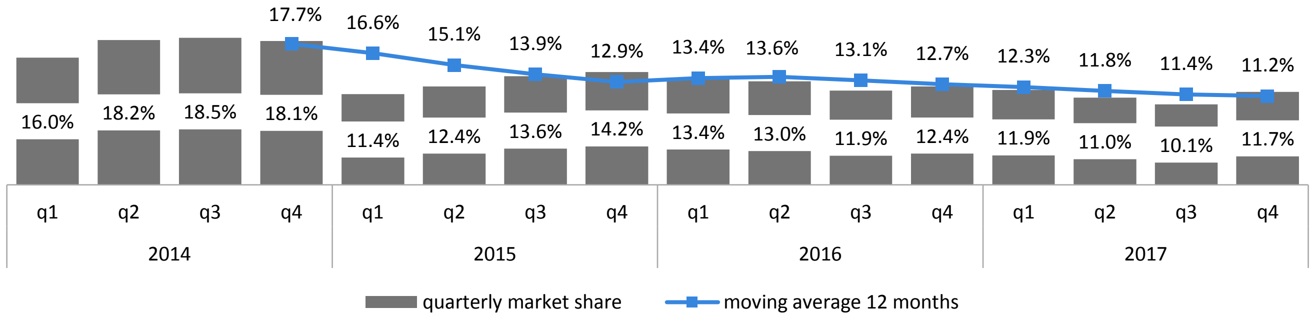
4.2.4 Position of the AWT Group in the rail transport market in the Czech Republic

According to information provided by the Czech rail infrastructure manager (SŽDC), there are currently (as at 20 April 2018) 103 carriers in the Czech rail freight market with a license for the transportation of cargo and at the same time actively make use of this license for the provision of freight services.[89] Operators in this market include also members of the PKP CARGO Group, namely PKP CARGO S.A. and Advanced World Transport a.s. (AWT).

The AWT Group's freight performance is currently largely affected by the restructuring of the hard coal mining industry in the Czech Republic administered by (a company controlled directly by the Ministry of Finance of the Czech Republic). At the beginning of April 2018, Prisko acquired from OKD hard coal mines for CZK 80 million (approx. PLN 13 million), which is a de facto nationalization of the Czech hard coal mining sector[90]. At the same time, the currently implemented restructuring plan provides for a gradual closing down of all mines by 2023. As a result, the gradual downturn in the output of hard coal will directly affect AWT's freight volume realized in the hard coal segment. According to the data for the first 3 months of 2018, the AWT Group transported 859 thousand tons of hard coal (-29.1% yoy), which despite the upturn in freight volume in several other key cargo categories and an increase in the average haul by 5.5 km (+4.8% yoy) translated into a major decline in the AWT Group's market share in terms of overall freight turnover, down to 7.8% (-1.0 p.p. yoy).

Due to the decline in freight volume in the hard coal sector (in Q1 2018, it accounted for 34% of the freight volume transported by AWT), the AWT Group is taking action aimed at increasing the diversification of its freight transportation services. During the first 3 months of 2018, freight volume of coke went up (+2.6% yoy to 536 thousand tons) as did intermodal transport (+72.1% yoy to 326 thousand tons), transport of chemicals (+11.2% to 142 thousand tons) and other cargo (+12.6% yoy to 147 thousand tons)[91].

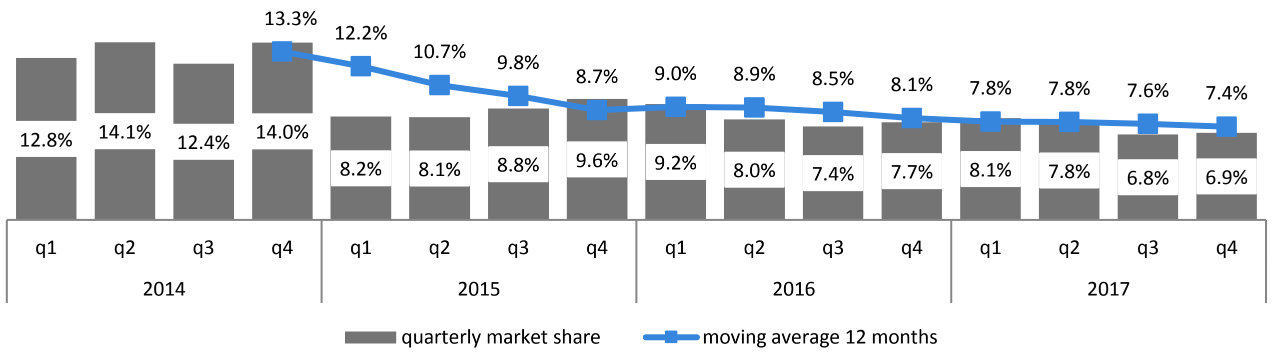
Figure 16 AWT a.s.'s quarterly market shares in total freight volume in the Czech Republic in 2014-2017



** data for Q1 2018 will be available at the turn of Q2 and Q3 2018.*

Source: Proprietary material based on data from the Czech Ministry of Transport and AWT a.s.

Figure 17 AWT a.s.'s quarterly market shares in total freight turnover in the Czech Republic in 2014-2017

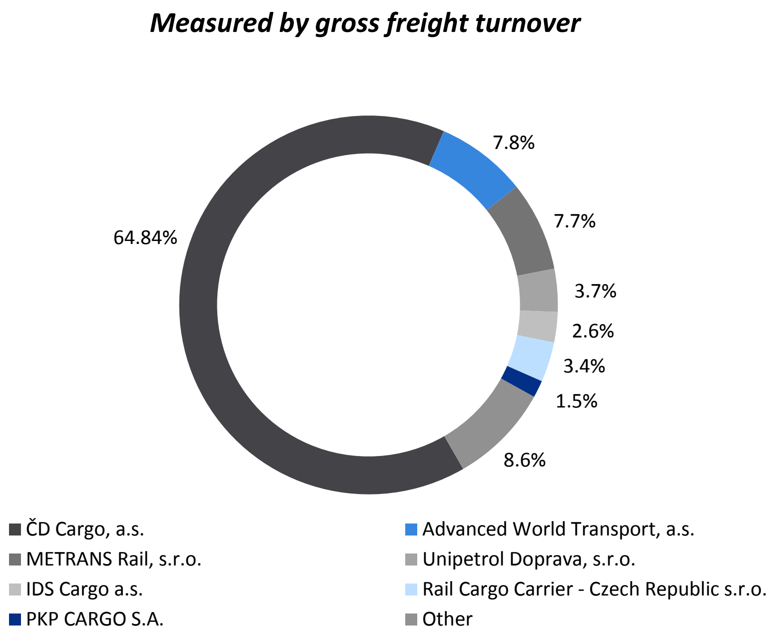


** data for Q1 2018 will be available at the turn of Q2 and Q3 2018.*

Source: Proprietary material based on data from the Czech Ministry of Transport and AWT a.s.

89 SŽDC
90 Puls Biznesu
91 own statistics prepared by AWT a.s.

Figure 18 Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in the first 3 months of 2018 (btkm)



Source: SŽDC

According to SŽDC data for the first 3 months of 2018, ČD Cargo a.s. remains the leader of the rail freight market in the Czech Republic. In this period, the company's market share measured by gross freight turnover went up 2.2 p.p. yoy to 64.8%. Market shares were also on the rise in medium-sized companies such as METRANS Rail s.r.o. (+0.9 p.p. yoy to 7.7%) and Rail Cargo Carrier – Czech Republic s.r.o. (+0.7 p.p. yoy to 3.4%). In turn, the following companies saw their market shares shrink: AWT a.s. (-1.0 p.p. yoy to 7.8%), Unipetrol Doprava, s.r.o. (-0.4 p.p. yoy to 3.7%), SD – Kolejová doprava (-0.3 p.p. yoy to 2.1%), PKP CARGO S.A. (-1.2 p.p. yoy to 1.5%) and small operators (with shares not exceeding 1% of the total size of the Czech rail transport market), for which the total market share decreased by 0.8 p.p. yoy to 6.5%.

PKP CARGO S.A. was once again included in the classification of carriers published by the Czech Republic's Rail Infrastructure Authority (SŽDC), which means that the Company provides freight services in the Czech Republic at a level exceeding the 1% threshold of market share. The decline in PKP CARGO S.A.'s market shares on a year-on-year basis in Q1 2018 resulted predominantly from the lower volumes of transported coal from Poland to one of the Czech Republic's power plants and from OKD's mines to Slovakia. At the same time, freight services were intensified in the following areas, among others:

- intermodal transport to/from Italy via the territory of the Czech Republic and continued growth in the volumes of freight in transit via the Czech Republic and Poland on the route between Slovakia and Russia,
- manganese ores from one of the seaports in the Baltic states to the Czech Republic,
- metals on the route between Poland and Romania.

The carriers which exceeded 5% of the share in the Czech rail freight transport market in terms of gross freight turnover throughout 2017 were the following: ČD Cargo a.s., Advanced World Transport a.s. and METRANS Rail s.r.o. Other companies with a market share of less than 5% but more than 1% included: Unipetrol Doprava, s.r.o., Rail Cargo Carrier – Czech Republic s.r.o., IDS Cargo a.s. as well as SD – Kolejova doprava a.s. and PKP CARGO S.A.[92]

[92] Ibidem

4.2.5 PKP CARGO Group's rail transport business

Data on the transport activities of the PKP CARGO Group for Q1 2018 and Q1 2017 contain consolidated data of PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and the AWT Group[93] (AWT a.s., AWT Rail HU Zrt., AWT Rail SK a.s.).

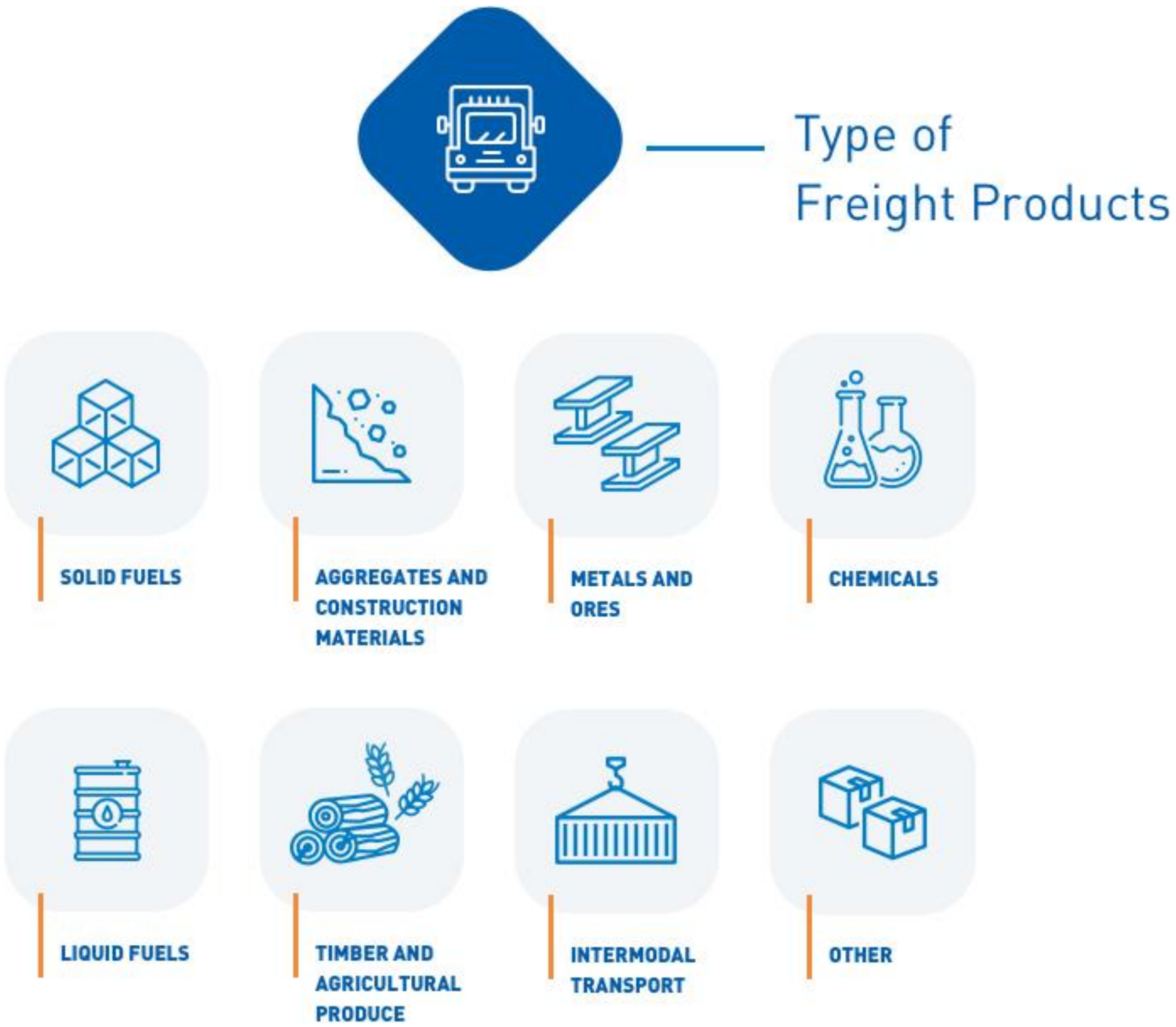
The PKP CARGO Group collaborates with the largest Polish and global groups, including ArcelorMittal, PKN Orlen, PGNiG, Lafarge Group, Azoty Group, Jastrzębska Spółka Węglowa, Węglokoks, Enea Group, PGE Group, Tauron Group, Polska Grupa Górnicza and International Paper. The contracts with these business partners are regularly renewed, which confirms the high quality of the transportation services provided by the PKP CARGO Group. An example of this was the signing, in Q1 2018, of contracts with key clients from the freight market for such cargo as, without limitation, hard coal, aggregates, chemicals and metals.

The PKP CARGO Group provides rail freight services in Poland and seven other European Union countries, namely Germany, the Czech Republic, Slovakia, Austria, the Netherlands, Hungary and Lithuania. The presence in these markets is a growth opportunity for the Group, since it allows the Group to handle independently the volumes transported to and from key European seaports, including those located on the North Sea (Amsterdam, Rotterdam, Zeebrugge, Antwerp, Hamburg) and those located on the Adriatic Sea (Koper, Triest, Rijeka). In February 2018, a meeting was held in PKP CARGO S.A.'s head office between representatives of the PKP CARGO Group and a delegation of the Kazakh Railways, devoted predominantly to the cooperation of both carriers in handling container transport between China and Europe. Member companies of the PKP CARGO Group, namely PKP CARGO S.A. and PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o., submitted their applications to the Center for EU Transport Projects (CUPT) for co-funding of a total of three intermodal projects under the Operational Programme Infrastructure and Environment 2014-2020. The opening of the PKP CARGO Group to local as well as international markets causes exposure to various macroeconomic factors (such as e.g. economic growth on domestic and international markets, growth of particular sectors of the industry, condition and availability of transport infrastructure, adequate potential of the market for rolling stock repairs and maintenance, intensity of competitors' activities within the transportation industry and among various types of transport), which to significant extent condition the outlook for development of transport activities conducted by each and every carrier. In addition to operations related to foreign ports, the PKP CARGO Group remains actively involved in the operation and further development of transportation as part of the route leading from China through Poland to Western Europe, which has led to cooperation with Chinese partners aimed at developing a whole-train rail link between China and Europe and developing strategic cooperation in the field of transshipment activity in the Małaszewicze Logistics Center. The primary objective of the project is to increase the volumes of overland intermodal transport between China and the European Union through Małaszewicze and back to Asia.

In Q1 2018, the PKP CARGO Group carried 29.4 million tons of cargo (+7.4% yoy) and achieved freight turnover of 7.6 billion tkm (+6.9% yoy).

This performance was driven by improved results in domestic transport, which reached 26.8 million tons (+10.5% yoy)[94] in terms of freight volume and 7.0 billion tkm (+9.9% yoy) in terms of freight turnover. In Q1 2018, the volume of cargo transported abroad declined to 4.1 million tons (-13.1% yoy) and international freight turnover dwindled to 0.6 billion tkm (-19.1% yoy) as a result of the changes in the structure of freight routes. In Q1 2018, members of the AWT Group carried 2.8 million tons of freight volume (-9.8% yoy) and achieved freight turnover of 0.4 billion tkm (-7.7% yoy), which was coupled with an increase in the average haul by 2.3% yoy. A crucial impact on the freight volume transported by AWT Group companies was exerted by a decrease in the share in coal transports from OKD mines, which are carried over shorter distances than is the case in most other cargo categories.

[93] This applies to the AWT Group companies consolidated by the full method.
[94] Transports in Poland contain part of the freight volume which was carried by the PKP CARGO Group also beyond Polish borders – in Q1 2018, 1.3 million tons of goods were carried, representing a decrease by 8.3% yoy.



Solid fuels were the main type of commodity carried by the PKP CARGO Group, with hard coal being the dominant cargo. Transportation of solid fuels accounted for 49% of freight volumes and 37% of realized freight turnover by the Group in Q1 2018. In the same period, transportation of solid fuels was 4.3% yoy lower in terms of freight turnover and 10.1% yoy lower in terms of freight volume. In Q1 2018, freight volume in hard coal transport decreased by 5.4% yoy and freight turnover decreased by 13.3% yoy, accompanied by a decrease in haul by 8.4% yoy, driven largely by a significant reduction in total export freight volumes and changes in the supply directions in overland exports. In turn, coal imports increased in Q1 2018 by 55.6% yoy (with a major increase in imports from Russia by 61.4% yoy) due to insufficient supply of coal from Polish mines (insufficient supply of coal from PGG's mines and mining problems at LW Bogdanka). Freight volume in hard coal transport in Poland remained at roughly the same level as to that of Q1 2017 in terms of freight volume (-1.3% yoy), with a 8.6% yoy decline in freight turnover, caused by the shorter average haul by 7.4% yoy (mainly due to changes in the structure of freight routes). For the sake of comparison, in Q1 2018 hard coal output in Poland declined 5.0% yoy, hard coal sales dwindled 7.1% yoy[95] and the volume of energy output generated by coal-fired industrial power plants increased 1.0% yoy[96]. According to information from coal producers, anti-smog resolutions adopted in the Małopolskie and Śląskie Voivodeships eliminated from the market approx. 2 million tons of coal types which did not satisfy the quality requirements. Polish producers are changing the structure of their output but are unable to deliver the desired quantity of products with the parameters required by the anti-smog resolutions in the short term, thus giving rise to growing imports of the right types of coal (in the first 2 months of 2018, imports of hard coal to Poland stood at 2.9 million tons, i.e. 1.6 million tons more than in the corresponding period of 2017, representing growth of +122.1% yoy).[97] The supply-side factors were additionally exacerbated by the capacity

[95] polskirynekwegla.pl – data for 3M 2018
[96] pse.pl
[97] Eurostat

constraints of the rail lines undergoing modernization efforts by PKP PLK S.A. (including the upgrade of one of the country's key railway lines, namely line no. 7) and the related decrease in the average commercial speed in Poland during the last 12 months (from 25.5 km per hour in March 2017 to 22.7 km per hour in March 2018), translating into extended cycle times of rail car sets. Freight volume in hard coal transport outside Poland decreased by 41.8% yoy and freight turnover fell by 68.1% yoy, driven primarily by less extensive transport of this commodity from OKD's mines. In another cargo category included in solid fuels, namely in coke, the PKP CARGO Group's transport performance increased in Q1 2018 by 5,9% yoy in terms of freight volume, and freight turnover was 16.5% higher yoy. The improved performance in coke transport was driven by the increase in exports by Polish companies to their customers in Germany, India and Slovakia, among other markets, and the increase in demand generated by the Polish steel industry for this commodity.

Aggregates and construction materials were the second largest category of commodities transported by the PKP CARGO Group in Q1 2018, with a 21% share in total freight turnover (11% in Q1 2017). In transport of aggregates and construction materials, in 3M 2018 an increase by 81.1% yoy was recorded in terms of freight volume coupled with a 104.3% yoy increase in terms of freight turnover. The increase in freight performance in this segment was associated with the intensification of road (e.g. for the construction of the A1, S2, S6, S8 and S17 roads) and rail construction projects in Poland (e.g. for the purposes of modernization of the E20 rail line and the Warsaw ring road) co-funded by the European Union from the budget framework 2014-2020 and the increased demand for transports of aggregates to concrete-mixing plants and bituminous mass production plants as well as the higher demand for limestone resulting from the increased output of metallurgical products in Poland. Conducive weather conditions also contributed to the quantum of transport of aggregates and construction materials in Q1 2018: above-zero temperatures permitted the performance of work on road and rail construction projects. The increase in the average haul in this cargo category by 12.8% yoy was driven by changes in the structure of freight routes caused by the increased share in freight volume of aggregates for the construction of the S6 road near Kołobrzeg and the modernization of rail line no. 7 (Warsaw – Lublin).

Products associated with the metallurgical industry, i.e. metals and ores, are another important market area serviced by the PKP CARGO Group. Their percentage in the Group's freight turnover in Q1 2018 was 13% (same as in Q1 2017). This segment recorded an increase in freight volume by 2.5% yoy and freight turnover by 0.9% yoy in connection with the stronger demand for ores and metals resulting from the favorable situation in the metallurgical industry on the global markets (a 4.1% yoy increase in global steel output in Q1 2018[98]), improving economic conditions in Poland and foreign markets and lower imports from China due to the European Commission's imposition of customs duties on products sold at dumping prices. A significant impact on the quantity of transports of metals and ores (both raw materials and semi-finished products) in 3M 2018 was also exerted by an increase in steel output in Poland to a level of 2.6 million tons (up 5.8% yoy)[99], driven by growing industrial output (+5.6% yoy) and the volume of construction and assembly production (+26.1% yoy).

The PKP CARGO Group continues to be the market leader in intermodal transport in Poland, an important element of its growth strategy. In Q1 2018, the transport of intermodal units realized by the Group increased in terms of container freight volume by 14.5% yoy, while freight turnover increased by 23.4% yoy, which was attributable in part to an increase in the average haul by 7.7% yoy. The increase in intermodal transport was driven mainly by the development of transit routes and the handling of cargo connections on the China-Europe-China route as part of the "New Silk Road" (in transports to and from China, the share of container carriage by land was 22.7% in Q1 2018 compared to 17.1% in the corresponding period of 2017) and a higher percentage of cargo that used to be transported in conventional ways and is now being transported in containers (e.g. automobile parts, steel coils). Transit between marine ports and inland terminals accounts for a significant share (which is closely associated with the development of this segment of the rail market – the transshipment of containers in Polish marine ports climbed in Q1 2018 by 44.5% yoy[100]). There was also a significant increase in the number of trains operated on the Group's own traction in Germany, which also contributed to an increase in the average haul in this cargo category by 7.7% yoy.

In Q1 2018, freight volume rose by 4.5% yoy and freight turnover declined by 4.6% yoy in the transport of chemicals, which was due in part to a decrease in the average haul by 8.7% yoy. Owing to amendments to legislation intended to combat the informal economy, in Q1 2018 the PKP CARGO Group obtained additional hydrocarbon transports from the east in imports and benefited from improved export freight volumes. Moreover, freight volume of domestic and import carriage of fertilizers to domestic producers increased. The decrease in the average haul in this segment was caused by the higher share of gas freight in imports from the east performed over a short distance.

In Q1 2018, freight volume and freight turnover of liquid fuels decreased by 18.3% yoy and 20.0% yoy, respectively, accompanied by a decrease in the average haul by 2.1% yoy. The main reason for the decline in freight performance in this cargo category was the takeover, by certain competitors, of a portion of freight volume transported for the benefit of forwarders and one of the biofuel producers carrying out the distribution of its commodity in road tankers, thus bypassing

[98] worldsteel.org
[99] Ibidem
[100] Central Statistical Office – Statistical Bulletin No. 3/2018

rail transport. The quantum of freight turnover was also affected by a change in the supply logistics at the PKP CARGO Group's largest client in this segment (due to changes resulting from the current demand and supply situation).

In Q1 2018, the transport of wood and agricultural products decreased in terms of freight volume by 5.8% yoy, while freight turnover declined by 13.4% yoy, which was attributable in part to the drop in the average haul by 8.0% yoy. The decrease in freight turnover in this segment was primarily attributable to smaller transports of grain both in Poland (a decrease in the share of grains in sea export hauls longer than 400 km) and outside of Poland (performed by AWT Group companies).

Table 12 Freight turnover of the PKP CARGO Group in Q1 2017 and 2018

Item	Q1 2018	Q1 2017*	Change Q1 2018/ Q1 2017		Q1 2018	Q1 2017
	(million tkm)			*%*	*percentage of total (%)*	
Solid fuels[1]	2,794	3,108	-314	-10.1%	37%	44%
of which hard coal	*2,405*	*2,774*	*-369*	*-13.3%*	*32%*	*39%*
Aggregates and construction materials[2]	1,561	764	797	104.3%	21%	11%
Metals and ores[3]	952	944	9	0.9%	13%	13%
Chemicals[4]	562	590	-27	-4.6%	7%	8%
Liquid fuels[5]	239	299	-60	-20.0%	3%	4%
Timber and agricultural produce[6]	371	428	-57	-13.4%	5%	6%
Intermodal transport	902	731	171	23.4%	12%	10%
Other[7]	180	211	-31	-14.6%	2%	3%
Total	**7,563**	**7,074**	**488**	**6.9%**	**100%**	**100%**

** Because freight services by ferry are no longer separated from the distinct commodity markets and are added to "other cargo", data for 2017 are updated.*

Source: Proprietary material

Table 13 Freight volume of the PKP CARGO Group in Q1 2017 and 2018

Item	Q1 2018	Q1 2017*	Change Q1 2018/ Q1 2017		Q1 2018	Q1 2017
	(000s tons)			*%*	*percentage of total (%)*	
Solid fuels[1]	14,308	14,953	-645	-4.3%	49%	55%
of which hard coal	*12,795*	*13,525*	*-730*	*-5.4%*	*43%*	*49%*
Aggregates and construction materials[2]	5,533	3,056	2,478	81.1%	19%	11%
Metals and ores[3]	3,198	3,120	78	2.5%	11%	11%
Chemicals[4]	1,828	1,749	79	4.5%	6%	6%
Liquid fuels[5]	812	994	-181	-18.3%	3%	4%
Timber and agricultural produce[6]	981	1,042	-61	-5.8%	3%	4%
Intermodal transport	2,117	1,849	269	14.5%	7%	7%
Other[7]	648	634	14	2.3%	2%	2%
Total	**29,427**	**27,396**	**2,031**	**7.4%**	**100%**	**100%**

** Because freight services by ferry are no longer separated from the distinct commodity markets and are added to "other cargo", data for 2017 are updated.*

Source: Proprietary material

Table 14 Average haul of the PKP CARGO Group in Q1 2017 and 2018

Item	Q1 2018	Q1 2017*	Change Q1 2018/ Q1 2017	
	(km)			%
Solid fuels[1]	195	208	-13	-6.0%
of which hard coal	*188*	*205*	*-17*	*-8.4%*
Aggregates and construction materials[2]	282	250	32	12.8%
Metals and ores[3]	298	302	-5	-1.6%
Chemicals[4]	308	337	-29	-8.7%
Liquid fuels[5]	294	301	-6	-2.1%
Timber and agricultural produce[6]	378	411	-33	-8.0%
Intermodal transport	426	395	31	7.7%
Other[7]	278	333	-55	-16.5%
Total	**257**	**258**	**-1**	**-0.5%**

** Because freight services by ferry are no longer separated from the distinct commodity markets and are added to “other cargo”, data for 2017 are updated.*

Source: Proprietary material

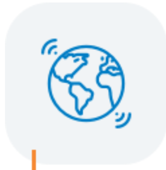
[1] Includes hard coal, coke and lignite.
[2] Includes all kinds of stone, sand, bricks and cement.
[3] Includes ores and pyrites, as well as metals and metal products.
[4] Includes fertilizers and other chemicals.
[5] Includes crude oil and petrochemical products.
[6] Includes grain, potatoes, sugar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

From the point of view of the directions in which the PKP CARGO Group’s transportation services were provided, transportation within Poland was dominant, constituting 92% of the realized freight turnover in Q1 2018. In comparison with Q1 2017, the percentage of freight turnover performed outside Poland decreased by 3 p.p., which was caused largely by the decrease in the quantum of freight volume from OKD’s mines.

4.3 Other services

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

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



FORWARDING 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;

TRACTION SERVICES AND LOCOMOTIVE LEASE SERVICES

Comprehensive siding services, entailing among others formation of trains, maneuvering services, rail traffic management on sidings, loading and unloading, warehouse management, conservation and ongoing maintenance of point infrastructure. PKP CARGO SERVICE Sp. z o.o. and AWT a.s. are the main entities providing these services. Siding services are offered in Poland, the Czech Republic and Hungary;

COMPREHENSIVE SIDING SERVICES

Transshipment services – the PKP CARGO Group has been developing its transshipment business on the basis of conventional and intermodal transshipment terminals owned by:

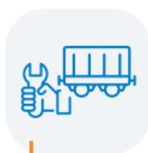
- PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.,
- PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o.,
- PKP CARGO CONNECT Sp. z o. o. and subsidiaries,
- AWT a.s.;

TRANSSHIPMENT SERVICES

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;

INTERMODAL LOGISTIC SERVICES

Rolling stock repairs – maintenance of the Group's rolling stock is provided mainly by 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.;



ROLLING STOCK REPAIRS

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.

LAND RECLAMATION SERVICES

The Group does not distinguish operating segments of its activity, since it has one main product, which incorporates all the material services provided by the Group. The Group conducts its business within one main segment – domestic and international cargo freight and provision of comprehensive logistics services related to rail freight. The Management Board of the Parent Company analyzes financial data in the layout in which they were presented in the Condensed Quarterly 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 concerning movements in headcount in the PKP CARGO Group and PKP CARGO S.A. in 3M 2018 and 2017 is provided below.

Table 15 Headcount in 3M 2018 and 2017 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)

Item	Headcount as at:		Change YTD	Headcount as at:		Change YTD
	31/03/2018	31/12/2017		31/03/2017	31/12/2016	
PKP CARGO Group	**23,265**	**23,253**	**12**	**23,281**	**23,144**	**137**
including: PKP CARGO S.A.	17,012	17,043	-31	17,247	17,429	**-182**

Source: Proprietary material

Table 16 Average headcount in FTEs in 3M 2018 and 2017 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)

Item	Average headcount in FTEs		Change	Average headcount in persons		Change
	3 months 2018	3 months 2017	2018 - 2017	3 months 2018	3 months 2017	2018 - 2017
PKP CARGO Group	**23,233**	**23,253**	**-20**	**23,273**	**23,272**	**1**
including: PKP CARGO S.A.	17,032	17,335	-303	17,040	17,339	-299

Source: Proprietary material

Table 17 Change in the headcount structure in 3M 2018 and 2017 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)

Item	Headcount as at:		Change YTD	Headcount as at:		Change YTD
	31/03/2018	31/12/2017		31/03/2017	31/12/2016	
White-collar positions – the Group	**5,304**	**5,281**	**23**	**5,250**	**5,272**	**-22**
including: PKP CARGO S.A.	3,815	*3,805*	*10*	3,798	*3,825*	*-27*
Blue-collar positions – the Group	**17,961**	**17,972**	**-11**	**18,031**	**17,872**	**159**
including: PKP CARGO S.A.	13,197	*13,238*	*-41*	13,449	*13,604*	*-155*
Total	**23,265**	**23,253**	**12**	**23,281**	**23,144**	**137**
including: PKP CARGO S.A.	*17,012*	*17,043*	*-31*	*17,247*	*17,429*	*-182*

Source: Proprietary material

A comparison of 3M 2018 with 3M 2017 reveals a decline in the average headcount in the PKP CARGO Group by 20 FTEs (by 303 FTEs in PKP CARGO S.A. alone) – this ensued directly from the termination of employment contracts for natural causes, chiefly in connection with obtaining retirement rights.

4.5 PKP CARGO Group's investments

In Q1 2018, the PKP CARGO Group incurred capital expenditures for the acquisition of property, plant and equipment and intangible assets in the form of procurement, modernization and the overhaul component (periodic repairs of P4 and P5 rolling stock and periodic checkups of P3 rolling stock) of PLN 132.5 million, which was 53.4% higher than in the corresponding period of 2017.

The majority of capital expenditures in Q1 2018 in the PKP CARGO Group was allocated to the execution of capital expenditure endeavors associated with the rolling stock, mainly to periodic repairs (P4 and P5) and checkups (P3) of rolling stock and modernization of locomotives and purchases of wagons – in total PLN 125.6 million (i.e. 94.8% of total capital expenditures). Moreover, expenditures were incurred on ICT development, i.e. purchases of computer hardware and intangible assets (software) in the amount of PLN 2.7 million, investment construction activity in the amount of PLN 2.3 million and purchases of other machinery and other workshop and office equipment for PLN 1.9 million.

A detailed description of the PKP CARGO Group's capital expenditures in Q1 2018 and comparison with the actuals from Q1 2017 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 2018 compared to Q1 2017 (PLN 000s)

Item	Q1 2018	Q1 2017	Change yoy	Change yoy in %
Investment construction activity	2,340	5,136	-2,796	-54.4%
Modernization of locomotives	8,531	8,439	92	1.1%
Wagon purchases	1,388	-	1,388	-
Wagon upgrades	-	10	-10	-100.0%
Workshop machinery and equipment	1,693	2,388	-695	-29.1%
ICT development	2,736	2,160	576	26.7%
Other	155	118	37	31.4%
Components in overhaul, including:	115,678	68,124	47,554	69.8%
Repairs and periodic inspections of locomotives	*24,710*	*12,844*	*11,866*	*92.4%*
Repairs and periodic inspections of wagons	*90,968*	*55,280*	*35,688*	*64.6%*
Total	**132,521**	**86,375**	**46,146**	**53.4%**

Source: Proprietary material

4.6 Key information and events

Table 19 Key information and events which occurred in 3M 2018 and after the balance sheet date

Period	Event
January	Application by two companies from the PKP CARGO Group for subsidizing intermodal projects from EU funds. The projects pertain to purchases of specialized rolling stock and modernization and expansion of the container terminal as well as purchase of equipment.
February	Due to the increase in scrap prices as at 31 December 2017, compared to the prices adopted by the Company for valuation of the residual value of rolling stock in previous periods, the Company's Management Board decided to revaluate the residual value of rolling stock and reverse part of the impairment loss of the rolling stock in the amount of PLN 27,414 thousand. Reversal of the loss have improved the Company's financial result for 2017 in the amount of PLN 22,205 thousand, which includes the effect of tax. The revaluation of the loss was a non-cash item and had no effect on PKP CARGO S.A. liquidity position.
March	On 26 March 2018, following a recruitment procedure, the Supervisory Board of PKP CARGO S.A. adopted a resolution to appoint Mr. Czesław Warsewicz to the PKP CARGO S.A. Management Board as of 27 March 2018 and entrust him with the function of President of the Management Board and to appoint Mr. Leszek Borowiec to the PKP CARGO Management Board as of 27 March 2018 and entrust him with the function of PKP CARGO S.A. Management Board Member in charge of Finance.
	The Company's Management Board published its forecast of selected standalone financial and operating data on PKP CARGO S.A. business in 2018 in accordance with the adopted Business Plan for 2018: – PKP CARGO S.A. operating revenue in 2018 of PLN 3,913 million, or 8.9% more than in 2017, – PKP CARGO S.A. EBITDA of PLN 663.6 million, or 12.1% higher than in 2017, – PKP CARGO S.A. EBIT of PLN 204.0 million, or 34.9% higher than in 2017, – PKP CARGO S.A. net profit of PLN 160.8 million, or 71.1% higher than in 2017, – capital expenditures of PLN 1,017.6 million, or 99% higher than in 2017. If the level of any of the measures diverges materially from the forecasts, the Company's Management Board will adopt a decision to adjust the forecast.
April	Execution of contracts by PKP CARGO S.A. with Newag S.A. for the modernization of 60 SM48 series diesel locomotives. The estimated total net value of the contract is approx. PLN 388 million.
	Signing of an annex to the commercial agreement entered into in 2015 with Lafarge Kruszywa i Beton Sp. z o.o. for the transportation of pebbles, crushed or split stone, gravel and flint, introducing the following amendments in particular: – extension of the term of the Agreement until 31 March 2020; – increase in the declared net freight volume to approx. 9 million tons during the term of the Agreement;
	Adoption of a resolution by the PKP CARGO S.A. Management Board on submitting a motion to the Company's Ordinary Shareholder Meeting to distribute net profit of PLN 93,967,095.00 as follows: 1) allocate PLN 7,517,367.60 to supplementary capital pursuant to Article 396 of the Commercial Company Code, 2) allocate PLN 86,449,727.40 to cover losses carried forward. The Company's Supervisory Board issued a positive opinion on the motion submitted by the PKP CARGO S.A. Management Board.
	Having conducted a supplementary election of a candidate to represent the employees in the Company's Supervisory Board, the Supervisory Board declared the appointment of Mr. Jerzy Sośnierz, the candidate nominated to be the employee representative, to the PKP CARGO S.A. Supervisory Board for the 6th term of office, effective as of 1 May 2018.

	PKP CARGO S.A. and PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. received the “Leader in Intermodal Transport” award in the categories “Rail Carrier” and “Land Container Terminal”, respectively. The awards were presented during the Gala of the Intermodal Transport Forum Freight 2018 in Gdańsk.
	For the second consecutive time, PKP CARGO S.A. received the prestigious title of the “Transparent Company of the Year 2017”.
May	The Company established the Board of Presidents in order to integrate and optimize processes in the PKP CARGO Group. The Board of Presidents established four steering committees, including the Group Strategy Update Committee, which is to prepare an updated short-, medium-, and long-term development strategy by the end of the year. Also, the Board of Presidents adopted the 2018 business plan for the PKP CARGO Group, which assumes the PKP CARGO Group EBITDA of PLN 778.7 million, or 10.9% more than in 2017, and the planned freight volume of 125.9 million tons, which would give the Group a 53.9% share in the Polish freight transport market measured by freight turnover at the end of 2018. The share will be higher by 2.3 percentage points compared to 2017.
	The Management Board of PKP CARGO S.A. hereby publishes estimate selected consolidated financial and operating results for Q1 2018: - revenues from sales – PLN 1,215.9 million, - EBIT – PLN 63.3 million, - net profit – PLN 35.6 million, - EBITDA – PLN 200.3 million, - capital expenditures – PLN 132.5 million, - freight volume – 29,427 thous. tons.
	The following members the PKP CARGO Group joined the Agreement of the Operators of Terminals and Logistics Centers in Central and Eastern Europe: Centrum Logistyczne Małaszewicze, Centrum Logistyczne Medyka-Żurawica, Euroterminal Sławków and Terminale Przeładunkowe Sławków-Medyka. The purpose of the Agreement is to ensure the provision of mutual support for the creation of logistics chains on the European east-west and north-south axes and from Asia as well as for the creation of investment and business projects in the area of logistics.
	PKP CARGO S.A. and the Lithuanian Railways signed an annex to the Agreement on Cooperation in International Rail Freight Services. This cooperation will help streamline the handling of cargo at the border crossing between the two countries.
	Signing of a contract on 21 May 2018 with Pojazdy Szynowe PESA Bydgoszcz S.A. with its registered office in Bydgoszcz (“PESA”) to conduct level five maintenance repairs and replace the combustion engine with a new one in 38 ST44 diesel locomotives in the period from January 2019 to September 2020. The contract performance schedule calls for a total of 38 repairs as follows: (i) 20 units in 2019; (ii) 18 units in 2020. The estimated net value of the Contract is PLN 176.3 million. Moreover, the Company’s Management Board signed a Letter of Intent with PESA pertaining to the construction of a dual mode electro-diesel locomotive. At the same time, please be advised that in Current Report No. 16/2018, as published in the ESPI system, the incorrect number of 30 locomotives was mentioned in the title of the report. The correct number is 38 locomotives as per the provisions of the contract and the body of the report. The number in the title of the report was merely a typographical error.
	PKP CARGO S.A. has entered into two contracts for the transport of steam coal to ENEA Elektrownia Połaniec (ENEA Połaniec Power Plant) for the total gross amount of over PLN 222 million. Under the first of these contracts, the Company will transport 3.35 million tons of coal over a time span of 19 months. The estimated gross value of this contract is approx. PLN 122.8 million. The freight will be transported from LW Bogdanka. Under the second contract, coal will be transported from Silesian mines until the end of 2019. The freight volume expected to be transported in this period is approx. 3 million tons. The estimated gross value of this second contract is approx. PLN 100 million.
	PKP CARGO S.A. has entered into a contract for the transport of coal for the Veolia Group. Under the contract, in the years 2019-2021 PKP CARGO S.A. will transport over 5 million tons of coal for member companies of the Veolia Group. Moreover, PKP CARGO S.A. will transport an additional volume of 950 thousand tons of coal for the Veolia Polska Group in 2018 under the current contract.
	Execution of a current account overdraft agreement with Bank Polska Kasa Opieki S.A. The available amount of the facility is PLN 100 million. The facility will be available for a period of 12 months: from 26 May 2018 to 24 May 2019, with an option to extend the availability period by an additional 12 months, i.e. until 24 May 2020.

Source: Proprietary material

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

5.1 Key economic and financial figures of PKP CARGO Group

5.1.1 Statement of comprehensive income of the PKP CARGO Group

In 3M 2018, the PKP CARGO Group transported 29.4 million tons of cargo (i.e. 7.4% more than in 3M 2017) and recorded freight turnover of 7.6 billion tkm (i.e. 6.9% more than in 3M 2017), which is described in detail in section **4.2.5 "PKP CARGO Group's rail transport business".**

PKP CARGO Group's operating revenue in 3M 2018 increased 10.5% yoy while operating expenses increased 5.1% yoy. The Group's result on operating activities and net profit/loss in 3M 2018 were PLN 63.3 million and PLN 35.6 million, respectively.

The details of individual line items of the statement of comprehensive income are presented in the further part of this section. The following tables present the results of the PKP CARGO Group in 3M 2018 as compared to the corresponding period of 2017.

Table 20 Results of the PKP CARGO Group in 3M 2018 as compared to the corresponding period of 2017 (PLN 000s)

Item	3 months of 2018	3 months of 2017	Change 2018 - 2017	% change 2018/2017
Total operating revenue	1,215,876	1,100,027	115,849	10.5%
Total operating expenses	1,152,620	1,096,851	55,769	5.1%
Result on operating activities	**63,256**	**3,176**	**60,080**	**1,891.7%**
EBIT margin	*5.2%*	*0.3%*	*4.9 p.p.*	*1,701.9%*
EBITDA margin	*16.5%*	*13.4%*	*3.1 p.p.*	*23.2%*
Financial revenue	2,683	10,087	-7,404	-73.4%
Financial expenses	13,145	15,184	-2,039	-13.4%
Share in the profit / loss of entities accounted for under the equity method	-3,071	2,019	-5,090	-
Earnings before tax	**49,723**	**98**	**49,625**	**50,637.8%**
Gross margin	*4.1%*	*0.0%*	*4.1 p.p.*	*45,803.4%*
Income tax	14,114	1,532	12,582	821.3%
NET RESULT	**35,609**	**-1,434**	**37,043**	**-**
Net profit margin	*2.9%*	*-0.1%*	*3.1 p.p.*	-

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2018 prepared according to EU IFRS

Operating revenue

Table 21 Operating revenue of the PKP CARGO Group in 3M 2018 as compared to the corresponding period of 2017 (PLN 000s)

Item	3 months of 2018	3 months of 2017	Change 2018 - 2017	% change 2018/2017
Revenue from sales of services and finished products, including:	1,192,507	1,077,406	115,101	10.7%
Revenue from rail transportation and freight forwarding services	*1,022,885*	*909,305*	*113,580*	*12.5%*
Revenue from sales of goods and materials	12,437	9,920	2,517	25.4%
Other operating revenue	10,932	12,701	-1,769	-13.9%
Total operating revenue	**1,215,876**	**1,100,027**	**115,849**	**10.5%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2018 prepared according to EU IFRS

In the Group's total operating revenue the biggest item was revenue from sales of services and finished products (98.1% in 3M 2018 compared to 97.9% in 3M 2017). Revenue from sales of services and finished products comprises mainly: revenue from rail transportation and freight forwarding services, revenue from other transportation activity, revenue from siding and traction services, revenue from transshipment, revenue from land reclamation as well as other revenue (including primarily revenue from: the lease of assets, customs agency services, sales of finished products, rolling stock repair services and other revenue). The remaining part of the Group's operating revenue comprises revenue from sales of goods and materials, which includes, among others, sales of steel and cast iron scrap and other materials and merchandise, as well as other operating revenue comprising, among others, gains from sales of non-financial non-current assets, reversal of impairment losses on receivables, interest on trade and other receivables, received fines and compensations and other items.

The increase in revenue from rail transportation and freight forwarding services by PLN 113.6 million, or 12.5% yoy, to PLN 1,022.9 million resulted from the greater quantum of freight turnover and higher prices of transport services. The details pertaining to the Group's transport business are described in chapter **4.2.5 "PKP CARGO Group's rail transport business".** Revenues from sales of non-transport services went up by PLN 1.5 million, or 0.9% yoy, to PLN 169.6 million.

The increase in revenues from sales of goods and materials by PLN 2.5 million, or 25.4% yoy, was caused primarily by higher sales of scrap.

The decrease in other operating revenue by PLN 1.8 million, or 13.9% yoy, was caused by lower other operating revenue from profit on sales of non-financial non-current assets by PLN 5.3 million, or 85.1% yoy, as a result of the sale, in 3M 2017, of container trailers by PKP CARGO CONNECT Sp. z o.o. and the sale of Plzen land by AWT, with an increase in revenues from reversed impairment losses for receivables by PLN 3.4 million, or 300.8% yoy, predominantly from international counterparties.

Operating expenses

Table 22 Operating expenses of the PKP CARGO Group in 3M 2018 as compared to the corresponding period of 2017 (PLN 000s)

Item	3 months of 2018	3 months of 2017	Change 2018 - 2017	% change 2018/2017
Depreciation and impairment losses	137,015	143,841	-6,826	-4.7%
Consumption of materials and energy	186,116	170,643	15,473	9.1%
External services	393,997	372,006	21,991	5.9%
Taxes and charges	5,904	10,310	-4,406	-42.7%
Employee benefits	398,979	371,185	27,794	7.5%
Other expenses by kind	13,260	13,056	204	1.6%
Cost of goods and materials sold	7,802	7,396	406	5.5%
Other operating expenses	9,547	8,414	1,133	13.5%
Total operating expenses	**1,152,620**	**1,096,851**	**55,769**	**5.1%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2018 prepared according to EU IFRS

In 3M 2018, the Group's operating expenses increased by PLN 55.8 million, or 5.1% yoy, to PLN 1,152.6 million.

In 3M 2018, amortization and depreciation expenses and impairment losses fell by PLN 6.8 million, or 4.7% yoy, to PLN 137.0 million, mainly due to the measurement of the residual value of rolling stock as at the end of 31 December 2017, as described in detail in **Note 10 to the CFS**[101] for the financial year ended 31 December 2017.

In 3M 2018, the consumption cost of materials and energy increased by PLN 15.5 million, or 9.1% yoy, mainly due to higher freight volumes. Fuel consumption costs increased by PLN 8.7 million, or 19.1% yoy, driven by the higher share of transport performed using the diesel traction as a result of difficulties in PLK lines and detours, in particular on the Bogdanka to the Kozienice Power Plant route, and increase in PKP CARGO Group's transport volumes. In addition, an increase in electricity, gas and water consumption by PLN 7.5 million, or 7.5% yoy, was recorded.

In the analyzed period of 2018, the cost of external services grew by PLN 22.0 million, or 5.9% yoy, to PLN 394.0 million. The increase in these costs was driven mainly by an increase in the costs of access to the lines of infrastructure managers by PLN 9.8 million, or 6.0% yoy, caused by increasing freight transport. Moreover, in the costs of external services, there was an increase in costs of rent and charges for the use of property and rolling stock by PLN 7.4 million, or 18.7% yoy, as a result of a greater volume of rented rolling stock due to the intensification of the Group's transportation services and higher wagon parking fees caused by the greater freight volume in import carriage.

Taxes and charges in 3M 2018 decreased by PLN 4.4 million, or 42.7% yoy, due to the refund of foreign VAT and the payment, in 3M 2017, of VAT in connection with a contribution of rolling stock in the form of a donation by PKP CARGO S.A. to the Culture Institution of the Wolsztyn Railway Roundhouse.

In 3M 2018, employee benefits went up by PLN 27.8 million, or 7.5% yoy, and stood at PLN 399.0 million compared to PLN 371.2 million in 3M 2017. The higher level of employee benefits, accompanied by the decline in the average headcount in the Group by 20 FTEs, or -0.1% yoy, was largely the result of wage increases in the PKP CARGO Group's member companies. The increase in wages that had the largest impact on the upswing in employee benefits was granted as of 1 September 2017 to employees of the Parent Company (as it employs the largest number of staff). The changes in headcount are presented in section **4.4 "Headcount"**.

In 3M 2018, other expenses by kind increased by PLN 0.2 million, or 1.6% yoy.

In 3M 2018, the cost of goods and materials sold increased by PLN 0.4 million, or 5.5%, to PLN 7.8 million, following an increase in revenue from sales of goods and materials.

[101] Any reference to a Note in these Statements should be construed as a Note to the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group ("CFS") for the period of 3 months ended 31 March 2018, prepared according to EU IFRS unless specified otherwise, as in this case.

Other operating expenses in 3M 2018 amounted to PLN 9.5 million, up by PLN 1.1 million, or 13.5% yoy, chiefly on account of an increase of impairment losses on trade receivables in the amount of PLN 3.2 million accompanied by a decrease in other operating expenses due to foreign exchange differences on trade receivables and liabilities by PLN 2.6 million.

Result on operating activities

As a result of the aforedescribed changes in operating revenue and operating expenses, the result on operating activities in 3M 2018 reached PLN 63.3 million, having gone up by PLN 60.1 million yoy.

EBITDA

In 3M 2018, the result on operating activities increased by the line item "Depreciation and amortization and impairment losses", referred to as EBITDA, reached PLN 200.3 million, having increased by PLN 53.3 million, or 36.2% yoy.

Financial activities and investments accounted for under the equity method

Table 23 Financial activities of the PKP CARGO Group in 3M 2018 as compared to the corresponding period of 2017 (PLN 000s)

Item	3 months of 2018	3 months of 2017	Change 2018 - 2017	% change 2018/2017
Financial revenue	2,683	10,087	-7,404	-73.4%
Financial expenses	13,145	15,184	-2,039	-13.4%
Result on financial activities	**-10,462**	**-5,097**	**-5,365**	**-**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2018 prepared according to EU IFRS

In 3M 2018, the Group recorded a loss on financial activities in the amount of PLN 10.5 million, compared to a PLN 5.1 million loss in 3M 2017. The main cause of the deterioration of the result on financial activities was a PLN 5.4 million yoy decrease in PLN 5.4 million the revenues from valuation of the liability on account of the put option for non-controlling interests.

Details pertaining to financial activities are presented in **Note 8 to the CFS**.

Table 24 Investments accounted for under the equity method of the PKP CARGO Group in 3M 2018 as compared to the corresponding period of 2017 (PLN 000s)

Item	3 months of 2018	3 months of 2017	Change 2018 - 2017	% change 2018/2017
Share in the profit / loss of entities accounted for under the equity method	-3,071	2,019	-5,090	-
Result on the share in investments accounted for under the equity method	**-3,071**	**2,019**	**-5,090**	**-**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2018 prepared according to EU IFRS

Changes in the value of shares in entities accounted for under the equity method declined by PLN 5.1 million yoy. Detailed information on changes in the value of shares in entities accounted for under the equity method are presented in **Note 11 to the CFS** and **Note 13 to the CFS** for the period of three months ended 31 March 2017.

Earnings before tax

PKP CARGO Group's earnings before tax amounted to PLN 49.7 million in 3M 2018, up by PLN 49.6 million yoy, as a result of the changes described above.

Income tax

In 3M 2018, the PKP CARGO Group posted income tax in the amount of PLN 14.1 million (up by PLN 12.6 million yoy), of which current tax was PLN 22.6 million and deferred tax was PLN -9.2 million. The increase in the tax burden results from an increase in the PKP CARGO Group's result. Details pertaining to income tax are presented in **Note 9 to the CFS**.

Net result

The PKP CARGO Group's net result in 3M 2018 was PLN 35.6 million, up PLN 37.0 million yoy as a result of the aforementioned changes in revenues, expenses and income tax paid.

5.1.2 Description of the structure of assets and liabilities of the PKP CARGO Group

ASSETS

Table 25 Horizontal and vertical analysis of the PKP CARGO Group's assets (PLN 000s)

	As at 31/03/ 2018	As at 31/12/2017	Asset structure		Change	% change
			31/03/2018	31/12/2017	2018 - 2017	2018/2017
ASSETS						
Non-current assets						
Property, plant and equipment	4,697,034	4,687,982	71.5%	70.6%	9,052	0.2%
Intangible assets	41,370	43,927	0.6%	0.7%	-2,557	-5.8%
Investment property	1,192	1,205	0.0%	0.0%	-13	-1.1%
Investments in entities accounted for under the equity method	50,834	53,610	0.8%	0.8%	-2,776	-5.2%
Trade and other receivables	1,412	1,836	0.0%	0.0%	-424	-23.1%
Other long-term financial assets	7,465	10,537	0.1%	0.2%	-3,072	-29.2%
Other non-current non-financial assets	14,195	14,726	0.2%	0.2%	-531	-3.6%
Deferred tax assets	143,082	133,583	2.2%	2.0%	9,499	7.1%
Total non-current assets	**4,956,584**	**4,947,406**	**75.4%**	**74.5%**	**9,178**	**0.2%**
Current assets						
Inventories	146,361	148,464	2.2%	2.2%	-2,103	-1.4%
Trade and other receivables	709,164	729,535	10.8%	11.0%	-20,371	-2.8%
Income tax receivables	117	115	0.0%	0.0%	2	1.7%
Other current financial assets	310,998	263,670	4.7%	4.0%	47,328	17.9%
Other short-term non-financial assets	51,308	35,593	0.8%	0.5%	15,715	44.2%
Cash and cash equivalents	397,768	516,776	6.1%	7.8%	-119,008	-23.0%
Total current assets	**1,615,716**	**1,694,153**	**24.6%**	**25.5%**	**-78,437**	**-4.6%**
TOTAL ASSETS	**6,572,300**	**6,641,559**	**100.0%**	**100.0%**	**-69,259**	**-1.0%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2018 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 31 March 2018 accounted for 71.5% of total assets, compared to 70.6% as at 31 December 2017. In 3M 2018, property, plant and equipment increased by PLN 9.1 million, or 0.2% compared to 31 December 2017. Property, plant and equipment is dominated by means of transportation (mainly locomotives and wagons) which as at 31 March 2018 represented 81.1% of total property, plant and equipment. Moreover, the value of deferred tax assets increased by PLN 9.5 million, or 7.1%, which is presented in detail in **Note 9 of the CFS**.

Current assets

As at 31 March 2018, current assets declined by PLN 78.4 million, or 4.6%, compared to 31 December 2017, chiefly as a result of the repayment of loans and borrowings along with leases in line with their schedules. The value of current assets was also affected by a drop in trade and other receivables. Current assets expressed as a percentage of total assets dropped and as at 31 March 2018 to 24.6%, compared to 25.5% as at 31 December 2017. The biggest share in the structure of current assets as at 31 March 2018 was held by trade and other receivables (43.9%), cash and cash equivalents (24.6%) and other current financial assets (19.2%).

EQUITY AND LIABILITIES

Table 26 Horizontal and vertical analysis of the PKP CARGO Group's equity and liabilities (PLN 000s)

	As at 31/03/2018	As at 31/12/2017	Structure of equity and liabilities		Change	% change
			31/03/2018	31/12/2017	2018 - 2017	2018/2017
EQUITY AND LIABILITIES						
Equity						
Share capital	2,239,346	2,239,346	34.1%	33.7%	0	0.0%
Supplementary capital	619,306	619,306	9.4%	9.3%	0	0.0%
Other items of equity	-14,451	4,872	-0.2%	0.1%	-19,323	-
Exchange differences resulting from conversion of financial statements of foreign operations	71,463	59,896	1.1%	0.9%	11,567	19.3%
Retained earnings	456,106	411,358	6.9%	6.2%	44,748	10.9%
Total equity	**3,371,770**	**3,334,778**	**51.3%**	**50.2%**	**36,992**	**1.1%**
Non-current liabilities						
Long-term bank loans and borrowings	1,262,869	1,312,629	19.2%	19.8%	-49,760	-3.8%
Non-current finance lease liabilities	84,913	91,055	1.3%	1.4%	-6,142	-6.7%
Non-current trade and other payables	1,645	1,578	0.0%	0.0%	67	4.2%
Long-term provisions for employee benefits	560,788	558,547	8.5%	8.4%	2,241	0.4%
Other long-term provisions	22,235	22,446	0.3%	0.3%	-211	-0.9%
Deferred tax liability	107,298	107,418	1.6%	1.6%	-120	-0.1%
Total non-current liabilities	**2,039,748**	**2,093,673**	**31.0%**	**31.5%**	**-53,925**	**-2.6%**
Current liabilities						
Short-term bank loans and borrowings	244,166	249,701	3.7%	3.8%	-5,535	-2.2%
Current finance lease liabilities	43,390	48,040	0.7%	0.7%	-4,650	-9.7%
Short-term trade and other payables	692,529	749,736	10.5%	11.3%	-57,207	-7.6%
Short-term provisions for employee benefits	118,060	104,006	1.8%	1.6%	14,054	13.5%
Other short-term provisions	60,781	59,726	0.9%	0.9%	1,055	1.8%
Other current financial liabilities	66	272	0.0%	0.0%	-206	-75.7%
Current tax liabilities	1,790	1,627	0.0%	0.0%	163	10.0%
Total current liabilities	**1,160,782**	**1,213,108**	**17.7%**	**18.3%**	**-52,326**	**-4.3%**
Total liabilities	**3,200,530**	**3,306,781**	**48.7%**	**49.8%**	**-106,251**	**-3.2%**
TOTAL EQUITY AND LIABILITIES	**6,572,300**	**6,641,559**	**100.0%**	**100.0%**	**-69,259**	**-1.0%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2018 prepared according to EU IFRS

Equity

Equity expressed as a percentage of total assets as at 31 March 2018 was 51.3% compared to 50.2% as at 31 December 2017. The increase in equity expressed as a percentage of total assets was driven predominantly by the upswing in retained earnings by PLN 44.7 million, or 10.9%, resulting mainly from the positive financial performance recorded in 3M 2018.

Non-current liabilities

Non-current liabilities as at 31 March 2018 fell by PLN 53.9 million, or 2.6%, compared to 31 December 2017. This decline was driven by the value of long-term bank loans and borrowings, which was down by PLN 49.8 million, or 3.8%, compared to 31 December 2017 as a result of the reclassification of non-current liabilities into current liabilities, in accordance with the repayment schedules. Moreover, in 3M 2018, the Group did not incur any new loans and borrowings. Furthermore, the value of long-term finance lease liabilities fell by PLN 6.1 million, or 6.7%, compared to 31 December 2017. Long-term provisions for employee benefits rose by PLN 2.2 million, or 0.4%, from the end of 2017.

Current liabilities

Current liabilities as at 31 March 2018 decreased in comparison with their total amount as at 31 December 2017 by PLN 52.3 million, or 4.3%. The biggest changes were noted in the following items:

- Short-term trade and other payables – a decline by PLN 57.2 million, or 7.6%, caused primarily by the following:
  1. Drop in liabilities arising from the purchase of non-financial non-current assets by PLN 63.6 million, or 80.5%. This drop was caused chiefly by the repayment of liabilities by the Parent Company to SIEMENS A.G. on account of the purchase of multi-system locomotives amounting to PLN 39.2 million,
  2. Decrease in trade payables by PLN 15.2 million, or 3.4%, compared to 31 December 2017,
  3. Increase in public-law liabilities by PLN 25.1 million, or 32.0%. This increase was driven largely by the higher liabilities toward the Social Insurance Institution (ZUS). In 2017, a portion of the liabilities maturing in 2018 were repaid by the Parent Company prior to their maturity date.
- Increase of short-term provisions for employee benefits by PLN 14.1 million, or 13.5%, caused chiefly by the increase in provisions for unused holidays,
- Short-term bank loans and borrowings – a decrease by PLN 5.5 million, or 2.2%, resulting from the repayment schedules.

5.1.3 Statement of cash flows of the PKP CARGO Group

The table below presents the main line items of PKP CARGO Group's cash flow statement in 3M 2018 compared to the corresponding period of the previous year.

Table 27 Main line items in the PKP CARGO Group's cash flow statement in 3M 2018 compared to the corresponding period of 2017 (PLN 000s)

Item	3 months of 2018	3 months of 2017	Change	% change
			2018 - 2017	2018/2017
Net cash on operating activities	198,346	92,638	105,708	114.1%
Net cash on investing activities	-238,261	-359,010	120,749	-
Net cash from financing activities	-80,603	-36,200	-44,403	-
Net increase / decrease in cash and cash equivalents	**-120,518**	**-302,572**	**182,054**	**-**
Cash and cash equivalents at the beginning of the reporting period	**516,776**	**755,919**	**-239,143**	**-31.6%**
Impact exerted by FX rate movements on the cash balance in foreign currencies	1,510	-5,673	7,183	-
Cash and cash equivalents at the end of the reporting period	**397,768**	**447,674**	**-49,906**	**-11.1%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2018 prepared according to EU IFRS

Cash flow from operating activities

In 3M 2018, net cash flow from operating activities was PLN 198.3 million compared to PLN 92.6 million in the corresponding period of 2017. This cash flow was generated on the result before tax of PLN 49.7 million and amortization and depreciation and impairment losses of PLN 137.0 million (down by PLN 6.8 million compared to the corresponding period of the previous year). Moreover, the increase in cash from operating activities was driven by a drop in trade and other receivables by PLN 15.4 million, mainly due to a drop in receivables caused by shift in the refund of foreign VAT.

Cash flow from investing activities

In 3M 2018, net cash flow used in connection with investing activities was PLN -238.2 million versus PLN -359.0 million in the corresponding period of 2017. The negative cash flows were related directly to the capital expenditures incurred by the PKP CARGO Group. Detailed information about capital expenditures is described in section **4.5 "PKP CARGO Group's investments".**

Cash flow from financing activities

In 3M 2018, net cash flow from financing activities was PLN -80.6 million compared to PLN -36.2 million in the corresponding period of 2017. In 3M 2018, total cash expenditures for leases, to repay loans and borrowings and interest on leases and loans and borrowings amounted to PLN 81.5 million, compared to PLN 116.1 million in the corresponding period of 2017.

5.1.4 Selected financial and operating ratios of the PKP CARGO Group

The table below presents the PKP CARGO Group's key financial and operating ratios in 3M 2018 compared to the corresponding period of the previous year.

Table 28 Key financial and operating ratios of the PKP CARGO Group in 3M 2018 as compared to the corresponding period of 2017 (PLN 000s)

Item	3 months of 2018	3 months of 2017	3 months of 2018 adjusted**	3 months of 2017 adjusted*	Adjusted change	Adjusted rate of change
					2018 - 2017	2018/2017
EBITDA margin[1]	16.5%	13.4%	16.5%	13.4%	3.1 p.p.	23.2%
Net profit margin[2]	2.9%	-0.1%	2.9%	-0.1%	3.1 p.p.	-
Net financial debt to EBITDA ratio[3]	1.2	1.9	1.2	1.6	-0.4	-25.3%
ROA[4]	1.8%	-1.1%	1.5%	0.4%	1.1 p.p.	298.0%
ROE[5]	3.5%	-2.1%	2.9%	0.7%	2.1 p.p.	293.2%
Average distance covered per locomotive (km/day)[6]	251.8	244.8	251.8	244.8	7.0	2.9%
Average gross train tonnage per operating locomotive (tons)[7]	1,458.0	1,453.0	1,458.0	1,453.0	5.0	0.3%
Average running time of train locomotives (hours per day)[8]	15.6	14.8	15.6	14.8	0.8	5.4%
Freight turnover per employee (thousands tkm/employee)[9]	325.5	304.2	325.5	304.2	21.3	7.0%

Source: Proprietary material

* annualized data for 3M 2017 (Apr 2016 – Mar 2017) are adjusted for presentation purposes for an impairment loss on assets in the amount of PLN 34.1 million (the adjustment takes into account a loss on fixed assets in the amount of PLN 35.0 million and depreciation, reduced accordingly, in H2 2016 in the amount of PLN 0.9 million), which was described in **Note 12.1. to the CFS** for the financial year ended 31 December 2016 and an impairment loss on receivables amounting to PLN 72.7 million (described in **Note 19 to the CFS** for the financial year ended 31 December 2016); the adjusted net profit/loss additionally includes deferred tax resulting from an impairment loss resulting from a test for impairment of AWT's value in the amount of PLN 6.5 million and deferred tax resulting from an impairment loss on receivables from OKD in the amount of PLN 8.0 million,
** annualized data for 3M 2018 (Apr 2017 – Mar 2018) are adjusted for presentation purposes for revaluation of the residual value of rolling stock and reversal of part of the impairment loss on rolling stock components in the amount of PLN -27.4 million (details are described in **Note 10 to the CFS** for the financial year ended 31 December 2017); additionally, the adjusted net result takes into account the deferred tax on the said revaluation in the amount of PLN -5.2 million.

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

In 3M 2018 and 3M 2017, no adjustments of the financial performance were made. The foregoing adjustments pertain solely to annualized data.

1. Calculated as the ratio of the operating result plus amortization/depreciation and impairment losses to total operating revenue
2. Calculated as the ratio of net profit to total operating revenue
3. Calculated as the ratio of net financial debt (constituting the sum of (i) long-term bank loans and borrowings; (ii) short-term bank loans and borrowings, (iii) non-current finance lease liabilities and leases with a purchase option; (iv)

current finance lease liabilities and leases with purchase option; and (v) other current financial liabilities and (vi) other non-current financial liabilities, minus (i) cash and cash equivalents; and (ii) other current financial assets) to EBITDA for the last 12 months (result on operating activities plus amortization/depreciation and impairment losses).

4. Calculated as the ratio of net profit/loss for the past 12 months to total assets.
5. Calculated as the ratio of net profit for the past 12 months to 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 to the average headcount (in FTEs) in the Group in the given period.

In 3M 2018, the key profitability ratios, i.e. the EBITDA margin, the net profit/loss margin, ROA and ROE, were higher than in the corresponding period of 2017, for the reasons described in section **5.1.1 "Statement of comprehensive income of the PKP CARGO Group"** and **5.1.2 "Description of the structure of assets and liabilities of the PKP CARGO Group".** The net financial debt to EBITDA ratio also improved. It fell down to 1.2 at the end of March 2018 from 1.9 at the end of March 2017. The improvement of the ratio was mainly caused by the improvement of the Company's financial performance. Adjusted profitability ratios, i.e. EBITDA margin, net profit/loss margin, ROA and ROE, were also higher than in 3M 2017.

In 3M 2018, the average daily mileage of locomotives was 251.8 km/day compared to 244.8 km/day in 3M 2017. The improvement of this indicator resulted from the optimization of the transportation process.

The average gross train tonnage per operating locomotive in 3M 2018 was 1,458.0 tons, up by 5.0 tons, or 0.3% yoy. This was caused by a better utilization of locomotives and optimization of the transportation process.

In 3M 2018, the average running time of locomotives was 15.6 hours/day compared to 14.8 hours/day in 3M 2017. This is an outcome of constantly monitoring how the freight turnover process is run while concurrently optimizing the match between the number of active locomotives and doing the work with changing freight turnover.

The freight turnover ratio per employee in 3M 2018 was higher compared to 2017 by 21.3 thousand tkm per employee, or 7.0% yoy, which was driven for the most part by the increase in freight turnover by 6.9% yoy, with a decrease in headcount by 0.1% yoy.

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

Economic situation in Europe

The economic conditions in the individual countries and in the entire macroeconomic environment in which the PKP CARGO Group provides transportation services is reflected directly in the Group's business activity. Freight turnover is strongly correlated not only with the rate of growth in GDP but also with periods of business cycle peaks and troughs and long-term fluctuations in various industrial sectors.

At present, the entire cargo transport industry (including cargo transport by rail) is also affected by relations with business partners. So far, trade in the European Union has been conducted without major issues, but after the United Kingdom's decision to leave the Union, we should expect changes in the operation of the common EU market and also the UK market.

Situation in the energy fuel market

Because hard coal accounts for the largest share in all rail cargo categories, the fuel and energy industry is expected to remain the most important sector of the economy. The overall economic situation in the sector will continue to affect freight volumes and the freight transport market.

The transportation of coal forms the primary cargo category for the PKP CARGO Group, hence the situation in this market has a strong impact on the Company's performance and market share. The ongoing restructuring activities in the Polish mining sector may significantly suppress demand for hard coal or result in diversification of operators by energy sector buyers.

Situation on the aggregates market

Recently, there has been a significant upswing in the transport of aggregates and construction materials. It is driven chiefly by the intensification of work on existing infrastructural investment projects and the launch of new such projects (road construction and railway modernization), strongly supported by the EU structural funds within the financial perspective for 2014-2020.

It is expected that in the upcoming quarters the favorable economic situation on the markets for construction materials will continue, partly due to the carry-over effect of existing projects but also due to planned large public investment projects to be executed under the "National Road Construction Program" and the "National Railway Program". According to the currently adopted schedules, infrastructure expenditures are expected to peak in the years 2018-2020. Thus, transportation of aggregates and construction materials will remain a significant market for the PKP Cargo Group, strongly affecting freight turnover and market shares.

Situation on the intermodal transport market

An especially rapid growth is expected in the coming years in the intermodal transport market. The Group remains actively involved in the handling of transports over the New Silk Road line. The primary objective of the project is to increase the volumes of overland intermodal transport between China and Western Europe through Małaszewicze and back to Asia. Development of trade cooperation between Poland and People's Republic of China is expected to be facilitated thanks to execution of trade agreements and bilateral treaties, which will be an important stimulus increasing the level of intermodal transport carried out by the Group.

Market for land reclamation and maintenance of rail infrastructure

Mainly through AWT Group companies, the Group specializes in the construction and maintenance of rail tracks, employing a qualified and professional workforce and using the required equipment. In the context of the closure of mines of the OKD coal mining company, which is currently in bankruptcy, the Group's resources and experience allow it to diversify its revenues by selling such services on the Czech and Polish markets and possibly expand to other countries.

Condition of rail infrastructure

The operations of the PKP CARGO Group depend on the condition of rail infrastructure, and the railway network used in Poland 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. Railway track closures caused by modernization works recently had and will continue to have a direct negative impact on the throughput of the lines and stations used, the rejection of applications for Individual Timetables (IRJ), the extension of the travel time, longer train travel routes and longer train stays at the stations, which requires increased human, rolling stock and traction resources to be involved in the transportation process.

Due to the expected increase in the quantum of transported aggregates to take place in the spring and summer months (intended for investments in rail infrastructure, among other uses), the upward trend in these inconveniences is likely to continue in the coming months.

Rail infrastructure access charges

The performance of both PKP CARGO S.A. and the PKP CARGO Group largely depend on the amount of rail infrastructure access charges. The cost of access to infrastructure in Q1 2018 accounted for approx. 14.9% of the PKP CARGO Group's operating expenses.

On 16 November 2017, an Agreement on the use of throughput capacity to transport objects in the train timetable 2017/2018 was signed between PKP CARGO S.A. and PKP Polskie Linie Kolejowe S.A. The Agreement is in force from 10 December 2017 to 8 December 2018. The expected value of the Agreement in its validity term in total amounts to PLN 631.9 million net (PLN 777.3 million gross).

As regards domestic and foreign infrastructure, no significant changes are expected to take place in the coming quarters. Currently, infrastructure managers have submitted their proposed price lists to the President of the Office of Rail Transport for the 2018/2019 timetable. The outcome of the analysis of these proposals by the Office of Rail Transport aimed at issuing approvals of the price lists is expected to be known in the coming weeks.

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. The number of periodical repairs and periodical overhauls performer in individual periods results from the cycles defined in "DSU" for the rolling stock approved by the Office of Rail Transport.

Due to the anticipated growth in the Polish rail freight market in the coming years, it will be necessary to adapt accordingly the rolling stock used in the business. In light of the aging nature of the available rolling stock and the limited capacities of repair plants, the future may bring a temporary misalignment between the quantities and types of the available rolling stock and the actual needs of the transportation market.

Restructuring of OKD a.s.

The restructuring process launched in OKD a.s., an AWT Group company, was approved on 24 August 2017 by the Meeting of Creditors. Accordingly, OKD a.s. was acquired by PRISKO a.s., a company controlled by the Czech State Treasury. PKP CARGO S.A.'s expectation is that the restructuring of OKD will be conducted in accordance with the Restructuring Plan, that is by gradually phasing out mining operations, and that during the next 2-3 years cooperation between OKD a.s. and the AWT Group will continue in transportation, siding and land reclamation services.

Any changes in the execution of the Restructuring Plan will require an analysis of their impact on the adopted assumptions in impairment tests of the AWT Group's assets.

Scrap price level

The scrap market is very unstable and it is difficult to predict how the prices will behave in the coming quarters. The current scrap metal prices are at a relatively high level. Scrap prices translate directly into revenues from decommissioning of rolling stock by the Group.

Risk of changes to legal regulations

Another legal act governing the operations of service facilities in more detail, namely Commission Implementing Regulation (EU) 2017/2177 of 22 November 2017 on access to service facilities and rail-related services (regarding Article 13 "Conditions of access to services" of Directive 2012/34/EU) entered into effect on 13 December 2017. In 2016 and 2017, the Company participated in the works of the legal group of CER (Community of European Railway and Infrastructure Companies) which presented to the European Commission a number of the Company's postulates. They are to some extent taken into account in the Regulation. Since the Regulation will enter into effect on 1 May 2019, the Company expects to introduce further changes to its operations to adjust them to this new legislation.

The European Commission is working on revisions to the Noise TSI. At the current stage of the Commission's work, the draft of the revised Noise TSI introduces the requirement to indicate sections of rail lines, the so-called "quiet sections", on which starting from 8 December 2024 (date of entry into force of the 2024/2025 timetable) only freight cars satisfying the standards of noise emission during transit would be permitted to use. In order to enable currently used freight cars to run on the quiet sections, they have to be equipped with composite brake inserts or disc brakes. Replacement of brake inserts made of cast iron with composite brake inserts is less expensive but may involve additional costs. In most freight cars, it would also be necessary to replace ringed wheels with monoblock wheels. This would increase the adaptation costs by as much as even seven times. It is estimated that the adaptation of freight rolling stock to the new regulations would cost Polish rail operators up to PLN 2 billion.

The Office of Rail Transport, in consultation with technical experts from PKP CARGO S.A., submitted to the European Railway Agency of the European Union an application requesting that specific case be applied to Poland concerning ringed wheels in the Polish domestic traffic. This is included in the draft Noise TSI – owing to this solution, rail cars:

– fitted with ringed wheels,

– with one-sided braking of wheels (1Bg or 1Bgu brake insert configuration),

– in "s" motion (up to 100 km/h) equipped with an "ss" brake,

– in "ss" motion (up to 120 km/h), which are not equipped with thermally resistant wheels and a brake valve with a refracted specification,

continue to be admitted to operation with cast iron brake inserts on quiet sections in Poland. These types account for approx. 75% of freight cars currently operated in Poland. Operators would be permitted to benefit from this solution until the end of 2036. If a corresponding special case is in force in any of Poland's neighboring Member States, such freight cars would be admitted to operation in traffic between these countries. It is quite likely that that this will be possible in traffic between Poland and the Czech Republic.[102]

The Railway Interoperability and Safety Committee (RISC) is expected to issue an opinion on the draft revision of the Noise TSI in November 2018. The entry of the revised TSI Noise into force is scheduled for the turn of 2018 and 2019.

One should also consider the planned changes in the EU Emissions Trading Scheme (EU ETS) – the related uncertainty was the reason why the Company's client, ArcelorMittal Poland (AMP), suspended its decision to overhaul the blast furnace no. 2 in Dąbrowa Górnicza. Early in 2018, the Company announced the shut-down of the furnace in mid-year for over a month and performing a partial repair which is likely to lengthen the furnace useful life by approx. 4-5 years. This will make it possible to assess the financial impact on AMT of the amendments to the EU ETS to become effective in 2021. Only then will it be known whether a general overhaul of the blast furnace is economically viable.

[102] http://www.rynek-kolejowy.pl/wiadomosci

According to information obtained recently from the client, the announced overhaul and the resulting shut-down the furnace will not exert a major impact on freight volumes transported by PKP CARGO S.A. for AMP. The client is planning to build up inventories in this period.

Directive (EU) 2016/2370 of the European Parliament and of the Council of 14 December 2016 amending Directive 2012/34/EU of 21 November 2012 establishing a single European railway area as regards the opening of the market for domestic passenger transport services by rail and the governance of the rail infrastructure – the Directive should be implemented into the Polish legal system by 25 December 2018, most probably by way of the amended Rail Transport Act. The draft amendment has not yet been published.

Financing of capital expenditures

The Group will finance capital expenditures with investment loans, its own funds and from other sources. An increase in loan liabilities will result in an increased level of liabilities (short- and long-term) and of financial expenses.

Foreign exchange rates

The Parent Company and the Group companies are exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies. The Parent Company's receivables expressed in foreign currencies are short-term receivables, and payables expressed in foreign currencies are mostly short- and long-term liabilities on account of investment loan agreements with maturities of up to 2031 and liabilities arising from short- and long-term leases.

The Group applies hedge accounting to cash flows from EUR-denominated investment loans. As a result, no financial income and no financial expenses are generated by virtue of valuation (FX gains or losses).

According to the Financial Risk Management Policy in place in the Company, in Q1 2018 the Parent Company and PKP CARGO CONNECT Sp. z o.o. used FX risk management transactions for the EUR/PLN currency pair.

Forward transactions are used to hedge FX risk in the years 2018-2020.

The execution of the forward currency transactions means that the Group applied hedge accounting.

Interest rates

Most financial investments made by the Group include bank deposits concluded mainly for a period of up to a few months, depending on the Group's liquidity needs.

In addition, the Group is exposed to the risk of volatility of interest rate cash flows following from bank loans, leasing based on variable interest rates.

In Q1 2018, interest on financial liabilities was charged predominantly at variable reference rates plus the financing entity's margin, i.e. based on the following reference rates: WIBOR 1M, WIBOR 3M, EURIBOR 3M, EURIBOR 6M and PRIBOR 3M.

In accordance with the financial risk management policy adopted by the Group, one of the Group companies (PKP CARGO CONNECT) applied interest rate hedging transactions, known as IRSs.

Social dialog

The social dialog in PKP CARGO S.A. is based on the principles contemplated in the generally binding laws, the Company Collective Bargaining Agreement and the agreements defining the mutual obligations of the parties to the social dialog. The Company respects and improves the principles of cooperation between the social partners, which contributes to implementation of modern, pro-development solutions aiming at increasing the company's competitiveness and efficiency.

Internal employee compensation regulations

In the following quarters of 2018, the possible increase in wages will be affected, among other factors, by the undertaking of the parties to the Employee Guarantee Package of 2 September 2013 as regards annual negotiations of wage increases and their implementation no later than by 1 July, depending on the Parent Company's performance and financial standing (permanent, predictable risk).

At present, the impact of the expectations regarding the possible increase in wages on the Parent Company's performance in the following quarters of 2018 is difficult to quantify.

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

On 16 March 2018, the PKP CARGO S.A. Management Board published its forecast of selected standalone financial and operating data on PKP CARGO S.A. business in 2018 in accordance with the adopted Business Plan for 2018:

– PKP CARGO S.A. operating revenue in 2018 of PLN 3,913 million, or 8.9% more than in 2017,

– PKP CARGO S.A. EBITDA of PLN 663.6 million, or 12.1% higher than in 2017,

– PKP CARGO S.A. EBIT of PLN 204.0 million, or 34.9% higher than in 2017,

– PKP CARGO S.A. net profit of PLN 160.8 million, or 71.1% higher than in 2017,

– capital expenditures of PLN 1,017.6 million, or 99% higher than in 2017.

If the level of any of the measures diverges materially from the forecasts, the Company's Management Board will adopt a decision to adjust the forecast.

As at the date of publication of this report, the PKP CARGO S.A. Management Board has not identified any significant factors that might put the achievement of the forecasted performance at significant risk.

After the balance sheet date, on 7 May 2018, the Board of Presidents adopted the 2018 business plan for the PKP CARGO Group, which sets the objective for the PKP CARGO Group's EBITDA at PLN 778.7 million, or 10.9% more than in 2017, and the planned freight volume of 125.9 million tons, which would give the Group a 53.9% share in the Polish freight transport market measured by freight turnover at the end of 2018. The share will be higher by 2.3 percentage points compared to 2017.

If the level of any of the measures diverges materially from the forecasts, the Company's Management Board will adopt a decision to adjust the forecast.

5.4 Information about production assets

5.4.1. Rolling stock

PKP CARGO Group's rolling stock is maintained through repair points functioning within the structures of PKP CARGO S.A. Units and in subsidiaries. The PKP CARGO Group's rolling stock repair and maintenance organization has the competences to repair and maintain wagons, electric locomotives at all the maintenance levels from P1 to P5 and to repair diesel locomotives at maintenance levels from P1 to P4. In addition to the rolling stock owned by the PKP CARGO Group, this organization belonging to the Group also repairs rolling stock and subassemblies for other owners.

Wagons and traction rolling stock are the main elements of the PKP CARGO Group's production assets. Changes in the rolling stock levels result directly from such actions as liquidation and sale of rolling stock or purchase of rolling stock. Additionally, locomotive modernizations are carried out, which do not affect the overall size of the rolling stock but they do change its age structure and in some cases change the quantities in individual series when a locomotive after a modernization changes its series and purpose.

In 3M 2018, the number of locomotives and wagons owned by the Group increased. This increase is a direct consequence of the continuously improving economic situation on the rail transport market (predominantly aggregates and intermodal transport) and the need to adjust the quantity and types of operated rolling stock to the requirements of this market.

In order to meet the high demand for the PKP CARGO Group's freight transport services, the Group has expanded its rolling stock fleet by leasing additional locomotives and freight cars (coal wagons and platforms).

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

Table 29 Structure of the locomotives used by the PKP CARGO Group, by traction type and ownership

Item	31/03/2018	31/12/2017	Change 2018-2017
diesel locomotives	1,278	1,272	6
electric locomotives	1,063	1,062	1
Total	**2,341**	**2,334**	**7**
locomotives owned (including financial lease),	2,319	2,319	0
locomotives in operational lease or rented	22	15	7
Total	**2,341**	**2,334**	**7**

Source: Proprietary material

Table 30 Structure of the wagons used by the PKP CARGO Group, by ownership

Item	31/03/2018	31/12/2017	Change 2018-2017
wagons owned (also under finance leases)	63,656	63,737	-81
wagons in operational lease or rented	2,414	1,023	1,391
Total	**66,070**	**64,760**	**1,310**

Source: Proprietary material

PKP CARGO S.A. plans to sell more than 2 thousand G, T and U-type freight wagons. The wagons slated for sale, regardless of their technical condition, are no longer used by the Company because of their construction, intended use or type of applied loading/unloading technologies.

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 changes in real estate owned and used by the PKP CARGO Group during the first 3 months of 2018.

Table 31 Real estate owned and used by PKP CARGO Group as at 31 March 2018 as compared to 31 December 2017

Item	31/03/2018	31/12/2017	Change 2018-2017
Land - owned, in perpetual usufruct and leased from other entities [ha]	1,568	1,573	-5
Buildings - owned, leased and rented from other entities [sqm]	747,957	749,492	-1,535

Source: Proprietary material

The decrease in the size of the surface areas of the land and 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 and adjusting it to the scale and profile of conducted activity.

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 did not participate in any major proceedings pending before courts, arbitration bodies or public administration authorities in cases concerning liabilities or receivables of PKP CARGO S.A. or its subsidiaries, except for those disclosed in the consolidated financial statements, in particular in the notes concerning contingent liabilities.

6.2 Information on transactions with related parties

No entity from the PKP CARGO Group entered in any transactions with related parties on non-market terms in Q1 2018. Also after the balance sheet date no such transactions have been entered into.

Detailed information on transactions with related parties is presented in **Note 27 to the CFS**.

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 material.

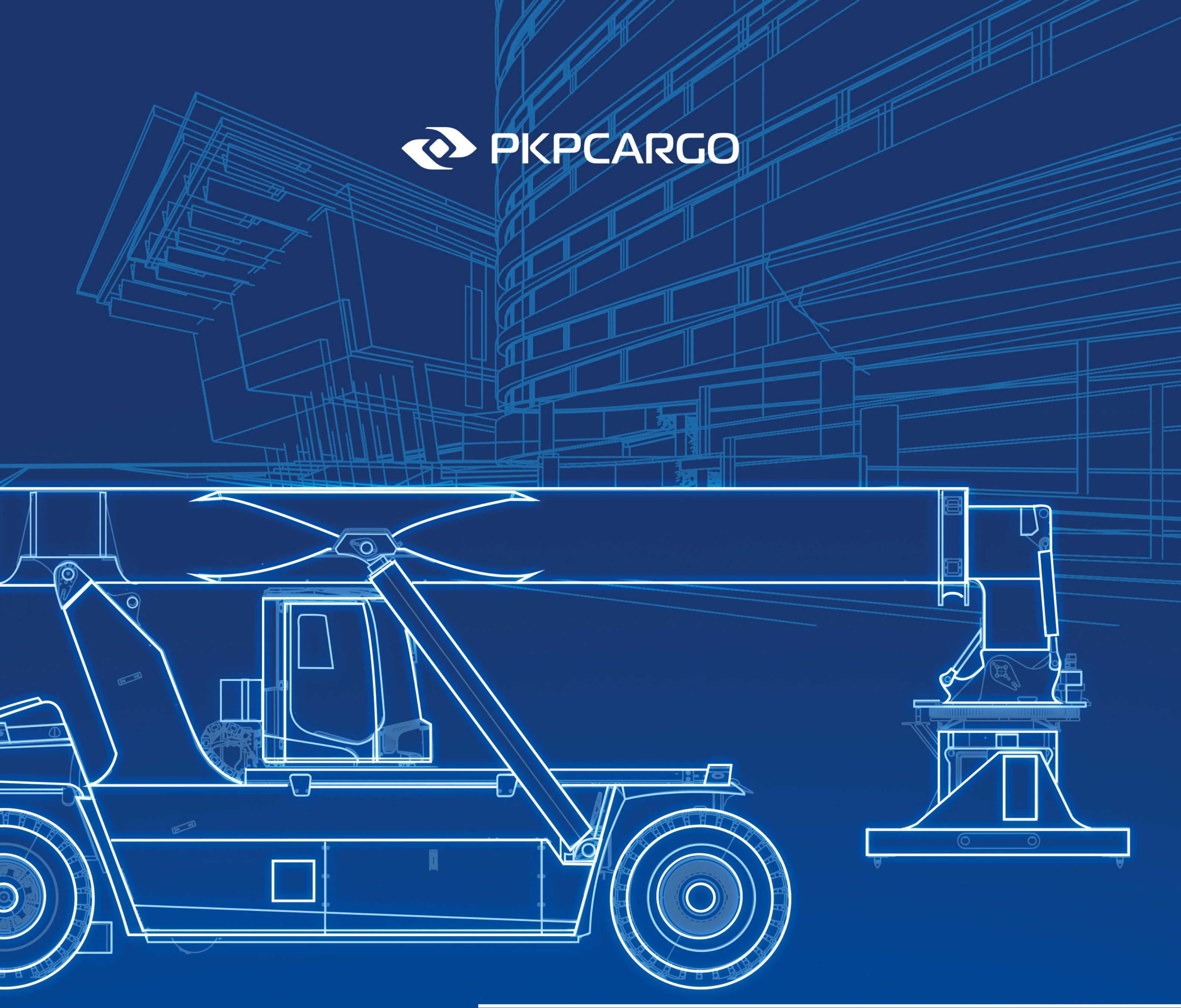
6.4 Other information of relevance for evaluation of the employment situation, financial standing, financial performance, assets and their movements as well as information of relevance for assessment of the ability of the issuer and other Group companies to pay their debts

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

This Quarterly Report was authorized by the PKP CARGO S.A. Management Board on 24 May 2018.

Company's Management Board
Czesław Warsewicz President of the Management Board
Leszek Borowiec Management Board Member
Grzegorz Fingas Management Board Member
Witold Bawor Management Board Member
Zenon Kozendra Management Board Member

Warsaw, 24 May 2018



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