PKP CARGO GROUP'S CONSOLIDATED QUARTERLY REPORT FOR Q3 2017

pkpcargo.com

QUARTELY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE **PKP CARGO** GROUP FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017 PREPARED IN ACCORDANCE WITH IFRS AS ENDORSED BY THE EUROPEAN UNION

pkpcargo.com

TABLE OF CONTENTS

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 SEPTEMBER 2017

	Note	9 months ended 30/09/2017 (unaudited)	3 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (restated*)	3 months ended 30/09/2016 (restated*)
Revenue from sales of services and finished goods	6	3 402 183	1 175 981	3 165 891	1 077 038
Revenue from sales of merchandise and raw materials		29 330	11 298	22 439	8 834
Other operating revenue	8.1	28 786	5 607	25 444	4 893
Total operating revenue		**3 460 299**	**1 192 886**	**3 213 774**	**1 090 765**
Depreciation / amortization and impairment losses	7.1	428 972	141 612	470 290	146 152
Consumption of raw materials and energy	7.2	513 988	172 747	492 217	165 664
External services	7.3	1 170 243	410 619	1 157 484	383 358
Taxes and charges		30 136	9 231	29 386	11 088
Employee benefits	7.4	1 111 421	357 761	1 105 746	352 754
Other expenses by kind	7.5	41 374	13 936	39 076	12 786
Cost of merchandise and raw materials sold		20 867	7 877	17 341	5 425
Other operating expenses	8.2	40 824	22 050	88 498	5 659
Total operating expenses		**3 357 825**	**1 135 833**	**3 400 038**	**1 082 886**
Profit / (loss) on operating activities		**102 474**	**57 053**	**(186 264)**	**7 879**
Financial revenue	9.1	15 155	915	1 011	237
Financial expenses	9.2	44 854	14 361	47 215	8 634
Share in the profit / (loss) of equity accounted entities	13	1 430	247	2 597	595
Profit / (loss) before tax		**74 205**	**43 854**	**(229 871)**	**77**
Income tax expense	10.1	22 464	11 475	(28 627)	6 069
NET PROFIT / (LOSS)		**51 741**	**32 379**	**(201 244)**	**(5 992)**

(*) restatement of comparatives described in Note 5 to these Quarterly Condensed Consolidated Financial Statements.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 SEPTEMBER 2017 (continued)

	Note	9 months ended 30/09/2017 (unaudited)	3 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (restated*)	3 months ended 30/09/2016 (restated*)
NET PROFIT / (LOSS)		**51 741**	**32 379**	**(201 244)**	**(5 992)**
Other comprehensive income					
Other comprehensive income that will be reclassified to profit or loss:		**16 906**	**10 998**	**13 821**	**(10 901)**
The effective portion of gains / (losses) on a cash flow hedging instrument		10 637	(9 564)	4 538	8 154
Income tax on other comprehensive income	10.3	(2 021)	1 817	(862)	(1 549)
Foreign exchange differences on translation of financial statements of foreign entities		8 290	18 745	10 145	(17 506)
Other comprehensive income that will not be reclassified to profit or loss:		**(20 273)**	**-**	**-**	**-**
Actuarial gains / (losses) on post-employment benefits		(25 028)	-	-	-
Income tax on other comprehensive income	10.3	4 755	-	-	-
Total other comprehensive income		**(3 367)**	**10 998**	**13 821**	**(10 901)**
TOTAL COMPREHENSIVE INCOME		**48 374**	**43 377**	**(187 423)**	**(16 893)**
Net profit / (loss) attributable to:					
Shareholders of the parent company		51 741	32 379	(201 244)	(5 992)
Total comprehensive income attributable to:					
Shareholders of the parent company		48 374	43 377	(187 423)	(16 893)
Earnings per share (PLN per share)					
Basic earnings per share:	20.1	1,16	0,73	(4,49)	(0,13)
Diluted earnings per share:	20.2	1,16	0,73	(4,49)	(0,13)

(*) restatement of comparatives described in Note 5 to these Quarterly Condensed Consolidated Financial Statements.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 SEPTEMBER 2017

	Note	As at 30/09/2017 (unaudited)	As at 31/12/2016 (restated*)	As at 30/09/2016 (restated*)
ASSETS				
Non-current assets				
Property, plant and equipment	11	4 606 836	4 700 550	4 723 301
Intangible assets		44 296	55 831	57 421
Investment properties		1 218	1 257	1 270
Investments in entities accounted for under the equity method	13	54 236	58 219	57 734
Trade and other receivables	17	1 749	2 223	2 614
Other long-term financial assets	14	9 014	8 649	10 003
Other long-term non-financial assets	15	29 627	25 987	21 149
Deferred income tax assets	10.4	141 987	107 554	121 088
Total non-current assets		**4 888 963**	**4 960 270**	**4 994 580**
Current assets				
Inventories	16	134 451	121 189	124 856
Trade and other receivables	17	696 786	639 866	643 135
Income tax receivables		1 436	2 793	2 831
Other short-term financial assets	14	263 415	892	6 975
Other short-term non-financial assets	15	27 162	27 277	23 536
Cash and cash equivalents	18	388 726	755 919	166 922
		1 511 976	**1 547 936**	**968 255**
Non-current assets classified as held for sale		-	-	6 000
Total current assets		**1 511 976**	**1 547 936**	**974 255**
Total assets		**6 400 939**	**6 508 206**	**5 968 835**

(*) restatement of comparatives described in Note 5 to these Quarterly Condensed Consolidated Financial Statements.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 SEPTEMBER 2017 (continued)

	Note	As at 30/09/2017 (unaudited)	As at 31/12/2016 (restated*)	As at 30/09/2016 (restated*)
EQUITY AND LIABILITIES				
Equity				
Share capital	19.1	2 239 346	2 239 346	2 239 346
Share premium		618 050	618 666	618 531
Other items of equity		(210)	11 447	897
Foreign exchange differences on translation of financial statements of foreign entities		68 784	60 494	42 169
Retained earnings		382 682	330 325	262 988
Total equity		**3 308 652**	**3 260 278**	**3 163 931**
Long-term liabilities				
Long-term bank loans and credit facilities	21	1 105 075	1 273 605	769 780
Long-term finance lease liabilities and leases with purchase option	23	101 023	140 923	149 277
Long-term trade and other payables	24	1 199	1 845	4 039
Long-term provisions for employee benefits	25	548 698	525 571	593 495
Other long-term provisions	26	24 375	26 420	28 067
Other long-term financial liabilities	22	-	1 042	-
Provisions for deferred income tax	10.4	108 921	106 675	105 116
Total long-term liabilities		**1 889 291**	**2 076 081**	**1 649 774**
Short-term liabilities				
Short-term bank loans and credit facilities	21	215 572	197 803	194 783
Short-term finance lease liabilities and leases with purchase option	23	49 488	59 567	67 115
Short-term trade and other payables	24	629 768	670 021	609 969
Short-term provisions for employee benefits	25	115 135	99 256	105 786
Other short-term provisions	26	59 527	24 950	16 171
Other short-term financial liabilities	22	116 754	118 889	160 197
Current income tax liabilities		16 752	1 361	1 109
Total short-term liabilities		**1 202 996**	**1 171 847**	**1 155 130**
Total liabilities		**3 092 287**	**3 247 928**	**2 804 904**
Total equity and liabilities		**6 400 939**	**6 508 206**	**5 968 835**

(*) restatement of comparatives described in Note 5 to these Quarterly Condensed Consolidated Financial Statements.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

QUARTERLY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 SEPTEMBER 2017

				Other items of equity						
	Note	Share capital	Share premium	Actuarial gains / losses on post-employment benefits	Gains / losses on a cash flow hedging instrument	Foreign exchange differences on translation of financial statements of foreign entities	Retained earnings	Attributable to shareholders of the parent company	Attributable to non-controlling interests	Total
As at 1/01/2017 (restated*)		**2 239 346**	**618 666**	**13 521**	**(2 074)**	**60 494**	**330 325**	**3 260 278**	-	**3 260 278**
Net profit / (loss) for the period		-	-	-	-	-	51 741	51 741	-	51 741
Other net comprehensive income for the period		-	-	(20 273)	8 616	8 290	-	(3 367)	-	(3 367)
Total comprehensive income		**-**	**-**	**(20 273)**	**8 616**	**8 290**	**51 741**	**48 374**	**-**	**48 374**
Other changes in equity	19.2	-	(616)	-	-	-	616	-	-	-
As at 30/09/2017 (unaudited)		**2 239 346**	**618 050**	**(6 752)**	**6 542**	**68 784**	**382 682**	**3 308 652**	**-**	**3 308 652**
As at 1/01/2016 (restated*)		**2 239 346**	**619 407**	**(3 880)**	**1 101**	**32 024**	**463 356**	**3 351 354**	-	**3 351 354**
Net profit / (loss) for the period		-	-	-	-	-	(201 244)	(201 244)	-	(201 244)
Other net comprehensive income for the period		-	-	-	3 676	10 145	-	13 821	-	13 821
Total comprehensive income		**-**	**-**	**-**	**3 676**	**10 145**	**(201 244)**	**(187 423)**	**-**	**(187 423)**
Other changes in equity		-	(876)	-	-	-	876	-	-	-
As at 30/09/2016 (restated*)		**2 239 346**	**618 531**	**(3 880)**	**4 777**	**42 169**	**262 988**	**3 163 931**	**-**	**3 163 931**

(*) restatement of comparatives described in Note 5 to these Quarterly Condensed Consolidated Financial Statements.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

QUARTERLY CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 SEPTEMBER 2017 [INDIRECT METHOD]

	Note	9 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (restated*)
Cash flows from operating activities			
Profit / (loss) before tax		**74 205**	**(229 871)**
Adjustments:			
Depreciation of property, plant and equipment and amortization of intangible assets	7.1	428 725	434 875
Impairment loss on non-current assets	7.1	247	35 415
(Gain) / loss on disposal of property, plant and equipment, intangible assets and non-current assets classified as held for sale		(5 285)	(18)
Foreign exchange (gain) / loss		(2 868)	(616)
(Gain) / loss on interest, dividends		19 416	(22 617)
Share in (profit) / loss of equity accounted entities	13	(1 430)	(2 597)
Interest received / (paid)		1 426	(809)
Income tax received / (paid)		(36 330)	(5 337)
Other adjustments		(19 297)	5 247
Changes in working capital:			
(Increase) / decrease in trade and other receivables		(55 014)	11 222
(Increase) / decrease in inventories		(681)	5 333
(Increase) / decrease in other assets		(2 760)	(12 309)
Increase / (decrease) in trade and other payables		(8 156)	(126 538)
Increase / (decrease) in other financial liabilities		(5 512)	2 825
Increase / (decrease) in provisions		71 538	(7 228)
Net cash provided by operating activities		**458 224**	**132 211**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(367 906)	(438 319)
Proceeds from sale of property, plant and equipment, intangible assets and non-current assets classified as held for sale		8 475	8 235
Acquisition of other financial assets		-	(111)
Interest received		6 339	666
Dividends received		3 174	1 768
Loans granted		(121)	(131)
(Outflows) / inflows from bank deposits over 3 months		(257 000)	1 152
Net cash provided by investing activities		**(607 039)**	**(426 740)**
Cash flows from financing activities			
Payments of liabilities under finance lease		(47 484)	(48 294)
Payments of interest under lease agreement	9.2	(4 748)	(6 635)
Proceeds from credit facilities / loans received	21.1	50 521	468 055
Repayment of credit facilities / loans received	21.1	(194 074)	(218 874)
Interest on credit facilities / loans received		(21 525)	(12 760)
Grants received		-	5 407
Other outflows from financing activities		(2 106)	(3 173)
Net cash provided by financing activities		**(219 416)**	**183 726**
Net increase / (decrease) in cash and cash equivalents		(368 231)	(110 803)
Opening balance of cash and cash equivalents	18	755 919	276 191
Effect of changes foreign exchange rates on cash balances in foreign currencies		1 038	1 534
Closing balance of cash and cash equivalents	18	**388 726**	**166 922**

(*) restatement of comparatives described in Note 5 to these Quarterly Condensed Consolidated Financial Statements.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

EXPLANATORY NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS AT 30 SEPTEMBER 2017

1. General information

1.1 Information about the Parent Company

PKP CARGO S.A. ("the Company", "the Parent Company") was formed based on a notarial deed dated 29 June 2001 (Repertory A No. 1287/2001). The Parent Company's registered office is located in Warsaw at Grójecka Street no 17. The Parent Company was registered with the National Court Register at the District Court in Katowice, Business Division of the National Court Register, in number KRS 0000027702. At present, due to a subsequent change in the Parent Company's registered office, the Parent Company's records are kept by the Registration Court for the Capital City of Warsaw, XII Business Division of the National Court Register. The Parent Company has been assigned statistical identification number REGON 277586360, as well as tax identification number NIP 954-23-81-960.

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

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

Management Board:

Krzysztof Mamiński	-	acting President of the Management Board
Grzegorz Fingas	-	Member of the Management Board in charge of Sales
Witold Bawor	-	Member of the Management Board in charge of Operations
Zenon Kozendra	-	Member of the Management Board - Employee Representative

Supervisory Board:

Krzysztof Mamiński	-	Chairman of the Supervisory Board (delegated to temporarily perform the duties of President of the Management Board)
Mirosław Antonowicz	-	Vice-Chairman of the Supervisory Board
Raimondo Eggink	-	Member of the Supervisory Board
Czesław Warsewicz	-	Member of the Supervisory Board
Małgorzata Kryszkiewicz	-	Member of the Supervisory Board
Zofia Dzik	-	Member of the Supervisory Board
Krzysztof Czarnota	-	Member of the Supervisory Board
Tadeusz Stachaczyński	-	Member of the Supervisory Board
Władysław Szczepkowski	-	Member of the Supervisory Board

On 6 March 2017 Mirosław Pawłowski resigned from the position of Chairman of the Supervisory Board effective immediately. The same day the Parent Company's shareholder - PKP S.A., appointed Krzysztof Mamiński to the position of Member of the Parent Company's Supervisory Board.

On 14 March 2017 Jerzy Kleniewski resigned from the position of Member of the Parent Company's Supervisory Board effective immediately.

On 14 March 2017 the Parent Company's shareholder - PKP S.A., appointed Władysław Szczepkowski to the position of Member of the Parent Company's Supervisory Board.

On 20 March 2017 the Parent Company's Supervisory Board passed a resolution to appoint Krzysztof Mamiński to the position of Chairman of the Parent Company's Supervisory Board.

On 30 May 2017 the Parent Company received information on the resignation of Andrzej Wach from the position of Member of the Supervisory Board.

On 1 June 2017 the Parent Company's shareholder - PKP S.A. appointed Mirosław Antonowicz to the position of Member of the Parent Company's Supervisory Board.

On 27 June 2017 the Parent Company's Supervisory Board passed a resolution to appoint Mirosław Antonowicz to the position of Vice-Chairman of the Parent Company's Supervisory Board.

On 31 July 2017 the Parent Company's Supervisory Board passed a resolution to dismiss Jarosław Klasa from the position of Member of the Parent Company's Management Board.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

1.1 Information about the Parent Company (continued)

The following resigned from the Parent Company's Management Board on 26 October 2017, effective immediately:
– Maciej Libiszewski,
– Arkadiusz Olewnik.

On 26 October 2017 the Parent Company's Supervisory Board passed a resolution to delegate Krzysztof Mamiński, Chairman of the Supervisory Board, to temporarily perform the duties of President of the Management Board.

On 26 October 2017 the Parent Company's Supervisory Board passed a resolution to appoint Witold Bawor to the position of Member of the Management Board in charge of Operations.

The mandate of Marek Podskalny, Member of the Parent Company's Supervisory Board, expired on 24 November 2017 due to his death.

The Parent Company's shareholders as at 30 September 2017:

Entity	Registered office	Number of shares	% of share capital	% of voting rights
PKP S.A.[(1)]	Warsaw	14 784 194	33,01%	33,01%
Nationale-Nederlanden OFE [(2)]	Warsaw	6 854 195	15,30%	15,30%
Aegon PTE (Aegon OFE, Nordea OFE) [(3)]	Warsaw	2 499 979	5,58%	5,58%
MetLife OFE [(4)]	Warsaw	2 494 938	5,57%	5,57%
Aviva OFE [(5)]	Warsaw	2 338 371	5,22%	5,22%
Other shareholders		15 815 240	35,31%	35,31%
Total		**44 786 917**	**100,00%**	**100,00%**

(1) As per notice sent by shareholder on 24 June 2014.
(2) As per notice sent by shareholder on 18 October 2016.
(3) As per notice sent by shareholder on 7 September 2017.
(4) As per notice sent by shareholder on 18 August 2016.
(5) As per notice sent by shareholder on 13 August 2014.

On 27 March 2017 the Parent Company's Management Board was notified by Towarzystwo Funduszy Inwestycyjnych PZU S.A. ("TFI PZU") that TFI PZU has acquired the Parent Company's shares in a transaction performed on the Warsaw Stock Exchange on 21 March 2017. As a result of the transaction, TFI PZU increased its interest in the Parent Company to 2.302.843 shares, or 5,14% of the share capital and of the total number of votes at the Parent Company's general meeting.

On 16 June 2017 the Parent Company's Management Board was notified by TFI PZU that TFI PZU has decreased its interest to below 5% of the total number of votes at the Parent Company's general meeting. The decrease to below the said threshold occurred as a result of the sale of the Parent Company's shares performed on the Warsaw Stock Exchange on 9 June 2017.

On 7 September 2017 the Parent Company's Management Board was notified by Aegon Powszechne Towarzystwo Emerytalne S.A. ("Aegon PTE") about having exceeded 5% of the total number of votes at the Parent Company's general meeting, which occurred as a result of taking over the management of Nordea Otwarty Fundusz Emerytalny ("Nordea OFE"). After taking over the management of Nordea OFE on 1 September 2017, both of the funds managed by Aegon PTE (Aegon OFE and Nordea OFE) hold a total of 2.499.979 of the Parent Company's shares, or 5,58% of the share capital and of the number of votes at the Parent Company's general meeting.

On 23 November 2017 the Parent Company Management Board was notified by Aegon PTE that further to the completion on 17 November 2017 of the liquidation of Nordea OFE, resulting in a transfer on that day of all of the assets of Nordea OFE to Aegon OFE, as well as in the assumption by Aegon PTE of all of the rights and responsibilities of Nordea OFE, as at 17 November 2017 Aegon OFE holds 2.499.979 shares of the Parent Company, or 5,58% of its share capital and of the total number of votes at its general meeting.

1.1 Information about the Parent Company (continued)

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

1.2 Information about the Group

As at the balance sheet date the PKP CARGO Group (hereinafter referred to as the Group) comprises PKP CARGO S.A. as the parent company and 25 subsidiary companies. In addition, the Group has 4 associated companies and shares in 2 joint ventures.

Additional information about the subsidiaries is presented in Note 12 to these Quarterly Condensed Consolidated Financial Statements.

The Group's main area of activity is the rail transport of freight. In addition to the rail transport of freight, the Group provides the following services:
a) intermodal services,
b) shipping services (domestic and international),
c) terminal services,
d) siding and track line services,
e) rolling stock maintenance and repair services,
f) reclamation services.

The duration of the companies comprising the Group is not limited.

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

These Quarterly Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2016, prepared in accordance with IFRS EU.

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

These Quarterly Condensed Consolidated Financial Statements have been prepared on a historical cost basis, with the exception of derivative financial instruments measured at fair value.

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

These Quarterly Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 27 November 2017.

3. Basis for the application of International Financial Reporting Standards

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

When approving these Quarterly Condensed Consolidated Financial Statements the Group did not apply the following standards, amendments to standards and interpretations, which have been issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, but have not yet become effective:

- **IFRS 15 "Revenue from Contracts with Customers"** - applies to annual periods beginning on and after 1 January 2018. This standard specifies how and when to recognize revenue, and calls for more detailed disclosures. The standard replaces IAS 18 Revenue, IAS 11 Construction Contracts and several interpretations relating to recognition of revenue. The new standard requires the disclosure in the financial statements of much more information on the nature, amount, distribution in time and uncertainty with regard to revenue and cash flows from contracts with customers.
- **Clarifications to IFRS 15 "Revenue from Contracts with Customers"** - apply to annual periods beginning or and after 1 January 2018.
- **IFRS 9 "Financial Instruments"** - applies to periods beginning on and after 1 January 2018. IFRS 9 introduces an approach to the classification and valuation of financial assets that reflects the business model in which they are managed and the nature of the cash flows. IFRS 9 introduces a new model of impairment testing that will require more timely recognition of anticipated credit losses. The new model will also result in the introduction of a standardized approach to impairment tests used on all financial instruments. In addition, IFRS 9 introduces a new model of hedge accounting, requiring extensive risk management disclosures. The changes are meant to adapt the methods used to recognize risk management matters in the financial statements, to allow entities to better reflect their actions in the financial statements.
- **IFRS 16 "Leases"** - applies to annual periods beginning on and after 1 January 2019. In accordance with IFRS 16, a lessee recognizes the right to use an asset and the liability arising out of the lease agreement. The right to use an asset is treated similarly to other non-financial assets and amortized accordingly. The liability is initially recognized at the present value of the lease fees payable during the term of the lease, discounted by the rate contained in the lease, if its determination is not difficult. If it is not easy to determine the rate, then the lessee applies the marginal interest rate.
- **Amendments to IFRS 4 "Insurance Contracts"** entitled Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” - applies to periods beginning on 1 January 2018. The changes address the matter of applying the new IFRS 9 “Financial Instruments” prior to the implementation of the new standard relating to insurance activities, on which IASB is currently working.
- **Amendments to IAS 12 "Income Taxes”** entitled Recognition of Deferred Tax Assets for Unrealized Losses - applies to periods beginning on 1 January 2017. The amendments clarify the need to form deferred tax assets on losses on the valuation of financial instruments classified as available for sale. In particular, the change pertains to debt instruments, for which the entity should consider the existence of evidence that it is likely that it will realize the financial instrument for an amount higher than its balance sheet value.
- **Amendments to IAS 7 "Statement of Cash Flows”** entitled Disclosure Initiative - applies to periods beginning on 1 January 2017. The amendments introduce the requirement to include in the financial statements a disclosure that will allow the users of the financial statements to evaluate changes in liabilities arising out of financial activities, including changes arising out of cash flows and cashless changes. One of the methods of fulfilling this requirement is to present a reconciliation of debt balances broken down by type of change.

Effect on consolidated financial statements:

The Group is analyzing the effect of the following published standards on its accounting policies (methods):

- **IFRS 9 "Financial Instruments"** - the change in the classification of financial assets required by the standard will affect the method used to classify financial assets in the Group’s consolidated financial statements. Financial assets currently classified as loans and receivables in accordance with IFRS 9 will be classified as financial assets at amortized cost, which will not result in a change in valuation methods. At this time the Group is developing a method for the fair value measurement of investments in financial instruments not listed on active markets, which are now measured at acquisition cost less impairment losses. The Group’s other financial assets are measured at fair value and this is how they will be classified in accordance with IFRS 9. In the matter of estimating anticipated credit losses, the Group is performing analyses, in particular of its trade receivables. This class of financial instruments is the most significant portion of the Group’s financial assets. The Group’s analysis and calculation of anticipated credit losses will be based on a model that uses an analysis of debt repayment over recent years broken down by the ageing structure of receivables. The above analysis has shown that the new approach to the impairment of financial instruments model will have no material effect on the amount of impairment and most likely implementation of IFRS 9 in this area will not require adjustments of prior periods. We do not expect that the implementation of IFRS 9 Financial Instruments will have a significant effect on the Group’s hedge accounting.

3.1 Standards and interpretations adopted by IASB and endorsed by the EU, but not yet effective (continued)

- **IFRS 15 "Revenue from Contracts with Customers"** - in the case of IFRS 15, the Group is performing analyses of the effect of variable consideration on sales revenue generated in different reporting periods. The Group is finalizing work on identifying contracts with elements of variable consideration and on developing changes to its accounting policies relating to a method that will be used to estimate the consideration due to the Group in the given reporting period and to the necessary disclosures required by the standard. We do not expect the new standard to significantly affect the Group's financial statements, and find it unlikely that it will be necessary to adjust prior periods.
- **IFRS 16 "Leasing"** - our initial analysis of the effect of IFRS 16 on the existing accounting methods indicates that the Group will have to recognize retrospectively its significant lease liabilities and the right to use assets (mainly land, buildings and constructions), which are currently covered by long-term operating lease or rental agreements. The Group is currently in the process of identifying the agreements that are subject to the new requirements and of developing preliminary models for the valuation and recognition of the above agreements in the financial statements. At this stage it is not possible to quantify the effect of IFRS 16 on the Group's financial statements.

The Group has analyzed the potential effects of the other above-listed standards, interpretations and amendments to standards on the Group's accounting policies (methods). In the opinion of the Parent Company's Management Board, they will have no material effect on the Group's existing accounting policies.

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

At present the IFRS endorsed by the EU do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, amendments to standards and interpretations, which as at 30 September 2017 had not yet been endorsed by the EU and were not effective:

- **Amendments to IFRS 2 "Share-based Payment"** entitled Classification and Measurement of Share-based Payment Transactions - applies to periods beginning on 1 January 2018. The change to IFRS 2 clarifies that the fair value of share based payments settled in cash should be determined in the same manner as in the case of payments settled in equity instruments. The change has introduced a requirement to adjust the liability by considering each change in its value in the financial result before reclassifying from liabilities to equity. The cost recognized after the modification is based on the fair value at the date of modification. The change introduced an exception where the payment of funds to a tax office is treated as a settlement in equity instruments. The entity should disclose the estimated amount it expects to pay as tax to the tax office. At initial application, reclassification of liabilities to equity will have no effect on the financial result.
- **Amendments to International Financial Reporting Standards 2014-2016** (annual improvements to IFRS 2014 - 2016 contain amendments to IFRS 1 - deletion of short-term exemptions, IFRS 12 - clarification of the scope of the standard, and IAS 28 - measuring associates or joint ventures at fair value, with corresponding amendments to other standards and interpretations) - apply to periods beginning on or after 1 January 2018.
- **Interpretation IFRIC 22** entitled Foreign Currency Transactions and Advance Consideration - applies to periods beginning 1 January 2018. The interpretation clarifies the recognition of transactions that include the receipt or payment of advance consideration in a foreign currency.
- **Amendments to IAS 40 "Investment Property"** entitled Transfers of Investment Property - applies to periods beginning on 1 January 2018. The amendments discuss whether an investment property under construction should be transferred from inventories to investment properties in the event of a clear change in its use.
- **IFRS 17 "Insurance Contracts"** - applies to annual periods beginning on and after 1 January 2021. The objective of the standard is to introduce consistent formalized accounting methods applicable to insurance contracts. The new standard states that insurance liabilities are stated at the present value of the liability and introduces consistent methods for the valuation and presentation of all types of insurance contracts. IFRS 17 replaces IFRS 4 "Insurance Contracts" and the related interpretations.
- **Interpretation IFRIC 23** entitled Uncertainty over Income Tax Treatments, applies to periods beginning on 1 January 2019. The interpretation is to be applied when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, tax rates, when there is uncertainty over income tax treatments under IAS 12.
- **Amendments to IFRS 9 "Financial Instruments"** entitled Prepayment Features with Negative Compensation - applies to periods beginning on 1 January 2019. The amendments make it possible for entities to measure at amortized cost certain financial assets that are subject to prepayment with so-called negative compensation.
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** entitled Long-term Interests in Associates and Joint Ventures - applies to periods beginning on 1 January 2019. The amendments explain how to apply IFRS 9 to long-term interests in associates and joint ventures that are part of a net investment.

The Group has analyzed the potential effects of the above standards, interpretations and amendments to standards on the Group's accounting policies (methods). In the opinion of the Parent Company's Management Board, they will have no material effect on the Group's existing accounting policies.

4. Accounting policies and material values based on professional judgement and estimates

4.1 Statement on accounting policies

The accounting policies and calculation methods used in the preparation of these Quarterly Condensed Consolidated Financial Statements are consistent with the policies described in the audited Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2016, prepared in accordance with IFRS EU (see Note 5 to the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2016, prepared in accordance with IFRS EU).

4.2 Material values based on professional judgement and estimates

In the period of 9 months ended 30 September 2017, changes to material estimates pertained to:

- provisions for employee benefits - the provisions have been estimated as at 30 September 2017, the effect of recalculation as at 30 September 2017 is presented in Note 25 to these Quarterly Condensed Consolidated Financial Statements,
- other provisions - the provisions have been estimated as at 30 September 2017, the effect of recalculation as at 30 September 2017 is presented in Note 26 to these Quarterly Condensed Consolidated Financial Statements.
- liability relating to put options for non-controlling shares - in the period of 9 months ended 30 September 2017 the Parent Company settled the put options for the acquisition of 20% of shares of Advanced World Transport B.V. (hereinafter referred to as "AWT B.V."); detailed information and the effect of the settlement is presented in Notes 22 and 27.4 to these Quarterly Condensed Consolidated Financial Statements.

In the period of 9 months ended 30 September 2017 no other changes were made in methodology or assumptions adopted by the Parent Company's Management Board when making estimates, with a significant effect on the current or future periods.

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

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

4.4 Functional currency and presentation currency

These Quarterly Condensed Consolidated Financial Statements have been prepared in Polish zlotys (PLN). The Polish zloty is the Parent Company's functional and presentation currency. The data in these Quarterly Condensed Consolidated Financial Statements are presented in thousands of Polish zlotys.

The financial data of foreign entities were for consolidation purposes translated into the presentation currency in the following manner:

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

Foreign exchange differences resulting from the above translations are recognized in equity as foreign exchange differences on translation of financial statements of foreign entities.

The following exchange rates were used to translate the financial statements of the foreign entities included in consolidation:

Currency	Statement of financial position items		Statement of comprehensive income and statement of cash flows items	
	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)	9 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)
EUR	4,3091	4,4240	4,2566	4,3736
CZK	0,1655	0,1637	0,1604	0,1616
HUF	0,0138	0,0142	0,0138	0,0140

5. Adjustment of errors from prior years

The Group has corrected errors from prior years in the following areas:

a) value added tax settlements

Detailed information on the above adjustment was presented in Note 6 to the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2016. Information about the current stage of the proceeding is presented in Note 26 to these Quarterly Condensed Consolidated Financial Statements.

b) investments in entities accounted for under the equity method

While transition into IFRS EU, the Parent Company applied simplifications in the valuation of investments in entities accounted for under the equity method, as a result of which the value of those investments presented in the Consolidated Financial Statements of the PKP CARGO Group did not reflect the Group's shares in the net assets of entities accounted for under the equity method. As at 30 June 2017 the Parent Company's Management Board performed a revaluation of investments accounted for under the equity method by adapting their value to the Group's share in the net assets of those entities. As a result, the Group has adjusted retained earnings. The adjustments as at 30 September 2016 and as at 31 December 2016 had the following effect:

- the value of investments accounted for under the equity method was increased by PLN 17.409 thousand,
- the value of foreign exchange differences on translation of financial statements of foreign entities was increased by PLN 524 thousand,
- the value of retained earnings was increased by PLN 16.885 thousand.

To ensure comparability of the presented data, the Group restated its comparatives for the period of 9 months ended 30 September 2016. The effect of the restatement is presented below. The information presented in the notes to these Quarterly Condensed Consolidated Financial Statements has also been restated accordingly.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

5. Adjustment of errors from prior years (continued)

QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD FROM 1 JANUARY 2016 TO 30 SEPTEMBER 2016

	9 months ended 30/09/2016 (unaudited)	Adjustment of value added tax settlements	9 months ended 30/09/2016 (restated)
Financial expenses	46 220	995	47 215
Profit / (loss) before tax	**(228 876)**	**(995)**	**(229 871)**
NET PROFIT / (LOSS)	**(200 249)**	**(995)**	**(201 244)**
TOTAL COMPREHENSIVE INCOME	**(186 428)**	**(995)**	**(187 423)**
Net profit / (loss) attributable to:			
Parent Company shareholders	(200 249)	(995)	(201 244)
Total comprehensive income attributable to:			
Parent Company shareholders	(186 428)	(995)	(187 423)
Profit / (loss) per share (PLN per share)			
Basic	(4,47)	(0,02)	(4,49)
Diluted	(4,47)	(0,02)	(4,49)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	As at 31/12/2016 (audited)	Adjustment of investments in entities accounted for under the equity method	As at 31/12/2016 (restated)
ASSETS			
Non-current assets			
Investments in entities accounted for under the equity method	40 810	17 409	58 219
Total non-current assets	**4 942 861**	**17 409**	**4 960 270**
Total assets	**6 490 797**	**17 409**	**6 508 206**
EQUITY AND LIABILITIES			
Equity			
Foreign exchange differences on translation of financial statements of foreign entities	59 970	524	60 494
Retained earnings	313 440	16 885	330 325
Total equity	**3 242 869**	**17 409**	**3 260 278**
Total equity and liabilities	**6 490 797**	**17 409**	**6 508 206**

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

5. Adjustment of errors from prior years (continued)

QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2016

	As at 30/09/2016 (unaudited)	Adjustment of value added tax settlements	Adjustment of investments in entities accounted for under the equity method	As at 30/09/2016 (restated)
ASSETS				
Non-current assets				
Investments in entities accounted for under the equity method	40 325	-	17 409	57 734
Total non-current assets	**4 977 171**	**-**	**17 409**	**4 994 580**
Current assets				
Trade and other receivables	651 111	(7 976)	-	643 135
Total current assets	**982 231**	**(7 976)**	**-**	**974 255**
Total assets	**5 959 402**	**(7 976)**	**17 409**	**5 968 835**
EQUITY AND LIABILITIES				
Equity				
Foreign exchange differences on translation of financial statements of foreign entities	41 645	-	524	42 169
Retained earnings	267 019	(20 916)	16 885	262 988
Total equity	**3 167 438**	**(20 916)**	**17 409**	**3 163 931**
Short-term liabilities				
Short-term trade and other payables	597 029	12 940	-	609 969
Total short-term liabilities	**1 142 190**	**12 940**	**-**	**1 155 130**
Total liabilities	**2 791 964**	**12 940**	**-**	**2 804 904**
Total equity and liabilities	**5 959 402**	**(7 976)**	**17 409**	**5 968 835**

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

	9 months ended 30/09/2016 (unaudited)	Adjustment of value added tax settlements	9 months ended 30/09/2016 (restated)
Cash flows from operating activities			
Profit / (loss) before tax	**(228 876)**	**(995)**	**(229 871)**
Changes in working capital:			
(Increase) / decrease in trade and other receivables	13 450	(2 228)	11 222
Increase / (decrease) in trade and other payables	(129 761)	3 223	(126 538)
Net cash provided by operating activities	**132 211**	**-**	**132 211**
Net increase / (decrease) in cash and cash equivalents	(110 803)	-	(110 803)
Opening balance of cash and cash equivalents	276 191	-	276 191
Effect of changes foreign exchange rates on cash balances in foreign currencies	1 534	-	1 534
Closing balance of cash and cash equivalents	**166 922**	**-**	**166 922**

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

6. Revenue from the sale of services and finished goods

6.1 Operating segment products and services

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

The Group's revenue from its customers broken down by geographical area is presented in Note 6.2 to these Quarterly Condensed Consolidated Financial Statements.

6.2 Geographical information

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

Presented below is the Group's revenue from the sale of services and finished goods to customers, broken down by their headquarter:

	9 months ended 30/09/2017 (unaudited)	3 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)	3 months ended 30/09/2016 (unaudited)
Poland	2 420 461	863 858	2 191 783	758 209
Czech Republic	431 001	137 219	510 423	154 766
Germany	170 645	53 732	129 032	43 857
Slovakia	78 907	26 003	46 666	16 074
Italy	64 240	15 113	47 552	17 074
France	39 808	14 330	48 114	13 138
Other countries	197 121	65 726	192 321	73 920
Total	**3 402 183**	**1 175 981**	**3 165 891**	**1 077 038**

Non-current assets other than financial instruments and deferred income tax assets, broken down by location:

	As at 30/09/2017 (unaudited)	As at 31/12/2016 (restated*)
Poland	3 907 754	3 987 209
Czech Republic	817 082	840 775
Other countries	11 377	13 860
Total	**4 736 213**	**4 841 844**

(*) restatement of comparatives described in Note 5 to these Quarterly Condensed Consolidated Financial Statements.

6.3 Information about major customers

In the period of 9 months ended 30 September 2017, sales of services and finished goods to one capital group exceeded 10% and accounted for 11,5% of total revenue from the sale of services and finished goods. In the period of 9 months ended 30 September 2016 sales to one capital group exceeded 10% and amounted to 10,1% of the Group's revenue from the sale of services and finished goods.

6.4 Structure of revenue from the sale of services and finished goods

As part of its operations the Group distinguishes groups of services, as shown in this Note. The Parent Company's Management does not, however, take this division into account when assessing the Group's performance or making decisions on the allocation of resources to the groups of services. Accordingly, the groups of services shown below are not to be treated as the Group's operating segments.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

6.4 Revenue from the sale of services and finished goods (continued)

	9 months ended 30/09/2017 (unaudited)	3 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)	3 months ended 30/09/2016 (unaudited)
Revenue from rail freight transport and shipping services	2 897 402	1 010 541	2 624 592	898 933
Revenue from other transport activities	121 701	40 602	128 579	43 177
Siding and track line revenue	178 564	56 389	199 152	66 359
Cargo revenue	57 891	18 220	59 266	16 804
Reclamation services	50 785	19 982	49 265	14 931
Other revenue, of which:				
Rental of assets	30 426	8 939	34 829	13 178
Customs agency services	11 053	3 793	10 583	3 249
Sale of finished goods	18 411	6 636	22 613	8 472
Rolling stock repairs	12 884	2 851	17 463	4 014
Other	23 066	8 028	19 549	7 921
Total	**3 402 183**	**1 175 981**	**3 165 891**	**1 077 038**

7. Expenses by kind

7.1 Depreciation / amortization and impairment

	9 months ended 30/09/2017 (unaudited)	3 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)	3 months ended 30/09/2016 (unaudited)
Depreciation of property, plant and equipment	415 710	137 130	420 838	142 448
Amortization of intangible assets	13 015	4 482	14 037	4 118
Recognized / (released) impairment losses:				
Property, plant and equipment	247	-	35 415	(414)
Total	**428 972**	**141 612**	**470 290**	**146 152**

7.2 Consumption of raw materials and energy

	9 months ended 30/09/2017 (unaudited)	3 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)	3 months ended 30/09/2016 (unaudited)
Consumption of fuel	135 384	47 768	114 230	39 872
Consumption of materials	72 617	23 554	77 776	25 838
Consumption of electricity, gas and water	305 296	100 995	300 069	99 966
Recognized / (released) impairment losses	(288)	156	(877)	(320)
Other	979	274	1 019	308
Total	**513 988**	**172 747**	**492 217**	**165 664**

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

7.3 External services

	9 months ended 30/09/2017 (unaudited)	3 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)	3 months ended 30/09/2016 (unaudited)
Access to infrastructure connections	528 563	187 531	489 118	169 594
Repair services	31 335	13 546	35 400	16 495
Rental and lease fees for real properties and rolling stock	120 448	42 714	142 941	44 275
Transport services	324 129	109 488	318 543	101 481
Telecommunications services	5 810	2 014	6 291	1 957
Legal, advisory and similar services	14 383	5 219	15 670	5 192
IT services	34 182	11 168	34 886	10 768
Services related to property maintenance and operation of fixed assets	19 204	5 544	22 750	7 663
Cargo services	15 840	5 362	18 312	5 281
Reclamation services	29 067	10 842	31 571	7 802
Siding services	8 110	2 184	8 305	2 950
Other services	39 172	15 007	33 697	9 900
Total	**1 170 243**	**410 619**	**1 157 484**	**383 358**

7.4 Employee benefits

	9 months ended 30/09/2017 (unaudited)	3 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)	3 months ended 30/09/2016 (unaudited)
Salaries and wages	823 634	278 135	843 729	275 826
Costs of social insurance	176 805	59 638	183 039	59 164
Contributions to Company Social Benefits Fund	18 308	4 435	18 310	4 986
Other employment benefits	28 768	9 024	29 997	12 289
Post-employment benefits	5 452	1 851	4 742	1 759
Changes in provisions for employee benefits	57 237	4 263	23 934	(1 329)
Other costs of employee benefits	1 217	415	1 995	59
Total	**1 111 421**	**357 761**	**1 105 746**	**352 754**

7.5 Other expenses by kind

	9 months ended 30/09/2017 (unaudited)	3 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)	3 months ended 30/09/2016 (unaudited)
Business travel	23 542	7 923	23 384	7 420
Insurance	10 023	3 444	9 119	3 009
Other	7 809	2 569	6 573	2 357
Total	**41 374**	**13 936**	**39 076**	**12 786**

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

8. Other operating revenue and expenses

8.1 Other operating revenue

	9 months ended 30/09/2017 (unaudited)	3 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)	3 months ended 30/09/2016 (unaudited)
Gains on disposal of assets				
Gain on the sale of non-financial fixed assets [1]	6 572	103	2 525	719
Derecognized impairment losses				
Trade receivables	2 767	627	1 111	745
Other receivables	35	7	96	26
	2 802	634	1 207	771
Other				
Penalties and damage compensation	11 431	3 216	11 330	3 095
Release of provision for fine from UOKiK	-	-	357	-
Release of other provisions	2 892	(370)	3 215	(26)
Interest on trade and other receivables	1 826	716	1 415	341
Net results on foreign exchange on trade receivables and trade payables	-	-	3 056	(883)
Grants	1 191	782	972	757
Other	2 072	526	1 367	119
Total	**28 786**	**5 607**	**25 444**	**4 893**

[1] In the period of 9 months ended 30 September 2017 the item consists primarily of the profit earned on the sale of a property in Plzen.

8.2 Other operating expenses

	9 months ended 30/09/2017 (unaudited)	3 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)	3 months ended 30/09/2016 (unaudited)
Recognized impairment losses				
Trade receivables	4 118	977	67 351	(400)
Other receivables	292	292	97	49
	4 410	1 269	67 448	(351)
Other				
Penalties and damage compensation	8 263	4 226	6 867	1 823
Costs of liquidating non-current and current assets	1 735	402	4 288	1 786
Provision for fines from UOKiK	957	-	2 032	-
Other provisions [1]	16 287	15 377	2 401	97
Court and collection costs	1 030	317	1 017	389
Costs of transport benefits for non-employees	1 208	408	1 793	421
Interest on trade and other payables	499	314	1 207	78
Net results on foreign exchange on trade receivables and trade payables	4 116	(722)	-	-
Donations	1 206	108	-	-
Other	1 113	351	1 445	1 416
Total	**40 824**	**22 050**	**88 498**	**5 659**

[1] In the period of 9 months ended 30 September 2017 the item consists primarily of a provision for onerous contracts in the amount of PLN 14.307 thousand.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

9. Financial revenue and expenses

9.1 Financial revenue

	9 months ended 30/09/2017 (unaudited)	3 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)	3 months ended 30/09/2016 (unaudited)
Interest income				
Bank deposits and accounts	7 065	2 666	389	172
Loans granted	408	142	277	(9)
Other (including interest on state settlements)	198	63	154	65
	7 671	2 871	820	228
Dividend income from capital investments	256	256	191	29
Total interest and dividend income	**7 927**	**3 127**	**1 011**	**257**
Other				
Gain on valuation of assets and liabilities measured at fair value through profit or loss, of which:				
Valuation of liability relating to put options for non-controlling shares	4 694	-	-	-
Valuation of forward contracts	114	(48)	-	-
	4 808	(48)	-	-
Net result on foreign exchange differences	2 420	(2 164)	-	-
Other	-	-	-	(20)
Total	**15 155**	**915**	**1 011**	**237**

9.2 Financial expenses

	9 months ended 30/09/2017 (unaudited)	3 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (restated*)	3 months ended 30/09/2016 (restated*)
Interest expense				
Interest on loans and borrowings	21 384	6 927	12 760	4 712
Interest on liabilities under finance lease agreements	4 748	1 507	6 635	2 044
Interest on long-term liabilities	480	70	2 185	561
Other (including interest on state settlements)	988	92	1 570	400
Total interest expense	**27 600**	**8 596**	**23 150**	**7 717**
Other				
Loss on the valuation of financial assets and liabilities measured at fair value through profit or loss, of which:				
Valuation of liability relating to put options for non-controlling shares	-	-	3 024	(3 391)
Valuation of forward contracts	-	-	207	(544)
	-	-	3 231	(3 935)
Unwinding discount on employee benefits provision	15 469	5 164	15 308	5 272
Net result on foreign exchange differences	-	-	3 547	(1 236)
Other	1 785	601	1 979	816
Total	**44 854**	**14 361**	**47 215**	**8 634**

(*) restatement of comparatives described in Note 5 to these Quarterly Condensed Consolidated Financial Statements.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

10. Income tax

10.1 Income tax recognized in profit or loss

	9 months ended 30/09/2017 (unaudited)	3 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)	3 months ended 30/09/2016 (unaudited)
Current income tax				
Current tax expense	52 692	18 711	3 536	978
Adjustments recognized in current year relating to tax from previous years	394	-	(62)	-
	53 086	18 711	3 474	978
Deferred income tax				
Deferred tax formed in the reporting period	(30 622)	(7 236)	(32 101)	5 091
Income tax recognized in profit or loss	**22 464**	**11 475**	**(28 627)**	**6 069**

The Group's current tax liability is calculated based on binding tax regulations. The application of these regulations distinguishes tax profit/(loss) from accounting profit/(loss), due to the exclusion of non-taxable income and non-tax deductible costs, as well as costs and revenue that will never be subject to taxation. Tax liabilities are calculated based on rates binding in a given financial year. Currently binding regulations do not provide for applying different rates to future periods. Frequently occurring differences in interpretations of tax regulations, both within the government organs and between the government organs and businesses, lead to areas of uncertainty and conflict. As a result, the tax risk in Poland is significantly higher than that usually found in countries with better developed tax systems. The tax organs may perform an audit tax of settlements within 5 years of the end of the year, in which the tax was paid. Following such an audit, the Group's tax obligations may be increased by additional tax liabilities.

10.2 Tax Group

On 29 September 2016 an agreement was signed between the companies from the PKP CARGO Group to form a tax group for the period of three tax years starting from 1 January 2017. The Tax Group comprises: PKP CARGO S.A., 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. and PKP CARGO CONNECT Sp. z o.o. PKP CARGO S.A. is the parent company of the Tax Group and represents it with respect to the responsibilities arising out of the Corporate Income Tax Act and the Tax Ordinance. On 21 November 2016 the Head of the First Mazowiecki Tax Office issued a decision registering the agreement to form the PKP CARGO Tax Group.

10.3 Deferred tax recognized in other comprehensive income

	9 months ended 30/09/2017 (unaudited)	3 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)	3 months ended 30/09/2016 (unaudited)
Deferred tax on re-measurement of fair value of financial instruments designated as cash flow hedges	2 021	(1 817)	862	1 549
Actuarial gains / (losses) on post-employment benefit plans	(4 755)	-	-	-
Foreign exchange differences on revaluation of deferred tax balances of foreign entities recognized in other comprehensive income [(1)]	1 169	2 758	1 501	(2 544)
Deferred tax recognized in other comprehensive income	**(1 565)**	**941**	**2 363**	**(995)**

[(1)] Item presented under equity as foreign exchange differences on translation of financial statements of foreign entities.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

10.4 Deferred income tax assets and liabilities

Deferred income tax assets and liabilities have been presented in the quarterly consolidated statement of financial position in the following manner:

	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)
Deferred income tax assets	141 987	107 554
Deferred income tax liabilities	(108 921)	(106 675)
Total	**33 066**	**879**

10.4.1 Deferred income tax movements

9 months ended 30/09/2017 (unaudited)	As at 01/01/2017 (audited)	Recognized in profit or loss	Recognized in other comprehensive income	Foreign exchange differences on translation of deferred income tax recognized in other comprehensive income	As at 30/09/2017 (unaudited)
Temporary differences relating to deferred income tax assets / (liabilities):					
Property, plant and equipment, intangible assets and non-current assets held for sale (including finance leases)	(183 033)	31 669	-	(1 252)	**(152 616)**
Long-term liabilities	(97)	91	-	-	**(6)**
Inventories	936	(1 284)	-	-	**(348)**
Receivables - impairment allowance	7 138	(12)	-	8	**7 134**
Interest accrued on assets	(241)	(182)	-	-	**(423)**
Interest accrued on liabilities	182	(44)	-	-	**138**
Provisions for employee benefits	118 565	1 995	4 755	25	**125 340**
Other provisions	3 904	3 662	-	28	**7 594**
Accrued expenses	6 008	1 489	-	-	**7 497**
Deferred income	(3 080)	(1 008)	-	-	**(4 088)**
Unpaid employee benefits	7 375	(38)	-	6	**7 343**
Foreign exchange differences	2 235	(381)	(1 015)	-	**839**
Valuation of derivative instruments	218	(22)	(1 006)	-	**(810)**
Other	-	(1 520)	-	-	**(1 520)**
	(39 890)	**34 415**	**2 734**	**(1 185)**	**(3 926)**
Unused tax losses [1]	40 769	(3 793)	-	16	**36 992**
Total	**879**	**30 622**	**2 734**	**(1 169)**	**33 066**

[1] As at 30 September 2017 deferred income tax assets on tax losses to be used in future periods represented the loss of the Parent Company in the amount of PLN 139.918 thousand, and of the subsidiary companies in the amount of PLN 54.774 thousand. The tax loss in the amount of PLN 167.272 thousand will be deductible in the five consecutive tax years following the end of operations of the Tax Group. The other tax losses will be deductible for five consecutive years from their incurrence. The Parent Company's Management is of the opinion that as at 30 September 2017 there is no risk of being unable to realize the above assets.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

10.4.1 Deferred income tax movements (continued)

9 months ended 30/09/2016 (unaudited)	As at 01/01/2016 (audited)	Recognized in profit or loss	Recognized in other comprehensive income	Foreign exchange differences on translation of deferred income tax recognized in other comprehensive income	As at 30/09/2016 (unaudited)
Temporary differences relating to deferred income tax assets/(liabilities):					
Property, plant and equipment, intangible assets and non-current assets held for sale (including finance leases)	(185 146)	9 954	-	(1 532)	**(176 724)**
Trade payables	4 608	(4 608)	-	-	**-**
Long-term liabilities	(543)	370	-	-	**(173)**
Inventories	466	491	-	3	**960**
Receivables - impairment allowance	6 856	678	-	2	**7 536**
Interest accrued on assets	(157)	(38)	-	-	**(195)**
Interest accrued on liabilities	(6)	6	-	-	**-**
Provisions for employee benefits	133 800	(1 771)	-	32	**132 061**
Other provisions	4 652	(336)	-	35	**4 351**
Accrued expenses	7 265	1 069	-	-	**8 334**
Deferred income	(4 731)	(87)	-	-	**(4 818)**
Unpaid employee benefits	7 188	(374)	-	7	**6 821**
Foreign exchange differences	1 582	(456)	(47)	-	**1 079**
Valuation of derivative instruments	450	(7)	(815)	1	**(371)**
Other	858	(2 130)	-	-	**(1 272)**
	(22 858)	**2 761**	**(862)**	**(1 452)**	**(22 411)**
Unused tax losses [1]	9 092	29 340	-	(49)	**38 383**
Total	**(13 766)**	**32 101**	**(862)**	**(1 501)**	**15 972**

[1] As at 30 September 2016 deferred income tax assets on tax losses to be used in future periods represented the loss of the Parent Company in the amount of PLN 128.267 thousand, and of the subsidiary companies in the amount of PLN 73.744 thousand.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

10.4.2 Tax losses not included in the calculation of deferred income tax assets

	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)
Deferred income tax assets on the following tax losses were not recognized as at the balance sheet date	121 563	115 682

The amount of tax losses not included in the calculation of a deferred income tax asset as at 30 September 2017 represents the losses incurred by the companies of the AWT Group in the amount of PLN 110.719 thousand (AWT B.V. in the amount of PLN 62.947 thousand, AWT a.s. (legal successor of AWT Coal Logistics s.r.o.) in the amount of PLN 31.270 thousand, AWT Rail HU Zrt. in the amount of PLN 16.502 thousand), as well as the loss of PKP CARGOTABOR USŁUGI Sp. z o.o. in the amount of PLN 7.540 thousand and of CARGOSPED Terminal Braniewo Sp. z o.o. in the amount of PLN 3.304 thousand. Whereas as at 31 December 2016 the tax losses not included in the calculation of a deferred income tax asset represented the losses of the companies of the AWT Group in the amount of PLN 104.774 thousand (AWT B.V. in the amount of PLN 59.333 thousand, AWT Coal Logistics s.r.o. in the amount of PLN 30.930 thousand and AWT Rail HU Zrt. in the amount of PLN 14.511 thousand), the loss of PKP CARGOTABOR USŁUGI Sp. z o.o. in the amount of PLN 7.540 thousand and of CARGOSPED Terminal Braniewo Sp. z o.o. in the amount of PLN 3.368 thousand.

The expiry date of tax losses on which no deferred tax assets were recognized as at 30 September 2017:

Year	2017	2018	2019	2020	2021	2022 and later	Total
Unused tax losses	5 552	6 067	17 928	22 072	41 082	28 862	**121 563**

The expiry date of tax losses on which no deferred tax assets were recognized as at 31 December 2016:

Year	2017	2018	2019	2020	2021	2022 and later	Total
Unused tax losses	5 711	6 093	18 352	20 221	40 979	24 326	**115 682**

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

11. Property, plant and equipment

9 months ended 30/09/2017 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Plant, equipment and machinery	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
As at 1 January 2017(audited)	**162 389**	**742 757**	**381 563**	**5 925 512**	**39 889**	**44 274**	**7 296 384**
Additions / (disposals):							
Acquisition	-	-	-	-	-	329 824	**329 824**
Finance leases	-	-	-	702	-	-	**702**
Foreign exchange differences on translation of financial statements of foreign entities	92	752	320	7 952	16	89	**9 221**
Transfer of fixed assets under construction	10	5 388	15 142	302 694	749	(323 983)	**-**
Grants to fixed assets	-	-	-	-	-	(1 136)	**(1 136)**
Sale	(934)	(628)	(716)	(4 114)	(102)	-	**(6 494)**
Liquidation	-	(4 976)	(917)	(188 084)	(163)	-	**(194 140)**
Other	(686)	(3 280)	(343)	(4 303)	(1 423)	114	**(9 921)**
As at 30 September 2017 (unaudited)	**160 871**	**740 013**	**395 049**	**6 040 359**	**38 966**	**49 182**	**7 424 440**
Accumulated depreciation							
As at 1 January 2017 (audited)	**-**	**167 999**	**241 431**	**1 953 606**	**31 223**	**-**	**2 394 259**
Additions / (disposals):							
Depreciation charges	-	25 217	24 949	363 593	1 951	-	**415 710**
Foreign exchange differences on translation of financial statements of foreign entities	-	108	86	1 364	4	-	**1 562**
Sale	-	(243)	(486)	(3 683)	(102)	-	**(4 514)**
Liquidation	-	(3 370)	(887)	(166 634)	(152)	-	**(171 043)**
Other	-	(3 280)	(342)	(4 108)	(1 423)	-	**(9 153)**
As at 30 September 2017 (unaudited)	**-**	**186 431**	**264 751**	**2 144 138**	**31 501**	**-**	**2 626 821**
Accumulated impairment							
As at 1 January 2017 (audited)	**2 380**	**1 924**	**317**	**194 486**	**8**	**2 460**	**201 575**
Additions / (disposals):							
Recognition of impairment loss	-	-	-	-	-	247	**247**
Sale	-	-	-	(5)	-	-	**(5)**
Liquidation	-	(1 559)	-	(8 559)	-	-	**(10 118)**
Foreign exchange differences on translation of financial statements of foreign entities	2	-	-	(918)	-	-	**(916)**
As at 30 September 2017 (unaudited)	**2 382**	**365**	**317**	**185 004**	**8**	**2 707**	**190 783**
Net value							
As at 1 January 2017 (audited)	**160 009**	**572 834**	**139 815**	**3 777 420**	**8 658**	**41 814**	**4 700 550**
of which finance leases	-	-	*8 633*	*319 689*	-	-	***328 322***
As at 30 September 2017 (unaudited)	**158 489**	**553 217**	**129 981**	**3 711 217**	**7 457**	**46 475**	**4 606 836**
of which finance leases	-	-	*6 871*	*259 370*	-	-	***266 241***

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

11. Property, plant and equipment (continued)

9 months ended 30/09/2016 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Plant, equipment and machinery	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
As at 1 January 2016 (audited)	**153 323**	**735 423**	**362 904**	**5 441 611**	**39 283**	**30 332**	**6 762 876**
Additions / (disposals):							
Acquisition	-	-	-	-	-	419 663	**419 663**
Finance leases	-	-	-	3 302	-	-	**3 302**
Reclassification from assets held for sale	6 489	-	-	94 689	-	-	**101 178**
Foreign exchange differences on translation of financial statements of foreign entities	177	1 227	499	9 434	38	156	**11 531**
Transfer of fixed assets under construction	-	3 462	8 094	386 883	595	(399 034)	**-**
Grants to fixed assets	-	-	-	-	-	(5 407)	**(5 407)**
Sale	-	-	(178)	(1 516)	(83)	-	**(1 777)**
Liquidation	-	-	(1 011)	(76 598)	(43)	(162)	**(77 814)**
Other	-	-	-	(84)	(75)	-	**(159)**
As at 30 September 2016 (unaudited)	**159 989**	**740 112**	**370 308**	**5 857 721**	**39 715**	**45 548**	**7 213 393**
Accumulated depreciation							
As at 1 January 2016 (audited)	**-**	**129 544**	**215 838**	**1 508 843**	**28 717**	**-**	**1 882 942**
Additions / (disposals):							
Depreciation charges	-	27 209	25 412	365 579	2 638	-	**420 838**
Reclassification from assets held for sale	-	-	-	41 234	-	-	**41 234**
Foreign exchange differences on translation of financial statements of foreign entities	-	75	92	746	4	-	**917**
Sale	-	-	(116)	(745)	(78)	-	**(939)**
Liquidation	-	-	(877)	(72 199)	(16)	-	**(73 092)**
Other	-	-	-	(39)	(75)	-	**(114)**
As at 30 September 2016 (unaudited)	**-**	**156 828**	**240 349**	**1 843 419**	**31 190**	**-**	**2 271 786**
Accumulated impairment							
As at 1 January 2016 (audited)	**751**	**8 809**	**317**	**147 799**	**8**	**2 502**	**160 186**
Additions / (disposals):							
Recognition of impairment loss	133	335	-	34 947	-	-	**35 415**
Reclassification from assets held for sale	1 495	-	-	22 451	-	-	**23 946**
Use of impairment loss	-	-	-	(709)	-	-	**(709)**
Liquidation	-	-	-	-	-	(42)	**(42)**
Foreign exchange differences on translation of financial statements of foreign entities	1	2	-	(493)	-	-	**(490)**
As at 30 September 2016 (unaudited)	**2 380**	**9 146**	**317**	**203 995**	**8**	**2 460**	**218 306**
Net value							
As at 1 January 2016 (audited)	**152 572**	**597 070**	**146 749**	**3 784 969**	**10 558**	**27 830**	**4 719 748**
of which finance leases	*-*	*-*	*12 427*	*346 493*	*-*	*-*	***358 920***
As at 30 September 2016 (unaudited)	**157 609**	**574 138**	**129 642**	**3 810 307**	**8 517**	**43 088**	**4 723 301**
of which finance leases	*-*	*-*	*8 399*	*326 866*	*-*	*-*	***335 265***

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

12. Subsidiaries

Detailed information about subsidiaries consolidated by acquisition accounting as at 30 September 2017 and 31 December 2016:

No.	Name of subsidiary	Core business	Place of registration and operations	Percent of shares held by the Group	
				As at 30/09/2017	As at 31/12/2016
1	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Services in support of land transport, reloading of cargo and wholesale and retail of waste and scrap	Małaszewicze	100,0%	100,0%
2	PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o.	Reloading of cargo at other reloading centers	Żurawica	100,0%	100,0%
3	PKP CARGO SERVICE Sp. z o.o.	Comprehensive siding services	Warsaw	100,0%	100,0%
4	PKP CARGO CONNECT Sp. z o.o.	Shipping services	Warsaw	100,0%	100,0%
5	PKP CARGOTABOR Sp. z o.o.	Maintenance and repair of rolling stock	Warsaw	100,0%	100,0%
6	PKP CARGOTABOR USŁUGI Sp. z o.o.	Collection, processing and neutralization of waste and recovery of raw materials	Warsaw	100,0%	100,0%
7	CARGOTOR Sp. z o.o.	Management of logistics and service infrastructure in the form of railway sidings and railroad tracks. Provision of such infrastructure to rail carriers.	Warsaw	100,0%	100,0%
8	CARGOSPED Terminal Braniewo Sp. z o.o.	Reloading of cargo, customs warehouse	Braniewo	100,0%	100,0%
9	Advanced World Transport B.V. (1)	Holding and financial activities	Amsterdam	80,0%	80,0%
10	Advanced World Transport a.s. (2)	Provision of comprehensive services: rail transport, rail shipping, siding services, rolling stock repairs	Ostrava	80,0%	80,0%
11	AWT ROSCO a.s.	Rolling stock management and rentals	Ostrava	80,0%	80,0%
12	AWT Čechofracht a.s.	Rail shipping and customs services	Prague	80,0%	80,0%
13	AWT Rekultivace a.s.	Provision of comprehensive services: land reclamation, construction services, waste management, landscape planning	Havirov-Prostredni Sucha	80,0%	80,0%
14	AWT Rail HU Zrt.	Provision of comprehensive services: rail transport, rail shipping, siding services	Budapest	80,0%	80,0%
15	AWT Coal Logistics s.r.o. (2)	Rail shipping	Prague	-	80,0%

(1) On 2 November 2017 as a result of acquisition of an additional 20% of shares of AWT B.V., the Parent Company has become the direct owner of 100% of shares of AWT B.V. As a result of the transaction, the Parent Company became the indirect owner of 51% of shares of RND s.r.o. and of 100% of shares of the other entities directly owned by AWT B.V. The transaction is described in Note 22 to these Quarterly Condensed Consolidated Financial Statements.
(2) Two companies from the AWT Group merged effective 1 June 2017: Advanced World Transport a.s. acquired AWT Coal Logistics s.r.o., as a result of which AWT Coal Logistics s.r.o. ceased to exist as a separate entity.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

12. Subsidiaries (continued)

Detailed information about other subsidiaries comprising the Group as at 30 September 2017 and 31 December 2016:

No.	Name of subsidiary	Core business	Place of registration and operations	Percent of shares held by the Group	
				As at 30/09/2017	As at 31/12/2016
16	ONECARGO Sp. z o.o.	Rail transport of freight	Warsaw	100,0%	100,0%
17	ONECARGO CONNECT Sp. z o.o.	Services in support of land transport	Warsaw	100,0%	100,0%
18	Transgaz S.A.	Shipping agency	Zalesie k. Małaszewicz	64,0%	64,0%
19	Trade Trans Finance Sp. z o.o.	Financial and accounting services	Warsaw	100,0%	100,0%
20	PKP CARGO CONNECT GmbH	Customs and shipping services	Hamburg	100,0%	100,0%
21	PPHU "Ukpol" Sp. z o.o.	Reloading, commercial services	Werchrata	100,0%	100,0%
22	AWT Rail SK a. s.	Rail transport, rail shipping	Bratislava	80,0%	80,0%
23	AWT DLT s.r.o.	Siding services	Kladno	80,0%	80,0%
24	AWT Trading s.r.o.	Sale of military products	Petrvald	80,0%	80,0%
25	AWT Rekultivace PL Sp. z o.o.	Provision of comprehensive services: land reclamation, construction services, waste management, landscape planning	Cieszyn	80,0%	80,0%
26	RND s.r.o.	Rail shipping, transport monitoring	Olomouc	40,8%	40,8%

13. Investments in entities accounted for under the equity method

	9 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (restated*)
Opening balance	**58 219**	**57 240**
Share in profits / (losses) of investments in entities accounted for under the equity method	1 430	2 597
Change in equity arising out of dividend payment	(4 936)	(2 157)
Foreign exchange differences on translation of financial statements of foreign entities	(477)	54
Closing balance	**54 236**	**57 734**

(*) restatement of comparatives described in Note 5 to these Quarterly Condensed Consolidated Financial Statements.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

13.1 Detailed information on entities accounted for under the equity method

Name of entity accounted for under the equity method	Percent of shares held by the Group		Carrying amount	
	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)	As at 30/09/2017 (unaudited)	As at 31/12/2016 (restated*)
COSCO Shipping Lines (POLAND) Sp. z o.o.	20,0%	20,0%	635	763
Pol - Rail S.r.l	50,0%	50,0%	7 699	8 088
Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	50,0%	50,0%	20 829	20 983
Transgaz S.A.	64,0%	64,0%	6 138	6 897
Trade Trans Finance Sp. z o.o.	100,0%	100,0%	7 916	7 830
PPHU "Ukpol" Sp. z o.o.	100,0%	100,0%	-	-
Rentrans Cargo Sp. z o.o.	29,3%	29,3%	7 889	8 477
AWT Rail SK a. s.	80,0%	80,0%	3 130	5 181
		Total	**54 236**	**58 219**

(*) restatement of comparatives described in Note 5 to these Quarterly Condensed Consolidated Financial Statements.

14. Other financial assets

	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)
Derivative instruments		
Currency forwards and spots	4 828	235
Investments in shares		
Shares of Polish entities (1)	7 112	7 141
Shares of foreign entities (1)	1 374	1 360
	8 486	8 501
Loans and receivables		
Loans granted to related parties	1 093	796
Deposits for over 3 months	258 022	-
	259 115	796
Other		
Other	-	9
Total	**272 429**	**9 541**
Non-current assets	9 014	8 649
Current assets	263 415	892
Total	**272 429**	**9 541**

(1) As at 30 September 2017 the value of impairment allowance on investments in shares amounted to PLN 11.811 thousand, and as at 31 December 2016 to PLN 11.833 thousand.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

15. Other non-financial assets

	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)
Expenses settled in time		
Lease fees	13 669	14 210
Insurance	10 457	7 667
Contribution to Company Social Benefits Fund	8 472	-
Transport benefits for eligible persons	3 631	-
Prepaid electrical energy	-	14 673
Other prepaid expenses	4 574	5 583
	40 803	42 133
Other		
Advances towards the purchase of fixed assets	15 484	10 477
Other	502	654
	15 986	11 131
Total	**56 789**	**53 264**
Non-current assets	29 627	25 987
Current assets	27 162	27 277
Total	**56 789**	**53 264**

16. Inventories

	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)
Raw materials (1)	135 202	120 619
Semi-finished products	4 708	6 027
Merchandise	992	1 872
Impairment allowance	(6 451)	(7 329)
Total	**134 451**	**121 189**

(1) The increase in the value of inventories in the period of 9 months ended on 30 September 2017 was caused primarily by the Parent Company's decision to liquidate components of rolling stock while recovering spare parts and scrap. The residual value of the rolling stock components recognized in inventories was PLN 12.581 thousand.

17. Trade and other receivables

	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)
Trade receivables	817 952	768 873
Impairment allowance for trade receivables	(153 664)	(152 873)
	664 288	616 000
State receivables	4 468	5 216
Guarantees, security deposits and bid bonds	1 486	1 415
Dividend receivables	2 024	-
VAT settlements	23 918	17 754
Other receivables	2 351	1 704
Total	**698 535**	**642 089**
Non-current assets	1 749	2 223
Current assets	696 786	639 866
Total	**698 535**	**642 089**

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

18. Cash and cash equivalents

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

	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)
Cash in hand and at bank	141 417	282 870
Bank deposits for up to 3 months	247 309	473 049
Total	**388 726**	**755 919**

The decrease in the value of bank deposits for up to 3 months was caused by a change in the period, for which deposits are made. As at 30 September 2017, some of the bank deposits, amounting to PLN 258.022 thousand, are concluded for more than 3 months, and presented under other short-term financial assets.

19. Equity

19.1 Share capital

	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)
Share capital consists of:		
Ordinary shares - fully paid up and registered	2 239 346	2 239 346

As at 30 September 2017 and 31 December 2016 the Parent Company's share capital consisted of ordinary shares with a nominal value of PLN 50 per share. Each fully paid up ordinary share, with a nominal value of PLN 50, is equal to a single vote at a general meeting and entitled to a dividend.

No changes were made in the Parent Company's share capital in the period of 9 months ended 30 September 2017, or the period of 9 months ended 30 September 2016.

19.2 Share premium

The changes made in the Group's share premium in the period of 9 months ended 30 September 2017 were the result of a resolution passed on 30 June 2017 by the Ordinary Shareholders Meeting of CARGOSPED Terminal Braniewo Sp. z o.o. on partially covering the net loss for the year 2016 from the share premium.

19.3 Retained earnings

The Parent Company's Ordinary General Meeting of 30 May 2017 passed a resolution to approve the Separate and Consolidated Financial Statements for the year 2016, and to cover the Parent Company's loss for the year 2016 from accumulated profits from previous years.

20. Earnings per share

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

	9 months ended 30/09/2017 (unaudited)	3 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (restated*)	3 months ended 30/09/2016 (restated*)
Profit/loss attributable to shareholders of the Parent Company	**51 741**	**32 379**	**(201 244)**	**(5 992)**

(*) restatement of comparatives described in Note 5 to these Quarterly Condensed Consolidated Financial Statements.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

20.1 Basic earnings per share

	9 months ended 30/09/2017 (unaudited)	3 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (restated*)	3 months ended 30/09/2016 (restated*)
Weighted average number of ordinary shares	44 786 917	44 786 917	44 786 917	44 786 917
Basic earnings per share (PLN per share)	**1,16**	**0,73**	**(4,49)**	**(0,13)**

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

(*) restatement of comparatives described in Note 5 to these Quarterly Condensed Consolidated Financial Statements.

20.2 Diluted earnings per share

	9 months ended 30/09/2017 (unaudited)	3 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (restated*)	3 months ended 30/09/2016 (restated*)
Weighted average number of ordinary shares	44 786 917	44 786 917	44 786 917	44 786 917
Diluted earnings per share (PLN per share)	**1,16**	**0,73**	**(4,49)**	**(0,13)**

No dilutive transactions took place in the period of 9 months ended 30 September 2017 or the period of 9 months ended 30 September 2016.

(*) restatement of comparatives described in Note 5 to these Quarterly Condensed Consolidated Financial Statements.

21. Bank loans and credit facilities

	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)
Bank loans - pledged on assets	105 423	118 236
Bank loans - other	1 212 837	1 348 479
Borrowings from related parties	1 412	3 605
Borrowings from other parties	975	1 088
Total	**1 320 647**	**1 471 408**
Long-term liabilities	1 105 075	1 273 605
Short-term liabilities	215 572	197 803
Total	**1 320 647**	**1 471 408**

21.1 Change in bank loans and credit facilities

	9 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)
Opening balance	**1 471 408**	**714 169**
Taken out	50 521	468 055
Repayment	(194 074)	(218 874)
Interest accrued	(182)	109
Currency valuation	(7 795)	(315)
Foreign exchange differences on translation of financial statements of foreign entities	769	1 419
Closing balance	**1 320 647**	**964 563**

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

21.2 Summary of credit agreements

The Group concludes credit agreements primarily to finance its investment plan, acquisitions and current operations. Credit agreements are taken out in PLN, EUR and CZK.

Parent Company

Type of loan	Name of bank	Currency	Pledge	Interest terms	Maturity date	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)
Investment loan	mBank S.A.	PLN	Bank enforcement title	WIBOR 1M + margin	30/06/2017	-	4 210
Investment loan	Bank Polska Kasa Opieki S.A.	PLN	Bank enforcement title	WIBOR 1M + margin	31/12/2017	2 460	9 840
Investment loan	Bank Gospodarstwa Krajowego	PLN	Bank enforcement title	WIBOR 1M + margin	31/03/2021	300 859	377 478
Investment loan	European Investment Bank	PLN	None	WIBOR 3M + margin	29/05/2020	46 833	59 608
Investment loan	Bank Gospodarstwa Krajowego	EUR	Notary certified declaration of submission to execution	EURIBOR 3M + margin	20/12/2026	62 708	66 373
Investment loan	Bank Gospodarstwa Krajowego	EUR	Notary certified declaration of submission to execution	EURIBOR 3M + margin	20/12/2026	84 617	75 884
Investment loan	Bank Polska Kasa Opieki S.A.	PLN	Notary certified declaration of submission to execution	WIBOR 3M + margin	31/12/2026	625 573	649 759
Investment loan	European Bank for Reconstruction and Development (1)	PLN	None	WIBOR 6M + margin	25/09/2027	-	42 748
Investment loan	European Investment Bank	EUR	None	EURIBOR 3M + margin	29/08/2031	57 775	62 494
					Total	**1 180 825**	**1 348 394**

(1) The loan concluded by the Parent Company with European Bank for Reconstruction and Development to refinance the purchase of shares of AWT B.V. was paid off early on 27 March 2017.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

21.2 Summary of credit agreements (continued)

Subsidiaries

Type of loan	Name of bank	Currency	Pledge	Interest terms	Maturity date	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)
Overdraft	PKO Bank Polski S.A.	PLN	Capped mortgage, pledge on inventory	WIBOR 1M + margin	15/07/2019	218	429
Investment loan	Bank Polska Kasa Opieki S.A. [2]	PLN	Notary certified declaration of submission to execution	WIBOR 3M + margin	20/12/2021	6 374	-
Investment loan	Bank Polska Kasa Opieki S.A. [2]	PLN	Notary certified declaration of submission to execution	WIBOR 3M + margin	31/12/2021	12 243	-
Investment loan	mBank S.A.	PLN	Guarantee granted by PKP CARGO S.A	WIBOR 1M + margin	30/06/2017	-	85
Loan	WFOŚIGW Łódź [1]	PLN	1) Blank promissory note 2) Irrevocable authorization to bank account 3) Guarantee granted by PKP CARGO S.A.	fixed	31/03/2024	975	1 088
Investment loan	Bank Polska Kasa Opieki S.A. [2]	PLN	Notary certified declaration of submission to execution	WIBOR 3M + margin	31/12/2021	9 390	-
Investment loan	Bank Polska Kasa Opieki S.A. [2]	PLN	Notary certified declaration of submission to execution	WIBOR 3M + margin	31/12/2021	4 005	-
Investment loan	ING Bank N.V. UniCredit Bank Czech Republik and Slovakia a.s. Raiffeisenbank a.s.	CZK	1) Pledge on property, plant and equipment and receivables 2) Lien on bank accounts 3) Assignment of insurance policy	PRIBOR 3M + margin	26/09/2021	49 194	48 663
Investment loan	ING Bank N.V. UniCredit Bank Czech Republik and Slovakia a.s. Raiffeisenbank a.s. [1]	EUR	1) Pledge on property, plant and equipment and receivables 2) Lien on bank accounts 3) Assignment of insurance policy	fixed	30/06/2021	56 011	69 144
Loan	AWT Rail SK a.s. [1]	EUR	None	fixed	31/12/2017	1 412	3 605
					Total	**139 822**	**123 014**

[1] As at 30 September 2017 interest rates on bank credits and loans with a fixed interest rate fell within the range of 0,06% to 4%.
[2] In February and March 2017 the companies: PKP CARGO SERVICE Sp. z o.o., CARGOTOR Sp. z o.o., PKP CARGOTABOR Sp. z o.o., PKP CARGO CONNECT Sp. z o.o. concluded credit agreements with Bank Polska Kasa Opieki S.A. to refinance fixed assets purchased in the years 2015 - 2016.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

21.3 Unused credit lines

Type	Name of bank	Availability period	Currency	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)
Investment loan	European Investment Bank	31/12/2016	PLN	-	155 000
Investment loan	European Investment Bank	19/07/2020	EUR	110 960	113 918
Investment loan	Bank Gospodarstwa Krajowego (1)	27/12/2017	EUR	281 671	300 171
Investment loan	Bank Polska Kasa Opieki S.A.	31/12/2016	PLN	-	50 500
Investment loan	European Bank for Reconstruction and Development	31/12/2016	EUR	-	398 160
Overdraft	mBank S.A. (2)	31/05/2017	PLN	-	100 000
Overdraft	Bank Polska Kasa Opieki S.A. (3)	25/05/2018	PLN	100 000	-
Overdraft	PKO Bank Polski S.A.	15/07/2019	PLN	782	572
			Total	**493 413**	**1 118 321**

(1) On 14 March 2017 an annex was concluded to the credit agreement with Bank Gospodarstwa Krajowego, based on which the availability of the credit was extended from 31 December 2016 to 27 December 2017.
(2) An overdraft agreement with mBank S.A. ended on 31 May 2017.
(3) On 26 May 2017 an overdraft agreement was concluded with Bank Polska Kasa Opieki S.A.
The above changes in overdraft agreements are the result of a change in the bank that serves the cash pooling agreement that covers selected companies from the PKP CARGO Group.

21.4 Breaches of credit agreements

As at 30 September 2017 there have been no breaches of credit agreements.

22. Other financial liabilities

	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)
Derivative instruments		
Interest rate swap (IRS)	408	1 042
Currency forwards and swaps	-	185
Other		
Liability relating to put options for non-controlling shares (1)	-	118 704
Liability relating to the acquisition of shares of AWT B.V. (1)	116 346	-
Total	**116 754**	**119 931**
Long-term liabilities	-	1 042
Short-term liabilities	116 754	118 889
Total	**116 754**	**119 931**

(1) On 4 May 2017 the Parent Company was notified by Minezit S.E. (hereinafter referred to as MSE), a minority shareholder of AWT B.V., of its exercise of the put option to sell 20% of its shares of AWT B.V. to the Parent Company. In accordance with the Agreement concluded on 30 December 2014 between the Parent Company and MSE, the total price for the exercise of the put option was EUR 27.000 thousand. After MSE exercised its put option, the financial instrument expired and was replaced with a liability for the acquisition of shares of AWT B.V. On 20 June 2017 the Parent Company's Management Board signed an agreement with MSE regulating the realization of the joint project, based on which the put options for 20% of the shares of AWT B.V. might be settled.

On 3 October 2017 the Parent Company was notified of MSE's withdrawal from the concluded agreement. Simultaneously, MSE called the Parent Company to make payment on the put option of 15.000 shares constituting 20% of the share capital of AWT B.V. in the amount of EUR 27.000 thousand within 20 working days of receipt of the withdrawal notice. Payment was made on 2 November 2017 and the ownership of the remaining 20% of shares of AWT B.V. was transferred to the Parent Company.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

23. Finance lease liabilities and leases with purchase option

As at 30 September 2017 based on lease agreements the Group uses primarily rolling stock components, technical equipment, cars and computer hardware. Currently binding agreements have been concluded from 3 to 10 years in PLN, EUR and CZK.

	As at 30/09/2017 (unaudited)			As at 31/12/2016 (audited)		
	Minimum lease payments	Future financial liabilities	Present value of minimum lease payments	Minimum lease payments	Future financial liabilities	Present value of minimum lease payments
Up to 1 year	53 732	(4 244)	49 488	65 173	(5 606)	59 567
Over 1 to 5 years	102 786	(8 221)	94 565	113 170	(10 890)	102 280
Over 5 years	6 649	(191)	6 458	39 348	(705)	38 643
Total	**163 167**	**(12 656)**	**150 511**	**217 691**	**(17 201)**	**200 490**
Long-term liabilities	109 435	(8 412)	101 023	152 518	(11 595)	140 923
Short-term liabilities	53 732	(4 244)	49 488	65 173	(5 606)	59 567
Total	**163 167**	**(12 656)**	**150 511**	**217 691**	**(17 201)**	**200 490**

24. Trade and other payables

	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)
Trade payables	335 061	327 389
Accruals	54 056	49 826
Liabilities relating to purchase of non-financial fixed assets	11 923	46 402
Security related liabilities (bonds, security deposits, guarantees)	23 566	20 289
State liabilities	103 331	103 170
Employee liabilities	88 104	78 836
Grants received	7 125	8 490
Other liabilities	1 310	3 287
VAT settlements	6 491	34 177
Total	**630 967**	**671 866**
Long-term liabilities	1 199	1 845
Short-term liabilities	629 768	670 021
Total	**630 967**	**671 866**

25. Provisions for employee benefits

As at 30 September 2017 the Parent Company's valuation of provisions for employee benefits is based on the actuarial assumptions used in the valuation of provisions performed as at 30 June 2017. As at 30 June 2017 valuation of provisions for employee benefits was performed due to a change in the discount rate and a rise in wages agreed with the Parent Company's employees effective from September 2017. The Parent Company's share in the value of the Group's provisions for employee benefits determined using actuarial methods amounts to more than 90%. As at 30 September 2017 valuation of provisions for employee benefits at the Parent Company is based on the following assumptions:

	Valuation as at	
	30/09/2017	31/12/2016
	%	%
Discount rate	3,15	3,50
Average assumed annual growth of calculation base for provision for retirement compensation, jubilee bonuses	7,6 in 2017, 1,5 in subsequent years	1,35
Assumed growth in price of entitlement for transport benefits	0 - 2,5	0 - 2,5
Average assumed annual growth of calculation base for contribution to Company Social Benefits Fund	3,5 - 5	3,5 - 8,4
Weighted average employee mobility factor	2,3	2,3
Inflation (annually)	1,3 - 2,5	1,3 - 2,5

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

25. Provisions for employee benefits (continued)

As at 30 September 2017 the valuation of provisions for employee benefits at the Group's other companies was based on the assumptions used as at 31 December 2016.

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

	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)
<u>Defined post-employment benefit plans</u>		
– retirement compensation	160 621	153 230
– contributions to Company Social Benefits Fund for retirees	140 809	128 614
– death benefits	7 161	6 836
– transport benefits	33 518	33 286
<u>Other employee benefits</u>		
– jubilee bonuses	271 832	268 875
– other employee benefits (unused annual leave / bonuses)	49 892	33 986
Total	**663 833**	**624 827**
Long-term liabilities	548 698	525 571
Short-term liabilities	115 135	99 256
Total	**663 833**	**624 827**

26. Other provisions

	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)
Provision for fines from antimonopoly office UOKiK	14 224	16 455
Reclamation provision	5 041	4 908
Provision for onerous contracts	22 555	8 159
Provision for VAT settlements	21 934	-
Other provisions	20 148	21 848
Total	**83 902**	**51 370**
Long-term provisions	24 375	26 420
Short-term provisions	59 527	24 950
Total	**83 902**	**51 370**

Provision for fines from antimonopoly office UOKiK

As at 31 December 2016 the provision represented the Parent Company's Management Board's estimate in connection with the likelihood of payment of two fines imposed by the Office of Competition and Consumer Protection (UOKiK), amounting to PLN 14.224 thousand and PLN 2.231 thousand.

In the period of 9 months of 2017 a change occurred in the amount of the provisions for the fine imposed on the Parent Company by virtue of Decision No. RWR 44/2012 issued by the President of UOKiK on 31 December 2012, finding that the Parent Company made it difficult for its business partner to compete with shipping companies belonging to the PKP CARGO Group. The imposed fine amounted to PLN 16.576 thousand. The Parent Company filed an appeal, as a result of which on 23 November 2013 the District Court in Warsaw changed the appealed decision and lowered the initial fine from PLN 16.576 thousand to PLN 2.231 thousand, after which as at 31 December 2015 the Parent Company revalued its provision to the amount of PLN 2.231 thousand. Both parties have filed appeals against the ruling issued by the court of first instance. On 24 August 2017 the Appellate Court in Warsaw issued a ruling changing the decision of the court of first instance and increasing the fine to the amount of PLN 3.188 thousand. As the ruling is legally binding, as at 30 June 2017 the Parent Company increased its provision for the said fine by the amount of PLN 957 thousand. The Parent Company paid the fine in full amount on 7 September 2017.

No circumstances occurred as at 30 September 2017 that would give rise to the need to revalue the provision amounting to PLN 14.224 thousand. Future events may lead to changes in the Parent Company Management Board's estimates in the subsequent reporting periods.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

26. Other provisions (continued)

Reclamation provision

The provision was formed to cover the future expenses associated with the obligation to reclaim land. The estimate corresponds to the present value of the anticipated future expenses.

Provision for onerous contracts

As at 31 December 2016 the provision represented the amount of the loss anticipated on a property lease agreement, where the expected revenue will not cover the lease costs incurred by the Group. During analyses performed in the period of 9 months of 2017 the Group identified two purchase agreements valid until 31 December 2017 and 31 December 2018 respectively, on which unavoidable costs of meeting the resulting obligations will exceed the benefits expected to be received under these agreements, and thus formed provisions in the amount of PLN 14.307 thousand.

Provision for VAT settlements

In the years 2014 - 2016 the Tax Inspection Office ("UKS") performed an audit at PKP CARGO CONNECT sp. z o.o. (formerly: Przedsiębiorstwo Spedycyjne Trade Trans sp. z o.o., "PKP CC") of the accuracy of the declared tax bases and of the calculation and remittance of value added tax for the period from April 2013 to July 2013. Following the audit the UKS found that some of the invoices did not reflect the actual economic events, and that therefore the amount of excess of input over output tax to be refunded for those months was determined incorrectly. On 29 December 2016 PKP CC received the decision issued by the Director of the UKS in Warsaw, in which the tax organ specified new VAT amounts to be refunded for the period from April 2013 to July 2013, as a result of which a tax arrear was formed in the amount of PLN 16.627 thousand along with interest in the amount of PLN 4.623 thousand as at 31 December 2016. Although PKP CC appealed the decision, on 13 January 2017 it paid the entire arrear along with interest charges. As a result of the appeal the Director of the Tax Administration Chamber in Warsaw to refer the case back to the organ of first instance. In September 2017 the amount initially paid by PKP CC, due to procedural reasons, was returned. After analyzing the risk of the tax organs again questioning the VAT settlements of PKP CC, the Parent Company's Management Board decided to recognize a provision at the amount of the received refund. The recognition of the transaction had no effect on the Group's financial result.

Other provisions

This item consists primarily of provisions for contractual penalties, disputed claims and litigation. According to the Parent Company's Management Board, the amount of other provisions as at 30 September 2017 and as at 31 December 2016 constitutes the best estimate of the amount that will likely have to be paid. In the event of other fines being imposed, their amount would depend on future events the result of which is uncertain. In consequence, the amount of the provisions may change in the subsequent periods.

27. Financial instruments

27.1 Categories and classes of financial instruments

Financial assets by category and class	Note	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)
Hedging financial instruments			
Derivative instruments	14	4 828	235
Financial assets available for sale			
Shares of unlisted companies	14	8 486	8 501
Loans and receivables			
Trade receivables	17	664 288	616 000
Loans granted	14	1 093	796
Bank deposits for over 3 months	14	258 022	-
Other	14	-	9
Cash and cash equivalents	18	388 726	755 919
		1 312 129	1 372 724
Total		**1 325 443**	**1 381 460**

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

27.1 Categories and classes of financial instruments (continued)

Financial liabilities by category and class	Note	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)
Financial liabilities measured at fair value through profit or loss			
Liabilities relating to put options for non-controlling shares	22	-	118 704
Hedging financial instruments [1]			
Derivative instruments	22	408	1 227
Bank loans and credit facilities	21	205 064	204 711
		205 472	205 938
Financial liabilities measured at amortized cost			
Bank loans and credit facilities	21	1 115 583	1 266 697
Trade payables	24	389 117	377 215
Liabilities relating to purchase of non-current assets	24	11 923	46 402
Liability relating to the acquisition of shares of AWT B.V.	22	116 346	-
		1 632 969	1 690 314
Financial liabilities excluded from the scope of IAS 39	23	150 511	200 490
Total		**1 988 952**	**2 215 446**

Impairment losses on shares of unlisted companies and trade receivables are described in Notes 14 and 17, respectively, to these Quarterly Condensed Consolidated Financial Statements.

[1] In the period from 1 January 2017 to 30 September 2017 the Group applied cash flow hedge accounting. The objective of the hedging activities was to limit the effect of currency risk arising out of the EUR/PLN exchange rates on future cash flows. The hedged item consists of highly probable future cash flows expressed in EUR.

The Parent Company has established the following hedging instruments:
- investment bank loans expressed in EUR starting from 1 January 2016. The hedged cash flows are being realized since February 2017. As at 30 September 2017 the nominal value of the hedging instrument was EUR 47.589 thousand, which is the equivalent of PLN 205.064 thousand,
- currency forward contracts starting from 1 June 2016. The hedged cash flows are being realized since July 2016. As at 30 September 2017 the value of the assets on the valuation of the hedging instrument was PLN 4.807 thousand.

The item also includes a subsidiary's valuation of hedging instruments in the form of:
- interest rate swaps (IRS) to hedge cash flows relating to the future payment of lease payables at variable rates. As at 30 September 2017 the value of the liabilities on the valuation of the hedging instrument was PLN 408 thousand,
- currency forwards and swaps on the EUR/PLN currency pair, to hedge future cash flows. As at 30 September 2017 the value of the assets on the valuation of the hedging instrument was PLN 21 thousand.

The effect of hedge accounting valuation for the period of 9 months ended 30 September 2017 and for the period of 9 months ended 30 September 2016 on the quarterly statement of comprehensive income is presented in Note 27.5 to these Quarterly Condensed Consolidated Financial Statements.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

27.2 Fair value hierarchy

As at 30 September 2017 and as at 31 December 2016 financial instruments measured at fair value consisted of derivative financial instruments and the liabilities relating to put options for non-controlling shares. The maturity date of the derivative instruments falls after the end of the reporting period, whereas the liabilities relating to put options for non-controlling shares were settled in the period of 9 months ended 30 September 2017.

Financial assets and liabilities measured at fair value	As at 30/09/2017 (unaudited)		As at 31/12/2016 (audited)	
	Level 2	Level 3	Level 2	Level 3
Assets	**4 828**	**-**	**235**	**-**
Derivative instruments - currency forwards and swaps	4 828	-	235	-
Liabilities	**408**	**-**	**1 227**	**118 704**
Derivative instruments - currency forwards, swaps and IRS	408	-	1 227	-
Liabilities relating to put options for non-controlling shares	-	-	-	118 704

27.3 Valuation of financial instruments measured at fair value

a) Currency forwards and swaps

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

b) Interest rate swaps IRS

The fair value of interest rate swaps is determined based on the discounted future cash flows from concluded transactions, calculated based on the difference between the swap and the transaction price. The fair value is calculated and discounted by the bank based on WIBOR 1 M.

c) Other financial instruments

The Group does not disclose the fair values of financial instruments not measured at fair value as at the balance sheet date. This is because the fair values of these financial instruments as at 30 September 2017 and as at 31 December 2016 did not differ significantly from their values presented in the statement of financial position. The Group does not disclose the fair value of shares not listed in active markets classified as financial assets available for sale. The Group is unable to reliably determine the fair value of its shares of companies not listed in active markets. As at the balance sheet date they are measured at acquisition cost less impairment losses.

27.4 Change in the valuation of financial instruments for Level 3 of the fair value hierarchy

	9 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)
Opening balance	**118 704**	**155 198**
Re-measurement (gains) / losses	(4 694)	3 024
Settlement of put options for non-controlling shares (1)	(114 010)	-
Closing balance	**-**	**158 222**

(1) The decrease is the result of the minority shareholder's exercise of the put option. Detailed information is presented in Note 22 to these Quarterly Condensed Consolidated Financial Statements.

There were no transfers between level 2 and 3 of the fair value hierarchy in the period of 9 months ended 30 September 2017, or in the period of 9 months ended 30 September 2016.

9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

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

9 months ended 30/09/2017 (unaudited)	Hedging financial instruments	Financial assets available for sale	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
Dividends and shares in profits	-	256	-	-	-	-	**256**
Interest income / (expense)	(793)	-	9 299	-	(21 570)	(4 748)	**(17 812)**
Foreign exchange differences	7	-	(7 834)	-	4 497	1 509	**(1 821)**
Impairment/revaluation	114	-	(1 351)	4 694	-	-	**3 457**
Commissions on bank loans	-	-	-	-	(1 275)	-	**(1 275)**
Effect of cash flow hedge accounting (1)	5 454	-	-	-	-	-	**5 454**
Gross profit / (loss)	**4 782**	**256**	**114**	**4 694**	**(18 348)**	**(3 239)**	**(11 741)**
Change in valuation	10 637	-	-	-	-	-	**10 637**
Other comprehensive income	**10 637**	**-**	**-**	**-**	**-**	**-**	**10 637**

(1) In the period of 9 months ended 30 September 2017 the effect of cash flow hedge accounting was disclosed in the following items of the quarterly consolidated statement of comprehensive income:

- revenue from the sale of services and finished goods in the amount of PLN 6.150 thousand,
- financial expenses - interest on finance lease payables in the amount of PLN (696) thousand.

9 months ended 30/09/2016 (unaudited)	Hedging financial instruments	Financial assets available for sale	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
Dividends and shares in profits	-	191	-	-	-	-	**191**
Interest income / (expense)	(465)	-	2 081	-	(15 687)	(6 635)	**(20 706)**
Foreign exchange differences	(10)	-	(1 821)	-	2 939	(1 599)	**(491)**
Impairment/revaluation	(207)	-	(66 241)	(3 024)	-	-	**(69 472)**
Commissions on bank loans	-	-	-	-	(988)	-	**(988)**
Effect of cash flow hedge accounting (1)	(578)	-	-	-	-	-	**(578)**
Gross profit / (loss)	**(1 260)**	**191**	**(65 981)**	**(3 024)**	**(13 736)**	**(8 234)**	**(92 044)**
Change in valuation	4 538	-	-	-	-	-	**4 538**
Other comprehensive income	**4 538**	**-**	**-**	**-**	**-**	**-**	**4 538**

(1) In the period of 9 months ended 30 September 2016 the effect of cash flow hedge accounting was disclosed in the following items of the quarterly consolidated statement of comprehensive income:

- revenue from the sale of services and finished goods in the amount of PLN 205 thousand,
- financial expenses - interest on finance lease payables in the amount of PLN (783) thousand.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

28. Transactions with related parties

28.1 Transaction with the State Treasury

In the period of 9 months ended 30 September 2017 and in the period of 9 months ended 30 September 2016, the State Treasury was the parent company of the PKP CARGO Group. In view of this, all of the companies belonging (directly or indirectly) to the State Treasury are the Group's related parties and are presented broken down into related entities from the PKP Group and other entities related to the State Treasury. In these Quarterly Condensed Consolidated Financial Statements the Management Board of the Parent Company has disclosed transactions with significant related parties, identified as related parties to the best of the Management's knowledge.

No individual transactions concluded between the PKP CARGO Group and the State Treasury were identified in the period of 9 months ended 30 September 2017 or in the period of 9 months ended 30 September 2016, which would be significant due to their unusual scope or amount.

28.1.1 Transactions with related parties from PKP Group

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

	9 months ended 30/09/2017 (unaudited)		9 months ended 30/09/2016 (unaudited)	
	Sales to related parties	Purchases from related parties	Sales to related parties	Purchases from related parties
Parent company (PKP S.A.)	273	51 084	549	54 237
Subsidiaries / joint ventures - unconsolidated	6 682	11 376	11 059	14 296
Associates	1 755	425	2 037	443
Other related parties from PKP Group	24 879	508 187	30 263	474 655

	As at 30/09/2017 (unaudited)		As at 31/12/2016 (audited)	
	Receivables from related parties	Liabilities to related parties	Receivables from related parties	Liabilities to related parties
Parent company (PKP S.A.)	248	7 282	1 247	7 811
Subsidiaries / joint ventures - unconsolidated	1 464	1 754	1 389	1 559
Associates	177	28	161	4
Other related parties from PKP Group	2 595	77 409	3 062	75 331

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

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

28.1.2 Transactions with other related parties of the State Treasury

No individual transactions concluded between the Group and other related parties of the State Treasury were identified in the period of 9 months ended 30 September 2017 and the period of 9 months ended 30 September 2016, which would be significant due to their unusual scope or amount. In the periods covered by these Quarterly Condensed Consolidated Financial Statements the Group's most significant customers that are other related parties of the State Treasury were Jastrzębska Spółka Węglowa S.A., Azoty Group, Enea Group, Węglokoks S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. Whereas in the periods covered by these Quarterly Condensed Consolidated Financial Statements no significant purchases were recorded from other related parties of the State Treasury.

All transactions with related parties were performed on market terms.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

28.2 Loans granted to / received from related parties

	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)
Loans granted to related parties	1 093	796
Loans received from related parties	1 412	3 605

28.3 Remuneration of key management personnel

Remuneration of members of the Parent Company's Management Board:	9 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)
Short-term benefits	1 952	2 407
Post-employment benefits	872	935
Severance benefits	352	459
Total	**3 176**	**3 801**

Remuneration of members of the Parent Company's Supervisory Board:	9 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)
Short-term benefits	831	837
Total	**831**	**837**

Remuneration of the Parent Company's other key management personnel (Representatives-Managing Directors):	9 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)
Short-term benefits	-	779
Post-employment benefits	470	681
Severance benefits	-	109
Total	**470**	**1 569**

Remuneration of members of the Management Boards of subsidiary companies:	9 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)
Short-term benefits	6 965	6 125
Post-employment benefits	663	1 376
Severance benefits	-	470
Total	**7 628**	**7 971**

Remuneration of members of the Supervisory Boards of subsidiary companies:	9 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)
Short-term benefits	1 815	1 062
Total	**1 815**	**1 062**

Remuneration of other key management personnel (Representatives-Managing Directors) of subsidiary companies:	9 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)
Short-term benefits	3 980	4 076
Post-employment benefits	521	-
Severance benefits	31	147
Total	**4 532**	**4 223**

No loan or guarantee transactions were concluded with the Group by members of the key management personnel of the Parent Company or of the subsidiaries of the PKP CARGO Group in the period of 9 months ended 30 September 2017 or the period of 9 months ended 30 September 2016.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

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

The Group's future contractual investment obligations as at 30 September 2017:

Contractual obligations relating to the acquisition of non-financial fixed assets	Unrealized value of agreement as at 30/09/2017 (unaudited)
Agreement for the supply of engines, of which:	
- supply of 3 engines,	40 139
- supply of computer equipment	2 535
Periodic rolling stock repairs and reviews	1 066
Expansion of terminal in Paskov	2 628
Other contractual obligations	3 231
Total	**49 599**

The expected deadline for the realization of the agreements is by the end of the year 2017.

30. Contingent liabilities

	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)
Guarantees issued by banks at the request of the Group	136 464	142 251
Other contingent liabilities	157 149	73 525
Total	**293 613**	**215 776**

Guarantees issued at the request of the Group

As at 30 September 2017 the Group recognizes as contingent liabilities the guarantees issued by banks and insurance companies at the request of the entities comprising the PKP CARGO Group. The item consists primarily of performance bonds, bid bonds and customs bonds.

Other contingent liabilities

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

The rise in contingent liabilities as at 30 September 2017 is a result of a claim filed by one of the vendors, in the amount of PLN 70.000 thousand, for the payment of indemnification for diminution in value of the claimant's business as a result of unfair competition practices, as compensation for infringement of the claimant's personal interest as a result of the Parent Company's unlawful actions in the years 2010-2013. The Parent Company was notified of the claim on 22 June 2017. On 1 September 2017 it filed its response to the claim. As at 30 September 2017 the Parent Company's Management Board is of the opinion that any future payment in connection with this claim is less likely than lack of this payment and therefore, has not recognized a provision.

31. Subsequent events

No events with an effect on the Group's operations took place after the balance sheet date, with the exception of those described in Note 1.1 and Note 22 to these Quarterly Condensed Consolidated Financial Statements.

32. Approval of financial statements

These Quarterly Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 27 November 2017.

The Parent Company's Management Board

Krzysztof Mamiński

acting President of the Management Board

Grzegorz Fingas

Member of the Management Board

Witold Bawor

Member of the Management Board

Zenon Kozendra

Member of the Management Board

Warsaw, 27 November 2017

QUARTELY FINANCIAL INFORMATION OF **PKP CARGO S.A.** FOR Q3 2017

pkpcargo.com

QUARTERLY FINANCIAL INFORMATION PKP CARGO S.A. FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

QUARTERLY SEPARATE STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2017 TO 30 SEPTEMBER 2017

	9 months ended 30/09/2017 (unaudited)	3 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)	3 months ended 30/09/2016 (unaudited)
Revenue from sales of services	2 608 459	912 019	2 327 858	810 448
Revenue from sales of raw materials	7 743	3 876	7 627	2 083
Other operating revenue	17 295	4 850	17 972	4 088
Total operating revenue	**2 633 497**	**920 745**	**2 353 457**	**816 619**
Depreciation / amortisation and impairment losses	352 192	115 645	352 133	119 201
Consumption of raw materials and energy	410 583	141 493	385 925	130 726
External services	847 144	299 764	778 030	270 121
Taxes and charges	24 817	7 339	23 579	9 154
Employee benefits	848 419	270 771	840 818	268 342
Other expenses by kind	31 424	10 651	30 510	9 991
Cost of raw materials sold	4 568	2 629	5 988	1 023
Other operating expenses	25 228	13 643	18 202	3 474
Total operating expenses	**2 544 375**	**861 935**	**2 435 185**	**812 032**
Profit / (loss) on operating activities	**89 122**	**58 810**	**(81 728)**	**4 587**
Financial revenue	22 013	62	19 777	210
Financial expenses	39 210	12 268	36 788	7 657
Profit / (loss) before tax	**71 925**	**46 604**	**(98 739)**	**(2 860)**
Income tax expense	17 312	10 481	(10 847)	1 038
NET PROFIT / (LOSS)	**54 613**	**36 123**	**(87 892)**	**(3 898)**
Other comprehensive income				
Other comprehensive income that will be reclassified to profit or loss:	**7 936**	**(6 551)**	**3 204**	**6 605**
The effective portion of changes in fair value of cash-flow hedging instruments	9 797	(8 088)	3 956	8 155
Income tax on other comprehensive income	(1 861)	1 537	(752)	(1 550)
Other comprehensive income that will not be reclassified to profit or loss:	**(20 273)**	-	-	-
Actuarial gains / (losses) on post-employment benefits	(25 028)	-	-	-
Income tax on other comprehensive income	4 755	-	-	-
TOTAL COMPREHENSIVE INCOME	**42 276**	**29 572**	**(84 688)**	**2 707**
Earnings per share (PLN per share)				
Basic earnings per share:	**1,22**	**0,81**	**(1,96)**	**(0,09)**
Diluted earnings per share:	**1,22**	**0,81**	**(1,96)**	**(0,09)**

QUARTERLY FINANCIAL INFORMATION PKP CARGO S.A. FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

QUARTERLY SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 SEPTEMBER 2017

	As at 30/09/2017 (unaudited)	As at 31/12/2016 (audited)
ASSETS		
Non-current assets		
Property, plant and equipment	3 510 235	3 561 993
Intangible assets	40 395	50 778
Investments in subsidiaries, associates and joint ventures	810 351	737 974
Other long-term financial assets	6 548	6 169
Other long-term non-financial assets	18 054	8 162
Deferred tax assets	103 747	76 244
Total non-current assets	**4 489 330**	**4 441 320**
Current assets		
Inventories	71 894	59 701
Trade and other receivables	469 830	413 607
Income tax receivables	-	1 304
Other short-term financial assets	286 684	87
Other short-term non-financial assets	17 612	19 716
Cash and cash equivalents	169 008	611 990
	1 015 028	**1 106 405**
Non-current assets classified as held for sale	-	6 000
Total current assets	**1 015 028**	**1 112 405**
Total assets	**5 504 358**	**5 553 725**
EQUITY AND LIABILITIES		
Equity		
Share capital	2 239 346	2 239 346
Share premium	589 202	589 202
Other items of equity	6 078	18 415
Retained earnings	226 090	171 477
Total equity	**3 060 716**	**3 018 440**
Long-term liabilities		
Long-term bank loans and credit facilities	989 497	1 170 224
Long-term finance lease liabilities and leases with purchase option	8 986	36 159
Long-term trade and other payables	-	582
Long-term provisions for employee benefits	495 787	473 965
Other long-term provisions	14 224	16 455
Long-term liabilities	**1 508 494**	**1 697 385**
Short-term liabilities		
Short-term bank loans and credit facilities	191 327	178 170
Short-term finance lease liabilities and leases with purchase option	33 020	43 176
Short-term trade and other payables	466 096	465 411
Short-term provisions for employee benefits	92 820	80 524
Other short-term provisions	19 129	11 640
Other short-term financial liabilities	116 346	58 979
Current tax liabilities	16 410	-
Total short-term liabilities	**935 148**	**837 900**
Total liabilities	**2 443 642**	**2 535 285**
Total equity and liabilities	**5 504 358**	**5 553 725**

QUARTERLY FINANCIAL INFORMATION PKP CARGO S.A. FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

QUARTERLY SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 SEPTEMBER 2017

			Other items of equity			
	Share capital	Share premium	Actuarial gains / (losses) on post-employment benefits	Gains / (losses) on a cash flow hedging instrument	Retained earnings	Total
Balance 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	-	-	-	-	54 613	54 613
Other net comprehensive income for the period	-	-	(20 273)	7 936	-	(12 337)
Total comprehensive income	**-**	**-**	**(20 273)**	**7 936**	**54 613**	**42 276**
Balance as at 30/09/2017 (unaudited)	**2 239 346**	**589 202**	**1 976**	**4 102**	**226 090**	**3 060 716**
Balance as at 1/01/2016 (audited)	**2 239 346**	**589 202**	**3 726**	**-**	**240 042**	**3 072 316**
Net result for the period	-	-	-	-	(87 892)	(87 892)
Other net comprehensive income for the period	-	-	-	3 204	-	3 204
Total comprehensive income	**-**	**-**	**-**	**3 204**	**(87 892)**	**(84 688)**
Balance as at 30/09/2016 (unaudited)	**2 239 346**	**589 202**	**3 726**	**3 204**	**152 150**	**2 987 628**

QUARTERLY FINANCIAL INFORMATION PKP CARGO S.A. FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

QUARTERLY SEPARATE STATEMENT OF CASH FLOWS FROM 1 JANUARY 2017 TO 30 SEPTEMBER 2017

	9 months ended 30/09/2017 (unaudited)	9 months ended 30/09/2016 (unaudited)
Cash flows from operating activities		
Profit / (loss) before tax	**71 925**	**(98 739)**
Adjustments:		
Depreciation of property, plant and equipment and amortisation of intangible assets	351 945	351 798
Impairment of fixed assets	248	335
(Gain) / loss on disposal / liquidation of property, plant and equipment, intangible assets and non-current assets classified as held for sale	(1 144)	(323)
Foreign exchange (gain) / loss	295	(753)
(Gains) / losses on interest, dividends	(20)	(1 678)
Interest received / (paid)	1 452	(757)
Income taxes received / (paid)	(26 985)	(3 360)
Other adjustments	(20 571)	3 708
Changes in working capital:		
(Increase) / decrease in trade and other receivables	(53 871)	(26 825)
(Increase) / decrease in inventory	388	2 523
(Increase) / decrease in other assets	(1 308)	(12 960)
Increase / (decrease) in trade and other payables	(6 935)	(170 259)
Increase / (decrease) in other financial liabilities	1 873	1 461
Increase / (decrease) in provisions	39 376	(7 133)
Net cash provided by operating activities	**356 668**	**37 038**
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(307 409)	(370 654)
Proceeds from sale of property, plant and equipment, intangible assets and non-current assets classified as held for sale	8 261	4 403
Interest received	5 288	76
Dividend received	14 669	18 893
Outflows of bank deposits over 3 months	(250 000)	-
Net cash provided by investing activities	**(529 191)**	**(347 282)**
Cash flows from financing activities		
Payments of liabilities under finance lease	(35 358)	(35 290)
Payments of interest under lease agreement	(973)	(2 325)
Proceeds from credit facilities / loans received	10 733	348 067
Repayments of credit facilities / loans received	(172 671)	(96 243)
Interest on credit facilities / loans received	(19 965)	(11 390)
Grants received	-	5 407
Cash pool inflows / (outflows)	(50 329)	38 923
Other inflows / (outflows) from financing activities	(1 896)	(3 033)
Net cash provided by financing activities	**(270 459)**	**244 116**
Net increase / (decrease) in cash and cash equivalents	(442 982)	(66 128)
Opening balance of cash and cash equivalents	611 990	84 097
Closing balance of cash and cash equivalents	**169 008**	**17 969**

OTHER INFORMATION TO **PKP CARGO** GROUP'S CONSOLIDATED QUARTERLY REPORT FOR Q3 2017

ADDITIONAL INFORMATION TO THE CONSOLIDATED QUARTERLY REPORT FOR Q3 2017

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

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

Table 1 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN 000s[1]		EUR 000s	
	9 months of 2017	9 months of 2016 (restated*)	9 months of 2017	9 months of 2016 (restated*)
Operating revenue	3,460,299	3,213,774	*812,926*	*734,812*
Result on operating activity	102,474	-186,264	*24,074*	*-42,588*
Earnings before tax	74,205	-229,871	*17,433*	*-52,559*
Net result on continuing operations	51,741	-201,244	*12,155*	*-46,013*
Total comprehensive income attributable to the owners of the parent company	48,374	-187,423	*11,364*	*-42,853*
*Adjusted result on operating activities***	*102,474*	*-89,591*	*24,074*	*-20,485*
*Adjusted result before tax***	*74,205*	*-133,198*	*17,433*	*-30,455*
*Adjusted net result***	*51,741*	*-117,356*	*12,155*	*-26,833*
*Adjusted total comprehensive income attributable to the owners of the parent company***	*48,374*	*-103,535*	*11,364*	*-23,673*
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 result	44,786,917	44,786,917	44,786,917	44,786,917
Result per share (PLN/EUR)	1.16	-4.49	*0.27*	*-1.03*
Diluted result per share (PLN/EUR)	1.16	-4.49	*0.27*	*-1.03*
Net cash flow from operating activities***	458,224	132,211	*107,650*	*30,229*
Net cash flow on investing activity	-607,039	-426,740	*-142,611*	*-97,572*
Net cash flow on financing activity	-219,416	183,726	*-51,547*	*42,008*
Movement in cash and cash equivalents	-368,231	-110,803	*-86,508*	*-25,335*
	30/09/2017	**31/12/2016**	**30/09/2017**	**31/12/2016**
Non-current assets	4,888,963	4,960,270	1,134,567	1,121,218
Current assets	1,511,976	1,547,936	350,880	349,895
Share capital	2,239,346	2,239,346	519,678	506,181
Equity attributable to the owners of the parent company	3,308,652	3,260,278	767,829	736,953
Non-current liabilities	1,889,291	2,076,081	438,442	469,277
Current liabilities	1,202,996	1,171,847	279,176	264,884

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2017 prepared according to EU IFRS

* restatement of comparative data is described in detail in Note 5[2] to the Condensed Quarterly Consolidated Financial Statements
** data for 9M 2016 are adjusted for presentation purposes for an impairment loss on receivables from OKD in the amount of PLN 62.2 million (as described in Note 16 to the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016) and impairment losses arising from a test for impairment of the AWT Group's non-current assets in the amount of PLN 34.5 million (the adjustment takes into account a loss on fixed assets in the amount of PLN 34.9 million and depreciation, reduced accordingly, in Q3 2016 in the amount of PLN 0.4 million, as described in Note 10.1. to the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016. Moreover, the adjusted net result and the adjusted comprehensive income attributable to the owners of the parent company include deferred tax resulting from an impairment of receivables from OKD in the amount of PLN 6.2 million and the related deferred tax on account of an impairment loss resulting from a test for impairment of AWT's value in the amount of PLN 6.6 million. The change in the value of the impairment loss on assets and the impairment loss on receivables presented in the Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016 compared to the value of the impairment losses presented in the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016 is associated with a change in the exchange rates applied to convert these losses into PLN. During the first 9 months of 2017, no adjustment of the financial performance was made.
*** including the payment of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Programs in the amount of PLN 48.2 million in 9M 2016.

[1] To facilitate the reading of this document entitled the Additional Information to the Consolidated Quarterly Report for Q3 2017, some figures have been rounded off, which may cause insignificant deviations in the presented data. If there was a risk of distortion, data were presented with more accuracy.

[2] Any reference to a Note in this Additional Information to the Consolidated Quarterly Report for Q3 2017 should be construed as a reference to a Note to the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2017 prepared according to EU IFRS, unless indicated otherwise.

Table 2 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN 000s		EUR 000s	
	9 months of 2017	9 months of 2016	9 months of 2017	9 months of 2016
Operating revenue	2,633,497	2,353,457	618,686	538,105
Result on operating activity	89,122	-81,728	20,937	-18,687
Earnings before tax	71,925	-98,739	16,897	-22,576
Net result on continuing operations	54,613	-87,892	12,830	-20,096
Comprehensive income	42,276	-84,688	9,932	-19,363
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 result	44,786,917	44,786,917	44,786,917	44,786,917
Result per share (PLN/EUR)	1.22	-1.96	0.29	-0.45
Diluted result per share (PLN/EUR)	1.22	-1.96	0.29	-0.45
Net cash flow from operating activities*	356,668	37,038	83,792	8,469
Net cash flow on investing activity	-529,191	-347,282	-124,322	-79,404
Net cash flow on financing activity	-270,459	244,116	-63,539	55,816
Movement in cash and cash equivalents	-442,982	-66,128	-104,069	-15,120
	30/09/2017	31/12/2016	30/09/2017	31/12/2016
Non-current assets	4,489,330	4,441,320	1,041,825	1,003,915
Current assets	1,015,028	1,106,405	235,555	250,092
Assets classified as held for sale	-	6,000	-	1,356
Share capital	2,239,346	2,239,346	519,678	506,181
Equity	3,060,716	3,018,440	710,291	682,288
Non-current liabilities	1,508,494	1,697,385	350,072	383,677
Current liabilities	935,148	837,900	217,017	189,399

Source: Quarterly Financial Information of PKP CARGO S.A. for the period of 9 months ended 30 September 2017 prepared according to EU IFRS

* including the payment of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Programs in the amount of PLN 47.4 million in 9M 2016.

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 9 months ended 30 September 2017:

- exchange rate in force on the last day of the reporting period: 30 September 2017: EUR 1 = PLN 4.3091; 31 December 2016: EUR 1 = PLN 4.4240,
- 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 – 30 September 2017: EUR 1 = PLN 4.2566, 1 January – 30 September 2016: EUR 1 = PLN 4.3736.

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

PKP CARGO Group	PLN 000s		EUR 000s	
	9 months of 2017	9 months of 2016 (restated*)	9 months of 2017	9 months of 2016 (restated*)
Result on operating activity	**102,474**	**-186,264**	**24,074**	**-42,588**
Adjustments:				
Operating expenses				
Impairment loss on receivables from OKD	-	62,163	-	14,213
Impairment loss on AWT's assets	-	34,510	-	7,890
Adjusted result on operating activities**	**102,474**	**-89,591**	**24,074**	**-20,485**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2017 prepared according to EU IFRS

* restatement of comparative data is described in detail in Note 5 to the Condensed Quarterly Consolidated Financial Statements
** data for 9M 2016 are adjusted for presentation purposes for an impairment loss on receivables from OKD in the amount of PLN 62.2 million (as described in Note 16 to the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016) and impairment losses arising from a test for impairment of the AWT Group's non-current assets in the amount of PLN 34.5 million (the adjustment takes into account a loss on fixed assets in the amount of PLN 34.9 million and depreciation, reduced accordingly, in Q3 2016 in the amount of PLN 0.4 million, as described in Note 10.1. to the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016. The change in the value of the impairment loss on assets and the impairment loss on receivables presented in the Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016 compared to the value of the impairment losses presented in the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016 is associated with a change in the exchange rates applied to convert these losses into PLN. During the first 9 months of 2017, no adjustment of the financial performance was made.

2. Organization of the PKP CARGO Group

2.1. Highlights on the Company and the PKP CARGO Group[3]

The PKP CARGO Group is a major rail freight operator in the European Union ("EU"). The Group's development is focused on enhancing and extending its operations in terms of its product range and geographic area. At present, the Group is the leader on the Polish market (according to the Office of Rail Transport – UTK[4]) and it is the second largest operator on the Czech market (according to SZDC[5]). In addition to the areas mentioned above, the Group conducts operations that it is continuously developing in the Czech Republic, Slovakia, Germany, Austria, the Netherlands, Lithuania and Hungary.

The Group (the Parent Company, AWT a.s., PKP CARGO SERVICE) 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:

- intermodal services;
- shipping services (domestic and international);
- terminal services;
- siding and track line services;
- rolling stock maintenance and repair services;
- reclamation services.

2.2. Consolidated entities

The Condensed Quarterly Consolidated Financial Statements for the period of 9 months ended 30 September 2017 encompass PKP CARGO S.A. and the following 14 subsidiaries consolidated by the full method:

1. PKP CARGO SERVICE Sp. z o.o.
2. PKP CARGOTABOR Sp. z o.o.
3. PKP CARGOTABOR USŁUGI Sp. z o.o.
4. PKP CARGO CENTRUM LOGISTYCZNE MAŁASZEWICZE Sp. z o.o.
5. PKP CARGO CENTRUM LOGISTYCZNE MEDYKA-ŻURAWICA Sp. z o.o.
6. CARGOSPED TERMINAL BRANIEWO Sp. z o.o.
7. CARGOTOR Sp. z o.o.
8. PKP CARGO CONNECT Sp. z o.o.
9. Advanced World Transport B.V.
10. Advanced World Transport a.s.
11. AWT Rosco a.s.
12. AWT Cechofracht a.s.
13. AWT Rekultivace a.s.
14. AWT Rail HU Zrt
15. AWT Coal Logistics s.r.o.[6]

[3] 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.

[4] Office of Rail Transport
[5] Správa železniční dopravní cesty (entity responsible for management of the state railway network in the Czech Republic)
[6] Two companies from the AWT Group merged effective 1 June 2017: Advanced World Transport a.s. acquired AWT Coal Logistics s.r.o., as a result of which AWT Coal Logistics s.r.o. ceased to exist as a separate entity

Moreover, the following companies are measured by the equity method as at 30 September 2017 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.
- PPHU "Ukpol" Sp. z o.o.
- Rentrans Cargo Sp. z o.o.
- 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. Since its inception, the Company has been a member of 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, the 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 constitute transshipment of goods and buying and selling coal. The company is a direct importer of coal from Russia and it is active in wholesale and retail sales in this area.

CARGOTOR Sp. z o.o.

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

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. 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.

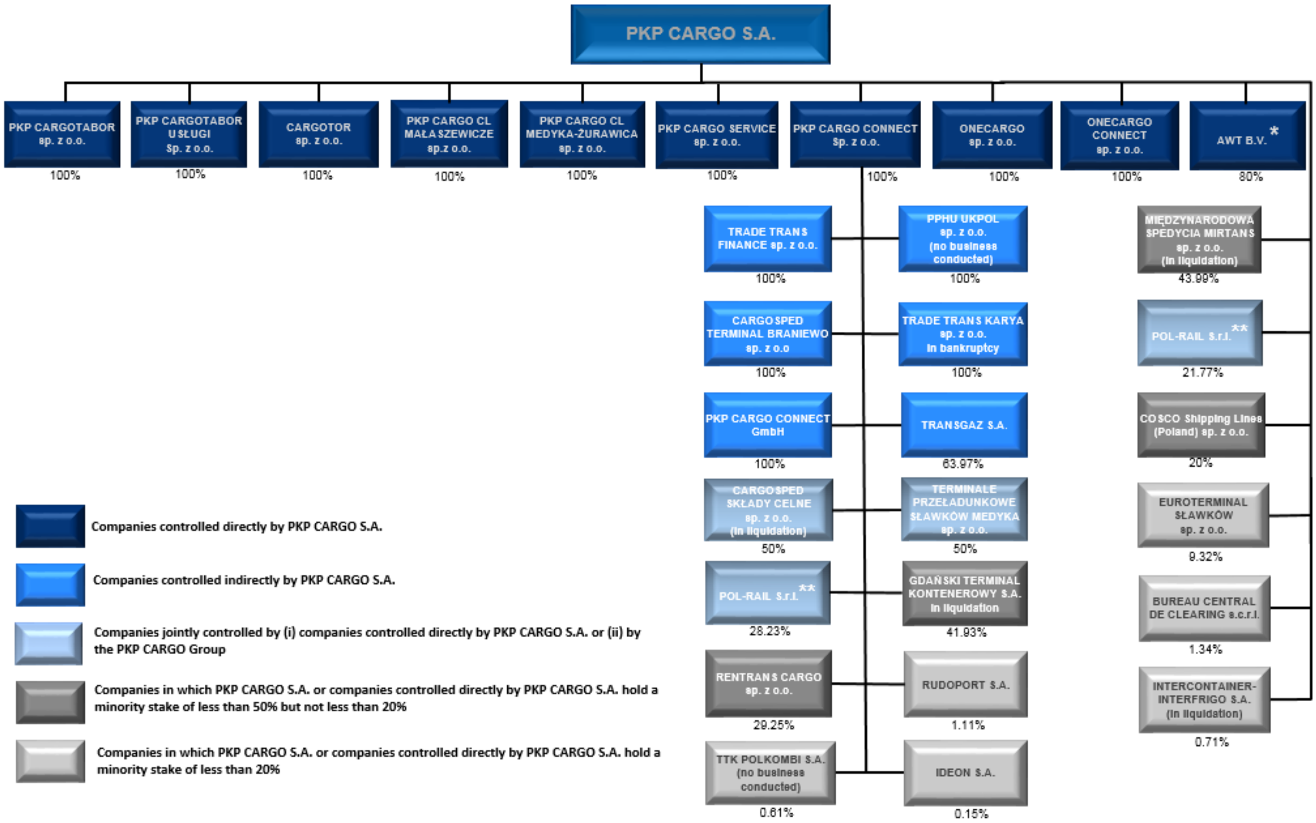
2.3. Structure of the PKP CARGO Group

As at 30 September 2017, the PKP CARGO Group comprised of PKP CARGO S.A. as its parent company and 25 subsidiaries.

In addition, the Group held stakes in 4 associated entities and 2 joint ventures.

The figure below presents the equity links between PKP CARGO S.A. and other entities as at 30 September 2017:

Figure 1 Structure of equity links of PKP CARGO S.A. as at 30 September 2017

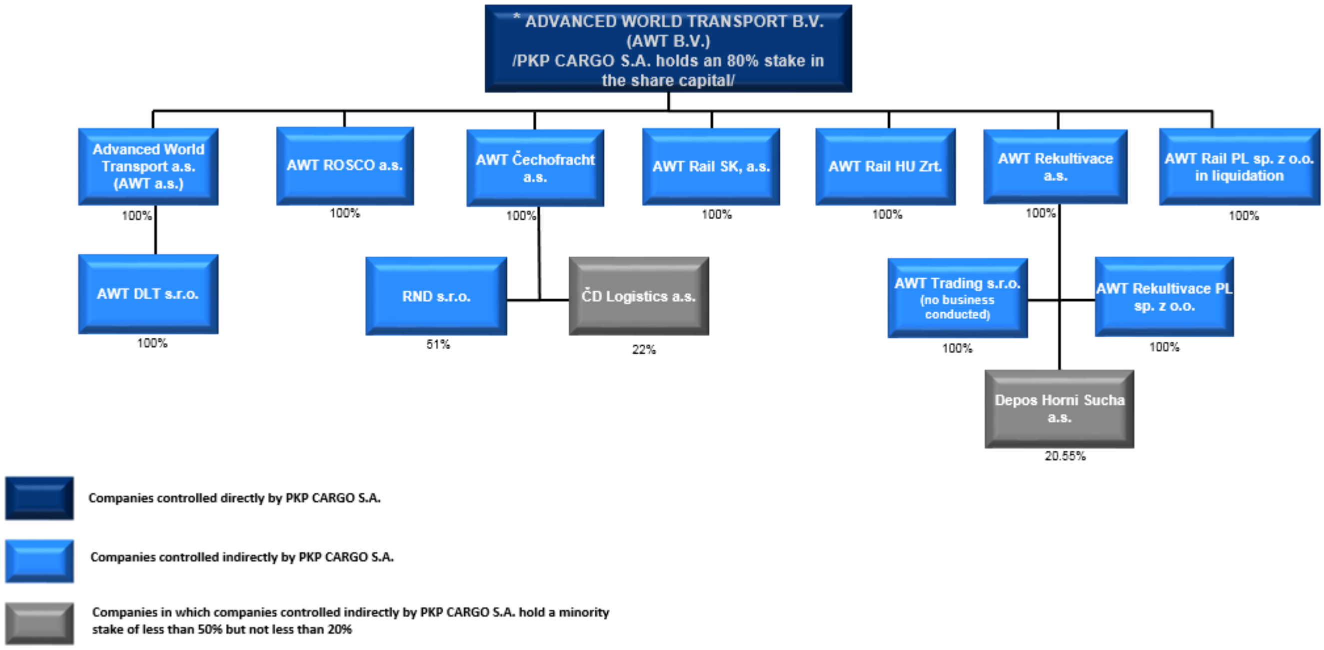


Source: Proprietary material

* Figure 2 depicts the AWT Group's full structure and capital ties with companies in which the AWT Group's companies hold shares or interests (minority stakes)

** both PKP CARGO S.A. and one of the companies controlled directly by PKP CARGO S.A. - PKP CARGO CONNECT Sp. z o.o. hold shares in POL-RAIL s.r.l. with its registered office in Rome in such a manner that in total these two entities belonging to the PKP CARGO Group hold a 50% equity stake in the share capital of POL-RAIL s.r.l.

Figure 2 Structure of equity links of AWT as at 30 September 2017



Source: Proprietary material

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

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. 252/2016 of the PKP CARGO S.A. Management Board dated 29 July 2016
5) other internal regulations.

Powers of the Management Board

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

Operation of the Management Board

The procedure of the Management Board’s operation is described in detail in the 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, in the event of conflicting interests of the Company and personal interests of a Management Board member, his/her spouse, relatives and next of kin (up to the second degree), the Management Board member should provide immediate notification of such a conflict to the remaining Management Board members, and in the case of the President of the Management Board also to the Supervisory Board, and refrain from participating in the discussion and voting on the adoption of a resolution in the matter where the conflict of interests has occurred and may request that this fact be recorded in the minutes of the Management Board meeting.

Table 4 Composition of the PKP CARGO S.A. Management Board from 1 January 2017 to the delivery date of this report

Name	Position	Period in office	
		from	to
Krzysztof Mamiński	temporary discharge of duties President of the Management Board	26 October 2017	26 January 2018 (in accordance with Article 383 of the Commercial Company Code)
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
Maciej Libiszewski	President of the Management Board	19 January 2016	26 October 2017 (resignation)
Arkadiusz Olewnik	Management Board Member in charge of Finance	1 April 2016	26 October 2017 (resignation)
Jarosław Klasa	Management Board Member in charge of Operations	1 April 2016	31 July 2017 (dismissal)

Source: Proprietary material

The internal allocation of duties and functions discharged by Management Board members as at the delivery date of this report is as follows:

1) President of the Management Board – the scope of the President's activity include directing the activities of the Management Board and the Company's ongoing operations and overseeing the management of specific areas of the Company's activity, in particular:
   - administrative support to the Management Board and the Company's other corporate bodies,
   - legal support and organization of management,
   - internal audit and control,
   - business strategy and project execution,
   - business security and internal audit,
   - international cooperation,
   - management of human resources and relations with social partners in specified areas.

Special powers of the President of the Company's Management Board include performance of the Company's defense tasks resulting from the regulations on general defense obligation.

2) Management Board Member in charge of Finance – the scope of duties of the Management Board Member in charge of Finance covers responsibility for rational management of the Company's resources and overseeing the management of specific areas of the Company's business, in particular:
   - financial management,
   - planning, financial analyses and controlling,
   - purchase and sale of assets and materials management,
   - investor relations.

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

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

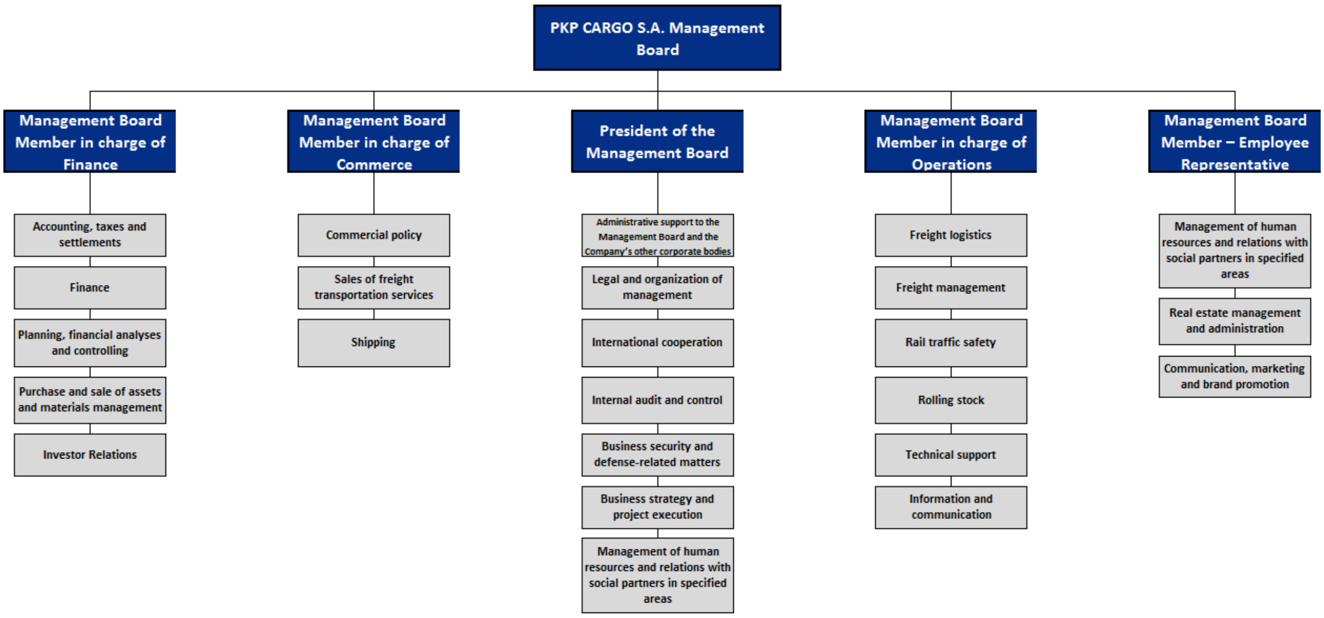
4) Management Board Member in charge of Operations – the scope of activity of the Management Board Member in charge of Operations includes caring for the effective execution of the Company's business and technological processes and overseeing the management of specific areas of the Company's activity, in particular in the following areas:
   - freight logistics,
   - freight management,
   - rail traffic safety,
   - rolling stock,
   - technical support,
   - information and communication technology.

5) Management Board Member – Employee Representative – the scope of activity of the Employee Representative in the Management Board includes overseeing the management of specific areas of the Company's activity, particularly in the following areas:
   - communication, marketing and brand promotion,
   - real estate management and administration,
   - management of human resources and relations with social partners in specified areas.

On 26 October 2017, the Supervisory Board of the Parent Company adopted a resolution on the secondment of Krzysztof Mamiński to temporarily discharge the duties of the President of the Company's 'Management Board.

Pursuant to Resolution No. 365/2017 of the PKP CARGO S.A. Management Board dated 27 October 2017, the President of the Management Board exercises temporary supervision over the matters and organizational units of the Company's Head Office allocated to the scope of powers of the Management Board Member in charge of Finance at PKP CARGO S.A.

Figure 3 Duties and responsibilities of the Parent Company's Management Board Members as at the delivery date of this report



Source: Proprietary material

SUPERVISORY BOARD

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 term of office of the Supervisory Board is 3 years. 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. The Company's employees are entitled to appoint and dismiss their 3 representatives to the Supervisory Board.

Powers of the Supervisory Board

The Supervisory Board conducts constant oversight 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, 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, issuing opinions on reports submitted to the Shareholder Meeting regarding expenses incurred on representation, legal services, marketing, public relations, social communication and management consulting and granting consents, approvals or permissions in the matters referred to in § 25 sections 13-20 of the Articles of Association of PKP CARGO S.A.

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. Supervisory Board resolutions 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, relatives or relatives and second degree next of kin, the Supervisory Board member should refrain from participating in the discussion and voting on the resolution of such matters and request that this fact be recorded in the minutes of the Supervisory Board meeting.

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

Table 5 Composition of the PKP CARGO S.A. Supervisory Board from 1 January 2017 to the delivery date of this report

Name	Position	Period in office from	Period in office to
Krzysztof Mamiński	Supervisory Board Member	6 March 2017	
	Supervisory Board Chairman	20 March 2017	
	Seconded to temporarily perform the duties of President of the Management Board	26 October 2017	26 January 2018
Mirosław Antonowicz	Supervisory Board Member	1 June 2017	to date
	Supervisory Board Deputy Chairman	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
Marek Podskalny**	Supervisory Board Member	20 May 2016	24 November 2017
Tadeusz Stachaczyński	Supervisory Board Member	20 May 2016	to date
Władysław Szczepkowski	Supervisory Board Member	14 March 2017	to date
Czesław Warsewicz	Supervisory Board Member	17 December 2015*	to date
Mirosław Pawłowski	Supervisory Board Member	17 December 2015	18 December 2015
	Supervisory Board Chairman	18 December 2015*	6 March 2017 (resignation)
Jerzy Kleniewski	Supervisory Board Member	17 December 2015*	14 March 2017 (resignation)
Andrzej Wach	Supervisory Board Member	17 December 2015*	27 April 2016
	Supervisory Board Deputy Chairman	27 April 2016 20 May 2016	11 May 2016 29 May 2017 (resignation)

Source: Proprietary material

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

**On 24 November 2017 due to the death of Mr. Marek Podskalny, the mandate of the Member of the Supervisory Board of PKP CARGO S.A. has expired. The Supervisory Board will take the necessary actions to supplement the composition of the Supervisory Board, due to the fact that Mr. Marek Podskalny was a Member of the Supervisory Board of PKP CARGO S.A. elected by the employees.

SUPERVISORY BOARD AUDIT COMMITTEE

The Supervisory Board appoints the Audit Committee consisting of at least three members of the Supervisory Board the majority of whom must meet the independence criteria (including the Chairman of the Supervisory Board) and be appointed in the manner specified in § 20 and 21 of the Company's Articles of Association. Moreover, at least one member of the Audit Committee must have knowledge and skills in the 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 or the various members of the Committee have, in specific areas, knowledge and skills pertaining to this industry. Committee members are appointed for a term corresponding to the Supervisory Board's term of office. Tasks of the Audit Committee include in particular: supervision over the organizational unit responsible for internal audit, monitoring the financial reporting process, monitoring the performance of financial audit activities, monitoring the independence of the statutory auditor and the entity authorized to audit financial statements, recommending an entity authorized to audit financial statements to the Supervisory Board to perform financial audit activities for the Company, etc.

Table 6 Composition of the Audit Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2017 to the delivery date of this report

Name	Position	Period in office from	to
Raimondo Eggink	Committee Member	30 April 2015 20 May 2015 – 6th term of office	18 December 2015
	Committee Chairman	18 December 2015 31 May 2016 – 6th term of office	11 May 2016* to date
Małgorzata Kryszkiewicz	Committee Member	18 December 2015 20 May 2016 – 6th term of office	11 May 2016* to date
Zofia Dzik	Committee Member	20 May 2016	to date

Source: Proprietary material

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

NOMINATION COMMITTEE

The PKP CARGO S.A. Supervisory Board appoints the 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 Chairperson. 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 7 Composition of the Nomination Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2017 to the delivery date of this 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
Czesław Warsewicz	Committee Member	26 October 2017	to date
Krzysztof Mamiński	Committee Member	20 March 2017	26 October 2017
Mirosław Pawłowski	Committee Member	18 December 2015 20 May 2016 – 6th term of office	11 May 2016* 6 March 2017
Andrzej Wach	Committee Member	18 December 2015 20 May 2016 – 6th term of office	11 May 2016* 29 May 2017

Source: Proprietary material

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

STRATEGIC COMMITTEE

The PKP CARGO S.A. Supervisory Board appoints the Strategic Committee. 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 8 Composition of the Strategic Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2017 to the delivery date of this report

Name	Position	Period in office	
		from	to
Czesław Warsewicz	Committee Chairman	23 June 2016	to date
Raimondo Eggink	Committee Member	23 June 2016	to date
Mirosław Antonowicz	Committee Member	27 June 2017	to date
Andrzej Wach	Committee Member	23 June 2016	29 May 2017

Source: Proprietary material

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

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

Table 9 Structure of PKP CARGO S.A.'s share capital

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

Source: Proprietary material

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

On 16 June 2017, the Parent Company's Management Board received a notification from TFI PZU on a reduction by TFI PZU of its share in the total number of votes at the Parent Company's Shareholder Meeting to a level below the 5% threshold. The decline in the notifying party's shareholding below this threshold occurred as a result of the sale of a stake in the Parent Company executed on the Warsaw Stock Exchange on 9 June 2017.

Table 10 Shareholder structure of PKP CARGO S.A. as at 31 August 2017, i.e. as at the delivery date of the report for H1 2017

Shareholder	Number of shares	% in share capital	Number of votes	% in the total number of votes at the Shareholder Meeting
PKP S.A. (1)	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE (2)	6,854,195	15.30%	6,854,195	15.30%
MetLife OFE (3)	2,494,938	5.57%	2,494,938	5.57%
AVIVA OFE (4)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	18,315,219	40.90%	18,315,219	40.90%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

Source: Proprietary material

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

On 7 September 2017, the Management Board of PKP CARGO S.A. received a notice from Aegon Powszechne Towarzystwo Emerytalne S.A. stating that it exceeded 5% of the total number of votes in the Company. On 1 September 2017, Aegon Powszechne Towarzystwo Emerytalne S.A. assumed the management of the Nordea Open-End Pension Fund, as a result of which the total share of the funds managed by the Company, that is Aegon OFE and Nordea OFE, in the total number of votes at the shareholder meeting of PKP Cargo S.A. exceeded 5% of votes.

Before this assumption of management, Aegon OFE held 1,631,258 Company shares, which represented a 3.64% stake in its share capital, and 1,631,258 votes, that is 3.64% of the total number of votes, and Nordea OFE held 868,721 shares in the Company, which represented 1.94% of its share capital and 868,721 votes, that is 1.94% of the total number of votes. After the assumption of management of Nordea OFE, as at 1 September 2017, both funds managed by the Company held a total of 2,499,979 shares in the Company, which represented a 5.58% stake in the share capital and 2,499,979 votes, or 5.58% of the total number of votes.

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

Table 11 Shareholder structure of PKP CARGO S.A. as at 30 September 2017

Shareholder	Number of shares	% in share capital	Number of votes	% in the total number of votes at the Shareholder Meeting
PKP S.A.(1)	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE (2)	6,854,195	15.30%	6,854,195	15.30%
MetLife OFE (3)	2,494,938	5.57%	2,494,938	5.57%
AVIVA OFE (4)	2,338,371	5.22%	2,338,371	5.22%
AEGON PTE (AEGON OFE, NORDEA OFE) (5)	2,499,979	5.58%	2,499,979	5.58%
Other shareholders	15,815,240	35.31%	15,815,240	35.31%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

Source: Proprietary material

(1) According to a notice sent by the shareholder on 24 June 2014.
(2) According to a notice sent by the shareholder on 18 October 2016.
(3) According to a notice sent by the shareholder on 18 August 2016.
(4) According to a notice sent by the shareholder on 13 August 2014.
(5) According to a notice sent by the shareholder on 7 September 2017.

Table 12 Shareholder structure of PKP CARGO S.A. as at the delivery date of this report

Shareholder	Number of shares	% in share capital	Number of votes	% in the total number of votes at the Shareholder Meeting
PKP S.A.(1)	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE (2)	6,854,195	15.30%	6,854,195	15.30%
MetLife OFE (3)	2,494,938	5.57%	2,494,938	5.57%
AVIVA OFE (4)	2,338,371	5.22%	2,338,371	5.22%
AEGON OFE (5)	2,499,979	5.58%	2,499,979	5.58%
Other shareholders	15,815,240	35.31%	15,815,240	35.31%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

(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 18 August 2016.
(4) According to a notice sent by the shareholder on 13 August 2014.
(5) According to a notice sent by the shareholder on 23 November 2017. (notice due to the closure of 17 November 2017 liquidation of Nordea OFE and transferring all the assets of Nordea OFE to Aegon OFE).

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

The holdings of Company's shares or rights to such shares by members of the Company's Management Board from 31 August 2017, i.e. the delivery date of the H1 2017 report, to the delivery date of this report, were as follows:

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

Name	Number of PKP CARGO S.A. shares held by Management Board members
Krzysztof Mamiński	0
Witold Bawor	46
Grzegorz Fingas	0
Zenon Kozendra	46

Source: Proprietary material

The holdings of the Company's shares or rights to such shares by members of the Company's Supervisory Board from 31 August 2017, i.e. the delivery date of the H1 2017 report, to the delivery date of this report, were as follows:

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

Name	Number of PKP CARGO S.A. shares held by Supervisory Board members
Mirosław Antonowicz	0
Krzysztof Czarnota	70
Zofia Dzik	0
Raimondo Eggink	0
Małgorzata Kryszkiewicz	0
Marek Podskalny	70
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

According to preliminary data published by the Central Statistical Office of Poland, seasonally unadjusted GDP in constant annual average prices of the previous year increased 4.7% yoy in Q3 2017. Economists had expected a rate of growth of approx. 4.5% yoy.[7] The rate of GDP growth in Q3 2017 was the highest in the last five years, having surpassed the growth rate recorded in the previous quarters, namely in Q2 2017 (+4.0% yoy) and Q1 2017 (+4.1% yoy). [8]

Macroeconomic data coming from the Polish economy and positive macroeconomic readings for Q3 2017, prompted both national and foreign forecasting agencies to revise their economic growth forecasts for Poland upwards. In its projection on inflation and the rate of economic growth published in November 2017, the National Bank of Poland forecasts GDP growth in Poland to reach 4.2% yoy in 2017. In the subsequent years, the GDP growth rate is likely to decrease somewhat to 3.6% yoy in 2018 and 3.3% yoy in 2019. Compared to earlier projections published by the National Bank of Poland in July of this year, GDP growth in 2017 was estimated at 4.0% yoy (+0.2 p.p. adjustment), 3.5% yoy in 2018 (+0.1 p.p. adjustment) and 3.3% in 2019 (no adjustment). The most recent verification of GDP growth estimates published in November 2017 was caused by, among other factors, a higher rate of growth in personal consumption in Q2 2017, better readings and outlook for employee compensation and employment rate increases, favorable net exports data for July and August 2017 and the expected higher rate of growth in investments in 2018 due to shifts of a portion of public sector spending from the current year forward.[9]

According to the National Bank of Poland, the main driver of GDP growth in Poland in 2017-2019 will be individual consumption stimulated by the favorable situation on the labor market and, in the short term, by transfers on account of family and child care benefits as well as the ability to finance consumption with cheap credit (low interest rates). Economic growth will also be driven by a positive rate of growth in gross fixed capital formation resulting from the inflow of EU funds from the budget framework 2014-2020. In turn, due to Poland's strong commercial ties with countries of the euro zone, GDP growth will be adversely affected by the slowdown in the rate of economic growth in the states of the common currency area. A negative contribution of net exports to economic growth will be a factor curtailing the rate of GDP growth in Poland in 2018-2019.

After the years of post-crisis stagnation, the National Bank of Poland expects a recovery in the Polish economy's environment in 2017-2018. The National Bank of Poland's economic growth forecast for the euro zone is slightly higher than the July 2017 projection and stands at 2.2% in 2017 (+0.3 p.p. adjustment). The rate of GDP growth will slow down to 1.9% in 2018 (+0.2% adjustment) and 1.6% in 2019 (projection unchanged). Favorable economic outlook also concerns countries that are the drivers of GDP growth in the global economy, such as the United States, China and other BRIC countries. However, the National Bank of Poland's experts emphasize that in the long term global growth prospects are unstable due to a low rate of growth in productivity and unfavorable demographic trends.

As the main risk factors for the above estimates, the National Bank of Poland's experts mention the deterioration in growth prospects in the global economy, including the weaker situation in the U.S. economy, poorer sentiments coupled with the deeper economic slowdown in the euro zone and the escalation of tensions in the Korean Peninsula. A correction of stock market indices from their current high levels, deterioration of sentiments caused by a lesser extent or delays in the implementation of reforms threaten the prospects of economic growth in the United States. A significant source of uncertainty surrounding the projections published by the National Bank of Poland's economists are also concerns about the future condition of the euro zone economy, the stability of the financial system, the Brexit terms, the disintegration tendencies and the outcome of the elections in Italy. Given the current global links between the world's economies, this would exert a potentially strong impact also on the economic situation of Poland.

According to data published by the National Bank of Poland, CPI-measured inflation will be at 1.9% yoy in 2017, 2.3% in 2018 and 2.7% in 2019. This is an upward correction of the July 2017 forecasts of 1.9% yoy in 2017, 2.0% in 2018 and 2.5% in 2019. The current projection adjustment for the rate of inflation of the prices for domestic consumer goods and services results primarily from the expected higher demand pressure (an increase in the rate of growth in unit labor costs), simultaneously offset by stabilization in the prices of energy carriers at a lower level on the global markets with a concurrent depreciation of the U.S. dollar (in which these commodities are quoted) and a low inflation rate in the euro zone.

In November 2017, the European Commission ("EC") increased its economic growth forecast for Poland over its July projection from 3.5% to 4.2% in 2017 and from 3.2% to 3.8% in 2018. In the opinion of the EC, Polish GDP will grow faster due to a rebound

[7] "Gazeta Giełdy Parkiet"
[8] Central Statistical Office of Poland
[9] Inflation Report. November 2017, National Bank of Poland

in investments and a significant growth in private consumption supported by favorable trends on the labor market and a record high consumer confidence index. Also projected is a slight decline in consumption in 2018 which will be suppressed by both a higher inflation rate curtailing disposable the growth of income of domestic households and a slower decline in the unemployment rate.

The unemployment rate in Poland, which currently stands at record low levels, is expected to continue its downward trend from 6.2% in 2016 to 5.0% this year and further down to 4.2% in 2018. According to EC experts, the favorable situation on the labor market for employees, will be the main driver of inflation, which will increase from 1.6% in 2017 to 2.1% in 2018 and 2.8% in 2019, thus exceeding the 2.5% inflation target set by the National Bank of Poland.

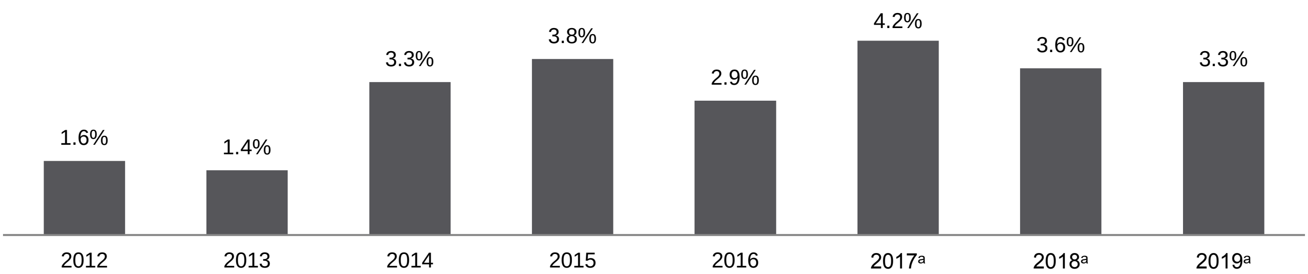
After several weaker consecutive quarters, the EC predicts a gradual recovery in investments starting in H2 2017. The rate of growth in gross fixed capital formation will reach 4.2% yoy in 2017 and 7.9% yoy in 2018 compared to a decline by 7.9% yoy in the previous year. Growth in public investment will be especially strong at the turn of 2017 and 2018, reflecting the acceleration in the spending of funds from the European Union budget. The European Commission expects a gradual but slower rate of growth in private investments. They will be supported by strong domestic and foreign demand, a high rate of production capacity utilization and easier access to financing. The contribution of net exports to GDP will be negative in 2017-2018 due to growing imports driven by private consumption and investments.

In November 2017, also the European Bank for Reconstruction and Development ("EBRD") increased its economic growth forecast for Poland. In the opinion of EBRD experts, the country's GDP in 2017 is expected to grow 4.1% compared to 3.2% in the previous forecast and 3.4% in 2018 compared to the 3.2% rate of growth projected previously.

According to EBRD experts, the acceleration of Poland's GDP growth to 4.1% in 2017 will be due to robust consumption of households and a better situation on the labor market accompanied by a recovery in investments, especially in the public sector. In 2018, GDP growth will slow down to 3.4% as a result of weakening private consumption caused by higher prices.

In its report, the EBRD emphasizes that the decline in Poland's rate of GDP growth to 2.9% in 2016 was the result of a significant slump in investments in this period. The delayed absorption of EU funds from the budget framework 2014-2020 and the uncertainty surrounding the regulatory environment led to a decline in investments by 7.9% yoy in 2016. In contrast to weak investment performance, consumer spending increased last year and its dynamics accelerated even further this year as a result of the rapid growth in wages and the delayed effect of higher social transfers. As a result, GDP accelerated to 4.3% in H1 2017. It is expected that investments in the public sector will start to climb up starting in H2 2017, also due to the upcoming local government elections scheduled for 2018. The rate of growth in private investments still remains poor and poses the main risk for the stability of economic growth in Poland. The current situation on the labor market, with the dwindling supply of labor and increasing wages, is also not conducive to investments. The ratio of investments to GDP ratio dropped below 18% in the middle of the year, the lowest level since 1996.[10]

Figure 4 GDP growth in Poland in 2012-2016 per annum and forecasts for the subsequent years



[a] *National Bank of Poland forecast on the basis of the Inflation Report, November 2017*

Source: Central Statistical Office (revised estimate of gross domestic product for 2012-2016 dated 23 October 2017); National Bank of Poland forecast (November 2017)

[10] Regional Economic Prospects in EBRD Countries of Operations, November 2017

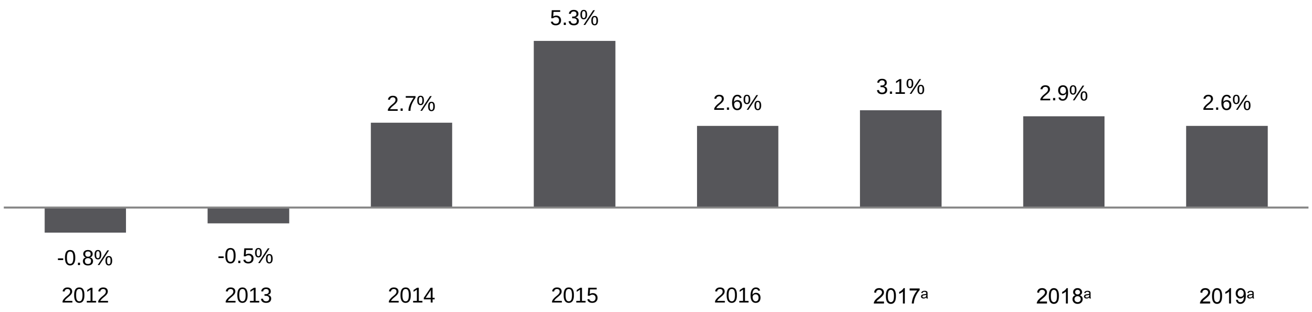
Czech economy

The most recent macroeconomic data from the Czech economy confirm that in Q2 2017 the rate of economic growth in the country accelerated significantly. Thanks to favorable internal and external impacts, GDP in Q2 2017 grew 2.5% qoq and 4.7% yoy compared to 1.5% qoq and 3.0% yoy in Q1 2017. The annual economic growth rate in Q2 2017 was predominantly driven by: investment expenditures (+1.7 p.p., even though ultimately gross fixed capital formation contributed +0.7 p.p. to GDP growth), private consumption (+1.5 p.p.), foreign trade balance (+2.1 p.p.) and, to a lesser extent, public sector consumption (+0.4 p.p.).

It is noteworthy that in Q2 2017, for the first time in four quarters, the contribution of investments to GDP ceased to be negative. Robust growth in investments was recorded mainly in such sectors as: manufacture of transport equipment, housing construction and manufacture of machinery and equipment.

For the sake of comparison, in Q1 2017 the contribution of distinct components to GDP was as follows: household consumption (+1.2 p.p.), foreign trade balance (+2.2 p.p.), gross fixed capital formation (-0.9 p.p.) and public sector consumption (+0.5 p.p.).[11]

Figure 5 Real GDP growth in the Czech Republic in 2012-2016 and forecasts for 2017-2019



[a] *Forecast of the Czech Republic's Finance Ministry – July 2017*

Source: European Commission and the Czech Republic's Finance Ministry

According to the current forecasts of the Czech Republic's Finance Ministry, the following should be expected in the coming years:

- the Czech economy will grow by 3.1% yoy in 2017, 2.9% yoy in 2018 and 2.6% yoy in 2019;
- the inflation rate in 2017 will be 2.2% yoy and in 2018 it will be 1.6% yoy. The strong acceleration in consumer prices above the Czech National Bank's inflation target at the turn of 2016 and 2017, the expected decrease in the inflation rate (the pro-inflationary effects of increasing wages and positive GDP gap data on the one hand and the anti-inflationary effects of monetary policy tightening, especially in terms of the exchange rate component, on the other hand should largely cancel each other out) and the anticipated lower increase in oil prices compared to earlier figures make the macroeconomic forecasts for the Czech economy more optimistic than in the previous sets of estimates;
- thanks to the positive economic growth rate, the demand pressure on the labor market will continue, as a result of which the employment growth rate will increase to 1.4% yoy in 2017, followed by 0.4% yoy a year later due to the gradual depletion of unused labor resources;
- the unemployment rate will stand at 3.2% in 2017 and 2.9% in 2018;
- the current account balance will be 0.7% of GDP in 2017 and 0.8% of GDP in 2018, and an increase in capital surplus from the current account will improve the country's foreign currency reserves, which in turn may have a positive effect on the Czech Republic's investment security and its perception by investors.

The positive business conditions in the Czech Republic can also be seen in the level of public debt, which has been successively dropping since 2013 (44.9% of GDP), expected to reach 35.2% of GDP in 2017 (down by 1.5 p.p. yoy). In 2016 the balance of finances of the central and local government institution sector increased by 1.2 p.p. yoy, reaching, for the first time in the history of the Czech Republic, a surplus of 0.6% of GDP. This surplus was maintained also in Q1 and Q2 2017, reaching 0.24% and 3.64% of GDP, respectively. This should be attributable mainly to revenues in connection with the introduced reforms of the tax collection system and legislative changes (e.g. electronic VAT reporting and, as of December 2016, also electronic sales registration). The expenditure side was positively impacted by the decrease in interest costs (by nearly 9% yoy), resulting primarily from favorable conditions in the financial markets and the decrease in state debt. The significant drop in capital

[11] Czech Statistical Office (CZSO)

expenditures compared to the high base in 2015 (end of the EU budget framework 2007-2013) results from budget savings in connection with unspent monies as part of EU project co-financing.

The positive moods of entrepreneurs in the industry sector can be seen in the high PMI (*Purchasing Managers' Index*) readings, which in the first 9 months of 2017 averaged 56.4 (from 55.7 in January to 56.6 in September). In the corresponding period of the previous year, the average reading was 53.0.

The following variables may affect the accuracy of the economic growth forecast prepared by the Ministry of Finance of the Czech Republic:

- business conditions in the Czech Republic's key trading partners. Confirmation of positive macroeconomic forecasts for such business players as Poland, Germany, France, United Kingdom and Slovakia, will have a significant impact on the strongly export-oriented Czech economy;
- greater barriers in international trade after the UK's exit from the EU and the consequential decrease in foreign demand for exports, including exports from the Czech Republic;
- potential escalation of problems in the Italian banking sector;
- geopolitical factors (greater protectionism, migration crisis);
- further appreciation of the Czech crown against the euro, which in the medium and long run may bring decreases in the revenues of export-oriented companies;
- the current situation on the labor market constituting a barrier for further increase in production of the industry and services, including a strong pressure on wage increases following from stronger demand for workforce and the shrinking supply side of the labor market (among other factors, due to an increase in employment and the declining unemployment rate);
- expected recovery of the investment cycle associated with the disbursement of monies from EU funds along with low interest rates and a high growth rate of mortgage debt (which, together with factors restricting the supply of residential real estate, contributes to an intensive increase in home prices and may lead to a price bubble on the real estate market);
- the expected continuation of the gradual slowdown in China's economic growth which, however, should not be of key importance for the Czech Republic despite the fact that the mutual connections between the Czech and Chinese economies via global supply chains are more extensive than foreign trade data may suggest.[12]

European economy

According to Eurostat's preliminary estimates, GDP growth in the euro zone was 2.5% yoy in Q3 2017 compared to +2.0% yoy in Q1 2017 and +2.3% yoy in Q2 2017. This growth rate was higher than had been expected by analysts (2.4% yoy in Q3 2017 according to Reuters' consensus). Strong economic growth pushed down the unemployment rate in the euro zone to the lowest level since January 2009 (8.9% yoy in September 2017). The inflation rate in the euro zone was 1.4% yoy in October 2017, lower than the 1.5% yoy in September and August of this year[13], thus below the inflation target adopted by the European Central Bank ("ECB"), which seeks to keep the inflation rate below, but close to, 2% in the medium term.[14]

According to the macroeconomic projection by ECB experts published in September 2017, the observed economic recovery in the euro zone should continue until the end of 2019. In the opinion of the ECB analysts, the average annual real GDP growth rate will be 2.2% in 2017, the highest since the global financial crunch in 2008-2009, whereas in 2018 and 2019 it will slow down to approx. 1.8%. In the medium term, growth will continue to be driven largely by internal demand stimulated by favorable financing conditions and a further improvement in the situation on the labor market. The unemployment rate is expected to remain in the current downward trend, reaching 8.1% in 2019 (which will still be higher than the pre-crisis level of 7.5% in 2007). The recovery in investments is also expected to continue, both in housing investments and business investments. At the same time, it is anticipated that, despite the recent appreciation of the euro, the global recovery will have a favorable impact on exports from the euro zone. In the short term, the overall inflation rate should decline from 1.5% in 2017 to 1.2% in 2018, driven mainly by the base effect of energy prices, and then is expected to rebound to 1.5% in 2019.[15]

The most recent ECB projection was more optimistic the previous ones (from March and June 2017), in which GDP growth in the euro zone in 2017 was estimated at 1.8% yoy and 1.9% yoy, respectively. The upward revision of the projection was caused by the favorably surprising current GDP data and better prospects for domestic demand.

[12] Macroeconomic Forecast of the Czech Republic, July 2017
[13] Reuters.com
[14] European Central Bank
[15] ECB staff macroeconomic projections for the euro area – September 2017

Industry in Poland

Cargo freight transport is strongly correlated to the economic condition of all Poland's key industries (especially mining, construction and metallurgy). To a slightly lesser extent, cargo freight transport is also affected by the situation in such sectors as the fuel, metal processing, chemical, wood and automotive industries.

In 9M 2017, total industrial production sold increased 5.9% yoy, compared to a 3.7% yoy growth in the corresponding period of 2016. In Q3 2017, the rate of growth in production was 6.3% yoy and was slightly higher than in H1 2017 (when it stood at 5.7% yoy) but lower than in Q1 (7.3% yoy). In October 2017, sold production of industry increased by 12.3% yoy – the most since August 2010.

In the period of the first 9 months of 2017, increases were recorded in the following 27 industries out of the 34 classified industrial sectors: industrial processing (+6.5% yoy); production and supply of electricity, gas, steam and hot water (+6.4% yoy); production of metals (+10.9% yoy) and metal products (+9.7% yoy); manufacture of motor vehicles, trailers and semi-trailers (+7.5% yoy); manufacture of machinery and equipment (+10.2% yoy); manufacture of other transport equipment (+4.1% yoy); manufacture of chemicals and chemical products (+5.0% yoy); manufacture of rubber and plastic products (+8.5% yoy); production of foodstuffs (+6.8% yoy); production of furniture (+6.7% yoy); manufacture of products of wood, cork and wicker (+5.4% yoy); manufacture of paper and paper products (+6.1% yoy); manufacture of other non-metallic mineral products (+6.7% yoy). Decreases in industrial production sold were recorded in the following sectors, among others: mining and quarrying (-7.2% yoy); manufacture of coke and refined petroleum products (-0.9% yoy).[16]

In 9M 2017, labor productivity in the industrial sector, as measured by output sold per employee, was 2.7% higher than the 2.5% yoy growth in H1 2017 and 4.0% yoy higher than in Q1 2017. At the same time, in 9M 2017, average employment increased 3.1% yoy and average monthly gross pay increased 5.1% yoy.[17]

The value of PMI (*Purchasing Managers' Index*) in September 2017 was 53.7, i.e. better than in September 2016 when it stood at 52.2.[18]

The strongest rate of growth among the indicators of economic development was recorded in construction and assembly output, which rebounded from a deep slump in 2016 to 13.0% yoy in 9M 2017. This rate of growth was higher than that observed in Q1 2017 (+3.9% yoy) and in H1 2017 (7.6% yoy). In September 2017, this ratio increased 15.5% yoy (compared to the 15.3% yoy decline in September 2016) compared to the August and July readings of 23.5% yoy and 19.8% yoy, respectively.[19]

In the period from January to August 2017, foreign trade was higher than in the corresponding period of 2016, with a higher rate of growth in imports (+9.6% yoy) than that in exports (+7.7% yoy). Total exports reached PLN 562.5 billion and total imports amounted to PLN 558.7 billion, which meant that Poland's net foreign trade closed with a positive balance of PLN 3.8 billion. This result turned out to be worse than in the corresponding period of 2016, when the balance of foreign trade stood at PLN 18.5 billion. Poland's foreign trade improved with all country groups, especially with the Central and Eastern European countries (exports up by 21.8% yoy and imports up by 23.8% yoy). Poland also increased its foreign trade with developed countries (exports grew by 7.5% yoy and imports by 7.4% yoy), including with European Union countries (exports up by 7.0% yoy and imports by 6.0% yoy).[20]

Mining industry

Due to the structure of the PKP CARGO Group's freight operations, mining and processing of hard coal is the industry sector which unchangeably remains the most important to the PKP CARGO Group. In the period from January to September 2017, 49.1 million tons of hard coal was mined in Poland, down by 3.1 million tons, or 5.9%, yoy. The biggest drop in mining output on a year-over-year basis was recorded in Q3 2017 at -8.8% yoy, i.e. from 17.8 million tons to 16.2 million tons.[21] In 9M 2017, sales of hard coal dwindled by 4.8 million tons to 49.2 million tons compared to 54.1 million tons in the corresponding period of the previous year. In the same period, imports of coal from Russia and other countries increased by over 2 million tons.[22]

[16] Central Statistical Office of Poland
[17] Central Statistical Office of Poland
[18] http://stooq.pl/
[19] Central Statistical Office of Poland, tentative data
[20] Central Statistical Office of Poland
[21] Central Statistical Office of Poland
[22] "Puls Biznesu"

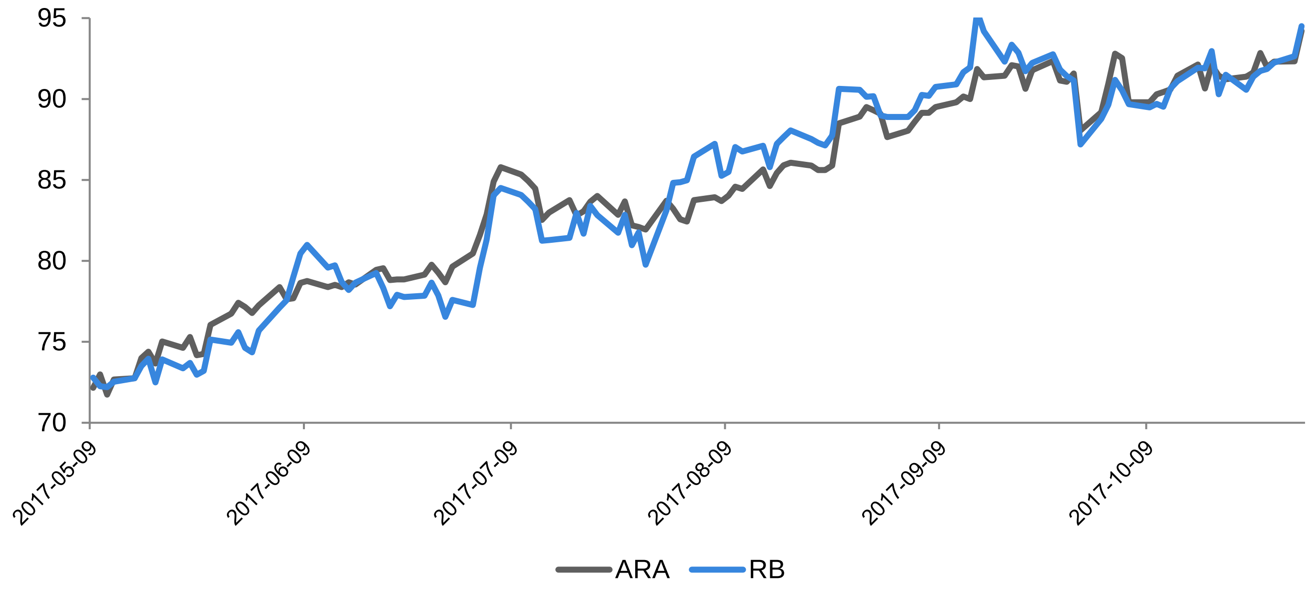
A noteworthy fact is that the volume of this commodity in storage yards continues to be low. In September 2017, inventories stood at 2.18 million tons compared to 1.93 million tons at the end of June 2017 and 3.43 million tons at the end of September 2016.[23]

The increase in the prices of coking coal and steam coal on the domestic market and the higher revenues from the sales of this commodity translated into a PLN 1.66 billion net profit for the mining industry in the first three quarters of 2017, a record result in the last few years.[24]

Very good quarterly performance of Polish coal indices was recorded especially in Q2 and Q3 2017. The price index for the electricity generation market PSCM1 in Q2 2017 was PLN 205.45 per ton (an increase by 3.2% qoq and 5.6% yoy), whereas in Q3 2017 it declined slightly to PLN 205.11 per ton (down 0.2% qoq and up 5.7% yoy). The heating coal index PSCM2 in Q2 2017 was PLN 233.2 per ton (an increase by 2.7% qoq and 18.7% yoy), continuing to increase to PLN 237.9 per ton in Q3 2017 (up 2.0% qoq and 21.8% yoy). The high prices of the above indices have direct impact on increase of coal producers' revenues. In the period from January to September 2017, the revenues of the hard coal mining industry from coal sales reached PLN 15.2 billion, up by more than 22% than the year before.[25] In the same period, energy generation in coal-fired power plants increased only marginally by 0.02% yoy.

A review of the condition of the mining sector in Poland should also take into consideration the prices of coal at the seaports of Amsterdam-Rotterdam-Antwerp and Richards Bay, which are of major importance for this market. In the period from January to September 2017, the average ARA price was USD 81.27 per ton, i.e. USD 29.99 per ton (or 58.5%) higher than the average price of USD 51.28 per ton in the corresponding period of the previous year. In each month of the period from January to September 2017, these prices were significantly higher than the average monthly prices in the corresponding periods of 2016. The average monthly price in each month of the period in question in 2017 oscillated between USD 74.26 per ton in March of this year (+63.3% yoy) and USD 90.35 per ton in September (+45.0% yoy). In the period from January to May 2017, the average monthly ARA price was in a downward trend, which was broken in June 2017, and in September of this year the declines from H1 2017 were made up for.

Figure 6 Coal prices on ARA vs. RB markets*



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

[23] Polski Rynek Węgla [Polish Coal Market]
[24] Wirtualny Nowy Przemysł [Virtual New Industry]
[25] Wirtualny Nowy Przemysł [Virtual New Industry]

Steel industry

According data published by the Central Statistical Office of Poland, the country's crude steel production in the period from January to September 2017 increased 18.1% yoy to reach 7.9 million tons, the highest level since 2008.

Similar growth trends in production were recorded in 9M 2017 both in Europe and globally, including among such global leading producers of steel as the Asian countries of China, Japan and India. According to data published by the World Steel Association, steel production in the 66 member countries in 9M 2017 increased by 62.5 million tons yoy to 1,266.9 million tons, up 5.6% yoy.[26]

Steel production in the European Union also increased, by 4.9 million tons i.e. by 4.1% yoy from 121.5 million tons in 9M 2016 to 126.4 million tons in the period of January-September of this year. The leading producers in the European Union also recorded yoy production growth in 9M 2017. The leaders included: Germany (an increase in production to 32.9 million tons or 2.7% yoy), Italy (an increase to 17.8 million tons or 2.5% yoy), France (an increase to 11.7 million tons or 10.5% yoy) and Spain (an increase to 10.7 million tons or 27% yoy). The yoy decrease in steel production in 9M 2017 was recorded among others in the Czech Republic (down to 3.4 million tons or -14.6% yoy), the Netherlands (down 3.1% to 5.1 million tons) and the UK (down 2.4% yoy to 5.6 million tons). Outside the EU, steel production increased on a year-over-year basis in Russia (by 2.8% yoy to 54.2 million tons) and Turkey (by 13.5% yoy to 27.7 million tons). A significant slump in production in 9M 2017 was recorded by Ukraine (down 11.6% yoy to 16.1 million tons).

As regards non-European countries, special attention should be paid to global leaders in steel production, namely China, Japan and India. Both China and India recorded an increase in steel production on a year-over-year basis in the period from January to September 2017: China by 5.4% yoy (from 606.0 million tons to 638.7 million tons) and India by 5.7% yoy (from 71.3 million tons to 75.3 million tons), whereas Japan's production remained relatively flat on a year-over-year basis (-0.2% yoy, down from 78.4 million tons to 78.3 million tons).[27]

According to European Steel Association (Eurofer) projections, compared to last year, 2017 will see an increase in apparent steel consumption in the European Union by 2.3% and in the steel-intensive industries by over 4.2% yoy.

After the rapid growth of 3.8% yoy in Q1 2017, apparent steel consumption in the European Union decreased 0.8% yoy in Q2 2017 due a technical correction associated with the inventory cycle. Deliveries from European steelmakers to the EU market declined 3.5% yoy in Q2 2017, while steel imports from third countries increased 10% yoy. In Q2 2017, imports accounted for 23% of total steel demand in the European Union and were higher on a year-over-year basis despite the imposition of anti-dumping duties on steel imports from certain third countries, including China. In 2018, a further increase in steel demand is expected on account of the anticipated further increase in real steel consumption in the European Union only marginally supported by the inventory cycle. This would be a continuation of the gradual recovery of demand for steel in Europe, a trend that began in 2014. According to Eurofer, cheap imports from third countries, such as China, where steel production is supported by government subsidies, among other factors, currently poses the main risk to the stability of the European steel sector.[28]

Construction industry

According to data published by the Central Statistical Office of Poland, construction and assembly output at constant prices in 9M 2017 was 13.0% higher yoy compared to the 14.9% yoy decline in the corresponding period of 2016. This rate of growth was higher than that recorded in Q1 2017 and H1 2017 when the dynamics of construction and assembly output at constant prices stood at 3.9% yoy and 7.6% yoy, respectively. The months of July and August 2017 brought record rates of growth in construction and assembly output (19.8% yoy and 23.5% yoy, respectively), unmatched since the construction boom prior to the 2012 European Football Championship co-hosted by Poland. In September and October 2017, the growth rate of construction and assembly output amounted to 15.5% yoy and 20.3% yoy, respectively.

The increase in construction and assembly output compared to 9M 2016 was recorded across all construction subsectors. A particularly rapid growth in output was observed in such categories as the construction of civil engineering facilities (22.2% yoy), including by companies involved predominantly in the construction of roads and railways (37.3% yoy), and specialized construction works (8.1% yoy). These data confirm the fact that 2017 brought a recovery of public investments following the investment gap recorded the year before.

In 2016, declines in construction output resulted primarily from delays in the preparation for the absorption of funds under the new EU budget framework for 2014-2020. As a consequence, 2016 witnessed a negative rate of growth in gross fixed capital formation

[26] World Steel Association
[27] World Steel Association
[28] Eurofer

(-7.9% yoy in 2016 compared to +6.1% yoy in 2015) and a decrease from PLN 79 billion to PLN 61.4 billion in investment expenditure of the central and local government sector (-22.3% yoy).[29]

According to data published by the Ministry of Finance, in Q2 2017 gross fixed capital formation increased +0.8% yoy compared to -4.5% yoy in the corresponding period of the previous year and was positive for the first time since Q4 2015. After a period of seven consecutive quarters of negative growth, an increase (+13.1% yoy) was also recorded in the central and local government investment expenditure, which in Q2 2017 reached PLN 15.7 billion.

In July 2017, the Council of Ministers adopted Resolution No. 105/2017 amending the resolution on the establishment of the long-term "National Road Construction Program for 2014-2023 (with an outlook until 2025)" and Resolution No. 106/2017 on the acceptance of the report on the execution of the "National Railway Program until 2023" for 2016. According to the information presented in the attachments to these resolutions, total planned expenditures on road infrastructure in Poland under the "National Road Construction Program for 2014-2023 (with an outlook until 2025)" are expected to reach PLN 196.4 billion in 2014-2025, while total planned expenditures on rail infrastructure under the "National Railway Program until 2023" in the 2014-2020 framework, are expected to amount to PLN 66.4 billion.

Industry in the Czech Republic

In the period from January to September 2017, industrial output at constant prices grew 5.0% yoy compared to the 5.3% yoy increase in H1 2017 and the 7.5% yoy increase in Q1 2017. The following industries contributed primarily to the increase in the rate of growth in industrial output in 9M 2017: production of chemicals and chemical products (total growth by 20.0% yoy), manufacture of computers, electronic and optical products (+11.6% yoy), production of basic pharmaceutical substances, medicines and other pharmaceutical preparations (+9.6% yoy), manufacture of motor vehicles, trailers and semi-trailers (+8.8% yoy), manufacture of rubber and plastic products (+7.4% yoy), manufacture of electrical devices (+7.1% yoy) and manufacture of machinery and equipment (+6.6% yoy). A decrease in industrial output was observed among others in the following industries: manufacture of other transport equipment (an overall decline by 12.6% yoy), mining and quarrying (- 10.9% yoy) and repair and assembly of machinery and equipment (-8.2% yoy).[30]

Revenues from industrial activity at current prices rose by 6.1% yoy in the period from January to September 2017, and direct export sales revenues of industrial enterprises at current prices increased by 6.0% yoy. Domestic sales, which comprised indirect exports (through non-industrial companies), at current prices increased by 6.3% yoy.

In January-September 2017, the value of new orders in selected industrial sectors increased by 6.5% yoy, while the number of new foreign orders increased 6.2% yoy and domestic orders by 7.0% yoy.

In Q3 2017, the headcount in companies with 50 employees or more increased by 1.9% yoy. Their average monthly nominal gross salary in this period increased by 7.3% yoy and reached CZK 30,760 (currently, nearly PLN 5,108).

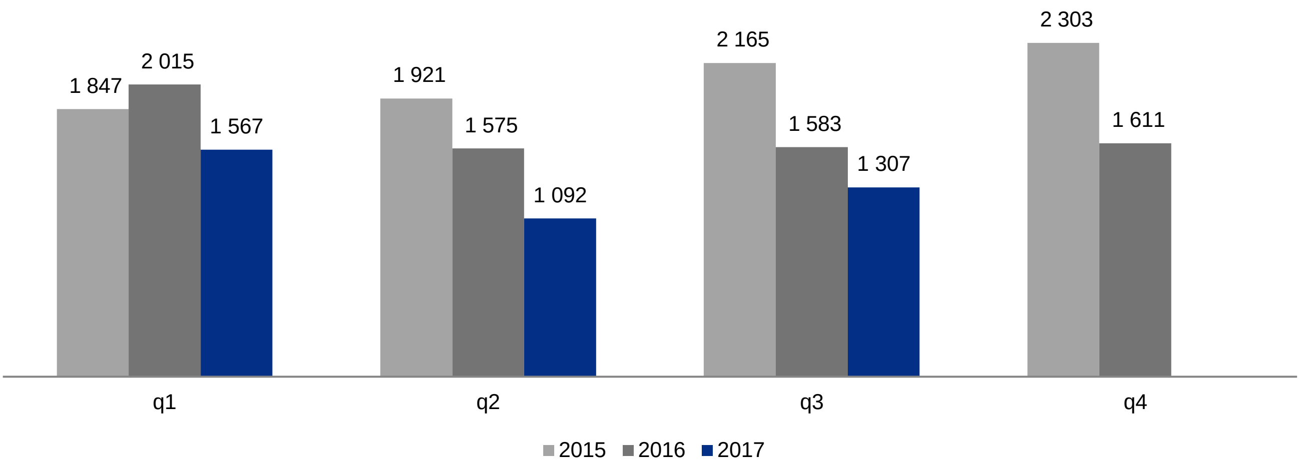
Mining industry

In Q3 2017, a total of 1,307 thousand tons of hard coal was extracted which, compared to the mining level recorded in the corresponding period of the previous year, means a decrease by 17.5% (-276 thousand tons of this commodity). Combined with the H1 2017 figures, this indicates a decline in coal output in the period from January to September 2017 by 23.3% yoy, i.e. by 1,208 thousand tons, as a result of decommissioning of the Paskov mine in March of this year and the continued restructuring processes involving primarily a gradual decommissioning of the Czech mines. In accordance with the restructuring program of the Czech mining company OKD, approved by the Regional Court in Ostrava on 11 October 2017, the mines and operational assets of OKD will be taken over by a newly-established company OKD Nástupnická, in which 100% of shares will be subscribed for by the state-owned company Prisko. The restructuring program accepted by the court provides for a gradual phasing out of OKD's mining companies. The following mines will be liquidated: Darkow and Lazy mines will be first to be decommissioned (by the end of 2018) and CSA and CSM by 2021 and 2023, respectively.[31]

The figure below presents quarterly hard coal production (coking and steam coal, without coke and coal deposit) in 2015-2017.

[29] Finance Ministry
[30] Czech Statistical Office (CZSO), Industry – September 2017
[31] www.ceskatelevize.cz

Figure 7 Quarterly extraction of hard coal in the Czech Republic in 2015-2017 (thousand tons)



Source: Czech Ministry of Industry and Trade

It should also be noted that the Czech mining industry will be affected by a change in the energy mix. The Czech Republic is focused primarily on increasing nuclear power generation (according to the Nuclear Energy Program until 2040). Currently, nuclear energy represents 32.5% of total energy output in the Czech Republic and this share in the energy mix should reach between 46.0% and 58.0% by 2040.[32] The increase in the share of nuclear energy is anticipated to be achieved at the expense of energy generated from lignite (down to 21.0%). By the end of 2040, energy generated from renewable sources is expected to account for 25.0% (in 2013 the target set for 2020, i.e. 13.0% share of RES energy in consumption, and in 2015, the consumption of 15.1% was recorded) and gas energy, 15.0% of total energy output generated in the Czech Republic. The new nuclear reactors are to be built by 2035 (with an outlook for building additional ones in the future) and their total capacity should reach 2500 MWe.[33]

Steel industry

The metallurgical industry in the Czech Republic consists mainly of two sectors: ferrous and non-ferrous metal processing and metal founding. The steel production industry is driven predominantly demand from the automotive, construction and mechanical engineering sectors. Barriers to its growth include high costs inherently associated with other kinds of transport than maritime or inland waterway transport, which is due to the Czech Republic's lack of direct access to the seam and location away from key water reservoirs. For this reason, this industry is forced to use the more costly road or railway transport.[34]

In the first 3 quarters of 2017, the steel industry in each of the three main product groups recorded production declines. According to the data of Steel Federation a.s., in the period from January to September of this year, the largest negative rate of growth was recorded in the production of raw steel, both in nominal and relative terms. During the first 9 months of 2017, crude steel output of Czech steelworks totaled 3.45 million tons, a decrease by 590.3 thousand tons, or 14.6% yoy, compared to the period of January-September 2016, when the corresponding value reached 4.04 million tons. Similarly, the output of metallurgical pig iron during the first 9 months of 2017 decreased by 397.3 thousand yoy, or 12.6% yoy, down to 2.76 million tons. Also in the hot-rolled product group, a decrease in output was recorded. In the period from January to September 2017, a 334.4 thousand ton decrease in the output of materials was recorded vis-à-vis the corresponding period of the previous year (-8.6% yoy), which translated into the final output after the first 9 months of this year of 3.56 million tons.[35]

Construction industry

According to preliminary data published by the Czech Statistical Office, seasonally unadjusted construction and assembly output in the first nine months of 2017 increased 2.2% yoy, of which total construction output increased 6.2% and engineering construction output dwindled by 7.1% yoy.

[32] www.biznesalert.pl
[33] Wirtualny Nowy Przemysł [Virtual New Industry]
[34] National Training Fund, o.p.s., "Manufacture of basic metals and fabricated metal products"
[35] The Steel Federation, a.s.

In Q3 2017, seasonally adjusted construction and assembly output declined by 2.6% compared to Q2 2017. When adjusted for the difference in business days, construction and assembly output was 1.2% higher in Q3 2017 yoy. If unadjusted for the difference in business days, the increase was 0.8% yoy.[36]

The average number of registered employees[37] in construction companies employing 50 or more staff in Q3 2017 fell by 1.5% yoy. The average monthly nominal gross salary of this group of employees increased by 3.2% yoy to CZK 34,773 (currently approx. PLN 5,766).

In Q3 2017, the number of construction orders undertaken by companies employing 50 or more staff increased by 2.4% yoy, reaching the level of 16,537 orders received and executed in the Czech Republic. Their total value decreased by 3.1% yoy to CZK 50.7 billion (or approx. PLN 8.42 billion).

In the period July-September 2017, the total number of granted building permits was 22,313, up by 2.3% yoy. The estimated value of construction orders for which building permits were obtained is estimated at CZK 95.4 billion (or approx. PLN 15.84 billion), up 41.0% yoy.

The total surface area of buildings covered by building permits obtained in Q3 2017 was 1.7 million square meters, an increase by 10.6% yoy. The total surface area of residential buildings covered by an issued building permit increased 16.8% yoy, while that of non-residential buildings increased 4.2% yoy.

The number of apartments being built under the construction projects launched between July and September of this year increased 19.2% yoy and amounted to 8,316. The number of such units in single-family houses increased 25.6% yoy and in multi-family buildings increased 27.4% yoy.

The number of apartments completed in Q3 2017 increased 13.9% yoy and amounted to 6,983. The number of such units in single-family houses increased 8.5% yoy and in multi-family buildings increased 15.1% yoy.

Automotive industry

Due to the long-term tradition of car production and the significance of the automotive industry for the country's economic development, the Czech Republic has become one of the key manufacturers of motor vehicles in Europe. The high headcount in the automotive industry and the steady growth in vehicle production have made this industrial output segment one of the strongest motors of development of the Czech economy.

The biggest producers of passenger cards operating in the Czech Republic in 9M 2017 were: Škoda Auto a.s. (60.7% of the total number of cars manufactured), Hyundai Motor Manufacturing Czech s.r.o. (a 25.4% market share) and TPCA Czech s.r.o. (Toyota, Peugeot, Citroën) (a 13.9% market share). In the period from January to September 2017, the automotive industry branch manufacturing delivery vans and buses was made up of the following entities: Iveco Czech Republic a.s. (with an 88.9% share in total bus production in the Czech Republic), SOR Libchavy spol. s.r.o. (a 9.9% share) and other manufacturers (a 1.2% share).

According to data published by the Automotive Industry Association, during 9M 2017 Czech companies manufactured 1,059.0 thousand road vehicles, which, compared to the corresponding period of the previous year, when the volume of production was 1,016.6 vehicles, constituted a 4.17% yoy increase. The largest nominal increase in production was observed in passenger cars where the number of cars manufactured increased by 42.1 thousand yoy (+4.16% yoy) in the period from January to September 2017 reaching the volume of 1,053.5 thousand cars. The largest relative increase in output was recorded in the truck segment where during the first 9 months of 2017 production surged 30.59% (+268 trucks yoy to 1,144 trucks) compared to the corresponding period of the previous year. Moreover, in the period from January to September of this year, 3,308 buses (up by 121 or 3.8% yoy) and 1,069 motorcycles (down by 95 or 8.16% yoy) were produced.[38]

4.2. Freight transportation activity

4.2.1. Rail transport market in Poland

Rail freight transport is a market regulated by the Office of Rail Transport which, in addition to other activities, issues licenses authorizing business entities to conduct rail transport activity. In 9M 2017, the Polish market was served by 71 licensed operators, including PKP CARGO S.A. and PKP CARGO SERVICE Sp. z o.o. In the period from January to September 2017, they transported in total 176.6 million tons of cargo, i.e. 14.8 million tons more yoy (+9.1% yoy). Also freight turnover in 9M 2017

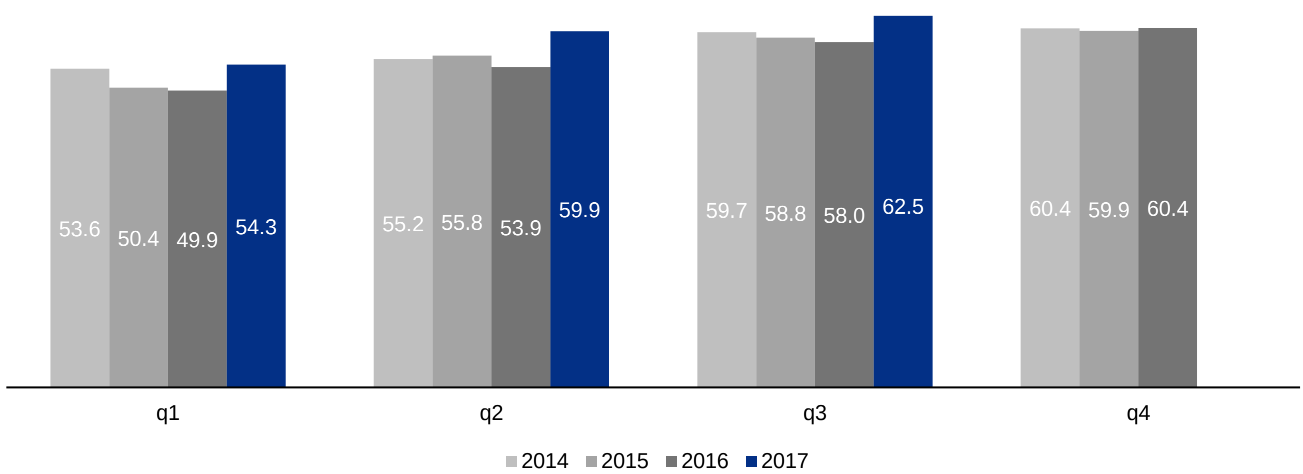
[36] Czech Statistical Office (CZSO), Construction – September 2017
[37] the breakdown does not comprise persons working on the basis of different employment contracts, business owners and cooperating household members who have not entered into employment contracts
[38] AutoSAP

increased compared to the corresponding period of 2016 by 3.1 billion tkm, i.e. by 8.5% yoy. The average haul in rail transport in the period from January to September 2017 decreased by 1.4 km yoy (or -0.6% yoy) to 227.5 km.[39]

The increase in cargo transport by rail in 9M 2017 compared to the corresponding period of the previous year was mainly due to an increase in transport of hard coal, mainly in imports and transit. In H1 2017, imports of hard coal to Poland increased 19.4% yoy and exports decreased 6.6% yoy.[40] In the period from January to August 2017, 61.2 million tons of hard coal was transported by rail, i.e. 4.2 million tons more than in the corresponding period of 2016 (+7.3% yoy).[41]Other commodity groups that recorded an upswing included: aggregates and construction materials (in connection with the intensification of road and railway investments and favorable weather conditions in January and March of this year) and iron ore and metals (due to the domestic and international economic recovery and the increase in steel production by 18.9% yoy in Poland and by 5.2% yoy globally between January and September 2017[42]). During the first 8 months of 2017, railway operators in Poland transported in total 30.2 million tons of aggregates, sand and gravel and 13.5 million tons of iron ore, metals and metal products, up by 3.1 million tons yoy (+11.4%) and 1.4 million tons yoy (+11.7%), respectively[43]. The favorable economic conditions in Poland and in foreign markets also impacted intermodal freight transport, mainly in connection with the development of transit routes and the handling of cargo connections on the China-Europe-China route as part of the "New Silk Road", the increasing share of transport between seaports and terminals in the interior of the country and a higher percentage of freight container shipments, mainly those transported in the conventional manner (e.g. coke, grains, automobile parts). In H1 2017, the total volume of container shipments was 7.1 million tons, which represents an increase vis-a-vis the corresponding period of the previous year by 1.1 million tons (+18.3%), while transport calculated in terms of UTIs increased during that period to 433.9 thousand UTIs, i.e. an increase by 89 thousand UTIs yoy (+20.4% yoy).[44]

During the period from January to August 2017, transport of timber and wooden products declined on a year-over-year basis by 299 thousand tons, or 19.3% yoy, to almost 1.3 million tons.[45] This was associated predominantly with the suspension of exports of this raw material by Belarus in January of this year and the subsequent significant reduction in such exports (following their resumption) continuing throughout H1 2017.

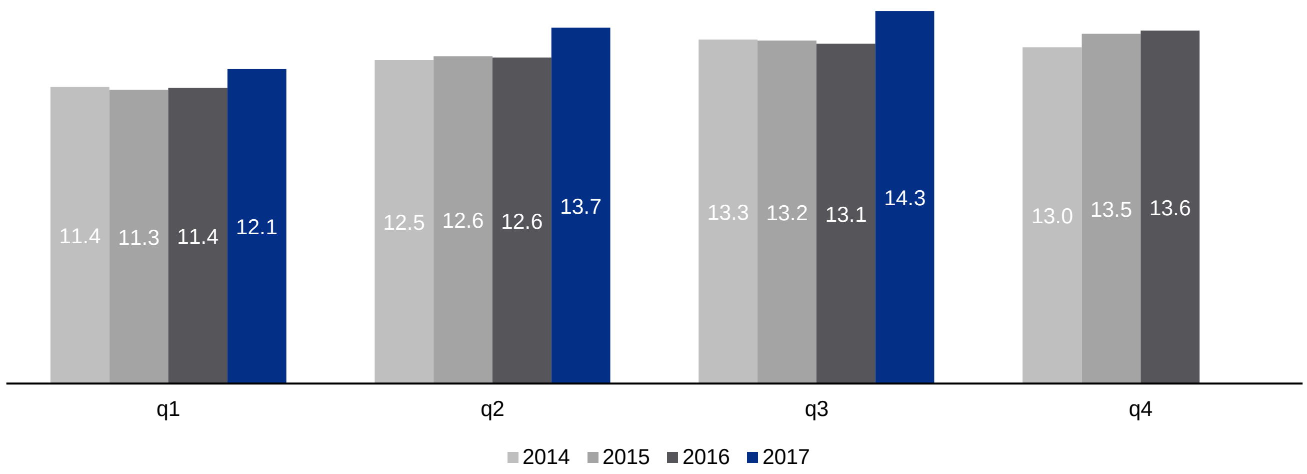
Figure 8 Quarterly rail freight volumes in Poland (million tons) in 2014-2017



Source: Office of Rail Transport

[39] Office of Rail Transport
[40] Central Statistical Office of Poland
[41] Central Statistical Office of Poland
[42] worldsteel.org
[43] Central Statistical Office of Poland
[44] Office of Rail Transport
[45] Central Statistical Office of Poland

Figure 9 Quarterly rail freight turnover in Poland (billion tkm) in 2014-2017

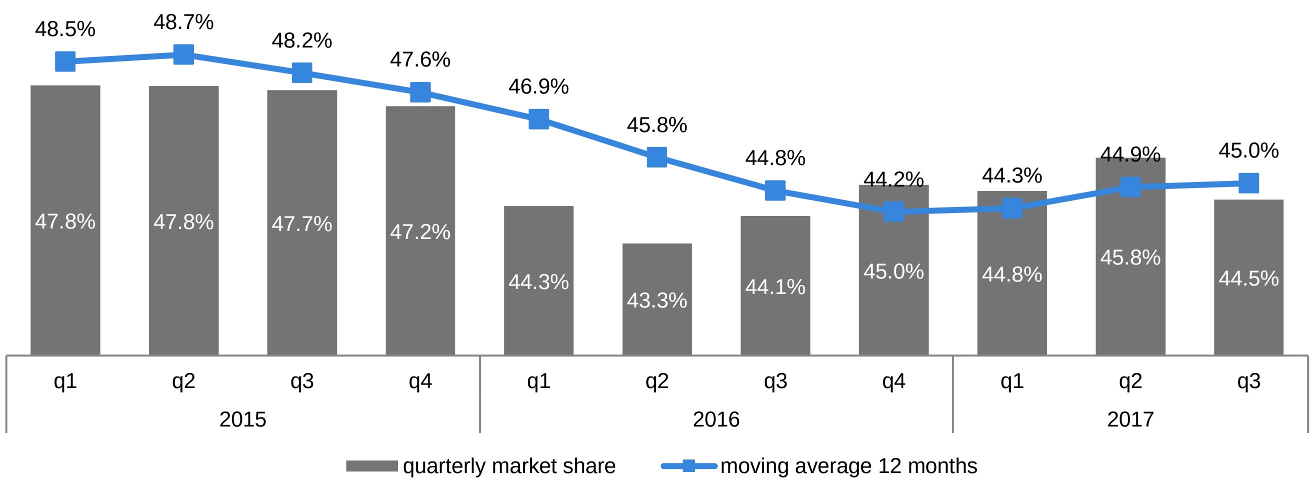


Source: Office of Rail Transport

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

In 9M 2017, the PKP CARGO Group maintained its leading position on the Polish rail freight market with a 45.0% market share (+1.2 p.p. yoy) in terms of freight volume and a 52.0% market share in terms of freight turnover (+0.6 p.p. yoy).[46]

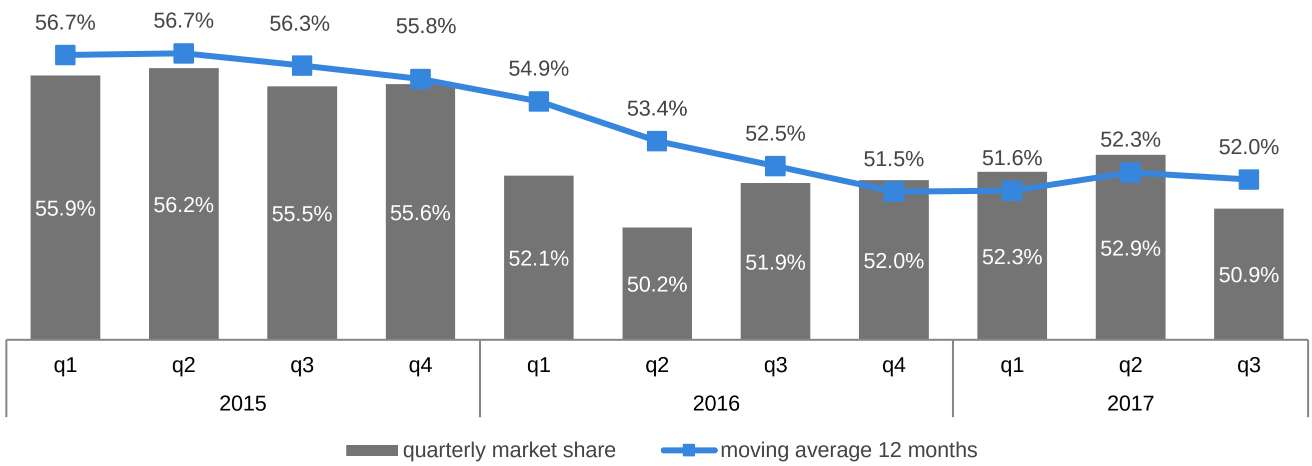
Figure 10 Share of the PKP CARGO Group in total freight volume in Poland in 2015-2017



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

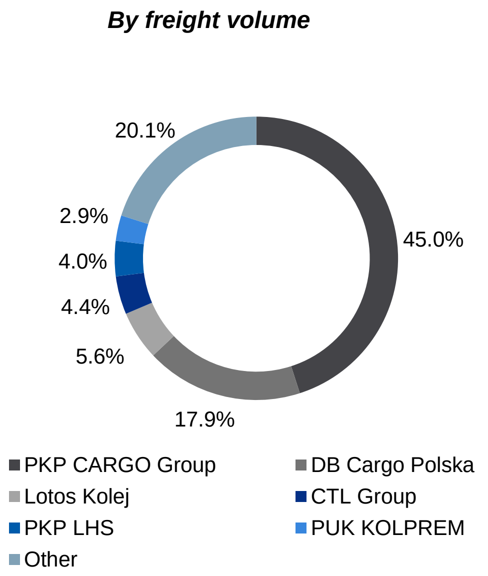
[46] Office of Rail Transport

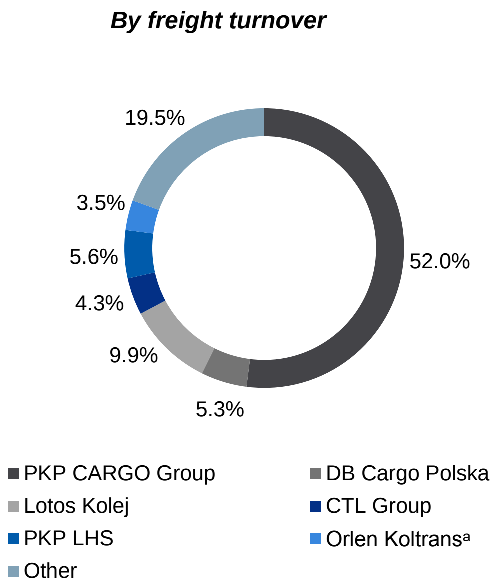
Figure 11 Share of the PKP CARGO Group in total freight turnover in Poland in 2015-2017



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

Figure 12 Market shares of the biggest rail operators in Poland in 9M 2017, by freight volume and freight turnover





[a] As of 1 June 2017, Euronaft Trzebinia sp. z o.o. contributed to Orlen Koltrans sp. z o.o. the financially, functionally and organizationally spun-off part of the enterprise providing services related to rail transport. The aforementioned share of Orlen KolTrans takes into account the transport volumes carried out by Euronaft Trzebinia sp. z o.o. before 1 June 2017.

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

The major rail freight carriers competing with the PKP CARGO Group on the Polish market include the following companies: DB Cargo Polska, Lotos Kolej, Grupa CTL, PKP LHS, PUK KOLPREM, Orlen Kol-Trans, Freightliner PL and Pol-Miedź Trans.

In the period from January to September 2017, the following PKP CARGO Group's competitors transported the largest freight volumes: DB Cargo Polska (31.7 million tons), Lotos Kolej (9.9 million tons) and the CTL Group (7.7 million tons), which held market shares of 17.9%, 5.6% and 4.4%, respectively. In turn, the greatest freight turnover (besides the PKP CARGO Group) was recorded by the following: Lotos Kolej (4.0 billion tkm), PKP LHS (2.2 billion tkm) and DB Cargo Polska (2.1 billion tkm) with a market share of 9.9%, 5.6% and 5.3%, respectively.

In period from January to September 2017, compared to the corresponding period of 2016, the largest increases in freight turnover were posted by the following rail operators competitive to the PKP CARGO Group: Inter Cargo (+383.7 million tkm, which translated into an increase in the share by 0.9 p.p. to 1.48%) and the Czech Railways (+305.3 million tkm, which translated into an increase in the share by 0.7 p.p. to 1.39%). The most sizeable decreases in the market share were recorded by the CTL Group (-445.2 million tkm, which translated into a decrease in the share by 1.6 p.p.) and PKP LHS (-126.2 million tkm, which means a decrease by 0.8 p.p.). As regards changes in freight volume, the following competitive carriers recorded increases in 9M 2017 compared to the corresponding period of the previous year: DB Cargo Polska (2,162.4 thousand tons which, however, was insuffucient to maintain the market share, which declined by 0.3 p.p. yoy), Freightliner PL (+1,016 thousand tons with a market share increase by 0.4 p.p. to 2.30%) and the Czech Railways (+770.5 thousand tons with a market share increase by 0.4 p.p. to 1.24%). The largest decrease yoy in 9M 2017 in terms of freight volume was recorded by the CTL Group (-1,612.1 thousand tons with a decrease in the market share by 1.4 p.p.).[47]

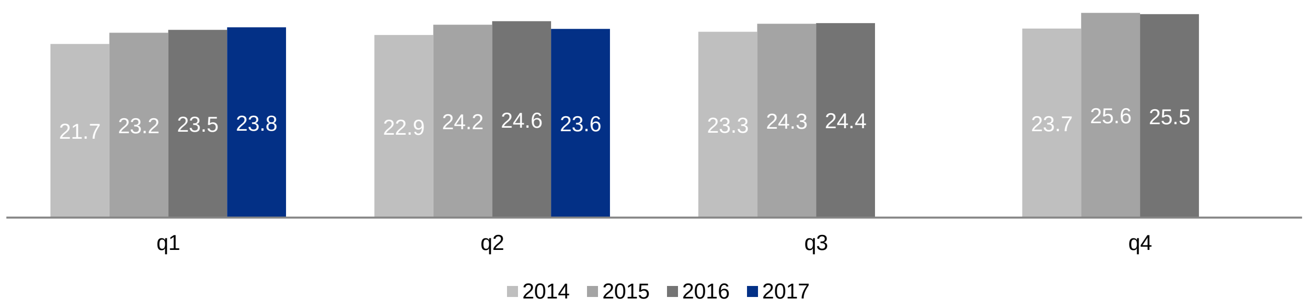
4.2.3. Rail freight transport market in the Czech Republic

In H1 2017, according to the data published by the Czech Ministry of Transport, 251.2 million tons of cargo was transported and 30.7 billion tkm of freight turnover was completed in the Czech Republic. Road transport had the largest share in the freight transport market, both in terms of freight volume and freight turnover, standing at 80.8% (202.9 million tons) and 73.5% (22.6 billion tkm), respectively. In H1 2017, 149.1 thousand tons of cargo less than the year earlier (-0.1% yoy) was transported by road and realized freight turnover decreased by 3.8 billion tkm (-14.3%), which meant a decrease in the average haul in H1 2017 by 18.5 km down to 111.2 km (-14.3%).

On the other hand, in H1 2017, 47.5 million tons of cargo was transported by rail, which represents a decrease by 645.1 thousand tons yoy, i.e. by 1.3%. The volume of cargo carried by rail represented 18.9% of total freight volume. In H1 2017, the freight turnover recorded by the railways accounted for 25.4% of the freight turnover recorded by the entire transportation industry and amounted to 7.8 billion tkm (an increase by 249.4 million tkm yoy, or 3.3%). In H1 2017, the average haul of cargo by rail stood at 164.2 km, representing an increase by 7.4 km yoy (+4.7% yoy).

In H1 2017, air transport and inland waterway transport jointly represented 0.3% of total cargo volume carried in the Czech Republic, and from the standpoint of realized freight turnover those means of transport had a 1.1% share in the transportation industry.[48]

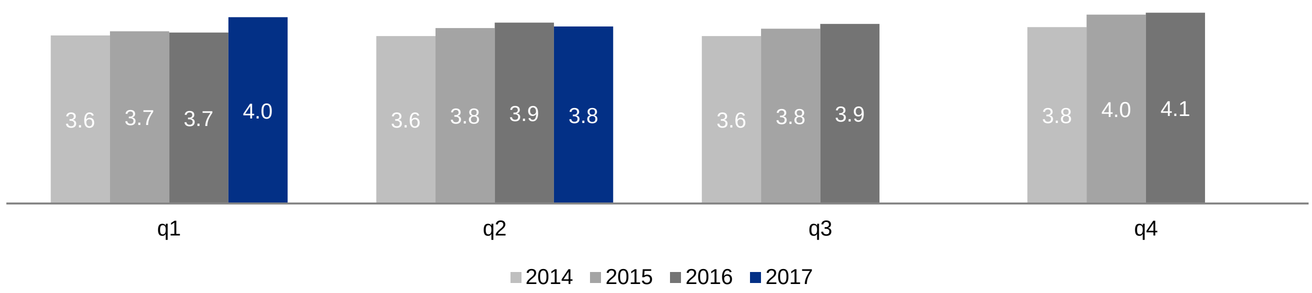
Figure 13 Rail freight transport in the Czech Republic, quarterly by freight volume in 2014-2017 (million tons)



Source: Czech Statistical Office

[47] Office of Rail Transport
[48] Ministry of Transport of the Czech Republic

Figure 14 Quarterly rail freight transport in the Czech Republic by freight turnover in 2014-2017 (billion tkm)



Source: Czech Statistical Office

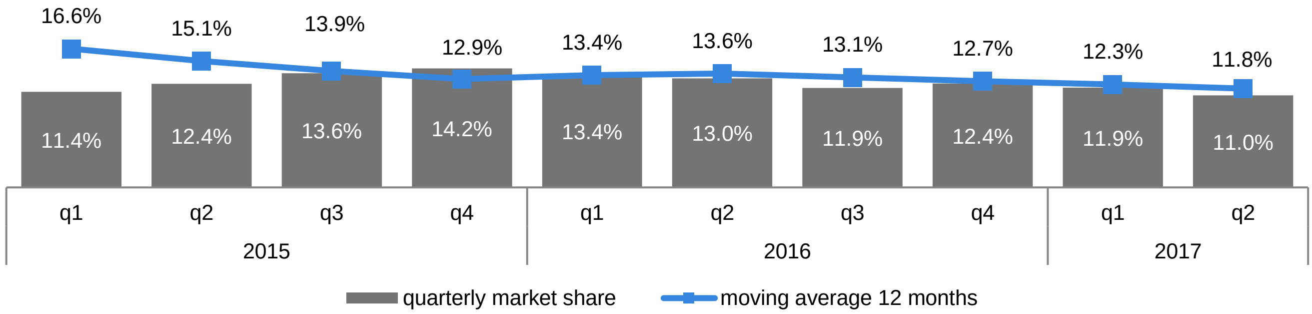
4.2.4. Position of the AWT Group in the rail transport market in the Czech Republic

According to official data published by the Czech infrastructure manager (SŽDC), as at 14 September 2017 there were 100 carriers in the Czech Republic which held licenses and provided rail freight services under such licenses, including PKP CARGO S.A. and Advanced World Transport a.s. [49]

The currently implemented restructuring program for the Czech mining company OKD continues to have a significant impact on AWT's transport performance. In 9M 2017, AWT had a market share of 8.27%, representing a decrease by 0.87 p.p. yoy. Starting from Q3 2016, the decreases were mainly affected by a significant downturn in hard coal output by OKD, which had a direct impact on the freight volume ordered from AWT for transport. In accordance with the restructuring program of the Czech mining company OKD, approved by the Regional Court in Ostrava on 11 October 2017, the mines and operational assets of OKD will be taken over by a newly-established company OKD Nástupnická, in which 100% of shares will be subscribed for by the state-owned company Prisko. The restructuring program accepted by the court provides for a gradual phasing out of OKD's mining companies. The following mines will be liquidated: Darkow and Lazy mines will be first to be decommissioned (by the end of 2018) and CSA and CSM by 2021 and 2023, respectively.[50]

AWT's dwindling hard coal transport orders were partially offset in the period from January to September 2017 by greater freight volumes of agricultural produce, mostly grain and other crops (+380.3 thousand tons yoy), liquid fuels (+214.2 thousand tons yoy), coke and lignite (+189.3 thousand tons yoy), intermodal transport (+125.9 thousand tons yoy), metals, ores and pyrites (+46.3 thousand tons yoy) and other cargo (+99.5 thousand tons yoy).

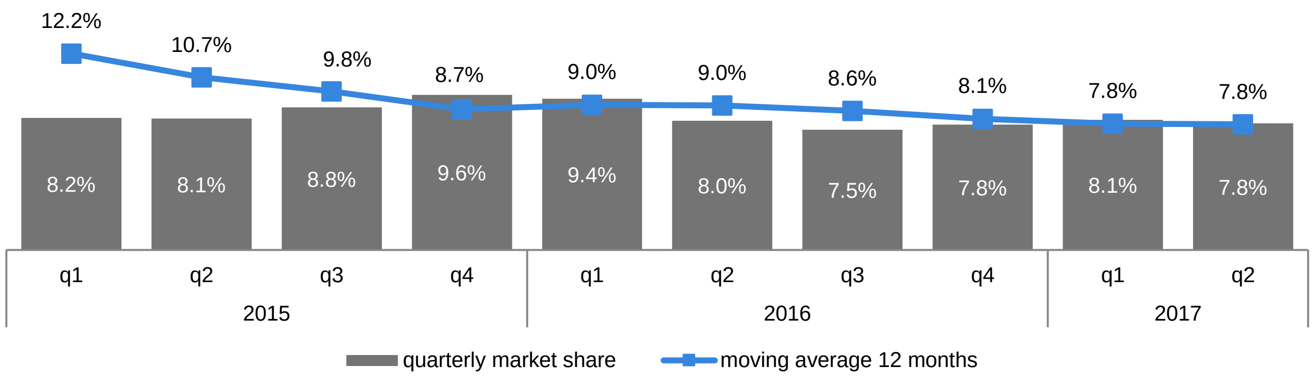
Figure 15 AWT a.s.'s market shares in total freight volume in the Czech Republic quarterly in 2015-2017



Source: Proprietary material

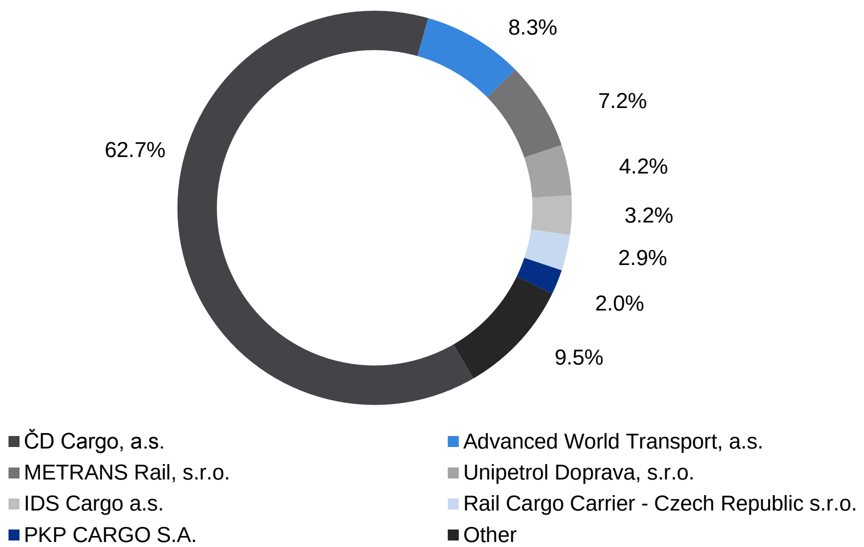
[49] Správa železniční dopravní cesty (SŽDC) – data as at 6 November 2017
[50] www.ceskatelevize.cz

Figure 16 AWT a.s.'s market shares in total freight turnover in the Czech Republic quarterly in 2015-2017



Source: Proprietary material

Figure 17 Market shares of the largest rail operators by operational freight turnover in the Czech Republic in January-September 2017 (btkm)



Source: SŽDC

Unchangeably, in 9M 2017, the rail freight leader in the Czech Republic was ČD Cargo a.s. which had a market share of 62.71% in terms of gross freight turnover. This company has been recording a gradual decline in its market share, also in comparison with the corresponding period of 2016 when its market share stood at 64.94% (-2.23 p.p. yoy). Part of this market share was taken over primarily by: PKP CARGO S.A. (gaining a 2.03% market share in January-September 2017, whereas the year before the Company was not even mentioned in the classification of the largest rail carriers responsible for at least 1% of transports on the market), Rail Cargo Carrier - Czech Republic s.r.o. (an increase in the market share from 2.26% in 9M 2016 to 2.94% after the first 9 months of 2017, i.e. 0.68 p.p. yoy) and Unipetrol Doprava, s.r.o. (a 0.39 p.p. market share increase yoy, i.e. from 3.76% in 9M 2016 to 4.15% in 9M 2017). A decrease in the market share in January-September 2017 was also recorded by the second largest rail freight carrier, i.e. AWT a.s. – in 9M 2016, the company's share in total freight turnover was 9.14% of the whole market, whilst a year later that share stood at 8.27% (-0.87 p.p.). The appearance of PKP CARGO S.A. in the classification published by the Rail Infrastructure Authority (SŽDC) means that the Company has exceeded the 1% threshold of market share as a result of intensification of the Company's foreign transportation activity in the Czech Republic which was driven predominantly by the following factors:

- acquisition of coke transport orders for exports from Poland to Romania and Bosnia with some routes running via the Czech Republic,
- increase in freight volume of iron ore in transit from Polish seaports to the Czech Republic,
- increase in conventional transport between Poland and Italy, including via the territory of the Czech Republic, and transport of cars and car components in containers in transit from the Czech Republic to Russia,
- increase in transport of chemical products in exports and imports to and from Poland,
- increase in transport of metal products in exports and imports to and from Poland,
- transport of limestone in export to the Czech Republic.

The carriers which exceeded 5% of the share in the Czech rail freight transport market in terms of gross freight turnover in 9M 2017 were the following: the state-owned company ČD Cargo a.s., Advanced World Transport a.s. and METRANS Rail s.r.o. Other carriers with a market share of less than 5% but more than 1% included: Unipetrol Doprava, s.r.o., IDS Cargo a.s., Rail Cargo Carrier - Czech Republic s.r.o, PKP CARGO S.A., SD - Kolejova doprava a.s.[51]

4.2.5. PKP CARGO Group's rail transport

Data on the transport activities of the PKP CARGO Group for 9M 2017 and 9M2016 contain consolidated data of PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and the AWT Group[52]. In 9M 2017, transport activities were carried out by five Group entities. Upon acquisition of AWT B.V. (80% of shares), as of 28 May 2015 three additional carriers (AWT a.s., AWT Rail HU Zrt, AWT Rail SK a.s.) were added to the two carriers already operating in the PKP CARGO Group, i.e. PKP CARGO S.A. and PKP CARGO SERVICE sp. z o.o. (a 100% subsidiary of PKP CARGO S.A.).

The PKP CARGO Group 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 confirming the foregoing facts is the signing in Q2 2017 of one of the largest contracts in the history of PKP CARGO S.A. with a value of almost PLN 1.3 billion for the term of the next three years with the ArcelorMittal Group for transport of coal, coke, iron ore, stone 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). Moreover, in July 2017, PKP CARGO S.A. and the Port of Gdańsk signed a memorandum of collaboration with the Romanian rail operator CFR Marfa and the Port of Constanța for the development of logistics services in the rail corridor between the Port of Gdańsk and the Port of Constanța, with the aim of stimulating economic activity on Europe's North-South axis as part of the Three Seas Initiative spanning the Adriatic Sea, the Baltic Sea and the Black Sea. Accordingly, the opening of the PKP CARGO Group to local and international markets causes exposure to various macroeconomic factors (such as e.g. the rate of economic growth on domestic and international markets, trends in various sectors of the industry, the condition and availability of transport infrastructure, adequate potential of the market for rolling stock repairs and maintenance, the intensity of competitors' activities within the transportation industry and among various types of transport), which to a significant extent affect the outlook for the 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 Western Europe through Małaszewicze and back to Asia.

During 9M 2017, the PKP CARGO Group carried 88.1 million tons of cargo (+9% yoy) and achieved freight turnover of 22.9 billion tkm (+10% yoy). This performance was driven by an increase in transport in Poland, which reached 79.5 million tons (+12% yoy)[53] in terms of freight volume and 20.9 billion tkm (+10% yoy) in terms of freight turnover, maintaining the freight volume in international transport at a level similar to that achieved in 9M 2016, i.e. 12.9 million tons (-1% yoy), and an increase in freight turnover in international transport to a level of 2.0 billion tkm (+14% yoy). In 9M 2017, members of the AWT Group carried 8.8 million tons of

[51] SZDC; the classification presents operators holding more than a 1% share in the Czech market
[52] This applies to the AWT Group companies consolidated by the full method.
[53] Transports in Poland contain part of the freight volume which was carried by PKP CARGO S.A. also beyond Polish boundaries – in 9M 2017, 3.6 million tons of cargo was carried, representing an increase by 57% yoy.

freight volume (-12% yoy) and achieved freight turnover of 1.3 billion tkm (+6% yoy), which was coupled with an increase in the average haul by 20% 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 commodity groups.

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 the first 9 months of 2017. In the same period, transportation of solid fuels was 2% yoy lower in terms of freight turnover and 7% yoy lower in terms of freight volume. In 9M 2017, freight volume in hard coal transport decreased by 2% yoy and freight turnover decreased by 7% yoy, accompanied by a decrease in haul by 5% yoy, resulting primarily from an increase in the share of export carriage through Poland's southern border (shorter haul) at the expense of export carriage through Polish seaports (longer haul). Freight volume in hard coal transport in Poland recorded a 4% increase yoy in terms of freight volume with a concurrent decrease in freight turnover by 5% yoy, which is attributable to a decrease in the average haul by 8% yoy (associated mostly with a decrease in the share of sea exports). The increase in freight volume in 9M 2017 was driven, among other factors, by the acquisition of orders for transport services to a major power plant in the north of the country, exports to the Czech Republic, Slovakia and Ukraine and imports from Russia. This increase occurred despite a decline in hard coal output in Poland (-6% yoy), lower sales of this commodity (-9% yoy)[54] and a stable level of electricity generation in hard coal-fired industrial power plants compared to 9M 2016[55]. 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. Freight volume in hard coal transport outside the country decreased by 28% yoy and freight turnover fell by 26% 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 decreased in 9M 2017 by 4% yoy in terms of freight volume, and freight turnover was 7% lower yoy. The decrease in transports of coke in Poland by 11% yoy was partly offset by an increase in transports of coke by the AWT Group companies by 12% yoy as a result of the PKP CARGO Group's acquisition from the competitor of the deliveries of this raw material in exports from Poland to Romania. The decrease in transports of this commodity was attributable to a shift of a portion of transports from conventional transports to intermodal transports due to the clients' growing interest in transports of this commodity in containers and the decline in export transports of coke due to a change in the direction of supply by one of the foreign customers.

Solid fuel transports in Q3 2017 were lower by 7% yoy in terms of freight volume, whereas in terms of realized freight turnover they were lower by 14% yoy. This decrease was largely driven by lower domestic hard coal transports by 11% yoy and export transports by 15% yoy, mainly due to the lower supply of this raw material by Polish mines (coal output in Q3 2017 was 16.1 million tons, or 9.1% yoy lower). The supply-side factors were additionally exacerbated by the capacity constraints of the rail lines undergoing modernization efforts by PKP PLK S.A. (e.g. modernization of line no. 7) and the related decrease in the average commercial speed in Poland in the period from March to September of this year (from 25.5 km per hour to 22.1 km per hour), which translated into wagon shortages caused by the extended cycle times of rail car sets.

Aggregates and construction materials were the second largest group of products carried by the PKP CARGO Group in 9M 2017, with an 18% share in total freight turnover (16% in 9M 2016). In transport of aggregates and construction materials, in 9M 2017 an increase by 25% yoy was recorded in terms of freight volume coupled with a 30% 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, S6, S8, S10 roads) and rail construction projects (e.g. for the purposes of modernization of the E20 rail line) 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. The quantity of transports of aggregates and construction materials in 9M 2017 was also favorably affected by the acquisition of aggregate transports from a competitor as well as higher imports from Ukraine and Belarus. Moreover, the PKP CARGO Group's growth in transports was driven by last year's successful acquisition of contracts based on the application of a flexible pricing policy.

Products associated with the metallurgical industry, i.e. metals and ores, are another important market area served by the PKP CARGO Group. Their percentage in the Group's freight turnover in 9M 2017 was 13% (12% in 9M 2016). This segment recorded an increase in freight volume by 17% yoy and freight turnover by 16% 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 5.6% yoy increase in global steel output in 9M 2017 according to data published by the World Steel Association), improving economic conditions in Poland and foreign markets and lower imports from China due to the European Commission's imposition of customs

[54] polskirynekwegla.pl – data for 9M 2017
[55] pse.pl

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 9M 2017 was also exerted by an increase in steel output in Poland to a level of 7.8 million tons (up 18.9% yoy).[56] This was partly rooted in the low comparative base, because 2016 marked an overhaul of the blast furnace in Kraków as well as renovation of the continuous steel casting line in Zawiercie. Additionally, as a result of the active conduct of trade policy, transports of metals were acquired from a competitor, including, among others, in exports to Hungary and imports from Austria.

The PKP CARGO Group continues to be the market leader in intermodal transport in Poland, an important element of its growth strategy. In 9M 2017, the transport of intermodal units realized by the Group increased in terms of container freight volume by 21% yoy, while freight turnover increased by 34% yoy, which was attributable in part to an increase in the average haul by 11% 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% in 9M 2017 compared to 14% in the corresponding period of 2016) and a higher percentage of cargo that used to be transported in conventional ways and is now being transported in containers (e.g. coke, grains, automobile parts). Transit between marine ports and terminals located in greater distances from the sea has a significant share as well. 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 11% yoy. In 9M 2017, the transshipment of containers in Polish seaports improved by 6.9% yoy[57], while the weight of containers transported by the PKP CARGO Group to/from Polish seaports increased in the same period by 10.2% yoy.

In 9M 2017, freight volume rose by 11% yoy and freight turnover by 15% yoy in the transport of chemicals. The growth in the transport of this cargo group was driven by higher imports and transit of gas from the East, domestic transports resulting from the acquisition of RSM services from a competing operator and the growing volume of fertilizers exported by Polish producers (the increase in the production of nitrogen fertilizers on 9M 2017 was 7.8% yoy).[58]

In 9M 2017, the transport of wood and agricultural products increased in terms of freight volume by 2% yoy, while freight turnover increased by 18% yoy, which was attributable in part to an increase in the average haul by 16% yoy. The increase in freight turnover in this segment was primarily attributable to greater transports of grain and agricultural products both in Poland (an increase in the share of hauls longer than 400 km: grains in sea exports and rapeseed in domestic transport) and outside Poland (performed by the AWT Group companies).

In the transport of liquid fuels in 9M 2017, freight volume rose by 63% yoy and freight turnover by 26% yoy, whilst the average haul decreased by 23% yoy (a decrease in the average haul in the transport of imports in Poland by 60% yoy in connection with an increase in the share of short-distance transport in imports from Belarus and Lithuania). The increase in the quantum of transport in this cargo category was driven mainly by curtailment of the so-called "grey economy" in trade in liquid fuels as a result of last year's amendments to legislation (the so-called "fuel package") and more effective law enforcement measures that were undertaken. Demand grew in the economy for fuel delivered by rail transport. The PKP CARGO Group has acquired and is now serving the majority of the volumes that have emerged on the market as a result of this situation (additional import transports via ports and the country's eastern border crossings). In terms of realized freight turnover, the following increases were recorded in the distinct quarters: 10% yoy in Q1 of this year, 25% yoy in Q2 and 43% yoy in Q3. The quantum of freight turnover was also affected by a change in the supply logistics at PKP CARGO's largest client in this segment.

In 9M 2017, in the remaining cargo categories transported by the PKP CARGO Group, freight volume increased by 27% yoy and freight turnover increased by 22% yoy. The increase in the quantum of transport is related to the provision of services to the U.S. Army as part of the deployment of NATO troops into Europe, the acquisition of the carriage of cars from/to Italy and the performance of domestic transport of concrete, prefabricated products and clay from Ukraine.

[56] worldsteel.org
[57] Central Statistical Office – Statistical Bulletin No. 9/2017
[58] Central Statistical Office – Statistical Bulletin No. 9/2017

Table 15 Freight turnover of the PKP CARGO Group in 9M and Q3 2017 compared to the corresponding period in 2016

Item	9 months of 2017	9 months of 2016	Change	% change	9 months of 2017	9 months of 2016	Q3 2017	Q3 2016	% change
	(million tkm)			%	percentage of total (%)		(million tkm)		%
Solid fuels[1]	8,592	9,202	-611	-7%	37%	44%	2,666	3,105	-14%
of which hard coal	7,566	8,099	-533	-7%	33%	39%	2,333	2,698	-14%
Aggregates and construction materials[2]	4,238	3,268	970	30%	18%	16%	1,878	1,484	26%
Metals and ores[3]	2,990	2,582	408	16%	13%	12%	943	862	9%
Chemicals[4]	1,773	1,548	225	15%	8%	7%	584	505	16%
Liquid fuels[5]	1,030	819	211	26%	4%	4%	385	269	43%
Timber and agricultural produce[6]	1,257	1,064	194	18%	5%	5%	393	314	25%
Intermodal transport	2,347	1,753	594	34%	10%	8%	827	607	36%
Other[7]	708	578	130	22%	3%	3%	238	194	23%
Total	**22,935**	**20,814**	**2,121**	**10%**	**100%**	**100%**	**7,913**	**7,339**	**8%**

Source: Proprietary material

Table 16 Freight volume of the PKP CARGO Group in 9M and Q3 2017 compared to the corresponding period in 2016

Item	9 months of 2017	9 months of 2016	Change	% change	9 months of 2017	9 months of 2016	Q3 2017	Q3 2016	% change
	(000s tons)			%	percentage of total (%)		(000s tons)		%
Solid fuels[1]	42,884	43,691	-806	-2%	49%	54%	13,793	14,817	-7%
of which hard coal	38,532	39,170	-639	-2%	44%	48%	12,398	13,318	-7%
Aggregates and construction materials[2]	15,908	12,709	3,199	25%	18%	16%	6,944	5,708	22%
Metals and ores[3]	9,704	8,278	1,426	17%	11%	10%	3,129	2,838	10%
Chemicals[4]	5,197	4,692	505	11%	6%	6%	1,731	1,474	17%
Liquid fuels[5]	3,582	2,199	1,384	63%	4%	3%	1,267	764	66%
Timber and agricultural produce[6]	3,193	3,123	69	2%	4%	4%	997	934	7%
Intermodal transport	5,587	4,620	968	21%	6%	6%	1,891	1,589	19%
Other[7]	2,000	1,577	423	27%	2%	2%	669	528	27%
Total	**88,055**	**80,888**	**7,167**	**9%**	**100%**	**100%**	**30,421**	**28,651**	**6%**

Source: Proprietary material

Table 17 Average haul of the PKP CARGO Group in 9M and Q3 2017 compared to the corresponding period in 2016

Item	9 months of 2017	9 months of 2016	Change	% change	Q3 2017	Q3 2016	% change
	km			%	km		%
Solid fuels[1]	200	211	-10	-5%	193	210	-8%
of which hard coal	196	207	-10	-5%	188	203	-7%
Aggregates and construction materials[2]	266	257	9	4%	270	260	4%
Metals and ores[3]	308	312	-4	-1%	301	304	-1%
Chemicals[4]	341	330	11	3%	338	342	-1%
Liquid fuels[5]	288	372	-85	-23%	303	353	-14%
Timber and agricultural produce[6]	394	341	53	16%	395	336	18%
Intermodal transport	420	379	41	11%	437	382	14%
Other[7]	354	367	-13	-3%	356	366	-3%
Total	**260**	**257**	**3**	**1%**	**260**	**256**	**2%**

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, accounting for 91% of the realized freight turnover in 9M 2017. In comparison with 9M 2016, the share of freight turnover realized outside Poland rose 0.3 p.p., which confirms the steady expansion of the PKP CARGO Group into foreign markets.

4.3. Other services

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

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

- traction services and locomotive lease services which involve the provision of a traction unit with an operating team to perform a railway transport operation or to ensure its readiness, e.g. to propel repair or rescue trains. Such services are provided on the Polish market and abroad;

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

- transshipment services – the PKP CARGO Group has been developing its transshipment activity on the basis of conventional and intermodal transshipment terminals owned by PKP CARGO Centrum Logistyczne Małaszewicze Sp. Z o.o., PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o., PS TRADE TRANS Sp. z o.o., CARGOSPED Sp. z o.o. and AWT a.s.;

- intermodal logistics services – the Group takes care of all the elements of the logistics chain, including: rail transport, road transport, transshipment and storing intermodal units. This activity is based on a network of intermodal terminals. Within the Group, PKP CARGO CONNECT Sp. z o. o. is the company specializing in, and dedicated to, comprehensive intermodal transport service. The service of constantly monitoring the traffic of intermodal trains called "Track and Trace" implemented by AWT brings added value to the Group's offer;

- rolling stock repairs – maintenance of the Group's rolling stock is provided mainly by a dedicated company PKP CARGOTABOR Sp. z o.o. Additionally, selected repair and maintenance work is also done in the facilities situated in the structures of the Units of PKP CARGO S.A. and by AWT a.s.;

- land reclamation services – the Group's service offering in this area consists of managing and revitalizing post-industrial premises (including mining areas), work to raze objects, managing facilities allocated to utilize waste, eliminating underground mining pits and de-contaminating soil. Additionally, the Group offers services in the area of civil engineering. The land reclamation activity is carried out by AWT Rekultivace a.s. and AWT Rekultivace PL sp. z o.o., chiefly in the Czech Republic in the vicinity of Ostrava where mining waste deposits are located.

The Group does not distinguish operating segments of its activity, since it has one main product, which incorporates all the material services provided by the Group. The Group conducts its business within one main segment – domestic and international cargo freight and provision of comprehensive logistics services related to rail freight. The Management Board of the Parent Company analyzes financial data in the layout in which they were presented in the Condensed 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 about changes in the headcount in the PKP CARGO Group in 9M 2017 and 2016 is provided below.

Table 18 Headcount in 9M 2017 in the PKP CARGO Group (active employees only)

Item	Headcount as at: 30/09/2017	30/06/2017	31/12/2016	Change YTD	Change in Q3 2017
PKP CARGO Group	**23,239**	**23,371**	**23,144**	**95**	**-132**
including: PKP CARGO S.A.	17,031	17,205	17,429	-398	-174

Source: Proprietary material

Table 19 Headcount in 9M 2016 in the PKP CARGO Group (active employees only)

Item	Headcount as at: 30/09/2016	30/06/2016	31/12/2015	Change YTD	Change in Q3 2016
PKP CARGO Group	**23,292**	**23,479**	**23,805**	**-513**	**-187**
including: PKP CARGO S.A.	17,569	17,715	17,979	-410	-146

Source: Proprietary material

Table 20 Average headcount in 9M 2017 and 9M 2016 in the PKP CARGO Group (active employees only)

Item	Average headcount in FTEs		Change	Average headcount in persons		Change
	9 months of 2017	9 months of 2016	2017/2016	9 months of 2017	9 months of 2016	2017/2016
PKP CARGO Group	**23,298**	**23,528**	**-230**	**23,324**	**23,555**	**-231**
including: PKP CARGO S.A.	17,227	17,764	-537	17,230	17,768	-538

Source: Proprietary material

Table 21 Changes in the headcount structure in 9M 2017 in the PKP CARGO Group (active employees only)

Item	Headcount as at: 30/09/2017	30/06/2017	31/12/2016	Change YTD	Change in Q3 2017
White-collar positions – the Group	**5,304**	**5,293**	**5,272**	**32**	**11**
including: PKP CARGO S.A.	3,804	3,815	*3,825*	*-21*	*-11*
Blue-collar positions – the Group	**17,935**	**18,078**	**17,872**	**63**	**-143**
including: PKP CARGO S.A.	13,227	13,390	*13,604*	*-377*	*-163*
Total	**23,239**	**23,371**	**23,144**	**95**	**-132**
including: PKP CARGO S.A.	*17,031*	*17,205*	*17,429*	*-398*	*-174*

Source: Proprietary material

Table 22 Changes in the headcount structure in 9M 2016 in the PKP CARGO Group (active employees only)

Item	Headcount as at: 30/09/2016	30/06/2016	31/12/2015	Change YTD	Change in Q3 2016
White-collar positions – the Group	**5,263**	**5,297**	**5,324**	**-61**	**-34**
including: PKP CARGO S.A.	*3,833*	*3,847*	*3,863*	*-30*	*-14*
Blue-collar positions – the Group	**18,029**	**18,182**	**18,481**	**-452**	**-153**
including: PKP CARGO S.A.	*13,736*	*13,868*	*14,116*	*-380*	*-132*
Total	**23,292**	**23,479**	**23,805**	**-513**	**-187**
including: PKP CARGO S.A.	*17,569*	*17,715*	*17,979*	*-410*	*-146*

Source: Proprietary material

The average headcount (in FTEs) in the PKP CARGO Group was lower by 230 FTEs yoy, mainly as a result of termination of employment contracts due to the acquisition of old-age and disability pension rights by employees.

4.5. PKP CARGO Group's investments

In 9M 2017, the Group incurred capital expenditures for the acquisition of property, plant and equipment in the form of purchases, modernizations and the so-called overhaul component (periodic inspections and repairs of the rolling stock) and intangible assets in the amount of PLN 332.1 million, which accounted for 78% of the figure in the corresponding period of 2016, i.e. PLN 428.0 million (of which PLN 200.0 million were purchases of multi-system locomotives).

The majority of capital expenditures in 9M 2017 in the Group was allocated to the execution of capital expenditure endeavors associated with the rolling stock, mainly to periodic repairs and checkups of the rolling stock and modernization of locomotives – a total of PLN 303.1 million (i.e. 91% of capital expenditures). Moreover, expenditures were incurred on ICT development, i.e. purchases of computer hardware and intangible assets (software) in the amount of PLN 4.6 million, investment construction activity in the amount of PLN 15.6 million and purchases of other machinery and other workshop and office equipment for PLN 8.8 million.

A detailed schedule of the Group's capital expenditures in 9M 2017 and a comparison with the actuals from 9M 2016 is presented in the table below.

Table 23 Capital expenditures on property, plant and equipment and intangible assets in the PKP CARGO Group in 9M 2017 as compared to 9M 2016 (thousands of PLN)

Item	9 months of 2017	9 months of 2016	Absolute change yoy	Change rate yoy (stated as %)
Investment construction activity	15,640	8,114	7,526	93%
Locomotive purchases	594	200,788	-200,194	-100%
Locomotive upgrades	44,222	15,211	29,011	191%
Wagon purchases	25	0	25	-
Wagon upgrades	28	0	28	-
Workshop machinery and equipment	7,552	5,194	2,358	45%
ICT development	4,637	10,464	-5,827	-56%
Other	1,195	3,179	-1,984	-62%
Components in overhaul:	258,225	185,089	73,136	40%
Repairs and periodic inspections of locomotives	*56,641*	*67,385*	*-10,744*	*-16%*
Repairs and periodic inspections of wagons	*201,584*	*117,704*	*83,880*	*71%*
Total	**332,118**	**428,039**	**-95,921**	**-22%**

Source: Proprietary material

4.6. Key information and events

Table 24 Key information and events which occurred in 9M 2017 and after the balance sheet date

Period	Event
January	• PKP CARGO S.A. signed an annex to the Investment Loan Agreement with Bank Polska Kasa Opieki S.A., extending the term of availability of funds to PKP CARGO Group companies.
March	• Mr. Mirosław Pawłowski stepped down from his function of the PKP CARGO S.A. Supervisory Board Chairman. • Mr. Krzysztof Mamiński was appointed to the PKP CARGO S.A. Supervisory Board as of 6 March 2017. • Mr. Jerzy Kleniewski stepped down from his function of PKP CARGO S.A. Supervisory Board Member. • On 14 March 2017, the Parent Company entered into an annex to the Investment Loan Agreement of 16 November 2015 with Bank Gospodarstwa Krajowego. According to the Annex, the loan will be available until 27 December 2017 in the amount of EUR 67,850,591.20. • Mr. Władysław Szczepkowski was appointed to the PKP CARGO S.A. Supervisory Board as of 14 March 2017. • Early repayment of a loan obtained from the European Bank for Reconstruction and Development. • PKP CARGO Group companies entered into an investment loan agreement with Bank Polska Kasa Opieki S.A. for the maximum amount of PLN 50,500,000.00 (WIBOR 3M + margin). The loans were granted for financing and/or refinancing of the investment plan. The loans were available until 19 March 2017. The final repayment date for the loans is 20 December 2021. • Receipt of a notification that, following the settlement on 21 March 2017 of the purchase of PKP CARGO S.A. shares effected on 17 March 2017, the stake held by TFI PZU Funds in the overall number of votes at the Company's Shareholder Meeting exceeded the 5% threshold. Prior to the acquisition of the shares, the Funds held 2,231,450 shares in the Company representing 4.98% of its share capital and were entitled to 2,231,450 votes at the Shareholder Meeting representing 4.98% of the total number of votes. Following the transaction, the TFI PZU Funds hold 2,302,843 shares in the Company representing 5.14% of its share capital and are entitled to 2,302,843 votes at the Shareholder Meeting representing 5.14% of the total number of votes.
April	• The Regional Court in Ostrava published a draft OKD a.s. restructuring plan. In accordance with the published plan, OKD, through an increase in the share capital of its subsidiary, will contribute its enterprise (without claims specified as excluded) to OKD's Subsidiary; subsequently, OKD will sell a 100% stake in OKD's Subsidiary to PRISKO a.s., a company wholly owned by the State Treasury of the Czech Republic, for approx. CZK 79 million (approx. EUR 2.6 million). The closing of the transaction is contingent on the following conditions precedent: approval of the restructuring plan by the court, approval of the transaction by the Czech anti-monopoly authority, increase in the share capital of OKD's Subsidiary and deposit of the purchase price for a 100% stake in OKD's Subsidiary. In addition, OKD will use the proceeds from the transaction to satisfy priority creditors in accordance with Czech law and to partly satisfy the remaining creditors. The closing is expected to take place in Q3 or Q4 2017. The current freight contract between AWT and OKD is not included in the list of Excluded Claims, hence OKD's rights and obligations arising therefrom will be contributed to OKD's Subsidiary acquired by PRISKO a.s. • PKP CARGO S.A. was awarded with the prestigious title "Transparent Company of the Year 2016" for high quality of market communication and fulfillment of information and reporting duties.
May	• Minezit SE ("MSE") has exercised its right to demand that the Company repurchases all of the shares in AWT owned by MSE ("Put Option"). MSE is entitled to the above right under the Shareholder Agreement concluded between PKP CARGO, MSE and AWT on 30 December 2014. In accordance with the Shareholder Agreement, the total purchase price for the 15,000 shares, constituting 20% of all shares in AWT's share capital, is EUR 27,000,000. • Concluding an agreement for transportation of coal for Enea Wytwarzanie from Lubelski Węgiel "Bogdanka" coal mine to Kozienice Power Plant. Under the new contract, PKP CARGO S.A. will transport more than 5.3 million tons of coal over a period of 14 months. • On 26 May 2017, PKP CARGO S.A. entered into an agreement with Bank Polska Kasa Opieki S.A. for current account overdraft up to the amount of PLN 100,000,000.00 (WIBOR O/N + margin). The loan is available for the term of 12 months. • Mr. Andrzej Wach stepped down from his function of Supervisory Board Member. • 31 May 2017 marked the elapse of the deadline for repayment of the current account overdraft which PKP CARGO S.A. used on the basis of the loan agreement concluded on 2 June 2014 with mBank S.A. The agreement was not renewed.

June

- Mr. Mirosław Antonowicz was appointed to the PKP CARGO S.A. Supervisory Board as of 1 June 2017.
- 13 June 2017 marked the execution of the letter of intent (“Letter of Intent”) with Minezit SE (“MSE”). The subject matter of the Letter of Intent is to define the rules of cooperation between PKP CARGO and MSE on their joint venture project related to the rental and lease of rolling stock (“Project”). Execution of the project will be a way to settle the put option relating to the shares held by MSE, which constitute 20% of the share capital of AWT B.V.
- Execution on 20 June 2017 with MSE of a binding memorandum of agreement (“Agreement”) under the Dutch law between PKP CARGO and MSE concerning the execution of a joint project, which will be a way to settle the put option relating to the shares held by MSE, which constitute 20% of the share capital of Advanced World Transport B.V.
  According to the Agreement:
  1. The Parties confirm that they are interested in establishing a joint venture together, which will conduct the business of renting and leasing rolling stock (“Project”);
  2. MSE agrees to defer the settlement of the put option for the sale of 20% of AWT shares held by MSE on the following conditions:
     a) by 30 September 2017, the Parties will: (i) have completed the negotiation of the conditional shareholder agreement, (ii) have agreed on the non-cash contribution (contribution-in-kind) to the joint venture to be made by PKP CARGO, and (iii) have completed the negotiation of the conditional sale and leaseback agreement, to be executed between the joint venture company and PKP CARGO (all of the above referred to as “Project Execution”).
     b) by 31 December 2017, the Parties will: (i) have established the joint venture company (ii) have signed the shareholder agreement, (iii) PKP CARGO will have made the contribution-in-kind to the joint venture and (iv) procure the execution of the sale and leaseback agreement between the joint venture and PKP CARGO (all of the above referred to as: “Project Closing”).
  3. Either Party may withdraw from Project Execution if Project Execution is not completed by 30 September 2017 or if Project Closing is not effected by 31 December 2017. The withdrawal will be possible on or after 1 October 2017. In the event of a withdrawal from Project Execution, the price of the put option of EUR 27,000,000 (twenty seven million Euro) will be payable by PKP CARGO to MSE within 20 business days of the date of withdrawal by any of the parties.
  4. The Parties additionally agreed that if a decision is made by AWT B.V. or PKP CARGO to sell AWT Rekultivace a.s. with its registered office in Havířov, Czech Republic, MSE would have the right to purchase the shares or the enterprise of that company, for the price negotiated with a third party interested in buying AWT Rekultivace a.s.
- Granting the co-financing to PKP CARGO S.A. in the amount of EUR 1,775,723 as part of CEF Transport 2016 competition. The CEF financial aid was recommended by the European Commission for project entitled “Acoustic upgrade of cargo wagons to make them compliant with functional and system requirements”.
- Entering into the memorandum of agreement on 26 June 2017 between the Parties to the Company Collective Bargaining Agreement for Employees Hired by the PKP CARGO S.A. Units (“Memorandum of Agreement”). Pursuant to the Memorandum of Agreement, the Parties have decided that a salary increase will be implemented as of 1 September 2017. The Company has estimated that the cost of the increase till the end of 2017 will amount to approx. PLN 26.7 million.
- Adoption of the consolidated text of the Company’s Articles of Association by the Supervisory Board.
- Signing on 30 June 2017 of annexes to agreements concluded on 20 April 2011 between PKP CARGO and the ArcelorMittal Group companies (ArcelorMittal Poland S.A., ArcelorMittal Warszawa Sp. z o.o. and ArcelorMittal Ostrava a.s). The aforementioned agreements pertain to provision of freight rail transport services by the Company to the business partners and the signed annexes extend their term till 30 June 2020. The Company estimates the value of the cooperation in the period from 1 July 2017 to 30 June 2020 at PLN 1,268,569.30 thousand. The agreement with the highest value is the contract with ArcelorMittal Poland S.A.; its value in the period from 1 July 2017 to 30 June 2020 is estimated at PLN 1,061,467.39 thousand.

July

- PKP CARGO S.A. and the Management Board of Morski Port Gdańsk S.A. signed the Memorandum of Cooperation with CFR Marfa, Romanian state-owned cargo carrier and the Management Board of Romanian Port of Konstanca. The document opens another stage in development of current collaboration between the parties in the area of logistical services in the rail corridor between the Port of Gdańsk and the Port of Konstanca.
- State-of-the-art wagon wheel sets production and repair line was launched in PKP CARGOTABOR’s Rolling Stock Repair Plant in Zduńska Wola-Karsznice. The manufactured wheel sets were granted with a certificate admitting them for usage in the EU, and they will be used in the rolling stock of the PKP CARGO Group not only throughout the country but also in the entire Europe.
- At the meeting held on 31 July 2017, the Company Supervisory Board adopted a resolution to dismiss Mr. Jarosław Klasa from the function of PKP CARGO S.A. Management Board Member responsible for Operations effective as of 31 July 2017.

August

- Meeting with delegation of Chinese Henan province devoted to the Group’s collaboration with that province’s key container terminal – Zhengzhou International Hub Development and Construction Co., Ltd. The talks covered further expansion of rail transport over the New Silk Road by the PKP CARGO’s Logistics Center in Małaszewicze on Polish-Belorussian border, in response to increased trade between China and the European Union.
- On 24 August 2017, the Meeting of Creditors of OKD a.s. (“OKD”), a company established under Czech law, a business partner of the Issuer’s subsidiaries AWT and AWT Rekultivace a.s. (“AWTR”) adopted the restructuring plan for OKD (“Plan”). During the Meeting of Creditors, the representatives of AWT and AWTR voted for adopting the Plan. The adoption

	of the Plan opens up the possibility of further cooperation between the AWT Group and OKD, including in the provision of transport services and reclamation work. The restructuring process will prevent OKD's bankruptcy, provided that OKD's existing business is phased out gradually. The Plan will be subject to approval by the Regional Court in Ostrava. • The Regional Court in Warsaw – Court for the Protection of Competition and Consumers (SOKIK) – in is judgment of 23 November 2015 changed the challenged decision no. RWR 44/2012 issued by the President of the Office of Competition and Consumer Protection in the part imposing a fine on PKP CARGO S.A. by reducing its original amount of PLN 16,575,676.95 to PLN 2,231,719.95. PKP CARGO S.A. filed an appeal against part of the judgment. As a result of an appeal filed by both parties, on 24 August 2017 the Court of Appeals amended the challenged judgment by increasing the fine imposed therein from PLN 2,231,719.95 to PLN 3,188,169.95.
September	• On 7 September 2017, the Management Board of PKP CARGO S.A. received a notice from Aegon Powszechne Towarzystwo Emerytalne S.A. stating that it exceeded 5% of the total number of votes in the Company. On 1 September 2017, Aegon Powszechne Towarzystwo Emerytalne S.A. assumed the management of the Nordea Open-End Pension Fund, as a result of which the total share of the funds managed by the Company, that is Aegon OFE and Nordea OFE, in the total number of votes at the shareholder meeting of PKP Cargo S.A. (hereinafter: "Company") has exceeded 5% of votes. Before this assumption of management, Aegon OFE held 1,631,258 Company shares, which represented a 3.64% stake in its share capital, and 1,631,258 votes, that is 3.64% of the total number of votes, and Nordea OFE held 868,721 shares in the Company, which represented 1.94% of its share capital and 868,721 votes, that is 1.94% of the total number of votes. After the assumption of management of Nordea OFE as at 1 September 2017, both funds managed by the Company hold a total of 2,499,979 shares in the Company, which represents 5.58% of the share capital and 2,499,979 votes, or 5.58% of the total number of votes. • PKP CARGO CONNECT received a refund of the paid overdue tax liability from the Tax Office. Following the analysis of risk that the tax authorities challenge the VAT settlements of PKP CARGO CONNECT again, the Parent Company's Management Board decided to recognize a provision in the amount of the refund received. Recognition of the transaction did not affect the Group's financial result.
October	• Minezit SE withdraws from the signed agreement to establish a joint-venture. At the same time, MSE summoned PKP CARGO S.A. to pay the price for the option to put 15,000 shares representing 20% of all the shares in the share capital of AWT B.V. totaling EUR 27,000,000 within 20 business days from the date of receipt of the withdrawal notification. • The Company signed a guarantee facility agreement with Credit Agricole Bank Polska S.A. with a limit of PLN 60 million. The agreement will be in effect until 8 October 2018. The limit may be used by the subsidiaries that sign a trilateral agreement. • CARGOTOR signed an agreement with SYSTRA S.A., which will prepare the feasibility study for the Modernization of rail infrastructure at the Małaszewicze Transloading Zone of the corridor of 8 cargo lines at the border of EU and Belarus". The contractor has 670 days to carry out the task. • On 11 October 2017, the Regional Court in Ostrava accepted a restructuring plan for OKD a.s. • PKP CARGO S.A. received a summons from Minezit SE to participate in the execution of a notarial deed before a Dutch notary on 2 November 2017 in Amsterdam in order to pay the put option price for 15,000 shares representing the remaining 20% of all shares in the share capital of Advanced World Transport B.V. with its registered office in Amsterdam, in the amount of EUR 27,000,000. The original date of payment resulted from the parties' mutual arrangement. • On 26 October 2017, the following stepped down from their positions on the Company's Management Board: - Mr. Maciej Libiszewski – President of the Management Board, - Mr. Arkadiusz Olewnik – Management Board Member in charge of Finance. • On 26 October 2017 the Company's Supervisory Board, following a recruitment procedure, adopted a resolution to appoint Mr. Witold Bawor to the PKP CARGO Management Board as of 26 October 2017 and entrust him with the function of Management Board Member in charge of Operations. • The Company's Supervisory Board adopted a resolution by which it decided to second Mr. Krzysztof Mamiński, PKP CARGO Supervisory Board Member, to temporarily, i.e. until 26 January 2018, perform the duties of President of the Company's Management Board and to entrust him with the function of President of the PKP CARGO Management Board.
November	• By decision of the President of the Office of Rail Transport, a fine of PLN 101 thousand was imposed on PKP CARGO S.A. for conducting operations in the years 2007-2013 without a required document, i.e. the safety authorization. Currently, the Company is considering filing an appeal to the Regional Court in Warsaw. • On 2 November 2017, a notary deed was signed and was paid the put option price for 15,000 shares representing the remaining 20% of all shares in the share capital of Advanced World Transport B.V. in the amount of EUR 27,000,000. Thus, PKP CARGO S.A. became the owner of all the shares in the company's share capital.

- Execution of the agreement to use throughput capacity for cargo transport in accordance with the 2017/2018 timetable between PKP CARGO S.A. and PKP Polskie Linie Kolejowe S.A. The Agreement will be in effect from 10 December 2017 to 8 December 2018. The expected total value of the Agreement during its term is PLN 631.9 million net (PLN 777.3 million gross).
- On 23 November 2017, the Management Board of PKP CARGO S.A. received a notice from Aegon OFE stating that it exceeded 5% of the total number of votes in the Company due to the closure of 17 November 2017 liquidation of Nordea OFE and transferring all the assets of Nordea OFE to Aegon OFE.

Source: Proprietary material

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

5.1. Key economic and financial figures

5.1.1. Consolidated Statement of Comprehensive Income

Analysis of basic economic and financial figures of the PKP CARGO Group presented in this chapter takes into account a presentation adjustment of data in 9M 2016. The financial data for 9M 2016 are adjusted for presentation purposes for an impairment loss on receivables from OKD in the amount of PLN 62.2 million (as described in Note 16 to the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016) and impairment losses arising from a test for impairment of the AWT Group's non-current assets in the amount of PLN 34.5 million (the adjustment takes into account a loss on fixed assets in the amount of PLN 34.9 million and depreciation, reduced accordingly, in Q3 2016 in the amount of PLN 0.4 million, as described in Note 10.1. To the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016. Moreover, the adjusted net result include deferred tax resulting from an impairment of receivables from OKD in the amount of PLN 6.2 million and the related deferred tax on account of an impairment loss resulting from a test for impairment of AWT's value in the amount of PLN 6.6 million. The change in the value of the impairment loss on assets and the impairment loss on receivables presented in the Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016 compared to the value of the impairment losses presented in the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016 is associated with a change in the exchange rates applied to convert these losses into PLN. During the first 9 months of 2017, no adjustment of the financial performance was made.

In 9M 2017, the PKP CARGO Group transported 88.1 million tons of cargo (i.e. 9% more than in 9M 2016) and recorded freight turnover at the level of 22.9 billion tkm (i.e. 10% more than in 9M 2016), while in Q3 2017 the PKP CARGO Group transported 30.4 million tons of cargo (i.e. 6% more than in Q3 2016) and recorded freight turnover of 7.9 billion tkm (i.e. 8% more than in Q3 2016), which is described in detail in the "PKP CARGO Group rail transport" chapter.

The Group's operating revenue in 9M 2017 increased by 7.7% yoy and operating expenses decreased by -1.2% yoy, while in Q3 2017 the Group's operating revenue increased by 9.4% yoy, and operating expenses increased by 4.9% yoy. In 9M 2017, the Group generated a result on operating activities and net result in the amount of PLN 102.5 million and PLN 51.7 million, respectively, while in Q3 2017 the Group's result on operating activities and net result were PLN 57.1 million and PLN 32.4 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 9M 2017 and Q3 2017 compared to the corresponding periods of 2016.

Table 25 Results of the PKP CARGO Group in 9M 2017 and Q3 2017 compared to the corresponding periods in 2016 (thousands of PLN)

No.	Item	9 months of 2017	9 months of 2016 (restated*)	Change 9M 2017 - 9M 2016	% change 9M 2017/9M 2016	Q3 2017	Q3 2016 (restated*)	Change Q3 2017 - Q3 2016	% change Q3 2017/Q3 2016
1	Total operating revenue	3,460,299	3,213,774	246,525	7.7%	1,192,886	1,090,765	102,121	9.4%
2	Total operating expenses	3,357,825	3,400,038	-42,213	-1.2%	1,135,833	1,082,886	52,947	4.9%
3	**Result on operating activity**	**102,474**	**-186,264**	**288,738**	**-**	**57,053**	**7,879**	**49,174**	**624.1%**
4	*EBIT margin*	*3.0%*	*-5.8%*	*8.8 p.p.*	*-*	*4.8%*	*0.7%*	*4.1 p.p.*	*585.7%*
5	*EBITDA margin*	*15.4%*	*8.8%*	*6.6 p.p.*	*75.0%*	*16.7%*	*14.1%*	*2.6 p.p.*	*18.4%*
6	Financial revenue	15,155	1,011	14,144	1399.0%	915	237	678	286.1%
7	Financial expenses	44,854	47,215	-2,361	-5.0%	14,361	8,634	5,727	66.3%
8	Share in the profit / (loss) of entities accounted for under the equity method	1,430	2,597	-1,167	-44.9%	247	595	-348	-58.5%
9	**Earnings before tax**	**74,205**	**-229,871**	**304,076**	**-**	**43,854**	**77**	**43,777**	**56853.2%**
10	*Net profit margin*	*2.1%*	*-7.2%*	*9.3 p.p.*	*-*	*3.7%*	*0.0%*	*3.7 p.p.*	*-*
11	Income tax	22,464	-28,627	51,091	-	11,475	6,069	5,406	89.1%
12	**NET RESULT**	**51,741**	**-201,244**	**252,985**	**-**	**32,379**	**-5,992**	**38,371**	**-**
13	*Net profit margin*	*1.5%*	*-6.3%*	*7.8 p.p.*	*-*	*2.7%*	*-0.5%*	*3.2 p.p.*	*-*

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2017 prepared according to EU IFRS

* restatement of comparative data is described in detail in Note 5 to the Condensed Quarterly Consolidated Financial Statements

Table 26 Adjusted results of the PKP CARGO Group in 9M 2017 and Q3 2017 compared to the corresponding periods in 2016 (thousands of PLN)

No.	Item	9 months of 2017	9 months of 2016, adjusted** (restated*)	Change 9M 2017 - 9M 2016	% change 9M 2017/9M 2016
1	Total operating revenue	3,460,299	3,213,774	246,525	7.7%
2	Total operating expenses	3,357,825	3,303,365	54,460	1.6%
3	**Result on operating activity**	**102,474**	**-89,591**	**192,065**	**-**
4	*EBIT margin*	*3.0%*	*-2.8%*	*5.8 p.p.*	*-*
5	*EBITDA margin*	*15.4%*	*10.8%*	*4.6 p.p.*	*42.6%*
6	Financial revenue	15,155	1,011	14,144	1399.0%
7	Financial expenses	44,854	47,215	-2,361	-5.0%
8	Share in the profit / (loss) of entities accounted for under the equity method	1,430	2,597	-1,167	-44.9%
9	**Earnings before tax**	**74,205**	**-133,198**	**207,403**	**-**
10	*Net profit margin*	*2.1%*	*-4.1%*	*6.2 p.p.*	*-*
11	Income tax	22,464	-15,842	38,306	-
12	**NET RESULT**	**51,741**	**-117,356**	**169,097**	**-**
13	*Net profit margin*	*1.5%*	*-3.7%*	*5.2 p.p.*	*-*

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2017 prepared according to EU IFRS

* restatement of comparative data is described in detail in Note 5 to the Condensed Quarterly Consolidated Financial Statements
** the financial data for 9M 2016 are adjusted for presentation purposes for an impairment loss on receivables from OKD in the amount of PLN 62.2 million (as described in Note 16 to the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016) and impairment losses arising from a test for impairment of the AWT Group's non-current assets in the amount of PLN 34.5 million (the adjustment takes into account a loss on fixed assets in the amount of PLN 34.9 million and depreciation, reduced accordingly, in Q3 2016 in the amount of PLN 0.4 million, as described in Note 10.1. to the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016. Moreover, the adjusted net result include deferred tax resulting from an impairment of receivables from OKD in the amount of PLN 6.2 million and the related deferred tax on account of an impairment loss resulting from a test for impairment of AWT's value in the amount of PLN 6.6 million.

Operating revenue

Table 27 Operating revenue of the PKP CARGO Group in 9M 2017 and Q3 2017 compared to the corresponding periods in 2016 (thousands of PLN)

No.	Item	9 months of 2017	9 months of 2016	Change 9M 2017 - 9M 2016	% change 9M 2017/9M 2016	Q3 2017	Q3 2016	Change Q3 2017 - Q3 2016	% change Q3 2017/Q3 2016
1	Revenue from sales of services and finished products	3,402,183	3,165,891	236,292	7.5%	1,175,981	1,077,038	98,943	9.2%
1.1	*Revenue from rail transportation and freight forwarding services*	*2,897,402*	*2,624,592*	*272,810*	*10.4%*	*1,010,541*	*898,933*	*111,608*	*12.4%*
2	Revenue from sales of goods and materials	29,330	22,439	6,891	30.7%	11,298	8,834	2,464	27.9%
3	Other operating revenue	28,786	25,444	3,342	13.1%	5,607	4,893	714	14.6%
4	**Total operating revenue**	**3,460,299**	**3,213,774**	**246,525**	**7.7%**	**1,192,886**	**1,090,765**	**102,121**	**9.4%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2017 prepared according to EU IFRS

In the Group's total operating revenue the biggest item was revenue from sales of services and finished products (98.3% in 9M 2017 compared to 98.5% in 9M 2016). Revenue from sales of services and finished products comprises: 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, revenue on the customs agency, revenue from sales of finished products, revenue from rolling stock repair services and other revenue. The remaining part of operating revenue of the PKP CARGO Group comprises revenue from sales of goods and materials, which includes, among others, sales of steel and cast iron scrap and goods, including coal, as well as other operating revenue comprising, among others, gains from sales of non-financial non-current assets, reversal of impairment losses on trade and other receivables, received fines and compensations, net foreign exchange gains/(losses) on trade receivables and liabilities, reversal of provisions, interest on trade and other receivables, subsidies and other.

Revenue from rail transportation and freight forwarding services in 9M 2017 increased by PLN 272.8 million, i.e. 10.4% yoy, and in Q3 2017 by PLN 111.6 million, i.e. 12.4% yoy. The details pertaining to PKP CARGO Group's transport services are described in the chapter "PKP CARGO Group's rail transport". The other items in revenue from sales of services and finished products decreased by PLN 36.5 million, or -6.7% yoy, mainly as a result of a decrease in revenues from siding and traction services by PLN 20.6 million, or -10.3% yoy, as a result of discontinuation of the mining activity of the Makoszowy and Krupiński hard coal mines and lower revenues recorded on hard coal mine sidings (lower output as a derivative of OKD's problems and discontinuation of service of the Budryk coal mine siding), a decrease in revenue from other transportation activity by PLN 6.9 million, or -5.3% yoy. In Q3 2017, other items in revenue from sales of services and finished products decreased by PLN 12.7 million, i.e. -7.1% yoy, mainly as a result of lower revenues from siding and traction services by PLN 10.0 million, i.e. - 15.0% yoy, due to the aforementioned problems and an interruption of cooperation with the Żerań Combined Heat and Power Plant (in the Summer months).

The increase in revenue from sales of goods and materials in 9M 2017 by PLN 6.9 million, i.e. 30.7% yoy, was attributable mainly to the higher sale of scrap (i.e. waste from overhaul activities) by PKP CARGOTABOR and higher sales of goods, in particular coal, by CARGOSPED Terminal Braniewo, while in Q3 2017 the aforementioned revenue increased by PLN 2.5 million, i.e. 27.9% yoy for the same reasons.

The increase in other operating revenue by PLN 3.3 million, or 13.1% yoy, was caused by higher profit on sale of non-financial non-current assets by PLN 4.0 million, or 160.3% yoy (sale of sliding skeletal trailers in PKP CARGO CONNECT Sp. z o.o. and sale of Plzen land owned by AWT). In Q3 2017, operating revenue increased by PLN 0.7 million, or 14.6% yoy, driven by a PLN 0.9 million higher result on FX differences.

Operating expenses

Table 28 Operating expenses of the PKP CARGO Group in 9M 2017 and Q3 2017 compared to the corresponding periods in 2016 (thousands of PLN)

No.	Item	9 months of 2017	9 months of 2016	Change 9M 2017 - 9M 2016	% change 9M 2017/9M 2016	Q3 2017	Q3 2016	Change Q3 2017 - Q3 2016	% change Q3 2017/Q3 2016
1	Depreciation and amortization and impairment losses	428,972	470,290	-41,318	-8.8%	141,612	146,152	-4,540	-3.1%
2	Consumption of materials and energy	513,988	492,217	21,771	4.4%	172,747	165,664	7,083	4.3%
3	External services	1,170,243	1,157,484	12,759	1.1%	410,619	383,358	27,261	7.1%
4	Taxes and charges	30,136	29,386	750	2.6%	9,231	11,088	-1,857	-16.7%
5	Employee benefits	1,111,421	1,105,746	5,675	0.5%	357,761	352,754	5,007	1.4%
6	Other expenses by kind	41,374	39,076	2,298	5.9%	13,936	12,786	1,150	9.0%
7	Cost of goods and materials sold	20,867	17,341	3,526	20.3%	7,877	5,425	2,452	45.2%
8	Other operating expenses	40,824	88,498	-47,674	-53.9%	22,050	5,659	16,391	289.6%
9	**Total operating expenses**	**3,357,825**	**3,400,038**	**-42,213**	**-1.2%**	**1,135,833**	**1,082,886**	**52,947**	**4.9%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2017 prepared according to EU IFRS

Table 29 Adjusted operating expenses of the PKP CARGO Group in 9M 2017 and Q3 2017 compared to the corresponding periods in 2016 (thousands of PLN)

No.	Item	9 months of 2017	9 months of 2016, adjusted*	Change 9M 2017 - 9M 2016	% change 9M 2017/9M 2016
1	Depreciation and amortization and impairment losses	428,972	435,780	-6,808	-1.6%
2	Consumption of materials and energy	513,988	492,217	21,771	4.4%
3	External services	1,170,243	1,157,484	12,759	1.1%
4	Taxes and charges	30,136	29,386	750	2.6%
5	Employee benefits	1,111,421	1,105,746	5,675	0.5%
6	Other expenses by kind	41,374	39,076	2,298	5.9%
7	Cost of goods and materials sold	20,867	17,341	3,526	20.3%
8	Other operating expenses	40,824	26,335	14,489	55.0%
9	**Total operating expenses**	**3,357,825**	**3,303,365**	**54,460**	**1.6%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2017 prepared according to EU IFRS

* the financial data for 9M 2016 are adjusted for presentation purposes for an impairment loss on receivables from OKD in the amount of PLN 62.2 million (as described in Note 16 to the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016) and impairment losses arising from a test for impairment of the AWT Group's non-current assets in the amount of PLN 34.5 million (the adjustment takes into account a loss on fixed assets in the amount of PLN 34.9 million and depreciation, reduced accordingly, in Q3 2016 in the amount of PLN 0.4 million, as described in Note 10.1. to the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016.

In 9M 2017, operating expenses decreased by PLN 42.2 million, or -1.2% yoy, to PLN 3,357.8 million, while adjusted operating expenses increased by PLN 54.5 million, or 1.6% yoy. In Q3 2017 operating expenses increased by PLN 52.9 million, or 4.9% yoy to PLN 1,135.8 million.

In 9M 2017 amortization and depreciation expenses and impairment losses fell by PLN 41.3 million, or -8.8% yoy, to PLN 429.0 million, mainly on account for the impairment loss arising from the impairment test carried out in 9M 2016 for impairment of non-current assets of the AWT Group in the amount of PLN 34.5 million. Adjusted amortization and depreciation expenses and impairment losses in 9M 2017 fell by PLN 6.8 million, or -1.6% yoy, driven by lower investing activity, the structure of investments and completion of depreciation of some assets, in particular components. In Q3 2017, amortization and depreciation expenses and impairment losses fell by PLN 4.5 million, or -3.1% yoy, for the reason described above.

In 9M 2017, the costs of consumption of materials and energy were PLN 21.8 million, or 4.4% yoy higher, of which fuel consumption costs increased PLN 21.2 million, or 18.5% yoy, mainly as a result of higher price levels and higher freight transport in diesel traction caused by increasing problems on PLK's lines, including in particular a detour to the Kozienice Power Plant; the costs of consumption of electricity, gas and water increased PLN 5.2 million, i.e. 1.7% yoy as a result of increased transport, with reduced unit costs of consumption of traction energy as a result of optimization of the transportation process and declining variable unit cost of traction energy. In Q3 2017, the costs of consumption of materials and energy rose by PLN 7.1 million, or 4.3% yoy, with fuel consumption costs up by PLN 7.9 million or 19.8% yoy and the costs of consumption of electricity, gas and water up by PLN 1.0 million, or 1.0% yoy, for the reasons described above.

In 9M 2017, the costs of external services increased by PLN 12.8 million, or 1.1% yoy, to PLN 1,170.2 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 39.4 million, or 8.1% yoy, caused by increasing freight transport. At the same time, within external services the costs of rent and charges for the use of property and rolling stock fell by PLN 22.5 million, or -15.7% yoy, as a result of lower rents for leased rolling stock (as a result of purchase of multi-system locomotives), decrease in the costs of rent of property as a result of termination of lease of redundant properties, reduced lease of wagons in AWT as a result of expiry of earlier long-term lease agreements and increased use of own rolling stock. In Q3 2017, the costs of external services rose PLN 27.3 million, or 7.1% yoy, as a result of an increase in: the costs of access to the lines of infrastructure managers by PLN 17.9 million, or 10.6% yoy, for the reason described above, transport services by PLN 8.0 million, or 7.9% yoy, as a result of the development the transport activity mainly in the PKP CARGO CONNECT Sp. z o.o. subsidiary and an increase in the costs of reclamation services by PLN 3.0 million, or 39.0% yoy, which corresponds to the increase in revenue on this account in Q3 2017.

Taxes and charges in 9M 2017 increased compared to the corresponding period of 2016 by PLN 0.8 million, or 2.6% yoy, due to a one-off payment of VAT in H1 2017 upon transfer of assets to the Wolsztyn Railway Roundhouse in the amount of PLN 1.1 million. In Q3 2017, taxes and charges fell by PLN 1.9 million, or -16.7% yoy upon receipt of foreign VAT from Germany in the amount of PLN 1.6 million by PKP CARGO S.A.

In 9M 2017, employee benefits increased by PLN 5.7 million, or 0.5% yoy, to PLN 1,111.4 million (from PLN 1,105.7 million in 9M 2016). The higher level of employee benefits, accompanied by a decline in average headcount in the Group by 230 FTEs, i.e. -1.0% yoy, resulted mainly from a salary raise introduced as of 1 September in PKP CARGO Group companies (PKP CARGO S.A., PKP CARGO CENTRUM LOGISTYCZNE MAŁASZEWICZE Sp. z o.o., PKP CARGO SERVICE Sp. z o.o., PKP CARGOTABOR Sp. z o.o. and CARGOTOR Sp. z o.o.) and an update of the actuarial valuation of provisions for employee benefits in connection with change of the discount rate and the abovementioned salary raise for employees. In Q3 2017, employee benefits increased by PLN 5.0 million, or 1.4% yoy, to PLN 357.8 million (PLN 352.8 million in Q3 2016). The increase in employee benefits, accompanied by a decrease in the average headcount in the Group, resulted from increased salaries in some PKP CARGO Group companies (mentioned above) as of 1 September 2017. Changes in headcount are presented in the section "Information on headcount".

The remaining expenses by kind in 9M 2017 increased compared to the corresponding period of 2016 by PLN 2.3 million, or 5.9% yoy as a result of increased costs of insurance. In Q3 2017, expenses by kind rose by PLN 1.2 million, or 9.0% yoy, following an increase in costs of business travel of train crews as a result of the higher freight volume, increased closures of PLK lines and higher costs of insurance.

In 9M 2017, the cost of goods and materials sold increased by PLN 3.5 million, or 20.3% yoy, to PLN 20.9 million, which corresponds to an increase in revenue from sales of goods and materials. In Q3 2017, an increase in the cost of goods and materials sold by PLN 2.5 million, i.e. 45.2% yoy, was recorded for the reason described above.

Other operating expenses in 9M 2017 amounted to PLN 40.8 million and were PLN 47.7 million, or -53.9% yoy lower, mainly as a result of the impairment loss recognized in 9M 2016 for the receivables from OKD in the amount of PLN 62.2 million, while adjusted operating expenses in 9M 2017 increased by PLN 14.5 million, or 55.0% yoy, chiefly due to other provisions increasing by PLN 13.9 million, or by 578.3% in 9M 2016 (mainly the provision recognized for onerous contracts, which is described in detail in Note 8.2 to these Condensed Quarterly Consolidated Financial Statements). In Q3 2017, other operating expenses increased by PLN 16.4 million, or 289.6% yoy, for the reason described above.

Result on operating activity

As a result of the aforementioned changes in operating revenue and operating expenses, the result on operating activities in 9M 2017 reached PLN 102.5 million.

EBITDA

The result on operating activities increased by the line item "Amortisation/depreciation and impairment losses" referred to as EBITDA, amounted to PLN 531.5 million in 9M 2017.

Financial activities

Table 30 Financial activities of the PKP CARGO Group in 9M 2017 and Q3 2017 compared to the corresponding periods in 2016 (thousands of PLN)

No.	Item	9 months of 2017	9 months of 2016 (restated*)	Change 9M 2017 - 9M 2016	% change 9M 2017/9M 2016	Q3 2017	Q3 2016 (restated*)	Change Q3 2017 - Q3 2016	% change Q3 2017/Q3 2016
1	Financial revenue	15,155	1,011	14,144	1399.0%	915	237	678	286.1%
2	Financial expenses	44,854	47,215	-2,361	-5.0%	14,361	8,634	5,727	66.3%
3	Share in the profit / (loss) of entities accounted for under the equity method	1,430	2,597	-1,167	-44.9%	247	595	-348	-58.5%
4	**Result on financial activities**	**-28,269**	**-43,607**	**15,338**	**-**	**-13,199**	**-7,802**	**-5,397**	**-**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2017 prepared according to EU IFRS

* restatement of comparative data is described in detail in Note 5 to the Condensed Quarterly Consolidated Financial Statements

In 9M 2017, the PKP CARGO Group recorded a loss on financial activities in the amount of PLN -28.3 million, compared to PLN - 43.6 million recorded in the corresponding period of the previous year. The main reason for the improvement of the result on financial activities by PLN 15.3 million was the decline in the valuation of the put option liability for non-controlling interest, which translated into an increase in the result on financial activities by PLN 7.7 million and increase of the result on FX differences (a movement in exchange rates) by PLN 6.0 million and an increase of the net balance of the interest income and cost by PLN 2.4 million. In Q3 2017, the PKP CARGO Group recorded a loss on financial activities in the amount of PLN -13.2 million, compared to PLN -7.8 million recorded in the corresponding period of the previous year. The main cause of the decline in the result on financial activities by PLN 5.4 million was the increase in the valuation of the liability on account of the "put" option for non-controlling interest in Q3 2016 by PLN 3.4 million.

Details are presented Notes 9.1 and 9.2 to these Condensed Quarterly Consolidated Financial Statements.

Earnings before tax

In 9M 2017, the result before tax stood at PLN 74.2 million, compared to PLN -229.9 million in the corresponding period of the previous year.

Income tax

In 9M 2017, the PKP CARGO Group recorded income tax in the amount of PLN 22.5 million, of which current tax amounted to PLN 53.1 million, and deferred tax to PLN -30.6 million.

Net result

In 9M 2017, the Group generated net result of PLN 51.7 million compared to PLN -201.2 million in the corresponding period of the previous year.

5.1.2. Description of the structure of assets and liabilities of the consolidated statement of financial position

ASSETS

Table 31 Horizontal and vertical analysis of PKP CARGO Group's assets (thousands of PLN)

	As at 30/09/ 2017	As at 31/12/ 2016 (restated*)	Asset structure 30/09/2017	Asset structure 31/12/2016	Change 2017 - 2016	% change 2017/2016
ASSETS						
Non-current assets						
Property, plant and equipment	4,606,836	4,700,550	72.0%	72.2%	-93,714	-2.0%
Intangible assets	44,296	55,831	0.7%	0.9%	-11,535	-20.7%
Investment property	1,218	1,257	0.0%	0.0%	-39	-3.1%
Investments in entities accounted for under the equity method	54,236	58,219	0.8%	0.9%	-3,983	-6.8%
Trade and other receivables	1,749	2,223	0.0%	0.0%	-474	-21.3%
Other long-term financial assets	9,014	8,649	0.1%	0.1%	365	4.2%
Other long-term non-financial assets	29,627	25,987	0.5%	0.4%	3,640	14.0%
Deferred tax assets	141,987	107,554	2.2%	1.7%	34,433	32.0%
Total non-current assets	**4,888,963**	**4,960,270**	**76.4%**	**76.2%**	**-71,307**	**-1.4%**
Current assets						
Inventories	134,451	121,189	2.1%	1.9%	13,262	10.9%
Trade and other receivables	696,786	639,866	10.9%	9.8%	56,920	8.9%
Income tax receivables	1,436	2,793	0.0%	0.0%	-1,357	-48.6%
Other short-term financial assets	263,415	892	4.1%	0.0%	262,523	29430.8%
Other short-term non-financial assets	27,162	27,277	0.4%	0.4%	-115	-0.4%
Cash and cash equivalents	388,726	755,919	6.1%	11.6%	-367,193	-48.6%
Total current assets	**1,511,976**	**1,547,936**	**23.6%**	**23.8%**	**-35,960**	**-2.3%**
Total assets	**6,400,939**	**6,508,206**	**100.0%**	**100.0%**	**-107,267**	**-1.6%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2017 prepared according to EU IFRS

* restatement of comparative data is described in detail in Note 5 to the Condensed Quarterly Consolidated Financial Statements

Non-current assets

The biggest share in the asset structure was held by property, plant and equipment, which as at 30 September 2017 constituted 72.0% of total assets, compared to 72.2% at the end of 2016. Property, plant and equipment is dominated by the means of transportation (mainly locomotives and wagons) which as at 30 September 2017 represented 80.6% of total property, plant and equipment, compared to 80.4% at the end of 2016. The decrease in property, plant and equipment and intangible assets in 9M 2017 by PLN 105.2 million, i.e. -2.2%, is attributable mainly to the higher level of depreciation over the expenditures on property, plant and equipment and intangible assets incurred in this period. Additionally, there was a decrease in investments accounted for under the equity method by PLN 4.0 million, or 6.8%, primarily due to lower equity of entities accounted for under the equity method as a result of recognition of dividend liabilities by these entities in the amount of PLN 2.8 million. In addition, the value of deferred income tax assets increased by PLN 34.4 million, i.e. 32.0%, which is presented in detail in note 10.4 of the Condensed Quarterly Consolidated Financial Statements and in note 11.5 of the Annual Consolidated Financial Statements for the financial year ended 31 December 2016.

Current assets

Current assets decreased as at 30 September 2017 by PLN 36.0 million, or -2.3%, compared to the end of 2016. The decrease in cash and cash equivalents by 367.2 million was caused primarily by repayment of bank loans, with simultaneous reclassification of PLN 257.0 million from cash and cash equivalents to bank deposits above 3 months (other short-term financial assets). In addition, the value of current assets was affected by an increase in trade and other receivables by PLN 56.9 million, or 8.9%, as a result of higher on transport and freight forwarding services because of the higher freight transport and a PLN 13.3 million, and a 10.9% increase in inventories following an rise in the residual value of worn out rolling stock undergoing decommissioning and designated for scrapping.

Current assets expressed as a percentage of total assets dropped and as at 30 September 2017, amounted to 23.6%, compared to 23.8% as at 31 December 2016.

The biggest share in the structure of current assets as at the end of 30 September 2017 was held by trade and other receivables (46.1%), cash and cash equivalents (25.7%) and other short-term financial assets (17.4%).

EQUITY AND LIABILITIES

Table 32 Horizontal and vertical analysis of PKP CARGO Group's liabilities (thousands of PLN)

	As at 30/09/2017	As at 31/12/2016 (restated*)	Structure of equity and liabilities		Change	% change
			30/09/2017	31/12/2016	2017 - 2016	2017/2016
EQUITY AND LIABILITIES						
Equity						
Share capital	2,239,346	2,239,346	35.0%	34.4%	0	0.0%
Supplementary capital	618,050	618,666	9.7%	9.5%	-616	-0.1%
Other items of equity	-210	11,447	0.0%	0.2%	-11,657	-
Exchange differences resulting from conversion of financial statements of foreign operations	68,784	60,494	1.1%	0.9%	8,290	13.7%
Retained earnings	382,682	330,325	6.0%	5.1%	52,357	15.9%
Equity attributable to the owners of the parent company	**3,308,652**	**3,260,278**	**51.7%**	**50.1%**	**48,374**	**1.5%**
Total equity	**3,308,652**	**3,260,278**	**51.7%**	**50.1%**	**48,374**	**1.5%**
Non-current liabilities						
Long-term bank loans and borrowings	1,105,075	1,273,605	17.3%	19.6%	-168,530	-13.2%
Non-current finance lease liabilities and leases with a purchase option	101,023	140,923	1.6%	2.2%	-39,900	-28.3%
Non-current trade and other payables	1,199	1,845	0.0%	0.0%	-646	-35.0%
Long-term provisions for employee benefits	548,698	525,571	8.6%	8.1%	23,127	4.4%
Other long-term provisions	24,375	26,420	0.4%	0.4%	-2,045	-7.7%
Other non-current financial liabilities	0	1,042	0.0%	0.0%	-1,042	-100.0%
Deferred tax liability	108,921	106,675	1.7%	1.6%	2,246	2.1%
Non-current liabilities, total	**1,889,291**	**2,076,081**	**29.5%**	**31.9%**	**-186,790**	**-9.0%**
Current liabilities						
Short-term bank loans and borrowings	215,572	197,803	3.4%	3.0%	17,769	9.0%
Current lease liabilities and leases with a purchase option	49,488	59,567	0.8%	0.9%	-10,079	-16.9%
Short-term trade and other payables	629,768	670,021	9.8%	10.3%	-40,253	-6.0%
Short-term provisions for employee benefits	115,135	99,256	1.8%	1.5%	15,879	16.0%
Other short-term provisions	59,527	24,950	0.9%	0.4%	34,577	138.6%
Other short-term financial liabilities	116,754	118,889	1.8%	1.8%	-2,135	-1.8%
Current tax liabilities	16,752	1,361	0.3%	0.0%	15,391	1130.9%
Current liabilities, total	**1,202,996**	**1,171,847**	**18.8%**	**18.0%**	**31,149**	**2.7%**
Total liabilities	**3,092,287**	**3,247,928**	**48.3%**	**49.9%**	**-155,641**	**-4.8%**
Total equity and liabilities	**6,400,939**	**6,508,206**	**100.0%**	**100.0%**	**-107,267**	**-1.6%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2017 prepared according to EU IFRS

* restatement of comparative data is described in detail in Note 5 to the Condensed Quarterly Consolidated Financial Statements

Equity

Equity expressed as a percentage of total assets as at 30 September 2017 was 51.7% compared to 50.1% at the end of 2016. The increase in the share of equity in total assets was caused by a decrease in liabilities and retained earnings. The value of equity rose by PLN 48.4 million, or 1.5%, driven mainly by an increase in retained earnings by PLN 52.4 million, or 15.9%, as a result of a positive financial result generated by the PKP CARGO Group.

Non-current liabilities

Non-current liabilities as at 30 September 2017 fell by PLN 186.8 million, or -9.0%, compared to the end of 2016. This decrease was driven by the lower amount of long-term bank loans and borrowings by PLN 168.5 million (or -13.2%) and non-current lease liabilities and leases with a purchase option by PLN 39.9 million (or -28.3%) as a result of their partial repayment and reclassification to current liabilities i.e. to short-term bank loans and borrowings and short-term liabilities on account of leasing and leases with a purchase option. Moreover, long-term provisions for employee benefits increased by PLN 23.1 million, or 4.4%, as a result of a change in the discount rate and salary raises as of 1 September 2017.

Current liabilities

Current liabilities increased as at 30 September 2017 compared to the end of 2016 by PLN 31.1 million (or 2.7%). The largest movements were recorded in the following line items:

- Short-term trade and other payables – a decline by PLN 40.3 million, or -6.0% caused primarily by the following:
  1) decrease in VAT settlements by PLN 27.7 million, or -81.0%, primarily due to the repayment of a liability resulting from an inspection by the Tax Office, as described in more detail in Note 6 to the Consolidated Financial Statements for the year ended 31 December 2016. Information on the current status of the proceeding is presented in Note 26 to these Condensed Quarterly Consolidated Financial Statements,
  2) drop in liabilities arising from the purchase of non-financial non-current assets by PLN 34.5 million, or -74.3%, mainly as a result of the repayment of subsequent installments to NEWAG S.A. under the agreement entered into in April 2011 for the modernization of 100 SM 42 diesel locomotives,
  3) an increase in trade payables by PLN 7.7 million, or 2.4%,
- Short-term provisions for employee benefits – up by PLN 15.9 million, or 16.0%, resulting from an increase in the provisions for unused holiday leaves and a change of the discount rate,
- Short-term bank loans and borrowings – an increase by PLN 17.8 million, or 9.0%, as a result of reclassification from long-term bank loans and borrowings
- Current lease liabilities and leases with a purchase option – a decrease by PLN 10.1 million, or -16.9%, resulting from the Group's reduced needs for the lease or rental of rolling stock components or equipment,
- Other provisions – an upward surge of PLN 34.6 million, or 138.6%, driven mainly by an increase in the provision for VAT settlement liabilities and onerous contracts, which is described in detail in Note 26 to these Condensed Quarterly Consolidated Financial Statements.

Short-term liabilities expressed as a percentage of total assets as at 30 September 2017 were 18.8% versus 18.0% at the end of 2016.

5.1.3. Consolidated Cash Flow Statement

The table below presents the main line items of PKP CARGO Group's cash flow statement in 9M 2017 compared to the corresponding period of 2016.

Table 33 Main line items in the PKP CARGO Group's cash flow statement in 9M 2017 compared to the corresponding period of 2016.

Item	9 months of 2017	9 months of 2016 (restated*)	Change 2017 - 2016	% change 2017/2016
Net cash on operating activities	458,224	132,211	326,013	246.6%
Net cash on investing activities	-607,039	-426,740	-180,299	-
Net cash on financial activities	-219,416	183,726	-403,142	-
Net increase / (decrease) in cash and cash equivalents	**-368,231**	**-110,803**	**-257,428**	**-**
Cash and cash equivalents at the beginning of the reporting period	**755,919**	**276,191**	**479,728**	**173.7%**
Impact exerted by FX rate movements on the cash balance in foreign currencies	1,038	1,534	-496	-32.3%
Cash and cash equivalents at the end of the reporting period	**388,726**	**166,922**	**221,804**	**132.9%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2017 prepared according to EU IFRS

* restatement of comparative data is described in detail in Note 5 to the Condensed Quarterly Consolidated Financial Statements

Cash flow from operating activities

In 9M 2017, net cash flow from operating activities was PLN 458.2 million compared to PLN 132.2 million in the corresponding period of 2016. The cash flow was generated on the result before tax of PLN 74.2 million and amortization and depreciation and impairment losses of PLN 429.0 million (down by PLN 41.3 million compared to the corresponding period of the previous year as a result of an impairment loss arising from a test for impairment of the AWT Group's non-current assets in the amount of PLN 34.5 million posted in 9M 2016), with a simultaneous increase in the balance of trade and other receivables by PLN 55.0 million.

Cash flow from investing activities

In 9M 2017, net cash flow used in connection with investing activities was PLN -607.0 million versus PLN -426.7 million in the corresponding period of 2016. The negative cash flows were related directly to the capital expenditures incurred by the PKP CARGO Group and opening of bank deposits for more than 3 months in the amount of PLN 257.0 million. The details of the capital expenditures are described in the chapter entitled "PKP CARGO Group's investments".

Cash flow on financial activities

In 9M 2017 net cash flow from financing activities was PLN -219.4 million compared to PLN 183.7 million in the corresponding period of 2016. Proceeds of PLN 50.5 million were received from the loans incurred in 9M 2017, versus PLN 468.1 million in the corresponding period of 2016. In 9M 2017, total cash expenditures for leases, to repay loans and borrowings and interest on leases and loans and borrowings amounted to PLN 267.8 million, compared to PLN 286.6 million in the corresponding period of 2016.

5.1.4. Selected consolidated financial and operating ratios

The tables below present key financial and operating ratios of the PKP CARGO Group in 9M 2017 and Q3 2017 compared to the corresponding periods of the previous year.

Table 34 Selected consolidated financial and operating ratios and adjusted selected financial and operating ratios in 9M 2017 compared to the corresponding period of 2016.

No.	Item	9 months of 2017	9 months of 2016 (restated*)	Change 9M 2017 - 9M 2016	% change 9M 2017/9M 2016	9 months of 2017**	9 months of 2016, adjusted*** (restated*)	Change 9M 2017 - 9M 2016	% change 9M 2017/9M 2016
1	EBITDA margin[1]	15.4%	8.8%	6.5 p.p.	73.8%	15.4%	10.8%	4.6 p.p.	42.6%
2	Net profit margin[2]	1.5%	-6.3%	7.8 p.p.	-	1.5%	-3.7%	5.1 p.p.	-140.9%
3	Net financial debt to EBITDA ratio[3]	1.3	3.1	-1.8	-58.9%	1.3	2.7	-1.4	-52.7%
4	ROA4	1.9%	-6.7%	8.5 p.p.	-	2.0%	-2.8%	4.8 p.p.	-170.0%
5	ROE5	3.6%	-12.6%	16.2 p.p.	-	3.8%	-5.3%	9.2 p.p.	-171.8%
6	Average distance covered per locomotive (km/day)[6]	247.7	238.9	8.8	3.7%	247.7	238.9	8.8	3.7%
7	Average gross train tonnage per operating locomotive (tons)[7]	1460.0	1426.0	34.0	2.4%	1460.0	1426.0	34.0	2.4%
8	Average running time of train locomotives (hours per day)[8]	15.2	14.8	0.4	2.7%	15.2	14.8	0.4	2.7%
9	Freight turnover per employee (thousands tkm/employee)[9]	984.4	884.6	99.8	11.3%	984.4	884.6	99.8	11.3%

Source: Proprietary material

Table 35 Key financial and operating ratios in Q3 2017 compared to the corresponding period of 2016.

No.	Item	Q3 2017	Q3 2016 (restated*)	Change Q3 2017 - Q3 2016	% change Q3 2017/Q3 2016
1	EBITDA margin[1]	16.7%	14.1%	2.5 p.p.	17.9%
2	Net profit margin[2]	2.7%	-0.5%	3.3 p.p.	-
3	Net financial debt to EBITDA ratio[3]	1.3	3.1	-1.8	-58.9%
4	ROA4	1.9%	-6.7%	8.5 p.p.	-
5	ROE5	3.6%	-12.6%	16.2 p.p.	-
6	Average distance covered per locomotive (km/day)[6]	247.4	232.6	14.8	6.4%
7	Average gross train tonnage per operating locomotive (tons)[7]	1451.0	1491.0	-40.0	-2.7%
8	Average running time of train locomotives (hours per day)[8]	15.5	14.7	0.8	5.4%
9	Freight turnover per employee (thousands tkm/employee)[9]	339.7	314.3	25.4	8.1%

Source: Proprietary material

* restatement of comparative data is described in detail in Note 5 to the Condensed Quarterly Consolidated Financial Statements

** Annualized data for 9M 2017 (from October 2016 to September 2017) and annualized data for Q3 2017, adjusted for presentation purposes for (1) impairment loss on receivables from OKD in the amount of PLN 9.7 million (2) impairment loss arising from a test for impairment of non-current assets from the AWT Group in the amount of PLN -1.2 million; moreover, the adjusted net profit includes deferred tax resulting from a test for impairment of AWT's value in the amount of PLN -0.2 million and deferred tax on account of an impairment loss on the receivables from OKD a.s. ("OKD") in the amount of PLN 1.1 million

* The annualized data for 9M 2016 (from October 2015 to September 2016) and the annualized data for Q3 2016 adjusted for presentation purposes for an impairment loss on receivables from OKD in the amount of PLN 62.2 million (as described in Note 16 to the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016) and impairment losses arising from a test for impairment of the AWT Group's non-current assets in the amount of PLN 34.5 million, as described in Note 10.1 (the impairment loss takes into account a loss on fixed assets in the amount of PLN 34.9 million and depreciation, reduced accordingly, in Q3 2016 in the amount of PLN 0.4 million, as described in Note 10.1. to the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016. Moreover, the adjusted net result include deferred tax resulting from an impairment of receivables from OKD in the amount of PLN 6.2 million and the related deferred tax on account of an impairment loss resulting from a test for impairment of AWT's value in the amount of PLN 6.6 million.

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

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 a purchase option; and (v) other current financial liabilities and (vi) other non-current financial liabilities, minus (i) cash and cash equivalents; and (ii) other short-term financial assets) to annualized EBITDA for the last 12 months (profit on operating activities plus amortization/depreciation and impairment losses).
4. Calculated as the ratio of annualized net result for the last 12 months to total assets.
5. Calculated as the ratio of annualized net profit for the last 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 9M 2017, due to the reasons described above, the key profitability ratios, i.e. EBITDA margin, net profit margin, ROA and ROE were higher than in the corresponding period of the previous year. The net financial debt to EBITDA ratio also deteriorated to 1.3 from 3.1 in the corresponding period of 2016. The improvement of the ratios in 9M 2017 compared to the corresponding period of the previous year is attributable to the Group's higher results, in particular EBITDA and net result. In Q3 2017, the EBITDA margin and net profit margin also improved due to the reasons described above.

In 9M 2017, the average daily mileage of locomotives was 247.7 km/day and, compared to the corresponding period of the previous year, increased by 8.8 km/day, or 3.7% yoy. In Q3 2017, the average daily mileage of locomotives was 247.4 km/day and, compared to the corresponding period of the previous year, increased by 14.8 km/day, or 6.4% yoy. The key driver of the improvement of this indicator was the optimization of the transportation process.

In 9M 2017, the average gross train weight per locomotive moved up by 34.0 tons, or 2.4% yoy, to 1,460.0 tons. This is the effect of better utilization of locomotives and optimization of the transportation process. However in Q3 2017 by itself, the average gross train weight per locomotive decreased by 40.0 tons, or -2.7% yoy, down to 1,451.0 tons. The decline was caused by the fact that the transport process was performed in the period of very numerous closures and operating difficulties on the PKP PLK grid.

During 9 months of 2017, the average daily running time of locomotives was 15.2 hours/day, increasing by 0.4 hours/day, or by 2.7% yoy compared to the corresponding period of the previous year. In Q3 2017, the average running time of locomotives was 15.5 hours/day and, compared to the corresponding period of 2016, increased by 0.8 hours/day, that is by 5.4% yoy. 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, which results in improved efficiency of rolling stock and therefore, higher volumes of freight and revenues from less resources.

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

Situation on the rail transport market in the main cargo categories

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

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

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

The situation in the mining industry significantly affects the market for hard coal transportation. It is caused predominantly by changes in the prices of coal and the role of renewable energy sources ("RES").

Transport of metallurgical products and raw materials required for their production, i.e. iron ore, stone or coke, depend on the situation in the metallurgical industry, which faces a number of factors restricting the competitiveness of the ironworks and steelworks located in Poland. The restrictions associated with the climate and energy package and high energy prices have direct impact on their condition and, indirectly, on the transport market.

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 appearing a temporary misalignment between the quantities and types of the available rolling stock to the actual needs of the transportation market.

Situation on the labor market

Increased labor demand resulting from economic growth, with limited supply due to lowering the retirement age and unfavorable demographics with falling numbers of people in working age and resulting wage increases, makes it difficult to attract skilled workers in specialized professions.

Situation in the Czech coal sector

In accordance with the restructuring program of the Czech mining company OKD, approved by the Regional Court in Ostrava on 11 October 2017, the mines and operational assets of OKD will be taken over by a newly-established company OKD Nástupnická, in which 100% of shares will be taken up by the state-owned company Prisko. The restructuring program accepted by the court provides for a gradual phasing out of OKD's mining companies. The following mines will be liquidated: Darkow and Lazy mines will be first to be decommissioned (by the end of 2018) and CSA and CSM by 2021 and 2023, respectively.[59]

It should also be noted that the Czech mining industry will be affected by a change in the energy mix. The Czech Republic is focused primarily on increasing nuclear power generation (according to the Nuclear Energy Program until 2040). Currently, nuclear energy represents 32.5% of total energy output in the Czech Republic and this share in the energy mix should reach between 46.0% and 58.0%.[60] The increase in the share of nuclear energy is anticipated to be achieved at the expense of energy generated from lignite (down to 21.0%). By the end of 2040, energy generated from renewable sources is expected to account for 25.0% (in 2013 the target set for 2020, i.e. 13.0% share of RES energy in consumption, and in 2015, the consumption of 15.1% was recorded) and gas energy, 15.0% of total energy output generated in the Czech Republic. The new nuclear reactors are to be built by 2035 (with an outlook for building additional ones in the future) and their total capacity should reach 2500 MWe.[61]

[59] www.ceskatelevize.cz
[60] www.biznesalert.pl
[61] Wirtualny Nowy Przemysł [Virtual New Industry]

Track construction and maintenance market

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

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

Costs of access to infrastructure

The PKP CARGO Group's activity results largely depend on the amount of rail infrastructure access charges. The cost of access to infrastructure in Poland in the first 9 months of 2017 accounted for approx. 15.7% of operating expenses in the PKP CARGO Group.

Along with the new timetable, price lists will be changed by some infrastructure managers due to the entry into force of the newly issued Regulation of the Minister of Infrastructure and Construction of 7 April 2017 on the provision of rail infrastructure (Journal of Laws of 2017 Item 755). The Regulation has introduced less advantageous provisions concerning especially the ordering and de-ordering of the annual timetable and related reservation fees as well as other changes, such as fees for decreasing the ordered gross weight of the train.

Currently, infrastructure managers, including PKP PLK, are gradually adjusting their rules and price lists to the new requirements. The whole picture of changes introduced by infrastructure managers will be known at the end of the year, because they are currently pending the approval process at the Office of Rail Transport. In some cases, after the Office of Rail Transport refused to accept the draft price list, the managers decided to use the previous price list in the next timetable.

Technical regulations related to rolling stock

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

Memorandum of Agreement between the parties to the Company Collective Bargaining Agreement

On 26 June 2017, the Parties to the Company Collective Bargaining Agreement for Employees Hired by the PKP CARGO S.A. Units entered into a memorandum of agreement ("Memorandum of Agreement"). By the power of the Memorandum of Agreement, a salary increase was implemented as of 1 September 2017. The Company has estimated that the cost of the increase till the end of 2017 will amount to approx. PLN 26.7 million. This increase will also affect financial results in future periods.

Payment of the put option price for 15,000 shares in the share capital of Advanced World Transport B.V. in favor of Minezit SE ("MSE")

On 2 November 2017, a notary deed was signed and was paid the put option price for 15,000 shares representing the remaining 20% of all shares in the share capital of Advanced World Transport B.V. in the amount of EUR 27,000,000. Thus, PKP CARGO S.A. became the owner of all the shares in the company's share capital. AWT B.V. and its subsidiaries are among the largest service enterprises in the rail freight transport industry in Europe. Accordingly the purchase of the remaining shares will affect the Group's financial as well as operational performance.

Capital expenditure financing

The Group will finance capital expenditures using external financing sources, such as investment loans and leases and also using its own funds. The increase in borrowing liabilities will result in an increase in (short- and long-term) liabilities and financial expenses.

Operating difficulties on rail lines

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

Railway track closures caused by modernization works have and will continue to have direct negative impact on the throughput of the lines and stations used, and rejection of applications for individual timetables (IRJ)[62], extension of the travel time, longer train travel courses and longer train stays at the stations. This situation, especially where unscheduled track closures are involved, requires an increased level of human resources engaged in the transportation process, in terms of the rolling stock and train crews, which impacts the costs incurred by the Group.

Infrastructural investments

Since Poland is the main beneficiary of the cohesion fund, a significant growth of the construction industry is observed, which is and will be driven by numerous road and railway investments.

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

FX rates

The Parent Company and the Group companies are exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies. The Parent Company's receivables expressed in foreign currencies are short-term receivables, and payables expressed in foreign currencies are mostly short- and long-term liabilities on account of investment loan agreements with maturities of up to 15 years and liabilities arising from short- and long-term leases.

The Group applies hedge accounting to its balance sheet valuation of liabilities arising from EUR-denominated investment loans. In this respect, no financial income and no financial expenses are generated by virtue of valuation.

According to the Financial Risk Management Policy prevailing in the Company, in Q3 2017, the Parent Company and PKP CARGO CONNECT Sp. z o.o. used FX risk management transactions for the EUR/PLN currency pair.

Forward transactions were used to hedge FX risk in 2017.

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 Q3 2017, interest on financial liabilities was accrued according to fixed interest rates and 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, the so-called IRS.

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 and we should expect them to stay at a similar level until the end of the year.

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

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

The Parent Company has not published financial forecasts pursuant to § 5 Section 1 Item 25 of the Regulation issued by the Finance Minister on 19 February 2009 on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent, consolidated version of 27 June 2013 (Journal of Laws of 2014 Item 133 as amended) pertaining to the results of the Company and the PKP CARGO Group in the first 9 months of 2017.

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 units 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 the structure of traction vehicles used by the PKP CARGO Group, i.e. in some cases change the quantities in individual series when a locomotive after a modernization changes its series and purpose.

In Q1 2017, the process of decommissioning of obsolete rolling stock due to age and degree of wear was started. Further batches of locomotives that have been classified for physical liquidation are deleted from the books.

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

Table 36 Structure of the locomotives used by the PKP CARGO Group by traction type and ownership

Item	30/09/2017	31/12/2016	Change YTD
diesel locomotives	1,374	1,398	-24
electric locomotives	1,098	1,173	-75
Total	**2,472**	**2,571**	**-99**
owned locomotives (including financial lease)	2,462	2,556	-94
locomotives in operational lease or rented	10	15	-5
Total	**2,472**	**2,571**	**-99**

Source: Proprietary material

Table 37 Structure of the wagons used by the PKP CARGO Group, by ownership

Item	30/09/2017	31/12/2016	Change YTD
owned wagons (including financial lease)	64,166	64,519	-353
wagons in operational lease or rented	962	1,167	-205
Total	**65,128**	**65,686**	**-558**

Source: Proprietary material

On 23 September 2015, an agreement was signed with the Consortium composed of Siemens Sp. z o.o. and Siemens A.G. for the delivery of 15 multi-system locomotives from 31 January 2016 to 30 June 2017 (basic order) with an option to purchase 5 additional locomotives at basic order prices, where PKP CARGO S.A. must take the decision to exercise this option no later than on 31 December 2017 (optional order).

Between 1 January 2016 and the delivery date of this report, 15 locomotives were delivered by the manufacturer.

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 9 months of 2017.

Table 38 Real estate owned and used by the PKP CARGO Group as at 30 September 2017 compared to 31 December 2016

Item	30/09/2017	31/12/2016	Change YTD
Land - owned, in perpetual usufruct and leased from other entities [ha]	1,571	1,584	-13
Buildings - owned, leased and rented from other entities [sqm]	746,652	781,998	-35,346

Source: Proprietary material

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

6. Other key information and events

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

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

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

6.2. Information on transactions with related parties

In Q3 2017, no entity from the PKP CARGO Group entered into any transactions with related parties on non-market terms. Also after the balance sheet date no such transactions have been entered into.

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

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

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

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

This Consolidated Quarterly Report was authorized by the PKP CARGO S.A. Management Board on 27 November 2017.

....

Krzysztof Mamiński

acting President of the Management Board

....

Witold Bawor

Management Board Member

....

Grzegorz Fingas

Management Board Member

....

Zenon Kozendra

Management Board Member

For more information on PKP CARGO please contact
Investor Relations Team

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

Tel.: +48 22 391-47-09
Fax: +48 22 474-29-53

e-mail: relacje.inwestorskie@pkp-cargo.eu