QUARTERLY REPORT FOR Q1 2019

PKP CARGO GROUP'S
Consolidated quarterly report for Q1 2019

PKPCARGO

PKPCARGO

Quarterly condensed consolidated Financial statements of the **PKP CARGO** Group for the period of 3 months ended 31 march 2019

Prepared in accordance with IFRS
as endorsed by the European Union

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(in PLN million) (translation of a document originally issued in Polish)

QUARTERLY CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	3 months ended 31/03/2019	3 months ended 31/03/2018	
Revenues from contracts with customers	1,260.9	1,205.0	*Note 2.1*
Consumption of traction electricity and traction fuel	(159.2)	(142.3)	*Note 2.2*
Services of access to infrastructure	(146.7)	(171.5)	
Transport services	(97.7)	(113.2)	
Other services	(93.1)	(109.3)	*Note 2.2*
Employee benefits	(428.3)	(399.4)	*Note 2.2*
Other expenses	(76.0)	(70.8)	*Note 2.2*
Other operating revenue and (expenses)	(1.4)	1.4	*Note 2.3*
Operating profit without depreciation (EBITDA)	**258.5**	**199.9**	
Depreciation, amortization and impairment losses	(171.6)	(137.0)	*Note 2.2*
Profit on operating activities (EBIT)	**86.9**	**62.9**	
Financial revenue and (expenses)	(18.8)	(10.1)	*Note 2.4*
Share in the profit / (loss) in entities accounted for under the equity method	0.8	(3.1)	*Note 5.3*
Profit before tax	**68.9**	**49.7**	
Income tax	(15.8)	(14.1)	*Note 3.1*
NET PROFIT	**53.1**	**35.6**	
OTHER COMPREHENSIVE INCOME			
Measurement of hedging instruments	0.4	(7.9)	*Note 6.1*
Income tax	(0.1)	1.5	
FX differences resulting from translation of financial statements	(2.6)	11.7	
Total other comprehensive income subject to reclassification in the financial result	**(2.3)**	**5.3**	
Total other comprehensive income	**(2.3)**	**5.3**	
TOTAL COMPREHENSIVE INCOME	**50.8**	**40.9**	
Net profit attributable to the shareholders of the parent company	53.1	35.6	
Total other comprehensive income attributable to shareholders of the parent company	50.8	40.9	
Earnings per share (PLN per share)			
Weighted average number of ordinary shares	44,786,917	44,786,917	
Basic and diluted earnings per share	**1.18**	**0.80**	

The data for the period of 3 months ended 31 March 2018 have been restated as described in **Note 1.4** to these Quarterly Condensed Consolidated Financial Statements.

In the periods covered by these Quarterly Condensed Consolidated Financial Statements, there was no non-controlling interest.

(in PLN million) (translation of a document originally issued in Polish)

QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31/03/2019	31/12/2018	31/03/2018	
ASSETS				
Rolling stock	3,932.6	3,997.0	3,770.5	*Note 5.1*
Other property, plant and equipment	886.3	949.9	926.5	*Note 5.1*
Right-of-use assets	986.2	-	-	*Note 5.2*
Investments in entities accounted for under the equity method	48.1	47.3	50.8	*Note 5.3*
Trade receivables	0.9	0.7	1.4	*Note 5.5*
Lease receivables	10.9	-	-	
Other assets	51.8	56.7	64.3	*Note 5.6*
Deferred tax assets	134.3	135.6	147.2	*Note 3.1*
Total non-current assets	**6,051.1**	**5,187.2**	**4,960.7**	
Inventories	163.2	161.7	146.4	*Note 5.4*
Trade receivables	748.5	684.6	673.0	*Note 5.5*
Lease receivables	0.6	-	-	
Bank deposits over 3 months	-	201.1	302.9	
Other assets	114.4	124.4	95.6	*Note 5.6*
Cash and cash equivalents	455.2	447.3	397.8	*Note 4.3*
Total current assets	**1,481.9**	**1,619.1**	**1,615.7**	
TOTAL ASSETS	**7,533.0**	**6,806.3**	**6,576.4**	
EQUITY AND LIABILITIES				
Share capital	2,239.3	2,239.3	2,239.3	*Note 4.2*
Supplementary capital	628.2	628.2	619.3	*Note 4.2*
Other items of equity	(43.9)	(44.2)	(20.9)	
FX differences resulting from translation of financial statements	73.2	75.8	71.6	
Retained earnings	640.3	584.4	445.0	
Total equity	**3,537.1**	**3,483.5**	**3,354.3**	
Debt liabilities	1,791.5	1,156.5	1,347.8	*Note 4.1*
Trade liabilites	0.5	0.5	1.4	
Investment liabilities	127.9	109.8	-	*Note 5.7*
Provisions for employee benefits	587.2	591.5	577.9	*Note 5.8*
Other provisions	19.2	20.5	22.1	*Note 5.9*
Deferred tax liability	88.3	88.5	107.3	*Note 3.1*
Other liabilities	0.3	1.8	0.3	*Note 5.10*
Total long-term liabilities	**2,614.9**	**1,969.1**	**2,056.8**	
Debt liabilities	377.6	270.5	287.6	*Note 4.1*
Trade liabilites	446.0	499.4	430.6	
Investment liabilities	94.7	177.6	15.4	*Note 5.7*
Provisions for employee benefits	136.4	115.5	122.6	*Note 5.8*
Other provisions	53.0	56.9	60.8	*Note 5.9*
Other liabilities	273.3	233.8	248.3	*Note 5.10*
Total short-term liabilities	**1,381.0**	**1,353.7**	**1,165.3**	
Total liabilities	**3,995.9**	**3,322.8**	**3,222.1**	
TOTAL EQUITY AND LIABILITIES	**7,533.0**	**6,806.3**	**6,576.4**	

The data as at 31 March 2018 have been restated as described in **Note 1.4** to these Quarterly Condensed Consolidated Financial Statements.

(in PLN million) (translation of a document originally issued in Polish)

QUARTERLY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Other items of equity: Profits / (losses) on measurement of equity instruments at fair value	Other items of equity: Actuarial profits / (losses) on post-employment benefits	Other items of equity: Measurement of hedging instruments	FX differences resulting from translation of financial statements	Retained earnings	Total equity	
31/12/2018	**2,239.3**	**628.2**	**(12.9)**	**(32.8)**	**1.5**	**75.8**	**584.4**	**3,483.5**	
Changes resulting from the implementation of IFRS 16	-	-	-	-	-	-	2.8	**2.8**	*Note 1.3*
1/01/2019	**2,239.3**	**628.2**	**(12.9)**	**(32.8)**	**1.5**	**75.8**	**587.2**	**3,486.3**	
Net result for the period	-	-	-	-	-	-	53.1	**53.1**	
Other comprehensive income for the period (net)	-	-	-	-	0.3	(2.6)	-	**(2.3)**	
Total comprehensive income	-	-	-	-	0.3	(2.6)	53.1	**50.8**	
31/03/2019	**2,239.3**	**628.2**	**(12.9)**	**(32.8)**	**1.8**	**73.2**	**640.3**	**3,537.1**	
1/01/2018	**2,239.3**	**619.3**	**(12.9)**	**(22.1)**	**20.5**	**59.9**	**409.4**	**3,313.4**	
Net result for the period	-	-	-	-	-	-	35.6	**35.6**	
Other comprehensive income for the period (net)	-	-	-	-	(6.4)	11.7	-	**5.3**	
Total comprehensive income	-	-	-	-	(6.4)	11.7	35.6	**40.9**	
31/03/2018 (restated)	**2,239.3**	**619.3**	**(12.9)**	**(22.1)**	**14.1**	**71.6**	**445.0**	**3,354.3**	

Restatement of comparable data is described in **Note 1.3** and **1.4** to these Quarterly Condensed Consolidated Financial Statements.

(in PLN million) (translation of a document originally issued in Polish)

QUARTERLY CONSOLIDATED CASH FLOW STATEMENT

	3 months ended 31/03/2019	3 months ended 31/03/2018	
Cash flow from operating activities			
Profit before tax	**68.9**	**49.7**	
Adjustments			
Depreciation, amortization and impairment losses	171.6	137.0	*Note 2.2*
(Profits) / losses on interest, dividends	13.8	5.7	
Received / (paid) interest	0.2	1.1	
Received / (paid) income tax	(11.3)	(23.1)	
Movement in working capital	(77.6)	28.4	
Other adjustments	(2.9)	(0.5)	
Net cash from operating activities	**162.7**	**198.3**	
Cash flow from investing activities			
Expenditures on the acquisition of non-financial non-current assets	(288.9)	(192.8)	
Proceeds from the sale of non-financial non-current assets	3.5	1.1	
Proceeds from dividends received	0.1	-	
Proceeds from repayment of loans	-	0.3	
Inflows / (outflows) on bank deposits over 3 months	200.0	(49.0)	
Other inflows / (outflows) from investing activities	2.6	2.2	
Net cash from investing activities	**(82.7)**	**(238.2)**	
Cash flow from financing activities			
Payments on financial lease liabilities	(33.7)	(12.3)	*Note 4.1*
Repayment of bank loans and borrowings	(61.6)	(60.9)	*Note 4.1*
Interest paid on financial lease liabilities and bank loans and borrowings	(13.2)	(8.3)	*Note 4.1*
Grants received	37.1	1.0	
Other outflows from financing activities	(0.4)	(0.1)	
Net cash from financing activities	**(71.8)**	**(80.6)**	
Net increase / (decrease) in cash and cash equivalents	8.2	(120.5)	
Cash and cash equivalents at the beginning of the reporting period	447.3	516.8	*Note 4.3*
Impact of changes FX rate movements on the cash balance in foreign currencies	(0.3)	1.5	
Cash and cash equivalents as at the end of the reporting period, including:	**455.2**	**397.8**	*Note 4.3*
Restricted cash	*35.5*	*39.6*	*Note 4.3*

EXPLANATORY NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

1.1 Key information about the Group's business

Information about the Parent Company

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

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

The composition of the Parent Company's management and supervisory bodies and the Parent Company's shareholding structure as at 31 March 2019 are presented in the Management Board Report on the Activity of the PKP CARGO Group for Q1 2019 in **Chapters 3.1** and **3.3**, respectively.

Information about the Group

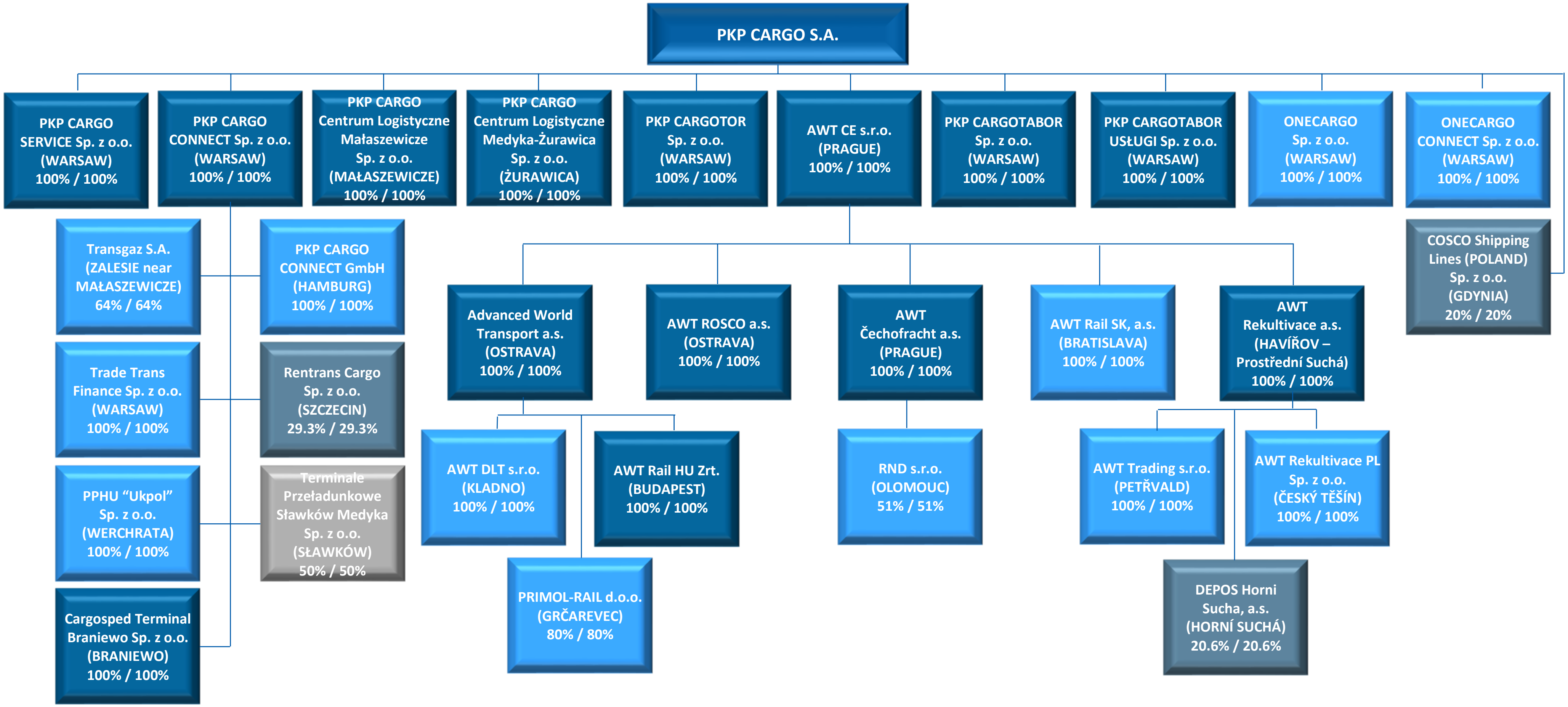
The Group's core business is rail freight transport. In addition to rail freight transport services, the Group also provides additional services:

As at the balance sheet date, the PKP CARGO Group (hereinafter: "Group") comprised PKP CARGO S.A. as its parent company and 26 subsidiaries. In addition, the Group held shares in 3 associated entities and 1 joint venture.

The duration of individual Group companies is unlimited.

1.1 Key information about the Group's business (cont.)

The detailed information about members of the Group as at 31 March 2019 and 31 December 2018 is as follows:



Subsidiaries – consolidated by the full method
Other subsidiaries in the Group
Affiliates in the Group
Ownership interest in the Group's joint ventures

1.2 Basis for preparation of the Quarterly Condensed Consolidated Financial Statements

These Quarterly Condensed Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards and related interpretations adopted by the European Union ("EU IFRS"), published and in effect at the time of preparation of these Consolidated Financial Statements and in accordance with the Finance Minister's Regulation of 29 March 2018 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2018 Item 757, "Regulation").

These Quarterly Condensed Consolidated Financial Statements should be read together with the audited Consolidated Financial Statements of the PKP CARGO Group for the year ended 31 December 2018 prepared according to EU IFRS.

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

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

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

These Consolidated Financial Statements have been prepared in Polish zloty (PLN). The data in the financial statements are presented in millions of PLN.

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

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

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

As at 31 March 2019 and 31 December 2018, for the needs of valuation of the financial statements of foreign operations subject to consolidation, the following exchange rates were applied by the Group:

Currency	Items of the statement of financial position		Items of the statement of profit or loss and other comprehensive income and the cash flow statement	
	31/03/2019	31/12/2018	3 months ended 31/03/2019	3 months ended 31/03/2018
EUR	4.3013	4.3000	4.2978	4.1784
CZK	0.1666	0.1673	0.1670	0.1648
HUF	0.0134	0.0134	0.0135	0.0134
CHF	3.8513	3.8166	3.8016	3.5945

These Quarterly Condensed Consolidated Financial Statements have not been audited by a statutory auditor. The line items of the consolidated statement of financial position as at 31 December 2018 were audited by a statutory auditor during the audit of the Consolidated Financial Statements of the PKP CARGO Group for the year ended 31 December 2018 prepared according to EU IFRS.

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

In these Quarterly Condensed Consolidated Financial Statements, certain items of the statement of financial position as at 1 January 2019 have been restated in connection with the implementation of IFRS 16. Data as at 31 December 2018 are presented based on IAS 17 "Leases". Certain line items of the statement of profit or loss and comprehensive income for the period of 3 months ended 31 March 2018 have been restated due to a correction of a prior period error. The effects of restatement in connection with the implementation of IFRS 16 and the correction of a prior period error are described in **Notes 1.3** and **1.4** to these Quarterly Condensed Consolidated Financial Statements, respectively.

These Quarterly Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 22 May 2019.

1.3 Applied accounting policies and improvements to International Financial Reporting Standards

Statement on accounting policies

The accounting policies and calculation methods adopted for the preparation of these Quarterly Condensed Consolidated Financial Statements are consistent with the policies described in the PKP CARGO Group's consolidated financial statements for the year ended 31 December 2018 prepared in accordance with EU IFRS, taking into account the changes resulting from the entry into force of IFRS 16, as described in this note.

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

IFRS 16 "Leases" – as at 1 January 2019, the Group applied the new IFRS 16 regarding the measurement and presentation of lease contracts. In accordance with the new standard, the lessee recognizes the right to use an asset and lease liability.

Key accounting policies

Group as a lessee

The right-of-use asset is initially measured at cost, which includes the lease liability in the current value of lease payments outstanding at such date, all lease payments paid up until the start date, less all lease incentives received, all initial direct costs incurred by the Group as the lessee and estimated costs to be incurred in connection with the disassembly and removal of the underlying asset and the renovation of the place in which it was located.

After the initial recognition, the Group measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability.

In the case of expenditures on repairs and periodic reviews of right-of-use assets, the Group applies IAS 16, i.e. presents components related to repairs and their periodic reviews in the same item of the statement of financial position, i.e. in the right-of-use assets.

The Group presents its right-of-use assets in a separate line item of the statement of financial position. This line item is also used by the Group to present assets used under contracts classified as finance leases in accordance with IAS 17 and the perpetual usufruct right to land, used by the Group in exchange for consideration.

A lease liability is measured at the present value of the lease payments that are not paid on such date, which include:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- cash penalties for lease termination if the lessee is reasonably certain not to exercise the early termination option.

For each lease contract, the Group defines the lease period as: the non-cancellable period for which a lessee has the right to use an underlying asset, together with both: periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The lease period in contracts for the perpetual usufruct right to land is defined by the Group as the period remaining until the date to which these rights have been granted unless the circumstances require the adoption of a longer or shorter period. Perpetual usufruct rights to land for which the Group does not pay any fees due to the exemption applicable to it by operation of law do not fulfill the definition of a lease and thus are presented by the Group as part of other property, plant and equipment.

(in PLN million) (translation of a document originally issued in Polish)

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

The current value of future lease payments is calculated using the interest rate applicable to the lease. If the interest rate applicable to a lease is unknown, the Group applies the lessee's marginal interest rate for the lease contract.

After the initial recognition, the Group measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications.

The Group applies an exemption and does not apply the requirements for measurement of lease liabilities and right-of-use assets in respect of:

- short-term leases, i.e. leases with a term of up to 12 months and without a purchase option;
- leases for which the underlying asset is of low value. The Group defines assets of low value as those whose value, when new, does not exceed PLN 25,000.

In cases where the exemptions referred to above are applied, the Group recognizes lease payments as an expense falling under the straight-line method over the lease term or under another method that provides a better reflection of the benefits obtained by the Group.

Group as a lessor
The Group classifies each of its leases as either a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee. All other lease agreements are treated as operating leases.

Assets subject a finance lease are recognized in the statement of financial position as lease receivables at an amount equal to the net investment in the lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.
Financial revenue from finance leases is recognized in subsequent periods at a fixed rate of return on the net investment in the lease.

Assets subject to operating leases are recognized in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the profit or loss of the current period on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which benefit from the use of the leased asset is diminished.

Effect of application of the new standard

The Group chose the option of implementing the standard provided in IFRS 16 Annex C item 5b, i.e. retrospectively with the combined effect of the first application of this standard recognized as at 1 January 2019 as an adjustment to the opening balance of retained earnings. In line with the selected implementation option, the Group has not restated its comparative data. As at the date of implementation of IFRS 16, the Group recognized the right-of-use asset in an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position directly before the date of initial application.
Moreover, the Group chose to apply certain practical solutions permitted by the standard, including:

- application of a single discount rate to the measurement of the portfolio of leases with relatively similar characteristics,
- adjustment of the value of right-of-use assets by the amount of the provision for onerous contracts recognized in accordance with IAS 37 directly before the date of first application of IFRS 16,
- the use of post-factual knowledge and experience in determining the term of the lease if the contract contains options to extend or termination,
- not recognizing the right-of-use assets and liabilities for contracts for which the remaining lease term as at 1 January 2019 is shorter than 12 months.

The most significant lease contract recognized by the Group pertain to built-up properties serving as rolling stock repair points and loading points considers as strategic for the Group's operations. Other such contracts pertain predominantly to rolling stock and other real properties. Moreover, the Group also presented as lease contract under IFRS 16 those of its contracts that pertain to the right of perpetual usufruct of land in the case of which the Group pays fees exchange for their use.
Recognized contracts are concluded for a definite or indefinite term with a specified notice period. The lease periods applied for the purposes of estimation of the value of lease liabilities were as follows:

Strategic real properties	14 – 17 years
Other real properties	4 – 15 years
Means of transport	2 – 5 years
Other	2 – 5 years

(in PLN million) (translation of a document originally issued in Polish)

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

The lease period in contracts for the perpetual usufruct right to land is defined as the period remaining until the date to which these rights have been granted.

The lessee's marginal rates applied for the purposes of estimation of the value of lease liabilities ranged from 1.16% to 4.29%. The diversification of the rates was a result of the following factors having been taken into account:
- currency of the contract,
- term of the contract.

The weighted average lease rate accepted for the measurement of liabilities was 3.83%.

The effect of the implementation of IFRS 16 on the statement of financial position as at 1 January 2019 is presented below:

Consolidated statement of financial position

	31/12/2018	Impact of the changes	1/01/2019
ASSETS			
Rolling stock	3,997.0	(160.9)	3,836.1
Other property, plant and equipment	949.9	(50.0)	899.9
Right-of-use assets	-	1,002.8	1,002.8
Lease receivables	-	8.6	8.6
Other assets	56.7	(7.7)	49.0
Deferred tax assets	135.6	(0.7)	134.9
Total non-current assets	**5,187.2**	**792.1**	**5,979.3**
Lease receivables	-	0.4	0.4
Other assets	124.4	(1.8)	122.6
Total current assets	**1,619.1**	**(1.4)**	**1,617.7**
TOTAL ASSETS	**6,806.3**	**790.7**	**7,597.0**
EQUITY AND LIABILITIES			
Retained earnings	584.4	2.8	587.2
Total equity	**3,483.5**	**2.8**	**3,486.3**
Debt liabilities	1,156.5	701.5	1,858.0
Other provisions	20.5	(1.3)	19.2
Total long-term liabilities	**1,969.1**	**700.2**	**2,669.3**
Debt liabilities	270.5	102.2	372.7
Trade payables	499.4	(12.1)	487.3
Other provisions	56.9	(2.4)	54.5
Total short-term liabilities	**1,353.7**	**87.7**	**1,441.4**
Total liabilities	**3,322.8**	**787.9**	**4,110.7**
TOTAL EQUITY AND LIABILITIES	**6,806.3**	**790.7**	**7,597.0**

Consolidated statement of profit or loss and other comprehensive income

The implementation of IFRS 16 has also affected the structure of the statement of profit or loss and other comprehensive income. In the period of 3 months 2019, due to the implementation of the new standard, depreciation increased by PLN 26.5 million, the operating result increased by PLN 4.5 million and the profit before tax fell by PLN 3.9 million. Implementation of the new standard caused that EBITDA is higher by approximately PLN 31 million.

(in PLN million) (translation of a document originally issued in Polish)

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

Presented below is an explanation of the key differences between the amounts of future payments, as described in **Note 7.2** to Consolidated Financial Statements for the year ended 31 December 2018, and the value of lease liabilities that were additionally recognized due to the application of IFRS 16:

Amount of future minimum lease payments under non-cancellable operating leases	**190.7**
Operating lease liabilities recognized as at 31 December 2018 as trade payables	**9.0**
Finance lease liabilities recognized as at 31 December 2018	**95.2**
Adjustments	**860.6**
Extension and termination options which the Group is highly likely to exercise	810.6
Exemptions for short-term leases and leases of assets with a low initial value	(24.3)
Perpetual usufruct right to land	74.2
Other	0.1
Lease liabilities recognized as at 31 December 2018, adjusted	**1,155.5**
Discount	(256.6)
Lease liabilities as at 1 January 2019	**898.9**
including the effect of recognition under IFRS 16	803.7

The main differences are due to the fact that the period of adopted lease payment projections in accordance with IAS 17 applies only to irrevocable lease periods, which the Group considers the termination notice periods. In accordance with IFRS 16, the lease period in which lease liabilities are recognized also includes any periods resulting from an extension or early termination of the contract if any aforementioned scenario is sufficiently certain in the Group's opinion. In the case of contracts with an extension option and contracts concluded for an indefinite term for which the Group has estimated the lease period, the lease liability is correspondingly higher.
In order to calculate the amount of lease liabilities recognized in accordance with IFRS 16, the total amounts of future minimum fees arising from the operating lease contracts as at 31 December 2018 have been adjusted to the current value by applying the pertinent discount rate.

The standards and interpretations mentioned below did not result in any major amendments to the Accounting Policy applied by the Group:

Standard / Interpretation	Effective date
Amendments to IFRS 9 "Financial Instruments" – Prepayment features with negative compensation	1 January 2019
Interpretation of IFRIC 23 – Uncertainty over income tax treatments	1 January 2019
Amendments to IAS 28 "Investments in associates and joint ventures"	1 January 2019
Amendments to IFRS (cycle 2015-2017) – IFRS 3, IFRS 11, IAS 12 and IAS 23	1 January 2019
Amendment to IAS 19 "Employee benefits"	1 January 2019

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

IFRSs as endorsed by the EU do not currently differ materially from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, their amendments and interpretations, which as at 31 March 2019 were not yet endorsed by the EU and did not enter into effect: In the opinion of the Parent Company's Management Board, the EU's endorsement of the following standards will not trigger the need to modify significantly the accounting policies applied by the Group:

Standard / Interpretation	Effective date
Amendments to references to the IFRS Conceptual Framework	1 January 2020
Amendments to IFRS 3 "Business combinations" – Definition of a business	1 January 2020
Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors"	1 January 2020
IFRS 17 "Insurance contracts"	1 January 2021

(in PLN million) (translation of a document originally issued in Polish)

1.4 Corrections of prior period errors

The amount of provisions for employee benefits is calculated by an independent actuarial company using the forecasted individual benefits method. As at 31 December 2018, the Parent Company discovered that during previous periods the calculation of provisions for jubilee bonuses and retirement and disability pension severance pays was based on incorrect periods of the duration of employment with railroad companies, which duration is an input for the calculation and payment of such benefits. Accordingly, the Parent Company remeasured, as at 31 December 2018, its provisions for jubilee bonuses and retirement and disability pension severance pays, taking into account the correct assumptions regarding the duration of employment and correcting the numbers recognized in previous years correspondingly.

In order to ensure comparability of the data presented in these Quarterly Condensed Consolidated Financial Statements, the Group has restated data for the 3 months ended 31 March 2018. The effect of restatement of the statement of financial position and the statement of profit or loss and other comprehensive income is described below. The above correction of prior period errors has not affected the cash flow statement. The information presented in additional explanatory notes to this Quarterly Condensed Consolidated Financial Statements has also been amended accordingly.

QUARTERLY CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	3 months ended 31/03/2018 (published)	Corrections of prior period errors	3 months ended 31/03/2018 (restated)
Employee benefits	(399.0)	(0.4)	(399.4)
Operating profit without depreciation (EBITDA)	**200.3**	**(0.4)**	**199.9**
Profit on operating activities (EBIT)	**63.3**	**(0.4)**	**62.9**
Financial income and (expenses)	(10.5)	0.4	(10.1)
Profit before tax	**49.7**	**-**	**49.7**
NET PROFIT	**35.6**	**-**	**35.6**
TOTAL COMPREHENSIVE INCOME	**40.9**	**-**	**40.9**

QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31/03/2018 (published)	Corrections of prior period errors	31/03/2018 (restated)
ASSETS			
Deferred tax assets	143.1	4.1	147.2
Total non-current assets	**4,956.6**	**4.1**	**4,960.7**
TOTAL ASSETS	**6,572.3**	**4.1**	**6,576.4**
EQUITY AND LIABILITIES			
Other items of equity	(14.5)	(6.4)	(20.9)
Retained earnings	456.1	(11.1)	445.0
Total equity	**3,371.8**	**(17.5)**	**3,354.3**
Provisions for employee benefits	560.8	17.1	577.9
Total long-term liabilities	**2,039.7**	**17.1**	**2,056.8**
Provisions for employee benefits	118.1	4.5	122.6
Total short-term liabilities	**1,160.8**	**4.5**	**1,165.3**
Total liabilities	**3,200.5**	**21.6**	**3,222.1**
TOTAL EQUITY AND LIABILITIES	**6,572.3**	**4.1**	**6,576.4**

1.5 Material estimates based on professional judgment and estimation

In the period of 3 months ended 31 March 2019, changes to material values based on professional judgment and estimation related to the right-of-use assets and lease liabilities in accordance with IFRS 16. Key assumptions adopted for measurement pertain to the interest rate determination model and the period of lease and depreciation of the right-of-use assets. As regards the discount rate, due to the limited scope of available data necessary to determine it, the Group has set the current value of the lease liability based on the marginal interest rate of the lessee. The marginal interest rate is calculated on the basis of the following two components:

- risk-free rate, which is based on a reference rate appropriate for the currency; and
- credit risk premium, which is based on the banks' credit margins and takes into account the contract term and the financial situation of each company in which lease contract have been identified.

As regards lease periods, including in particular for leases entered into for an indefinite term, the Group takes into account all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease or not to exercise the option to terminate the lease, such as:

- the importance of the asset to the Group's operations, considering whether the asset is a specialized asset, the location of the asset and the availability of suitable alternatives,
- significant leasehold improvements undertaken (or expected to be undertaken) over the term of the contract,
- contractual terms and conditions for the optional periods compared with market rates,
- circumstances related to the exercise of the option to extend the contract.

For contracts concluded for a specific term without an extension option, the Group uses the term of the contract as the lease period.

The principles of depreciation of the right-of-use assets are consistent with the depreciation rules adopted for similar assets and the Group applies IAS 16 to such assets.

During the 3 months ended 31 March 2019, no other changes were made to the assumptions adopted by the Parent Company's Management Board for the calculation of estimates that would have a material impact on the current period or any future periods.

(in PLN million) (translation of a document originally issued in Polish)

2. Explanatory notes to the statement of profit or loss and other comprehensive income

2.1 Revenues from contracts with customers

Structure of revenues from contracts with customers

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

The Parent Company's Management Board does not evaluate the Group's performance and does not make decisions concerning allocation of resources to groups of services provided account being taken of the structure of revenues from contracts with customers, as presented below. Therefore, the specific service groups may not be treated as the Group's operating segments. The Parent Company's Management Board analyzes financial data in the layout in which they are presented in these Quarterly Condensed Consolidated Financial Statements.

3 months ended 31/03/2019	Group of entities related to the biggest external counterparty	PKP Group related parties	Other State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	109.8	0.1	285.0	658.2	**1,053.1**
Revenue from other transportation activity	0.2	-	0.5	35.5	**36.2**
Revenue from siding and traction services	-	1.6	31.3	35.3	**68.2**
Revenue from transshipment services	0.1	-	0.2	34.7	**35.0**
Revenue from reclamation services	-	-	-	21.0	**21.0**
Revenue from sales of goods and raw materials	-	-	-	13.7	**13.7**
Other revenues	0.4	2.6	2.7	28.0	**33.7**
Total	**110.5**	**4.3**	**319.7**	**826.4**	**1,260.9**
Revenue recognition date					
At a point of time	-	-	-	17.0	**17.0**
Over a period	110.5	4.3	319.7	809.4	**1,243.9**
Total	**110.5**	**4.3**	**319.7**	**826.4**	**1,260.9**

3 months ended 31/03/2018	Group of entities related to the biggest external counterparty	PKP Group related parties	Other State Treasury related parties	Others	Total
Revenue from rail transportation services and freight forwarding services	128.5	2.0	225.3	667.1	**1,022.9**
Revenue from other transportation activity	0.3	-	0.4	41.8	**42.5**
Revenue from siding and traction services	-	1.3	24.3	36.4	**62.0**
Revenue from transshipment services	-	-	-	25.2	**25.2**
Revenue from reclamation services	-	0.7	-	14.8	**15.5**
Revenue from sales of goods and raw materials	-	-	-	12.5	**12.5**
Other revenues	0.4	3.0	1.2	19.8	**24.4**
Total	**129.2**	**7.0**	**251.2**	**817.6**	**1,205.0**
Revenue recognition date					
At a point of time	-	-	-	14.1	**14.1**
Over a period	129.2	7.0	251.2	803.5	**1,190.9**
Total	**129.2**	**7.0**	**251.2**	**817.6**	**1,205.0**

(in PLN million) (translation of a document originally issued in Polish)

2.1 Revenues from contracts with customers (cont.)

Geography

The Group defines the geographical territory of business as the location of the registered office of the service recipient, and not as the country of the service provision. Poland is the key geographic area of the Group's activity. Revenue from contracts with customers of the Group generated on external customers and broken down based on country of their headquarters is presented below:

	3 months ended 31/03/2019	3 months ended 31/03/2018
Poland	902.1	850.5
Czech Republic	143.3	144.9
Germany	80.8	64.3
Slovakia	35.0	35.5
Other countries	99.7	109.8
Total	**1,260.9**	**1,205.0**

Non-current assets net of financial instruments and deferred tax assets broken down by location

	31/03/2019	31/12/2018
Poland	5,110.1	4,310.7
Czech Republic	780.2	727.7
Other countries	5.7	4.9
Total	**5,896.0**	**5,043.3**

Information on key customers

In the period of 3 months ended 31 March 2019, revenue from any single customer of the Group did not exceed 10% of the total revenue from contracts with customers. In the period of 3 months ended 31 March 2018, sales to one group exceeded 10% and accounted for 10.7% of the total revenue from contracts with customers.

Assets from contracts with customers

	31/03/2019	31/03/2018
As at the beginning of the reporting period	**37.1**	**43.6**
Recognition of revenue before the payment date	50.0	50.5
Reclassification to receivables	(36.6)	(40.5)
As at the end of the reporting period	**50.5**	**53.6**

Liabilities from contracts with customers

	31/03/2019	31/03/2018
As at the beginning of the reporting period	**1.6**	**5.2**
Recognition of revenues:		
From the opening balance of liabilities from contracts with customers	(1.6)	(5.1)
From liabilities from contracts with customers recognized during the period	(1.1)	(10.3)
Payment received or due in advance	2.9	17.4
As at the end of the reporting period	**1.8**	**7.2**

(in PLN million) (translation of a document originally issued in Polish)

2.2 Operating expenses

Consumption of traction electricity and traction fuel

	3 months ended 31/03/2019	3 months ended 31/03/2018
Consumption of traction fuel	(49.1)	(47.4)
Consumption of traction electricity	(110.1)	(94.9)
Total	**(159.2)**	**(142.3)**

Other services

	3 months ended 31/03/2019	3 months ended 31/03/2018
Repair services	(7.9)	(8.7)
Rent and fees for the use of real properties and rolling stock	(25.3)	(46.9)
Telecommunications services	(1.4)	(1.6)
Legal, consulting and similar services	(3.1)	(3.1)
IT services	(11.4)	(10.7)
Maintenance and operation services for facilities and fixed assets	(9.3)	(6.5)
Transshipment services	(3.6)	(3.8)
Reclamation services	(17.3)	(14.2)
Other services	(13.8)	(13.8)
Total	**(93.1)**	**(109.3)**

Employee benefits

	3 months ended 31/03/2019	3 months ended 31/03/2018
Payroll	(315.5)	(293.2)
Social security expanses	(66.9)	(62.9)
Expenses for contributions to the Company Social Benefits Fund	(6.9)	(6.6)
Other employee benefits during employment	(11.8)	(10.2)
Post-employment benefits	(1.6)	(1.8)
Movement in provisions for employee benefits	(25.6)	(24.7)
Total	**(428.3)**	**(399.4)**

Other expenses

	3 months ended 31/03/2019	3 months ended 31/03/2018
Consumption of non-traction fuel	(7.3)	(6.9)
Consumption of electricity, gas and water	(14.1)	(13.3)
Consumption of materials	(24.0)	(22.8)
Taxes and charges	(7.7)	(5.9)
Cost of goods and raw materials sold	(8.6)	(7.8)
Business trips	(8.0)	(8.0)
Other	(6.3)	(6.1)
Total	**(76.0)**	**(70.8)**

Depreciation, amortization and impairment losses

	3 months ended 31/03/2019	3 months ended 31/03/2018
Depreciation of rolling stock	(119.4)	(112.1)
Depreciation of other property, plant and equipment	(20.6)	(20.4)
Depreciation of the right-of-use assets	(28.2)	-
Amortization of intangible assets	(3.4)	(4.5)
Total	**(171.6)**	**(137.0)**

(in PLN million) (translation of a document originally issued in Polish)

2.3 Other operating revenue and (expenses)

Other operating revenue and (expenses)

	3 months ended 31/03/2019	3 months ended 31/03/2018
Profit on disposal		
Profit on sales of non-financial non-current assets	1.9	0.9
Reversed impairment losses		
Trade receivables	1.5	4.5
Other		
Penalties and compensations	3.7	3.3
Interest on trade and other receivables	0.6	1.3
Other	1.4	0.9
Total other operating revenue	**9.1**	**10.9**
Impairment losses recognized		
Trade receivables	(2.0)	(4.0)
Other		
Penalties and compensations	(2.7)	(2.2)
Costs of liquidation of non-current and current assets	(0.8)	(0.6)
Recognized other provisions	(3.3)	(1.6)
Other	(1.7)	(1.1)
Total other operating expenses	**(10.5)**	**(9.5)**
Other operating revenue and (expenses)	**(1.4)**	**1.4**

2.4 Financial revenue and (expenses)

Financial revenue and (expenses)

	3 months ended 31/03/2019	3 months ended 31/03/2018
Interest income	2.1	2.7
Other	0.1	-
Total financial revenue	**2.2**	**2.7**
Interest expenses	(15.5)	(8.0)
Other		
Settlement of the discount on provisions for employee benefits	(4.4)	(4.5)
Other	(1.1)	(0.3)
Total financial expenses	**(21.0)**	**(12.8)**
Financial revenue and (expenses)	**(18.8)**	**(10.1)**

The data for the period of 3 months ended 31 March 2018 have been restated due to the correction of previous period errors, as described in **Note 1.4** to these Quarterly Condensed Consolidated Financial Statements.

(in PLN million) (translation of a document originally issued in Polish)

3. Explanatory notes on taxation

3.1 Income tax

Income tax recognized in profit / loss

	3 months ended 31/03/2019	3 months ended 31/03/2018
Current income tax		
Current tax charges	(14.6)	(22.6)
Adjustments recognized in the current year relating to tax from previous years	(0.5)	(0.7)
Deferred tax		
Deferred income tax of the reporting period	(0.7)	9.2
Income tax recognized in profit / loss	**(15.8)**	**(14.1)**

According to the legal provisions in effect, no differentiation of tax rates is expected in the future periods. Frequent differences of opinions as to legal interpretation of the tax regulations, both within the State bodies, and between the State bodies and enterprises, entail lack of certainty and give rise to conflicts. Therefore, the tax risk in Poland is much higher than usually observed in the countries with better developed tax systems. Tax returns may be subject to control for a period of five years, starting from the end of the year of the tax payment. As a result of such controls, the Group's tax settlements may be increased by additional tax liabilities.

Deferred income tax recognized in other comprehensive income

	3 months ended 31/03/2019	3 months ended 31/03/2018
Deferred tax on the measurement of hedging instruments	(0.1)	1.5
FX differences from translation of the balance of deferred income tax recognized in other comprehensive income	0.4	(1.7)
Deferred income tax recognized in other comprehensive income	**0.3**	**(0.2)**

Balance of deferred tax assets and liabilities

Deferred tax assets and liabilities are offset at the level of the financial statements of each Group company. Accordingly, the following values are presented in these Quarterly Condensed Consolidated Financial Statements:

	31/03/2019	31/12/2018
Deferred tax assets	134.3	135.6
Deferred tax liabilities	(88.3)	(88.5)
Total	**46.0**	**47.1**

Table of movements in deferred tax before the set-off

3 months ended 31/03/2019	31/12/2018	Effect of the implementation of IFRS 16	1/01/2019	Recognized in profit or loss	Recognized in other comprehensive income	FX differences resulting from translation of deferred tax balance	31/03/2019
Temporary differences relating to deferred tax (liabilities) / assets:							
Non-financial non-current assets	(133.4)	4.8	(128.6)	(10.9)	-	0.4	**(139.1)**
Right-of-use assets and lease liabilities	-	(2.4)	(2.4)	2.5	-	-	**0.1**
Other provisions and liabilities	10.8	(1.4)	9.4	5.9	-	-	**15.3**
Inventories	(4.1)	-	(4.1)	(0.5)	-	-	**(4.6)**
Lease receivables		(1.7)	(1.7)	(0.5)			**(2.2)**
Trade receivables	3.6	-	3.6	(2.3)	-	-	**1.3**
Provisions for employee benefits	134.0	-	134.0	2.7	-	-	**136.7**
Other	0.3	-	0.3	1.4	(0.1)	-	**1.6**
Unused tax losses	35.9	-	35.9	1.0	-	-	**36.9**
Total	**47.1**	**(0.7)**	**46.4**	**(0.7)**	**(0.1)**	**0.4**	**46.0**

(in PLN million) (translation of a document originally issued in Polish)

3.1 Income tax (cont.)

As at 31 March 2019, deferred tax assets on account of tax losses for use in future periods represented loss of the Parent Company in the amount of PLN 139.7 million and of the subsidiaries in the amount of PLN 53.7 million. It will be possible to deduct tax losses in the amount of PLN 167.1 million within five tax years following the end of operation of the Tax Group. Other tax losses may be deducted within five fiscal years since they have occurred. According to the Parent Company Management Board, there is low risk as at 31 March 2019 that it will be impossible to realize the above assets.

3 months ended 31/03/2018	1/01/2018	Recognized in profit or loss	Recognized in other comprehensive income	FX differences resulting from translation of deferred tax balance	31/03/2018
Temporary differences relating to deferred tax (liabilities) / assets:					
Non-financial non-current assets	(144.1)	(2.0)	-	(1.8)	**(147.9)**
Other provisions and liabilities	9.5	9.8	-	-	**19.3**
Inventories	(1.9)	(1.0)	-	-	**(2.9)**
Trade receivables	4.7	0.4	-	-	**5.1**
Provisions for employee benefits	129.8	2.5	-	-	**132.3**
Other	(4.3)	1.5	1.5	-	**(1.3)**
Unused tax losses	37.2	(2.0)	-	0.1	**35.3**
Total	**30.9**	**9.2**	**1.5**	**(1.7)**	**39.9**

Tax loss not recognized in calculation of deferred tax assets

The amount of tax losses not included in the calculation of deferred tax asset results from tax losses generated by the following companies:

	31/03/2019	31/12/2018
AWT CE s.r.o.	20.2	20.2
AWT Rail HU Zrt.	22.1	22.1
AWT Cechofracht a.s.	10.3	9.2
PKP CARGOTABOR USŁUGI Sp. z o.o.	7.5	7.5
CARGOSPED Terminal Braniewo Sp. z o.o.	1.6	1.6
Total	**61.7**	**60.6**

The expiration dates of the tax losses to which deferred tax assets were not applied as at 31 March 2019

Year	2019	2020	2021	2022	2023	2024 and beyond	Total
Unused tax losses	5.4	7.9	15.1	13.1	9.1	11.1	**61.7**

Expiration dates of the tax losses to which deferred tax assets were not applied as at 31 December 2018

Year	2019	2020	2021	2022	2023	2024 and beyond	Total
Unused tax losses	5.5	7.9	15.1	13.1	9.1	9.9	**60.6**

(in PLN million) (translation of a document originally issued in Polish)

4. Explanatory notes on debt

4.1 Reconciliation of debt liabilities

As at 31 March 2019 and 31 December 2018, the Group's debt liabilities consist of the following two main categories: bank loans and borrowings and finance leases.

Items in foreign currencies

31/03/2019	In the functional currency	In foreign currency		Total
	PLN	EUR	CZK	
Bank loans and borrowings	727.6	493.0	49.5	**1,270.1**
Leases	707.1	138.0	53.9	**899.0**
Total	**1,434.7**	**631.0**	**103.4**	**2,169.1**
Variable-interest-rate liabilities	778.7	458.8	49.5	**1,287.0**
Fixed-interest-rate liabilities	656.0	172.2	53.9	**882.1**
Total	**1,434.7**	**631.0**	**103.4**	**2,169.1**

As part of its fixed interest rate liabilities, the Group recognizes mainly liabilities arising from property lease and renatal contracts containing price indexation provisions based on the rate of inflation. In accordance with IFRS 16, changes in future lease fees caused by price indexation will not result in a change in the discount rate applied to the measurement of such liabilities.

31/12/2018	In the functional currency	In foreign currency		Total
	PLN	EUR	CZK	
Bank loans and borrowings	774.8	506.9	50.1	**1,331.8**
Finance leases	54.5	35.8	4.9	**95.2**
Total	**829.3**	**542.7**	**55.0**	**1,427.0**
Variable-interest-rate liabilities	828.5	472.8	50.1	**1,351.4**
Fixed-interest-rate liabilities	0.8	69.9	4.9	**75.6**
Total	**829.3**	**542.7**	**55.0**	**1,427.0**

Reconciliation of debt liabilities

3 months ended 31/03/2019	Bank loans and borrowings	Leases	Total
31/12/2018	**1,331.8**	**95.2**	**1,427.0**
Effect of the implementation of IFRS 16	-	803.7	**803.7**
1/01/2019	**1,331.8**	**898.9**	**2,230.7**
Obtained debt	-	32.5	**32.5**
Transaction costs	0.4	-	**0.4**
Accrual of interest	5.7	9.2	**14.9**
Payments under debt, including:			
Repayments of the principal	(61.6)	(33.7)	**(95.3)**
Interest paid	(6.1)	(7.1)	**(13.2)**
FX valuation	0.2	0.2	**0.4**
Fx differences resulting from translation	(0.3)	(1.0)	**(1.3)**
31/03/2019	**1,270.1**	**899.0**	**2,169.1**
Long-term	1,019.6	771.9	**1,791.5**
Short-term	250.5	127.1	**377.6**
Total	**1,270.1**	**899.0**	**2,169.1**

Other amounts under leases recognized in the statement of profit or loss and other comprehensive income:

	Presentation in the statement of profit or loss and other comprehensive income	3 months ended 31/03/2019
Revenue from operating leases	Revenues from contracts with customers	10.1
Interest income from finance leases	Financial revenue	0.1
Costs on account of:		
Short-term leases	Other services	(9.2)
Leases of low-value assets	Other services	(1.7)
Variable lease fees not included in the measurement of lease liabilities	Other services	(0.6)

(in PLN million) (translation of a document originally issued in Polish)

4.1 Reconciliation of debt liabilities (cont.)

3 months ended 31/03/2018	Bank loans and borrowings	Finance leases	Total
1/01/2018	**1,562.3**	**139.1**	**1,701.4**
Obtained debt	-	0.8	**0.8**
Transaction costs	0.1	-	**0.1**
Accrual of interest	6.7	1.3	**8.0**
Payments under debt, including:			
Repayments of the principal	(60.9)	(12.3)	**(73.2)**
Interest paid	(6.9)	(1.3)	**(8.2)**
Transaction costs	(0.1)	-	**(0.1)**
FX valuation	4.2	0.2	**4.4**
Fx differences resulting from translation	1.7	0.5	**2.2**
31/03/2018	**1,507.1**	**128.3**	**1,635.4**
Long-term	1,262.9	84.9	**1,347.8**
Short-term	244.2	43.4	**287.6**
Total	**1,507.1**	**128.3**	**1,635.4**

Net debt

	31/03/2019	31/12/2018
Bank loans and borrowings	1,270.1	1,331.8
Leases	899.0	95.2
Total debt	**2,169.1**	**1,427.0**
Cash and cash equivalents	(455.2)	(447.3)
Bank deposits over 3 months	-	(201.1)
Total net debt	**1,713.9**	**778.6**
EBITDA	1 152.8	907.0
Net debt/EBITDA	**1.5**	**0.9**

Net debt is construed by the Group as the sum of bank loans, borrowings and lease liabilities less cash and cash equivalents and deposits longer than 3 months. EBITDA is defined in the statement of profit or loss and other comprehensive income as operating profit plus depreciation and impairment losses. The Parent Company's Management Board perceives EBITDA as one of a key performance measure.

Due to adopted method of implementation of IFRS 16, the Group did not restate its comparative data, meaning that the net debt/EBITDA ratio as at 31 March 2019 was calculated based on the projected EBITDA for 2019 of PLN 1,152.8 million.

The loan agreement performance ratios are calculated at the level of standalone financial statements for Polish companies and at the level of the consolidated financial statements for the AWT Group. In most cases, the impact of IFRS 16 has been eliminated in the calculation of the net debt/EBITDA ratio. Accordingly, as at 31 March 2019, the estimated value of the consolidated net debt/EBITDA ratio after the elimination of the impact of IFRS 16 based on EBITDA for the last 12 months was 1.0.

Unused credit lines

Type of loan	Bank Name	Period of availability	Currency of the contract	31/03/2019	31/12/2018
Investment loan	European Investment Bank	19/07/2020	EUR	70.7	70.7
Overdraft	PKO Bank Polski S.A.	15/07/2019	PLN	0.9	0.7
Overdraft	Bank Polska Kasa Opieki S.A.	24/05/2020	PLN	100.0	100.0
Total				**171.6**	**171.4**

Breach of the terms and conditions of the loan agreements

As at 31 March 2019, there were no breaches of any loan agreements.

(in PLN million) (translation of a document originally issued in Polish)

4.2 Equity

Share capital

	31/03/2019	31/12/2018
The share capital consists of:		
Ordinary shares – fully paid up and registered	2,239.3	2,239.3

As at 31 March 2019 and as at 31 December 2018, the share capital consisted of ordinary shares with a par value of PLN 50 each. Fully paid up ordinary shares with a par value of PLN 50 are equivalent to one vote at the shareholder meeting and carry the right to a dividend.

PKP S.A. is the parent company of PKP CARGO S.A. Pursuant to the articles of association of the Parent Company, PKP S.A. holds special personal rights to appoint and dismiss Supervisory Board Members in a number equal to half the composition of the Supervisory Board plus one. PKP S.A. has a personal right to appoint the Supervisory Board Chairperson and to determine the number of Supervisory Board Members. Additionally, in the event that PKP S.A.'s share in the Company's share capital is 50% or less, PKP S.A. will have an exclusive personal right to propose candidates for the President of the Parent Company's Management Board. The personal rights of PKP S.A. shall be vested always when PKP S.A. holds at least 25% of the Parent Company's share capital.

In the period of 3 months ended 31 March 2019 and the period of 3 months ended 31 March 2018, there were no movements in the share capital of the Parent Company.

Supplementary capital

	31/03/2019	31/12/2018
Share premium (agio)	201.3	201.3
Distribution of profit (established pursuant to statutory regulations)	56.2	56.2
Distribution of profit (established in excess statutory value)	230.7	230.7
Capital formed from the redemption of shares	140.0	140.0
Total	**628.2**	**628.2**

In the period of 3 months ended 31 March 2019, no changes were made to the Group's supplementary capital.

Retained earnings

As at 1 January 2019, retained earnings were restated in connection with the implementation of IFRS 16, as described in **Note 1.3** to these Quarterly Condensed Consolidated Financial Statements.

On 20 March 2019, the Parent Company's Management Board adopted a resolution to submit a motion to the Parent Company's Ordinary Shareholder Meeting for the distribution of the net profit earned by the Parent Company in 2018 of PLN 254.0 million as follows:

a) allocate PLN 148.0 million to increase the supplementary capital,
b) allocate PLN 38.8 million to cover losses carried forward,
c) allocate PLN 67.2 million to the disbursement of a dividend.

By the date of these Quarterly Condensed Consolidated Financial Statements, the Ordinary Shareholder Meeting of the Parent Company has not adopted a resolution on the distribution of net profit generated by the Parent Company in 2018.

4.3 Cash and cash equivalents

Structure of cash and cash equivalents

	31/03/2019	31/12/2018
Cash on hand and on bank accounts	141.2	204.6
Bank deposits up to 3 months	314.0	242.7
Total	**455.2**	**447.3**
including restricted cash	*35.5*	*39.6*

As at 31 March 2019 and as at 31 December 2018, restricted cash included mostly cash accumulated on bank accounts kept for tender deposits, guarantees and the split-payment mechanism.

(in PLN million) (translation of a document originally issued in Polish)

5. Explanatory notes to the statement of financial position

5.1 Rolling stock and other property, plant and equipment

Movement in rolling stock and other property, plant and equipment

3 months ended 31/03/2019	Rolling stock	Other property, plant and equipment					
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
31/12/2018	**6,471.2**	**943.7**	**432.1**	**98.2**	**41.1**	**71.9**	**1,587.0**
Effect of the implementation of IFRS 16	(217.4)	(42.8)	(6.3)	(10.7)	-	-	**(59.8)**
1/01/2019	**6,253.8**	**900.9**	**425.8**	**87.5**	**41.1**	**71.9**	**1,527.2**
Increases / (decreases):							
Periodic repairs of rolling stock	-	-	-	-	-	157.7	**157.7**
Other acquisitions	-	-	-	-	-	91.4	**91.4**
Purchases of leased items	20.3	-	-	1.9	-	-	**1.9**
Settlement of fixed assets under construction	241.7	1.5	6.1	1.9	0.1	(251.2)	**(241.6)**
Grant for non-current assets	(37.3)	-	-	-	-	-	**-**
Sales	(15.3)	-	-	(0.3)	-	-	**(0.3)**
Liquidation	(88.1)	(0.4)	(0.2)	(0.1)	-	-	**(0.7)**
FX differences	(3.2)	(0.5)	(0.2)	(0.1)	-	(0.1)	**(0.9)**
Other	0.4	-	-	(0.4)	-	-	**(0.4)**
31/03/2019	**6,372.3**	**901.5**	**431.5**	**90.4**	**41.2**	**69.7**	**1,534.3**
Accumulated depreciation							
31/12/2018	**(2,263.4)**	**(234.1)**	**(301.1)**	**(60.8)**	**(33.9)**	**-**	**(629.9)**
Effect of the implementation of IFRS 16	56.5	1.1	1.9	6.8	-	-	**9.8**
1/01/2019	**(2,206.9)**	**(233.0)**	**(299.2)**	**(54.0)**	**(33.9)**	**-**	**(620.1)**
(Increases) / decreases:							
Depreciation	(119.4)	(10.9)	(7.7)	(1.2)	(0.8)	-	**(20.6)**
Purchases of leased items	(3.7)	-	-	(1.2)	-	-	**(1.2)**
Sales	14.4	-	-	0.3	-	-	**0.3**
Liquidation	85.7	0.4	0.2	0.1	-	-	**0.7**
FX differences	0.8	0.1	-	-	-	-	**0.1**
31/03/2019	**(2,229.1)**	**(243.4)**	**(306.7)**	**(56.0)**	**(34.7)**	**-**	**(640.8)**
Accumulated impairment							
1/01/2019	**(210.8)**	**(2.8)**	**(1.7)**	**-**	**-**	**(2.7)**	**(7.2)**
(Increases) / decreases:							
Liquidation	0.2	-	-	-	-	-	**-**
FX differences	0.1	-	-	-	-	-	**-**
31/03/2019	**(210.6)**	**(2.8)**	**(1.7)**	**-**	**-**	**(2.7)**	**(7.2)**
Net value							
1/01/2019	**3,836.1**	**665.1**	**124.9**	**33.5**	**7.2**	**69.2**	**899.9**
31/03/2019	**3,932.6**	**655.3**	**123.1**	**34.4**	**6.5**	**67.0**	**886.3**

(in PLN million) (translation of a document originally issued in Polish)

5.1 Rolling stock and other property, plant and equipment (cont.)

3 months ended 31/03/2018	Rolling stock	Other property, plant and equipment					
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
1/01/2018	**6,024.6**	**914.6**	**405.9**	**100.5**	**39.5**	**41.2**	**1,501.7**
Increases / (decreases):							
Periodic repairs of rolling stock	-	-	-	-	-	117.2	**117.2**
Other acquisitions	-	-	-	-	-	12.7	**12.7**
Finance leases	-	-	0.8	-	-	-	**0.8**
Settlement of fixed assets under construction	124.0	0.5	2.1	1.1	0.1	(127.9)	**(124.1)**
Sales	-	-	(0.3)	(1.6)	-	-	**(1.9)**
Liquidation	(70.0)	-	(0.8)	(0.1)	(0.1)	-	**(1.0)**
FX differences	12.6	2.0	0.6	0.8	-	0.3	**3.7**
Other	-	-	0.7	-	(0.7)	-	**-**
31/03/2018	**6,091.2**	**917.1**	**409.0**	**100.7**	**38.8**	**43.5**	**1,509.1**
Accumulated depreciation							
1/01/2018	**(2,129.5)**	**(195.7)**	**(270.7)**	**(60.4)**	**(31.6)**	**-**	**(558.4)**
(Increases) / decreases:							
Depreciation	(112.1)	(8.9)	(9.0)	(1.8)	(0.7)	-	**(20.4)**
Sales	-	-	0.2	1.6	-	-	**1.8**
Liquidation	68.1	-	0.7	0.1	0.1	-	**0.9**
FX differences	(2.3)	(0.3)	(0.2)	(0.3)	-	-	**(0.8)**
Other	-	-	(0.6)	-	0.6	-	**-**
31/03/2018	**(2,175.8)**	**(204.9)**	**(279.6)**	**(60.8)**	**(31.6)**	**-**	**(576.9)**
Accumulated impairment							
1/01/2018	**(144.7)**	**(2.7)**	**(0.3)**	**-**	**-**	**(2.7)**	**(5.7)**
(Increases) / decreases:							
Liquidation	0.2	-	-	-	-	-	**-**
FX differences	(0.4)	-	-	-	-	-	**-**
31/03/2018	**(144.9)**	**(2.7)**	**(0.3)**	**-**	**-**	**(2.7)**	**(5.7)**
Net value							
1/01/2018	**3,750.4**	**716.2**	**134.9**	**40.1**	**7.9**	**38.5**	**937.6**
including finance lease	*246.1*	-	*10.8*	*7.0*	-	-	*17.8*
31/03/2018	**3,770.5**	**709.5**	**129.1**	**39.9**	**7.2**	**40.8**	**926.5**
including finance lease	*220.4*	-	*9.8*	*5.6*	-	-	***15.4***

(in PLN million) (translation of a document originally issued in Polish)

5.2 Right-of-use assets

Movement in right-of-use assets

3 months ended 31/03/2019	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
Gross value						
Effect of the implementation of IFRS 16	310.1	729.2	14.6	14.0	1.2	**1,069.1**
1/01/2019	**310.1**	**729.2**	**14.6**	**14.0**	**1.2**	**1,069.1**
Increases / (decreases):						
New leases	23.8	2.7	-	6.0	-	**32.5**
Purchases of leased items	(20.3)	-	-	(1.9)	-	**(22.2)**
FX differences	(0.4)	(0.2)	-	-	-	**(0.6)**
Other	-	(2.0)	-	-	-	**(2.0)**
31/03/2019	**313.2**	**729.7**	**14.6**	**18.1**	**1.2**	**1,076.8**
Accumulated depreciation						
Effect of the implementation of IFRS 16	(56.5)	(1.1)	(1.9)	(6.8)	-	**(66.3)**
1/01/2019	**(56.5)**	**(1.1)**	**(1.9)**	**(6.8)**	**-**	**(66.3)**
(Increases) / decreases:						
Depreciation	(12.0)	(14.7)	(0.7)	(0.8)	(0.1)	**(28.2)**
Purchases of leased items	3.7	-	-	1.2	-	**4.9**
FX differences	0.1	-	-	-	-	**0.1**
Other	(0.1)	(0.9)	-	-	-	**(1.0)**
31/03/2019	**(64.8)**	**(16.7)**	**(2.6)**	**(6.4)**	**(0.1)**	**(90.6)**
Net value						
1/01/2019	**253.6**	**728.1**	**12.7**	**7.2**	**1.2**	**1,002.8**
31/03/2019	**248.4**	**713.0**	**12.0**	**11.7**	**1.1**	**986.2**

5.3 Investments in entities accounted for under the equity method

Detailed information on the entities accounted for under the equity method

	Carrying amount	
	31/03/2019	**31/12/2018**
COSCO Shipping Lines (POLAND) Sp. z o.o.	0.8	0.8
Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	19.6	19.5
Transgaz S.A.	6.6	6.3
Trade Trans Finance Sp. z o.o.	8.4	8.1
Rentrans Cargo Sp. z o.o.	8.1	8.1
PPHU “Ukpol” Sp. z o.o.	-	-
PKP CARGO CONNECT GmbH	1.0	1.0
AWT Rail SK a. s.	3.6	3.5
Total	**48.1**	**47.3**

Investments in entities accounted for under the equity method

	3 months ended 31/03/2019	3 months ended 31/03/2018
As at the beginning of the reporting period	**47.3**	**53.6**
Share in the profit / (loss) of entities accounted for under the equity method	0.8	(3.1)
Fx differences resulting from translation of financial statements	-	0.3
As at the end of the reporting period	**48.1**	**50.8**

(in PLN million) (translation of a document originally issued in Polish)

5.4 Inventories

Structure of inventories

	31/03/2019	31/12/2018
Strategic inventories	33.3	31.4
Rolling stock during liquidation	20.2	20.7
Other inventories	115.7	114.1
Impairment losses	(6.0)	(4.5)
Net inventories	**163.2**	**161.7**

5.5 Trade receivables

Structure of trade receivables

	31/03/2019	31/12/2018
Trade receivables	902.9	840.7
Impairment loss on receivables	(153.5)	(155.4)
Total	**749.4**	**685.3**
Non-current assets	0.9	0.7
Current assets	748.5	684.6
Total	**749.4**	**685.3**

5.6 Other assets

Structure of other assets

	31/03/2019	31/12/2018
Financial assets		
FX forwards	3.8	3.5
Shares in unlisted companies	6.8	6.8
Non-financial assets		
Costs settled over time		
Prepayments for purchase of electricity	32.8	31.2
Lease rents	2.2	12.3
Insurance	6.6	7.4
IT services	6.0	4.2
Purchase of transportation services for eligible person	12.3	-
Other costs settled over time	8.2	6.2
Other	6.1	1.6
Other receivables		
VAT settlements	40.3	65.2
Income tax receivables	-	3.0
Public law settlements	3.6	1.5
Other	5.8	3.5
Intangible assets		
Licenses	25.5	28.5
Other intangible assets	0.2	0.2
Intangible assets under development	6.0	6.0
Total	**166.2**	**181.1**
Non-current assets	51.8	56.7
Current assets	114.4	124.4
Total	**166.2**	**181.1**

(in PLN million) (translation of a document originally issued in Polish)

5.7 Investment liabilities

Structure of investment liabilities

	31/03/2019	31/12/2018
Liabilities on the purchase of rolling stock	218.2	234.3
Liabilities on the purchase and modernization of real properties	0.7	18.1
Other	3.7	35.0
Total	**222.6**	**287.4**
Long-term liabilities	127.9	109.8
Short-term liabilities	94.7	177.6
Total	**222.6**	**287.4**

5.8 Provisions for employee benefits

Structure of provisions for employee benefits

	31/03/2019	31/12/2018
Post-employment defined benefit plans		
Retirement and disability severance benefits	196.1	195.8
Company Social Benefits Fund	131.3	130.2
Transportation benefits	32.9	32.8
Post-mortem benefits	7.8	7.9
Other employee benefits		
Jubilee awards	302.9	304.0
Other employee benefits (unused holidays / bonuses)	52.6	36.3
Total	**723.6**	**707.0**
Long-term provisions	587.2	591.5
Short-term provisions	136.4	115.5
Total	**723.6**	**707.0**

5.9 Other provisions

Structure of other provisions

	31/03/2019	31/12/2018
Provision for penalties imposed by anti-monopoly authorities	14.8	14.8
Provision for land reclamation	5.3	5.3
Provision for onerous contracts	-	3.7
Provision for VAT liabilities	23.9	23.6
Other provisions	28.2	30.0
Total	**72.2**	**77.4**
Long-term provisions	19.2	20.5
Short-term provisions	53.0	56.9
Total	**72.2**	**77.4**

Provision for penalties imposed by anti-monopoly authorities

As at 31 March 2019 and 31 December 2018, this item included:

- provision of PLN 14.2 million for a penalty imposed by the Office for Competition and Consumer Protection (UOKiK),
- provision of PLN 0.6 million for a penalty, established in connection with a pending procedure initiated by the Czech Antimonopoly Office.

Provision for land reclamation

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

Provision for onerous contracts

As at 31 December 2018, the provision for onerous contracts represented a provision for losses arising from an operating lease contract for a real property the expected lease revenues from which did not cover future lease expenses to be incurred by the Group. In connection with the implementation of IFRS 16, the Group decided to apply a practical solution permitted by the standard and adjust the carrying amount of the right-of-use assets as at 1 January 2019 by the carrying amount of this provision.

(in PLN million) (translation of a document originally issued in Polish)

5.9 Other provisions (cont.)

Provision for VAT liabilities

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

Other provisions

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

According to the Parent Company's Management Board, the amount of other provisions as at 31 March 2019 and as at 31 December 2018 constitutes the best estimate of the amount that will likely have to be paid. The estimate is based on the management's best knowledge, the experience to date and other factors which are considered to be the most reasonable in the given situation.

5.10 Other liabilities

Structure of other liabilities

	31/03/2019	31/12/2018
Financial liabilities		
FX forwards	-	0.2
Other liabilities		
Liabilities arising out of collateral (deposits, bid bonds, guarantees)	38.8	36.9
Public law settlements(1)	112.5	86.9
Settlements with employees	93.3	95.2
Received grants	2.4	2.6
Other settlements	7.3	7.0
VAT settlements	10.7	6.5
Liabilities toward the Company Social Benefits Fund	7.5	-
Short-term tax liabilities	1.1	0.3
Total	**273.6**	**235.6**
Long-term liabilities	0.3	1.8
Short-term liabilities	273.3	233.8
Total	**273.6**	**235.6**

(1) This increase was driven largely by the higher liabilities toward the Social Insurance Institution (ZUS). In 2018, a portion of the liabilities maturing in 2019 were repaid by the Parent Company prior to their maturity date.

6. Financial instruments

6.1 Financial instruments

Categories and classes of financial instruments

Financial assets by categories and classes	Note	31/03/2019	31/12/2018
Hedging financial instruments			
Derivatives	*Note 5.6*	3.8	3.5
Financial assets measured at fair value through other comprehensive income			
Investments in equity instruments	*Note 5.6*	6.8	6.8
Financial assets measured at amortized cost			
Trade receivables	*Note 5.5*	749.4	685.3
Receivables on account of sale of non-financial non-current assets		1.0	-
Bank deposits over 3 months		-	201.1
Cash and cash equivalents	*Note 4.3*	455.2	447.3
Financial assets excluded from the scope of IFRS 9		11.5	-
Total		**1,227.7**	**1,344.0**

(in PLN million) (translation of a document originally issued in Polish)

6.1 Financial instruments (cont.)

Financial liabilities by categories and classes	Note	31/03/2019	31/12/2018
Hedging financial instruments			
Derivatives	*Note 5.10*	-	0.2
Bank loans and borrowings	*Note 4.1*	457.9	468.1
Financial liabilities measured at amortized cost			
Bank loans and borrowings	*Note 4.1*	812.2	863.7
Trade payables		446.5	499.9
Investment liabilities	*Note 5.7*	222.6	287.4
Financial liabilities excluded from the scope of IFRS 9	*Note 4.1*	899.0	95.2
Total		**2,838.2**	**2,214.5**

Hedge accounting

In the period from 1 January 2019 to 31 March 2019, the Group applied cash flow hedging accounting. The purpose of the hedging activity was to mitigate the impact of the FX risk within the EUR/PLN currency pair on future cash flows. The hedged item is a highly probable cash flow denominated in EUR.

As at 31 March 2019, the following hedging instruments were established by the Parent Company:

- investment loans denominated in EUR. The hedged cash flows will be realized until August 2031. As at 31 March 2019, the nominal amount of the hedging instrument was EUR 106.4 million, which is an equivalent of PLN 457.9 million.
- in forward foreign exchange contracts. The hedged cash flows will be realized until March 2021. As at 31 March 2019, the value of the assets on account of measurement of hedging instruments was PLN 3.3 million.

This item also includes measurement of hedging instruments in a subsidiary in the form of forward foreign exchange contracts on the EUR/PLN currency pair, hedging future cash flows. The hedged cash flows will be realized until February 2020. As at 31 March 2019, the value of the assets on account of measurement of hedging instruments was PLN 0.5 million.

Fair value hierarchy

As at 31 March 2019, financial instruments measured at fair value were forward FX contracts and investments in equity instruments.

	31/03/2019		31/12/2018	
	Level 2	Level 3	Level 2	Level 3
Assets				
Derivatives – forward FX contracts	3.8	-	3.5	-
Investments in equity instruments – shares in unlisted companies	-	6.8	-	6.8
Liabilities				
Derivatives – forward FX contracts	-	-	0.2	-

(in PLN million) (translation of a document originally issued in Polish)

6.1 Financial instruments (cont.)

Measurement methods for financial instruments carried at fair value

a) Forward foreign exchange contracts

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

b) Investments in equity instruments

This line item includes mainly shares in Euroterminal Sławków Sp. z o.o. worth PLN 4.9 million, the value of which was measured by an independent adviser using the modified Swiss method. The Swiss method is a mixed measurement method as it combines the asset value aspect with the ability to generate future cash flows. According to the Swiss method, the value of the enterprise is calculated as the weighted average of the values determined by the asset-based approach and the income-based approach. This method attaches a greater weight (twice as large) to the value determined by the income-based approach. The adoption of the Swiss method is justified on the grounds that Euroterminal Sławków Sp. z o.o. has a moderate ability to generate profits in the future but owns significant assets in the form of land plots and real properties.

c) Other financial instruments

For the category of financial instruments which are not measured at fair value as at the balance sheet date, the Group does not disclose fair value because the fair values of these financial instruments as at 31 March 2019 and 31 December 2018 were not materially different from their values presented in the statement of financial position.

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

	2019	2018
As at the beginning of the reporting period	6.8	6.2
As at the end of the reporting period	6.8	6.2

In the period of 3 months ended 31 March 2019 and the period of 3 months ended 31 March 2018, there were no transfers between level 2 and level 3 of the fair value hierarchy.

(in PLN million) (translation of a document originally issued in Polish)

6.1 Financial instruments (cont.)

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

3 months ended 31/03/2019	Hedging financial instruments	Financial assets measured at amortized cost	Financial assets excluded from the scope of IFRS 9	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Interest income / (expense)	(0.2)	2.6	0.1	(6.2)	(9.2)	**(12.9)**
FX differences	-	-	-	(0.3)	(0.2)	**(0.5)**
Impairment losses / revaluation	-	(0.5)	-	-	-	**(0.5)**
Transaction costs related to loans	-	-	-	(0.4)	-	**(0.4)**
Effect of settlement of cash flow hedge accounting	1.4	-	-	-	-	**1.4**
Gross profit / (loss)	**1.2**	**2.1**	**0.1**	**(6.9)**	**(9.4)**	**(12.9)**
Revaluation	0.4	-	-	-	-	**0.4**
Other comprehensive income	**0.4**	**-**	**-**	**-**	**-**	**0.4**

In the period of 3 months ended 31 March 2019, the effect of settling cash flow hedge accounting adjusted the value of revenue from contracts with customers in the amount of PLN 1.4 million.

In the period of 3 months ended 31 March 2019, the change in the measurement of hedging financial instruments recognized in other comprehensive income included a change in the measurement of derivatives in the amount of PLN 0.4 million, recognized as part of the hedge accounting applied by the Group.

3 months ended 31/03/2018	Hedging financial instruments	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Interest income / (expense)	(0.7)	3.8	(6.0)	(1.3)	**(4.2)**
FX differences	-	0.6	(0.3)	(0.2)	**0.1**
Impairment losses / revaluation	-	0.5	-	-	**0.5**
Transaction costs related to loans	-	-	(0.1)	-	**(0.1)**
Effect of settlement of cash flow hedge accounting	2.8	-	-	-	**2.8**
Gross profit / (loss)	**2.1**	**4.9**	**(6.4)**	**(1.5)**	**(0.9)**
Revaluation	(7.9)	-	-	-	**(7.9)**
Other comprehensive income	**(7.9)**	**-**	**-**	**-**	**(7.9)**

In the period of 3 months ended 31 March 2018, the effect of settling cash flow hedge accounting adjusted the value of revenue from contracts with customers in the amount of PLN 3.0 million and financial expenses in respect of interest on finance lease liabilities in the amount of PLN (0.2) million.

In the period of 3 months ended 31 March 2018, the change in the measurement of hedging financial instruments recognized in other comprehensive income included a change in the measurement of derivatives in the amount of PLN (3.3) million and bank loans in the amount of PLN (4.6) million, recognized as part of the hedge accounting applied by the Group.

(in PLN million) (translation of a document originally issued in Polish)

7. Other notes

7.1 Related party transactions

Transactions with the State Treasury and its other related parties

In the period of 3 months ended 31 March 2019 and the period of 3 months ended 31 March 2018, the State Treasury was a higher-level parent entity of the PKP CARGO Group. Accordingly, all companies owned by the State Treasury (directly or indirectly) are the Group's related parties and are presented separately as PKP Group related parties and other State Treasury related parties. In these Quarterly Condensed Consolidated Financial Statements, the Management Board of the Parent Company has disclosed transactions with material related parties identified as such according to the best knowledge of the Management Board.

In the period of 3 months ended 31 March 2019 and the period of 3 months ended 31 March 2018, there were no individual transactions effected between the PKP CARGO Group and the State Treasury or other entities related to the State Treasury which would be significant due to a non-standard scope and amount. In the periods covered by these Quarterly Condensed Consolidated Financial Statements, the Group's most important clients among other parties related to the State Treasury were members of the following groups: ENEA, JSW, PGE, Azoty and PGG. In the periods covered by these Quarterly Condensed Consolidated Financial Statements, there were no purchase transactions with other parties related to the State Treasury of any material value.

Transactions with PKP Group related parties

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

	3 months ended 31/03/2019		31/03/2019	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent Company	0.2	6.8	0.2	573.6
Subsidiaries/co-subsidiaries – unconsolidated	1.5	4.3	3.4	1.9
Associates	-	0.1	-	-
Other PKP Group related parties	2.6	148.7	1.8	63.3

	3 months ended 31/03/2018		31/12/2018	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent Company	0.2	16.6	1.4	9.6
Subsidiaries/co-subsidiaries – unconsolidated	2.9	3.6	2.6	1.5
Associates	1.3	0.1	-	-
Other PKP Group related parties	2.6	170.6	1.9	63.3

Purchase transactions with the Parent Company (PKP S.A.) pertain in particular to the supply of utilities and occupational medicine services. As at 31 March 2019, the increase in liabilities toward PKP S.A. was caused by the entry into force of IFRS 16 and the recognition, as of 1 January 2019, of lease liabilities arising from lease and rental agreements concluded with PKP S.A.

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

(in PLN million) (translation of a document originally issued in Polish)

7.1 Related party transactions (cont.)

Loans granted to / received from related parties

	31/03/2019	31/12/2018
Loans received from related parties	1.4	1.4

Remunerations of key management personnel

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

Remunerations of Management Board Members	Parent Company		Subsidiaries	
	3 months ended 31/03/2019	3 months ended 31/03/2018	3 months ended 31/03/2019	3 months ended 31/03/2018
Short-term benefits	0.7	0.4	1.5	1.8
Post-employment benefits	-	0.2	0.4	0.7
Termination benefits	-	-	0.2	-
Total	**0.7**	**0.6**	**2.1**	**2.5**

Remunerations of Supervisory Board Members	Parent Company		Subsidiaries	
	3 months ended 31/03/2019	3 months ended 31/03/2018	3 months ended 31/03/2019	3 months ended 31/03/2018
Short-term benefits	0.3	0.2	0.6	0.3
Total	**0.3**	**0.2**	**0.6**	**0.3**

Remunerations of other members of the key management personnel	Parent Company		Subsidiaries	
	3 months ended 31/03/2019	3 months ended 31/03/2018	3 months ended 31/03/2019	3 months ended 31/03/2018
Short-term benefits	1.7	1.5	5.2	5.2
Post-employment benefits	-	0.2	0.2	-
Termination benefits	-	-	-	0.1
Total	**1.7**	**1.7**	**5.4**	**5.3**

In the period of 3 months ended 31 March 2019 and the period of 3 months ended 31 March 2018, members of the key management personnel of the Parent Company and the PKP CARGO Group subsidiaries did not enter into any loan or guarantee transactions with the Group.

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

7.2 Liabilities to incur expenditures for non-financial non-current assets

Structure of liabilities to incur expenditures for non-financial non-current assets

	31/03/2019	31/12/2018
Contractual liabilities on account of the acquisition of non-financial non-current assets	906.2	538.4
Total	**906.2**	**538.4**

As at 31 March 2019, the increase in the Group's future investment liabilities resulted mainly from:

- the agreement with Tatravagónka a.s. entered into by the Parent Company in March 2019 for the delivery of 936 container platforms with a total value of PLN 368.4 million, to be delivered by December 2022,
- the January 2019 annex to the agreement with Siemens Mobility Sp. z o.o. entered into by the Parent Company providing for the delivery of additional 5 brand new Siemens VECTRON multi-system locomotives with the provision of auxiliary services. 3 locomotives are scheduled to be delivered by July 2019 and 2 locomotives are scheduled to be delivered by January 2020. As at 31 March 2019, the total remaining value of the agreement in the part pertaining to the delivery of locomotives was EUR 19.8 million (PLN 85.1 million).

(in PLN million) (translation of a document originally issued in Polish)

7.3 Contingent liabilities

Structure of contingent liabilities

	31/03/2019	31/12/2018
Guarantees issued on the Group's order	108.7	125.0
Other contingent liabilities	113.0	119.8
Total	**221.7**	**244.8**

Guarantees issued on the Group's order

As at 31 March 2019, the Group included in contingent liabilities guarantees issued by banks and insurance companies at the request of PKP CARGO Group companies. This line item comprises mainly commercial contract performance bonds, tender deposits and customs guarantees.

Other contingent liabilities

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

7.4 Subsequent events

On 5 April 2019, a Memorandum of Agreement was executed by the parties to the Company Collective Bargaining Agreement for Employees Hired by PKP CARGO S.A. Units ("Memorandum of Agreement") ("Parties"). In the Memorandum of Agreement, the Parties agreed that a non-recurring bonus will be paid to employees by Parent Company. The cost of the bonus paid by the Parent Company was PLN 13.9 million. In connection with the implementation of the recommendation of paying a non-recurring bonus in the PKP CARGO Group's companies, the total cost to the PKP CARGO Group in Q2 2019 will be approximately PLN 17.5 million.

On 14 May 2019, the Parent Company signed two loan agreements with Bank Polska Kasa Opieki S.A. for the total amount of PLN 250 million.
On 20 May 2019, the Parent Company signed two loan agreements with Bank Gospodarstwa Krajowego for the total amount of PLN 250 million.
All new loans were concluded to enable the financing and refinancing of the capital expenditure plan for 2018-2019 and acquisitions. The loans will be available until 31 December 2019 and their repayment date has been set at 20 December 2024.

7.5 Approval of the financial statements

These Quarterly Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 22 May 2019.

Parent Company's Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 22 May 2019

PKPCARGO

Quarterly financial information of **PKP CARGO S.A.** for the period of 3 months ended 31 march 2019

PREPARED IN ACCORDANCE WITH IFRS EU (in PLN million)

QUARTERLY SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	3 months ended 31/03/2019	3 months ended 31/03/2018
Revenues from contracts with customers	959,7	912,1
Consumption of traction electricity and traction fuel	(144,0)	(127,4)
Services of access to infrastructure	(147,5)	(171,0)
Other services	(81,0)	(94,2)
Employee benefits	(328,6)	(305,5)
Other expenses	(44,9)	(43,2)
Other operating revenue and (expenses)	(3,4)	3,1
Operating profit without depreciation (EBITDA)	**210,3**	**173,9**
Depreciation, amortization and impairment losses	(141,3)	(109,7)
Profit on operating activities (EBIT)	**69,0**	**64,2**
Financial revenue and (expenses)	(14,8)	(8,2)
Profit before tax	**54,2**	**56,0**
Income tax	(12,5)	(12,2)
NET PROFIT	**41,7**	**43,8**
OTHER COMPREHENSIVE INCOME		
Measurement of hedging instruments	0,1	(7,2)
Income tax	-	1,4
Total other comprehensive income subject to reclassification in the financial result	**0,1**	**(5,8)**
Actuarial profits / (losses) on post-employment benefits	-	-
Income tax	-	-
Total other comprehensive income not subject to reclassification in the financial result	**-**	**-**
Total other comprehensive income	**0,1**	**(5,8)**
TOTAL COMPREHENSIVE INCOME	**41,8**	**38,0**
Earnings per share (PLN per share)		
Weighted average number of ordinary shares	44 786 917	44 786 917
Basic and diluted earnings per share	**0,93**	**0,98**

The data for the period of 3 months ended 31 March 2018 have been restated, as described in **Note 1.4** of the Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Capital Group for the period of 3 months ended 31 March 2019.

PREPARED IN ACCORDANCE WITH IFRS EU (in PLN million)

QUARTERLY SEPARATE STATEMENT OF FINANCIAL POSITION

	31/03/2019	31/12/2018	31/03/2018
ASSETS			
Rolling stock	3 515,5	3 425,7	3 082,0
Other property, plant and equipment	501,7	543,1	546,6
Rights-of-use assets	606,9	-	-
Investments in related parties	805,5	805,5	804,6
Lease receivables	21,9	-	-
Financial assets	6,1	5,7	6,2
Other assets	38,2	35,3	41,4
Deferred tax assets	85,3	87,2	102,6
Total non-current assets	**5 581,1**	**4 902,5**	**4 583,4**
Inventories	85,1	84,2	82,5
Trade receivables	518,3	479,4	445,7
Lease receivables	1,2	-	-
Financial assets	26,1	203,4	332,8
Other assets	75,4	90,4	50,4
Cash and cash equivalents	284,9	222,4	193,5
Total current assets	**991,0**	**1 079,8**	**1 104,9**
TOTAL ASSETS	**6 572,1**	**5 982,3**	**5 688,3**
EQUITY AND LIABILITIES			
Share capital	2 239,3	2 239,3	2 239,3
Supplementary capital	596,7	596,7	589,2
Other items of equity	(32,6)	(32,7)	(12,7)
Retained earnings	553,4	511,3	308,6
Total equity	**3 356,8**	**3 314,6**	**3 124,4**
Debt liabilities	1 480,3	999,9	1 159,5
Investment liabilities	128,0	109,7	-
Provisions for employee benefits	523,8	528,8	521,4
Other provisions	14,2	14,2	14,2
Total long-term liabilities	**2 146,3**	**1 652,6**	**1 695,1**
Debt liabilities	297,2	231,3	246,8
Trade liabilities	262,6	292,6	258,0
Investment liabilities	191,0	225,5	82,7
Provisions for employee benefits	109,3	92,6	96,0
Other provisions	18,8	19,4	17,3
Other financial liabilities	-	1,7	-
Other liabilities	190,1	152,0	168,0
Total short-term liabilities	**1 069,0**	**1 015,1**	**868,8**
Total liabilities	**3 215,3**	**2 667,7**	**2 563,9**
TOTAL EQUITY AND LIABILITIES	**6 572,1**	**5 982,3**	**5 688,3**

The data as at 31 March 2018 have been restated, as described in **Note 1.4** to the Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Capital Group for the period 3 months ended 31 March 2019.

PREPARED IN ACCORDANCE WITH IFRS EU (in PLN million)

QUARTERLY SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Other items of equity: Profits / (losses) on measurement of equity instruments at fair value	Other items of equity: Actuarial profits / (losses) on post-employment benefit	Other items of equity: Measurement of hedging instruments	Retained earnings	Total
31/12/2018	**2 239,3**	**596,7**	**(12,9)**	**(18,4)**	**(1,4)**	**511,3**	**3 314,6**
Changes resulting from the implementation of IFRS 16	-	-	-	-	-	0,4	**0,4**
1/01/2019	**2 239,3**	**596,7**	**(12,9)**	**(18,4)**	**(1,4)**	**511,7**	**3 315,0**
Net result for the period						41,7	**41,7**
Other comprehensive income for the period (net)	-	-	-	-	0,1	-	**0,1**
Total comprehensive income	-	-	-	-	0,1	41,7	**41,8**
31/03/2019	**2 239,3**	**596,7**	**(12,9)**	**(18,4)**	**(1,3)**	**553,4**	**3 356,8**
1/01/2018	**2 239,3**	**589,2**	**(12,9)**	**(10,8)**	**16,8**	**264,8**	**3 086,4**
Net result for the period	-	-	-	-	-	43,8	**43,8**
Other comprehensive income for the period (net)	-	-	-	-	(5,8)	-	**(5,8)**
Total comprehensive income	-	-	-	-	(5,8)	43,8	**38,0**
31/03/2018	**2 239,3**	**589,2**	**(12,9)**	**(10,8)**	**11,0**	**308,6**	**3 124,4**

The reasons for the restatement of comparative data are described in **Notes 1.3** and **1.4** of the Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Capital Group for the period of 3 months ended 31 March 2019.

PREPARED IN ACCORDANCE WITH IFRS EU (in PLN million)

QUARTERLY SEPARATE STATEMENT OF CASH FLOWS

	3 months ended 31/03/2019	3 months ended 31/03/2018
Cash flow from operating activities		
Profit before tax	**54,2**	**56,0**
Adjustments		
Depreciation, amortization and impairment losses	141,3	109,7
(Profits) / losses on interest, dividends	10,9	3,9
Received / (paid) interest	0,1	1,0
Received / (paid) income tax	(7,5)	(17,2)
Movement in working capital	(21,3)	36,4
Other adjustments	0,2	(2,3)
Net cash from operating activities	**177,9**	**187,5**
Cash flow from investing activities		
Expenditures on the acquisition of non-financial non-current assets	(243,8)	(169,8)
Proceeds from the sale of non-financial non-current assets	0,4	-
Inflows / (outflows) from bank deposits over 3 months	200,0	(52,0)
Other inflows / (outflows) from investing activities	2,5	1,7
Net cash from investing activities	**(40,9)**	**(220,1)**
Cash flow from financing activities		
Payments on financial lease liabilities	(19,6)	(7,9)
Proceeds from bank loans and borrowings	-	-
Repayment of bank loans and borrowings	(56,3)	(55,3)
Interest paid on financial lease liabilities and bank loans and borrowings	(9,8)	(6,4)
Grants received	37,1	-
Inflows / (outflows) as part of cash pool	(25,5)	(0,2)
Other inflows / (outflows) from financing activities	(0,4)	-
Net cash from financing activities	**(74,5)**	**(69,8)**
Net increase / (decrease) in cash and cash equivalents	62,5	(102,4)
Cash and cash equivalents as at the beginning of the reporting period	222,4	295,9
Cash and cash equivalents as at the end of the reporting period, including:	**284,9**	**193,5**
Restricted cash	*20,0*	*13,0*

Other information to **PKP CARGO** Group's consolidated quarterly report for Q1 2019

ADDITIONAL INFORMATION TO THE CONSOLIDATED QUARTERLY REPORT FOR Q1 2019

LIST OF TABLES

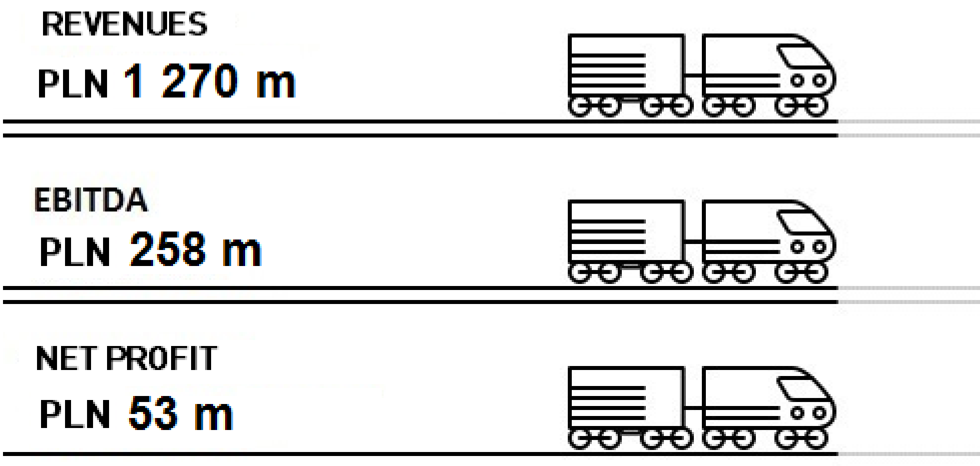
LIST OF FIGURES

1. Introduction

Dear Stakeholders,

We demonstrated very robust financial performance in the face of a slight decline in freight volumes. The fact that despite this decline we managed to increase our revenue, EBITDA and profit is the best evidence of continuous improvement in our operating efficiency.

This is a consequence of our well-considered business policy. Above all, we are now interested in generating better financial results this year than in 2018 with a view to increasing shareholder value. In the first quarter of this year, we managed to achieve this objective successfully.



2. Organization of the PKP CARGO Group

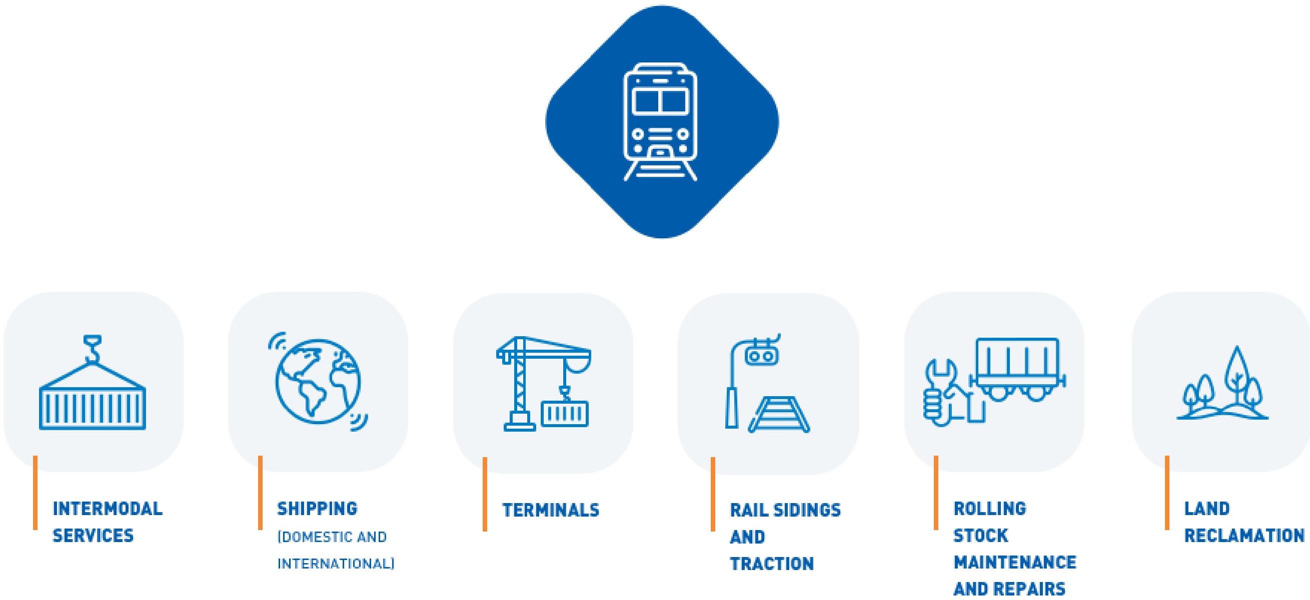
2.1 Highlights on the Company and the PKP CARGO Group[1]

The PKP CARGO Group is the biggest in Poland and one of the biggest rail freight operators in the European Union ("EU"). The Group's development is focused on enhancing and extending its operations in terms of its product range and geographic area. At present, the Group is the leader on the Polish market (according to the Office of Rail Transport – UTK[2]) and it is the second largest operator on the Czech market (according to SZDC[3]).

The PKP CARGO Group holds licenses for the provision of rail freight services in the following 9 EU countries:

Poland | Czech Republic | Germany | The Netherlands | Austria | Slovakia | Hungary | Lithuania | Slovenia

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



As at 31 March 2019, the PKP CARGO Group comprised of PKP CARGO S.A. as its parent company and 26 subsidiaries. In addition, the Group held stakes in 3 associated entities and 1 joint venture.

[1] 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.

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

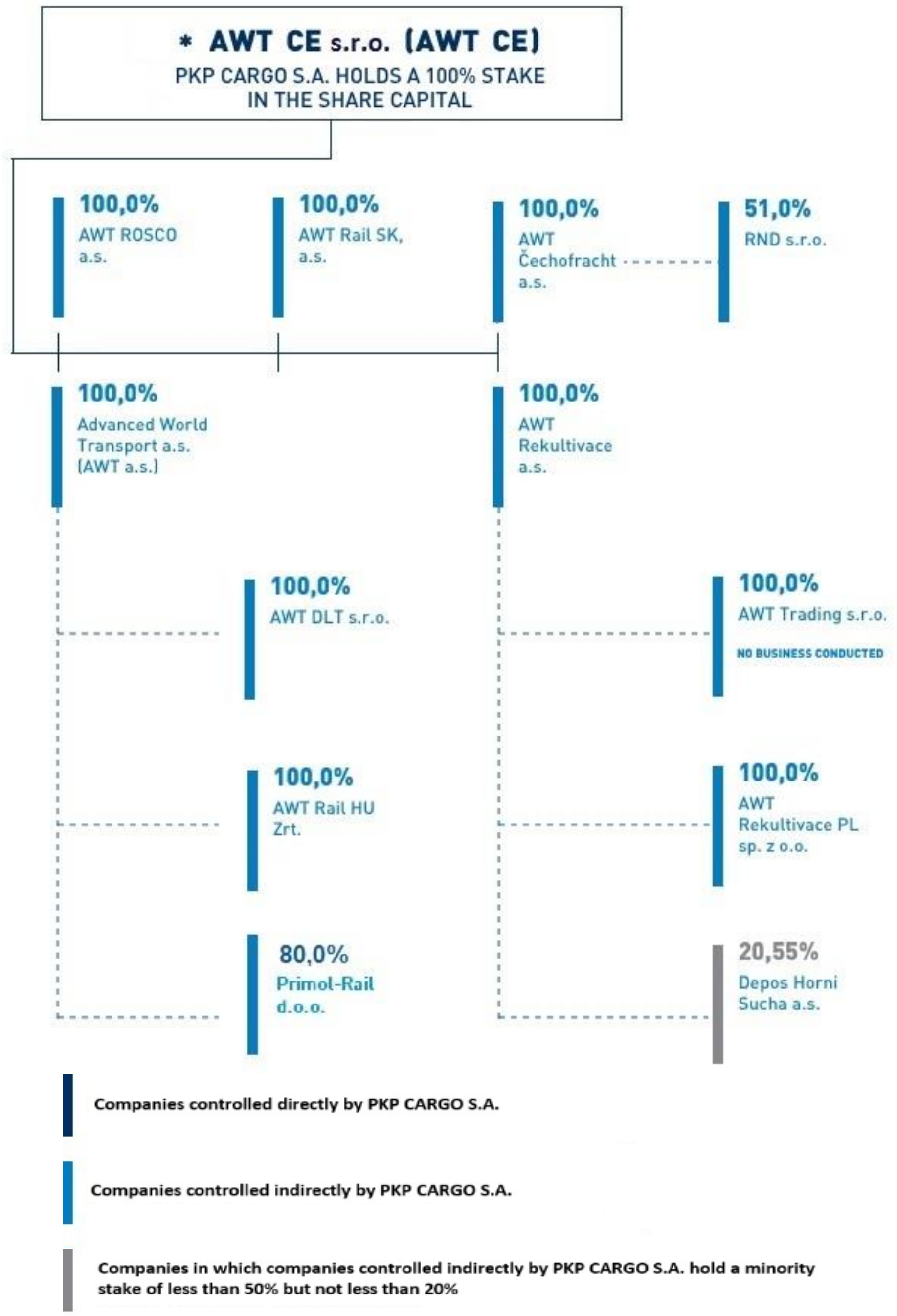
The figure below presents the equity links between PKP CARGO S.A. and other entities as at 31 March 2019:

Figure 1 Structure of equity links of PKP CARGO S.A. as at 31 March 2019

Source: Proprietary material

** for the sake of clarity, the structure does not present companies in which companies controlled indirectly by PKP CARGO S.A. hold a minority stake of less than 2%*

Figure 2 Structure of the AWT Group as at 31 March 2019



Source: Proprietary material

In April of this year, the District Court for the Capital City of Warsaw decided to add to the registry files the merger plan for PKP CARGO CONNECT sp. z o.o. ("PKP CC") and TRADE TRANS FINANCE sp. z o.o. ("TTF"). The merger is intended to be effected by way of the acquisition by PKP CC as the acquiring company of its wholly-owned subsidiary TTF as the acquired company. As a consequence of the merger, TTF as the acquired company will be dissolved (will cease to exist) as of the date of its deletion from the register of commercial undertakings.

Moreover, by resolution of the Extraordinary Shareholder Meeting of PKP CARGO CENTRUM LOGISTYCZNE MEDYKA-ŻURAWICA sp. z o.o. the company's name was changed to PKP CARGO TERMINALE sp. z o.o. The company's new name will become effective as of the date of its entry in the register of commercial undertakings.

2.2 Consolidated entities

The Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Group as at 31 March 2019 encompass PKP CARGO S.A. and 14 subsidiaries consolidated by the full method:

Table 1 Subsidiaries consolidated by the full method

Company name	Core business
PKP CARGO SERVICE Sp. z o.o.	Comprehensive handling of rail sidings, rail freight transport and maintenance of rail infrastructure.
PKP CARGOTABOR Sp. z o.o.	Repair and maintenance of rolling stock and physical liquidation of rail cars and locomotives, repairs of electrical machinery and wheel sets as well as weighing and adjustment of rolling stock.
PKP CARGOTABOR USŁUGI Sp. z o.o.	Collection, treatment and disposal of 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.	Transshipment, storage, segregation, packaging, crushing and a variety of other border services. The company owns terminals that facilitate the transshipment of bulk and unit cargo, including containers.
PKP CARGO CENTRUM LOGISTYCZNE MEDYKA-ŻURAWICA Sp. z o.o.	Transshipment, storage, segregation, packaging, crushing and a variety of other border services. The company has the ability to offer rail gauge switching services and as the only company on the country's eastern border has a 6-chamber thaw room.
CARGOSPED TERMINAL BRANIEWO Sp. z o.o.	Transshipment of goods and buying and selling of 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.	Managing track and service infrastructure (rail sidings and track systems) along with the requisite plant and buildings, making infrastructure available to rail operators on commercial terms.
PKP CARGO CONNECT Sp. z o.o.	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. Customs clearance services to clients of the Group.
AWT CE s.r.o.	The parent company in the AWT Group discharging the function of the holding company.
Advanced World Transport a.s.	Comprehensive handling of rail freight transport (Czech Republic, Slovakia and Poland), rail freight forwarder in the whole Central and Eastern European region, manages an intermodal terminal located in the community of Paskov and it offers comprehensive services to make deliveries and pick-ups by road transport ("last mile").
AWT Rosco a.s.	Provision of rolling stock necessary for the AWT Group's transportation companies to perform transportation services. The company's operations entail the rental of rail cars and the cleaning of rail and automobile cisterns.
AWT Cechofracht a.s.	International freight forwarding services.
AWT Rekultivace a.s.	Construction engineering business, including management and revitalization of post-industrial areas (including mining areas), demolition works, management of waste treatment facilities, elimination of underground mining pits, decontamination of soil
AWT Rail HU Zrt	Rail transport services and rail siding handling services in Hungary on the basis of its own rail operator's license.

Additionally, the list of companies accounted for under the equity method is presented in **Note 5.3** to the Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Group prepared as at 31 March 2019.

3. Information about the Parent Company

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

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. 1806/VI/2019 of the PKP CARGO S.A. Supervisory Board dated 21 January 2019)
4. Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution No. 47/2018 of the PKP CARGO S.A. Management Board dated 7 February 2018 and Resolution No. 1722/VI/2018 of the PKP CARGO S.A. Supervisory Board dated 26 February 2018
5. other internal regulations.

Management Board is appointed for a joint term of 3 years.

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.

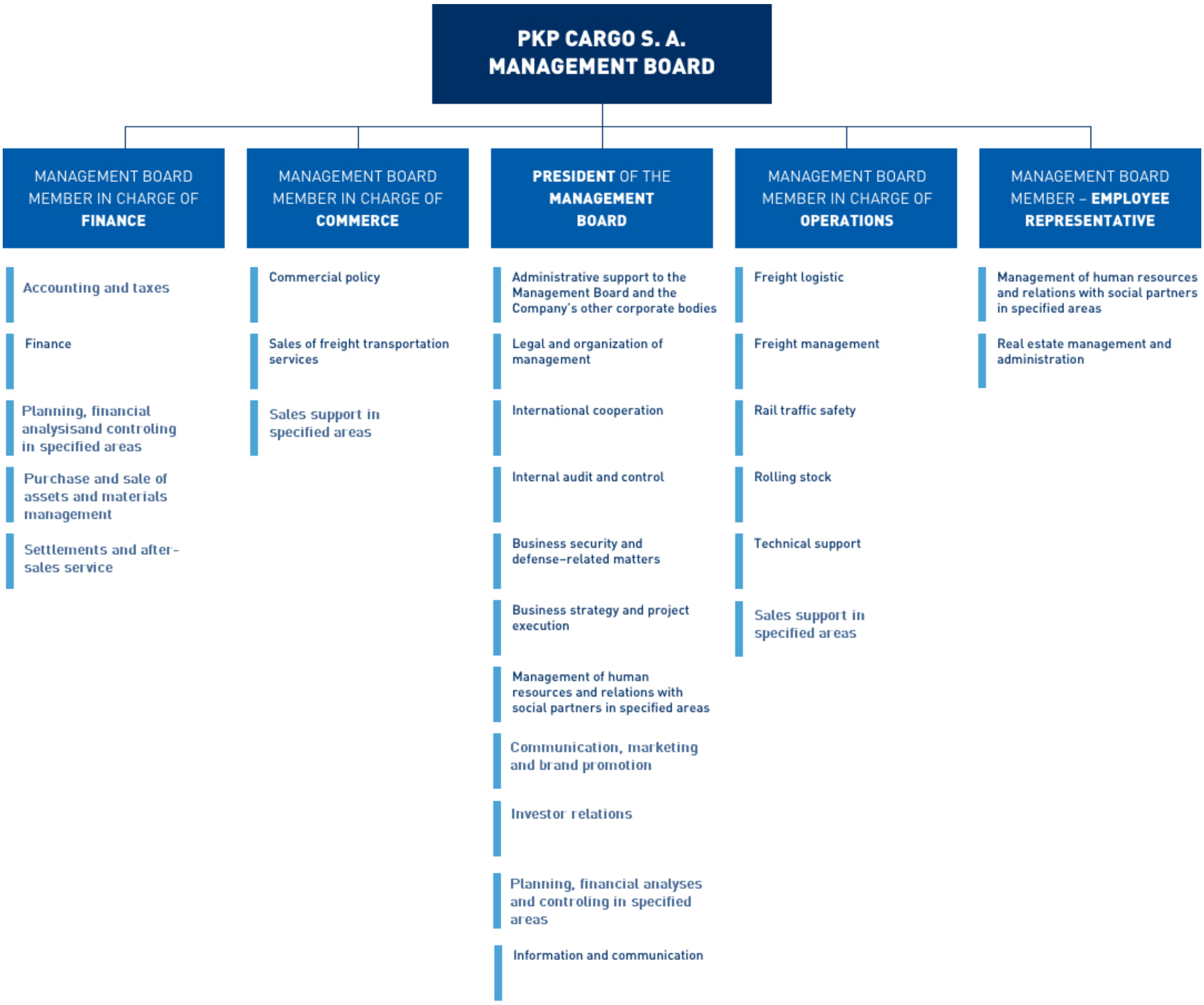
Table 2 Composition of the PKP CARGO S.A. Management Board from 1 January 2019 to the delivery date of the report

Name	Position	Period in office	
		from	to
Czesław Warsewicz	President of the Management Board	27 March 2018	to date
Leszek Borowiec	Management Board Member in charge of Finance	27 March 2018	to date
Witold Bawor	Management Board Member in charge of Operations	26 October 2017	to date
Grzegorz Fingas	Management Board Member in charge of Commerce	1 April 2016	to date
Zenon Kozendra	Management Board Member – Employee Representative	14 July 2016	to date

Source: Proprietary material

The following chart presents the internal allocation of duties and functions discharged by Management Board members:

Figure 3 Duties and responsibilities of the Parent Company's Management Board Members as at 31 March 2019



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 three employee representatives to the Supervisory Board.

Powers of the Supervisory Board

The Supervisory Board exercises permanent supervision over the Company's operations in all areas of its activity. Moreover, its powers, in addition to matters reserved by the Commercial Company Code or other statutes in Q1 2019, included 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.

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

Table 3 Composition of the PKP CARGO S.A. Supervisory Board from 1 January 2019 to the delivery date of the report

Name	Position	Period in office	
		from	to
Krzysztof Mamiński	Supervisory Board Member Supervisory Board Chairman	6 March 2017 26 March 2018	to date to date
Mirosław Antonowicz	Supervisory Board Member Supervisory Board Deputy Chairman	1 June 2017 27 June 2017	to date to date
Krzysztof Czarnota	Supervisory Board Member	20 May 2016	to date
Zofia Dzik	Supervisory Board Member	11 May 2016	to date
Raimondo Eggink	Supervisory Board Member	13 April 2015*	to date
Małgorzata Kryszkiewicz	Supervisory Board Member	17 December 2015*	to date
Tadeusz Stachaczyński	Supervisory Board Member	20 May 2016	to date
Władysław Szczepkowski	Supervisory Board Member	14 March 2017	to date
Jerzy Sośnierz	Supervisory Board Member	1 May 2018	to date
Paweł Sosnowski	Supervisory Board Member	7 June 2018	to date

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

Source: Proprietary material

SUPERVISORY BOARD'S AUDIT COMMITTEE

The PKP CARGO S.A. Supervisory Board's Audit Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of at least three Supervisory Board members, provided that the majority of the Committee members, including its Chairperson, meet the independence criteria and are appointed in the manner specified in § 20 and § 21 of the Company's Articles of Association and in the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017 Item 1089). At least one member of the Audit Committee has qualifications in the area of accounting or audit of financial statements and at least one member of the Audit Committee has knowledge and skills in the specific industry in which the Company operates. The Committee members are appointed for a term corresponding to the Supervisory Board's term of office. Tasks of the Audit Committee include in particular: oversight of the organizational unit responsible for internal audit, monitoring the financial reporting process, monitoring the performance of internal control systems, risk management and internal audit systems, including the area of financial reporting, monitoring financial review activities, monitoring the independence of the statutory auditor and the entity authorized to audit financial statements, also when it provides to the Company other services than financial review, assessing the independence of a statutory auditor and giving consent for it to provide permitted auditing services, recommending an entity authorized to audit financial statements to the Supervisory Board to perform financial review activities for the Company, in compliance with the policies in force in the Company.

Table 4 Composition of the PKP CARGO S.A. Supervisory Board Audit Committee from 1 January 2019 to the delivery date of the report

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

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

NOMINATION COMMITTEE

The PKP CARGO S.A. Supervisory Board appoints a 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 the Committee Chairman. The 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 5 Composition of the PKP CARGO S.A. Supervisory Board Nomination Committee from 1 January 2019 to the delivery date of the report

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

Source: Proprietary material

STRATEGIC COMMITTEE

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

Table 6 Composition of the Strategic Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2019 to the delivery date of this report

Name	Position	Period in office	
		from	to
Mirosław Antonowicz	Committee Member	27 June 2017	to date
	Committee Chairman	28 May 2018	to date
Raimondo Eggink	Committee Member	23 June 2016	to date
Władysław Szczepkowski	Committee Member	23 April 2018	to date

Source: Proprietary material

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

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

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

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

Source: Proprietary material

3.3 Shareholders holding at least 5% of the total votes

Table 8 Shareholder structure of PKP CARGO S.A. as at 31 March 2019

Shareholder	Number of shares	% of capital	Number of votes	% of 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)	7,751,187	17.31%	7,751,187	17.31%
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	17,418,227	38.89%	17,418,227	38.89%
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 21 June 2018.
(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.

Source: Proprietary material

On 6 May 2019, the PKP CARGO S.A. Management Board of received a notice of a change in shareholding from MetLife Powszechne Towarzystwo Emerytalne S.A. acting on behalf of the MetLife Open-end Pension Fund ("MetLife OPF").
On 25 April 2019, the MetLife OPF, as a result of the sale of a stake in PKP CARGO S.A., reduced its shareholding in the Company to a level below 5% of votes at the Company's Shareholder Meeting.
Prior to the execution of the transaction, the reporting shareholder held 2,246,859 shares in the Company representing 5.0168% of the Company's share capital and was entitled to 2,246,859 votes at the Company's Shareholder Meeting representing 5.0168% of the total number of votes.
After the execution of the transaction, the reporting shareholder held 2,083,859 shares in the Company representing 4.6528% of the Company's share capital and was entitled to 2,083,859 votes at the Company's Shareholder Meeting representing 4.6528% of the total number of votes.

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

Shareholder	Number of shares	% of capital	Number of votes	% of 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)	7,751,187	17.31%	7,751,187	17.31%
Aviva OFE (3)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	19,913,165	44.46%	19,913,165	44.46%
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 21 June 2018.
(3) According to a notice sent by the shareholder on 13 August 2014

Source: Proprietary material

3.4 Listing of shares held by management and supervisory board members

The holdings of shares in the Company or rights to such shares by members of the Company's Management Board from 20 March 2019, i.e. from the delivery date of the 2018 annual report to the delivery date of this report, were as follows:

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

Name	Number of PKP CARGO S.A. shares held by Management Board members
as at the delivery date of this report	
Czesław Warsewicz	1,500
Leszek Borowiec	0
Grzegorz Fingas	0
Witold Bawor	46
Zenon Kozendra	46
as at 20 March 2019	
Czesław Warsewicz	1,500
Leszek Borowiec	0
Grzegorz Fingas	0
Witold Bawor	46
Zenon Kozendra	46

Source: Proprietary material

The holdings of shares in the Company or rights to such shares by members of the Company's Supervisory Board from 20 March 2019, i.e. the delivery date of the 2018 annual report to the delivery date of this report, were as follows:

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

Name	Number of PKP CARGO S.A. shares held by Supervisory Board members
as at the delivery date of this report	
Krzysztof Mamiński	0
Mirosław Antonowicz	0
Krzysztof Czarnota	70
Zofia Dzik	0
Raimondo Eggink	0
Małgorzata Kryszkiewicz	0
Tadeusz Stachaczyński	0
Władysław Szczepkowski	0
Jerzy Sośnierz	70
Paweł Sosnowski	0
as at 20 March 2019	
Krzysztof Mamiński	0
Mirosław Antonowicz	0
Krzysztof Czarnota	70
Zofia Dzik	0
Raimondo Eggink	0
Małgorzata Kryszkiewicz	0
Tadeusz Stachaczyński	0
Władysław Szczepkowski	0
Jerzy Sośnierz	70
Paweł Sosnowski	0

Source: Proprietary material

4. Key areas of operation of the PKP CARGO Group

4.1 Macroeconomic environment

Polish economy

In accordance with the update of national accounts for 2017 and 2018 published by the Central Statistical Office in April, Poland's GDP growth rate slowed down in Q4 2018 to 4.9% yoy from 5.2% yoy in Q3[4]. The revision of data for 2018 reflected the contribution of investment and consumption of the public sector higher than had previously been assumed and a concurrent decrease in the contribution of net exports and inventories to the GDP. In a situation of the counterbalancing of these factors, the average annual GDP growth rate in 2018 did not change compared to the initial estimates and stood at 5.1% yoy compared to 4.9% yoy in 2017, the highest since 2007.[5]

In parallel, in Q4 2018, the rate of GDP growth adjusted for the impact of seasonal factors declined sharply to 0.4% qoq (from 1.4% qoq in Q3 2018) and was the lowest since 2016.[6] These data suggest that the Polish economy has passed the peak of its current business cycle, which prediction, combined with the deterioration of the macroeconomic situation in other EU countries, is an indication of a possibly slower growth of GDP in Poland in the coming quarters.[7] According to the March 2019 forecast published by the National Bank of Poland, the GDP growth rate in Q1 2019 should be slightly below 4.5%, although more favorable data on economic activity (predominantly industrial production and construction) that have appeared after the publication of the forecast may translate into a rate of economic growth slightly higher than had previously been assumed.[8]

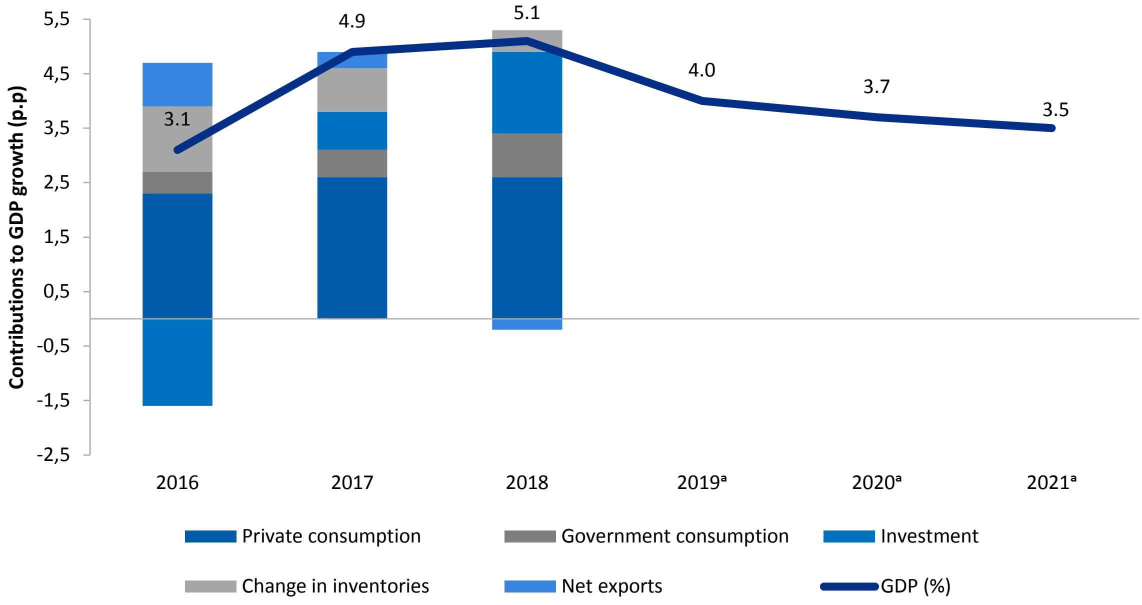
The key factors driving the economic growth in Poland in 2018 were as follows:

- consumption of households, the growth rate of which stabilized at the same level as in 2017 and stood at an average of 4.5% yoy.[9] The stable growth in private consumption was driven by the persistently high rate of growth in real wages and strong consumer sentiment;
- investments, which increased 8.7% yoy compared to 4.0% yoy in 2017.[10] The increase in capital expenditures was driven predominantly by the public sector, mainly local government entities in the period preceding the local elections held in autumn 2018.[11] The higher rate of growth in investments in 2018 was also driven by the inflow of EU structural funds from the expenditure perspective for 2014-2020, which was stronger than in the previous quarters.

In 2018, net exports contributed negatively to GDP growth, which was chiefly due to the weak growth in exports caused by a deteriorating economic condition in the economies of Poland's main trading partners.[12] The rate of growth in imports also dwindled but the scale of the decline was smaller than that of exports.

[4] Central Statistical Office of Poland
[5] Central Statistical Office of Poland
[6] Central Statistical Office of Poland
[7] Money.pl, macroeconomic forecasts of the World Bank
[8] National Bank of Poland
[9] Central Statistical Office of Poland
[10] Central Statistical Office of Poland
[11] Business Insider website
[12] Central Statistical Office of Poland

Figure 4 Real GDP growth rate in Poland in 2016-2018, together with its decomposition, and 2019-2021 forecasts – data not adjusted for seasonality



a – macroeconomic forecasts of the National Bank of Poland – March 2019; data without decomposition
Source: Proprietary material based on the data of the Central Statistical Office of Poland and the National Bank of Poland

The stronger than previously assumed GDP growth rate in Q4 2018, the freezing of electricity prices at the 2018 levels and the announcement of loosening of the fiscal policy translated into a positive revision of economic growth forecasts for Poland for 2019-2020 prepared by the National Bank of Poland in March 2019.[13] This notwithstanding, the NBP's forecast predicts a lower GDP growth rate in the coming quarters due to the deterioration of the economic situation in the euro area and a weaker capacity to absorb EU cohesion funds. However, the scale of the slowdown will be smaller than was assumed in the November 2018 projection, resulting in the average annual GDP growth rate of 4.0% in 2019 (3.6% in the previous forecast), 3.7% in 2020 (3.4% in the previous forecast) and 3.5% in 2021.[14] The main driver of growth within the projection horizon will be household consumption (key growth factors: strong labor market, fiscal expansion plans), supported by investment demand (key growth factors: availability of cheap credit, high degree of capacity utilization).

At the same time, due to the sharp drop in oil prices in Q4 2018 and the freezing of electricity prices for end consumers at the 2018 levels, the future CPI curve for Poland has flattened out somewhat. According to economists working for the National Bank of Poland, in the context of persisting moderate demand and wage pressures and the delayed effect of electricity price increases, the average annual CPI inflation rate will be 1.7% in 2019 (according to November 2018 forecasts, inflation was predicted at 3.2 % yoy), 2.7% in 2020 (according to November 2018 forecasts, inflation was predicted at 2.9% yoy) and 2.5% in 2021.[15]

Czech economy

According to data published by the Czech Statistical Office, in Q4 2018, the rate of GDP growth in the Czech Republic accelerated to 3.0% yoy from 2.5% yoy in Q3.[16] In seasonally adjusted terms, the scale of acceleration was smaller and the rate of GDP growth in this period stood at 2.6% yoy compared to 2.4% yoy in Q3.[17] Throughout 2018, the average annual GDP growth rate was 2.9% yoy, thus much smaller than in 2017 (+4.5% yoy).[18]

[13] National Bank of Poland
[14] National Bank of Poland
[15] National Bank of Poland
[16] Czech Statistical Office, seasonally unadjusted data
[17] Czech Statistical Office
[18] Czech Statistical Office, seasonally adjusted data

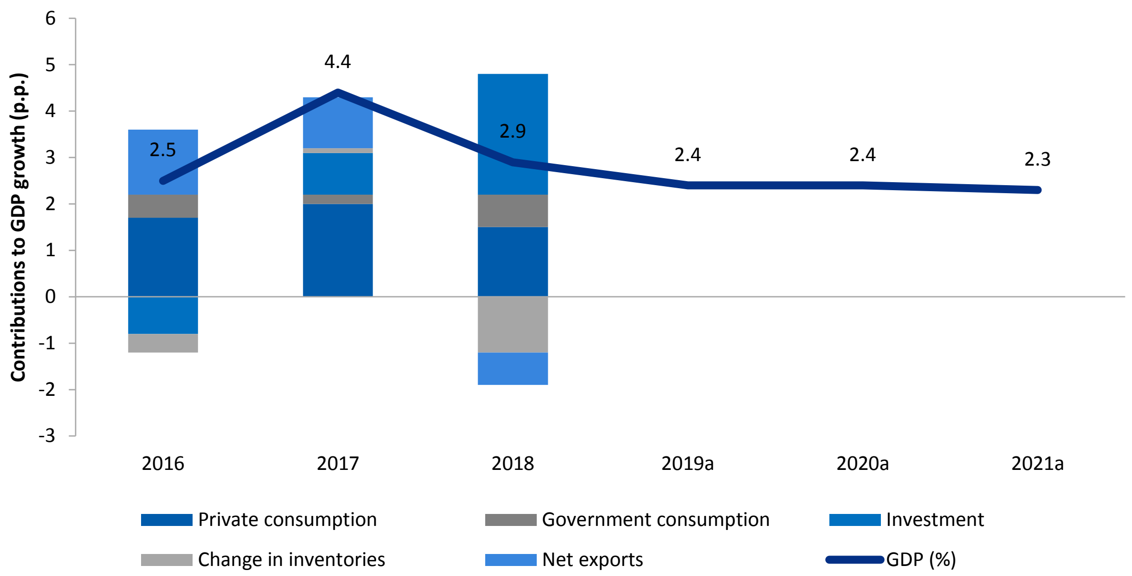
According to estimates of the Czech Ministry of Finance based on available data on economic activity (industrial production, construction, retail sales, foreign trade), the Czech Republic's GDP increased 2.7% yoy in Q1 2019.[19]

In Q4 and throughout 2018, economic growth in the Czech Republic was driven by robust domestic demand, in particular:

- Investments: the rate of growth in capital expenditures declined from 11.3% yoy in Q3 to 10.4% yoy in Q4, whereas in the whole of 2018 it stood at 10.4% yoy compared to 4.1% in 2017.[20] This was the fastest-growing component of GDP in yoy terms driven by private investments and public sector investments co-financed with EU structural funds.[21]
- Household consumption: the rate of growth in private consumption declined to 2.2% yoy in Q4 from 2.8% yoy in Q3, whereas in the whole of 2018 its growth rate was at an average level of 3.1% yoy compared to 4.4% yoy in 2017.[22] Individual consumption continued to be supported by the increase in disposable income (a high rate of growth in wages) and strong consumer sentiment. Its slightly smaller rate than in 2017 was caused by the increase in the rate of savings.[23]

On the other hand, the factor that adversely affected the GDP growth rate in the Czech Republic in 2018 was the balance of foreign trade (net exports) due to acceleration in imports (high import intensity of investments) with a simultaneous slowdown in exports (weaker economic situation of trading partners).[24]

Figure 5 Real GDP growth rate in the Czech Republic in 2016-2018, together with its decomposition, and 2019-2021 forecasts – data not adjusted for seasonality



a Forecast of the Czech Republic's Ministry of Finance – April 2019, data without decomposition
Source: Proprietary material based on data from the Czech Statistical Office and the Czech Republic's Ministry of Finance

In accordance with the macroeconomic forecasts published by the Czech Republic's Ministry of Finance in April 2019, the country's GDP growth rate in the coming years will decrease to 2.4% on average in 2019 and 2020 and 2.3% in 2021.[25] Domestic demand will continue to be the primary driver of economic growth within the projection horizon, including, in particular, household consumption (key factor: stable growth of real disposable incomes) and capital expenditures (key factors: high degree of production capacity utilization, investments to increase productivity and continued inflow of financing from EU cohesion funds). The Ministry of Finance also expects the negative contribution of net exports to GDP to continue in 2019, whereas in the subsequent years the impact of the balance of foreign trade on the country's economic growth should remain neutral.[26]

[19] Czech Republic's Ministry of Finance
[20] Czech Statistical Office
[21] Czech Republic's Ministry of Finance
[22] Czech Statistical Office
[23] Czech Republic's Ministry of Finance
[24] Czech Republic's Ministry of Finance
[25] Czech Republic's Ministry of Finance
[26] Czech Republic's Ministry of Finance

Moreover, the Czech Republic's Ministry of Finance expects that in 2019 the inflation rate measured by the CPI will increase to 2.3% on average vis-à-vis 2.1% in 2018 and then decline below the inflation target (2.0%) to an average level of 1.6% in 2020 and 1.8% in 2021. The higher inflation rate in 2019 will be driven by increases in regulated prices, in particular those of electricity. The decline in the rate of inflation which is expected to begin in mid-2019 will be driven, among other factors, by the strengthening of the Czech koruna against the dollar and the euro and by the weakening of demand and wage pressures in the economy.[27]

Industry in Poland

In Q1 2019, the rate of growth in total sold industrial output[28] accelerated to +6.1% yoy from +5.5% yoy in Q4 2018.[29] The rate of growth in industrial production was also higher than in the corresponding period of 2018 (+5.5% yoy). In Q1 2019, the growth in production was driven by the industrial processing sector (+6.4%), itself supported by other sectors, specifically: electricity generation and supply (+2.7% yoy), mining and quarrying (+6.5) % yoy) and water supply with sewage and waste management (+9.8% yoy).[30]

In Q1 2019, the increase in sold output in annual terms was recorded in 28 (out of 34) industry sectors, which in aggregate accounted for over 93% of total output.[31] Among the most significant branches of industry from the perspective of the PKP CARGO Group's business, the highest growth in industrial output sold was recorded in: chemicals and chemical products (+10.2% yoy, including +24.9% yoy in pesticides and other agrochemical agents), other non-metallic commodities (+9.7% yoy, including +13.1% yoy in products made of concrete, cement or plaster), metal products (+8.2% yoy) and timber and wood products (+2.8% yoy). In the same period, a decline in sold output was recorded in sectors related to the extraction of hard coal and lignite (-6.0% yoy) and metal production (-0.2% yoy).[32]

The good industrial performance in sections with a traditionally high share of output intended for exports may be proof, for the time being, of the relative resilience of the Polish economy to the economic slowdown observed in its macroeconomic environment. A high rate of growth in output was also demonstrated in sectors related to construction.

At the same time, the current values of the business tendency indicator PMI (Purchasing Managers' Index) suggest a deterioration in the sentiment of the business community, which in turn may translate into a lower rate of growth in industrial output in the coming months. In Q1 2019, Poland's PMI diminished to 48.2 from 49.2 in Q4 2018 and 51.6 in Q3 2018.[33] An index level below the 50.0 threshold is an indicator of a technical recession in the industrial processing sector. In March 2019, the PMI stood at 48.7, which was the best result in the last four months. According to Markit IHS analysts, the improvement in the index reflected a lower rate of deterioration in factors related to current output levels and new orders. The employment sub-index declined the most since April 2013.

In Q1 2019, the business tendency indicator for the industrial processing sector published by the Central Statistical Office (GUS) improved slightly (to the average level of 6.8 compared to 5.4 in Q4 2018).[34] The higher indicator values resulted primarily from a strong improvement in factors related to the future economic standing, the future portfolio of new domestic and foreign orders and the levels of future output.[35]

Other factors significantly affecting the condition of the industries of key importance from the PKP CARGO Group' point of view in Q1 2019 included:

Mining industry

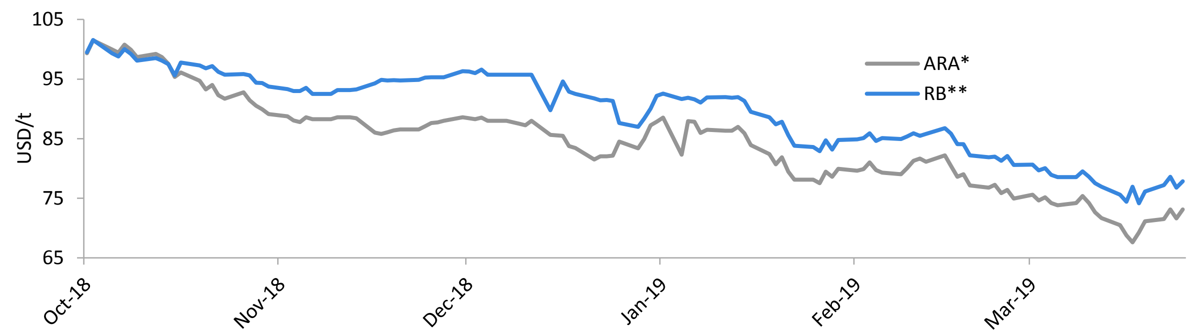
- decline in the hard coal output in Q1 2019 by -0.4 million tons yoy, i.e. -2.7% yoy (production at a level of 15.5 million tons compared to 15.9 million tons in Q1 2018). In March 2019, the volume of coal production stood at 5.4 million tons, down -2.7% yoy (however, it was the highest since November of last year).[36]
- declining trend in yoy sales of hard coal continuing from the summer of 2017 (except for the period of July-August 2018). In Q1 2019, sales of hard coal stood at 15.3 million tons, down -0.7 million tons yoy (-4.4% yoy).[37]

[27] Czech Republic's Ministry of Finance
[28] enterprises employing more than 9 persons
[29] Central Statistical Office of Poland
[30] Central Statistical Office of Poland
[31] Central Statistical Office of Poland
[32] Central Statistical Office of Poland
[33] Markit IHS, money.pl
[34] Central Statistical Office of Poland
[35] Central Statistical Office of Poland
[36] Industrial Development Agency (ARP)
[37] Industrial Development Agency (ARP)

In March alone, the mines sold more than 400 thousand tons of coal less than they produced in the same period, adding this volume to their storage yards.

- hard coal inventories as at the end of March 2019 stood at 2.4 million tons or 0.8 million tons more (+51.7% yoy) than in the corresponding period of 2018. Inventories w March increased significantly (first month-on-month increase since November 2018), having reached a level close to that of November 2018, when the volume of inventories was the highest since December 2016)[38] The volume of coal in the mines' storage yards was affected not only by the lower sales of this commodity but also by delays in the collection of coal ordered by power plants (of the commodity already paid for by utility companies but not collected).
- increase in hard coal imports in the first 2 months of 2019 by 38.5% yoy to 4.1 million tons, predominantly from Russia (+54.0% yoy to 2.9 million tons), Australia (+364.9% yoy to 0.5 million tons) and Kazakhstan (+127.9% yoy to 0.2 million tons).[39] In 2018, a record volume of 19.7 million tons of coal was imported to Poland (chiefly from Russia). It is estimated that the surplus of hard coal on the domestic market (caused by increased imports) may reach approx. 6 million tons. This may create pressures to lower coal prices in certain market segments. [40].
- decline in the average quarterly price of coal in the ARA ports to USD 80.6 per ton in Q1 2019 from USD 92.9 per ton in Q4 2018 (-13.3% qoq) and from USD 87.6 per ton in Q1 2018 (-8.1% yoy), chiefly due to the continuing historically high level of inventories of this commodity in the ports.[41] Moreover, sizeable declines in consumption by German power plants, increased wind energy generation and low gas prices in Europe effectively reduced the index levels.[42]
- increase in the values of coal indices for commercial and industrial power plants in Poland. In Q1 2019, hard coal for the power industry was on average more expensive by 12.1% than the year before and 4.5% more expensive than in the previous quarter (PSCMI 1 was PLN 256.20 per ton on average). Hard coal for the heating industry was more expensive on a year-over-year basis by 3.4% and on a quarter-over-quarter basis by 0.2% (in January-March 2019, the average value of PSCMI 2 was PLN 304.66 per ton).[43] The prices of steam coal are still below their record levels from the first months of 2012 (when the index reached its peak of PLN 283.61 for the power industry and PLN 357.65 for the heating industry).
- decrease in domestic electricity consumption in Q1 2019 by -1.4% yoy. [44]
- reduction in electricity production for hard coal-fired industrial power plants in Q1 2019 by -5.8% yoy. [45]
- decline in the share of hard coal in the national energy mix to 48.2% in Q1 2019 from 50.2% in Q1 2018 (-2.0 p.p. yoy).[46]

Figure 6 Current and historical values of coal price indices on the European ARA* vs. RB** markets

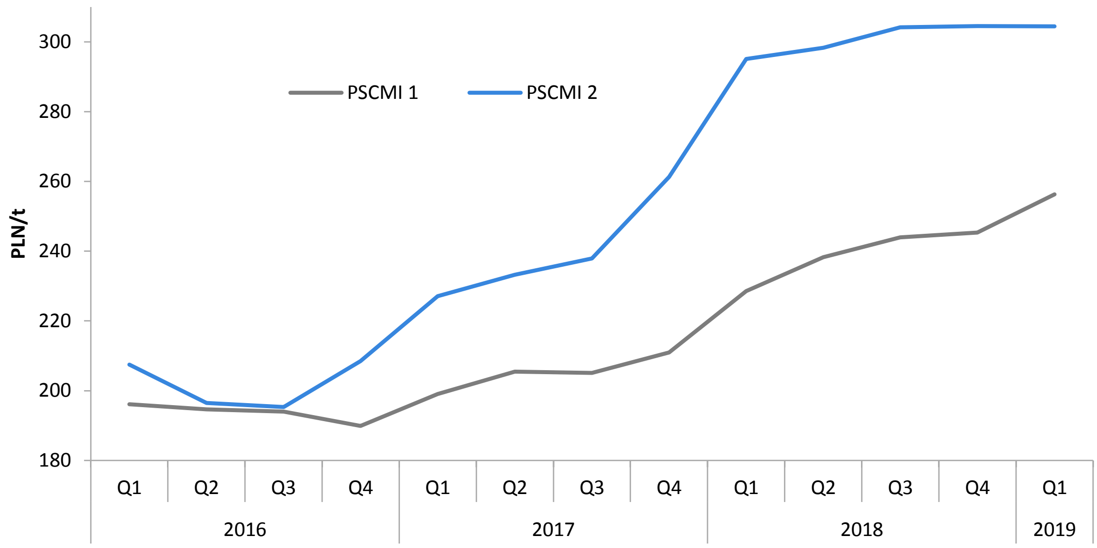


* ARA – Amsterdam, Rotterdam and Antwerp;
** RB – Richards Bay (South Africa)

Source: Proprietary material based on Virtual New Industry data

[38] Industrial Development Agency (ARP)
[39] Eurostat
[40] Wirtualny Nowy Przemysł [Virtual New Industry]
[41] Wirtualny Nowy Przemysł [Virtual New Industry]
[42] Industrial Development Agency (ARP)
[43] Industrial Development Agency (ARP)
[44] Polskie Sieci Elektroenergetyczne
[45] Polskie Sieci Elektroenergetyczne
[46] Polskie Sieci Elektroenergetyczne

Figure 7 Current and historical values of coal price indices on the Polish market: power industry (PSCMI 1) and heating sector (PSCMI 2)



Source: Proprietary material based on the Industrial Development Agency's data

Construction industry

- increase in construction and assembly output[47] by an average of +9.4% yoy in Q1 2019, compared to an increase of +26.1% in Q1 2018. The rate of growth in renovation works (+10.0% yoy) was slightly higher than that of investment works (+9.1% yoy).[48]
- increase in construction and assembly output in Q1 2019 recorded in all branches of the construction sector, the strongest contributor being enterprises specializing in civil and water engineering projects (+19.0% yoy, accounting for more than a third of total construction output). Specialized construction works increased 6.7% yoy, while the branch of the sector related to the construction of buildings recorded an increase in output by 3.9% yoy.[49]
- infrastructural construction projects executed within the framework of the National Road Construction Program and the National Railway Program were the main driver of growth in the construction sector in Q1 2019. In Q1 2019, sales of construction and assembly output related to motorways, expressways and streets increased 5.2% yoy, while for rail infrastructure it increased 41.2% yoy (in aggregate, these facilities account for approx. 15% of construction and assembly output in Poland).[50]

Steel industry

- increase in global steel production in Q1 2019 to 444.1 million tons (+4.5% yoy).[51]
- in Q1 2019, the Chinese metallurgical industry produced 231.0 million tons of steel (+9.9% yoy, probably the highest output level in history).[52]
- decline in steel production in the European Union in Q1 2019 to 42.3 million tons (-2.0% yoy).[53]

[47] Enterprises employing more than 9 people, Central Statistical Office of Poland
[48] Central Statistical Office of Poland
[49] Central Statistical Office of Poland
[50] Central Statistical Office of Poland
[51] World Steel Association
[52] Puls Biznesu
[53] World Steel Association

- according to the World Steel Association, global demand for steel in 2019 will be 1,735 million tons (up by approx. +1.3% yoy) and in 2020 will increase to 1,752 million tons (or +1.0 % yoy).[54] Demand for steel in the European Union is expected to reach 170.2 million tons in 2019 and 172.2 million tons in 2020, a rate of grow of +0.3% yoy and +1.2% yoy, respectively. This means that despite the poorer economic performance overall, demand for steel continue to increase, albeit at a slower rate than in 2017 and 2018.
- decline in crude steel output in Poland by an average of -6.2% yoy to 2.6 million tons and in the volume of manufactured hot-rolled products by an average -2.0% yoy to 2.5 million tons, with a concurrent increase in the production of steel pipes by +7.0% yoy to 0.2 million tons.[55]
- slight decline in real revenue from sales of metals Q1 2019 to PLN 15.6 billion (-0.2% yoy) and increase in total revenue from sales of metal products, which reached PLN 26.6 billion (+8.2% yoy).[56]
- drop in coke output in Poland in Q1 2019 by -5.1% yoy to 2.3 million tons.[57]
- unfavorable conditions for the industry's growth in Europe: weak demand for steel, higher imports (from non-EU countries, predominantly from Russia, despite the imposition of quotas by the European Commission), higher energy prices and prices of carbon dioxide emission allowances (since the beginning of 2018, prices have increased 230%). These factors exert an unfavorable effect on the competitiveness of the European steel production sector and will certainly continue to affect it in the coming months.[58]
- temporary suspension by ArcelorMittal Poland of the operation of a blast furnace and steelworks in the company's Kraków branch. The decision is part of ArcelorMittal Europe's plan to decrease the company's European production by 3 million tons which also includes the suspended operation of the Asturias steel mill in Spain and the slowing down of the increase in ArcelorMittal Italia's production planned earlier. The company's decision was caused by the rising prices of CO_2 emission allowances (which are a burden only for producers operating in the European Union), the high level of steel imports from non-European Union countries (imports of steel to the Polish market are predominantly from CIS countries – in 2018 these imports increased by 500 thousand tons, a 3-fold increase yoy), the decline in demand for steel caused by deteriorating market conditions and very high production costs (energy prices in Poland are among the highest in Europe; for instance, they are higher than in Germany by a half). Furthermore, Polish steel mills still do not receive reimbursement of indirect CO_2-related expenses available to steel producers in many EU countries.[59]

Industry in the Czech Republic

In January-February 2019, industrial output in the Czech Republic increased by an average of 0.2% yoy compared to 4.4% yoy in the corresponding period of 2018. The increase in industrial output in this period was driven predominantly by industries associated with the supply of electricity, gas and water (+11.5% yoy). Compared to the corresponding period of 2018, mining output and extraction of minerals decreased (-2.7% yoy), as did industrial processing output (-1.2% yoy).[60]

In January-February 2019, the volume of new orders received by the industrial sector also declined (+1.7% yoy vis-à-vis +3.9% yoy in January-February 2018). This resulted from an increase in domestic orders (+1.0% yoy) and orders for exports (+2.0% yoy).[61] However, a significant drop in the rate of growth in orders for the industrial sector from abroad was recorded, which was a direct result of the economic slowdown observed in the euro area countries (the Czech Republic's main trading partners).

The deterioration in performance of the Czech Republic's industrial sector was confirmed by the latest PMI business tendency indicator readings, which had been declining since July 2018. In Q1 2019, the index dropped 3.0 points qoq to an average of 48.3 points (remaining in each 3-month period below the 50.0-point threshold delineating the conventionally accepted boundary between recovery and recession in the industrial sector).[62] In March 2019, the index stood at only 47.3 points, i.e. was at its lowest since December 2012. The decrease in the index in March was dragged down chiefly by factors related to current output levels (the lowest since December 2012) and new domestic and international orders (the lowest sub-index values since October 2012 and June 2009, respectively).

[54] World Steel Association
[55] Central Statistical Office of Poland
[56] Central Statistical Office of Poland
[57] Central Statistical Office of Poland
[58] Wirtualny Nowy Przemysł [Virtual New Industry]
[59] Wirtualny Nowy Przemysł [Virtual New Industry]
[60] Czech Statistical Office
[61] Czech Statistical Office
[62] Markit IHS

The activities of the PKP CARGO Group companies on the Czech market are focused on the transport of hard coal, coke, aggregates and other construction materials as well as intermodal transport (in particular automotive products). As a result, the situation in related sectors of the industry (mining, construction, steel mills and the production of motor vehicles) translated directly into the volume of cargo available for transport by members of the PKP CARGO Group. In Q1 2019, factors significantly affecting the condition of the above industry branches included:

- significant declining trend in hard coal mining output (down 31.6% yoy in Q1 2019 to 765 thousand tons, with January being the weakest month with a -54.9% yoy drop in output; in Q1 2018, mining output was 1,118 thousand tons);[63]
- diminished hard coal imports by -0.4% yoy to 553 thousand tons (in January-February 2018, imports reached 555 thousand tons) and lower exports of this commodity by -22.6% yoy to PLN 247 thousand tons (in January-February 2018, exports stood at 319 thousand tons);[64]
- decrease in lignite extraction by -0.6% yoy to 10.5 million tons (down by 60 thousand tons yoy);[65]
- higher lignite imports by +15.6% yoy to 37 thousand tons (in January-February 2018, imports reached 32 thousand tons) and lower exports of this commodity by -32.8% yoy to PLN 117 thousand tons (in January-February 2018, exports stood at 174 thousand tons);[66]
- increase in coke production by +1.2% yoy to PLN 629 thousand tons (in Q1 2018, production reached 621 thousand tons);[67]
- increase in steel output (in January-February 2019, the volume of crude steel output increased +0.4% yoy to 837 thousand tons from 834 thousand tons in the corresponding period of 2018), with a concurrent decrease in the amount iron pig iron output (-4.4% yoy to 663 thousand tons from 694 thousand tons in January-February of the previous year);[68]
- rate of growth in seasonally adjusted construction and assembly output in January-February 2019 down 3.7% yoy (in January it dropped 13.2% yoy and in February it rebounded 5.8% yoy), caused partly by a drop in engineering construction output in January-February 2019 by 2.6% yoy (in January it declined 13.7% yoy, followed by a 9.6% yoy rebound in February);
- yoy decline in the automotive sector's output: in Q1 2019, Czech manufacturers produced 233,339 vehicles of all kinds (cars, trucks, buses and motorcycles), or -7.7% less than in Q1 2018[69] (2018 was a record-breaking year in terms of the number of machines produced, thus the relative decline in yoy output in Q1 2019 was caused by the 'high base' effect).

4.2 Freight transportation activity

The rail transport market is presented taking into account the transport in the domestic and Czech markets where the transport activity was the most important for the PKP CARGO Group.

4.2.1 Rail transport market in Poland

In Q1 2019, there were 69 active rail operators on the rail transport market in Poland (including PKP CARGO S.A. and PKP CARGO SERVICE sp. z o.o.). They transported a total of 60.1 million tons of cargo (-2.9% yoy) and achieved a freight turnover of 14.2 billion tkm (-0.9% yoy). The Q1 2019 performance was not as good as in the corresponding period of the previous year, but it should be noted that in terms of both freight volume and freight turnover was significantly better than Q1 in 2015-2017. The deterioration in yoy performance may be the result of a high base (2018 was the best year since the 2008 credit crunch). The average haul was a parameter that increased from 232 km in Q1 2018 to 237 km (+2.1% yoy) compared to Q1 2019.[70]

In the period of 2M 2019, there was a yoy decrease in the volume of cargo transported by rail, in particular aggregates, sand and gravel, iron ore and agricultural products. The main factors adversely affecting the volume of transported cargo during this period were[71]:

- decrease in transported volumes of iron ores (-21.2% yoy to 1.65 million tons), metals and metal products (-2.6% yoy to 1.7 million tons) and recyclable materials and scrap (-10.7% yoy to 0.5 million tons). This was a consequence of a

[63] Ministry of Industry and Trade of the Czech Republic
[64] Ministry of Industry and Trade of the Czech Republic
[65] Ministry of Industry and Trade of the Czech Republic
[66] Ministry of Industry and Trade of the Czech Republic
[67] Ministry of Industry and Trade of the Czech Republic
[68] Worldsteel.org
[69] AutoSAP
[70] Office of Rail Transport
[71] Central Statistical Office of Poland – data for the first 2 months of 2019

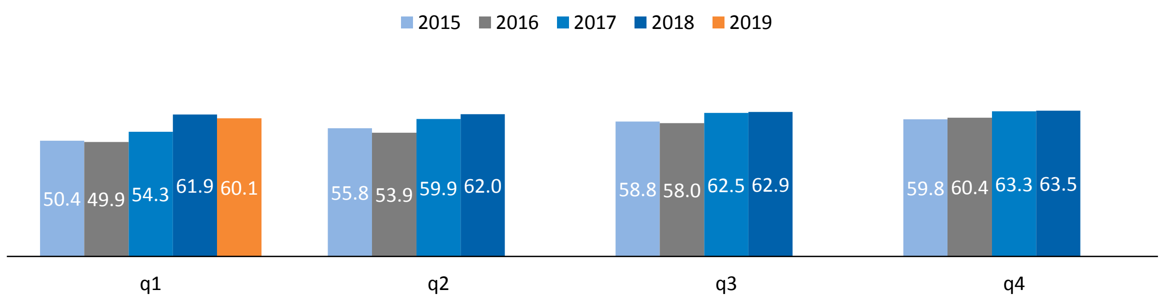
decrease in demand from steel-intensive industry branches in Poland and internationally (including the construction sector due to the interruption of works in the winter season);

- lower quantum of transported aggregates (-13.4% yoy to 7.0 million tons) and other construction materials (-60.1% yoy to 24 thousand tons) as a result of a decrease in the intensity of infrastructural construction projects resulting from the winter season and planned suspension of work;
- slight decline in the volume of hard coal transported (-0.2% yoy to 15.8 million tons) caused by a change in demand from the power industry, the heating sector and private consumers.

In January-February 2019, the following factors exerted a positive impact on the volume of transported cargo:

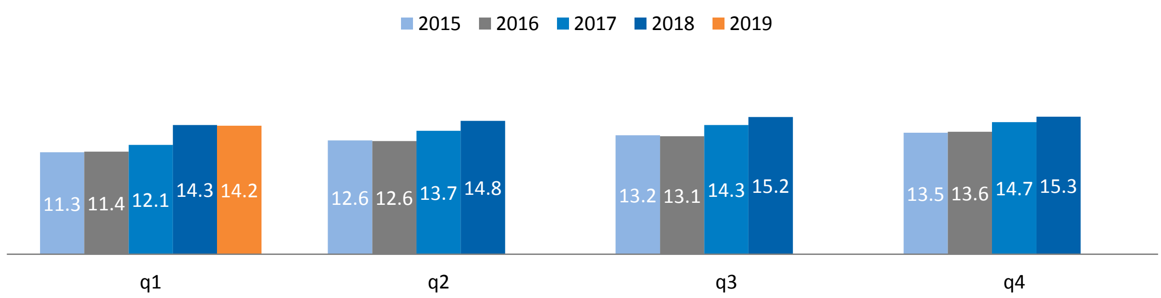
- greater volume of transported chemicals and chemical products (+6.2% yoy to 1.65 million tons);
- greater volume of transported timber and wood products (+3.9% yoy to 0.3 million tons);
- slight increase in the quantum of transported cement, lime and gypsum (+0.8% yoy to 0.3 million tons).

Figure 8 Rail freight volumes in Poland (in million tons) in individual quarters of 2015-2019



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

Figure 9 Rail freight turnover in Poland (billion tkm) broken down by quarter in 2015-2019

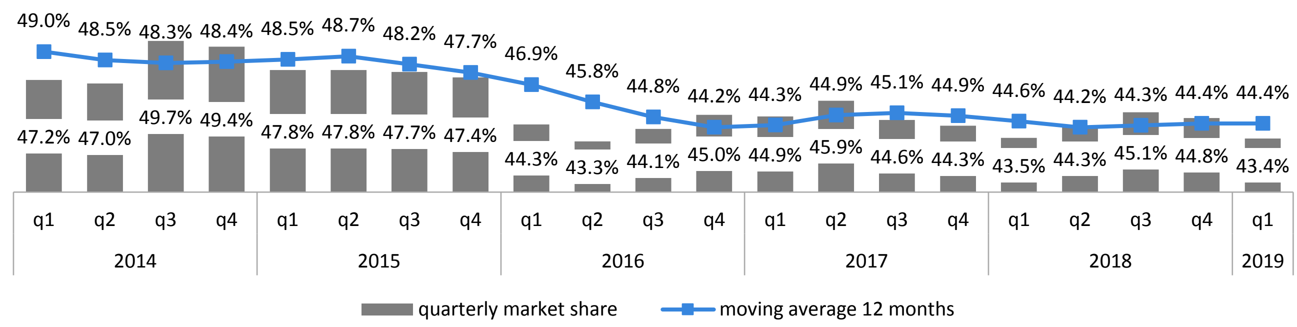


Source: Proprietary material based on the Office of Rail Transport's data

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

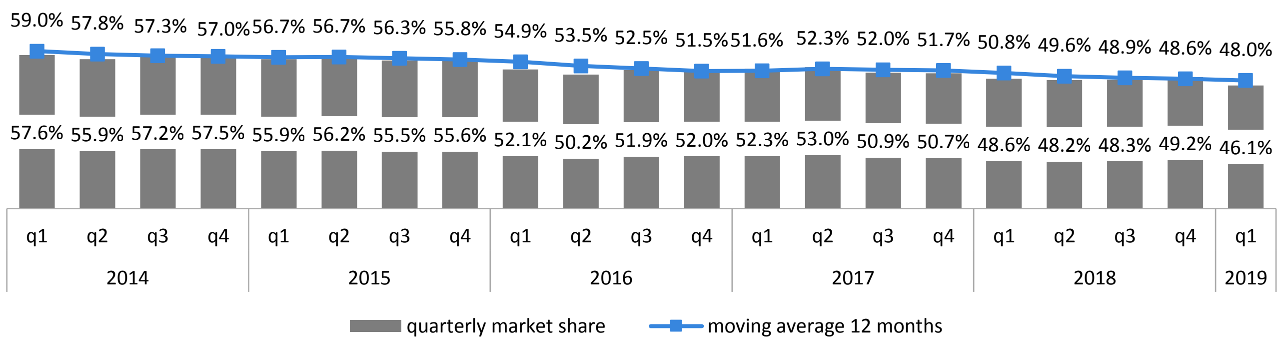
In Q1 2019, the PKP CARGO Group retained its leading position on the rail freight transport market in Poland with a 43.45% market share (-0.03 p.p. yoy) in terms of freight volume and a 46.1% market share in terms of freight turnover (-2.5 p.p. yoy). The respective shares of the PKP CARGO Group's parent company, that is PKP CARGO S.A., were 42.1% (-0.5 p.p. yoy) and 45.9% (-2.4 p.p. yoy).[72]

Figure 10 Share of the PKP CARGO Group in total freight volume in Poland in 2014-2019



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

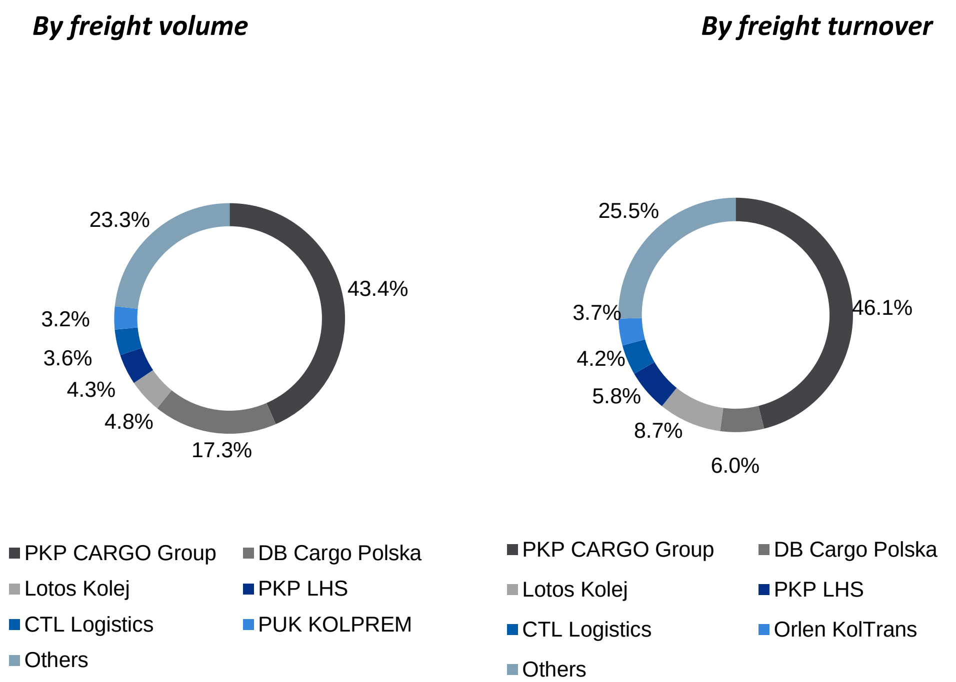
Figure 11 Share of the PKP CARGO Group in total freight turnover in Poland in 2014-2019



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

[72] Office of Rail Transport

Figure 12 Market shares of the largest rail operators in Poland in Q1 2019



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

The following companies are the main competitors of the PKP CARGO Group on the Polish rail freight transport market: DB Cargo Polska, Lotos Kolej, PKP LHS, CTL Logistics, PUK Kolprem, Orlen KolTrans and Freightliner PL.

In Q1 2019, the operators competing against the PKP CARGO Group transported in aggregate 34.0 million tons of freight (-2.9% yoy), with the largest share accounted for by DB Cargo Polska with 10.4 million tons (-8.1% yoy), Lotos Kolej with 2.9 million tons (-4.9% yoy) and PKP LHS with 2.6 million tons (-10.8% yoy).

In this period, freight turnover of the PKP CARGO Group's competitors stood at 7.7 billion tkm (+4.0% yoy), most of which was generated by Lotos Kolej (1.2 billion tkm or -1.4% yoy), DB Cargo Polska (0.9 billion tkm or +6.1% yoy) and PKP LHS (0.8 billion tkm or -12.2% yoy).[73] The increase in freight turnover recorded by competing carriers resulted predominantly from the sizeable extension of their average haul. In January-March 2019, their average haul was 225.7 km, up by 14.8 km yoy (+7.0% yoy).

The PKP CARGO Group's competitors on the rail transport market which in Q1 2019 suffered the largest decreases in market share in terms of freight volume were DB Cargo Polska (-1.0 p.p. yoy), CTL Logistics (-0.8 p.p. yoy) and PKP LHS (-0.4 p.p. yoy), whereas in terms of freight turnover these were CTL Logistics (-0.9 p.p. yoy) and PKP LHS (-0.8 p.p. yoy).

At the same time, in Q1 2019, small carriers (whose unit market shares do not exceed 2.0%) recorded a gradual increase in market share, both in terms of freight volume and freight turnover. As a result, their combined share in the rail freight transport market was 20.9% (+1.9 p.p. yoy) in terms of freight volume and 18.3% (+3.9 p.p. yoy) in terms of freight turnover.

4.2.3 Rail freight transport market in the Czech Republic

In 2018, a total of 592.6 million tons of cargo was transported in the Czech Republic (+3.8% yoy) and freight turnover stood at 60.3 billion tkm (-4.3% yoy).[74] The decline in freight turnover with the simultaneous increase in the transported volume of freight resulted from a significant shrinkage in the average haul (-8.2% yoy to 103.5 km). The drop in the average haul experienced by the market as a whole was caused by road transport where the average haul decreased -11.8% yoy to 88.1 km. In the same period, other branches of the transport sector recorded a slight yoy increase in the average haul.

Road transport maintains the dominant role in the cargo transport segment in the Czech Republic with a market share in terms of freight volume in 2018 of 80.9% (+0.4 p.p. yoy).[75] At the same time, the very sharp slump in the average haul on a yoy basis

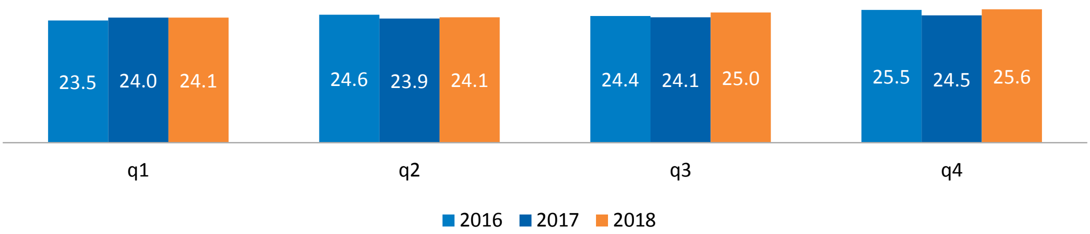
[73] Office of Rail Transport
[74] Ministry of Transport of the Czech Republic
[75] Ministry of Transport of the Czech Republic

contributed to the decrease in the share of road transport in terms of freight turnover (-2.2 p.p. yoy to 68.2%, i.e. for the first time in history it fell significantly below the 70% mark).

In 2018, freight turnover realized by the rail transport sector in the Czech Republic was 16.5 billion tkm (+4.1% yoy), i.e. it was the only branch of the transport market in this period that recorded an increase in freight turnover on a yoy basis.[76] The rapid increase in the yoy rate of growth in freight turnover was driven by an increase in freight volume to 98.9 million tons (+2.4%) with a concurrent rise in the average haul to 166.8 km (+1.6% yoy). In 2018, the share of rail transport in the transport market increased to 27.4% (+2.2 p.p. yoy) in terms of freight turnover, predominantly at the expense of road transport. In terms of freight volume, however, it declined somewhat to 16.7% (-0.2 p.p. yoy). In Q4 2018, the market share of rail transport stood at 29.4% (+3.3 p.p. yoy) and 16.3% (+0.5 p.p. yoy) in terms of freight turnover and freight volume, respectively.

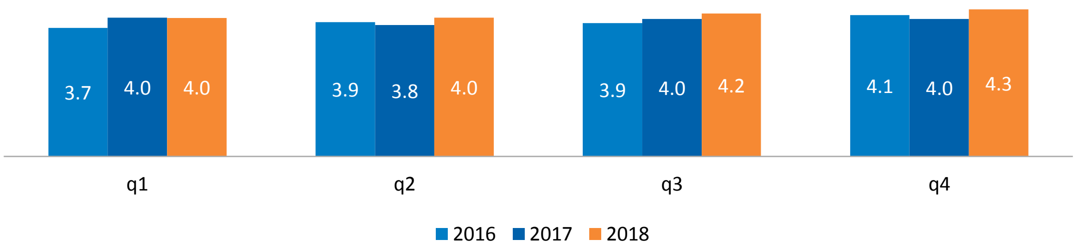
Among all land transport branches of the Czech market, rail transport has the longest average haul. In Q4 2018, the average haul of the rail transport sector was twice that of the road transport branch of the market.[77]

Figure 13 Quarterly rail freight transport in the Czech Republic by freight volume in 2016-2018 (million tons)*



** data for Q1 2019 will be available at the turn of Q2 and Q3 2019*
Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

Figure 14 Quarterly rail freight transport in the Czech Republic by freight turnover in 2016-2018 (billion tkm)*



** data for Q1 2019 will be available at the turn of Q2 and Q3 2019*
Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

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

According to information published by SŽDC (rail infrastructure manager), there are currently 106 carriers operating on the Czech rail transport market and rendering transport services on the basis of an obtained license. This group of carriers includes members of the PKP CARGO Group, namely PKP CARGO S.A. and AWT a.s.[78]

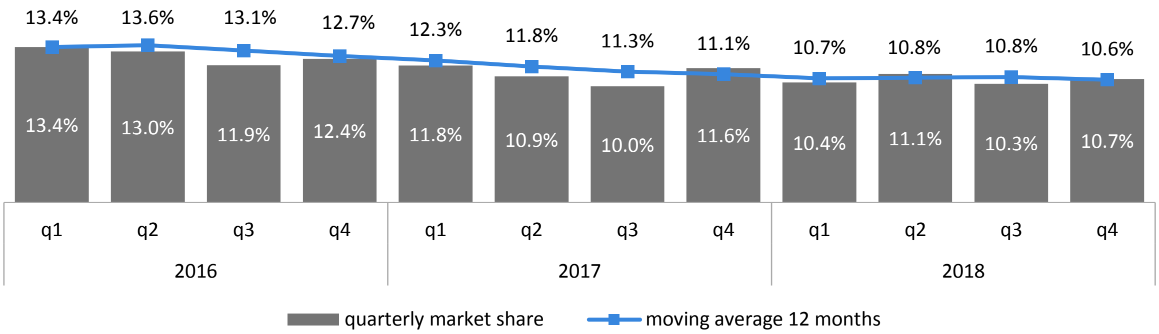
In Q1 2019, AWT a.s. transported a total of 2.5 million tons of freight (-0.3% yoy) and achieved freight turnover at a level of 0.3 billion tkm (+2.2% yoy).[79] The average haul was 121.8 km (+2.5% yoy), i.e. despite the yoy increase was significantly below the average for the whole market. In Q1 2019, the share of AWT a.s. in the Czech market was 7.4% (-0.4 p.p. yoy) in terms of freight turnover.

The main factors suppressing the yoy growth in AWT's transport performance in Q1 2019 included smaller volumes of transported aggregates (-69.8% yoy to 0.1 million tons), coke and lignite (-9.1% yoy to 0.5 million tons) and crude oil and oil

[76] Ministry of Transport of the Czech Republic
[77] Ministry of Transport of the Czech Republic
[78] SŽDC
[79] own statistics prepared by AWT a.s.

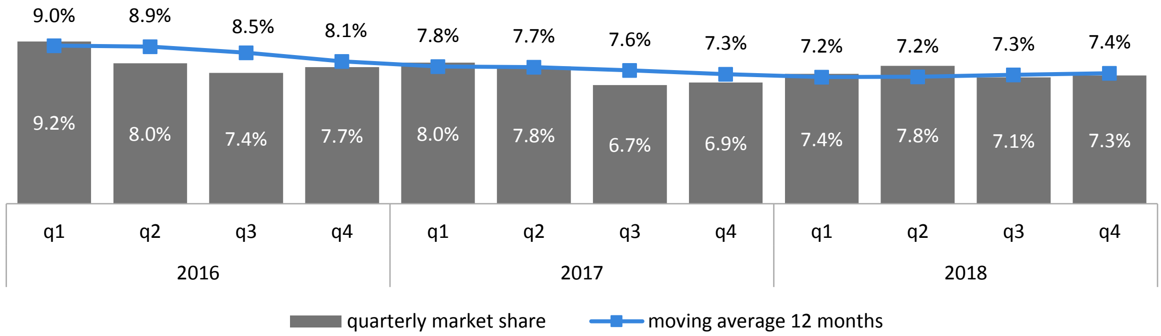
products (-1.4% yoy to 0.2 million tons).[80] During this period, the volume of transported hard coal soared (+17.0% yoy to 1.0 million tons) despite a substantial decline in production in the Czech Republic, caused by the ongoing restructuring processes in the mining sector. The drivers of this rise included an increase in imports of the commodity from Poland and transit transport services from Poland to Hungary.[81] In Q1 2019, intermodal transport services provided by AWT also grew rapidly (+15.1% yoy to 0.4 million tons), as did the volume of transported metals and metal products (+184.2% yoy to 0.1 million tons).[82]

Figure 15 AWT a.s.'s quarterly market shares in total freight volume in the Czech Republic in 2016-2018*



** data for Q1 2019 will be available at the turn of Q2 and Q3 2019*
Source: Proprietary material based on data from the Czech Ministry of Transport and AWT a.s.

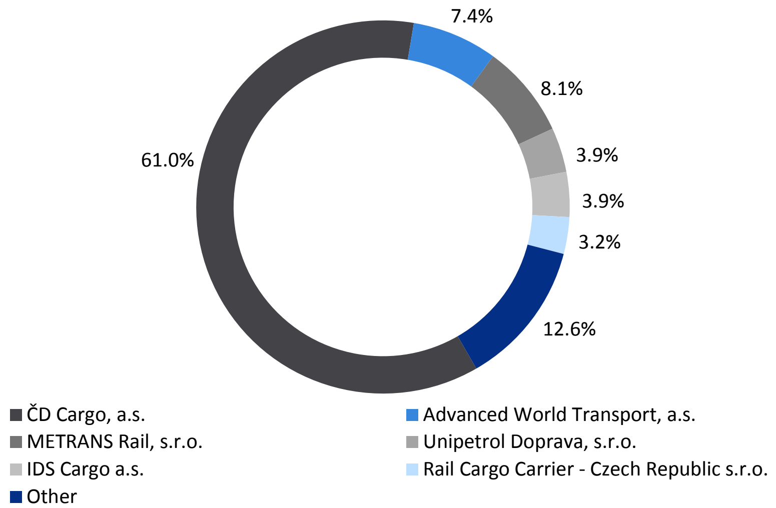
Figure 16 AWT a.s.'s quarterly market shares in total freight turnover in the Czech Republic in 2016-2018*



** data for% Q1 2019 will be available at the turn of Q2 and Q3 2019*
Source: Proprietary material based on data from the Czech Ministry of Transport and AWT a.s.

[80] own statistics prepared by AWT a.s.
[81] own statistics prepared by AWT a.s.
[82] own statistics prepared by AWT a.s.

Figure 17 Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in Q1 2019 (btkm)



Source: SŽDC (Czech manager of rail infrastructure)

In Q1 2019, ČD Cargo a.s. maintained the position of the definitive leader on the rail freight transport market in the Czech Republic but its share in terms of freight turnover declined to 61.0% (-3.9 p.p. yoy).[83] Also smaller than in the corresponding period of 2018 were the market shares of AWT a.s. (-0.4 p.p. yoy to 7.4%), SD – Kolejova Doprava (-0.4 p.p. yoy to 1.7%) and Rail Cargo Carrier – Czech Republic (-0.2 p.p. yoy to 3.2%). Conversely, the largest increases in the market shares were recorded by IDS Cargo (+1.3 p.p. yoy to 3.9%) and Metrans Rail (+0.4 p.p. yoy to 8.1%, as a result of which this operator overtook AWT a.s. and became the second largest carrier on this market).[84] A very large yoy increase in market share was also recorded by other operators not mentioned by SŽDC (with an aggregate increase by +2.9 p.p. yoy to 10.9%). In Q1 2019, the quantum of transport services rendered by PKP CARGO S.A. on the Czech market declined on a yoy basis as a result of, among other factors, smaller volumes of hard coal and lignite transported from Poland and a decrease in ore volumes transported in transit from Ukraine. However, in the same period, transport of timber in transit between seaports and Slovakia and Romania increased.[85]

4.2.5 PKP CARGO Group's rail transport business

The data on the transport activity conducted by the PKP CARGO Group in Q1 2018 and 2019 contain consolidated data of PKP CARGO S.A., PKP CARGO SERVICE sp. z o.o. and the AWT Group. Transport services are rendered by 5 members of the Group, namely PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o., AWT a.s., AWT Rail HU Zrt. and AWT Rail SK a.s.

In 2019, Primol Rail d.o.o. (an 80% stake in which is held by AWT a.s.) received a B certificate, which means that it is licensed to independently render transport services in Slovenia.

The Group collaborates with the largest Polish and global groups, including ArcelorMittal, PKN Orlen, PGNiG, Lafarge, Azoty, JSW, Węglokoks, Enea, PGE, Tauron, Polska Grupa Górnicza and International Paper.

[83] SŽDC
[84] SŽDC
[85] PKP CARGO S.A.'s own statistics

Table 12 Freight turnover of the PKP CARGO Group in Q1 2018 and 2019

Item	Q1 2019	Q1 2018	Change Q1 2019 / Q1 2018		Q1 2019	Q1 2018
	(million tkm)			%	percentage of total (%)	
Solid fuels[1]	2,714	2,794	-80	-2.9%	38%	37%
of which hard coal	2,341	2,405	-64	-2.7%	33%	32%
Aggregates and construction materials[2]	1,427	1,561	-134	-8.6%	20%	21%
Metals and ores[3]	876	952	-77	-8.0%	12%	13%
Chemicals[4]	526	562	-37	-6.5%	7%	7%
Liquid fuels[5]	246	239	7	2.9%	3%	3%
Timber and agricultural produce[6]	282	371	-89	-24.0%	4%	5%
Intermodal transport	986	902	84	9.3%	14%	12%
Other[7]	132	180	-48	-26.8%	2%	2%
Total	**7,189**	**7,563**	**-374**	**-4.9%**	**100%**	**100%**

Source: Proprietary material

Table 13 Freight volume of the PKP CARGO Group in Q1 2018 and 2019

Item	Q1 2019	Q1 2018	Change Q1 2019 / Q1 2018		Q1 2019	Q1 2018
	(million tons)			%	percentage of total (%)	
Solid fuels[1]	14.2	14.3	-0.2	-1.1%	50%	49%
of which hard coal	12.8	12.8	0.0	0.0%	45%	43%
Aggregates and construction materials[2]	5.0	5.5	-0.5	-9.8%	17%	19%
Metals and ores[3]	2.9	3.2	-0.3	-10.3%	10%	11%
Chemicals[4]	1.7	1.8	-0.1	-6.4%	6%	6%
Liquid fuels[5]	0.9	0.8	0.1	10.5%	3%	3%
Timber and agricultural produce[6]	1.0	1.0	0.0	2.7%	4%	3%
Intermodal transport	2.4	2.1	0.3	14.6%	8%	7%
Other[7]	0.5	0.6	-0.1	-17.3%	2%	2%
Total	**28.6**	**29.4**	**-0.8**	**-2.8%**	**100%**	**100%**

Source: Proprietary material

In Q1 2019, the average haul of freight transported by rail by the PKP CARGO Group was 251 km (-2.2% yoy).

Table 14 Average haul of the PKP CARGO Group in Q1 2018 and 2019

Item	Q1 2019	Q1 2018	Change Q1 2019 / Q1 2018	
	(km)			%
Solid fuels[1]	192	195	-4	-1.8%
of which hard coal	183	188	-5	-2.7%
Aggregates and construction materials[2]	286	282	4	1.4%
Metals and ores[3]	305	298	8	2.5%
Chemicals[4]	307	308	0	-0.1%
Liquid fuels[5]	274	294	-20	-6.9%
Timber and agricultural produce[6]	280	378	-98	-26.0%
Intermodal transport	407	426	-19	-4.6%
Other[7]	246	278	-32	-11.5%
Total	**251**	**257**	**-6**	**-2.2%**

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 other freight

The following were key factors affecting the volume of transport in various cargo categories in Q1 2019:

SOLID FUELS

- transport services to a power plant and a cogeneration plant of the leading energy group in Poland taken over from competition (affecting a decrease in the average haul by changing the structure of freight routes);
- increased quantum of the AWT group's transport services – acquisition of new contracts, including from the Czech Republic to Hungary and from Poland to the Czech Republic;
- lower yoy output and sales of hard coal and coke;
- decline in electricity generation in hard coal-fired commercial power plants;
- lower coal imports from Russia – no sales markets, full cargo yards;
- impact of anti-smog resolutions on the market for the sale of solid fuels;
- copious track closures caused by renovation of major railway routes – continuation of work conducted in 2018;
- decrease in the average commercial speed in Poland translating into an extended rolling stock circulation;

AGGREGATES AND CONSTRUCTION MATERIALS

- execution of railway capital expenditure projects co-financed with European funds from the financial perspective for 2014-2020 as part of the National Railway Program;
- reduced demand for transport of aggregates caused by unfavorable weather conditions and the non-resumption of a number of construction projects after the winter break – due to the high prices of raw materials necessary for the construction of roads, a large number of contractors are in the process of renegotiating their contracts;
- reduced deliveries of limestone to German power plants caused by warm weather and a large supply of wind energy;
- take-over of a portion of transport services by a carrier owned by the corporate group of one of the clients (having obtained a rail operator license);
- reduced volume of transport services rendered by the AWT group due to lower output by the OKD mines;
- limitations related to the capacity of rail lines.

METALS AND ORES

- drop in steel output in Poland;
- lower imports of iron ores – delay in signing the Polish-Ukrainian agreement on rail transport services between PKP and UZ, sinter strand failure at one of key clients and production problems in a steel mill in Ukraine;
- lower volume of slag transported from steel mills due to unfavorable weather conditions;
- lower volume of transported metals – weaker demand for finished products, provision of a portion of metal transport services using containers (intermodal transport), high scrap prices and shift of a large quantity of deliveries to steel mills to subsequent months.

INTERMODAL TRANSPORT

- development of transit connections and handling of cargo connections on the China-Europe-China route within the framework of the "New Silk Road";
- higher percentage of cargo that used to be transported in conventional ways and is now transported in containers (e.g. wood – in the form of timber shavings, timber chips, bituminous coal, metals, automotive parts, paper);
- transport between seaports and terminals located in the country's interior;
- increased quantum of the AWT group's transport services – new transport services provided, including on routes from acquisition of new contracts, including from Germany to the Czech Republic and from Poland to Slovenia.

CHEMICALS

- decline in transport of hydrocarbons in imports from the east and to Serbia and the Czech Republic;
- lower sulfur exports, partly offset by higher volume of sulfur transported domestically;
- lower exports of sodium hydroxide to seaports due to manufacturing problems on the client's side.

LIQUID FUELS

- transport of imported commodities from the Mazeikiu Refinery in Lithuania;
- change in the supply logistics at the PKP CARGO Group's largest client in this segment (due to changes resulting from the current demand and supply situation);
- lower average haul resulting from a change in the structure of the AWT group's freight routes – decline in the share of transported volumes from Germany.

TIMBER AND AGRICULTURAL PRODUCE

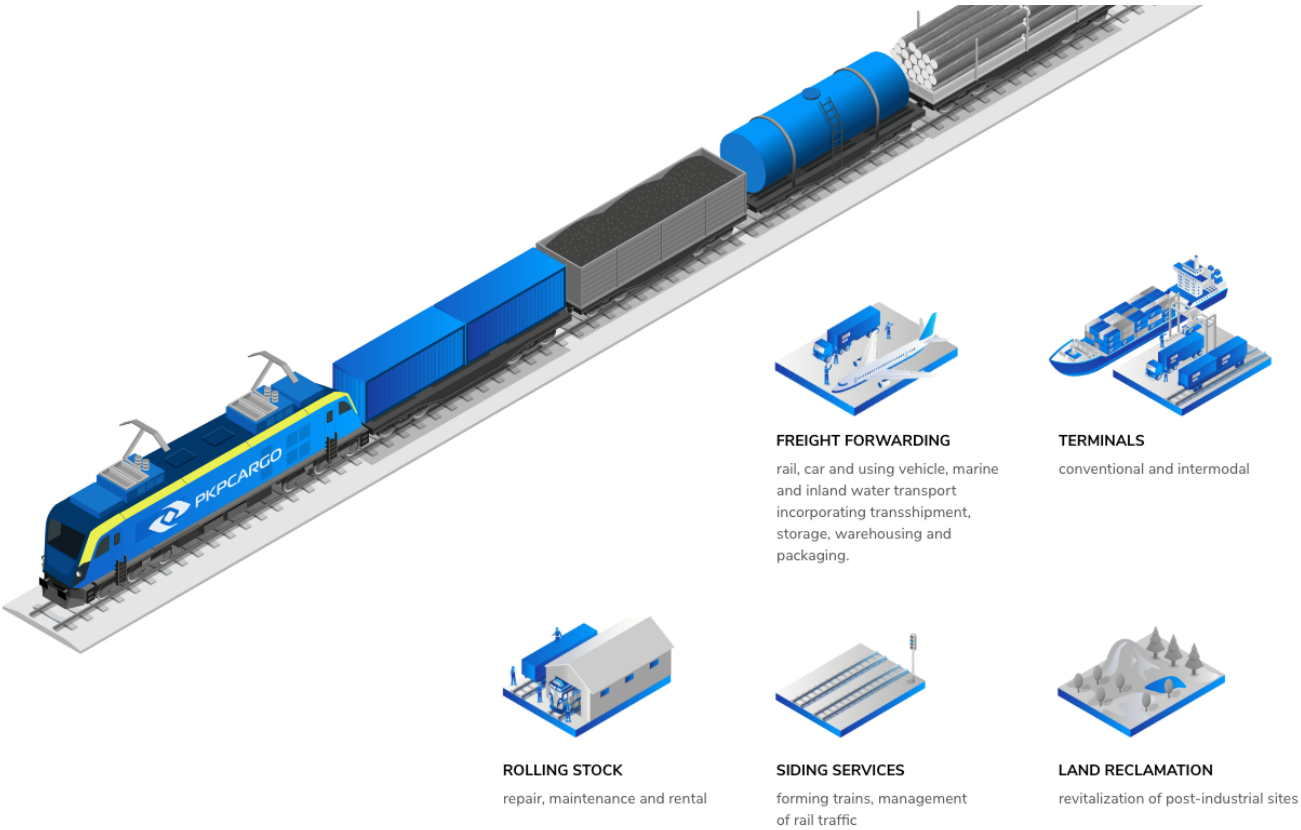
- higher imports of wood chips from Belarus;
- higher imports of timber through seaports as a result of the ban on timber exports introduced by Belarus, which contributed to the decline in the average haul;
- higher volumes of transported agricultural products: upturn in the transport of molasses to the Czech Republic and sugar exports to Romania;
- increase in grain transport volumes: maize from Ukraine and barley in import through seaports;
- commencement of malt transport services in imports from the Czech Republic;
- decline in the average haul caused by a change in the structure of freight routes: no rapeseed transport over longer distances, coupled with an increase of malt transport volumes over short distances.

OTHER

- lower quantities of clay and salt transported from Ukraine – lower demand for the commodity and delay in signing the Polish-Ukrainian agreement on the provision of rail transport services between PKP and UZ;
- absence of ferry services from Sweden via Świnoujście to Austria and Hungary;
- reduction in the quantity of transported prefabricated products made of cement and concrete – stagnation on the market for building materials.

4.3 Other services

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



4.4 Headcount

Information concerning movements in headcount in the PKP CARGO Group and PKP CARGO S.A. in 3M 2019 and in the corresponding period of 2018 is provided below.

Figure 18 Headcount in the Company and the PKP CARGO Group in 3M of 2019 and 2018

In Q1 2019, the average headcount in the PKP CARGO Group increased by 418 FTEs. In PKP CARGO S.A. itself, the headcount increased by 284 FTEs yoy.

4.5 PKP CARGO Group's investments

In Q1 2019, the PKP CARGO Group incurred capital expenditures for the acquisition of property, plant and equipment and intangible assets in the form of procurement, modernization and the overhaul component (periodic repairs of P4 and P5 rolling stock and periodic checkups of P3 rolling stock) of PLN 249.6 million, which was 88.4% higher than in the corresponding period of 2018. Moreover, in Q1 2019, the PKP CARGO Group acquired rights to use assets worth PLN 32.5 million resulting from the entry into force of IFRS 16.

The majority of capital expenditures in Q1 2019 in the PKP CARGO Group was allocated to the execution of capital expenditure endeavors associated with the rolling stock, mainly to periodic repairs (P4 and P5) and checkups (P3) of rolling stock and modernization of locomotives and purchases of wagons – in total PLN 240.4 million (i.e. 96.3% of total capital expenditures). Moreover, expenditures were incurred on ICT development, i.e. purchases of computer hardware and intangible assets (software) in the amount of PLN 1.0 million, investment construction activity in the amount of PLN 3.3 million and purchases of other machinery and other workshop and office equipment for PLN 4.9 million.

A detailed description of the PKP CARGO Group's capital expenditures in Q1 2019 and comparison with the actuals from Q1 2018 is presented in the table below.

Table 15 Capital expenditures on property, plant and equipment and intangible assets in the PKP CARGO Group in Q1 2019 compared to Q1 2018 (PLN million)

Item	Q1 2019	Q1 2018	Change yoy	Change yoy in %
Investment construction activity	3.3	2.3	1.0	43.5%
Locomotive upgrades	55.3	8.5	46.8	550.6%
Purchase of wagons	27.4	1.4	26.0	1857.1%
Workshop machinery and equipment	3.7	1.7	2.0	117.6%
ICT development	1.0	2.7	-1.7	-63.0%
Other	1.2	0.2	1.0	500.0%
Components in overhaul, including:	157.7	115.7	42.0	36.3%
Repairs and periodic inspections of locomotives	*45.6*	*24.7*	*20.9*	*84.6%*
Repairs and periodic inspections of wagons	*112.1*	*91.0*	*21.1*	*23.2%*
Total	**249.6**	**132.5**	**117.1**	**88.4%**
Right to use assets (IFRS 16)	32.5			
Total	**282.1**			

Source: Proprietary material

4.6 Key information and events

January

- Execution of agreements for transport of hard coal and limestone sorbents with a total maximum weight of 16.7 million tons with PGE Group companies. The agreements were entered into for the period from 1 January 2019 to 31 December 2021. The estimated maximum net value of the agreements during their terms is PLN 541.2 million (gross value of PLN 665.7 million).
- Extraordinary Shareholder Meeting of the Company.
- A contract with companies from the Siemens Consortium for the supply of 5 Vectron multi-system locomotives.
- The Supervisory Board's adoption of: the consolidated text of the Articles of Association of PKP CARGO S.A., the "Rules and regulations for appointing members of the PKP CARGO S.A. Management Board" and the "Rules and regulations for running elections for candidates to become an employee representative in the PKP CARGO S.A. Management Board and to appoint employee representatives to the PKP CARGO S.A. Supervisory Board and the procedure for their removal"
- Due to completion of term: initiation of the recruitment procedure for the positions of: President and Members of PKP CARGO S.A. Management Board

February

- Judgment of the Regional Court of first instance on payment for expenditures incurred by Eurologistyka Wschód sp. z o.o. in liquidation (PLN 2.1 million).
- Registration of amendments to Company's Articles of Association

March

- Posting of an impairment loss on the AWT Group's assets. The total value of this impairment loss in the consolidated financial statements for 2018 is approx. PLN 51.2 million (PLN 41.5 million PLN taking into account the tax effect).
- Publication of the Management Board's recommendation to distribute the profit earned in 2018.
- Consent to draw down an obligation to purchase of 936 flat wagons for the provision of intermodal transport services.
- Signing of a contract with Tatravagónka a.s. for the delivery of 936 new flat wagons for the provision of intermodal transport services. The purchase is co-financed with EU funds under the Infrastructure and Environment Operational Program for 2014-2020, Action 3.2.

April

- Signing of a letter of intent on cooperation between ORLEN Paliwa and PKP CARGO. ORLEN Paliwa will ensure reliable supplies of the highest quality fuels and will strengthen PKP CARGO's infrastructure by enabling efficient and economical refueling of rolling stock.
- Execution of a memorandum of agreement by parties to the Company Collective Bargaining Agreement for employees hired by PKP CARGO S.A. Units.
- Signing of a Collective Bargaining Agreement in PKP CARGO CONNECT.
- Consent to incur liabilities to enter into credit facilities with Bank Polska Kasa Opieki Spółka Akcyjna and Bank Gospodarstwa Krajowego under which investment loans will be provided to the company.
- Settlement of the legal dispute regarding VAT paid on OKD's receivables (PLN 1.8 million) on account of insolvency, for the time being pertaining to AWT Recultivace. A significant portion of the VAT on OKD's receivables is still held by AWT a.s.
- The District Court for the Capital City of Warsaw decided to add to the registry files the merger plan for PKP CARGO CONNECT sp. z o.o. and TRADE TRANS FINANCE sp. z o.o.
- Appointment of Supervisory Board members representing employees on the date of the Ordinary Shareholder Meeting. The following individuals will be appointed: Krzysztof Czarnota, Jerzy Sośnierz and Tadeusz Stachaczyński.
- Signing of a letter of intent between PKP CARGO S.A. and Agencja Rozwoju Przemysłu S.A. (Industrial Development Agency) to establish a joint investment venture involving the launch of business consisting of the production and repairs of wagons for the transportation of freight for the needs of PKP CARGO.
- Signing of a letter of intent in Duisburg between PKP CARGO S.A. and Duisburger Hafen AG, the operator of the Duisburg river port. The parties will cooperate on the expansion of intermodal connections between Poland and Germany.

May

- Receipt of a notification on the sale of a stake in PKP CARGO by the MetLife OPF and a change in its shareholding to a level below 5%.
- Publication of estimated selected financial and operating data of the PKP CARGO Group for Q1 2019.
- Signing agreements with banks Pekao S.A. and BGK concerning receiving investments loans up to max volume of 500 million PLN.

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

5.1 Key economic and financial figures of PKP CARGO Group

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

Table 16 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN million[86]		EUR million	
	3 months of 2019	3 months of 2018*	3 months of 2019	3 months of 2018*
Exchange rates (PLN/EUR)			**4.2978**	**4.1784**
Operating revenue	1,270.0	1,215.9	295.5	291.0
Profit / loss on operating activities	86.9	62.9	20.2	15.1
Profit / loss before tax	68.9	49.7	16.0	11.9
Net profit / loss	53.1	35.6	12.4	8.5
Total comprehensive income attributable to the owners of the parent company	50.8	40.9	11.8	9.8
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / losses per share	1.18	0.80	0.27	0.19
Diluted earnings / losses per share	1.18	0.80	0.27	0.19
Net cash flow from operating activities	162.7	198.3	37.9	47.5
Net cash flow from investing activities	-82.7	-238.2	-19.2	-57.0
Net cash flow from financing activities	-71.8	-80.6	-16.7	-19.3
Movement in cash and cash equivalents	8.2	-120.5	1.9	-28.8
	31/03/2019	**31/12/2018**	**31/03/2019**	**31/12/2018**
Exchange rates (PLN/EUR)			**4.3013**	**4.3000**
Non-current assets	6,051.1	5,187.2	1,406.8	1,206.3
Current assets	1,481.9	1,619.1	344.5	376.5
Share capital	2,239.3	2,239.3	520.6	520.8
Equity attributable to the owners of the parent company	3,537.1	3,483.5	822.3	810.1
Non-current liabilities	2,614.9	1,969.1	607.9	457.9
Current liabilities	1,381.0	1,353.7	321.1	314.8

Source: Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2019 prepared according to EU IFRS.

* restatement of data is described in detail in **Note 1.4 to the CFS**[87]

[86] To facilitate the reading of this document, some figures have been rounded off, which will not cause any significant deviations in the presented data. In all cases of possible distortions, the data were presented with greater accuracy.
[87] Any reference to a Note in these *"Additional information to the consolidated quarterly report for Q1 2019"* should be construed as a Note to the Consolidated Financial Statements of the PKP CARGO Group ("CFS") for the period of 3 months ended on 31 March 2019, prepared according to EU IFRS unless specified otherwise.

Table 17 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN million		EUR million	
	3 months of 2019	3 months of 2018	3 months of 2019	3 months of 2018
Exchange rates (PLN/EUR)			**4.2978**	**4.1784**
Operating revenue	964.7	920.5	224.5	220.3
Profit / loss on operating activities	69.0	64.2	16.1	15.4
Profit / loss before tax	54.2	56.0	12.6	13.4
Net profit / loss	41.7	43.8	9.7	10.5
Comprehensive income	41.8	38.0	9.7	9.1
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / losses per share	0.93	0.98	0.22	0.23
Diluted earnings / losses per share	0.93	0.98	0.22	0.23
Net cash flow from operating activities	177.9	187.5	41.4	44.9
Net cash flow from investing activities	-40.9	-220.1	-9.5	-52.7
Net cash flow from financing activities	-74.5	-69.8	-17.3	-16.7
Movement in cash and cash equivalents	62.5	-102.4	14.5	-24.5
	31/03/2019	**31/12/2018**	**31/03/2019**	**31/12/2018**
Exchange rates (PLN/EUR)			**4.3013**	**4.3000**
Non-current assets	5,581.1	4,902.5	1,297.5	1,140.1
Current assets	991.0	1,079.8	230.4	251.1
Share capital	2,239.3	2,239.3	520.6	520.8
Equity	3,356.8	3,314.6	780.4	770.8
Non-current liabilities	2,146.3	1,652.6	499.0	384.3
Current liabilities	1,069.0	1,015.1	248.5	236.1

Source: Quarterly Financial Information of PKP CARGO S.A. for the period of 3 months ended 31 March 2019 prepared according to EU IFRS.

The following average PLN to EUR exchange rates set by the National Bank of Poland have been used to translate selected financial data in the periods covered by the Quarterly Financial Information of PKP CARGO S.A. and the Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2019:

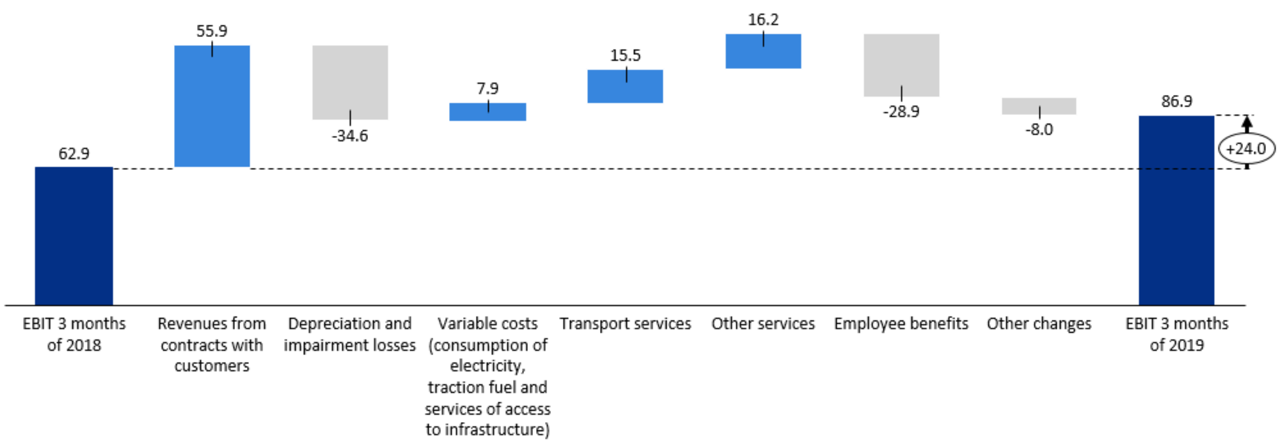
- exchange rate in force on the last day of the reporting period: 31 December 2019: EUR 1 = PLN 4.3013; 31 December 2018: EUR 1 = PLN 4.3000;
- average exchange rate in the period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in a given period: 1 January – 31 March 2019: EUR 1 = PLN 4.2978, 1 January – 31 March 2018: EUR 1 = PLN 4.1784.

5.1.2. Analysis of selected financial highlights of the PKP CARGO Group

Statement of profit or loss of the PKP CARGO Group

In the first 3 months of 2019, EBIT reached PLN 86.9 million, having gone up by PLN 24.0 million (38.2%) compared to the corresponding period of the previous year.

Figure 19 EBIT in 3M 2019 as compared to the corresponding period in 2018 (PLN million)



Source: Proprietary material

The following is the explanation of the most significant changes affecting EBIT in the first 3 months of 2019 as compared to the first 3 months of 2018:

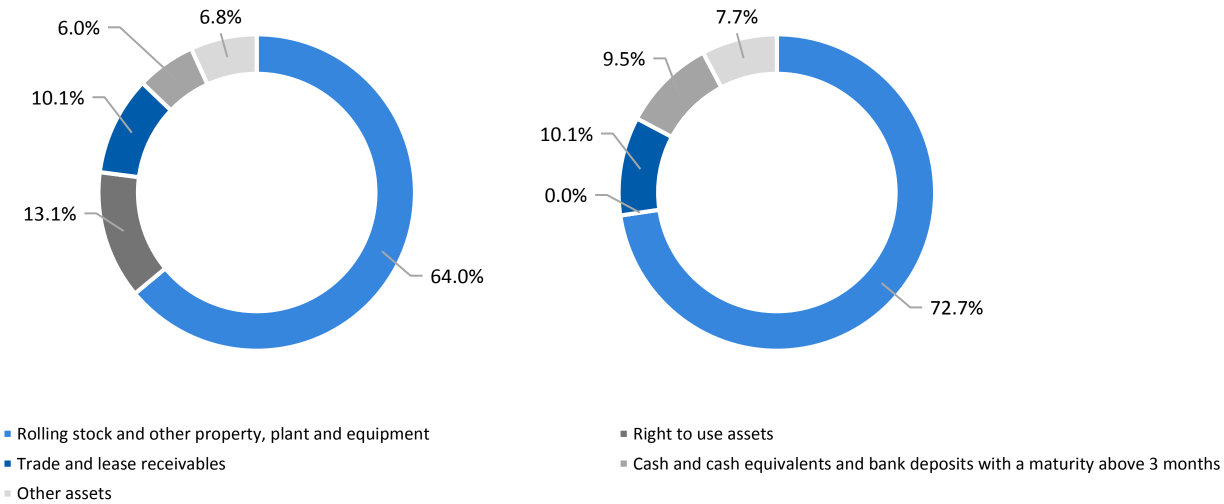
- increase in revenue from contracts with customers (chiefly revenue from transportation services and freight forwarding services) resulted from higher transport prices in a situation of lower transport performance (decrease in freight volume by 2.8%). The details pertaining to the PKP CARGO Group's transport services are described in section **4.2.3 "PKP CARGO Group's rail transport business"**;
- increase in depreciation and impairment losses, chiefly due to the introduction of IFRS 16 as of 1 January 2019 (for details on the entry into force of IFRS 16 on 1 January 2019, see **Note 1.3 to the CFS**). Without the impact of the standard, depreciation and impairment losses increase by PLN 8.1 million as a result of an increase in capital expenditures (related predominantly to rolling stock);
- decrease in variable costs (energy consumption, traction fuel and infrastructure access services), as a result of a 4.9% decrease in freight turnover and the reduced price list of PKP Polskie Linie Kolejowe S.A. for the 2018/2019 train timetable. In the case of traction energy costs and traction fuel, the increase in costs was caused mainly by the increase in the unit price of traction energy and traction fuel. The increase in traction energy prices was related to the general trend of electricity prices in Europe, in particular at the end of 2018, driven by, among other factors, more expensive CO_2 emission allowances. In a nutshell, the decline in the costs of access to infrastructure was greater than the increase in the cost of traction fuel and energy;
- lower costs of transport services due to a greater use of own resources in the field of transport services, coupled with a less intensive use of services provided by external parties and a decrease in freight turnover;
- decrease in the costs of other services, chiefly in the line item of costs of rents and fees for the use of real properties and rolling stock by PLN 21.6 million, mainly as a result of the entry into force of IFRS 16 on 1 January 2019. Moreover, the cost of reclamation services increased by PLN 3.1 million (in proportion to the increase in revenue from this source) as a result of a higher number of projects executed for OKD's mines in the Czech Republic;
- increase in employee benefits resulting primarily from wage increases in member companies of the PKP CARGO Group. At the same time, the PKP CARGO Group recorded an increase in the average headcount by 418 FTEs. This is associated with hiring more people for employee teams that are crucial for the PKP CARGO Group's operations as they are the ones who handle the freight volumes and maintain the rolling stock in proper technical condition. Detailed changes in the headcount level are presented in section **4.4 "Headcount"**;
- adverse effect of other changes on EBIT caused predominantly by a decrease in reversed impairment losses on trade receivables coupled with a slight increase in other costs, mainly of the consumption of materials and taxes and charges.

Statement of financial position of the PKP CARGO Group

ASSETS

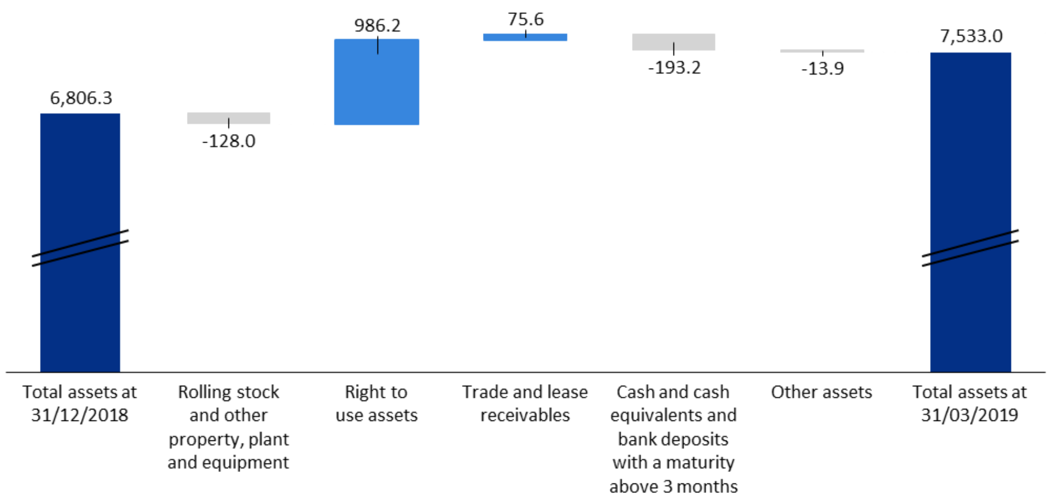
The biggest share in the asset structure was held by rolling stock and other property, plant and equipment, which as at 31 March 2019 accounted for 64.0% of total assets, compared to 72.7% as at 31 December 2018. A significant change resulting from the implementation of IFRS 16 is the right to use assets, which as at 31 March 2019 accounted for 13.1% of the value of assets. The largest share in the structure of current assets as at 31 March 2019 in relation to total assets was attributable to trade and lease receivables (10.1%), cash and cash equivalents and deposits with a maturity above 3 months (6.0%).

Figure 20 Structure of assets – as at 31 March 2019 and 31 December 2018



Source: Proprietary material

Figure 21 Movement in the Group's assets in the first 3 months of 2019 (in PLN million)



Source: Proprietary material

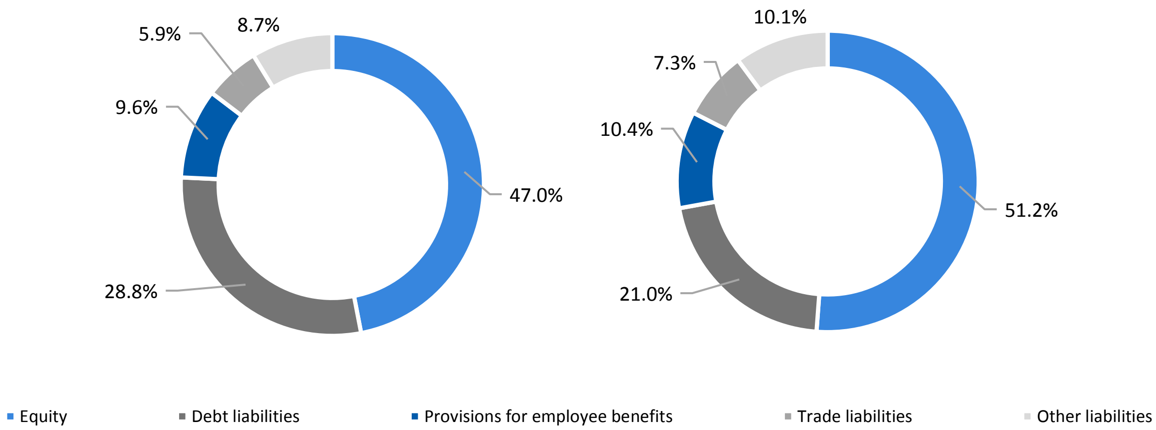
- The value of rolling stock and the value of other property, plant and equipment declined by PLN 128.0 million mainly as a result of the implementation of IFRS 16 as of 1 January 2019. Details on movement in rolling stock and other property, plant and equipment are described in **Note 5.1. to the CFS;**

- the ‘right to use assets’ line item of PLN 986.2 million as at 31 March 2019 was a result of the application of IFRS 16 as of 1 January 2019. Details on the ‘right to use assets’ line item and movements resulting from the implementation of IFRS 16 are described in **Note 5.2. to the CFS;**
- trade and lease receivables increased by PLN 75.6 million, in proportion to the increase in revenues during the last month of the period under analysis compared to December 2018;
- the value of cash and cash equivalents and bank deposits with a maturity above 3 months decreased by PLN 193.2 million, chiefly as a result of expenditures incurred as part of the rolling stock capital expenditure project;
- the value of other assets fell by PLN 13.9 million as a result of a PLN 24.9 million decrease in VAT settlements and a PLN 12.3 million increase in assets from the purchase of transportation benefits.

EQUITY AND LIABILITIES

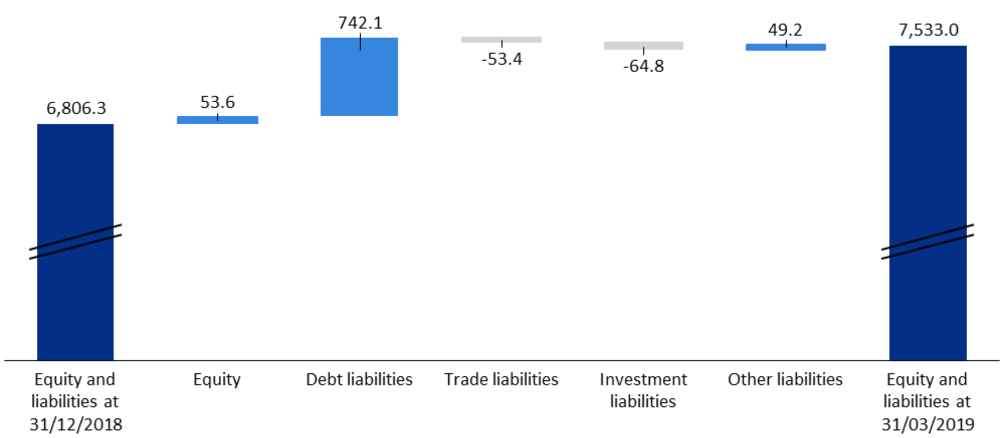
The largest share in the structure of the Group’s equity and liabilities as at 31 March 2019 was attributable to equity, which accounted for 47.0% of the sum of equity and liabilities, compared to 51.2% as at 31 December 2018. In the first 3 months of 2019, equity increased by PLN 53.6 million compared to 31 December 2018. Debt liabilities accounted for 28.8% of total equity and liabilities, compared to 21.0% as at 31 December 2018, which is related to the introduction of IFRS 16 as of 1 January 2019.

Figure 22 Structure of the Group’s equity and liabilities as at 31 March 2019 and 31 December 2018



Source: Proprietary material

Figure 23 Movement in the Group’s equity and liabilities in the first 3 months of 2019 (in PLN million)



Source: Proprietary material

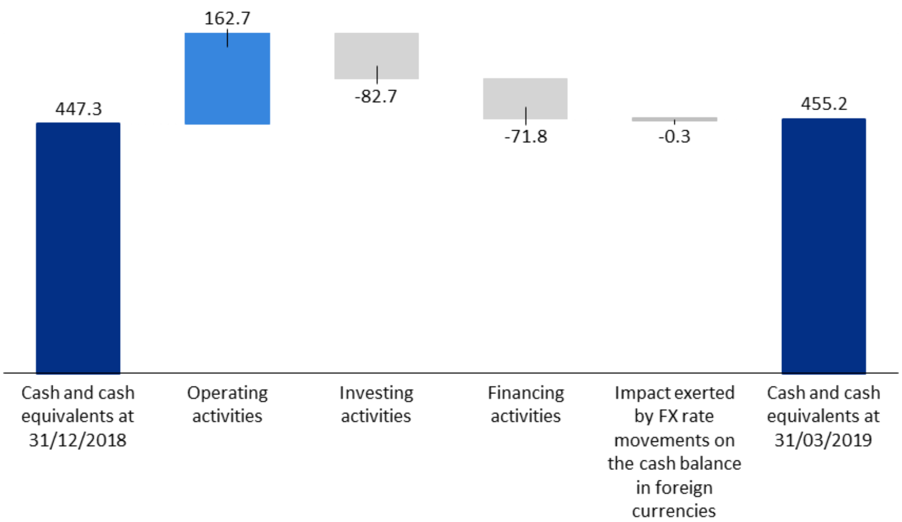
- The increase in equity resulted chiefly from the positive financial result generated in the first 3 months of 2019 (improvement in retained earnings by PLN 55.9 million);

- increase in the value of debt liabilities by PLN 742.1 million, chiefly due to the implementation IFRS 16 as of 1 January 2019 (the effect of this implementation on the line item in question as at 1 January 2019 was PLN 803.7 million), with debt payments in the amount of PLN 108.5 million. Details on movements resulting from the implementation of IFRS 16 are described in **Note 4.1. to the CFS;**
- decrease in trade liabilities by PLN 53.4 million caused mainly by a fall in the value of operating expenses;
- decrease in investment liabilities by PLN 64.8 million. The movement resulted from a decrease in the value of liabilities on the purchase and modernization of real properties by PLN 17.5 million caused by a decline in intensity of investments in modernization and a fall in liabilities on the acquisition of rolling stock by PLN 16.1 million due to a smaller number of modernized locomotives as at 31 March 2019 compared to 31 December 2018, which is related to delivery schedules;
- the value of other liabilities increased by PLN 49.2 million as a result of an increase in the value of employee provisions by PLN 16.6 million, predominantly due to an increase in the provision for unused vacation time. Additionally, public liabilities increased by PLN 25.6 million.

Statement of cash flows of the PKP CARGO Group

The value of cash and cash equivalents as at 31 March 2019 decreased by PLN 7.9 million compared to 31 December 2018.

Figure 24 Cash flows of the PKP CARGO Group in the first 3 months of 2019 (in PLN million)



Source: Proprietary material

- Net cash flow from operating activities were generated on the result before tax of PLN 68.9 million and depreciation and impairment losses of PLN 171.6 million. Moreover, the largest change contributing to the decrease in cash flows from operating activities was a decrease in the value of working capital by PLN 77.6 million. Another factor influencing the cash flow from operating activities is income tax, paid in the amount of PLN 11.3 million.
- The negative cash flows from investing activities directly affected capital expenditures on the acquisition of rolling stock, other property, plant and equipment and intangible assets in the amount of PLN 288.9 million. A positive effect on the value of cash flows from investing activities was exerted by the PLN 200.0 million withdrawal of bank deposits with a maturity of over 3 months.
- In the first 3 months of 2019, cash flow from financial activities resulted chiefly from the repayment of loans and borrowings, finance lease instalments and interest payments on finance leases and loans and borrowings of PLN 108.5 million. A positive contribution to the value of cash flows from financial activities was provided by subsidies to rolling stock in the amount of PLN 37.1 million.

5.1.3 Selected financial and operating ratios of the PKP CARGO Group

The table below presents the PKP CARGO Group's key financial and operating ratios in 3M 2019 compared to the corresponding period of the previous year.

Table 18 Key financial and operating ratios of the PKP CARGO Group in 3M 2019 as compared to the corresponding period of 2018

Item	3 months of 2019	3 months of 2018*	Change	% change
			2019 - 2018	2019/2018
EBITDA margin[1]	20.4%	16.4%	3.9 p.p.	23.8%
Net profit margin[2]	4.2%	2.9%	1.3 p.p.	42.8%
Net financial debt to EBITDA ratio[3]	1.5	1.2	0.3	19.8%
*Net financial debt to EBITDA ratio adjusted for the impact of IFRS 16***	*1.0*	*1.2*	*-0.2*	*-19.4%*
ROA[4]	2.7%	1.8%	0.9 p.p.	48.1%
ROE[5]	5.7%	3.5%	2.2 p.p.	60.9%
Average distance covered per locomotive (km/day)[6]	234.8	251.8	-17.0	-6.8%
Average gross train tonnage per operating locomotive (tons)[7]	1,458.0	1,458.0	0.0	0.0%
Average running time of train locomotives (hours per day)[8]	15.1	15.6	-0.5	-3.2%
Freight turnover per employee (thousands tkm/employee)[9]	304.0	325.5	-21.6	-6.6%

Source: Proprietary material

* restatement of data is described in detail in **Note 1.4 to the CFS**

** ratio adjusted for the effect of IFRS 16 on the balance sheet items and EBITDA

To assess the performance of the PKP CARGO Group, the following basic financial indicators may be applied: EBITDA margin, net profit margin, ROA, ROE, net financial debt to EBITDA ratio (for comparison purposes, the net financial debt to EBITDA ratio is adjusted for the impact of IFRS 16), and the following basic operational indicators: average daily mileage, average daily running time of locomotives, average train weight per locomotive and freight turnover per employee, which reflect the freight volume and the degree of utilization of traction vehicles.

At the stage of preparation of its prospectus, the PKP CARGO Group came to the conclusion that these indicators will reflect the full nature of the Group's operations, ensure a sufficiently long period enabling the comparison of data and permit the assessment of key performance parameters. Among the selected indicators, strong emphasis has been put on those that pertain to profitability and operational efficiency and enable the assessment of changes in profitability and the use of rolling

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) non-current debt liabilities, (ii) current debt liabilities, minus (i) cash and cash equivalents, (ii) deposits with a maturity above 3 months and EBITDA for 2019 (the result on operating activities plus amortization/depreciation and impairment losses). Details concerning calculation of the net financial debt to EBITDA ratio are presented in Note 4.1 in CFS.
4. Calculated as the ratio of net profit/loss for the last 12 months to total assets.
5. Calculated as the ratio of net profit for the last 12 months to equity.
6. Calculated as the ratio of vehicle-kilometers (i.e. distance covered by PKP CARGO Group's vehicles in the given period) to vehicle-days (i.e. product of the number of active vehicles and number of calendar days in the given period).
7. Calculated as the ratio of gross ton-kilometers and train-kilometers in train work 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 ratio of the Group's freight turnover to the average headcount (in FTEs) in the Group in the given period.

stock on various levels. Furthermore, one of the most important solvency ratios has been presented, which is also an indicator that is commonly used by banks (as a banking covenant in loan agreements).

- The key profitability ratios, i.e. the EBITDA margin, the net profit/loss margin, ROA and ROE, were higher on a yoy basis due to better financial performance, as described in section **5.1.2. Analysis of selected financial highlights of the PKP CARGO Group.** The net financial debt to EBITDA ratio adjusted for the impact of IFRS 16 improved as a result of an increase in EBITDA;
- deterioration of the average daily mileage of locomotives and the average daily operating time of locomotives caused by a decrease in commercial speed (track closures and obstacles on the PKP PLK S.A. network);
- decrease in the freight turnover per employee ratio caused by a fall in freight turnover by 4.9% yoy coupled with an increase in the headcount by 1.8% yoy.

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

Economic situation in Europe

- Freight turnover is strongly correlated not only with the rate of growth in GDP but also with periods of business cycle peaks and troughs and long-term fluctuations in various industrial sectors.
- The entire cargo transport industry (including cargo transport by rail) is also affected by relations with business partners.

Situation on the energy fuel market

- Due to the largest share of hard coal in rail transport, the fuel and power industries will continue to be the most important sectors of the economy.

Situation on the aggregates market

- Increase in the transport of aggregates and construction materials. It is driven chiefly by the intensification of work on infrastructural investment projects.
- It is expected that the favorable economic situation on the markets for construction materials will continue.

Situation on the intermodal transport market

- Handling of transports over the New Silk Road line.
- Increase in the volumes of overland intermodal transport between China and Western Europe through Małaszewicze.

Energy price levels

- The Parent Company and the Group companies are exposed to significant fluctuations in energy prices.

Condition of rail infrastructure

- Hindrances and the necessity to route railway traffic using detours.
- Railway track closures affecting the throughput of the lines and stations used.

Rail infrastructure access charges

- The costs of access to infrastructure will continue to constitute a significant item of operating expenses.
- As regards domestic and foreign infrastructure, no significant changes are expected to take place in the coming quarter.

Situation on the market for metallurgical raw materials

- ArcelorMittal Poland announced its plans to temporarily suspend the operation of its raw material portion of the Kraków steel mill, i.e. the blast furnace and steelworks. The closure will be effected in September 2019 and last several months or quarters.

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.
- In light of the aging nature of the available rolling stock and the limited capacities of repair plants, the future may bring a temporary misalignment between the quantities and types of the available rolling stock and the actual needs of the market.

Situation of OKD a.s.

- The OKD Management Board in consultation with the owner (the state-owned enterprise PRISKO) is working on a new strategy for hard coal mining operations. According to this strategy, mining operations on the existing deposits would be extended in relation to the restructuring plan by another seven years, that is until 2030.

Scrap price level

- The scrap market is very unstable and it is difficult to predict how the prices will behave in the coming quarters.
- Scrap prices translate directly into revenues from decommissioning of rolling stock by the Group.

Risk of changes to legal regulations

- Regulation on access to service facilities and rail-related services.
- Noise TSI, EU Emissions Trading Scheme (EU ETS).
- Amendment to the Rail Transport Act.
- Changes in the rules of train driver training programs and licenses.

Capital expenditures

- The Group will finance capital expenditures using partly external financing sources, such as investment loans or other forms of financing and also using its own funds.
- The implementation of the new IFRS 16 as of 1 January 2019 affects the method of recognizing various asset and liability items, which will translate into changes in the financial result and the balance sheet structure. The immpact of IFRS 16 implementation is described in **Note 1.3 to the CFS**.

Exchange rates and Management Policy

- PKP CARGO and the Group companies are exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies. The Company and PKP CC use currency risk hedging transactions in respect of the EUR/PLN currency pair. To manage this risk, FX forward hedging transactions are used. The said companies apply cash flow hedge accounting on investment loans denominated in EUR and FX forward transactions.

Social dialog

- The social dialog in PKP CARGO S.A. is based on the principles contemplated in the generally binding laws, the Company Collective Bargaining Agreement and the agreements defining the mutual obligations of the parties to the social dialog.
- The talks on wage increases referred to in § 5 of the Employee Guarantee Package will be conducted after the publication of the Company's results for Q1 2019.

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

As at the date of publication of these Quarterly Condensed Consolidated Financial Statements, the Parent Company's Management Board upholds its EBITDA forecast for the PKP CARGO Group published on 20 March 2019.

5.4 Information about production assets

5.4.1 Rolling stock

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

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

In 3M 2019, the number of locomotives and wagons owned by the Group decreased. The PKP CARGO Group keeps purchasing new locomotives and wagons and at the same time carries out the disposal process of its oldest rolling stock. Moreover, locomotives are modernized – during the first 3 months of 2019, 4 overhauls were performed with modernization of series ET41 locomotives and 6 overhauls of series SM48/ST48 locomotives. Currently, the PKP CARO Group owns 2,349 locomotives.

In Q2 2019, 794 wagons and 74 wrecked locomotives are scheduled to be sold.

PKP CARGO S.A. has decided to take advantage of the opportunity to purchase 5 multi-system Vectron locomotives. The value of the signed contract, including maintenance, is nearly PLN 112 million. The locomotives will be used on international routes in the north-south corridor. The locomotives will be delivered to PKP CARGO as following: 3 units by 19.07.2019 and 2 units by 15.01.2020.

Figure 25 Structure of rolling stock used by the PKP CARGO Group as at 31 March 2019 and 31 December 2018

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. The majority of real estate held by the Group is used on the basis of long-term lease and rental agreements.

The table below presents changes in real estate owned and used by the PKP CARGO Group during the first 3 months of 2019.

Table 19 Real estate owned and used by PKP CARGO Group as at 31 March 2019 as compared to 31 December 2018

Item	31/03/2019	31/12/2018	Change 2019-2018
Land - owned, in perpetual usufruct and leased from other entities [ha]	1,462	1,479	-17
Buildings - owned, leased and rented from other entities [sqm]	730,767	738,392	-7,625

Source: Proprietary material

The decrease in the surface area of occupied buildings (owned or leased from other entities) was caused, among other factors, by the conduct of ongoing verification of land properties and a reduction in the leased area by member companies of the PKP CARGO Group. AWT also demolished one of its buildings with a surface area of 440 m².

6. Other key information and events

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

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

6.2 Information on transactions with related parties

In the first 3 months of 2019, 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.

Detailed information on transactions with related parties is presented in **Note 7.1 to the CFS**.

6.3 Information on granted guarantees and sureties of loans or credits

PKP CARGO S.A. and its subsidiaries did not extend any sureties for loans or borrowings and did not grant guarantees to a single entity or subsidiary of such entity whose total amount would be material.

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

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

This Additional Information to the Consolidated Quarterly Report has been prepared by the PKP CARGO S.A. Management Board.

Company's Management Board

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President of the Management Board

Leszek Borowiec
Management Board Member

Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
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Warsaw, 22 May 2019

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