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**PKP CARGO GROUP'S**  
CONSOLIDATED QUARTERLY REPORT  
FOR Q3 2016



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QUARTELY CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS  
OF THE **PKP CARGO** GROUP  
FOR THE PERIOD OF 9 MONTHS  
ENDED 30 SEPTEMBER 2016  
PREPARED IN ACCORDANCE WITH IFRS  
AS ENDORSED BY THE EUROPEAN UNION

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

	Note	9 months ended 30/09/2016 (unaudited) PLN thousand	3 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (restated*) PLN thousand	3 months ended 30/09/2015 (restated*) PLN thousand
Revenue from sales of services and finished goods	5	3 165 891	1 077 038	3 083 886	1 187 347
Revenue from sales of goods and materials		22 439	8 834	25 512	7 838
Other operating revenue	7.1	25 444	4 893	171 153	15 193
<b>Total operating revenue</b>		<b>3 213 774</b>	<b>1 090 765</b>	<b>3 280 551</b>	<b>1 210 378</b>
Depreciation / amortization and impairment losses	6.1	470 290	146 152	337 922	127 320
Consumption of raw materials and energy	6.2	492 217	165 664	489 351	182 395
External services	6.3	1 157 484	383 358	1 015 163	407 635
Taxes and charges		29 386	11 088	28 169	10 805
Employee benefits	6.4	1 105 746	352 754	1 058 305	363 176
Other expenses by kind	6.5	39 076	12 786	36 921	15 390
Cost of merchandise and raw materials sold		17 341	5 425	19 092	6 697
Other operating expenses	7.2	88 498	5 659	22 823	4 990
<b>Total operating expenses</b>		<b>3 400 038</b>	<b>1 082 886</b>	<b>3 007 746</b>	<b>1 118 408</b>
<b>Profit / (loss) on operating activities</b>		<b>(186 264)</b>	<b>7 879</b>	<b>272 805</b>	<b>91 970</b>
Financial revenue	8.1	1 011	237	9 455	78
Financial expenses	8.2	46 220	8 302	42 280	15 918
Share in the profit / (loss) of entities accounted for under the equity method	12	2 597	595	3 572	90
Result on sale of entities accounted for under the equity method		-	-	1 865	-
<b>Profit / (loss) before tax</b>		<b>(228 876)</b>	<b>409</b>	<b>245 417</b>	<b>76 220</b>
Income tax expense	9.1	(28 627)	6 069	18 912	12 235
<b>NET PROFIT / (LOSS)</b>		<b>(200 249)</b>	<b>(5 660)</b>	<b>226 505</b>	<b>63 985</b>

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements

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

	Note	9 months ended 30/09/2016 (unaudited) PLN thousand	3 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (restated*) PLN thousand	3 months ended 30/09/2015 (restated*) PLN thousand
<b>NET PROFIT / (LOSS)</b>		<b>(200 249)</b>	<b>(5 660)</b>	<b>226 505</b>	<b>63 985</b>
<b>Other comprehensive income</b>					
<b>Other comprehensive income that will be reclassified to profit or loss in subsequent periods:</b>		<b>13 821</b>	<b>(10 901)</b>	<b>24 102</b>	<b>9 166</b>
Effective portion of changes in fair value of cash flow hedging instruments		4 538	8 154	510	(1 258)
Income tax on other comprehensive income	9.2	(862)	(1 549)	(97)	239
Foreign exchange differences on translation of subsidiaries' financial statements		10 145	(17 506)	23 689	10 185
<b>Other comprehensive income that will not be reclassified to profit or loss:</b>		<b>-</b>	<b>-</b>	<b>53 764</b>	<b>-</b>
Actuarial gains / (losses) on post-employment benefits		-	-	66 375	-
Income tax on other comprehensive income	9.2	-	-	(12 611)	-
<b>Other comprehensive income</b>		<b>13 821</b>	<b>(10 901)</b>	<b>77 866</b>	<b>9 166</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>(186 428)</b>	<b>(16 561)</b>	<b>304 371</b>	<b>73 151</b>
<b>Net profit / (loss) attributable to:</b>					
Shareholders of the Parent Company		(200 249)	(5 660)	226 648	63 985
Non-controlling interests		-	-	(143)	-
		<b>(200 249)</b>	<b>(5 660)</b>	<b>226 505</b>	<b>63 985</b>
<b>Total comprehensive income / (loss) attributable to:</b>					
Shareholders of the Parent Company		(186 428)	(16 561)	304 514	73 151
Non-controlling interests		-	-	(143)	-
		<b>(186 428)</b>	<b>(16 561)</b>	<b>304 371</b>	<b>73 151</b>
<b>Earnings per share (PLN per share)</b>					
Earnings per share on operations (basic):	20.1	<b>(4,47)</b>	<b>(0,13)</b>	<b>5,06</b>	<b>1,43</b>
Earnings per share on operations (diluted):	20.2	<b>(4,47)</b>	<b>(0,13)</b>	<b>5,06</b>	<b>1,43</b>

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements

**QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**PREPARED AS AT 30 SEPTEMBER 2016**

	Note	As at 30/09/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand	As at 30/09/2015 (restated*) PLN thousand
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	10	4 723 301	4 719 748	4 898 970
Intangible assets		57 421	66 437	67 519
Goodwill		-	-	2 712
Investment properties		1 270	1 309	1 323
Investments accounted for under the equity method	12	40 325	39 831	38 952
Trade and other receivables	16	2 614	5 074	4 962
Other long-term financial assets	13	10 003	9 849	9 797
Other long-term non-financial assets	14	21 149	32 666	21 158
Deferred tax assets	9.3	121 088	104 587	60 301
<b>Total non-current assets</b>		<b>4 977 171</b>	<b>4 979 501</b>	<b>5 105 694</b>
<b>Current assets</b>				
Inventories	15	124 856	128 513	131 838
Trade and other receivables	16	651 111	664 321	748 740
Income tax receivables		2 831	2 748	3 806
Other short-term financial assets	13	6 975	4 046	6 545
Other short-term non-financial assets	14	23 536	13 281	39 973
Cash and cash equivalents	17	166 922	276 191	144 507
		<b>976 231</b>	<b>1 089 100</b>	<b>1 075 409</b>
Non-current assets classified as held for sale	18	6 000	44 061	65 340
<b>Total current assets</b>		<b>982 231</b>	<b>1 133 161</b>	<b>1 140 749</b>
<b>Total assets</b>		<b>5 959 402</b>	<b>6 112 662</b>	<b>6 246 443</b>

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements

**QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**PREPARED AS AT 30 SEPTEMBER 2016 (continued)**

	Note	As at 30/09/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand	As at 30/09/2015 (restated*) PLN thousand
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	19.1	2 239 346	2 239 346	2 239 346
Share premium		618 531	619 407	619 407
Other items of equity		897	(2 779)	5 560
Foreign exchange differences on translation of subsidiaries' financial statements		41 645	31 500	23 689
Retained earnings		267 019	466 392	661 486
<b>Equity attributable to the shareholders of the Parent Company</b>		<b>3 167 438</b>	<b>3 353 866</b>	<b>3 549 488</b>
<b>Total equity</b>		<b>3 167 438</b>	<b>3 353 866</b>	<b>3 549 488</b>
<b>Non-current liabilities</b>				
Long-term bank loans and credit facilities	21	769 780	460 577	463 166
Long-term financial lease liabilities and leases with purchase option	23	149 277	193 500	212 530
Long-term trade and other payables	24	4 039	25 953	36 367
Long-term provisions for employee benefits	25	593 495	603 621	556 910
Other long-term provisions	26	28 067	28 886	24 197
Other long-term financial liabilities	22	-	155 198	148 994
Deferred tax provision	9.3	105 116	118 353	115 834
<b>Non-current liabilities</b>		<b>1 649 774</b>	<b>1 586 088</b>	<b>1 557 998</b>
<b>Current liabilities</b>				
Short-term bank loans and credit facilities	21	194 783	253 592	279 640
Short-term finance lease liabilities and leases with purchase option	23	67 115	65 416	73 983
Short-term trade and other payables	24	597 029	729 793	654 209
Short-term provisions for employee benefits	25	105 786	100 383	104 453
Other short-term provisions	26	16 171	17 856	18 652
Other short-term financial liabilities	22	160 197	2 174	5 317
Current tax liabilities		1 109	3 494	2 703
<b>Total current liabilities</b>		<b>1 142 190</b>	<b>1 172 708</b>	<b>1 138 957</b>
<b>Total liabilities</b>		<b>2 791 964</b>	<b>2 758 796</b>	<b>2 696 955</b>
<b>Total equity and liabilities</b>		<b>5 959 402</b>	<b>6 112 662</b>	<b>6 246 443</b>

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements

**QUARTERLY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2016 TO 30 SEPTEMBER 2016**

	Other items of equity				Foreign exchange differences on translation of subsidiaries' financial statements	Retained earnings	Attributable to shareholders of the Parent Company	Attributable to non- controlling interests	Total
	Share capital	Share premium	Actuarial gains (losses) on post- employment benefits	Changes in fair value of cash flow hedge					
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
<b>Balance as at 1/01/2016 (audited)</b>	<b>2 239 346</b>	<b>619 407</b>	<b>(3 880)</b>	<b>1 101</b>	<b>31 500</b>	<b>466 392</b>	<b>3 353 866</b>	<b>-</b>	<b>3 353 866</b>
Net result for the period	-	-	-	-	-	(200 249)	(200 249)	-	(200 249)
Other net comprehensive income for the period	-	-	-	3 676	10 145	-	13 821	-	13 821
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3 676</b>	<b>10 145</b>	<b>(200 249)</b>	<b>(186 428)</b>	<b>-</b>	<b>(186 428)</b>
Other changes in equity for the period	-	(876)	-	-	-	876	-	-	-
<b>Balance as at 30/09/2016 (unaudited)</b>	<b>2 239 346</b>	<b>618 531</b>	<b>(3 880)</b>	<b>4 777</b>	<b>41 645</b>	<b>267 019</b>	<b>3 167 438</b>	<b>-</b>	<b>3 167 438</b>
<b>Balance as at 1/01/2015 (audited)</b>	<b>2 239 346</b>	<b>615 343</b>	<b>(46 986)</b>	<b>(1 631)</b>	<b>-</b>	<b>525 721</b>	<b>3 331 793</b>	<b>63 500</b>	<b>3 395 293</b>
Net result for the period	-	-	-	-	-	226 648	226 648	(143)	226 505
Other net comprehensive income for the period	-	-	53 764	413	23 689	-	77 866	-	77 866
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>53 764</b>	<b>413</b>	<b>23 689</b>	<b>226 648</b>	<b>304 514</b>	<b>(143)</b>	<b>304 371</b>
Dividend payment	-	-	-	-	-	(110 176)	(110 176)	-	(110 176)
Transactions with non- controlling interests	-	-	-	-	-	23 357	23 357	(63 357)	(40 000)
Other changes in equity for the period	-	4 064	-	-	-	(4 064)	-	-	-
<b>Balance as at 30/09/2015 (restated*)</b>	<b>2 239 346</b>	<b>619 407</b>	<b>6 778</b>	<b>(1 218)</b>	<b>23 689</b>	<b>661 486</b>	<b>3 549 488</b>	<b>-</b>	<b>3 549 488</b>

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements



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

	Note	9 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (restated*) PLN thousand
<b>Cash flows from operating activities</b>			
<b>Profit (loss) / before tax</b>		<b>(228 876)</b>	<b>245 417</b>
<b>Adjustments:</b>			
Depreciation of property, plant and equipment and amortization of intangible assets	6.1	434 875	337 579
Impairment loss on non-current assets	6.1	35 415	343
(Gain) / loss on disposal / liquidation of property, plant and equipment, intangible assets and non-current assets classified as held for sale		(18)	1 038
Foreign exchange (gain) / loss		(616)	(2 855)
(Gains) / losses on interest, dividends		22 617	17 220
Share in the (profit) / loss of entities accounted for under the equity method	12	(2 597)	(3 572)
Result on sales of entities accounted for under the equity method		-	(1 865)
Bargain purchase gain on acquisition of AWT		-	(137 779)
Other adjustments		5 247	67 277
<b>Changes in working capital:</b>			
(Increase) / decrease in trade and other receivables		13 450	(50 697)
(Increase) / decrease in inventories		5 333	17 526
(Increase) / decrease in other assets		(12 309)	(8 680)
Increase / (decrease) in trade and other payables		(129 761)	24 932
Increase / (decrease) in other financial liabilities		2 825	6 032
Increase / (decrease) in provisions		(7 228)	(392 011)
<b>Cash flows from operating activities</b>		<b>138 357</b>	<b>119 905</b>
Interest received / (paid)		(809)	372
Income taxes received / (paid)		(5 337)	(9 245)
<b>Net cash provided by operating activities</b>		<b>132 211</b>	<b>111 032</b>

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements

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

	Note	9 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (restated*) PLN thousand
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment and intangible assets		(438 319)	(424 458)
Proceeds from sale of property, plant and equipment, intangible assets and non-current assets classified as held for sale		8 235	2 808
Acquisition of entities accounted for under the equity method		-	(1 613)
Proceeds from the sale of entities accounted for under the equity method		-	2 000
Acquisition of other financial assets		(111)	-
Acquisition of subsidiary, net of cash acquired		-	(325 956)
Interest received		666	6 309
Dividends received		1 768	1 192
Proceeds from loans granted		(131)	-
Repayments of loans granted		-	90
Inflows from bank deposits over 3 months		1 152	299 836
Other proceeds from investing activities		-	3 469
<b>Net cash provided by investing activities</b>		<b>(426 740)</b>	<b>(436 323)</b>
<b>Cash flows from financing activities</b>			
Payments of liabilities under finance lease		(48 294)	(108 013)
Payments of interest under lease agreement		(6 635)	(6 871)
Proceeds from credit facilities / loans received		468 055	398 268
Repayments of credit facilities / loans received		(218 874)	(81 047)
Interest on credit facilities / loans received		(12 760)	(10 953)
Grants received		5 407	2 833
Dividends paid to shareholders of the Parent Company		-	(110 176)
Transactions with non-controlling interests		-	(40 000)
Other inflows / (outflows) from financing activities		(3 173)	(5 324)
<b>Net cash provided by financing activities</b>		<b>183 726</b>	<b>38 717</b>
Net increase / (decrease) in cash and cash equivalents		(110 803)	(286 574)
Opening balance of cash and cash equivalents	17	276 191	429 178
Effects of foreign exchange differences on the balance of cash denominated in foreign currency		1 534	1 903
<b>Closing balance of cash and cash equivalents</b>	17	<b>166 922</b>	<b>144 507</b>

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements

## EXPLANATORY NOTES TO THE QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS AT 30 SEPTEMBER 2016

### 1. General information

#### 1.1 Information on the Parent Company

PKP CARGO S.A. ("the Parent Company") was formed based on a notarial deed dated 29 June 2001 (Repertory A No. 1287/2001). The Parent Company's registered office is Warsaw, at Grójecka street no. 17. The Parent Company is registered with the National Court Register at the District Court in Katowice, Business Division of the National Court Register, in number KRS 0000027702. At present, due to a subsequent change in the Parent Company's registered office, the Parent Company's records are kept by the Registration Court for the Capital City of Warsaw, XII Business Division of the National Court Register.

The Parent Company has been assigned statistical identification number REGON 277586360, as well as tax identification number NIP 954-23-81-960.

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

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

#### Management Board:

Maciej Libiszewski	-	President of the Management Board
Arkadiusz Olewnik	-	Member of the Management Board in charge of Finances
Jarosław Klasa	-	Member of the Management Board in charge of Operations
Grzegorz Fingas	-	Member of the Management Board in charge of Sales
Zenon Kozendra	-	Member of the Management Board – Employees Representative

#### Supervisory Board:

Mirosław Pawłowski	-	Chairman of the Supervisory Board
Andrzej Wach	-	Vice-Chairman of the Supervisory Board
Raimondo Eggink	-	Member of the Supervisory Board
Jerzy Kleniewski	-	Member of the Supervisory Board
Czesław Warsewicz	-	Member of the Supervisory Board
Małgorzata Kryszkiewicz	-	Member of the Supervisory Board
Zofia Dzik	-	Member of the Supervisory Board
Marek Podskalny	-	Member of the Supervisory Board
Krzysztof Czarnota	-	Member of the Supervisory Board
Tadeusz Stachaczyński	-	Member of the Supervisory Board

On 19 January 2016 the Parent Company's Supervisory Board appointed Maciej Libiszewski to the position of President of the Management Board. Maciej Libiszewski was nominated to the position of President of the Management Board by the Parent Company's shareholder – PKP S.A., based on a personal entitlement resulting from § 14 par. 4 of the Statute. The appointment was later confirmed by way of a recruitment proceeding for the position of President of the Management Board conducted by the Supervisory Board with the participation of a professional recruitment adviser.

On 24 February 2016 the following Members submitted their resignations from the Parent Company's Management Board effective immediately:

- Jacek Neska,
- Łukasz Hadyś,
- Wojciech Derda.

On 31 March 2016 the Supervisory Board passed a resolution to appoint the following persons to the Parent Company's Management Board effective from 1 April 2016:

- Grzegorz Fingas,
- Arkadiusz Olewnik,
- Jarosław Klasa.

The mandates of the following Members of the Supervisory Board of the 5th term expired on 11 May 2016:

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

On 9 May 2016 the Parent Company's shareholder - PKP S.A. informed of the appointment of the following persons to the Supervisory Board effective from 11 May 2016:

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

The Ordinary General Meeting of 11 May 2016 passed a resolution to appoint the following persons to the Supervisory Board:

- Raimondo Eggink,
- Zofia Dzik.

The mandate of Dariusz Browarek, Member of the Management Board, Employees' Representative, expired on 11 May 2016.

On 20 May 2016 the Parent Company's Supervisory Board appointed the following persons as employees' representative on the Supervisory Board:

- Krzysztof Czarnota,
- Marek Podskalny,
- Tadeusz Stachaczyński.

On 14 July 2016 the Supervisory Board passed a resolution to appoint Zenon Kozendra as employees' representative on the Parent Company's Management Board effective from 14 July 2016.

The Parent Company's shareholder's structure as at 30 September 2016 was as follows:

Entity	Registered office	Number of shares	% of share capital held	% of voting rights
PKP S.A. <sup>(1)</sup>	Warszawa	14 784 194	33,01%	33,01%
Nationale-Nederlanden OFE <sup>(2)</sup>	Warszawa	5 771 555	12,89%	12,89%
MetLife OFE <sup>(3)</sup>	Warszawa	2 494 938	5,57%	5,57%
Aviva OFE <sup>(4)</sup>	Warszawa	2 338 371	5,22%	5,22%
Other shareholders		19 397 859	43,31%	43,31%
<b>Total</b>		<b>44 786 917</b>	<b>100,00%</b>	<b>100,00%</b>

<sup>(1)</sup> As per notice sent by shareholder on 24 June 2014.

<sup>(2)</sup> As per notice sent by shareholder on 12 November 2015.

<sup>(3)</sup> As per notice sent by shareholder on 18 August 2016.

<sup>(4)</sup> As per notice sent by shareholder on 13 August 2014.

On 16 March 2016 the Parent Company's Management Board was notified by Morgan Stanley of a reduction by Morgan Stanley of its holding to below 5% of total votes at the Parent Company's general meeting. The reduction occurred as a result of a sale of the Parent Company's shares, performed on the Warsaw Stock Exchange on 10 March 2016.

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

## 1.2 Information about the Group

As at the balance sheet date the PKP CARGO Group (hereinafter referred to as the Group) comprises PKP CARGO S.A. as the Parent Company and 30 subsidiary companies. In addition, the Group has 6 associated companies and shares in 4 joint ventures.

On 28 May 2015 the Parent Company acquired from Mr. Zdenek Bakala and The Bakala Trust 80% of the shares of Advanced World Transport B.V. with its registered office in Amsterdam (hereinafter referred to as AWT), which is the parent company of the AWT Group. Due to the moment at which control was acquired, the comparative data for the period of 9 months ended 30 September 2015 presented in the quarterly consolidated statement of comprehensive income, the quarterly consolidated statement of changes in equity and the quarterly consolidated statement of cash flows include the financial data of the AWT Group companies for the period of 4 months ended 30 September 2015.

Detailed information on the acquisition of AWT is presented in Note 6 to the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015, prepared in accordance with International Financial Reporting Standards endorsed by the European Union ("IFRS EU"). The fair value of the acquired net assets of AWT determined provisionally as at the acquisition date has not changed.

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

The Group's main area of activities is the rail transport of freight. In addition to the rail transport of freight, the Group provides the following services:

- a) intermodal services,
- b) shipping services (domestic and international),
- c) terminal services,
- d) siding and track line services,
- e) rolling stock maintenance and repair services
- f) reclamation services.

The duration of the companies comprising the Group is not limited, with the exception of companies in liquidation.

### 1.3 Functional currency and presentation currency

These Quarterly Consolidated Financial Statements have been prepared in Polish zlotys (PLN). The Polish zloty is the Parent Company's functional and presentation currency. The data in the financial statements are presented in thousands of Polish zlotys, unless presented with more accuracy in specific cases.

For consolidation purposes, the financial data of foreign companies have been translated into the Polish currency in the following manner:

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

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

The following exchange rates have been used to value the financial statements of subsidiaries covered by the consolidation:

Currency	Statement of financial position items		Statement of comprehensive income items	
	As at 30/09/2016 (unaudited)	As at 31/12/2015 (audited)	9 months ended 30/09/2016 (unaudited)	9 months ended 30/09/2015* (restated)
EUR	4,3120	4,2615	4,3736	4,1913
CZK	0,1596	0,1577	0,1616	0,1541
HUF	0,0139	0,0136	0,0140	0,0134

\* rates translated for the period from 28 May 2015 to 30 September 2015

## 2. Basis for the application of International Financial Reporting Standards

### 2.1 Statement of compliance

These Quarterly Condensed Consolidated Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 – Interim Financial Reporting ("IAS 34") and in accordance with the accounting standards applicable to interim financial reporting endorsed by the European Union ("IFRS EU"), published and binding during the preparation of these Quarterly Condensed Consolidated Financial Statements, and in accordance with the Minister's of Finance Decree of 19 February 2009 on the current and periodic information submitted by the issuers of securities and the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (2014 Journal of Laws, item 133 with subsequent amendments) ("the Decree").

These Quarterly Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015, prepared in accordance with IFRS EU.

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

These Quarterly Condensed Consolidated Financial Statements have been prepared on a historical cost basis, with the exception of derivative financial instruments measured at fair value, liabilities relating to put option for non-controlling interests, non-current assets classified as held for sale and financial assets listed in active markets.

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

In the years 2015 – 2016 the Group discontinued no operations that would require disclosure in these Quarterly Condensed Consolidated Financial Statements.

These Quarterly Condensed Consolidated Financial Statements were approved for publication by the Management Board on 15 November 2016.

### 2.2 Status of EU endorsement of standards

The following changes to existing standards published by the International Accounting Standards Board and endorsed by the EU became effective in 2016:

- **Amendments to IFRS 11 "Joint Arrangements"** entitled Accounting for Acquisitions of Interests – apply to annual periods beginning on or after 1 January 2016.
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** entitled Agriculture – Bearer Plants – apply to annual periods beginning on or after 1 January 2016.
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** entitled Clarification of Accepted Methods of Depreciation and Amortization - apply to annual periods beginning on or after 1 January 2016.
- **Amendments to International Financial Reporting Standards 2010-2012** (annual improvements to IFRS 2010-2012 contain 8 amendments to 7 standards, with corresponding changes to the remaining standards and interpretations) – apply to periods beginning on or after 1 February 2015.
- **Amendments to International Financial Reporting Standards 2012-2014** (annual improvements to IFRS 2012-2014 contain 4 amendments to standards, with corresponding changes to the remaining standards and interpretations) – apply to periods beginning on or after 1 January 2016.
- **Amendments to IAS 1 "Presentation of Financial Statements"** entitled Disclosure Initiative – apply to periods beginning on or after 1 January 2016.
- **Amendments to IAS 19 "Employee Benefits"** entitled Defined Benefit Plans: Employee Contributions – apply to periods beginning on or after 1 February 2015.

The application of the above standards, interpretations and amendments to standards had no material effect on the Group's existing accounting policies.

## 2.3 Standards and interpretations adopted by IASB, but not yet endorsed by the EU

At present, IFRS endorsed by the EU do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, amendments to standards and interpretations, which had not been adopted for use as at 30 September 2016:

- **IFRS 9 "Financial Instruments"** – applicable to periods beginning on or after 1 January 2018.
- **IFRS 14 "Regulatory Deferral Accounts"** – applicable to annual periods beginning on or after 1 January 2016.
- **IFRS 15 "Revenue from Contracts with Customers"** – applicable to annual periods beginning on or after 1 January 2018.
- **Clarifications to IFRS 15 "Revenue from Contracts with Customers"** – applicable to annual periods beginning on or after 1 January 2018.
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** entitled Investment Entities: Applying the Consolidation Exception – applicable to periods beginning on or after 1 January 2016.
- **IFRS 16 "Leases"** - applicable to annual periods beginning on or after 1 January 2019.
- **Amendments to IAS 7 "Statement of Cash Flows"** entitled Disclosure Initiative – applicable to periods beginning on 1 January 2017.
- **Amendments to IAS 12 "Income Taxes"** entitled Recognition of Deferred Tax Assets for Unrealized Losses – applicable to periods beginning on 1 January 2017.
- **Amendments to IFRS 2 "Share-based Payment"** entitled Classification and Measurement of Share-based Payment Transactions – applicable to periods beginning on 1 January 2018.
- **Amendments to IFRS 4 "Insurance Contracts"** entitled Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" – applicable to periods beginning on 1 January 2018.

The Group is analyzing the effect on its accounting policies of the published IFRS 9 "Financial Instruments", IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leases". The Group has analyzed the potential effect of the other above-listed standards, interpretations and amendments to standards on its accounting policies. In the opinion of the Parent Company's Management Board, they will have no material effect on the Group's existing accounting policies.



### 3. Applied accounting policies

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#### 3.1 Statement on accounting policies

The accounting policies and calculation methods used in the preparation of these Quarterly Condensed Consolidated Financial Statements are consistent with the policies described in the audited Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015, prepared in accordance with IFRS EU (see Note 4 to the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015, prepared in accordance with IFRS EU).

#### 3.2. Information on the seasonal or cyclical nature of the Group's interim operations

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

#### 3.3. Change in estimates

The following changes of significant estimates were made in the period of 9 months ended 30 September 2016:

- deferred income tax – the effect of the recalculation of deferred income tax as at 30 September 2016 is presented in Note 9 to these Quarterly Condensed Consolidated Financial Statements,
- provisions for employee benefits – the provisions have been estimated as at 30 September 2016, the effect of the recalculation is presented in Note 25 to these Quarterly Condensed Consolidated Financial Statements,
- valuation of a liability relating to a put option for non-controlling interests – description of the method used to make estimates and the effect of recalculation as at 30 September 2016 is presented in Note 22 to these Quarterly Condensed Consolidated Financial Statements,
- property, plant and equipment
  - determination of residual value is based on the current prices of scrap for specific classes. Due to a significant decrease in the prices of scrap, the Group reduced the residual value of its rolling stock as at 31 December 2015. A reduction in residual value and an increase in the depreciation base resulted in a rise in depreciation in the period of 9 months ended 30 September 2016 by approximately PLN 45 million. As at 31 December 2016 the Group will reanalyze the residual value of its rolling stock based on scrap prices on that day, and will update it accordingly if the change in price will have a significant effect on the Consolidated Financial Statements.
  - in the period 9 months ended 30 September 2016 as a result of impairment tests prepared as at 30 June 2016 the Group recognized an impairment loss relating to property, plant and equipment; the effect of the recognized loss is presented in Note 10.1 to these Quarterly Condensed Consolidated Financial Statements.
- trade receivables – further to the bankruptcy filing made by the Czech coal consortium OKD a.s. ("OKD"), the Group verified the likelihood of collecting its receivables from OKD. As a result of the verification, the Group decided to recognize an impairment allowance for its receivables from OKD. Detailed information is presented in Note 16 to these Quarterly Condensed Consolidated Financial Statements.

No other changes in estimates or estimate methodology with a significant effect on the current or future periods were made in the period of 9 months ended 30 September 2016.

#### 4. Change in accounting policies and presentation of data

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##### 4.1 Capitalization of the costs of periodic rolling stock repairs

In the year 2015 the Group performed a redefinition of components in its accounting policies, as a result of which periodic reviews of P3 rolling stock were considered as a repair component under IFRS EU. Periodic reviews of P3 cars and engines are similar in nature to periodic P4 and P5 repairs, which had thus far been classified by the Group as repair components, and their performance is strictly related to the ability to use the vehicles throughout the entire depreciation period of P4 and P5 components. In view of this, starting with the Consolidated Financial Statements for the financial year ended 31 December 2015, the Group changed its approach to the classification and began to settle P3 reviews on a component basis. In prior periods, periodic P3 reviews had been recognized in the financial result at the moment when their costs were incurred, so to ensure comparability of data the Group restated the comparative data for the period of 9 months ended 30 September 2015. The effect of the restatement is presented in Note 4.4 to these Quarterly Condensed Consolidated Financial Statements.

##### 4.2 Recognition of provisions for death benefits

In 2015 the Group changed its accounting policies with regard to the recognition of provisions for employee benefits. Starting with the Consolidated Financial Statements for the financial year ended 31 December 2015, the Group recognizes a provision for death benefits. The provision is calculated using the actuarial method. In prior periods the Group had only recognized the death benefits that had been paid out in a given reporting period. In view of this, to ensure comparability of data the Group restated the comparative data for the period of 9 months ended 30 September 2015. The effect of the restatement is presented

in Note 4.4 to these Quarterly Condensed Consolidated Financial Statements.

##### 4.3 Presentation changes

Starting with the Consolidated Financial Statements for the financial year ended 31 December 2015, the Group changed its accounting policies with regard to the presentation of:

- the costs of interest on provisions for employee benefits; and
- received and imposed penalties and damage compensations.

Detailed information on the above presentation changes is presented in Note 5.3 to the Consolidated Financial Statements for the financial year ended 31 December 2015.

To ensure comparability of data the Group restated the comparative data for the period of 9 months ended 30 September 2015. The effect of the restatement is presented in Note 4.4 to these Quarterly Condensed Consolidated Financial Statements.

##### 4.4 Restatement of comparative data

Due to the above changes, the Group has restated comparative data. The restatement is presented in the below tables. A corresponding restatement was also performed of the information presented in the notes to these Quarterly Condensed Consolidated Financial Statements.

**QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2015 TO 30 SEPTEMBER 2015**

	9 months ended 30/09/2015 (published) PLN thousand	Capitalization of periodic repair costs PLN thousand	Reclassification of penalties and damage compensation PLN thousand	Reclassification of interest costs on discount of provisions for employee benefits PLN thousand	Recognition of provision for death benefits PLN thousand	9 months ended 30/09/2015 (restated) PLN thousand
Other operating revenue	160 034	-	11 119	-	-	171 153
<b>Total operating revenue</b>	<b>3 269 432</b>	<b>-</b>	<b>11 119</b>	<b>-</b>	<b>-</b>	<b>3 280 551</b>
Depreciation / amortization and impairment losses	318 619	19 303	-	-	-	337 922
Consumption of raw materials and energy	496 592	(7 241)	-	-	-	489 351
External services	1 019 421	(4 258)	-	-	-	1 015 163
Taxes and charges	28 463	(294)	-	-	-	28 169
Employee benefits	1 089 530	(17 880)	-	(13 678)	333	1 058 305
Other expenses by kind	32 016	2 228	2 677	-	-	36 921
Other operating expenses	14 499	(118)	8 442	-	-	22 823
<b>Total operating expenses</b>	<b>3 018 232</b>	<b>(8 260)</b>	<b>11 119</b>	<b>(13 678)</b>	<b>333</b>	<b>3 007 746</b>
<b>Profit / (loss) on operating activities</b>	<b>251 200</b>	<b>8 260</b>	<b>-</b>	<b>13 678</b>	<b>(333)</b>	<b>272 805</b>
Financial expenses	28 088	-	-	13 678	514	42 280
<b>Profit / (loss) before tax</b>	<b>238 004</b>	<b>8 260</b>	<b>-</b>	<b>-</b>	<b>(847)</b>	<b>245 417</b>
Income tax expense	17 504	1 569	-	-	(161)	18 912
<b>NET PROFIT / (LOSS)</b>	<b>220 500</b>	<b>6 691</b>	<b>-</b>	<b>-</b>	<b>(686)</b>	<b>226 505</b>

**QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2015 TO 30 SEPTEMBER 2015 (continued)**

	9 months ended 30/09/2015 (published) PLN thousand	Capitalization of periodic repair costs PLN thousand	Reclassification of penalties and damage compensation PLN thousand	Reclassification of interest costs on discount of provisions for employee benefits PLN thousand	Recognition of provision for death benefits PLN thousand	9 months ended 30/09/2015 (restated) PLN thousand
<b>NET PROFIT / (LOSS)</b>	<b>220 500</b>	<b>6 691</b>	-	-	<b>(686)</b>	<b>226 505</b>
<b>Other comprehensive income that will not be reclassified to profit or loss:</b>	<b>51 547</b>	-	-	-	<b>2 217</b>	<b>53 764</b>
Actuarial gains / (losses) on post-employment benefits	63 638	-	-	-	2 737	66 375
Income tax on other comprehensive income	(12 091)	-	-	-	(520)	(12 611)
<b>Other comprehensive income, net of tax</b>	<b>75 649</b>	-	-	-	<b>2 217</b>	<b>77 866</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>296 149</b>	<b>6 691</b>	-	-	<b>1 531</b>	<b>304 371</b>
<b>Net profit / (loss) attributable to:</b>						
Shareholders of the Parent Company	220 643	6 691	-	-	(686)	226 648
<b>Total comprehensive income attributable to:</b>						
Shareholders of the Parent company	296 292	6 691	-	-	1 531	304 514
<b>Earnings per share (PLN per share)</b>						
Earnings per share on operations (basic):	<b>4,93</b>	<b>0,15</b>	-	-	<b>(0,02)</b>	<b>5,06</b>
Earnings per share on operations (diluted):	<b>4,93</b>	<b>0,15</b>	-	-	<b>(0,02)</b>	<b>5,06</b>

**QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 SEPTEMBER 2015**

	As at 30/09/2015 (published) PLN thousand	Capitalization of periodic repair costs PLN thousand	Reclassification of penalties and damage compensation PLN thousand	Reclassification of interest costs on discount of provisions for employee benefits PLN thousand	Recognition of provision for death benefits PLN thousand	As at 30/09/2015 (restated) PLN thousand
<b>ASSETS</b>						
<b>Non-current assets</b>						
Property, plant and equipment	4 857 646	41 324	-	-	-	4 898 970
Deferred income tax assets	58 927	(4 600)	-	-	5 974	60 301
<b>Total non-current assets</b>	<b>5 062 996</b>	<b>36 724</b>	<b>-</b>	<b>-</b>	<b>5 974</b>	<b>5 105 694</b>
<b>Total assets</b>	<b>6 203 745</b>	<b>36 724</b>	<b>-</b>	<b>-</b>	<b>5 974</b>	<b>6 246 443</b>
<b>EQUITY AND LIABILITIES</b>						
<b>Equity</b>						
Other items of equity	273	-	-	-	5 287	5 560
Retained earnings	657 430	34 811	-	-	(30 755)	661 486
<b>Total equity</b>	<b>3 540 145</b>	<b>34 811</b>	<b>-</b>	<b>-</b>	<b>(25 468)</b>	<b>3 549 488</b>
<b>Non-current liabilities</b>						
Long-term provisions for employee benefits	529 084	-	-	-	27 826	556 910
<b>Non-current liabilities</b>	<b>1 530 172</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27 826</b>	<b>1 557 998</b>
<b>Current liabilities</b>						
Short-term provisions for employee benefits	100 837	-	-	-	3 616	104 453
Current tax liabilities	790	1 913	-	-	-	2 703
<b>Total current liabilities</b>	<b>1 133 428</b>	<b>1 913</b>	<b>-</b>	<b>-</b>	<b>3 616</b>	<b>1 138 957</b>
<b>Total liabilities</b>	<b>2 663 600</b>	<b>1 913</b>	<b>-</b>	<b>-</b>	<b>31 442</b>	<b>2 696 955</b>
<b>Total equity and liabilities</b>	<b>6 203 745</b>	<b>36 724</b>	<b>-</b>	<b>-</b>	<b>5 974</b>	<b>6 246 443</b>

**QUARTERLY CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2015 TO 30 SEPTEMBER 2015 [INDIRECT METHOD]**

	9 months ended 30/09/2015 (published)	Capitalization of periodic repair costs	Reclassification of penalties and damage compensation	Reclassification of interest costs on discount of provisions for employee benefits	Recognition of provision for death benefits	9 months ended 30/09/2015 (restated)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
<b>Cash flows from operating activities</b>						
<b>Profit / (loss) before tax</b>	<b>238 004</b>	<b>8 260</b>	<b>-</b>	<b>-</b>	<b>(847)</b>	<b>245 417</b>
<b>Adjustments:</b>						
Depreciation of property, plant and equipment and amortization of intangible assets	318 276	19 303	-	-	-	337 579
Other adjustments	64 540	-	-	-	2 737	67 277
<b>Changes in working capital:</b>						
Increase / (decrease) in provisions	(390 121)	-	-	-	(1 890)	(392 011)
<b>Net cash provided by operating activities</b>	<b>83 469</b>	<b>27 563</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>111 032</b>
<b>Cash flows from investing activities</b>						
Acquisition of property, plant and equipment and intangible assets	(396 895)	(27 563)	-	-	-	(424 458)
<b>Net cash provided by investing activities</b>	<b>(408 760)</b>	<b>(27 563)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(436 323)</b>

## 5. Revenue from the sale of services and finished goods

### 5.1 Operating segment products and services

The Group does not distinguish operating segments, as it has only one main product that all of its services are assigned to. The Group conducts operations as part of one main segment – domestic and international transport of freight and the provision of comprehensive logistics services relating to rail transport of freight. The Parent Company's Management Board analyzes the Group's financial data in the format, in which they are presented in these Quarterly Condensed Consolidated Financial Statements.

In addition, the Group also provides rolling stock repair and land reclamation services, which are not, however, significant from the perspective of the Group's operations and as such are not treated as separate operating segments.

The Group's revenue from its customers broken down by geographical area is presented in Note 5.2 to these Quarterly Condensed Consolidated Financial Statements

### 5.2 Geographical information

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

The Group's main geographical area of operations is Poland. The acquisition of shares of AWT significantly increased the Group's share in the Czech market. In the period ended 30 September 2016, total revenue earned from Czech customers amounted

to more than 16% of total revenue from sale of services, compared to nearly 10% in the same period of last year.

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

	9 months ended 30/09/2016 (unaudited) PLN thousand	3 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (unaudited) PLN thousand	3 months ended 30/09/2015 (unaudited) PLN thousand
Poland	2 191 783	758 209	2 430 013	852 182
Czech Republic	510 423	154 766	293 163	192 135
Germany	129 032	43 857	121 680	49 067
France	48 114	13 138	7 976	3 061
Slovakia	46 666	16 074	55 405	20 504
Italy	47 552	17 074	16 635	9 413
Cyprus	34 427	13 601	38 998	13 672
Other countries	157 894	60 319	120 016	47 313
<b>Total</b>	<b>3 165 891</b>	<b>1 077 038</b>	<b>3 083 886</b>	<b>1 187 347</b>

### 5.3 Structure of revenue from the sale of services and finished goods

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

	9 months ended 30/09/2016 (unaudited) PLN thousand	3 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (unaudited) PLN thousand	3 months ended 30/09/2015 (unaudited) PLN thousand
Transport revenue and railway shipping	2 624 592	898 933	2 703 483	1 005 853
Revenue from other transport activities	128 579	43 177	91 130	35 784
Siding and traction revenue	199 152	66 359	163 573	79 569
Cargo revenue	59 266	16 804	33 248	10 232
Reclamation services	49 265	14 931	36 552	28 268
Other revenue <sup>(1)</sup>	105 037	36 834	55 900	27 641
<b>Total</b>	<b>3 165 891</b>	<b>1 077 038</b>	<b>3 083 886</b>	<b>1 187 347</b>

<sup>(1)</sup> The item other revenue for the period of 9 months ended 30 September 2016 consists primarily of revenue from renting assets in the amount of PLN 34.829 thousand, from customs services in the amount of PLN 10.583 thousand, from the sale of finished goods in the amount of PLN 22.613 thousand, as well as from rolling stock repairs in the amount of PLN 17.463 thousand.

In the period of 9 months ended 30 September 2015, the other revenue item consisted primarily of revenue from renting assets in the amount of PLN 10.158 thousand, from customs services in the amount of PLN 9.691 thousand, from the sale of finished goods in the amount of PLN 8.880 thousand and from rolling stock repairs in the amount of PLN 7.147 thousand.



## 6. Expenses by kind

### 6.1 Depreciation / amortization and impairment losses

	9 months ended 30/09/2016 (unaudited) PLN thousand	3 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (restated*) PLN thousand	3 months ended 30/09/2015 (restated*) PLN thousand
Depreciation of property, plant and equipment	420 838	142 448	323 525	121 336
Amortization of intangible assets	14 037	4 118	14 054	5 984
Impairment losses recognized / (derecognized):				
Property, plant and equipment <sup>(1)</sup>	35 415	(414)	343	-
<b>Total depreciation / amortization and impairment losses</b>	<b>470 290</b>	<b>146 152</b>	<b>337 922</b>	<b>127 320</b>

<sup>(1)</sup> In the period of 9 months ended 30 September 2016 the item consisted primarily of a loss resulting from an impairment test performed on the assets of AWT Group. Detailed information is presented in Note 10.1 to these Quarterly Condensed Consolidated Financial Statements.

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements

### 6.2 Consumption of raw materials and energy

	9 months ended 30/09/2016 (unaudited) PLN thousand	3 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (restated*) PLN thousand	3 months ended 30/09/2015 (restated*) PLN thousand
Fuel consumption	114 230	39 872	135 252	51 257
Consumption of materials	77 776	25 838	51 782	23 674
Electricity, gas and water consumption	300 069	99 966	301 063	107 383
Impairment losses recognized / (derecognized)	(877)	(320)	620	(54)
Other	1 019	308	634	135
<b>Total consumption of raw materials and energy</b>	<b>492 217</b>	<b>165 664</b>	<b>489 351</b>	<b>182 395</b>

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements

### 6.3 External services

	9 months ended 30/09/2016 (unaudited) PLN thousand	3 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (restated*) PLN thousand	3 months ended 30/09/2015 (restated*) PLN thousand
Access to infrastructure connections	486 196	168 601	489 717	181 999
Repair services	17 173	9 076	7 978	3 238
Rent and lease fees (real estate and railroad fleet)	142 425	44 145	132 679	55 035
Transport services	318 543	101 481	218 622	97 420
Telecommunication services	6 281	1 954	6 862	2 254
Legal, advisory and similar services	15 670	5 192	18 775	7 747
IT services	34 886	10 768	39 932	12 606
Services related to property maintenance and operation of fixed assets	22 750	7 663	18 456	7 384
Cargo services	18 312	5 281	14 505	3 860
Siding services	29 980	11 495	17 677	4 196
Other services <sup>(1)</sup>	65 268	17 702	49 960	31 896
<b>Total external services</b>	<b>1 157 484</b>	<b>383 358</b>	<b>1 015 163</b>	<b>407 635</b>

<sup>(1)</sup> In the period of 9 months ended 30 September 2016 the other services item consisted of the costs of AWT Group in the amount of PLN 28.009 thousand, relating primarily to the costs of subcontracted reclamation services, whereas in the same period of the previous year the costs of reclamation services amounted to PLN 24.669 thousand.

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements

#### 6.4 Employee benefits

	9 months ended 30/09/2016 (unaudited) PLN thousand	3 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (restated*) PLN thousand	3 months ended 30/09/2015 (restated*) PLN thousand
Salaries and wages	843 729	275 826	789 376	281 698
Costs of social insurance	183 039	59 164	164 867	60 450
Appropriation to the Company's Social Benefits Fund	18 310	4 986	19 841	6 041
Other employee benefits during employment	29 997	12 289	28 219	11 223
Other post-employment benefits	4 742	1 759	1 098	537
Voluntary Redundancy Program	-	-	70 179	-
Changes in provisions for employee benefits	23 934	(1 329)	(20 420)	1 887
Other employee benefit costs	1 995	59	5 145	1 340
<b>Total employee benefits</b>	<b>1 105 746</b>	<b>352 754</b>	<b>1 058 305</b>	<b>363 176</b>

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements

#### 6.5 Other expenses by kind

	9 months ended 30/09/2016 (unaudited) PLN thousand	3 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (restated*) PLN thousand	3 months ended 30/09/2015 (restated*) PLN thousand
Business travel	23 384	7 420	21 313	7 995
Advertising and representation	4 307	1 326	6 541	2 478
Property insurance	9 119	3 009	7 035	3 121
Other	2 266	1 031	2 032	1 796
<b>Total other expenses by kind</b>	<b>39 076</b>	<b>12 786</b>	<b>36 921</b>	<b>15 390</b>

(\*) restatement of comparative has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements

## 7. Other operating revenue and expenses

### 7.1 Other operating revenue

	9 months ended 30/09/2016 (unaudited) PLN thousand	3 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (restated*) PLN thousand	3 months ended 30/09/2015 (restated*) PLN thousand
<b>Gains on disposal of assets:</b>				
Gain on sales of non-financial fixed assets	2 525	719	770	478
<b>Derecognized impairment losses:</b>				
Trade receivables	1 111	745	4 897	2 876
Other (including interest on receivables)	96	26	223	13
	<u>1 207</u>	<u>771</u>	<u>5 120</u>	<u>2 889</u>
<b>Other operating revenue:</b>				
Bargain purchase gain on acquisition of AWT	-	-	137 779	-
Penalties and damage compensations	11 330	3 095	11 119	3 512
Release of provision for fine from antimonopoly office UOKiK	357	-	-	-
Release of other provisions	3 215	(26)	10 999	4 407
Interest on trade and other receivables	1 415	341	941	302
Net foreign exchange gain on trade receivables and trade payables	3 056	(883)	-	-
Grants	972	757	889	814
Other	1 367	119	3 536	2 791
<b>Total other operating revenue</b>	<u>25 444</u>	<u>4 893</u>	<u>171 153</u>	<u>15 193</u>

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements

### 7.2 Other operating expenses

	9 months ended 30/09/2016 (unaudited) PLN thousand	3 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (restated*) PLN thousand	3 months ended 30/09/2015 (restated*) PLN thousand
<b>Recognized impairment losses:</b>				
Trade receivables <sup>(1)</sup>	67 351	(400)	2 812	734
Other (including on interest on receivables)	97	49	303	31
	<u>67 448</u>	<u>(351)</u>	<u>3 115</u>	<u>765</u>
<b>Other operating expenses:</b>				
Penalties and damage compensations	6 867	1 823	8 442	1 360
Costs of liquidation of non-current and current assets	4 288	1 786	2 557	1 383
Provision for fines from antimonopoly office UOKiK	2 032	-	-	-
Other provisions	2 401	97	2 682	373
Court and collection costs	1 017	389	1 120	747
Costs of transport benefits for non-employees	1 793	421	2 058	599
Interest on trade and other payables	1 207	78	245	13
Net foreign exchange loss on trade receivables and trade payables	-	-	1 404	(660)
Other	1 445	1 416	1 200	410
<b>Total other operating expenses</b>	<u>88 498</u>	<u>5 659</u>	<u>22 823</u>	<u>4 990</u>

<sup>(1)</sup> In the period of 9 months ended 30 September 2016 the item consists primarily of an impairment allowance for receivables from OKD in the amount of CZK 384.674 thousand. This has been described in detail in Note 16 to these Quarterly Condensed Consolidated Financial Statements.

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements

## 8. Financial revenue and expenses

### 8.1 Financial revenue

	9 months ended 30/09/2016 (unaudited) PLN thousand	3 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (unaudited) PLN thousand	3 months ended 30/09/2015 (unaudited) PLN thousand
<b>Interest income:</b>				
Bank accounts and deposits	389	172	4 090	274
Bid bonds and collateral	88	27	166	36
Loans granted	277	(9)	14	11
Other (including interest on state settlements)	66	38	222	55
	<u>820</u>	<u>228</u>	<u>4 492</u>	<u>376</u>
Dividend income from shares	191	29	27	27
<b>Total interest income and dividends</b>	<b><u>1 011</u></b>	<b><u>257</u></b>	<b><u>4 519</u></b>	<b><u>403</u></b>
<b>Other financial revenue:</b>				
Gains on shares:				
Reversal of impairment losses on shares	-	-	33	19
Gains on the valuation of financial assets and liabilities measured at fair value through profit or loss, of which:				
Valuation of forward contracts	-	-	-	(1 220)
Other financial revenue:				
Net foreign exchange gain	-	-	4 902	907
Other financial revenue	-	(20)	1	(31)
	<u>-</u>	<u>(20)</u>	<u>4 903</u>	<u>876</u>
<b>Total financial revenue</b>	<b><u>1 011</u></b>	<b><u>237</u></b>	<b><u>9 455</u></b>	<b><u>78</u></b>

## 8.2 Financial expenses

	9 months ended 30/09/2016 (unaudited) PLN thousand	3 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (restated*) PLN thousand	3 months ended 30/09/2015 (restated*) PLN thousand
Interest expense:				
Interest on loans and overdraft facilities	12 760	4 712	9 842	4 616
Interest on liabilities under finance lease agreements	6 635	2 044	7 634	2 722
Interest on long-term liabilities	2 185	561	4 134	1 219
Other (including bid bonds and collateral)	575	68	918	481
<b>Total interest expense</b>	<b>22 155</b>	<b>7 385</b>	<b>22 528</b>	<b>9 038</b>
<b>Other financial expenses:</b>				
Losses on shares:				
Impairment losses on shares	-	-	13	13
Losses on the valuation of financial assets and liabilities measured at fair value through profit or loss, of which:				
Valuation of put option for the acquisition of non-controlling interests	3 024	(3 391)	4 532	2 474
Valuation of forward contracts	207	(544)	(555)	(555)
	3 231	(3 935)	3 977	1 919
Settlement of discount on provision for employee benefits	15 308	5 272	14 192	4 388
Other financial expenses:				
Net foreign exchange loss	3 547	(1 236)	-	-
Other financial expenses	1 979	816	1 570	560
	5 526	(420)	1 570	560
<b>Total financial expenses</b>	<b>46 220</b>	<b>8 302</b>	<b>42 280</b>	<b>15 918</b>

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements

## 9. Income tax

### 9.1 Income tax recognized in profit or loss

	9 months ended 30/09/2016 (unaudited) PLN thousand	3 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (restated*) PLN thousand	3 months ended 30/09/2015 (restated*) PLN thousand
<b>Current income tax:</b>				
Current tax expense	3 536	978	2 679	1 755
Adjustments recognized in the current period with respect to prior year tax	(62)	-	-	-
<b>Deferred income tax:</b>				
Deferred tax that occurred in the reporting period	(32 101)	5 091	16 233	10 480
<b>Income tax recognized in profit or loss</b>	<b>(28 627)</b>	<b>6 069</b>	<b>18 912</b>	<b>12 235</b>

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements

In the period from 1 January 2015 the Group operated within a tax group, as defined in Article 1a of the Corporate Income Tax Act of 15 February 1992 (2014 Journal of Laws, item 851 with subsequent amendments, hereinafter the CIT Act), named PKP CARGO LOGISTICS – Tax Group. The Tax Group was formed by concluding an agreement in the form of a notarial deed on 29 September 2014. The Tax Group comprised PKP CARGO S.A. as the representing company, PKP CARGO SERVICE Sp. z o.o., PKP CARGOTABOR Sp. z o.o and CARGOTOR Sp. z o.o.

In the financial year ended 31 December 2015 the Tax Group did not achieve the anticipated profitability of 3%, and therefore the Tax Group's second tax year ended on 31 March 2016, and the Tax Group ceased to exist. In accordance with the provisions of the CIT Act, on 1 April 2016 the companies comprising the Tax Group became independent taxpayers and began a new tax year, which will end on 31 December 2016.

### 9.2 Income tax recognized in other comprehensive income

	9 months ended 30/09/2016 (unaudited) PLN thousand	3 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (restated*) PLN thousand	3 months ended 30/09/2015 (restated*) PLN thousand
<b>Deferred income tax</b>				
Fair value measurement of financial instruments designated as cash flow hedges	862	1 549	97	(239)
Actuarial gains / (losses) on post-employment benefits	-	-	12 611	-
Foreign exchange from translation of deferred tax in foreign subsidiaries recognized in other comprehensive income <sup>(1)</sup>	1 501	(2 544)	3 586	1 505
<b>Income tax recognized in other comprehensive income</b>	<b>2 363</b>	<b>(995)</b>	<b>16 294</b>	<b>1 266</b>

<sup>(1)</sup> Item presented in equity as foreign exchange differences on translation of subsidiaries' financial statements.

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements

### 9.3 Deferred income tax

Presented below is the balance of deferred income tax assets and provisions for deferred income tax shown in the consolidated statement of financial position:

	As at 30/09/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Deferred tax assets	121 088	104 587
Deferred tax liabilities	(105 116)	(118 353)
<b>Total</b>	<b>15 972</b>	<b>(13 766)</b>

#### 9.3.1 Deferred income tax movements

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

<sup>(1)</sup> The deferred income tax asset recognized as at 30 September 2016 on tax losses to be used in future periods represents the Parent Company's loss in the amount of PLN 128.267 thousand, and the losses of the subsidiaries in the amount of PLN 73.744 thousand. The tax losses may be deducted in the next five tax years of the date of their incurrence. According to the Parent Company's Management Board, there is no risk of being unable to realize the above tax asset.

9.3.1 Deferred income tax movements (continued)

9 months ended 30/09/2015	Foreign exchange differences on translation of deferred income tax recognized in other comprehensive income					
	As at 01/01/2015 (audited)	Acquisition of AWT	Recognized in profit or loss	Recognized in other comprehensive income	Foreign exchange differences on translation of deferred income tax recognized in other comprehensive income	As at 30/09/2015 (restated*)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Property, plant and equipment, intangible assets and assets classified as held for sale	(139 061)	(120 410)	32 405	-	(3 866)	(230 932)
Investments in associates – impairment	3 364	-	(3 364)	-	-	-
Long-term liabilities	(1 575)	-	849	-	-	(726)
Inventories	(1 177)	219	59	-	8	(891)
Receivables - impairment allowance	6 249	651	(470)	-	23	6 453
Accrued interest on assets	(608)	-	485	-	-	(123)
Provisions for employee benefits	194 428	2 737	(50 547)	(12 611)	87	134 094
Other provisions	2 465	3 468	(1 058)	-	110	4 985
Accrued expenses	5 982	-	5 418	-	1	11 401
Deferred income	(5 454)	-	(3 345)	-	-	(8 799)
Unpaid employee benefits	8 244	89	(1 041)	-	3	7 295
Foreign exchange	6 980	-	(4 763)	-	-	2 217
Valuation of derivative instruments	2 670	383	(1 517)	(97)	13	1 452
	<b>82 507</b>	<b>(112 863)</b>	<b>(26 889)</b>	<b>(12 708)</b>	<b>(3 621)</b>	<b>(73 574)</b>
<b>Unused tax losses</b>						
Tax losses <sup>(1)</sup>	6 740	610	10 656	-	35	18 041
<b>Total deferred tax assets (provisions)</b>	<b>89 247</b>	<b>(112 253)</b>	<b>(16 233)</b>	<b>(12 708)</b>	<b>(3 586)</b>	<b>(55 533)</b>

<sup>(1)</sup> The deferred income tax asset recognized as at 30 September 2015 on tax losses to be used in future periods represented the loss of the companies comprising the Tax Group in the amount of PLN 47.071 thousand and the losses of the other subsidiaries in the amount of PLN 47.882 thousand.

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements



#### 9.4 Tax losses unrecognized in deferred tax asset

	As at 30/09/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand

The following deferred income tax assets have not been recognized as at the balance sheet date:

- Unused tax losses <sup>(1)</sup>	118 354	75 562
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<sup>(1)</sup> Tax losses not included in the calculation of a deferred income tax asset as at 30 September 2016 represent the losses incurred by the companies of the AWT Group in the amount of PLN 105.948 thousand (AWT B.V. in the amount of PLN 66.380 thousand, AWT Coal Logistics in the amount of PLN 25.523 thousand and AWT Rail HU Zrt. in the amount of PLN 14.045 thousand), the loss of PKP Cargotabor Usługi Sp. z o.o. in the amount of PLN 8.793 thousand and loss of CARGOSPED Terminal Braniewo Sp. z o.o. in the amount of PLN 3.613 thousand. Whereas as at 31 December 2015 the tax losses not included in the calculation of a deferred income tax represented the losses of the companies of the AWT Group in the amount of PLN 73.122 thousand (AWT B.V. in the amount of PLN 61.252 thousand, AWT Rail HU Zrt. in the amount of PLN 11.870 thousand) and the loss of CARGOSPED Terminal Braniewo Sp. z o.o. in the amount of PLN 2.440 thousand.

10. Property, plant and equipment

Carrying amount:	As at 30/09/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Land	157 609	152 572
Buildings, premises, civil and water engineering structures	574 138	597 070
Technical equipment and machinery	129 642	146 749
Means of transport	3 810 307	3 784 969
Other fixed assets	8 517	10 558
Fixed assets under construction	43 088	27 830
	<b>4 723 301</b>	<b>4 719 748</b>

of which under finance lease:	As at 30/09/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Technical equipment and machinery	8 399	12 427
Means of transport	326 866	346 493
	<b>335 265</b>	<b>358 920</b>

Fixed assets under construction	As at 30/09/2016 (unaudited) PLN thousand	As at 30/09/2015 (restated*) PLN thousand
<b>Gross value</b>		
Opening balance	<b>30 332</b>	<b>20 024</b>
Additions	422 965	359 566
Acquisition of AWT	-	3 229
Grants to property, plant and equipment	(5 407)	(2 783)
Disposals – transfer to fixed assets	(402 336)	(345 688)
Disposals – discontinuation	(162)	(79)
Foreign exchange differences on translation of subsidiaries' financial statements	156	62
Closing balance	<b>45 548</b>	<b>34 331</b>
<b>Accumulated impairment</b>		
Opening balance	<b>2 502</b>	<b>1 800</b>
Disposals	(42)	-
Closing balance	<b>2 460</b>	<b>1 800</b>
<b>Net value</b>		
Opening balance	<b>27 830</b>	<b>18 224</b>
Closing balance	<b>43 088</b>	<b>32 531</b>

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements

10. Property, plant and equipment (continued)

9 months ended 30 September 2016 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Means of transport	Other fixed assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
<b>Gross value</b>						
<b>As at 1 January 2016 (audited)</b>	<b>153 323</b>	<b>735 423</b>	<b>362 904</b>	<b>5 441 611</b>	<b>39 283</b>	<b>6 732 544</b>
<i>Additions:</i>						
Acquisition	-	3 462	8 094	386 883	595	399 034
Finance lease	-	-	-	3 302	-	3 302
Reclassification from assets held for sale	6 489	-	-	94 689	-	101 178
Foreign exchange differences on translation of subsidiaries' financial statements	177	1 227	499	9 434	38	11 375
<i>Disposals:</i>						
Sale	-	-	(178)	(1 516)	(83)	(1 777)
Liquidation	-	-	(1 011)	(76 598)	(43)	(77 652)
Other	-	-	-	(84)	(75)	(159)
<b>As at 30 September 2016 (unaudited)</b>	<b>159 989</b>	<b>740 112</b>	<b>370 308</b>	<b>5 857 721</b>	<b>39 715</b>	<b>7 167 845</b>
<b>Accumulated depreciation</b>						
<b>As at 1 January 2016 (audited)</b>	<b>-</b>	<b>129 544</b>	<b>215 838</b>	<b>1 508 843</b>	<b>28 717</b>	<b>1 882 942</b>
<i>Additions:</i>						
Depreciation costs	-	27 209	25 412	365 579	2 638	420 838
Reclassification from assets held for sale	-	-	-	41 234	-	41 234
Foreign exchange differences on translation of subsidiaries' financial statements	-	75	92	746	4	917
<i>Disposals:</i>						
Sale	-	-	(116)	(745)	(78)	(939)
Liquidation	-	-	(877)	(72 199)	(16)	(73 092)
Other	-	-	-	(39)	(75)	(114)
<b>As at 30 September 2016 (unaudited)</b>	<b>-</b>	<b>156 828</b>	<b>240 349</b>	<b>1 843 419</b>	<b>31 190</b>	<b>2 271 786</b>
<b>Accumulated impairment</b>						
<b>As at 1 January 2016 (audited)</b>	<b>751</b>	<b>8 809</b>	<b>317</b>	<b>147 799</b>	<b>8</b>	<b>157 684</b>
<i>Additions:</i>						
Recognition of impairment	133	335	-	34 947	-	35 415
Reclassification from assets held for sale	1 495	-	-	22 451	-	23 946
Foreign exchange differences on translation of subsidiaries' financial statements	-	-	-	(493)	-	(493)
<i>Disposals:</i>						
Use of impairment loss	-	-	-	(709)	-	(709)
Foreign exchange differences on translation of subsidiaries' financial statements	1	2	-	-	-	3
<b>As at 30 September 2016 (unaudited)</b>	<b>2 380</b>	<b>9 146</b>	<b>317</b>	<b>203 995</b>	<b>8</b>	<b>215 846</b>
<b>Net value</b>						
<b>As at 1 January 2016 (audited)</b>	<b>152 572</b>	<b>597 070</b>	<b>146 749</b>	<b>3 784 969</b>	<b>10 558</b>	<b>4 691 918</b>
<b>As at 30 September 2016 (unaudited)</b>	<b>157 609</b>	<b>574 138</b>	<b>129 642</b>	<b>3 810 307</b>	<b>8 517</b>	<b>4 680 213</b>

10. Property, plant and equipment (continued)

9 months ended 30 September 2015 (unaudited)		Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Means of transport	Other fixed assets	Total
	Land PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
<b>Gross value</b>						
As at 1 January 2015 (audited)	140 567	610 590	309 442	4 565 408	32 904	5 658 911
<i>Additions:</i>						
Acquisition	77	12 706	9 483	317 779	2 200	342 245
Acquisition of AWT	13 866	101 062	32 105	695 862	1 473	844 368
Finance leases	-	-	-	3 443	-	3 443
Foreign exchange differences on translation of subsidiaries' financial statements	480	3 068	1 087	23 040	65	27 740
<i>Disposals:</i>						
Sale	(11)	(44)	(95)	(1 079)	(5)	(1 234)
Liquidation	-	(72)	(1 614)	(118 761)	(348)	(120 795)
Reclassification to assets held for sale	-	-	-	(91 969)	-	(91 969)
Other	-	-	-	(37)	(1)	(38)
As at 30 September 2015 (restated*)	154 979	727 310	350 408	5 393 686	36 288	6 662 671
<b>Accumulated depreciation</b>						
As at 1 January 2015 (audited)	-	102 894	188 591	1 312 149	25 139	1 628 773
<i>Additions:</i>						
Depreciation costs	-	20 165	22 413	278 127	2 820	323 525
Foreign exchange differences on translation of subsidiaries' financial statements	-	21	25	223	2	271
<i>Disposals:</i>						
Sale	-	-	(43)	(725)	(4)	(772)
Liquidation	-	(8)	(1 580)	(114 486)	(252)	(116 326)
Reclassification to assets held for sale	-	-	-	(43 300)	-	(43 300)
Other	-	-	-	(37)	(1)	(38)
As at 30 September 2015 (restated*)	-	123 072	209 406	1 431 951	27 704	1 792 133
<b>Accumulated impairment</b>						
As at 1 January 2015 (audited)	691	3 031	26	-	8	3 756
<i>Additions:</i>						
Recognition of impairment	-	-	343	-	-	343
As at 30 September 2015 (restated*)	691	3 031	369	-	8	4 099
<b>Net value</b>						
As at 1 January 2015 (audited)	139 876	504 665	120 825	3 253 259	7 757	4 026 382
As at 30 September 2015 (restated*)	154 288	601 207	140 633	3 961 735	8 576	4 866 439

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements

## 10.1 Impairment tests

As at 30 June 2016 the Group decided to perform impairment tests on the assets of the Parent Company and the AWT Group. The main indications of potential impairment of the Group's selected assets were:

- the market value of the Group's net assets continued to be lower than their carrying amount,
- bankruptcy filing made by a significant Czech market customer, resulting in a high risk of a decrease in cash flows generated in the future.

Impairment tests have been performed on cash generating units by determining their recoverable amount at the level of their value in use.

### **PKP CARGO S.A.**

The recoverable amount of the analyzed assets has been determined by estimating their value in use using the discounted net cash flows method based on financial projections prepared for the years 2016-2025. According to the Parent Company's Management Board the adoption of financial projections for more than five years is justified due to the fact that the property, plant and equipment used by the Parent Company have significantly longer economic useful lives.

Presented below are the key assumptions affecting the estimate of the value in use of the tested cash generating units as at 30 June 2016:

- a) the Parent Company was adopted as the cash generating unit due to the homogeneous nature of its activities (one operating segment),
- b) throughout the entire period of the detailed projection the compound annual growth rate (CAGR) of freight weight will amount to 0,6%,
- c) the weighted average cost of capital (WACC) in the projection period assumed at 5,83% in real terms,
- d) after the projection period, growth of future cash flows assumed at 0,3% in real terms.

Because the recoverable amount determined as a result of the tests exceeded the carrying amount of the tested fixed assets as at 30 June 2016, the Group recognized no impairment losses of the assets of PKP CARGO S.A.

### **AWT Group**

The recoverable amount of the analyzed assets has been determined by estimating their value in use using the discounted net cash flows method based on financial projections prepared for the years 2016-2026. According to the Group the adoption of financial projections for more than five years is justified due to the fact that the property, plant and equipment used by the Group have significantly longer economic useful lives, and to better reflect the effect on the AWT Group's results of the anticipated changes on the Czech coal market.

Presented below are the key assumptions affecting the estimate of the value in use of the tested cash generating units as at 30 June 2016:

- a) adopted as the cash generating unit were the entire assets belonging to the AWT Group, which are used primarily to service clients on the Czech rail market,
- b) the volume of freight transported for the significant client was assumed at the level of the planned extraction of coal, no related volumes were assumed in the residual period,
- c) the weighted average cost of capital (WACC) in the projection period was assumed at 7,33% in nominal terms (with specific risk premium included),
- d) after the projection period, growth of future cash flows was assumed at 2% in nominal terms (with inflation assumed at 2%),
- e) rise in wages in the residual period at 2,15% in nominal terms.

As a result of the test the recoverable amount was PLN 35.361 thousand lower than the carrying amount of the tested assets, the Group to as at 30 June 2016 recognized an impairment loss of the fixed assets belonging to the AWT Group.

The key assumptions used in the impairment test model included WACC and the rate of growth of future cash flows after the projection period. Presented below is the estimated amount of impairment loss as at 30 June 2016 when changing the following key parameters:

	PKP CARGO		AWT Group	
	-0,3 p.p.	+0,3 p.p.	-0,3 p.p.	+0,3 p.p.
WACC	no impairment loss	18 422	no impairment loss	79 954
growth after detailed projection period	no impairment loss	no impairment loss	61 054	7 018

The above impairment loss of the AWT Group's assets has been presented in these Quarterly Condensed Consolidated Financial Statements in the following manner:

- in property, plant and equipment in the amount of PLN 34.454 thousand,
- in depreciation / amortization and impairment losses in the amount of PLN 34.947 thousand.

The change in the amount of impairment losses on the assets belonging to the AWT Group as at 30 September 2016 is the result of a change in foreign exchange rates used to value the financial statements of subsidiaries covered by the consolidation.

As at 30 September 2016 the Group identified no new indications that its assets may be impaired. Owing to the fact that in the opinion of the Parent Company's Management Board the key assumptions used in the impairment tests performed as at 30 June 2016 continue to be accurate at the date of preparation of these Quarterly Condensed Consolidated Financial Statements, the Group has not performed again the impairment tests as at 30 September 2016.

## 11. Subsidiary companies

Detailed information on subsidiary companies consolidated by acquisition accounting as at 30 September 2016 and 31 December 2015:

No.	Name of subsidiary	Core business	Place of registration and operations	% of interests held by the Group	
				As at 30/09/2016	As at 31/12/2015
1	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Services in support of land transport, reloading of cargo and wholesale and retail of waste and scrap	Małaszewicze	100,0%	100,0%
2	PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	Reloading of cargo at other reloading centers	Żurawica	100,0%	100,0%
3	PKP CARGO SERVICE Sp. z o.o.	Comprehensive siding services	Warsaw	100,0%	100,0%
4	PKP CARGO CONNECT Sp. z o.o.	Shipping services	Warsaw	100,0%	100,0%
5	PKP CARGOTABOR Sp. z o.o.	Maintenance and repair of rolling stock	Warsaw	100,0%	100,0%
6	PKP CARGOTABOR USŁUGI Sp. z o.o.	Collection, processing and neutralization of waste and recovery of raw materials	Warsaw	100,0%	100,0%
7	CARGOTOR Sp. z o.o.	Management of logistics and service infrastructure in the form of railway sidings and railroad tracks. Provision of such infrastructure to rail carriers.	Warsaw	100,0%	100,0%
8	CARGOSPED Terminal Braniewo Sp. z o.o.	Reloading of cargo, customs warehouse	Braniewo	100,0%	100,0%
9	Advanced World Transport B.V.	Holding and financial activities	Amsterdam	80,0%	80,0%
10	Advanced World Transport a.s.	Provision of comprehensive services: rail transport, rail shipping, siding services, rolling stock repairs	Ostrava	80,0%	80,0%
11	AWT ROSCO a.s.	Rolling stock management and rentals	Ostrava	80,0%	80,0%
12	AWT Čechofracht a.s.	Rail shipping and customs services	Prague	80,0%	80,0%
13	AWT Rekultivace a.s.	Provision of comprehensive services: land reclamation, construction services, waste management, landscape planning	Havířov-Prostřední Sucha	80,0%	80,0%
14	AWT Rail HU Zrt.	Provision of comprehensive services: rail transport, rail shipping, siding services	Budapest	80,0%	80,0%
15	AWT Coal Logistics s.r.o.	Rail shipping	Prague	80,0%	80,0%

Detailed information on other subsidiaries comprising the Group as at 30 September 2016 and 31 December 2015:

	Name of subsidiary	Core business	Place of registration and operations	% of interests held by the Group	
				As at 30/09/2016	As at 31/12/2015
16	ONECARGO Sp. z o.o.	Rail transport of freight	Warsaw	100,0%	100,0%
17	ONECARGO CONNECT Sp. z o.o.	Services in support of land transport	Warsaw	100,0%	100,0%
18	Trade Trans Karya Sp. z o.o.	Reloading of cargo, customs warehouse	Lublin	100,0%	100,0%
19	Transgaz S.A.	Transport agency	Zalesie k. Małaszewicz	64,0%	64,0%
20	Trade Trans Finance Sp. z o.o.	Financial and accounting services	Warsaw	100,0%	100,0%
21	PPHU "Ukpol" Sp. z o.o.	Reloading, sales services	Werchrata	100,0%	100,0%
22	PKP CARGO CONNECT GmbH <sup>(1)</sup>	Customs and shipping services	Hamburg	100,0%	0,0%
23	AWT Rail SK a. s.	Rail transport, rail shipping	Bratislava	80,0%	80,0%
24	AWT Rail PL Sp. z o.o. in liquidation <sup>(2)</sup>	Rail shipping	Rybnik	80,0%	80,0%
25	AWT DLT s.r.o.	Siding services	Kladno	80,0%	80,0%
26	G.I.B. s.r.o. in liquidation	Rail shipping	Prague	80,0%	80,0%
27	AWT Trading s.r.o.	Sale of military products	Petrvald	80,0%	80,0%
28	AWT Rekultivace PL Sp. z o.o.	Provision of comprehensive services: land reclamation, construction services, waste management, landscape planning	Cieszyn	80,0%	80,0%
29	Spedrapid Sp. z o.o.	Rail shipping	Gdynia	52,8%	52,8%
30	RND s.r.o.	Rail shipping, transport monitoring	Olomouc	40,8%	40,8%

<sup>(1)</sup> The Extraordinary Shareholders Meeting of PKP CARGO CONNECT Sp. z o.o. of 25 April 2016 passed a resolution, in which it gave its consent for PKP CARGO CONNECT Sp. z o.o. to take up 100% of shares, numbering 25.000, with a nominal value of 1 euro per share, with a total nominal value of 25.000 euro, of the newly formed subsidiary PKP CARGO CONNECT GmbH.

<sup>(2)</sup> The Extraordinary Shareholders Meeting of AWT Rail PL Sp. z o.o. of 7 August 2015 passed a resolution to dissolve the company and open a liquidation proceeding. This change was entered in the relevant court register on 15 March 2016.



## 12. Investments accounted for under the equity method

	9 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (unaudited) PLN thousand
<b>Opening balance (audited)</b>	<b>39 831</b>	<b>35 246</b>
Acquisition of shares	-	1 613
Sale of shares	-	(135)
Share in profit / (loss) of investments accounted for under the equity method <sup>(1)</sup>	2 597	3 572
Changes in equity arising from dividend payments	(2 157)	(2 186)
Effect of the liquidated assets of entities accounted for under the equity method	-	(3 514)
Recognition of entities accounted for under the equity method on the acquisition of AWT	-	4 292
Foreign exchange differences on translation of subsidiaries' financial statements	54	64
<b>Closing balance</b>	<b>40 325</b>	<b>38 952</b>

<sup>(1)</sup> For the period of 9 months ended 30 September 2015 the item included reversal of impairment loss on investments accounted for under the equity method in the amount of PLN 1.911 thousand

### 12.1 Detailed information on entities accounted for under the equity method

Name of entity accounted for under the equity method	% of interests by the Group		Carrying amount of asset	
	As at 30/09/2016 (unaudited)	As at 31/12/2015 (audited)	As at 30/09/2016 (unaudited)	As at 31/12/2015 (audited)
	%	%	PLN thousand	PLN thousand
COSCO POLAND Sp. z o.o.	20,0	20,0	1 151	1 108
Pol – Rail S.r.l	50,0	50,0	5 661	6 889
Terminale Przeładunkowe Sławków – Medyka Sp. z o.o.	50,0	50,0	19 724	19 537
Trade Trans Karya Sp. z o.o.	100,0	100,0	-	-
Transgaz S.A.	64,0	64,0	4 717	4 741
Trade Trans Finance Sp. z o.o.	100,0	100,0	560	302
PPHU "Ukpol" Sp. z o.o.	100,0	100,0	-	-
Rentrans Cargo Sp. z o.o.	29,3	29,3	3 620	2 632
Gdański Terminal Kontenerowy S.A.	41,9	41,9	16	106
AWT Rail SK a. s.	80,0	80,0	4 876	4 516
<b>Total</b>			<b>40 325</b>	<b>39 831</b>

### 13. Other financial assets

	As at 30/09/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
<b>Derivatives</b>		
Currency forwards and spots	4 007	123
<b>Investments in shares</b>		
Shares of Polish entities <sup>(1)</sup>	7 355	7 351
Shares of foreign entities <sup>(1)</sup>	2 084	1 949
	<u>9 439</u>	<u>9 300</u>
<b>Loans and receivables measured at amortized cost</b>		
Loans granted to related parties	778	639
Loans granted to other parties	2 059	2 000
Bank deposits for more than 3 months	131	1 282
	<u>2 968</u>	<u>3 921</u>
Investment fund units	564	549
Other financial assets	-	2
<b>Total</b>	<u><b>16 978</b></u>	<u><b>13 895</b></u>
Non-current assets	10 003	9 849
Current assets	6 975	4 046
<b>Total</b>	<u><b>16 978</b></u>	<u><b>13 895</b></u>

<sup>(1)</sup> As at 30 September 2016 and 31 December 2015 the value of impairment losses on investments in shares amounted to PLN 11.833 thousand.

#### 14. Other non-financial assets

	As at 30/09/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Advances for the purchase of fixed assets <sup>(1)</sup>	3 698	13 385
Prepayments <sup>(2)</sup>	39 781	31 017
Other	1 206	1 545
<b>Total</b>	<b>44 685</b>	<b>45 947</b>
Non-current assets	21 149	32 666
Current assets	23 536	13 281
<b>Total</b>	<b>44 685</b>	<b>45 947</b>

<sup>(1)</sup> As at 30 September 2016 and 31 December 2015 the item consisted primarily of advances paid as part of a contract concluded by the Parent Company for the supply of 15 multi-system engines at PLN 2.639 thousand and PLN 12.326 thousand, respectively. Detailed information on the aforementioned contract is described in Note 29 to these Quarterly Condensed Consolidated Financial Statements.

<sup>(2)</sup> As at 30 September 2016 the greatest prepaid expenses were: the costs of the Company Social Benefits Fund to be settled in future periods in the amount of PLN 7.805 thousand, costs of purchasing transport benefits for eligible persons in the amount of PLN 3.677 thousand, costs of prepaid rental fees in the amount of PLN 14.008 thousand, insurance in the amount of PLN 8.758 thousand. Whereas as at 31 December 2015 the greatest prepaid expenses items consisted of prepaid rental fees in the amount of PLN 17.071 thousand and insurance in the amount of PLN 7.540 thousand.

#### 15. Inventories

	As at 30/09/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Raw materials	122 720	127 936
Semi-finished products	7 800	7 334
Goods for resale	2 145	3 058
Impairment allowance (-)	(7 809)	(9 815)
<b>Net inventories</b>	<b>124 856</b>	<b>128 513</b>

## 16. Trade and other receivables

	As at 30/09/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Trade receivables	766 292	723 386
Impairment allowance for receivables <sup>(1)</sup>	(146 585)	(87 252)
<b>Total</b>	<b>619 707</b>	<b>636 134</b>
Receivables from the sale of non-financial fixed assets	-	2 197
Settlements under public law	4 111	5 006
Bonds, security deposits and guarantees	2 095	3 385
Dividend settlements	564	-
VAT settlements	23 330	19 249
Other	3 918	3 424
<b>Total</b>	<b>653 725</b>	<b>669 395</b>
Non-current assets	2 614	5 074
Current assets	651 111	664 321
<b>Total</b>	<b>653 725</b>	<b>669 395</b>

<sup>(1)</sup> On 3 May 2016 the Czech coal consortium OKD petitioned the court to declare it bankrupt. On 11 August 2016, at a hearing of the District Court in Ostrava, OKD's creditors made a decision to start a restructuring proceeding. This means that OKD is in the process of developing a restructuring plan that is subject to the approval of the court. The receivables of AWT from OKD submitted during this process amounted to CZK 462.764 thousand. Due to the contractor's difficult financial position, the net receivables from OKD in the amount of CZK 384.674 thousand, have been included in an impairment allowance.

The impairment allowance has been recognized in these Quarterly Condensed Consolidated Financial Statements in the following manner:

- in trade and other receivables in the amount of PLN 61.394 thousand,
- in other operating expenses in the amount of PLN 62.163 thousand.

As at 30 September 2016 change in the amount of the impairment allowance on the AWT Group's receivables from OKD is the result of a change in the foreign exchange rates used to value the financial statements of subsidiaries covered by the consolidation.

Pledges in the amount of PLN 44.863 thousand have been established on the Group's trade receivables as at 30 September 2016.

## 17. Cash and cash equivalents

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

	As at 30/09/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Cash in hand and at bank	147 102	226 624
Bank deposits for up to 3 months	19 820	49 567
<b>Total</b>	<b>166 922</b>	<b>276 191</b>
of which:		
Restricted cash	12 948	20 644

As at 30 September 2016 and as at 31 December 2015, restricted cash consisted primarily of bank accounts for bonds and security deposits.

# 18. Non-current assets classified as held for sale

Non-current assets classified as held for sale as at 30 September 2016 and 31 December 2015:

Non-current assets classified as held for sale	As at 30/09/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
Land	1 817	6 811
Buildings, premises, civil and water engineering structures	4 183	4 183
Means of transport	-	33 067
<b>Total</b>	<b>6 000</b>	<b>44 061</b>

In the 9 months of 2016 the Parent Company changed the presentation of rolling stock components thus far classified as held for sale, due to little interest on the part of buyers in purchasing these items at prices that would satisfy the Group. In the 9 months ended 30 September 2016 the Parent Company sold a part of the rolling stock classified as held for sale, earning a profit of PLN 588 thousand. The remaining rolling stock items did not find a buyer, which is why the Parent Company is looking for alternative uses for the rolling stock items as part of its operations. Due to the high probability of significant changes in the existing sales plan, the criteria for classifying the aforementioned items as held for sale are no longer fulfilled. In view of this, in the 9 months of 2016 the Parent Company has reclassified them to property, plant and equipment. As the items had been revalued to their current residual values, the change in the presentation of these items had no effect on the Group's results in the period.

In addition, the Parent Company is analyzing an alternative way for the use of properties in the area of Ostaszewo, until now classified as held for sale. The work involves talks with entities potentially interested in the use of these properties. In view of this, in the 9 months of 2016 the Parent Company has reclassified these properties to property, plant and equipment. The change in presentation had no effect on the Group's results in the period.

Changes in non-current assets classified as held for sale in the period of 9 months ended 30 September 2016 and 9 months ended 30 September 2015 were as follows:

9 months ended 30 September 2016	Land	Buildings, premises, civil and water engineering structures	Means of transport	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
<b>As at 1 January 2016 (audited)</b>	<b>6 811</b>	<b>4 183</b>	<b>33 067</b>	<b>44 061</b>
Sale	-	-	(2 063)	(2 063)
Reclassification to property, plant and equipment	(4 994)	-	(31 004)	(35 998)
<b>As at 30 September 2016 (unaudited)</b>	<b>1 817</b>	<b>4 183</b>	<b>-</b>	<b>6 000</b>

9 months ended 30 September 2015	Land	Buildings, premises, civil and water engineering structures	Means of transport	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
<b>As at 1 January 2015 (audited)</b>	<b>4 994</b>	<b>-</b>	<b>12 566</b>	<b>17 560</b>
Acquisition of AWT	205	706	-	911
Reclassification from property, plant and equipment	-	-	48 669	48 669
Sale	-	-	(1 825)	(1 825)
Foreign exchange differences on translation of subsidiaries' financial statements	7	18	-	25
<b>As at 30 September 2015 (unaudited)</b>	<b>5 206</b>	<b>724</b>	<b>59 410</b>	<b>65 340</b>

## 19. Equity

### 19.1 Share capital

	As at 30/09/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Share capital consists of:		
Ordinary shares – fully paid and registered	2 239 346	2 239 346
<b>Total share capital</b>	<b>2 239 346</b>	<b>2 239 346</b>

As at 30 September 2016 and 31 December 2015 the share capital consisted of ordinary shares with a nominal value of PLN 50 per share. Each fully paid up ordinary share, with a nominal value of PLN 50, is equal to a single vote at a general meeting and entitled to a dividend.

No changes were made in the Parent Company's share capital in the period of 9 months ended 30 September 2016, or in the period of 9 months ended 30 September 2015.

### 19.2 Share premium

The changes in the Group's share premium in the period of 9 months ended 30 September 2016 were the result of a resolution passed by the Ordinary Shareholders Meeting of CARGOSPED Terminal Braniewo Sp. z o.o. of 27 June 2016, on covering from the share premium the net loss for the year 2015 in the amount of PLN 876 thousand.

### 19.3 Retained earnings

The Parent Company's Ordinary General Meeting of 11 May 2016 passed a resolution to approve the Separate and Consolidated Financial Statements for the year 2015 and to cover the Parent Company's loss for the year 2015, amounted to PLN 114.125 thousand, from its future profits and by not paying a dividend for the year 2015.

## 20. Earnings per share

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

	9 months ended 30/09/2016 (unaudited) PLN thousand	3 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (restated*) PLN thousand	3 months ended 30/09/2015 (restated*) PLN thousand
<b>Profit / (loss) attributable to Parent Company shareholders</b>	<b>(200 249)</b>	<b>(5 660)</b>	<b>226 648</b>	<b>63 985</b>

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements

### 20.1 Basic earnings per share

	9 months ended 30/09/2016 (unaudited)	3 months ended 30/09/2016 (unaudited)	9 months ended 30/09/2015 (restated*)	3 months ended 30/09/2015 (restated*)
Weighted average number of ordinary shares	44 786 917	44 786 917	44 786 917	44 786 917
<b>Basic earnings per share (PLN per share)</b>	<b>(4,47)</b>	<b>(0,13)</b>	<b>5,06</b>	<b>1,43</b>

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

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements

### 20.2 Diluted earnings per share

	9 months ended 30/09/2016 (unaudited)	3 months ended 30/09/2016 (unaudited)	9 months ended 30/09/2015 (restated*)	3 months ended 30/09/2015 (restated*)
Weighted average number of ordinary shares	44 786 917	44 786 917	44 786 917	44 786 917
<b>Diluted earnings per share (PLN per share)</b>	<b>(4,47)</b>	<b>(0,13)</b>	<b>5,06</b>	<b>1,43</b>

The diluted number of shares was calculated as the weighted average number of ordinary shares adjusted as if they had been converted into shares of all potential ordinary shares resulting in dilution.

(\*) restatement of comparative data has been described in Note 4 to these Quarterly Condensed Consolidated Financial Statements

## 21. Credits and loans

	As at 30/09/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
<b>Credit facilities and loans received measured at amortized cost</b>		
Bank loans – pledged on assets	119 057	119 579
Bank loans – other	840 953	589 817
Borrowings from related parties	3 428	3 407
Borrowings from other entities	1 125	1 366
<b>Total</b>	<b>964 563</b>	<b>714 169</b>
Non-current liabilities	769 780	460 577
Current liabilities	194 783	253 592
<b>Total</b>	<b>964 563</b>	<b>714 169</b>

### 21.1 Summary of loan and borrowings agreements

Credit agreements were concluded primarily to finance an investment plan, acquisitions and current operations. Credit agreements were concluded in PLN, EUR and CZK.

The Parent Company as at 30 September 2016 (unaudited)

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Amount in currency (thousand)	Amount in PLN thousand	Liability in PLN thousand
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Bank enforcement title	39 000	39 000	6 327
Investment credit	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Bank enforcement title	49 200	49 200	12 300
Investment credit	Bank Gospodarstwa Krajowego	PLN	WIBOR 1M + margin	31.03.2021	Bank enforcement title	515 200	515 200	402 748
Investment credit	European Investment Bank	PLN	WIBOR 3M + margin	29.05.2020	None	240 000	240 000	63 750
Investment credit	Bank Gospodarstwa Krajowego <sup>(1)</sup>	EUR	EURIBOR 3M + margin	20.12.2026	Notary certified declaration of submission to execution	15 000	64 680	64 680
Investment credit	Bank Gospodarstwa Krajowego <sup>(1)</sup>	EUR	EURIBOR 3M + margin	20.12.2026	Notary certified declaration of submission to execution	85 000	366 520	73 948
Investment credit	Bank Pekao S.A. <sup>(2)</sup>	PLN	WIBOR 3M + margin	31.12.2026	Notary certified declaration of submission to execution	700 000	700 000	114 648
Investment credit	European Bank for Reconstruction and Development <sup>(3)</sup>	EUR / PLN	EURIBOR / WIBOR + margin	25.09.2027	None	100 000	431 200	42 450
Investment credit	European Investment Bank <sup>(4)</sup>	EUR / PLN	EURIBOR / WIBOR + margin	29.08.2031	None	40 000	172 480	32 772
Overdraft facility	mBank S.A.	PLN	WIBOR O/N + margin	31.05.2017	Bank enforcement title	100 000	100 000	27 183

**Total 840 806**

<sup>(1)</sup> On 16 November 2015 the Parent Company concluded with Bank Gospodarstwa Krajowego two investment credit agreements up to the maximum amount of EUR 100.00 thousand. The credits are to be used to finance the purchase of multi-system engines and planned acquisitions. As at 30 September 2016 the Parent Company had used EUR 32.149 thousand,



whilst  
 as at 31 December 2015 EUR 2.901 thousand.

<sup>(2)</sup> On 16 November 2015 the Parent Company concluded a credit agreement with Bank Pekao S.A., based on which it received an investment credit up to the maximum amount of PLN 700.000 thousand, to finance planned acquisitions and investments. As at 30 September 2016 the Parent Company had used PLN 114.648 thousand. The credit had not been used as at 31 December 2015.

<sup>(3)</sup> On 23 December 2015 the Parent Company concluded a credit agreement with the European Bank for Reconstruction and Development, based on which it received an investment credit up to the maximum amount of EUR 100.000 thousand, to refinance the purchase of the company AWT B.V. As at 30 September 2016 the Parent Company had used PLN 42.450 thousand. The credit had not been used as at 31 December 2015.

<sup>(4)</sup> On 19 July 2016 the Parent Company concluded an agreement with the European Investment Bank, based on which it received an investment credit up to the maximum amount of EUR 40.000 thousand, to finance and / or refinance the purchase of multi-system engines. As at 30 September 2016 the Parent Company had used EUR 7.600 thousand.

Subsidiary companies as at 30 September 2016 (unaudited)

Type of loan	Name of bank/lender	Currency	Interest terms and conditions	Maturity date	Pledges	Amount in currency (thousand)	Amount in PLN thousand	Liability in PLN thousand
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	31.10.2016	Guarantee granted by PKP CARGO S.A. up to PLN 1.380 thousand	1 200	1 200	20
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Guarantee granted by PKP CARGO S.A. up to PLN 1.028 thousand	894	894	127
Loan	WFOŚIGW Łódź	PLN	fixed <sup>(1)</sup>	31.03.2024	1) Blank promissory note 2) Irrevocable authorization to bank account 3) Guarantee granted by PKP CARGO S.A.	1 500	1 500	1 125
Overdraft facility	PKO BP S.A.	PLN	WIBOR + margin	15.07.2019	Capped mortgage, lien on inventories	1 000	1 000	462
Investment credit	ING Bank N.V. UniCredit Bank Czech Republic and Slovakia, a.s. Raiffeisenbank a.s. <sup>(2)</sup>	CZK	PRIBOR 3M + margin	26.09.2021	1) Pledge on property, plant and equipment and receivables 2) Pledge on bank account 3) Assignment of insurance policy	297 220	47 436	47 436
Investment credit	ING Bank N.V. UniCredit Bank Czech Republic and Slovakia, a.s. Raiffeisenbank a.s. <sup>(2)</sup>	EUR	fixed <sup>(1)</sup>	30.06.2021	1) Pledge on property, plant and equipment and receivables 2) Pledge on bank account 3) Assignment of insurance policy	16 500	71 159	71 159
Loan	AWT Rail SK a.s.	EUR	fixed <sup>(1)</sup>	31.12.2016	None	800	3 428	3 428
							<b>Total</b>	<b>123 757</b>

<sup>(1)</sup> Interest rates on bank credits and loans with a fixed interest rate fall within the range from 0,06 % to 4 %.

<sup>(2)</sup> On 26 September 2016 companies from the AWT Group concluded a credit agreement with the following institutions: ING Bank N.V., UniCredit Bank Czech Republic and Slovakia, a.s., Raiffeisenbank a.s. to finance their liabilities arising out of previously concluded credit agreements. The aforementioned refinanced liabilities were fully paid on 30 September 2016. The Parent Company as at 31 December 2015 (audited)

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Amount in currency	Amount in PLN thousand	Liability in PLN thousand
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Bank enforcement title	36 400	36 400	1 630
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Bank enforcement title	36 600	36 600	2 233
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Bank enforcement title	39 000	39 000	12 690
Investment credit	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Bank enforcement title	49 200	49 200	19 680
Investment credit	Bank Gospodarstwa Krajowego	PLN	WIBOR 1M + margin	31.03.2021	Bank enforcement title	515 200	515 200	464 123
Investment credit	European Investment Bank	PLN	WIBOR 3M + margin	29.05.2020	None	240 000	240 000	76 500
Investment credit	Bank Gospodarstwa Krajowego	EUR	EURIBOR 3M + margin	20.12.2026	Notary certified declaration of submission to execution	15 000	63 923	12 363
<b>Total</b>							<b>589 219</b>	

Subsidiary companies as at 31 December 2015 (audited)

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Amount in currency (thousand)	Amount in PLN thousand	Liability in PLN thousand
Overdraft facility	PKO BP S.A.	PLN	WIBOR 1M + margin	15.04.2016	Capped mortgage up to PLN 700 thousand, pledge on inventory up to PLN 600 thousand	1 300	1 300	495
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	30.09.2016	Guarantee granted by PKP CARGO S.A. up to PLN 1.048 thousand	911	911	136
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	31.10.2016	Guarantee granted by PKP CARGO S.A. up to PLN 1.380 thousand	1 200	1 200	206
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Guarantee granted by PKP CARGO S.A. up to PLN 1.028 thousand	894	894	256
Loan	WFOŚiGW Łódź	PLN	fixed <sup>(1)</sup>	31.03.2024	1) Blank promissory note 2) Irrevocable authorization to bank account 3) Guarantee granted by PKP CARGO S.A.	1 500	1 500	1 366
Investment credit	ING Bank N.V. UniCredit Bank Czech Republic, a.s.	CZK	PRIBOR 3M + margin	30.09.2016	1) Pledge on shares of AWT a.s. 2) Pledge on property, plant and equipment	1 560 000	246 012	97 667
Investment credit	ING Bank N.V. UniCredit Bank Czech Republic, a.s.	EUR	EURIBOR 3M + margin	30.09.2016	1) Pledge on shares of AWT a.s. 2) Pledge on property, plant and equipment	11 400	48 581	19 288
Investment credit	Raiffeisenbank a.s.	EUR	fixed <sup>(1)</sup>	30.06.2016	1) Registered pledge on property, plant and equipment and receivables 2) Promissory notes 3) Assignment of insurance	8 000	34 092	2 129
Loan	AWT Rail SK a.s.	EUR	fixed <sup>(1)</sup>	31.12.2016	None	800	3 409	3 407
							<b>Total</b>	<b>124 950</b>

<sup>(1)</sup> Interest rates on bank credits and loans with a fixed interest rate fell within the range from 2,5 % to 6,5%.

## 21.2 Unused credit and overdraft facilities

Type of loan	Name of bank	Currency	As at 30/09/2016 (unaudited)	As at 31/12/2015 (audited)
			PLN thousand	PLN thousand
Investment credit	Bank Gospodarstwa Krajowego	PLN	-	5 627
Investment credit	European Investment Bank <sup>(1)</sup>	PLN	155 000	-
Investment credit	European Investment Bank	EUR	139 709	-
Investment credit	Bank Gospodarstwa Krajowego	EUR	292 572	51 560
Investment credit	Bank Pekao S.A.	PLN	585 352	100 000
Investment credit	European Bank for Reconstruction and Development	EUR	388 080	426 150
Overdraft facility	mBank S.A.	PLN	72 817	100 000
Overdraft facility	ING BANK N.V. UniCredit Bank Czech Republic a.s.	CZK	-	27 708
Overdraft facility	ING BANK Śląski S.A.	PLN	-	19 000
Overdraft facility	PKO BP S.A.	PLN	538	805
<b>Total unused credit lines</b>			<b>1 634 068</b>	<b>730 850</b>

<sup>(1)</sup> On 18 March 2016 an annex was concluded to the credit agreement with European Investment Bank, based on which the Parent Company received a credit of PLN 155.000 thousand.

## 21.3 Breaches of credit agreements

No breaches of credit agreements had taken place in the period covered by these Quarterly Condensed Consolidated Financial Statements.

## 22. Other financial liabilities

	As at 30/09/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Interest rate swap (IRS)	1 975	2 164
Currency forwards and spots	-	10
Liability relating to put option for non-controlling interests <sup>(1)</sup>	158 222	155 198
<b>Total</b>	<b>160 197</b>	<b>157 372</b>
Non-current liabilities	-	155 198
Current liabilities	160 197	2 174
<b>Total</b>	<b>160 197</b>	<b>157 372</b>

<sup>(1)</sup> Based on a Shareholders Agreement the Parent Company concluded an agreement with a non-controlling shareholder of AWT B.V. relating to call and put option for a minority packet of shares of AWT B.V. Based on the agreement the Parent Company

is both the buyer of call option and the issuer of put option, i.e. has the right to both buy the other shares of AWT B.V. through the call option, as well as an obligation to buy the shares of AWT B.V. if the minority shareholder performs the put option.

In accordance with the accounting policies adopted by the Parent Company:

- the call option has not been recognized in the consolidated statement of financial position, because it does not meet the definition of derivative instrument in IAS 39;
- the put option has been recognized in accordance with the anticipated acquisition method.

In accordance with IFRS 3, the liability relating to put option, recognized using the anticipated acquisition method, constituted a component of contingent payment and affected the amount of gain from a bargain purchase of AWT. The liability relating to put option is classified as a financial liability measured at fair value through profit or loss.

The fair value of the put option is based on discounted cash flows using the interest rate applicable to such liabilities. The fair value of put option depends on the results of the AWT Group and is calculated as the product of EBITDA and the multiplier specified in the Agreement, adjusted by the amount of net debt. The primary factors considered in the valuation are:

- forecasted EBITDA and net debt,
- the EUR / PLN exchange rate,
- the interest rate applicable to such liabilities.

Forecasted EBITDA and net debt are updated for the valuation at the end of each financial year.

The period for the performance of the put option has been set for 1 January 2017 to 31 December 2020.

## 23. Finance lease and lease with option to purchase liabilities

### 23.1 General lease terms

Based on lease agreements the Group uses primarily rolling stock components, technical facilities equipment, cars and computer hardware. Agreements are concluded from 3 to 11 years in PLN, EUR and CZK.

### 23.2 Finance lease liabilities

	Minimum lease payments	
	As at 30/09/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
Up to one year	73 220	73 086
Over one year, up to five years	118 644	155 335
Over five years	43 223	54 967
	<b>235 087</b>	<b>283 388</b>
Less future lease charges	(18 695)	(24 472)
<b>Present value of minimum lease payments</b>	<b>216 392</b>	<b>258 916</b>

	Present value of minimum lease payments	
	As at 30/09/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
Up to one year	67 115	65 416
Over one year, up to five years	107 363	140 841
Over five years	41 914	52 659
	<b>216 392</b>	<b>258 916</b>
<b>Present value of minimum lease payments</b>	<b>216 392</b>	<b>258 916</b>

	As at 30/09/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
<b>Included in the consolidated statement of financial position as:</b>		
Long-term finance lease liabilities and leases with purchase option	149 277	193 500
Short-term finance lease liabilities and leases with purchase option	67 115	65 416
<b>Total</b>	<b>216 392</b>	<b>258 916</b>

#### 24. Trade and other payables

	As at 30/09/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Trade payables	264 995	321 303
Accruals	58 669	62 486
Liabilities due to purchase of non-financial fixed assets	74 010	113 728
Liabilities related to securities (deposits, bid bonds)	20 810	23 472
State settlements	96 540	98 686
Liabilities due to Voluntary Redundancy Program	-	48 249
Settlements with employees	79 518	78 097
Other liabilities	6 526	6 616
VAT liabilities	-	3 109
<b>Total</b>	<b>601 068</b>	<b>755 746</b>
Non-current liabilities <sup>(2)</sup>	4 039	25 953
Current liabilities	597 029	729 793
<b>Total</b>	<b>601 068</b>	<b>755 746</b>

## 25. Employee benefits

The valuation of provisions for employee benefits as at 30 September 2016 is based on the assumptions used in the valuation as at 31 December 2015.

The amount recognized in the quarterly consolidated statement of financial position, arising from of the Group's liabilities relating to employee benefit programs were as follows:

	As at 30/09/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
<u>Defined post-employment benefit plans</u>		
– retirement compensation	150 752	154 828
– contributions to Company Social Benefits Fund for retirees	124 614	124 118
– death benefits	32 559	31 660
– transport benefits	33 896	33 654
<u>Other employee benefits</u>		
– jubilee bonuses	306 063	318 239
– other employee benefits (unused holidays / bonuses)	51 397	41 505
	<b>699 281</b>	<b>704 004</b>
of which:		
Long-term provisions for employee benefits	593 495	603 621
Short-term provisions for employee benefits	105 786	100 383
<b>Total</b>	<b>699 281</b>	<b>704 004</b>



## 26. Other provisions

	As at 30/09/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Provision for fines from antimonopoly office UOKiK	16 455	16 209
Reclamation provision	4 802	5 356
Provision for onerous contracts	9 855	9 737
Other provisions	13 126	15 440
<b>Total</b>	<b>44 238</b>	<b>46 742</b>
Long-term provisions	28 067	28 886
Short-term provisions	16 171	17 856
<b>Total</b>	<b>44 238</b>	<b>46 742</b>

### Provision for fines from antimonopoly office UOKiK

As at 30 September 2016 the provision represents the Parent Company's Management Board's estimate in connection with the likelihood of payment of two fines imposed on the Parent Company by the Office of Competition and Consumer Protection (UOKiK).

The first fine was imposed further to an earlier antimonopoly proceeding in the matter of the Parent Company's abuse of its dominant position on the domestic market of rail freight transport (proceeding concluded with Decision No. DOK-3/2009). On 22 August 2014 the Parent Company was notified by the President of UOKiK that the proceeding is being continued. After the renewed proceeding, by virtue of Decision No. DOK-5/2015 of 31 December 2015, the President of UOKiK found that the Parent Company had abused its dominant position on the domestic market of rail freight transport, by preventing the creation of conditions necessary for the formation or development of competition, by way of implementing effective from 1 May 2006 changes in Sales Terms, which allowed the Parent Company to sign special agreements with businesses considered to be its competitors. The President of UOKiK found that the above practice was discontinued effective from 1 July 2007, and imposed on the Parent Company a fine in the amount of PLN 14.224 thousand. As at 31 December 2015, following the Management Board's assessment of the risk, a provision was recognized in the amount of PLN 12.192 thousand. On 4 February 2016 an appeal was filed against Decision No. DOK-5/2015 with the Competition and Consumer Protection Court. As at 31 March 2016, following a reassessment of facts and circumstances, the Management Board decided to increase the previously recognized provision by the amount of PLN 2.032 thousand, thereby providing for the entire amount of the fine. No change was made in the estimate of the Parent Company's Management Board as at 30 September 2016.

The second fine, in the amount of PLN 16.576 thousand, was imposed on the Parent Company by virtue of Decision No. RWR 44/2012 issued by the President of UOKiK on 31 December 2012, finding that the Parent Company made it difficult for its business partner to compete with shipping companies belonging to the PKP CARGO Group. In 2013, following a recalculation of the risk, the Parent Company reduced the provision by the amount of PLN 9.946 thousand, finding that a provision of PLN 6.630 thousand is the best estimate of the amount that it will likely have to pay. On 23 November 2015, the District Court in Warsaw ruled on the Parent Company's appeal against Decision No. RWR 44/2012 of 31 December 2012. The court of first instance changed the appealed decision and significantly lowered the initial fine from PLN 16.576 thousand to PLN 2.231 thousand. As at 31 December 2015, following a reassessment of facts and circumstances, the Management Board decided to release the previously recognized provisions in the amount of PLN 4.399 thousand. On 19 January 2016 the Parent Company filed an appeal against part of the ruling of 23 November 2015. No circumstances occurred in the period of 9 months ended 30 September 2016 with an effect on the Parent Company's estimate.

On 20 April 2016 the Parent Company paid a fine of PLN 1.429 thousand imposed based on Decision No. DOK-4/2012 issued by the President of UOKiK on 26 July 2012, and changed in a ruling issued by the Appellate Court on 5 April 2016. As at 31 December 2015 the aforementioned fine had been covered by a provision in the amount of 1.786 thousand. The surplus of the provision over the actually paid fine, amounted to PLN 357 thousand, has been recognized in the Group's financial result under other operating revenue.

Future events may lead to changes in the Parent Company's Management Board's estimates in the subsequent reporting

periods.

#### **Reclamation provision**

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

#### **Provision for onerous contracts**

The Group has recognized a provision for losses on a concluded property lease agreement, where the anticipated revenue will not cover the lease costs incurred by the Group.

#### **Other provisions**

This item includes mainly provisions for disputed claims and litigation. According to the Parent Company's Management Board, the amount of other provisions as at 30 September 2016 and as at 31 December 2015, constitutes the best estimate of the amount that will likely have to be paid. In the event of other fines being imposed, their amount would depend on future events the result of which is uncertain. In consequence, the amount of the provisions may change in the subsequent periods.

## 27. Financial instruments

### 27.1 Categories and classes of financial instruments

Financial assets by categories and classes	As at 30/09/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
<b>Hedging financial instruments</b>	<b>4 007</b>	<b>123</b>
Derivative instruments	4 007	123
<b>Financial assets available for sale</b>	<b>10 003</b>	<b>9 849</b>
Shares of unlisted companies	9 439	9 300
Units of investment funds	564	549
<b>Loans and receivables</b>	<b>789 597</b>	<b>918 443</b>
Trade receivables	619 707	636 134
Receivables from the sale of non-current assets	-	2 197
Loans	2 837	2 639
Bank deposits	131	1 282
Cash and cash equivalents	166 922	276 191
<b>Total financial assets</b>	<b>803 607</b>	<b>928 415</b>

Financial liabilities by categories and classes	As at 30/09/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
<b>Financial liabilities measured at fair value through profit or loss</b>	<b>158 222</b>	<b>155 208</b>
<i>Held for sale</i>		
Derivative instruments	-	10
<i>Liabilities at fair value on initial recognition</i>		
Liabilities relating to put option for non-controlling interests	158 222	155 198
<b>Hedging financial instruments <sup>(1)</sup></b>	<b>173 375</b>	<b>2 164</b>
Derivative instruments	1 975	2 164
Credits and loans	171 400	-
<b>Financial liabilities measured at amortized cost</b>	<b>1 190 837</b>	<b>1 211 686</b>
Credits and loans	793 163	714 169
Trade payables	323 664	383 789
Liabilities relating to purchase of non-current assets	74 010	113 728
<b>Financial liabilities excluded from the scope of IAS 39</b>	<b>216 392</b>	<b>258 916</b>
<b>Total financial liabilities</b>	<b>1 738 826</b>	<b>1 627 974</b>

Impairment losses on shares of unlisted companies and trade receivables are described in Notes 13 and 16, respectively, to these Quarterly Condensed Consolidated Financial Statements.

<sup>(1)</sup> In the period of 9 months ended 30 September 2016 the Parent Company implemented cash flow hedge accounting. The objective of the hedging activities is to limit the effect of currency risk arising out of the EUR / PLN exchange rates on future cash flows. The hedged item consists of the probable future cash flows expressed in EUR. The following hedging instruments have been established:

- starting from 1 January 2016 investment credits expressed in EUR. The Parent Company expects the realization of the hedged cash flows starting from March 2017. As at 30 September 2016 the nominal value of the hedging instrument is EUR 39.749 thousand, which is the equivalent of PLN 171.400 thousand,
- starting from 1 June 2016 currency forward contracts. The Parent Company expects the realization of the hedged cash flows starting from July 2016. As at 30 September 2016 the value of the hedging instrument is PLN 3.491 thousand.

The item also includes a subsidiary's valuation of hedging instruments in the form of:

- interest rate swaps (IRS) to hedge cash flows relating to the future payment of lease payables at variable rates. As at 30 September 2016 the value of the hedging instrument is PLN 1.975 thousand,
- currency forwards on the EUR / PLN currency pair, to hedge future cash flows. As at 30 September 2016 the value of the hedging instrument is PLN 516 thousand.

The effect of hedge accounting valuation for the period of 9 months ended 30 September 2016 on the statement of comprehensive income is presented in Note 27.3 to these Quarterly Condensed Consolidated Financial Statements.

## 27.2 Fair value hierarchy

As at 30 September 2016 and 31 December 2015, financial instruments measured at fair value consisted of derivative financial instruments, investment fund units and the liability relating to put options for non-controlling interests in AWT. The maturity dates of these instruments fall after the end of the reporting period. With regard to the valuation procedures, they qualify as level 1, 2 and 3 of the fair value hierarchy.

Financial assets and liabilities measured at fair value	As at 30/09/2016 (unaudited)			As at 31/12/2015 (audited)		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
<b>Assets</b>	<b>564</b>	<b>4 007</b>	<b>-</b>	<b>549</b>	<b>123</b>	<b>-</b>
Derivative instruments – forwards and IRS	-	4 007	-	-	123	-
Investment fund units	564	-	-	549	-	-
<b>Liabilities</b>	<b>-</b>	<b>1 975</b>	<b>158 222</b>	<b>-</b>	<b>2 174</b>	<b>155 198</b>
Derivative instruments – forwards and IRS	-	1 975	-	-	2 174	-
Put option for non-controlling interests in AWT	-	-	158 222	-	-	155 198

The fair value of units of investment funds is based on their actual market listings.

The fair value of currency forward contracts is determined based on the discounted future cash flows from concluded transactions, calculated based on the difference between the forward and the transaction price. The forward price is calculated based on an NBP fixing rate and the interest rate curve implicated by fxswap transactions. This is level 2 of the fair value hierarchy.

The fair value of interest rate swaps (IRS) is determined based on discounted cash flows relating to the concluded transactions, calculated based on the difference between the swap and the transaction price.

Disclosures on the valuation method and measurement of the fair value of financial instruments classified at level 3 of the fair value hierarchy are described in Note 22 to these Quarterly Condensed Consolidated Financial Statements.

The Group does not disclose the fair value for the category of financial instruments listed in Note 27.1 to these Quarterly Condensed Consolidated Financial Statements other than unlisted shares, which are not measured at fair value as at the balance sheet date. This is because the fair value of these financial instruments as at 30 September 2016 and as at 31 December 2015 did not differ significantly from their values presented in the statement of financial position.

The Group also does not disclose the fair value of shares not listed in active markets classified as financial assets available for sale. The Group is unable to reliably determine the fair value of its shares of companies not listed in active markets. As at the balance sheet date they are measured at acquisition cost less impairment losses.

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

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

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

- sales revenue in the amount of PLN 205 thousand,
- financial expenses – interest on finance lease liabilities in the amount of PLN 783 thousand.

27.3 Revenue, costs, profits and losses contained in the consolidated statement of comprehensive income by category of financial instruments (continued)

9 months ended 30/09/2015 (unaudited)	Hedging financial instruments	Financial assets available for sale	Loans and receivables	Financial liabilities stated at fair value through profit or loss	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Dividends and shares in profits	-	27	-	-	-	-	27
Interest income / (costs)	-	-	5 045	-	(14 221)	(7 634)	(16 810)
Foreign exchange differences	-	-	8 216	-	319	(5 037)	3 498
Impairment / revaluation	-	20	2 005	(3 977)	-	-	(1 952)
Commissions on credits and debt securities	-	-	-	-	(645)	-	(645)
Effect of the settlement of cash flow hedge accounting <sup>(1)</sup>	974	-	-	-	-	-	974
<b>Gross profit / (loss)</b>	<b>974</b>	<b>47</b>	<b>15 266</b>	<b>(3 977)</b>	<b>(14 547)</b>	<b>(12 671)</b>	<b>(14 908)</b>
Change in valuation	510	-	-	-	-	-	510
<b>Other comprehensive income</b>	<b>510</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>510</b>

<sup>(1)</sup> In the period of 9 months ended 30 September 2015 the effect of cash flow hedge accounting had been disclosed in the following items of the quarterly consolidated statement of comprehensive income:

- sales revenue in the amount of PLN 1.737 thousand,
- financial expenses – interest on finance lease liabilities in the amount of PLN 763 thousand.

## 28. Transactions with related parties

### 28.1 Transactions with the State Treasury

In the period of 9 months ended 30 September 2016 and the period of 9 months ended 30 September 2015, the State Treasury was the Group's ultimate holding company. In view of this, all of the companies belonging (directly or indirectly) to the State Treasury are the Group's related parties and are presented broken down into entities related to the PKP Group and other entities related to the State Treasury. In these Quarterly Condensed Consolidated Financial Statements the Management Board of the Parent Company has disclosed transactions with significant related parties, identified as related parties to the best of the Management's knowledge.

#### 28.1.1 Transactions with related parties from PKP Group

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

	9 months ended 30/09/2016 (unaudited)		9 months ended 30/09/2015 (unaudited)	
	Sales to related parties	Purchases from related parties	Sales to related parties	Purchases from related parties
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Parent Company (PKP S.A.)	549	54 237	569	59 920
Subsidiaries/co-subsiidiaries – not consolidated	11 059	14 296	5 151	9 369
Associates	2 037	443	4 669	1 113
Other related parties from PKP S.A. group <sup>(1)</sup>	30 263	474 655	31 744	875 924

	As at 30/09/2016 (unaudited)		As at 31/12/2015 (audited)	
	Receivables from related parties	Liabilities to related parties	Receivables from related parties	Liabilities to related parties
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Parent Company (PKP S.A.)	167	7 921	1 233	4 980
Subsidiaries/co-subsiidiaries – not consolidated	2 985	3 328	3 619	2 959
Associates	152	29	2 566	54
Other related parties from PKP S.A. group <sup>(1)</sup>	5 313	73 533	6 445	98 794

<sup>(1)</sup> The value of purchases made from other related parties from the PKP S.A. group was lower in the period of 9 months ended 30 September 2016 than in the same period of the previous year due primarily to the fact that on 25 September 2015 the parent company PKP S.A. sold 100% of its shares of PKP Energetyka S.A., and thus in the 9 month period ended 30 September 2016 transactions with PKP Energetyka S.A. were no longer treated as transactions with related parties from the PKP S.A. Group.

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

Sales transactions concluded with other related parties from the PKP S.A. group consisted of such services as track line services, rental of manned engines, financial settlements with foreign rail companies, rolling stock maintenance, sub-lease of real estate. Purchase transactions consisted mainly of access to rail infrastructure, lease of real estate, supply of utilities, maintenance of rail traffic control equipment, purchases of electrical energy (until 25 September 2015), network maintenance services, IT services, purchase of transport benefits for employees and retirees.

## 28.1.2 Transactions with other related parties of the State Treasury

No individual transactions concluded between the Group and the State Treasury and the State Treasury's related parties were identified in the period of 9 months ended 30 September 2016 and in the period of 9 months ended 30 September 2015, which would be significant due to their unusual scope or amount. Transactions concluded by the Group with other entities controlled by the State Treasury in the period of 9 months ended 30 September 2016 and in the period of 9 months ended 30 September 2015 related to the Group's current operating activities. The Group's most significant customers that are companies controlled by the State Treasury were Jastrzębska Spółka Węglowa S.A. and Węglokoks S.A. Whereas in the periods covered by these Quarterly Condensed Consolidated Financial Statements no significant purchases were recorded from companies controlled by the State Treasury. All transactions with related parties were performed on market terms.

## 28.2 Loans granted to / received from related parties

	As at 30/09/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
Loans granted to related parties	778	639
Loans received from related parties	3 428	3 407

## 28.3 Remuneration of key management personnel

Remuneration of Members of the Parent Company's Management Board:	9 months ended 30/09/2016 (unaudited)	9 months ended 30/09/2015 (unaudited)
	PLN thousand	PLN thousand
Short-term benefits	2 407	3 239
Post-employment benefits	935	69
Severance benefits	459	-
<b>Total</b>	<b>3 801</b>	<b>3 308</b>

Remuneration of Members of the Parent Company's Supervisory Board:	9 months ended 30/09/2016 (unaudited)	9 months ended 30/09/2015 (unaudited)
	PLN thousand	PLN thousand
Short-term benefits	837	950
<b>Total</b>	<b>837</b>	<b>950</b>

Remuneration of the Parent Company's other key personnel (Representatives-Managing Directors):	9 months ended 30/09/2016 (unaudited)	9 months ended 30/09/2015 (unaudited)
	PLN thousand	PLN thousand
Short-term benefits	779	1 594
Post-employment benefits	681	90
Severance benefits	109	84
<b>Total</b>	<b>1 569</b>	<b>1 768</b>



Remuneration of Members of the Management Boards of subsidiary companies:	9 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (unaudited) PLN thousand
Short-term benefits	6 082	4 725
Post-employment benefits	1 131	573
Severance benefits	278	-
<b>Total</b>	<b>7 491</b>	<b>5 298</b>

Remuneration of Members of the Supervisory Boards of subsidiary companies:	9 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (unaudited) PLN thousand
Short-term benefits	1 062	730
<b>Total</b>	<b>1 062</b>	<b>730</b>

Remuneration of other key personnel (Representatives-Managing Directors) of subsidiary companies:	9 months ended 30/09/2016 (unaudited) PLN thousand	9 months ended 30/09/2015 (unaudited) PLN thousand
Short-term benefits	4 076	2 647
Post-employment benefits	-	214
Severance benefits	147	96
<b>Total</b>	<b>4 223</b>	<b>2 957</b>

No loan or guarantee transactions were concluded with the Group in the period of 9 months ended 30 September 2016 and 9 months ended 30 September 2015 by key management employees of the Parent Company or the subsidiary companies of the PKP CARGO Group.

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

As at 30 September 2016 the Group has future contractual investment obligations associated primarily with an agreement concluded by the Parent Company for the supply and maintenance of multi-system engines. The primary order consists of the supply of 15 multi-system engines along with equipment and computer software, spare parts and full maintenance for 8 years. The agreement also includes the performance of first periodic service repairs after 8 years of use, with the Parent Company being able to waive using the supplier's service in this area. Until 30 September 2016 the Parent Company took delivery of 12 engines, with the other to be delivered by the end of June 2017. As at 30 September 2016 the total value of the future liability relating

to the primary order is EUR 28.061 thousand, which is the equivalent of PLN 121.001 thousand. The agreement provides for widening the order by another 5 multi-system engines along with additional services. The value of the additional option of the agreement is EUR 26.038 thousand, which is the equivalent of PLN 112.277 thousand.

In addition, as at 30 September 2016 the Group has future contractual investment liabilities relating to agreements for:

- the supply of railroad cars and the performance of periodic rolling stock maintenance with a total value of PLN 10.562 thousand,
- the supply of computer hardware with a value of PLN 4.385 thousand.

The agreements will be performed by 2017.

## 30. Contingent liabilities

	As at 30/09/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Guarantees issued at the request of the Group (i)	125 304	106 781
Other contingent liabilities (ii)	62 815	68 797
<b>Total</b>	<b>188 119</b>	<b>175 578</b>

### (i) Guarantees issued at the request of the Group

As at 30 September 2016 and 31 December 2015 the Group recognizes as contingent liabilities the guarantees issued by banks and insurance companies at the request of the entities comprising the PKP CARGO Group. The item consists primarily of performance bonds, bid bonds and customs bonds.

### (ii) Other contingent liabilities

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

On 30 January 2015 the Parent Company was notified of an administrative proceeding started by the President of the Office of Rail Transport (UTK) in the matter of imposing a fine on the Parent Company for conducting operations without proper authorization, i.e. managing rail infrastructure without security authorization. As part of the proceeding the Parent Company exercised its right to express its views on the evidence and materials collected and on the demands submitted prior to the issue of a decision. The proceeding completion date has been extended until 31 December 2016.

As at 30 September 2016 the amount of the potential contingent liability arising out of the proceeding and the probability of its payment are not known.

### 31. Subsequent events

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On 14 and 18 October 2016 the Parent Company's Management Board was notified by Nationale-Nederlanden PTE S.A. of the acquisition by Nationale-Nederlanden OFE of the Parent Company's shares in transactions performed on the Warsaw Stock Exchange on 10 and 12 October 2016. As a result of the transactions, Nationale-Nederlanden OFE has increased its stake in the Parent Company to 6,854,195 shares representing 15.30% of share capital and total number of votes at the Parent Company's general shareholders' meeting.

### 32. Approval of financial statements

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These Quarterly Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 15 November 2016.

**The Parent Company's Management Board**

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Maciej Libiszewski

President of the Management Board

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Grzegorz Fingas

Member of the Management Board

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Arkadiusz Olewnik

Member of the Management Board

---

Jarosław Klasa

Member of the Management Board

---

Zenon Kozendra

Member of the Management Board

Warsaw, 15 November 2016



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QUARTELY FINANCIAL INFORMATION  
OF PKP CARGO S.A.  
FOR Q3 2016

**QUARTERLY FINANCIAL INFORMATION**  
**PKP CARGO S.A. FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2016**  
**PREPARED IN ACCORDANCE WITH IFRS EU**  
**(TRANSLATION OF A DOCUMENT ORIGINALLY ISSUED IN POLISH)**

**SEPARATE STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2016 TO 30 SEPTEMBER 2016**

	for the 9 months period ended 30/09/2016 (unaudited) PLN thousand	for the 3 months period ended 30/09/2016 (unaudited) PLN thousand	for the 9 months period ended 30/09/2015 (restated) PLN thousand	for the 3 months period ended 30/09/2015 (restated) PLN thousand
Revenue from sales of services	2 327 858	810 448	2 565 189	894 844
Revenue from sales of goods and materials	7 627	2 083	8 548	3 295
Other operating revenue	17 972	4 088	24 948	9 100
<b>Total operating revenue</b>	<b>2 353 457</b>	<b>816 619</b>	<b>2 598 685</b>	<b>907 239</b>
Depreciation / amortization and impairment losses	352 133	119 201	288 876	99 729
Consumption of raw materials and energy	385 925	130 726	434 881	148 654
External services	778 030	270 121	804 519	287 515
Taxes and charges	23 579	9 154	23 689	9 063
Employee benefits	840 818	268 342	893 201	282 285
Other expenses by kind	30 510	9 991	31 980	11 231
Cost of merchandise and raw materials sold	5 988	1 023	5 217	2 322
Other operating expenses	18 202	3 474	21 656	4 808
<b>Total operating expenses</b>	<b>2 435 185</b>	<b>812 032</b>	<b>2 504 019</b>	<b>845 607</b>
<b>Profit / (loss) on operating activities</b>	<b>(81 728)</b>	<b>4 587</b>	<b>94 666</b>	<b>61 632</b>
Financial revenue	19 777	210	42 328	(806)
Financial expenses	36 788	7 657	53 535	9 161
<b>Profit / (loss) before tax</b>	<b>(98 739)</b>	<b>(2 860)</b>	<b>83 459</b>	<b>51 665</b>
Income tax expense	(10 847)	1 038	12 334	11 584
<b>NET PROFIT / (LOSS)</b>	<b>(87 892)</b>	<b>(3 898)</b>	<b>71 125</b>	<b>40 081</b>

**SEPARATE STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2016 TO 30 SEPTEMBER 2016**

	for the 9 months period ended 30/09/2016 (unaudited) PLN thousand	for the 3 months period ended 30/09/2016 (unaudited) PLN thousand	for the 9 months period ended 30/09/2015 (restated) PLN thousand	for the 3 months period ended 30/09/2015 (restated) PLN thousand
<b>NET PROFIT / (LOSS)</b>	<b>(87 892)</b>	<b>(3 898)</b>	<b>71 125</b>	<b>40 081</b>
<b>Other comprehensive income</b>				
<b>Other comprehensive income that will be reclassified to profit or loss in subsequent periods:</b>	<b>3 204</b>	<b>6 605</b>	<b>-</b>	<b>-</b>
The effective portion of changes in fair value of cash-flow hedging instruments	3 956	8 155	-	-
Income tax on other comprehensive income	(752)	(1 550)	-	-
<b>Other comprehensive income that will not be reclassified to profit or loss:</b>	<b>-</b>	<b>-</b>	<b>52 022</b>	<b>-</b>
Actuarial gains / (losses) on post- employment benefits	-	-	64 225	-
Income tax on other comprehensive income	-	-	(12 203)	-
<b>Other comprehensive income, net of tax</b>	<b>3 204</b>	<b>6 605</b>	<b>52 022</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(84 688)</b>	<b>(2 707)</b>	<b>123 147</b>	<b>40 081</b>
<b>Earnings / (loss) per share (PLN per share)</b>				
Earnings / (loss) per share on operations (basic):	<b>(1,96)</b>	<b>(0,09)</b>	<b>1,59</b>	<b>0,89</b>
Earnings / (loss) per share on operations (diluted):	<b>(1,96)</b>	<b>(0,09)</b>	<b>1,59</b>	<b>0,89</b>



**SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 SEPTEMBER 2016**

	As at 30/09/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand	As at 30/09/2015 (restated) PLN thousand
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3 623 871	3 562 716	3 731 532
Intangible assets	53 108	59 236	60 039
Investments in subsidiaries and associates	737 974	734 643	730 155
Other long-term financial assets	6 021	6 021	6 021
Other long-term non-financial assets	8 436	18 927	6 657
Deferred tax assets	87 177	76 602	36 489
<b>Total non-current assets</b>	<b>4 516 587</b>	<b>4 458 145</b>	<b>4 570 893</b>
<b>Current assets</b>			
Inventories	59 896	60 743	67 215
Trade and other receivables	414 858	384 228	446 771
Income tax receivables	1 342	-	-
Other short-term financial assets	3 491	25 057	4 080
Other short-term non-financial assets	15 258	4 985	29 340
Cash and cash equivalents	17 969	84 097	24 922
	<b>512 814</b>	<b>559 110</b>	<b>572 328</b>
Non-current assets classified as held for sale	6 000	44 061	64 404
<b>Total current assets</b>	<b>518 814</b>	<b>603 171</b>	<b>636 732</b>
<b>Total assets</b>	<b>5 035 401</b>	<b>5 061 316</b>	<b>5 207 625</b>

**SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 SEPTEMBER 2016**

	As at 30/09/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand	As at 30/09/2015 (restated) PLN thousand
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	2 239 346	2 239 346	2 239 346
Share premium	589 202	589 202	589 202
Other items of equity	6 930	3 726	15 450
Retained earnings	152 150	240 042	425 292
<b>Total equity</b>	<b>2 987 628</b>	<b>3 072 316</b>	<b>3 269 290</b>
<b>Non-current liabilities</b>			
Long-term bank loans and credit facilities	665 186	459 305	461 786
Long-term finance lease liabilities and leases with purchase option	41 523	75 333	85 887
Long-term trade and other payables	2 652	22 389	32 786
Long-term provisions for employee benefits	539 657	549 280	502 649
Other long-term provisions	16 456	16 209	8 416
Other long-term financial liabilities	-	27 696	25 149
<b>Non-current liabilities</b>	<b>1 265 474</b>	<b>1 150 212</b>	<b>1 116 673</b>
<b>Current liabilities</b>			
Short-term bank loans and credit facilities	175 620	129 914	154 476
Short-term finance lease liabilities and leases with purchase option	51 010	48 914	57 704
Short-term trade and other payables	420 641	568 085	511 274
Short-term provisions for employee benefits	85 401	81 581	84 801
Other short-term provisions	6 680	8 256	11 201
Other short-term financial liabilities	42 947	10	78
Current tax liabilities	-	2 028	2 128
<b>Total current liabilities</b>	<b>782 299</b>	<b>838 788</b>	<b>821 662</b>
<b>Total liabilities</b>	<b>2 047 773</b>	<b>1 989 000</b>	<b>1 938 335</b>
<b>Total equity and liabilities</b>	<b>5 035 401</b>	<b>5 061 316</b>	<b>5 207 625</b>

**STATEMENT OF CHANGES IN SEPARATE EQUITY FOR THE REPORTING PERIOD ENDED 30 SEPTEMBER 2016**

	Other items of equity					Total PLN thousand
	Share capital	Share premium	Actuarial gains / (losses) on post-employment benefits	Changes in fair value of cash-flow hedge	Retained earnings	
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	
<b>Balance as at 1/01/2016 (audited)</b>	<b>2 239 346</b>	<b>589 202</b>	<b>3 726</b>	<b>-</b>	<b>240 042</b>	<b>3 072 316</b>
Net result for the period	-	-	-	-	(87 892)	(87 892)
Other net comprehensive income for the period	-	-	-	3 204	-	3 204
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3 204</b>	<b>(87 892)</b>	<b>(84 688)</b>
<b>Balance as at 30/09/2016 (unaudited)</b>	<b>2 239 346</b>	<b>589 202</b>	<b>3 726</b>	<b>3 204</b>	<b>152 150</b>	<b>2 987 628</b>
<b>Balance as at 1/01/2015 (audited)</b>	<b>2 239 346</b>	<b>584 513</b>	<b>(36 572)</b>	<b>-</b>	<b>469 032</b>	<b>3 256 319</b>
Net result for the period	-	-	-	-	71 125	71 125
Other net comprehensive income for the period	-	-	52 022	-	-	52 022
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>52 022</b>	<b>-</b>	<b>71 125</b>	<b>123 147</b>
Dividend payment	-	-	-	-	(110 176)	(110 176)
Other changes in equity for the period	-	4 689	-	-	(4 689)	-
<b>Balance as at 30/09/2015 (restated)</b>	<b>2 239 346</b>	<b>589 202</b>	<b>15 450</b>	<b>-</b>	<b>425 292</b>	<b>3 269 290</b>

**SEPARATE STATEMENT OF CASH FLOWS FROM 1 JANUARY 2016 TO 30 SEPTEMBER 2016**

	for the 9 months period ended 30/09/2016 (unaudited) PLN thousand	for the 9 months period ended 30/09/2015 (restated) PLN thousand
<b>Cash flows from operating activities</b>		
<b>Profit / (loss) before tax</b>	<b>(98 739)</b>	<b>83 459</b>
<b>Adjustments:</b>		
Depreciation of property, plant and equipment and amortization of intangible assets	351 798	288 876
Impairment of fixed assets	335	-
(Gain) / loss on disposal / liquidation of property, plant and equipment, intangible assets and non-current assets classified as held for sale	(323)	825
(Profit) / loss on investing activities	-	(1 911)
Foreign exchange (gain) / loss	(753)	(2 667)
(Gains) / losses on interest, dividends	(1 678)	(20 117)
Other adjustments	3 708	64 225
<b>Changes in working capital:</b>		
(Increase) / decrease in trade and other receivables	(26 825)	(22 499)
(Increase) / decrease in inventory	2 523	11 847
(Increase) / decrease in other assets	(12 960)	(9 335)
Increase / (decrease) in trade and other payables	(170 259)	70 430
Increase / (decrease) in other financial liabilities	1 461	24 594
Increase / (decrease) in provisions	(7 133)	(375 146)
<b>Cash flows from operating activities</b>	<b>41 155</b>	<b>112 581</b>
Interest received / (paid)	(757)	372
Income taxes received / (paid)	(3 360)	(1 018)
<b>Net cash provided by operating activities</b>	<b>37 038</b>	<b>111 935</b>

**SEPARATE STATEMENT OF CASH FLOWS FROM 1 JANUARY 2016 TO 30 SEPTEMBER 2016**

	for the 9 months period ended 30/09/2016 (unaudited) PLN thousand	for the 9 months period ended 30/09/2015 (converted) PLN thousand
<b><i>Cash flows from investing activities</i></b>		
Acquisition of property, plant and equipment and intangible assets	(370 654)	(386 839)
Proceeds from sale of property, plant and equipment, intangible assets and non-current assets classified as held for sale	4 403	2 326
Acquisition of subsidiaries, associates and joint ventures	-	(460 635)
Interest received	76	5 390
Dividend received	18 893	31 139
Repayments of loans granted	-	433
Inflows / (outflows) of bank deposits over 3 months	-	300 000
Other inflows /(outflows) from investing activities	-	3 469
<b>Net cash provided by investing activities</b>	<b>(347 282)</b>	<b>(504 717)</b>
<b><i>Cash flows from financing activities</i></b>		
Payments of liabilities under finance lease	(35 290)	(98 921)
Payments of interest under lease agreement	(2 325)	(3 636)
Proceeds from credit facilities/loans received	348 067	398 086
Repayments of credit facilities/loans received	(96 243)	(75 908)
Interest on credit facilities/loans received	(11 390)	(7 939)
Grants received	5 407	2 833
Dividends paid to shareholders of the Parent company	-	(110 176)
Cash pool inflows /(outflows)	38 923	(62 895)
Other inflows /(outflows) from financing activities	(3 033)	(5 160)
<b>Net cash provided by financing activities</b>	<b>244 116</b>	<b>36 284</b>
Net increase / (decrease) in cash and cash equivalents	(66 128)	(356 498)
Opening balance of cash and cash equivalents	84 097	381 420
<b>Closing balance of cash and cash equivalents</b>	<b>17 969</b>	<b>24 922</b>



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OTHER INFORMATION  
TO **PKP CARGO** GROUP'S  
CONSOLIDATED QUARTERLY REPORT  
FOR Q3 2016

## ADDITIONAL INFORMATION TO THE CONSOLIDATED QUARTERLY REPORT FOR Q3 2016

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

Table 1 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN 000s		EUR 000s	
	9 months of 2016	9 months of 2015 restated*	9 months of 2016	9 months of 2015 restated*
Operating revenues	3,213,774	3,280,551	734,812	788,878
Profit (loss) on operating activities	-186,264	272,805	-42,588	65,602
Profit (loss) before tax	-228,876	245,417	-52,331	59,016
Net profit (loss)	-200,249	226,505	-45,786	54,468
Total comprehensive income attributable to the owners of the parent company	-186,428	304,514	-42,626	73,227
Adjusted profit (loss) on operating activities**	-89,591	205,205	-20,485	49,346
Adjusted profit (loss) before tax**	-132,203	177,817	-30,228	42,760
Adjusted net profit (loss)**	-116,361	145,571	-26,605	35,006
Adjusted total comprehensive income attributable to the owners of the parent company**	-102,540	223,580	-23,445	53,765
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 (PLN/EUR)	-4.47	5.06	-1.02	1.22
Diluted earnings / (losses) per share (PLN/EUR)	-4.47	5.06	-1.02	1.22
Net cash flow from operating activities***	132,211	111,032	30,229	26,700
Net cash flow from investing activities	-426,740	-436,323	-97,572	-104,923
Net cash flow from financing activities	183,726	38,717	42,008	9,310
Movement in cash and cash equivalents	-110,803	-286,574	-25,335	-68,913
	30/09/2016	31/12/2015	30/09/2016	31/12/2015
Non-current assets	4,977,171	4,979,501	1,154,260	1,168,486
Current assets	976,231	1,089,100	226,399	255,567
Non-current assets classified as held for sale	6,000	44,061	1,391	10,339
Share capital	2,239,346	2,239,346	519,329	525,483
Equity attributable to the owners of the parent company	3,167,438	3,353,866	734,564	787,015
Non-current liabilities	1,649,774	1,586,088	382,601	372,190
Current liabilities	1,142,190	1,172,708	264,886	275,187

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016 prepared according to EU IFRS

\* restatement of comparative data is described in detail in Note<sup>1</sup> 4 to the Condensed Quarterly Consolidated Financial Statements

\*\* the data for the first 9 months of 2016 are adjusted for presentation purposes for an impairment loss on assets in the amount of PLN 34.5 million (including an impairment loss on fixed assets in the amount of PLN 34.9 million and depreciation, reduced accordingly, in Q3 2016 in the amount of PLN 0.4 million) and an impairment loss on receivables amounting to PLN 62.2 million; moreover, adjusted net result and adjusted comprehensive income attributable to the owners of the Parent Company includes deferred tax resulting from an impairment loss on receivables from OKD in the amount of PLN 6.2 million and the related deferred tax on account of an impairment loss resulting from a test for impairment of AWT's value in the amount of PLN 6.6 million; the impairment loss on assets and the impairment loss on receivables presented in the Condensed Interim Consolidated Financial Statements results from changes in the exchange rates applied for the conversion of the impairment losses into PLN

The data for the first 9 months of 2015 were adjusted for presentation purposes for the profit on the bargain purchase of AWT in the amount of PLN 137.8 million and the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million; additionally, the adjusted net profit and adjusted comprehensive income attributable to the owners of the parent company includes deferred tax on account of VRP 2 in the amount of PLN 13.3 million, while profit on bargain acquisition of AWT does not include deferred tax

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

<sup>1</sup> Any reference to a Note in these Statements should be construed as a Note to the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016 prepared according to EU IFRS.

Table 2 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN 000s		EUR 000s	
	9 months of 2016	9 months of 2015 restated	9 months of 2016	9 months of 2015 restated
Operating revenues	2,353,457	2,598,685	538,105	624,909
Profit (loss) on operating activities	-81,728	94,666	-18,687	22,764
Profit (loss) before tax	-98,739	83,459	-22,576	20,069
Net profit (loss) from continuing operations	-87,892	71,125	-20,096	17,104
Comprehensive income	-84,688	123,147	-19,363	29,613
Adjusted profit (loss) on operating activities*	-81,728	158,528	-18,687	38,121
Adjusted profit (loss) before tax*	-98,739	147,321	-22,576	35,426
Adjusted net profit (loss)*	-87,892	122,853	-20,096	29,543
Adjusted comprehensive income*	-84,688	174,875	-19,363	42,052
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 (PLN/EUR)	-1.96	1.59	-0.45	0.38
Diluted earnings / (losses) per share (PLN/EUR)	-1.96	1.59	-0.45	0.38
Net cash flow from operating activities**	37,038	111,935	8,469	26,917
Net cash flow from investing activities	-347,282	-504,717	-79,404	-121,370
Net cash flow from financing activities	244,116	36,284	55,816	8,725
Movement in cash and cash equivalents	-66,128	-356,498	-15,120	-85,728
	<b>30/09/2016</b>	<b>31/12/2015</b>	<b>30/09/2016</b>	<b>31/12/2015</b>
Non-current assets	4,516,587	4,458,145	1,047,446	1,046,145
Current assets	512,814	559,110	118,927	131,200
Non-current assets classified as held for sale	6,000	44,061	1,391	10,339
Share capital	2,239,346	2,239,346	519,329	525,483
Equity	2,987,628	3,072,316	692,864	720,947
Non-current liabilities	1,265,474	1,150,212	293,477	269,908
Current liabilities	782,299	838,788	181,424	196,829

Source: Quarterly Financial Information of PKP CARGO S.A. for the period of 9 months ended 30 September 2016 prepared according to EU IFRS

\* the data for the first 9 months of 2015 were adjusted for presentation purposes for the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Board of PKP CARGO S.A. in the amount of PLN 63.9 million; additionally, the adjusted net result and adjusted comprehensive income attributable to the owners of the parent company include deferred tax on account of VRP 2 in the amount of PLN 12.1 million

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

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

PKP CARGO Group	PLN 000s		EUR 000s	
	9 months of 2016	9 months of 2015 restated data*	9 months of 2016	9 months of 2015 restated data*
<b>Profit (loss) on operating activities</b>	<b>-186,264</b>	<b>272,805</b>	<b>-42,588</b>	<b>65,602</b>
<b>Adjustments:</b>				
Operating revenues				
Bargain acquisition of AWT		-137,779		-33,132
Operating expenses				
VRP 2		70,179		16,876
Impairment loss on receivables from OKD	62,163		14,213	
Impairment loss on AWT's assets	34,510		7,890	
<b>Adjusted profit (loss) on operating activities**</b>	<b>-89,591</b>	<b>205,205</b>	<b>-20,485</b>	<b>49,346</b>

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016 prepared according to EU IFRS

\* restatement of comparative data is described in detail in Note 4

\*\* the data for the first 9 months of 2016 are adjusted for presentation purposes for an impairment loss on the AWT Group's non-current assets in the amount of PLN 34.5 million (described in Note 10.1) and an impairment loss on receivables from OKD amounting to PLN 62.2 million (described in Note 16); the impairment loss on assets and the impairment loss on receivables presented in the Condensed Interim Consolidated Financial Statements results from changes in the exchange rates applied for the conversion of the impairment losses into PLN

the data for the first 9 months of 2015 are adjusted for presentation purposes for the profit on the bargain purchase of AWT in the amount of PLN 137.8 million and the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million.

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

- exchange rate prevailing on the last day of the reporting period: 30 September 2016: 4.3120 PLN/EUR; 31 December 2015: 4.2615 PLN/EUR,
- the average exchange rate in the period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in a given period: 1 January – 30 September 2016: 4.3736 PLN/EUR, 1 January – 30 September 2015: 4.1585 PLN/EUR.

## 2. Organization of the PKP CARGO Group

### 2.1. Highlights on the Company and the PKP CARGO Group<sup>2</sup>

The PKP CARGO Group is one of the major rail freight operator in the European Union („EU”). The Group’s development is focused on enhancing and extending its operations in terms of its product range and geographic area. At present, the Group is the leader on the Polish market (according to the Office of Rail Transport - UTK<sup>3</sup>) and it is the second largest operator on the Czech market (according to SZDC<sup>4</sup>). Notwithstanding the areas mentioned above, the Group conducts operations that it is constantly developing in Czech Republic, Slovakia, Germany, Austria, the Netherlands, Lithuania and Hungary.

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

- intermodal logistics;
- freight forwarding (domestic and international);
- terminal services;
- siding and traction services;
- maintenance and repair of rolling stock;
- reclamation activity.

### 2.2. Units subject to consolidation

The Condensed Quarterly Consolidated Financial Statements for the period of 9 months ended 30 September 2016 encompass PKP CARGO S.A. and the following 15 subsidiaries consolidated by the full method:

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

Moreover, the following companies are measured by the equity method as at 30 September 2016 in the PKP CARGO Group’s Condensed Quarterly Consolidated Financial Statements:

- COSCO POLAND Sp. z o.o.

<sup>2</sup> Whenever the Report mentions:

- the Company or the Parent Company, it should be construed to mean PKP CARGO S.A.,
- PKP CARGO Group, Group or Capital Group, it should be construed to mean PKP CARGO S.A. and its subsidiaries collectively.

<sup>3</sup> Office of Rail Transport

<sup>4</sup> Správa železniční dopravní cesty (entity responsible for management of the state railway network in the Czech Republic)

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

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

#### **PKP CARGO S.A.**

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

#### **PKP CARGO SERVICE Sp. z o.o.**

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

#### **PKP CARGOTABOR Sp. z o.o.**

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

#### **PKP CARGOTABOR USŁUGI Sp. z o.o.**

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

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

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

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

PKP CARGO Centrum Logistyczne Medyka - Żurawica Sp. z o.o. was established on 5 January 2011. It has been conducting business since 1 February 2011. The company's line of business is to provide comprehensive cargo handling through

transshipment, storage, segregation, packaging, crushing and a number of other border services. The company has the ability to offer rail gauge switching services (change of carriages at an intersection point between normal, i.e. 1,435 mm, and wide, i.e. 1,520 mm gauge rail tracks), chiefly in the transport of hazardous materials and the transshipment of oversized consignments necessitating the usage of specialized transshipment equipment.

#### **PKP CARGO CONNECT Sp. z o.o.**

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

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

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

#### **CARGOSPED Terminal Braniewo Sp. z o. o.**

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

#### **CARGOTOR Sp. z o.o.**

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

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

#### **Advanced World Transport B.V.**

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

#### **Advanced World Transport a.s.**

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

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

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



#### **AWT Čechofracht a.s.**

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

#### **AWT Rekultivace a.s.**

The company was established on 1 January 1994 with its registered offices in Hawierzów and is specialized in civil engineering construction activity. The company's core offering consists of managing and revitalizing post-industrial areas (including mining areas), demolition works, managing waste utilization facilities, eliminating underground mining pits, decontaminating soil, providing specialist technical resources, storage of coal, etc.

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

#### **AWT ROSCO a.s.**

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

#### **AWT Coal Logistics s.r.o.**

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

#### **AWT Rail HU Zrt.**

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

### **2.3. Structure of the PKP CARGO Group**

As at 30 September 2016, the PKP CARGO Group included, besides PKP CARGO S.A., 30 subsidiaries controlled directly or indirectly (by entities controlled by PKP CARGO S.A.), including:

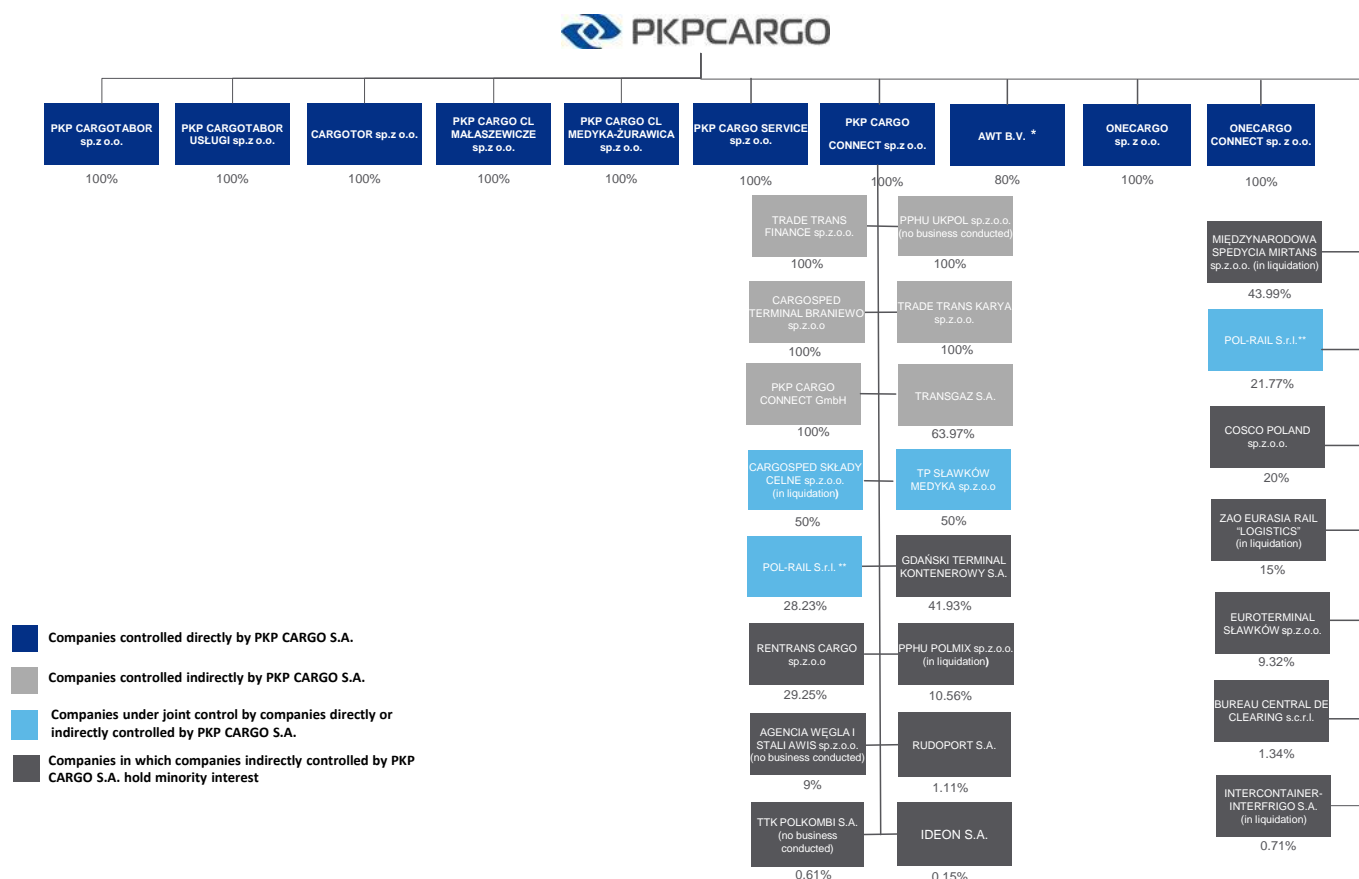
- 10 subsidiaries controlled directly by PKP CARGO S.A.,
- 14 subsidiaries controlled directly by companies directly controlled by PKP CARGO S.A. (and indirectly controlled by PKP CARGO S.A.), including 6 companies directly controlled by PKP CARGO CONNECT Sp. z o.o. and 8 companies directly controlled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

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

The figure below presents the equity links between PKP CARGO S.A. and other entities as at 30 September 2016:



Figure 1 Structure of equity links of PKP CARGO S.A. as at 30 September 2016

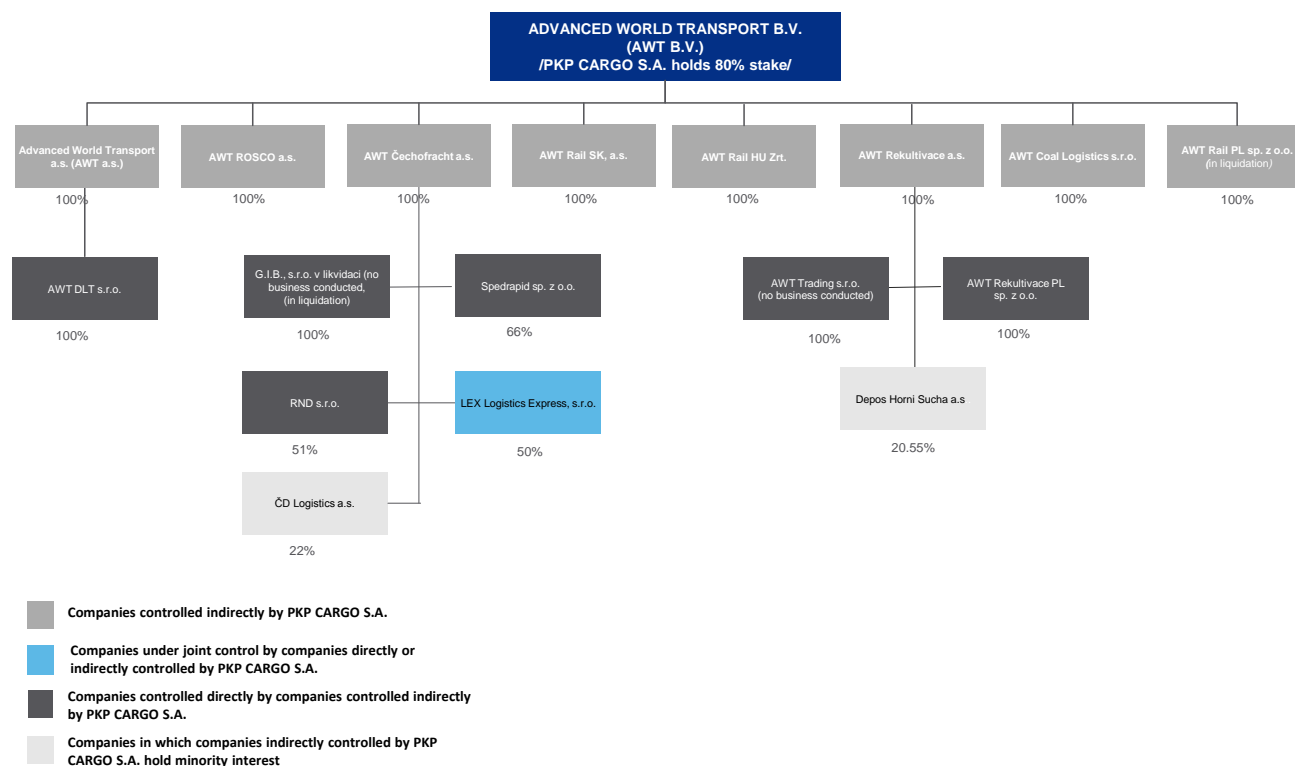


Source: Proprietary material

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

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

Figure 2 Structure of equity links of AWT as at 30 September 2016



Source: Proprietary material

### 3. Information about the Parent Company

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

##### *MANAGEMENT BOARD*

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

- 1) Act of 15 September 2000 entitled the Commercial Companies Code (Journal of Laws No. 94 Item 1037, as amended);
- 2) Act of 8 September 2000 on the Commercialization, Restructuring and Privatization of the State-Owned Enterprise "Polskie Koleje Państwowe" (Journal of Laws No. 84 Item 948, as amended)
- 3) Articles of Association of PKP CARGO S.A. (consolidated text adopted by Resolution No. 1529/V/2016 of the PKP CARGO S.A. Supervisory Board dated 30 March 2016)
- 4) Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution No. 252/2016 of the PKP CARGO S.A. Management Board dated 29 July 2016
- 5) other internal regulations.

##### *Powers of the Management Board*

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

##### *Operation of the Management Board*

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

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

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

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

Name	Position	Period in office	
		from	to
Maciej Libiszewski	acting President of the Management Board	18 December 2015	19 January 2016
	President of the Management Board	19 January 2016	to date
Arkadiusz Olewnik	Management Board Member in charge of Finance	1 April 2016	to date
Grzegorz Fingas	Management Board Member in charge of Commerce	1 April 2016	to date
Jarosław Klasa	Management Board Member in charge of Operations	1 April 2016	to date
Zenon Kozendra	Management Board Member – Employee Representative	14 July 2016	to date
Dariusz Browarek	Management Board Member – Employee Representative	24 April 2014	11 May 2016
Wojciech Derda	Management Board Member in charge of Operations	24 April 2014	24 February 2016 (resignation)
Jacek Neska	Management Board Member in charge of Commerce	24 April 2014	24 February 2016 (resignation)
Łukasz Hadyś	Management Board Member in charge of Finance	12 May 2014	24 February 2016 (resignation)

Source: Proprietary material

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

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

On 19 January 2016, by Resolution No. 1511/V/2016 Maciej Libiszewski was appointed to the position of President of the PKP CARGO S.A. Management Board for the joint term of office of the Company's Management Board within the meaning of § 27 sec. 5 of the Company's Articles of Association and by Resolution No. 1512/V/2016, Maciej Libiszewski was appointed to the position of President of the PKP CARGO S.A. Management Board for the term of office following the term of office of the Company's Management Board Members within the meaning of § 27 sec. 5 in conjunction with § 14 sec. 1 of the PKP CARGO S.A.'s Articles of Association.

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

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

On 31 March 2016, the Supervisory Board adopted Resolution No. 1570/V/2016 appointing as of 1 April 2016 Arkadiusz Olewnik to the position of the PKP CARGO S.A. Management Board Member in charge of Finance for the joint term of office of the Company's Management Board within the meaning of § 27 sec. 5 of the Company's Articles of Association and by Resolution No. 1571/V/2016, Arkadiusz Olewnik was appointed to the position of the PKP CARGO S.A. Management Board Member in charge of Finance for the joint term of office following the term of office of the Company's Management Board Members within the meaning of § 27 sec. 5 in conjunction with § 14 sec. 1 of the Articles of Association of PKP CARGO S.A.

On 31 March 2016, the Supervisory Board adopted Resolution No. 1572/V/2016 appointing as of 1 April 2016 Jarosław Klasa to the position of the PKP CARGO S.A. Management Board Member in charge of Operations for the joint term of office of the Company's Management Board within the meaning of § 27 sec. 5 of the Company's Articles of Association and by Resolution No. 1573/V/2016, Jarosław Klasa was appointed to the position of the PKP CARGO S.A. Management Board Member in charge of Operations for the joint term of office following the term of office of the Company's Management Board Members within the meaning of § 27 sec. 5 in conjunction with § 14 sec. 1 of the Articles of Association of PKP CARGO S.A.

On 31 March 2016, the Supervisory Board adopted Resolution No. 1574/V/2016 appointing as of 1 April 2016 Grzegorz Fingas to the position of the PKP CARGO S.A. Management Board Member in charge of Commerce for the joint term of office of the Company's Management Board within the meaning of § 27 sec. 5 of the Company's Articles of Association and by Resolution No. 1575/V/2016, Grzegorz Fingas was appointed to the position of the PKP CARGO S.A. Management Board Member in charge of Commerce for the joint term of office following the term of office of the Company's Management Board Members within the meaning of § 27 sec. 5 in conjunction with § 14 sec. 1 of the Articles of Association of PKP CARGO S.A.

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

On 11 May 2016, the mandate of Dariusz Browarek, the Management Board Member in charge of Employees, expired.

On 14 July 2016, the Supervisory Board adopted Resolution no. 1599/VI/2016 to appoint as of 14 July 2016 Zenon Kozendra to the position of the Management Board member – Employee Representative in the Management Board of PKP CARGO S.A.

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

- 1) President of the Management Board – the scope of the President's activity include directing the activities of the Management Board and the Company's ongoing operations and overseeing the management of specific areas of the Company's activity, in particular:

- business strategy,
- business security and internal audit.

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

- 2) Management Board Member in charge of Finance – the scope of duties of the Management Board Member in charge of Finance covers responsibility for rational management of the Company's resources and overseeing the management of specific areas of the Company's business, in particular:

- finance management,
- purchase and sale of assets.

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

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

- commercial policy,
- sales of transportation services.

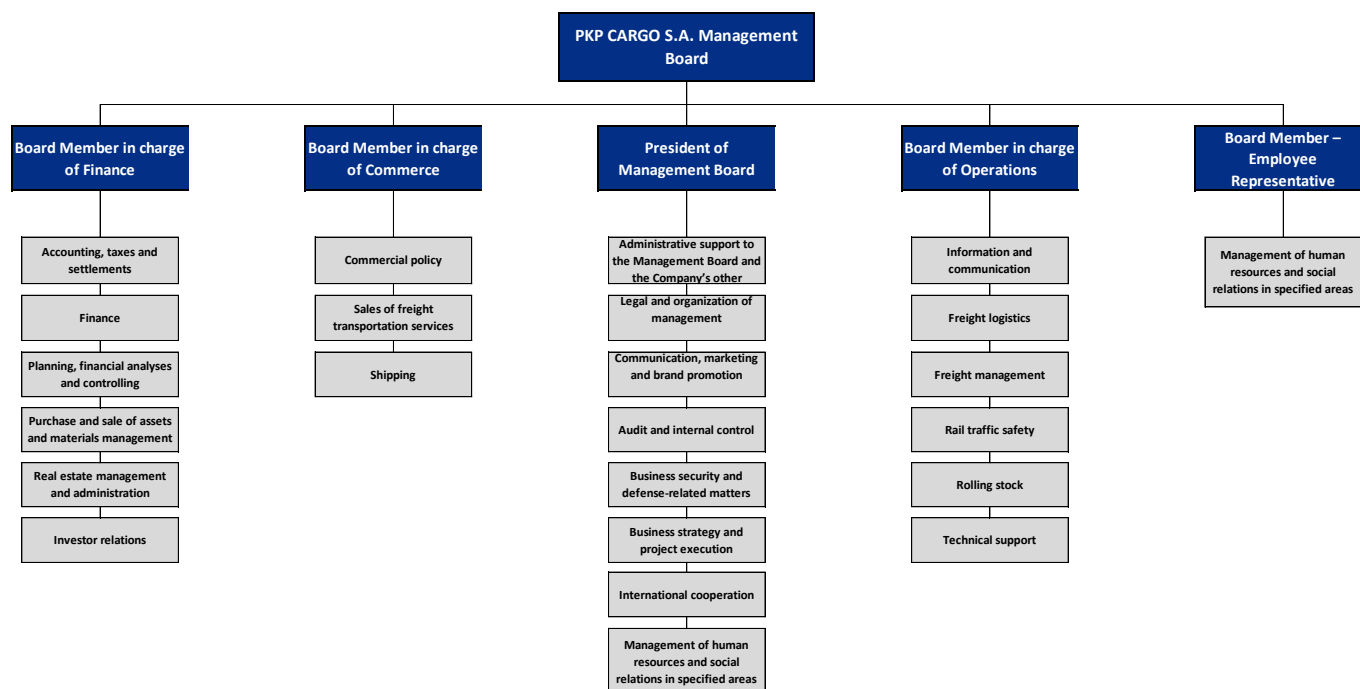
- 4) Management Board Member in charge of Operations – the scope of activity of the Management Board Member in charge of Operations includes caring for the effective execution of the Company's business and technological processes and overseeing the management of specific areas of the Company's activity, particularly in the following areas:

- execution of transports,
- maintenance of rolling stock.

- 5) Management Board Member – Employee Representative in the Management Board – the scope of activity of the Employee Representative in the Management Board includes overseeing the tasks realized within the area of human resource management, particularly in the following areas:

- relations with the social partners,
- communication with the community organizations.

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



Source: Proprietary material

#### Commercial proxies established and revoked:

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

On 18 July 2016, following the procedure prescribed in Article 371 § 5 of the Commercial Companies Code, the commercial proxy powers granted to Mr. Ireneusz Wasilewski were revoked.

#### SUPERVISORY BOARD

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

#### Powers of the Supervisory Board

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

#### Operation of the Supervisory Board

The procedure of the Supervisory Board's operation is described in detail in the Bylaws of the Company's Supervisory Board. The Bylaws are adopted by the Company's Supervisory Board. In accordance with the provisions of the Bylaws of the Supervisory Board, the Supervisory Board makes decisions in the form of resolutions. For Supervisory Board resolutions

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

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

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

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

Name	Position	Period in office	
		from	to
Stanisław Knaflewski	Supervisory Board member	17 December 2013	11 May 2016
Raimondo Eggink	Supervisory Board Member	13 April 2015*	to date
Miroslaw Pawlowski	Supervisory Board Member	17 December 2015	18 December 2015
	Supervisory Board Chairman	18 December 2015*	to date
Jerzy Kleniewski	Supervisory Board Member	17 December 2015*	to date
Andrzej Wach	Supervisory Board Member	17 December 2015*	20 May 2016
	Supervisory Board Deputy Chairman	20 May 2016	to date
Maciej Libiszewski	Supervisory Board Member	17 December 2015 (from 18 December 2015 delegated as acting President of the Management Board)	19 January 2016 (resignation)
Czesław Warsewicz	Supervisory Board Member	17 December 2015*	to date
Małgorzata Kryszkiewicz	Supervisory Board Member	17 December 2015*	to date
Kazimierz Jamrozik	Supervisory Board Member	24 May 2012	11 May 2016
Zofia Dzik	Supervisory Board Member	11 May 2016	to date
Marek Podskalny	Supervisory Board Member	20 May 2016	to date
Krzysztof Czarnota	Supervisory Board Member	20 May 2016	to date
Tadeusz Stachaczyński	Supervisory Board Member	20 May 2016	to date

Source: Proprietary material

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

#### SUPERVISORY BOARD AUDIT COMMITTEE

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



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

Name	Position	Period in office	
		from	to
Stanisław Knaflewski	Committee Member	6 February 2014	11 May 2016*
	Committee Member	30 April 2015 20 May 2015 – 6th term of office	18 December 2015
Raimondo Eggink	Committee Chairman	18 December 2015 31 May 2016 – 6th term of office	11 May 2016* to date
Małgorzata Kryszkiewicz	Committee Member	18 December 2015 20 May 2016 – 6th term of office	11 May 2016* to date
Zofia Dzik	Committee Member	20 May 2016	to date

Source: Proprietary material

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

### NOMINATION COMMITTEE

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

Table 7 Composition of the Nomination Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2016 to the delivery date of this report

Name	Position	Period in office	
		from	to
Stanisław Knaflewski	Committee Chairman	17 December 2013	11 May 2016
Mirosław Pawłowski	Committee Member	18 December 2015 20 May 2016 – 6th term of office	11 May 2016* to date
Andrzej Wach	Committee Member	18 December 2015 20 May 2016 – 6th term of office	11 May 2016* to date
Zofia Dzik	Committee Chairwoman	20 May 2016	to date

Source: Proprietary material

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

### STRATEGIC COMMITTEE

The Strategic Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of at least three Supervisory Board members, of whom at least one Supervisory Board Member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and 21 of the Company's Articles of Association. Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The Strategic Committee supports the Supervisory Board in the oversight over the definition of the strategy as well as the appropriate implementation of the strategy and annual and long-term activity plans for the Company and its Group. The Committee was established by a Supervisory Board resolution on 23 June 2016.



Table 8 Composition of the Strategic Committee of the PKP CARGO S.A. Supervisory Board from establishment (on 23 June 2016) to the delivery date of this report

Name	Position	Period in office	
		from	to
Czesław Warsewicz	Committee Chairman	23 June 2016	to date
Raimondo Eggink	Committee Member	23 June 2016	to date
Andrzej Wach	Committee Member	23 June 2016	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 9 Structure of PKP CARGO S.A.'s share capital

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

Source: Proprietary material

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

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

Table 10 Shareholder structure of PKP CARGO S.A. as at 1 January 2016

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

Source: Proprietary material

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

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

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

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

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

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

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

shares of the Company representing 4.97% of the Company's share capital and 2,225,827 votes at the SM, which is 4.97% of all the votes.

On 18 August 2016, the Company's Management Board received a notification from MetLife PTE S.A. reporting that the MetLife Open-end Pension Fund ("OPF") it manages increased its exposure to above 5% of the total number of votes in PKP CARGO S.A.

Its exposure exceeded 5% as a result of the purchase of shares in PKP CARGO S.A. on 10 August 2016. Directly before the change in its shareholding, OPF held 2,162,347 shares, representing 4.83% of the share capital of PKP CARGO S.A. giving it the right to 2,162,347 votes at the Shareholder Meeting, representing 4.83% of the total number of votes at the Shareholder Meeting of PKP CARGO S.A.

At present, OPF holds 2,494,938 shares, representing 5.57% of the share capital of PKP CARGO S.A. giving it the right to 2,494,938 votes at the shareholder meeting, representing 5.57% of the total number of votes at the shareholder meeting of PKP CARGO S.A.

Table 11 Shareholder structure of PKP CARGO S.A. as at 30 September 2016

Shareholder	Number of shares	% in share capital	Number of votes	% in the total number of votes at the Shareholder Meeting
PKP S.A. <sup>(1)</sup>	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE <sup>(2)</sup>	5,771,555	12.89%	5,771,555	12.89%
MetLife OFE <sup>(3)</sup>	2,494,938	5.57%	2,494,938	5.57%
AVIVA OFE <sup>(4)</sup>	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	19,397,859	43.31%	19,397,859	43.31%
<b>Total</b>	<b>44,786,917</b>	<b>100.00%</b>	<b>44,786,917</b>	<b>100.00%</b>

Source: Proprietary material

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

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

(3) According to a notice sent by the shareholder on 18 August 2016

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

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

Shareholder	Number of shares	% in share capital	Number of votes	% in the total number of votes at the Shareholder Meeting
PKP S.A. <sup>(1)</sup>	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE <sup>(2)</sup>	6,854,195	15.30%	6,854,195	15.30%
MetLife OFE <sup>(3)</sup>	2,494,938	5.57%	2,494,938	5.57%
AVIVA OFE <sup>(4)</sup>	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	18,315,219	40.89%	18,315,219	40.89%
<b>Total</b>	<b>44,786,917</b>	<b>100.00%</b>	<b>44,786,917</b>	<b>100.00%</b>

Source: Proprietary material

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

(2) According to a notice sent by the shareholder on 18 October 2016; on 20 July 2015, the name ING OFE was changed to Nationale-Nederlanden OFE

(3) According to a notice sent by the shareholder on 18 August 2016

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

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

The holdings of Company's shares or rights to such shares by members of the Company's Management Board from 28 September 2016, i.e. the delivery date of the H1 2016 report to the delivery date of this report, were as follows:

Table 13 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		
Maciej Libiszewski		0
Arkadiusz Olewnik		0
Grzegorz Fingas		0
Jarosław Klasa		46
Zenon Kozendra		46
as at 28 September 2016		
Maciej Libiszewski		0
Arkadiusz Olewnik		0
Grzegorz Fingas		0
Jarosław Klasa		46
Zenon Kozendra		46

Source: Proprietary material

The holdings of Company's shares or rights to such shares by members of the Company's Supervisory Board from 28 September 2016, i.e. the delivery date of the H1 2016 report to the delivery date of this report, were as follows:

Table 14 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	
Mirosław Pawłowski	0
Jerzy Kleniewski	0
Andrzej Wach	0
Czesław Warsewicz	0
Małgorzata Kryszkiewicz	0
Raimondo Eggink	0
Zofia Dzik	0
Marek Podskalny	70
Krzysztof Czarnota	70
Tadeusz Stachaczyński	0
as at 28 September 2016	
Mirosław Pawłowski	0
Jerzy Kleniewski	0
Andrzej Wach	0
Czesław Warsewicz	0
Małgorzata Kryszkiewicz	0
Raimondo Eggink	0
Zofia Dzik	0
Marek Podskalny	70
Krzysztof Czarnota	70
Tadeusz Stachaczyński	0

Source: Proprietary material

#### 4. Key areas of operation of the PKP CARGO Group

##### 4.1. Macroeconomic environment

##### Polish economy

According to the most recent Central Statistical Office data, in 2015 Poland's GDP grew by 3.9% yoy. According to tentative estimates, in Q2 2016 the country's gross domestic product increased by 3.1% in real terms compared to the same period of the previous year. Gross value added in industrial production increased in this period by 5.1% compared to the same period of 2015, while in the construction sector it decreased by 9.6% yoy. Domestic demand went up by 2.4% yoy.<sup>5</sup>

There has been a clear downward shift in growth forecasts for gross domestic product in H2 2016. It was expected that in Q2 of this year GDP would be significantly above 3.5%, but currently, according to the average market forecast, GDP growth in Q3 and Q4 will be at a level of 3.1% and 3.0%, respectively. The forecasts have been adjusted primarily due to investment figures which in the first half of this year decreased by 3.6% yoy, mainly as a result of a lower level of execution of EU-funded projects. The performance of the construction industry is the most obvious signal of weakening investment activity, because after the first 9 months of this year the sector's revenues dropped by 14.9% compared to the same period of the previous year<sup>6</sup>.

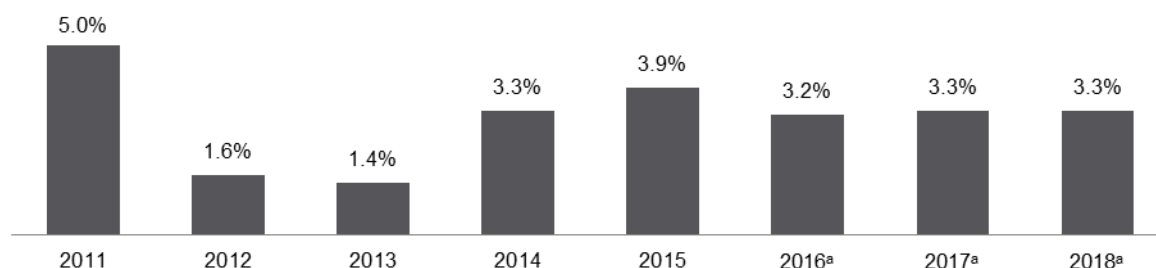
In H2 2017, investments are expected to grow by 6.5% due to a more noticeable inflow of funds from EU programs and an increase in investment spending by the public sector. It is expected that the maintenance of favorable rates of growth in China and Germany will further improve the growth in exports.

The GDP growth rate in 2017 may go up thanks to increased spending on fixed assets, reaching 3.5% in Q4 2017. The "Family500+" program will provide a demand boost contributing to greater private consumption<sup>7</sup>.

According to the most recent survey of the National Bank of Poland concerning GDP growth forecasts for 2016, 2017 and 2018, a further slowing growth of GDP results is expected (down to 3.2% yoy in 2016 and down to 3.3% yoy for 2017 and 2018<sup>8</sup>). These estimates were driven by external factors, i.e. the possibility of deterioration in the level of confidence among businesses and consumers associated with the situation prevailing in the global market (prolonged stagnation in the European Union due to Brexit, migration, situation of banks and structural problems). Among the most influential internal factors is the situation in public investment projects and the dynamics of the labor market in the context of the "Family 500+" and ongoing demographic changes.

The World Bank has also lowered its growth forecast for the Polish economy for 2016 to 3.2% (from 3.7% anticipated in April). Due to a smaller scale of investments in H1 2016, the Polish economy's rate of growth subsided to 3.1%. In 2017 and 2018 GDP growth may go back up to 3.4% and 3.5%<sup>9</sup> - due to the expected increase in investment spending both from the public sector and as a result of strong private consumption supported by the improving situation on the labor market (the unemployment rate fell in 2016 from 10.2 registered in January to 8.3 recorded in September).<sup>10</sup>

Figure 4 GDP growth in Poland in 2011-2015 per annum and 2016, 2017 and 2018 forecasts



Source: Central Statistical Office (revised estimate of gross domestic product for 2010-2015 dated 19 October 2016);

<sup>a</sup> NBP forecast (September 2016)

<sup>5</sup> Central Statistical Office of Poland

<sup>6</sup> Gazeta Prawna daily paper

<sup>7</sup> Gazeta Prawna daily paper

<sup>8</sup> National Bank of Poland (macroeconomic forecasts – survey results, September 2016)

<sup>9</sup> World Bank

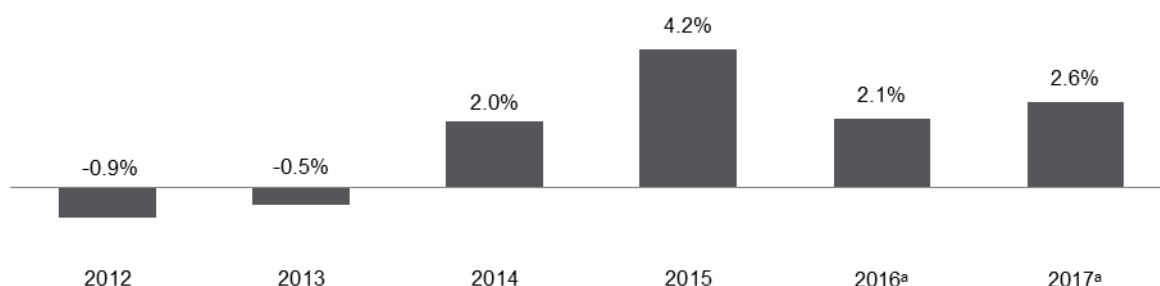
<sup>10</sup> Central Statistical Office of Poland

In spite of the reduced forecasts for Poland's economic growth, it is still higher than the average growth in all EU economies; in 2016, their forecast growth is 1.8% yoy<sup>11</sup>. The driver behind Poland's relatively rapid economic growth compared to other European Union countries is private consumption. This is possible thanks to the good situation in the labor market, inexpensive loans and the "Family 500+" program. In the near future, the international situation will significantly affect the trends in the Polish economy.

### Czech economy

According to expectations, after Q1 2016 the rate of growth of the Czech economy has decreased as a result of the termination of subsidies under the old EU financing perspective. Real GDP growth at a level of 2.7% yoy demonstrates, however, that the reduced flow of EU funds has not translated into a significant slowdown in the economy. Components of domestic demand provide a favorable contribution to GDP growth. Private consumption in Q2 2016 rose by 2.6% yoy, which indicates an improving situation of households with the inflation rate close to zero. Another factor favorably affecting the growth in GDP was the balance of foreign trade. The current account of the balance of payments has been recording a growing surplus since 2014. In Q1 2016, it reached 1.4% of GDP (in annual terms), which is the highest such value in the history of the independent Czech Republic. However, it should also be pointed out that H2 2016 and 2017 may fail to be equally successful. This is due to the results of the Brexit referendum which contributed to the uncertainty of European economies on a global scale. The less optimistic economic sentiment may contribute to reduced forecasts for the coming quarters for all economies with direct or indirect business ties with the United Kingdom.

Figure 5 Real GDP growth in the Czech Republic in 2012-2015 per annum and 2016 and 2017 forecasts



Source: European Commission

\* European Commission forecast – Spring 2016

According to the European Commission's projections, the Czech economy is expected to record:

- an increase in GDP by 2.1% yoy in 2016 and by 2.6% yoy in 2017. The main driver of economic growth will likely be domestic demand. In 2016, demand generated by households is expected to increase by 2.8% yoy;
- an increase in the inflation rate to 0.5% yoy in 2016 from 0.3% yoy in 2015. In 2017, the inflation rate is expected to increase to 1.4% yoy;
- the unemployment rate is expected to drop from 5.1% in 2015 to 4.5% in 2016 and 4.4% in 2017. The expected growth in employment will slow down to 0.3% yoy in 2017 along with the decreasing size of working-age population;
- a current account balance at a level of -1.5% of GDP in 2016 and -1.3% of GDP in 2017.

The main threats to the Czech economy are expected to come from the outcome of the British referendum in which the majority of voters were in favor of their country leaving the European Union. The authorities of the Czech Republic expect that an arrangement will be reached which will not impose any barriers on the exchange of goods and services between the two countries. Moreover, a deceleration in economic growth in China may exert a continued adverse impact on the economic situation in the Czech Republic. The said deceleration may significantly affect global trade, including that involving the Czech Republic.

<sup>11</sup> World Bank

## European economy

The World Bank predicts a moderate rate of economic growth in the coming years for the European Union – it is expected to reach 1.8% in 2016 and 1.4% in 2017<sup>12</sup>. Such estimates are mainly based on low investments, a decreasing number of working-age population and deteriorating labor productivity rates.

According to projections published by the European Central Bank, the economic recovery in the Eurozone will continue, although at a slightly lower rate than had been expected. Annual GDP growth in 2016 will be 1.7% and in 2017 and 2018 it is expected to stabilize at 1.6%<sup>13</sup>. In the environment of a gradual recovery of the global economy, the main driver of growth will be domestic demand supported by the ECB's more lenient monetary policy, favorable fiscal policy, relatively low oil prices, improved conditions in the labor market and progress in reducing financial leverage in various sectors. The rate of growth in exports is projected to increase somewhat under the influence of the expected gradual global economic recovery but will not surpass the rate of growth in imports. However, due to the extensive trade links, the United Kingdom's decision to leave the European Union will have an unfavorable impact on the Eurozone's economy. Accordingly, external demand is forecast to be revised significantly downwards, which will be a factor slowing down the growth in exports in the Eurozone due to the much weaker demand for imports generated in the United Kingdom.

According to forecasts, the inflation rate in 2016 will be 0.2% and in subsequent years is expected to increase to 1.2% in 2017 and 1.6% in 2018<sup>14</sup>.

## Industry in Poland

Rail cargo transport is invariably affected by the economic situation in the main branches of industry in Poland, i.e. primarily mining, metallurgy and construction. Industries with a slightly smaller impact on rail cargo transport include the petrochemical, metal, chemical, timber and automotive sectors.

During the first three quarters of this year, increasing trends prevailed in the Polish economy. Industrial production sold increased 3.8% yoy. Sales of most goods were on the increase (except for energy-related ones), especially durable consumer goods (8.4% yoy). Annual production in industrial processing increased 4.8% and water supply, sewage and waste management and land reclamation rose 3.0% yoy. In mining and extraction, production decreased 4.5% yoy, whereas in generation and supply of electricity, gas, steam and hot water the decline was 3.9% yoy<sup>15</sup>.

In Q1-Q3 2016, production sold increased compared to the same period of the previous year, including the production of: furniture (14.0% yoy), metal products (9.5% yoy), rubber and plastic goods (7.8% yoy), motor vehicles, trailers and semi-trailers (7.7% yoy), goods made of other non-metallic mineral raw materials (6.7% yoy), goods made of wood, cork, straw and wicker (4.2% yoy), and paper and paper products (4.0% yoy). In the same period, production of coke and refined petroleum products decreased (-4.8% yoy)<sup>16</sup>.

The annual rate of growth in industrial production sold in Q3 was lower than in the previous two quarters and stood at 2.5% yoy compared to 5.7% yoy in Q2 and 3.0% yoy in Q1 of this year.<sup>17</sup>

Labor productivity in industry during the first three quarters of this year increased on an annual basis by 1.4% with an average increase in employment by 2.4%<sup>18</sup>.

In September of this year, industrial production sold was higher than last year by 3.2% (in August it was 7.5%, and in September 2015 the rate of growth was 4.0%)<sup>19</sup>. The weaker market in September 2016 was also a result of the so-called calendar effects, i.e. the negative statistical impact associated with the unfavorable difference in the number of business days (in August 2016 there were 2 business days more than the year before, while in September of this year the number of business days was the same as that in 2015). Also of some significance was the disappearance of the effect of last year's low base associated with the heat wave. Weather conditions in August 2015 caused restrictions in electricity supply throughout the country and thus resulted in reduced manufacturing capacity of Polish companies. The disappearance of this effect slowed down the growth rate of industrial production in September of this year.

<sup>12</sup> World Bank

<sup>13</sup> Macroeconomic projections of ECB experts, September 2016

<sup>14</sup> Macroeconomic projections of ECB experts, September 2016

<sup>15</sup> Central Statistical Office of Poland

<sup>16</sup> Central Statistical Office of Poland

<sup>17</sup> Central Statistical Office of Poland

<sup>18</sup> Central Statistical Office of Poland

<sup>19</sup> Central Statistical Office of Poland



In the period of January-August of this year, the rate of growth in foreign trade was weaker than the year before. On the increase was trade with developed countries, including EU countries, and exports to the countries of Central and Eastern Europe and imports from developing countries. During the first seven months of this year, foreign trade measured at constant prices was higher than in the same period of 2015, and the terms of trade index was favorable (mainly as a result of improved price relations with the countries of Central and Eastern Europe).

Exports (PLN 517.6 billion) increased 6.3% compared to the period of January-August 2015, and imports (PLN 499.1 billion) increased 3.8% yoy. Thus, foreign trade recorded a positive balance of PLN 18.5 billion (compared to PLN 6.3 billion the year before)<sup>20</sup>.

The value of PMI (Purchasing Managers Index) in September 2016 was 52.2, i.e. better than last year when it stood at 50.9<sup>21</sup>.

Polish industry is affected not only by the country's internal situation but also by the economic situation in the countries which are suppliers for Polish manufacturers. In June of this year, the World Bank lowered its forecast for global economic growth to 2.4% (from 2.9% in the projection presented in January of this year)<sup>22</sup>. In the period of July-September of this year, the situation deteriorated further due to the continued weakening in global trade, a poor rate of growth in investments and political uncertainty.

According to the latest forecasts published by the International Monetary Fund, global gross domestic product in 2016 will increase 3.1% (compared to 3.2% in 2015). A significant impact on economic growth will be exerted by GDP growth in the developing economies of Asian countries (up 6.5%), including India (up 7.6%), China (up 6.6%) and ASEAN-523 countries (up 4.8%)<sup>23</sup>.

#### Mining industry

During the first 9 months of 2016, the production of coal in Poland reached 52.0 million tons, i.e. was lower by 0.4% yoy (compared to 52.2 million tons in the same period of 2015). According to data from the Industrial Development Agency (ARP), 81% of this production was thermal coal and 19% was coking coal. Coal sales during the year were spread evenly. During the first 9 months of this year, buyers purchased 54.1 million tons of coal, i.e. 2.9% more than in the same period of 2015 (52.5 million tons). As much as 54% of coal sold in the country is consumed by power plants. At the end of September of this year, coal inventories were 3.4 million tons, which was 31.4% less than in January of this year (5.7 million tons) and 50.7% less than at the end of September 2015 (7.0 million tons)<sup>24</sup>.

Recent months saw a reversal of the downward trend in coal prices as they (mainly coking coal prices) began to increase again throughout world. In Poland, the average sales price of coking coal in August increased to approx. PLN 340 per ton. During the first 8 months of 2016, the price per ton of coal purchased from Polish mines (both thermal and coking coal) was PLN 231. The average price of thermal coal was PLN 213, down PLN 21 yoy. In turn, the average price of coking coal in this period was PLN 310, down PLN 78 yoy.

In August, for the first time in several years, production costs equaled the prices of raw materials (due to an increase in prices in world markets and remedial measures applied in the Polish mining industry, the average price of coal from Polish mines was higher than the average cost of production, by PLN 1 per ton). The average price of coal was PLN 245 per ton (the average price of thermal coal was PLN 219 per ton and the average price of coking coal was PLN 341 per ton, while the average cost of production of the raw material dropped from PLN 315 per ton PLN 243 per ton)<sup>25</sup>.

The increase in the average price of coal was caused predominantly by the increase in coking coal prices but in the ARA indexes the prices of thermal coal were also rising. According to quotations of 26 October, the price of coal was USD 81.6 per ton. At the same time, however, the prices received by producers of coal from power plants remained at a low level (PLN 8.5-8.9 per GJ).

Coal prices in sea ports have a key impact on the mining sector in Poland. In 2016, the dynamics of the international coal market kept increasing each month. Currently, the significant increase in prices and the reduced supply of coal in the international markets are a result of the increased demand generated by buyers from the Asia-Pacific region, mainly from China. The spreads between the benchmarks in the three main coal terminals have increased (the difference between the prices in Australian ports and European ports of Amsterdam-Rotterdam-Antwerp was as much as USD 10 per ton).

<sup>20</sup> Central Statistical Office of Poland

<sup>21</sup> <http://stooq.pl/q/d/?s=pmmnpl.m&c=0&d1=19980731&d2=20161030&i=m>

<sup>22</sup> World Bank

<sup>23</sup> Central Statistical Office of Poland

<sup>24</sup> Industrial Development Agency (ARP)

<sup>25</sup> Industrial Development Agency (ARP)

The situation in the ARA ports in the first three quarters of 2016 was affected by reduced supplies from Colombia (restrictions imposed on exporters in the period 27-30 August due to exceeded pollution limits) and disruptions of supplies from Russia (problems with the availability of wagons for the transportation of coal). The level of inventories in the ARA ports has decreased (2.7 million tons currently compared to 3.4 million last year). Due to the reduced supply, European coal prices strengthened, reaching a level of USD 69.0 per ton at the end of September of this year (up 14.6% compared to the previous month). As at 30 September 2016, the price of coal in the port of Richards Bay was USD 71.8 per ton. Shipped from the RB terminal was 5.6 million tons at an average FOB price of USD 65.9 per ton. In the same period of the previous year, 6.5 million tons were shipped from the RB terminal at an average monthly FOB price lower by USD 10 per ton. The decline in orders was caused by lower demand from India and Pakistan, for which countries South African coal is still too expensive and an alternative commodity is low-quality coal from Indonesia<sup>26</sup>.

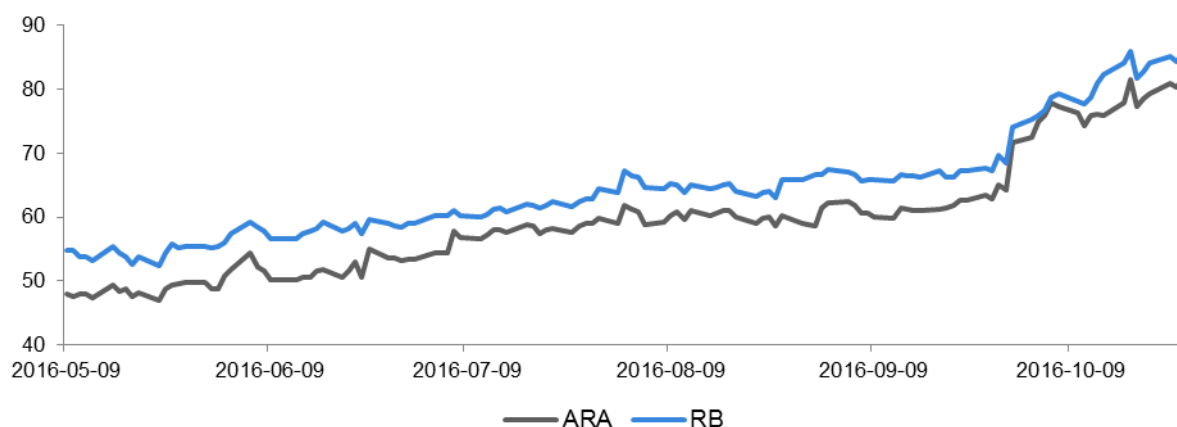
In September, total Chinese imports were 26.6 million tons (the highest level in 20 months). In August of this year, it was 52% higher compared to the same period of the previous year. This increase was a result of a decision to cut down the production of the domestic raw material (in force until the end of August) with a simultaneous increase in demand driven by increased coal consumption due to the heat wave in the summer and the associated greater use of air conditioning devices. In the first 8 months of this year, domestic production of coal in China decreased 10.2% yoy to 2.2 billion tons<sup>27</sup>. The expected increase in prices caused Chinese power plants to gradually increase their purchases (including bookings for deliveries in October and November).

Coking coal prices are on the increase. After the five-year period of decreases, they doubled in 2016 beating the prices of energy or metals. The increasing production of steel in China and the reduction mining activity contribute significantly to greater demand for energy resources. On 6 September, the spot price of hard coking coal was USD 152.2 per ton, which was the highest level since May 2013. According to analysts, it is expected that coal prices will decrease due to a slowdown in China and mitigation of problems on the supply side. It is expected that in the near future the spot price will average USD 95 per ton<sup>28</sup>.

The increase in coal prices in the period under analysis was also driven by weather phenomena in the Asia-Pacific region (torrential rains resulted in supply disruptions, especially severe for producers from Australia and Indonesia) and an increase in oil prices resulting in increased mining costs of the Australian commodity.

In the opinion of the domestic coking industry, the recent increase in coking coal prices in the global market may be of a short-term nature and does not necessarily have to indicate a persistent upward trend. It is more likely to be a result of non-recurring events in the world (mainly in Australia and China, i.e. weather conditions or logistical problems). To date, the increase in coking coal prices has not been translated into higher prices of coke, iron ore or steel.

Figure 6 Coal prices on ARA vs. RB markets\*



Source: Virtual New Industry

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

<sup>26</sup> <http://www.polskirynekwegla.pl/ceny-spot-wegla-koksowego-typu-hard-najwyzsze-od-maja-2013r>

<sup>27</sup> <http://www.polskirynekwegla.pl/ceny-spot-wegla-koksowego-typu-hard-najwyzsze-od-maja-2013r>

<sup>28</sup> <http://www.polskirynekwegla.pl/ceny-spot-wegla-koksowego-typu-hard-najwyzsze-od-maja-2013r>



Coal prices in West European ports at the beginning of this year were below USD 50 per ton. Since May of this year, there has been a clearly noticeable increase in coal prices: in August of this year the price was approx. USD 60 per ton, at the end of September the price exceeded USD 70 per ton and in October it is already above USD 80 per ton (on 26 October, the price in the ARA ports was USD 81.6 per ton).

#### Steel industry

According to the Worldsteel data, the global steel production posted a 0.5% decline after 9 months of 2016. In the month of September however it was 2% higher than one year before. In Poland, in September of this year, the production fell 13.3% to 680 thousand tons and after 9 months 11.5% down to 6.3 million tons.

After 9 months of 2016, steel production in 66 member countries of the World Steel Association reached 1.2 billion tons. The European Union produced 121.3 million tons of steel (down 4.8% yoy). Germany, which is the largest producer in the EU, reduced its production by 1.7% to 32.0 million tons. The yoy decline in steel production in the 3 quarters of 2016 was also recorded in Spain (by 6.8%, 10.6 million tons were produced), France (by 8.9%, production of 10.6 million tons), United Kingdom (by 34.2%, production of 5.7 million tons), Russia (by 1.7%, production of 52.7 million tons) and Belarus (by 20%). Italy achieved a yoy growth of over 3% with the production of 17.3 million tons and Ukraine 7% yoy growth with the production of 18.3 million tons<sup>29</sup>.

In Q2 of this year, apparent demand for steel in the European Union went up 2.3% yoy (which was partially driven by the rebuilding of inventories by distributors). A clear increase in the activity of steel-using industries was visible, that is the automotive industry and the domestic appliances industry. In this period, imports remained at the level similar to Q1 2016. Eurofer expects that, in the second half of the year, apparent demand growth will decrease to 2.2% yoy, as a result of the use of inventories developed in the first half of the year<sup>30</sup>. There are also forecasts that, because of a greater conservatism of investors associated with Brexit and the anti-dumping proceedings (which may affect the conservative use of inventories) apparent demand for steel will vary next year. Steel-using industries are to increase in activity by 2.4% in both this and next year. Nevertheless, there is a realistic possibility that the investment activity will drop in the coming year (thus reducing demand for steel) because of the uncertainty that the Brexit issue caused on the EU market.

The overall trend in Poland is reflected also by the price levels. In the period January-August 2016, both the prices of industrial production sold in metals fell by 2.8% yoy, and the prices of metal products by 0.9% yoy<sup>31</sup>. This is the impact of the price pressures on the raw materials required for steel production which was caused by the economic slowdown in China. In 9M 2016, industrial production sold in the metal industry also decreased 0.6% yoy. The only positive indicator was industrial production sold in metal products, which recorded a 9.5% increased yoy<sup>32</sup>.

#### Construction industry

A clear slow-down of growth in the Polish construction industry could be observed in 2016. In the period from July to September of this year, the drop in construction and installation production increased even more. According to GUS, in the period of 9 months 2016, construction and installation production was 14.9% lower than the year before (in H1, the drop was 11.9% and in the corresponding period of 2015, a 2.0% increase was posted). The decline in construction and installation production was observed in all the sectors of the construction industry, i.e. in the land and water civil construction segment by 18.9% yoy, specialized construction by 14.3% yoy, construction of buildings by 11.3% yoy<sup>33</sup>.

In the period of Q1-Q3 2016, in the group of entities specializing in construction works associated with the erection of residential and non-residential buildings, a 9.7% yoy production drop could be observed. Among the land and water civil construction entities, the largest decline could be observed among entities associated with the construction of other land and water engineering facilities (by as much as 32.2% yoy). Production also decreased in the entities handling mainly the works associated with the construction of pipelines, telecommunication lines and power lines (by 25.3% yoy) and roads and railways (by 12.3% yoy)<sup>34</sup>.

The decreases result from a smaller number of public procurement orders and the clear slow-down in construction production may cause accumulation of projects in the subsequent years. The inflow of EU funds will have the key importance for the improvement of the situation of infrastructural construction in Poland. The current situation in the construction industry is related to the delay of key infrastructural projects, in particular railways, executed within the framework of the new EU financial

<sup>29</sup> World Steel, *Wirtualny Nowy Przemysł* [Virtual New Industry]

<sup>30</sup> *Wirtualny Nowy Przemysł* [Virtual New Industry]

<sup>31</sup> Central Statistical Office of Poland

<sup>32</sup> Central Statistical Office of Poland

<sup>33</sup> Central Statistical Office of Poland

<sup>34</sup> Central Statistical Office of Poland

perspective for 2017 and 2018. EUR 86.6 billion has been allocated to Poland in European structural and investment funds. Out of this amount, EUR 0.8 billion was paid by May 2016 (0.9% of the budget)<sup>35</sup>.

It is expected that the annual growth of capital expenditures made by the public sector and construction and installation production growth will remain negative by the end of this year. In H1 2017, as the recovery in residential construction continues and more and more EU funds are absorbed under the new financial perspective, production should speed up. The possible risk factors include: further delays in announcing and executing public tenders, which took place in the last several months and the decline in the number of commenced apartment construction projects observed in September of this year (-10.3% yoy vs. +6.8% yoy in August of this year) and building permits (-0.3% vs. 23.3% yoy in August of this year)<sup>36</sup>.

### Industry in the Czech Republic

Industrial production in fixed prices in August 2016 grew by 13.1% yoy, and taking into account the number of working days and seasonal adjustment, it increased by 7.7% yoy. The growth rate of production in August improved mainly thanks to production of passenger cars, trailers and semi-trailers (8.0 p.p. increase of the share in industrial production, which is 53.1% growth yoy), production of rubber and plastic products (+1.2 p.p., up by 17.1% yoy) and production of finished metal products (+1.0 p.p., up by 10.6% yoy). Negative contributors to the growth rate included production and distribution of electricity, gas, steam (-0.8 p.p., down by 7.2% yoy), manufacture of basic pharmaceutical substances and medicinal and pharmaceutical preparations (-0.2 p.p., down by 15.9% yoy) and mining and extraction of raw materials (-0.2 p.p., down by 4.6% yoy)<sup>37</sup>.

Revenues from industrial activity at current prices in August 2016 rose by 14.9% yoy. Direct revenues of industrial exporters expressed in current prices rose by 19.6% yoy, while country sales, which also include indirect exports (through non-industrial companies) went up 9.1% yoy<sup>38</sup>.

The value of new orders in August 2016 in selected sectors rose 18.7 yoy. The number of new orders from abroad increased by 20.0% yoy, while the number of new domestic orders increased by 16.1% yoy.

The average number of registered employees in industrial companies employing 50 or more staff in August 2016 increased 2.6% yoy. In the same period, the average monthly nominal gross salary of such employees increased by 6.9% yoy and amounted to CZK 28,531<sup>39</sup> (approx. PLN 4,571).

### Mining industry

The hard coal production in Q3 2016 was slightly more than 1,583 thousand tons, or 26.9% yoy less. However one should point to the difficult situation of the Czech hard coal mining. The only coal miner in the Czech Republic, OKD, filed a bankruptcy request with the court<sup>40</sup>. It is anticipated that OKD will end its operations in 2023. Adoption of the restructuring plan was one of the suspending conditions that had to be fulfilled in order to obtain a loan of CZK 700 million (about PLN 113.2 million). The loan however may prove to be insufficient and it might be probable that additional loans will have to be granted next year<sup>41</sup>. Keeping the mines in operation is justified primarily by the social concerns. At present, the company employs over 12 thousand employees (9.4 thousand own employees, 2.7 thousand from cooperating companies, 200 from labour agencies).

The figure below presents quarterly hard coal production (coking and steam coal, without coke and coal deposit) in 2014-2016.

<sup>35</sup> Business Insider Polska

<sup>36</sup> ccifp.pl

<sup>37</sup> Czech Statistical Office

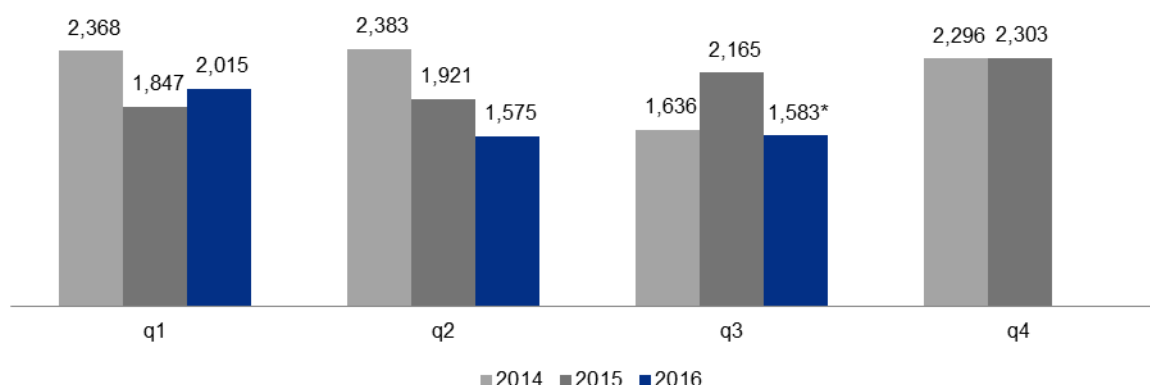
<sup>38</sup> Czech Statistical Office

<sup>39</sup> Czech Statistical Office

<sup>40</sup> Reuters

<sup>41</sup> *Wirtualny Nowy Przemysł* [Virtual New Industry]

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

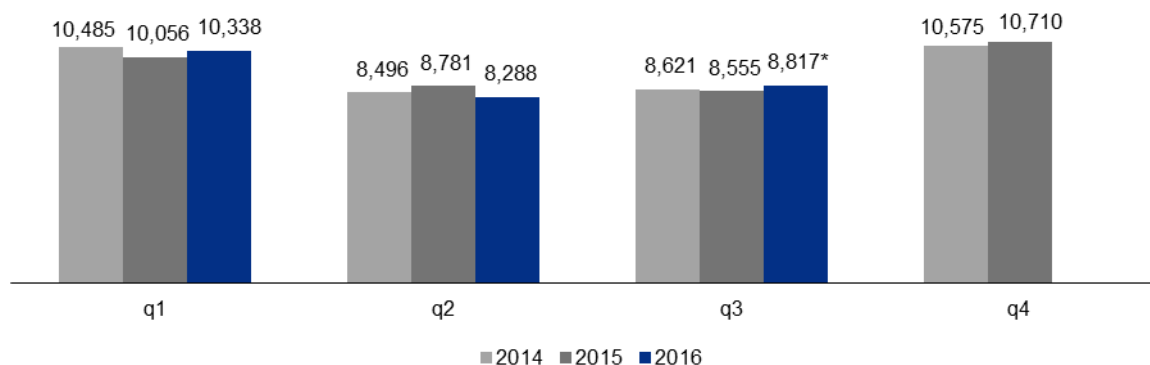


Source: Czech Ministry of Industry and Trade

\* Estimated value because no final production data was delivered in September 2016

The situation on the lignite market is much less volatile than on the hard coal market. Production of lignite in successive months is more predictable in successive months. In Q3 2016, production of this commodity, at 8,817 thousand tons, proved to be similar to the production in the corresponding periods of 2015 and 2014. The biggest producers of lignite in the Czech Republic are: Severoeršské doly a.s., Sokolovská uhelná a.s., Vršanská uhelná a.s. and Severní energetická a.s. The total lignite production in the period of January-September 2016 was 27.44 million tons, up by 51.3 thousand tons yoy (0.2% yoy) from 27.39 million tons in the corresponding period of 2015.

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



Source: Czech Ministry of Industry and Trade

\* Estimated value because no final production data was delivered in September 2016

### Steel industry

The metallurgical industry in the Czech Republic consists mainly of metal processing (ferrous and non-ferrous metals) and metal foundry industry. This sector is driven mainly by robust demand from the automotive, construction and mechanical engineering industries. The biggest barriers to development of this sector in the Czech Republic include the high cost of international transport. Because of its location, the Czech Republic cannot use the most economic means used for

transporting these commodities, that is sea transport and inland navigation. Unfortunately, land transport is much more expensive than water transport<sup>42</sup>.

According to the data from Steel Federation a.s., the yoy production growth rate in 9 months of 2016 in the case of pig iron is positive, up by 2.5% yoy (3.2 million tons in the period of January to September 2016). Similarly, yoy growth was also reported for hot-rolled materials, where the growth rate was 3.8% yoy (3.9 million tons). The negative growth rate of production in the period from January to September 2016 was recorded for raw steel production, which amounted to -0.2% yoy<sup>43</sup> (4.0 million tons).

#### Construction industry

The construction and assembly production in August 2016 dropped 5.9% yoy. The figure with seasonality adjustments arising from the different number of working days was 8.4% lower (August 2016 was 2 working days longer than August 2015). Building production, in turn was up 1.1% yoy (0.7 p.p. increase of the share in total construction production) and engineering construction production dropped by 18.2% yoy (-6.6 p.p. decline in the share in total construction production)<sup>44</sup>.

The average number of registered employees<sup>45</sup> in industrial companies employing 50 or more staff in the construction industry in August 2016 fell 2.5% yoy. On the other hand the average monthly nominal gross salary of such employees increased by 8.2% yoy and amounted to CZK 32,561 (approx. PLN 5,216).

In August 2016, the number of granted building permits was 6,702, down by 5.2% yoy. The approximate total value of the buildings for which building permits were issued amounted to CZK 25.0 billion, down by 2.9% yoy.

The number of apartments where the construction commenced in August 2016 increased by 5.1% yoy and amounted to 2,539. The number of apartments in single-family houses increased 22.6% yoy and in multi-family buildings decreased by 9.0% yoy. The number of apartments completed in August 2016 decreased by 12.3% yoy and amounted to 1,834. The number of completed apartments in single-family houses decreased 14.4% yoy and in multi-family buildings increased by 40.4% yoy.

#### Automotive Industry

The Czech Republic is an important car manufacturer in Europe. Accordingly, it is a very important branch of industry for the country. The long-lasting tradition of vehicle manufacturing has contributed to the Czech position in this industry. This sector is considered to be one of the key factors stimulating the country's economic growth, in particular by creating an increasing number of jobs and a gradual increase in production during the year<sup>46</sup>.

Major passenger car manufacturers in the Czech Republic are: Škoda Auto, Hyundai Motor Manufacturing Czech (HMMC) and Toyota Peugeot Citroën Automotive (TPCA). Delivery vans and buses are manufactured by: SOR Libchavý, Iveco Bus and TATRA.

According to the Automotive Industry Association, during the three quarters of 2016, the Czech industry manufactured 1,002,603 road vehicles, which constituted a 7.2% yoy increase. In the period January-September 2016 the Czech industry manufactured 997,376 passenger cars, up by 7.2% yoy. Production also included 3,187 buses (down by 1.5% yoy) and 1,164 motorcycles (down by 19.2% yoy). The biggest increase was recorded in production of trucks: 876 trucks were manufactured in the first months of 2016, marking an increase of 36.7% yoy.

<sup>42</sup> [http://www.budoucnostprofesi.cz/sectoral-studies/industries-development/14\\_manufacture-of-basic-metals-and-fabricated-metal-products.html](http://www.budoucnostprofesi.cz/sectoral-studies/industries-development/14_manufacture-of-basic-metals-and-fabricated-metal-products.html)

<sup>43</sup> Steel Federation a.s.

<sup>44</sup> Czech Statistical Office

<sup>45</sup> the breakdown does not comprises persons working on the basis of different employment contracts, business owners and cooperating household members who do not have employment contracts

<sup>46</sup> AutoSAP

## 4.2. Freight transportation activity

The rail freight market is presented was described taking into account the transport of cargo in the domestic and international markets. The report also presents statistics about the Czech rail transport market following the consolidation of the AWT Group by the full method with the PKP CARGO Group as of 28 May 2015. In 2015 and in 9M 2016, the Polish and Czech markets were of key importance for the PKP CARGO Group (PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and AWT Group).

### 4.2.1. Rail transport market in Poland

In 9M 2016, rail freight services were provided by 65 licensed operators, including PKP CARGO S.A. and PKP CARGO SERVICE Sp. z o.o. During that period, railways carried 161.8 million tons of cargo, 1.9% less yoy than in the corresponding period of 2015 when the total weight of 165.0 million tons was transported. Freight turnover in rail transport was 0.4% yoy lower, reaching 37.0 billion tkm at the end of Q3 2016. The average haul in the 3 quarters of 2016 went up by 3.5 km yoy (+1.5% yoy) to 228.5 km.

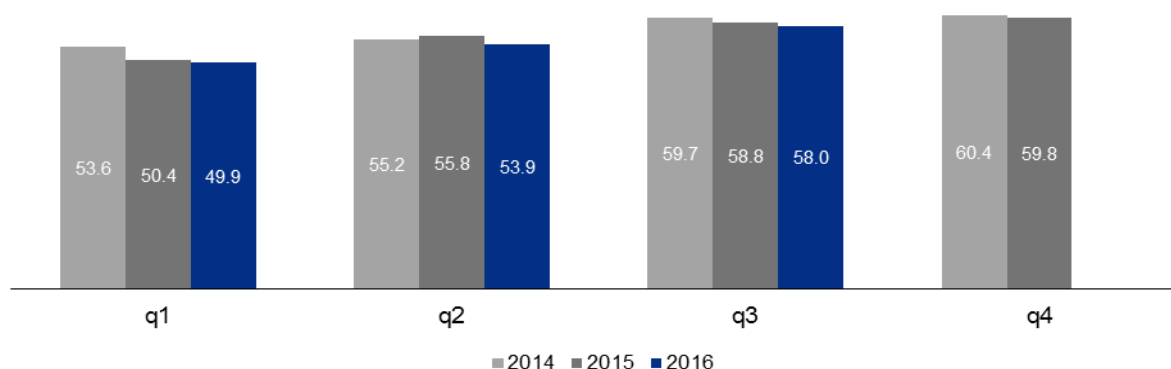
Lower freight volume carried in the 3 quarters of 2016 was associated primarily with delays in resolution of tenders and commencement of construction works in infrastructural investments (construction of roads, rail infrastructure and power units). Therefore, the lower transport of aggregate in Poland was caused by postponed road investment projects: "design and build" tenders, lack of local investments financed by local governments, decrease of expenditures on rail investments in connection with low progress of the projects, decrease of hydrotechnical investments and lower demand for limestone due to lower production of metallurgical products.

Moreover, transport of metal ore was much lower in the 3 quarters of 2016 in connection with lower demand for this cargo category due to the situation in the metallurgical industry on global markets (for example lower demand for steel due to the economic slowdown in China). Also, the periodic suspension of supply of this material to steel mills due to renovations (of a furnace and production lines) had a significant negative impact on the level of transport.

In the same period, the increases in rail transport pertained mainly to hard coal. Even though the production of coal in Poland fell by 0.4% yoy during 9M 2016 (52.0 million tons), but the clients received 54.1 million tons of material, which was 2.9% more than in the corresponding period of 2015 (52.5 million tons). The higher sales were achieved thanks to the amounts sold in September of this year, when a significant increase in hard coal sales from Polish mines was recorded, which in the preceding months varied between 5.3 and 6.5 million tons, only to exceed 8.4 million tons in September, which was 2.8 million tons more than the sales in August and 2.0 million tons more than in September 2015. A significant reduction of inventories in the mines was also observed in the analyzed period. At the end of September this year, coal inventories dropped by 2.3 million tons m/m, down to 3.4 million tons, which was 31.4% less than in January of this year (5.7 million tons) and 50.7% less than at the end of September 2015 (7.0 million tons). The increasing prices of steam coal on European markets constitute the incentive for the mines to boost their coal sales volumes.

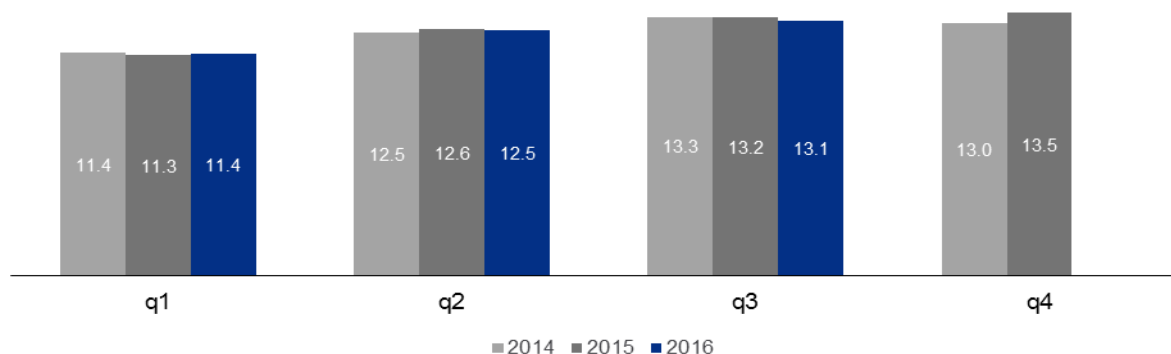
The increase in rail transport was also recorded in coke, oil refining products and in intermodal transport, which was associated mainly with higher transport volumes to seaports and the development of rail connections from China to Poland.

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



Source: Office of Rail Transport

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

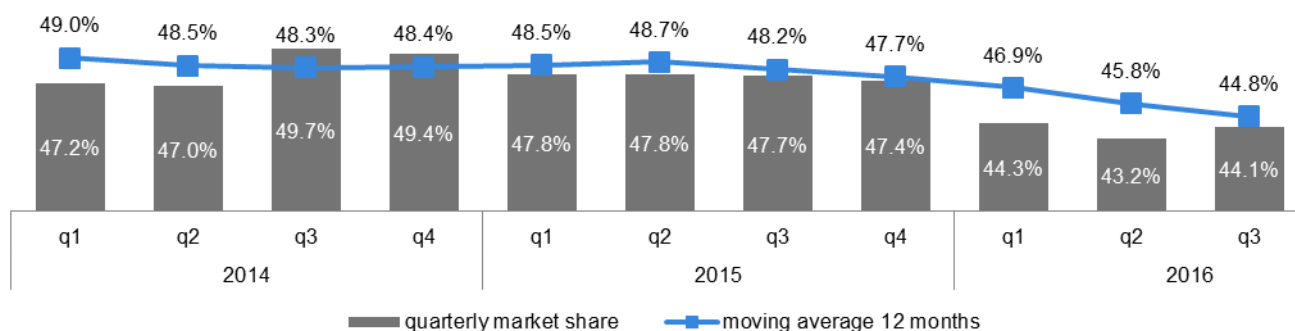


Source: Office of Rail Transport

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

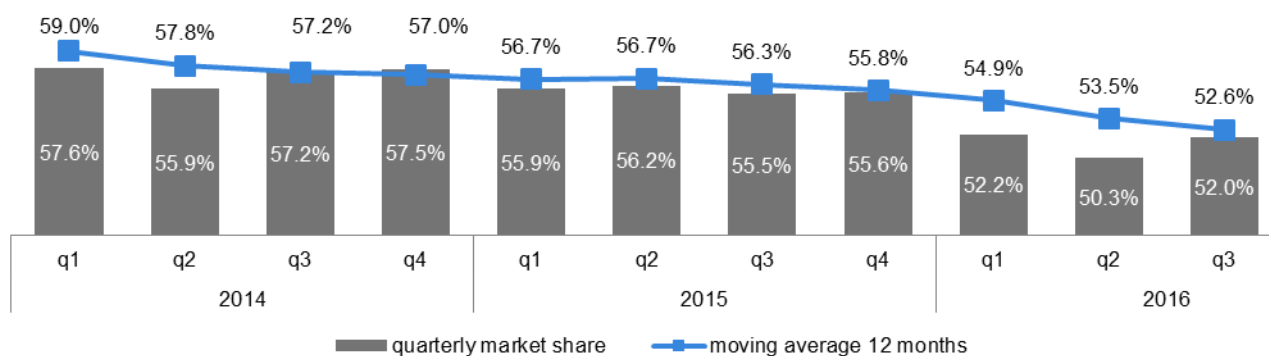
In the period 3 quarters of 2016, the PKP CARGO Group remained the main carrier on the rail freight market. In this period, the Group had a 43.9% market share (-3.9 p.p. yoy) in terms of freight volume and a 51.5% market share in terms of freight turnover (-4.4 p.p. yoy).

Figure 11 Share of the PKP CARGO Group in freight volume in 2014-2016 in Poland



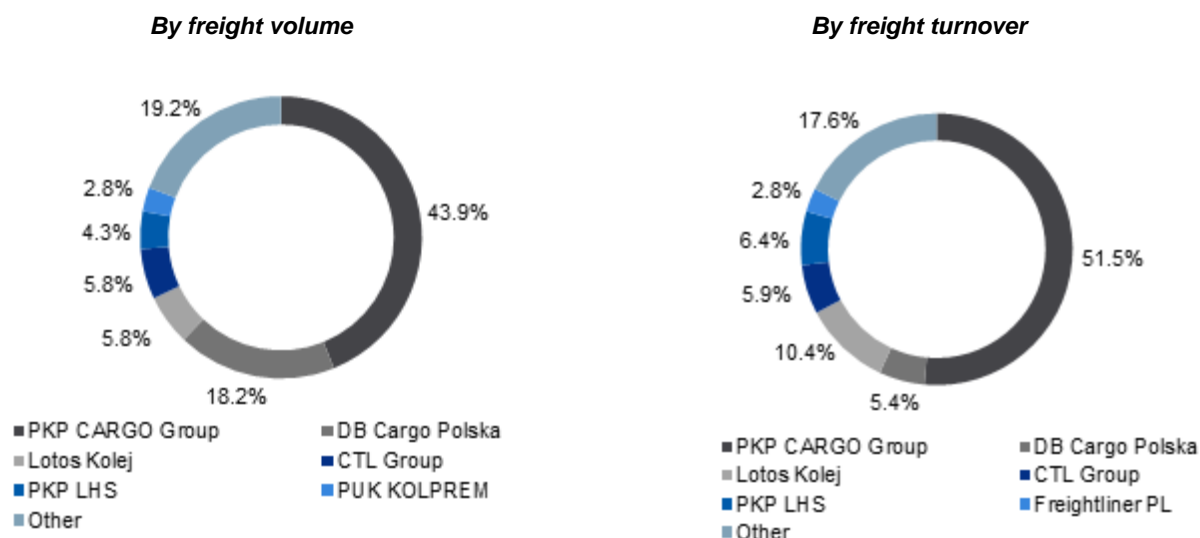
Source: proprietary material based on Office of Rail Transport's data

Figure 12 Share of the PKP CARGO Group in freight turnover in 2014-2016 in Poland



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

Figure 13 Market shares of the biggest rail operators in Poland in 9 months 2016, by freight volume and freight turnover



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

The most active operators in the Polish freight rail transport market include, in addition to the PKP CARGO Group: DB Cargo Polska, Lotos Kolej, Grupa CTL, PKP LHS, PUK KOLPREM, Pol-Miedź Trans, Freightliner PL and Orlen Kol-Trans.

In 9M 2016, PKP CARGO Group's biggest competitors in terms of freight volume included: DB Cargo Polska, Lotos Kolej and CTL Group, which held market shares of 18.2%, 5.8% and 5.8%, respectively. In terms of freight turnover, the main rivals were: Lotos Kolej, PKP LHS and CTL Group. They held market shares of 10.4%, 6.4% and 5.9%, respectively.

In the period from January to September 2016, compared with the corresponding period in 2015, the largest increases in freight turnover were posted by the following competitive rail operators: Lotos Kolej (+200 million tkm, which resulted in a 0.6 p.p. market share growth) and PUK Kolprem (+133 million tkm boosting the market share by 0.4 p.p.). The largest drop was recorded by CTL Group (-252 million tkm, reducing its market share by 0.7 p.p.). On the other hand, the following private operators enjoyed increased volume of cargo in the analyzed period, as compared with the first 3 quarters of 2015: PUK Kolprem (+727 thousand tons, which resulted in a 0.5 p.p. market share increase), DB Cargo Polska (+651 thousand tons, up 0.7 p.p.) and Orlen Kol-Trans (+292 thousand tons, up 0.2 p.p.) and Rail Polska (+279 thousand tons, up 0.2 p.p.).

#### 4.2.3. Rail freight transport market in the Czech Republic

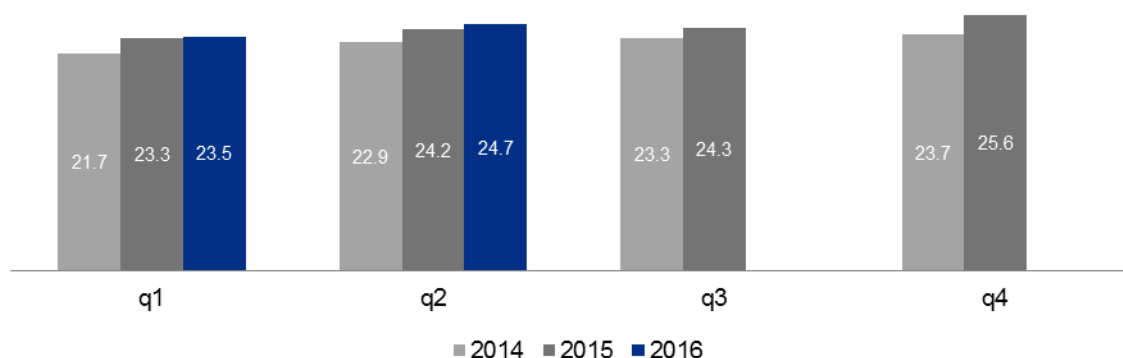
The cargo transport market in the Czech Republic in H1 2016 amounted to 256.0 million tons in terms of volume and 34.9 billion tkm in terms of freight turnover. Out of that, 48.1 million tons of cargo, or 18.8% of the total freight volume, were transported by rail. Rail freight turnover was 7.5 billion tkm, or 21.6% of all the turnover on the entire cargo transport market.<sup>47</sup> Road transport had the biggest market share in terms of freight volume and freight turnover, with 79.3% and 75.5%, respectively. Air transport and inland navigation had marginal shares in the transport in the Czech market, reaching the total share of less than 0.4% in freight volume and approx. 0.9% in freight turnover.

In H1 2016, rail was used to carry 48.1 million tons of cargo. This marks an increase of 681 thousand tons (1.4% yoy) as compared to H1 2015. Freight turnover was 7.53 billion tkm in H1 2016, increasing by 70.0 million tkm or 0.9% yoy from the corresponding period of 2015.

<sup>47</sup> Ministry of Transport of the Czech Republic

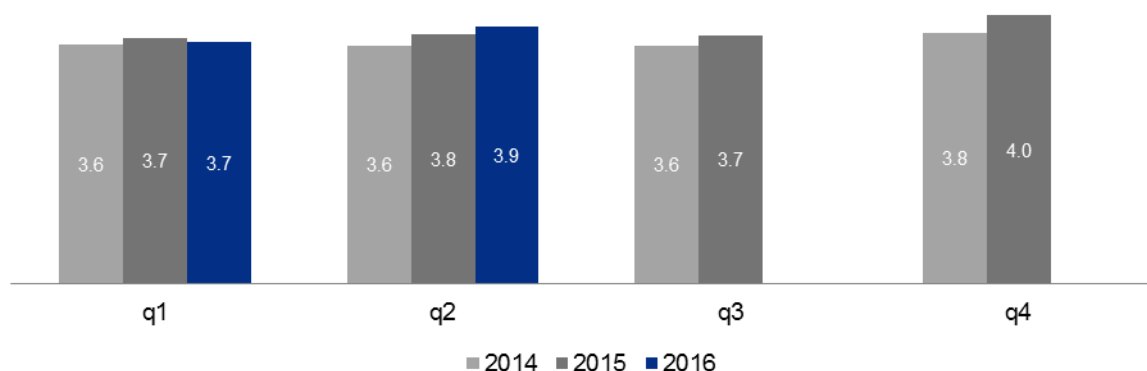


Figure 14 Rail freight transport in Czech Republic, by freight volume in individual quarters of 2014-2016 (million tons)



Source: Czech Statistical Office

Figure 15 Rail freight transport in the Czech Republic, by freight turnover in individual quarters of 2014-2016 (in billions of tkm)



Source: Czech Statistical Office

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

According to the data presented by the Czech infrastructure manager (SŽDC), in 2016 there were 69 carriers in the Czech Republic holding licenses to provide rail freight services, including PKP CARGO S.A. and Advanced World Transport a.s.<sup>48</sup>

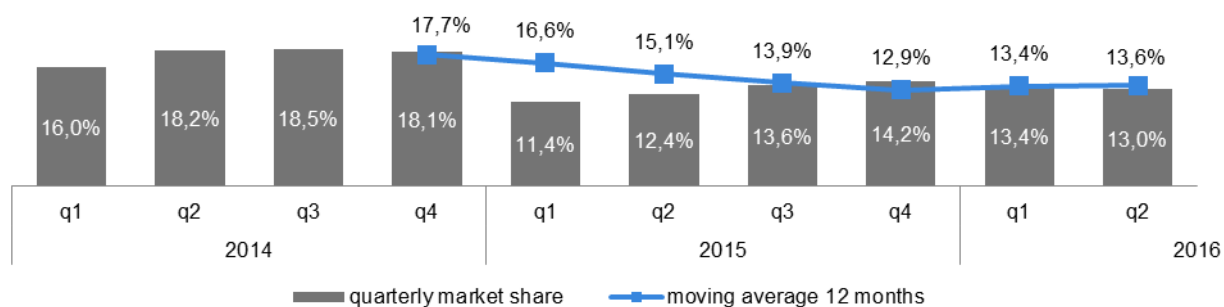
In Q1 and Q2 2016, AWT continued to have a greater market share in terms of freight volume than in the corresponding periods last year, but it was lower than in 2014. The market share in Q2 2016 was 13.0%, increasing by 0.6 p.p. yoy (in Q2 2015 the market share was 12.4%) and falling by 0.4 p.p. qoq (in Q1 2016 it was 13.4%). The lower volumes transported by AWT in 2016 resulted from lower production of hard coal (and consequently the lower volume of materials available for transport) associated with the difficult financial standing of OKD, the only coal mining company in the Czech Republic.

The market share of AWT a.s. in terms of freight turnover in the three quarters of 2016 was 9.1%, up by 0.24 p.p. from 8.9% in the corresponding period of 2015.

<sup>48</sup> Správa železniční dopravní cesty (SŽDC) – status as at 20 September 2016

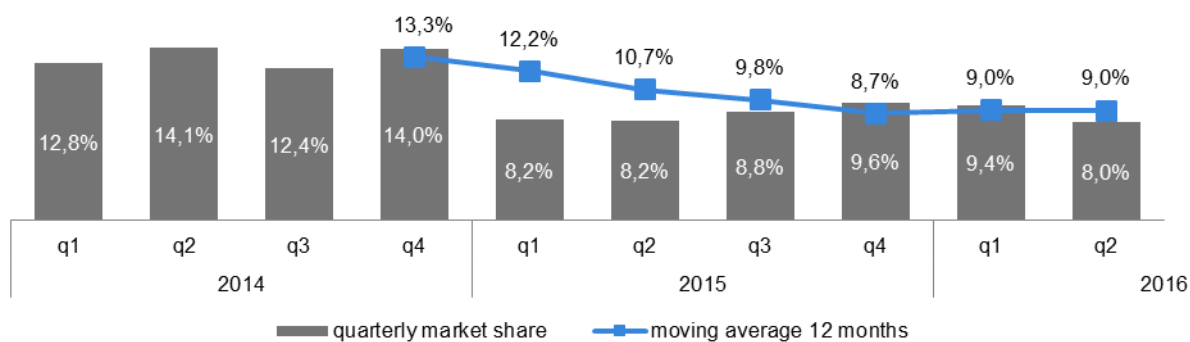


Figure 16 AWT a.s.'s market shares in terms of freight volume in the Czech Republic quarterly in 2014-2016.



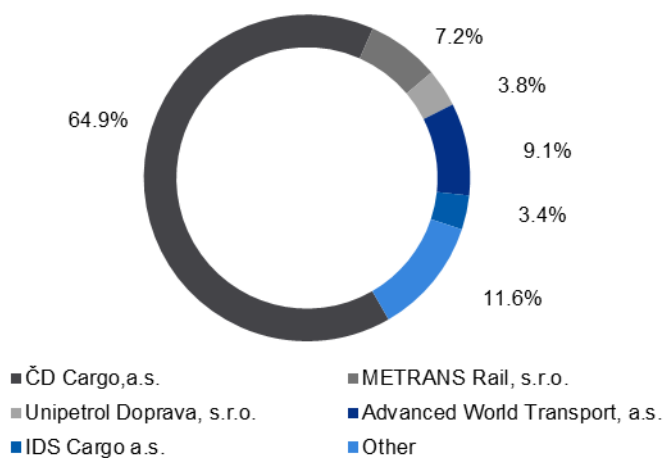
Source: Proprietary material

Figure 17 AWT a.s.'s market shares in terms of freight turnover in the Czech Republic quarterly in 2014-2016.



Source: Proprietary material

Figure 18 Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in 9 months of 2016 (btkm)



Source: SŽDC

In the period January-September 2016, the leader of the Czech rail freight market was again ČD Cargo a.s. with a share of 64.9% in terms of gross freight turnover. The company recorded a market share drop by 1.8 p.p. yoy (in the first 9 months of 2015 the operator held 66.7% of the market). The majority of this market share was taken over by AWT a.s., (+0.2 p.p. yoy up to 9.1% in 9M 2016<sup>49</sup>), and the third operator in the Czech market – METRANS Rail s.r.o. (+1.0 p.p. yoy, up to 7.2% from January to September 2016).<sup>50</sup>

The leading rail transport operators in the Czech Republic with market shares above 5% in terms of gross freight turnover after 9 months of 2016 were: state-owned ČD Cargo a.s., Advanced World Transport a.s. and METRANS Rail s.r.o. Other carriers in the rail transport market with less than 5% but more than 1% share included: Unipetrol Doprava, s.r.o., IDS Cargo a.s., Rail Cargo Carrier - Czech Republic s.r.o., SD – Kolejova doprava a.s. and LTE Logistik a Transport Czechia s.r.o.

#### 4.2.5. PKP CARGO Group's rail transport

The data on the transport activity conducted by the PKP CARGO Group in 9 months of 2016 and 9 months of 2015 comprise consolidated data for PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and the AWT Group, however the data on the AWT Group pertain only to the period from its acquisition by PKP CARGO S.A. (it has been consolidated by the full method since 28 May 2015). In 9M 2016, the acquired AWT Group companies recorded freight turnover of 1,178 million tkm and carried freight volume of 9,909 thousand tons<sup>51</sup>.

During the 9 months of 2016, transport activity was carried out by five Group entities. Upon acquisition of AWT B.V. (80% of shares), as of 28 May 2015 three additional carriers (AWT a.s., AWT Rail HU Zrt, AWT Rail SK a.s.) were added to the two carriers already operating in the PKP CARGO Group, i.e. PKP CARGO S.A. and PKP CARGO SERVICE sp. z o.o. (a 100% subsidiary of PKP CARGO S.A.).

The PKP CARGO Group works with the largest Polish and global capital groups, including, among others, ArcelorMittal, PKN Orlen, PGNiG Terminka, Lafarge Group, Azoty Group, Węłokoks, Jastrzębska Spółka Węglowa, Tauron Group, Enea Group, PGE Group and International Paper. The contracts with the aforementioned business partners are systematically renewed which confirms the high quality of the transportation services provided by the PKP CARGO Group.

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

Regardless of foreign ports, the PKP CARGO Group remains actively involved in the operation and further development of transport as part of a route leading from China through Poland to Western Europe, which has led to cooperation with Zhengzhou International Hub, aimed at developing a whole-train rail link between China and developing strategic cooperation in the field of transshipment activity in Małaszewicze. The primary objective of the project is to increase the volumes of overland intermodal transport between China and Western Europe through Małaszewicze and back to Asia. Development of trade cooperation between Poland and People's Republic of China is expected to be facilitated thanks to execution of trade agreements and bilateral treaties on the government and enterprise level during the visit of China's president Xi Jinping in Poland.

During 9 months of 2016, the PKP CARGO Group carried 80.9 million tons of cargo (-4% yoy) and achieved freight turnover of 20.8 billion tkm (-4% yoy). The decline in transport in Poland was partially offset by the increase in transports outside of Poland, which reached 13.0 million tons (+75% yoy) while freight turnover of 1.8 billion tkm (87% yoy) was achieved.

The 9 months of 2016 saw a deeper inter-branch and intra-branch price competition characterized among other things by PKP CARGO's competitors entering tenders in consortiums and by buyers diversifying their freight service providers. Solid fuels were the main type of goods carried by the Group, with hard coal being the dominating cargo. Transportation of solid fuels accounted for 54% of transported volumes and 44% of realized freight turnover by the PKP CARGO Group in the 9 months of 2016. In the same period, transportation of solid fuels was 2% yoy lower in terms of freight turnover and 5% yoy lower in terms of freight volume. The freight turnover realized in the solid fuels segment was also affected by: decrease of the average haul of hard coal in 9M 2016 (-4% yoy) resulting from a decrease of transit transport through Poland, which is characterized

<sup>49</sup> SZDC

<sup>50</sup> SZDC

<sup>51</sup> This applies to the AWT Group companies consolidated by the full method.

by long distances, and the short distance transport (under 100 km) realized by the AWT Group companies. During the 3 quarters of 2016, freight volume in hard coal transport decreased by 4% yoy and the freight turnover decreased by 8% yoy, driven primarily by a decrease of transport of this commodity in Poland. In hard coal transport in Poland, a 11% decrease of freight was recorded, both in terms of freight volume and freight turnover, which results from the difficult situation of the Polish coal concerns and decreased demand for hard coal. Oversupply of this commodity and inventories kept in the yards result in smaller volumes available to be transported in the market. Additionally, buyers from the power sector diversify carriers. Low coal prices in international markets have changed the directions of supply for foreign buyers. Polish hard coal was pushed out by better quality coal from Australia or Africa, leading to a decrease of freight volume in exports by PKP CARGO S.A. at the end of Q3 2016 by 21% yoy. The rebound in hard coal prices observed in recent months may reverse the trend in export trends of this commodity. On the other hand, in respect to coke, the Group's freight volume increased by 16% yoy, while freight turnover went up 21% yoy, mainly as a result of increasing transports executed by AWT group companies and winning new contracts for export transports to Germany.

Aggregates and construction materials were the second largest group of products carried by the PKP CARGO Group in 9M 2016, with a 16% share in total freight turnover (18% in the corresponding period of 2015). In transport of aggregates and construction materials in 9M 2016, an 15% yoy decrease was recorded in terms of freight volume and a 18% yoy decrease in terms of freight turnover. The decrease of transport in this segment results from postponing road investment projects ("design and build" tenders), lack of local investments financed by local governments, decrease of expenditures on rail investments in connection with low progress of the projects, decrease of hydrotechnical investments and decrease of demand for limestone due to lower production of metallurgical products. Emergence of new market players pursuing aggressive pricing policies and competition from road carriers were additional contributors to the decrease in transport in this segment.

Products associated with the metallurgical industry, i.e. metals and ores, are another important market area serviced by the PKP CARGO Group. Their percentage in the Group's freight turnover in 9M 2016 was 12% (13% in the corresponding period of 2015). This segment recorded a decrease of transported freight volume by 11% yoy in connection with the lower demand for metal ores resulting from the situation in the metallurgical industry in global markets (economic slowdown in China causes decreased demand for steel) and periodic suspension of deliveries of this raw material to one of the key customers of the Group as a result of overhaul of a furnace). A significant impact on the level of transport of metals and ores (both raw materials and semi-finished products) in 9M 2016 was also exerted by overhauls of the COS (continuous steel casting) line at two of the Group's most important customers carried out in Q2 and Q3 2016. In connection with the overhauls, steel production fell in Poland (in 9 months of 2016, steel production was 6.3 million tons, that is 11.5% yoy less). In 9M 2016, in connection with the changes in the structure of the freight routes in this segment, average haul increased by 7% yoy, which contributed to decreasing the freight turnover in this segment down to -5% yoy.

In transport of liquid fuels in 9M 2016, freight volume rose by 3% yoy and freight turnover by 40% yoy, which is attributable mainly to an increase of the average haul by 36% yoy. A significant increase of the freight in this product category results from commencement of cooperation with customers for whom, among others, liquid fuels were transported – imports and transit from Belarus.

In 9M 2016, a 11% yoy decrease in freight turnover and a 9% yoy decrease in freight volume was recorded in timber and agricultural produce, which was driven by the lower volume of domestic and import transport of timber and export transport of other agricultural produce. The decline in timber transport was also supported by the fact that a portion of timber chips transports was changed to container transports.

The PKP CARGO Group continues to lead the Polish market in intermodal transport, which is an important element of the Group's growth strategy. In 9M 2016, the transport of intermodal units increased in terms of container freight volume by 27% yoy, while freight turnover increased by 22% yoy. The increase in the Group's intermodal transport is driven mainly by the development of transit routes and the handling of cargo connections on the China-Europe-China route as part of the "New Silk Road" and a higher percentage of mass products now being transported in containers (such as e.g. coke, steel coils, wood chips). Transit between marine ports and inland terminals has a significant share (which is closely associated with the development of this segment of the rail market).

Table 15 Freight turnover in the PKP CARGO Group in 9 months and in Q3 2015 and 2016

Item	9 months of 2016	9 months of 2015	Change	% change	9 months of 2016	9 months of 2015	Q3 2016	Q3 2015	% change
	(million tkm)			%	percentage of total (%)		(million tkm)		%
Solid fuels <sup>1</sup>	9,202	9,667	-464	-5%	44%	45%	3,105	3,515	-12%
of which hard coal	8,099	8,758	-659	-8%	39%	40%	2,698	3,166	-15%
Aggregates and construction materials <sup>2</sup>	3,268	4,005	-737	-18%	16%	18%	1,484	1,645	-10%
Metals and ores <sup>3</sup>	2,582	2,718	-136	-5%	12%	13%	862	871	-1%
Chemicals <sup>4</sup>	1,548	1,530	18	1%	7%	7%	505	500	1%
Liquid fuels <sup>5</sup>	819	584	234	40%	4%	3%	269	238	13%
Timber and agricultural produce <sup>6</sup>	1,064	1,192	-129	-11%	5%	5%	314	402	-22%
Intermodal transport	1,753	1,438	314	22%	8%	7%	607	523	16%
Other <sup>7</sup>	578	557	21	4%	3%	3%	194	208	-7%
<b>Total</b>	<b>20,814</b>	<b>21,691</b>	<b>-878</b>	<b>-4%</b>	<b>100%</b>	<b>100%</b>	<b>7,339</b>	<b>7,903</b>	<b>-7%</b>

Source: Proprietary material

Table 16 Freight volume of the PKP CARGO Group in 9 months and Q3 2015 and 2016

Item	9 months of 2016	9 months of 2015	Change	% change	9 months of 2016	9 months of 2015	Q3 2016	Q3 2015	% change
	(000s tons)			%	percentage of total (%)		(000s tons)		%
Solid fuels <sup>1</sup>	43,691	44,560	-869	-2%	54%	53%	14,817	17,077	-13%
of which hard coal	39,170	40,664	-1,494	-4%	48%	48%	13,318	15,532	-14%
Aggregates and construction materials <sup>2</sup>	12,709	14,890	-2,180	-15%	16%	18%	5,708	6,313	-10%
Metals and ores <sup>3</sup>	8,278	9,318	-1,040	-11%	10%	11%	2,838	3,084	-8%
Chemicals <sup>4</sup>	4,692	4,417	275	6%	6%	5%	1,474	1,420	4%
Liquid fuels <sup>5</sup>	2,199	2,131	68	3%	3%	3%	764	858	-11%
Timber and agricultural produce <sup>6</sup>	3,123	3,426	-303	-9%	4%	4%	934	1,090	-14%
Intermodal transport	4,620	3,623	996	27%	6%	4%	1,589	1,288	23%
Other <sup>7</sup>	1,577	1,516	61	4%	2%	2%	528	581	-9%
<b>Total</b>	<b>80,888</b>	<b>83,882</b>	<b>-2,993</b>	<b>-4%</b>	<b>100%</b>	<b>100%</b>	<b>28,651</b>	<b>31,712</b>	<b>-10%</b>

Source: Proprietary material

Table 17 Average haul in the PKP CARGO Group in 9 months and in Q3 2015 and 2016

Item	9 months of 2016	9 months of 2015	Change	% change	Q3 2016	Q3 2015	% change
	km			%	km		%
Solid fuels <sup>1</sup>	211	217	-6	-3%	210	206	2%
of which hard coal	207	215	-9	-4%	203	204	-1%
Aggregates and construction materials <sup>2</sup>	257	269	-12	-4%	260	261	0%
Metals and ores <sup>3</sup>	312	292	20	7%	304	282	8%
Chemicals <sup>4</sup>	330	346	-16	-5%	342	352	-3%
Liquid fuels <sup>5</sup>	372	274	98	36%	353	278	27%
Timber and agricultural produce <sup>6</sup>	341	348	-7	-2%	336	368	-9%
Intermodal transport	379	397	-18	-4%	382	406	-6%
Other <sup>7</sup>	367	368	-1	0%	366	358	2%
<b>Total</b>	<b>257</b>	<b>259</b>	<b>-1</b>	<b>0%</b>	<b>256</b>	<b>249</b>	<b>3%</b>

Source: Proprietary material

<sup>1</sup> Includes hard coal, coke and lignite.

<sup>2</sup> Includes all kinds of stone, sand, bricks and cement.

<sup>3</sup> Includes ores and pyrites, as well as metals and metal products.

<sup>4</sup> Includes fertilizers and other chemicals.

<sup>5</sup> Includes crude oil and petrochemical products.

<sup>6</sup> Includes grain, potatoes, sugar beets, other produce, wood and wooden products.

<sup>7</sup> Includes ferry transportation and other freight.

From the point of view of the directions in which the PKP CARGO Group's transportation services were provided, transportation within Poland was dominant, constituting 91% of the realized freight turnover in 9M 2016. Compared to 9 months of 2015, the share of freight turnover outside the territory of Poland increased by 4 p.p., which points to dynamic development of freight outside of Poland.

#### 4.3. Other services

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

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

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

#### 4.4. Headcount

Information on changes in the headcount in the PKP CARGO Group in 9M 2016 and 2015 is provided below.

Table 18 Headcount in 9 months 2016 in the PKP CARGO Group (active employees only)

Item	Headcount as at:			Change YTD	Change in Q3 2016
	30/09/2016*	30/06/2016**	31/12/2015***		
Company	17,569	17,715	17,979	-410	-146
Subsidiaries	5,723	5,764	5,826	-103	-41
<b>Total</b>	<b>23,292</b>	<b>23,479</b>	<b>23,805</b>	<b>-513</b>	<b>-187</b>

Source: Proprietary material

\* including AWT Group's employees (2,074 persons)

\*\* including AWT Group's employees (2,094 persons)

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

Table 19 Headcount in 9 months 2015 in the PKP CARGO Group (active employees only)

Item	Headcount as at:			Change YTD	Change in Q3 2015
	30/09/2015*	30/06/2015**	31/12/2014		
Company	17,819	18,743	20,830	-3,011	-924
Subsidiaries	5,815	5,915	4,130	1,685	-100
<b>Total</b>	<b>23,634</b>	<b>24,658</b>	<b>24,960</b>	<b>-1,326</b>	<b>-1,024</b>

Source: Proprietary material

\* including AWT Group's employees (2,132 persons)

\*\* including AWT Group's employees (2,107 persons)

Table 20 Average headcount in 9 months 2016 and 2015 in the PKP CARGO Group (taking into account only active employees)

Item	Average headcount in FTEs		Change	Average headcount in persons		Change
	9 months* of 2016	9 months** of 2015		9 months* of 2016	9 months** of 2015	
Company	17,764	18,655	-891	17,768	18,657	-889
Subsidiaries	5,764	5,922	-158	5,787	5,951	-164
<b>Total</b>	<b>23,528</b>	<b>24,577</b>	<b>-1,049</b>	<b>23,555</b>	<b>24,608</b>	<b>-1,053</b>

Source: Proprietary material

\* including AWT Group's employees (2,110 FTEs / 2,115 persons)

\*\* including AWT Group's employees (2,108 FTEs / 2,116 persons)

Table 21 Changes in headcount structure in 9 months 2016 in the PKP CARGO Group (active employees only)

Item	Headcount as at:			Change YTD	Change in Q3 2016
	30/09/2016*	30/06/2016**	31/12/2015***		
White-collar positions	5,263	5,297	5,324	-61	-34
Blue-collar positions	18,029	18,182	18,481	-452	-153
<b>Total</b>	<b>23,292</b>	<b>23,479</b>	<b>23,805</b>	<b>-513</b>	<b>-187</b>

Source: Proprietary material

\* including AWT Group's employees (2,074 persons)

\*\* including AWT Group's employees (2,094 persons)

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



Table 22 Changes in headcount structure in 9 months 2015 in the PKP CARGO Group (active employees only)

Item	Headcount as at:			Change YTD	Change in Q3 2015
	30/09/2015*	30/06/2015**	31/12/2014		
White-collar positions	5,284	5,415	5,349	-65	-131
Blue-collar positions	18,350	19,243	19,611	-1,261	-893
<b>Total</b>	<b>23,634</b>	<b>24,658</b>	<b>24,960</b>	<b>-1,326</b>	<b>-1,024</b>

Source: Proprietary material

\* including AWT Group's employees (2,132 persons)

\*\* including AWT Group's employees (2,107 persons)

Comparing the period of 9M 2016 to the corresponding period of 2015, we can observe a decrease of the average headcount in the PKP CARGO Group by 1,049 FTEs – it results directly from the execution of the Voluntary Redundancy Program in 2015.

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

#### 4.5. PKP CARGO Group's investments

In the 9 months of 2016, the Group incurred capital expenditures for the acquisition of property, plant and equipment in the form of purchases, modernizations and the so-called overhaul component (periodic inspections and repairs of the rolling stock) and intangible assets in the amount of PLN 428.0 million, which accounted for 114% of the figure in the corresponding period of 2015.

Most part of the capital expenditures in 9M 2016 in the Group was allocated for execution of investment tasks associated with the rolling stock, mainly for purchase of multi-system locomotives (12), periodic repairs of the rolling stock and modernization of locomotives - in total PLN 401.1 million (i.e. 94% of capital expenditures). In addition, expenditures were incurred on computerization, i.e. purchases of computer hardware and intangible assets (software) in the amount of PLN 10.5 million, investment construction activity in the amount of PLN 8.1 million and purchases of other machinery and equipment for PLN 8.4 million.

A detailed schedule of capital expenditures in 9M 2016 and a comparison with the actuals from 9M 2015 is presented in the table below.

Table 23 Capital expenditures on property, plant and equipment and intangible assets in the PKP CARGO Group in 9 months 2016 as compared to 9 months 2015 (thousands of PLN)

Item	9 months of	9 months of	Change	Change
	2016	2015		%
Investment construction activity	8,114	11,982	-3,868	-32%
Purchase of traction vehicles	200,788	0	200,788	n/a
Modernization of locomotives	15,211	60,881	-45,670	-75%
Purchase of wagons	0	17,188	-17,188	n/a
Machinery and equipment	5,194	5,160	34	1%
ITC development	10,464	21,435	-10,971	-51%
Other	3,179	5,760	-2,581	-45%
Components in overhaul*:	185,089	253,023	-67,934	-27%
Periodic repairs of locomotives	67,385	131,704	-64,319	-49%
Periodic repairs of wagons	117,704	121,319	-3,615	-3%
<b>Total</b>	<b>428,039</b>	<b>375,429</b>	<b>52,610</b>	<b>14%</b>

Source: Proprietary material

\* according to the Company's Accounting Policy, the line item "Components in overhaul" in 2015 and 2016 includes periodic inspections of locomotives and wagons (P3).

#### 4.6. Key information and events

Table 24 Key information and events which occurred in 9 months 2016 and after the balance sheet date

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



On 16 March 2016 the Company's Management Board received a notification from Morgan Stanley (Institutional Securities Group and Global Wealth Management) concerning a reduction of the stake held by Morgan Stanley (Institutional Securities Group and Global Wealth Management) below 5% of the overall number of votes at the Company's Extraordinary Shareholder Meeting ("SM"). This threshold was crossed by selling the Company's shares on the Warsaw Stock Exchange on 10 March 2016 ("Transaction"). Before the Transaction, Morgan Stanley (Institutional Securities Group and Global Wealth Management) held 2,380,008 shares of the Company representing 5.31% of the Company's share capital and 2,380,008 votes at the SM, which is 5.31% of all the votes. After the Transaction, Morgan Stanley (Institutional Securities Group and Global Wealth Management) holds 2,225,827 shares of the Company representing 4.97% of the Company's share capital and 2,225,827 votes at the SM, which is 4.97% of all the votes.

- On 18 March 2016, the Management Board adopted a resolution on submitting a motion to the Company's Shareholder Meeting to adopt a resolution to cover the net loss incurred in the amount of PLN 114,125,438.44 stemming from the Standalone Statement of Comprehensive Income for the period from 1 January 2015 to 31 December 2015 from future earnings and to recommend to the Company's Shareholder Meeting that no dividend be paid for the financial year starting on 1 January 2015.

- Execution of an annex to the Investment Loan Agreement with European Investment Bank, extending the loan availability period until 3 December 2016.

Satisfaction of the first of the conditions precedent defined in the conditional preliminary purchase agreement (*warunkowa zobowiązująca umowa sprzedaży*) signed by PKP CARGO S.A. and Euronaf Trzebinia sp. z o.o. ("Euronaf") by the fact that both Orlen KolTrans sp. z o.o. ("KolTrans") and Euronaf obtained consistent individual tax interpretations from the relevant tax authorities, i.e. in both cases confirming classification of ZCP Kolej as an organized part of an enterprise, as defined by the relevant provisions of law.

- Withdrawal of statements of claim for the ascertainment of non-existence of collective disputes in the Company's individual plants and on the level of the entire Company.
- Adoption of the consolidated text of the Company's Articles of Association by the Company's Supervisory Board

Adoption of resolutions by the Supervisory Board to appoint the following persons to the PKP CARGO S.A. Management Board as of 1 April 2016:

- 1) Grzegorz Fingas for the position of Management Board Member in charge of Commerce,
- 2) Arkadiusz Olewnik for the position of Management Board Member in charge of Finance,
- 3) Jarosław Klasa, for the position of Management Board Member in charge of Operations.
- Supervisory Board adopting a resolutions on initiating the recruitment procedure for the position of Management Board Member – Representative of the Employees of PKP CARGO S.A.
- Positive opinion of the Supervisory Board on the PKP CARGO S.A. Management Board's motion to the Company's Shareholder Meeting on covering the Company's net loss for 2015 and not paying a dividend for the financial year from 1 January 2015 to 31 December 2015.
- In the year ended 31 December 2015, the Tax Group failed to reach the assumed profitability at the level of 3% – accordingly, PGK's second financial year ended on 31 March 2016 and thus the Tax Group ceased to exist.

- PKP CARGO S.A. started to transport 15 new rail vehicles Flirt 3 from the Stadler factory in Siedlce to Hungary. The biggest Polish rail operator will deliver them to the Slovak-Hungarian border. From there, a Hungarian carrier will take them over.

#### April

- A memorandum of agreement was signed to launch the operations of a Polish Mining Group (PGG). It will be established in place of Kompania Węglowa.
- DB Schenker Rail Polska changed its name to DB Cargo Polska. The change of the name and brand is dictated by structural transformations and new naming approach introduced on the Deutsche Bahn group level. Last year the rail, passenger and freight activity was merged into one organizational area, in which freight services are performed under the DB Cargo name. The DB Schenker brand will be still used by the DB Schenker Logistics business unit.

- The Czech coal consortium OKD filed for bankruptcy. The AWT Group will continue to provide services to OKD; nevertheless, in order to preclude the risk of improper and untimely payment for freight, the principle has been implemented for prepayments to be made for the amounts due for the services provided.

- PKP CARGO S.A.'s Shareholder Meeting adopted a resolution to cover the Company's net loss for 2015 and refrain from paying a dividend for the financial year from 1 January 2015 to 31 December 2015.

#### May

- On 11 May 2016, the mandate of Dariusz Browarek, the Management Board Member in charge of Employees, expired. With effect from 11 May 2016, the Ordinary Shareholder Meeting adopted a resolution on the appointment of Raimondo Eggink and Zofia Dzik to the Supervisory Board, both of the new Supervisory Board members satisfying the independence criteria defined in § 20 and 21 of the Company's Articles of Association.
- With effect from 11 May 2016, PKP S.A. appointed the following persons to the PKP CARGO S.A. Supervisory Board of the sixth term of office: Mirosław Pawłowski, Andrzej Wach, Małgorzata Kryszkiewicz, Czesław Warszewicz and Jerzy Kleniewski.
- PKP CARGO S.A. won a tender for the transportation of coal to the Enea Group from the Bogdanka mine in Lublin to

the Kozienice power plant. Under the new contract, the Company will transport more than 5 million tons of coal over a period of 15 months.

The Company's Supervisory Board adopted a resolution on appointing, with effect from 20 May 2016, the following elected candidates for employee representatives to the Supervisory Board of PKP CARGO S.A. of the 6th term of office:

- – Krzysztof Czarnota,
- Marek Podskalny,
- Tadeusz Stachaczyński.

- PKP CARGO S.A. won a tender for the transportation of coal to the Enea Group from Silesian mines to the Kozienice power plant. Under the new contract, PKP CARGO S.A. will transport more than 1.25 million tons of coal over a period of 12 months.

- Commencement of operations by a freight forwarding company in Germany – PKP CARGO CONNECT GmbH with its registered office in Hamburg. Its main goal is to provide freight forwarding services focused on intermodal, marine and road transport in Germany and Western Europe.

- Execution of a memorandum of agreement between the parties to the Company Collective Bargaining Agreement for Employees Hired by the Establishments of PKP CARGO S.A. ("CCBA Memorandum of Agreement"). Under the CCBA Memorandum of Agreement, the Parties resolved to postpone the time limit for the execution of a memorandum of agreement constituting the implementation of the post-inspection report of the District Labor Inspector in Warsaw of 15 October 2015 to 31 December 2016 and to execute, by this new time limit, a memorandum of agreement ending the collective dispute commenced in the Company on 2 July 2015.

- Establishment of the Strategy Committee of the PKP CARGO S.A. Supervisory Board.

## June

- PKP CARGO S.A. and the Azoty Group signed a two-year contract for the transportation of more than 4 million tons of fertilizer and chemical products and raw materials for the Azoty Group companies. The estimated total value of the contract is nearly PLN 200 million.

- PKP CARGO S.A. and its subsidiary PKP CARGOTABOR USŁUGI Sp. z o.o. decided to exercise their right to withdraw from the conditional binding purchase agreement for 40,796 shares, representing approx. 99.85% of the share capital of Orlen KoITrans sp. z o.o. entered into with PKN Orlen S.A. and PKP CARGO S.A. exercised its right to withdraw from the conditional binding agreement to purchase an organized part of the enterprise of Euronaf Trzebinia sp. z o.o. Withdrawal from the Purchase Agreements does not provide for any financial consequences for PKP CARGO S.A. or PKP CARGOTABOR USŁUGI Sp. z o.o. arising from their termination.

- The Supervisory Board of PKP CARGO S.A. selected the audit firm BDO Sp. z o.o. as the entity authorized to audit the standalone and consolidated financial statements of PKP CARGO S.A. for 2016-2018 and to review the interim condensed standalone and consolidated financial statements of PKP CARGO S.A. in 2016-2018 prepared in accordance with IFRS.

- The President of the PKP CARGO S.A. Management Board and representatives of the Office of the Marshal of Wielkopolskie Voivodship, Wolsztyn County and the Town of Wolsztyn signed an agreement on the establishment of a cultural institution on the basis of the Wolsztyn Roundhouse.

- PKP CARGO S.A. commissioned the preparation of an expert opinion regarding methodological correctness of the valuation of AWT B.V. prepared for the needs of acquisition of an 80% stake in the company by PKP CARGO S.A. The expert opinion showed deviations from the methodology of estimation of the enterprise value and mistakes in the assumptions for the valuation and in the valuation technique, which could have led to overstatement of the recommended value of the enterprise, which could have made the transaction value exceed the level acceptable to a typical reasonable investor.

- Appointment, by the PKP CARGO S.A. Supervisory Board, with effect from 14 July 2016, of Zenon Kozendra, the candidate nominated to be the employee representative in the PKP CARGO S.A. Management Board.

## July

- Execution of a credit facility agreement with the European Investment Bank on whose basis an investment loan will be made available to the Company up to a maximum value of EUR 40 million, earmarked to finance and/or refinance the purchase of multi-system locomotives.

- The President of the Office of Rail Transport approved the unit rates of the basic fee for access to rail infrastructure, the unit rates of the basic fee for access to train handling devices and the unit rates of extra fees for access to railway infrastructure with a track gauge of 1435 mm managed by PKP PLK which will apply from 11 December 2016. PKP PLK's approved price list will bring a slight decrease in the rates of the basic fee and increases in most rates of additional fees and fees for the basic services related to access to train handling devices.

## August

- At a session of the Regional Court in Ostrava, the creditors of OKD A.S., a company which had been declared insolvent, made a decision to initiate a restructuring procedure in OKD in accordance with the provisions of Czech law. In accordance with the register, the receivables from OKD reported in the process, including the receivables due to AWT in the amount of CZK 462.9 million (PLN 73.0 million), were accepted. The decision means that OKD will continue its

operations under a restructuring plan involving, among others, the phasing out of unprofitable mines.

Receipt of a notification from MetLife PTE S.A. reporting that the MetLife Open-end Pension Fund it manages ("OPF") increased its exposure to above 5% of the total number of votes in PKP CARGO S.A. Its exposure exceeded 5% as a result of the purchase of shares in PKP CARGO S.A. on 10 August 2016. Directly before the change in its shareholding OPF held 2,162,347 shares, representing 4.83% of the share capital of PKP CARGO S.A. giving it the right to 2,162,347 votes at the shareholder meeting, representing 4.83% of the total number of votes at the shareholder meeting of PKP CARGO S.A. At present, OPF holds 2,494,938 shares, representing 5.57% of the share capital of PKP CARGO S.A. giving it the right to 2,494,938 votes at the shareholder meeting, representing 5.57% of the total number of votes at the shareholder meeting of PKP CARGO S.A.

## September

- Due to the petition for insolvency of OKD a.s. filed on 3 May 2016, impairment tests for AWT Group's assets were carried out as at 30 June 2016 and the executability of the receivables from OKD was assessed. As a result of the completed tasks, on 26 September 2016 the Company's Management Board decided to recognize the following in the Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016:
  - impairment losses for AWT Group's assets in the amount of PLN 35 million
  - impairment losses for trade receivables in the amount of PLN 63 million.
- AWT Group companies entered into a loan agreement with the following institutions: ING Bank N.V., UniCredit Bank Czech Republic and Slovakia, a.s., Raiffeisenbank a.s. in order to refinance the liabilities following from earlier loan agreements. The liabilities subject to refinancing were repaid in full on 30 September 2016.

## October

- PKP Cargo announced an unlimited tender for leasing and delivery of 180 new wagons with a buy-out option.
- Receipt of a notice that as a result of the acquisition of a stake in PKP CARGO S.A. settled on 10 October 2016, Nationale-Nederlanden Otwarty Fundusz Emerytalny has increased its stake in the Company by at least 2% of votes at the Company's Shareholder Meeting. Prior to the acquisition of the shares, the Fund held 6,535,170 shares representing 14.59% of the Company's share capital and was entitled to 6,535,170 votes at the Shareholder Meeting representing 14.59% of the total number of votes.
- On 10 November 2016, the Fund's securities account showed 6,699,668 shares, which accounted for 14.96% of the Company's share capital. The shares entitled the holder to 6,699,668 votes at the Company's Shareholder Meeting representing 14.96% of the total number of votes.
- Receipt of a notice that as a result of the acquisition of a stake in PKP CARGO S.A. in transactions executed on the Warsaw Stock Exchange and settled on 12 October 2016, Nationale-Nederlanden Otwarty Fundusz Emerytalny has increased its stake in the Company by more than 15% of votes at the Company's Shareholder Meeting. Prior to the settlement of the transaction, i.e. as at 11 October 2016, the Fund held 6,711,846 shares representing 14.99% of the Company's share capital and was entitled to 6,711,846 votes at the Shareholder Meeting representing 14.99% of the total number of votes.
- After settlement of the transactions on 12 November 2016, the Fund's securities account showed 6,854,195 shares, which accounted for 15.30% of the Company's share capital. The shares entitled the holder to 6,854,195 votes at the Company's Shareholder Meeting representing 15.30% of the total number of votes.
- Execution of an electricity sales and distribution service agreement between PKP CARGO S.A. and PKP Energetyka S.A. The agreement pertained to sale of (traction) electricity and provision of traction energy distribution services for the needs of conduct of transport services using electrical traction.
- The agreement is for a specified term, from the execution date to 31 December 2018. The expected value of the agreement during its term will total PLN 700 million net (PLN 861 million gross).

Source: Proprietary material

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

### 5.1. Key economic and financial figures

#### 5.1.1. Statement of comprehensive income

On 28 May 2015, the Parent Company acquired an 80% stake in AWT B.V. Because AWT's data have been consolidated since the date of acquisition, the consolidated data for the first 9 months of 2016 take into account the AWT Group's financial performance for the whole period, while the financial data for the first 9 months of 2015 are presented with the AWT Group's figures starting from 28 May 2015.

Analysis of basic economic and financial figures of the PKP CARGO Group presented in this chapter takes into account a presentation adjustment of data in 9M 2016 and 9M 2015. The financial data for 9M 2016 are adjusted for presentation purposes for an impairment loss on receivables from OKD in the amount of PLN 62.2 million (described in Note 16) and impairment losses arising from a test for impairment of AWT Group's non-current assets in the amount of PLN 34.5 million (the adjustments takes into account a loss on fixed assets in the amount of PLN 34.9 million and depreciation, reduced accordingly, in Q3 2016 in the amount of PLN 0.4 million), as described in Note 10.1. Additionally, change in the value impairment loss on the assets and on receivables presented in Condensed Interim Consolidated Financial Statements is associated with change of the exchange rates used for conversion of the losses into PLN. The financial data for 9M 2015 were adjusted for presentation purposes for the profit on bargain purchase of AWT in the amount of PLN 137.8 million and the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million.

In 9M 2016, the PKP CARGO Group transported 80.9 million tons of cargo (i.e. 4% less than in 9M 2015) and recorded freight turnover of 20.8 billion tkm (i.e. 4% less than in the corresponding period of 2015), which is described in detail in the chapter entitled "PKP CARGO Group rail transport".

In 9M 2016, the Group's operating revenues decreased by 2.0% yoy and operating expenses increased by 13.0% yoy. In 9M 2016, the Group generated a result on operating activities and net result in the amount of PLN -186.3 million and PLN -200.2 million, respectively. The level of operating revenues and expenses in 9M 2016 resulted to a large extent from the consolidation of AWT and the occurrence of non-recurring events, which is described in detail in the comments under the tables. The Group's adjusted operating revenue increased 2.3% yoy (adjusted by gains on the bargain acquisition of AWT in the amount of PLN 137.8 million in 9M 2015). Adjusted operating expenses increased 12.5 % yoy (adjusted for VRP 2 in the amount of PLN 70.2 million in 9M 2015, an impairment loss on receivables from OKD in the amount of PLN 62.2 million and an impairment loss resulting from a test for impairment of AWT Group's non-current assets in the amount of PLN 34.5 million (the loss includes the loss on fixed assets in the amount of PLN 34.9 million and depreciation, reduced accordingly, in Q3 2016 in the amount of PLN 0.4 million) – both these events occurred in 9M 2016), which also resulted to a large extent from the consolidation of AWT.

The adjusted net result for 9M 2016 includes deferred tax resulting from an impairment of receivables from OKD in the amount of PLN 6.2 million and the related deferred tax on account of an impairment loss resulting from a test for impairment of AWT's value in the amount of PLN 6.6 million. The adjusted net result for 9M 2015 includes deferred tax resulting from VRP 2 in the amount of PLN 13.3 million (while the bargain acquisition of AWT was not a taxable income).

In Q3 2016 alone, operating revenues decreased by 9.9% compared to Q3 2015, which was attributable to decreased revenues on rail transportation and freight forwarding services, caused by the difficult situation mainly in transport of hard coal, aggregates, timber and wooden products and metals. Operating expenses in Q3 2016 decreased 3.2% compared to the corresponding period of the previous year. The change is attributable to decreased transport and, consequently, lower variable costs, in particular costs of materials and energy and external services.

In 9M 2016, the PKP CARGO Group recorded a result on financial activities in the amount of PLN -42.6 million, compared to PLN -27.4 million recorded in the corresponding period of the previous year.

The details of individual line items of the Statement of comprehensive income are presented in the further part of this section. The following tables present the results of the PKP CARGO Group in 9M 2016 and Q3 2016 compared to the same periods of 2015.

Table 25 Results of the PKP CARGO Group in 9 months 2016 as compared to the corresponding period of 2015 (thousands of PLN).

No.	Item	9 months of 2016	9 months of 2015, restated data*	Change 2016-2015	Change rate 2016/2015	9 months of 2016, adjusted**	9 months of 2015, adjusted***	Change 2016-2015, adjusted	Change rate 2016/2015, adjusted
1	Total operating revenue	3,213,774	3,280,551	-66,777	-2.0%	3,213,774	3,142,772	71,002	2.3%
2	Total operating expenses	3,400,038	3,007,746	392,292	13.0%	3,303,365	2,937,567	365,798	12.5%
3	<b>Result on operating activities</b>	<b>-186,264</b>	<b>272,805</b>	<b>-459,069</b>	-	<b>-89,591</b>	<b>205,205</b>	<b>-294,796</b>	-
4	Financial revenue	1,011	9,455	-8,444	-89.3%	1,011	9,455	-8,444	-89.3%
5	Financial expenses	46,220	42,280	3,940	9.3%	46,220	42,280	3,940	9.3%
6	Share in the profit / (loss) of entities accounted for under the equity method	2,597	3,572	-975	-27.3%	2,597	3,572	-975	-27.3%
7	Result on the sale of shares in entities accounted for under the equity method	0	1,865	-1,865	-100.0%	0	1,865	-1,865	-100.0%
8	<b>Result before tax</b>	<b>-228,876</b>	<b>245,417</b>	<b>-474,293</b>	-	<b>-132,203</b>	<b>177,817</b>	<b>-310,020</b>	-
9	Income tax	-28,627	18,912	-47,539	-	-15,842	32,246	-48,088	-
10	<b>NET RESULT</b>	<b>-200,249</b>	<b>226,505</b>	<b>-426,754</b>	-	<b>-116,361</b>	<b>145,571</b>	<b>-261,932</b>	-

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016 prepared according to EU IFRS

\* restatement of comparative data is described in detail in Note 4

\*\* the data for the first 9 months of 2016 are adjusted for presentation purposes for an impairment loss on assets in the amount of PLN 34.5 million, described in Note 10.1 (the loss includes an impairment loss on fixed assets in the amount of PLN 34.9 million and depreciation, reduced accordingly, in Q3 2016 in the amount of PLN 0.4 million) and an impairment loss on receivables amounting to PLN 62.2 million (described in Note 16); moreover, adjusted net result and includes deferred tax resulting from an impairment loss on receivables from OKD in the amount of PLN 6.2 million and the related deferred tax on account of an impairment loss resulting from a test for impairment of AWT's value in the amount of PLN 6.6 million; the impairment loss on assets and the impairment loss on receivables presented in the Condensed Interim Consolidated Financial Statements results from changes in the exchange rates applied for the conversion of the impairment losses into PLN

\*\*\* the data for the first 9 months of 2015 were adjusted for presentation purposes for the profit on the bargain purchase of AWT in the amount of PLN 137.8 million and the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million; additionally, the adjusted net result includes deferred tax on account of VRP 2 in the amount of PLN 13.3 million, while profit on bargain acquisition of AWT does not include deferred tax

Table 26 Results of the PKP CARGO Group in Q3 2016 as compared to the corresponding period of 2015 (thousands of PLN)

No.	Item	Q3 2016	Q3 2015, restated data*	Change 2016-2015	Change rate 2016/2015
1	Total operating revenue	1,090,765	1,210,378	-119,613	-9.9%
2	Total operating expenses	1,082,886	1,118,408	-35,522	-3.2%
3	<b>Result on operating activities</b>	<b>7,879</b>	<b>91,970</b>	<b>-84,091</b>	<b>-91.4%</b>
4	Financial revenue	237	78	159	203.8%
5	Financial expenses	8,302	15,918	-7,616	-47.8%
6	Share in the profit / (loss) of entities accounted for under the equity method	595	90	505	561.1%
7	<b>Result before tax</b>	<b>409</b>	<b>76,220</b>	<b>-75,811</b>	<b>-99.5%</b>
8	Income tax	6,069	12,235	-6,166	-50.4%
9	<b>NET RESULT</b>	<b>-5,660</b>	<b>63,985</b>	<b>-69,645</b>	-

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016 prepared according to EU IFRS

\* restatement of comparative data is described in detail in Note 4



## Operating revenues

Table 27 Operating revenue of the PKP CARGO Group in 9 months 2016 as compared to the corresponding period of 2015 (thousands of PLN)

No.	Item	9 months of 2016	9 months of 2015, restated data*	Change 2016-2015	Change rate 2016/2015	9 months of 2015, adjusted**	Change 2016-2015, adjusted	Change rate 2016/2015, adjusted
1	Revenue from sales of services and finished products	3,165,891	3,083,886	82,005	2.7%	3,083,886	82,005	2.7%
1.1	Revenue from rail transportation and freight forwarding services	2,624,592	2,703,483	-78,891	-2.9%	2,703,483	-78,891	-2.9%
2	Revenue from sales of goods and materials	22,439	25,512	-3,073	-12.0%	25,512	-3,073	-12.0%
3	Other operating revenue	25,444	171,153	-145,709	-85.1%	33,374	-7,930	-23.8%
4	<b>Total operating revenue</b>	<b>3,213,774</b>	<b>3,280,551</b>	<b>-66,777</b>	<b>-2.0%</b>	<b>3,142,772</b>	<b>71,002</b>	<b>2.3%</b>

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016 prepared according to EU IFRS

\* restatement of comparative data is described in detail in Note 4

\* the 9M 2015 data were adjusted for presentation purposes for the effect of the bargain acquisition of AWT in the amount of PLN 137.8 million

Table 28 Operating revenue of the PKP CARGO Group in Q3 2016 as compared to the corresponding period of 2015 (thousands of PLN)

No.	Item	Q3 2016	Q3 2015, restated data*	Change 2016-2015	Change rate 2016/2015
1	Revenue from sales of services and finished products	1,077,038	1,187,347	-110,309	-9.3%
1.1	Revenue from rail transportation and freight forwarding services	898,933	1,005,853	-106,920	-10.6%
2	Revenue from sales of goods and materials	8,834	7,838	996	12.7%
3	Other operating revenue	4,893	15,193	-10,300	-67.8%
4	<b>Total operating revenue</b>	<b>1,090,765</b>	<b>1,210,378</b>	<b>-119,613</b>	<b>-9.9%</b>

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016 prepared according to EU IFRS

\* restatement of comparative data is described in detail in Note 4

In the Group's total operating revenue the biggest item was revenue from sales of services and finished products (98.5% in 9M 2016 compared to 94.0% in 9M 2015). Revenue from sales of services comprises mainly: revenue from rail transportation and freight forwarding services, revenue from siding and traction services, revenue from other transportation activity, revenue from transshipment and land reclamation. The remaining part of operating revenue of the PKP CARGO Group comprises revenue from sales of goods and materials, which includes, among others, sales of steel and cast iron scrap as well as other operating revenue comprising, among others, gains from sales of assets, reversal of impairment losses on receivables and interest on receivables, received fines and compensations and net foreign exchange gains/(losses) on trade receivables and liabilities and reversal of provisions.

Revenue from rail transportation and freight forwarding services in 9M 2016 decreased 2.9% yoy compared to the corresponding period of 2015. In transport of aggregates and construction materials in 9M 2016, an 15% yoy decrease was recorded in terms of freight volume and a 18% yoy decrease in terms of freight turnover. The decrease of transport in this segment results from postponing road investment projects ("design and build" tenders), lack of local investments financed by local governments, decrease of expenditures on rail investments in connection with low progress of the projects, decrease of hydrotechnical investments and decrease of demand for limestone due to lower production of metallurgical products. Emergence of new market players pursuing aggressive pricing policies and competition from road carriers were additional contributors to the decrease in transport in this segment. Additionally in 9M 2016, freight volume in hard coal transport decreased by 4% yoy and the freight turnover decreased by 8% yoy, driven primarily by a decrease of transport of this raw material in Poland. In hard coal transport in Poland, a 11% yoy decrease of freight was recorded, both in terms of freight volume and freight turnover, which results from the difficult situation of the Polish coal concerns and decreased demand for hard coal. The ores and metals segment recorded a decrease in transported freight volume by 11% yoy in connection with the lower demand for metal ores resulting from the situation in the metallurgical industry in global markets (China's economic slowdown translates into decreased demand for steel) and periodic suspension of deliveries of this raw material to one of the key customers of the Group as a result of its overhaul of a furnace). A significant impact on the level of transport of metals and ores

(both raw materials and semi-finished products) in 9M 2016 was also exerted by overhauls of the COS (continuous steel casting) line at two of the Group's most important customers carried out in Q2 and Q3 2016. On the other hand, in intermodal transport, one can observe positive trends which translate into an increasing share of this cargo category in revenue from rail transportation and freight forwarding services.

The above factors contributed to decrease of transport revenue from rail transportation and freight forwarding services by 2.9% yoy. Other items in revenue from sales of services and finished products increased by PLN 160.9 million (increases were recorded mainly in the following line items: revenue from other transportation activity by PLN 37.4 million, revenues from siding and traction services by PLN 35.6 million, revenue from transshipment by PLN 26.0 million, land reclamation by PLN 12.7 million, and other revenues by PLN 49.1 million, where the biggest line items in 9M 2016 were revenue from lease of assets in the amount of PLN 34.8 million and revenues from customs agency and border freight forwarding services in the amount of PLN 10.6 million. In Q3 2016 alone, revenue from railway freight services and freight forwarding decreased 10.6% yoy, which was largely driven by the decrease of transport revenue in key cargo categories: hard coal, aggregates, metals and products. The details pertaining to PKP CARGO Group's transport services are described in detail in the chapter "PKP CARGO Group's rail transport".

The decrease in revenue from sales of goods and materials in 9M 2016 by 12.0% yoy was caused predominantly by decreased sales of scrap from the liquidated redundant rolling stock due to unfavorable scrap prices. In Q3 2016, revenue from sales of goods and materials increased 12.7% compared to the corresponding period of the previous year due to reversal of the price decreasing trend in Q3 2016.

The decrease in other operating revenue by PLN 145.7 million, i.e. 85.1% yoy, was mainly due to the recognition, in 9M 2015, of gains from the bargain acquisition of AWT in the amount of PLN 137.8 million, while adjusted other operating revenue (adjusted for the said gains on the bargain acquisition of AWT) decreased by PLN 7.9 million, i.e. 23.8% yoy, driven predominantly by lower gains from reversal of other provisions by PLN 7.8 million. The decrease in Q3 2016 by 67.8% yoy was largely caused by the decrease of revenues as a result of reversal of the provisions by PLN 4.4 million, revenues from reversal of impairment losses by PLN 2.1 million, a decrease in foreign exchange gains on trade receivables and liabilities by PLN 0.9 million and lower other revenues by PLN 2.7 million.

#### Operating expenses

Table 29 Operating expenses of the PKP CARGO Group in 9 months 2016 as compared to the corresponding period of 2015 (thousands of PLN)

No.	Item	9 months of 2016	9 months of 2015, restated data*	Change 2016-2015	Change rate 2016/2015	9 months of 2016, adjusted**	9 months of 2015, adjusted***	Change 2016-2015, adjusted	Change rate 2016/2015, adjusted
1	Depreciation/ amortization and impairment losses	470,290	337,922	132,368	39.2%	435,780	337,922	97,858	29.0%
2	Consumption of materials and energy	492,217	489,351	2,866	0.6%	492,217	489,351	2,866	0.6%
3	External services	1,157,484	1,015,163	142,321	14.0%	1,157,484	1,015,163	142,321	14.0%
4	Taxes and charges	29,386	28,169	1,217	4.3%	29,386	28,169	1,217	4.3%
5	Employee benefits	1,105,746	1,058,305	47,441	4.5%	1,105,746	988,126	117,620	11.9%
6	Other expenses by kind	39,076	36,921	2,155	5.8%	39,076	36,921	2,155	5.8%
7	Cost of goods and materials sold	17,341	19,092	-1,751	-9.2%	17,341	19,092	-1,751	-9.2%
8	Other operating expenses	88,498	22,823	65,675	287.8%	26,335	22,823	3,512	15.4%
<b>9</b>	<b>Total operating expenses</b>	<b>3,400,038</b>	<b>3,007,746</b>	<b>392,292</b>	<b>13.0%</b>	<b>3,303,365</b>	<b>2,937,567</b>	<b>365,798</b>	<b>12.5%</b>

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016 prepared according to EU IFRS

\* restatement of comparative data is described in detail in Note 4

\*\* the data for 9M 2016 are adjusted for presentation purposes for an impairment loss on receivables from OKD in the amount of PLN 62.2 million (described in Note 16) and impairment losses arising from a test for impairment of AWT Group's non-current assets in the amount of PLN 34.5 million, as described in Note 10.1 (the loss includes the loss on fixed assets in the amount of PLN 34.9 million and depreciation, reduced accordingly, in Q3 2016 in the amount of PLN 0.4 million)

\*\*\* the data for 9M 2015 are adjusted for presentation purposes for the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million

Table 30 Operating expenses of the PKP CARGO Group in Q3 2016 as compared to the corresponding period of 2015 (thousands of PLN)

No.	Item	Q3 2016	Q3 2015, restated data*	Change 2016-2015	Change rate 2016/2015
1	Depreciation/ amortization and impairment losses	146,152	127,320	18,832	14.8%
2	Consumption of materials and energy	165,664	182,395	-16,731	-9.2%
3	External services	383,358	407,635	-24,277	-6.0%
4	Taxes and charges	11,088	10,805	283	2.6%
5	Employee benefits	352,754	363,176	-10,422	-2.9%
6	Other expenses by kind	12,786	15,390	-2,604	-16.9%
7	Cost of goods and materials sold	5,425	6,697	-1,272	-19.0%
8	Other operating expenses	5,659	4,990	669	13.4%
<b>9</b>	<b>Total operating expenses</b>	<b>1,082,886</b>	<b>1,118,408</b>	<b>-35,522</b>	<b>-3.2%</b>

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016 prepared according to EU IFRS

\* restatement of comparative data is described in detail in Note 4

In 9M 2016, operating expenses increased by PLN 392.3 million, i.e. 13.0% yoy, to PLN 3,400.0 million, while adjusted operating expenses (adjusted for VRP 2 in the amount of PLN 70.2 million in 9M 2015, an impairment loss on receivables from OKD in the amount of PLN 62.2 million and an impairment loss resulting from a test for impairment of AWT Group's non-current assets in the amount of PLN 34.5 million (the loss includes the loss on fixed assets in the amount of PLN 34.9 million and depreciation, reduced accordingly, in Q3 2016 in the amount of PLN 0.4 million) – both of them posted in 9M 2016) increased PLN 365.8 million, i.e. 12.5 % yoy.

The increase in depreciation costs by PLN 132.4 million (with impairment losses) was driven mainly by an increase in property, plant and equipment associated with the acquisition of AWT and adjustments of depreciation associated with a change in the residual value of rolling stock and an impairment loss resulting from a test for impairment of AWT Group's non-current assets in the amount of PLN 34.5 million (the loss includes the loss on fixed assets in the amount of PLN 34.9 million and depreciation, reduced accordingly, in Q3 2016 in the amount of PLN 0.4 million).

Moreover, the costs of external services increased 14.0% yoy to PLN 1,157.5 million. This increase was driven mainly by the acquisition of a stake in AWT, which caused an increase in the costs of transportation services by PLN 99.9 million, rents and charges for the use of property and rolling stock by PLN 9.7 million, siding services by PLN 12.3 million and other services, i.e. mainly subcontracted services associated with reclamation works, by PLN 15.3 million.

Additionally, the consumption cost of materials and energy increased by PLN 2.9 million, the consumption of electricity, gas and water increased by PLN 25.0 million and fuel consumption costs decreased by PLN 21.0 million. The said increase is directly related to the consolidation of AWT Group companies, whereas the decline in the cost of fuel is due to a significant decrease in the unit cost of fuel associated both with a decrease in fuel prices and a decrease in freight turnover in diesel traction.

In 9M 2016, employee benefits increased by PLN 47.4 million, i.e. 4.5% yoy, to PLN 1,105.7 million vs. PLN 1,058.3 million in the corresponding period of 2015. Adjusted costs of employee benefits (adjustment for VRP 2 in the amount of PLN 70.2 million) increased by PLN 117.6 million, i.e. by 11.9%, which was caused mainly by the consolidation of AWT Group companies. Changes in headcount are presented in the section "Information on headcount".

Other expenses by kind in 9M 2016 increased compared to the corresponding period of 2015 by PLN 2.2 million, i.e. 5.8% yoy, mainly due to an increase in the costs of property insurance by PLN 2.1 million and costs of business travel by PLN 2.1 million, with decreasing advertising and advertising by PLN 2.2 million; these increases were caused by the consolidation of the AWT Group.

In 9M 2016, the cost of goods and materials sold decreased by PLN 1.8 million, i.e. 9.2%, to PLN 17.3 million, following a decrease in revenue from sales of scrap.

Other operating expenses in 9M 2016 increased by PLN 65.7 million, or 287.8% yoy to PLN 88.5 million, chiefly on account of an increase of impairment losses on trade receivables from OKD in the amount of PLN 62.2 million and recognition of a provision for a UOKIK penalty in the amount of PLN 2.0 million.



When comparing the costs incurred by the Group in Q3 2016 to Q3 2015, we can observe an increase in the following items: depreciation and impairment losses by 14.8% yoy, taxes and charges by 2.6% yoy and other operating expenses by 13.4% yoy. The changes in depreciation were caused mainly by increased depreciation costs on account of revaluation of the residual value of the rolling stock and including projects that have been delivered or are planned to be delivered in depreciation. In Q3 2016, compared to the corresponding period of last year, decreases were recorded in the following items: consumption of materials and energy by 9.2% yoy, external services by 6.0% yoy, employee benefits by 2.9% yoy, , cost of goods and materials sold by 19.0% yoy (despite the increase of revenue from sales of goods and materials, which follows from update of the residual value of liquidated rolling stock) and other expenses by kind by 16.9% yoy.

#### Result on operating activities

As a result of the aforementioned changes in operating revenue and operating expenses, the result on operating activities in 9M 2016 reached PLN -186.3 million.

#### EBITDA

The result on operating activities increased by the line item "Amortization/depreciation and impairment losses" referred to as EBITDA, amounted to PLN 284.0 million in 9M 2016.

#### Financial activities

Table 31 Financial activities of the PKP CARGO Group in 9 months 2016 and Q3 2016 compared to the corresponding periods in 2015 (thousands of PLN)

No.	Item	9 months of 2016	9 months of 2015, restated data*	Change 2016-2015	Change rate 2016/2015	Q3 2016	Q3 2015, restated data*	Change 2016-2015	Change rate 2016/2015
1	Financial revenue	1,011	9,455	-8,444	-89.3%	237	78	159	203.8%
2	Financial expenses	46,220	42,280	3,940	9.3%	8,302	15,918	-7,616	-47.8%
3	Share in the profit / (loss) of entities accounted for under the equity method	2,597	3,572	-975	-27.3%	595	90	505	561.1%
4	Result on the sale of shares in entities accounted for under the equity method	-	1,865	-1,865	-100.0%	-	-	-	-
5	<b>Result on financial activities</b>	<b>-42,612</b>	<b>-27,388</b>	<b>-15,224</b>	<b>55.6%</b>	<b>-7,470</b>	<b>-15,750</b>	<b>8,280</b>	<b>-52.6%</b>

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016 prepared according to EU IFRS

\* restatement of comparative data is described in detail in Note 4

In 9M 2016, the PKP CARGO Group recorded a loss on financial activities in the amount of PLN -42.6 million, compared to PLN -27.4 million recorded in the corresponding period of the previous year. The negative result on financial activities was caused by a decrease of interest income and dividends by PLN 3.5 million, lower result on FX differences by PLN 8.4 million and an increase in interest costs by PLN 2.9 million due to higher liabilities arising from loans. In Q3 2016, the PKP CARGO Group recorded a loss on financial activities in the amount of PLN -7.5 million, compared to PLN -15.7 million recorded in the corresponding period of the previous year. Details are presented in Note 8.

#### Result before tax

In 9M 2016, result before tax fell by PLN 474.3 million to PLN -228.9 million, driven by loss on operating and financing activities.

#### Income tax

In 9M 2016, the PKP CARGO Group posted income tax in the amount of PLN -28.6 million, of which current tax was PLN 3.5 million and deferred tax was PLN -32.1 million.

#### Net result

In 9M 2016, the Group generated net result of PLN -200.2 million compared to PLN 226.5 million in the same period of the previous year.

## 5.1.2. Description of the structure of assets and liabilities

### ASSETS

Table 32 Horizontal and vertical analysis of assets (thousands of PLN)

	As at 30 September 2016  (unaudited)	As at 31 December 2015  (audited)	Asset structure		Change	
			30/09/2016	31/12/2015		
ASSETS						
Non-current assets						
Property, plant and equipment	4,723,301	4,719,748	79.3%	77.2%	3,553	0.1%
Intangible assets	57,421	66,437	1.0%	1.1%	-9,016	-13.6%
Investment property	1,270	1,309	0.0%	0.0%	-39	-3.0%
Investments accounted for under the equity method	40,325	39,831	0.7%	0.7%	494	1.2%
Trade and other receivables	2,614	5,074	0.0%	0.1%	-2,460	-48.5%
Other long-term financial assets	10,003	9,849	0.2%	0.2%	154	1.6%
Other long-term non-financial assets	21,149	32,666	0.4%	0.5%	-11,517	-35.3%
Deferred tax assets	121,088	104,587	2.0%	1.7%	16,501	15.8%
Total non-current assets	4,977,171	4,979,501	83.5%	81.5%	-2,330	0.0%
Current assets						
Inventories	124,856	128,513	2.1%	2.1%	-3,657	-2.8%
Trade and other receivables	651,111	664,321	10.9%	10.9%	-13,210	-2.0%
Income tax receivables	2,831	2,748	0.0%	0.0%	83	3.0%
Other short-term financial assets	6,975	4,046	0.1%	0.1%	2,929	72.4%
Other short-term non-financial assets	23,536	13,281	0.4%	0.2%	10,255	77.2%
Cash and cash equivalents	166,922	276,191	2.8%	4.5%	-109,269	-39.6%
Non-current assets classified as held for sale	6,000	44,061	0.1%	0.7%	-38,061	-86.4%
Total current assets	982,231	1,133,161	16.5%	18.5%	-150,930	-13.3%
Total assets	5,959,402	6,112,662	100.0%	100.0%	-153,260	-2.5%

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016 prepared according to EU IFRS

#### Non-current assets

The biggest share in the asset structure was held by property, plant and equipment, which as at the end of Q3 2016 constituted 79.3% of total assets, compared to 77.2% at the end of 2015. Property, plant and equipment is dominated by the means of transportation (mainly locomotives and wagons) which as at the end of Q3 2016 represented 80.7% of total property, plant and equipment, compared to 80.2% at the end of 2015. The increase of property, plant and equipment in 9M 2016 by PLN 3.6 million is associated with the investments made in the total amount of PLN 428.0 million (of which PLN 401.1 million were the expenditures on rolling stock, mainly the purchase of 12 multi-system locomotives, repairs and periodic inspections of the rolling stock and modernization of the rolling stock) as well as reclassification of the amount of PLN 38.1 million (including PLN 33.1 million of rolling stock) of assets in the item of assets classified as held for sale to property, plant and equipment because of the low benefits that the Parent Company would obtain by selling such assets in an environment that is not positive for scrap metal prices. The increase occurred with the fall of the value of means of transportation in connection with the impairment charge on account of AWT Group's assets following the impairment tests in the amount of PLN 34.0 million (including an impairment loss on fixed assets in the amount of PLN 34.5 million and depreciation/amortization, reduced accordingly, in Q3 2016 in the amount of PLN 0.4 million). Details are presented in Note 10.1. As at the end of 2015 the Parent Company also recognized impairment losses on non-current assets and assets classified as held for sale, in the amount of PLN 178.7 million. In addition the following were recorded: a decrease in other long-term non-financial assets (by PLN 11.5 million to PLN 21.1 million) and an increase in deferred income tax assets (by PLN 16.5 million to PLN 121.1 million), which was associated with the loss posted as at 30 September 2016 by the Parent Company and subsidiaries.

#### Current assets

Current assets dropped at the end of Q3 2016 by PLN 150.9 million, i.e. by 13.3%, in relation to the end of 2015, mainly as a result of a PLN 109.3 million, or 39.6% lower, reduction in cash and cash equivalents, which in turn resulted directly from the payment of liabilities under the Voluntary Redundancy Program, capital expenditures on property, plant and equipment

and decline in assets classified as held for sale by PLN 38.1 million, or 86.4% yoy, for reasons described above. In addition, the final value of current assets was significantly affected by a decrease of trade and other receivables by PLN 13.2 million (or 2.0%). As at the end of 9M 2016, trade receivables were PLN 45.4 million higher and impairment losses on receivables were PLN 59.3 million higher than at the end of 2015. This increased impairment resulted from recognition of impairment losses in the amount of PLN 61.4 million on receivables from OKD, a Czech coal consortium. Details are presented in Note 16. One should also note the increase of other short-term non-financial assets by PLN 10.3 million, resulting largely from charges for the Company Social Benefits Fund (ZFŚS) in the amount of PLN 7.8 million, to be settled in future periods, and purchase of transportation services for employees in the amount of PLN 3.7 million.

Current assets expressed as a percentage of total assets dropped from 18.5% as at 31 December 2015 to 16.5% as at 30 September 2016.

The biggest share in the structure of current assets was held by trade and other receivables (66.3%), cash and cash equivalents (17.0%) and inventories (12.7%).

## LIABILITIES

Table 33 Horizontal and vertical analysis of liabilities (thousands of PLN)

	As at 30 September 2016	As at 31 December 2015	Structure of equity and liabilities		Change	
	(unaudited)	(audited)	30/09/2016	31/12/2015		
<b>EQUITY AND LIABILITIES</b>						
<b>Equity</b>						
Share capital	2,239,346	2,239,346	37.6%	36.6%	0	0.0%
Supplementary capital	618,531	619,407	10.4%	10.1%	-876	-0.1%
Other items of equity	897	-2,779	0.0%	0.0%	3,676	-132.3%
Exchange differences resulting from conversion of financial statements of foreign operations	41,645	31,500	0.7%	0.5%	10,145	32.2%
Retained earnings	267,019	466,392	4.5%	7.6%	-199,373	-42.7%
<b>Equity attributable to the owners of the parent company</b>	<b>3,167,438</b>	<b>3,353,866</b>	<b>53.2%</b>	<b>54.9%</b>	<b>-186,428</b>	<b>-5.6%</b>
<b>Total equity</b>	<b>3,167,438</b>	<b>3,353,866</b>	<b>53.2%</b>	<b>54.9%</b>	<b>-186,428</b>	<b>-5.6%</b>
<b>Non-current liabilities</b>						
Long-term bank loans and credit facilities	769,780	460,577	12.9%	7.5%	309,203	67.1%
Long-term finance lease liabilities and leases with purchase option	149,277	193,500	2.5%	3.2%	-44,223	-22.9%
Long-term trade and other payables	4,039	25,953	0.1%	0.4%	-21,914	-84.4%
Long-term provisions for employee benefits	593,495	603,621	10.0%	9.9%	-10,126	-1.7%
Other long-term provisions	28,067	28,886	0.5%	0.5%	-819	-2.8%
Other long-term financial liabilities	0	155,198	0.0%	2.5%	-155,198	-100.0%
Deferred tax liabilities	105,116	118,353	1.8%	1.9%	-13,237	-11.2%
<b>Non-current liabilities, total</b>	<b>1,649,774</b>	<b>1,586,088</b>	<b>27.7%</b>	<b>25.9%</b>	<b>63,686</b>	<b>4.0%</b>
<b>Current liabilities</b>						
Short-term bank loans and credit facilities	194,783	253,592	3.3%	4.1%	-58,809	-23.2%
Short-term finance lease liabilities and leases with purchase option	67,115	65,416	1.1%	1.1%	1,699	2.6%
Short-term trade and other payables	597,029	729,793	10.0%	11.9%	-132,764	-18.2%
Short-term provisions for employee benefits	105,786	100,383	1.8%	1.6%	5,403	5.4%
Other short-term provisions	16,171	17,856	0.3%	0.3%	-1,685	-9.4%
Other short-term financial liabilities	160,197	2,174	2.7%	0.0%	158,023	7268.8%
Current tax liabilities	1,109	3,494	0.0%	0.1%	-2,385	-68.3%
<b>Current liabilities, total</b>	<b>1,142,190</b>	<b>1,172,708</b>	<b>19.2%</b>	<b>19.2%</b>	<b>-30,518</b>	<b>-2.6%</b>
<b>Total liabilities</b>	<b>2,791,964</b>	<b>2,758,796</b>	<b>46.8%</b>	<b>45.1%</b>	<b>33,168</b>	<b>1.2%</b>
<b>Total liabilities and equity</b>	<b>5,959,402</b>	<b>6,112,662</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-153,260</b>	<b>-2.5%</b>

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016 prepared according to EU IFRS

### Equity

Equity expressed as a percentage of total assets as at 30 September 2016 was 53.2% compared to 54.9% at the end of 2015. The drop in the equity to total assets ratio was caused by both an increase of liabilities and the loss recorded in 9M 2016 charged to equity in the amount of PLN 200.2 million, which reduced retained earnings by PLN 199.4 million. The equity was also materially affected by the increased exchange differences arising from conversion of financial statements of foreign operations by PLN 10.1 million, or 32.2%.

### Non-current liabilities

Non-current liabilities at the end of Q3 2016 rose by PLN 36.7 million, or 4.0%, compared to 31 December 2015. The largest movement was recorded in other long-term financial liabilities in the amount of PLN 155.2 million (a decrease resulting from reclassification of a liability under a put option for AWT shares to current liabilities – the put option exercise period was set from 1 January 2017 to 31 December 2020). The second important factor driving the change in long-term liabilities was an increase in long-term loans and borrowings by PLN 309.2 million as a result of incurring following loan tranches to execute an investment project or to refinance capital expenditures. Long-term liabilities were also affected by repayment of leasing liabilities – the balance dropped by PLN 44.2 million, and a PLN 21.9 million decrease in long-term trade liabilities.

### Current liabilities

Current liabilities dropped as at the end of Q3 2016 compared to the end of 2015 by PLN 30.5 million (i.e. 2.6%). The largest movements were recorded in the following line items:

- Other short-term financial liabilities: increase by PLN 158.0 million mainly in connection with reclassification of the liabilities on account of the put option for the sale of AWT shares
- Short-term bank loans and credit facilities: decrease of PLN 58.8 million,
- Short-term trade and other payables - decline by PLN 132.8 million caused primarily by the following:
  - 1) drop in trade payables by PLN 54.1 million,
  - 2) repayment of liabilities stemming from the implemented Voluntary Redundancy Program in the amount of PLN 48.2 million, and
  - 3) drop in liabilities arising from the purchase of non-financial non-current assets by PLN 20.0 million.

Short-term liabilities expressed as a percentage of total assets at the end of Q3 2016 was 19.2%, the same as at the end of 2015.

### 5.1.3. Cash flow statement

The table below depicts the main line items in the PKP CARGO Group's cash flow statement in 9M 2016 compared to 9M 2015.

Table 34 Main line items in the PKP CARGO Group's cash flow statement in 9 months 2016 compared to the corresponding period of 2015.

Item	9 months of 2016	9 months of 2015	Change 2016 - 2015	Change 2016/2015
Net cash on operating activities	132,211	111,032	21,179	19.1%
Net cash on investing activities	-426,740	-436,323	9,583	-2.2%
Net cash on financial activities	183,726	38,717	145,009	374.5%
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>-110,803</b>	<b>-286,574</b>	<b>175,771</b>	<b>-61.3%</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>276,191</b>	<b>429,178</b>	<b>-152,987</b>	<b>-35.6%</b>
Impact exerted by FX rate movements on the cash balance in foreign currencies	1,534	1,903	-369	-19.4%
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>166,922</b>	<b>144,507</b>	<b>22,415</b>	<b>15.5%</b>

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2016 prepared according to EU IFRS

#### Cash flow on operating activities

In 9M 2016 net cash flow from operating activities was PLN 132.2 million compared to PLN 111.0 million in the corresponding period of 2015. The cash flow was generated on the result before tax of PLN -228.9 million and amortization and depreciation and impairment losses of PLN 470.3 million (increase by PLN 132.4 million compared to the corresponding period of the previous year). The cash flows on operating activities are also related to the payment of the second tranche of liabilities under the Voluntary Redundancy Programs 1 and 2 in the amount of PLN 48.2 million and a decrease in trade and other receivables by PLN 13.5 million.

#### Cash flow from investing activities

In 9M 2016 net cash flow used in connection with investing activities was PLN -426.7 million versus PLN -436.3 million in the corresponding period of the previous year. The negative cash flows were related directly to the capital expenditures incurred by the PKP CARGO Group. The details of the capital expenditures are described in chapter 4.5. "PKP CARGO Group's investments".

#### Cash flow on financial activities

Net cash flow from financing activities in 9M 2016 was PLN 183.7 million versus PLN 38.7 million in the same period in 2015. Proceeds of PLN 468.1 million were obtained from loans taken out in the first 9 months of 2016, compared to PLN 398.3 million in the corresponding period of 2015. In the analyzed period of 2016, total cash expenditures for leases, to repay loans and borrowings and interest on leases and loans and borrowings were PLN 286.6 million versus PLN 206.9 million in 9M 2015.

#### 5.1.4. Selected financial and operating ratios

The tables below present the PKP CARGO Group's key financial and operating ratios in 9M 2016 and in Q3 2016 compared to 9M 2015 and Q3 2015.

Table 35 Key financial and operating ratios in 9 months 2016 compared to the corresponding period of 2015.

No.	Item	9 months of 2016	9 months of 2015, restated data*	9 months of 2016, adjusted**	9 months of 2015, adjusted***	Change 2016-2015, adjusted	Change rate 2016/2015, adjusted
1	EBITDA margin <sup>1</sup>	8.8%	18.6%	10.8%	17.3%	-6.5 p.p.	-37.6%
2	Net profit margin <sup>2</sup>	-6.2%	6.9%	-3.6%	4.6%	-8.2 p.p.	-
3	Net financial debt to EBITDA ratio <sup>3</sup>	3.1	1.8	2.7	1.4	1.3	92.9%
4	ROA <sup>4</sup>	-6.6%	1.2%	-2.8%	3.4%	-6.2 p.p.	-
5	ROE <sup>5</sup>	-12.5%	2.2%	-5.3%	6.0%	-11.3 p.p.	-
6	Average distance covered by one locomotive (km/day) <sup>6</sup>	238.9	241.8	238.9	241.8	-2.9	-1.2%
7	Average gross train tonnage per operating locomotive (tons) <sup>7</sup>	1426.0	1519.0	1426.0	1519.0	-93.0	-6.1%
8	Average running time of train locomotives (hours per day) <sup>8</sup>	14.8	15.2	14.8	15.2	-0.4	-2.6%
9	Freight turnover per employee (thousands tkm/employee) <sup>9</sup>	884.6	882.6	884.6	882.6	2.0	0.2%

Source: Proprietary material

Table 36 Key financial and operating ratios in Q3 2016 compared to the corresponding period of 2015.

No.	Item	Q3 2016	Q3 2015, restated data*	Change 2016-2015	Change rate 2016/2015
1	EBITDA margin <sup>1</sup>	14.1%	18.1%	-4.0 p.p.	-22.1%
2	Net profit margin <sup>2</sup>	-0.5%	5.3%	-5.8 p.p.	-
3	Average distance covered by one locomotive (km/day) <sup>6</sup>	232.6	230.5	2.1	0.9%
4	Average gross train tonnage per operating locomotive (tons) <sup>7</sup>	1491.0	1522.0	-31.0	-2.0%
5	Average running time of train locomotives (hours per day) <sup>8</sup>	14.7	15.1	-0.4	-2.6%
6	Freight turnover per employee (thousands tkm/employee) <sup>9</sup>	314.3	333.9	-19.6	-5.9%

Source: Proprietary material

\* restatement of comparative data is described in detail in Note 4

\*\* Annualized data for 2016 are adjusted for presentation purposes for (1) impairment losses on non-current assets and assets classified as held for sale, in the amount of PLN 178.7 million, (2) impairment losses on receivables from OKD in the amount of PLN 62.2 million (described in Note 16) and (3) impairment losses arising from a test for impairment of AWT Group's non-current assets in the amount of PLN 34.5 million, as described in Note 10.1, (the loss includes the loss on fixed assets in the amount of PLN 34.9 million and depreciation, reduced accordingly, in Q3 2016 in the amount of PLN 0.4 million)

The data for 9M 2016 and Q3 2016 are adjusted for presentation purposes for an impairment loss on receivables from OKD in the amount of PLN 62.2 million (described in Note 16) and impairment losses arising from a test for impairment of AWT Group's non-current assets in the amount of PLN 34.5 million, as described in Note 10.1, (the loss includes the loss on fixed assets in the amount of PLN 34.9 million and depreciation, reduced accordingly, in Q3 2016 in the amount of PLN 0.4 million)

\*\*\* Annualized 2015 data, adjusted for presentation purposes by (1) profit on bargain purchase of AWT in the amount of PLN 137.8 million and (2) costs following from the implemented 2nd Voluntary Redundancy Program (VRP 2) pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million, (3) costs following from the implemented 1st Voluntary Redundancy Program (VRP 1) pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. These liabilities were estimated at PLN 265.3 million,

The data for 9M 2015 and Q3 2015 were adjusted for presentation purposes for (1) the profit on bargain purchase of AWT in the amount of PLN 137.8 million, (2) the costs following from the implemented 2nd Voluntary Redundancy Program (VRP 2) pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million.

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

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

In 9 months of 2016, due to reasons described above, the key annualized profitability ratios, i.e. EBITDA margin, net profit margin, ROA, ROE were lower than in the same period of the previous year. The net financial debt to EBITDA ratio also deteriorated. It increased from 1.8 in 9M 2015 to 3.1 in the corresponding period of 2016. In Q3 2016 alone, the EBITDA margin and net profit margin deteriorated, as compared to the corresponding period of the previous year.

If annualized performance is adjusted by non-recurring events, the foregoing ratios (ROA, ROE) are better than the reported figures. This largely attributable to the impairment losses on non-current assets in the amount of PLN 178.7 million and the impairment losses on receivables from OKD in the amount of PLN 62.2 million and the impairment losses arising from a test for impairment of AWT Group's non-current assets in the amount of PLN 34.5 million (the loss includes the loss on fixed assets in the amount of PLN 34.9 million and depreciation, reduced accordingly, in Q3 2016 in the amount of PLN 0.4 million). The adjustment for the impairment losses on receivables from OKD also improves the net debt to EBITDA ratio which for 9M 2016, after adjustment for the aforementioned event, was 2.7.

In 9M 2015 the average daily mileage of locomotives was 241.8 km/day. In the corresponding period of 2016, this figure fell by 2.9 km/day, reaching 238.9 km/day. Hence the average daily mileage shrunk by 1.2%. This phenomenon was caused mainly by the high level of closures and operating difficulties in the PKP PLK S.A. grid, and decrease of transport. In Q3 2015 the average daily locomotive mileage was 230.5 km/day. In the corresponding period of 2016, this figure grew by 2.1 km/day,



reaching 232.6 km/day. Hence the average daily mileage increased 0.9%. Improvement of this indicator results from optimization of the transportation process.

The gross average train freight turnover per locomotive moved down from 1,519.0 tons (9M 2015) to 1426.0 tons (9M 2016). Hence a decrease of 93.0 tons was recorded (the average freight turnover of driven trains fell by 6.1%). The gross average train freight turnover per locomotive moved down from 1,522.0 tons (Q3 2015) to 1,491.0 tons (Q3 2016). Hence a decrease of 31.0 tons was recorded (the average freight turnover of driven trains fell by 2.0%). These figures fell due to decrease of transport.

In 9M 2015, the average running time of locomotives was 15.2 hours/day. In the corresponding period of 2016, this figure decreased by 0.4 hours/day, reaching 14.8 hours/day. Hence the average daily running time of locomotives decreased 2.6%. In Q3 2015 the average running time of train locomotives amounted to 15.1 hours/day. In the corresponding period of 2016, this figure decreased by 0.4 hours/day, reaching 14.7 hours/day. Hence the average daily running time of locomotives decreased 2.6%. The decrease of the figure results from execution of the transport process with a very high level of closures and operating difficulties in the PKP PLK grid, and decrease of transport.

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

### CCBA Memorandum of Agreement

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

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

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

### Situation on the rail transport market in the main cargo categories

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

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

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

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

### Situation in the Czech coal sector

One of the Group's key clients is OKD a.s., the only producer of hard coal in the Czech Republic. In May 2016, the coal consortium OKD filed for bankruptcy. AWT will continue to provide services to OKD.

### Track construction and maintenance market

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

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

### Costs of access to infrastructure

The PKP CARGO Group's activity results largely depend on the amount of rail infrastructure access charges. The cost of access to infrastructure in Poland in the first 9 months of 2016 accounted to approx. 14.3% of operating expenses in the PKP CARGO Group.

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

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

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

On 27 July 2016, the President of the Office of Rail Transport approved the unit rates of the basic fee for access to rail infrastructure, the unit rates of the basic fee for access to train handling devices and the unit rates of extra fees for access to railway infrastructure with a track gauge of 1435 mm managed by PKP Polskie Linie Kolejowe S.A. which will apply from 11 December 2016. PKP PLK's approved price list will bring a slight decrease in the rates of the basic fee and increases in most rates of additional fees and fees for the basic services related to access to train handling devices.

### Technical regulations related to rolling stock

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

### Call and put option

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

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

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



### Capital expenditure financing

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

### Operating difficulties on rail lines

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

Railway track closures caused by modernization works have and will continue to have direct negative impact on the throughput of the lines and stations used, and rejection of applications for individual timetables (IRJ)<sup>52</sup>, extension of the travel time, longer train travel courses and longer train stays at the stations. This situation requires increased human resources involved in the transport process, in terms of the rolling stock and train crews, which impacts the costs incurred by the Group.

### Infrastructural investments

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

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

### FX rates

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

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

### Scrap price level

September 2016 brought unexpected decreases of scrap prices in the range of PLN 20-30 per ton. Currently Polish steelworks show a very high demand for the raw material in the form of steel scrap. There are scrap inventories stockpiled in many storage yards and only an increase of scrap price at steelworks may quickly free up the needed raw material. The increasing demand for scrap in Poland, Italy, China and Turkey, the scrap price should increase by approx. PLN 80 per ton the end of November/beginning of December 2016, which would allow Polish steelworks to freely and safely buy the volumes of raw material required for production.<sup>53</sup>

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

The Parent Company has not published financial forecasts pursuant to § 5 Section 1 Item 25 of the Regulation issued by the Finance Minister on 19 February 2009 on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent, consolidated version of 27 June 2013 (Journal of Laws of 2014 Item 133) pertaining to the results of the Company and the PKP CARGO Group in 9M 2016.

<sup>52</sup>Individual Train Timetable - timetable prepared on the carrier's application, for one or more travel times within the framework of free transport throughput capacity.

<sup>53</sup> [www.zlom.info.pl](http://www.zlom.info.pl)

#### 5.4. Information about production assets

##### 5.4.1. Rolling stock

Wagons and traction rolling stock are the main elements of the PKP CARGO Group's production assets. Changes in the Group's rolling stock levels result directly from such actions as liquidation and sale of rolling stock or purchase of rolling stock. In 9M 2016, the number of diesel locomotives declined as a result of their sale, while the reduction of the number of owned wagons resulted from removing them from the books following their liquidation (due to the technical condition).

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

Table 37 Structure of the locomotives used by the PKP CARGO Group by traction type and ownership

Item	30/09/2016	30/06/2016	31/12/2015	Change YTD	Change in Q3 2016
diesel locomotives	1,399	1,400	1,429	-30	-1
electric locomotives	1,177	1,171	1,173	4	6
<b>Total</b>	<b>2,576</b>	<b>2,571</b>	<b>2,602</b>	<b>-26</b>	<b>5</b>
owned locomotives (including financial lease)	2,557	2,552	2,579	-22	5
locomotives in operational lease or rented	19	19	23	-4	0
<b>Total</b>	<b>2,576</b>	<b>2,571</b>	<b>2,602</b>	<b>-26</b>	<b>5</b>

Source: Proprietary material

Table 38 Structure of the wagons used by the PKP CARGO Group, by ownership

Item	30/09/2016	30/06/2016	31/12/2015	Change YTD	Change in Q3 2016
owned wagons (including financial lease)	64,708	64,775	64,907	-199	-67
wagons in operational lease or rented	1,316	1,511	1,868	-552	-195
<b>Total</b>	<b>66,024</b>	<b>66,286</b>	<b>66,775</b>	<b>-751</b>	<b>-262</b>

Source: Proprietary material

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

Between 1 January 2016 and the delivery date of this report, 12 locomotives were delivered by the manufacturer.

##### 5.4.2. Real estate

In the transport process, due to the necessity to guarantee appropriate maintenance and repair support, real estate plays an important role. Most real estate used by the Group is used on the basis of lease and rental agreements. The table below presents changes in real estate owned and used by the PKP CARGO Group during the first 9 months of 2016.

Table 39 Real estate owned and used by the PKP CARGO Group as at 30 September 2016 compared to 31 December 2015.

Item	30/09/2016	31/12/2015	Change YTD
Land - owned, in perpetual usufruct and leased from other entities [ha]	1,587	1,560	27
Buildings - owned, leased and rented from other entities [sqm]	782,170	794,303	-12,133

Source: Proprietary material

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

## 6. Other key information and events

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

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

PKP CARGO S.A. and its subsidiaries are parties to proceedings pertaining to liabilities or claims of the Issuer or the Issuer's subsidiary where the total value of such liabilities or claims constitutes at least 10% of the Parent Company's equity.

### 6.2. Information on transactions with related parties

In the first 9 months of 2016, no entity from the PKP CARGO Group entered into any transactions with related parties on non-market terms. Also after the balance sheet date no such transactions have been entered into.

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

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

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

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

This Consolidated Quarterly Report was authorized by the PKP CARGO S.A. Management Board on 15 November 2016.

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Maciej Libiszewski

President of the Management Board

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Arkadiusz Olewnik

Management Board Member

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Grzegorz Fingas

Management Board Member

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Jarosław Klasa

Management Board Member

.....

Zenon Kozendra

Management Board Member



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