
**PKP CARGO GROUP'S
CONSOLIDATED QUARTERLY REPORT
FOR Q1 2015**



Warsaw, 12 May 2015

QUARTERLY CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
OF THE **PKP CARGO** GROUP
FOR THE PERIOD OF 3 MONTHS ENDED
31 MARCH 2015
PREPARED IN ACCORDANCE WITH IFRS
AS ENDORSED BY THE EUROPEAN UNION

TABLE OF CONTENTS

QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	2
QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION	4
QUARTERLY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	6
QUARTERLY CONSOLIDATED STATEMENT OF CASH FLOWS	7
1. General information	9
2. International Financial Reporting Standards applied	11
3. Applied accounting principles	13
4. Revenue from sales of services	14
5. Expenses by kind	16
6. Other operating revenue and expenses	18
7. Financial revenue and expenses	19
8. Income tax	21
9. Property, plant and equipment	24
10. Subsidiaries	29
11. Investments in entities accounted for under the equity method	30
12. Detailed information on entities accounted for under the equity method	31
13. Other financial assets	32
14. Other non-financial assets	32
15. Trade and other receivables	33
16. Cash and cash equivalents	33
17. Non-current assets classified as held for sale	33
18. Equity	34
19. Earnings per share	36
20. Credit facilities and loans received	37
21. Other financial liabilities	41
22. Finance lease liabilities and leases with purchase option	41
23. Trade and other payables	42
24. Employee benefits	42
25. Other provisions	44
26. Categories and classes of financial instruments	45
27. Related party transactions	46
28. Commitments to incur expenses	48
29. The conditional agreement of the acquisition of shares in Advanced World Transport B.V.	48
30. Contingent liabilities	48
31. Events after reporting date	49
32. Approval of the financial statements	49

**QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FROM 1 JANUARY 2015 TO 31 MARCH 2015**

	Note	for the 3 months period ended 31/03/2015 (unaudited) PLN thousand	for the 3 months period ended 31/03/2014 (unaudited) PLN thousand
Revenue from sales of services	4	880 557	1 004 259
Revenue from sales of goods and materials		8 164	12 431
Other operating revenue	6.1	7 682	21 788
Total operating revenue		896 403	1 038 478
Depreciation/amortisation and impairment losses	5.1	96 656	90 820
Consumption of raw materials and energy	5.2	144 694	158 539
External services	5.3	270 947	320 135
Taxes and charges		6 834	10 717
Employee benefits	5.4	331 886	363 524
Other expenses by kind		9 598	9 185
Cost of merchandise and raw materials sold		6 502	8 622
Other operating expenses	6.2	7 069	8 467
Total operating expenses		874 186	970 009
Profit on operating activities		22 217	68 469
Financial revenue	7.1	6 682	6 088
Financial expenses	7.2	8 256	10 355
Share in the profit / (loss) of entities accounted for under the equity method	11	(1 157)	9 361
Result on sales of entities accounted for under the equity method		1 865	-
Profit before tax		21 351	73 563
Income tax expense	8.1	3 683	16 029
NET PROFIT		17 668	57 534

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

	Note	for the 3 months period ended 31/03/2015 (unaudited) PLN thousand	for the 3 months period ended 31/03/2014 (unaudited) PLN thousand
NET PROFIT		17 668	57 534
Other comprehensive income			
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:		2 065	138
The effective portion of changes in fair value of cash-flow hedging instruments		2 549	170
Income tax on other comprehensive income	8.1	(484)	(32)
TOTAL COMPREHENSIVE INCOME		19 733	57 672
Net profit / (loss) attributable to:			
Shareholders of the Parent company		17 811	56 867
Non-controlling interest		(143)	667
		17 668	57 534
Total comprehensive income / (loss) attributable to:			
Shareholders of the Parent company		19 876	56 944
Non-controlling interest		(143)	728
		19 733	57 672
Earnings per share (PLN per share)			
Earnings per share on operations (basic):	19.1	0.40	1.30
Earnings per share on operations (diluted):	19.2	0.40	1.27

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

	Note	As at 31/03/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
ASSETS			
Non-current assets			
Property, plant and equipment	9	4 010 378	4 011 542
Intangible assets		56 882	58 268
Goodwill		2 712	2 712
Investment property		1 349	1 362
Investments accounted for under the equity method	11,12	35 567	35 246
Other long-term financial assets	13	6 051	6 051
Other long-term non-financial assets	14	14 677	14 645
Deferred tax assets	8.2	84 736	88 273
Total non-current assets		4 212 352	4 218 099
Current assets			
Inventories		108 103	115 298
Trade and other receivables	15	544 712	526 149
Income tax receivables		3 089	3 053
Other short-term financial assets	13	114 485	306 383
Other short-term non-financial assets	14	59 591	28 246
Cash and cash equivalents	16	306 459	429 178
		1 136 439	1 408 307
Assets classified as held for sale	17	17 560	17 560
Total current assets		1 153 999	1 425 867
Total assets		5 366 351	5 643 966

QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION
PREPARED AS AT 31 MARCH 2015 (cont'd.)

	Note	As at 31/03/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
EQUITY AND LIABILITIES			
Equity			
Share capital	18.1	2 239 346	2 239 346
Supplementary capital	18.2	615 343	615 343
Other items of equity		(49 622)	(51 687)
Retained earnings		568 838	527 670
Equity attributable to the owners of the Parent company		3 373 905	3 330 672
Non-controlling interest	18.3	-	63 500
Total equity		3 373 905	3 394 172
Non-current liabilities			
Long-term bank loans and credit facilities	20	270 203	208 077
Long-term finance lease liabilities and leases with purchase option	22	174 613	190 836
Long-term trade and other payables	23	56 306	67 982
Long-term provisions for employee benefits	24	620 064	658 217
Other long-term provisions	25	8 416	8 416
Deferred tax provision	8.2	1 782	2 328
Non-current liabilities		1 131 384	1 135 856
Current liabilities			
Short-term bank loans and credit facilities	20	98 705	92 123
Short-term finance lease liabilities and leases with purchase option	22	93 645	127 742
Short-term trade and other payables	23	506 228	530 440
Short-term provisions for employee benefits	24	139 569	334 844
Other short-term provisions	25	19 496	24 214
Other short-term financial liabilities	21	3 212	3 934
Current tax liabilities		207	641
Total current liabilities		861 062	1 113 938
Total liabilities		1 992 446	2 249 794
Total equity and liabilities		5 366 351	5 643 966

QUARTERLY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2015

	Share capital	Supplementary capital	Actuarial gains/(losses) on employee benefits after employment period	Changes in fair value of cash-flow hedge	Retained earnings	Attributable to shareholders of the Parent company	Attributable to non-controlling interest	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Balance as at 1/01/2014 (audited)	2 166 901	692 761	(16 182)	(210)	603 247	3 446 517	62 377	3 508 894
Net result for the period	-	-	-	-	56 867	56 867	667	57 534
Other net comprehensive income for the period	-	-	-	77	-	77	61	138
Total comprehensive income	-	-	-	77	56 867	56 944	728	57 672
Issuance of shares	72 445	26 051	-	-	-	98 496	-	98 496
Share-based payment provision	-	(100 015)	-	-	-	(100 015)	-	(100 015)
Balance as at 31/03/2014 (unaudited)	2 239 346	618 797	(16 182)	(133)	660 114	3 501 942	63 105	3 565 047
Balance as at 1/01/2015 (audited)	2 239 346	615 343	(50 056)	(1 631)	527 670	3 330 672	63 500	3 394 172
Net result for the period	-	-	-	-	17 811	17 811	(143)	17 668
Other net comprehensive income for the period	-	-	-	2 065	-	2 065	-	2 065
Total comprehensive income	-	-	-	2 065	17 811	19 876	(143)	19 733
Transactions with non-controlling interest	-	-	-	-	23 357	23 357	(63 357)	(40 000)
Balance as at 31/03/2015 (unaudited)	2 239 346	615 343	(50 056)	434	568 838	3 373 905	-	3 373 905

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

	Note	for the 3 months period ended 31/03/2015 (unaudited) PLN thousand	for the 3 months period ended 31/03/2014 (unaudited) PLN thousand
Cash flows from operating activities			
Profit before tax		21 351	73 563
Adjustments:			
Depreciation and amortisation of non-current assets	5.1	96 656	90 820
(Gain) / loss on disposal / liquidation of property, plant and equipment and intangible assets		151	4 221
(Profit) / loss on investing activities		-	792
Foreign exchange (gain) / loss		1 588	1 695
(Gains) / losses on interest, dividends		2 601	845
Share in the (profit) / loss of entities accounted for under the equity method		1 157	(9 361)
Result on sales of entities accounted for under the equity method		(1 865)	-
Other adjustments		2 549	171
Changes in working capital:			
(Increase) / decrease in trade and other receivables		(19 261)	22 313
(Increase) / decrease in inventories		8 323	(3 010)
(Increase) / decrease in other assets		(36 250)	(45 997)
Increase / (decrease) in trade and other payables		(6 153)	(8 884)
Increase / (decrease) in other financial liabilities		(722)	-
Increase / (decrease) in provisions ¹⁾		(238 146)	(87 744)
Cash flows from operating activities		(168 021)	39 424
Interest received / (paid)		957	1 417
Income taxes received / (paid)		(1 040)	(395)
Net cash (used in) / provided by operating activities		(168 104)	40 446

QUARTERLY CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY 2015 TO 31 MARCH 2015 [INDIRECT METHOD] (cont'd.)

	Note	for the 3 months period ended 31/03/2015 (unaudited) PLN thousand	for the 3 months period ended 31/03/2014 (unaudited) PLN thousand
<i>Cash flows from investing activities</i>			
Acquisition of property, plant and equipment and intangible assets		(124 613)	(139 756)
Proceeds from sale of property, plant and equipment and intangible assets		95	358
Acquisition of entities accounted for under the equity method		(1 613)	-
Proceeds from the sale of entities accounted for under the equity method		2 000	-
Interest received		4 003	5 626
Dividends received		-	66
Proceeds from loans granted		-	(2 997)
Repayments of loans granted		-	41
Inflows / (outflows) from bank deposits over 3 months		195 659	94 081
Inflows / (outflows) related to the Employment Guarantees Program		-	(18 911)
Net cash (used in) / provided by investing activities		75 531	(61 492)
<i>Cash flows from financing activities</i>			
Payments of liabilities under finance lease		(52 967)	(32 826)
Payments of interest under lease agreement		(2 250)	(3 306)
Proceeds from credit facilities / loans received		89 387	-
Repayments of credit facilities / loans received		(20 679)	(24 489)
Interest on credit facilities / loans received		(2 101)	(1 674)
Grants received		-	6 149
Transactions with non-controlling interest	18.3	(40 000)	-
Other inflows / (outflows) from financing activities		(1 536)	(2 170)
Net cash used in financing activities		(30 146)	(58 316)
Net increase / (decrease) in cash and cash equivalents		(122 719)	(79 362)
Opening balance of cash and cash equivalents	16	429 178	263 700
Closing balance of cash and cash equivalents	16	306 459	184 338

¹⁾ In the 3 months period ended 31 March 2015 an item includes mainly a change in the position due to the used provision for Voluntary Redundancy Program in the amount of PLN 227,383 thousand.

EXPLANATORY NOTES TO QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS AT 31 MARCH 2015

1. General information

1.1 Information on the Parent company

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

The Company was assigned a statistical number REGON 277586360 and a tax identification number (NIP) 954-23-81-960.

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

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

Management Board:

Adam Purwin	- President of the Management Board
Jacek Neska	- Member of the Management Boards, responsible for Trade Matters
Łukasz Hadys	- Member of the Management Boards, responsible for Finance Matters
Wojciech Derda	- Member of the Management Boards, responsible for Operation Matters
Dariusz Browarek	- Member of the Management Board, Employees' representative in the Management Board

Supervisory Board:

Jakub Karnowski	- Chairman
Piotr Ciżkowicz	- Vice Chairman
Krzysztof Czarnota	- Member
Marek Podskalny	- Member
Kazimierz Jamrozik	- Member
Konrad Anuszkiewicz	- Member
Stanisław Knaflewski	- Member
Jacek Leonkiewicz	- Member
Sławomir Baniak	- Member
Zbigniew Klepacki	- Member
Raimondo Eggink	- Member

On 18 February 2015 the Parent company's shareholder - PKP S.A. dismissed Mr. Jarosław Pawłowski from the Supervisory Board and appointed Mr. Zbigniew Klepacki as a Member of the Supervisory Board (effective from 19 February 2015).

On 13 March 2015 Mr. Paweł Ruka resigned from the position of a Member of the Supervisory Board (effective from 13 March 2015).

On 13 April 2015 the Extraordinary General Meeting of Shareholders of the Parent company appointed Mr. Raimondo Eggink as a Member of the Supervisory Board.

1.1 Information on the Parent company (cont'd.)

The Parent company's shareholder's structure as at 31 March 2015 is as follows:

Entity	Registered office	Number of shares	% of share capital held	% of voting rights
PKP S.A. ⁽¹⁾	Warsaw	14 784 194	33.01%	33.01%
ING OFE ⁽²⁾	Warsaw	4 738 369	10.58%	10.58%
Morgan Stanley ⁽³⁾	New York	2 380 008	5.31%	5.31%
Aviva OFE ⁽⁴⁾	Warsaw	2 338 371	5.22%	5.22%
Other shareholders		20 545 975	45.88%	45.88%
Total		44 786 917	100.00%	100.00%

⁽¹⁾ In accordance with the notice sent by shareholder dated 24 June 2014.

⁽²⁾ In accordance with the notice sent by shareholder dated 30 June 2014.

⁽³⁾ In accordance with the notice sent by shareholder dated 18 June 2014.

⁽⁴⁾ In accordance with the notice sent by shareholder dated 13 August 2014.

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

1.2 Information on the Group

As at the reporting date PKP Cargo Group ("the Group") comprised of PKP CARGO S.A. as the Parent company and 16 subsidiaries. Additionally, the Group includes 4 associates and shares in 3 joint ventures.

Additional information about the subsidiaries and shares in associates and co-subsidiaries is presented in Notes 10, 11, 12.

The core business of the Group is rail transport of goods. In addition to the rail transport services, the Group offers additional services:

- a) intermodal services,
- b) freight forwarding (domestic and international),
- c) terminal services – intermodal and conventional (freight transshipment and storage),
- d) siding and traction services,
- e) repair and maintenance of rolling stock.

The duration of the companies belonging to the Group is unlimited.

1.3 Functional currency and presentation currency

These Quarterly Condensed Consolidated Financial Statements have been prepared in the Polish zloty (PLN). The Polish zloty (PLN) is the Group's functional and presentation currency. The data in the financial statements were presented in **PLN thousand**, unless more accuracy was required in particular cases.

2. International Financial Reporting Standards applied

2.1 Basis for preparation of Quarterly Condensed Consolidated Financial Statements

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

These Quarterly Condensed Consolidated Financial Statements should be read along with audited Consolidated Financial Statements of the Group for the year ended 31 December 2014, prepared in accordance with International Financial Reporting Standards as endorsed by the European Union ("IFRS EU"), that include notes ("Consolidated Financial Statements prepared in accordance with IFRS EU").

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

These Quarterly Condensed Consolidated Financial Statements have been prepared on the historical cost basis except for derivatives measured at fair value and non-current assets classified as held for sale.

These Quarterly Condensed Consolidated Financial Statements consist of the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and selected explanatory notes.

During 2014 – 2015 the Group did not discontinue activity that requires recognition in these Quarterly Condensed Consolidated Financial Statements.

These Quarterly Condensed Consolidated Financial Statements were approved by the Management Board for publication on 11 May 2015.

2.2 Status of endorsement of the Standards in the EU

The following amendments to existing standards issued by the International Accounting Standards Board and adopted by European Union are effective since 2015:

- **Interpretation IFRIC 21 "Levies"** - applicable to the annual periods beginning on or after 17 June 2014.
- **Improvements to International Financial Reporting Standards 2011-2013** (annual improvements to IFRS from 2011-2013 contain 4 amendments to the standards, with consequential amendments to other standards and interpretations) - effective for annual periods beginning on or after 1 January 2015.

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

2.3 Standards and Interpretations adopted by the EU that are not yet effective

When approving these Quarterly Condensed Consolidated Financial Statements, the Group did not apply the following standards, amendments to standards and interpretations that had been published and approved for use in the EU, but which have not yet come into force:

- **Amendment to IAS 19 "Employee Benefits"** entitled Defined Benefit Plans: Employee Contributions - effective for periods beginning on or after 1 February 2015.
- **Improvements to International Financial Reporting Standards 2010-2012** (annual improvements to IFRS 2010-2012 contain 8 changes to 7 standards, with consequential amendments to other standards and interpretations) - effective for periods beginning on or after 1 February 2015.

The Group has analyzed the potential impact of the aforementioned standards, interpretations and amendments to the standards on the Group's accounting policy. According to the Management Board they will not have in a material impact on the currently used accounting policy.

2.4 Standards and Interpretations issued by IASB but not yet endorsed by the EU

At present, IFRS as endorsed by the EU, do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in the EU as at 31 March 2015:

- **IFRS 9 "Financial Instruments"** - applicable to the periods beginning on or after 1 January 2018.
- **IFRS 14 "Regulatory Deferral Accounts"** - applicable to the annual periods beginning on or after 1 January 2016.
- **Amendments to IFRS 11 "Joint Arrangements"** entitled Accounting for Acquisitions of Interest in Joint Operations - applicable to the annual periods beginning on or after 1 January 2016.
- **Amendments to IAS 16 "Property, plant and Equipment" and IAS 38 "Intangible Assets"** entitled Clarification of Acceptable Methods of Depreciation and Amortization - applicable for annual periods beginning on or after 1 January 2016.
- **IFRS 15 "Revenue from Contracts with Customers"** - applicable for annual periods beginning on or after 1 January 2017.
- **Amendments to IAS 16 "Property, plant and Equipment" and IAS 41 "Agriculture"** entitled Agriculture: Bearer Plants - applicable for annual periods beginning on or after 1 January 2016.
- **Amendments to IAS 27 "Separate Financial Statements"** entitled Equity Method in the Separate Financial Statements - applicable for periods beginning on or after 1 January 2016.
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates"** entitled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - applicable for periods beginning on or after 1 January 2016.
- **Improvements to International Financial Reporting Standards 2012-2014** (annual improvements to IFRS 2012-2014 contain 4 amendments to the standards, with consequential amendments to other standards and interpretations) - applicable for periods beginning on or after 1 January 2016.
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** entitled Investment Entities: Applying the Consolidation Exception - applicable for periods beginning on or after 1 January 2016.
- **Amendments to IAS 1 "Presentation of Financial Statements"** entitled Disclosure Initiative - applicable for periods beginning on or after 1 January 2016.

The Group has analyzed the potential impact of the aforementioned standards, interpretations and amendments to standards used by the Group's accounting policy. According to the Management Board they will not have in a material impact on the currently used accounting policy.

3. Applied accounting principles

3.1 Statement on accounting principles

The accounting principles and calculations methods adopted in the preparation of Quarterly Condensed Consolidated Financial Statements are consistent with those described in audited Consolidated Financial Statements for the year ended 31 December 2014 prepared in accordance with IFRS EU (see note 3 to Consolidated Financial Statements prepared for the year ended 31 December 2014, prepared in accordance with IFRS EU).

3.2. Explanations concerning seasonality or cyclicity of interim Group operations

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

3.3. Changes in estimates

During the period of 3 months ended 31 March 2015 there were no significant changes in estimates and methodology of making estimates that would affect the current or future periods, with the exception of deferred income tax - the effect of recalculated balance of deferred income tax is presented in note 8 to the Quarterly Condensed Consolidated Financial Statements.

4. Revenue from sales of services

4.1 Products and services of the operating segment

The Group has not determined operating segments since it has a single product to which all services provided by the Group are assigned. The Group operates only in one segment - domestic and international transport of goods and providing comprehensive logistics services in the field of railway freight. The Management Board of the Parent company analyzes financial data in a manner in which they have been presented in these Quarterly Condensed Consolidated Financial Statements.

Revenue of the Group from external customers according to geographical areas are presented in note 4.2.

4.2 Geographical information

The Group defines geographical area as a registered office of the client, not the country where the services are provided. The related analysis has brought the following conclusions:

The Group operates in one geographical area, Poland, which is its country of residence. The total revenue for all geographical areas except for Poland for the period of 3 months of 2015 and for the period of 3 months of 2014 did not exceed 15% of total revenue from sales of services. No other geographical area (except for Poland) exceeds 10% of revenue from sales of services.

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

	for the 3 months period ended 31/03/2015 PLN thousand	for the 3 months period ended 31/03/2014 PLN thousand
Poland	748 964	859 953
Germany	37 298	45 066
Czech Republic	24 118	25 607
Slovakia	18 543	17 998
Cyprus	10 172	16 682
Other countries	41 462	38 953
Total	880 557	1 004 259

4.3 Structure of the sales revenue

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

	for the 3 months period ended 31/03/2015 PLN thousand	for the 3 months period ended 31/03/2014 PLN thousand
Transport revenue and railway shipping	802 889	908 647
Revenue from other transport activities	22 072	26 015
Siding and traction revenue	35 995	44 419
Cargo revenue	9 719	11 108
Other revenue ⁽¹⁾	9 882	14 070
Total	880 557	1 004 259

⁽¹⁾ The position of other revenue for the period ended 31 March 2015 presents mainly revenue arising from renting of railroad fleet in the amount of PLN 2,357 thousand, revenue arising from repair services of railroad fleet in the amount of PLN 1,407 thousand and revenue arising from customs agencies in the amount of PLN 3,090 thousand. For the period ended 31 March 2014 this position presents mainly revenue arising from renting of railroad fleet in the amount of PLN 5,406 thousand, revenue arising from repair services of railroad fleet in the amount of PLN 3,305 thousand and revenue arising from customs agencies in the amount of PLN 2,458 thousand.

5. Expenses by kind

5.1 Depreciation / amortisation

	for the 3 months period ended 31/03/2015	for the 3 months period ended 31/03/2014
	PLN thousand	PLN thousand
Depreciation of property, plant and equipment	92 844	86 366
Amortisation of intangible assets	3 812	4 454
Total depreciation / amortisation	96 656	90 820

5.2 Consumption of raw materials and energy

	for the 3 months period ended 31/03/2015	for the 3 months period ended 31/03/2014
	PLN thousand	PLN thousand
Fuel consumption	38 084	52 519
Consumption of materials	14 461	13 823
Electricity, gas and water consumption	91 537	91 937
Impairment losses recognised / (derecognised)	259	193
Other	353	67
Total consumption of materials and energy	144 694	158 539

5.3 External services

	for the 3 months period ended 31/03/2015	for the 3 months period ended 31/03/2014
	PLN thousand	PLN thousand
Access to infrastructure connections	141 806	172 775
Repair services	2 545	4 693
Rent and lease fees (real estate and railroad fleet)	36 686	37 786
Transport services	51 219	66 909
Telecommunication services	2 251	3 048
Legal, advisory and similar services	3 750	2 799
IT services	13 648	11 824
Services related to property maintenance and operation of fixed assets	5 973	8 409
Cargo services	3 805	4 005
Siding services	5 251	5 889
Other services	4 013	1 998
Total external services	270 947	320 135

5.4 Employee benefits

	for the 3 months period ended 31/03/2015	for the 3 months period ended 31/03/2014
	PLN thousand	PLN thousand
Salaries and wages	257 159	273 148
Costs of social insurance	52 488	54 931
Appropriation to the Company's Social Benefits Fund	6 620	8 006
Other employee benefits during employment	9 894	10 286
Other post-employment benefits	310	2 347
Changes in provisions for employee benefits	3 040	14 296
Other employee benefit costs	2 375	510
Total employee benefits	331 886	363 524

6. Other operating revenue and expenses

6.1 Other operating revenue

	for the 3 months period ended 31/03/2015	for the 3 months period ended 31/03/2014
	PLN thousand	PLN thousand
Gains on disposal of assets:		
Gain on sales of non-current assets	159	-
Derecognised impairment losses:		
Trade receivables	576	894
Other (including interest on receivables)	193	291
	769	1 185
Other operating revenue:		
Release of provisions for the fine imposed by OCCP	-	14 362
Release of provisions for other fines	6 050	3 210
Interest on trade and other receivables	361	616
Forex gains on trade receivables and payables	-	43
Grants	13	17
Other	330	2 355
Total other operating revenue	7 682	21 788

6.2 Other operating expenses

	for the 3 months period ended 31/03/2015	for the 3 months period ended 31/03/2014
	PLN thousand	PLN thousand
Losses on disposal of assets:		
Loss on sales of non-current assets	-	1 017
Recognised impairment losses:		
Trade receivables	1 665	1 960
Other (including on interest on receivables)	95	190
	1 760	2 150
Other operating expenses:		
Costs of liquidation of non-current and current assets	478	3 557
Other provisions	1 763	36
Court and collection costs	182	166
Costs of transport benefits for non-employees	761	894
Interest on trade and other payables	104	6
Forex losses on trade receivables and payables	1 905	-
Other	116	641
Total other operating expenses	7 069	8 467

7. Financial revenue and expenses

7.1 Financial revenue

Interest income by class of financial instruments:	for the 3 months period ended 31/03/2015	for the 3 months period ended 31/03/2014
	PLN thousand	PLN thousand
Interest income:		
Bank deposits and accounts	2 954	5 626
Bid bonds and collateral	33	95
Loans granted	-	41
Other (including interest on state settlements)	133	39
Total interest income and dividends	3 120	5 801

Interest income by category of financial instruments:	for the 3 months period ended 31/03/2015	for the 3 months period ended 31/03/2014
	PLN thousand	PLN thousand
Interest income:		
Loans and receivables (including cash in hand and bank deposits)	2 987	5 762
Other (including interest on state settlements)	133	39
Total interest income and dividends	3 120	5 801

Other financial revenue		
Gains on measurement of financial assets and liabilities at FVTPL	3 045	-
Other financial revenue:		
Net forex gain	-	34
Other	517	253
Total financial revenue	6 682	6 088

7.2. Financial expenses

Interest expense by class of financial instruments:	for the 3 months period ended 31/03/2015	for the 3 months period ended 31/03/2014
	PLN thousand	PLN thousand
Interest expense:		
Interest on loans and overdraft facilities	2 100	1 674
Interest on liabilities under finance lease agreements	2 250	3 306
Interest on long-term liabilities	1 536	2 141
Interest on bid bonds and guarantees	49	160
Other (including interest on state settlements)	72	91
Total interest expense	6 007	7 372

Interest expense by category of financial instruments:	for the 3 months period ended 31/03/2015	for the 3 months period ended 31/03/2014
	PLN thousand	PLN thousand
Interest expense:		
Financial liabilities measured at amortized cost	5 935	7 281
Other (including interest on state settlements)	72	91
Total interest expense	6 007	7 372

Other financial expenses

Losses on shares:		
Recognised impairment losses on shares	-	9
Losses on measurement of financial assets and liabilities at FVTPL	-	954
Other financial expenses:		
Net forex result	1 941	1 716
Other financial expenses	308	304
Total financial expenses	8 256	10 355

8. Income tax

8.1.1 Income tax recognised in profit or loss

	for the 3 months period ended 31/03/2015	for the 3 months period ended 31/03/2014
	PLN thousand	PLN thousand
Current income tax:		
Current tax expense	1 176	364
Adjustments recognised in the current period with respect to prior year tax	-	(626)
	1 176	(262)
Deferred income tax:		
Deferred tax that occurred in the reporting period	2 507	16 291
Total tax expense recognised in the current year	3 683	16 029

8.1.2. Income tax recognized in other comprehensive income

	for the 3 months period ended 31/03/2015	for the 3 months period ended 31/03/2014
	PLN thousand	PLN thousand
Deferred income tax		
Due to income and expenses recognised in other comprehensive income:		
Fair value measurement of financial instruments designated as cash flow hedges	484	32
Income tax recognised in other comprehensive income	484	32

8.2 Deferred tax balance

Below is presented balance of deferred tax assets (liabilities) recognised in the Quarterly Consolidated Statement of Financial Position:

	As at 31/03/2015	As at 31/12/2014
	PLN thousand	PLN thousand
Deferred tax assets	84 736	88 273
Deferred tax liabilities	(1 782)	(2 328)
Total	82 954	85 945

8.2.1 Deferred income tax:

for the 3 months period ended 31/03/2015	As at 01/01/2015	Recognised in profit or loss	Recognised in other comprehensive income	As at 31/03/2015
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Temporary differences resulting in items of deferred tax (liabilities) / assets				
Property, plant and equipment (including finance lease)	(139 061)	4 303	-	(134 758)
Investments accounted for under the equity method - impairment losses	3 364	(3 364)	-	-
Long-term liabilities	(1 575)	292	-	(1 283)
Inventories	(1 177)	(59)	-	(1 236)
Receivables - impairment allowances	6 249	126	-	6 375
Accrued interest on assets	(608)	261	-	(347)
Accrued interest on liabilities	-	-	-	-
Provisions for employee benefits	188 095	(43 801)	-	144 294
Other provisions	2 465	266	-	2 731
Accrued expenses	5 982	(44)	-	5 938
Deferred income	(5 454)	(3 536)	-	(8 990)
Unpaid employee benefits	8 244	(1 266)	-	6 978
Forex losses	6 974	(3 102)	-	3 872
Forex gains	6	(1)	-	5
Other (including hedging derivatives)	2 670	896	(484)	3 082
	76 174	(49 029)	(484)	26 661
Unused tax losses				
Tax losses ⁽¹⁾	9 771	46 522	-	56 293
Total deferred tax assets (liabilities)	85 945	(2 507)	(484)	82 954

⁽¹⁾ As at 31 March 2015 deferred tax assets arising from tax losses to be used in future periods represents loss incurred by entities comprising the Tax Capital Group in the amount of PLN 270,093 thousand and tax loss incurred by remaining subsidiaries in the amount of PLN 26,189 thousand.

8.2.1 Deferred income tax: (cont'd.)

for the 3 months period ended 31/03/2014				
	As at	Recognised in	Recognised in	As at
	01/01/2014	profit or loss	other comprehensive income	31/03/2014
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Temporary differences resulting in items of deferred tax (liabilities) / assets				
Property, plant and equipment (including finance lease)	(155 333)	(19 043)	-	(174 376)
Long-term liabilities	(3 031)	407	-	(2 624)
Inventories	4 364	37	-	4 401
Receivables - impairment allowance	9 042	(815)	-	8 227
Accrued interest on assets	(2 374)	259	-	(2 115)
Accrued interest on liabilities	1	(1)	-	-
Provisions for employee benefits	165 191	(32 377)	-	132 814
Other provisions	4 381	(2 113)	-	2 268
Accrued expenses	5 654	(477)	-	5 177
Deferred income	(2 665)	(2 690)	-	(5 355)
Unpaid employee benefits	9 050	3 707	-	12 757
Forex losses	9 354	(752)	-	8 602
Forex gains	(7)	3	-	(4)
Other (including hedging derivatives)	1 754	1 532	(32)	3 254
	<u>45 381</u>	<u>(52 323)</u>	<u>(32)</u>	<u>(6 974)</u>
Unused tax losses				
Tax losses ⁽¹⁾	35 227	36 032	-	71 259
Total deferred tax assets (liabilities)	<u>80 608</u>	<u>(16 291)</u>	<u>(32)</u>	<u>64 285</u>

⁽¹⁾ On 31 March 2014 deferred tax assets arising from tax losses to be used in future periods represents loss incurred by the Parent company in the amount of PLN 356,686 thousand and tax loss incurred by subsidiaries in the amount of PLN 18,360 thousand.

8.3 Tax losses and unused tax reliefs unrecognised in deferred tax asset

	As at 31/03/2015	As at 31/12/2014
	PLN thousand	PLN thousand

As at the reporting date, the following deferred tax assets remained unrecognised:

- Unused tax losses ⁽¹⁾	12 509	12 960
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⁽¹⁾ As at 31 March 2015 tax losses unrecognised in deferred tax asset represents the tax loss of companies PKP CARGOTABOR Usługi Sp. z o.o. in the amount of PLN 8,797 thousand and Cargosped Terminal Braniewo Sp. z o.o. in the amount of PLN 3,712 thousand. As at 31 December 2014 tax losses unrecognised in deferred tax asset represent the tax loss of companies PKP CARGOTABOR Usługi Sp. z o.o. in the amount of PLN 8,737 thousand, PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o. in the amount of PLN 1,861 thousand and Cargosped Terminal Braniewo Sp. z o.o. in the amount of PLN 2,361 thousand.

9. Property, plant and equipment

Carrying amounts:	As at 31/03/2015	As at 31/12/2014
	PLN thousand	PLN thousand
Land	139 876	139 876
Buildings, premises, civil and water engineering structures	500 011	504 665
Technical equipment and machinery	114 380	120 825
Means of transport	3 228 815	3 220 195
Other fixed assets	6 736	7 757
Fixed assets under construction	20 560	18 224
	4 010 378	4 011 542

including finance lease:	As at 31/03/2015	As at 31/12/2014
	PLN thousand	PLN thousand
Technical equipment and machinery	5 330	6 138
Means of transport	306 366	324 810
	311 696	330 948

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

For the 3 months period ended 31 March 2014 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Means of transport	Other fixed assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Gross value						
Balance as at 1 January 2014	142 430	600 987	290 583	4 235 250	31 926	5 301 176
<i>Additions:</i>						
acquisition	-	13 765	3 029	104 327	132	121 253
other	-	194	101	2	-	297
<i>Disposals:</i>						
sales	-	-	(137)	(901)	(44)	(1 082)
liquidation	-	(9 582)	(219)	(42 447)	(32)	(52 280)
other	-	-	(249)	-	(46)	(295)
Balance as at 31 March 2014	142 430	605 364	293 108	4 296 231	31 936	5 369 069

For the 3 months period ended 31 March 2015 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Means of transport	Other fixed assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Gross value						
Balance as at 1 January 2015	140 567	610 590	309 442	4 516 074	32 904	5 609 577
<i>Additions:</i>						
acquisition	-	1 397	1 344	86 554	151	89 446
finance leases	-	-	-	1 193	-	1 193
<i>Disposals:</i>						
sales	-	-	(3)	(211)	(3)	(217)
liquidation	-	-	(1 290)	(37 049)	(26)	(38 365)
other	-	-	-	(37)	-	(37)
Balance as at 31 March 2015	140 567	611 987	309 493	4 566 524	33 026	5 661 597

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

For the 3 months period ended 31 March 2014 (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
Accumulated depreciation						
Balance as at 1 January 2014	-	84 519	156 222	1 201 203	21 991	1 463 935
<i>Additions:</i>						
depreciation charges	-	5 833	8 169	71 248	1 116	86 366
other	-	-	44	-	-	44
<i>Disposals:</i>						
sales	-	-	(66)	(876)	(16)	(958)
liquidation	-	(892)	(107)	(39 511)	(31)	(40 541)
other	-	-	-	-	(44)	(44)
Balance as at 31 March 2014	-	89 460	164 262	1 232 064	23 016	1 508 802

For the 3 months period ended 31 March 2015 (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
Accumulated depreciation						
Balance as at 1 January 2015	-	102 894	188 591	1 295 879	25 139	1 612 503
<i>Additions:</i>						
depreciation charges	-	6 051	7 781	77 840	1 172	92 844
<i>Disposals:</i>						
sales	-	-	(3)	(211)	(3)	(217)
liquidation	-	-	(1 282)	(35 762)	(26)	(37 070)
other	-	-	-	(37)	-	(37)
Balance as at 31 March 2015	-	108 945	195 087	1 337 709	26 282	1 668 023

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

For the 3 months period ended 31 March 2014 (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
Accumulated impairment loss						
Balance as at 1 January 2014	691	11 300	-	-	-	11 991
<i>Disposals:</i>						
impairment loss utilization	-	(8 610)	-	-	-	(8 610)
Balance as at 31 March 2014	691	2 690	-	-	-	3 381

During the 3 months period ended 31 March 2015 there were no changes in the impairment losses of fixed assets. As at 31 March 2015 balance of accumulated impairment loss of fixed assets amounted to PLN 3,756 thousand.

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

Fixed assets under construction	for the 3 months period ended 31/03/2015	for the 3 months period ended 31/03/2014
	PLN thousand	PLN thousand
Opening balance	20 023	31 996
Additions	93 055	113 519
Grants to property, plants and equipments	-	(3 708)
Disposals - transfer to non-current assets	(90 639)	(121 253)
Disposals - discontinued investments	(79)	-
Closing balance	22 360	20 554

During the 3 months period ended 31 March 2015 and 31 March 2014 there were no changes in impairment losses of fixed assets under construction. As at 31 March 2015 and as at 31 March 2014 balance of accumulated impairment loss of fixed assets under construction amounted to PLN 1,800 thousand.

10. Subsidiaries

Detailed information regarding subsidiaries as at 31 March 2015 and 31 December 2014:

No.	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the Parent company	
				As at 31/03/2015	As at 31/12/2014
1	CARGOSPED Sp. z o.o.	Forwarding services (transport of aggregate as well as domestic and international intermodal transport)	Warsaw	100.0%	100.0%
2	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Services supporting land transport, transshipment of goods, wholesale and retail sale of waste and metal scrap	Małaszewicze	100.0%	100.0%
3	PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	Transshipment of goods in other terminals	Żurawica	100.0%	100.0%
4	PKP CARGO SERVICE Sp. z o.o.	Siding services	Warsaw	100.0%	100.0%
5	PKP CARGO International a. s. in liquidation ⁽¹⁾	Shipping outside of Poland	Bratislava	100.0%	51.0%
6	Przedsiębiorstwo Spedycyjne Trade Trans Sp. z o.o. ⁽²⁾	Shipping services	Warsaw	100.0%	55.6%
7	PKP CARGOTABOR Sp. z o.o.	Repair and maintenance of railroad fleet	Warsaw	100.0%	100.0%
8	PKP CARGOTABOR USŁUGI Sp. z o.o.	Collection, processing and disposal of waste; recovery of recyclable materials	Warsaw	100.0%	100.0%
9	CARGOTOR Sp. z o.o.	Management of logistics infrastructure including railway sidings and tracks	Warsaw	100.0%	100.0%
10	ONECARGO Sp. z o.o. ⁽³⁾	Rail transport of goods	Warsaw	100.0%	100.0%
11	ONECARGO CONNECT Sp. z o. o. ⁽³⁾	Services supporting land transport	Warsaw	100.0%	100.0%

The above entities are consolidated using the full method except for PKP CARGO International a.s. in liquidation, ONECARGO Sp. z o.o. and ONECARGO CONNECT Sp. z o.o. which are accounted for under the equity method. Changes in PKP CARGO Group regarding subsidiaries that occurred in the period covered with the Quarterly Condensed Consolidated Financial Statements are described below.

⁽¹⁾ On 5 February 2015 the Parent company acquired 49% shares in PKP CARGO International a.s. in liquidation from Rail Cargo Speditions a.s. As at 31 March 2015 the Parent company owns 100% of the shares in PKP CARGO International a.s. in liquidation.

⁽²⁾ On 5 February 2015 the Parent company acquired 44.44% shares in Przedsiębiorstwo Spedycyjne Trade Trans Sp. z o.o. from Trade Trans Invest a.s. As at 31 March 2015 the Parent company owns 100% of the shares in Przedsiębiorstwo Spedycyjne Trade Trans Sp. z o.o.

⁽³⁾ In March 2015 two companies were registered. The Parent company owns 100% of the shares capital in these companies:

- ONECARGO Sp. z o.o.
- ONECARGO CONNECT Sp. z o. o.

10. Subsidiaries (cont'd.)

Information on the companies which are indirectly dependent (belonging to PS Trade Trans Sp. z o.o.), which are accounted for in the Quarterly Condensed Consolidated Financial Statements under the equity method are as follows:

	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the subsidiary (nominal value)	
				As at 31/03/2015	As at 31/12/2014
12	Trade Trans Karya Sp. z o.o.	Transshipment of goods, customs depot	Lublin	100.0%	100.0%
13	Transgaz S.A.	Transport agency	Zalesie k. Małaszewicz	64.0%	64.0%
14	Trade Trans Finance Sp. z o.o.	Financial and accounting services	Warsaw	100.0%	100.0%
15	PPHU "Ukpol" Sp. z o.o.	Transshipment of goods, customs depot	Werchrata	100.0%	100.0%

Information on the companies, indirectly dependent (belonging to Cargosped Sp. z o.o.) which are consolidated in the Quarterly Condensed Consolidated Financial Statements using the full method are as follows:

	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the subsidiary (nominal value)	
				As at 31/03/2015	As at 31/12/2014
16	Cargosped Terminal Braniewo Sp. z o.o.	Transshipment of goods, customs depot	Braniewo	100.0%	100.0%

11. Investments in entities accounted for under the equity method

	for the 3 months period ended 31/03/2015 PLN thousand	for the 3 months period ended 31/03/2014 PLN thousand
Opening balance	35 246	38 214
Purchase of shares	1 613	-
Sales of shares	(135)	-
Share in profit / (loss) of investments accounted for under the equity method	446	9 361
Impairment allowance on investments accounted for under the equity method	(1 603)	-
Changes in equity arising from dividend payment	-	(66)
Closing balance	35 567	47 509

As at 31 March 2014 CARGOTOR Sp. z o.o. in the Quarterly Condensed Consolidated Financial Statements was accounted for under the equity method. As at 31 March 2015 CARGOTOR Sp. z o.o. is consolidated using the full method because of the fact that in 2014 this entity met the criteria defined in the accounting principles applied by the Group.

12. Detailed information on entities accounted for under the equity method

Name of entity accounted for under the equity method	% of interests held by the Group		Carrying amount of assets	
	As at 31/03/2015	As at 31/12/2014	As at 31/03/2015	As at 31/12/2014
	%	%	PLN thousand	PLN thousand
COSCO POLAND Sp. z o.o.	20.0	20.0	1 181	1 171
Pol – Rail S.r.l. ⁽⁴⁾	50.0	37.4	8 316	7 882
PKP CARGO INTERNATIONAL a.s. in liquidation ⁽³⁾	100.0	51.0	-	-
Cargosped Składy Celne Sp. z o.o.	50.0	50.0	-	-
Terminale Przeładunkowe Sławków – Medyka Sp. z o.o. ⁽⁴⁾	50.0	27.8	19 663	19 989
Trade Trans Karya Sp. z o.o. ⁽⁴⁾	100.0	55.6	-	-
Transgaz S.A. ⁽⁴⁾	64.0	35.5	4 069	3 774
Trade Trans Finance Sp. z o.o. ⁽⁴⁾	100.0	55.6	232	225
PPHU "Ukpol" Sp. z o.o. ⁽⁴⁾	100.0	55.6	-	13
Rail Cargo Spedition GmbH ⁽¹⁾	-	20.9	-	-
Rentrans Cargo Sp. z o.o. ⁽⁴⁾	27.4	15.2	1 870	1 771
Rail Cargo Service Sp. z o.o. ⁽¹⁾	-	11.1	-	135
SC Trade Trans Terminal S.r.l. ⁽¹⁾	-	13.2	-	-
Gdański Terminal Kontenerowy S.A.	41.9	41.9	226	286
ONECARGO Sp. z o.o. ⁽²⁾	100.0	-	5	-
ONECARGO CONNECT Sp. z o.o. ⁽²⁾	100.0	-	5	-
Total			35 567	35 246

⁽¹⁾ On 5 February 2015 the company PS Trade Trans Sp. z o.o. sold 20% of shares in Rail Cargo Services Sp. z o.o., 37.7% of shares in Rail Cargo Spedition GmbH and 23.9% of shares in S.C. Trade Trans Terminal S.r.l. to Trans Trade Invest a.s. As at 31 March 2015 PS Trade Trans Sp. z o.o. does not own shares in aforementioned entities.

⁽²⁾ In March 2015 two companies were registered. The Parent company owns 100% of the share capital in these companies:

- ONECARGO Sp. z o.o.
- ONECARGO CONNECT Sp. z o.o.

⁽³⁾ In the period ended 31 March 2015, the Parent company recognised additional impairment allowance on shares in PKP CARGO International a.s. in liquidation in the amount of PLN 1,603 thousand.

⁽⁴⁾ During 3 months period ended 31 March 2015 value of shares indirectly held by the Group in entities accounted for under the equity method has changed because of the fact that the Parent company had acquired additional shares in PS Trade Trans Sp. z o.o.

13. Other financial assets

	As at 31/03/2015 PLN thousand	As at 31/12/2014 PLN thousand
Financial instruments measured at fair value through profit or loss		
Currency forwards and spots	4 873	-
Investments in shares		
Shares in Polish entities ⁽¹⁾	6 020	6 020
Loans and receivables measured at amortized cost		
Loans granted to other entities	4 795	4 999
Deposits over 3 months	104 848	301 415
	109 643	306 414
Total	120 536	312 434
Non-current assets	6 051	6 051
Current assets	114 485	306 383
Total	120 536	312 434

⁽¹⁾ As at 31 March 2015 and as at 31 December 2014 the impairment allowance on investments in shares amounted to PLN 11,833 thousand.

14. Other non-financial assets

	As at 31/03/2015 PLN thousand	As at 31/12/2014 PLN thousand
Advances for purchase of fixed assets	1 059	1 059
Prepayments	72 061	40 664
Other	1 148	1 168
Total	74 268	42 891
Non-current assets	14 677	14 645
Current assets	59 591	28 246
Total	74 268	42 891

Other non-financial assets consist mainly of prepayments, which as at 31 March 2015 amounted to PLN 72,061 thousand, and as at 31 December 2014 amounted to 40,664 thousand. As at 31 March 2015 the most significant items of prepayments are: Social Benefit Fund appropriations in the amount of PLN 24,543 thousand, cost of rents for the subsequent periods in the amount of PLN 14,393 thousand, costs of prepaid transport benefits for employees in the amount of PLN 12,626 thousand, cost of insurance in the amount of PLN 5,038 thousand, cost of property tax in the amount of PLN 5,915 thousand and cost of IT services in the amount of PLN 2,482 thousand. As at 31 December 2014 the most significant items of prepayments for external services are: advances for purchase of remaining traction energy in the amount of PLN 16,534 thousand, cost of rents for the subsequent periods in the amount of PLN 16,174, cost of IT services in the amount of PLN 3,706 thousand.

15. Trade and other receivables

	As at 31/03/2015	As at 31/12/2014
	PLN thousand	PLN thousand
Trade receivables	660 666	581 790
Impairment allowance for receivables	(137 291)	(84 213)
Total	523 375	497 577
Settlements under public law (excluding CIT)	2 563	4 932
Guarantee, deposits and bid bonds	1 069	1 269
VAT settlements	13 163	16 262
Other settlements	4 542	6 109
Total	544 712	526 149
Current assets	544 712	526 149
Total	544 712	526 149

On 20 January 2015, the Parent company issued a debit note in favour of one of the counterparties in the amount of PLN 51,360 thousands. Due to the fact that probability of receipt of payment is remote, the amount of receivable has been covered by impairment allowance in full amount.

16. Cash and cash equivalents

For the purpose of preparation of the Quarterly Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash in hand and cash at bank, including bank deposits up to 3 months maturity.

	As at 31/03/2015	As at 31/12/2014
	PLN thousand	PLN thousand
Cash in hand and at bank	89 632	73 647
Bank deposits up to 3 months	216 827	355 531
Total	306 459	429 178
Cash and cash equivalents classified for sale	-	-
Total	306 459	429 178

17. Non-current assets classified as held for sale

Non-current assets classified as held for sale	As at 31/03/2015	As at 31/12/2014
	PLN thousand	PLN thousand
Land held for sale	4 994	4 994
Means of transport	12 566	12 566
Total	17 560	17 560

As at 31 March 2015 and as at 31 December 2014 the Group had some redundant non-current assets and decided to sell them. Non-current assets held for sale include 3 land properties, as well as 77 train engines, which due to their technical usage are not in Group's use. In case of aforementioned assets the Group is actively engaged in efforts to sell them.

18. Equity

18.1 Share capital

	As at 31/03/2015	As at 31/12/2014
	PLN thousand	PLN thousand
Share capital consists of:		
Ordinary shares, fully paid and registered	2 239 346	2 239 346
Total share capital	2 239 346	2 239 346

As at 31 March 2015 and 31 December 2014 share capital consisted of ordinary shares with the nominal value of PLN 50 each. The fully paid ordinary shares with a nominal value of PLN 50 are equivalent to one vote at the meeting of shareholders and bear the right to dividend.

During 3 months period ended 31 March 2015 there were no changes in the share capital of the Parent company. In the corresponding period of the previous year the changes in the share capital of the Parent company were as follows:

	Number of shares units	Share capital PLN thousand
As at 1 January 2014	43 338 015	2 166 901
Issuance of shares series C	1 448 902	72 445
As at 31 March 2014	44 786 917	2 239 346

18.2 Supplementary Capital

During 3 months period ended 31 March 2015 there was no changes in the supplementary capital of the Group.

On 21 April 2015 the Ordinary General Meeting of Shareholders (OGM) of the Parent company adopted a resolution on distribution of net profit in the amount of PLN 58,610 thousand achieved in 2014, as follows:

- a) the amount of PLN 4,689 thousand was allocated to the supplementary capital,
- b) the amount of PLN 53,921 thousand was allocated to the payment of the dividend.

In addition, the OGM decided to allocate to the payment of the dividend the amount of PLN 56,254 thousand derived from retained earnings. According to the resolution of OGM, the dividend day was established on 15 June 2015 and the dividend payment date on 26 June 2015.

18.3 Non-controlling interest

On 5 February 2015 the Parent company acquired 44.44% of shares in PS Trade Trans Sp. z o.o. from Trade Trans Invest a.s. for the amount of PLN 40,000 thousand.

As at 31 March 2015 the Parent company owns 100% of shares in PS Trade Trans Sp. z o.o.

The impact of this transaction on the Group's equity is presented below:

	Transactions with non-controlling interest
	PLN thousand
Non-controlling interest before transaction	63 357
Purchase price of the shares	40 000
Change in non-controlling interest	(63 357)
Amount of difference recognised in retained earnings of the Group	23 357

19. Earnings per share

Profit used to calculate basic earnings and diluted earnings per share:

	for the 3 months period ended 31/03/2015 PLN thousand	for the 3 months period ended 31/03/2014 PLN thousand
Profit used to calculate basic earnings per share	17 811	56 867

19.1 Basic earnings per share

	for the 3 months period ended 31/03/2015	for the 3 months period ended 31/03/2014
Weighted average number of ordinary shares (units)	44 786 917	43 724 389
Basic earnings per share (PLN per share)	0.40	1.30

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

19.2 Diluted earnings per share

	for the 3 months period ended 31/03/2015	for the 3 months period ended 31/03/2014
Weighted average number of ordinary shares (units)	44 786 917	44 802 981
Diluted earnings per share (PLN per share)	0.40	1.27

The diluted number of shares was calculated as the weighted average of ordinary shares adjusted as if they were converted into shares that result in dilution of potential ordinary shares.

20. Credit facilities and loans received

	As at 31/03/2015 PLN thousand	As at 31/12/2014 PLN thousand
Credit facilities and loans received measured at amortized cost		
Overdraft facilities	283	271
Bank loans - pledged on assets	10 214	39 387
Bank loans - other	356 890	258 956
Borrowings from other entities	1 521	1 586
Total	368 908	300 200
Non-current liabilities	270 203	208 077
Current liabilities	98 705	92 123
Total	368 908	300 200

20.1 Summary of loan and borrowings agreements

Investment loans agreements in the Group were signed mainly to finance the modernization and scheduled overhauls of rolling stock and to finance the purchase of real estate. The reference rate for loan agreements is WIBOR 1M and 3M plus margin. The agreements are usually signed for the period of maximum 5 years. According to signed agreements repayment is made in PLN. Details concerning the bank loans of the Group are presented below:

Parent company
As at 31/03/2015

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in PLN thousand	Liability in PLN thousand
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	05.10.2015	Bank enforcement	53 000	5 830
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Bank enforcement	36 400	7 120
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Bank enforcement	36 600	8 947
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Bank enforcement	39 000	19 053
Investment loan	FM Bank PBP S.A.	PLN	WIBOR 1M + margin	31.10.2017	Bank enforcement ¹⁾	60 000	24 662
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Bank enforcement	49 200	27 060
Investment loan	Bank Millennium S.A.	PLN	WIBOR 3M + margin	21.08.2017	Mortgage to the amount of PLN 20,000 thousand	16 667	8 049
Investment loan	Bank Gospodarstwa Krajowego	PLN	WIBOR 1M + margin	31.03.2021	Bank enforcement	515 200	263 169
Total							363 890

¹⁾ On 18 February 2015 the Parent company concluded with FM PBP Bank S.A. an annex to investment loan exempting pledge in the form of registered pledges on train engines.

Subsidiaries
As at 31/03/2015

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in PLN thousand	Liability in PLN thousand
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	30.06.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge	7 600	262
Loan	BGŻ Leasing Sp. z o. o.	PLN	WIBOR 1M + margin	15.08.2015	Transfer of ownership, registered pledge on company's assets	186	18
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge	18 400	1 903
Overdraft facility	PKO BP S.A.	PLN	WIBOR 1M + margin	15.04.2016	Capped mortgage in amount of PLN 700 thousand, pledge on inventories PLN 600 thousand	1 300	283
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.09.2016	Surety of PKP CARGO S.A. up to PLN 1,048 thousand	911	272
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.10.2016	Surety of PKP CARGO S.A. up to PLN 1,380 thousand with submission to enforcement by the guarantor	1 200	393
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Surety of PKP CARGO S.A. up to PLN 1,028 thousand	894	384
Loan	WFOŚiGW Łódź	PLN	2,5% (fixed interest rate)	31.03.2024	1) Blank promissory notes, 2) Non-revocable authorization to charge bank accounts, 3) Surety of PKP CARGO S.A.	1 500	1 503
Total							5 018

Parent company
As at 31/12/2014

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in PLN thousand	Liability in PLN thousand
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	05.10.2015	Bank enforcement	53 000	8 500
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Bank enforcement	36 400	8 950
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Bank enforcement	36 600	11 185
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Bank enforcement	39 000	21 174
Investment loan	FM Bank PBP S.A.	PLN	WIBOR 1M + margin	31.10.2017	Registered pledge on the diesel engines ST44 to the amount of PLN 90,000 thousand	60 000	27 442
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Bank enforcement	49 200	29 520
Investment loan	Bank Millennium S.A.	PLN	WIBOR 3M + margin	21.08.2017	Mortgage to the amount of PLN 20,000 thousand	16 667	8 883
Investment loan	Bank Gospodarstwa Krajowego	PLN	WIBOR 1M + margin	31.03.2021	Bank enforcement	515 200	178 429
						Total	294 083

Subsidiaries
As at 31/12/2014

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in PLN thousand	Liability in PLN thousand
Loan	BGŻ Leasing Sp. z o.o.	PLN	WIBOR 1M + margin	15.03.2015	Transfer of ownership, registered pledge on company's assets	88	8
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	30.06.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge	7 600	524
Loan	BGŻ Leasing Sp. z o.o.	PLN	WIBOR 1M + margin	15.08.2015	Transfer of ownership, registered pledge on company's assets	186	28
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge	18 400	2 538
Overdraft facility	PKO BP S.A.	PLN	WIBOR 1M + margin	15.04.2016	Capped mortgage in amount of PLN 700 thousand, pledge on inventories PLN 600 thousand	1 300	271
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.09.2016	Surety of PKP CARGO S.A. up to PLN 1,048 thousand	911	317
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.10.2016	Surety of PKP CARGO S.A. up to PLN 1,380 thousand with submission to enforcement by the guarantor	1 200	455
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Surety of PKP CARGO S.A. up to PLN 1,028 thousand	894	426
Loan	WFOŚIGW Łódź	PLN	2,5% (fixed interest rate)	31.03.2024	1) Blank promissory notes, 2) Non-revocable authorization to charge bank accounts, 3) Surety of PKP CARGO S.A.	1 500	1 550
Total						6 117	

20.2 Not utilized credit and overdraft facilities

Type of loan	Name of bank	Currency	As at 31/03/2015	As at 31/12/2014
Investment loan	Bank Gospodarstwa Krajowego	PLN	252 031	336 771
Investment loan	European Investment Bank	PLN	240 000	240 000
Overdraft facility	mBank S.A.	PLN	100 000	100 000
Overdraft facility	ING Bank Śląski S.A.	PLN	19 000	-
Overdraft facility	PKO BP S.A.	PLN	1 017	1 029
Overdraft facility	Bank Pekao S.A.	PLN	2 500	2 500
Total not utilized credit and overdraft facilities			614 548	680 300

20.3 Events of default in loan agreement

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

21. Other financial liabilities

	As at 31/03/2015 PLN thousand	As at 31/12/2014 PLN thousand
Negative measurement of derivatives		
Interest-rate swap (IRS)	3 212	3 284
Currency forwards and spots	-	650
Total	3 212	3 934
 Current liabilities	 3 212	 3 934
Total	3 212	3 934

22. Finance lease liabilities and leases with purchase option

	Minimum lease payments	
	As at 31/03/2015 PLN thousand	As at 31/12/2014 PLN thousand
Up to one year	102 644	137 662
Over one year, up to five years	145 697	161 747
Over five years	45 708	48 136
	294 049	347 545
Less future lease charges	(25 791)	(28 967)
Present value of minimum lease payments	268 258	318 578

	Present value of minimum lease payments	
	As at 31/03/2015 PLN thousand	As at 31/12/2014 PLN thousand
Up to one year	93 645	127 742
Over one year, up to five years	130 173	144 327
Over five years	44 440	46 509
Present value of minimum lease payments	268 258	318 578

	As at 31/03/2015 PLN thousand	As at 31/12/2014 PLN thousand
Included in the financial statements as:		
Long-term finance lease liabilities and leases with purchase option	174 613	190 836
Short-term finance lease liabilities and leases with purchase option	93 645	127 742
Total	268 258	318 578

23. Trade and other payables

	As at 31/03/2015 PLN thousand	As at 31/12/2014 PLN thousand
Trade payables	191 815	227 664
Accruals	21 992	20 453
Liabilities due to purchase of non-financial non-current assets	104 346	134 685
Liabilities related to securities (deposits, bid bonds)	41 794	21 624
State settlements	92 957	106 215
Settlements with employees	69 892	79 764
Other settlements ¹⁾	33 153	3 987
VAT settlements	6 585	4 030
Total	562 534	598 422
Non-current liabilities ²⁾	56 306	67 982
Current liabilities	506 228	530 440
Total	562 534	598 422

¹⁾ As at 31 March 2015 other settlements include mainly payables arising from obligatory appropriations to the Social Benefit Fund.

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

24. Employee benefits

Amount recognised in the Quarterly Condensed Statement of Financial Position in relation to Company's liabilities arising from employee benefit plans is as follows:

	As at 31/03/2015 PLN thousand	As at 31/12/2014 PLN thousand
<u>Post-employment defined benefit plans</u>		
– retirement benefits	154 465	158 448
– appropriations to the Social Benefit Fund for pensioners	168 876	168 876
– transport benefits	37 719	37 719
<u>Other employee benefits</u>		
– jubilee bonuses	323 009	323 382
– other employee benefits (including unused holidays)	37 616	39 305
– provision for Voluntary Redundancy Program (VRP)	37 948	265 331
Total	759 633	993 061
including:		
– long-term	620 064	658 217
– short-term	139 569	334 844
Total	759 633	993 061

24.1 Employee benefits - Voluntary Redundancy Program

Based on Resolution No. 423/2014 of the Management Board of PKP CARGO S.A. from 17 November 2014 and Resolution No. 1363/V/2014 of the Supervisory Board of PKP CARGO S.A. from 27 November 2014, PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. introduced the Voluntary Redundancy Program for its employees (VRP or Program). The main purpose of the Program was restructuring of employment in the Group. The Program did not introduce in the Company the collective redundancies within the meaning of Act of 13 March 2013 on the specific principles of terminating labour relationship for reasons not attributable to employees.

From 29 December 2014 to 15 January 2015, the employees of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. were allowed to apply to join the Voluntary Redundancy Program. As a result of the verification of declarations of employees, the Group agreed to that 3,041 employees could benefit from the Program. Employees who benefited from the Program, except for a statutory severance pay, dependent on the length of service, received also additional compensation, amount of which depended on whether an employee was beneficiary of an employment guarantee and, if so, on the type of it (4- or 10- year). The total value of liabilities resulting from the implemented Program was estimated in the amount of PLN 265,331 thousand. Payment of benefits related to the VRP will take place in two tranches. The first tranche in the amount of PLN 227,383 thousand was paid together with the salary for January 2015. The second tranche of PLN 37,948 thousand will be paid in January 2016.

Amount relating to the Group's liabilities concerning the Voluntary Redundancy Program recognised in the Quarterly Consolidated Statement of Financial Position is as follows:

	As at 31/03/2015 PLN thousand	As at 31/12/2014 PLN thousand
Long-term employee benefits	-	37 852
Short-term employee benefits	37 948	227 479

25. Other provisions

	As at 31/03/2015	As at 31/12/2014
	PLN thousand	PLN thousand
Provision for the fine imposed by OCCP	8 416	8 416
Other provisions	19 496	24 214
Total	27 912	32 630
Long-term provisions	8 416	8 416
Short-term provisions	19 496	24 214
Total	27 912	32 630

Other provisions	Provision for the fine imposed by OCCP	Other provisions	Total
	PLN thousand	PLN thousand	PLN thousand
As at 1 January 2014	22 778	26 203	48 981
Provisions recognised	-	1 024	1 024
Derecognised	(14 362)	(3 398)	(17 760)
As at 31 March 2014	8 416	23 829	32 245
As at 1 January 2015	8 416	24 214	32 630
Provisions recognised	-	1 963	1 963
Derecognised	-	(6 367)	(6 367)
Used	-	(314)	(314)
As at 31 March 2015	8 416	19 496	27 912

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

As at 31 March 2015 and 31 December 2014, the provision represents the estimate of the Management Board of the Parent company in connection with the probability of paying two fines imposed to Parent company by the Office of Competition and Consumer Protection, in the amount of PLN 6,630 thousand and PLN 1,786 thousand, respectively.

During the period of 3 months ended 31 March 2015 no circumstances occurred that could result in change of estimates applied by the Parent company. As a result of future events, this assessment may change in next reporting periods.

Other provisions

According to the Management Board of Parent company the amount of other provisions as at 31 March 2015 and 31 December 2014 and represents the best estimate of probable payment. If any penalties are imposed, their value is dependent on the future events with uncertain result. Consequently, the amount of provisions may change in future periods.

26. Categories and classes of financial instruments

Financial instruments by categories	As at 31/03/2015 PLN thousand	As at 31/12/2014 PLN thousand
Financial assets		
Financial assets measured at fair value through profit or loss	4 873	-
Loans and receivables	939 477	1 233 169
Total assets by category	944 350	1 233 169
Financial liabilities		
Financial liabilities measured at fair value through profit or loss	-	633
Liabilities arising from derivatives designated as hedges: hedge accounting	3 212	3 301
Financial liabilities measured at amortized cost	687 061	683 002
Liabilities excluded from IAS 39 (finance lease)	268 258	318 578
Total liabilities by category	958 531	1 005 514

Financial instruments by classes	As at 31/03/2015 PLN thousand	As at 31/12/2014 PLN thousand
Trade receivables	523 375	497 577
Loans granted	4 795	4 999
Bank deposits over 3 months	104 848	301 415
Cash	306 459	429 178
<i>Assets from measurement of derivatives and embedded derivatives including:</i>		
Derivatives - held for trading	4 873	-
Total financial assets	944 350	1 233 169
Credit facilities and loans	368 908	300 200
Trade payables	213 807	248 117
Liabilities arising from purchase of non-current assets	104 346	134 685
Finance leases	268 258	318 578
<i>Measurement of derivatives and embedded derivatives, including:</i>		
Derivatives - designated as cash flow hedges	3 212	3 301
Derivatives - held for trading	-	633
Total financial liabilities	958 531	1 005 514

27. Related party transactions

27.1 Commercial transactions

During the period covered by this Quarterly Consolidated Financial Statement, the Group entered into the following commercial transactions with related parties:

	for the 3 months period ended 31/03/2015		for the 3 months period ended 31/03/2014	
	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.)	187	19 879	(924)	20 195
Subsidiaries / co-subsiaries	1 259	1 747	1 458	17 058
Associates	18	274	1 267	114
Other related parties from PKP S.A. Group	10 394	269 493	19 662	289 294

	As at 31/03/2015		As at 31/12/2014	
	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.)	1 030	6 179	1 026	6 584
Subsidiaries / co-subsiaries	2 560	496	2 475	530
Associates	30	23	-	-
Other related parties from PKP S.A. Group	8 618	87 281	9 971	86 556

All transactions were concluded on the arm's length basis.

27.2 Remuneration of executive management

Remuneration of Members of the Management Board of the Parent company:	for the 3 months period ended 31/03/2015	for the 3 months period ended 31/03/2014
	PLN thousand	PLN thousand
Short-term benefits	1 715	731
Post-employment benefits	69	-
Employment termination benefits	-	425
Total	1 784	1 156

Remuneration of Members of the Supervisory Board of the Parent company:	for the 3 months period ended 31/03/2015	for the 3 months period ended 31/03/2014
	PLN thousand	PLN thousand
Short-term benefits	325	104
Total	325	104

27.2 Remuneration of executive management (cont'd.)

Remuneration of other executive management (Proxies - Managing Directors):	for the 3 months period ended 31/03/2015	for the 3 months period ended 31/03/2014
	PLN thousand	PLN thousand
Short-term benefits	371	360
Share-based payments	-	11
Employment termination benefits	45	-
Total	416	371

Remuneration of Members of the Management Boards of the Subsidiaries:	for the 3 months period ended 31/03/2015	for the 3 months period ended 31/03/2014
	PLN thousand	PLN thousand
Short-term benefits	983	1 370
Post-employment benefits	189	-
Employment termination benefits	-	203
Total	1 172	1 573

Remuneration of Members of the Supervisory Boards of the Subsidiaries:	for the 3 months period ended 31/03/2015	for the 3 months period ended 31/03/2014
	PLN thousand	PLN thousand
Short-term benefits	1 069	604
Post-employment benefits	48	-
Employment termination benefits	61	-
Total	1 178	604

During 3 months ended 31 March 2015 and 31 March 2014 Members of Management Board and Supervisory Board of the Parent company and subsidiaries of PKP CARGO Group did not grant or receive any loans or guarantees.

28. Commitments to incur expenses

In May 2013 the Parent company concluded an agreement with a counterparty regarding modernisation of 30 SM-48 series diesel engines. As at 31 March 2015 the future value of the liabilities connected with the aforementioned agreement ranges between PLN 86.4 and 89.1 million, depending on fulfillment of specific technical conditions. According to the timetable, the completion date of the agreement expires in February 2016.

In September 2013 the Parent company concluded an agreement with a counterparty for construction and delivery of 330 newly built Sggrs container wagons. Until 31 March 2015, the Company received 270 wagons. As at 31 March 2015 the future value of liabilities connected with the aforementioned agreement amounts to PLN 21.2 million. For the implementation of this project, the Parent company was granted a funding under the Operational Program "Infrastructure and Environment", in a total amount not exceeding 30% of contract value.

29. The conditional agreement of the acquisition of shares in Advanced World Transport B.V.

On 30 December 2014, the Parent company entered into an agreement with Mr. Zdenek Bakala ("ZB") and The Bakala Trust ("ZBT") regarding the acquisition by the Company (the "Purchase Agreement") 60,000 shares (the "Shares") in the share capital of Advanced World Transport B.V. with its registered office in Amsterdam ("AWT"), constituting 80% of all the shares in the share capital of AWT and entitling to exercise 80% of the overall number of votes at the general shareholders meeting of AWT. The total purchase price of the Shares is EUR 103,200 thousand. The ownership of the Shares will be transferred and the price will be paid upon the satisfaction of 3 certain precedent conditions. The Purchase Agreement provides a contractive penalty in the amount of EUR 10,000 thousand which is payable if either of the sides fail to comply with the conditions specified in the Purchase Agreement.

On 10 February 2015 and on 16 March 2015 the Company received notifications from ZB and ZBT regarding the satisfaction of the first and second precedent conditions specified in the Purchase Agreement, respectively.

30. Contingent liabilities

	As at 31/03/2015	As at 31/12/2014
	PLN thousand	PLN thousand
Guarantees issued on request of PKP Cargo S.A. (i)	38 245	36 431
Proceedings carried out by OCCP (ii)	9 946	9 946
Other contingent liabilities (iii)	79 297	75 797
Total	127 488	122 174

(i) Guarantees issued by banks on behalf of PKP CARGO Group

As at 31 March 2015 a number of guarantees issued by banks on behalf of the Group to counterparties were effective. The guarantees included bid bonds (worth PLN 270 thousand), good performance bonds (worth PLN 33,742 thousand) and payment bonds (worth PLN 4,233 thousand).

As at 31 December 2014 a number of guarantees issued by banks on behalf of the Group to counterparties were effective. The guarantees included bid bonds (worth PLN 460 thousand), good performance bonds (worth PLN 31,738 thousand) and payment bonds (worth PLN 4,233 thousand).

30. Contingent liabilities (cont'd.)

(ii) OCCP proceedings

As at 31 March 2015 and 31 December 2014 the Parent company recognised as a contingent liability a part of provision for the fine imposed by the OCCP (PLN 9,946 thousand) that has not been recognised in provisions for liabilities.

On 22 August 2014 the Management Board of the Parent company was informed by the President of the Office of Competition and Consumer Protection about further conducting of the antimonopoly proceeding regarding the Parent company's abuse of the dominant position on the domestic market of rail transport of goods (proceeding which resulted in decision no. DOK-3/2009). The amount of potential contingent liability resulting from conducted proceeding is not known.

During the period of 3 months ended 31 March 2015 no circumstances occurred that could result in change of estimates applied by the Parent company. As a result of future events, this assessment may change in next reporting periods.

(iii) Other liabilities

In 2014 the Parent company received payment requests from external entities. The total value of claims does not exceed PLN 48,000 thousand. On the basis of legal analysis of these claims, the Parent company estimates that as at 31 March 2015 and as at 31 December 2014 the likelihood of outflow of cash connected with these claims is remote. As a result of future events, this assessment may change in next periods.

Furthermore, other liabilities include mainly concluded by the subsidiary PS Trade Trans Sp. z o.o. guarantee agreements with recourse with the right to insurance companies. As at 31 March 2015 the total value of contracts with insurance companies concluded by PS Trade Trans Sp. z o.o. amounted to PLN 30,600 thousand, while as at 31 December 2014, the total value amounted to PLN 27,100 thousand.

31. Events after reporting date

On 21 April 2015 the General Meeting of Shareholders of the Parent company approved the Separate Financial Statements of the Parent company and the Consolidated Financial Statements of the Group for 2014. At the same day General Meeting of Shareholders of the Parent company adopted a resolution on distribution of net profit achieved in 2014 and payment of dividend. Details are described in note 18.2.

On 10 May 2015 the Management Board of the Parent Company passed a resolution on the continuation of Voluntary Redundancy Program (Program). The purpose of the Program is further restructuring of employment in the Group. Estimated value of liabilities resulting from the implemented Program has been estimated in the amount of about PLN 20 million. It is assumed that about 250 employees of the Parent Company will benefit from the Program. From 1 June 2015 to 15 June 2015, the employees will be allowed to apply to join the Program. The condition for use of the Program is to obtain the consent of the employer. Employees who join the program will receive a confirmation of such consent until 22 June 2015 and will cease to be employees of the Parent Company from 1 July 2015.

32. Approval of the financial statements

These Quarterly Condensed Consolidated Financial Statements were approved for publication by the Management Board on 11 May 2015.

Management Board of the Company

Adam Purwin	President of the Management Board
Jacek Neska	Member of the Management Board
Łukasz Hadyś	Member of the Management Board
Wojciech Derda	Member of the Management Board
Dariusz Browarek	Member of the Management Board

Warsaw, 11 May 2015

QUARTERLY FINANCIAL INFORMATION
OF **PKP CARGO S.A.**
FOR THE Q1 2015

SEPARATE STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2015 TO 31 MARCH 2015

	for the 3 months period ended 31/03/2015 (unaudited) PLN thousand	for the 3 months period ended 31/03/2014 (unaudited) PLN thousand
Revenue from sales of services	802 858	908 664
Revenue from sales of goods and materials	2 535	6 207
Other operating revenue	7 099	20 596
Total operating revenue	812 492	935 467
Depreciation/amortisation and impairment losses	87 849	82 150
Consumption of raw materials and energy	137 509	152 105
External services	251 756	278 645
Taxes and charges	5 665	8 875
Employee benefits	293 220	331 057
Other expenses by kind	9 603	(2 748)
Cost of merchandise and raw materials sold	1 414	3 749
Other operating expenses	5 812	6 998
Total operating expenses	792 828	860 831
Profit on operating activities	19 664	74 636
Financial revenue	5 759	5 547
Financial expenses	8 309	8 820
Profit before tax	17 114	71 363
Income tax expense	3 506	15 594
NET PROFIT	13 608	55 769

SEPARATE STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2015 TO 31 MARCH 2015 (Cont'd.)

	for the 3 months period ended 31/03/2015 (unaudited) PLN thousand	for the 3 months period ended 31/03/2014 (unaudited) PLN thousand
NET PROFIT	13 608	55 769
Other comprehensive income		
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:	-	-
The effective portion of changes in fair value of cash-flow hedging instruments	-	-
Income tax on other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME	13 608	55 769
 Earnings per share (PLN per share)		
Earnings per share on operations (basic):	0,30	1,28
Earnings per share on operations (diluted):	0,30	1,24

SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 MARCH 2015

	As at 31/03/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
ASSETS		
Non-current assets		
Property, plant and equipment	3 712 475	3 709 121
Intangible assets	54 759	55 990
Shares in subsidiaries	302 856	262 846
Other long-term financial assets	6 021	6 021
Other long-term non-financial assets	1 509	1 464
Deferred tax assets	54 864	58 359
Total non-current assets	4 132 484	4 093 801
Current assets		
Inventories	72 783	75 759
Trade and other receivables	456 582	423 171
Other short-term financial assets	105 205	301 818
Other short-term non-financial assets	47 813	24 921
Cash and cash equivalents	223 761	381 420
	906 144	1 207 089
Assets classified as held for sale	17 560	17 560
Total current assets	923 704	1 224 649
Total assets	5 056 188	5 318 450

SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 MARCH 2015 (Cont'd.)

	As at 31/03/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
EQUITY AND LIABILITIES		
Equity		
Share capital	2 239 346	2 239 346
Supplementary capital	584 513	584 513
Other items of equity	(39 642)	(39 642)
Retained earnings /(uncovered loss)	481 689	468 081
Total equity	3 265 906	3 252 298
Non-current liabilities		
Long-term bank loans and credit facilities	268 434	206 112
Long-term finance lease liabilities and leases with purchase option	99 176	114 027
Long-term trade and other payables	56 276	67 938
Long-term provisions for employee benefits	573 565	611 418
Other long-term provisions	8 416	8 416
Non-current liabilities	1 005 867	1 007 911
Current liabilities		
Short-term bank loans and credit facilities	95 456	87 971
Short-term finance lease liabilities and leases with purchase option	86 575	120 505
Short-term trade and other payables	461 361	457 602
Short-term provisions for employee benefits	128 008	315 213
Other short-term provisions	12 892	17 414
Other short-term financial liabilities	-	59 393
Current tax liabilities	123	143
Total current liabilities	784 415	1 058 241
Total liabilities	1 790 282	2 066 152
Total equity and liabilities	5 056 188	5 318 450

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2015

	Share capital	Supplementary capital	Revaluation of financial assets available for sale	Actuarial profit/(loss) on employee programs after employment period	Changes in fair value of cash-flow hedging instruments	Retained earnings	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Balance as at 1/01/2014 (audited)	2 166 901	651 472	-	(9 901)	-	554 494	3 362 966
Net result for the period	-	-	-	-	-	55 769	55 769
Other net comprehensive income for the period	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	55 769	55 769
Issuance of shares	72 445	26 051	-	-	-	-	98 496
Share-based payment provision	-	(100 015)	-	-	-	-	(100 015)
Balance as at 31/03/2014 (unaudited)	2 239 346	577 508	-	(9 901)	-	610 263	3 417 216
Balance as at 1/01/2015 (audited)	2 239 346	584 513	-	(39 642)	-	468 081	3 252 298
Net result for the period	-	-	-	-	-	13 608	13 608
Other net comprehensive income for the period	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	13 608	13 608
Balance as at 31/03/2015 (unaudited)	2 239 346	584 513	-	(39 642)	-	481 689	3 265 906

SEPARATE STATEMENT OF CASH FLOWS FROM 1 JANUARY 2015 TO 31 MARCH 2015

	for the 3 months period ended 31/03/2015 (unaudited) PLN thousand	for the 3 months period ended 31/03/2014 (unaudited) PLN thousand
Net cash flows from operating activities		
Net profit/(loss) for the financial year	17 114	71 363
Adjustments:		
Depreciation of non-current assets	87 849	82 150
(Gain) / loss on disposal of property, plant and equipment and intangible assets	82	4 213
(Gain) / loss on investing activities	1 603	963
Exchange (gains) / losses	1 589	1 694
(Gain) / losses on interest, dividend	2 110	(141)
Changes in working capital:		
(Increase) / decrease in trade and other receivables	(34 109)	(546)
(Increase) / decrease in inventory	4 103	969
(Increase) / decrease in other assets	(25 348)	(36 971)
Increase / (decrease) in trade and other liabilities	21 366	(21 341)
Increase / (decrease) in other liabilities	(633)	-
Increase / (decrease) in provisions	(229 578)	(81 567)
Cash flows from operating activities	(153 852)	20 786
Interest received / (paid)	937	1 417
Income taxes received / (paid)	(406)	698
Net cash (used in) / provided by operating activities	(153 321)	22 901

SEPARATE STATEMENT OF CASH FLOWS FROM 1 JANUARY 2015 TO 31 MARCH 2015 (Cont'd)

	for the 3 months period ended 31/03/2015 (unaudited) PLN thousand	for the 3 months period ended 31/03/2014 (unaudited) PLN thousand
<i>Cash flows from investing activities</i>		
Payment for property, plant and equipment and intangible assets	(119 387)	(136 578)
Proceeds from sale of property, plant and equipment and intangible assets	50	5 251
Payment for acquisition of subsidiaries, associates and joint ventures	(41 613)	-
Interest received	3 667	5 099
Dividend received	-	66
Proceeds from loans granted	-	(4 037)
Repayment of loans granted	433	765
Proceeds / (expenses) in respect of deposits over 3 months	199 459	101 131
Proceeds / (expenses) related to the Employee Guarantee Program	-	(18 911)
Net cash used in investing activities	42 609	(47 214)
<i>Cash flows from financing activities</i>		
Payments of liabilities under finance lease	(50 976)	(31 218)
Payments of interest under lease agreement	(1 388)	(2 132)
Proceeds from credit facilities/loans received	89 375	-
Repayments of credit facilities/loans received	(19 568)	(14 933)
Repayments of interest on credit facilities/loans received	(2 055)	(1 573)
Grants received	-	6 149
Cash pool inflows /(outflows)	(60 799)	(11 354)
Other inflows /(outflows) from financing activities	(1 536)	(2 171)
Net cash (used in)/ provided by financing activities	(46 947)	(57 232)
Net increase / (decrease) in cash and cash equivalents	(157 659)	(81 546)
Opening balance of cash and cash equivalents	381 420	229 232
Closing balance of cash and cash equivalents	223 761	147 686

OTHER INFORMATION
IN THE **PKP CARGO** GROUP'S
CONSOLIDATED QUARTERLY REPORT
FOR Q1 2015

OTHER INFORMATION IN THE PKP CARGO GROUP'S CONSOLIDATED QUARTERLY REPORT FOR Q1 2015

TABLE OF CONTENTS

1. Financial highlights of the PKP CARGO Group	3
2. Organization of the PKP CARGO Group	5
2.1. Highlights on the Company and the PKP CARGO Group	5
2.2. Units subject to consolidation	5
2.3. Structure of the PKP CARGO Group	7
2.4. Consequences of changes to the structure of the Company and the Group in Q1 2015	8
3. Information about the Parent Company	10
3.1. Composition of the Management Board and Supervisory Board of PKP CARGO S.A.	10
3.2. Share capital structure	13
3.3. Shareholders holding at least 5% of the total votes	14
3.4. Shares held by management and supervisory board members	14
4. Key areas of operation of the PKP CARGO Group	16
4.1. Macroeconomic environment	16
4.2. Freight transportation activity	18
4.2.1. Rail freight market in Poland	18
4.2.2. Position of the PKP CARGO Group on the rail transportation market	20
4.2.3. PKP CARGO Group's rail transport	21
4.3. Other services	24
4.4. Headcount	26
4.5. PKP CARGO Group's investments in property, plant and equipment and intangible assets	27
4.6. Key information and events	28
5. Analysis of the financial and economic situation of the PKP CARGO Group	30
5.1. Basic economic and financial figures	30
5.1.1. Statement of comprehensive income	30
5.1.2. Description of the asset and liability structure	33
5.1.3. Selected financial and operating ratios	35
5.2. Factors that will affect the financial performance in the next quarter	36
5.3. The Management Board's stance with respect to the possibility of realizing previously published result forecasts for the year 38	
5.4. Information about production assets	39
5.4.1. Rolling stock	39
5.4.2. Real estate	39
6. Other key information and events	40
6.1. Proceedings pending before the court, arbitration bodies or public administration bodies	40
6.2. Information on transactions concluded with related entities	40
6.3. Information on granted guarantees and sureties of loans or credits	40
6.4. Other information which is significant when evaluating employment, assets, financial standing, financial result and movement therein as well as information which is significant when evaluating if the issuer and Group companies are capable of satisfying their liabilities	40

LIST OF TABLES

Table 1 Financial highlights of the PKP CARGO Group	3
Table 2 Financial highlights of PKP CARGO S.A.	4
Table 3 Composition of the PKP CARGO S.A. Management Board from 1 January 2015 to the delivery date of the report	11
Table 4 Composition of the PKP CARGO S.A. Supervisory Board from 1 January 2015 to the delivery date of the report	12

Table 5 Composition of the PKP CARGO S.A. Supervisory Board Audit Committee from 1 January 2015 to the delivery date of the report.....	13
Table 6 Composition of the PKP CARGO S.A. Supervisory Board Nomination Committee from 1 January 2015 to the delivery date of the report.....	13
Table 7 Structure of PKP CARGO S.A.'s share capital	13
Table 8 Shareholder structure of PKP CARGO S.A. as at 12 March 2015 and as at the delivery date of this report	14
Table 9 PKP CARGO S.A. shares held by Management Board members	14
Table 10 PKP CARGO S.A. shares held by Supervisory Board members	15
Table 11 Freight turnover of the PKP CARGO Group in Q1 2014 and 2015.....	23
Table 12 Freight volume of the PKP CARGO Group in Q1 2014 and 2015.....	23
Table 13 Average haul of the PKP CARGO Group in Q1 2014 and 2015	23
Table 14 Structure of PKP CARGO Group's freight turnover in Q1 2014 and 2015 by type of communication	24
Table 15 Structure of PKP CARGO Group's freight volume in Q1 2014 and 2015 by type of communication	24
Table 16 Average haul of the PKP CARGO Group in Q1 2014 and 2015, by type of communication	24
Table 17 Headcount at the PKP CARGO Group at the end of the reporting period (applies to active employees)	26
Table 18 Average headcount in Q1 2015 and Q1 2014 in the PKP CARGO Group (applies to active employees)	26
Table 19 Change in the headcount structure in Q1 2015 and Q1 2014 in the PKP CARGO Group (applies to active employees) ..	27
Table 20 Capital expenditures in the PKP CARGO Group in Q1 2015 compared to Q1 2014 (thousands of PLN)	27
Table 21 Key information and events which occurred during the quarterly period and after the balance sheet date.....	28
Table 22 Results of the PKP CARGO Group in Q1 2015 compared to Q1 2014 (thousands of PLN)	30
Table 23 Operating revenue of the PKP CARGO Group in Q1 2015 compared to Q1 2014	30
Table 24 Operating expenses of the PKP CARGO Group in Q1 2015 compared to Q1 2014.....	31
Table 25 Financial activities of the PKP CARGO Group in Q1 2015 compared to Q1 2014	32
Table 26 Horizontal and vertical analysis of assets (thousands of PLN).....	33
Table 27 Horizontal and vertical analysis of the equity and liabilities (thousands of PLN).....	34
Table 28 Selected financial and operating ratios of the PKP CARGO Group in Q1 2015 compared to Q1 2014	35
Table 29 Structure of the locomotives used by the PKP CARGO Group by traction type and ownership.....	39
Table 30 Structure of the wagons used by the PKP CARGO Group by ownership	39
Table 31 Real estate owned and used by PKP CARGO Group as at 31 March 2015 compared to 31 December 2014.	39

LIST OF FIGURES

Figure 1 Structure of the PKP CARGO Group as at 31 March 2015	8
Figure 2 GDP growth in Poland in 2011-2014 annually and a forecast for 2015	16
Figure 3 Rail transportation by freight volume in Poland (in millions of tons) in individual quarters of 2013-2015	19
Figure 4 Rail transportation by freight turnover in Poland (in billions of tkm) in individual quarters of 2013-2015.....	19
Figure 5 Share of the PKP CARGO Group in freight volume in 2014 and in Q1 2015.....	21
Figure 6 Share of the PKP CARGO Group in freight turnover in 2014 and in Q1 2015.....	21

1. Financial highlights of the PKP CARGO Group

Table 1 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN 000s		EUR 000s	
	Q1 2015	Q1 2014	Q1 2015	Q1 2014
Operating revenues	896,403	1,038,478	216,058	247,882
Profit on operating activities	22,217	68,469	5,355	16,343
Profit before tax	21,351	73,563	5,146	17,559
Net profit	17,668	57,534	4,258	13,733
Total comprehensive income attributable to shareholders of the parent company	19,876	56,944	4,791	13,592
Weighted average number of shares (units)	44,786,917	43,724,389	44,786,917	43,724,389
Weighted average number of shares used to calculate diluted profit (units)	44,786,917	44,802,981	44,786,917	44,802,981
Earnings per share (PLN)	0.40	1.30	0.10	0.31
Diluted earnings per share (PLN)	0.40	1.27	0.10	0.30
Net cash flow from operating activities	-168,104*	40,446	-40,518*	9,654
Net cash flow from investing activities	75,531	-61,492	18,205	-14,678
Net cash flow from financing activities	-30,146	-58,316	-7,266	-13,920
Movement in cash and cash equivalents	-122,719	-79,362	-29,579	-18,944

	31 March 2015	31 December 2014	31 March 2015	31 December 2014
Non-current assets	4,212,352	4,218,099	1,030,167	989,630
Current assets	1,136,439	1,408,307	277,926	330,410
Non-current assets classified as held for sale	17,560	17,560	4,294	4,120
Share capital	2,239,346	2,239,346	547,651	525,384
Equity attributable to shareholders of the parent company	3,373,905	3,330,672	825,117	781,426
Equity attributable to minority shareholders	0	63,500	0	14,898
Non-current liabilities	1,131,384	1,135,856	276,690	266,489
Current liabilities	861,062	1,113,938	210,580	261,347

Source: Condensed quarterly consolidated financial statements of the PKP CARGO Group for the period of 3 months ended 31 March 2015 prepared according to EU IFRS

* including payment of liabilities stemming from the implemented Voluntary Redundancy Program in the amount of PLN 227 million

Table 2 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN 000s		EUR 000s	
	Q1 2015	Q1 2014	Q1 2015	Q1 2014
Operating revenues	812,492	935,467	195,833	223,294
Profit on operating activities	19,664	74,636	4,740	17,815
Profit before tax	17,114	71,363	4,125	17,034
Net profit from continuing operations	13,608	55,769	3,280	13,312
Total comprehensive income	13,608	55,769	3,280	13,312
Weighted average number of shares (units)	44,786,917	43,724,389	44,786,917	43,724,389
Weighted average number of shares used to calculate diluted profit (units)	44,786,917	44,802,981	44,786,917	44,802,981
Earnings per share (PLN)	0.30	1.28	0.07	0.31
Diluted earnings per share (PLN)	0.30	1.24	0.07	0.30
Net cash flow from operating activities	-153 321*	22,901	-36 955*	5,466
Net cash flow from investing activities	42,609	-47,214	10,270	-11,270
Net cash flow from financing activities	-46,947	-57,232	-11,316	-13,661
Movement in cash and cash equivalents	-157,659	-81,546	-38,000	-19,465

	31 March 2015	31 December 2014	31 March 2015	31 December 2014
Non-current assets	4,132,484	4,093,801	1,010,634	960,468
Current assets	906,144	1,207,089	221,605	283,201
Non-current assets classified as held for sale	17,560	17,560	4,294	4,120
Share capital	2,239,346	2,239,346	547,651	525,384
Equity	3,265,906	3,252,298	798,705	763,038
Non-current liabilities	1,005,867	1,007,911	245,993	236,471
Current liabilities	784,415	1,058,241	191,835	248,279

Source: Quarterly Financial Information of PKP CARGO S.A. for the period of 3 months ended 31 March 2015 prepared according to EU IFRS

* including payment of liabilities stemming from the implemented Voluntary Redundancy Program in the amount of PLN 219.3 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 condensed quarterly standalone financial statements and condensed quarterly consolidated financial statements:

- exchange rate prevailing on the last day of the reporting period: 31 March 2015 - 4.0890 PLN/EUR, 31 December 2014 - 4.2623 PLN/EUR;
- the average exchange rate in the period calculated as the arithmetic mean of the FX rates prevailing on the last day of each month in a given period: 1 January - 31 March 2015 - 4.1489 PLN/EUR, 1 January - 31 March 2014 - 4.1894 PLN/EUR.

2. Organization of the PKP CARGO Group

2.1. Highlights on the Company and the PKP CARGO Group¹

The PKP CARGO Group is the largest rail freight operator in Poland (according to data from the Office of Rail Transport, UTK) and the second largest rail freight operator in the European Union („EU”) measured by freight turnover in 2013 (according to the data from the International Union of Railways). The Group is expanding the geographic coverage of its business by harnessing the opportunities afforded by liberalization of the European rail freight market. Presently, the Group holds safety certificates enabling it to render rail transport services on its own in Slovakia, the Czech Republic, Germany, Austria, Belgium, Hungary, the Netherlands and Lithuania. In addition to rail freight transport services using the resources it holds the Group offers its clients the additional services enumerated below related to rail freight services:

- intermodal services;
- freight forwarding (domestic and international);
- terminal services - intermodal and conventional (freight transshipment and storage);
- siding and traction services;
- repair and maintenance of rolling stock.

2.2. Units subject to consolidation

The condensed quarterly consolidated financial statements for the period of 3 months ended 31 March 2015 encompass PKP CARGO S.A. and 9 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 Sp. z o.o.
7. CARGOSPED Terminal Braniewo Sp. z o.o.
8. CARGOTOR Sp. z o.o.
9. Przedsiębiorstwo Spedycyjne TRADE TRANS Sp. z o.o.

In addition, the following companies are measured using the equity method as at 31 March 2015 in the PKP CARGO Group's condensed quarterly consolidated financial statements:

- COSCO POLAND Sp. z o.o.
- ONECARGO Sp. z o.o.
- ONECARGO CONNECT Sp. z o.o.
- POL-RAIL S.r.l.
- PKP CARGO International a.s. (in liquidation)
- Cargosped Składy Celne Sp. z o.o.
- Terminale Przeładunkowe Sławków-Medyka Sp. z o.o.
- Trade Trans Karya Sp. z o.o.

¹ Whenever the Report mentions:

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

- 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.

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 17 July 2001, and subsequently registered under the name of PKP CARGO Spółka Akcyjna in the District Court in Katowice, VIII 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 was specified as Warsaw, ul. Grójecka 17, the registration files are kept by the District Court for the capital city of Warsaw, XII 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 activity execution areas are created to handle rail sidings. PKP CARGO SERVICE Sp. z o.o. also conducts unloading and vehicle activity supporting rail freight forwarding.

PKP CARGOTABOR Sp. z o.o.

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

PKP CARGOTABOR USŁUGI Sp. z o.o.

Until 22 October 2014 PKP CARGOTABOR USŁUGI Sp. z o.o. did business as PKP CARGOLOK Sp. z o.o. On that same date, changes were registered concerning the extension of the Company's line of business in item PKD 38, i.e. business related to collecting, processing and neutralizing waste, recovery of raw materials.

As of 1 April 2015 PKP CARGOTABOR USŁUGI Sp. z o.o. suspended business activity for 9 months, i.e. until the end of 2015 (if necessary this activity may be resumed earlier by the company - before the elapse of the 9 months).

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.

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.

CARGOSPED Sp. z o.o.

CARGOSPED Sp. z o.o. was established on 29 February 2000. In 2005 PKP CARGO S.A. received a 100% stake in CARGOSPED Sp. z o.o. from PKP S.A. as a contribution-in-kind. This company's core business entails freight forwarding and logistics services in Poland and abroad, especially in rail freight transportation and related logistics services.

In pursuing the process of optimizing the operations of the freight forwarding companies in the PKP CARGO Group this company is devoted to providing freight forwarding services in the area of intermodal transport, aggregate transport and terminal service, including in proprietary terminals. Within the framework of intermodal transport CARGOSPED Sp. z o.o. offers among others door-to-door, just-in-time and place-on-time services.

PS TRADE TRANS Sp. z o. o.

PS TRADE TRANS Sp. z o.o. was established on 8 March 1990. Its core business entails freight forwarding and logistics services in Poland and abroad. The company provides comprehensive logistics services using rail and vehicle, marine and inland water transportation organizing transport, transshipment, storage, warehousing, packaging and distribution. The company also provides overall customs service to clients of the PKP CARGO Group.

Cargosped Terminal Braniewo Sp. z o. o.

Cargosped Terminal Braniewo Sp. z o.o. has been part of the PKP CARGO Group since January 2010 when it was acquired by CARGOSPED Sp. z o.o. The company's major areas of activity constitute re-loading 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.

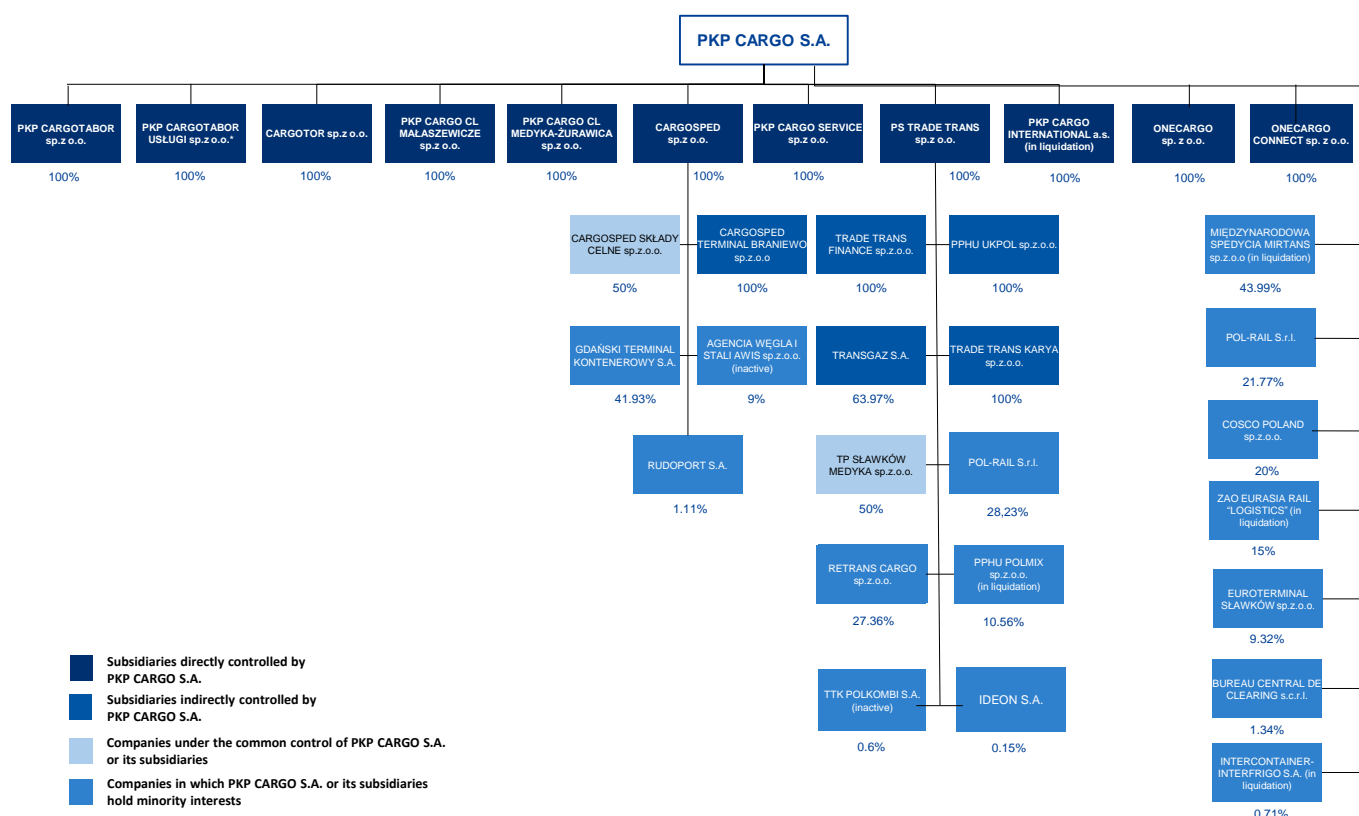
The President of the Office of Rail Transport (UTK) issued CARGOTOR Sp. z o.o. a railway infrastructure manager security authorization in April of this year. This constitutes confirmation that this company ensures safe conduct of railway traffic and railway infrastructure access to rail operators.

2.3. Structure of the PKP CARGO Group

As at 31 March 2015 the PKP CARGO Group, in addition to PKP CARGO S.A., consists of 11 direct subsidiaries of PKP CARGO S.A. and 5 companies in which PKP CARGO S.A.'s subsidiaries hold a majority equity stake. The business of these companies entails freight forwarding, logistics services, transshipment services, the repair and maintenance of wagon and traction rolling stock and handling rail sidings.

In addition, the PKP CARGO Group consists of 2 companies under the common control of PKP CARGO S.A. subsidiaries (holding a 50% equity stake in the share capital) and 14 companies in which PKP CARGO S.A. (7 companies) and PKP CARGO S.A. subsidiaries (8 companies) hold a minority share in the share capital. PKP CARGO S.A. and one of the PKP CARGO S.A. subsidiaries called PS TRADE TRANS 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 1 Structure of the PKP CARGO Group as at 31 March 2015



* business activity suspended on 1 April 2015

2.4. Consequences of changes to the structure of the Company and the Group in Q1 2015

In Q1 2015 PKP CARGO S.A. acquired shares in its subsidiaries:

- on 5 February 2015 PKP CARGO S.A. acquired 640 shares in PS TRADE TRANS sp. z o.o. with its registered office in Warsaw, representing in total a 44.44% stake in this company's share capital in the possession of Trade Trans Invest a.s. with its registered office in Bratislava. As a result of this transaction, PKP CARGO S.A. became this company's sole shareholder with a 100% equity stake in its share capital. These changes intend to acquire full control over the company to optimize the structure of the PKP CARGO Group, including inter alia the conduct of freight forwarding and terminal activity.
- on 5 February 2015 PKP CARGO S.A. acquired 490 shares in PKP CARGO International, a.s. w likwidacji (in liquidation) with its registered office in Bratislava, representing in total a 49% stake in this company's share capital in the possession of Rail Cargo Spedition, a.s. with its registered office in Bratislava. As a result of this transaction, PKP CARGO S.A. became this company's sole shareholder with a 100% equity stake in its share capital.

In parallel, in the PKP CARGO Group, on 5 February 2015 PS TRADE TRANS Sp. z o.o. sold to Trade Trans Invest a 20% stake in Rail Cargo Service Sp. z o.o. with its registered office in Wrocław, a 37.7% stake in Rail Cargo Spedition GmbH with its registered office in Vienna (Austria) and a 23.9% stake in S.C. Trade Trans Terminal SRL with its registered office in Curtici (Romania). As a result of these transactions PS TRADE TRANS Sp. z o.o. no longer holds any shares in these companies.

On 31 March 2015 PKP CARGO International, a.s. w likwidacji (in liquidation) entered into an agreement with CFL CARGO S.A. to sell 31 shares (all the shares it held - 50% of the share capital) in PKP CARGO CFL International S.A. w likwidacji (in liquidation). As a result of this transaction PKP CARGO International, a.s. w likwidacji (in liquidation) no longer holds any shares in PKP CARGO CFL International S.A. w likwidacji (in liquidation).

Moreover, PKP CARGO S.A. subscribed for shares in newly-established commercial companies in which it holds 100% of the shares in their share capital (companies wholly-owned by PKP CARGO S.A.). The companies were registered in the Register of Entrepreneurs of the National Court Register. These companies are as follows:

- ONECARGO CONNECT Sp. z o.o. with its registered office in Warsaw (date of registration in the National Court Register: 11 March 2015) and
- ONECARGO Sp. z o.o. with its registered office in Warsaw (date of registration in the National Court Register: 13 March 2015).

3. Information about the Parent Company

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

COMPANY'S MANAGEMENT BOARD

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

1. the Act of 15 September 2000 entitled Commercial Company Code ("CCC") (Journal of Laws, Number 94, Item 1037, as amended)
2. the Act of 8 September 2008 on Commercialization, Restructuring and Privatization of the state-owned enterprise „Polskie Koleje Państwowe” (Journal of Laws, Number 84, Item 948, as amended)
3. Articles of Association of PKP CARGO S.A., whose consolidated text was set by the Resolution No. 1424 / V / 2015 of the Supervisory Board of PKP CARGO S.A. of 30 April 2015
4. the Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution no. 428/2014 of the PKP CARGO S.A. Management Board on 20 November 2014
5. other internal regulations.

Powers of the Management Board

The Management Board handles the Company's affairs, manages its assets and represents the Company before third parties. The scope of the Management Board's activity includes all the activities, which are not reserved for the Company's Shareholder Meeting or the Supervisory Board. Management Board resolutions are adopted by an absolute majority of votes, with at least half of the Management Board members attending the meeting. The President of the Management Board acting individually or two Management Board members acting jointly or a Management Board member acting jointly with a commercial proxy are authorized to make declarations of will.

Operation of the Management Board

The procedure of the Management Board's operation is described in detail in the Management Board Bylaws. The Bylaws are adopted by the Management Board and approved by the Company's Supervisory Board. According to the Management Board Bylaws, the Management Board makes decisions in the form of resolutions. Management Board resolutions are adopted by an absolute majority of votes, with at least half of the Management Board members attending the meeting; they may only be adopted if all the Management Board Members have been duly notified about the Management Board meeting. According to the Bylaws, if an equal number of votes is cast "for" and "against" together with abstentions, the President of the Management Board will have the casting vote. Management Board meetings are held at least once a week.

In special justified cases, Management Board meetings may be held at 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 the report.

Table 3 Composition of the PKP CARGO S.A. Management Board from 1 January 2015 to the delivery date of the report

Full name	Position	Period in office	
		from	to
Adam Purwin	President of the Management Board	6 February 2014	to date
Wojciech Derda	Management Board Member responsible for Operations	24 April 2014	to date
Jacek Neska	Management Board Member responsible for Trade	24 April 2014	to date
Dariusz Browarek	Management Board Member – Employee Representative in the Management Board	24 April 2014	to date
Łukasz Hadyś	Management Board Member responsible for Finance	12 May 2014	to date

Source: Proprietary materials

The internal split of tasks and functions discharged by Management Board members in Q1 2015 was 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,
- safety of business and internal audit,

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

2. Management Board Member responsible for Finance – the scope of activity of the Management Board Member responsible for Finance include responsibility for rational management of the Company's resources and overseeing the management of specific areas of the Company's activity, in particular:

- finance management,
- purchase and sale of assets.

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

3. Management Board Member responsible for Trade – the scope of activity of the Management Board Member responsible for Trade include responsibility for adequate sales levels and customer relations and overseeing the management of specific areas of the Company's activity, in particular:

- commercial policy,
- sales of transportation services.

4. Management Board Member responsible for Operations – the scope of this Management Board Member's activity include overseeing the management of specific areas of the Company's activity, in alignment with the powers assigned in a separate resolution adopted by the Management Board:

- management of transportation,
- organization of transportation.

5. Management Board Member – Employee Representative in the Management Board – the scope of activities of this Management Board Member – Employee Representative includes overseeing specific areas of Company's operations, in alignment with the powers assigned in a separate resolution adopted by the Management Board, in particular:

- the monitoring of relations with the social partners,
- contact with the social organisations.

Commercial proxies established and revoked:

A joint commercial proxy for Mr. Witold Bawor was in effect until 12 February 2015 – Resolution No. 325/2012 adopted by the Management Board of PKP CARGO S.A. on 17 July 2012. As of 12 February 2015, following the procedure of Art. 371 §5 of the Commercial Company Code, the commercial proxy powers granted to Mr. Witold Bawor were revoked.

A joint commercial proxy for Mr. Grzegorz Kiczmachowski was in effect until 6 March 2015 – Resolution No. 585/2013 adopted by the Management Board of PKP CARGO S.A. on 5 December 2013. As of 6 March 2015, following the procedure of Art. 371 §5 of the Commercial Company Code, the commercial proxy powers granted to Mr. Grzegorz Kiczmachowski were revoked.

Joint commercial proxy for Mr. Arkadiusz Pokropski – Resolution No. 170/2014 adopted by the Management Board of PKP CARGO S.A. on 6 May 2014 and for Mr. Ireneusz Wasilewski – Resolution No. 324/2012 adopted by the Management Board of PKP CARGO S.A. on 17 July 2012. As of 17 March 2015, following the procedure of Art. 371 §5 of the Commercial Company Code, the commercial proxy powers granted to Mr. Arkadiusz Pokropski and to Mr. Ireneusz Wasilewski were revoked. At the same time, joint commercial proxy was granted to Mr. Arkadiusz Pokropski – Resolution No. 104/2015 adopted by the Management Board of PKP CARGO S.A. on 17 March 2015 and for Mr. Ireneusz Wasilewski – Resolution No. 103/2015 adopted by the Management Board of PKP CARGO S.A. on 17 March 2015.

SUPERVISORY BOARD

In accordance with the Articles of Association of PKP CARGO S.A., 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 provisions of § 19 sections 2 and 3 of the Articles of Association of PKP CARGO S.A. The table below presents the composition of the Supervisory Board as at the delivery date of the report.

Table 4 Composition of the PKP CARGO S.A. Supervisory Board from 1 January 2015 to the delivery date of the report

Full name	Position	Period in office	
		from	to
Jakub Karnowski	Supervisory Board Chairman	24 May 2012	to date
Piotr Ciżkowicz	Supervisory Board Deputy Chairman	29 July 2014 (appointed Deputy Chairman on 31 July 2014)	to date
Krzysztof Czarnota	Supervisory Board Member	6 July 2006; 24 May 2012 for the 5th term of office	to date
Marek Podskalny	Supervisory Board Member	6 July 2006; 24 May 2012 for the 5th term of office	to date
Kazimierz Jamrozik	Supervisory Board Member	24 May 2012	to date
Konrad Anuszkiewicz	Supervisory Board Member	13 December 2013	to date
Stanisław Knaflewski	Supervisory Board Member	17 December 2013	to date
Paweł Ruka	Supervisory Board Member	17 December 2013	13 March 2015
Jarosław Pawłowski	Supervisory Board Member	26 April 2014	18 February 2015
Jacek Leonkiewicz	Supervisory Board Member	29 July 2014	to date
Sławomir Baniak	Supervisory Board Member	24 November 2014	to date
Zbigniew Klepacki	Supervisory Board Member	19 February 2015	to date
Raimondo Eggink	Supervisory Board Member	13 April 2015	to date

Source: Proprietary materials

SUPERVISORY BOARD AUDIT COMMITTEE

The PKP CARGO S.A. Audit Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of three Supervisory Board members, including at least two Members meeting the independence criteria and appointed in the manner specified in § 20 and 21 of the Company's Articles of Association. 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 5 Composition of the PKP CARGO S.A. Supervisory Board Audit Committee from 1 January 2015 to the delivery date of the report

Full name	Position	Period in office	
		from	to
Paweł Ruka	Committee Chairman	6 February 2014	13 March 2015
Konrad Anuszkiewicz	Committee Chairman	6 February 2014 (appointed Chairman on 11 May 2015)	to date
Raimondo Eggink	Committee Member	30 April 2015	to date
Stanisław Knaflewski	Committee Member	6 February 2014	to date

Source: Proprietary materials

NOMINATION COMMITTEE

The Nomination Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of three Supervisory Board members, of which at least one Supervisory Board Member 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. The Nomination Committee organizes and exercises ongoing oversight over the recruitment procedure to the positions of Management Board members and over the Management Board member evaluation and appointment process.

Table 6 Composition of the PKP CARGO S.A. Supervisory Board Nomination Committee from 1 January 2015 to the delivery date of the report

Full name	Position	Period in office	
		from	to
Stanisław Knaflewski	Committee Chairman	17 December 2013	to date
Jakub Karnowski	Committee Member	17 December 2013	to date
Jacek Leonkiewicz	Committee Member	31 July 2014	to date

Source: Proprietary materials

3.2. Share capital structure

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

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

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

Source: Proprietary materials

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

On 17 February 2015, the Management Board of the Company received a notification sent by the European Bank for Reconstruction and Development ("EBRD") with information that as a result of a sale of the Company's shares in a block trade concluded on the Warsaw Stock Exchange ("WSE") on 11 February 2015, settled on 13 February 2015, EBRD reduced its stake below 5% of all the votes at the Company's Shareholder Meeting. After the transaction, EBRD holds no shares in the Company.

As at the delivery date of this report, i.e. 12 May 2015, the total number of shares in the Company was 44,786,917. According to the notices received by the Company, the following shareholders held, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the Shareholder Meeting:

Table 8 Shareholder structure of PKP CARGO S.A. as at 12 March 2015 and as at the delivery date of this report

Shareholder	Number of shares	% in share capital	Number of votes	% in the total number of votes at the Shareholder Meeting
PKP S.A.(1)	14,784,194	33.01%	14,784,194	33.01%
ING OFE	4,738,369	10.58%	4,738,369	10.58%
Morgan Stanley (3)	2,380,008	5.31%	2,380,008	5.31%
Aviva OFE (4)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	20,545,975	45.88%	20,545,975	45.88%
Total	44,786,917	100.00%	44,786,917	100.00%

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

(2) According to the notice sent by a shareholder on 30 June 2014.

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

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

Source: *Proprietary materials*

In the period from the delivery date of the 2014 report, i.e. from 12 March 2015 until the delivery of this report, the structure of shareholders who hold, directly or indirectly through subsidiaries at least 5% of the total number of votes at the Shareholder Meeting, did not change.

3.4. 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 12 March 2015, i.e. the delivery date of the 2014 annual report to the delivery date of this report, was as follows:

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

Full name	Number of PKP CARGO S.A. shares held by Management Board members
as at the delivery date of this report	
Adam Purwin	545
Jacek Neska	450
Wojciech Derda	300
Łukasz Hadyś	300
Dariusz Browarek	370
as at 12 March 2015	
Adam Purwin	545
Jacek Neska	450
Wojciech Derda	300
Łukasz Hadyś	300
Dariusz Browarek	370

Source: *Proprietary materials*

The holdings of Company's shares or rights to such shares by members of the Company's Supervisory Board from 12 March 2015, i.e. the delivery date of the 2014 annual report to the delivery date of this report, was as follows:

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

Full name	Number of PKP CARGO S.A. shares held by Supervisory Board members
as at the delivery date of this report	
Jakub Karnowski	915
Piotr Ciżkowicz	675
Krzysztof Czarnota	70
Kazimierz Jamrozik	70
Marek Podskalny	70
Konrad Anuszkiewicz	0
Sławomir Baniak	0
Stanisław Knaflowski	0
Jacek Leonkiewicz	0
Raimondo Eggink	0
as at 12 March 2015	
Jakub Karnowski	915
Piotr Ciżkowicz	675
Krzysztof Czarnota	70
Kazimierz Jamrozik	70
Marek Podskalny	70
Konrad Anuszkiewicz	0
Paweł Ruka	0
Sławomir Baniak	0
Stanisław Knaflowski	0
Jacek Leonkiewicz	0

Source: Proprietary materials

4. Key areas of operation of the PKP CARGO Group

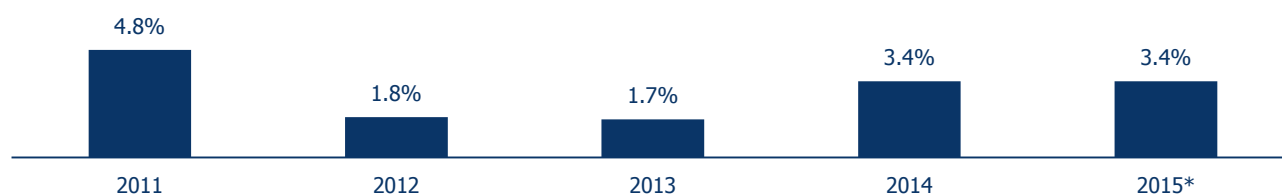
4.1. Macroeconomic environment

Polish economy

The macroeconomic indicators and data in Q1 2015 indicate that the Polish economy has developed as expected, with forecasts² for 2015 assuming 3.4% growth. The achievement of the forecast economic growth has been strongly supported by the observed increase in industrial production sold by 5.3% yoy. One more economic indicator, which confirms high industrial activity is PMI, which fluctuated around 55 points in Q1 2015. The current level of PMI allows us to expect that the current economic growth will be maintained in the coming quarters.

The expected growth of Polish economy will be much higher than that of other economies in the EU, for which the average forecast growth is 1.2%.

Figure 2 GDP growth in Poland in 2011-2014 annually and a forecast for 2015



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

* National Bank of Poland forecast (March 2015)

European economy

The low prices of crude oil and a significant depreciation of Euro are perceived as the key factors to build a positive outlook for the EU economies. The PMI Index for the Euro zone has reached 52.2 points and is interpreted as a signal of further moderate improvement. Currently, the economic growth forecast for the Euro zone for 2015 (according to the European Central Bank) has been increased slightly to 1.5%. Any additional increase of the forecast is however limited by the observed stagnation in the economies of France and Italy, which are respectively the second and third largest economies of the area.

The states of Central and Eastern Europe remain a positive growth stimulus for the entire European Union; as emerging economies, they show the greatest ease in recovering after a crisis and continue to post the highest economic growth numbers in the European Union.

Industry

Rail freight to a significant extent relies on good business conditions in the main industry sectors, where the largest recipients of bulk goods freight services operate. The key buyers of rail freight services include the mining, steelmaking and construction industries, however significant volumes are also transported for the chemical, wood and automotive sectors.

During Q1 2015, an increase in production sold was recorded in most of the industry sectors, which included, among others, production of metal, motor vehicles, chemicals and plastic products. The production of hard coal has decreased.

The prices for industrial production sold in Q1 2015 were 2.6% lower than in the corresponding period of the previous year (of which 2.0% in mining and extraction industry and 3.3% in industrial processing). The very low prices of energy resources, including hard coal and crude oil, had a significant impact on the observed prices. We should note that the global decline in

² Forecast according to NBP (March 2015) and the Budget Act for 2015 (September 2014)

crude oil prices has already been reflected in the prices of petrochemical products and a number of other products, due to the lower prices charged for transportation services.

Mining sector

In Q1 2015, the Polish mining sector remained under an adverse influence of global trends, where oversupply of hard coal has resulted in increasing price pressure in trading of this product. The prices, which fell significantly in 2014, declined even further in the first months of this year. As a result, in Q1 2015 the coal price fell from 65.2 to 61.7 USD per ton (ARA Index). In addition to adverse global business conditions, the difficult situation in coal production in Poland in the period was also a result of high inventories of coal and the continuing evolution of the "energy mix" in Poland.

Non-recurring events, which constituted a material hindrance in the sector's activity, included strikes in the mines of Jastrzębska Spółka Węglowa ("JSW") and Kompania Węglowa, which caused a disruption in deliveries to the customers of those companies. According to Central Statistical Office of Poland ("GUS"), the production of hard coal in this period fell by 8.3%, while the production of lignite increased by 3.3%.

Steel industry

The performance of the metallurgic industry located in Poland was very good in Q1 2015. Polish steel mills increased their steel production, reaching 2.4 million tons of steel, up by 14.3% vis-a-vis the corresponding period of the previous year. The satisfactory results recorded in Poland were in stark contrast with the steelmaking activity of major EU economies, like Germany (a 2% decrease), France (a 1.7% decrease) and Italy (a 10.2% decrease). We should note that the Polish metallurgic industry was supported by the observed reallocation of selected production processes from Ukraine, where supply of selected raw materials and intermediate product was restricted.

During the first quarter of 2015, steel production in the EU was 43.7 million tons (a 0.6% decline), while globally it reached 400 million tons (a 1.8% decline)³.

The trends observed in steel consumption in Europe and globally indicate that the metallurgic industry has still not recovered fully after the crash of 2008 and, even though business conditions have been improving, adequate support of Chinese consumption is required to reach the desired levels.

One important element that determines the current condition of the industry is the downward trend observed in product prices, which is driven by price pressures and by the low prices of raw materials and intermediate products used in the production process. For example, the current level of prices in international sales of iron ores is about USD 50 per ton, while in 2013 the raw material was quoted at USD 130.

The outlook for the Polish steelmaking industry is considered to be positive, due to the high expenditures expected in infrastructure construction, for which the metallurgic industry is an important supplier. Other factors of importance for the industry include the governments activities to implement mechanisms (reverse VAT charges) preventing dishonest practices, which have plagued the industry recently.

According to the forecast prepared by the World Steel Association, global consumption of steel in 2015 will reach 1,544 million tons, up by 0.5% from 2014.

Construction industry

An increase in the construction production index in Q1 2015 was 3.5% yoy, which was affected most significantly by civil engineering investments, while at the same time significant growth was observed in railway infrastructure investment projects.

We should note that, despite the increase of the entire sector, road construction declined by 23.6%, because the EU programs from the 2014-2020 perspective have not yet been launched. A considerable part of the programs prepared currently envisages significant funds to support road construction investments. In 2014-2020, Poland will be able to invest EUR 82.5 billion under the EU cohesion policy, of which about EUR 76.9 billion under operational programs and EUR 4.1 billion under infrastructural programs of European importance.

³ Source: puds.pl - article „Polish steel mills increased production” of 22 April 2015.

The high level of planned infrastructural investments supported by funding from the EU budget allows us to expect that the construction industry should reach the desired, albeit moderate growth, in the coming months.

Important support for the entire industry will be provided by the projects executed in the power industry, including, among others, investments in Opole, Koźienice and Jaworzno power plants.

4.2. Freight transportation activity

4.2.1. Rail freight market in Poland

All freight activity in Poland, performed by all means of transportation, is about 1.8 billion tons annually. Road transportation remains the dominating branch, with an 84% share in total freight transportation.

Rail transport is the second largest branch, handling 12.6% of the volume. We should note that currently, development of rail freight is a priority of the EU authorities focusing on supporting environmentally-friendly forms of transportation.

The progressing implementation of successive railway packages profiles the European transportation market in a way that improves competitiveness of rail transport. The initiatives under implementation, which are focused on developing interoperability of the European transportation network, aim to create good conditions for rail operators to handle international freight, which – in accordance with the intermodality policy (due to long haul distances) – should be dominated by rail transportation.

Because of its geographic location, Poland is a significant transit territory for the main freight routes, which supports expectations of future development of rail freight transportation⁴.

Polish rail transport is supported by the dynamic increase in the activity of Polish seaports. In Q1 2015, 17.3 million tons of cargo was handled in the ports, which is 4% more than in the corresponding period of the previous year⁵.

In Q1 2015, 50.4 million tons of cargo was transported by rail, which represents a decline by 5.9% yoy. Rail operators achieved freight turnover of 11.3 billion tkm, i.e. 1% less than in the corresponding period of the previous year. Average haul increased by 11.2 km (+5.2% yoy)⁶.

The reduced volumes were related mainly to domestic transportation (which fell by approx. 6% yoy) and import freight (reduction by approx. 9%). Export freight was reduced slightly (down by approx. 1% yoy). On the other hand, growth was recorded in transit freight, which grew by about 8% yoy.

The factor that contributed to lower freight numbers was the low activity of the construction industry, where recovery is expected later this year, as successive operational programs co-funded by the EU budget are launched. The lower volumes were also affected by the restricted demand for solid fuels consumed by the domestic power sector as well as the negative external and internal conditions of the Polish mining sector.

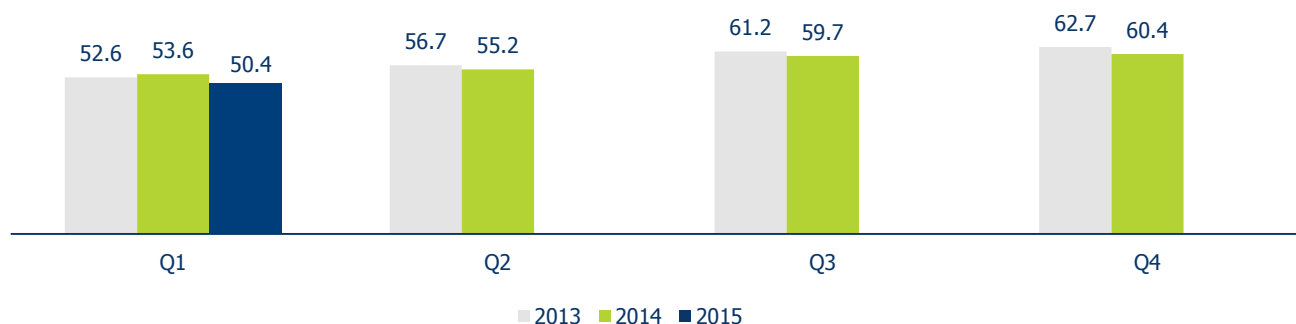
The chapter entitled "Rail transport" presents a detailed description of the factors affecting the PKP CARGO Group's rail transport numbers in Q1 2015.

⁴ Source: Central Statistical Office of Poland

⁵ Source: Office of Rail Transport

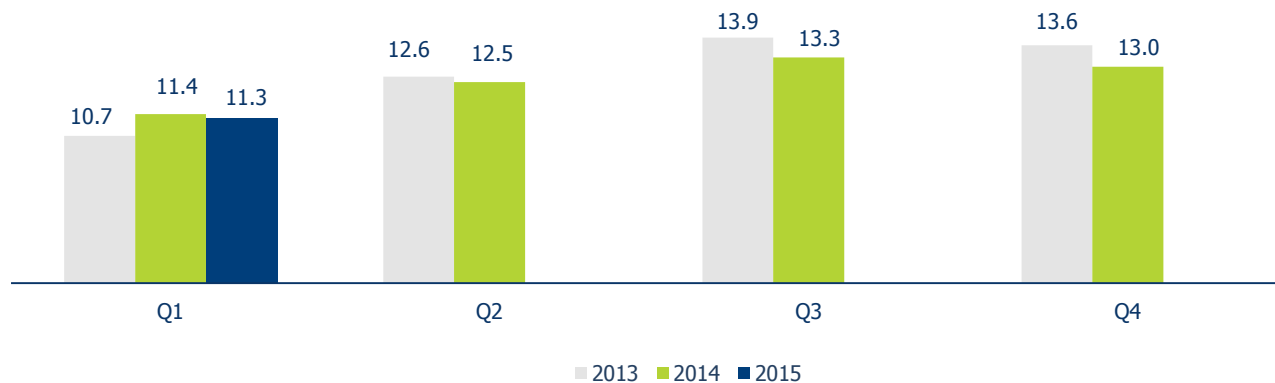
⁶ Source: Central Statistical Office of Poland

Figure 3 Rail transportation by freight volume in Poland (in millions of tons) in individual quarters of 2013-2015



Source: Office of Rail Transport

Figure 4 Rail transportation by freight turnover in Poland (in billions of tkm) in individual quarters of 2013-2015



Source: Office of Rail Transport

Intermodal transport

The increasing containerization of cargo in intercontinental freight transport and an intensive development of Polish seaports drive the observed dynamic growth of intermodal transport. Forwarding based on intermodal cargo units is increasingly becoming the appreciated and implemented model of deliveries executed within the EU but also between the EU and the CIS.

At present, the percentage of intermodal transport in the Polish transportation market remains below the levels observed in the Western Europe. However, as a result of numerous initiatives supporting this service, the percentage of intermodal transport in rail transport in Poland continues to grow.

According to data of the Office of Rail Transport, in 2014, rail transport was used to carry 9.6 million tons (yoy growth of 11.4%), while freight turnover was almost 3.4 billion ton-kilometers, which is 10.9% more than in 2013. The percentage of intermodal transport in rail transport increased to 4.2% by freight volume (3.7% in 2013) and 6.8% by freight turnover (6.0% in 2013). In 2014, intermodal transport services were provided by 12 licensed carriers. The market share of the PKP CARGO Group in this cargo category was 51.6% (by freight turnover).

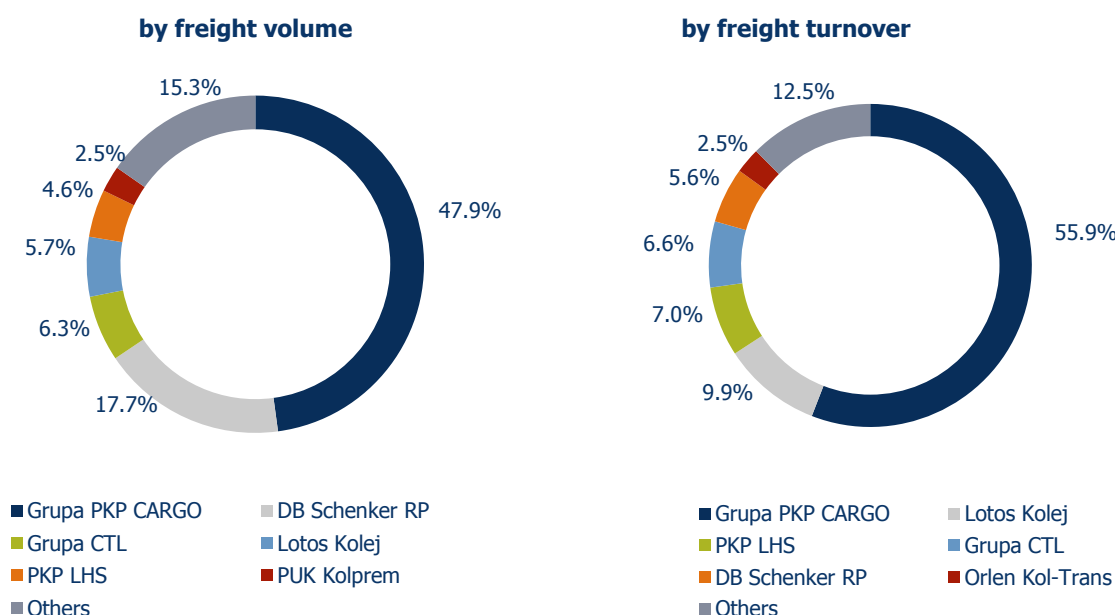
4.2.2. Position of the PKP CARGO Group on the rail transportation market

On the domestic market for rail freight transportation in 2014, freight transportation services were provided by 67 railway carriers. In 2015, as at the end of March, rail transport services were provided by 58 entities. The lower number of active carriers was due to the fact that some entities (with the smallest scale of operation) operate seasonally and their activity will most probably be noted in subsequent quarters.

The Polish rail freight services market is one of the most liberal in the European Union. In respect to the structure of the market by entities, there are five carriers with market shares exceeding 5% by freight turnover, which is a distinguishing feature of the market vis-a-vis other European states. Market players include both domestic and international logistics companies, specialized carriers with vertical ties with industrial groups as well as entities providing transportation services solely for their own needs as part of their support function.

The major operator on the market is the PKP CARGO Group, which has the largest rolling stock, numerous bulk cargo and intermodal terminals and which also provides the broadest range of logistics services. Other major market players include, among others: DB Schenker Rail Group, CTL Group, Lotos Kolej, PKP LHS and PUK Kolprem.

Figure 2 Market shares of rail operators in Q1 2015

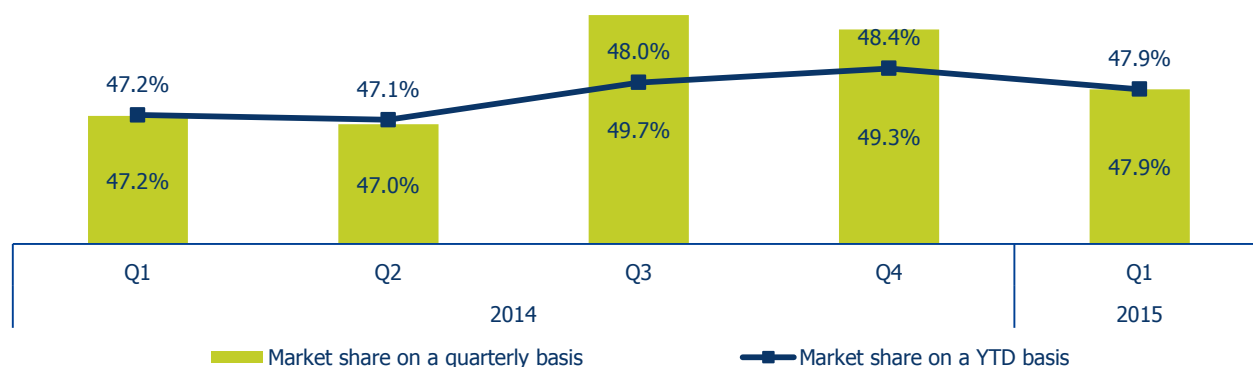


Source: Office of Rail Transport, Proprietary materials

According to the Office of Rail Transport, the Group's market share in March of this year was 57.4% in terms of freight turnover and 48.5% in terms of freight volume.

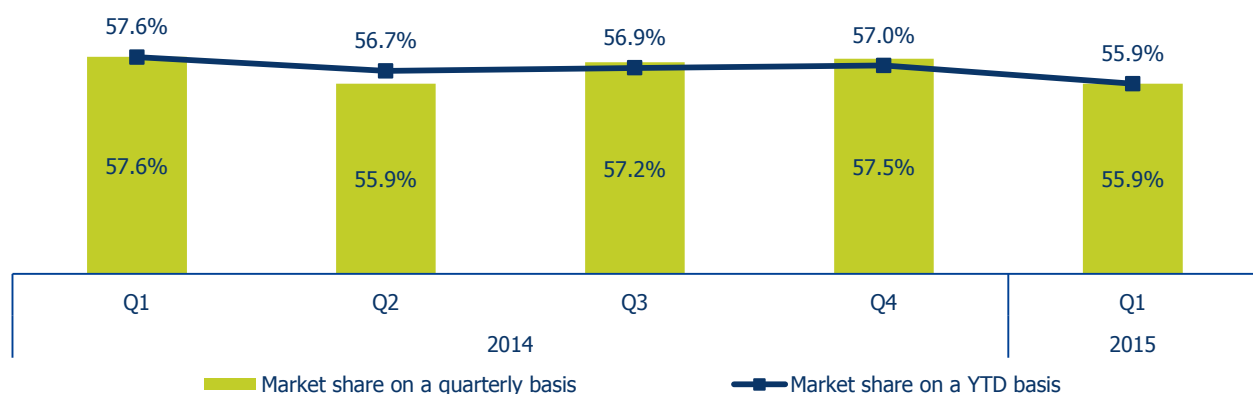
The positive results of the Group's performance in March have been neutralized by the low demand for rail freight services observed in January, which adversely affected the results achieved in the first months of the year. Ultimately, the market share of the PKP CARGO Group after Q1 2015 was 55.9% by freight turnover (down by 1.7 p.p. yoy) and 47.9% by freight volume (up by 0.7 p.p. yoy).

Figure 5 Share of the PKP CARGO Group in freight volume in 2014 and in Q1 2015



Source: Office of Rail Transport, Proprietary materials

Figure 6 Share of the PKP CARGO Group in freight turnover in 2014 and in Q1 2015



Source: Office of Rail Transport, Proprietary materials

4.2.3. PKP CARGO Group's rail transport

Rail freight services are provided by two Group companies: PKP CARGO S.A. and PKP CARGO SERVICE Sp. z o. o.

The PKP CARGO Group provides independent rail freight services in the territory of Poland and eight other European Union states, i.e.: Germany, Czech Republic, Slovakia, Austria, Belgium, the Netherlands, Hungary and Lithuania. The presence of PKP CARGO S.A. on these markets is a growth opportunity for the Group, since it allows it to handle independently the volumes transported from/to key European seaports, including Amsterdam, Rotterdam, Zeebrugge, Antwerp, Hamburg and Bremerhaven.

In addition to the foreign ports, the Group remains actively involved in handling and continuing to develop freight transportation from Polish ports (Gdańsk, Gdynia, Szczecin, Świnoujście), which have been dynamically increasing their transshipment activity in recent years.

The PKP CARGO Group works with the largest Polish and international groups, including, among others, ArcelorMittal, PKN Orlen, PGNiG, Lafarge Group, Azoty Group, Węglukoks, Jastrzębska Spółka Węglowa, Kompania Węglowa, Enea Group, U.S. Steel Kosice, PGE Group, International Paper and the Tauron Group.

The PKP CARGO Group has transshipment terminals, strategically located along the main Pan-European transport corridors crossing the territory of Poland, as well as along the Eastern border of Poland, where broad and standard gauge tracks meet. In order to secure transshipment in the key Eastern border crossings, the Group has two specialized logistics centers located in Małaszewicze (on the Poland-Belarus border) and in Medyka (on the Poland-Ukraine border). PKP CARGO Group terminals dedicated to the intermodal transport are located in the areas of largest industrial clusters and (similarly as bulk cargo terminals) along Poland's Eastern border. The intermodal terminals are located in Poznań, Warsaw, Gliwice, Małaszewicze and Żurawica.

In Q1 2015 the PKP CARGO Group carried a total of 24.1 million tons of cargo (down by 5% yoy) and achieved freight turnover of 6.3 billion tkm (down by 4% yoy).

The Group's freight transport activity in Q1 2015 was distinguished by a deeper inter-branch and intra-branch price competition. Limited rail transport hauls in the first two months of the year fostered an increasing price pressure on transportation services.

Solid fuels were the main type of goods carried by the Group, with hard coal being the dominating cargo. Transportation of solid fuels represented 54% of the Group's freight volume and 46% of freight turnover in Q1 2015.

The volumes transported by the Group were adversely affected by the uncertain situation of Polish mining companies in Q1 2015 (strikes in JSW Group and Kompania Węglowa mines) and accumulation of inventories decreasing demand for both domestic and imported coal, as well as limitation of exports of the commodity caused by continuing decreases of coal prices in global markets (the ARA Index fell by 7% in Q1 2015). Nevertheless, despite the above external factors limiting transport activity, the PKP CARGO Group recorded 2% yoy growth in hard coal transportation measured by freight turnover. The increase achieved in freight turnover was materially supported by the performance of new contracts on the domestic market as well as the increase in transit transport volumes. The Group's activity aimed at selling freight services of solid fuels for the domestic market has largely compensated for the negative trends in export and import. As a result, if export shipments were disregarded, freight turnover of hard coal shipments would have increased by 10% yoy.

Aggregates and construction materials were the second largest group of products carried by the PKP CARGO Group in Q1 2015, with a 15% share in freight turnover (16% in Q1 2014). The transportation of aggregates and construction materials in Q1 2015 was affected by the stagnation in infrastructural investment projects (in January and February of this year, the contractors continued to use the inventories accumulated in Q4 2014 and waited for decisions on pending tenders and commencement of work on new infrastructural investment projects). We should note that some of the infrastructural investment projects were not launched because of the delay in work on implementing the EU funding for the 2014-2020 perspective.

Products associated with the metallurgic industry, i.e. metals and iron ore, are another important market area serviced by the PKP CARGO Group. The share of this group of commodities in the PKP CARGO Group's freight turnover in Q1 2015 was 14% (15% in Q1 2014). The 5% yoy decline in freight volume was driven mainly by the reduced transportation of metals imported from Ukraine as a result of the reallocation of some production processes to other countries, including Poland.

Decrease in freight turnover in the transport of wood and agricultural produce was caused by a decrease in carriage of wood mainly in imports and in transit from Belarus (mainly due to high prices).

The PKP CARGO Group continues to lead the Polish market in intermodal transport, which is an important element of the Group's growth strategy. In Q1 2015, the transport of intermodal units increased both in terms of freight turnover (by 11% yoy) and freight volume (by 9% yoy). The dynamic growth in intermodal transport is driven by the acquisition of new clients following a launch of new intermodal products, extension of the wagon stock and the improving integration of the Group's intermodal terminals with the European network. The HUB terminal located in Poznań Franowo is of fundamental importance for the expansion of the intermodal connection network.

Table 11 Freight turnover of the PKP CARGO Group in Q1 2014 and 2015

	Q1 2015	Q1 2014	Change	% Change	Q1 2015	Q1 2014
	(millions tkm)			%	share in total (%)	
Solid fuels ¹	2,875	2,880	-5	0%	46%	44%
of which hard coal	2,586	2,525	61	2%	41%	38%
Aggregates and construction materials	947	1,058	-111	-10%	15%	16%
Metals and ores ³	872	962	-90	-9%	14%	15%
Chemicals ⁴	499	427	72	17%	8%	7%
Liquid fuels ⁵	130	163	-33	-20%	2%	2%
Timber and agricultural produce ⁶	378	509	-131	-26%	6%	8%
Intermodal transport	458	412	46	11%	7%	6%
Other ⁷	150	156	-6	-4%	2%	2%
Total	6,309	6,567	-258	-4%	100%	100%

Source: Proprietary materials

Table 12 Freight volume of the PKP CARGO Group in Q1 2014 and 2015

	Q1 2015	Q1 2014	Change	% Change	Q1 2015	Q1 2014
	(thous. tons)			%	share in total (%)	
Solid fuels ¹	13,008	13,421	-413	-3%	54%	53%
of which hard coal	11,901	12,244	-343	-3%	49%	48%
Aggregates and construction materials	3,356	3,726	-370	-10%	14%	15%
Metals and ores ³	3,050	3,198	-148	-5%	13%	13%
Chemicals ⁴	1,500	1,513	-13	-1%	6%	6%
Liquid fuels ⁵	482	589	-107	-18%	2%	2%
Timber and agricultural produce ⁶	1,136	1,311	-175	-13%	5%	5%
Intermodal transport	1,174	1,077	97	9%	5%	4%
Other ⁷	415	462	-47	-10%	1%	2%
Total	24,121	25,297	-1,176	-5%	100%	100%

Source: Proprietary materials

Table 13 Average haul of the PKP CARGO Group in Q1 2014 and 2015

	Q1 2015	Q1 2014	Change	% Change
	Km			%
Solid fuels ¹	221	215	6	3%
of which hard coal	217	206	11	5%
Aggregates and construction materials	282	284	-2	-1%
Metals and ores ³	286	301	-15	-5%
Chemicals ⁴	333	282	51	18%
Liquid fuels ⁵	270	276	-6	-2%
Timber and agricultural produce ⁶	333	389	-56	-14%
Intermodal transport	390	383	7	2%
Other ⁷	362	337	25	7%
Total	262	260	2	1%

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

Source: Proprietary materials

Domestic transport increased in terms of freight turnover up to 49% (47% in Q1 2014). The increase in domestic transportation activity was driven mainly by the increase in haul distance and volume of hard coal freight. The percentage of export in Q1 2015 was 21% (23% in Q1 2014, while import and transit transportation were at the Q1 2014 levels, that is respectively 22% and 8% of all of the Group's transportation activity).

In Q1 2015, average haul was 262 km. The development of intermodal transport, in which 93% of the freight entails international transport made a significant contribution to its growth (by 2 km yoy).

Table 14 Structure of PKP CARGO Group's freight turnover in Q1 2014 and 2015 by type of communication

	Q1 2015	Q1 2014	Change	% Change	Q1 2015	Q1 2014
	(millions tkm)			%	share in total (%)	
Domestic	3,108	3,080	28	1%	49%	47%
Export	1,319	1,529	-210	-14%	21%	23%
Import	1,367	1,450	-83	-6%	22%	22%
Transit	515	508	7	1%	8%	8%
Total	6,309	6,567	-258	-4%	100%	100%

Source: Proprietary materials

Table 15 Structure of PKP CARGO Group's freight volume in Q1 2014 and 2015 by type of communication

	Q1 2015	Q1 2014	Change	% Change	Q1 2015	Q1 2014
	(thous. tons)			%	share in total (%)	
Domestic	14,533	14,589	-56	0%	60%	58%
Export	4,341	4,692	-351	-7%	18%	19%
Import	4,434	5,145	-711	-14%	19%	20%
Transit	813	871	-58	-7%	3%	3%
Total	24,121	25,297	-1,176	-5%	100%	100%

Source: Proprietary materials

Table 16 Average haul of the PKP CARGO Group in Q1 2014 and 2015, by type of communication

	Q1 2015	Q1 2014	Change	% Change
	(km)			
Domestic	214	211	3	1%
Export	304	326	-22	-7%
Import	308	282	26	9%
Transit	633	583	50	9%
Total	262	260	2	1%

Source: Proprietary materials

4.3. Other services

Traction services

In addition to the freight transport activity, the Group provides traction services, which involve the provision of a traction unit with an operating team to perform a rail transport operation or to ensure its readiness, e.g. to propel repair or rescue trains. The Group uses its temporary surpluses of traction rolling stock and train crews to provide traction services. As part of this activity, traction rolling stock can also be made available (locomotives without train crews). Traction services and locomotive lease services are provided on the domestic and also foreign markets (Germany, Czech Republic).

Siding services

In addition to pure freight transport activity, the Group also provides a number of supporting services, which include, among others: siding services that entail train forming, shunting services using its own and third party rolling stock, managing railway traffic on sidings, manning the positions with personnel to provide siding services and transport. The sidings operated by the Group are owned by third parties and usually connect the production plants of the Group's clients with the main railway network. The main entity providing these services is PKP CARGO SERVICE Sp. z o.o.

PKP CARGO SERVICE Sp. z o.o., as part of the comprehensive rail sidings operation services, offers shunting service of rail sidings, management of rail traffic on sidings, manning the positions involved with the management of rail traffic on sidings, leasing rolling stock, diagnostics and ongoing maintenance of railway infrastructure, drafting work bylaws for sidings, commercial support for dispatched shipments and regular training of the personnel.

PKP CARGO SERVICE Sp. z o.o. provides its services to companies operating in the mining industry: these are mainly hard coal mines and aggregate mines; and in the power industry: power plants and combined heat and power plants. Currently, the company operates 35 sidings. In Q1 2015, contracts for the operation of 6 siding were acquired. Since the operation of two sidings was commissioned for January only, at the end of Q1 2015 the Company noted an increase in the number of operated sidings by 4 compared to the end of Q4 2014. When compared to the corresponding period of 2014, in Q1 2015 the company recorded an increase by 1 siding.

Transshipment activity

The PKP CARGO Group has developed its transshipment activity based on conventional and intermodal transshipment terminals owned by PKP CARGO Centrum Logistyczne Małaszewicze, PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o., PS TRADE TRANS Sp. z o.o. and CARGOSPED Sp. z o.o.

The conventional terminals are used to transship cargo, mainly hard coal, crude oil and petrochemical products, chemicals, metals and metal products, timber, wood chips, fertilizers, ore, cars. PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o. has a thaw room (which is the only active thaw room at the Polish side of the Eastern border) and a rail gauge switching terminal to change rail car carriages in shipments where no transshipment is performed.

Cargo containers are transshipped in four intermodal terminals, of which three are managed by CARGOSPED Sp. z o.o. and one is owned by PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. The new container terminal in Poznań Franowo was commissioned for use on 18 December 2013 and has been managed by CARGOSPED Sp. z o.o. since 1 November 2014. PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o. has a transshipment point adapted to handle intermodal containers.

In Q1 2015, compared to the corresponding period in 2014, an 8.3% transshipment increase was recorded in convention terminals and a significant decrease of 62.2% in container terminals. This is related directly to a client transferring some of the transshipments to a terminal located at the Belorussian side of the border (which is not managed by the PKP CARGO Group) and a lower number of cargo freight transported to the East, due to the unstable geopolitical situation. The decline in the number of transshipment operations has an insignificant effect on the Group's financial standing.

Intermodal services

Intermodal transport performed by PKP CARGO S.A. constituted about 5% of the Company's transportation services in Q1 2015. This activity experiences the highest growth rates. Considering the efforts to increase importance of intermodal transport on the European market, PKP CARGO S.A. assumes that this type of transportation will grow and it undertakes marketing activities aimed at keeping the current services provided on the Polish territory in cooperation with foreign rail freight companies, that is national railways and private carriers, and improving logistics processes and improving the quality of freight transport.

Within the PKP CARGO Group, comprehensive support of intermodal transport is provided by CARGOSPED Sp. z o.o. The company is a leading logistics operator on the Polish market, specializing in intermodal logistics and rail freight forwarding, relying on the network of its own container terminals and branches. Within the PKP CARGO Group, CARGOSPED Sp. z o.o. offers logistic supply chains based on intermodal transport technologies based on "door to door" and "just in time" models.

In Q1 2015, freight transport carried out by CARGOSPED Sp. z o.o. increased following a launch of new destinations and an increase in volumes carried for existing customers.

Freight forwarding

Freight forwarding services are provided chiefly by PS TRADE TRANS Sp. z o.o. (domestic and international freight forwarding) and CARGOSPED Sp. z o.o. (domestic freight forwarding).

PS TRADE TRANS Sp. z o.o. renders comprehensive logistics services using rail and vehicle, marine and inland water transport organizing transportation, transshipment, storage, warehousing, packaging and distribution. This company also provides customs service. CARGOSPED Sp. z o.o. specializes among others in rail freight forwarding in the transportation of aggregates.

Repair and maintenance of rolling stock

Rolling stock is maintained through points of repair functioning in PKP CARGOTABOR Sp. z o.o. and in the structures of the Units in PKP CARGO S.A. The PKP CARGO Group's rolling stock repair and maintenance organization has the competences to repair and maintain wagons, electric locomotives and diesel locomotives. In addition to the rolling stock owned by the PKP CARGO Group, this organization belonging to the Group also handles the repair and maintenance of rolling stock for other entities on the rail market.

The numbers of repairs and regular inspections performed in various periods ensue from the cycles prescribed by the Maintenance System Documentation (DSU) and the quantity of rolling stock maintained in technical fitness in accordance with the needs reported by the commercial division. On top of regularly-scheduled activities the points of repair functioning in the PKP CARGO Group's structures conduct ongoing repairs to the rolling stock to fix the defects that appear in the rolling stock during the course of its operation.

4.4. Headcount

Information on changes in the headcount at the PKP CARGO Group in Q1 2015 and 2014 is provided below.

Table 17 Headcount at the PKP CARGO Group at the end of the reporting period (applies to active employees)

Item	Headcount as at:		
	31.03.2015	31.12.2014	Change YTD
Company	18,657	20,830	-2,173
Subsidiaries	3,899	4,130	-231
Total	22,556	24,960	-2,404

Source: Proprietary materials

Table 18 Average headcount in Q1 2015 and Q1 2014 in the PKP CARGO Group (applies to active employees)

Item	Average headcount in FTEs		Change 2015-2014	Average headcount (persons)		Change 2015-2014
	Q1 2015	Q1 2014		Q1 2015	Q1 2014	
Company	19,343	22,314	-2,972	19,345	22,317	-2,972
Subsidiaries*	3,920	4,152	-232	3,943	4,185	-242
Total	23,263	26,467	-3,204	23,288	26,501	-3,213

* Includes CARGOTOR Sp. z o.o. employees

Source: Proprietary materials

Table 19 Change in the headcount structure in Q1 2015 and Q1 2014 in the PKP CARGO Group (applies to active employees)

Item	Headcount as at:		Change in Q1 2015	Headcount as at*:		Change in Q1 2014
	31.03.2015	31.12.2014		31.03.2014	31.12.2013	
White-collar positions	4,798	5,349	-551	5,532	5,566	-34
Production positions	17,758	19,611	-1,853	20,946	20,987	-41
Total:	22,556	24,960	-2,404	26,478	26,553	-75

* Includes CARGOTOR Sp. z o.o. employees

Source: Proprietary materials

In Q1 2015, the average headcount in the PKP CARGO Group decreased by 3,204 FTEs in comparison to Q1 2014, mainly as a result of the headcount optimization process in the form of the Voluntary Redundancy Program.

As a result of verification of applications for the Voluntary Redundancy Program, 3,041 employees were given consent to take advantage of the Program. They stopped being employees as of 1 February 2015.

In addition, headcount was also reduced as a result of termination of employment contracts in connection with obtaining retirement rights.

4.5. PKP CARGO Group's investments in property, plant and equipment and intangible assets

In Q1 2015, the Group incurred capital expenditures for purchase of property, plant and equipment and intangible assets in the form of scheduled overhauls of the rolling stock (so-called overhaul component), purchases and modernizations () in the amount of PLN 95.5 million, which accounted for 82.4% of the actuals for Q1 2014.

The biggest part of capital expenditures in Q1 2015 in the Group was allocated for execution of investment tasks associated with the rolling stock, mainly for periodic repairs of the rolling stock, modernization of locomotives (3 locomotives) and purchase of wagons (30 platform wagons for transport of containers) - in total PLN 90.1 million. In addition, expenditures were incurred on computerization, i.e. purchase of computer hardware and intangible assets (software) in the amount of PLN 2.8 million and investment construction activity - PLN 0.4 million.

A detailed schedule of capital expenditures in Q1 2015 and comparison with the actuals from Q1 2014 is presented in the table below.

Table 20 Capital expenditures in the PKP CARGO Group in Q1 2015 compared to Q1 2014 (thousands of PLN)

Item	Q1 2015	Q1 2014	Change 2015-2014	% Change 2015/2014
Investment construction activity	423	2,764	-2,341	-84.7%
Modernization of locomotives	14,459	28,069	-13,610	-48.5%
Purchase of wagons	8,592	8,581	11	0.1%
Machinery and equipment	957	176	781	443.8%
IT	2,756	2,663	93	3.5%
<i>including: intangible assets</i>	<i>2,425</i>	<i>2,351</i>	<i>74</i>	<i>3.1%</i>
Other	1,241	266	975	365.8%
Components in overhaul:	67,052	73,351	-6,299	-8.6%
<i>Scheduled overhauls of locomotives</i>	<i>33,491</i>	<i>19,116</i>	<i>14,375</i>	<i>75.2%</i>
<i>Scheduled overhauls of wagons</i>	<i>33,561</i>	<i>54,235</i>	<i>-20,674</i>	<i>-38.1%</i>
Total:	95,480	115,870	-20,390	-17.6%

Source: Proprietary materials

4.6. Key information and events

Table 21 Key information and events which occurred during the quarterly period and after the balance sheet date

Period	Event
January	<ul style="list-style-type: none"> PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o., as employers, gave consent to 3,041 of 3,300 interested employees from the PKP CARGO Group to take advantage of the Voluntary Redundancy Program. The final total amount of the resulting liabilities was PLN 266 million. This amount, as a provision for future liabilities under the Voluntary Redundancy Program, was reflected in the ledgers and charged to the consolidated result of the PKP CARGO Group for Q4 2014. The people who obtained the employers' consent stopped being employees of companies of PKP CARGO Group as of 1 February 2015. Payment of severance pays under the Voluntary Redundancy Program: the first tranche in the amount of approx. PLN 227 million was paid out together with the salaries for January 2015 and the second tranche in the amount of approx. PLN 38 million will be paid out in January 2016. PKP CARGO S.A. announced a tender for the purchase of 20 multi-system locomotives for cross-border connections, out of which 5 are optional. The total value of the order may amount to PLN 400 million. The hand-over of the first new locomotives for operation is planned for H2 2016. They will take trains to Germany, Czech Republic, Slovakia, Austria, Hungary and Netherlands. PKP CARGO S.A. signed a railway infrastructure access agreement with PKP PLK S.A. The agreement prevails from 14 December 2014 to 12 December 2015. The expected value of the Agreement during its term will total PLN 684,713,941 net (PLN 842,198,147 gross). The Company submitted a notification of a collective dispute with a trade union organization - Federation of Trade Unions of Polish Rail Employees (FZZPPK), active in PKP CARGO S.A. Due to elapse of the deadline for acceptance of the demands (mainly of compensation nature) and presentation of the method of meeting them, the Company entered into a collective dispute with FZZPPK, effective as of 13 January 2015. PKP CARGO S.A. decided to expand the Poznań - Franowo terminal. The storage area will increase from the existing 1,280 TEU to 1,760 TEU. The expansion will be co-financed in 50% from EU funds. The total value of the investment project is PLN 5.8 million. Completion of the construction work is planned for November 2015. A tax group under the name PKP CARGO LOGISTICS - Tax Group ("Tax Group") started to function in the Group. The agreement will prevail for 3 years till 31 December 2017. The Tax Group comprises PKP CARGO S.A., as the representative company, CARGOSPED Sp. z o.o., PKP CARGO SERVICE Sp. z o.o., PKP CARGOTABOR Sp. z o.o. and CARGOTOR Sp. z o.o.
February	<ul style="list-style-type: none"> PKP CARGO S.A. entered into a memorandum of agreement ending the collective dispute effective as of 30 October 2014. The memorandum of agreement envisages partial fulfilment of the postulates pertaining primarily to: a benefit paid on the occasion of the Railway Man Day, introduction of a benefit for change of the work schedule, increase of daily rates for purchase of supportive meals and regenerative meals, introduction of an allocation and incentive allowance, and organizational matters. Receipt of a notice that as a result of sale of the Company's shares in a block trade, the European Bank for Reconstruction and Development reduced its shareholding below 5% of the total number of votes at the PKP CARGO S.A. shareholder meeting ("SM"). Before the Transaction EBRD held 5.10% of the Company's share capital and was entitled to 5.10% of the total number of votes. After the transaction, EBRD does not have any shares of the Company. PKP CARGO S.A. and KGHM Polska Miedź S.A. entered into a preliminary agreement on potential acquisition, by PKP CARGO S.A., of 49% shares in Pol-Miedź Trans (PMT), which is currently wholly-owned by KGHM. PKP CARGO S.A. received information from Mr. Zdeněk Bakala and The Bakala Trust on fulfillment of one of the conditions precedent laid down in the agreement on acquisition, by PKP CARGO S.A., of 80% shares in the share capital of Advanced World Transport B.V. (AWT), involving convalidation of the transfer of the legal title to a collective share slip of AWT a.s. PKP CARGO S.A. signed a purchase agreement for 44.44% shares in PS Trade Trans Sp. z o.o. from Trade Trans Invest a.s. Currently PKP CARGO S.A. owns 100% shares in the company.

- PKP CARGO S.A. received information from Mr. Zdeněk Bakala and The Bakala Trust on fulfillment of the second condition precedent laid down in the agreement on acquisition, by PKP CARGO S.A., of 80% shares in the share capital of Advanced World Transport B.V. (AWT), involving obtaining a confirmation by some AWT group companies from banks and other financial institutions funding AWT group's activities that the transaction will not constitute a breach of the agreements with these institutions.

March

- PKP CARGO S.A. signed a strategic cooperation agreement with HŽ Cargo, Croatian national rail freight carrier. Both companies will cooperate in providing services to their existing customers, transporting goods in the North-South corridor and will prepare a joint logistic offering for prospective new customers.
- PKP CARGO S.A. signed agreements with three leaders of the Polish industries using wood – International Paper Kwidzyń, Kronospan Szczecinek and Mondi Świecie. These are agreements for transport of, among other things, timber, wooden products and wood chips. The total volume of the goods transported by PKP CARGO S.A. over 2 years will exceed 5 million tons, out of which 65% will be transport of timber.

-
- Annual Shareholder Meeting (ASM) adopted a resolution on distributing the profit earned in 2014 - the ASM resolved to allocate the net profit of PLN 58,610,399.18 for:
 1. payment of dividend in the amount of PLN 53,921,567.25;
 2. supplementary capital in the amount of PLN 4,688,831.93.

Additionally, the ASM resolved to allocate for dividend the amount of PLN 56,254,248.57 from retained earnings.

At the same time, the Company's ASM set 15 June 2015 as the dividend record date and 26 June 2015 as the dividend payment date.

The total value of the dividend is PLN 110,175,815.82, i.e. PLN 2.46 per share. The dividend applies to all 44,786,917 shares of the Company.

The content of the ASM resolution was consistent with the Company's Management Board recommendation regarding distribution of the profit earned in 2014. As for allocation of the additional amount for dividend from retained earnings, the Management Board recommended the amount of PLN 56,078,432.75.

April

- President of the Office of Rail Transport issued to PKP CARGO S.A. a safety certificate for 5 years part B no. PL 1220150006 valid from 23 April 2015, being an extension of the safety certificate part B no. PL 1220100001 dated 22 April 2010. The safety certificate confirms acceptance of the regulations adopted by the rail company to satisfy the national requirements regarding security of transport in a given network, in accordance with Directive 2004/49/EC and pertinent national regulations.
- The Extraordinary Shareholder Meeting adopted changes in PKP CARGO S.A.'s Articles of Association; the Supervisory Board adopted the consolidated version of the Company's Articles of Association.
- PKP CARGOTABOR USŁUGI Sp. z o.o. suspended business activity for 9 months, i.e. till the end of 2015 (if necessary this activity can be resumed earlier by the company - before the elapse of the 9 months).
- The President of the Office of Rail Transport (UTK) issued a security authorization for railway infrastructure manager to CARGOTOR Sp. z o.o., a PKP CARGO Group company. This constitutes confirmation that this company ensures safe conduct of railway traffic and railway infrastructure access to rail operators.

May

-
- The Management Board of PKP CARGO S.A. on 10 May 2015 resolved to implement the headcount optimization programme in the Company in the form of the Voluntary Redundancy Programme ("VRP") and to incur for this purpose a monetary obligation about PLN 20 million. The liability assumes, that approximately 250 employees of the Company will participate in the VRP. Registration for the VRP will begin on 1 June 2015 and end on 15 June 2015. Participation in the VRP by the employee requires consent of the employer. Employees who sign up for the VRP will receive confirmation of such approval by 22 June 2015 and cease to be employees of the Company from 1 July 2015. The provision for future liabilities arising from VRP will be recognized in 2Q 2015 results.
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5. Analysis of the financial and economic situation of the PKP CARGO Group

5.1. Basic economic and financial figures

5.1.1. Statement of comprehensive income

In Q1 2015, the PKP CARGO Group transported 24.1 million tons of cargo (i.e. 4.6% less than in Q1 2014) and recorded freight turnover at the level of 6.3 billion tkm (i.e. 3.9% less than in Q1 2014), which is described in detail in the "Rail transport" chapter. The Group's operating revenues dropped by 13.7% yoy and operating expenses by 9.9%. In Q1 2015, the Group generated profit on operating activities and net profit in the amount of PLN 22.2 million and PLN 17.7 million, respectively.

The details of individual line items of the Statement of comprehensive income are presented in the further part of this section.

The key economic and financial results in Q1 2015 compared to the corresponding period of 2014 are presented in the table below.

Table 22 Results of the PKP CARGO Group in Q1 2015 compared to Q1 2014 (thousands of PLN)

No.	Item	Q1 2015	Q1 2014	Change 2015-2014	Change 2015/2014
1	Total operating revenue	896,403	1,038,478	-142,075	-13.7%
2	Total operating expenses	874,186	970,009	-95,823	-9.9%
3	Profit on operating activities	22,217	68,469	-46,252	-67.6%
4	Financial revenue	6,682	6,088	594	9.8%
5	Financial expenses	8,256	10,355	-2,099	-20.3%
6	Share in profits of entities accounted for under the equity method	-1,157	9,361	-10,518	-
7	Result on the sale of shares in entities accounted for under the equity method	1,865	-	1,865	-
8	Profit before tax	21,351	73,563	-52,212	-71.0%
9	Income tax expense	3,683	16,029	-12,346	-77.0%
10	Net profit from continued operations	17,668	57,534	-39,866	-69.3%
11	Net profit (loss) from discontinued operations	-	-	-	-
12	NET PROFIT	17,668	57,534	-39,866	-69.3%

Source: Condensed quarterly consolidated financial statements of the PKP CARGO Group for the period of 3 months ended 31 March 2015 prepared according to EU IFRS

Operating revenues

Table 23 Operating revenue of the PKP CARGO Group in Q1 2015 compared to Q1 2014

No.	Item	Q1 2015	Q1 2014	Change 2015-2014	Change 2015/2014
1	Revenue from sales of services, including:	880,557	1,004,259	-123,702	-12.3%
1.1	Revenue from railway transport and shipping services	802,889	908,647	-105,758	-11.6%
2	Revenue from sales of goods and materials	8,164	12,431	-4,267	-34.3%
3	Other operating revenue	7,682	21,788	-14,106	-64.7%
4	Total operating revenue	896,403	1,038,478	-142,075	-13.7%

Source: Condensed quarterly consolidated financial statements of the PKP CARGO Group for the period of 3 months ended 31 March 2015 prepared according to EU IFRS

In the Group's total operating revenue the biggest item was revenue from sales of services (98.2% in Q1 2015, with 96.7% in share Q1 2014). Revenue from sales of services comprises: freight revenue, revenue from siding and traction services, revenue from the lease of rolling stock, revenue from the services of comprehensive operating support and revenue from repair and maintenance of rolling stock. The remaining part of operating revenue of the PKP CARGO Group comprises revenue from sales of goods and materials, which comprises, among others, sales of steel and cast iron scrap, as well as other operating revenue

comprising, among others, sales of fixed assets, change of the balance of receivables impairment losses and interest on receivables, and change of the balance of provisions for liabilities.

Decrease of PLN 105.8 million in transport revenue resulted from the decreased railway transport in Poland and strong price pressure on transportation services (section "PKP CARGO Group's position in the railway transport services market").

Decrease of PLN 4.3 million revenue from sales of goods and materials, i.e. 34.3% yoy was caused mainly by periodic limitations in decommissioning of rolling stock and hence lower revenue from sales of scrap.

Other operating revenue dropped by PLN 14.1 million, i.e. 64.7% yoy. The decrease is attributable to high other operating revenue in 2014 resulting from reversal of the provision for the UOKiK (Office of Competition and Consumer Protection) penalty in the amount of PLN 14.4 million.

Operating expenses

Table 24 Operating expenses of the PKP CARGO Group in Q1 2015 compared to Q1 2014

No.	Item	Q1 2015	Q1 2014	Change 2015-2014	Change 2015/2014
1	Depreciation/amortization and impairment losses	96,656	90,820	5,836	6.4%
2	Consumption of materials and energy	144,694	158,539	-13,845	-8.7%
3	External services	270,947	320,135	-49,188	-15.4%
4	Taxes and charges	6,834	10,717	-3,883	-36.2%
5	Employee benefits	331,886	363,524	-31,638	-8.7%
6	Other expenses by kind	9,598	9,185	413	4.5%
7	Cost of merchandise and raw materials sold	6,502	8,622	-2,120	-24.6%
8	Other operating expenses	7,069	8,467	-1,398	-16.5%
9	Total operating expenses	874,186	970,009	-95,823	-9.9%

Source: Condensed quarterly consolidated financial statements of the PKP CARGO Group for the period of 3 months ended 31 March 2015 prepared according to EU IFRS

In Q1 2015, the Group's operating expenses decreased by PLN 95.8 million, i.e. 9.9%, to PLN 874.2 million from PLN 970.0 million in Q1 2014.

In Q1 2015, a significant decrease of the costs of external services was recorded - the figure reached PLN 270.9 million, falling by PLN 49.2 million, i.e. 15.4% from Q1 2014. The decrease results mainly from the costs of access to railway infrastructure due to lower transport levels and more efficient utilization of routes. Employee benefits dropped by PLN 31.6 million, i.e. 8.7%, yoy. This resulted from implementation of the headcount optimization model in the form of the Voluntary Redundancy Program and termination of employment contracts in connection with obtaining retirement rights. Consequently, the average headcount in Q1 2015 decreased by 3,204 FTEs yoy. Changes of headcount are presented in section "Headcount".

In Q1 2015, also a decrease of the cost of consumption of materials and energy by PLN 13.8 million, i.e. 8.7%, yoy, was recorded. This is directly related to decrease in of the costs of consumption of traction fuel, which was caused primarily by the decrease of fuel prices.

Increase of the amortization/depreciation costs (together with impairment losses) by PLN 5.8 million, i.e. 6.4% yoy, to PLN 96.7 million in Q1 2015 resulted primarily from higher periodic repairs carried out after Q1 2014.

In Q1 2015, the value of goods and materials sold dropped by PLN 2.1 million, i.e. 24.6% to PLN 6.5 million, following the decrease of revenue from sales of scrap.

Other operating expenses in Q1 2015 dropped by PLN 1.4 million, i.e. 16.5% yoy to PLN 7.1 million, mainly due to lower costs of liquidation of non-current and current assets (decrease by PLN 3.1 million yoy), with simultaneous negative FX differences of PLN 1.9 million.

Profit on operating activities

As a result of the aforementioned changes of operating revenue and expenses, profit on operating activities in Q1 2015 reached PLN 22.2 million.

EBITDA

The result on operating activities increased by the cost due to amortization/depreciation and impairment losses referred to as EBITDA, amounted to PLN 118.9 million in Q1 2015.

Financial activities

Table 25 Financial activities of the PKP CARGO Group in Q1 2015 compared to Q1 2014

No.	Item	Q1 2015	Q1 2014	Change 2015-2014	Change 2015/2014
1	Financial revenue	6,682	6,088	594	9.8%
2	Financial expenses	8,256	10,355	-2,099	-20.3%
3	Share in profits of entities accounted for under the equity method	-1,157	9,361	-10,518	-
4	Result on the sale of shares in entities accounted for under the equity method	1,865	-	1,865	-
5	Result on financial activities	-866	5,094	-5,960	-117.0%

Source: Condensed quarterly consolidated financial statements of the PKP CARGO Group for the period of 3 months ended 31 March 2015 prepared according to EU IFRS

In Q1 2015, the PKP CARGO Group recorded a loss on financial activities in the amount of PLN 0.9 million and consequently its result on financial activities in relation to Q1 2014 deteriorated by PLN 6.0 million. This was caused primarily by higher shares in the profits of companies accounted for under the equity method in Q1 2014 due to valuation of the investment in the shares of CARGOTOR Sp. z o.o. as at 31 March 2014 under the equity method. As at 31 March 2015, CARGOTOR Sp. z o.o. is consolidated by the full method due to the fact that in 2014 it satisfied the materiality criteria defined by the Group's accounting policy.

In addition, the Parent Company recognized an impairment loss for the shares in PKP CARGO International a.s. in liquidation in the amount of PLN 1.6 million.

Profit before tax

In Q1 2015, profit before tax decreased by PLN 52.2 million, i.e. 71.0% yoy, to PLN 21.4 million. The decrease resulted from decrease of the profit on operating activities and the recorded loss on financial activities.

Income tax

In Q1 2015, the PKP CARGO Group recorded income tax in the amount of PLN 3.7 million, of which current tax amounted to PLN 1.2 million, and deferred tax to PLN 2.5 million.

Net profit

In Q1 2015, the Group recorded net profit of PLN 17.7 million.

5.1.2. Description of the asset and liability structure

ASSETS

Table 26 Horizontal and vertical analysis of assets (thousands of PLN)

	As at 31/03/2015 (unaudited)	As at 31/12/2014 (unaudited)	Asset structure		Change	
			31/03/2015	31/12/2014		
ASSETS						
Non-current assets						
Property, plant and equipment	4,010,378	4,011,542	74.7%	71.1%	-1,163	0.0%
Intangible assets	56,882	58,268	1.1%	1.0%	-1,386	-2.4%
Goodwill	2,712	2,712	0.1%	0.0%	0	0.0%
Investment property	1,349	1,362	0.0%	0.0%	-13	-1.0%
Investments accounted for under the equity method	35,567	35,246	0.7%	0.6%	321	0.9%
Other long-term financial assets	6,051	6,051	0.1%	0.1%	0	0.0%
Other long-term non-financial assets	14,677	14,645	0.3%	0.3%	32	0.2%
Deferred tax assets	84,736	88,273	1.6%	1.6%	-3,537	-4.0%
Total non-current assets	4,212,352	4,218,099	78.5%	74.7%	-5,747	-0.1%
Current assets						
Inventories	108,103	115,298	2.0%	2.0%	-7,195	-6.2%
Trade and other receivables	544,712	526,149	10.2%	9.3%	18,563	3.5%
Income tax receivables	3,089	3,053	0.1%	0.1%	36	1.2%
Other short-term financial assets	114,485	306,383	2.1%	5.4%	-191,898	-62.6%
Other short-term non-financial assets	59,591	28,246	1.1%	0.5%	31,345	111.0%
Cash and cash equivalents	306,459	429,178	5.7%	7.6%	-122,719	-28.6%
	1,136,439	1,408,307	21.2%	25.0%	-271,868	-19.3%
Assets classified as held for sale	17,560	17,560	0.3%	0.3%	0	0.0%
Total current assets	1,153,999	1,425,867	21.5%	25.3%	-271,868	-19.1%
Total assets	5,366,351	5,643,966	100.0%	100.0%	-277,615	-4.9%

Source: Condensed quarterly consolidated financial statements of the PKP CARGO Group for the period of 3 months ended 31 March 2015 prepared according to EU IFRS

Non-current assets

The biggest share in the asset structure was held by property, plant and equipment, which, as at the end of Q1 2015, amounted to 74.7% of total assets, compared to 71.1% at the end of 2014. Among the most important items shaping the level of property, plant and equipment one should list means of transport (PLN 3.2 billion).

Current assets

Current assets dropped at the end of Q1 2015 by nearly PLN 271.9 million, i.e. by 19.3%, in relation to the end of 2014, mainly as a result of lower other short-term financial assets by 62.6% - this was directly related to performance of the obligations following from the Voluntary Redundancy Program. The share of current assets in total assets dropped from 25.0% as at 31 December 2014 to 21.2% as at 31 March 2015.

The biggest share in the structure of current assets was held by trade and other receivables (47.9%), cash and cash equivalents (27.0%) and other short-term financial assets (10.1%).

EQUITY AND LIABILITIES

Table 27 Horizontal and vertical analysis of the equity and liabilities (thousands of PLN)

	As at 31/03/2015 (unaudited)	As at 31/12/2014 (unaudited)	Equity and liability structure			
	31/03/2015	31/12/2014	31/03/2015	31/12/2014	Change	
EQUITY AND LIABILITIES						
Equity						
Share capital	2,239,346	2,239,346	41.7%	39.7%	0	0.0%
Share premium	615,343	615,343	11.5%	10.9%	0	0.0%
Other items of equity	-49,622	-51,687	-0.9%	-0.9%	2,065	-4.0%
Retained earnings	568,838	527,670	10.6%	9.3%	41,168	7.8%
Equity attributable to the owners of the parent company	3,373,905	3,330,672	62.9%	59.0%	43,233	1.3%
Non-controlling interest	-	63,500	-	1.1%	-63,500	-
Total equity	3,373,905	3,394,172	62.9%	60.1%	-20,267	-0.6%
Non-current liabilities						
Long-term bank loans and credit facilities	270,203	208,077	5.0%	3.7%	62,126	29.9%
Long-term finance lease liabilities and leases with purchase option	174,613	190,836	3.3%	3.4%	-16,223	-8.5%
Long-term trade and other payables	56,306	67,982	1.0%	1.2%	-11,676	-17.2%
Long-term provisions for employee benefits	620,064	658,217	11.6%	11.7%	-38,153	-5.8%
Other long-term provisions	8,416	8,416	0.2%	0.1%	0	0.0%
Other long-term financial liabilities	-	-	-	-	-	-
Deferred tax provisions	1,782	2,328	0.0%	0.0%	-546	-23.4%
Total non-current liabilities	1,131,384	1,135,856	21.1%	20.1%	-4,472	-0.4%
Current liabilities						
Short-term bank loans and credit facilities	98,705	92,123	1.8%	1.6%	6,582	7.1%
Short-term finance lease liabilities and leases with purchase option	93,645	127,742	1.7%	2.3%	-34,097	-26.7%
Short-term trade and other payables	506,228	530,440	9.4%	9.4%	-24,212	-4.6%
Short-term provisions for employee benefits	139,569	334,844	2.6%	5.9%	-195,275	-58.3%
Other short-term provisions	19,496	24,214	0.4%	0.4%	-4,718	-19.5%
Other short-term financial liabilities	3,212	3,934	0.1%	0.1%	-722	-18.4%
Current tax liabilities	207	641	0.0%	0.0%	-434	-67.7%
	861,062	1,113,938	16.0%	19.7%	-252,876	-22.7%
Liabilities directly related to non-current assets classified as held for sale	-	-	-	-	-	-
Total current liabilities	861,062	1,113,938	16.0%	19.7%	-252,876	-22.7%
Total liabilities	1,992,446	2,249,794	37.1%	39.9%	-257,348	-11.4%
Total liabilities	5,366,351	5,643,966	100.0%	100.0%	-277,615	-4.9%

Source: Condensed quarterly consolidated financial statements of the PKP CARGO Group for the period of 3 months ended 31 March 2015 prepared according to EU IFRS

Equity

Share of equity in total assets as at 31 March 2015 amounted to 62.9% compared to 60.1% at 31 December 2014. The changes in equity resulted primarily from the holding of non-controlling interest by the end of 2014 - PLN 63.4 million. On 5 February 2015, the Parent Company purchased from Trade Trans Invest a.s. 44.44% of the shares in PS Trade Trans Sp. z o.o. for PLN 40 million, and the amount of the difference of PLN 23.4 million was captured in the Group's retained earnings.

Non-current liabilities

Non-current liabilities in Q1 2015 dropped by PLN 4.5 million compared to 31 December 2014, i.e. by 0.4%. Long-term loans and credit facilities increased PLN 62.1 million (29.9%) – this is attributable to disbursement of individual tranches of the loan in

Bank Gospodarstwa Krajowego ("BGK"). At the same time, a decrease of long-term provisions for employee benefits by PLN 38.2 million was recorded (of which PLN 37.9 million resulted from the Voluntary Redundancy Program provision recognized in 2014) and by PLN 16.2 million decrease of long-term finance lease liabilities and leases with purchase option.

Current liabilities

Current liabilities decreased in Q1 2015 compared to the end of 2014 by PLN 252.9 million (i.e. 22.7%). The biggest decrease was recorded in short-term provisions for employee benefits - by PLN 195.3 million, i.e. by 58.3%. This was directly related to the provision recognized in 2014 resulting from the Group's liabilities for the Voluntary Redundancy Program (recognized in this item in the amount of PLN 227.5 million).

5.1.3. Selected financial and operating ratios

The table below presents key financial and operating ratios of the PKP CARGO Group in Q1 2015 compared to Q1 2014.

Table 28 Selected financial and operating ratios of the PKP CARGO Group in Q1 2015 compared to Q1 2014

Item	Q1 2015	Q1 2014	Change 2015-2014	Change 2015/2014	Q1 2015 Adjusted*	Q1 2014 Adjusted*	Change 2015-2014 Adjusted*	Change 2015/2014 Adjusted*
EBITDA margin ¹	13.3	15.3	-2.1	-	13.3	15.3	-2.1	-
Net profit margin ²	2.0	5.5	-3.6	-	2.0	5.5	-3.6	-
Net financial debt to EBITDA ratio ³	0.5	-0.4	1.0	-	0.3	-0.3	0.6	-
ROA ⁴	0.4	2.2	-1.8	-	4.4	5.2	-0.8	-
ROE ⁵	0.6	3.4	-2.8	-	7.0	8.2	-1.2	-
Average distance covered by one locomotive (km/day) ⁶	251.9	250.9	1.0	0.4%	251.9	250.9	1.0	0.4%
Average gross train tonnage per operating locomotive (tons) ⁷	1,523.0	1,477.0	46.0	3.1%	1,523.0	1,477.0	46.0	3.1%
Average running time of train locomotives (hours per day) ⁸	15.4	15.1	0.3	2.0%	15.4	15.1	0.3	2.0%
	271	248	23.1	9.3%	271	248	23.1	9.3%

* Annualized data for 2014 for presentation purposes have been adjusted by the costs of PLN 209.2 million resulting from the Agreement partially ending the collective dispute of 10 June 2013 between the Trade Unions and PKP CARGO S.A. signed by the parties on 22 August 2013, and also from the Employees' Guarantees Pact signed on 2 September 2013.

Annualized data for 2015 for presentation purposes have been adjusted by the effect of provisions of PLN 265.3 million resulting from implemented Voluntary Redundancy Program based on the Resolution no. 423/2014 of the Management Board of PKP CARGO S.A. from 17 November 2014 and the Resolution no. 1363/V/2014 of the Supervisory Board of PKP CARGO S.A. from 27 November 2014.

The adjustment applies only to 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*100.

2. Calculated as the quotient of net profit and total operating revenue*100.

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, minus (i) cash and cash equivalents; and (ii) other short-term financial assets) and annualized EBITDA for the past 12 months (operating profit plus amortization and impairment charges).

4. Calculated as the quotient of annualized net profit for the past 12 months and total assets*100.

5. Calculated as the quotient of annualized net profit for the past 12 months and equity*100.

6. Calculated as the quotient of vehicle-kilometers (i.e. distance covered by PKP CARGO Group's vehicles in the given period) / vehicle-days (i.e. product of the number of active vehicles and number of calendar days in the given period)

7. Calculated as the quotient of gross ton-kilometers and train-kilometers in train work in relation to the locomotives driving the train (in dual traction or pushing the train in the given period).

8. Calculated as the quotient of vehicle-hours (i.e. number of hours of work of PKP CARGO Group's vehicles in the given period) and vehicle-days (i.e. the product of the number of active vehicles and number of calendar days in the given period).

9. Calculated as the quotient of the Group's freight turnover by the average headcount (in FTEs) in the group in the given period.

Source: Proprietary materials

In Q1 2014, the average daily mileage of locomotives was 250.9 km/day and in the corresponding period of 2015 this figure increased by 1.0 km/day, reaching 251.9 km/day. Hence the average daily mileage increased by 0.4%. Improvement of this indicator results from optimization of the transportation process.

In addition, in Q1 2015, the average gross freight turnover per locomotive increased to 1,523 tons (from 1,477 tons in Q1 2014). Hence an increase by 46 tons was recorded - increase of the average freight turnover of driven trains by 3.1%. This is the effect of better utilization of locomotives and optimization of the transportation process.

In Q1 2014 the average running time of train locomotives amounted to 15.1 hours/day. In the corresponding period of 2015, the figure increased by 0.3 hours/day, reaching 15.4 hours/day. Hence the average daily running time of train locomotives increased by 2.0%. The main cause of this is the extension of the average haul and hence the average daily mileage of the locomotives.

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

Introduction of the Voluntary Redundancy Program

To optimize the headcount, the PKP CARGO Group introduced the Voluntary Redundancy Program. The application process for the Voluntary Redundancy Program started on 29 December 2014 and lasted till 15 January 2015. As a result of verification of applications for the Voluntary Redundancy Program, 3,041 employees were given consent to take advantage of the Program. The value of liabilities following from implementation of the Voluntary Redundancy Program in the Group amounted to PLN 265.3 million. This amount, as a provision for future liabilities under the Voluntary Redundancy Program, was reflected in the ledgers and charged to the consolidated result of the PKP CARGO Group for Q4 2014. The people who obtained the employers' consent stopped being employees of PKP CARGO Group as of 1 February 2015. Payment of severance pays under the Voluntary Redundancy Program: The first tranche in the amount of approx. PLN 227 million was paid out together with the salaries for January 2015 and the second tranche in the amount of approx. PLN 38 million will be paid out in January 2016.

In addition, the Management Board of PKP CARGO S.A. on 10 May 2015 resolved to implement the headcount optimization programme in the Company in the form of the Voluntary Redundancy Programme ("VRP") and to incur for this purpose a monetary obligation about PLN 20 million. The liability assumes, that approximately 250 employees of the Company will participate in the VRP. Registration for the VRP will begin on 1 June 2015 and end on 15 June 2015. Participation in the VRP by the employee requires consent of the employer. Employees who sign up for the VRP will receive confirmation of such approval by 22 June 2015 and cease to be employees of the Company from 1 July 2015. The provision for future liabilities arising from VRP will be recognized in 2Q 2015 results. Situation on the rail transport market

The overall economic conditions and situation in the rail freight market have direct influence on the transportation services executed by PKP CARGO Group. Also the throughput of the railway networks, which depends on the commercial speed and the number of track closures resulting from investments carried out in the PKP PLK network, is a factor that has impact on the rail freight.

Transport of hard coal and aggregates constitutes the main area of PKP CARGO Group's activities and the overall situation in these areas impacts results and shares recorded in the market.

The Group's transport of aggregates is particularly sensitive to the level of investments in roads, railways and in the area of civil and water engineering. In Q1 2015, despite growth of the whole construction sector, a 23.6% decline in road construction was recorded. This situation had direct influence on reduction of PKP CARGO Group's freight turnover in the aggregate market by 10% yoy.

The market for solid fuels, in particular, hard coal, is under significant influence of the prices of this raw material in the global markets. In addition, uncertain situation of Polish mining companies in Q1 2015 (strike in JSW Group and Kompania Węglowa mines) and accumulation of inventories decreasing the demand for both domestic and imported coal, limitation of exports of the raw material caused by continuing drops of coal prices in global markets and lower hard coal-based electricity production impacted the volumes transported by the Group which, in the solid fuels market, remained on a level similar to last year's.

An important factor influencing financial performance is the level of prices for freight transport. Change of the price level is attributable to market conditions, structure of transport, transport directions and operational factors. In addition, the prices offered by PKP CARGO are under the price pressure caused by selected end users of transportation services, (mainly due to decrease the rates of the rail infrastructure access charges in 2014), internal and inter-industry competition and increasingly visible deflation.

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 accounts for approx. 16% of operating expenses in the PKP CARGO Group. The level of rail infrastructure access charges in Poland was and still is relatively high, in particular in comparison to other EU countries. The rates of the rail infrastructure access charges are calculated by PKP PLK and are subject to approval of the President of the Office of Rail Transport. Additionally, the activities of the PKP CARGO Group depend on the condition of the railway infrastructure and the railway network is characterized by low quality. An intensive railway network modernization program, although ultimately it will entail improvement of operating conditions, during the course of the construction work will cause hindrances and necessity to route the railway traffic using detours.

In Q1 2015, a significant decrease of the costs of external services was recorded - the figure reached PLN 270.9 million, falling by PLN 49.2 million, i.e. 15.4% from Q1 2014. The decrease results mainly from the lower costs of railway infrastructure access due to lower transport levels and more efficient utilization of routes.

Traction fuel price level

In Q1 2015, a decrease of the cost of consumption and materials by PLN 13.8 million, i.e. 8.7%, yoy, was recorded. This is directly related to decrease of the costs of consumption of traction fuel in PKP CARGO S.A., caused primarily by lower unit fuel prices.

Technical regulations regarding rolling stock

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

Acquisition activities

Also the outcome of the pending acquisition processes in which PKP CARGO S.A. currently participates will have influence on the Group's results.

A key element of further foreign expansion is the currently on-going acquisition of one of the biggest private rail operators in the EU, i.e. AWT, whose operations are mostly focused on the Czech market, perceived by the PKP CARGO Group as exceptionally important due to the size of trade exchange between Poland and Czech Republic. The acquisition is treated by the PKP CARGO Group as another step complementing the existing know-how as a result of organic growth.

The transaction involving PKP CARGO S.A. buying an 80% stake in AWT will enable the PKP CARGO Group to significantly expedite development of activity in the neighboring countries and expand the scope of operations to include new countries where the Group has not been active so far. Additionally, due to the scope of operations of the AWT Group, the transaction gives the Group a prospect of diversification of the service portfolio and achievement of numerous synergies in sales, transport management and rolling stock management.

In addition to the high growth activity outside Poland, the Group is planning further growth in the Polish market. The Group will execute both already started and new, planned strategic efforts aimed at expanding the offering and improving the logistic processes, and will analyze potential acquisition opportunities in Poland.

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

To further grow the Group in the area of local and international freight forwarding, in February PKP CARGO S.A. finalized the share purchase transaction (44.44%) in PS TRADE TRANS Sp. z o.o. and became its sole owner. These changes will make it possible to optimize the structure of the PKP CARGO Group in the future, including, inter alia, the conduct of freight forwarding and terminal activity.

Capital expenditure financing

The Group will finance capital expenditures from investment loans obtained from the European Investment Bank and Bank Gospodarstwa Krajowego, from its own funds and from other sources. Increase of borrowing liabilities will result in increase of (short- and long-term) liabilities and financing costs.

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 railway transport, as an important provider of services in transport of aggregates and other construction materials. According to PKP PLK's forecasts, in 2015 expenditures on infrastructural investments will amount to approx. 9 PLN billion (approx. PLN 7 billion in 2014). Road infrastructure expenditures in 2015 are estimated at approx. PLN 16 billion.

The PKP CARGO Group has extensive experience and is a key player handling transport of construction materials in the Polish market.

FX rates

In 2015, the Group is exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies. The Group's receivables expressed in foreign currencies are short-term receivables (up to 1 month) and payables expressed in foreign currencies are mostly short- and long-term lease 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 revenues (positive FX differences) and costs (negative FX differences). The level of revenues and costs fluctuates during the year, which is caused by changes of the exchange rates. For the Group, the result on FX differences resulting from valuation of financial assets and liabilities amounted to PLN 1.9 million in Q1 2015.

Due to the long maturities, short- and long-term lease liabilities denominated in EUR have the biggest share in financial revenue and expenses, and cause volatility in the Group's result on the level of financial expenses and revenues on account of unrealized FX differences.

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

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

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

For the EUR/PLN exchange rate, there is partial hedging due to the fact that sales revenues in EUR are partly balanced out by costs in the same currency. According to the Financial Risk Management Policy prevailing in the Company, the remainder of the revenues in EUR currency is partially hedged, till the end of Q4 2015, with the use of derivatives.

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 Q1 2015.

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 the actions leading to its decrease, such as liquidation of rolling stock, and efforts aimed at increase of the rolling stock levels through purchases.

The tables below present the structure of the locomotives and wagons used, by type and ownership, as at 31 March 2015 and 31 December 2014.

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

Item	31.03.2015	31.12.2014	Change YTD
diesel locomotives	1,300	1,300	0
electric locomotives	1,162	1,162	0
Total	2,462	2,462	0
owned locomotives (including financial lease)	2,450	2,451	-1
locomotives in operational lease or rented	12	11	1
Total	2,462	2,462	0

Source: Proprietary materials

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

Item	31.03.2015	31.12.2014	Change YTD
owned wagons (including financial lease)	61,996	62,086	-90
wagons in operational lease or rented	0	0	0
Total	61,996	62,086	-90

Source: Proprietary materials

On 24 October 2013, PKP CARGO S.A. signed an agreement on co-financing from European Union funds of a project under the name "Purchase and delivery of newly built platform 80' wagons for transport of containers". Under the project, PKP CARGO S.A. will purchase 330 series Sggrss 80' container platforms, under an agreement concluded on 25 September 2013 with the contractor selected in an unlimited tender - Europejskie Konsorcjum Kolejowe "Wagon" Sp. z o.o. The net value of the wagon delivery amounts to PLN 94,875,000.00. The maximum value of the project co-financing from the Infrastructure and Environment Operational Program will amount to PLN 28,508,700.00. As at 31 March 2015, under the delivery agreement, 270 wagons have been delivered. The remaining wagons will be delivered in 2015.

5.4.2. Real estate

In the transport process, due to the necessity to guarantee appropriate maintenance and repair support, real estate plays an important role. Most real estate used by the Group is used on the basis of lease and rental agreements. The table below presents change of the balance of real estate owned and used by the PKP CARGO Group in Q1 2015.

Table 31 Real estate owned and used by PKP CARGO Group as at 31 March 2015 compared to 31 December 2014.

Item	31.03.2015	31.12.2014	Change YTD
Land - owned, in perpetual usufruct and leased from other entities [ha]	996	1,006	-10
Buildings - owned, leased and rented from other entities [sqm]	684,421	684,945	-524

Source: Proprietary materials

Both decrease of the size of land and buildings owned and in perpetual usufruct by the PKP CARGO Group and decrease of the size of leased and rented land and buildings results from the on-going verification of the size of the assets used by the Parent Company and its Subsidiaries.

6. Other key information and events

6.1. Proceedings pending before the court, arbitration bodies or public administration bodies

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

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

6.2. Information on transactions concluded with related entities

No entity from the PKP CARGO Group entered in Q1 2015 into any transactions with related parties on non-arm's length terms. Also after the balance sheet date no such transactions were concluded.

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

In Q1 2015, PKP CARGO S.A. and its subsidiaries did not grant any sureties for loans or credits loans and did not grant guarantees to a single entity or subsidiary of such entity whose total amount would be the equivalent of at least 10% of PKP CARGO S.A.'s equity.

6.4. Other information which is significant when evaluating employment, assets, financial standing, financial result and movement therein as well as information which is significant when evaluating if the issuer and Group companies are capable of satisfying their liabilities.

In addition to the information presented in this Report, no other information which is significant when evaluating employment, assets, financial standing, financial result and movement therein or information which is significant when evaluating if the issuer is capable of satisfying its liabilities has been identified.

This Consolidated Quarterly Report has been authorized by the PKP CARGO S.A. Management Board on 11 May 2015.

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Adam Purwin
President of the Management Board

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Jacek Neska
Management Board Member

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Łukasz Hadyś
Management Board Member

.....
Wojciech Derda
Management Board Member

.....
Dariusz Browarek
Management Board Member



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