CONSOLIDATED SEMI-ANNUAL REPORT OF THE PKP CARGO GROUP

PKPCARGO

H1
2018

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Independent Auditor's Review Report on the interim condensed separate financial statements for the period from 1 January to 30 June 2018

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Independent Auditor's Review Report on the interim condensed separate financial statements for the period from 1 January to 30 June 2018

for the Shareholders and Supervisory Board of PKP CARGO SA

Introduction

We have reviewed the accompanying interim condensed separate financial statements of PKP CARGO SA with its registered office in Warsaw ("the Company"), consisting of: statement of financial position prepared as at 30 June 2018, statement of comprehensive income, statement of changes in equity and statement of cash flows for the period from 1 January to 30 June 2018, as well as notes to the financial statements.

The Company's Management Board is responsible for the preparation and fair presentation of the interim financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

Our responsibility is to form a conclusion on the interim financial statements based on our review.

Scope of review

We performed the review in accordance with National Standard on Auditing 2410 in the wording of International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", adopted in Resolution No. 2041/37a/2018 passed by the National Council of Certified Auditors on 5 March 2018.

A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical procedures, other review procedures and evaluating the evidence obtained.

A review is substantially less in scope than an audit conducted in accordance with National Standards on Auditing in the wording of International Standards on Auditing. In consequence, a review does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed separate financial statements have not been prepared, in all material respects, in accordance with the requirements of IAS 34.

Katowice, 20 August 2018

BDO spółka z ograniczoną odpowiedzialnością sp.k.
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entered on the list of audit firms in number 3355

Auditor in charge:	**On behalf of BDO spółka z ograniczoną odpowiedzialnością sp.k.:**
Leszek Kramarczuk Audit Partner Certified Auditor No. 1920	**Dr. André Helin** Managing Partner Certified Auditor No. 90004

INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS OF THE **PKP CARGO S.A.**

FOR THE PERIOD OF 6 MONTHS ENDED 30 JUNE 2018
PREPARED IN ACCORDANCE WITH IFRS AS ENDORSED BY THE EUROPEAN UNION

PKPCARGO

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

INTERIM SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2018 TO 30 JUNE 2018

	Note	6 months ended 30/06/ 2018	3 months ended 30/06/ 2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Revenue from sales of services	5	1,859,672	956,261	1,699,181	887,475
Revenues from sales of materials		14,930	6,235	3,867	2,119
Other operating revenue	7	14,199	5,837	9,145	4,447
Total operating revenue		**1,888,801**	**968,333**	**1,712,193**	**894,041**
Depreciation, amortization and impairment losses	6	219,766	110,042	236,547	117,624
Consumption of raw materials and energy	6	304,869	154,054	269,090	136,396
External services	6	546,379	281,184	547,380	282,110
Taxes and charges		10,952	7,104	17,478	8,964
Employee benefits	6	623,952	318,826	577,648	294,874
Other expenses by kind	6	20,224	10,441	20,773	10,976
Cost of raw materials sold		8,776	2,617	1,939	1,255
Other operating expenses	7	8,748	3,494	11,026	5,823
Total operating expenses		**1,743,666**	**887,762**	**1,681,881**	**858,023**
Profit on operating activities		**145,135**	**80,571**	**30,312**	**36,019**
Financial revenue	8	35,020	32,726	21,951	13,746
Financial expenses	8	23,070	12,166	26,942	14,655
Profit before tax		**157,085**	**101,131**	**25,321**	**35,109**
Income tax	9	27,901	15,682	6,831	7,434
NET PROFIT		**129,184**	**85,449**	**18,490**	**27,676**
OTHER COMPREHENSIVE INCOME					
Other comprehensive income subject to reclassification in the financial result					
Effective portion of profits / (losses) related to a hedging instrument to hedge cash flow	27	(32,485)	(25,314)	17,885	(1,378)
Income tax referring to the other comprehensive income line item	9	6,172	4,809	(3,398)	262
Total other comprehensive income subject to reclassification in the financial result		**(26,313)**	**(20,505)**	**14,487**	**(1,116)**
Other comprehensive income not subject to reclassification in the financial result					
Actuarial profits / (losses) on post-employment benefits		(1,486)	(1,486)	(25,028)	(25,028)
Income tax referring to the other comprehensive income line item	9	282	282	4,755	4,755
Total other comprehensive income not subject to reclassification in the financial result		**(1,204)**	**(1,204)**	**(20,273)**	**(20,273)**
Total other comprehensive income		**(27,517)**	**(21,709)**	**(5,786)**	**(21,389)**
TOTAL COMPREHENSIVE INCOME		**101,667**	**63,740**	**12,704**	**6,287**
Earnings per share (PLN per share)					
Basic	19	2.88	1.91	0.41	0.62
Diluted	19	2.88	1.91	0.41	0.62

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

INTERIM SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	As at 30/06/2018	As at 31/12/2017
ASSETS			
Non-current assets			
Property, plant and equipment	**10**	3,660,653	3,611,262
Intangible assets		32,990	39,561
Investments in subsidiaries, associates and joint ventures	**11**	807,333	804,629
Other non-current financial assets	**12**	4,919	8,647
Other non-current non-financial assets	**13**	4,202	4,484
Deferred tax assets	**9**	98,050	89,904
Total non-current assets		**4,608,147**	**4,558,487**
Current assets			
Inventories	**14**	87,158	86,426
Trade and other receivables	**15**	516,001	486,607
Other current financial assets	**12**	429,450	281,630
Other current non-financial assets	**13**	50,814	27,976
Cash and cash equivalents	**16**	49,313	295,910
Total current assets		**1,132,736**	**1,178,549**
Non-current assets classified as held for sale	**17**	18,267	-
TOTAL ASSETS		**5,759,150**	**5,737,036**
EQUITY AND LIABILITIES			
Equity			
Share capital	**18**	2,239,346	2,239,346
Supplementary capital	**18**	596,720	589,202
Other items of equity		(27,997)	12,469
Retained earnings		397,562	265,444
Total equity		**3,205,631**	**3,106,461**
Long-term liabilities			
Long-term bank loans and borrowings	**20**	1,118,884	1,211,148
Long-term finance lease liabilities	**21**	325	3,308
Long-term provisions for employee benefits	**25**	512,003	502,856
Other long-term provisions	**26**	14,224	14,224
Other long-term financial liabilities	**22**	1,431	-
Total long-term liabilities		**1,646,867**	**1,731,536**
Short-term liabilities			
Short-term bank loans and borrowings	**20**	223,480	219,352
Short-term finance lease liabilities	**21**	15,371	31,069
Short-term trade and other payables	**24**	540,592	549,188
Short-term provisions for employee benefits	**25**	107,496	81,424
Other short-term provisions	**26**	12,418	16,905
Other short-term financial liabilities	**22**	652	-
Short-term tax liabilities		6,643	1,101
Total short-term liabilities		**906,652**	**899,039**
Total liabilities		**2,553,519**	**2,630,575**
TOTAL EQUITY AND LIABILITIES		**5,759,150**	**5,737,036**

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

INTERIM SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2018 TO 30 JUNE 2018

			Other items of equity				
	Share capital	Supplementary capital	Profits / (losses) on measurement of equity instruments at fair value	Actuarial profits / (losses) on post-employment benefits	Profits / (losses) related to a hedging instrument to hedge cash flow	Retained earnings	Total
As at 1/01/2018 (audited)	**2,239,346**	**589,202**	**-**	**(4,278)**	**16,747**	**265,444**	**3,106,461**
Changes resulting from the implementation of IFRS 9	-	-	(12,949)	-	-	10,452	**(2,497)**
As at 1/01/2018 (restated)	**2,239,346**	**589,202**	**(12,949)**	**(4,278)**	**16,747**	**275,896**	**3,103,964**
Net result for the period	-	-	-	-	-	129,184	**129,184**
Other comprehensive income for the period (net)	-	-	-	(1,204)	(26,313)	-	**(27,517)**
Total comprehensive income	**-**	**-**	**-**	**(1,204)**	**(26,313)**	**129,184**	**101,667**
Other changes for the period	-	7,518	-	-	-	(7,518)	**-**
As at 30/06/2018	**2,239,346**	**596,720**	**(12,949)**	**(5,482)**	**(9,566)**	**397,562**	**3,205,631**
As at 1/01/2017	**2,239,346**	**589,202**	**-**	**22,249**	**(3,834)**	**171,477**	**3,018,440**
Net result for the period	-	-	-	-	-	18,490	**18,490**
Other comprehensive income for the period (net)	-	-	-	(20,273)	14,487	-	**(5,786)**
Total comprehensive income	**-**	**-**	**-**	**(20,273)**	**14,487**	**18,490**	**12,704**
As at 30/06/2017	**2,239,346**	**589,202**	**-**	**1,976**	**10,653**	**189,967**	**3,031,144**

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

INTERIM SEPARATE CASH FLOW STATEMENT FOR THE PERIOD FROM 1 JANUARY 2018 TO 30 JUNE 2018

	Note	6 months ended 30/06/2018	6 months ended 30/06/2017
Cash flow from operating activities			
Profit before tax		**157,085**	**25,321**
Adjustments:			
Depreciation of property, plant and equipment and amortization of intangible assets	6	219,766	236,299
Impairment of non-current assets	6	-	248
(Profit) / loss on the sale and liquidation of property, plant and equipment, intangible assets and non-current assets held for sale		116	1,010
Foreign exchange (profit) / loss		921	(2,697)
(Profit) / loss on interest, dividends		(23,341)	(4,149)
Received / (paid) interest		2,150	938
Received / (paid) income tax		(24,296)	(11,233)
Other adjustments		(11,833)	(16,448)
Change in working capital:			
(Increase) / decrease in trade and other receivables		(1,818)	(35,984)
(Increase) / decrease in inventories		2,451	(140)
(Increase) / decrease in other assets		(13,541)	(23,465)
Increase / (decrease) in trade and other payables		8,420	(22,433)
Increase / (decrease) in other financial liabilities		2,083	1,873
Increase / (decrease) in provisions		30,731	54,437
Net cash from operating activities		**348,894**	**203,577**
Cash flow from investing activities			
Expenditures to acquire property, plant and equipment and intangible assets		(302,851)	(191,872)
Proceeds from disposal of property, plant and equipment, intangible assets and non-current assets held for sale		89	99
Proceeds from interest received		3,701	2,717
Proceeds from dividends received		-	600
(Outflow) / inflows from bank deposit over 3 months		(150,212)	(300,000)
Net cash from investing activities		**(449,273)**	**(488,456)**
Cash flow from financing activities			
Payments of finance lease liabilities	23	(19,620)	(28,143)
Interest paid on finance lease liabilities	23	(290)	(687)
Proceeds from bank loans and borrowings	23	-	10,733
Repayment of bank loans and borrowings	23	(110,105)	(130,660)
Interest paid on bank loans and borrowings	23	(12,230)	(13,646)
Inflow / (outflow) as part of cash pool		(2,427)	(44,552)
Other outflow from financing activities		(1,546)	(1,826)
Net cash from financing activities		**(146,218)**	**(208,781)**
Net increase / (decrease) in cash and cash equivalents		(246,597)	(493,660)
Cash and cash equivalents at the beginning of the reporting period	16	295,910	611,990
Cash and cash equivalents at the end of the reporting period	16	**49,313**	**118,330**

EXPLANATORY NOTES TO THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS AS AT 30 JUNE 2018

1. General information

Information about the Company

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

The Company's reporting year is the calendar year.

The composition of the Company's management and supervisory bodies and the Company's shareholding structure as at 30 June 2018 are presented in the Management Board Report on the Activity of the PKP CARGO Group for H1 2018, in **Notes 3.1** and **3.3**, respectively.

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

Information about the Group

As at the balance sheet date, the PKP CARGO Group (hereinafter: "Group") comprised PKP CARGO S.A. as its parent company and 25 subsidiaries. In addition, the Group held stakes in 3 associated entities and 2 joint ventures. The Group has prepared its Interim Condensed Separate Financial Statements for the 6 months ended 30 June 2018.

Additional information about subsidiaries, associates and interests in joint ventures is presented in **Note 11** to these Interim Condensed Separate Financial Statements.

The duration of individual Group companies is unlimited.

2. Basis for the preparation of the Interim Condensed Separate Financial Statements

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

These Interim Condensed Separate Financial Statements should be read together with the audited Separate Financial Statements of PKP CARGO S.A. for the year ended 31 December 2017 prepared according to EU IFRS.

These Interim Condensed Separate Financial Statements have been prepared based on the assumption of the Company's being a going concern in the foreseeable future. As at the preparation date of these Interim Condensed Separate Financial Statements, there are no circumstances indicating any substantial doubt about the Company's ability to continue its business as a going concern for a period of at least 12 months from the end of reporting period.

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

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

These Interim Condensed Separate Financial Statements have been prepared in Polish zloty (PLN). Polish zloty is the Company's functional and reporting currency. The data in the financial statements are presented in thousands of PLN.

These Interim Condensed Separate Financial Statements consist of the separate statement of comprehensive income, separate statement of financial position, separate statement of changes in equity, separate statement of cash flows and explanatory notes.

These Interim Condensed Separate Financial Statements have been reviewed by a statutory auditor. The line items of the separate statement of financial position as at 31 December 2017 were audited by a statutory auditor during the audit of the Separate Financial Statements of PKP CARGO S.A. for the year ended 31 December 2017 prepared according to EU IFRS.

The line items of the separate statement of comprehensive income for the period of 6 months ended 30 June 2017 have been restated due to the retrospective application of IFRS 15. In these Interim Condensed Separate Financial Statements, certain items of the statement of financial position as at 1 January 2018 have been restated in connection with the implementation of IFRS 9. Data as at 31 December 2017 are presented based on IAS 39 "Financial Instruments: Recognition and Measurement".

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

These Interim Condensed Separate Financial Statements were approved for publication by the Management Board on 20 August 2018.

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

Statement on accounting policies

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

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

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

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

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

     The amended standard imposes an obligation to carry shares in unlisted companies in fair value and significantly reduces the existing possibility of carrying assets at cost.
  2) Introduction of a new model for assessment of impairment of financial assets which replaces the concept of incurred losses with the concept of expected credit losses.
  3) Hedge accounting model.
- **Amendments to IFRS 2 "Share-based Payment"** entitled "Classification and valuation of share-based payment transactions" apply to annual periods beginning on 1 January 2018 or afterwards. This amendment to IFRS 2 clarifies that the fair value of share-based payments settled in cash should be determined in the same way as in the case of payments settled in equity instruments. The amendment of the standard introduced a requirement of adjustment of the liability through taking into account each change of the value in the financial result before change of the classification from liabilities to equity. The cost recognized after modification is based on the fair value from the modification date. The amendment has introduced an exception according to which the payment of cash to the tax authority is treated as part of the settlement in the form of equity instruments. The entity should disclose the estimate amount that it expects to pay to the tax authority on account of such tax. As at the date of the first application of this amendment, the reclassification of the liability to equity will not have any impact on the financial result.
- **Amendments to IFRS 4 "Insurance Contracts": Application of IFRS 9 "Financial Instruments" together with IFRS 4 "Insurance Contracts"** – applicable to annual periods beginning on 1 January 2018 or afterwards. These amendments introduce the following two options for entities issuing insurance contracts: temporary exemption from the application of IFRS 9 and recognition in other comprehensive income of the effects of measurement of certain financial assets and liabilities which in accordance with IFRS 9 should be recognized under profit or loss.
- **Amendments to IFRS 1 and IAS 28 as a result of "Amendments to IFRS (cycle 2014-2016)" –** added changes as part of the procedure of annual improvements amendments to IFRS focused mainly on resolving inconsistencies and unifying the terminology. The amendments to IFRS 1 and IAS 28 apply to annual periods beginning on 1 January 2018 or afterwards.
- **Interpretation of IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** – applicable to annual periods beginning on 1 January 2018 or afterwards. The interpretation clarifies the term of transactions comprising receipt or payment of an advance consideration in a foreign currency.
- **Amendments to IAS 40 "Investment Property"** entitled "Reclassification of investment property" – applicable to annual periods beginning on 1 January 2018 or afterwards. The amendments raise the question of whether an investment property under construction should be transferred from inventories to investment property if there is a clear change in its use.

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

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

Impact on separate financial statements:

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

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

Change in the principles of classification and measurement of financial assets

The change in the principles of classification has cause changes in the classification of financial assets in the Company's financial statements. Certain instruments previously classified into the loans and receivables category satisfy the conditions of classification into assets measured at amortized cost, hence the entry of IFRS 9 into force has not caused a change in the principles of their valuation. Shares held by the Company in companies not listed on active markets were measured at purchase price minus impairment losses, if any. As at 31 December 2017, the Company, as part of interests in unlisted companies, presented mainly the value of the shares in Euroterminal Sławków Sp. z o.o. in the amount of PLN 6,021 thousand. As a result of the first application of IFRS 9, the Company measured the fair value of the shares in Euroterminal Sławków Sp. z o.o. The fair value of this shares was calculated as PLN 4,883 thousand.

In accordance with the adopted amendments to the accounting policy, the effects of fair value valuation of investments in equity instruments is recognized in other comprehensive income. In the statement of financial position, the effects of the measurement of investments in equity instruments are presented as other items of equity.

Shares in other companies not listed on active markets are measured at cost, which as at 1 January 2018 was PLN 832 thousand and was fully covered by an impairment loss. In the Company's opinion, due to limitations in the extent of available information, this method of measurement reflects the fair value of these assets.

As at the date of the first application of IFRS 9, the Company restated the data resulting from the Separate Financial Statements for the financial year ended 31 December 2017 as follows:

– the effects of measurement of the shares in Euroterminal Sławków Sp. z o.o. at fair value as at 1 January 2018 in the amount of PLN 1,138 thousand decreased other financial assets and other items of equity,

– the impairment loss on investment in equity instruments recognized in previous periods in the amount of PLN 11,811 thousand increased retained earnings and decreased other items of equity.

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

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

Model for the assessment of impairment of financial assets

The new financial asset impairment model implemented by the Company is based on an analysis of the probability of incurred credit losses on trade receivables. The probability of incurred credit losses was estimated on the basis of the historical analysis of recoverability of the balances of trade receivables in specific aging ranges. The determined amount of the additional impairment loss on trade receivables resulting from the implementation of IFRS 9 was PLN 1,678 thousand.

The implementation of IFRS 9 has not affected the impairment of other debt-based financial assets.

Changes resulting from the application of IFRS 9 in respect of the model for the assessment of impairment of financial assets are recognized as at 1 January 2018 as follows:

– trade receivables decreased by PLN 1,678 thousand,

– deferred tax assets increased by PLN 319 thousand,

– retained earnings decreased by PLN 1,359 thousand.

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

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

Hedge accounting

The changes in hedge accounting in the case of the Company pertained mainly to documentation issues and hence the entry into force of IFRS 9 did not affect, in this respect, the Company's assets or financial standing.

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

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

	As at 01/01/2018 (audited)	Measurement of investments in equity instruments	Model for impairment of financial assets	As at 01/01/2018 (restated)
ASSETS				
Non-current assets				
Other non-current financial assets	8,647	(1,138)	-	7,509
Deferred tax assets	89,904	-	319	90,223
Total non-current assets	**4,558,487**	**(1,138)**	**319**	**4,557,668**
Trade and other receivables	486,607	-	(1,678)	484,929
Total current assets	**1,178,549**	**-**	**(1,678)**	**1,176,871**
TOTAL ASSETS	**5,737,036**	**(1,138)**	**(1,359)**	**5,734,539**
EQUITY AND LIABILITIES				
Equity				
Other items of equity	12,469	(12,949)	-	(480)
Retained earnings	265,444	11,811	(1,359)	275,896
Total equity	**3,106,461**	**(1,138)**	**(1,359)**	**3,103,964**
TOTAL EQUITY AND LIABILITIES	**5,737,036**	**(1,138)**	**(1,359)**	**5,734,539**

- **IFRS 15 "Revenue from Contracts with Customers" –** since the Company generates revenues primarily from the provision of rail transport services, the entry of IFRS 15 into force has chiefly affected transportation agreements. As a result of completed works, it has been concluded that the commercial agreements contain a variable compensation component resulting from:
  – the possibility of imposing penalties on the client in connection with its failure to meet the contractual provisions pertaining to transportation of a specified freight volume during the term of the agreement,
  – the possibility of imposing a penalty on the Company by the client in the event of failure to transport the ordered freight volume.
  Previously, these penalties have been presented as other revenues or operating expenses depending on the nature of the penalty. According to the new standard, these penalties are treated as a component of revenues from sales. Based on IFRS 15 C3 a) the Management Board of the Company has decided that the standard will be implemented retrospectively in accordance with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, with the possibility of taking into account the instructions contained in clause C5. The application of this approach did not result in an adjustment of the Company's equity as at the date of its first application of IFRS 15.
  In accordance with the previously applied accounting principles, the following items were recognized in the period from 1 January 2017 to 30 June 2017:
  – in other operating revenues, debit notes and provisions for penalties imposed on clients in the amount of PLN 3,300 thousand,
  – in other operating expenses, provisions for penalties charged by the client in the amount of PLN 559 thousand.
  In line with the aforedescribed changes, the Company has restated its comparative data.

  Presented below is the restatement of comparative data. Information disclosed in additional notes to these Interim Condensed Separate Financial Statements has also been restated accordingly.

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

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

Presented below is the impact of the implementation of IFRS 15 on the separate statement of comprehensive income for the 6 months ended 30 June 2017:

	6 months ended 30/06/2017 (published)	Penalties resulting from sales agreements	6 months ended 30/06/2017 (restated)
Revenue from sales of services	1,696,440	2,741	1,699,181
Other operating revenue	12,445	(3,300)	9,145
Total operating revenue	**1,712,752**	**(559)**	**1,712,193**
Other operating expenses	11,585	(559)	11,026
Total operating expenses	**1,682,440**	**(559)**	**1,681,881**
Profit on operating activities	**30,312**	**-**	**30,312**
Profit before tax	**25,321**	**-**	**25,321**
NET PROFIT	**18,490**	**-**	**18,490**
Total other comprehensive income	**(5,786)**	**-**	**(5,786)**
TOTAL COMPREHENSIVE INCOME	**12,704**	**-**	**12,704**

The Company has carried out an analysis of the potential impact of the other aforementioned standards, interpretations and amendments to the standards on the accounting policy (principles) applied by the Company and in the opinion of the Company's Management Board, they are irrelevant to the Company or will have no material impact on the currently applied accounting policy (principles).

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

When approving these Interim Condensed Separate Financial Statements, the Company did not apply the following standards and amendments to the standards and interpretations issued by the International Accounting Standards Board for application by the EU:

- **IFRS 16 "Leases"** – applicable to annual periods beginning on 1 January 2019 or afterwards. In accordance with IFRS 16 the lessee recognizes the right to use an asset and lease liability. The right to use an asset is treated like other non-financial assets and amortized accordingly. Lease liabilities are initially measured at current value of the lease payments payable during the lease term, discounted by the lease rate, if it is not difficult to determine it. If such a rate cannot be easily determined, the lessee applies the marginal interest rate.
- **Amendments to IFRS 9 "Financial Instruments"** entitled Prepayment Features with Negative Compensation – applicable to annual periods beginning on 1 January 2019 or afterwards. The amendments make it possible for entities to carry some financial assets subject to prepayment with the so-called negative compensation at amortized cost.

Impact on separate financial statements:

- **IFRS 16 "Leases" –** preliminary analysis of the impact of IFRS 16 on the applied accounting principles has shown that the Company will have to recognized retrospectively in the financial statements material assets and liabilities that are currently included in long-term operating lease agreements, rental agreements or lease agreements. The implementation of IFRS 16 will affect the financial statements to the following extent:

  – in the statement of financial position, there will be an increase in non-current assets (predominantly land, buildings and structures) and lease liabilities. The Company intends to present its rights to the use of assets in a separate statement of financial position. This line item will also include assets used under current finance lease agreements in accordance with IAS 17,

  – in the statement of comprehensive income, the costs of depreciation and financial expenses will increase and the costs of external services will decrease.

  The Company's Management Board intends to recognize lease contracts retrospectively in accordance with IFRS 16 Annex C item 5b, by presenting as at 1 January 2019 the combined effect of the application of this standard by adjusting the opening balance of retained earnings, without restating the comparative data. As a result of these changes, net debt and the ratio of net debt to EBITDA will increase.

  The Company is currently in the process of detailed identification of the agreements subject to the new requirements of the standard and preliminary preparation of possible valuation models and recognizing of the aforementioned agreement in the financial statements. In the period of 6 months ended 30 June 2018, the Company recognized in operating expenses PLN 41,737 thousand of payments on account of short- and long-term lease, rental and operating lease agreements, of which PLN 24,271 thousand related to key lease and rental agreements related to real estates entered into for a period of approx. 15 years or for an indefinite term. Other payments pertain predominantly to rolling stock lease and rental agreements with a term of up to 3 years old and also include expenses arising from agreements which, as at 1 January 2019, will not fulfill the criteria for recognition as lease contracts in accordance with IFRS 16. At this stage it is not possible to determine the numerical impact of IFRS 16 on the Company's financial statements.

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

The Company has carried out an analysis of the potential impact of the other aforementioned amendments to the standards on the accounting policy (principles) applied by the Company and in the opinion of the Company's Management Board, they are irrelevant to the Company or will have no material impact on the currently applied accounting policy (principles).

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

IFRS as endorsed by the EU do not currently differ materially from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, their amendments and interpretations, which as at 30 June 2018 were not yet endorsed by the EU and did not enter into effect:

- **Amendment to IAS 28 "Investments in Associates and Joint Ventures" –** Long-term interests in associates and joint ventures (applicable to annual periods beginning on 1 January 2019 or afterwards). The amendments were introduced to clarify that an entity applies IFRS 9 (including regulations pertaining to impairment) to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendments also delete paragraph 41 because it has been concluded that it merely reiterated requirements in IFRS 9 and had created confusion about the accounting for long-term interests.
- **Amendments to different standards "Amendments to IFRS (cycle 2015-2017)"** – changes made as part of the procedure of annual amendments to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) focused mainly on resolving inconsistencies and unification of terminology (applicable to annual periods beginning on 1 January 2019 or afterwards).
- **Amendments to IAS 19 "Employee Benefits" –** Amendment, limitation or settlement of the plan (applicable to annual periods beginning on 1 January 2019 or afterwards). The amendments require that after change of the plan, updated assumptions for valuation should be applied to determine the current costs of the services and interest (net) for the remaining part of the reporting period.
- **Interpretation of IFRIC 23 "Uncertainty over Income Tax Treatments"** – applicable to annual periods beginning on 1 January 2019 or afterwards. The interpretation applies to determining the income to be taxed (tax loss), taxation basis, unused tax losses, unused tax reliefs, tax rates, if there is uncertainty as the treatment of the income tax pursuant to IAS 12.
- **Amendments to references to the IFRS Framework** – applicable to annual periods beginning on 1 January 2020 or afterwards.
- **IFRS 17 "Insurance Contracts"** – applicable to annual periods beginning on 1 January 2021 or afterwards. The aim of the standard is to introduce uniform, formalized accounting principles applicable to insurance contracts. The new standard stipulates that insurance liabilities are measured at the current value of the obligation performance and introduces uniform rules for valuation and presentation for all types of insurance contracts. IFRS 17 replaces IFRS 4 Insurance Contracts and the related interpretations.

The Company has carried out an analysis of the potential impact of the other aforementioned standards, interpretations and amendments to the standards on the accounting policy (principles) applied by the Company and in the opinion of the Company's Management Board, they are irrelevant to the Company or will have no material impact on the currently applied accounting policy (principles).

4. Material values based on professional judgment and estimates

In the period of 6 months ended 30 June 2018, changes to material estimates related to the following items:

- **property, plant and equipment** – as at 31 December 2017, the Company updated the residual value of rolling stock caused by the increase in the market prices of scrap metal compared to the prices adopted by the Company for measurement of the residual value of rolling stock in previous periods. The increase in the residual value and the decrease in the base for calculating depreciation charges caused a decrease in depreciation costs in H1 2018 by approximately PLN 15,000 thousand.
- **provisions for employee benefits** – these provisions were estimated as at 30 June 2018 and the recalculation effect is presented in **Note 25** of these Interim Condensed Separate Financial Statements.
- **deferred tax** – the effect of the recalculated balance of deferred tax as at 30 June 2018 is presented in **Note 9** to these Interim Condensed Separate Financial Statements.

During the 6 months ended 30 June 2018, no other changes were made to the assumptions adopted by the Company's Management Board for the calculation of estimates that would have a material impact on the current period or any future periods.

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

5. Revenue from sales of services

Structure of revenue from sales of services

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

The Company's Management Board does not evaluate the Company's performance and does not make decisions concerning allocation of resources to groups of services provided account being taken of the below structure of revenue from sale of services. Therefore, the specific service groups may not be treated as the Company's operating segments. The Company's Management Board analyses financial data in the layout in which they have been presented in these Interim Condensed Separate Financial Statements.

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017 (*)	3 months ended 30 /06/2017 (*)
Revenue from rail transportation and freight forwarding services, including:	1,822,977	937,635	1,652,754	864,146
Penalties for non-performed sales agreements	9,846	9,841	2,741	2,915
Revenue from siding and traction services	20,887	10,677	27,493	14,571
Other revenue, including:	15,808	7,949	18,934	8,758
Rent of assets	9,275	4,588	12,925	6,428
Repair of rolling stock and other repairs	2,851	1,454	2,139	988
Other	3,682	1,907	3,870	1,342
Total	**1,859,672**	**956,261**	**1,699,181**	**887,475**

(*) Data for the period of 6 months ended 30 June 2017 have been restated due to the retrospective application of IFRS 15, as described in **Note 3** to these Interim Condensed Separate Financial Statements.

Geography

The Company defines the geographical territory of business as the location of the registered office of its customers, and not as the country of the service provision.

The Company operates in one principal geographic area, i.e. Poland, where its registered offices are also located. Total revenue for all geographic areas outside Poland for the period of 6 months ended 30 June 2018 as well as the period of 6 months ended 30 June 2017 did not exceed 15% of total revenue from sales of services. There is no single geographic area (outside of Poland) which generates more than 5% of revenue from sales of services.

Revenue from sales of the Company's services generated on external clients and broken down based on their country of residence is presented below:

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017 (*)	3 months ended 30/06/2017 (*)
Poland	1,640,282	846,876	1,470,595	779,539
Germany	72,070	35,530	75,116	36,690
Czech Republic	49,199	22,602	66,758	31,677
Slovakia	52,001	27,241	33,750	17,302
Cyprus	13,528	6,290	15,052	7,514
Other countries	32,592	17,722	37,910	14,753
Total	**1,859,672**	**956,261**	**1,699,181**	**887,475**

(*) Data for the period of 6 months ended 30 June 2017 have been restated due to the retrospective application of IFRS 15, as described in **Note 3** to these Interim Condensed Separate Financial Statements.

Information on key customers

In the period of 6 months ended 30 June 2018, sales of services to two groups exceeded 10% and stood at 13.9% and 11.9% of the total revenue from sales of services. In the period of 6 months ended 30 June 2017, sales of services to two groups exceeded 10% and stood at 13.5% and 15.2% of the total revenue from sales of services, respectively.

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

6. Expenses by kind

Depreciation, amortization and impairment losses

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Depreciation of property, plant and equipment	211,327	105,779	228,675	113,528
Amortization of intangible assets	8,439	4,263	7,624	3,848
Recognized / (reversed) impairment losses:				
Property, plant and equipment	-	-	248	248
Total	**219,766**	**110,042**	**236,547**	**117,624**

Consumption of raw materials and energy

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Fuel consumption	79,080	40,392	56,838	27,698
Consumption of raw materials	23,784	11,686	23,125	11,103
Consumption of electricity, gas and water	200,100	100,897	188,574	96,988
Recognized / (reversed) impairment losses on inventories	717	615	(152)	240
Other	1,188	464	705	367
Total	**304,869**	**154,054**	**269,090**	**136,396**

External services

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Line access services from infrastructure managers	354,006	182,990	335,900	178,479
Repair services	27,708	14,344	26,443	13,884
Rent and fees for the use of real properties and rolling stock	65,726	34,750	50,523	25,469
Transport services	40,137	19,542	61,651	28,419
Telecommunication services	1,936	976	2,596	1,278
Legal, consulting and similar services	2,542	1,484	4,436	2,631
IT services	20,039	10,339	21,299	10,716
Maintenance and operation services for facilities and fixed assets	12,969	7,260	12,325	6,402
Transshipment services	9,721	4,476	15,156	5,720
Other services	11,595	5,023	17,051	9,112
Total	**546,379**	**281,184**	**547,380**	**282,110**

Employee benefits

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Payroll	462,193	233,541	422,758	212,372
Social security expenses	91,943	46,621	84,180	42,412
Expenses for contributions to the Company Social Benefits Fund	11,712	5,856	12,458	6,544
Other employee benefits during employment	14,274	7,075	14,827	6,655
Post-employment benefits	2,351	1,009	3,071	1,119
Movement in provisions for employee benefits	41,479	24,724	40,354	25,772
Total	**623,952**	**318,826**	**577,648**	**294,874**

Other expenses by kind

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Business travel	13,420	6,837	12,942	6,652
Insurance	4,588	2,284	4,156	2,219
Advertising and representation	1,009	637	2,507	1,614
Other	1,207	683	1,168	491
Total	**20,224**	**10,441**	**20,773**	**10,976**

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

7. Other operating revenue and expenses

Other operating revenue

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017 (*)	3 months ended 30/06/2017 (*)
Profit on disposal				
Profit on sales of non-financial non-current assets	31	20	80	62
Reversed impairment losses				
Trade receivables	4,210	480	672	252
Other receivables	31	22	28	23
Other				
Penalties and compensations	5,353	2,686	5,248	2,096
Reversal of other provisions	174	(1)	811	529
Interest on trade and other receivables	1,782	553	939	468
Net result on foreign exchange differences on trade receivables and payables	1,937	1,613	-	-
Other	681	464	1,367	1,017
Total	**14,199**	**5,837**	**9,145**	**4,447**

(*) Data for the period of 6 months ended 30 June 2017 have been restated due to the retrospective application of IFRS 15, as described in **Note 3** to these Interim Condensed Separate Financial Statements.

Other operating expenses

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017 (*)	3 months ended 30/06/2017 (*)
Impairment losses recognized				
Trade receivables	1,739	258	1,984	1,906
Other				
Penalties and compensations	3,792	1,880	2,966	1,521
Costs of liquidation of non-current and current assets	1,233	650	1,164	487
Provisions for penalties from the Office for Protection of Competition and Consumers (UOKiK)	-	-	957	957
Other provisions	400	(158)	135	29
Court and enforcement expenses	142	92	194	113
Expenses under benefits in the form of train fares for persons who are not employees	747	437	735	479
Interest on trade and other payables	223	92	9	1
Net result on foreign exchange differences on trade receivables and payables	-	-	1,507	114
Donations made	72	35	1,037	24
Other	400	208	338	192
Total	**8,748**	**3,494**	**11,026**	**5,823**

(*) Data for the period of 6 months ended 30 June 2017 have been restated due to the retrospective application of IFRS 15, as described in **Note 3** to these Interim Condensed Separate Financial Statements.

8. Financial income and expenses

Financial revenue

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Interest income				
Bank deposits and accounts	4,249	2,105	4,051	1,693
Loans granted (including cash pool)	312	162	327	158
Other	-	-	134	68
Dividend income on shares and stocks	30,438	30,438	14,853	14,253
Other				
Profit on valuation of financial assets and liabilities accounted for at fair value through profit and loss, including:				
Valuation of net liabilities under put/call options for non-controlling interest	-	-	-	(2,482)
Valuation of FX forward contracts	21	21	162	47
Net result on foreign exchange differences	-	-	2,424	9
Total	**35,020**	**32,726**	**21,951**	**13,746**

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

8. Financial income and expenses (cont.)

Financial expenses

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Interest expenses				
Interest on loans and borrowings (including cash pool)	12,162	5,983	13,602	6,552
Interest on finance lease liabilities	290	122	687	409
Interest on long-term liabilities	4	-	410	149
Other	-	-	262	87
Other				
Losses on valuation of financial assets and liabilities measured at fair value through profit and loss, including:				
Valuation of net liabilities under put/call options for non-controlling interest	-	-	1,873	1,873
Valuation of FX forward contracts	-	(31)	-	-
Settlement of the discount on provisions for employee benefits	9,229	4,822	9,393	4,883
Net result on foreign exchange differences	614	499	-	-
Other	771	771	715	702
Total	**23,070**	**12,166**	**26,942**	**14,655**

9. Income tax

Income tax recognized in profit / loss

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Current income tax				
Current tax expense	28,110	9,531	26,802	19,701
Adjustments recognized in the current year with reference to past year's tax	1,164	508	396	-
Deferred income tax				
Deferred income tax of the reporting period	(1,373)	5,643	(20,367)	(12,267)
Income tax recognized in profit / loss	**27,901**	**15,682**	**6,831**	**7,434**

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

Deferred income tax recognized in other comprehensive income

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Deferred tax on revaluation of fair value of financial instruments designated as security of cash flows hedges	(6,172)	(4,809)	3,398	(262)
Deferred tax on actuarial profits / (losses) on post-employment benefits	(282)	(282)	(4,755)	(4,755)
Deferred income tax recognized in other comprehensive income	**(6,454)**	**(5,091)**	**(1,357)**	**(5,017)**

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

9. Income tax (cont.)

Movements in deferred tax

6 months ended 30/06/2018	As at 01/01/2018	Recognized in profit or loss	Recognized in other comprehensive income	As at 30/06/2018
Temporary differences relating to deferred tax (liabilities) / assets:				
Property, plant and equipment, intangible assets and non-current assets held for sale (including financial lease)	(41,741)	(8,412)	-	**(50,153)**
Inventories	(2,948)	(1,686)	-	**(4,634)**
Receivables – impairment losses [(1)]	4,314	(445)	-	**3,869**
Accrued interest related to assets	(298)	(13)	-	**(311)**
Accrued interest related to liabilities	156	(26)	-	**130**
Provisions for employee benefits	111,012	6,410	282	**117,704**
Other provisions	1,717	(189)	-	**1,528**
Accrued expenses	3,089	(212)	-	**2,877**
Deferred income	(7,996)	1,693	-	**(6,303)**
Unpaid employee benefits	99	6,087	-	**6,186**
Foreign exchange differences	(1,725)	(290)	4,206	**2,191**
Valuation of derivatives	(2,004)	(4)	1,966	**(42)**
Other	-	(1,325)	-	**(1,325)**
Unused tax losses [(2)]	26,548	(215)	-	**26,333**
Total	**90,223**	**1,373**	**6,454**	**98,050**

[(1)] Data as at 1 January 2018 have been restated in connection with the implementation of IFRS 9, as described in **Note 3** to these Interim Condensed Separate Financial Statements.
[(2)] As at 30 June 2018, the Company disclosed deferred tax assets on the tax loss incurred in the period from 1 April to 31 December 2016. This loss will be deductible over a period of five tax years following the end of operation of the Tax Group. According to the Company's Management Board, there is no risk as at 30 June 2018 that it will be impossible to realize the above assets.

6 months ended 30/06/2017	As at 01/01/2017	Recognized in profit or loss	Recognized in other comprehensive income	As at 30/06/2017
Temporary differences relating to deferred tax (liabilities) / assets:				
Property, plant and equipment, intangible assets and non-current assets held for sale (including financial lease)	(72,552)	18,785	-	**(53,767)**
Long-term liabilities	(95)	78	-	**(17)**
Inventories	238	(1,346)	-	**(1,108)**
Receivables – impairment losses	3,808	15	-	**3,823**
Accrued interest related to assets	(146)	(204)	-	**(350)**
Accrued interest related to liabilities	182	(38)	-	**144**
Provisions for employee benefits	105,351	5,817	4,755	**115,923**
Other provisions	1,285	(154)	-	**1,131**
Accrued expenses	5,529	1,628	-	**7,157**
Deferred income	(3,982)	145	-	**(3,837)**
Unpaid employee benefits	6,048	(519)	-	**5,529**
Foreign exchange differences	2,235	(827)	(1,768)	**(360)**
Valuation of derivatives	(45)	(31)	(1,630)	**(1,706)**
Other	-	(1,361)	-	**(1,361)**
Unused tax losses	28,388	(1,621)	-	**26,767**
Total	**76,244**	**20,367**	**1,357**	**97,968**

Tax loss not recognized in calculation of deferred tax assets

As at 30 June 2018 and 30 June 2017, there were no unrecognized deferred tax assets on tax losses deductible in future periods.

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

10. Property, plant and equipment

Change in the balance of property, plant and equipment

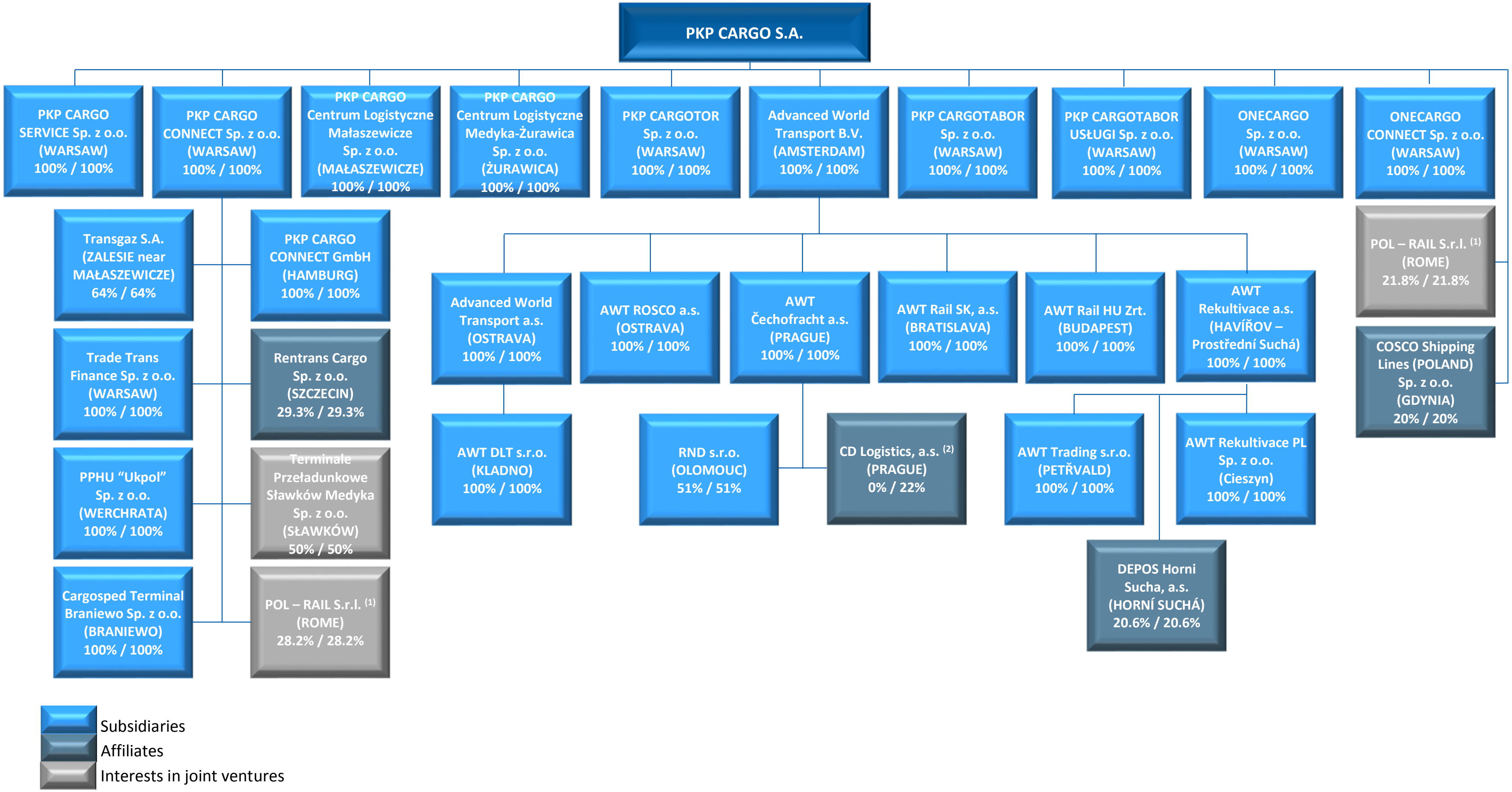
6 months ended 30/06/2018	Land	Buildings, premises and civil and water engineering facilities	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
As at 1/01/2018	**129,379**	**452,814**	**210,241**	**5,130,398**	**22,280**	**13,004**	**5,958,116**
Increases / (decreases):							
Acquisition	-	-	-	-	-	285,077	**285,077**
Settlement of fixed assets under construction	-	374	1,110	281,883	71	(283,438)	**-**
Reclassified to assets held for sale	-	-	-	(30,306)	-	-	**(30,306)**
Sales	-	-	(320)	(57)	-	-	**(377)**
Contribution in kind	-	-	-	(8,264)	-	-	**(8,264)**
Liquidation	-	(474)	(987)	(144,944)	(18)	(1)	**(146,424)**
As at 30/06/2018	**129,379**	**452,714**	**210,044**	**5,228,710**	**22,333**	**14,642**	**6,057,822**
Accumulated depreciation							
As at 1/01/2018	**-**	**103,481**	**151,208**	**1,958,513**	**17,979**	**-**	**2,231,181**
Increases / (decreases):							
Depreciation expenses	-	8,581	8,448	193,525	773	-	**211,327**
Reclassified to assets held for sale	-	-	-	(8,598)	-	-	**(8,598)**
Sales	-	-	(262)	(57)	-	-	**(319)**
Contribution in kind	-	-	-	(4,988)	-	-	**(4,988)**
Liquidation	-	(461)	(864)	(141,503)	(18)	-	**(142,846)**
As at 30/06/2018	**-**	**111,601**	**158,530**	**1,996,892**	**18,734**	**-**	**2,285,757**
Accumulated impairment							
As at 1/01/2018	**1,495**	**118**	**-**	**111,432**	**-**	**2,628**	**115,673**
Increases / (decreases):							
Contribution in kind	-	-	-	(572)	-	-	**(572)**
Reclassified to assets held for sale	-	-	-	(3,441)	-	-	**(3,441)**
Liquidation	-	(13)	-	(235)	-	-	**(248)**
As at 30/06/2018	**1,495**	**105**	**-**	**107,184**	**-**	**2,628**	**111,412**
Net value							
As at 1/01/2018	**127,884**	**349,215**	**59,033**	**3,060,453**	**4,301**	**10,376**	**3,611,262**
including financial lease	-	-	*4,170*	*103,319*	-	-	***107,489***
As at 30/06/2018	**127,884**	**341,008**	**51,514**	**3,124,634**	**3,599**	**12,014**	**3,660,653**
including financial lease	-	-	*3,457*	*45,783*	-	-	***49,240***

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

10. Property, plant and equipment (cont.)

6 months ended 30/06/2017	Land	Buildings, premises and civil and water engineering facilities	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
As at 1/01/2017	**130,065**	**459,286**	**199,881**	**4,935,832**	**23,263**	**14,003**	**5,762,330**
Increases / (decreases):							
Acquisition	-	-	-	-	-	179,129	**179,129**
Settlement of fixed assets under construction	-	83	3,292	178,385	119	(181,879)	**-**
Sales	-	-	(56)	(59)	(35)	-	**(150)**
Liquidation	-	(4,976)	(689)	(117,251)	(117)	-	**(123,033)**
Other	(686)	(3,280)	(343)	(4,303)	(1,161)	-	**(9,773)**
As at 30/06/2017	**129,379**	**451,113**	**202,085**	**4,992,604**	**22,069**	**11,253**	**5,808,503**
Accumulated depreciation							
As at 1/01/2017	**-**	**91,385**	**138,047**	**1,787,704**	**18,431**	**-**	**2,035,567**
Increases / (decreases):							
Depreciation expenses	-	9,530	9,500	208,932	713	-	**228,675**
Sales	-	-	(55)	(41)	(35)	-	**(131)**
Liquidation	-	(3,370)	(675)	(96,804)	(106)	-	**(100,955)**
Other	-	(3,280)	(342)	(4,108)	(1,161)	-	**(8,891)**
As at 30/06/2017	**-**	**94,265**	**146,475**	**1,895,683**	**17,842**	**-**	**2,154,265**
Accumulated impairment							
As at 1/01/2017	**1,495**	**1,678**	**-**	**159,137**	**-**	**2,460**	**164,770**
Increases / (decreases):							
Recognition	-	-	-	-	-	248	**248**
Sales	-	-	-	(5)	-	-	**(5)**
Liquidation	-	(1,560)	-	(8,407)	-	-	**(9,967)**
As at 30/06/2017	**1,495**	**118**	**-**	**150,725**	**-**	**2,708**	**155,046**
Net value							
As at 1/01/2017	**128,570**	**366,223**	**61,834**	**2,988,991**	**4,832**	**11,543**	**3,561,993**
including financial lease	-	-	*3,513*	*167,126*	-	-	***170,639***
As at 30/06/2017	**127,884**	**356,730**	**55,610**	**2,946,196**	**4,227**	**8,545**	**3,499,192**
including financial lease	-	-	*3,066*	*111,208*	-	-	***114,274***

11. Investments in subsidiaries, associated and joint ventures



[1] In aggregate, members of the PKP CARGO Group hold a 50% stake in the share capital of POL – RAIL S.r.l.
[2] On 26 June 2018, AWT Čechofracht a.s. sold a 22% stake in the share capital of CD Logistics, a.s., as a result of which the company ceased to be a related party of the Group.

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

11. Investments in subsidiaries, associates and joint ventures (cont.)

List of investments in subsidiaries, associates and joint ventures

	As at 30/06/2018	As at 31/12/ 2017
Advanced World Transport B.V.	499,677	499,677
CARGOTOR Sp. z o.o.	20,182	20,182
COSCO Shipping Lines (POLAND) Sp. z o.o.	1,100	1,100
ONECARGO Sp. z o.o.	5	5
ONECARGO CONNECT Sp. z o.o.	5	5
PKP CARGOTABOR Sp. z o.o.	84,686	84,686
PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	40,439	40,439
PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o.	10,703	10,703
PKP CARGO SERVICE Sp. z o.o.	15,380	12,676
PKP CARGOTABOR Usługi Sp. z o.o.	10,092	10,092
PKP CARGO CONNECT Sp. z o.o.	123,194	123,194
POL – RAIL S.r.l.	1,870	1,870
Total	**807,333**	**804,629**

Change of value of investments in subsidiaries, associates and joint ventures

Investment in entities:	Subsidiaries	Associates and joint ventures	Total
As at 1/01/2018	**801,659**	**2,970**	**804,629**
Increases / (decreases):			
Acquisition [(1)]	2,704	-	2,704
As at 30/06/2018	**804,363**	**2,970**	**807,333**
including impairment loss	*(8,923)*	*(1,018)*	*(9,941)*
As at 1/01/2017	**735,004**	**2,970**	**737,974**
Increases / (decreases):			
Acquisition	72,377	-	72,377
As at 30/06/2017	**807,381**	**2,970**	**810,351**
including impairment loss	*(2,696)*	*(1,018)*	*(3,714)*

[(1)] Pursuant to a Resolution adopted by Extraordinary General Meeting of PKP CARGO SERVICE Sp. z o.o. on 11 April 2018, the share capital of PKP CARGO SERVICE Sp. z o.o. was increased through the establishment of shares with a total value of PLN 11,698 thousand, covered with a contribution in kind. The value of the shares subscribed for corresponds to the book value of the fixed assets transferred in the form of a contribution in kind.

12. Other financial assets

Structure of other financial assets

	As at 30/06/2018	As at 31/12/2017
FX forwards	2,301	10,545
Investments in equity instruments [(1)]	4,883	6,021
Bank deposits over 3 months	401,605	250,801
Cash pool	25,580	22,910
Total	**434,369**	**290,277**
Non-current assets	4,919	8,647
Current assets	429,450	281,630
Total	**434,369**	**290,277**

[(1)] As at 31 December 2017, impairment loss on the value of shares in unlisted companies was PLN 11,811 thousand. As at 30 June 2018, these shares were measured at fair value. The movement in the impairment loss on investments in shares is the effect of the first-time application IFRS 9, as described in **Note 3** to these Interim Condensed Separate Financial Statements.

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

13. Other non-financial assets

Structure of other non-financial assets

	As at 30/06/2018	As at 31/12/2017
Costs settled in time		
Prepayments to the Company Social Benefits Fund	6,975	-
Prepayments for purchase of electricity	28,097	22,994
Insurance	10,131	7,430
Purchase of transportation services for eligible persons	6,341	-
Other costs settled over time	2,287	811
Other		
Prepayments for purchase of non-financial non-current assets	1,059	1,059
Other	126	166
Total	**55,016**	**32,460**
Non-current assets	4,202	4,484
Current assets	50,814	27,976
Total	**55,016**	**32,460**

14. Inventories

Structure of inventories

	As at 30/06/2018	As at 31/12/2017
Raw materials	90,727	89,661
Impairment losses	(3,569)	(3,235)
Total	**87,158**	**86,426**

15. Trade and other receivables

Structure of trade and other receivables

	As at 30/06/2018	As at 31/12/2017
Trade receivables	513,809	509,248
Impairment loss on trade receivables	(48,091)	(48,204)
	465,718	461,044
Public law settlements	3,729	1,238
Dividends settlements	30,438	-
VAT settlements	11,759	21,953
Other settlements	4,357	2,372
Total	**516,001**	**486,607**
Current assets	516,001	486,607
Total	**516,001**	**486,607**

16. Cash and cash equivalents

Structure of cash and cash equivalents

	As at 30/06/2018	As at 31/12/2017
Cash on hand and on bank accounts	20,215	49,270
Bank deposits up to 3 months	29,098	246,640
Total	**49,313**	**295,910**
including restricted cash	13,373	22,782

The decrease in the value of bank deposits with a maturity of up to 3 months is attributable mainly to a change of the term for which bank deposits were made and the repayment of liabilities arising from the purchase of non-financial non-current assets and bank loan liabilities. Detailed information in this respect is presented in the interim separate statement of cash flows.

As at 30 June 2018 and as at 31 December 2017, restricted cash included mostly cash accumulated on bank accounts kept for tender deposits and guarantees.

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

17. Non-current assets classified as held for sale

Structure of non-current assets classified as held for sale

	As at 30/06/2018	As at 31/12/2017
Means of transport	18,267	-
Total	**18,267**	**-**

In the period of 6 months ended 30 June 2018, the Company decided to sell 2,246 freight wagons. The sale should be finalized by the end of 2018.

18. Equity

Share capital

	As at 30/06/2018	As at 31/12/2017
The share capital consists of:		
Ordinary shares – fully paid up and registered	2,239,346	2,239,346

As at 30 June 2018 and 31 December 2017, the share capital consisted of ordinary shares with a par value of PLN 50 each. Fully paid up ordinary shares with a par value of PLN 50 are equivalent to one vote at the shareholder meeting and carry the right to a dividend.

In the period of 6 months ended 30 June 2018 and the period of 6 months ended 30 June 2017, there were no movements in the Company's share capital.

Supplementary capital

	As at 30/06/2018	As at 31/12/2017
Share premium (agio)	201,260	201,260
Distributions of profit (established pursuant to statutory regulations)	56,230	48,712
Distributions of profit (established in excess of statutory value)	199,248	199,248
Capital formed from redemption of shares	139,982	139,982
Total	**596,720**	**589,202**

In the period of 6 months ended 30 June 2018, supplementary capital increased by PLN 7,518 thousand as a result of the distribution of the net profit generated in 2017, whereas in the period of 6 months ended 30 June 2017, there were no movements in the Company's share capital.

Retained earnings

On 13 June 2018, the Shareholder Meeting of PKP CARGO S.A. adopted a resolution on the distribution of the net profit earned in 2017 of PLN 93,967 thousand as follows:
a) allocate PLN 7,518 thousand to increase the supplementary capital,
b) allocate PLN 86,449 thousand to cover losses from previous years.

As at 1 January 2018, the line item "retained earnings" has been restated in connection with the implementation of IFRS 9, as described in **Note 3** to these Interim Condensed Separate Financial Statements.

19. Earnings per share

Earnings used for calculation of basic and diluted earnings per share

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Profit used for calculation of basic profit per share:	129,184	85,449	18,490	27,676

Basic earnings per share

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Weighted average number of common shares (pcs.)	44,786,917	44,786,917	44,786,917	44,786,917
Basic earnings per share (PLN per share)	**2.88**	**1.91**	**0.41**	**0.62**

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

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

19. Earnings per share (cont.)

Diluted earnings per share

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Weighted average number of common shares (pcs.)	44,786,917	44,786,917	44,786,917	44,786,917
Diluted earnings per share (PLN per share)	**2.88**	**1.91**	**0.41**	**0.62**

In the period of 6 months ended 30 June 2018 and the period of 6 months ended 30 June 2017, there were no transactions of a diluting nature.

20. Bank loans and borrowings

Structure of bank loans and borrowings

	As at 30/06/2018	As at 31/12/2017
Bank investment loans	1,342,364	1,430,500
Total	**1,342,364**	**1,430,500**
Long-term liabilities	1,118,884	1,211,148
Short-term liabilities	223,480	219,352
Total	**1,342,364**	**1,430,500**

Summary of loan agreements

Investment loan agreements were concluded mostly for financing the investment and acquisition plan. In the period of 6 months ended 30 June 2018, the reference rates for loan agreements were WIBOR 1M, 3M and EURIBOR 3M plus a margin. The agreements were entered into for a period in excess of 5 years. The repayment of contracted obligations resulting from the executed loan agreements is made in PLN and EUR. Details of the Company bank loans are listed below:

Type of loan	Bank Name	Collateral	Maturity	As at 30/06/2018	As at 31/12/2017
Investment loan	Bank Polska Kasa Opieki S.A. [1]	Bank enforcement title	31/12/2017	-	822
Investment loan	Bank Gospodarstwa Krajowego	Bank enforcement title	31/03/2021	224,260	275,341
Investment loan	European Investment Bank	No collateral	29/05/2020	34,061	42,578
Investment loan	Bank Gospodarstwa Krajowego	Statement on submission to enforcement certified by a notary	20/12/2026	60,201	60,072
Investment loan	Bank Gospodarstwa Krajowego	Statement on submission to enforcement certified by a notary	20/12/2026	341,144	340,421
Investment loan	Bank Polska Kasa Opieki S.A.	Statement on submission to enforcement certified by a notary	31/12/2026	588,196	617,489
Investment loan	European Investment Bank	No collateral	29/08/2031	94,502	93,777
Total				**1,342,364**	**1,430,500**

[1] Liability under the loan was repaid on 2 January 2018.

Unused credit lines

Type of loan	Bank Name	Period of availability	Currency	As at 30/06/2018	As at 31/12/2017
Investment loan	European Investment Bank	19/07/2020	EUR	71,683	68,549
Overdraft	Bank Polska Kasa Opieki S.A.	25/05/2018	PLN	-	100,000
Overdraft	Bank Polska Kasa Opieki S.A. [1]	24/05/2019	PLN	100,000	-
Total				**171,683**	**168,549**

[1] On 24 May 2018, an overdraft facility agreement was entered into with Bank Polska Kasa Opieki S.A. for up to PLN 100,000. The facility will be available for a period of 12 months until 24 May 2019, with an option to extend the availability period by an additional 12 months, i.e. until 24 May 2020.

Breach of the terms and conditions of the loan agreements

As at 30 June 2018, there were no breaches of any loan agreements.

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

21. Finance lease liabilities

Structure of finance lease liabilities

As at 30 June 2018, the Company was using freight wagons, cars, technical equipment and IT hardware under the finance lease agreements in effect. Agreements currently in effect were concluded for a term of 3 to 7 years. The reference rate for agreements denominated in EUR is EURIBOR 3M and 6M and for agreements signed in PLN the reference rate is WIBOR 1M.

	As at 30/06/2018			As at 31/12/2017		
	Minimum fees	Future financial charges	Current value of minimum fees	Minimum fees	Future financial charges	Current value of minimum fees
Up to 1 year	15,497	(126)	15,371	31,464	(395)	31,069
Longer than 1 year and up to 5 years	330	(5)	325	3,327	(19)	3,308
Total	**15,827**	**(131)**	**15,696**	**34,791**	**(414)**	**34,377**
Long-term	330	(5)	325	3,327	(19)	3,308
Short-term	15,497	(126)	15,371	31,464	(395)	31,069
Total	**15,827**	**(131)**	**15,696**	**34,791**	**(414)**	**34,377**

22. Other financial liabilities

Structure of other financial liabilities

	As at 30/06/2018	As at 31/12/2017
Derivatives		
FX forwards	2,083	-
Total	**2,083**	**-**
Long-term liabilities	1,431	-
Short-term liabilities	652	-
Total	**2,083**	**-**

23. Reconciliation of debt liabilities

As at 30 June 2018 and 31 December 2017, the Company's debt liabilities consist of the following two main categories: bank loans and borrowings and finance lease liabilities.

Net debt

	As at 30/06/2018	As at 31/12/2017
Bank loans and borrowings	1,342,364	1,430,500
Finance lease liabilities	15,696	34,377
Total debt	**1,358,060**	**1,464,877**
Cash and cash equivalents	49,313	295,910
Bank deposits over 3 months	401,605	250,801
Cash pool	25,580	22,910
Total net debt	**881,562**	**895,256**
EBITDA for the last 12 months	**689,881**	**591,839**
Net debt / EBITDA	**1.3**	**1.5**

Debt liabilities – broken down into currencies / interest rate type

As at 30/06/2018	In the functional currency – PLN	In a foreign currency – EUR	Total
Bank loans and borrowings	846,518	495,846	**1,342,364**
Finance lease liabilities	1,666	14,030	**15,696**
Total	**848,184**	**509,876**	**1,358,060**
Variable-interest-rate liabilities	848,184	509,137	**1,357,321**
Fixed-interest-rate liabilities	-	739	**739**
Total	**848,184**	**509,876**	**1,358,060**

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

23. Reconciliation of debt liabilities (cont.)

As at 31/12/2017	In the functional currency – PLN	In a foreign currency – EUR	Total
Bank loans and borrowings	936,230	494,270	**1,430,500**
Finance lease liabilities	3,116	31,261	**34,377**
Total	**939,346**	**525,531**	**1,464,877**
Variable-interest-rate liabilities	939,346	523,382	**1,462,728**
Fixed-interest-rate liabilities	-	2,149	**2,149**
Total	**939,346**	**525,531**	**1,464,877**

Reconciliation of movement in debt liabilities

	Bank loans and borrowings	Finance lease liabilities	Total
As at 1/01/2018	**1,430,500**	**34,377**	**1,464,877**
Commission expenses	771	-	**771**
Accrual of interest	12,094	290	**12,384**
Payments under debt, including:			
Repayments of the principal	(110,105)	(19,620)	**(129,725)**
Paid interest	(12,230)	(290)	**(12,520)**
Commission expenses	(771)	-	**(771)**
FX valuation	22,105	939	**23,044**
As at 30/06/2018	**1,342,364**	**15,696**	**1,358,060**

	Bank loans and borrowings	Finance lease liabilities	Other	Total
As at 1/01/2017	**1,348,394**	**79,335**	**19,218**	**1,446,947**
Obtained debt	10,733	-	-	**10,733**
Commission expenses	714	-	-	**714**
Accrual of interest	13,445	687	157	**14,289**
Payments under debt, including:				
Repayments of the principal	(130,660)	(28,143)	(19,218)	**(178,021)**
Paid interest	(13,646)	(687)	(157)	**(14,490)**
Commission expenses	(714)	-	-	**(714)**
FX valuation	(9,352)	(2,752)	-	**(12,104)**
As at 30/06/2017	**1,218,914**	**48,440**	**-**	**1,267,354**

24. Trade and other payables

Structure of trade and other payables

	As at 30/06/2018	As at 31/12/2017
Trade payables	260,008	276,047
Liabilities arising from the purchase of non-financial non-current assets	116,556	127,846
Liabilities arising out of collateral (deposits, bid security guarantees, guarantees)	20,829	30,057
Public law liabilities (1)	76,819	49,608
Settlements with employees	64,721	64,748
Other settlements	1,659	882
Total	**540,592**	**549,188**
Short-term liabilities	540,592	549,188
Total	**540,592**	**549,188**

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

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

25. Provisions for employee benefits

As at 30 June 2018, the Company performed an actuarial valuation of its provisions for employee benefits in connection with the inclusion in the valuation of the employee wage increase agreed upon with trade unions coming into effect in September 2018. The other assumptions adopted for the valuation of provisions as at 30 June 2018 are consistent with the assumptions adopted for the valuation as at 31 December 2017.

Structure of provisions for employee benefits

	As at 30/06/2018	As at 31/12/2017
Post-employment defined benefit plans		
Retirement and disability severance benefits	163,492	150,857
Company Social Benefits Fund	126,299	136,080
Transportation benefits	31,342	32,953
Post-mortem benefits	6,522	6,299
Other employee benefits		
Jubilee awards	253,148	237,857
Other employee benefits (unused leaves / bonuses)	38,696	20,234
Total	**619,499**	**584,280**
Long-term liabilities	512,003	502,856
Short-term liabilities	107,496	81,424
Total	**619,499**	**584,280**

26. Other provisions

Structure of other provisions

	As at 30/06/2018	As at 31/12/2017
Provisions for penalties from the Office for Protection of Competition and Consumers (UOKiK)	14,224	14,224
Provision for onerous contracts	3,126	4,500
Other provisions	9,292	12,405
Total	**26,642**	**31,129**
Long-term liabilities	14,224	14,224
Short-term liabilities	12,418	16,905
Total	**26,642**	**31,129**

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

As at 30 June 2018, the provision represented an estimate by the Company's Management Board in connection with the likelihood of payment of a fine imposed by the Office for Protection of Competition and Consumers (UOKiK) in the amount of PLN 14,224 thousand.

Provision for onerous contracts

As at 30 June 2018, this provision represented the amount of the anticipated loss for a procurement agreement for which the inevitable costs of fulfilling the resulting duties were higher than the predicted benefits achievable under this agreement.

Other provisions

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

According to the Company's Management Board, the amount of other provisions as at 30 June 2018 and as at 31 December 2017 constitutes the best estimate of the amount that will likely have to be paid. The estimate is based on the management's best knowledge, the experience to date and other factors which are considered to be the most reasonable in the given situation. As a result of the occurrence of future events, the estimates made by the Company's Management Board may be changed in subsequent reporting periods.

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

27. Financial instruments

Categories and classes of financial instruments

Financial assets by categories and classes	Note	As at 30/06/2018	Financial assets by categories and classes	As at 31/12/2017
Hedging financial instruments [1]			**Hedging financial instruments**	
Derivatives	**12**	2,301	Derivatives	10,545
Financial assets measured at fair value through other comprehensive income			**Available-for-sale financial assets**	
Investments in equity instruments	**12**	4,883	Shares in unlisted companies	6,021
Financial assets measured at amortized cost			**Loans and receivables**	
Trade receivables	**15**	465,718	Trade receivables	461,044
Cash pool	**12**	25,580	Cash pool	22,910
Bank deposits over 3 months	**12**	401,605	Bank deposits over 3 months	250,801
Cash and cash equivalents	**16**	49,313	Cash and cash equivalents	295,910
Total		**949,400**	**Total**	**1,047,231**

Financial liabilities by categories and classes	Note	As at 30/06/2018	As at 31/12/2017
Hedging financial instruments [1]			
Derivatives	**22**	2,083	-
Bank loans and borrowings	**20**	495,754	494,171
Financial liabilities measured at amortized cost			
Bank loans and borrowings	**20**	846,610	936,329
Trade payables	**24**	260,008	276,047
Liabilities on the purchase of fixed assets	**24**	116,556	127,846
Financial liabilities excluded from the scope of IFRS 9 / IAS 39	**21**	15,696	34,377
Total		**1,736,707**	**1,868,770**

Impairment losses on shares in unlisted companies and trade receivables have been described in **Notes 12** and **15** to these Interim Condensed Separate Financial Statements, respectively.

[1] In the period from 1 January 2018 to 30 June 2018, the Company applied cash flow hedging accounting. The purpose of the hedging activity is to mitigate the impact of the FX risk within the EUR/PLN currency pair on the future cash flows. The hedged item is a highly probable cash flow denominated in EUR.

As at 30 June 2018, the following hedging instruments were established:

- investment loans denominated in EUR. The hedged cash flows will be realized until August 2031. As at 30 June 2018, the nominal amount of the hedging instrument was EUR 113,663 thousand, which is an equivalent of PLN 495,754 thousand,
- forward foreign exchange contracts. The hedged cash flows will be realized until June 2020. As at 30 June 2018, the value of assets and liabilities on account of the measurement of hedging instruments was PLN 2,301 thousand and PLN 2,083 thousand, respectively.

Fair value hierarchy

As at 30 June 2018 and 31 December 2017, financial instruments measured at fair value were forward FX contracts and investments in equity instruments.

	As at 30/06/2018		As at 31/12/2017
	Level 2	Level 3	Level 2
Assets			
Derivatives – forward foreign exchange contracts	2,301	-	10,545
Investments in equity instruments – shares in unlisted companies	-	4,883	-
Liabilities			
Derivatives – forward foreign exchange contracts	2,083	-	-

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

27. Financial instruments (cont.)

Measurement methods for financial instruments measured at fair value

a) Forward foreign exchange contracts

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

b) Investments in equity instruments

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

Shares in other companies not listed on active markets are measured at cost, which as at 30 June 2018 was PLN 832 thousand and was covered in full with an impairment loss. In the Company's opinion, due to limitations in the extent of available information, this method of measurement reflects the fair value of these assets.

c) Other financial instruments

For the category of financial instruments which are not measured at fair value as at the balance sheet date, the Company does not disclose fair value because the fair values of these financial instruments as at 30 June 2018 and 31 December 2017 were not materially different from their values presented in the statement of financial position.

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

	6 months ended 30/06/2018	6 months ended 30/06/2017
As at the beginning of the reporting period (1)	**4,883**	**(39,761)**
Earnings / (losses) for the period captured in the result	-	(1,873)
Settlement of the put / call option for non-controlling interest	-	41,634
As at the end of the reporting period	**4,883**	**-**

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

In the period of 6 months ended 30 June 2018 and the period of 6 months ended 30 June 2017, there were no transfers between level 2 and level 3 of the fair value hierarchy.

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

27. Financial instruments (cont.)

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

6 months ended 30/06/2018	Hedging financial instruments	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Interest income / (expense)	(1,491)	6,166	(10,701)	(290)	**(6,316)**
Foreign exchange differences	32	3,398	(970)	(939)	**1,521**
Impairment losses / revaluation	21	2,471	-	-	**2,492**
Commission in connection with bank loans	-	-	(771)	-	**(771)**
Effect of settlement of cash flow hedging accounting (1)	3,841	-	-	-	**3,841**
Gross profit / (loss)	**2,403**	**12,035**	**(12,442)**	**(1,229)**	**767**
Movement in revaluation (2)	(32,485)	-	-	-	**(32,485)**
Other comprehensive income	**(32,485)**	**-**	**-**	**-**	**(32,485)**

(1) In the period of 6 months ended 30 June 2018, the effect of settling cash flow hedge accounting adjusted the value of revenue from sales of services in amount of PLN 3,841 thousand.
(2) In the period of 6 months ended 30 June 2018, this item includes movement in the valuation of derivatives in the amount of PLN (10,348) thousand and bank loans in the amount of PLN (22,137) thousand designated as hedging financial instruments as part of the hedge accounting applied by the Company.

6 months ended 30/06/2017	Hedging financial instruments	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
Interest income / (expense)	(523)	5,317	-	(13,498)	(687)	**(9,391)**
Foreign exchange differences	48	(3,056)	-	976	2,752	**720**
Impairment losses / revaluation	162	(1,312)	(1,873)	-	-	**(3,023)**
Commission in connection with bank loans	-	-	-	(714)	-	**(714)**
Effect of settlement of cash flow hedging accounting (1)	2,553	-	-	-	-	**2,553**
Gross profit / (loss)	**2,240**	**949**	**(1,873)**	**(13,236)**	**2,065**	**(9,855)**
Movement in revaluation (2)	17,885	-	-	-	-	17,885
Other comprehensive income	**17,885**	**-**	**-**	**-**	**-**	**17,885**

(1) In the period of 6 months ended 30 June 2017, the effect of settling cash flow hedge accounting adjusted the value of revenue from sales of services in amount of PLN 2,553 thousand.
(2) In the period of 6 months ended 30 June 2017, this item includes movement in the valuation of derivatives in the amount of PLN 8,580 thousand and bank loans in the amount of PLN 9,305 thousand designated as hedging financial instruments as part of the hedge accounting applied by the Company.

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

28. Related party transactions

Transactions with the State Treasury and its other related parties

In the period of 6 months ended 30 June 2018 and the period of 6 months ended 30 June 2017, the State Treasury was a higher-level parent entity of the Company. Accordingly, all companies owned by the State Treasury (directly or indirectly) are the Company's related parties and are presented separately as PKP Group related parties and other State Treasury related parties. In these Interim Condensed Separate Financial Statements, the Company's Management Board has disclosed transactions with material related parties identified as such according to the best knowledge of the Management Board.

In the period of 6 months ended 30 June 2018 and the period of 6 months ended 30 June 2017, there were no transactions effected between the Company and the State Treasury or other entities related to the State Treasury which would be significant due to a non-standard scope or amount. In the periods covered by these Interim Condensed Separate Financial Statements, the Company's most important clients among other parties related to the State Treasury were members of the following groups: JSW, Azoty, Enea and PGE. In the periods covered by these Interim Condensed Separate Financial Statements, there were no purchase transactions with other entities related to the State Treasury with any material value.

Transactions with PKP Group related parties

In the period covered by these Interim Condensed Separate Financial Statements, the Company entered into the following commercial transactions with PKP Group related parties:

	6 months ended 30/06/2018		6 months ended 30/06/2017	
	Sales to related parties	Purchases from related parties	Sales to related parties	Purchases from related parties
Parent Company (PKP S.A.)	220	28,440	196	27,450
Subsidiaries / co-subsidiaries	293,479	292,968	275,361	240,855
Associates	1,304	-	739	-
Other PKP Group related parties	4,886	334,824	13,321	312,499

	As at 30/06/2018		As at 31/12/2017	
	Receivables from related parties	Liabilities to related parties	Receivables from related parties	Liabilities to related parties
Parent Company (PKP S.A.)	50	8,536	1,077	7,104
Subsidiaries / co-subsidiaries	76,052	128,872	88,103	119,165
Associates	1,063	-	142	-
Other PKP Group related parties	1,579	73,319	2,229	59,251

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

In the PKP CARGO Group sales transactions covered freight transport services, lease of equipment and sub-lease of real estate. The purchase transactions comprised, among other maintenance and repair of rolling stock, transshipment services and intermodal transport.

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

In addition to commercial transactions, the Company has cash pooling settlements and dividend receivables disclosed in **Notes 12** and **15**, respectively, and has also provided sureties for subsidiaries, as described in **Note 30** to these Interim Condensed Separate Financial Statements.

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

28. Related party transactions (cont.)

Loans granted to / received from related parties

In the period of 6 months ended 30 June 2018, the Company did not grant or take any loans from its related parties. As at 30 June 2018 and 31 December 2017, the Company had cash pooling settlements presented **Note 12** to these Interim Condensed Separate Financial Statements.

Remunerations of key management personnel

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

Remunerations of the Management Board Members were as follows:	6 months ended 30/06/2018	6 months ended 30/06/2017
Short-term benefits	1,066	1,348
Post-employment benefits	375	829
Termination benefits	129	-
Total	**1,570**	**2,177**

Remunerations of the Supervisory Board Members were as follows:	6 months ended 30/06/2018	6 months ended 30/06/2017
Short-term benefits	468	639
Total	**468**	**639**

Remunerations of other members of key management personnel were as follows:	6 months ended 30/06/2018	6 months ended 30/06/2017 (restated*)
Short-term benefits	3,079	2,835
Post-employment benefits	455	652
Termination benefits	64	267
Total	**3,598**	**3,754**

(1) In the financial year ended 31 December 2017, the Company changed the presentation of other key management personnel, including into this group, in addition to Managing Directors, Head Office Department Directors and Directors of other organizational units responsible for individual areas of the Company's operations. In connection with the change in the presentation, the Company accordingly restated the comparable data for the period of 6 months ended 30 June 2017.

In the period of 6 months ended 30 June 2018 and the period of 6 months ended 30 June 2017, members of key management personnel did not enter into any loan or guarantee transactions with the Company.

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

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

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

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

	As at 30/06/2018	As at 31/12/2017
Contractual liabilities arising from the acquisition of non-financial non-current assets	1,610,830	120,355
Total	**1,610,830**	**120,355**

As at 30 June 2018, the value of future investment liabilities included predominantly liabilities resulting from:

- a contract entered into with PKP CARGOTABOR Sp. z o.o. for approx. 21,000 periodic repairs of freight cars to be performed until December 2020. The contract is currently underway and as at 30 June 2018 its outstanding contractual value was PLN 795,728 thousand,
- a contract entered into with NEWAG S.A. for modernization of 60 SM48 locomotives with a total value of PLN 388,148 thousand, to be performed from October 2018 to May 2021,
- a contract entered into with Pojazdy Szynowe PESA Bydgoszcz S.A. to conduct level five maintenance repairs of 38 ST44 locomotives with a total value of PLN 176,334 thousand, to be performed from January 2019 to September 2020,
- a contract entered into with PKP CARGOTABOR Sp. z o.o. for overhauls of ET41 locomotives, to be performed until December 2019. The contract is currently underway and as at 30 June 2018 its outstanding contractual value was PLN 104,730 thousand.

The remaining part of the Company's investment liabilities consisted predominantly of contracts for repairs and periodic inspections of wagons for PLN 103,668 thousand and contracts for the purchase of 70 wagons for PLN 39,970 thousand.

30. Contingent liabilities

Structure of contingent liabilities

	As at 30/06/2018	As at 31/12/2017
Sureties for subsidiaries	1,500	1,500
Guarantees issued at PKP CARGO S.A.'s request	23,415	18,372
Other contingent liabilities	110,449	110,419
Total	**135,364**	**130,291**

Sureties granted for subsidiaries

As at 30 June 2018 and 31 December 2017, there was an outstanding loan agreement surety granted by the Company for PKP CARGOTABOR Sp. z o.o. The surety was secured with a blank promissory note.

Guarantees issued at PKP CARGO S.A.'s request

As at 30 June 2018, there were outstanding guarantees issued by banks at the Company's request for commercial business partners. The guarantees comprised tender bonds (for PLN 1,000 thousand), performance bonds (for PLN 19,899 thousand) and payment guarantees (for PLN 2,516 thousand). As at 31 December 2017, the outstanding guarantees comprised tender bonds (for PLN 1,680 thousand), performance bonds (for PLN 14,282 thousand) and payment guarantees (for PLN 2,410 thousand).

Other contingent liabilities

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

31. Subsequent events

There we no material events affecting the Company's operations after the balance sheet date.

32. Approval of the financial statements

These Interim Condensed Separate Financial Statements were approved for publication by the Management Board on 20 August 2018.

Company's Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 20 August 2018

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BDO spółka z ograniczoną odpowiedzialnością sp.k.
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02-676 Warszawa
Polska

THE GROUP
where the parent company is
PKP CARGO SA
ul. Grójecka 17, 02-021 Warszawa

Independent Auditor's Review Report
on the interim condensed consolidated financial statements
for the period from 1 January to 30 June 2018

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Independent Auditor's Review Report on the interim condensed consolidated financial statements for the period from 1 January to 30 June 2018

for the Shareholders and Supervisory Board of PKP CARGO SA

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of the Group, where the parent company is PKP CARGO SA with its registered office in Warsaw, consisting of the consolidated statement of financial position prepared as at 30 June 2018, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period from 1 January to 30 June 2018, as well as notes to the financial statements.

The Parent Company's Management Board is responsible for the preparation and fair presentation of the interim condensed consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

Our responsibility is to form a conclusion on the interim condensed consolidated financial statements based on our review.

Scope of review

We performed the review in accordance with National Standard on Auditing 2410 in the wording of International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", adopted in Resolution No. 2041/37a/2018 passed by the National Council of Certified Auditors on 5 March 2018.

A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical procedures, other review procedures and evaluating the evidence obtained.

A review is substantially less in scope than an audit conducted in accordance with National Standards on Auditing in the wording of International Standards on Auditing. In consequence, a review does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements have not been prepared, in all material respects, in accordance with the requirements of IAS 34.

Katowice, 20 August 2018

BDO spółka z ograniczoną odpowiedzialnością sp.k.
ul. Postępu 12
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entered on the list of audit firms in number 3355

Auditor in charge:

Leszek Kramarczuk
Audit Partner
Certified Auditor No. 1920

On behalf of BDO spółka z ograniczoną odpowiedzialnością sp.k.:

Dr. André Helin
Managing Partner
Certified Auditor No. 90004

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE **PKP CARGO GROUP**

FOR THE PERIOD OF 6 MONTHS ENDED 30 JUNE 2018
PREPARED IN ACCORDANCE WITH IFRS AS ENDORSED BY THE EUROPEAN UNION

PKPCARGO

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

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2018 TO 30 JUNE 2018

	Note	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Revenue from sales of services and finished products	5	2,460,024	1,267,517	2,227,909	1,150,503
Revenue from sales of goods and materials		26,683	14,246	18,032	8,112
Other operating revenue	7	23,168	12,236	20,913	8,212
Total operating revenue		**2,509,875**	**1,293,999**	**2,266,854**	**1,166,827**
Depreciation, amortization and impairment losses	6	288,640	151,625	287,360	143,519
Consumption of raw materials and energy	6	378,016	191,900	341,241	170,598
External services	6	819,568	425,571	759,624	387,618
Taxes and charges		14,694	8,790	20,905	10,595
Employee benefits	6	814,523	415,544	753,660	382,475
Other expenses by kind	6	27,401	14,141	27,438	14,382
Cost of goods and raw materials sold		15,615	7,813	12,990	5,594
Other operating expenses	7	17,468	7,921	18,215	9,801
Total operating expenses		**2,375,925**	**1,223,305**	**2,221,433**	**1,124,582**
Profit on operating activities		**133,950**	**70,694**	**45,421**	**42,245**
Financial revenue	8	10,297	7,614	14,240	4,153
Financial expenses	8	29,391	16,246	30,493	15,309
Share in the profit / (loss) of entities accounted for under the equity method	11	(2,057)	1,014	1,183	(836)
Profit before tax		**112,799**	**63,076**	**30,351**	**30,253**
Income tax	9	23,245	9,131	10,989	9,457
NET PROFIT		**89,554**	**53,945**	**19,362**	**20,796**
OTHER COMPREHENSIVE INCOME					
Other comprehensive income subject to reclassification in the financial result					
Effective portion of profits / (losses) related to a hedging instrument to hedge cash flows	27	(35,003)	(27,134)	20,201	797
Income tax referring to the other comprehensive income line item	9	6,650	5,155	(3,838)	(151)
Foreign exchange differences resulting from translation of financial statements of foreign entities		20,070	8,503	(10,455)	22,302
Total other comprehensive income subject to reclassification in the financial result		**(8,283)**	**(13,476)**	**5,908**	**22,948**
Other comprehensive income not subject to reclassification in the financial result					
Actuarial profits / (losses) on post-employment benefits		(3,950)	(3,950)	(25,028)	(25,028)
Income tax referring to the other comprehensive income line item	9	750	750	4,755	4,755
Total other comprehensive income not subject to reclassification in the financial result		**(3,200)**	**(3,200)**	**(20,273)**	**(20,273)**
Total other comprehensive income		**(11,483)**	**(16,676)**	**(14,365)**	**2,675**
TOTAL COMPREHENSIVE INCOME		**78,071**	**37,269**	**4,997**	**23,471**
Net profit attributable:					
To shareholders of the parent company		89,554	53,945	19,362	20,796
Total other comprehensive income attributable:					
To shareholders of the parent company		78,071	37,269	4,997	23,471
Earnings per share (PLN per share)					
Basic	19	2.00	1.20	0.43	0.46
Diluted	19	2.00	1.20	0.43	0.46

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	As at 30/06/2018	As at 31/12/2017
ASSETS			
Non-current assets			
Property, plant and equipment	**10**	4,702,942	4,687,982
Intangible assets		37,081	43,927
Investment property		1,179	1,205
Investments in entities accounted for under the equity method	**11**	51,897	53,610
Trade and other receivables	**15**	1,370	1,836
Other non-current financial assets	**12**	5,853	10,537
Other non-current non-financial assets	**13**	13,583	14,726
Deferred tax assets	**9**	146,708	133,583
Total non-current assets		**4,960,613**	**4,947,406**
Current assets			
Inventories	**14**	154,788	148,464
Trade and other receivables	**15**	750,319	729,535
Income tax receivables		293	115
Other current financial assets	**12**	405,873	263,670
Other current non-financial assets	**13**	63,991	35,593
Cash and cash equivalents	**16**	264,452	516,776
Total current assets		**1,639,716**	**1,694,153**
Non-current assets classified as held for sale	**17**	18,267	–
TOTAL ASSETS		**6,618,596**	**6,641,559**
EQUITY AND LIABILITIES			
Equity			
Share capital	**18**	2,239,346	2,239,346
Supplementary capital	**18**	627,557	619,306
Other items of equity		(39,630)	4,872
Foreign exchange differences resulting from translation of financial statements of foreign entities		79,966	59,896
Retained earnings		501,800	411,358
Total equity		**3,409,039**	**3,334,778**
Long-term liabilities			
Long-term bank loans and borrowings	**20**	1,218,898	1,312,629
Long-term finance lease liabilities	**21**	81,727	91,055
Long-term trade and other payables	**24**	2,170	1,578
Long-term provisions for employee benefits	**25**	572,574	558,547
Other long-term provisions	**26**	22,954	22,446
Other long-term financial liabilities	**22**	1,431	–
Deferred tax liability	**9**	100,243	107,418
Total long-term liabilities		**1,999,997**	**2,093,673**
Short-term liabilities			
Short-term bank loans and borrowings	**20**	248,287	249,701
Short-term finance lease liabilities	**21**	32,640	48,040
Short-term trade and other payables	**24**	728,662	749,736
Short-term provisions for employee benefits	**25**	136,677	104,006
Other short-term provisions	**26**	54,711	59,726
Other short-term financial liabilities	**22**	1,940	272
Short-term tax liabilities		6,643	1,627
Total short-term liabilities		**1,209,560**	**1,213,108**
Total liabilities		**3,209,557**	**3,306,781**
TOTAL EQUITY AND LIABILITIES		**6,618,596**	**6,641,559**

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2018 TO 30 JUNE 2018

			Other items of equity					Equity		
	Share capital	Supplementary capital	Profits / (losses) on measurement of equity instruments at fair value	Actuarial profits / (losses) on post-employee benefits	Profits / (losses) related to a hedging instrument to hedge cash flow	Foreign exchange differences resulting from translation of financial statements of foreign entities	Retained earnings	Attributable to the owners of the parent company	Attributable to non-controlling interests	Total
As at 1/01/2018 (audited)	**2,239,346**	**619,306**	**–**	**(15,625)**	**20,497**	**59,896**	**411,358**	**3,334,778**	**–**	**3,334,778**
Changes resulting from the implementation of IFRS 9	–	–	(12,949)	–	–	–	9,139	**(3,810)**	–	**(3,810)**
As at 1/01/2018 (restated)	**2,239,346**	**619,306**	**(12,949)**	**(15,625)**	**20,497**	**59,896**	**420,497**	**3,330,968**	**–**	**3,330,968**
Net result for the period	–	–	–	–	–	–	89,554	**89,554**	–	**89,554**
Other comprehensive income for the period (net)	–	–	–	(3,200)	(28,353)	20,070	–	**(11,483)**	–	**(11,483)**
Total comprehensive income	**–**	**–**	**–**	**(3,200)**	**(28,353)**	**20,070**	**89,554**	**78,071**	**–**	**78,071**
Other changes for the period	–	8,251	–	–	–	–	(8,251)	**–**	–	**-**
As at 30/06/2018	**2,239,346**	**627,557**	**(12,949)**	**(18,825)**	**(7,856)**	**79,966**	**501,800**	**3,409,039**	**–**	**3,409,039**
As at 1/01/2017	**2,239,346**	**618,666**	**–**	**13,521**	**(2,074)**	**60,494**	**330,325**	**3,260,278**	**–**	**3,260,278**
Net result for the period	–	–	–	–	–	–	19,362	**19,362**	–	**19,362**
Other comprehensive income for the period (net)	–	–	–	(20,273)	16,363	(10,455)	–	**(14,365)**	–	**(14,365)**
Total comprehensive income	**–**	**–**	**–**	**(20,273)**	**16,363**	**(10,455)**	**19,362**	**4,997**	**–**	**4,997**
Other changes for the period	–	(616)	–	–	–	–	616	**–**	–	**–**
As at 30/06/2017	**2,239,346**	**618,050**	**–**	**(6,752)**	**14,289**	**50,039**	**350,303**	**3,265,275**	**–**	**3,265,275**

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

INTERIM CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD FROM 1 JANUARY 2018 TO 30 JUNE 2018

	Note	6 months ended 30/06/2018	6 months ended 30/06/2017
Cash flow from operating activities			
Profit before tax		**112,799**	**30,351**
Adjustments:			
Depreciation of property, plant and equipment and amortization of intangible assets	6	270,560	287,113
Impairment of non-current assets	6	18,080	247
(Profit) / loss on the sale and liquidation of property, plant and equipment, intangible assets and non-current assets held for sale		(1,241)	(5,206)
Profit / (loss) on other investing activities	8	(4,313)	–
Foreign exchange (profit) / loss		2,533	(5,297)
(Profit) / loss on interest, dividends		9,689	14,537
Share in the (profit) / loss of entities accounted for under the equity method	11	2,057	(1,183)
Received / (paid) interest		2,496	297
Received / (paid) income tax		(33,605)	(15,866)
Other adjustments		(16,532)	(14,055)
Change in working capital:			
(Increase) / decrease in trade and other receivables		(25,813)	(19,735)
(Increase) / decrease in inventories		(3,141)	2,247
(Increase) / decrease in other assets		(16,725)	(29,434)
Increase / (decrease) in trade and other payables		30,696	(47,614)
Increase / (decrease) in other financial liabilities		3,099	(5,239)
Increase / (decrease) in provisions		42,191	57,548
Net cash from operating activities		**392,830**	**248,711**
Cash flow from investing activities			
Expenditures to acquire property, plant and equipment and intangible assets		(344,900)	(235,168)
Proceeds from disposal of property, plant and equipment, intangible assets and non-current assets held for sale		1,779	8,154
Proceeds from disposal of other financial assets		5,325	–
Proceeds from interest received		4,567	3,323
Proceeds from dividends received		–	2,724
Outflow from loans granted		–	(121)
Proceeds from repayment of loans		251	–
(Outflow) / inflow from bank deposits over 3 months		(149,208)	(306,000)
Net cash from investing activities		**(482,186)**	**(527,088)**
Cash flow from financing activities			
Payments of financial lease liabilities	23	(28,372)	(36,135)
Interest paid on finance lease liabilities	23	(2,438)	(3,241)
Proceeds from bank loans and borrowings	23	212	50,844
Repayment of bank loans and borrowings	23	(121,289)	(146,208)
Interest paid on bank loans and borrowings	23	(13,291)	(14,620)
Grants received		1,000	–
Other outflows from financing activities		(1,595)	(1,896)
Net cash from financing activities		**(165,773)**	**(151,256)**
Net increase / (decrease) in cash and cash equivalents		(255,129)	(429,633)
Cash and cash equivalents at the beginning of the reporting period	16	516,776	755,919
Impact of changes foreign exchange rates on the cash balance in foreign currencies		2,805	(1,873)
Cash and cash equivalents at the end of the reporting period	**16**	**264,452**	**324,413**

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2018

1. General information

Information about the Parent Company

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

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

The composition of the Parent Company's management and supervisory bodies and the Parent Company's shareholding structure as at 30 June 2018 are presented in the Management Board Report on the Activity of the PKP CARGO Group for H1 2018, in **Notes 3.1** and **3.3**, respectively.

Information about the Group

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

As at the balance sheet date, the PKP CARGO Group (hereinafter Group) comprised of PKP CARGO S.A. as its parent company and 25 subsidiaries. In addition, the Group held stakes in 3 associated entities and 2 joint ventures.

The duration of individual Group companies is unlimited.

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

1. General information (cont.)

The detailed information about the subsidiaries consolidated using the full method as at 30 June 2018 and 31 December 2017 is as follows:

Item	Name of the subsidiary	Core business	Place of registration and business	Percent of shares held by the Group	
				As at 30/06/2018	As at 31/12/2017
1	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Service activity incidental to land transport, cargo handling and wholesale and retail sale of waste and scrap	Małaszewicze	100.0%	100.0%
2	PKP CARGO Centrum Logistyczne Medyka - Żurawica Sp. z o.o.	Service activity incidental to cargo transshipment in other transshipment points	Żurawica	100.0%	100.0%
3	PKP CARGO SERVICE Sp. z o.o.	Activity incidental to comprehensive handling of sidings	Warsaw	100.0%	100.0%
4	PKP CARGO CONNECT Sp. z o.o.	Freight forwarding services	Warsaw	100.0%	100.0%
5	PKP CARGOTABOR Sp. z o.o.	Service activity incidental to repair and overhaul of rolling stock	Warsaw	100.0%	100.0%
6	PKP CARGOTABOR USŁUGI Sp. z o.o.	Activity related to collecting, processing and neutralizing waste and recovery of raw materials	Warsaw	100.0%	100.0%
7	CARGOTOR Sp. z o.o.	Management of logistic and service infrastructure in the form of rail sidings and railway tracks, providing access to such infrastructure to rail operators.	Warsaw	100.0%	100.0%
8	CARGOSPED Terminal Braniewo Sp. z o.o.	Freight transshipment, customs warehouse	Braniewo	100.0%	100.0%
9	Advanced World Transport B.V.	Holding and financial activity	Amsterdam	100.0%	100.0%
10	Advanced World Transport a.s.	Provision of comprehensive services: rail transport, railway shipping, sidings handling, rolling stock repairs	Ostrava	100.0%	100.0%
11	AWT ROSCO a.s.	Rolling stock management, rolling stock lease	Ostrava	100.0%	100.0%
12	AWT Čechofracht a.s.	Freight forwarding and customs service	Prague	100.0%	100.0%
13	AWT Rekultivace a.s.	Provision of comprehensive services: land reclamation, construction services, waste management, zoning design	Havířov-Prostřední Suchá	100.0%	100.0%
14	AWT Rail HU Zrt.	Provision of comprehensive services: rail transport, railway shipping, sidings handling	Budapest	100.0%	100.0%

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

1. General information (cont.)

Detailed information about the remaining subsidiaries from the Group as at 30 June 2018 and 31 December 2017 is as follows:

Item	Name of the subsidiary	Core business	Place of registration and business	Percent of shares held by the Group	
				As at 30/06/2018	As at 31/12/2017
15	ONECARGO Sp. z o.o.	Cargo rail transport	Warsaw	100.0%	100.0%
16	ONECARGO CONNECT Sp. z o.o.	Service activities incidental to land transport	Warsaw	100.0%	100.0%
17	Transgaz S.A.	Transport agency	Zalesie near Małaszewicze	64.0%	64.0%
18	Trade Trans Finance Sp. z o.o.	Financial and accounting service	Warsaw	100.0%	100.0%
19	PKP CARGO CONNECT GmbH	Customs and freight forwarding service	Hamburg	100.0%	100.0%
20	PPHU "Ukpol" Sp. z o.o.	Freight transshipment, trading services	Werchrata	100.0%	100.0%
21	AWT Rail SK a.s.	Rail transport, freight forwarding	Bratislava	100.0%	100.0%
22	AWT DLT s.r.o.	Siding services	Kladno	100.0%	100.0%
23	AWT Trading s.r.o.	Trading in products for the army	Petřvald	100.0%	100.0%
24	AWT Rekultivace PL Sp. z o.o.	Provision of comprehensive services: land reclamation, construction services, waste management, zoning design	Cieszyn	100.0%	100.0%
25	RND s.r.o.	Rail freight forwarding, transport monitoring	Olomouc	51.0%	51.0%

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

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

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

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

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

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

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

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

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

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

The financial data of foreign entities for the purpose of consolidation have been converted into the Polish currency in the following manner:

a) assets and liabilities items at the exchange rate at the end of the reporting period,
b) statement of comprehensive income items and cash flow statement items at the average exchange rate in the reporting period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in a given period.

FX differences resulting from the above conversions are presented in equity as FX differences resulting from translation of financial statements of foreign entities. As at 30 June 2018 and 31 December 2017, for the needs of valuation of the financial statements of foreign entities subject to consolidation, the following exchange rates were adopted:

Currency	Items of the statement of financial position		Items of the statement of comprehensive income and the cash flow statement	
	As at 30/06/2018	As at 31/12/2017	6 months ended 30/06/2018	6 months ended 30/06/2017
EUR	4.3616	4.1709	4.2395	4.2474
CZK	0.1683	0.1632	0.1659	0.1586
HUF	0.0133	0.0134	0.0134	0.0137

These Interim Condensed Consolidated Financial Statements have been reviewed by a statutory auditor. The line items of the consolidated statement of financial position as at 31 December 2017 were audited by a statutory auditor during the audit of the Consolidated Financial Statements of the PKP CARGO Group for the year ended 31 December 2017 prepared according to EU IFRS.

The line items of the consolidated statement of comprehensive income for the period of 6 months ended 30 June 2017 have been restated due to the retrospective application of IFRS 15.

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

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

These Interim Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 20 August 2018.

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

Statement on accounting policies

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

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

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

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

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

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

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

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

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

Impact on consolidated financial statements:

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

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

Change in the principles of classification and measurement of financial assets

The change in the principles of classification has cause changes in the classification of financial assets in the Group's financial statements. Certain instruments previously classified into the loans and receivables category satisfy the conditions of classification into assets carried at amortized cost, hence the entry of IFRS 9 into force has not caused a change in the principles of their valuation. Shares held by the Group in companies not listed on active markets were carried at purchase price minus impairment losses, if any. As at 31 December 2017 the Group, as part of interests in unlisted companies, presented mainly the value of the shares in Euroterminal Sławków Sp. z o.o. in the amount of PLN 6,021 thousand. As a result of the first application of IFRS 9, the Group measured the fair value of the shares in Euroterminal Sławków Sp. z o.o. The fair value of this shares was calculated as PLN 4,883 thousand. In accordance with the adopted amendments to the accounting policy, the effects of fair value valuation of investments in equity instruments is recognized in other comprehensive income. In the statement of financial position, the effects of the measurement of investments in equity instruments are presented as other items of equity.

Shares in other companies not listed on active markets are measured at cost, which as at 1 January 2018 was PLN 2,096 thousand, taking into account impairment losses of PLN 832 thousand. In the Group's opinion, due to limitations in the extent of available information, this method of measurement reflects the fair value of these assets.

As at the date of the first application of IFRS 9, the Group restated the data resulting from the Group's Consolidated Financial Statements for the financial year ended 31 December 2017 as follows:

– the effects of measurement of the shares in Euroterminal Sławków Sp. z o.o. at fair value as at 1 January 2018 in the amount of PLN 1,138 thousand decreased other financial assets and other items of equity,

– the impairment loss on investment in equity instruments recognized in previous periods in the amount of PLN 11,811 thousand increased retained earnings and decreased other items of equity.

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

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

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

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

Model for the assessment of impairment of financial assets

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

Hedge accounting

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

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

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

	As at 1/01/2018 (audited)	Measurement of investments in equity instruments	Model for impairment of financial assets	As at 1/01/2018 (restated)
ASSETS				
Non-current assets				
Other non-current financial assets	10,537	(1,138)	–	9,399
Deferred tax assets	133,583	–	627	134,210
Total non-current assets	**4,947,406**	**(1,138)**	**627**	**4,946,895**
Trade and other receivables	729,535	–	(3,299)	726,236
Total current assets	**1,694,153**	–	**(3,299)**	**1,690,854**
TOTAL ASSETS	**6,641,559**	**(1,138)**	**(2,672)**	**6,637,749**
EQUITY AND LIABILITIES				
Equity				
Other items of equity	4,872	(12,949)	–	(8,077)
Retained earnings	411,358	11,811	(2,672)	420,497
Total equity	**3,334,778**	**(1,138)**	**(2,672)**	**3,330,968**
TOTAL EQUITY AND LIABILITIES	**6,641,559**	**(1,138)**	**(2,672)**	**6,637,749**

- **IFRS 15 "Revenue from Contracts with Customers" –** since the Group generates revenues primarily from the provision of rail transport services, the entry of IFRS 15 into force has chiefly affected transportation agreements. As a result of completed works, it has been concluded that the commercial agreements contain a variable compensation component resulting from:
  – the possibility of imposing penalties on the client in connection with its failure to meet the contractual provisions pertaining to transportation of a specified freight volume during the term of the agreement,
  – the possibility of imposing a penalty on the Group by the client in the event of failure to transport the ordered freight volume.
  Previously, these penalties have been presented as other operating revenues or expenses depending on the nature of the penalty. According to the new standard, these penalties are treated as a component of revenues from sales. Based on IFRS 15 C3 a) the Management Board of the Parent Company has decided that the standard will be implemented retrospectively in accordance with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, with the possibility of taking into account the instructions contained in clause C5. The application of this approach did not result in an adjustment of the Group's equity as at the date of its first application of IFRS 15. In accordance with the previously applied accounting principles, the following items were recognized in the period from 1 January 2017 to 30 June 2017:
  – in other operating revenues, provisions for penalties imposed on a client in the amount of PLN 2,266 thousand,
  – in other operating expenses, provisions for penalties charged by the client in the amount of PLN 559 thousand.
  In line with the aforedescribed changes, the Group has restated its comparative data.

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

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

Presented below is the restatement of comparative data. Information disclosed in additional notes to these Interim Condensed Consolidated Financial Statements has also been restated accordingly.

Presented below is the impact of the implementation of IFRS 15 on the consolidated statement of comprehensive income for the 6 months ended 30 June 2017:

	6 months ended 30/06/2017 (published)	Penalties resulting from sales agreements	6 months ended 30/06/2017 (restated)
Revenue from sales of services and finished products	2,226,202	1,707	2,227,909
Other operating revenue	23,179	(2,266)	20,913
Total operating revenue	**2,267,413**	**(559)**	**2,266,854**
Other operating expenses	18,774	(559)	18,215
Total operating expenses	**2,221,992**	**(559)**	**2,221,433**
Profit on operating activities	**45,421**	–	**45,421**
Profit before tax	**30,351**	–	**30,351**
NET PROFIT	**19,362**	–	**19,362**
Total other comprehensive income	**(14,365)**	–	**(14,365)**
TOTAL COMPREHENSIVE INCOME	**4,997**	–	**4,997**

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

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

When approving these Interim Condensed Consolidated Financial Statements, the Group did not apply the following standards or amendments to the standards issued by the International Accounting Standards Board for application by the EU:

- **IFRS 16 "Leases"** – applicable to annual periods beginning on 1 January 2019 or afterwards. In accordance with IFRS 16 the lessee recognizes the right to use an asset and lease liability. The right to use an asset is treated like other non-financial assets and amortized accordingly. Lease liabilities are initially carried at current value of the lease payments payable during the lease term, discounted by the lease rate, if it is not difficult to determine it. If such a rate cannot be easily determined, the lessee applies the marginal interest rate.
- **Amendments to IFRS 9 "Financial Instruments"** entitled Prepayment Features with Negative Compensation – applicable to annual periods beginning on 1 January 2019 or afterwards. The amendments make it possible for entities to carry some financial assets subject to prepayment with the so-called negative compensation at amortized cost.

Impact on consolidated financial statements:

- **IFRS 16 "Leases" –** preliminary analysis of the impact of IFRS 16 on the applied accounting principles has shown that the Group will have to recognize retrospectively in the financial statements material assets and liabilities that are currently included in long-term operating lease agreements, rental agreements or lease agreements. The implementation of IFRS 16 will affect the financial statements to the following extent:

  – in the statement of financial position, there will be an increase in non-current assets (predominantly land, buildings and structures) and lease liabilities. The Group intends to present its rights to the use of assets in a separate statement of financial position. This line item will also include assets used under current finance lease agreements in accordance with IAS 17,

  – in the statement of comprehensive income, the costs of depreciation and financial expenses will increase and the costs of external services will decrease.

  The Parent Company's Management Board intends to recognize lease contracts retrospectively in accordance with IFRS 16 Annex C item 5b, by presenting as at 1 January 2019 the combined effect of the application of this standard by adjusting the opening balance of retained earnings, without restating the comparative data. As a result of these changes, net debt and the ratio of net debt to EBITDA will increase.

  The Group is currently in the process of detailed identification of the agreements subject to the new requirements of the standard and preliminary preparation of possible valuation models and recognizing of the aforementioned agreement in the financial statements. In the period of 6 months ended 30 June 2018, the Group recognized in operating expenses approx. PLN 69,000 thousand of payments arising from short- and long-term lease, rental and operating lease agreements, of which approx. PLN 29,000 thousand related to key lease and rental agreements regarding to real estates entered into for a period of approx. 15 years or for an indefinite term and approx. PLN 6,000 thousand related to rolling stock lease agreements with a term of up to 5 years. The remaining amount of fees relates to agreements which as at 1 January 2019 will not meet the criteria for recognition as a lease in accordance with IFRS 16 or are less significant from the Group's point of view but, based on further analysis, may ultimately be recognized as at 1 January 2019 as a right to use the assets and as a lease liability. At this stage it is not possible to determine the numerical impact of IFRS 16 on the Group's financial statements.

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

The Group has carried out an analysis of the potential impact of the other aforementioned amendments to the standards on the accounting policy (principles) applied by the Group and, in the opinion of the Management Board of the Parent Company, they are irrelevant to the Group or will have no material impact on the currently applied accounting policy (principles).

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

IFRS as endorsed by the EU do not currently differ materially from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, their amendments and interpretations, which as at 30 June 2018 were not yet endorsed by the EU and did not enter into effect:

- **Amendment to IAS 28 "Investments in Associates and Joint Ventures" –** Long-term interests in associates and joint ventures (applicable to annual periods beginning on 1 January 2019 or afterwards). The amendments were introduced to clarify that an entity applies IFRS 9 (including regulations pertaining to impairment) to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendments also delete paragraph 41 because it has been concluded that it merely reiterated requirements in IFRS 9 and had created confusion about the accounting for long-term interests.
- **Amendments to different standards "Amendments to IFRS (cycle 2015-2017)"** – changes made as part of the procedure of annual amendments to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) focused mainly on resolving inconsistencies and unification of terminology (applicable to annual periods beginning on 1 January 2019 or afterwards).
- **Amendments to IAS 19 "Employee Benefits" –** Amendment, limitation or settlement of the plan (applicable to annual periods beginning on 1 January 2019 or afterwards). The amendments require that after change of the plan, updated assumptions for valuation should be applied to determine the current costs of the services and interest (net) for the remaining part of the reporting period.
- **Interpretation of IFRIC 23 "Uncertainty over Income Tax Treatments"** – applicable to annual periods beginning on 1 January 2019 or afterwards. The interpretation applies to determining the income to be taxed (tax loss), taxation basis, unused tax losses, unused tax reliefs, tax rates, if there is uncertainty as the treatment of the income tax pursuant to IAS 12.
- **Amendments to references to the IFRS Framework** – applicable to annual periods beginning on 1 January 2020 or afterwards.
- **IFRS 17 "Insurance Contracts"** – applicable to annual periods beginning on 1 January 2021 or afterwards. The aim of the standard is to introduce uniform, formalized accounting principles applicable to insurance contracts. The new standard stipulates that insurance liabilities are carried at the current value of the obligation performance and introduces uniform rules for valuation and presentation for all types of insurance contracts. IFRS 17 replaces IFRS 4 Insurance Contracts and the related interpretations.

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

4. Material values based on professional judgment and estimates

In the period of 6 months ended 30 June 2018, changes to material estimates related to the following items:

- **property, plant and equipment:**
  – residual value and depreciation of rolling stock assets – as at 31 December 2017, the Group updated the residual value of rolling stock caused by the increase in the market prices of scrap metal compared to the prices adopted by the Group for measurement of the residual value of rolling stock in previous periods. The increase in the residual value and the decrease in the base for calculating depreciation charges caused a decrease in depreciation costs in H1 2018 by approximately PLN 16,500 thousand.
  – **impairment loss on rolling stock assets** – in the period of the first 6 months of 2018, the Group identified certain redundant rolling stock assets as part of the optimization processes executed in the AWT group. After the analysis and taking into account the effects of the optimization processes, the Parent Company's Management Board made a decision to recognize an impairment loss on the redundant rolling stock assets in the amount of PLN 18,080 thousand.
- **provisions for employee benefits** – these provisions were estimated as at 30 June 2018 and the recalculation effect is presented in **Note 25** of these Interim Condensed Consolidated Financial Statements.
- **deferred tax** – the effect of the recalculated balance of deferred tax as at 30 June 2018 is presented in **Note 9** to these Interim Condensed Consolidated Financial Statements.

During the 6 months ended 30 June 2018, no other changes were made to the assumptions adopted by the Parent Company's Management Board for the calculation of estimates that would have a material impact on the current period or any future periods.

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

5. Revenue from sales of services and finished products

Structure of revenue from sales of services and finished products

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

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

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017 (*)	3 months ended 30/06/2017 (*)
Revenue from rail transportation and freight forwarding services, including:	2,093,054	1,070,164	1,888,568	979,437
Penalties for non-performed sales agreements	3,346	3,341	1,707	1,881
Revenue from other transportation activity	79,795	37,256	81,099	41,692
Revenue from siding and traction services	135,443	73,473	122,175	61,372
Revenue from transshipment services	56,259	31,019	39,671	20,580
Revenue from reclamation services	41,819	26,327	30,803	14,585
Other revenue, including:	53,654	29,278	65,593	32,837
Rent of assets	17,148	9,419	21,487	10,861
Revenue from customs agency services	8,252	4,424	7,260	3,200
Sales of finished products	7,443	5,795	11,775	7,070
Repair of rolling stock	5,164	2,535	10,033	4,522
Other	15,647	7,105	15,038	7,184
Total	**2,460,024**	**1,267,517**	**2,227,909**	**1,150,503**

(*) Data for the period of 6 months ended 30 June 2017 have been restated due to the retrospective application of IFRS 15, as described in **Note 3** to these Interim Condensed Consolidated Financial Statements.

Geography

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

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

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017 (*)	3 months ended 30/06/2017 (*)
Poland	1,726,985	888,364	1,558,310	820,423
Czech Republic	301,329	156,971	293,782	144,967
Germany	133,825	69,505	116,913	59,340
Slovakia	74,796	39,302	52,904	25,606
Italy	36,649	18,201	49,127	23,996
Other countries	186,440	95,174	156,873	76,171
Total	**2,460,024**	**1,267,517**	**2,227,909**	**1,150,503**

(*) Data for the period of 6 months ended 30 June 2017 have been restated due to the retrospective application of IFRS 15, as described in **Note 3** to these Interim Condensed Consolidated Financial Statements.

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

	As at 30/06/2018	As at 31/12/2017
Poland	3,998,214	3,984,039
Czech Republic	794,480	804,841
Other countries	13,988	12,570
Total	**4,806,682**	**4,801,450**

Information on key customers

In the period of 6 months ended 30 June 2018, revenue from any single client did not exceed 10% of the total revenue from sales of services and finished goods. In the period of 6 months ended 30 June 2017, the share of sales to one group exceeded 10% and stood at 12% of the total revenue from sales of services and finished products.

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

6. Expenses by kind

Depreciation, amortization and impairment losses

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Depreciation of property, plant and equipment	261,488	128,964	278,580	139,037
Amortization of intangible assets	9,072	4,581	8,533	4,235
Recognized / (reversed) impairment losses:				
Property, plant and equipment	18,080	18,080	247	247
Total	**288,640**	**151,625**	**287,360**	**143,519**

Consumption of raw materials and energy

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Fuel consumption	111,142	56,846	87,616	42,024
Consumption of raw materials	49,393	26,630	49,063	24,668
Consumption of electricity, gas and water	215,647	107,418	204,301	103,591
Recognized / (reversed) impairment losses on inventories	638	536	(444)	(51)
Other	1,196	470	705	366
Total	**378,016**	**191,900**	**341,241**	**170,598**

External services

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Line access services from infrastructure managers	354,925	183,453	341,032	179,312
Repair services	20,833	12,133	17,789	11,085
Rent and fees for the use of real properties and rolling stock	98,508	51,593	77,734	38,209
Transport services	234,665	121,457	214,641	103,011
Telecommunication services	3,175	1,600	3,796	1,853
Legal, consulting and similar services	6,389	3,294	9,164	4,693
IT services	21,765	11,104	23,014	11,554
Maintenance and operation services for facilities and fixed assets	14,314	7,790	13,660	7,077
Transshipment services	6,496	2,688	10,478	5,345
Reclamation services	31,216	17,025	18,225	9,617
Other services	27,282	13,434	30,091	15,862
Total	**819,568**	**425,571**	**759,624**	**387,618**

Employee benefits

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Payroll	588,710	295,506	545,499	274,690
Social security expenses	127,595	64,716	117,167	58,210
Expenses for contributions to the Company Social Benefits Fund	13,182	6,596	13,873	7,246
Other employee benefits during employment	20,094	9,900	20,546	9,559
Post-employment benefits	4,996	3,165	3,601	1,342
Movement in provisions for employee benefits	59,946	35,661	52,974	31,428
Total	**814,523**	**415,544**	**753,660**	**382,475**

Other expenses by kind

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Business travel	16,390	8,416	15,619	8,081
Insurance	7,519	3,831	6,579	3,355
Advertising and representation	1,910	1,126	3,721	2,355
Other	1,582	768	1,519	591
Total	**27,401**	**14,141**	**27,438**	**14,382**

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

7. Other operating revenue and expenses

Other operating revenue

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017 (*)	3 months ended 30/06/2017 (*)
Profit on disposal				
Profit on sales of non-financial non-current assets	1,493	571	6,469	283
Reversed impairment losses				
Trade receivables	7,007	2,482	2,140	1,011
Other receivables	31	22	28	23
Other				
Penalties and compensations	6,330	3,049	8,215	4,705
Reversal of other provisions	379	140	996	304
Interest on trade and other receivables	2,202	901	1,110	556
Net result on foreign exchange differences on trade receivables and payables	3,663	3,588	–	–
Grants	994	943	409	268
Other	1,069	540	1,546	1,062
Total	**23,168**	**12,236**	**20,913**	**8,212**

(*) Data for the period of 6 months ended 30 June 2017 have been restated due to the retrospective application of IFRS 15, as described in **Note 3** to these Interim Condensed Consolidated Financial Statements.

Other operating expenses

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017 (*)	3 months ended 30/06/2017 (*)
Impairment losses recognized				
Trade receivables	5,649	1,645	3,141	2,356
Other				
Penalties and compensations	4,488	2,253	4,037	2,074
Costs of liquidation of non-current and current assets	1,265	670	1,333	595
Provision for penalties imposed by anti-monopoly authorities	1,659	1,659	957	957
Other provisions	1,674	106	351	196
Court and enforcement expenses	602	357	713	367
Expenses under benefits in the form of train fares for persons who are not employees	834	475	800	507
Interest on trade and other payables	331	167	185	44
Net result on foreign exchange differences on trade receivables and payables	–	–	4,838	2,227
Donations made	79	40	1,098	85
Other	887	549	762	393
Total	**17,468**	**7,921**	**18,215**	**9,801**

(*) Data for the period of 6 months ended 30 June 2017 have been restated due to the retrospective application of IFRS 15, as described in **Note 3** to these Interim Condensed Consolidated Financial Statements.

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

8. Financial income and expenses

Financial revenue

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Interest income				
Bank deposits and accounts	5,056	2,561	4,399	1,899
Loans granted	260	72	266	185
Other	–	–	135	109
Other				
Profit on shares and stocks, including:				
Profit on sales of shares and stocks	4,960	4,960	–	–
Profit on valuation of financial assets and liabilities accounted for at fair value through profit and loss, including:				
Valuation of a liability on account of a put option for non-controlling interest	–	–	4,694	(665)
Valuation of FX forward contracts	21	21	162	48
Net result on foreign exchange differences	–	–	4,584	2,577
Total	**10,297**	**7,614**	**14,240**	**4,153**

Financial expenses

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Interest expenses				
Interest on bank loans and borrowings	13,227	6,541	14,457	7,104
Interest on finance lease liabilities	2,438	1,109	3,241	1,661
Interest on long-term liabilities	4	–	410	148
Other	5	3	896	83
Other				
Impairment losses on the value of loans granted	647	647	–	–
Losses on valuation of financial assets and liabilities accounted for at fair value through profit and loss, including:				
Valuation of FX forward contracts	–	(31)	–	–
Settlement of the discount on provisions for employee benefits	10,286	5,416	10,305	5,385
Net result on foreign exchange differences	1,548	1,546	–	–
Other	1,236	1,015	1,184	928
Total	**29,391**	**16,246**	**30,493**	**15,309**

9. Income tax

Income tax recognized in profit / loss

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Current income tax				
Current tax expense	37,182	14,573	33,981	23,372
Adjustments recognized in the current year reference to past years' tax	1,265	602	394	(1)
Deferred income tax				
Deferred income tax of the reporting period	(15,202)	(6,044)	(23,386)	(13,914)
Income tax recognized in profit / loss	**23,245**	**9,131**	**10,989**	**9,457**

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

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

9. Income tax (cont.)

Deferred income tax recognized in other comprehensive income

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Deferred tax on re-measurement of fair value of financial instruments designated as security of cash flows hedges	(6,650)	(5,155)	3,838	151
Deferred tax on actuarial earnings / (losses) on post-employment benefits	(750)	(750)	(4,755)	(4,755)
FX differences from conversion of the balance of deferred income tax recognized in other comprehensive income [1]	2,929	1,268	(1,589)	3,274
Deferred income tax recognized in other comprehensive income	**(4,471)**	**(4,637)**	**(2,506)**	**(1,330)**

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

Balance of deferred tax assets and liabilities

	As at 30/06/2018	As at 31/12/2017
Deferred tax assets	146,708	133,583
Deferred tax liability	(100,243)	(107,418)
Total	**46,465**	**26,165**

Movements in deferred tax

6 months ended 30/06/2018	As at 1/01/2018	Recognized in profit or loss	Recognized in other comprehensive income	FX differences from conversion of the balance of deferred income tax recognized in other comprehensive income	As at 30/06/2018
Temporary differences relating to deferred tax (liabilities) / assets:					
Property, plant and equipment, intangible assets and non-current assets held for sale (including financial lease)	(144,084)	4,975	–	(3,307)	**(142,416)**
Inventories	(1,924)	(2,383)	–	9	**(4,298)**
Receivables – impairment losses [1]	8,432	(49)	–	44	**8,427**
Accrued interest related to assets	(333)	(9)	–	–	**(342)**
Accrued interest related to liabilities	153	(22)	–	–	**131**
Provisions for employee benefits	125,819	7,726	750	83	**134,378**
Other provisions	6,386	(412)	–	71	**6,045**
Accrued expenses	1,151	2,962	–	–	**4,113**
Deferred income	(3,351)	(2,434)	–	–	**(5,785)**
Unpaid employee benefits	1,831	6,170	–	1	**8,002**
FX differences	(1,671)	(312)	4,206	–	**2,223**
Valuation of derivatives instruments	(2,647)	293	2,444	–	**90**
Other	–	(1,445)	–	(1)	**(1,446)**
Unused tax losses [2]	37,030	142	–	171	**37,343**
Total	**26,792**	**15,202**	**7,400**	**(2,929)**	**46,465**

[1] Data as at 1 January 2018 have been restated in connection with the implementation of IFRS 9, as described in **Note 3** to these Interim Condensed Consolidated Financial Statements.
[2] As at 30 June 2018, deferred tax assets on account of tax losses for use in future periods represented loss of the Parent Company in the amount of PLN 138,594 thousand and of the subsidiaries in the amount of PLN 57,946 thousand. It will be possible to deduct tax losses in the amount of PLN 165,938 thousand within five fiscal years following the end of operation of the tax group. Other tax losses may be deducted within five tax years since they have occured. According to the Parent Company Management Board there is no risk as at 30 June 2018 that it will be impossible to realize the above assets.

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

9. Income tax (cont.)

6 months ended 30/06/2017	As at 1/01/2017	Recognized in profit or loss	Recognized in other comprehensive income	FX differences from conversion of the balance of deferred income tax recognized in other comprehensive income	As at 30/06/2017
Temporary differences relating to deferred tax (liabilities) / assets:					
Property, plant and equipment, intangible assets and non-current assets held for sale (including financial lease)	(183,033)	21,774	–	1,818	**(159,441)**
Long-term liabilities	(97)	78	–	–	**(19)**
Inventories	936	(1,175)	–	(6)	**(245)**
Receivables – impairment losses	7,138	32	–	(7)	**7,163**
Accrued interest related to assets	(241)	(205)	–	–	**(446)**
Accrued interest related to liabilities	182	(38)	–	–	**144**
Provisions for employee benefits	118,565	6,487	4,755	(39)	**129,768**
Other provisions	3,904	698	–	(44)	**4,558**
Accrued expenses	6,008	2,484	–	–	**8,492**
Deferred income	(3,080)	(1,216)	–	–	**(4,296)**
Unpaid employee benefits	7,375	(364)	–	–	**7,011**
FX differences	2,235	(817)	(1,768)	–	**(350)**
Valuation of derivatives instruments	218	(31)	(2,070)	–	**(1,883)**
Other	–	(1,511)	–	–	**(1,511)**
Unused tax losses (1)	40,769	(2,810)	–	(133)	**37,826**
Total	**879**	**23,386**	**917**	**1,589**	**26,771**

(1) As at 30 June 2017, deferred tax assets related to tax losses for use in future periods represented loss of the Parent Company in the amount of PLN 140,877 thousand and of the subsidiaries in the amount of PLN 58,204 thousand.

Tax loss not recognized in calculation of deferred tax assets

	As at 30/06/2018	As at 31/12/2017
As at the balance sheet date, no deferred tax assets related with the following tax losses were disclosed	93,802	113,508

The amount of tax losses not recognized in the calculation of deferred tax assets as at 30 June 2018 represented losses of the companies of the AWT Group in the amount of PLN 84,657 thousand (AWT B.V. in the amount of PLN 62,860 thousand, AWT Rail HU Zrt. in the amount of PLN 15,104 thousand and AWT Cechofracht a.s. in the amount of PLN 6,693 thousand) as well as losses incurred by PKP CARGOTABOR USŁUGI Sp. z o.o. in the amount of PLN 7,540 thousand and CARGOSPED Terminal Braniewo Sp. z o.o. in the amount of PLN 1,605 thousand. As at 31 December 2017, the amount of tax losses not recognized in the calculation of deferred tax assets represented losses of the companies of the AWT Group in the amount of PLN 104,345 thousand (AWT B.V. in the amount of PLN 59,073 thousand, AWT a.s. in the amount of PLN 27,389 thousand, AWT Rail HU Zrt. in the amount of PLN 17,883 thousand) as well as losses incurred by PKP CARGOTABOR USŁUGI Sp. z o.o. in the amount of PLN 7,558 thousand and CARGOSPED Terminal Braniewo Sp. z o.o. in the amount of PLN 1,605 thousand.

The expiration dates of the tax losses to which deferred tax assets were not recognized as at 30 June 2018 were as follows:

Year	2018	2019	2020	2021	2022	2023 and later on	Total
Unused tax losses	1,019	17,168	23,268	16,144	7,278	28,925	**93,802**

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

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

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

10. Property, plant and equipment

Change in the balance of property, plant and equipment

6 months ended 30/06/2018	Land	Buildings, premises and civil and water engineering facilities	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
As at 1/01/2018	**157,192**	**757,406**	**405,900**	**6,125,175**	**39,432**	**41,263**	**7,526,368**
Increases / (decreases):							
Acquisition	–	–	–	–	–	299,765	**299,765**
Finance lease	–	–	766	–	–	–	**766**
Exchange differences resulting from translation of financial statements of foreign entities	502	3,642	1,165	26,362	66	(320)	**31,417**
Settlement of fixed assets under construction	15	4,800	4,468	276,752	455	(286,490)	–
Grants	–	–	–	–	–	(6,802)	**(6,802)**
Sales	–	–	(588)	(1,791)	–	–	**(2,379)**
Liquidation	–	(489)	(992)	(148,437)	(94)	(1)	**(150,013)**
Reclassified to assets held for sale	–	–	–	(30,306)	–	–	**(30,306)**
Other	–	1	626	22	(649)	–	–
As at 30/06/2018	**157,709**	**765,360**	**411,345**	**6,247,777**	**39,210**	**47,415**	**7,668,816**
Accumulated depreciation							
As at 1/01/2018	–	**195,696**	**270,627**	**2,189,999**	**31,610**	–	**2,687,932**
Increases / (decreases):							
Depreciation expenses	–	17,802	16,767	225,546	1,373	–	**261,488**
Exchange differences resulting from translation of financial statements of foreign entities	–	572	409	4,780	22	–	**5,783**
Sales	–	–	(475)	(1,643)	–	–	**(2,118)**
Liquidation	–	(473)	(870)	(144,222)	(93)	–	**(145,658)**
Reclassified to assets held for sale	–	–	–	(8,598)	–	–	**(8,598)**
Other	–	1	609	253	(616)	–	**247**
As at 30/06/2018	–	**213,598**	**287,067**	**2,266,115**	**32,296**	–	**2,799,076**
Accumulated impairment							
As at 1/01/2018	**2,378**	**364**	**317**	**144,759**	**8**	**2,628**	**150,454**
Increases / (decreases):							
Recognition	–	–	–	18,080	–	–	**18,080**
Exchange differences resulting from translation of financial statements of foreign entities	5	3	–	1,944	–	–	**1,952**
Liquidation	–	(13)	–	(234)	–	–	**(247)**
Reclassified to assets held for sale	–	–	–	(3,441)	–	–	**(3,441)**
As at 30/06/2018	**2,383**	**354**	**317**	**161,108**	**8**	**2,628**	**166,798**
Net value							
As at 1/01/2018	**154,814**	**561,346**	**134,956**	**3,790,417**	**7,814**	**38,635**	**4,687,982**
including financial lease	–	–	*10,796*	*253,155*	–	–	***263,951***
As at 30/06/2018	**155,326**	**551,408**	**123,961**	**3,820,554**	**6,906**	**44,787**	**4,702,942**
including financial lease	–	–	*9,070*	*195,413*	–	–	***204,483***

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

10. Property, plant and equipment (cont.)

6 months ended 30/06/2017	Land	Buildings, premises and civil and water engineering facilities	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
As at 1/01/2017	**162,389**	**742,757**	**381,563**	**5,925,512**	**39,889**	**44,274**	**7,296,384**
Increases / (decreases):							
Acquisition	–	–	–	–	–	199,849	**199,849**
Exchange differences resulting from translation of financial statements of foreign entities	(333)	(2,058)	(598)	(13,441)	(35)	(182)	**(16,647)**
Settlement of fixed assets under construction	9	4,225	8,012	187,790	429	(200,465)	–
Sales	(896)	(432)	(643)	(3,915)	(50)	–	**(5,936)**
Liquidation	–	(4,976)	(737)	(118,207)	(122)	–	**(124,042)**
Other	(686)	(3,280)	(343)	(4,303)	(1,161)	113	**(9,660)**
As at 30/06/2017	**160,483**	**736,236**	**387,254**	**5,973,436**	**38,950**	**43,589**	**7,339,948**
Accumulated depreciation and amortization							
As at 1/01/2017	–	**167,999**	**241,431**	**1,953,606**	**31,223**	–	**2,394,259**
Increases / (decreases):							
Depreciation expenses	–	16,863	17,057	243,401	1,259	–	**278,580**
Exchange differences resulting from translation of financial statements of foreign entities	–	(166)	(115)	(1,462)	(6)	–	**(1,749)**
Sales	–	(213)	(428)	(3,488)	(49)	–	**(4,178)**
Liquidation	–	(3,370)	(707)	(97,606)	(112)	–	**(101,795)**
Other	–	(3,280)	(342)	(4,108)	(1,161)	–	**(8,891)**
As at 30/06/2017	–	**177,833**	**256,896**	**2,090,343**	**31,154**	–	**2,556,226**
Accumulated impairment							
As at 1/01/2017	**2,380**	**1,924**	**317**	**194,486**	**8**	**2,460**	**201,575**
Increases / (decreases):							
Recognition	–	–	–	–	–	247	**247**
Sales	–	–	–	(5)	–	–	**(5)**
Liquidation	–	(1,559)	–	(8,407)	–	–	**(9,966)**
Exchange differences resulting from translation of financial statements of foreign entities	(3)	(2)	–	(1,578)	–	–	**(1,583)**
As at 30/06/2017	**2,377**	**363**	**317**	**184,496**	**8**	**2,707**	**190,268**
Net value							
As at 1/01/2017	**160,009**	**572,834**	**139,815**	**3,777,420**	**8,658**	**41,814**	**4,700,550**
including financial lease	–	–	*8,633*	*319,689*	–	–	***328,322***
As at 30/06/2017	**158,106**	**558,040**	**130,041**	**3,698,597**	**7,788**	**40,882**	**4,593,454**
including financial lease	–	–	*6,871*	*259,370*	–	–	***266,241***

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

11. Investments in entities accounted for under the equity method

Detailed information on the entities accounted for under the equity method

Name of the entity accounted for under the equity method	Percent of shares held by the Group		Carrying amount	
	As at 30/06/2018	As at 31/12/2017	As at 30/06/2018	As at 31/12/2017
COSCO Shipping Lines (POLAND) Sp. z o.o.	20.0%	20.0%	834	483
Pol - Rail S.r.l	50.0%	50.0%	9,057	8,437
Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	50.0%	50.0%	14,554	18,885
Transgaz S.A.	64.0%	64.0%	6,914	6,362
Trade Trans Finance Sp. z o.o.	100.0%	100.0%	8,095	7,935
Rentrans Cargo Sp. z o.o.	29.3%	29.3%	8,004	7,889
PPHU "Ukpol" Sp. z o.o.	100.0%	100.0%	–	–
PKP CARGO CONNECT GmbH	100.0%	100.0%	967	465
AWT Rail SK a. s.	100.0%	100.0%	3,472	3,154
Total			**51,897**	**53,610**

Investments in entities accounted for under the equity method

	6 months ended 30/06/2018	6 months ended 30/06/2017
Balance as at the beginning of the reporting period	**53,610**	**58,219**
Share in the profit / (loss) of entities accounted for under the equity method	(2,057)	1,183
Change in equity arising from dividends	(236)	(4,931)
Exchange differences resulting from translation of financial statements of foreign entities	580	(595)
Balance as at the end of the reporting period	**51,897**	**53,876**

12. Other financial assets

Structure of other financial assets

	As at 30/06/2018	As at 31/12/2017
FX forwards	2,301	12,047
Shares of Polish entities (1)	4,902	6,040
Shares of foreign entities (1)	914	1,246
Loans granted to related parties	–	1,069
Bank deposits over 3 months	403,609	253,805
Total	**411,726**	**274,207**
Non-current assets	5,853	10,537
Current assets	405,873	263,670
Total	**411,726**	**274,207**

(1) As at 31 December 2017, impairment loss on the value of shares in unlisted companies was PLN 11,811 thousand. As at 30 June 2018, these shares were measured at fair value. The movement in the impairment loss on investments in shares is the effect of the first-time application IFRS 9, as described in **Note 3** to these Interim Condensed Consolidated Financial Statements.

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

13. Other non-financial assets

Structure of other non-financial assets

	As at 30/06/2018	As at 31/12/2017
Costs settled in time		
Lease rents	13,181	12,829
Transportation benefits for eligible persons	7,111	–
Insurance	11,868	7,934
Prepayments for purchase of electricity	28,386	23,433
Prepayments to the Company Social Benefits Fund	9,334	–
Other costs settled over time	5,865	4,093
Other		
Prepayments for purchase of non-financial non-current assets	1,072	1,060
Other	757	970
Total	**77,574**	**50,319**
Non-current assets	13,583	14,726
Current assets	63,991	35,593
Total	**77,574**	**50,319**

14. Inventories

Structure of inventories

	As at 30/06/2018	As at 31/12/2017
Raw materials	154,750	145,820
Semi-finished products	2,959	5,912
Goods for resale	2,418	1,766
Impairment losses	(5,339)	(5,034)
Total	**154,788**	**148,464**

15. Trade and other receivables

Structure of trade and other receivables

	As at 30/06/2018	As at 31/12/2017
Trade receivables	871,229	844,834
Impairment loss on trade receivables	(160,974)	(156,028)
	710,255	688,806
Receivables from sale of non-financial non-current assets	–	111
Public law settlements	4,195	1,682
Guarantees, security deposits and bid bonds	1,388	1,474
Dividends settlements	235	–
VAT settlements	32,538	37,276
Other settlements	3,078	2,022
Total	**751,689**	**731,371**
Non-current assets	1,370	1,836
Current assets	750,319	729,535
Total	**751,689**	**731,371**

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

16. Cash and cash equivalents

Structure of cash and cash equivalents

	As at 30/06/2018	As at 31/12/2017
Cash on hand and on bank accounts	134,455	172,100
Bank deposits up to 3 months	129,997	344,676
Total	**264,452**	**516,776**
including restricted cash	29,959	35,444

The decrease in the value of bank deposits with a maturity of up to 3 months is attributable mainly to a change of the term for which bank deposits were made and the repayment of liabilities arising from purchase of non-financial non-current assets and bank loan liabilities. Detailed information in this respect is presented in the interim consolidated statement of cash flows.

As at 30 June 2018 and as at 31 December 2017, restricted cash included mostly cash accumulated on bank accounts kept for tender deposits and guarantees.

17. Non-current assets classified as held for sale

Structure of non-current assets classified as held for sale

	As at 30/06/2018	As at 31/12/2017
Means of transport	18,267	–
Total	**18,267**	**–**

In the period of 6 months ended 30 June 2018, the Parent Company decided to sell 2,246 freight wagons. The sale should be finalized by the end of 2018.

18. Equity

Share capital

	As at 30/06/2018	As at 31/12/2017
The share capital consists of:		
Ordinary shares – fully paid up and registered	2,239,346	2,239,346

As at 30 June 2018 and 31 December 2017, the Parent Company's share capital consisted of ordinary shares with a par value of PLN 50 each. Fully paid up ordinary shares with a par value of PLN 50 are equivalent to one vote at the shareholder meeting and carry the right to a dividend.

In the period of 6 months ended 30 June 2018 and the period of 6 months ended 30 June 2017, there were no movements in the Parent Company's share capital.

Supplementary capital

	As at 30/06/2018	As at 31/12/2017
Share premium (agio)	201,263	201,263
Distribution of profit (established pursuant to statutory regulations)	54,248	46,730
Distribution of profit (established in excess statutory value)	232,064	231,331
Capital formed from redemption of shares	139,982	139,982
Total	**627,557**	**619,306**

In the period of 6 months ended 30 June 2018, changes in the Group's supplementary capital resulted from a resolution of 13 June 2018 adopted by the Ordinary Shareholder Meeting of PKP CARGO S.A. in the matter of a partial allocation to supplementary capital of the net profit generated in 2017 of PLN 7,518 thousand, and a resolution of 13 June 2018 adopted by the Ordinary Shareholder Meeting of PKP CARGO SERVICE Sp. z o.o. in the matter of a partial allocation to supplementary capital of the net profit generated in 2017 of PLN 733 thousand.

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

18. Equity (cont.)

Retained earnings

On 13 June 2018, the Shareholder Meeting of PKP CARGO S.A. adopted a resolution on the distribution of the net profit earned in 2017 of PLN 93,967 thousand as follows:
a) allocate PLN 7,518 thousand to increase the supplementary capital,
b) allocate PLN 86,449 thousand to cover losses from previous years.

As at 1 January 2018, the line item "retained earnings" has been restated in connection with the implementation of IFRS 9, as described in **Note 3** to these Interim Condensed Consolidated Financial Statements.

19. Earnings per share

Earnings used for calculation of basic and diluted earnings per share

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Profit attributable to the owners of the Parent Company	89,554	53,945	19,362	20,796

Basic earnings per share

	6 months ended 30 June 2018	3 months ended 30 June 2018	6 months ended 30 June 2017	3 months ended 30 June 2017
Weighted average number of common shares (pcs.)	44,786,917	44,786,917	44,786,917	44,786,917
Basic earnings per share (PLN per share)	**2.00**	**1.20**	**0.43**	**0.46**

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

Diluted earnings per share

	6 months ended 30/06/2018	3 months ended 30/06/2018	6 months ended 30/06/2017	3 months ended 30/06/2017
Weighted average number of common shares (pcs.)	44,786,917	44,786,917	44,786,917	44,786,917
Diluted earnings per share (PLN per share)	**2.00**	**1.20**	**0.43**	**0.46**

In the period of 6 months ended 30 June 2018 and the period of 6 months ended 30 June 2017, there were no transactions of a diluting nature.

20. Bank loans and borrowings

Structure of bank loans and borrowings

	As at 30/06/2018	As at 31/12/2017
Bank loans – secured on assets	96,186	99,430
Bank loans – other	1,368,738	1,460,651
Loans from related parties	1,398	1,311
Loans from other entities	863	938
Total	**1,467,185**	**1,562,330**
Long-term liabilities	1,218,898	1,312,629
Short-term liabilities	248,287	249,701
Total	**1,467,185**	**1,562,330**

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

20. Bank loans and borrowings (cont.)

Summary of loan agreements

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

Parent Company

Type of loan	Bank Name	Collateral	Maturity	As at 30/06/2018	As at 31/12/2017
Investment loan	Bank Polska Kasa Opieki S.A. [(1)]	Bank enforcement title	31/12/2017	–	822
Investment loan	Bank Gospodarstwa Krajowego	Bank enforcement title	31/03/2021	224,260	275,341
Investment loan	European Investment Bank	No collateral	29/05/2020	34,061	42,578
Investment loan	Bank Gospodarstwa Krajowego	Statement on submission to enforcement certified by a notary	20/12/2026	60,201	60,072
Investment loan	Bank Gospodarstwa Krajowego	Statement on submission to enforcement certified by a notary	20/12/2026	341,144	340,421
Investment loan	Bank Polska Kasa Opieki S.A.	Statement on submission to enforcement certified by a notary	31/12/2026	588,196	617,489
Investment loan	European Investment Bank	No collateral	29/08/2031	94,502	93,777
Total				**1,342,364**	**1,430,500**

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

Subsidiaries

Type of loan	Bank Name	Collateral	Maturity	As at 30/06/2018	As at 31/12/2017
Overdraft	PKO Bank Polski S.A.	Capped mortgage, pledge on inventories	15/07/2019	237	25
Investment loan	Bank Polska Kasa Opieki S.A.	Statement on submission to enforcement certified by a notary	20/12/2021	5,253	6,004
Investment loan	Bank Polska Kasa Opieki S.A.	Statement on submission to enforcement certified by a notary	31/12/2021	3,300	3,771
Loan	WFOŚIGW Łódź	1) Blank promissory note 2) Irrevocable power-of-attorney to bank account 3) Surety of PKP CARGO S.A.	31/03/2024	863	938
Investment loan	Bank Polska Kasa Opieki S.A.	Statement on submission to enforcement certified by a notary	31/12/2021	7,738	8,844
Investment loan	Bank Polska Kasa Opieki S.A.	Statement on submission to enforcement certified by a notary	31/12/2021	10,083	11,532
Investment loan	ING Bank N.V. UniCredit Bank Czech Republic and Slovakia a.s. Raiffeisenbank a.s.	1) Pledge on tangible non-current assets and receivables 2) Pledge on bank accounts 3) Assignment of rights under insurance policy	26/09/2021	50,298	48,713
Investment loan	ING Bank N.V. UniCredit Bank Czech Republic and Slovakia a.s. Raiffeisenbank a.s.	1) Pledge on tangible non-current assets and receivables 2) Pledge on bank accounts 3) Assignment of rights under insurance policy	30/06/2021	45,651	50,692
Loan	AWT Rail SK a.s.	No collateral	31/12/2018	1,398	1,311
Total				**124,821**	**131,830**

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

20. Bank loans and borrowings (cont.)

Unused lines of credit

Type of loan	Bank Name	Period of availability	Currency	As at 30/06/2018	As at 31/12/2017
Investment loan	European Investment Bank	19/07/2020	EUR	71,683	68,549
Overdraft	Bank Polska Kasa Opieki S.A.	25/05/2018	PLN	–	100,000
Overdraft	Bank Polska Kasa Opieki S.A. (1)	24/05/2019	PLN	100,000	–
Overdraft	PKO Bank Polski S.A.	15/07/2019	PLN	763	974
Total				**172,446**	**169,523**

(1) On 24 May 2018, an overdraft facility agreement was entered into by the Parent Company with Bank Polska Kasa Opieki S.A. for up to PLN 100,000 thousand. The facility will be available for a period of 12 months until 24 May 2019, with an option to extend the availability period by an additional 12 months, i.e. until 24 May 2020.

Breaches of the terms and conditions of loan agreements

As at 30 June 2018, there were no breaches of any loan agreements.

21. Finance lease liabilities

Structure of finance lease liabilities

As at 30 June 2018, the Group was using the main rolling stock components, cars, technical equipment and IT hardware under the financial lease agreements in effect. The agreements that are currently in effect were entered into for a term from 3 to 10 years in PLN, EUR and CZK.

	As at 30/06/2018			As at 31/12/2017		
	Minimum fees	Future financial charges	Current value of minimum fees	Minimum fees	Future financial charges	Current value of minimum fees
Up to 1 year	36,090	(3,450)	**32,640**	51,955	(3,915)	**48,040**
Longer than 1 year and up to 5 years	85,690	(6,172)	**79,518**	93,623	(7,444)	**86,179**
Over 5 years	2,234	(25)	**2,209**	4,991	(115)	**4,876**
Total	**124,014**	**(9,647)**	**114,367**	**150,569**	**(11,474)**	**139,095**
Long-term	87,924	(6,197)	**81,727**	98,614	(7,559)	**91,055**
Short-term	36,090	(3,450)	**32,640**	51,955	(3,915)	**48,040**
Total	**124,014**	**(9,647)**	**114,367**	**150,569**	**(11,474)**	**139,095**

22. Other financial liabilities

Structure of other financial liabilities

	As at 30/06/2018	As at 31/12/2017
Interest Rate Swap (IRS)	–	272
FX forwards	3,371	–
Total	**3,371**	**272**
Long-term liabilities	1,431	–
Short-term liabilities	1,940	272
Total	**3,371**	**272**

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

23. Reconciliation of debt liabilities

As at 30 June 2018 and 31 December 2017, the Group's debt liabilities consist of the following two main categories: bank loans and borrowings and finance lease liabilities.

Net debt

	As at 30/06/2018	As at 31/12/2017
Bank loans and borrowings	1,467,185	1,562,330
Finance lease liabilities	114,367	139,095
Total debt	**1,581,552**	**1,701,425**
Cash and cash equivalents	264,452	516,776
Bank deposits over 3 months	403,609	253,805
Total net debt	**913,491**	**930,844**
EBITDA for the last 12 months	**791,694**	**701,885**
Net debt / EBITDA	**1.2**	**1.3**

Debt liabilities – broken down into currencies / interest rate type

As at 30/06/2018	In the functional currency – PLN	In foreign currency		Total
		EUR	CZK	
Bank loans and borrowings	873,992	542,895	50,298	**1,467,185**
Finance lease liabilities	59,157	48,827	6,383	**114,367**
Total	**933,149**	**591,722**	**56,681**	**1,581,552**
Variable-interest-rate liabilities	932,286	509,138	50,298	**1,491,722**
Fixed-interest-rate liabilities	863	82,584	6,383	**89,830**
Total	**933,149**	**591,722**	**56,681**	**1,581,552**

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

Reconciliation of movement in debt liabilities

	Bank loans and borrowings	Finance lease liabilities	Total
As at 1/01/2018	**1,562,330**	**139,095**	**1,701,425**
Obtained debt	212	766	**978**
Commission expenses	820	–	**820**
Accrual of interest	13,227	2,438	**15,665**
Payments under debt, including:			
Repayments of the principal	(121,289)	(28,372)	**(149,661)**
Paid interest	(13,291)	(2,438)	**(15,729)**
Commission expenses	(820)	–	**(820)**
FX valuation	22,990	1,680	**24,670**
Exchange differences resulting from translation of financial statements of foreign entities	3,006	1,198	**4,204**
As at 30/06/2018	**1,467,185**	**114,367**	**1,581,552**

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

23. Reconciliation of debt liabilities (cont.)

	Bank loans and borrowings	Finance lease liabilities	Other	Total
As at 1/01/2017	**1,471,408**	**200,490**	**118,704**	**1,790,602**
Obtained debt	50,844	–	–	**50,844**
Commission expenses	784	–	–	**784**
Accrual of interest	14,449	3,241	–	**17,690**
Payments under debt, including:				
Repayments of the principal	(146,208)	(36,135)	–	**(182,343)**
Paid interest	(14,620)	(3,241)	–	**(17,861)**
Commission expenses	(784)	–	–	**(784)**
(Profits) / losses from revaluation of liability related to put option for non-controlling interest	–	–	(4,694)	**(4,694)**
Settlement of the “put” option for non-controlling interest	–	–	(114,010)	**(114,010)**
FX valuation	(11,256)	(4,229)	–	**(15,485)**
Exchange differences resulting from translation of financial statements of foreign entities	(2,140)	(722)	–	**(2,862)**
As at 30/06/2017	**1,362,477**	**159,404**	–	**1,521,881**

24. Trade and other payables

Structure of trade and other payables

	As at 30/06/2018	As at 31/12/2017
Trade payables	454,626	447,186
Liabilities arising from the purchase of non-financial non-current assets (1)	32,976	79,046
Liabilities arising out of collateral (deposits, bid security guarantees, guarantees)	32,790	42,114
Public law liabilities (2)	107,271	78,360
Settlements with employees	88,566	87,261
Received grants	917	6,019
Other settlements	4,688	3,070
VAT settlements	8,998	8,258
Total	**730,832**	**751,314**
Long-term liabilities	2,170	1,578
Short-term liabilities	728,662	749,736
Total	**730,832**	**751,314**

(1) This drop was caused chiefly by the repayment of liabilities by the Parent Company to a counterparty on account of the purchase of multi-system locomotives in amount of PLN 39,231 thousand.
(2) This increase was caused largely by the higher liabilities toward the Social Insurance Institution (ZUS). In 2017, a portion of the liabilities maturing in 2018 were repaid by the Parent Company prior to their maturity date.

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

25. Provisions for employee benefits

As at 30 June 2018, the Parent Company performed an actuarial valuation of its provisions for employee benefits in connection with the need to include in the valuation the employee wage increase agreed upon with trade unions coming into effect in September 2018. Moreover, an actuarial valuation of provisions for employee benefits was performed by PKP CARGOTABOR Sp. z o.o. due to a change in the assumptions regarding an increase in the minimum employee compensation rate. The other assumptions adopted for the valuation of provisions for employee benefits in the Parent Company and in the other companies as at 30 June 2018 are consistent with the assumptions adopted for the valuation as at 31 December 2017. The Parent Company's share in the value of the Group's provisions for employee benefits, as measured using the actuarial method, is approx. 90%.

Structure of provisions for employee benefits

	As at 30/06/2018	As at 31/12/2017
Post-employment defined benefit plans		
Retirement and disability severance benefits	182,418	166,898
Company Social Benefits Fund	134,009	143,522
Transportation benefits	33,128	33,665
Post-mortem benefits	7,408	7,145
Other employee benefits		
Jubilee awards	291,590	274,116
Other employee benefits (unused leaves / bonuses)	60,698	37,207
Total	**709,251**	**662,553**
Long-term liabilities	572,574	558,547
Short-term liabilities	136,677	104,006
Total	**709,251**	**662,553**

26. Other provisions

Structure of other provisions

	As at 30/06/2018	As at 31/12/2017
Provisions for penalties imposed by anti-monopoly authorities	15,907	14,224
Provision for land reclamation	5,207	5,000
Provision for onerous contracts	14,302	16,660
Provision for liabilities related to VAT settlements	22,962	22,334
Other provisions	19,287	23,954
Total	**77,665**	**82,172**
Long-term liabilities	22,954	22,446
Short-term liabilities	54,711	59,726
Total	**77,665**	**82,172**

Provisions for penalties imposed by anti-monopoly authorities

As at 30 June 2018, this item included:
- provision of PLN 14,224 thousand for a penalty imposed by the Office for Competition and Consumer Protection,
- provision of PLN 1,683 thousand for a penalty recognized in connection with a pending procedure initiated by the Czech Antimonopoly Office.

In the period of 6 months ended 30 June 2018, the movement in provisions was due to the administrative procedure initiated in October 2016 by the Czech Antimonopoly Office against AWT Čechofracht a.s. in connection with the suspicion of involvement in a cartel arrangement in 2004-2010. As at 30 June 2018, as a result of the progress of the procedure and analysis of its current status, the Group decided to recognize a provision of PLN 1,683 thousand for a potential penalty.

Provision for land reclamation

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

Provision for onerous contracts

As at 30 June 2018, this provision represented the amount of the anticipated loss for two procurement agreements for which the inevitable costs of fulfilling the resulting duties were higher than the predicted benefits achievable under those agreements.

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

26. Other provisions (cont.)

Provision for liabilities related to VAT settlements

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

Other provisions

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

According to the Parent Company's Management Board, the amount of other provisions as at 30 June 2018 and as at 31 December 2017 constitutes the best estimate of the amount that will likely have to be paid. The estimate is based on the management's best knowledge, the experience to date and other factors which are considered to be the most reasonable in the given situation. As a result of the occurrence of future events, the Group's estimates may be changed in subsequent reporting periods.

27. Financial instruments

Categories and classes of financial instruments

Financial assets by categories and classes	Note	As at 30/06/2018	Financial assets by categories and classes	As at 31/12/2017
Hedging financial instruments [1]			**Hedging financial instruments**	
Derivatives	12	2,301	Derivatives	12,047
Financial assets measured at fair value through other comprehensive income			**Available-for-sale financial assets**	
Investments in equity instruments	12	5,816	Shares in unlisted companies	7,286
Financial assets measured at amortized cost			**Loans and receivables**	
Trade receivables	15	710,255	Trade receivables	688,806
Receivables from sale of non-financial non-current assets	15	–	Receivables from sale of non-financial non-current assets	111
Loans granted	12	–	Loans granted	1,069
Bank deposits over 3 months	12	403,609	Bank deposits over 3 months	253,805
Cash and cash equivalents	16	264,452	Cash and cash equivalents	516,776
Total		**1,386,433**	**Total**	**1,479,900**

Financial liabilities by categories and classes	Note	As at 30/06/2018	As at 31/12/2017
Hedging financial instruments [1]			
Derivatives	22	3,371	272
Bank loans and borrowings	20	495,754	494,171
Financial liabilities measured at amortized cost			
Bank loans and borrowings	20	971,431	1,068,159
Trade payables	24	454,626	447,186
Liabilities arising from purchase of non-financial non-current assets	24	32,976	79,046
Financial liabilities excluded from the scope of IFRS 9 / IAS 39	21	114,367	139,095
Total		**2,072,525**	**2,227,929**

Impairment losses on shares in unlisted companies and trade receivables have been described in **Notes 12** and **15** to these Interim Condensed Consolidated Financial Statements, respectively.

[1] In the period from 1 January 2018 to 30 June 2018, the Group applied cash flow hedging accounting. The purpose of the hedging activity is to mitigate the impact of the FX risk within the EUR/PLN currency pair on the future cash flows. The hedged item is a highly probable cash flow denominated in EUR.

The Parent Company established the following hedging instruments:

- investment loans denominated in EUR. The hedged cash flows will be realized until August 2031. As at 30 June 2018, the nominal amount of the hedging instrument was EUR 113,663 thousand, which is an equivalent of PLN 495,754 thousand,
- forward foreign exchange contracts. The hedged cash flows will be realized until June 2020. As at 30 June 2018, the value of assets and liabilities on account of the measurement of hedging instruments was PLN 2,301 thousand and PLN 2,083 thousand, respectively.

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

27. Financial instruments (cont.)

This item also includes measurement of hedging instruments in a subsidiary in the form of forward foreign exchange contracts on the EUR/PLN currency pair, hedging future cash flows. The hedged cash flows will be realized until May 2019. As at 30 June 2018, the value of the liabilities on account of the measurement of hedging instruments was PLN 1.288 thousand.

Fair value hierarchy

As at 30 June 2018 and 31 December 2017, financial instruments measured at fair value were forward FX contracts and investments in equity instruments.

	As at 30/06/2018		As at 31/12/2017
	Level 2	Level 3	Level 2
Assets			
Derivatives – forward foreign exchange contracts	2,301	–	12,047
Investments in equity instruments – shares in unlisted companies	–	5,816	–
Liabilities			
Derivatives – IRS contracts	–	–	272
Derivatives – forward foreign exchange contracts	3,371	–	–

Measurement methods for financial instruments carried at fair value

a) Forward foreign exchange contracts

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

b) Investments in equity instruments

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

Shares in other companies not listed on active markets are measured at cost, which as at 30 June 2018 was PLN 1,765 thousand, taking into account impairment losses of PLN 832 thousand. In the Group's opinion, due to limitations in the extent of available information, this method of measurement reflects the fair value of these assets.

c) IRS contracts

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

d) Other financial instruments

For the category of financial instruments which are not carried at fair value as at the balance sheet date, the Group does not disclose fair value because the fair values of these financial instruments as at 30 June 2018 and 31 December 2017 were not materially different from their values presented in the statement of financial position.

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

	6 months ended 30/06/2018	6 months ended 30/06/2017
As at the beginning of the reporting period (1)	**6,147**	**(118,704)**
Profit / (loss) on revaluation	–	4,694
Settlement of put option for non-controlling interest	–	114,010
Sale of shares in an unlisted company	(365)	–
Exchange differences resulting from translation of financial statements of foreign entities	34	–
As at the end of the reporting period	**5,816**	–

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

In the period of 6 months ended 30 June 2018 and the period of 6 months ended 30 June 2017, there were no transfers between level 2 and level 3 of the fair value hierarchy.

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

27. Financial instruments (cont.)

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

6 months ended 30/06/2018	Hedging financial instruments	Investments in equity instruments	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Interest income / (expense)	(1,491)	–	7,281	(11,790)	(2,438)	**(8,438)**
FX differences	32	–	7,705	(3,745)	(1,680)	**2,312**
Impairment losses / revaluation	21	–	1,358	–	–	**1,379**
Commission in connection with bank loans	–	–	–	(820)	–	**(820)**
(Profit) / loss on the sale of investments	–	4,960	–	–	–	**4,960**
Effect of settlement of cash flow hedging accounting [(1)]	4,363	–	–	–	–	**4,363**
Gross profit / (loss)	**2,925**	**4,960**	**16,344**	**(16,355)**	**(4,118)**	3,756
Movement in revaluation [(2)]	(35,003)	–	–	–	–	**(35,003)**
Other comprehensive income	**(35,003)**	–	–	–	–	**(35,003)**

[(1)] In the period of 6 months ended 30 June 2018, the effect of settling cash flow hedge accounting was recognized in revenues from the sale of services and finished products in the amount of PLN 4,738 thousand and in financial expenses in respect of interest on liabilities from finance leases in the amount of PLN 375 thousand.
[(2)] In the period of 6 months ended 30 June 2018, this item includes movement in the valuation of derivatives in the amount of PLN (12,866) thousand and bank loans in the amount of PLN (22,137) thousand designated as hedging financial instruments as part of the hedge accounting applied by the Group.

6 months ended 30/06/2017	Hedging financial instruments	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
Interest income / (expense)	(523)	5,775	–	(14,529)	(3,241)	**(12,518)**
FX differences	47	(9,015)	–	4,287	4,230	**(451)**
Impairment losses / revaluation	162	(1,001)	4,694	–	–	**3,855**
Commission in connection with bank loans	–	–	–	(784)	–	**(784)**
Effect of settlement of cash flow hedging accounting [(1)]	3,632	–	–	–	–	**3,632**
Gross profit / (loss)	**3,318**	**(4,241)**	**4,694**	**(11,026)**	**989**	**(6,266)**
Movement in revaluation [(2)]	20,201	–	–	–	–	20,201
Other comprehensive income	**20,201**	–	-	–	–	**20,201**

[(1)] In the period of 6 months ended 30 June 2017, the effect of settling cash flow hedge accounting was recognized in revenues from the sale of services and finished products in the amount of PLN 4,101 thousand and in financial expenses in respect of interest on liabilities from finance leases in the amount of PLN 469 thousand.
[(2)] In the period of 6 months ended 30 June 2017, this item includes movement in the valuation of derivatives in the amount of PLN 10,896 thousand and bank loans in the amount of PLN 9,305 thousand designated as hedging financial instruments as part of the hedge accounting applied by the Group.

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

28. Related party transactions

Transactions with the State Treasury and its other related parties

In the period of 6 months ended 30 June 2018 and the period of 6 months ended 30 June 2017, the State Treasury was a higher-level parent entity of the PKP CARGO Group. Accordingly, all companies owned by the State Treasury (directly or indirectly) are the Group's related parties and are presented separately as PKP Group related parties and other State Treasury related parties. In these Interim Condensed Consolidated Financial Statements, the Parent Company's Management Board has disclosed transactions with material related parties identified as such according to the best knowledge of the Management Board.

In the period of 6 months ended 30 June 2018 and the period of 6 months ended 30 June 2017, there were no transactions effected between the PKP CARGO Group and the State Treasury or other entities related to the State Treasury which would be significant due to a non-standard scope or amount. In the periods covered by these Interim Condensed Consolidated Financial Statements, the Group's most important clients among other parties related to the State Treasury were members of the following groups: JSW, Azoty, Enea, PGG and PGE. In the periods covered by these Interim Condensed Consolidated Financial Statements, there were no purchase transactions with other entities related to the State Treasury with any material value.

Transactions with PKP Group related parties

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

	6 months ended 30/06/2018		6 months ended 30/06/2017	
	Sales to related parties	Purchases from related parties	Sales to related parties	Purchases from related parties
Parent Company (PKP S.A.)	245	34,711	219	33,550
Subsidiaries / co-subsidiaries	5,540	7,941	4,979	8,245
Associates	1,356	151	1,234	211
Other PKP Group related parties	5,722	351,447	18,443	326,130

	As at 30/06/2018		As at 31/12/2017	
	Receivables from related parties	Liabilities to related parties	Receivables from related parties	Liabilities to related parties
Parent Company (PKP S.A.)	257	9,787	1,292	7,950
Subsidiaries / co-subsidiaries	1,689	2,054	1,226	1,580
Associates	1,077	6	179	–
Other PKP Group related parties	1,766	74,815	2,529	60,879

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

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

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

28. Related party transactions (cont.)

Loans granted to / received from related parties

	As at 30/06/2018	As at 31/12/2017
Loans granted to related parties	–	1,069
Loans received from related parties	1,398	1,311

Remunerations of key management personnel

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

Remunerations of the Parent Company's Management Board Members were as follows:	6 months ended 30/06/2018	6 months ended 30/06/2017
Short-term benefits	1,066	1,348
Post-employment benefits	375	829
Termination benefits	129	–
Total	**1,570**	**2,177**

Remunerations of the Parent Company's Supervisory Board Members were as follows:	6 months ended 30/06/2018	6 months ended 30/06/2017
Short-term benefits	468	639
Total	**468**	**639**

Remunerations of the other members of the Parent Company's key management personnel were as follows:	6 months ended 30/06/2018	6 months ended 30/06/2017 (restated*)
Short-term benefits	3,079	2,835
Post-employment benefits	455	652
Termination benefits	64	267
Total	**3,598**	**3,754**

Remunerations of the Subsidiaries' Management Board Members were as follows:	6 months ended 30/06/2018	6 months ended 30/06/2017
Short-term benefits	3,757	4,801
Post-employment benefits	1,335	500
Termination benefits	48	–
Total	**5,140**	**5,301**

Remunerations of the Subsidiaries' Supervisory Board Members were as follows:	6 months ended 30/06/2018	6 months ended 30/06/2017
Short-term benefits	525	820
Total	**525**	**820**

Remunerations of the other members of the Subsidiaries' key management personnel were as follows:	6 months ended 30/06/2018	6 months ended 30/06/2017 (restated*)
Short-term benefits	10,318	10,923
Post-employment benefits	240	76
Termination benefits	69	49
Total	**10,627**	**11,048**

(*) In the financial year ended 31 December 2017, the Group changed the presentation of other key management personnel, by including into this group, in addition to Managing Directors, also Head Office Department Directors and Directors of other organizational units responsible for the various areas of the Group's operations. In connection with the change in the presentation, the Group accordingly restated the comparable data for the period of 6 months ended 30 June 2017.

In the period of 6 months ended 30 June 2018 and the period of 6 months ended 30 June 2017, members of the key management personnel of the Parent Company and the PKP CARGO Group subsidiaries did not enter into any loan or guarantee transactions with the Group.

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

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

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

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

	As at 30/06/2018	As at 31/12/2017
Contractual liabilities arising from the acquisition of non-financial non-current assets	698,930	23,908
Total	**698,930**	**23,908**

As at 30 June 2018, the value of the Group's future investment liabilities included predominantly liabilities resulting from:

- a contract entered into with NEWAG S.A. for modernization of 60 SM48 locomotives with a total value of PLN 388,148 thousand, to be performed from October 2018 to May 2021,
- a contract entered into with Pojazdy Szynowe PESA Bydgoszcz S.A. to conduct level five maintenance repairs of 38 ST44 locomotives with a total value of PLN 176,334 thousand, to be performed from January 2019 to September 2020.

The remaining part of the Group's investment liabilities consisted predominantly of contracts for repairs and periodic inspections of wagons for PLN 64,087 thousand, contracts for the purchase of 70 wagons for PLN 39,970 thousand and contracts for the expansion of the transshipment terminal in Paskov for the PLN 22,131 thousand.

30. Contingent liabilities

Structure of contingent liabilities

	As at 30/06/2018	As at 31/12/2017
Guarantees issued on the Group's order	129,985	130,097
Other contingent liabilities	126,901	129,243
Total	**256,886**	**259,340**

Guarantees issued on the Group's order

As at 30 June 2018, the Group included in contingent liabilities guarantees issued by banks and insurance companies at the request of PKP CARGO Group companies. This line item comprises mainly commercial contract performance bonds, tender deposits and customs guarantees.

Other contingent liabilities

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

31. Subsequent events

There we no material events affecting the Group's operations after the balance sheet date.

32. Approval of the financial statements

These Interim Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 20 August 2018.

Parent Company's Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

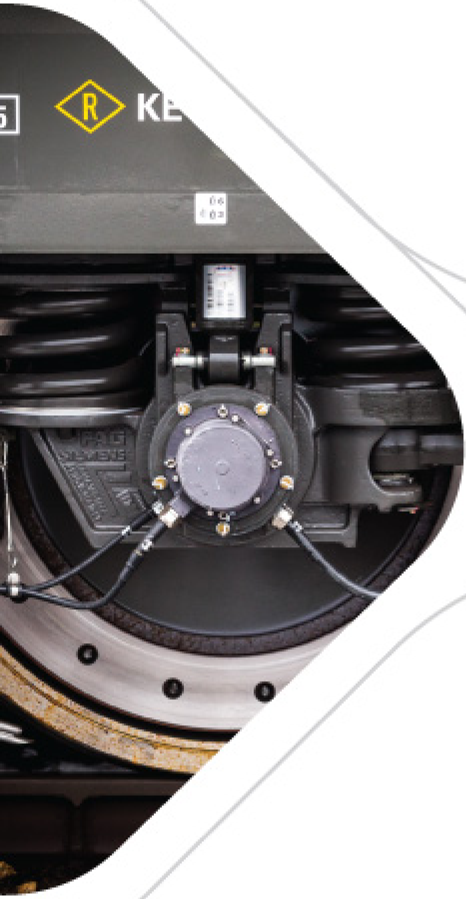
Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 20 August 2018

MANAGEMENT BOARD REPORT ON THE ACTIVITY OF THE **PKP CARGO GROUP** FOR H1 2018



PKPCARGO

MANAGEMENT BOARD REPORT ON THE ACTIVITY OF THE PKP CARGO GROUP IN THE FIRST HALF OF 2018

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1. Introduction

Dear Stakeholders,

I am delighted to present to you the Management Board Report on the Activity of the PKP CARGO Group in H1 2018.

The PKP CARGO Group's excellent performance in H1 2018 was a result of the consistent pursuit of the Group's development strategy. Growth in the quantum of our transport services was predominantly due to the following two factors: a high rate of economic growth in Poland, which drove investments and industrial output, and the increasing quality of the PKP CARGO Group's offering. The optimization processes we implemented several months ago along with the tailoring of our offering to market needs are bearing tangible fruit today. We intend to add even more dynamics to these processes in the near future for the benefit of our shareholders.

REVENUE
PLN 2,510 million

EBITDA
PLN 423 million

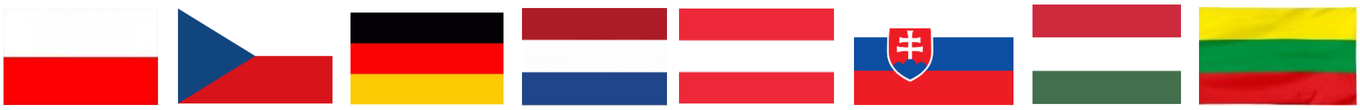
NET RESULT
PLN 90 million

2. Organization of the PKP CARGO Group

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

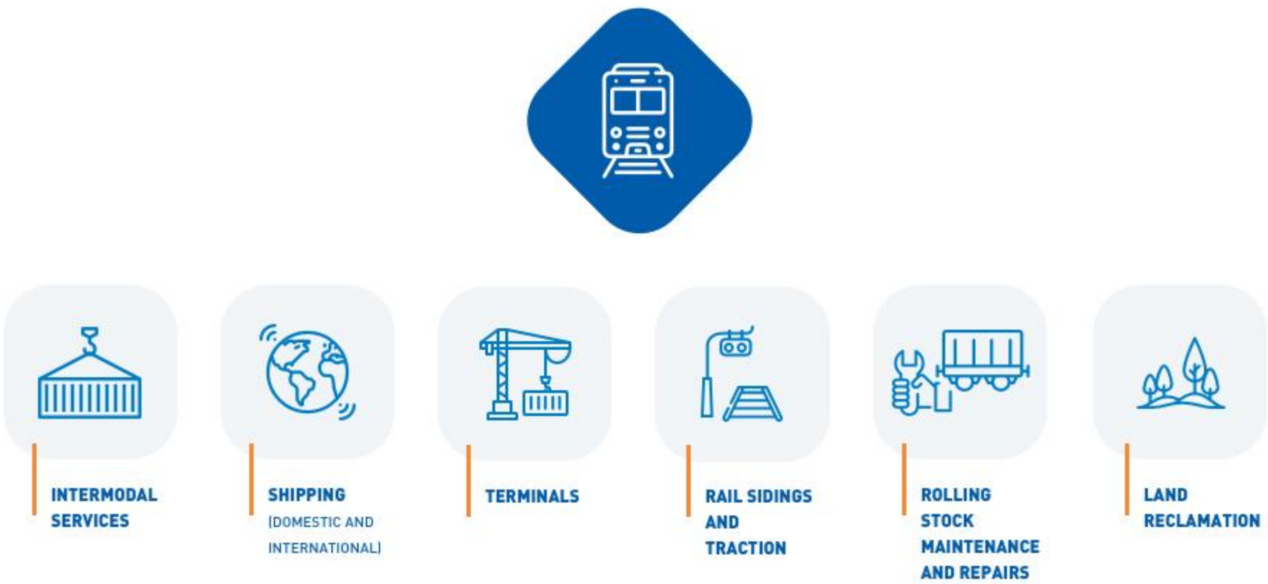
The PKP CARGO Group is the biggest in Poland and one of the biggest rail freight operators in the European Union ("EU"). The Group's development is focused on enhancing and extending its operations in terms of its product range and geographic area. At present, the Group is the leader on the Polish market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

The PKP CARGO Group provides rail freight services in the territory of the following 8 European Union states:



Poland Czech Republic Germany The Netherlands Austria Slovakia Hungary Lithuania

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



As at 30 June 2018, the PKP CARGO Group comprised PKP CARGO S.A. as its parent company and 25 subsidiaries. Moreover, the Group has 3 associated entities and holds a stake in 2 joint ventures.

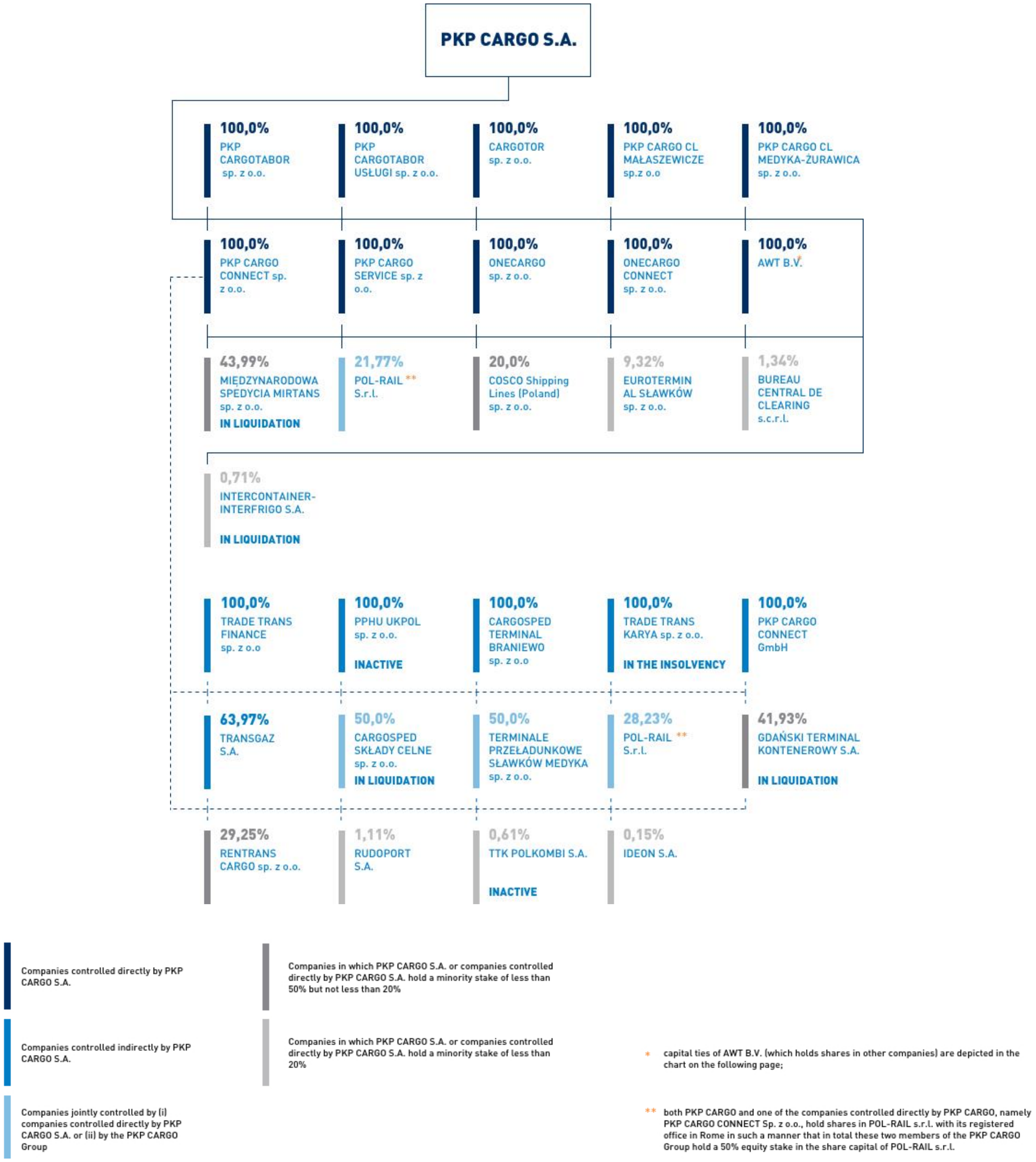
[1] Whenever the Report mentions:
- the Company or the Parent Company, it should be construed to mean PKP CARGO S.A.,
- The PKP CARGO Group or the Group, it should be construed to mean PKP CARGO S.A. and its subsidiaries collectively.

[2] Office of Rail Transport

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

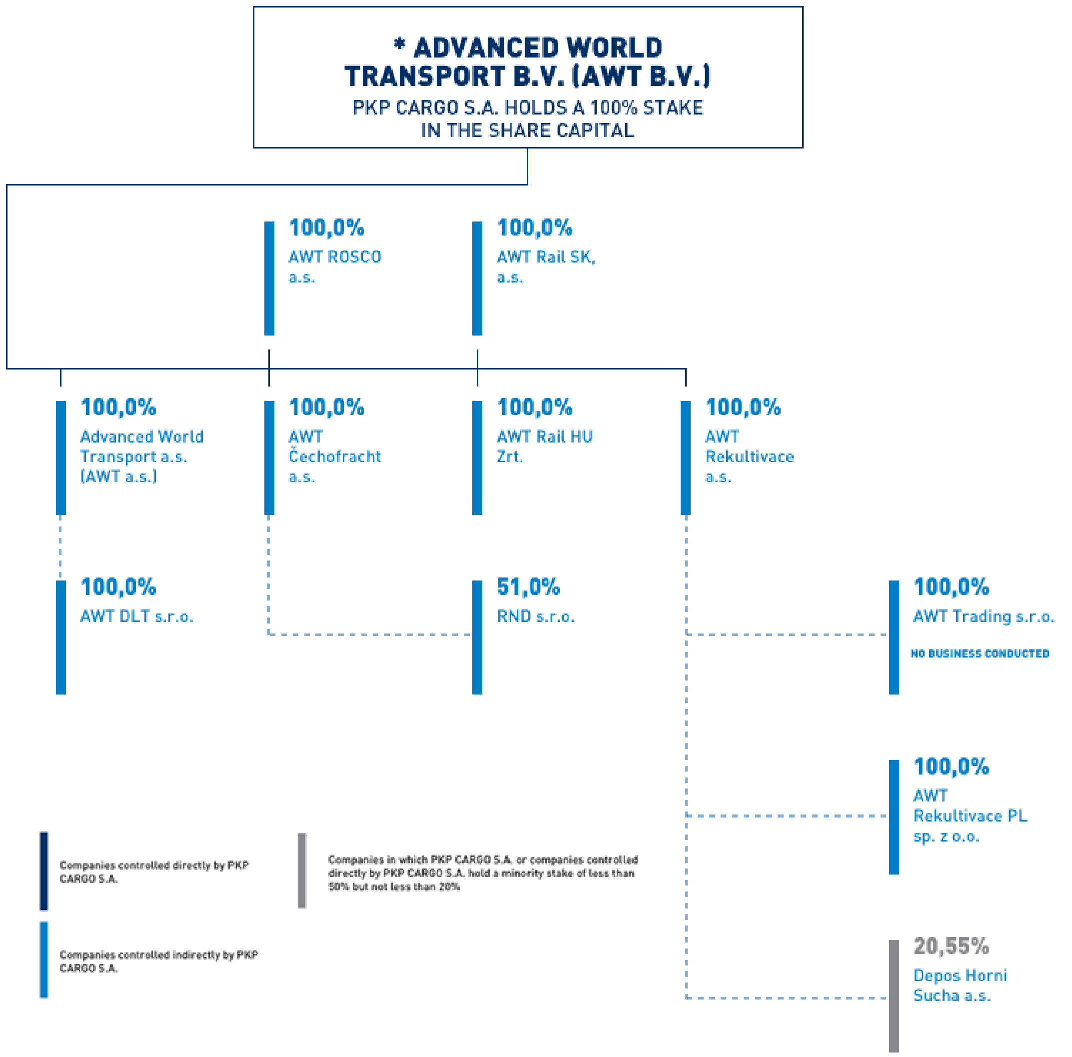
The figure below presents the organizational links between PKP CARGO S.A. and other entities as at 30 June 2018:

Figure 1 Structure of equity links of PKP CARGO S.A. as at 30 June 2018



Source: Proprietary material

Figure 2 Structure of the AWT Group as at 30 June 2018



Source: Proprietary material

In H1 2018, the decision to delete AWT Rail PL from the register of commercial undertakings kept by the National Court Register became final non-appealable. Moreover, the Czech company AWT Čechofracht a.s. sold its 22% stake in the share capital of ČD Logistics a.s., as a result of which AWT Čechofracht ceased to be a related party of PKP CARGO S.A.

2.2 Consolidated entities

The Interim Condensed Consolidated Financial Statements of the PKP CARGO Group as at 30 June 2018 encompass PKP CARGO S.A. and 14 subsidiaries consolidated by the full method:

Table 1 Subsidiaries consolidated by the full method

Company name	Core business
PKP CARGO SERVICE Sp. z o.o.	Comprehensive handling of sidings and fail freight transport
PKP CARGOTABOR Sp. z o.o.	Repair and maintenance of rolling stock and physical liquidation of rail cars and locomotives, repairs of electrical machinery and wheel sets as well as weighing and adjustment of rolling stock.
PKP CARGOTABOR USŁUGI Sp. z o.o.	Collection, treatment and disposal of waste and recovery of raw materials. As at the delivery date of the report, the company does not conduct any operating activity.
PKP CARGO CENTRUM LOGISTYCZNE MAŁASZEWICZE Sp. z o.o.	Transshipment, storage, segregation, packaging, crushing and a variety of other border services. The company owns terminals that facilitate the transshipment of bulk and unit cargo, including containers.
PKP CARGO CENTRUM LOGISTYCZNE MEDYKA-ŻURAWICA Sp. z o.o.	Transshipment, storage, segregation, packaging, crushing and a variety of other border services. The company has the ability to offer rail gauge switching services and as the only company on the country's eastern border has a 6-chamber thaw room.
CARGOSPED TERMINAL BRANIEWO Sp. z o.o.	Transshipment of goods and buying and selling of coal. The company is a direct importer of coal from Russia and it is active in wholesale and retail sales in this area.
CARGOTOR Sp. z o.o.	Managing track and service infrastructure (rail sidings and track systems) along with the requisite plant and buildings, making infrastructure available to rail operators on commercial terms.
PKP CARGO CONNECT Sp. z o.o.	Freight forwarding and logistics services in Poland and abroad. The company provides comprehensive logistics services using rail and vehicle, marine and inland water transportation by organizing transport, transshipment, storage, warehousing, packaging and distribution. Customs clearance services to clients of the PKP CARGO Group.
Advanced World Transport B.V.	The parent company in the AWT Group discharging the function of the holding company.
Advanced World Transport a.s.	Comprehensive handling of rail freight transport (Czech Republic, Slovakia and Poland), rail freight forwarder in the whole Central and Eastern European region, manages an intermodal terminal located in the community of Paskov and it offers comprehensive services to make deliveries and pick-ups by road transport ("last mile").
AWT Rosco a.s.	Provision of rolling stock necessary for the AWT Group's transportation companies to perform transportation services. The company's operations entail the rental of rail cars and the cleaning of rail and automobile cisterns.
AWT Cechofracht a.s.	International freight forwarding services.
AWT Rekultivace a.s.	Construction engineering business, including management and revitalization of post-industrial areas (including mining areas), demolition works, management of waste treatment facilities, elimination of underground mining pits, decontamination of soil, etc.
AWT Rail HU Zr	Rail transport services and rail siding handling services in Hungary on the basis of its own rail operator's license.

Additionally, the list of companies accounted for under the equity method is presented in **Note 11** to the Interim Condensed Consolidated Financial Statements of the PKP CARGO Group prepared as at 30 June 2018.

3. Information about the Parent Company

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

MANAGEMENT BOARD

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

1. Act of 15 September 2000 entitled Commercial Company Code (Journal of Laws No. 94 Item 1037, as amended);
2. Act of 8 September 2000 on the Commercialization and Restructuring of the State-Owned Enterprise "Polskie Koleje Państwowe" (Journal of Laws No. 84 Item 948, as amended[4]);
3. Articles of Association of PKP CARGO S.A. (consolidated text adopted by Resolution No. 1682/VI/2017 of the PKP CARGO S.A. Supervisory Board dated 27 June 2017);
4. Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution No. 47/2018 of the PKP CARGO S.A. Management Board dated 7 February 2018;
5. other internal regulations.

Powers of the Management Board

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

Table 2 Composition of the PKP CARGO S.A. Management Board from 1 January 2018 to the delivery date of the report

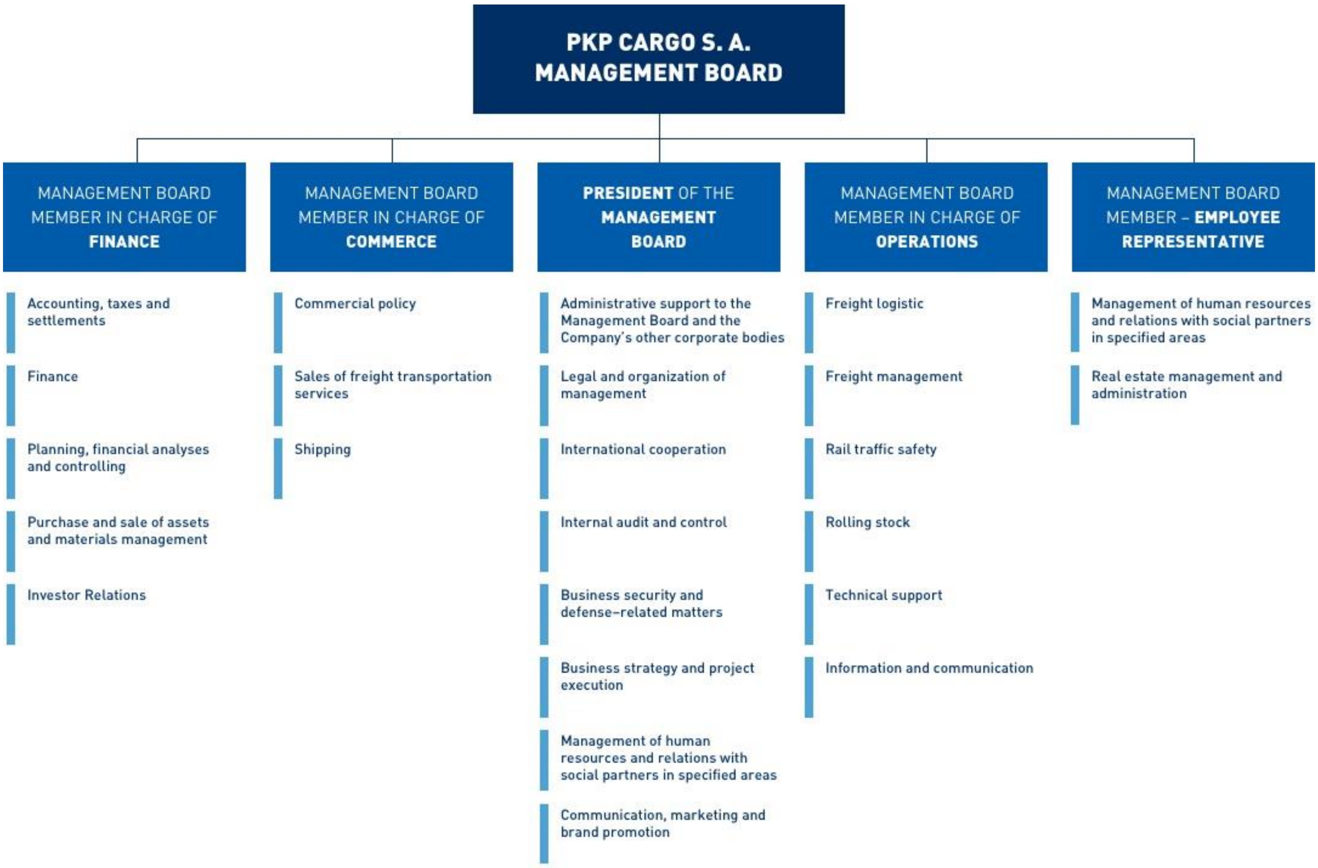
Name	Position	Period in office	
		from	to
Czesław Warsewicz	President of the Management Board	27 March 2018	to date
Leszek Borowiec	Management Board Member in charge of Finance	27 March 2018	to date
Witold Bawor	Management Board Member in charge of Operations	26 October 2017	to date
Grzegorz Fingas	Management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

Source: Proprietary material

[4] consolidated text: Journal of Laws of 2018, item 1311

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

Figure 3 Duties and responsibilities of the Parent Company's Management Board Members as at 30 June 2018



Source: Proprietary material

SUPERVISORY BOARD

In accordance with the adopted consolidated text of PKP CARGO S.A.'s Articles of Association (Resolution No. 1682/VI/2017 of the PKP CARGO S.A. Supervisory Board dated 27 June 2017), the Supervisory Board consists of 11 to 13 members (including the Supervisory Board Chairperson and Deputy Chairperson) appointed for a joint term of office. The term of office of the Supervisory Board is 3 years. The Supervisory Board is appointed and dismissed by the Shareholder Meeting, subject to the provisions of § 19 sections 2 and 3 of the Articles of Association of PKP CARGO S.A. The Company's employees are entitled to appoint and dismiss three employee representatives to the Supervisory Board.

Powers of the Supervisory Board

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

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

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

Name	Position	Period in office	
		from	to
Krzysztof Mamiński	Supervisory Board Member Supervisory Board Chairman (seconded to temporarily perform the duties of President of the Management Board) Supervisory Board Chairman	6 March 2017 20 March 2017 26 October 2017 26 March 2018	25 March 2018 to date
Mirosław Antonowicz	Supervisory Board Member Supervisory Board Deputy Chairman	1 June 2017 27 June 2017	to date
Krzysztof Czarnota	Supervisory Board Member	20 May 2016	to date
Zofia Dzik	Supervisory Board Member	11 May 2016	to date
Raimondo Eggink	Supervisory Board Member	13 April 2015*	to date
Małgorzata Kryszkiewicz	Supervisory Board Member	17 December 2015*	to date
Tadeusz Stachaczyński	Supervisory Board Member	20 May 2016	to date
Władysław Szczepkowski	Supervisory Board Member	14 March 2017	to date
Jerzy Sośnierz	Supervisory Board Member	01 May 2018	to date
Paweł Sosnowski	Supervisory Board Member	7 June 2018	to date
Czesław Warsewicz	Supervisory Board Member	17 December 2015*	26 March 2018

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

Source: Proprietary material

SUPERVISORY BOARD'S AUDIT COMMITTEE

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

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

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

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

NOMINATION COMMITTEE

The PKP CARGO S.A. Supervisory Board appoints Nomination Committee. It consists of three Supervisory Board Members, of whom at least one Supervisory Board Member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and § 21 of the Company's Articles of Association, to discharge the function of Committee Chairman. Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The Nomination Committee organizes and exercises ongoing oversight over the recruitment procedure for the positions of the Company's Management Board members and over the process of assessment and appointment of the Company's Management Board members, and supports the attainment of the Company's strategic objectives by presenting opinions and findings to the Supervisory Board pertaining to the employment structure and compensation for the Company's employees, including in particular the Company's Management Board Members and upper level management.

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

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

Source: Proprietary material

STRATEGIC COMMITTEE

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

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

Name	Position	Period in office	
		from	to
Mirosław Antonowicz	Committee Member Committee Chairman	27 June 2017 28 May 2018	to date to date
Raimondo Eggink	Committee Member	23 June 2016	to date
Władysław Szczepkowski	Committee Member	23 April 2018	to date
Czesław Warsewicz	Committee Chairman	23 June 2016	26 March 2018

Source: Proprietary material

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

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

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

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

Source: Proprietary material

3.3 Shareholders holding at least 5% of the total votes

Table 8 Shareholder structure of PKP CARGO S.A. as at 30 June 2018 and as at the delivery date of this report

Shareholder	Number of shares	% of capital	Number of votes	% of votes
PKP S.A. (1)	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE (2)	7,751,187	17.31%	7,751,187	17.31%
AEGON PTE (AEGON OFE, NORDEA OFE) (3)	2,499,979	5.58%	2,499,979	5.58%
MetLife OFE (4)	2,494,938	5.57%	2,494,938	5.57%
Aviva OFE (5)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	14,918,248	33.31%	14,918,248	33.31%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

(1) According to a notice sent by the shareholder on 24 June 2014.
(2) According to a notice sent by the shareholder on 21 June 2018.
(3) According to a notice sent by the shareholder on 23 November 2017.
(4) According to a notice sent by the shareholder on 18 August 2016.
(5) According to a notice sent by the shareholder on 13 August 2014.

Source: Proprietary material

3.4 Listing of shares held by management and supervisory board members

The holdings of Company's shares or rights to such shares by members of the Company's Management Board from 25 May 2018, i.e. the delivery date of the Q1 2018 report to the delivery date of this report, was as follows:

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

Name	Number of PKP CARGO S.A. shares held by Management Board members
as at the delivery date of this report	
Czesław Warsewicz	0
Leszek Borowiec	0
Grzegorz Fingas	0
Witold Bawor	46
Zenon Kozendra	46
as at 25 May 2018	
Czesław Warsewicz	0
Leszek Borowiec	0
Grzegorz Fingas	0
Witold Bawor	46
Zenon Kozendra	46

Source: Proprietary material

The holdings of Company's shares or rights to such shares by members of the Company's Supervisory Board from 25 May 2018, i.e. the delivery date of the Q1 2018 report to the delivery date of this report, was as follows:

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

Name	Number of PKP CARGO S.A. shares held by Supervisory Board members
as at the delivery date of this report	
Krzysztof Mamiński	0
Mirosław Antonowicz	0
Krzysztof Czarnota	70
Zofia Dzik	0
Raimondo Eggink	0
Małgorzata Kryszkiewicz	0
Tadeusz Stachaczyński	0
Władysław Szczepkowski	0
Jerzy Sośnierz	70
Paweł Sosnowski	0
as at 25 May 2018	
Krzysztof Mamiński	0
Mirosław Antonowicz	0
Krzysztof Czarnota	70
Zofia Dzik	0
Raimondo Eggink	0
Małgorzata Kryszkiewicz	0
Tadeusz Stachaczyński	0
Władysław Szczepkowski	0
Jerzy Sośnierz	70

Source: Proprietary material

4. Key areas of operation of the PKP CARGO Group

4.1 Macroeconomic environment

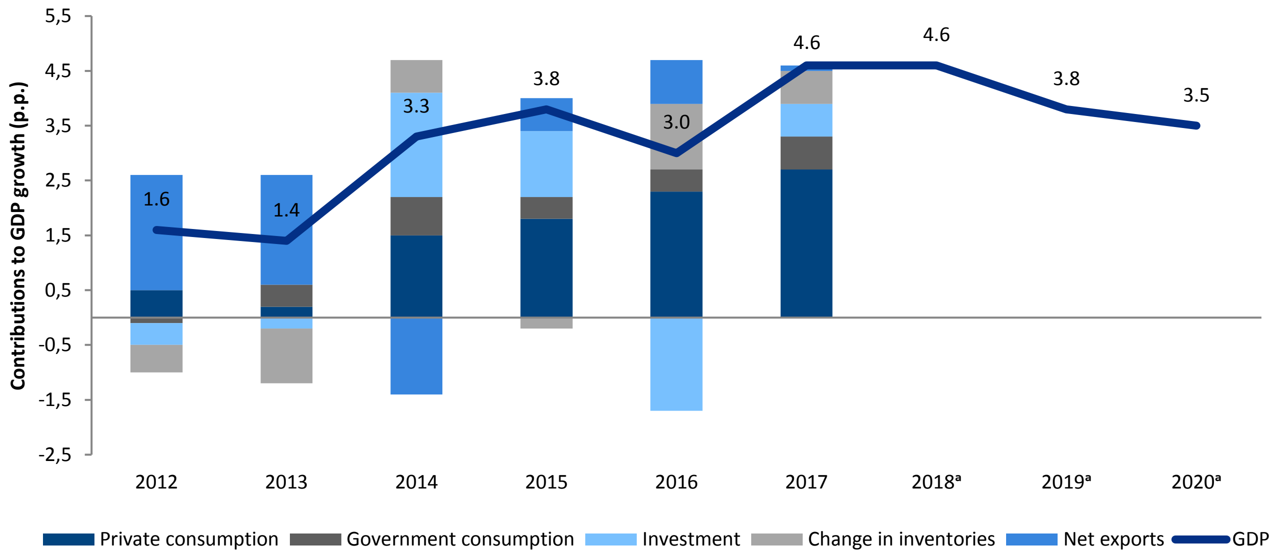
Polish economy

In accordance with the preliminary GUS estimate published in May 2018, Poland's GDP growth rate sped up in Q1 2018 to 5.2% yoy from 4.9% yoy in Q4 2017[5]. The currently available monthly business activity data (industrial output, construction, real retail sales) indicate the maintenance of a relatively strong GDP growth rate in Q2 2018. In the opinion of economists surveyed by "Gazeta Giełdy Parkiet", the GDP growth rate in this period was close to 5.0% yoy[6].

The main factor of economic growth in Q1 2018 was household consumption: its rate of growth in this period was 4.8% yoy, i.e. the same as in 2017 on average. Another key factor was investments whose rate of growth accelerated in Q1 2018 to 8.1% yoy from 5.4% yoy in Q4 2017. The strong growth in capital expenditures was mainly driven by the public sector, including in particular local self-government units owing to the faster absorption of EU structural funds from the 2014-2020 financial perspective.

The only factor in Q1 2018 having an unfavorable effect on GDP growth was net exports.

Figure 4 Real GDP growth rate in Poland in 2012-2017, together with its decomposition, and 2018-2020 forecasts – data not adjusted for seasonality



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

The GDP growth rate in Q1 2018, which was higher than in the previous NBP forecasts, drove upwards the economic growth forecasts for Poland in 2018. According to the July projections, the average annual GDP growth rate will remain at 2017 and will stand at 4.6% this year (4.2% according to the March projection). The projections for 2019 have not changed though: NBP analysts expect the rate of economic growth to slow down to an average of 3.8%, and the forecast for 2020 (of 3.5%) decreased by 0.1 p.p. compared to the March projection[7].

According to the NBP's July projection, the average annual inflation rate in Poland in 2018 as measured by the CPI will decrease in comparison with 2017 to 1.8% (2.1% according to the March projection), and in 2019 it move up again to 2.7% on average (same as in the March projection).[8]

[5] Central Statistical Office of Poland
[6] "Gazeta Giełdy Parkiet"
[7] National Bank of Poland
[8] National Bank of Poland

Czech economy

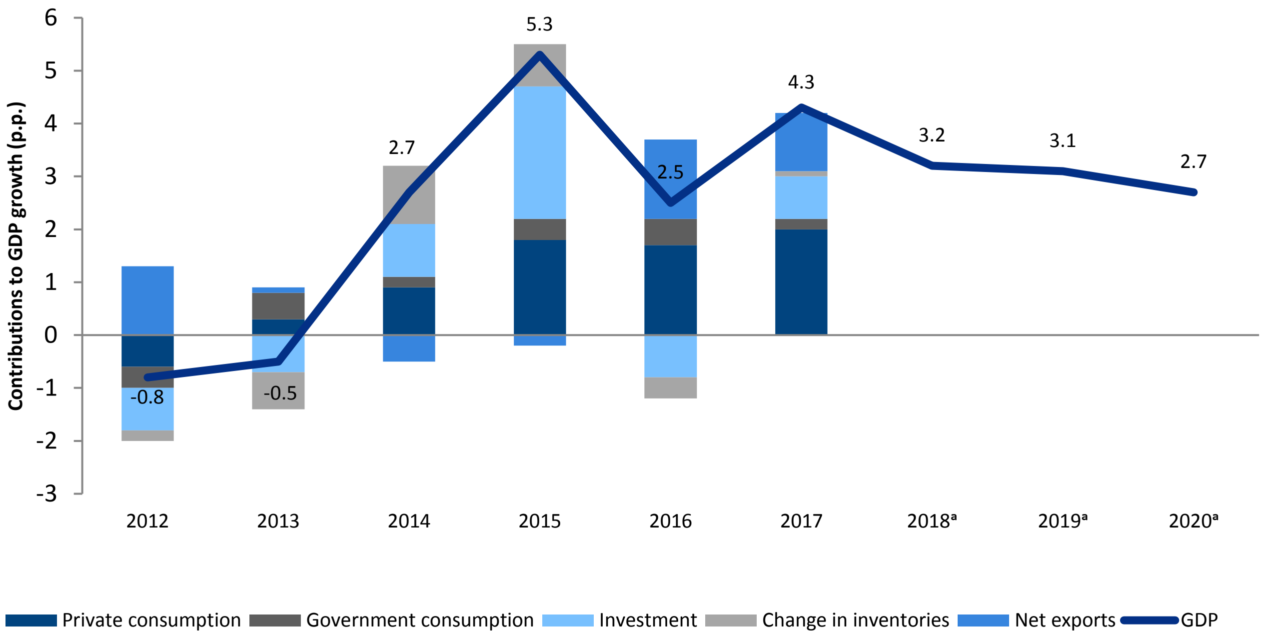
In Q1 2018, the GDP growth rate in the Czech Republic was 4.2% yoy[9]. This marked a slowdown in the rate of economic growth compared to the fourth quarter and the whole of 2017.

The key drivers of GDP growth in the Czech Republic were:

- Private consumption whose rate of growth was 4.0% yoy. Household consumption in this period was supported by increasing disposable income of the country's population due to sizeable wage increases, a declining rate of savings and a persisting positive consumer sentiment;
- Investments, which increased by 8.1% yoy, chiefly owing to investments by private enterprises in machinery, other industrial equipment, transport vehicles, etc. The same period also brought a recovery in public investments (in particular in the non-residential construction sector), which was affected by the growing share of projects co-financed with EU structural funds.

As a result of the significant role played by the Czech Republic in the international supply chain, the concurrent economic downturn experienced by the country's main trading partners (especially Germany and the whole euro area) translated into a significant decline in the rate of growth in exports. The scale of the decline in the rate of growth in imports was smaller, which resulted predominantly from accelerating investments and their highly import-intensive nature.

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



a Forecast of the Czech Republic's Ministry of Finance – July 2018, data without decomposition

Source: Proprietary material based on data from the Czech Statistical Office and the Czech Republic's Ministry of Finance

According to the July projection of the Czech Ministry of Finance, a gradual slowdown of the GDP growth rate to 3.2% in the whole of 2018 and 3.1% in 2019 should be expected.[10]

The projection of consumer price inflation (CPI) predicts a 2.2% increase in 2018 and 2.3% in 2019.

[9] Czech Statistical Office

[10] Czech Republic's Ministry of Finance; rates of growth without taking into account seasonal or calendar factors

Industry in Poland

In Q2 2018, total industrial output sold11 increased 7.0% yoy, compared to a 5.5% yoy growth in Q1. Throughout H1 2018, the industrial sector grew at an average rate of 6.2% yoy, which was the higher than in the corresponding period of 2017 (+5.8% yoy).[12]

The economic situation in the domestic industrial sector remains good, as evidenced by the following selected observations:

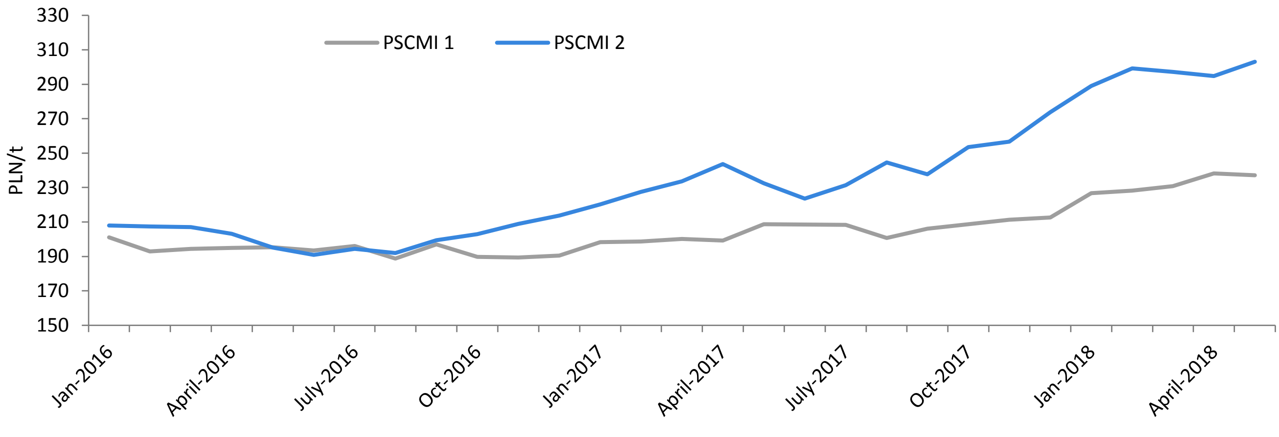
- Increase in the PMI (Purchasing Managers' Index) in June 2018 to 54.2 points, i.e. the highest since January 2018 (values above 50.0 points indicate a recovery in the sector). The increase in the index was driven primarily by factors related to industrial output, new orders and employment[13]. At the same time, forecasts for future industrial output volumes remain robust, owing to, among other factors, the expected further steady increase in orders expected by enterprises and the expected increase in the efficiency of available machinery and equipment;
- Indicators of the overall business climate in the industrial sector published by the Central Statistical Office, which remain at their highest levels since 2008. According to a survey of businesses, companies continue to assess their current order portfolios, production levels and financial standing highly[14]. At the same time, enterprises operating in the industrial sector expect that the favorable trends related to the increase in production and orders will continue also in the following months, although estimates concerning future demand, production and orders have dwindled compared to those from the beginning of 2018;
- Rapid growth in new orders for the industrial sector[15]. In accordance with GUS data, in Q2 2018 they increased on average by 7.0% yoy, of which export orders increased by 5.2% yoy.

The following were significant factors affecting the situation in domestic industries in H1 2018:

Mining industry

- Continuing downward trend in hard coal mining (-2.9% yoy);
- Decline in hard coal sales in Poland (-6.5% yoy)[16];
- Increase in coal inventories (+50.7% at the end of June compared to January 2018);
- Major hike in coal imports (+93.3% yoy) owing to dwindling domestic output and continuing strong demand from the commercial power industry and heating sector;
- Upward trend in coal prices both domestically and on international markets,
- Increase in the share of coal in the national energy mix (+1.0 p.p. yoy).

Figure 6 Current and historical values of coal price indices on the Polish market: power industry (PSCMI 1) and heating sector (PSCMI 2)



Source: Industrial Development Agency (ARP)

[11] enterprises employing more than 9 persons
[12] Central Statistical Office of Poland
[13] Markit IHS
[14] Central Statistical Office of Poland
[15] Enterprises employing more than 50 staff
[16] Industrial Development Agency (ARP)

Steel industry

- Increase in steel output both globally (+4.6% yoy) and in the European Union (+1.6% yoy);
- Increase in crude steel output (+2.0% yoy), hot-rolled products (+4.8% yoy) and steel pipes (+2.8% yoy) in Poland[17];
- Increase in revenue from sales of metals (+3.4% yoy) and metal products (+12.0% yoy);
- Increase in coke output (+4.8% yoy) in Poland.

In the following quarters of 2018, a steady increase in demand for steel and steel products may be expected, which in turn should support a further increase in steel and coke output as well as revenue from sales of metals and metal products in Poland[18].

Construction industry

- Increase in construction and assembly production (+23.7% yoy);
- Acceleration of infrastructural investments within the framework of "National Road Construction Program" and the "National Railway Program";
- Continuation of positive trends in residential construction.

Industry in the Czech Republic

In H1 2018, industrial output in the Czech Republic increased 2.7% yoy. This rate of growth was higher than in Q1 2018 (+1.9% yoy) but at the same time lower than the average for 2017 (+6.5% yoy). The growth in the sector was a result of a strong expansion of the industrial processing branch, while a decline in output was recorded in the mining and quarrying sector as well as in the water, gas and electricity supply sector[19].

Transport activities of the PKP CARGO Group companies on the Czech market are focused on the transport of hard coal, coke, aggregates and other construction materials as well as intermodal transport (including automotive products). For this reason, the current situation on the hard coal mining market, in the construction sector and in the metallurgical sector is of key importance to the volumes of cargo available for transport and, as a result, to the Group's transport performance.

In H1 2018, key drivers affecting the condition of various sectors of the economy included:

Mining industry

- Decline in hard coal mining output by 24.7% yoy to 2.0 million tons in H1 2018[20]. The restructuring plan for the mining sector provides for a gradual (until 2023) phasing out of the operations of various mines, which in turn will result in a further reduction in output to a level of approximately 2 million tons per annum in the following years[21];
- Increase in lignite output by 2.4% yoy to a level of 19.8 million tons. Lignite remains the main component of the energy mix in the Czech Republic but, according to the objectives of the "Nuclear Power Program", its share is expected to decrease gradually while increasing the importance of nuclear energy by 2040.

[17] Central Statistical Office of Poland
[18] Mining Chamber of Industry and Commerce
[19] Czech Statistical Office
[20] Czech Ministry of Industry and Trade
[21] Prague Business Journal

Steel industry

- Growth in the steel sector's output: in crude steel (+0.9% yoy to 2.1 million tons), pig iron (+7.4% yoy to 1.7 million tons) and hot-rolled products (+4.8% yoy to 2.2 million tons)[22];
- Expected slowdown of the Czech economy which will translate in the future into a slight decline in demand for the steel sector's products in the Czech Republic, thus entailing a decrease in output.

Construction industry

- Rapid increase in construction and assembly output by 9.7% yoy. Total construction output increased 11.1% yoy and engineering construction output increased 5.3% yoy[23];
- The inflow of EU structural funds under the financial perspective for 2014-2020[24].

Automotive industry

- Stabilization of the automotive sector's output at the historically high levels of 2017: in H1 2018, Czech manufacturers built 762.0 thousand vehicles of all types (cars, trucks, buses and motorcycles), up +0.2% yoy;
- The automotive sector – a key branch of the Czech industry, indirectly responsible for nearly 10% of the country's GDP.

4.2 Freight transportation activity

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

4.2.1 Rail transport market in Poland

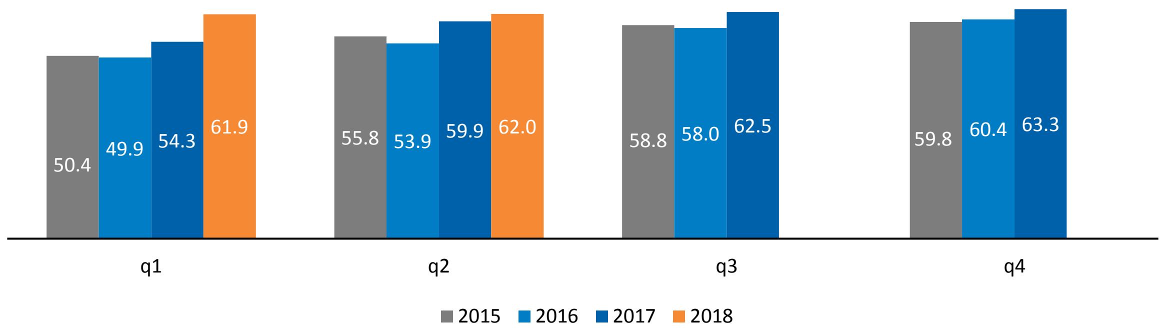
In H1 2018, 65 carriers operated on the country's rail freight market (including PKP CARGO S.A. and PKP CARGO SERVICE Sp. z o.o.), transported a total of 123.9 million tons of cargo (+8.5% yoy) and achieved freight turnover of 29.2 billion tkm (+13.0% yoy). The average haul of transported cargo during the period was 235.6 km (+4.1% yoy)[25].

The rapid growth of the rail freight market in the first 5 months of 2018 was driven by the following factors, among others[26]:

- Increased transport of aggregates and other construction materials (+30.2% yoy to 22.8 million tons), resulting chiefly from intensified works on construction projects under the "National Road Construction Program in 2014-2023 (with an outlook to 2025)" and the "National Railway Program to 2023" co-financed with EU structural funds;
- Increased transport of hard coal (+4.8% yoy to 39.9 million tons) owing to the continued strong demand generated by the power industry, the heating sector and private consumers;
- Increased transport of iron ores, coke and metals (+9.1% yoy to 14.0 million tons) due to the continued high level of output in the steel sector generated in response to demand from steel-intensive industries in Poland and abroad;
- Increased transport of cargo in containers (+8.4% yoy to 3.9 million tons[27]).

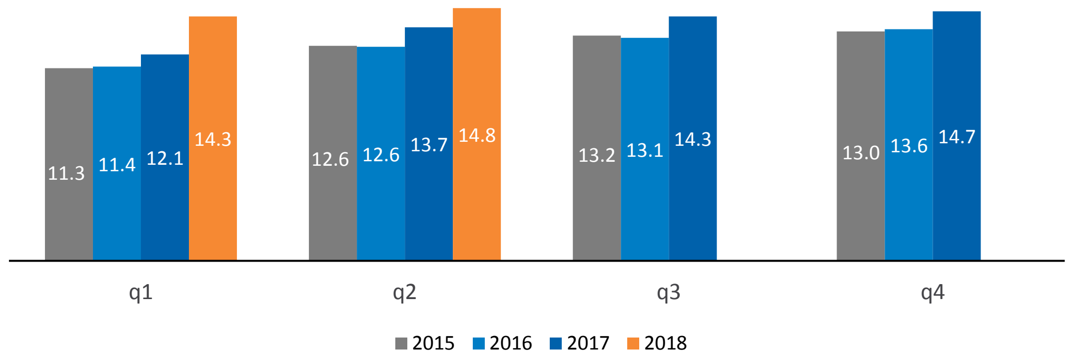
[22] The Steel Federation a.s. – data for the first 5 months of 2018.
[23] Czech Statistical Office
[24] Czech Republic's Ministry of Finance
[25] Office of Rail Transport
[26] Central Statistical Office of Poland
[27] Office of Rail Transport – data for Q1 2018.

Figure 7 Rail freight volumes in Poland (in million tons) in individual quarters of 2015-2018



Source: Office of Rail Transport

Figure 8 Rail freight turnover in Poland (billion tkm) broken down by quarter in 2015-2018

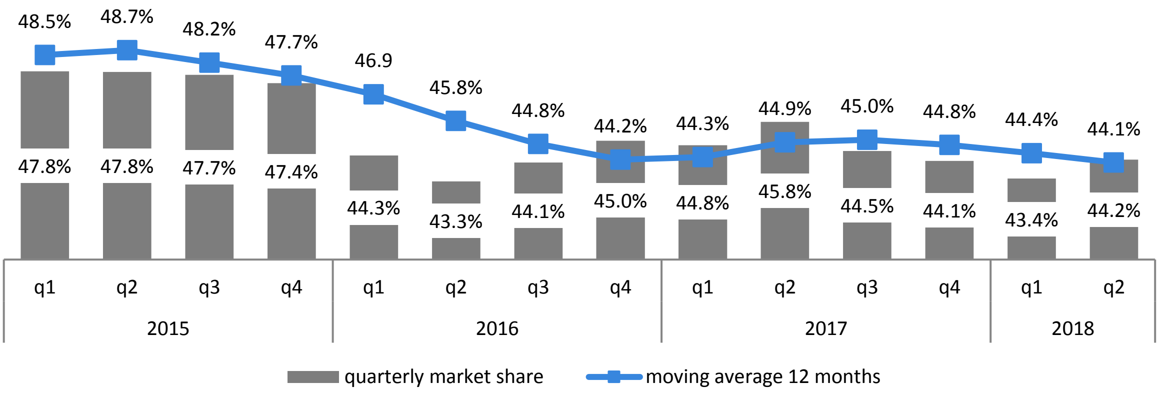


Source: Office of Rail Transport

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

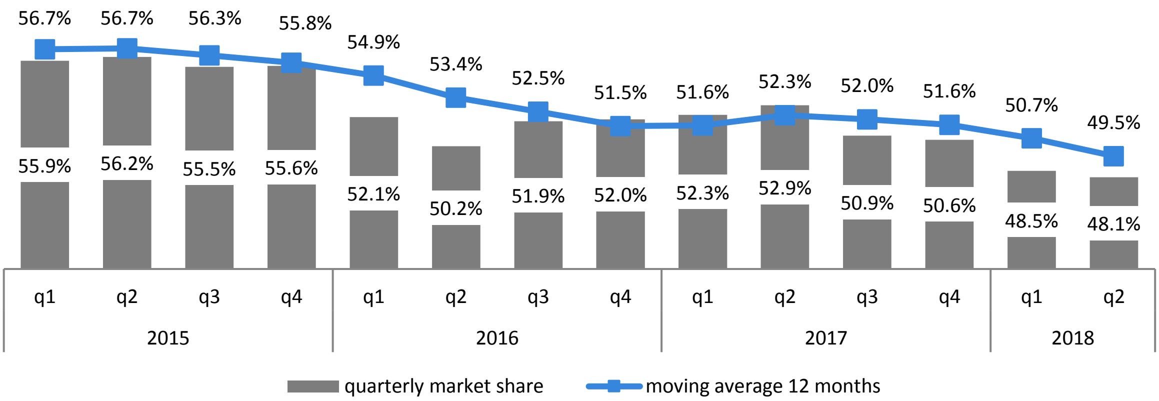
In H1 2018, the PKP CARGO Group (with the leading role in transport played by PKP CARGO S.A.) defended its leading position on the Polish rail freight market. The Group's share in the Polish market in this period was 43.8% (-1.5 p.p. yoy) in terms of freight volume and 48.3% (-4.3 p.p. yoy) in terms of freight turnover. In the case of the Parent Company, these shares were 43.0% (-1.8 p.p. yoy) and 48.1% (-4.2 p.p. yoy), respectively[28].

Figure 9 Share of the PKP CARGO Group in freight volume in 2015-2018 in Poland



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

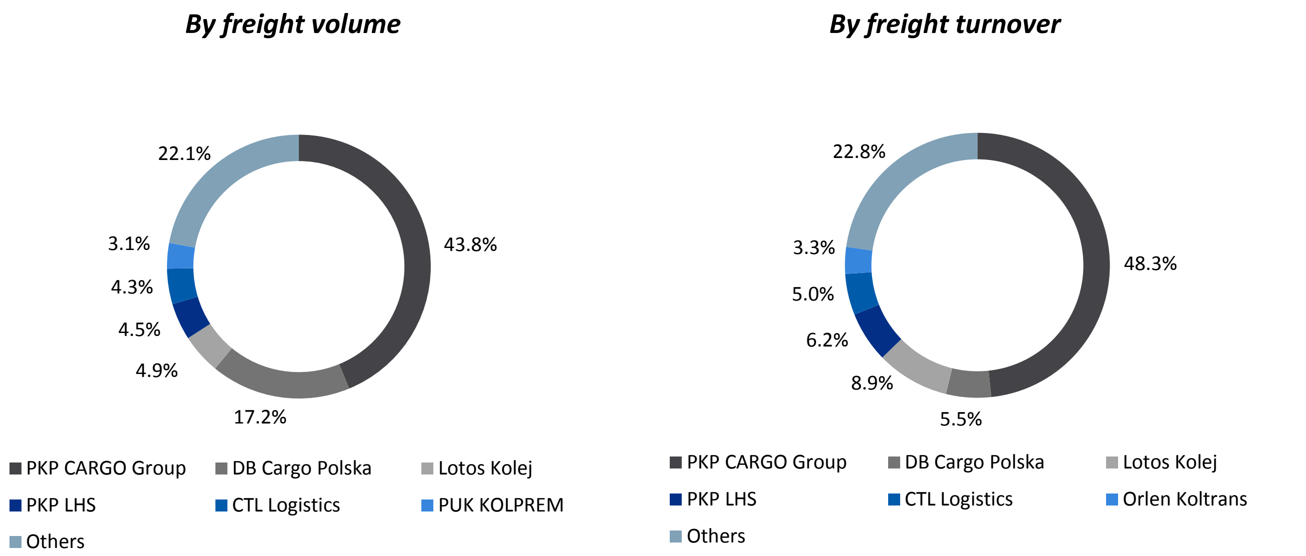
Figure 10 Share of the PKP CARGO Group in total freight turnover in Poland in 2015-2018



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

[28] Office of Rail Transport

Figure 11 Market shares of the largest rail operators in Poland in H1 2018 by freight volume and freight turnover



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

The main competitors of the PKP CARGO Group on the domestic rail freight market are: DB Cargo Polska, Lotos Kolej, PKP LHS, CTL Logistics, PUK Kolprem, Freightliner PL and Orlen Kol-Trans.

In H1 2018, all competitors of the PKP CARGO Group transported in total 69.6 million tons of cargo (+11.5% yoy), most of which was transported by DB Cargo Polska (21.3 million tons, +2.6% yoy), Lotos Kolej (6.1 million tons, -3.7% yoy) and PKP LHS (5.6 million tons, +15.6% yoy). Freight turnover of the PKP CARGO Group's competitors in H1 2018 stood at 15.1 billion tkm (+14.5% yoy), most of which was generated by Lotos Kolej (2.6 billion tkm, +3.9% yoy), PKP LHS (1.8 billion tkm, +19.7% yoy) and DB Cargo Polska (1.6 billion tkm, +14.5% yoy)[29].

Among the PKP CARGO Group's competitors, increasing growth in yoy market share in H1 2018 (both in terms of freight volume and freight turnover) was recorded predominantly by small carriers (whose unit market shares do not exceed 2.0%). In aggregate, their share in the Polish market was 17.7% (+1.9 p.p. yoy) in terms of freight volume and 15.4% (+2.3 p.p. yoy) in terms of freight turnover.

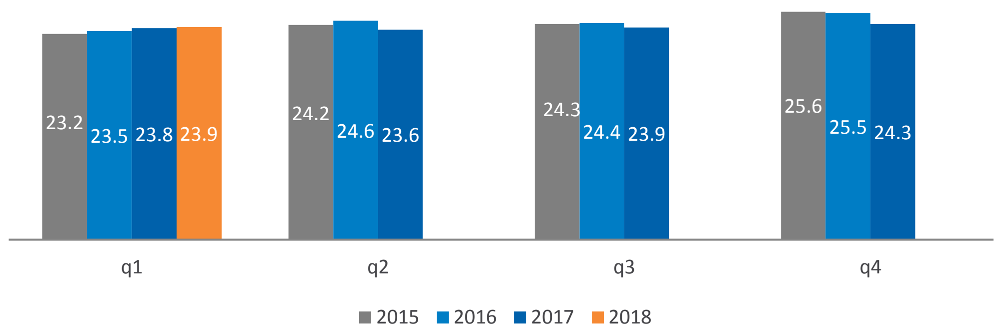
[29] Office of Rail Transport

4.2.3 Rail freight transport market in the Czech Republic

In Q1 2018, 115.2 million tons of cargo and 14.3 billion tkm of freight turnover were transported in the Czech Republic[30]. Freight turnover in rail transport in Q1 2018 was 4.0 billion tkm (down by -0.1% yoy), while freight volume increased to 23.9 million tons (+0.4% yoy), coupled with a simultaneous decrease in the average haul to 166.9 km (-0.5% yoy).

Automobile transport remains the major branch of the freight transport market in the Czech Republic: its share in the total freight volume during the period increased 1.8 p.p. yoy to 76.0%. In terms of freight turnover, however, in Q1 2018 road transport recorded a decrease in the market share by 1.7 p.p. yoy to 67.7%.

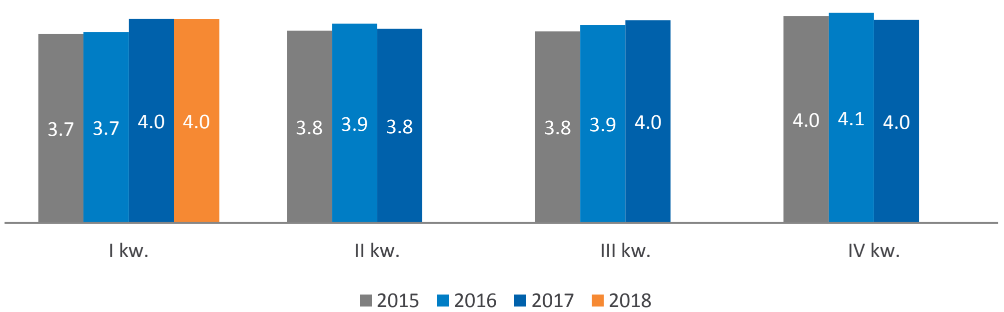
Figure 12 Quarterly rail freight transport in the Czech Republic by freight volume in 2015-2018 (million tons)



** data for Q2 2018 will be available at the turn of Q3 and Q4 2018.*

Source: Ministry of Transport of the Czech Republic

Figure 13 Quarterly rail freight transport in the Czech Republic by freight turnover in 2015-2018 (billion tkm)



** data for Q2 2018 will be available at the turn of Q3 and Q4 2018.*

Source: Ministry of Transport of the Czech Republic

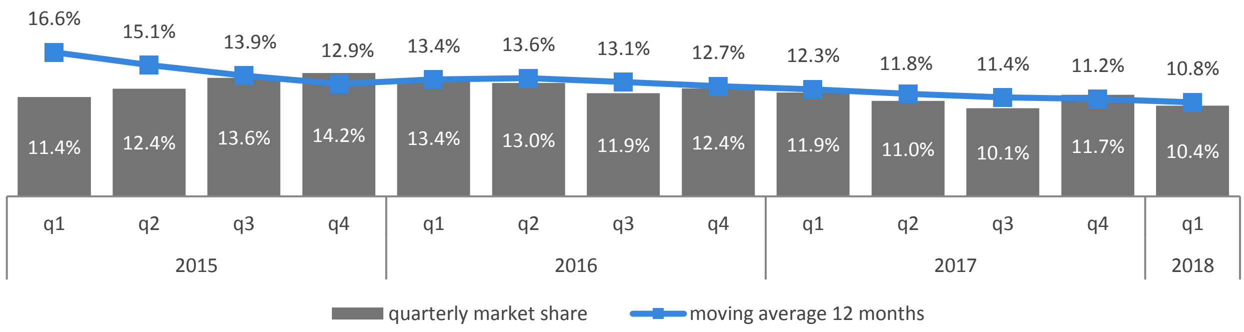
30 Ministry of Transport of the Czech Republic

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

According to data obtained from the railway infrastructure manager (SŽDC), there are currently 102 active carriers on the Czech market with a license for the carriage of cargo, including the following PKP CARGO Group companies: PKP CARGO S.A. and Advanced World Transport a.s. (AWT)[31].

The decrease in hard coal transport (-18.3% yoy) in H1 2018 was the main reason behind the decline in AWT's market share. In terms of freight turnover generated between January and June 2018, AWT reached 7.8% (-0.8 p.p. yoy) of the Czech market share. At the same time, AWT took action aimed at increasing the diversification of transport and thus reduce its dependence on the situation in the hard coal segment. In H1 2018, rapid growth was recorded in the following areas: AWT's intermodal transport (+80.6% yoy to 707 thousand tons), chemicals (+15.8% yoy to 270 thousand tons) and other cargo (+10.6% yoy to 283 thousand tons)[32].

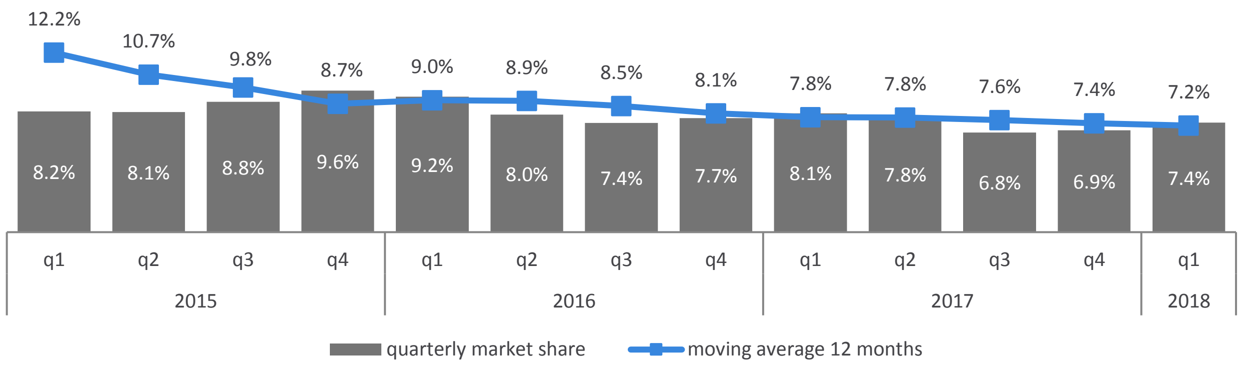
Figure 14 AWT a.s.'s quarterly market shares in total freight volume in the Czech Republic in 2015-2018



** data for Q2 2018 will be available at the turn of Q3 and Q4 2018.*

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

Figure 15 AWT a.s.'s quarterly market shares in total freight turnover in the Czech Republic in 2015-2018



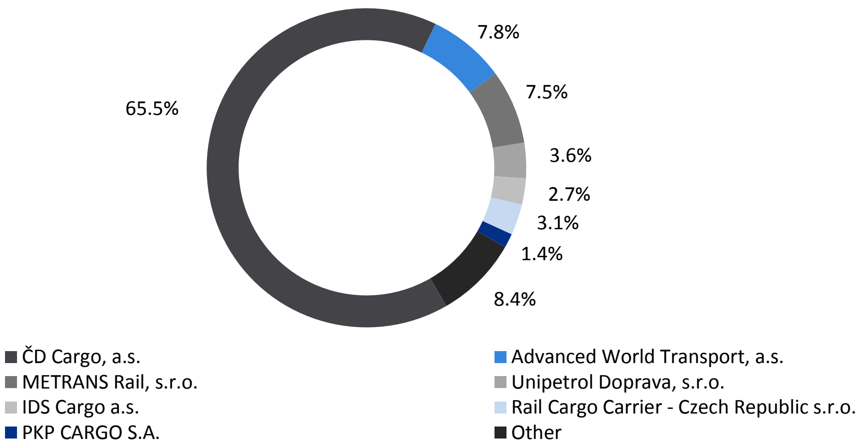
** data for Q2 2018 will be available at the turn of Q3 and Q4 2018.*

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

[31] SŽDC
[32] own statistics prepared by AWT a.s.

Figure 16 Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in H1 2018 (btkm)

Measured by gross freight turnover



Source: SŽDC

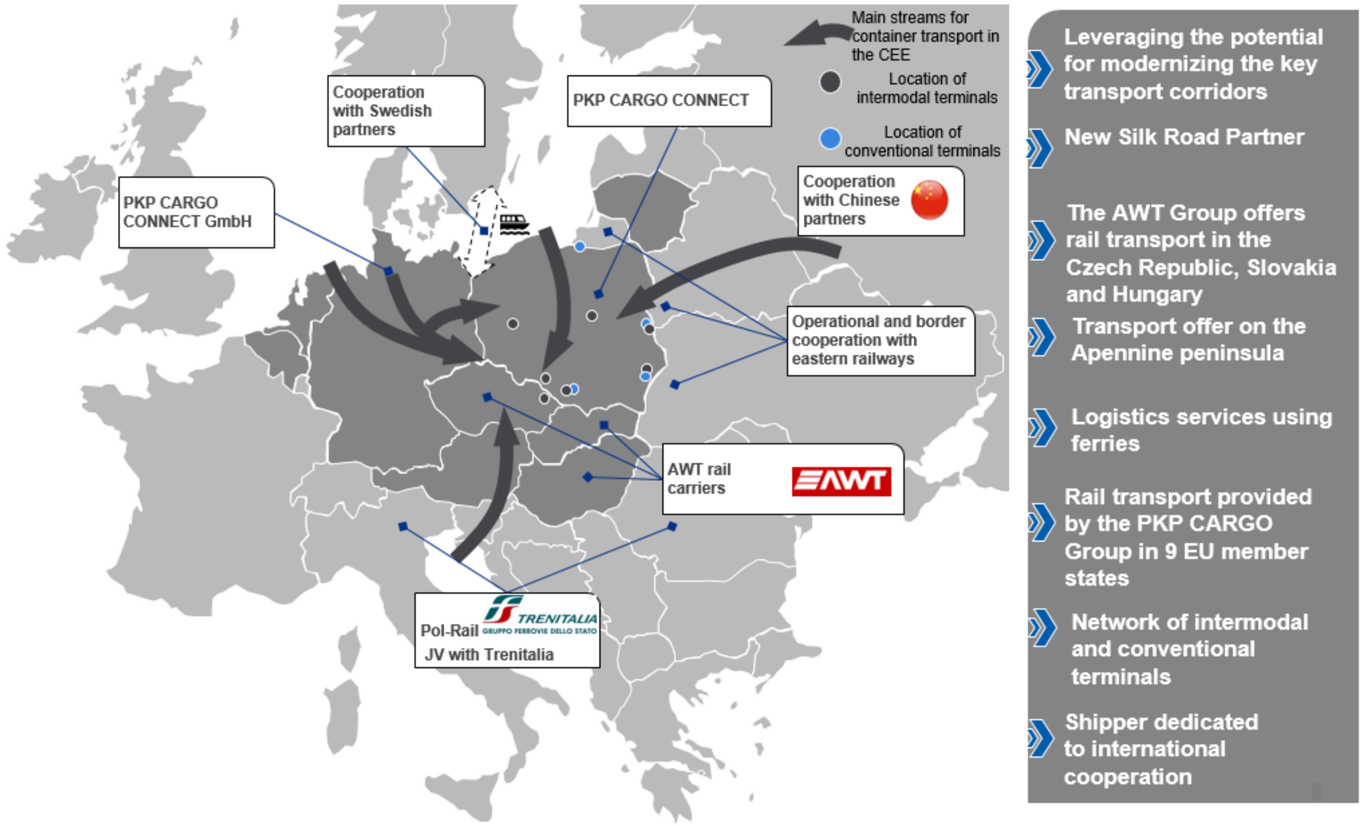
In H1 2018, the position of the undeniable leader of the Czech rail freight market was improved even further by ČD Cargo a.s. with an increase in its share in freight turnover by 3.0 p.p. yoy[33]. An increase in the market share was also recorded by METRANS Rail s.r.o. (+0.4 p.p. yoy), meaning that this company came much closer to the position occupied by the market's second largest carrier, namely AWT a.s. (-0.8 p.p. yoy). In comparisons with H1 2017, PKP CARGO S.A.'s market share diminished by 0.9 p.p., mostly as a result of the decline in transported volumes of hard coal from Poland to one of the Czech power plants and from OKD's mines to Slovakia. At the same time, the quantum of transport increased, among others, in intermodal transport to/from Italy via the territory of the Czech Republic, in transit via the Czech Republic and Poland on the route between Slovakia and Russia and in ores in transit from Ukraine to the Czech Republic.

[33] SŽDC

4.2.5 PKP CARGO Group's rail transport business

The data on the transport activity conducted by the PKP CARGO Group in H1 2018 and H1 2017 comprise consolidated data for PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and the AWT Group[34]. The transport activity in H1 2018 was conducted by five members of the Group. After the acquisition of an equity stake in AWT B.V., three additional carriers (AWT a.s., AWT Rail HU Zrt, AWT Rail SK a.s.) were added to the carriers already operating in the PKP CARGO Group, namely PKP CARGO S.A. and PKP CARGO SERVICE sp. z o.o.

Figure 17 PKP CARGO Group's potential



The PKP CARGO Group cooperates with the largest Polish and global groups including ArcelorMittal, PKN Orlen, PGNiG, Lafarge Group, Azoty Group, Jastrzębska Spółka Węglowa, Węglokoks, Enea Group, PGE Group, Tauron Group, Polska Grupa Górnicza and International Paper.

[34] This applies to the AWT Group companies consolidated by the full method.

Important events:

- Meeting between representatives of the PKP CARGO Group and a delegation of the Kazakh Railways – cooperation of the two carriers in handling container transport between China and Europe;
- Submission by PKP CARGO S.A. of applications to the Center for EU Transport Projects (CUPT) for co-financing of a total of three intermodal projects under the Operational Programme Infrastructure and Environment 2014-2020. The objective of the project is to increase the volumes of overland intermodal transport between China and Western Europe through Małaszewicze and back to Asia;
- Agreement with the Lithuanian Railways – development of the Rail Baltica route, intensification of north-south transport;
- Meeting with the Italian Railways – Trenitallia – announcement of the execution of a letter of intent on the development of an intermodal market between the two carriers;
- Extension of cooperation in hard coal transport: with the Veolia Group for 2019-2021 (5.1 million tons), PGNiG Termika for 2019 (1.9 million tons) and Enea Połaniec (over 6.4 million tons).

Table 11 Freight turnover of the PKP CARGO Group in H1 and Q2 2017 and 2018, respectively

Item	6 months of 2018	6 months of 2017*	Change 2018/2017		6 months of 2018	6 months of 2017	Q2 2018	Q2 2017*	Change Q2 2018/ Q2 2017	
	(million tkm)			%	share in total (%)		(million tkm)			%
Solid fuels[1]	5,436	5,926	-490	-8.3%	35%	39%	2,641	2,818	-177	-6.3%
of which hard coal	4,665	5,232	-568	-10.8%	30%	35%	2,260	2,459	-199	-8.1%
Aggregates and construction materials[2]	3,383	2,360	1,023	43.4%	22%	16%	1,822	1,596	226	14.2%
Metals and ores[3]	1,904	2,064	-160	-7.7%	12%	14%	952	1,120	-169	-15.0%
Chemicals[4]	1,124	1,191	-68	-5.7%	7%	8%	561	602	-40	-6.7%
Liquid fuels[5]	523	646	-123	-19.0%	3%	4%	284	347	-63	-18.2%
Timber and agricultural produce[6]	688	875	-186	-21.3%	4%	6%	317	447	-129	-28.9%
Intermodal transport	1,916	1,520	396	26.1%	12%	10%	1,014	789	225	28.5%
Other[7]	371	440	-70	-15.8%	2%	3%	190	229	-39	-17.0%
Total	**15,345**	**15,022**	**323**	**2.1%**	**100%**	**100%**	**7,782**	**7,948**	**-165**	**-2.1%**

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

Source: Proprietary material

Table 12 Freight volume of the PKP CARGO Group in H1 and Q2 2017 and 2018, respectively

Item	6 months of 2018	6 months of 2017*	Change 2018/2017		6 months of 2018	6 months of 2017	Q2 2018	Q2 2017*	Change Q2 2018/ Q2 2017	
	(000s tons)			%	share in total (%)		(000s tons)			%
Solid fuels[1]	28,116	29,087	-971	-3.3%	47%	50%	13,808	14,134	-325	-2.3%
of which hard coal	25,316	26,129	-813	-3.1%	43%	45%	12,521	12,604	-83	-0.7%
Aggregates and construction materials[2]	12,106	8,965	3,142	35.0%	20%	16%	6,573	5,909	664	11.2%
Metals and ores[3]	6,442	6,596	-153	-2.3%	11%	11%	3,244	3,475	-232	-6.7%
Chemicals[4]	3,521	3,472	49	1.4%	6%	6%	1,693	1,723	-30	-1.7%
Liquid fuels[5]	1,767	2,315	-548	-23.7%	3%	4%	954	1,321	-367	-27.8%
Timber and agricultural produce[6]	1,901	2,217	-316	-14.3%	3%	4%	920	1,175	-255	-21.7%
Intermodal transport	4,393	3,696	697	18.9%	7%	6%	2,276	1,847	428	23.2%
Other[7]	1,320	1,283	37	2.9%	2%	2%	672	649	23	3.5%
Total	**59,566**	**57,630**	**1,936**	**3.4%**	**100%**	**100%**	**30,139**	**30,234**	**-94**	**-0.3%**

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

Source: Proprietary material

Table 13 Average haul of the PKP CARGO Group in H1 and Q2 2017 and 2018, respectively

Item	6 months of 2018	6 months of 2017*	Change 2018/2017		Q2 2018	Q2 2017*	Change Q2 2018/ Q2 2017	
	(km)			%	(km)			%
Solid fuels[1]	193	204	-10	-5.1%	191	199	-8	-4.1%
of which hard coal	184	200	-16	-8.0%	180	195	-15	-7.5%
Aggregates and construction	279	263	16	6.2%	277	270	7	2.6%
Metals and ores[3]	296	313	-17	-5.6%	293	322	-29	-9.0%
Chemicals[4]	319	343	-24	-7.0%	331	349	-18	-5.1%
Liquid fuels[5]	296	279	17	6.2%	297	263	35	13.3%
Timber and agricultural produce[6]	362	395	-32	-8.2%	345	380	-35	-9.2%
Intermodal transport	436	411	25	6.1%	446	427	19	4.3%
Other[7]	281	343	-62	-18.2%	283	353	-70	-19.8%
Total	**258**	**261**	**-3**	**-1.2%**	**258**	**263**	**-5**	**-1.8%**

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

Source: Proprietary material

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

Factors affecting the volume of transport in various cargo categories in H1 2018:

SOLID FUELS

- Lower volume of coal exports – a result of a significant reduction in total export freight volumes and changes in the supply directions in overland exports;
- Lower output, sales and consumption of hard coal;
- Enactment of anti-smog legislation;
- Increase in hard coal imports;
- Copious track closures caused by renovation of major railway routes;
- Decrease in the average commercial speed in Poland translating into an extended rolling stock circulation;
- Repairs or technological breaks in clients' enterprises;
- Increase in the price of steam coal.

AGGREGATES AND CONSTRUCTION MATERIALS

- Intensification of road construction projects in Poland under the National Road Construction Program;
- Greater demand for transport of aggregates to concrete-mixing plants and bituminous mass production plants;
- Execution of railway capital expenditure projects co-financed with European funds from the financial perspective for 2014-2020 as part of the National Railway Program;
- Higher construction and assembly output in Poland, including the construction of civil and water engineering facilities;
- Increase in the average haul as a result of changes in the structure of freight routes;
- Limitations related to the capacity of rail lines.

METALS AND ORES

- The lower freight turnover is a result of the shorter average haul – a change in the structure of freight routes;
- Decrease in freight volume caused by lower ore transport – lower imports of iron ore and slag from steel mills;
- Greater quantum of the transport of metals – including as a result of the takeover of the transport of metals in export and import traffic from and to Austria from competitors and a greater volume of transport in import traffic from Russia.

INTERMODAL TRANSPORT

- Development of transit connections and handling of cargo connections on the China-Europe-China route within the framework of the "New Silk Road";
- Higher percentage of cargo that used to be transported in conventional ways and is now transported in containers (e.g. wood – in the form of timber shavings, timber chips, bituminous coal, automotive parts, paper);
- Transport between seaports and terminals located in the country's interior;
- Increase in the number of trains operated on the Group's own traction in Germany.

CHEMICALS

- Acquisition of additional hydrocarbon transports in imports from the East and exports to the Czech Republic, Hungary and Ukraine;
- Greater imports of hydrocarbons from the East and smaller quantum of transported fertilizers in exports (competition from developing countries);
- Increase in the quantum of transported fertilizers in imports.

LIQUID FUELS

- Decline in freight volume – the takeover by competitive carriers of a portion of transport orders from freight forwarders;
- Distribution of biofuels by its producer in road tankers, bypassing rail transport.
- Change in the supply logistics at the PKP CARGO Group's largest client in this segment (due to changes resulting from the current demand and supply situation).

TIMBER AND AGRICULTURAL PRODUCE

- Dwindling transport volumes – absence of timber imports from Belarus compensated by domestic transport or imports via seaports (shorter hauls);
- Overhauls in production plants in Szczecinek and Mielec;
- Lower transport volumes of timber within the country and in imports compensated by exports of timber (from windbreaks) to Romania, Slovakia and Hungary;
- Lower transport volumes of agricultural products: absence of grain exports via seaports, absence of rape imports from Hungary, suspension of rail transport of maize in imports from Ukraine.

4.3 Other services

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

FORWARDING SERVICES

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

TRACTION SERVICES AND LOCOMOTIVE LEASE SERVICES

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

COMPREHENSIVE SIDING SERVICES

Comprehensive siding services – entailing, without limitation, train formation, maneuvering services, rail traffic management on sidings, loading and unloading, warehouse management, conservation and ongoing maintenance of point infrastructure. PKP CARGO SERVICE Sp. z o.o. and AWT a.s. are the main entities providing these services. Traffic management on sidings is offered in Poland, the Czech Republic and Hungary;

TRANSSHIPMENT SERVICES

Transshipment services – provided on the basis of conventional and intermodal transshipment terminals owned by PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o., PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o., PS TRADE TRANS Sp. z o.o., CARGOSPED Sp. z o.o. and its subsidiaries and AWT a.s.

INTERMODAL LOGISTIC SERVICES

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

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

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

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

4.4 Headcount

Information concerning movements in headcount in the PKP CARGO Group and PKP CARGO S.A. in 6M 2018 and 2017 is provided below.

Figure 18 Headcount in the Company and the PKP CARGO Group in H1 and Q2 2017 and 2018, respectively

The observed decline in the average headcount in the PKP CARGO Group by 23 FTEs (by 229 FTEs in PKP CARGO S.A. alone) ensued directly from the termination of employment contracts for natural causes, chiefly in connection with obtaining retirement rights.

4.5 PKP CARGO Group's investments

In 6M 2018, the PKP CARGO Group incurred capital expenditures for the acquisition of non-current assets and intangible assets in the form of procurement, modernization and the overhaul component (periodic repairs of P4 and P5 rolling stock and periodic checkups of P3 rolling stock) of PLN 302.7 million, which was 50.8% higher than in the corresponding period of 2017.

The majority of capital expenditures in 6M 2018 in the PKP CARGO Group was allocated to the execution of capital expenditure endeavors associated with the rolling stock, mainly to periodic repairs (P4 and P5) and checkups (P3) of rolling stock and modernization of locomotives and purchases of wagons – in total PLN 277.3 million (representing 91.6% of total capital expenditures).

A detailed comparison of the PKP CARGO Group's actual capital expenditures in 6M 2018 and 6M 2017 is presented in the table below.

Table 14 Capital expenditures on property, plant and equipment and intangible assets in the PKP CARGO Group in 6M 2018 as compared to 6M 2017 (PLN 000s)

Item	6 months of 2018	6 months of 2017	Change yoy	Change yoy in %
Investment construction activity	18,739	9,824	8,915	90.7%
Modernization of locomotives	17,220	26,652	-9,432	-35.4%
Purchase of wagons	1,388	25	1,363	-
Wagon upgrades	0	10	-10	-100.0%
Workshop machinery and equipment	2,886	5,699	-2,813	-49.4%
ICT development	3,361	3,570	-209	-5.9%
Other	372	575	-203	-35.3%
Components in overhaul, including:	258,708	154,398	104,310	67.6%
Repairs and periodic inspections of locomotives	*63,284*	*32,811*	*30,473*	*92.9%*
Repairs and periodic inspections of wagons	*195,424*	*121,587*	*73,837*	*60.7%*
Total	**302,674**	**200,753**	**101,921**	**50.8%**

Source: Proprietary material

4.6 Key information and events

January

- Application by two members of the PKP CARGO Group for co-financing of intermodal projects with EU funds (acquisition of specialized rolling stock, modernization and extension of a container terminal and purchase of equipment for the container terminal).

February

- Update of the residual value of rolling stock as at 31 December 2017. The increase in the residual value of rolling stock resulted in lower depreciation costs in H1 2018 by approx. PLN 15 million.

March

- As of 27 March 2018, the appointment of Mr. Czesław Warsewicz to the PKP CARGO S.A. Management Board and entrusting him with the function of President of the Management Board and the appointment of Mr. Leszek Borowiec to the PKP CARGO Management Board and entrusting him with the function of PKP CARGO S.A. Management Board Member in charge of Finance.
- Publication of a forecast of selected standalone financial and operating data on PKP CARGO S.A.'s business in 2018 in accordance with the Business Plan for 2018 adopted by the Company.

April

- Execution of a contract with Newag S.A. for modernization of 60 SM48 diesel locomotives for the total net amount of approx. PLN 388 million.
- Signing of an annex to the commercial agreement entered into in 2015 with Lafarge Kruszywa i Beton Sp. z o.o. (extension of the agreement until 31 March 2020, increase in the declared freight volume to approx. 9 million tons).
- Adoption of a resolution by the PKP CARGO S.A. Management Board on submitting a motion to the Company's Ordinary Shareholder Meeting to distribute net profit of PLN 93,967,095.00 as follows: allocate PLN 7,517,367.60 to supplementary capital pursuant to Article 396 of the Commercial Company Code, allocate PLN 86,449,727.40 to cover losses carried forward.
- Appointment of Mr. Jerzy Sośnierz, the candidate nominated to be the employee representative, to the PKP CARGO S.A. Supervisory Board for the 6th term of office, effective as of 1 May 2018.
- Receipt by PKP CARGO S.A. and PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. of the "Leader in Intermodal Transport" award in the categories "Rail Carrier" and "Land Container Terminal", respectively. The awards were presented during the Gala of the Intermodal Transport Forum Freight 2018 in Gdańsk.
- Award, for the second consecutive time, to PKP CARGO S.A. of the prestigious title of the "Transparent Company of the Year 2017".

May

- Establishment of the Board of Presidents in order to integrate and optimize processes in the PKP CARGO Group. Actions taken by the Board of Presidents included the establishment of four steering committees and the adoption of the PKP CARGO Group's business plan for 2018.
- Publication of estimate selected consolidated financial and operating results for Q1 2018.
- Accession by CL Małaszewicze, CL Medyka-Żurawica, Euroterminal Sławków and Terminale Przeładunkowe Sławków-Medyka to the Agreement of the Operators of Terminals and Logistics Centers in Central and Eastern Europe.
- Signing by PKP CARGO S.A. and the Lithuanian Railways of an annex to the Agreement on Cooperation in International Rail Freight Services.
- Execution of a contract with Pojazdy Szynowe PESA Bydgoszcz S.A. ("PESA") to conduct repairs of 38 series ST44 diesel locomotives. The estimated gross value of this contract is approx. PLN 176.3 million. Moreover, the Company's Management Board signed a Letter of Intent with PESA pertaining to the construction of a dual mode electro-diesel locomotive.
- Execution of 2 contracts for the transport of steam coal to ENEA Elektrownia Połaniec (ENEA Połaniec Power Plant) for the total gross amount of over PLN 222 million.
- Execution of a contract for the transport of coal for the Veolia Group. In 2019-2021, PKP CARGO S.A. will transport over 5 million tons of coal.
- Execution of a current account overdraft agreement with Bank Polska Kasa Opieki S.A. The available amount of the facility is PLN 100 million.

June

- Appointment of Mr. Paweł Sosnowski to the PKP CARGO S.A. Supervisory Board.
- Extraordinary Shareholder Meeting of the Company.
- Execution of a Memorandum of Agreement by parties to the Company Collective Bargaining Agreement for Employees Hired by PKP CARGO S.A. Units. By the power of the Memorandum of Agreement, a wage increase will be implemented as of 1 September 2018. It was estimated that by the end of 2018 the cost of the increase, including a one-off bonus, would amount to approximately PLN 33.9 million.
- Notification from NN OFE about a change in the stake held: an increase to 17.31%.
- Execution of a letter of intent with JSW for joint innovative investment projects focused on the commercial use of hydrogen fuel.
- Signing of an agreement with the Lithuanian Railways providing for the introduction of mutual assistance in the transport of cargo between Poland and Lithuania.

July

- Execution of contracts with PGNiG Termika for the transport of 1.9 million tons of coal in the period from January 1 to 31 December 2019 and with Enea Wytwarzanie for transportation of 5.5 million tons of coal in the period July 2018 - August 2019.
- Signing of a letter of intent with Newag opening the way to the commencement of negotiations on the purchase by PKP CARGO of 3 E6ACTa-DRAGON 2 locomotives.
- Impairment loss on redundant rolling stock assets owned by the AWT Group in the amount of PLN 18.1 million. The impact of the recognized impairment loss on the consolidated net profit, taking into account the deferred tax effect, is PLN 14.6 million.
- Signing of a memorandum with the Chinese city of Zhengzhou regarding the promotion of international logistics cooperation and supply chains as part of the China-EU regional policy.

4.7 Description of key threats and risks

Risks related to the economic and market environment

Risk resulting from the macroeconomic situation

In H1 2018, the medium-term outlook for global economic growth deteriorated compared to 2017, having been affected by a number of factors, including the following most important ones:

- increase in the risk of a global trade war as a result of the imposition of import duties by the United States and reciprocal action taken by its trading partners (China, EU, Mexico, Canada)[35];
- weaker data from the real economy – clear signs of a slowdown in the euro area, Japan and a number of developing economies (including China);
- increase in political risk in Europe (including the victory of Eurosceptic parties in parliamentary elections in Italy and the dispute over migration policy in Germany threatening to break up the CDU-CSU coalition);
- withdrawal of the United States from the nuclear agreement with Iran (increase in geopolitical risk).

At the same time, over the course of the coming quarters the GDP growth rate for Poland and the Czech Republic (key markets for the PKP CARGO Group's transport services) is expected to remain relatively high, although according to forecasts published by local and international economic institutions, a gradual slowdown in economic activity is anticipated relative to previous periods.

Risks associated with the situation on the rail transport market in the main cargo categories

The dominant role in the PKP CARGO Group's transport activity is played by bulk cargo such as hard coal, aggregates and construction materials, metal ores, metals, chemicals and refined petroleum products. The economic situation in each of these segments translates directly into the quantum of cargo available for transport, and thus into the PKP CARGO Group's financial performance. The following are key medium-term risk factors for the volume of transport:

- decrease in steam coal prices on the global markets in the coming years[36];
- gradual decrease in the share of hard coal in Poland's energy mix[37];
- implementation of EU regulations related to climate policy – including an increase in the importance of renewable energy sources in the production of electricity or the introduction of the "Winter Package" (governing the rules applicable to the internal electricity market in the European Union)[38];
- final result of the restructuring processes carried out in the hard coal mining industry in Poland and in the Czech Republic (including the ongoing phasing out of operations in OKD's mines in the Czech Republic);
- accumulation of transports of aggregates in 2018-2020 resulting from earlier delays, which may generate problems in handling all newly ordered freight volume[39];
- increasing number of construction companies announcing bankruptcy, subjected to restructuring or reporting liquidity problems, which, given the existing network of business interrelations may pose a threat to the stability of the whole construction sector in Poland[40].

Risk associated with the rail freight sector

According to data published by the Office of Rail Transport, in H1 2018 a total of 63 carriers operated on the market, including PKP CARGO S.A. and PKP CARGO SERVICE Sp. z o.o.[41] In recent quarters, the significance of small operators whose market share is below 2% per operator has been steadily increasing. Such companies combined are responsible for over 15% of the freight turnover transported by rail[42]. The PKP CARGO Group's competitors offer a broad range of transport services, including whole-train transport of coal, aggregates and other dry bulk commodities, liquid fuels and chemicals. Some companies also offer single-wagon transport. In recent quarters, operators specializing in container transport have appeared on the market.

[35]International Monetary Fund
[36] Ministry of Energy: "Program for the hard coal mining industry in Poland"
[37] Ministry of Energy: "Program for the hard coal mining industry in Poland"
[38] WysokieNapięcie.pl [High Voltage] website
[39] RynekInfrastruktury.pl [Infrastructure Market] website
[40] Money.pl website
[41] Office of Rail Transport
[42] Office of Rail Transport

In the Czech Republic, key competitors of the PKP CARGO Group operating on that market are ČD CARGO (market leader), Metrans Rail, Unipetrol Doprava and IDS Cargo[43]. As is the case in Poland, transport services offered by competing operators chiefly include such transport market segments as: coal, bulk materials, liquid fuels, chemicals and intermodal transport.

Road transport creates increasing competition for the Group

Despite the large increase in rail freight transport, road transport had a higher growth rate. The market share of road transport in terms of freight volume increased to 85.1% (+0.9 p.p. yoy)[44].

This high market share of road transport is largely a result of the competitive advantages enjoyed by road transport vis-à-vis other forms of land transport, the most important ones of which are:

- widespread access to infrastructure and a gradual expansion of high-quality road network (as a result of the construction projects completed in previous years and the currently executed "National Road Construction Program for 2014-2023");
- low cost of access to road infrastructure (a relatively small coverage of the Via Toll system in relation to the whole road network);
- relative speed of cargo transport relative to other branches of the transport market coupled with the concurrent possibility of direct access to virtually every place of shipment or destination of the cargo;
- periodically reduced attractiveness of railways as a freight transport option due to the ongoing intense modernization works of a broad geographical coverage currently underway on the railway network as part of the "National Railway Program" (a decrease in commercial speed of rail transport and the need to use detours).

Most of the above factors also apply to the Czech Republic. In this country, the network of motorways and expressways (currently considered as one category of high-quality roads) is also growing steadily. Until 30 June 2018, a total of 1,266 km of new motorways were opened (including a further 30 km of roads to be opened to drivers by the end of the year)[45] and, ultimately, by 2023 the network of expressways in the Czech Republic is expected to reach a total length of 2,117 km.

Risks in the operations conducted

Risk associated with the rail infrastructure

At present, PLK S.A. is implementing the National Railway Program aimed at improving the competitiveness of rail freight transport, among its various other objectives. New investments will make it possible to increase speed and throughput on the routes, to improve access to seaports and to develop cargo transport. One of the key assumptions of the new financing program is the intention to improve rail access to major seaports in Gdynia, Gdańsk, Szczecin and Świnoujście. The works will consist of modernization, construction and development of rail infrastructure as well as of investments into services related with the growing marine transport connected with rail transport. The works currently performed by PLK in the Lower Silesia will also improve the freight transport services in the future. The modernization of a border bridge connecting Bielawa Dolna with Horka is to make the international cargo transport, from Poland to Germany, more effective. These works may entail temporary delays in cargo deliveries to PKP CARGO's clients.

Risk of changes to legal regulations

'Noise' Technical Specifications for Interoperability (NOI TSI)

The European Commission is working on revisions to the Noise TSI. At the current stage of the Commission's work, the draft of the revised Noise TSI introduces the requirement to indicate sections of rail lines, the so-called "quiet sections", on which starting from 8 December 2024 (date of entry into force of the 2024/2025 timetable) only freight cars satisfying the standards of noise emission during transit would be permitted to use. In order to enable currently used freight cars to run on the quiet sections, they have to be equipped with composite brake inserts or disc brakes. Replacement of brake inserts made of cast iron with composite brake inserts is not a huge cost. However, composite break inserts must be mounted on monobloc wheels - in most freight cars, it would also be necessary to replace ringed wheels with monoblock wheels. And that's what increases the adaptation costs by as much as even seven times. It is estimated that the adaptation of freight rolling stock to the new regulations would cost Polish rail operators up to PLN 2 billion.

[43] http://www.szdc.cz
[44] Central Statistical Office of Poland
[45] http://www.ceskedalnice.cz/

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

– fitted with ringed wheels,

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

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

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

continue to be admitted to operation with cast iron brake blocks on quiet sections in Poland. These types account for approx. 75% of freight cars currently operated in Poland. Operators would be permitted to benefit from this solution until the end of 2036. If a corresponding special case is in force in any of Poland's neighboring Member States, such freight cars would be admitted to operation in traffic between these countries. It is quite likely that this will be possible in traffic between Poland and the Czech Republic.[46]

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

Service Infrastructure Facilities

The Act of 16 November 2016 Amending the Act on Rail Transport and Certain Other Acts entered into effect on 30 December 2016. The purpose of the Act is to adjust the national legal order in the field of rail transport to the changes resulting from Directive 2012/34/EU of the European Parliament and of the Council of 21 November 2012 establishing a single European railway area and Directive 2008/57/EC of the European Parliament and of the Council of 17 June 2008 on the interoperability of the rail system within the Community (EU L 191 of 18 July 2008, p. 1, as amended). The Act specifies, among others, a new group of facilities, the so-called service facilities, designated for the provision of services necessary to perform the transport process.

In connection with the amendment, in 2017 the Company introduced a number of organizational changes in order to appoint the service facility operators.

Another legal act regulating the operations of the service facilities in detail, i.e. Commission Implementing Regulation (EU) 2017/2177 of 22 November 2017 on access to service facilities and rail-related services (regarding Article 13 "Conditions of access to services" of Directive 2012/34/EU) which entered into effect on 13 December 2017. In 2016 and 2017, the Company participated in the works of the legal group of CER (Community of European Railway and Infrastructure Companies) which presented to the European Commission a number of the Company's postulates. They are to some extent taken into account in the Regulation.

Since the Regulation will enter into effect on 1 May 2019, the Company expects to introduce further changes to its operations in order to adjust itself to the said document.

EU Emissions Trading Scheme (EU ETS)

One should also consider the planned changes in the EU Emissions Trading Scheme (EU ETS) – the related uncertainty was the reason why the Company's client, ArcelorMittal Poland (AMP), suspended its decision to overhaul the blast furnace no. 2 in Dąbrowa Górnicza. AMP decided to carry out a renovation, which began on July 15, 2018. Repair work will take 40 days and will allow it to be extended for three to five years. This will make it possible to assess the financial impact on AMT of the amendments to the EU ETS to become effective in 2021. Only then will it be known whether a general overhaul of the blast furnace is economically viable. The phasing out of the blast furnace at the turn of July and August 2018, will not have a major impact on the quantum of transport services provided by PKP CARGO S.A. to AMP.

Conditions for traffic maintenance and signaling

A draft regulation of the Minister of Infrastructure amending the regulation on general conditions for traffic maintenance and signaling has been made available for public consultation. This draft regulation introduces a number of changes, two of which may affect PKP CARGO S.A., namely:

- The obligation is introduced to have a two-person train driver crew on single-cabin traction vehicles that do not fulfill the visibility criteria referred to in the UIC 651 card and that have not been equipped with technical devices enabling the observation of the route's visibility. In such vehicles, a two-person train driver crew must be used and the vehicles should be equipped at least with devices monitoring the driver's vigilance and the train radio communication devices.

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

The introduction of such a regulation will entail a significant increase in demand for train crew personnel.

- The obligation is introduced to use in freight trains, on a round-the-clock basis, the Pc 5 signal (end-of-train signaling) in the form of light signal lamps on routes with an automatic locking system.
  The introduction of the obligation to use Pc 5 signals on freight trains will force railway (freight) operators to equip each locomotive with four signal lamps and create additional technical infrastructure to ensure that the lamps are kept in good technical condition, which will generate the need for additional FTEs.

The risk of concentration and high dependence of the client base on a limited number of industries and business entities operating therein.

The significant majority of contracts signed by the PKP CARGO Group with its clients are long-term in nature, which enables the contracting of large volumes of cargo, including hard coal, aggregates, iron ore and metals, reasonably in advance. At the same time, the freight volume declared in the contract is not a final binding figure, and thus its possible reduction by the counterparty causes a decrease in the volume of transport actually carried out by the PKP CARGO Group. Currently, the PKP CARGO Group provides transport services for the most part to clients operating in several key industries, namely the power, mining, steel and construction sectors. At the same time, in a situation where the majority of the industries served by the Group are characterized by highly concentrated production, it is not always possible to establish new relationships that may offset the gap resulting from the previously contracted but unused transport services.

Structural changes in the activity of key customers

Changes in the structure of the buyers of the PKP CARGO Group's transport services may involve modifications of the line of business (for instance, focus on coking coal instead of on a mix of coking coal and steam coal) or the creation of subsidiaries to transport the cargo produced by their parent company. Currently, there are several such companies on the Polish rail freight market, with rolling stock potential which is sufficient to serve only a portion of the freight volume ordered by their parent companies. It cannot be ruled out, however, that in the near future their share in the realized freight volume for the parent company will gradually increase, thus reducing the quantum of cargo available for transport by the PKP CARGO Group. At the same time, specialized railway subsidiaries may also start providing transport services to other clients (e.g. companies operating in the same industry as a result of rolling stock matching and knowledge of the industry specifics), which would constitute direct competition to the PKP CARGO Group's operations.

Risk associated with shortage of trained personnel

The Group has been properly managing the risk associated with shortage of trained personnel. Ongoing efforts are made to improve the competence of the Group's staff and to acquire the qualifications necessary in the workplace in order to ensure that business processes are carried out properly.

The rail transport industry and in particular the positions dealing with the rail transport safety require ongoing updating of knowledge. The licenses and qualifications held by our staff are updated and ensured owing to the mandatory nature of training activities, including periodic knowledge updates, tutorials and examinations.

Moreover, action has been taken to secure the availability of qualified personnel, especially for several years into the future, through cooperation with vocational schools (technical high schools and industry schools) and institutions of higher education. Scholarship and internship programs focusing on young people entering the labor market and seeking a stable employer that will provide them with professional development opportunities have been launched. In parallel, recruitment processes rooted in current organizational and business needs are underway.

All these actions minimize the risks associated with a shortage of appropriately trained personnel.

Risk of collective disputes and strike

The social dialog carried out by the PKP CARGO S.A. Management Board with the Trade Unions in accordance with the principle of partnership resulted in making certain arrangements in June of this year, which meant that in H1 2018 the Trade Unions did not initiate any collective dispute or strike in the Company. As a consequence of these actions, the risk of such events occurring in the remaining months of the financial year has been reduced to a minimum.

Risk of increase of salaries

In accordance with the memorandum of agreement entered into on 15 June 2018 between the Parties to the Company Collective Bargaining Agreement for Employees Hired by PKP CARGO S.A. Units, wage increases will be implemented on 1 September 2018. The risk of further wage growth in 2018 has been minimized.

Financial risks

Liquidity risk

The Group is exposed to liquidity risk following from the ratio of current assets to current liabilities. To ensure an additional source of funds required to secure its short-term financial liquidity, the Parent Company has current account overdraft facility. Additionally, to secure its long-term liquidity, the Group used external financing sources, including investment loans and lease agreements. To optimize financial expenses in the PKP CARGO Group, a cash pooling system is in place which, as at 30 June 2018, comprises 7 members of the Group (including the Parent Company).

Market risk

The Group is exposed to market risks and interest rate risks. The objective of the market risk management process is to limit undesirable impact of changes of market risk factors on the cash flows and results in the short- and medium-term. The Group manages market risks following from the aforementioned factors on the basis of internal procedures which define the rules of measurement of individual exposures, parameters and time horizon.

The principles of market risk management are implemented through assigned organizational units under the supervision of the Parent Company's Management Board. Market risk management is executed based on developed strategies, with partial utilization of natural hedging and derivative instruments to mitigate the risk related to changes in cash flows. Transactions are concluded only with reliable partners, admitted to participation as a result of application of internal procedures and execution of appropriate documentation.

FX risk

The Parent Company and the Group companies are 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, and payables expressed in foreign currencies are mostly short- and long-term liabilities on account of investment loan agreements with maturities of up to 2031 and liabilities arising from short- and long-term leases.

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

According to the Financial Risk Management Policy adopted by the Company, in Q2 2018 the Parent Company and PKP CARGO CONNECT Sp. z o.o. used FX risk management transactions for the EUR/PLN currency pair.

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

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

Interest rate risk

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

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

Interest on lease agreements was accrued according to the reference rates increased by the financing party's margin. The reference rate for agreements denominated in EUR is EURIBOR 3M and 6M and for agreements signed in PLN – WIBOR 1M and 3M. The interest rate risk in leasing agreements is executed through revaluation of leasing installments in the periods of 1 month, 3 months, 6 months, depending on the agreement.

Interest on loan agreements were accrued according to the WIBOR 1M, WIBOR 3M, EURIBOR 3M and PRIBOR 3M reference rates plus the banks' margins. The interest rate risk in loan agreements were executed through revaluation of loan installments in monthly, quarterly and semi-annual periods.

In Q2 2018, PKP CARGO CONNECT Sp. z o.o. ceased to use IRSs – transactions hedging the interest rate risk.

Credit risk

Conducting its commercial activity the Group sells services to business entities with a deferred payment date, which may lead to the risk of counterparties defaulting with meeting the deadlines for payment of the amounts due for the provided services. To minimize the credit risk, the Group manages the risk through a prevailing client creditworthiness assessment procedure. This assessment is carried out for all clients who use a deferred payment date. As part of its internal policy, the Group makes application of the deferred term of payment conditional on acceptability of the counterparty's condition and positive history of cooperation.

Receivables from business partners are monitored on a regular basis. In the case of overdue receivables, in accordance with prevailing procedures, the delivery of services is suspended and recovery procedures are triggered.

Concentration of risk associated with trade receivables is limited due to the large number of business partners with commercial credit dispersed among different sectors of economy. In addition, to reduce the risk of problems with recovery of trade receivables, the Group accepts security interests from their customers in the form of, among others: bank/insurance guarantees, assignment of contracts, security deposits and promissory notes.

The credit risk associated with cash and bank deposits is perceived as low. All entities in which the Group invests free cash operate in the financial sector.

The maximum exposure to credit risk is presented by balance sheet balances of trade and other receivables, cash and other financial assets.

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

5.1 Rules for preparing the Interim Condensed Consolidated Financial Statements

The Interim Condensed Consolidated Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting ("IAS 34") and in accordance with the relevant accounting standards applicable to interim financial reporting, adopted by the European Union ("EU IFRS"), published and in effect during the preparation of the Condensed Interim Consolidated Financial Statements for the period of 6 months ended 30 June 2018 and in accordance with the Finance Minister's Regulation of 29 March 2018 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2018, Item 757) ("Regulation").

The Interim Condensed Consolidated Financial Statements have been prepared based on the assumption that the Group will continue to be a going concern in the foreseeable future. As at the preparation date of the Interim Condensed Consolidated Financial Statements for the period of 6 months ended 30 June 2018, there are no circumstances indicating any substantial doubt about the Group's ability to continue its business as a going concern for a period of at least 12 months from the end date of the reporting period.

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

5.2 Position of the corporate governing body and an opinion of the regulatory authority supervising the issuer regarding the reservations expressed in the financial statements review report by the audit firm or regarding such entity's refusal to issue a financial statements review report

The audit firm issued an unqualified review report.

5.3 Key economic and financial figures of PKP CARGO Group

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

Table 15 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN 000s[47]		EUR 000s	
	6 months of 2018	6 months of 2017	6 months of 2018	6 months of 2017
Operating revenue	2,509,875	2,266,854	592,021	533,704
Profit / (loss) on operating activities	133,950	45,421	31,596	10,694
Profit / (loss) before tax	112,799	30,351	26,607	7,146
Net profit / (loss)	89,554	19,362	21,124	4,559
Total comprehensive income attributable to the owners of the parent company	78,071	4,997	18,415	1,176
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / (loss) per share (PLN/EUR)	2.00	0.43	0.47	0.10
Diluted earnings / (loss) per share (PLN/EUR)	2.00	0.43	0.47	0.10
Net cash flow from operating activities	392,830	248,711	92,660	58,556
Net cash flow from investing activities	-482,186	-527,088	-113,737	-124,097
Net cash flow from financing activities	-165,773	-151,256	-39,102	-35,611
Movement in cash and cash equivalents	-255,129	-429,633	-60,179	-101,152
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
Non-current assets	4,960,613	4,947,406	1,137,338	1,186,172
Current assets	1,639,716	1,694,153	375,944	406,184
Non-current assets classified as held for sale	18,267	-	4,188	-
Share capital	2,239,346	2,239,346	513,423	536,898
Equity attributable to the owners of the parent company	3,409,039	3,334,778	781,603	799,534
Non-current liabilities	1,999,997	2,093,673	458,547	501,972
Current liabilities	1,209,560	1,213,108	277,320	290,850

Source: Interim Condensed Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2018 prepared according to EU IFRS

In the period of the first 6 months of 2018, the PKP CARGO Group identified a non-recurring event in the form of an impairment loss on the redundant rolling stock assets in the amount of PLN 18.1 million as part of the optimization processes carried out in the AWT Group. This event did not affect EBITDA, hence no adjusted EBITDA has been presented. Starting from the results for H1 2018, the PKP CARGO Group decided to present only its adjusted EBITDA, including material non-recurring events.

[47] To facilitate the reading of this document, some figures have been rounded off, which will not cause any significant deviations in the presented data. In all cases of possible distortions, the data were presented with greater accuracy.

Table 16 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN 000s		EUR 000s	
	6 months of 2018	6 months of 2017	6 months of 2018	6 months of 2017
Operating revenue	1,888,801	1,712,193	445,524	403,116
Profit / (loss) on operating activities	145,135	30,312	34,234	7,137
Profit / (loss) before tax	157,085	25,321	37,053	5,962
Net profit / (loss)	129,184	18,490	30,472	4,353
Comprehensive income	101,667	12,704	23,981	2,991
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / (loss) per share (PLN/EUR)	2.88	0.41	0.68	0.10
Diluted earnings / (loss) per share (PLN/EUR)	2.88	0.41	0.68	0.10
Net cash flow from operating activities	348,894	203,577	82,296	47,930
Net cash flow from investing activities	-449,273	-488,456	-105,973	-115,001
Net cash flow from financing activities	-146,218	-208,781	-34,489	-49,155
Movement in cash and cash equivalents	-246,597	-493,660	-58,166	-116,226
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
Non-current assets	4,608,147	4,558,487	1,056,527	1,092,926
Current assets	1,132,736	1,178,549	259,707	282,565
Non-current assets classified as held for sale	18,267	-	4,188	-
Share capital	2,239,346	2,239,346	513,423	536,898
Equity	3,205,631	3,106,461	734,967	744,794
Non-current liabilities	1,646,867	1,731,536	377,583	415,147
Current liabilities	906,652	899,039	207,871	215,550

Source: Interim Standalone Financial Statements of PKP CARGO S.A. for the 6 months ended 30 June 2018, prepared in accordance with EU IFRS

The following average PLN to EUR exchange rates set by the National Bank of Poland have been used to translate selected financial data in the periods covered by the Interim Condensed Consolidated Financial Statements of the PKP CARGO S.A. Group and the Interim Condensed Standalone Financial Statements of PKP CARGO S.A. for the period of 6 months ended 30 June 2018:

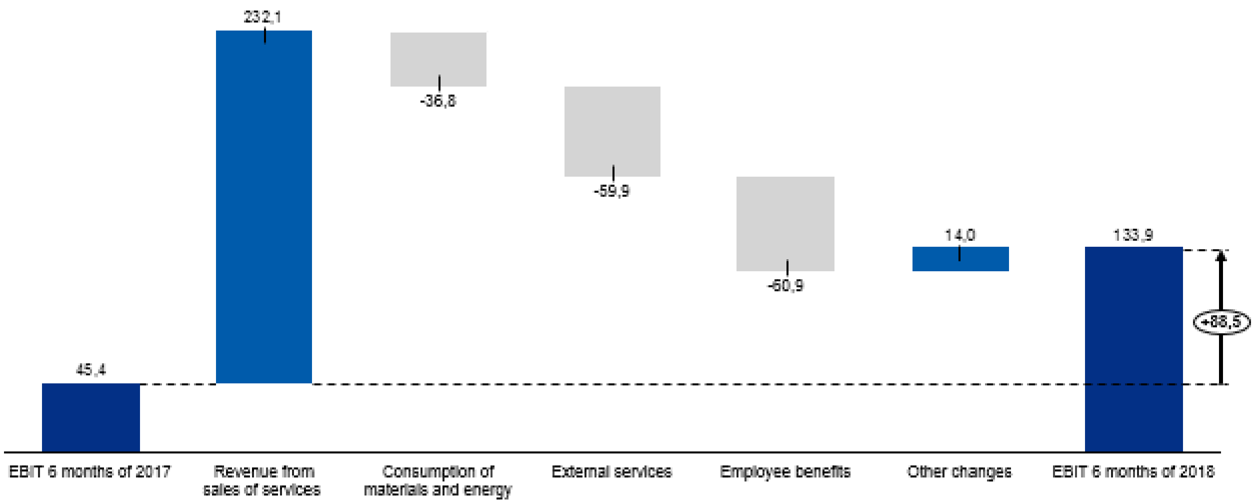
1. exchange rate in force on the last day of the reporting period: 30 June 2018: EUR 1 = PLN 4.3616; 31 December 2017: EUR 1 = PLN 4.1709,
2. the average exchange rate in the period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in a given period: 1 January – 30 June 2018: EUR 1 = PLN 4.2395, 1 January – 30 June 2017: EUR 1 = PLN 4.2474.

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

Statement of comprehensive income of PKP CARGO Group

In the period of the first 6 months of 2018, EBIT reached PLN 133.9 million, having gone up by PLN 88.5 million compared to the corresponding period of the previous year.

Figure 19 EBIT in 6M 2018 as compared to 2017 (PLN million)



Source: Proprietary material

The following is the explanation of the most significant changes affecting EBIT in the first 6 months of 2018 as compared to the first 6 months of 2017:

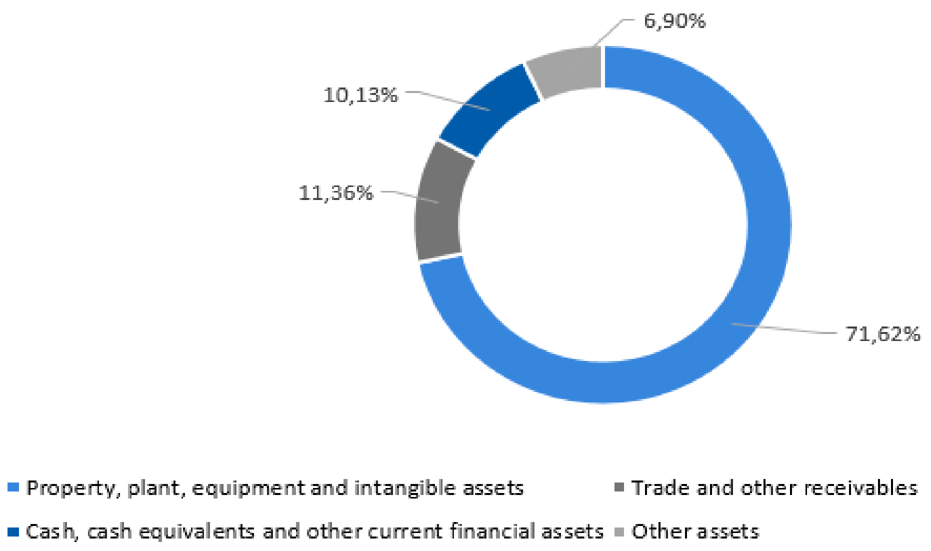
- The increase in revenue from sales of services and finished products (chiefly revenue from rail transportation and freight forwarding services) resulted from higher transport prices and better transport performance (increase in freight volume by 3.4% yoy, increase in freight turnover by 2.1 % yoy). The details pertaining to the PKP CARGO Group's transport services are described in section 4.2.5 “PKP CARGO Group's rail transport business”;
- The increase in the costs of consumption of materials and energy was driven primarily by an increase in fuel costs by PLN 23.5 million as a result of a greater volume of transport performed on the diesel traction (due to impediments on PLK lines and detours), an increase in the volume of transport carried out by the PKP CARGO Group and an increase in unit fuel prices. In addition, an increase in electricity, gas and water consumption by PLN 11.3 million was recorded in the PKP CARGO Group.
- The increase by PLN 20.8 million in the cost of external services occurred chiefly in the line items of costs of rents and fees for the use of real properties and rolling stock (a larger quantity of leased rolling stock necessary to perform the increased transport orders received by the PKP CARGO Group) and was accompanied by an increase by PLN 20.0 million in transport costs – due to ambitious transport forecasts and strong demand for rail freight forwarding services, the PKP CARGO Group has made greater use of external service providers to satisfy the needs of its clients. Due to the increase in freight turnover by 2.1% yoy, the costs of access to the lines of rail infrastructure managers increased by PLN 13.9 million;
- The increase in employee benefits resulted primarily from wage increases in member companies of the PKP CARGO Group. The increase in wages that had the largest impact on the upswing in employee benefits was granted as of 1 September 2017 to employees of the Parent Company. Moreover, movement in provisions for employee benefits increased by PLN 7.0 million;

- The other key changes which had a favorable impact on EBIT were: an increase in the result on sales of goods and materials by PLN 6.0 million as a consequence of an increase in sales of scrap metal and a decline in taxes and charges by PLN 6.2 million as a result of a refund of foreign VAT.

Statement of financial position of the PKP CARGO Group

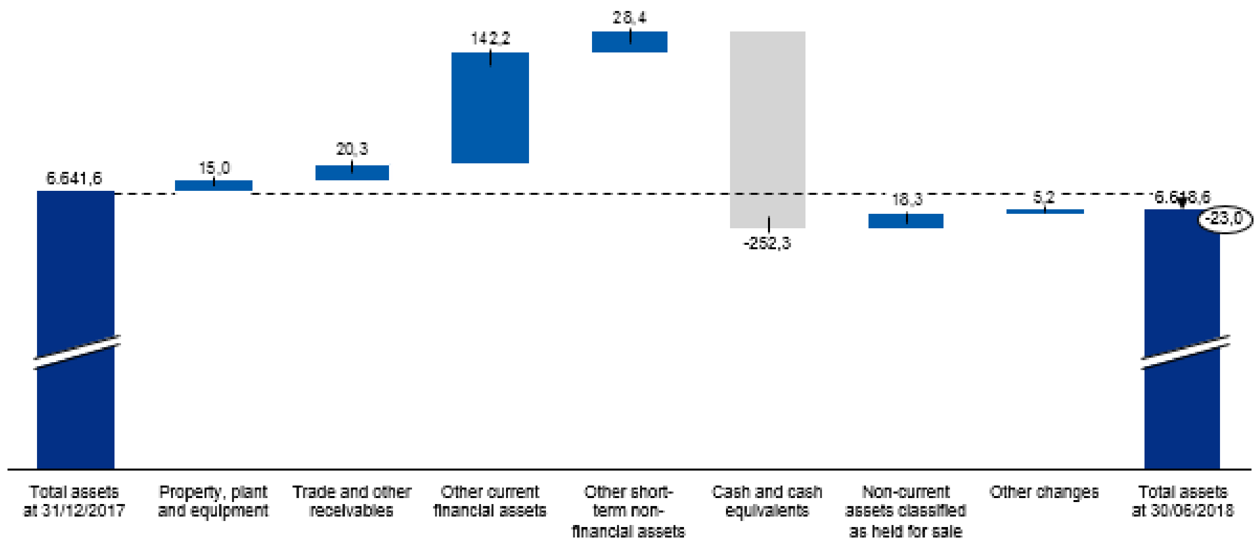
The biggest share in the asset structure was held by property, plant and equipment, which as at 30 June 2018 accounted for 71.1% of total assets. In the period of the first 6 months of 2018, property, plant and equipment increased, which was directly caused by the completed investments in property, plant and equipment (mainly in rolling stock), despite the decline in the value of non-current assets due to depreciation, reclassification of property, plant and equipment to non-current assets held for sale and recognition of an impairment loss on rolling stock in the AWT Group.

Figure 20 Structure of assets – as at 30 June 2018



Source: Proprietary material

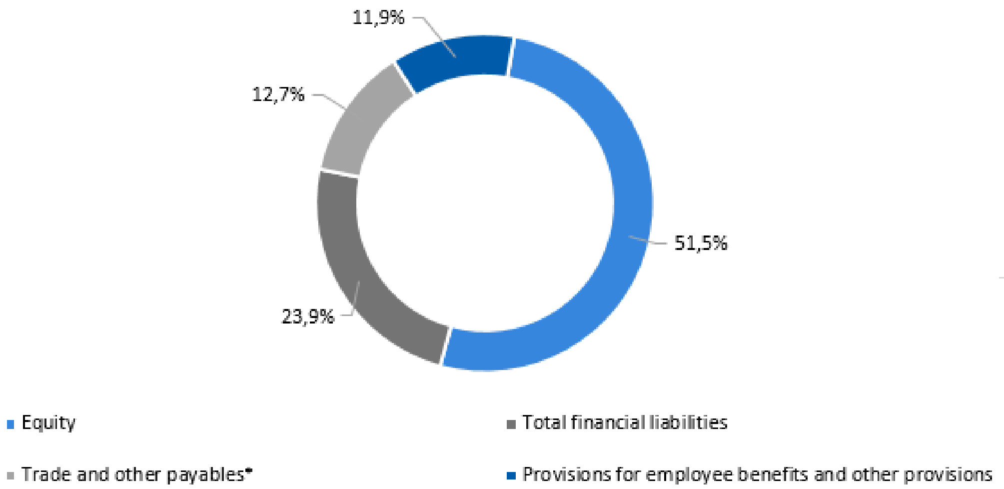
Figure 21 Movement in the PKP CARGO Group's assets in the first 6 months of 2018 (in PLN million)



Source: Proprietary material

- The value of other current financial assets increased 53.9% from 31 December 2017. This increase was caused mainly by bank deposits with a maturity of over 3 months (PLN 149.2 million);
- In the first 6 months of the year, the value of cash and cash equivalents decreased 48.8%. A significant impact on the decrease in cash value was exerted, among other factors, by expenditures on the acquisition of non-current assets and intangible assets;
- A significant share in the structure of current assets as at 30 June 2018 was held by trade and other receivables (11.3%), other current financial assets (6.1%) and cash and cash equivalents (4.0%).

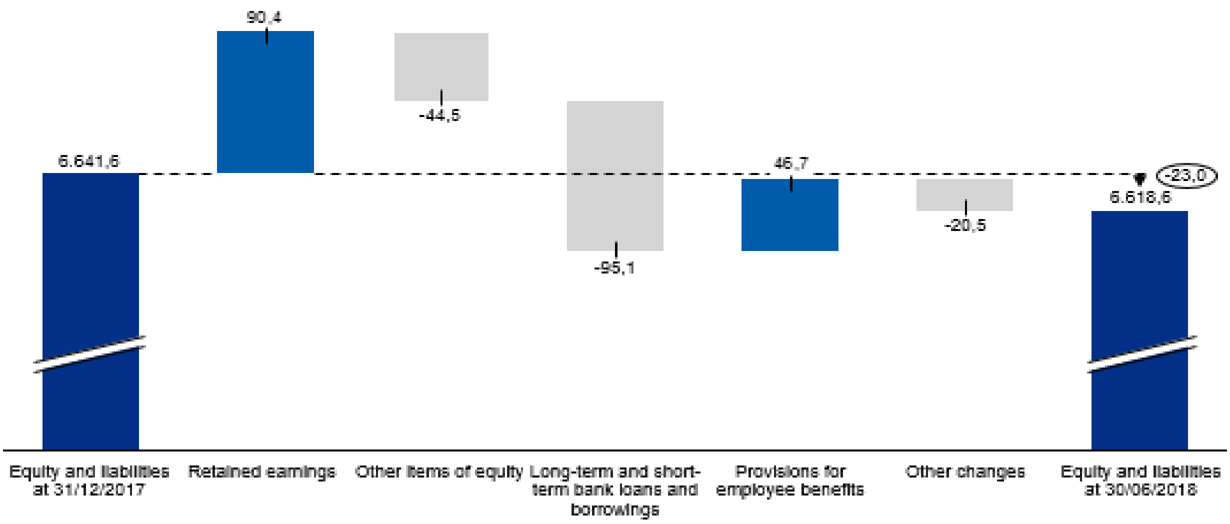
Figure 22 Structure of equity and liabilities – as at 30 June 2018



** Total trade and other payables also include tax liabilities*

Source: Proprietary material

Figure 23 Movement in the PKP CARGO Group's equity and liabilities in the first 6 months of 2018 (in PLN million)



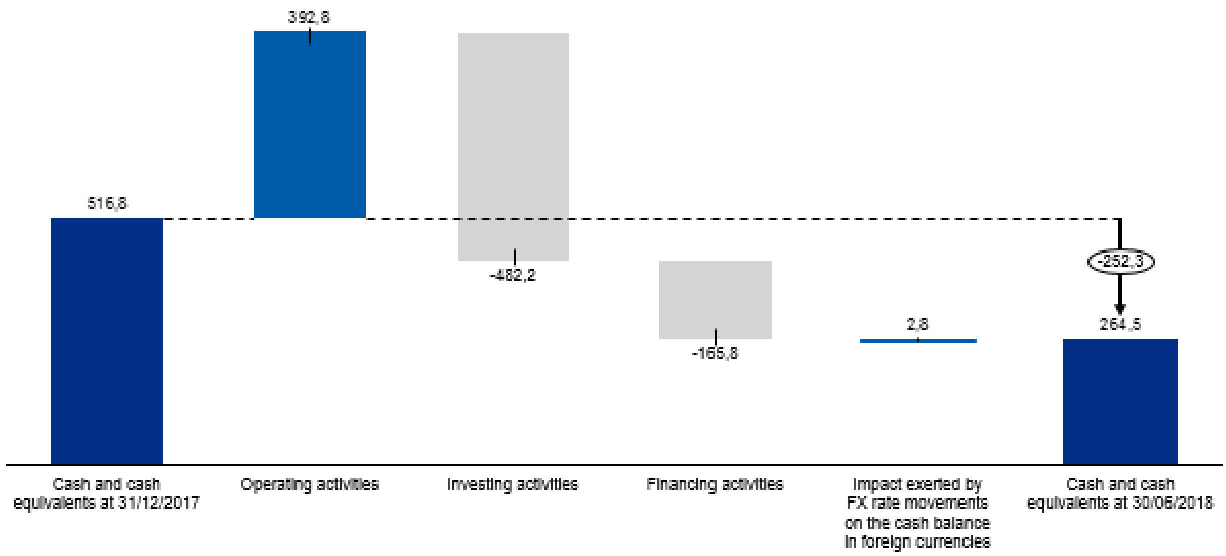
Source: Proprietary material

- The increase in equity was driven predominantly by retained earnings due to the positive financial result for 6M 2018;
- Long-term and short-term bank loans and borrowings as at 30 June 2018 decreased 6.1% in comparison with 31 December 2017. The decrease resulted chiefly from the repayment of loans in accordance with the repayment schedules;
- The increase in provisions for employee benefits by 7.0% was driven largely by an increase in provisions for unused holidays and bonuses, jubilee awards and retirement and pension benefits, mainly due to actuarial changes in connection with the need to include in the valuation the employee wage increase agreed upon with trade unions coming into effect in September 2018.

Statement of cash flows of the PKP CARGO Group

The value of cash as at 30 June 2018 decreased 48.8% compared to 31 December 2017.

Figure 24 Cash flows of the PKP CARGO Group in the first 6 months of 2018 (in PLN million)



Source: Proprietary material

- Net cash flow from operating activities were generated on the result before tax of PLN 112.8 million and depreciation of non-current assets and amortization of intangible assets of PLN 270.6 million;
- The expenditures on the acquisition of non-current assets and intangible assets in the amount of PLN 344.9 million and the establishment of bank deposits with a maturity of over 3 months (PLN 149.2 million) had a decisive impact on the negative cash flows from investing activities;
- In 6M 2018, net cash flow from financing activities resulted chiefly from the repayment of loans and borrowings and finance leases with interest (PLN 165.4 million).

5.3.3 Selected financial and operating ratios of the PKP CARGO Group

The table below presents the PKP CARGO Group's key financial and operating ratios in 6M 2018 compared to the corresponding period of the previous year.

Table 17 Key financial and operating ratios of the PKP CARGO Group in 6M 2018 as compared to the corresponding period of 2017[48]

Item	6 months of 2018	6 months of 2017	Change	% change
			2018 - 2017	2018/2017
EBITDA margin[1]	16.8%	14.7%	2.1 p.p.	14.7%
Net profit margin[2]	3.6%	0.9%	2.7 p.p.	317.7%
Net financial debt to EBITDA ratio[3]	1.2	1.4	-0.2	-19.7%
ROA[4]	2.3%	1.3%	1 p.p.	80.4%
ROE[5]	4.5%	2.5%	2 p.p.	79.9%
Average distance covered per locomotive (km/day)[6]	250.8	245.3	5.5	2.2%
Average gross train tonnage per operating locomotive (tons)[7]	1,455.0	1,465.0	-10.0	-0.7%
Average running time of train locomotives (hours per day)[8]	15.7	14.9	0.8	5.4%
Freight turnover per employee (thousands tkm/employee)[9]	659.3	644.7	14.6	2.3%

Source: Proprietary material

- The key profitability ratios, i.e. the EBITDA margin, the net profit/loss margin, ROA and ROE, were higher on a yoy basis for the reasons described in section **5.3.2. Analysis of selected financial highlights of the PKP CARGO Group** The net financial debt to EBITDA ratio also improved as a result of the stronger financial performance of the PKP CARGO Group;
- The improvement in the average daily mileage of locomotives resulted from the optimization of the transportation process;
- The decrease in the average gross train tonnage per operating locomotive was caused by the fact that the transport process was performed in the period of numerous closures and operating impediments on the PKP PLK grid (detours on routes with different technical characteristics than the original route);
- The increase in the average daily running time of locomotives was an outcome of the continuous monitoring of how the freight turnover process is run while concurrently optimizing the match between the number of active locomotives and doing the work with changing freight turnover.
- The increase in the freight turnover ratio per employee was caused mainly by the increase in freight turnover by 2.1% yoy, with decrease in the headcount by 0.1% yoy.

[48] 1. Calculated as the ratio of the operating result plus amortization/depreciation and impairment losses to total operating revenue.
2. Calculated as the ratio of net profit to total operating revenue.
3. Calculated as the ratio of net financial debt (constituting the sum of (i) long-term bank loans and borrowings; (ii) short-term bank loans and borrowings, (iii) non-current finance lease liabilities and leases with a purchase option; (iv) current finance lease liabilities and leases with purchase option; and (v) other current financial liabilities and (vi) other non-current financial liabilities, minus (i) cash and cash equivalents; and (ii) other current financial assets) to EBITDA for the last 12 months (result on operating activities plus amortization/depreciation and impairment losses).
4. Calculated as the ratio of net profit/loss for the last 12 months to total assets.
5. Calculated as the ratio of net profit for the last 12 months to equity.
6. Calculated as the quotient of vehicle-kilometers (i.e. distance covered by PKP CARGO Group's vehicles in the given period) / vehicle-days (i.e. product of the number of active vehicles and number of calendar days in the given period)
7. Calculated as the quotient of gross ton-kilometers and train-kilometers in train work in relation to the locomotives driving the train (in dual traction or pushing the train in the given period).
8. Calculated as the quotient of vehicle-hours (i.e. number of hours of work of PKP CARGO Group's vehicles in the given period) and vehicle-days (i.e. the product of the number of active vehicles and number of calendar days in the given period).
9. Calculated as the quotient of the Group's freight turnover to the average headcount (in FTEs) in the Group in the given period.

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

Economic situation in Europe

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

Situation on the energy fuel market

- Due to the largest share of hard coal in rail transport, the fuel and power industries will continue to be the most important sectors of the economy.
- The ongoing restructuring activities in the Polish mining sector may significantly suppress demand for hard coal or result in diversification of operators by energy sector buyers.

Situation on the aggregates market

- Increase in the transport of aggregates and construction materials. It is driven chiefly by the intensification of work on existing infrastructural investment projects and the launch of new such projects.
- It is expected that the favorable economic situation on the markets for construction materials will continue, partly due to the carry-over effect of existing projects but also due to planned large public investment projects.

Situation on the intermodal transport market

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

Market for land reclamation and maintenance of rail infrastructure

- In the context of the closure of mines of OKD' hard coal mining company, which is currently in bankruptcy, the Group's resources and experience allow it to diversify its revenues by selling such services on the Czech and Polish markets and possibly expand to other countries.

Condition of rail infrastructure

- The railway network used in Poland is of low quality.
- Hindrances and the necessity to route railway traffic using detours.
- Railway track closures recently had and will continue to have in the coming years a direct negative impact on the throughput of the lines and stations used.

Rail infrastructure access charges

- In H1 2018, they represented approx. 14.9% of the PKP CARGO Group's operating expenses.
- As regards domestic and foreign infrastructure, no significant changes are expected to take place in the coming quarter.

Technical regulations related to rolling stock

- The rolling stock used in rail transport must satisfy appropriate technical standards and requirements, determining the scale of the Group's modernization and repair activity.
- In light of the aging nature of the available rolling stock and the limited capacities of repair plants, the future may bring a temporary misalignment between the quantities and types of the available rolling stock and the actual needs of the transportation market.

Restructuring of OKD a.s.

- PKP CARGO S.A.'s expectation is that the restructuring of OKD will be conducted in accordance with the Restructuring Plan.
- Any changes in the execution of the Restructuring Plan will require an analysis of their impact on the adopted assumptions in impairment tests of the AWT Group's assets.

Scrap price level

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

Risk of changes to legal regulations

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

Capital expenditure financing

- The Group will finance capital expenditures using partly external financing sources, such as investment loans or other forms of financing and also using its own funds.

Foreign exchange rates

- The Parent Company and the Group companies are exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies.

Social dialog

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

Internal employee compensation regulations

- On 15 June 2018, a memorandum of agreement was entered into between the Parties to the Company Collective Bargaining Agreement for Employees Hired by PKP CARGO S.A. Units, under which wage increases will be implemented on 1 September 2018.
- The Company estimates that the cost of the raise till the end of 2018 with a one-time bonus will amount to approximately PLN 33.9 million.

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

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

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

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

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

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

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

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

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

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

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

5.6 Information about production assets

5.6.1 Rolling stock

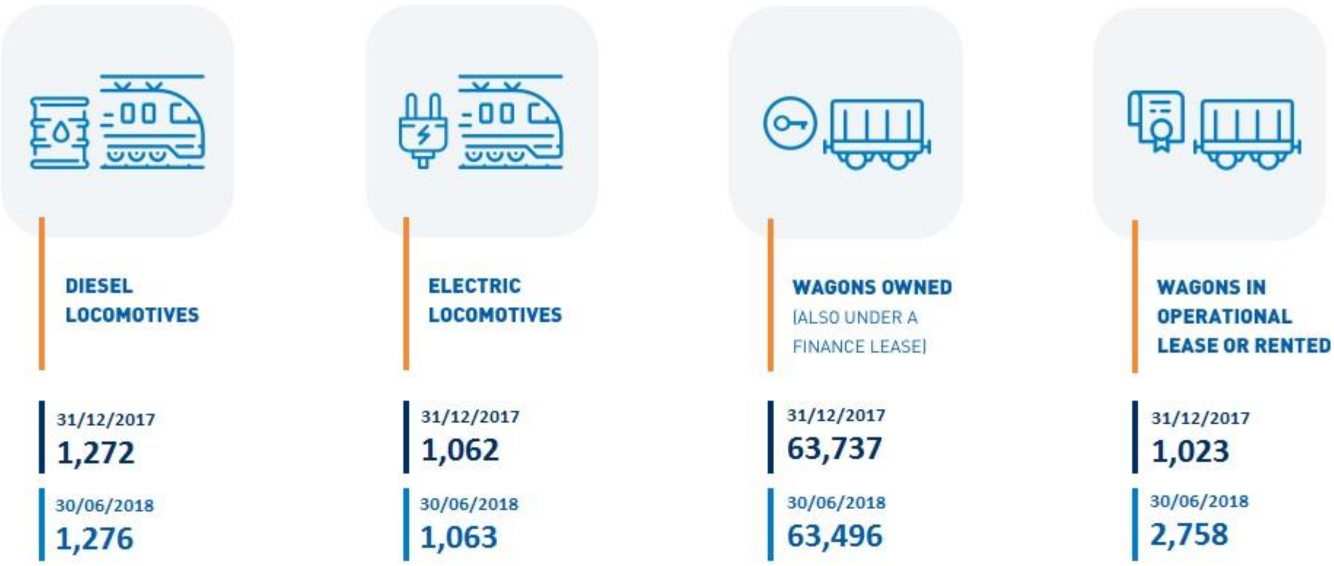
PKP CARGO Group's rolling stock is maintained through repair points functioning within the structures of PKP CARGO S.A. Units and in subsidiaries. The PKP CARGO Group's rolling stock repair and maintenance organization has the competences to repair and maintain wagons, electric locomotives at all the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

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

In 6M 2018, the number of locomotives and wagons owned by the Group increased. This increase is a direct consequence of the continuously improving economic situation on the rail transport market (predominantly aggregates and intermodal transport) and the need to adjust the quantity and types of operated rolling stock to the requirements of this market.

In order to meet the high demand for the PKP CARGO Group's freight transport services, the Group has expanded its rolling stock fleet by leasing 2,339 locomotives and 66,254 freight cars (coal wagons and platforms).

Figure 25 Structure of rolling stock used by the PKP CARGO Group as at 30 June 2018 and 31 December 2017



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

5.6.2 Real estate

In the transport process, due to the necessity to guarantee appropriate maintenance and repair support, real estate plays an important role. The majority of real estate held by the Group is used on the basis of lease and rental agreements.

The table below presents changes in real estate owned and used by the PKP CARGO Group during the first 6 months of 2018.

Table 18 Real estate owned and used by PKP CARGO Group as at 30 June 2018 as compared to 31 December 2017

Item	30 June 2018	31 December 2017	Change 2018-2017
Land - owned, in perpetual usufruct and leased from other entities [ha]	1,577	1,573	4
Buildings - owned, leased and rented from other entities [sqm]	746,758	749,492	-2,734

Source: Proprietary material

The decrease in the size of the buildings used (owned, leased and rented from other entities) results from the ongoing verification of the quantum of assets necessary for the Parent Company and its subsidiaries and adjusting it to the scale and profile of conducted activity.

6. Other key information and events

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

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

6.2 Information on transactions with related parties

In H1 2018, no entity from the PKP CARGO Group entered into any transactions with related parties on non-market terms. Also after the balance sheet date no such transactions have been entered into.

Detailed information on transactions with related parties is presented in **Note 28 to the CFS**.

6.3 Information on granted guarantees and sureties of loans or credits

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

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

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

This Report was approved by the PKP CARGO S.A. Management Board on 20 August 2018.

Company's Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 20 August 2018

R E P R E S E N T A T I O N

of the Management Board related to the semi-annual condensed consolidated financial statement's conformity
with the Management Board's report on the operation
of the PKP CARGO Capital Group

I, the undersigned, hereby represent that to the best of my knowledge, the Semi-annual Condensed Consolidated Financial Statement the PKP CARGO Capital Group and the comparable data have been drawn up in observance of the applicable accounting standards and that they truly, reliably and clearly represent the asset-related and financial standing of the PKP CARGO Capital Group, as well as its financial result.
I also represent that the Management Board's report on the operation of the PKP Cargo Capital Group in the period ended 30 June 2018 presents a true picture of the growth, achievements and standing of the PKP CARGO Capital Group, as well as a description of the key threats and risks.

Members of the Management Board:

1 Czesław Warsewicz – President of the Board

2 Leszek Borowiec – Board Member

3 Grzegorz Fingas – Board Member

4 Witold Bawor - Board Member

5 Zenon Kozendra – Board Member

Warsaw, 20 August 2018

R E P R E S E N T A T I O N

of the Management Board on the choice of the entity authorized to audit financial statements (semi-annual financial statement)

I, the undersigned, hereby represent that the entity authorized to audit consolidated financial statements, auditing the Semi-annual Condensed Consolidated Financial Statement of the PKP CARGO Capital Group, has been appointed in observance of the rule of law, and that the said entity, as well as the certified auditors performing the audit, met the requirements that need to be fulfilled in order to issue an impartial and independent report, in line with the applicable regulations and professional standards.

Members of the Management Board:

1 Czesław Warsewicz – President of the Board

2 Leszek Borowiec – Board Member

3 Grzegorz Fingas – Board Member

4 Witold Bawor - Board Member

5 Zenon Kozendra – Board Member

Warsaw, 20 August 2018

FOR MORE INFORMATION
ON PKP CARGO PLEASE CONTACT
PROMOTION & INVESTOR RELATIONS
DEPARTMENT

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