



PKP CARGO GROUP
CONSOLIDATED SEMI - ANNUAL REPORT
FOR H1 2017

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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 2017

BDO Sp. z o.o. Sąd Rejonowy dla M. St. Warszawy, XIII Wydział Gospodarczy KRS: 0000293339, Kapitał zakładowy: 1.000.000 PLN., NIP 108-000-42-12. Biura regionalne BDO: Katowice 40-007, ul. Uniwersytecka 13, tel: +48 32 661 06 00, katowice@bdo.pl; Kraków 31-548, Al. Pokoju 1, tel: +48 12 378 69 00, krakow@bdo.pl; Poznań 60-650, ul. Piątkowska 165, tel: +48 61 622 57 00, poznan@bdo.pl; Wrocław 53-332, ul. Powstańców Śląskich 7a, tel: +48 71 734 28 00, wroclaw@bdo.pl

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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 2017

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, ul. Grójecka 17 ("the Company"), consisting of: statement of financial position prepared as at 30 June 2017, statement of comprehensive income, statement of changes in equity and statement of cash flows for the period from 1 January to 30 June 2017, 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. 2783/52/2015 passed by the National Council of Certified Auditors on 10 February 2015, with subsequent amendments.

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

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, adopted in Resolution No. 2783/52/2015 passed by the National Council of Certified Auditors on 10 February 2015, with subsequent amendments. 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, 30 August 2017

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Authorized Audit Company No. 3355

Auditor in charge:

On behalf of BDO Sp. z o.o.:

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 2017
PREPARED IN ACCORDANCE WITH IFRS
AS ENDORSED BY THE EUROPEAN UNION

TABLE OF CONTENTS

INTERIM SEPARATE STATEMENT OF COMPREHENSIVE INCOME	2
INTERIM SEPARATE STATEMENT OF FINANCIAL POSITION	3
INTERIM SEPARATE STATEMENT OF CHANGES IN EQUITY	4
INTERIM SEPARATE STATEMENT OF CASH FLOWS	5
1. General information	6
2. Basis for the preparation of the Interim Condensed Separate Financial Statements	7
3. Basis for the application of International Financial Reporting Standards	8
4. Accounting policies and material values based on professional judgement and estimates	10
5. Revenue from the sale of services	10
6. Expenses by kind	12
7. Other operating revenue and expenses	13
8. Financial revenue and expenses	14
9. Income tax	15
10. Property, plant and equipment	17
11. Subsidiaries	19
12. Associates	20
13. Joint ventures	21
14. Investments in subsidiaries, associates and joint ventures	22
15. Other financial assets	23
16. Other non-financial assets	23
17. Inventories	23
18. Trade and other receivables	24
19. Cash and cash equivalents	24
20. Equity	24
21. Earnings per share	25
22. Bank loans and credit facilities	25
23. Other financial liabilities	27
24. Finance lease liabilities and leases with purchase option	27
25. Trade and other payables	28
26. Employee benefits	28
27. Other provisions	29
28. Financial instruments	29
29. Transactions with related parties	33
30. Commitments to incur expenses for non-financial fixed assets	34
31. Contingent liabilities	35
32. Subsequent events	35
33. Approval of financial statements	35

**INTERIM SEPARATE STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 JUNE 2017**

	Note	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Revenue from sales of services	5.4	1 696 440	884 560	1 517 410	773 766
Revenue from sales of materials		3 867	2 120	5 544	1 275
Other operating revenue	7.1	12 445	7 747	13 884	4 504
Total operating revenue		1 712 752	894 427	1 536 838	779 545
Depreciation / amortization and impairment losses	6.1	236 547	117 624	232 932	116 466
Consumption of raw materials and energy	6.2	269 090	136 396	255 199	127 721
External services	6.3	547 380	282 110	507 909	259 848
Taxes and charges		17 478	8 964	14 425	9 419
Employee benefits	6.4	577 648	294 874	572 476	279 117
Other expenses by kind	6.5	20 773	10 976	20 519	10 847
Cost of raw materials sold		1 939	1 255	4 965	1 142
Other operating expenses	7.2	11 585	6 209	14 728	5 146
Total operating expenses		1 682 440	858 408	1 623 153	809 706
Profit / (loss) on operating activities		30 312	36 019	(86 315)	(30 161)
Financial revenue	8.1	21 951	13 746	19 567	18 120
Financial expenses	8.2	26 942	14 655	29 131	17 638
Profit / (loss) before tax		25 321	35 110	(95 879)	(29 679)
Income tax expense	9.1	6 831	7 434	(11 885)	(3 935)
NET PROFIT / (LOSS)		18 490	27 676	(83 994)	(25 744)
Other comprehensive income					
Other comprehensive income that will be reclassified to profit or loss:		14 487	(1 116)	(3 401)	(3 420)
The effective portion of gains / (losses) on a cash flow hedging instrument		17 885	(1 378)	(4 199)	(4 222)
Income tax on other comprehensive income		(3 398)	262	798	802
Other comprehensive income that will not be reclassified to profit or loss:		(20 273)	(20 273)	-	-
Actuarial gains / (losses) on post-employment benefit plans		(25 028)	(25 028)	-	-
Income tax on other comprehensive income		4 755	4 755	-	-
Total other comprehensive income		(5 786)	(21 389)	(3 401)	(3 420)
TOTAL COMPREHENSIVE INCOME		12 704	6 287	(87 395)	(29 164)
Earnings per share (PLN per share)					
Basic earnings per share	21.1	0,41	0,62	(1,88)	(0,57)
Diluted earnings per share	21.2	0,41	0,62	(1,88)	(0,57)

INTERIM SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 JUNE 2017

	Note	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	10	3 499 192	3 561 993
Intangible assets		44 017	50 778
Investments in subsidiaries, associates and joint ventures	14	810 351	737 974
Other long-term financial assets	15	9 054	6 169
Other long-term non-financial assets	16	18 323	8 162
Deferred income tax assets	9.3.1	97 968	76 244
Total non-current assets		4 478 905	4 441 320
Current assets			
Inventories	17	71 745	59 701
Trade and other receivables	18	465 741	413 607
Income tax receivables		-	1 304
Other short-term financial assets	15	332 757	87
Other short-term non-financial assets	16	35 680	19 716
Cash and cash equivalents	19	118 330	611 990
		1 024 253	1 106 405
Non-current assets classified as held for sale		6 000	6 000
Total current assets		1 030 253	1 112 405
Total assets		5 509 158	5 553 725
EQUITY AND LIABILITIES			
Equity			
Share capital	20	2 239 346	2 239 346
Share premium		589 202	589 202
Other items of equity		12 629	18 415
Retained earnings		189 967	171 477
Total equity		3 031 144	3 018 440
Long-term liabilities			
Long-term bank loans and credit facilities	22	1 034 215	1 170 224
Long-term finance lease liabilities and leases with purchase option	24	15 262	36 159
Long-term trade and other payables	25	-	582
Long-term provisions for employee benefits	26	510 677	473 965
Other long-term provisions	27	14 224	16 455
Total long-term liabilities		1 574 378	1 697 385
Short-term liabilities			
Short-term bank loans and credit facilities	22	184 699	178 170
Short-term finance lease liabilities and leases with purchase option	24	33 178	43 176
Short-term trade and other payables	25	441 927	465 411
Short-term provisions for employee benefits	26	99 451	80 524
Other short-term provisions	27	12 669	11 640
Other short-term financial liabilities	23	114 116	58 979
Current tax liabilities		17 596	-
Total short-term liabilities		903 636	837 900
Total liabilities		2 478 014	2 535 285
Total equity and liabilities		5 509 158	5 553 725

INTERIM SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 JUNE 2017

	Share capital	Share premium	Other items of equity		Retained earnings	Total
			Actuarial gains / (losses) on post-employment benefits	Gains / (losses) on a cash flow hedging instrument		
As at 1/01/2017 (audited)	2 239 346	589 202	22 249	(3 834)	171 477	3 018 440
Net profit / (loss) for the period	-	-	-	-	18 490	18 490
Other net comprehensive income for the period	-	-	(20 273)	14 487	-	(5 786)
Total comprehensive income	-	-	(20 273)	14 487	18 490	12 704
As at 30/06/2017 (unaudited)	2 239 346	589 202	1 976	10 653	189 967	3 031 144
As at 1/01/2016 (audited)	2 239 346	589 202	3 726	-	240 042	3 072 316
Net profit / (loss) for the period	-	-	-	-	(83 994)	(83 994)
Other net comprehensive income for the period	-	-	-	(3 401)	-	(3 401)
Total comprehensive income	-	-	-	(3 401)	(83 994)	(87 395)
As at 30/06/2016 (unaudited)	2 239 346	589 202	3 726	(3 401)	156 048	2 984 921

INTERIM SEPARATE STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 JUNE 2017 [INDIRECT METHOD]

	Note	6 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)
Cash flows from operating activities			
Profit / (loss) before tax		25 321	(95 879)
Adjustments:			
Depreciation of property, plant and equipment and amortization of intangible assets	6.1	236 299	232 597
Impairment loss of non-current assets	6.1	248	335
(Gain) / loss on disposal / liquidation of property, plant and equipment, intangible assets and non-current assets classified as held for sale		1 010	(523)
Foreign exchange (gain) / loss		(2 697)	1 835
(Gain) / loss on interest, dividends		(4 149)	(6 835)
Interest received / (paid)		938	(1 215)
Income tax received / (paid)		(11 233)	(3 123)
Other adjustments		(16 448)	(637)
Changes in working capital:			
(Increase) / decrease in trade and other receivables		(35 984)	(32 531)
(Increase) / decrease in inventories		(140)	2 499
(Increase) / decrease in other assets		(23 465)	(21 250)
Increase / (decrease) in trade and other payables		(22 433)	(141 471)
Increase / (decrease) in other financial liabilities		1 873	4 156
Increase / (decrease) in provisions		54 437	9 819
Net cash provided by operating activities		203 577	(52 223)
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(191 872)	(264 867)
Proceeds from sale of property, plant and equipment, intangible assets and non-current assets classified as held for sale		99	4 077
Interest received		2 717	39
Dividends received		600	18 608
Outflows from bank deposits over 3 months		(300 000)	-
Net cash provided by investing activities		(488 456)	(242 143)
Cash flows from financing activities			
Payments of liabilities under finance lease		(28 143)	(25 619)
Payments of interest under lease agreement	8.2	(687)	(1 677)
Proceeds from credit facilities / loans received	22.1	10 733	275 340
Repayment of credit facilities / loans received	22.1	(130 660)	(61 894)
Interest paid on credit facilities / loans		(13 646)	(7 112)
Grants received		-	5 407
Cash pool inflows / (outflows)		(44 552)	43 140
Other outflows from financing activities		(1 826)	(2 138)
Net cash provided by financing activities		(208 781)	225 447
Net increase / (decrease) in cash and cash equivalents		(493 660)	(68 919)
Opening balance of cash and cash equivalents	19	611 990	84 097
Closing balance of cash and cash equivalents	19	118 330	15 178

EXPLANATORY NOTES TO THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS PREPARED AS AT 30 JUNE 2017

1. General information

1.1 Information about the Company

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

The Company's financial year is the calendar year.

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

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

At the preparation of these Interim Condensed Separate Financial Statements, the Company's management and supervisory organs comprised:

Management Board:

Maciej Libiszewski	-	President of the Management Board
Arkadiusz Olewnik	-	Member of the Management Board in charge of Finances
Grzegorz Fingas	-	Member of the Management Board in charge of Sales
Zenon Kozendra	-	Member of the Management Board - Employee Representative

Supervisory Board:

Krzysztof Mamiński	-	Chairman of the Supervisory Board
Mirosław Antonowicz	-	Vice-Chairman of the Supervisory Board
Raimondo Eggink	-	Member of the Supervisory Board
Czesław Warsewicz	-	Member of the Supervisory Board
Małgorzata Kryszkiewicz	-	Member of the Supervisory Board
Zofia Dzik	-	Member of the Supervisory Board
Marek Podskalny	-	Member of the Supervisory Board
Krzysztof Czarnota	-	Member of the Supervisory Board
Tadeusz Stachaczyński	-	Member of the Supervisory Board
Władysław Szczepkowski	-	Member of the Supervisory Board

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

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

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

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

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

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

1.1 Information about the Company (continued)

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

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

The Company's shareholders as at 30 June 2017:

Entity	Registered office	Number of shares	% of share capital	% of voting rights
PKP S.A. ⁽¹⁾	Warsaw	14 784 194	33,01%	33,01%
Nationale-Nederlanden OFE ⁽²⁾	Warsaw	6 854 195	15,30%	15,30%
MetLife OFE ⁽³⁾	Warsaw	2 494 938	5,57%	5,57%
Aviva OFE ⁽⁴⁾	Warsaw	2 338 371	5,22%	5,22%
Other shareholders		18 315 219	40,90%	40,90%
Total		44 786 917	100,00%	100,00%

⁽¹⁾ As per notice sent by shareholder on 24 June 2014.

⁽²⁾ As per notice sent by shareholder on 18 October 2016.

⁽³⁾ As per notice sent by shareholder on 18 August 2016.

⁽⁴⁾ As per notice sent by shareholder on 13 August 2014.

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

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

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

1.2 Information about the Group

As at the balance sheet date the PKP CARGO Group (hereinafter referred to as the Group) comprises PKP CARGO S.A. as the parent company and 27 subsidiary companies. In addition, the Group has 6 associated companies and shares in 3 joint ventures. The Group prepared Interim Condensed Consolidated Financial Statements for the period of 6 months ended 30 June 2017.

Additional information about the subsidiaries, associates and joint ventures is presented in Notes 11, 12, 13 and 14 to these Interim Condensed Separate Financial Statements.

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

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

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

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

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

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

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

These Interim Condensed Separate Financial Statements were approved for publication by the Company's Management Board on 30 August 2017.

3. Basis for the application of International Financial Reporting Standards

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

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

- **IFRS 15 "Revenue from Contracts with Customers"** - applies to annual periods beginning on and after 1 January 2018. This standard specifies how and when to recognize revenue, and calls for more detailed disclosures. The standard replaces IAS 18 Revenue, IAS 11 Construction Contracts and several interpretations relating to recognition of revenue. The new standard requires the disclosure in the financial statements of much more information on the nature, amount, distribution in time and uncertainty with regard to revenue and cash flows from contracts with customers.
- **IFRS 9 "Financial Instruments"** - applies to periods beginning on and after 1 January 2018. IFRS 9 introduces an approach to the classification and valuation of financial assets that reflects the business model in which they are managed and the nature of the cash flows. IFRS 9 introduces a new model of impairment testing, replacing the concept of losses incurred with losses anticipated. The change in approach leads to a significant rise in the significance of estimates and assumptions for the purposes of measuring impairment, in particular when it comes to identifying significant deterioration in the quality of credit exposure, as well as the related calculation of long-term losses anticipated throughout the life of the exposure. The new model will also result in the introduction of a standardized approach to impairment tests used on all financial instruments. In addition, IFRS 9 introduces a new model of hedge accounting, requiring extensive risk management disclosures. The changes are meant to adapt the methods used to recognize risk management matters in the financial statements, to allow entities to better reflect their actions in the financial statements.

The Company is analyzing the effect on its accounting policies of the published IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers". Our initial analysis of the effect of IFRS 9 on the existing accounting methods indicates that the new standard will mainly affect the extent of disclosures and the presentation of financial instruments in the Company's financial statements. In addition, the above analysis has shown that the new approach to the impairment of financial instruments model (in the case of the Company it will pertain primarily to trade receivables) will have no material effect on the amount of impairment and most likely implementation of IFRS 9 in this area will not require adjustments of prior periods. In the case of IFRS 15, the Company is performing analyses of the effect of variable consideration on sales revenue generated in different reporting periods. The Company is working on identifying contracts with elements of variable consideration and on developing a method to estimate the consideration due to the entity in the given reporting period. At this stage we are not yet able to determine the effect of the new standard on the Company's financial statements.

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

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

- **IFRS 16 "Leases"** - applicable to annual periods beginning on and after 1 January 2019. In accordance with IFRS 16, a lessee recognizes the right to use an asset and the liability arising out of the lease agreement. The right to use an asset is treated similarly to other non-financial assets and amortized accordingly. The liability is initially recognized at the present value of the lease fees payable during the term of the lease, discounted by the rate contained in the lease, if its determination is not difficult. If it is not easy to determine the rate, then the lessee applies the marginal interest rate.
- **Amendments to IAS 7 "Statement of Cash Flows"** entitled Disclosure Initiative - applicable to periods beginning on 1 January 2017. The amendments introduce the requirement to include in the financial statements a disclosure that will allow the users of the financial statements to evaluate changes in liabilities arising out of financial activities, including changes arising out of cash flows and cashless changes. One of the methods of fulfilling this requirement is to present a reconciliation of debt balances broken down by type of change.
- **Amendments to IAS 12 "Income Taxes"** entitled Recognition of Deferred Tax Assets for Unrealized Losses - applicable to periods beginning on 1 January 2017. The amendments clarify the need to form deferred tax assets on losses on the valuation of financial instruments classified as available for sale. In particular, the change pertains to debt instruments, for which the entity should consider the existence of evidence that it is likely that it will realize the financial instrument for an amount higher than its balance sheet value.
- **Amendments to IFRS 2 "Share-based Payment"** entitled Classification and Measurement of Share-based Payment Transactions - applicable to periods beginning on 1 January 2018. The change to IFRS 2 clarifies that the fair value of share based payments settled in cash should be determined in the same manner as in the case of payments settled in equity instruments. The change has introduced a requirement to adjust the liability by considering each change in its value in the financial result before reclassifying from liabilities to equity. The cost recognized after the modification is based on the fair value at the date of modification. The change introduced an exception where the payment of funds to a tax office is treated as a settlement in equity instruments. The entity should disclose the estimated amount it expects to pay as tax to the tax office. At initial application, reclassification of liabilities to equity will have no effect on the financial result.
- **Amendments to IFRS 4 "Insurance Contracts"** entitled Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" - applicable to periods beginning on 1 January 2018. The changes address the matter of applying the new IFRS 9 "Financial Instruments" prior to the implementation of the new standard relating to insurance activities, on which IASB is currently working.
- **Amendments to International Financial Reporting Standards 2014-2016** (annual improvements to IFRS 2014 - 2016 contain amendments to IFRS 1 - deletion of short-term exemptions, IFRS 12 - clarification of the scope of the standard, and IAS 28 - measuring associates or joint ventures at fair value, with corresponding amendments to other standards and interpretations) - apply to periods beginning on or after 1 January 2018.
- **Interpretation IFRIC 22** entitled Foreign Currency Transactions and Advance Consideration - applicable to periods beginning 1 January 2018. The interpretation clarifies the recognition of transactions that include the receipt or payment of advance consideration in a foreign currency.
- **Clarifications to IFRS 15 "Revenue from Contracts with Customers"** - apply to annual periods beginning or and after 1 January 2018.
- **Amendments to IAS 40 "Investment Property"** entitled Transfers of Investment Property - applicable to periods beginning on 1 January 2018. The amendments discuss whether an investment property under construction should be transferred from inventories to investment properties in the event of a clear change in its use.
- **IFRS 17 "Insurance Contracts"** - applicable to annual periods beginning on and after 1 January 2021. The objective of the standard is to introduce consistent formalized accounting methods applicable to insurance contracts. The new standard states that insurance liabilities are measured at the present value of the liability and introduces consistent methods for the valuation and presentation of all types of insurance contracts. IFRS 17 replaces IFRS 4 "Insurance Contracts" and the related interpretations.

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

- **Interpretation IFRIC 23** entitled Uncertainty over Income Tax Treatments, applies to periods beginning on 1 January 2019. The interpretation is to be applied when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, tax rates, when there is uncertainty over income tax treatments under IAS 12.

The Company is analyzing the effect on its accounting policies of the published IFRS 16 "Leases". Our initial analysis of the effect of IFRS 16 on the existing accounting methods indicates that the Company will have to recognize retrospectively its significant lease liabilities and asset items (mainly land, buildings and constructions), which are currently covered by long-term operating lease or rental agreements. The Company is currently in the process of identifying the agreements that are subject to the new requirements and of developing preliminary models for the valuation and recognition of the above agreements in the financial statements. At this stage it is not possible to quantify the effect of IFRS 16 on the Company's financial statements. The Company has analyzed the potential effect of the other above-listed standards, interpretations and amendments to standards on its accounting policies. In the opinion of the Company's Management Board, they will have no material effect on the existing accounting policies.

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

4.1 Statement on accounting policies

The accounting policies and calculation methods used in the preparation of these Interim Condensed Separate Financial Statements are consistent with the policies described in the audited Separate Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2016, prepared in accordance with IFRS EU.

4.2 Material values based on professional judgement and estimates

In the period of 6 months ended 30 June 2017, changes to material estimates related to:

- provisions for employee benefits - the provisions have been estimated as at 30 June 2017, the effect of recalculation as at 30 June 2017 is presented in Note 26 to these Interim Condensed Separate Financial Statements.
- net liability relating to put / call options for non-controlling shares - in the period of 6 months ended 30 June 2017 the Company settled the put / call options for the acquisition of 20% of shares of Advanced World Transport B.V. (hereinafter referred to as "AWT B.V."); detailed information and the effect of the settlement is presented in Note 23 to these Interim Condensed Separate Financial Statements.

In the period of 6 months ended 30 June 2017 no other changes were made in methodology or assumptions adopted by the Company's Management Board when making estimates, with a significant effect on the current or future periods.

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

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

4.4 Functional currency and presentation currency

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

5. Revenue from the sale of services

5.1 Operating segment products and services

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

The Company's revenue from its external customers broken down by geographical area is presented in Note 5.2 to these Interim Condensed Separate Financial Statements.

5.2 Geographical information

The Company defines a geographical area of operations as the location of the registered office of its customer rather than the country in which the service is performed. This analysis has led to the following conclusions:

The Company operates in one main geographical area - Poland, the country of its registered office. The Company's total revenue from all geographical areas outside of Poland in the period of 6 months ended 30 June 2017, as well as the period of 6 months ended 30 June 2016, did not exceed 14% of its total revenue. None of the geographical areas (aside from Poland) individually exceeds 5% of the Company's revenue from the sale of services.

Presented below is the Company's revenue from the sale of services to customers, broken down by location of their headquarter:

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Poland	1 467 854	776 624	1 342 980	678 546
Germany	75 116	36 690	46 918	25 944
Czech Republic	66 758	31 677	66 282	35 140
Slovakia	33 750	17 302	16 975	8 239
Cyprus	15 052	7 514	18 474	12 023
Other countries	37 910	14 753	25 781	13 874
Total	1 696 440	884 560	1 517 410	773 766

5.3 Information about major customers

In the period ended 30 June 2017, sales of services to two groups exceeded 10% and amounted to 15,2% and 13,5% of the Company's total revenue from the sale of services, respectively. In the period ended 30 June 2016 sales to the two groups had exceeded 10% and amounted to 13,1% and 12,9% of the Company's total revenue from the sale of services.

5.4 Structure of revenue from the sale of services

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

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Revenue from rail freight transport and shipping services	1 650 013	861 231	1 464 105	748 285
Siding and track line revenue	27 493	14 571	28 123	13 233
Other revenue ⁽¹⁾	18 934	8 758	25 182	12 248
Total	1 696 440	884 560	1 517 410	773 766

⁽¹⁾ The item other revenue for the period of 6 months ended 30 June 2017 consists primarily of revenue from renting assets in the amount of PLN 12.925 thousand, from operating support services in the amount of PLN 1.528 thousand, and rolling stock repairs in the amount of PLN 2.139 thousand. In the period of 6 months ended 30 June 2016 it had consisted primarily of revenue from renting assets in the amount of PLN 15.971 thousand, administrative support services in the amount of PLN 2.884 thousand and rolling stock repairs in the amount of PLN 2.877 thousand.

6. Expenses by kind

6.1 Depreciation / amortization and impairment losses

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Depreciation of property, plant and equipment	228 675	113 528	225 426	113 000
Amortization of intangible assets	7 624	3 848	7 171	3 466
Recognized / (released) impairment allowances:				
Property, plant and equipment	248	248	335	-
Total	236 547	117 624	232 932	116 466

6.2 Consumption of raw materials and energy

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Consumption of fuel	56 838	27 698	47 456	24 279
Consumption of materials	23 125	11 103	23 075	11 410
Consumption of electricity, gas and water	188 574	96 988	184 129	91 725
Recognized / (released) impairment losses	(152)	240	(172)	(160)
Other	705	367	711	467
Total	269 090	136 396	255 199	127 721

6.3 External services

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Access to infrastructure connections	335 900	178 479	312 667	162 130
Repair services	26 443	13 884	22 924	13 014
Rental and lease fees for real properties and rolling stock	50 523	25 469	59 770	26 978
Transport services	61 651	28 419	45 988	22 142
Telecommunications services	2 596	1 278	3 145	1 496
Legal, advisory and similar services	4 436	2 631	6 002	3 436
IT services	21 299	10 716	22 195	10 738
Services related to property maintenance and operation of fixed assets	12 325	6 402	12 669	6 939
Cargo services	15 156	5 720	11 908	6 666
Other services	17 051	9 112	10 641	6 309
Total	547 380	282 110	507 909	259 848

6.4 Employee benefits

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Salaries and wages	422 758	212 372	433 977	213 919
Costs of social insurance	84 180	42 412	87 297	42 935
Contributions to Company Social Benefits Fund	12 458	6 544	11 189	5 595
Other employment benefits	14 113	6 292	14 515	7 242
Post-employment benefits	3 071	1 119	2 848	1 598
Changes in provisions for employee benefits	40 354	25 772	20 989	7 066
Other costs of employee benefits	714	363	1 661	762
Total	577 648	294 874	572 476	279 117

6.5 Other expenses by kind

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Business travels	12 942	6 652	13 256	6 819
Insurances	4 156	2 219	3 877	1 880
Other	3 675	2 105	3 386	2 148
Total	20 773	10 976	20 519	10 847

7. Other operating revenue and expenses

7.1 Other operating revenue

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Gains on disposal				
Gain on the sale of non-financial fixed assets	80	62	1 617	413
Released impairment losses				
Trade receivables	672	252	137	60
Other receivables	28	23	67	64
	700	275	204	124
Other				
Penalties and damage compensation	6 507	3 355	5 800	2 097
Release of provision for fine from UOKiK	-	-	357	-
Release of other provisions	2 852	2 570	1 643	984
Interest on trade and other receivables	939	468	657	419
Net foreign exchange gain / loss on trade receivables and trade payables	-	-	2 704	(299)
Other	1 367	1 017	902	766
Total	12 445	7 747	13 884	4 504

7.2 Other operating expenses

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Recognized impairment losses				
Trade receivables	1 984	1 906	3 436	406
Other receivables	-	-	48	23
	1 984	1 906	3 484	429
Other				
Penalties and damage compensation	2 966	1 521	4 032	2 093
Costs of liquidating non-current and current assets	1 164	487	2 259	909
Provision for fines from UOKiK	957	957	2 032	-
Other provisions	694	415	67	11
Court and collection costs	194	113	175	131
Costs of transport benefits for non-employees	735	479	1 301	431
Interest on trade and other payables	9	1	1 071	1 010
Net foreign exchange loss on trade receivables and trade payables	1 507	114	-	-
Donations	1 037	24	-	-
Other	338	192	307	132
Total	11 585	6 209	14 728	5 146

8. Financial revenue and expenses

8.1 Financial revenue

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Interest income				
Bank deposits and accounts	4 051	1 693	39	12
Loans granted (including cash pool)	327	158	265	116
Other (including interest on state settlements)	134	68	113	66
	4 512	1 919	417	194
Dividend income from capital investments	14 853	14 253	19 150	19 150
Total interest and dividend income	19 365	16 172	19 567	19 344
Other				
Gain on valuation of assets and liabilities measured at fair value through profit or loss, of which:				
Valuation of net liability relating to put / call options for non-controlling shares	-	(2 482)	-	(413)
Valuation of forward contracts	162	47	-	(811)
	162	(2 435)	-	(1 224)
Net result on foreign exchange differences	2 424	9	-	-
Total	21 951	13 746	19 567	18 120

8.2 Financial expenses

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Interest expense				
Interest on loans and borrowings (including cash pool)	13 602	6 552	7 293	3 860
Interest on liabilities under finance lease agreements	687	409	1 677	820
Interest on long-term liabilities	410	149	1 624	729
Other (including interest on state settlements)	262	87	481	126
Total interest expense	14 961	7 197	11 075	5 535
Other				
Loss on the valuation of financial assets and liabilities measured at fair value through profit or loss, of which:				
Valuation of net liability relating to put /call options for non-controlling shares	1 873	1 873	2 768	2 768
Valuation of forward contracts	-	-	751	751
	1 873	1 873	3 519	3 519
Unwinding discount on employee benefits provision	9 393	4 883	9 412	4 706
Net result on foreign exchange differences	-	-	4 591	3 417
Other	715	702	534	461
Total	26 942	14 655	29 131	17 638

9. Income tax

9.1 Income tax recognized in profit or loss

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Current income tax				
Current tax expense	26 802	19 701	376	328
Adjustments recognized in current year relating to tax from previous years	396	-	(61)	(61)
	<u>27 198</u>	<u>19 701</u>	<u>315</u>	<u>267</u>
Deferred income tax				
Deferred tax formed in the reporting period	(20 367)	(12 267)	(12 200)	(4 202)
Income tax recognized in profit or loss	<u>6 831</u>	<u>7 434</u>	<u>(11 885)</u>	<u>(3 935)</u>

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

9.2 Tax Group

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

9.3 Deferred tax recognized in other comprehensive income

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Deferred tax on re-measurement of fair value of financial instruments designated as cash flow hedges	3 398	(262)	(798)	(802)
Actuarial gains / (losses) on post-employment benefit plans	(4 755)	(4 755)	-	-
Deferred tax recognized in other comprehensive income	<u>(1 357)</u>	<u>(5 017)</u>	<u>(798)</u>	<u>(802)</u>

9.3.1 Deferred income tax movements

6 months ended 30/06/2017 (unaudited)	As at 01/01/2017 (audited)	Recognized in profit or loss	Recognized in other comprehensive income	As at 30/06/2017 (unaudited)
Temporary differences relating to deferred income tax assets / (liabilities):				
Property, plant and equipment, intangible assets and non-current assets held for sale (including finance leases)	(72 552)	18 785	-	(53 767)
Long-term liabilities	(95)	78	-	(17)
Inventories	238	(1 346)	-	(1 108)
Receivables - impairment allowance	3 808	15	-	3 823
Interest accrued on assets	(146)	(204)	-	(350)
Interest accrued on 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 derivative instruments	(45)	(31)	(1 630)	(1 706)
Other	-	(1 361)	-	(1 361)
	47 856	21 988	1 357	71 201
Unused tax losses ⁽¹⁾	28 388	(1 621)	-	26 767
Total	76 244	20 367	1 357	97 968

⁽¹⁾ As at 30 June 2017 the Company recognized a deferred income tax asset on a tax loss incurred in the period from 1 April to 31 December 2016. The loss will be deductible over five consecutive tax years following the end of operations of the Tax Group. The Company's Management is of the opinion that as at 30 June 2017 there is no risk of being unable to realize the above assets.

6 months ended 30/06/2016 (unaudited)	As at 01/01/2016 (audited)	Recognized in profit or loss	Recognized in other comprehensive income	As at 30/06/2016 (unaudited)
Temporary differences relating to deferred income tax assets / (liabilities):				
Property, plant and equipment, intangible assets and non-current assets held for sale (including finance leases)	(66 075)	4 821	-	(61 254)
Trade payables	3 788	(3 788)	-	-
Long-term liabilities	(587)	309	-	(278)
Inventories	(68)	510	-	442
Receivables - impairment allowance	3 447	661	-	4 108
Interest accrued on assets	(82)	(49)	-	(131)
Provisions for employee benefits	119 862	2 118	-	121 980
Other provisions	1 098	(73)	-	1 025
Accrued expenses	6 220	39	-	6 259
Deferred income	(4 742)	(2 455)	-	(7 197)
Unpaid employee benefits	5 988	(412)	-	5 576
Foreign exchange differences	1 568	129	677	2 374
Valuation of derivative instruments	5 264	(5 120)	121	265
Other	921	(2 194)	-	(1 273)
	76 602	(5 504)	798	71 896
Unused tax losses	-	17 704	-	17 704
Total	76 602	12 200	798	89 600

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

As at 30 June 2017 and as at 30 June 2016 the Company had no tax losses that were not included in the calculation of deferred income tax assets.

10. Property, plant and equipment

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

10. Property, plant and equipment (continued)

6 months ended 30/06/2016 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
As at 1 January 2016 (audited)	123 576	465 446	196 392	4 522 864	23 255	16 574	5 348 107
<i>Additions / (disposals):</i>							
Acquisition	-	-	-	-	-	231 782	231 782
Finance leases	-	-	-	1 945	-	-	1 945
Reclassification from assets held for sale	6 489	-	-	94 689	-	-	101 178
Transfer of fixed assets under construction	-	531	3 148	221 955	123	(225 757)	-
Grants	-	-	-	-	-	(5 407)	(5 407)
Sale	-	-	(48)	(601)	-	-	(649)
Contribution in kind	-	-	(6 546)	-	-	-	(6 546)
Liquidation	-	-	(263)	(53 065)	(18)	(120)	(53 466)
Other	-	-	-	(38)	-	-	(38)
As at 30 June 2016 (unaudited)	130 065	465 977	192 683	4 787 749	23 360	17 072	5 616 906
Accumulated depreciation							
As at 1 January 2016 (audited)	-	68 796	126 857	1 414 717	16 698	-	1 627 068
<i>Additions / (disposals):</i>							
Depreciation charges	-	8 929	8 418	206 749	1 330	-	225 426
Reclassification from assets held for sale	-	-	-	41 234	-	-	41 234
Sale	-	-	(40)	(176)	-	-	(216)
Contribution in kind	-	-	(3 215)	-	-	-	(3 215)
Liquidation	-	-	(263)	(50 659)	(18)	-	(50 940)
Other	-	-	-	(6)	-	-	(6)
As at 30 June 2016 (unaudited)	-	77 725	131 757	1 611 859	18 010	-	1 839 351
Accumulated impairment							
As at 1 January 2016 (audited)	-	8 022	-	147 799	-	2 502	158 323
<i>Additions / (disposals):</i>							
Recognition of impairment loss	-	335	-	-	-	-	335
Reclassification from assets held for sale	1 495	-	-	22 451	-	-	23 946
Use of impairment loss	-	-	-	(430)	-	-	(430)
As at 30 June 2016 (unaudited)	1 495	8 357	-	169 820	-	2 502	182 174
Net value							
As at 1 January 2016 (audited)	123 576	388 628	69 535	2 960 348	6 557	14 072	3 562 716
<i>of which finance leases</i>	<i>-</i>	<i>-</i>	<i>6 950</i>	<i>186 768</i>	<i>-</i>	<i>-</i>	<i>193 718</i>
As at 30 June 2016 (unaudited)	128 570	379 895	60 926	3 006 070	5 350	14 570	3 595 381
<i>of which finance leases</i>	<i>-</i>	<i>-</i>	<i>5 115</i>	<i>173 922</i>	<i>-</i>	<i>-</i>	<i>179 037</i>

11. Subsidiaries

Detailed information about subsidiaries as at 30 June 2017 and 31 December 2016:

No.	Name of subsidiary	Core business	Place of registration and operations	Percent of shares held by the Company	
				As at 30/06/2017	As at 31/12/2016
1	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Services in support of land transport, reloading of cargo and wholesale and retail of waste and scrap	Małaszewicze	100,0%	100,0%
2	PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	Reloading of cargo at other reloading centers	Żurawica	100,0%	100,0%
3	PKP CARGO SERVICE Sp. z o.o.	Comprehensive siding services	Warsaw	100,0%	100,0%
4	PKP CARGO CONNECT Sp. z o.o.	Shipping services	Warsaw	100,0%	100,0%
5	PKP CARGOTABOR Sp. z o.o.	Maintenance and repair of rolling stock	Warsaw	100,0%	100,0%
6	PKP CARGOTABOR USŁUGI Sp. z o.o.	Collection, processing and neutralization of waste and recovery of raw materials	Warsaw	100,0%	100,0%
7	CARGOTOR Sp. z o.o.	Management of logistics and service infrastructure in the form of railway sidings and railroad tracks. Provision of such infrastructure to rail carriers.	Warsaw	100,0%	100,0%
8	ONECARGO Sp. z o.o.	Rail transport of freight	Warsaw	100,0%	100,0%
9	ONECARGO CONNECT Sp. z o.o.	Services in support of land transport	Warsaw	100,0%	100,0%
10	Advanced World Transport B.V.	Holding and financial activities	Amsterdam	80,0% ⁽¹⁾	80,0%

⁽¹⁾ The item does not include the settlement of the exercise of put options. The ownerships of the said shares will be transferred to the Company after the fulfillment of the formal requirements specified in the Agreement concluded on 30 December 2014 between the Company and MSE.

Information about indirect subsidiaries (belonging to **PKP CARGO CONNECT Sp. z o.o.**):

No.	Name of subsidiary	Core business	Place of registration and operations	Percent of shares held by the Subsidiary (nominal values)	
				As at 30/06/2017	As at 31/12/2016
11	Trade Trans Karya Sp. z o.o. in bankruptcy ⁽¹⁾	Reloading of cargo, customs warehouse	Lublin	100,0%	100,0%
12	Transgaz S.A.	Shipping agency	Zalesie k. Małaszewicz	64,0%	64,0%
13	Trade Trans Finance Sp. z o.o.	Financial and accounting services	Warsaw	100,0%	100,0%
14	PPHU "Ukpol" Sp. z o.o.	Reloading, commercial services	Werchrata	100,0%	100,0%
15	Cargosped Terminal Braniewo Sp. z o.o.	Reloading of cargo, customs warehouse	Braniewo	100,0%	100,0%
16	PKP CARGO CONNECT GmbH	Customs and shipping services	Hamburg	100,0%	100,0%

⁽¹⁾ On 2 February 2017 the District Court for Lublin-Wschód in Lublin issued a decision declaring Trade Trans Karya Sp. z o.o. bankrupt.

11. Subsidiaries (continued)

Information about indirect subsidiaries (belonging to **AWT Group**):

No.	Name of subsidiary	Core business	Place of registration and operations	Percent of shares held by the Subsidiary (nominal values)	
				As at 30/06/2017	As at 31/12/2016
17	Advanced World Transport a.s. ⁽¹⁾	Provision of comprehensive services: rail transport, rail shipping, siding services, rolling stock repairs	Ostrava	100,0%	100,0%
18	AWT ROSCO a.s.	Rolling stock management and rentals	Ostrava	100,0%	100,0%
19	AWT Čechofracht a.s.	Rail shipping and customs services	Prague	100,0%	100,0%
20	AWT Rekultivace a.s.	Provision of comprehensive services: land reclamation, construction services, waste management, landscape planning	Havirov-Prostřední Sucha	100,0%	100,0%
21	AWT Rail HU Zrt.	Provision of comprehensive services: rail transport, rail shipping, siding services	Budapest	100,0%	100,0%
22	AWT Coal Logistics s.r.o. ⁽¹⁾	Rail shipping	Prague	-	100,0%
23	AWT Rail SK, a. s	Rail transport, rail shipping	Bratislava	100,0%	100,0%
24	AWT Rail PL Sp. z o.o. in liquidation	Rail shipping	Rybnik	100,0%	100,0%
25	AWT DLT s.r.o.	Siding services	Kladno	100,0%	100,0%
26	AWT Trading s.r.o.	Sale of military products	Petrvald	100,0%	100,0%
27	AWT Rekultivace PL Sp. z o.o.	Provision of comprehensive services: land reclamation, construction services, waste management, landscape planning	Cieszyn	100,0%	100,0%
28	RND s.r.o.	Rail shipping, transport monitoring	Olomouc	51,0%	51,0%

⁽¹⁾ Two companies from the AWT Group merged effective 1 June 2017: Advanced World Transport a.s. acquired AWT Coal Logistics s.r.o., as a result of which AWT Coal Logistics s.r.o. ceased to exist as a separate entity.

12. Associates

Detailed information about the Company's associated entities as at 30 June 2017 and as at 31 December 2016:

No.	Name of associate	Core business	Place of registration and operations	Percent of shares held by the Company (nominal values)	
				As at 30/06/2017	As at 31/12/2016
1	COSCO Shipping Lines (POLAND) Sp. z o.o.	Sea-land servicing of cargo containers	Gdynia	20,0%	20,0%
2	Międzynarodowa Spedycja MIRTRANS Sp. z o.o. in liquidation	Shipping services	Gdynia	44,0%	44,0%

12. Associates (continued)

Information about indirect associates (belonging to **PKP CARGO CONNECT Sp. z o.o.**):

No.	Name of associate	Core business	Place of registration and operations	Percent of shares held by the Subsidiary (nominal values)	
				As at 30/06/2017	As at 31/12/2016
3	Rentrans Cargo Sp. z o.o.	Rail transport	Szczecin	29,3%	29,3%
4	Gdański Terminal Kontenerowy S.A. in liquidation ⁽¹⁾	Reloading, storage, transport and shipping	Gdańsk	41,9%	41,9%

⁽¹⁾ An Ordinary General Meeting of Gdański Terminal Kontenerowy S.A. was held on 14 June 2017, at which a resolution was passed to dissolve and open the company's liquidation proceeding.

Information about indirect associates (belonging to **AWT Group**):

No.	Name of associate	Core business	Place of registration and operations	Percent of shares held by the Subsidiary (nominal values)	
				As at 30/06/2017	As at 31/12/2016
5	CD Logistics, a.s.	Rail shipping	Prague	22,0%	22,0%
6	DEPOS Horni Sucha, a.s.	Landfill management	Horni Sucha	20,6%	20,6%

13. Joint ventures

The Company has the following interests in joint ventures, held directly or indirectly through its subsidiaries **PKP CARGO CONNECT Sp. z o.o.** and **AWT B.V.**:

No.	Name of joint venture (jointly controlled entity)	Core business	Place of registration and operations	Percent of shares held by the Company and the Subsidiaries (nominal values)	
				As at 30/06/2017	As at 31/12/2016
1	Terminale Przeladunkowe Slawków - Medyka Sp. z o.o.	Terminal services in intermodal transport, reloading of cargo, securing palletized cargo and mass shipments of metallurgical products	Slawków	50,0%	50,0%
2	POL – RAIL S.r.l.	International rail transport	Rome	50,0%	50,0%
3	Cargosped Składy Celne Sp. z o.o. in liquidation	Storage of goods at customs warehouse, storage of goods at domestic warehouse and servicing of stored goods	Gdańsk	50,0%	50,0%
4	LEX Logistics Express, s.r.o. ⁽¹⁾	Shipping, transport and real estate rentals	Prague	-	50,0%

⁽¹⁾ On 6 June 2017 AWT Čechofracht a.s sold 50% of its shares of Lex Logistics Express s.r.o., as a result of which Lex Logistics Express s.r.o. ceased to be the Company's related party.

14. Investments in subsidiaries, associates and joint ventures

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Advanced World Transport B.V.	499 677	427 300
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.	84 181	84 181
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.	12 676	12 676
PKP CARGOTABOR USŁUGI Sp. z o.o.	16 319	16 319
POL - RAIL S.r.l.	1 870	1 870
PKP CARGO CONNECT Sp. z o.o.	123 194	123 194
Total	810 351	737 974

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

	6 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)
Investments in subsidiaries		
Opening balance	735 004	731 673
<i>of which impairment allowance</i>	<i>(2 696)</i>	<i>(2 696)</i>
Additions		
Acquisition ⁽¹⁾	72 377	3 331
Closing balance	807 381	735 004
<i>of which impairment allowance</i>	<i>(2 696)</i>	<i>(2 696)</i>
Investments in associates and joint ventures		
Opening balance	2 970	2 970
<i>of which impairment allowance</i>	<i>(1 018)</i>	<i>(1 018)</i>
Closing balance	2 970	2 970
<i>of which impairment allowance</i>	<i>(1 018)</i>	<i>(1 018)</i>

⁽¹⁾ In the period of 6 months ended 30 June 2017 the item consists of the acquisition of 20% of shares of AWT AWT B.V. further to the exercise of put options by Minezit S.E. (hereinafter referred to as "MSE"), a minority shareholder of AWT B.V. Detailed information on exercising the put options is presented in Note 23 to these Interim Condensed Separate Financial Statements. The ownership of the shares will be transferred to the Company after the fulfillment of the formal requirements specified in the Agreement concluded on 30 December 2014 between the Company and MSE.

15. Other financial assets

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Derivative instruments		
Currency forwards	8 977	235
Investments in shares		
Shares of Polish entities ⁽¹⁾	6 021	6 021
Loans and receivables measured at amortized cost		
Deposits for over 3 months	301 309	-
Other		
Cash pool	25 504	-
Total	341 811	6 256
Non-current assets	9 054	6 169
Current assets	332 757	87
Total	341 811	6 256

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

16. Other non-financial assets

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Expenses settled in time		
Prepaid electrical energy	5 141	14 673
Insurances	11 444	7 159
IT services	562	1 049
Transport benefits for eligible persons	6 413	-
Company Social Benefits Fund	14 322	-
Other prepaid expenses	1 646	745
	39 528	23 626
Other		
Advances towards the purchase of fixed assets	14 398	3 697
Other	77	555
	14 475	4 252
Total	54 003	27 878
Non-current assets	18 323	8 162
Current assets	35 680	19 716
Total	54 003	27 878

17. Inventories

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Raw materials ⁽¹⁾	77 018	65 148
Impairment allowance (-)	(5 273)	(5 447)
Total	71 745	59 701

⁽¹⁾ The increase in the value of inventories in the period of 6 months ended on 30 June 2017 was caused primarily by the Company's decision to liquidate 94 engines while recovering spare parts and scrap. The residual value of the engines, which was recognized in inventories, amounted to PLN 9.762 thousand.

18. Trade and other receivables

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Trade receivables	490 021	455 619
Impairment allowance for trade receivables	(47 886)	(47 657)
	<u>442 135</u>	<u>407 962</u>
Receivables from the sale of non-financial fixed assets	-	7
State receivables	3 531	4 583
Dividend receivables	14 253	-
VAT receivables	1 792	-
Other receivables	4 030	1 055
Total	<u>465 741</u>	<u>413 607</u>
Current assets	465 741	413 607
Total	<u>465 741</u>	<u>413 607</u>

19. Cash and cash equivalents

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

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Cash in hand and at bank	13 965	152 895
Bank deposits for up to 3 months	104 365	459 095
Total	<u>118 330</u>	<u>611 990</u>

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

20. Equity

20.1 Share capital

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
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Share capital consists of:

Ordinary shares - fully paid up and registered	2 239 346	2 239 346
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As at 30 June 2017 and as at 31 December 2016 the Company's share capital consisted of ordinary shares with a nominal value of PLN 50 per share. Each fully paid up ordinary share, with a nominal value of PLN 50, is equal to a single vote at a general meeting and entitled to a dividend.

No changes were made in the Company's share capital in the period of 6 months ended 30 June 2017, or the period of 6 months ended 30 June 2016.

20.2 Retained earnings

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

21. Earnings per share

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

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Profit / (loss) used to calculate basic earnings per share	18 490	27 676	(83 994)	(25 744)

21.1 Basic earnings per share

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Weighted average number of ordinary shares	44 786 917	44 786 917	44 786 917	44 786 917
Basic earnings per share (PLN per share)	0,41	0,62	(1,88)	(0,57)

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

21.2 Diluted earnings per share

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Weighted average number of ordinary shares	44 786 917	44 786 917	44 786 917	44 786 917
Diluted earnings per share (PLN per share)	0,41	0,62	(1,88)	(0,57)

No dilutive transactions took place in the period of 6 months ended 30 June 2017 or the period of 6 months ended 30 June 2016.

22. Bank loans and credit facilities

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Bank loans	1 218 914	1 348 394
Long-term liabilities	1 034 215	1 170 224
Short-term liabilities	184 699	178 170
Total	1 218 914	1 348 394

22.1 Changes in bank loans and credit facilities

	6 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)
Opening balance	1 348 394	589 219
Taken out	10 733	275 340
Repayment	(130 660)	(61 894)
Interest accrued	(201)	-
Currency valuation	(9 352)	3 571
Closing balance	1 218 914	806 236

22.2 Summary of loans agreements

Investment loan agreements were concluded primarily to finance an investment plan and acquisitions. In the period of 6 months ended 30 June 2017 the reference rate for loan agreements was WIBOR 1M, 3M and 6M plus margin, as well as EURIBOR 3M plus margin. Agreements were concluded for over 5 years. Repayments of the resulting liabilities are made in PLN and EUR. The details of the Company's bank loans are presented below:

Type of loan	Name of bank	Currency	Pledge	Interest terms and conditions	Maturity date	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Investment loan	mBank S.A.	PLN	Bank enforcement title	WIBOR 1M + margin	30/06/2017	-	4 210
Investment loan	Bank Pekao S.A.	PLN	Bank enforcement title	WIBOR 1M + margin	31/12/2017	4 920	9 840
Investment loan	Bank Gospodarstwa Krajowego	PLN	Bank enforcement title	WIBOR 1M + margin	31/03/2021	326 391	377 478
Investment loan	European Investment Bank	PLN	None	WIBOR 3M + margin	29/05/2020	51 091	59 608
Investment loan	Bank Gospodarstwa Krajowego	EUR	Notary certified declaration of submission to execution	EURIBOR 3M + margin	20/12/2026	62 140	66 373
Investment loan	Bank Gospodarstwa Krajowego	EUR	Notary certified declaration of submission to execution	EURIBOR 3M + margin	20/12/2026	82 995	75 884
Investment loan	Bank Pekao S.A.	PLN	Notary certified declaration of submission to execution	WIBOR 3M + margin	31/12/2026	633 697	649 759
Investment loan	European Bank for Reconstruction and Development ⁽¹⁾	PLN	None	WIBOR 6M + margin	25/09/2027	-	42 748
Investment loan	European Investment Bank	EUR	None	EURIBOR 3M + margin	29/08/2031	57 680	62 494
Total						1 218 914	1 348 394

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

22.3 Unused credit lines

Type	Name of bank	Availability period	Currency	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Investment loan	Bank Gospodarstwa Krajowego ⁽¹⁾	27/12/2017	EUR	276 272	300 171
Investment loan	Bank Pekao S.A.	31/12/2016	PLN	-	50 500
Investment loan	European Bank for Reconstruction and Development	31/12/2016	EUR	-	398 160
Investment loan	European Investment Bank	31/12/2016	PLN	-	155 000
Investment loan	European Investment Bank	19/07/2020	EUR	108 832	113 918
Overdraft	mBank S.A. ⁽²⁾	31/05/2017	PLN	-	100 000
Overdraft	Bank Pekao S.A. ⁽³⁾	25/05/2018	PLN	100 000	-
Total				485 104	1 117 749

⁽¹⁾ On 14 March 2017 an annex was concluded to the credit agreement with Bank Gospodarstwa Krajowego, based on which the availability of the credit was extended from 31 December 2016 to 27 December 2017.

⁽²⁾ An overdraft agreement with mBank S.A. ended on 31 May 2017.

⁽³⁾ On 26 May 2017 an overdraft agreement was concluded with Bank Pekao S.A.

The above changes in overdraft agreements are caused by a change in the bank that handles the cash pooling agreement covering the selected companies belonging to the PKP CARGO Group.

22.4 Breaches of credit agreements

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

23. Other financial liabilities

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Derivative instruments		
Net liability relating to the valuation of put / call options for non-controlling shares ⁽¹⁾	-	39 761
	-	39 761
Other		
Liability relating to the acquisition of shares of AWT B.V. ⁽¹⁾	114 116	-
Cash pool	-	19 218
Total	114 116	58 979
Short-term liabilities	114 116	58 979
Total	114 116	58 979

⁽¹⁾ On 30 December 2014 the Company concluded with MSE, a minority shareholder of AWT B.V., an agreement relating to call and put options for 20% of shares of AWT B.V. Based on the agreement the Company was both the buyer of call options and the issuer of put options, therefore had the right to both buy the other shares of AWT B.V. by exercising the call option, as well as an obligation to buy the shares of AWT if the minority shareholder exercised the put option.

The net liabilities relating to the call and put options for the shares of AWT B.V. were initially recognized at fair value as at the date of acquiring control over AWT B.V. After their initial recognition, in the subsequent periods the net liabilities relating to call and put options had been recognized at fair value through profit or loss, in accordance with IAS 39.

On 4 May 2017 the Company was notified by MSE of its exercise of the put option to sell 20% of its shares of AWT B.V. In accordance with the Agreement concluded on 30 December 2014 between the Company and MSE, the total price for the exercise of the put option was EUR 27.000 thousand. After MSE exercised its put option, the financial instruments expired and were replaced with a liability for the acquisition of shares of AWT B.V. In accordance with the Company's accounting policies, when one of the option instruments is exercised, their valuation adjusts the value of the acquired shares. Owing to the above, the value of the additional 20% of shares of AWT B.V. recognized in Investments in subsidiaries, associates and joint ventures, amounted to PLN 72.377 thousand. On 20 June 2017 the Parent Company's Management Board signed an agreement with MSE regulating the realization of the joint project, based on which the put options for 20% of the shares of AWT B.V. may be settled.

24. Finance lease liabilities and leases with purchase option

As at 30 June 2017, based on finance lease agreements the Company uses freight wagons, cars and computer hardware. Currently binding agreements were concluded for 3 to 7 years. The reference rate for agreements denominated in EUR was EURIBOR 3M and 6M, and for the agreements concluded in PLN - WIBOR 1M and 3M.

	As at 30/06/2017 (unaudited)			As at 31/12/2016 (audited)		
	Minimum lease payments	Future financial liabilities	Present value of minimum lease payments	Minimum lease payments	Future financial liabilities	Present value of minimum lease payments
Up to 1 year	33 981	(803)	33 178	44 669	(1 493)	43 176
Over 1 to 5 years	15 391	(129)	15 262	36 605	(446)	36 159
Total	49 372	(932)	48 440	81 274	(1 939)	79 335
Long-term	15 391	(129)	15 262	36 605	(446)	36 159
Short-term	33 981	(803)	33 178	44 669	(1 493)	43 176
Total	49 372	(932)	48 440	81 274	(1 939)	79 335

25. Trade and other payables

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Trade payables	177 705	206 603
Accruals	36 050	22 127
Liabilities relating to purchase of non-financial fixed assets	73 611	70 866
Security related liabilities (bonds, security deposits, guarantees)	12 606	14 311
State liabilities	73 471	81 168
Employee liabilities	58 611	58 858
VAT settlement	-	10 364
Other liabilities ⁽¹⁾	9 873	1 696
Total	441 927	465 993
Long-term liabilities	-	582
Short-term liabilities	441 927	465 411
Total	441 927	465 993

⁽¹⁾ As at 30 June 2017 other liabilities consist primarily of a statutory contribution to the Social Benefits Fund in the amount of PLN 7.161 thousand.

26. Employee benefits

As at 30 June 2017 the Company performed an actuarial valuation of its provisions for employee benefits further to the inclusion in the valuation of a change in discount rate and a rise in wages agreed with the employees effective September 2017. Actuarial valuations of provisions for employee benefits as at 30 June 2017 and as at 31 December 2016 were based on the following assumptions:

	Valuation as at	
	30/06/2017 %	31/12/2016 %
Discount rate	3,15	3,5
Average assumed annual growth of calculation base for provision for retirement compensation, jubilee bonuses	7,6 in 2017, 1,5 in subsequent years	1,4
Assumed growth in price of entitlement for transport benefits	0 - 2,5	0 - 2,5
Average assumed annual growth of calculation base for contribution to Company Social Benefits Fund	3,5 - 5	3,5 - 8,4
Weighted average employee mobility factor	2,3	2,3
Inflation (annually)	1,3 - 2,5	1,3 - 2,5

Amount recognized in the interim separate statement of financial position in relation to the Company's liabilities relating to employee benefit plans:

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
<u>Defined post-employment benefit plans</u>		
– retirement compensation	148 666	138 923
– contributions to Company Social Benefits Fund for retirees	136 635	122 791
– death benefits	6 607	6 140
– transport benefits	32 747	32 857
<u>Other employee benefits</u>		
– jubilee bonuses	249 411	232 092
– other employee benefits (unused annual leave / bonuses)	36 062	21 686
Total	610 128	554 489
Long-term liabilities	510 677	473 965
Short-term liabilities	99 451	80 524
Total	610 128	554 489

27. Other provisions

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Provision for fines from antimonopoly office UOKiK	17 412	16 455
Other provisions	9 481	11 640
Total	26 893	28 095
Long-term provisions	14 224	16 455
Short-term provisions	12 669	11 640
Total	26 893	28 095

Provision for fines from antimonopoly office UOKiK

As at 30 June 2017 and 31 December 2016 the provision represented the Company Management Board's estimate in connection with the likelihood of payment of two fines imposed by the Office of Competition and Consumer Protection (UOKiK).

In the period of 6 months of 2017 a change was made in the value of provisions for a fine imposed on the Company based on decision RWR 44/2012 issued by the President of UOKiK on 31 December 2012, finding that the Company made it difficult for its business partner to compete with shipping companies belonging to the PKP CARGO Group. A fine of PLN 16.576 thousand was imposed. The Company appealed the decision, as a result of which on 23 November 2015 the District Court in Warsaw changed the appealed decision and lowered the initially imposed fine from PLN 16.576 thousand to PLN 2.231 thousand. Consequently, as at 31 December 2015 the Company revalued the provision to the amount of PLN 2.231 thousand. Both parties appealed the ruling of the court of first instance. On 24 August 2017 the Appellate Court in Warsaw issued a ruling changing the decision of the court of first instance and raising the fine to PLN 3.188 thousand. As the ruling is legally binding, as at 30 June 2017 the Company raised its provision for the said fine by the amount of PLN 957 thousand.

With regard to the second fine, there have been no circumstances making it necessary to revalue the existing provision of PLN 14.224 thousand.

Other provisions

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

28. Financial instruments

28.1 Categories and classes of financial instruments

Financial assets by category and class	Note	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Hedging financial instruments			
Derivative instruments	15	8 977	235
Financial assets available for sale			
Shares of unlisted companies	15	6 021	6 021
Loans and receivables			
Trade receivables	18	442 135	407 962
Receivables from the sale of non-financial fixed assets	18	-	7
Bank deposits for over 3 months	15	301 309	-
Cash pool	15	25 504	-
Cash and cash equivalents	19	118 330	611 990
		887 278	1 019 959
Total		902 276	1 026 215

28.1 Categories and classes of financial instruments (continued)

Financial liabilities by category and class	Note	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Financial liabilities measured at fair value through profit or loss			
Net liability relating to put / call options for non-controlling shares	23	-	39 761
Hedging financial instruments ⁽¹⁾			
Bank loans and credit facilities	22	202 779	204 711
Financial liabilities measured at amortized cost			
Bank loans and credit facilities	22	1 016 135	1 143 683
Trade payables	25	213 755	228 730
Liabilities relating to purchase of non-financial fixed assets	25	73 611	70 866
Cash pool	23	-	19 218
Liability relating to the acquisition of shares of AWT B.V.	23	114 116	-
		<u>1 417 617</u>	<u>1 462 497</u>
Financial liabilities excluded from the scope of IAS 39	24	48 440	79 335
Total		<u>1 668 836</u>	<u>1 786 304</u>

Impairment losses on shares of unlisted companies and trade receivables are described in Notes 15 and 18, respectively, to these Interim Condensed Separate Financial Statements.

⁽¹⁾ In the period from 1 January 2017 to 30 June 2017 the Company applied cash flow hedge accounting. The objective of the hedging activities was to limit the effect of currency risk arising out of the EUR/PLN exchange rates on future cash flows.

The hedged item consists of the highly probable future cash flows expressed in EUR. The following hedging instruments have been established as at 30 June 2017:

- investment loans expressed in EUR. The hedged cash flows are being realized since February 2017. As at 30 June 2017 the nominal value of the hedging instrument was EUR 47.978 thousand, which is the equivalent of PLN 202.779 thousand,
- currency forward contracts. The hedged cash flows are being realized since July 2016. As at 30 June 2017 the value of the hedging instrument was PLN 8.977 thousand.

The effect of hedge accounting valuation for the period of 6 months ended 30 June 2017 and for the period of 6 months ended 30 June 2016 on the statement of comprehensive income is presented in Note 28.5 to these Interim Condensed Separate Financial Statements.

28.2 Fair value hierarchy

As at 30 June 2017 and as at 31 December 2016 financial instruments measured at fair value consisted of derivative financial instruments and the net liability relating to put / call options for non-controlling shares. The maturity dates of derivative financial instruments fall after the end of the reporting period whereas the net liability relating to put / call options for non-controlling shares have been settled in the period of 6 month ended 30 June 2017.

Financial assets and liabilities measured at fair value	As at 30/06/2017 (unaudited)		As at 31/12/2016 (audited)	
	Level 2	Level 3	Level 2	Level 3
Assets	8 977	-	235	-
Derivative instruments - currency forward contracts	8 977	-	235	-
Liabilities	-	-	-	39 761
Derivative instruments - currency forward contracts	-	-	-	-
Derivative instruments - put / call option for non-controlling shares	-	-	-	39 761

28.3 Valuation of financial instruments measured at fair value

a) Currency forward contracts

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

b) Other financial instruments

The Company does not disclose the fair value for the category of financial instruments listed in Note 28.1, other than unlisted shares, which are not measured at fair value as at the balance sheet date. This is because the fair value of these financial instruments as at 30 June 2017 and as at 31 December 2016 did not differ significantly from their values presented in the statement of financial position. The Company does not disclose the fair value of shares not listed in active markets classified as financial assets available for sale. The Company is unable to reliably determine the fair value of its shares of companies not listed in active markets. In accordance with the Company's accounting policies, as at the balance sheet date they are measured at acquisition cost less impairment losses.

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

	6 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)
Opening balance	39 761	27 696
Re-measurement (gains) / losses	1 873	2 768
Settlement of put /call options for non-controlling shares ⁽¹⁾	(41 634)	
Closing balance	-	30 464

⁽¹⁾ The settlement is the result of the minority shareholder's exercise of the put option. Detailed information is presented in Note 23 to these Interim Condensed Separate Financial Statements.

There were no transfers between level 2 and 3 of the fair value hierarchy in the period from 1 January to 30 June 2017, or in the period from 1 January to 30 June 2016.

28.5 Revenue, costs, profits and losses contained in the interim separate statement of comprehensive income by category of financial instruments

6 months ended 30/06/2017 (unaudited)	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 / revaluation	162	(1 312)	(1 873)	-	-	(3 023)
Commissions on bank loans	-	-	-	(714)	-	(714)
Effect of cash flow hedge accounting ⁽¹⁾	2 553	-	-	-	-	2 553
Gross profit / (loss)	2 240	949	(1 873)	(13 236)	2 065	(9 855)
Change in valuation	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 the settlement of cash flow hedge accounting adjusted the value of future revenue from the sale of services in the amount of PLN 2.553 thousand.

6 months ended 30/06/2016 (unaudited)	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)	-	961	-	(9 988)	(1 677)	(10 704)
Foreign exchange differences	(10)	793	-	1 099	(3 769)	(1 887)
Impairment / revaluation	(751)	(3 280)	(2 768)	-	-	(6 799)
Commissions on bank loans	-	-	-	(514)	-	(514)
Gross profit / (loss)	(761)	(1 526)	(2 768)	(9 403)	(5 446)	(19 904)
Change in valuation	(4 199)	-	-	-	-	(4 199)
Other comprehensive income	(4 199)	-	-	-	-	(4 199)

29. Transactions with related parties

29.1 Transaction with the State Treasury

In the period of 6 months ended 30 June 2017 and the period of 6 months ended 30 June 2016, the State Treasury was the Company's ultimate parent company. In view of this, all of the companies belonging (directly or indirectly) to the State Treasury are the Company's related parties and are presented broken down into related entities from the PKP Group and other entities related to the State Treasury. In these Interim Condensed Separate Financial Statements the Management Board has disclosed transactions with significant related parties, identified as related parties to the best of the Management's knowledge.

No individual transactions concluded between the Company and the State Treasury were identified in the period of 6 months ended 30 June 2017 and the period of 6 months ended 30 June 2016, which would be significant due to their unusual scope or amount.

29.1.1 Transactions with related parties from PKP Group

In the period covered by these Interim Condensed Separate Financial Statements the Company concluded the following transactions with related parties from the PKP Group:

	6 months ended 30/06/2017 (unaudited)		6 months ended 30/06/2016 (unaudited)	
	Sales to related parties	Purchases from related parties	Sales to related parties	Purchases from related parties
Parent company (PKP S.A.)	196	27 450	214	29 622
Subsidiaries/co-subsiidiaries of PKP CARGO S.A.	275 361	240 855	250 142	157 823
Associates	739	-	10	-
Other related parties from PKP Group	13 321	312 499	12 208	298 242

	As at 30/06/2016 (unaudited)		As at 31/12/2016 (audited)	
	Receivables from related parties	Liabilities to related parties	Receivables from related parties	Liabilities to related parties
Parent company (PKP S.A.)	124	4 632	1 087	6 973
Subsidiaries/co-subsiidiaries of PKP CARGO S.A.	79 297	104 336	74 274	72 602
Associates	-	-	3	-
Other related parties from PKP Group	3 500	72 934	2 821	73 855

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

Sales transactions within the PKP CARGO Group included transport of cargo, lease of equipment, sub-lease of real estate. Purchase transactions included repair and maintenance of rolling stock, shipping services, cargo services, intermodal transport.

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

29.1.2 Transaction with other related parties of the State Treasury

No individual transactions concluded between the Company and other related parties of the State Treasury were identified in the period of 6 months ended 30 June 2017 and the period of 6 months ended 30 June 2016, which would be significant due to their unusual scope or amount.

29.1.2 Transaction with other related parties of the State Treasury (continued)

In the periods covered by these Interim Condensed Separate Financial the Company's most significant customers that are other related parties of the State Treasury were Jastrzębska Spółka Węglowa S.A., Azoty Group, ENEA Group, Węglokoks S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A. and PKN Orlen Group. Whereas in the periods covered by these Interim Condensed Separate Financial Statements no significant purchases were recorded from other related parties of the State Treasury.

All transactions with related parties were performed on market terms.

In addition to trade transactions the Company has issued guarantees to the companies listed in Note 31 to these Interim Condensed Separate Financial Statements.

29.2 Loans granted to/received from related parties

In the period of 6 months ended 30 June 2017 the Company granted no loans to, and received no loans from its related parties. In addition, as at 30 June 2017 and as at 31 December 2016 the Company had cash pool settlements presented in Notes 15 and 23 to these Interim Condensed Separate Financial Statements.

29.3 Remuneration of key management personnel

Remuneration of Members of the Management Board:	6 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)
Short-term benefits	1 348	1 780
Post-employment benefits	829	355
Severance benefits	-	459
Total	2 177	2 594

Remuneration of Members of the Supervisory Board:	6 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)
Short-term benefits	639	525
Total	639	525

Remuneration of other key personnel (Representatives-Managing Directors):	6 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)
Short-term benefits	-	752
Post-employment benefits	443	325
Severance benefits	-	28
Total	443	1 105

No loan or guarantee transactions were concluded with the Company by members of its key management personnel in the period of 6 months ended 30 June 2017 or the period of 6 months ended 30 June 2016.

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

The Company's future contractual investment obligations as at 30 June 2017:

Contractual obligations relating to the acquisition of non-financial fixed assets	Agreement performance period	Unrealized value of agreement as at 30/06/2017 (unaudited)
Agreement for the supply and maintenance of engines, of which:		
- supply of 3 engines,	do 31/12/2017	39 370
- supply of computer equipment	do 31/12/2017	3 100
Agreement for periodic freight cars repairs and reviews	do 31/12/2017	120 717
Agreement for periodic engine repairs and reviews	do 31/12/2017	14 087
Total		177 274

31. Contingent liabilities

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Sureties granted to subsidiaries ⁽¹⁾	20 528	22 956
Guarantees issued by banks at the request of PKP CARGO S.A. ⁽²⁾	22 279	18 327
Other contingent liabilities ⁽³⁾	134 454	63 149
Total	177 261	104 432

⁽¹⁾ Sureties granted to subsidiaries

In effect as at 30 June 2017 and 31 December 2016 were the sureties issued by the Company for PKP CARGO SERVICE Sp. z o.o. (surety of a multi-currency credit line agreement) and for PKP CARGOTABOR Sp. z o.o. (surety of three credit lines and a loan agreement). All of the sureties have been secured with blank promissory notes.

⁽²⁾ Guarantees issued by banks at the request of PKP CARGO S.A.

In effect as at 30 June 2017 were the guarantees issued by banks at the Company's request for its vendors. The guarantees included performance bonds (with a value of PLN 19.847 thousand) and payment bonds (with a value of PLN 2.432 thousand). In effect as at 31 December 2016 were bond bonds (with a value of PLN 320 thousand), performance bonds (with a value of PLN 15.466 thousand) and payment bonds (with a value of PLN 2.541 thousand).

⁽³⁾ Other contingent liabilities

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

The rise in contingent liabilities as at 30 June 2017 is a result of a claim filed by one of the vendors, in the amount of PLN 70.000 thousand, for the payment of damages for a loss in the value of the claimant's business resulting from unfair competition practices, as well as compensation for infringement on the claimant's personal rights resulting from the Company's alleged unlawful actions in the years 2010-2013. The Company was notified of the claim on 22 June 2017 and is currently gathering case documentation and preparing its response to the claim. As at 30 June 2017, because the case is at an early stage, it is not possible to estimate the amount or likelihood of any future payment in connection with this claim.

On 30 January 2015 the Company was notified of an administrative proceeding started by the President of the Office of Rail Transport (UTK) in the matter of imposing a fine on the Company for conducting operations without proper authorization, i.e. managing rail infrastructure without security authorization. As part of the proceeding the Company exercised its right to express its views on the evidence and materials collected and on the demands submitted prior to the issue of a decision. The proceeding completion date has been extended until 31 August 2017. As at 30 June 2017 the amount of the potential contingent liability arising out of the proceeding and the likelihood of its payment are not known.

32. Subsequent events

No events with an effect on the Company's operations took place after the balance sheet date.

33. Approval of financial statements

These Interim Condensed Separate Financial Statements were approved for publication by the Company's Management Board on 30 August 2017.

The Company's Management Board

Maciej Libiszewski

President of the Management Board

Grzegorz Fingas

Member of the Management Board

Arkadiusz Olewnik

Member of the Management Board

Zenon Kozendra

Member of the Management Board

Warsaw, 30 August 2017



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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 2017

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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 2017

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, ul. Grójecka 17, consisting of the consolidated statement of financial position prepared as at 30 June 2017, 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 2017, 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. 2783/52/2015 passed by the National Council of Certified Auditors on 10 February 2015, with subsequent amendments.

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

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, adopted in Resolution No. 2783/52/2015 passed by the National Council of Certified Auditors on 10 February 2015, with subsequent amendments. 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, 30 August 2017

BDO Sp. z o.o.
ul. Postępu 12
02-676 Warszawa
Authorized Audit Company No. 3355

Auditor in charge:

On behalf of BDO Sp. z o.o.:

Leszek Kramarczuk
Audit Partner
Certified Auditor No. 1920

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 2017
PREPARED IN ACCORDANCE WITH IFRS
AS ENDORSED BY THE EUROPEAN UNION

TABLE OF CONTENTS

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	2
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION	4
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	6
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS.....	7
1. General information.....	8
2. Basis for the preparation of the Interim Condensed Consolidated Financial Statements.....	10
3. Basis for the application of International Financial Reporting Standards.....	10
4. Accounting policies and material values based on professional judgement and estimates.....	12
5. Adjustment of errors from prior years.....	13
6. Revenue from the sale of services and finished goods	16
7. Expenses by kind	17
8. Other operating revenue and expenses	19
9. Financial revenue and expenses.....	20
10. Income tax.....	21
11. Property, plant and equipment	25
12. Subsidiaries.....	27
13. Investments accounted for under the equity method.....	28
14. Other financial assets.....	29
15. Other non-financial assets.....	30
16. Inventories.....	30
17. Trade and other receivables.....	30
18. Cash and cash equivalents	31
19. Equity	31
20. Earnings per share.....	32
21. Bank loans and credit facilities	32
22. Other financial liabilities.....	35
23. Finance lease liabilities and leases with purchase option	36
24. Trade and other payables	36
25. Employee benefits.....	36
26. Other provisions	37
27. Financial instruments	38
28. Transactions with related parties.....	42
29. Commitments to incur expenses for non-financial fixed assets.....	44
30. Contingent liabilities	44
31. Subsequent events.....	45
32. Approval of financial statements.....	45

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 JUNE 2017**

	Note	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (restated*)	3 months ended 30/06/2016 (restated*)
Revenue from sales of services and finished goods	6	2 226 202	1 148 622	2 088 853	1 074 810
Revenue from sales of merchandise and raw materials		18 032	8 112	13 605	4 848
Other operating revenue	8.1	23 179	10 478	20 551	8 997
Total operating revenue		2 267 413	1 167 212	2 123 009	1 088 655
Depreciation / amortization and impairment losses	7.1	287 360	143 519	324 138	181 779
Consumption of raw materials and energy	7.2	341 241	170 598	326 553	163 735
External services	7.3	759 624	387 618	774 126	407 558
Taxes and charges		20 905	10 595	18 298	11 272
Employee benefits	7.4	753 660	382 475	752 992	367 644
Other expenses by kind	7.5	27 438	14 382	26 290	14 727
Cost of merchandise and raw materials sold		12 990	5 594	11 916	3 580
Other operating expenses	8.2	18 774	10 186	82 839	70 695
Total operating expenses		2 221 992	1 124 967	2 317 152	1 220 990
Profit / (loss) on operating activities		45 421	42 245	(194 143)	(132 335)
Financial revenue	9.1	14 240	4 153	774	384
Financial expenses	9.2	30 493	15 309	38 581	24 022
Share in the profit / (loss) of equity accounted entities	13	1 183	(836)	2 002	638
Profit / (loss) before tax		30 351	30 253	(229 948)	(155 335)
Income tax expense	10.1	10 989	9 457	(34 696)	(26 461)
NET PROFIT / (LOSS)		19 362	20 796	(195 252)	(128 874)

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

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 JUNE 2017 (continued)**

	Note	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (restated*)	3 months ended 30/06/2016 (restated*)
NET PROFIT / (LOSS)		19 362	20 796	(195 252)	(128 874)
Other comprehensive income					
Other comprehensive income that will be reclassified to profit or loss:		5 908	22 948	24 722	23 650
The effective portion of gains / (losses) on a cash flow hedging instrument		20 201	797	(3 616)	(4 222)
Income tax on other comprehensive income	10.3	(3 838)	(151)	687	802
Foreign exchange differences on translation of financial statements of foreign entities		(10 455)	22 302	27 651	27 070
Other comprehensive income that will not be reclassified to profit or loss:		(20 273)	(20 273)	-	-
Actuarial gains / (losses) on post- employment benefits		(25 028)	(25 028)	-	-
Income tax on other comprehensive income	10.3	4 755	4 755	-	-
Total other comprehensive income		(14 365)	2 675	24 722	23 650
TOTAL COMPREHENSIVE INCOME		4 997	23 471	(170 530)	(105 224)
Net profit / (loss) attributable to:					
Shareholders of the parent company		19 362	20 796	(195 252)	(128 874)
Total comprehensive income attributable to:					
Shareholders of the parent company		4 997	23 471	(170 530)	(105 224)
Earnings per share (PLN per share)					
Basic earnings per share:	20.1	0,43	0,46	(4,36)	(2,88)
Diluted earnings per share:	20.2	0,43	0,46	(4,36)	(2,88)

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 JUNE 2017

	Note	As at 30/06/2017 (unaudited)	As at 31/12/2016 (restated*)	As at 30/06/2016 (restated*)
ASSETS				
Non-current assets				
Property, plant and equipment	11	4 593 454	4 700 550	4 727 738
Intangible assets		48 034	55 831	60 699
Investment properties		1 231	1 257	1 284
Investments accounted for under the equity method	13	53 876	58 219	57 264
Trade and other receivables	17	1 661	2 223	2 901
Other long-term financial assets	14	11 466	8 649	10 097
Other long-term non-financial assets	15	31 720	25 987	44 961
Deferred income tax assets	10.4	132 130	107 554	120 856
Total non-current assets		4 873 572	4 960 270	5 025 800
Current assets				
Inventories	16	130 846	121 189	120 937
Trade and other receivables	17	661 976	639 866	622 385
Income tax receivables		1 782	2 793	4 621
Other short-term financial assets	14	316 089	892	4 203
Other short-term non-financial assets	15	47 755	27 277	38 093
Cash and cash equivalents	18	324 413	755 919	157 361
		1 482 861	1 547 936	947 600
Non-current assets classified as held for sale		-	-	6 000
Total current assets		1 482 861	1 547 936	953 600
Total assets		6 356 433	6 508 206	5 979 400

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 JUNE 2017 (continued)

	Note	As at 30/06/2017 (unaudited)	As at 31/12/2016 (restated*)	As at 30/06/2016 (restated*)
EQUITY AND LIABILITIES				
Equity				
Share capital	19.1	2 239 346	2 239 346	2 239 346
Share premium		618 050	618 666	618 531
Other items of equity		7 537	11 447	(5 708)
Foreign exchange differences on translation of financial statements of foreign entities		50 039	60 494	59 675
Retained earnings		350 303	330 325	268 980
Total equity		3 265 275	3 260 278	3 180 824
Long-term liabilities				
Long-term bank loans and credit facilities	21	1 154 754	1 273 605	663 096
Long-term finance lease liabilities and leases with purchase option	23	110 104	140 923	163 380
Long-term trade and other payables	24	1 152	1 845	8 209
Long-term provisions for employee benefits	25	562 863	525 571	602 623
Other long-term provisions	26	24 079	26 420	28 502
Other long-term financial liabilities	22	-	1 042	-
Provisions for deferred income tax	10.4	105 359	106 675	100 788
Total long-term liabilities		1 958 311	2 076 081	1 566 598
Short-term liabilities				
Short-term bank loans and credit facilities	21	207 723	197 803	269 768
Short-term finance lease liabilities and leases with purchase option	23	49 300	59 567	70 409
Short-term trade and other payables	24	595 359	670 021	592 642
Short-term provisions for employee benefits	25	121 912	99 256	116 743
Other short-term provisions	26	24 891	24 950	16 596
Other short-term financial liabilities	22	114 798	118 889	164 985
Current income tax liabilities		18 864	1 361	835
Total short-term liabilities		1 132 847	1 171 847	1 231 978
Total liabilities		3 091 158	3 247 928	2 798 576
Total equity and liabilities		6 356 433	6 508 206	5 979 400

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 JUNE 2017

	Note	Other items of equity				Foreign exchange differences on translation of financial statements of foreign entities	Retained earnings	Attributable to shareholders of the parent company	Attributable to non-controlling interests	Total
		Share capital	Share premium	Actuarial gains / losses on post-employment benefits	Gains / losses on a cash flow hedging instrument					
As at 1/01/2017 (restated*)		2 239 346	618 666	13 521	(2 074)	60 494	330 325	3 260 278	-	3 260 278
Net profit / (loss) for the period		-	-	-	-	-	19 362	19 362	-	19 362
Other net comprehensive income for the period		-	-	(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 in equity	19.2	-	(616)	-	-	-	616	-	-	-
As at 30/06/2017 (unaudited)		2 239 346	618 050	(6 752)	14 289	50 039	350 303	3 265 275	-	3 265 275
As at 1/01/2016 (restated*)		2 239 346	619 407	(3 880)	1 101	32 024	463 356	3 351 354	-	3 351 354
Net profit / (loss) for the period		-	-	-	-	-	(195 252)	(195 252)	-	(195 252)
Other net comprehensive income for the period		-	-	-	(2 929)	27 651	-	24 722	-	24 722
Total comprehensive income		-	-	-	(2 929)	27 651	(195 252)	(170 530)	-	(170 530)
Other changes in equity		-	(876)	-	-	-	876	-	-	-
As at 30/06/2016 (restated*)		2 239 346	618 531	(3 880)	(1 828)	59 675	268 980	3 180 824	-	3 180 824

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

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 JUNE 2017 [INDIRECT METHOD]**

	Note	6 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (restated*)
Cash flows from operating activities			
Profit / (loss) before tax		30 351	(229 948)
Adjustments:			
Depreciation of property, plant and equipment and amortization of intangible assets	7.1	287 113	288 309
Impairment loss on non-current assets	7.1	247	35 829
(Gain) / loss on disposal / liquidation of property, plant and equipment, intangible assets and non-current assets classified as held for sale		(5 206)	(287)
Foreign exchange (gain) / loss		(5 297)	2 059
(Gain) / loss on interest, dividends		14 537	15 673
Share in (profit) / loss of equity accounted entities	13	(1 183)	(2 002)
Interest received / (paid)		297	(1 265)
Income tax received / (paid)		(15 866)	(6 601)
Other adjustments		(14 055)	2 405
Changes in working capital:			
(Increase) / decrease in trade and other receivables		(19 735)	33 335
(Increase) / decrease in inventories		2 247	8 694
(Increase) / decrease in other assets		(29 434)	(22 745)
Increase / (decrease) in trade and other payables		(47 614)	(125 621)
Increase / (decrease) in other financial liabilities		(5 239)	7 613
Increase / (decrease) in provisions		57 548	13 718
Net cash provided by operating activities		248 711	19 166
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(235 168)	(318 268)
Proceeds from sale of property, plant and equipment, intangible assets and non-current assets classified as held for sale		8 154	7 174
Acquisition of other financial assets		-	(111)
Interest received		3 323	503
Dividends received		2 724	1 130
Loans granted		(121)	-
(Outflows) / inflows from bank deposits over 3 months		(306 000)	490
Net cash provided by investing activities		(527 088)	(309 082)
Cash flows from financing activities			
Payments of liabilities under finance lease		(36 135)	(34 336)
Payments of interest under lease agreement	9.2	(3 241)	(4 591)
Proceeds from credit facilities / loans received	21.1	50 844	275 325
Repayment of credit facilities / loans received	21.1	(146 208)	(64 951)
Interest paid on credit facilities/loans received		(14 620)	(8 048)
Grants received		-	5 407
Other outflows from financing activities		(1 896)	(2 138)
Net cash provided by financing activities		(151 256)	166 668
Net increase / (decrease) in cash and cash equivalents		(429 633)	(123 248)
Opening balance of cash and cash equivalents	18	755 919	276 191
Effect of changes foreign exchange rates on cash balances in foreign currencies		(1 873)	4 418
Closing balance of cash and cash equivalents	18	324 413	157 361

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

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS AT 30 JUNE 2017

1. General information

1.1 Information about the Parent Company

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

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

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

Management Board:

Maciej Libiszewski	-	President of the Management Board
Arkadiusz Olewnik	-	Member of the Management Board in charge of Finances
Grzegorz Fingas	-	Member of the Management Board in charge of Sales
Zenon Kozendra	-	Member of the Management Board - Employee Representative

Supervisory Board:

Krzysztof Mamiński	-	Chairman of the Supervisory Board
Mirosław Antonowicz	-	Vice-Chairman of the Supervisory Board
Raimondo Eggink	-	Member of the Supervisory Board
Czesław Warszewicz	-	Member of the Supervisory Board
Małgorzata Kryszkiewicz	-	Member of the Supervisory Board
Zofia Dzik	-	Member of the Supervisory Board
Marek Podskalny	-	Member of the Supervisory Board
Krzysztof Czarnota	-	Member of the Supervisory Board
Tadeusz Stachaczyński	-	Member of the Supervisory Board
Władysław Szczepkowski	-	Member of the Supervisory Board

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

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

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

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

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

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

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

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

1.1 Information about the Parent Company (continued)

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

Entity	Registered office	Number of shares	% of share capital	% of voting rights
PKP S.A. ⁽¹⁾	Warsaw	14 784 194	33,01%	33,01%
Nationale-Nederlanden OFE ⁽²⁾	Warsaw	6 854 195	15,30%	15,30%
MetLife OFE ⁽³⁾	Warsaw	2 494 938	5,57%	5,57%
Aviva OFE ⁽⁴⁾	Warsaw	2 338 371	5,22%	5,22%
Other shareholders		18 315 219	40,90%	40,90%
Total		44 786 917	100,00%	100,00%

(1) As per notice sent by shareholder on 24 June 2014.

(2) As per notice sent by shareholder on 18 October 2016.

(3) As per notice sent by shareholder on 18 August 2016.

(4) As per notice sent by shareholder on 13 August 2014.

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

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

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

1.2 Information about the Group

As at the balance sheet date the PKP CARGO Group (hereinafter referred to as the Group) comprises PKP CARGO S.A. as the parent company and 27 subsidiary companies. In addition, the Group has 6 associated companies and shares in 3 joint ventures.

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

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

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

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

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

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

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

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

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

These Interim Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 30 August 2017.

3. Basis for the application of International Financial Reporting Standards

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

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

- **IFRS 15 "Revenue from Contracts with Customers"** - applies to annual periods beginning on and after 1 January 2018. This standard specifies how and when to recognize revenue, and calls for more detailed disclosures. The standard replaces IAS 18 Revenue, IAS 11 Construction Contracts and several interpretations relating to recognition of revenue. The new standard requires the disclosure in the financial statements of much more information on the nature, amount, distribution in time and uncertainty with regard to revenue and cash flows from contracts with customers.
- **IFRS 9 "Financial Instruments"** - applies to periods beginning on and after 1 January 2018. IFRS 9 introduces an approach to the classification and valuation of financial assets that reflects the business model in which they are managed and the nature of the cash flows. IFRS 9 introduces a new model of impairment testing, replacing the concept of losses incurred with losses anticipated. The change in approach leads to a significant rise in the significance of estimates and assumptions for the purposes of measuring impairment, in particular when it comes to identifying significant deterioration in the quality of credit exposure, as well as the related calculation of long-term losses anticipated throughout the life of the exposure. The new model will also result in the introduction of a standardized approach to impairment tests used on all financial instruments. In addition, IFRS 9 introduces a new model of hedge accounting, requiring extensive risk management disclosures. The changes are meant to adapt the methods used to recognize risk management matters in the financial statements, to allow entities to better reflect their actions in the financial statements.

The Group is analyzing the effect on its accounting policies of the published IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers". Our initial analysis of the effect of IFRS 9 on the existing accounting methods indicates that the new standard will mainly affect the extent of disclosures and the presentation of financial instruments in the Group's financial statements. In addition, the above analysis has shown that the new approach to the impairment of financial instruments model (in the case of the Group it will pertain primarily to trade receivables) will have no material effect on the amount of impairment and most likely implementation of IFRS 9 in this area will not require adjustments of prior periods.

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

In the case of IFRS 15, the Group is performing analyses of the effect of variable consideration on sales revenue generated in different reporting periods. The Group is working on identifying contracts with elements of variable consideration and on developing a method to estimate the consideration due to the Group in the given reporting period. At this stage we are not yet able to determine the effect of the new standard on the Group's financial statements.

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

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

- **IFRS 16 "Leases"** - applicable to annual periods beginning on and after 1 January 2019. In accordance with IFRS 16, a lessee recognizes the right to use an asset and the liability arising out of the lease agreement. The right to use an asset is treated similarly to other non-financial assets and amortized accordingly. The liability is initially recognized at the present value of the lease fees payable during the term of the lease, discounted by the rate contained in the lease, if its determination is not difficult. If it is not easy to determine the rate, then the lessee applies the marginal interest rate.
- **Amendments to IAS 7 "Statement of Cash Flows"** entitled Disclosure Initiative - applicable to periods beginning on 1 January 2017. The amendments introduce the requirement to include in the financial statements a disclosure that will allow the users of the financial statements to evaluate changes in liabilities arising out of financial activities, including changes arising out of cash flows and cashless changes. One of the methods of fulfilling this requirement is to present a reconciliation of debt balances broken down by type of change.
- **Amendments to IAS 12 "Income Taxes"** entitled Recognition of Deferred Tax Assets for Unrealized Losses - applicable to periods beginning on 1 January 2017. The amendments clarify the need to form deferred tax assets on losses on the valuation of financial instruments classified as available for sale. In particular, the change pertains to debt instruments, for which the entity should consider the existence of evidence that it is likely that it will realize the financial instrument for an amount higher than its balance sheet value.
- **Amendments to IFRS 2 "Share-based Payment"** entitled Classification and Measurement of Share-based Payment Transactions - applicable to periods beginning on 1 January 2018. The change to IFRS 2 clarifies that the fair value of share based payments settled in cash should be determined in the same manner as in the case of payments settled in equity instruments. The change has introduced a requirement to adjust the liability by considering each change in its value in the financial result before reclassifying from liabilities to equity. The cost recognized after the modification is based on the fair value at the date of modification. The change introduced an exception where the payment of funds to a tax office is treated as a settlement in equity instruments. The entity should disclose the estimated amount it expects to pay as tax to the tax office. At initial application, reclassification of liabilities to equity will have no effect on the financial result.
- **Amendments to IFRS 4 "Insurance Contracts"** entitled Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" - applicable to periods beginning on 1 January 2018. The changes address the matter of applying the new IFRS 9 "Financial Instruments" prior to the implementation of the new standard relating to insurance activities, on which IASB is currently working.
- **Amendments to International Financial Reporting Standards 2014-2016** (annual improvements to IFRS 2014 - 2016 contain amendments to IFRS 1 - deletion of short-term exemptions, IFRS 12 - clarification of the scope of the standard, and IAS 28 - measuring associates or joint ventures at fair value, with corresponding amendments to other standards and interpretations) - apply to periods beginning on or after 1 January 2018.
- **Interpretation IFRIC 22** entitled Foreign Currency Transactions and Advance Consideration - applicable to periods beginning 1 January 2018. The interpretation clarifies the recognition of transactions that include the receipt or payment of advance consideration in a foreign currency.
- **Amendments to IAS 40 "Investment Property"** entitled Transfers of Investment Property - applicable to periods beginning on 1 January 2018. The amendments discuss whether an investment property under construction should be transferred from inventories to investment properties in the event of a clear change in its use.
- **Clarifications to IFRS 15 "Revenue from Contracts with Customers"** - apply to annual periods beginning on and after 1 January 2018.

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

- **IFRS 17 "Insurance Contracts"** - applicable to annual periods beginning on and after 1 January 2021. The objective of the standard is to introduce consistent formalized accounting methods applicable to insurance contracts. The new standard states that insurance liabilities are measured at the present value of the liability and introduces consistent methods for the valuation and presentation of all types of insurance contracts. IFRS 17 replaces IFRS 4 "Insurance Contracts" and the related interpretations.
- **Interpretation IFRIC 23** entitled Uncertainty over Income Tax Treatments, applies to periods beginning on 1 January 2019. The interpretation is to be applied when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, tax rates, when there is uncertainty over income tax treatments under IAS 12.

The Group is analyzing the effect on its accounting policies of the published IFRS 16 "Leases". Our initial analysis of the effect of IFRS 16 on the existing accounting methods indicates that the Group will have to recognize retrospectively its significant lease liabilities and asset items (mainly land, buildings and constructions), which are currently covered by long-term operating lease or rental agreements. The Group is currently in the process of identifying the agreements that are subject to the new requirements and of developing preliminary models for the valuation and recognition of the above agreements in the financial statements. At this stage it is not possible to quantify the effect of IFRS 16 on the Group's financial statements. The Group has analyzed the potential effect of the other above-listed standards, interpretations and amendments to standards on its accounting policies. In the opinion of the Parent Company's Management Board, they will have no material effect on the existing accounting policies.

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

4.1 Statement on accounting policies

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

4.2 Material values based on professional judgement and estimates

In the period of 6 months ended 30 June 2017, changes to material estimates related to:

- provisions for employee benefits - the provisions have been estimated as at 30 June 2017, the effect of recalculation as at 30 June 2017 is presented in Note 25 to these Interim Condensed Consolidated Financial Statements,
- liability relating to put option for non-controlling shares - in the period of 6 months ended 30 June 2017 the Parent Company settled the put option for the acquisition of 20% of shares of Advanced World Transport B.V. (hereinafter referred to as "AWT B.V."); detailed information and the effect of the settlement is presented in Notes 22 and 27.4 to these Interim Condensed Consolidated Financial Statements.

In the period of 6 months ended 30 June 2017 no other changes were made in methodology or assumptions adopted by the Parent Company's Management Board when making estimates, with a significant effect on the current or future periods.

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

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

4.4 Functional currency and presentation currency

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

4.4 Functional currency and presentation currency (continued)

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

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

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

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

Currency	Statement of financial position items		Statement of comprehensive income and statement of cash flows items	
	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)	6 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)
EUR	4,2265	4,4240	4,2474	4,3878
CZK	0,1611	0,1637	0,1586	0,1620
HUF	0,0137	0,0142	0,0137	0,0140

5. Adjustment of errors from prior years

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

- value added tax settlements with the Tax Inspection Office

Detailed information on the above adjustment is presented in Note 6 to the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2016.

- Investments stated by equity accounting

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

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

To ensure comparability of the presented data, the Group restated its comparatives for the period of 6 months ended 30 June 2016. The effect of the restatement is presented below. The information presented in the notes to these Interim Condensed Consolidated Financial Statements has also been restated accordingly.

5. Adjustment of errors from prior years (continued)

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE PERIOD FROM 1 JANUARY 2016 TO 30 JUNE 2016**

	6 months ended 30/06/2016 (unaudited)	Adjustment of value added tax settlements	6 months ended 30/06/2016 (restated)
Financial expenses	37 918	663	38 581
Profit / (loss) before tax	(229 285)	(663)	(229 948)
NET PROFIT / (LOSS)	(194 589)	(663)	(195 252)
TOTAL COMPREHENSIVE INCOME	(169 867)	(663)	(170 530)
Net profit / (loss) attributable to:			
Parent Company shareholders	(194 589)	(663)	(195 252)
Total comprehensive income attributable to:			
Parent Company shareholders	(169 867)	(663)	(170 530)
Profit / (loss) per share (PLN per share)			
Basic	(4,34)	(0,02)	(4,36)
Diluted	(4,34)	(0,02)	(4,36)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

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

5. Adjustment of errors from prior years (continued)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

	As at 30/06/2016 (unaudited)	Adjustment of value added tax settlements	Adjustment of investments accounted for under the equity method	As at 30/06/2016 (restated)
ASSETS				
Non-current assets				
Investments accounted for under the equity method	39 855	-	17 409	57 264
Total non-current assets	5 008 391	-	17 409	5 025 800
Current assets				
Trade and other receivables	631 062	(8 677)	-	622 385
Total current assets	962 277	(8 677)	-	953 600
Total assets	5 970 668	(8 677)	17 409	5 979 400
EQUITY AND LIABILITIES				
Equity				
Foreign exchange differences on translation of financial statements	59 151	-	524	59 675
Retained earnings	272 679	(20 584)	16 885	268 980
Total equity	3 183 999	(20 584)	17 409	3 180 824
Short-term liabilities				
Short-term trade and other payables	580 735	11 907	-	592 642
Total short-term liabilities	1 220 071	11 907	-	1 231 978
Total liabilities	2 786 669	11 907	-	2 798 576
Total equity and liabilities	5 970 668	(8 677)	17 409	5 979 400

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

	6 months ended 30/06/2016 (unaudited)	Adjustment of value added tax settlements	6 months ended 30/06/2016 (restated)
Cash flows from operating activities			
Profit / (loss) before tax	(229 285)	(663)	(229 948)
Changes in working capital:			
(Increase) / decrease in trade and other receivables	34 862	(1 527)	33 335
Increase / (decrease) in trade and other payables	(127 811)	2 190	(125 621)
Net cash provided by operating activities	19 166	-	19 166
Net increase / (decrease) in cash and cash equivalents	(123 248)	-	(123 248)
Opening balance of cash and cash equivalents	276 191	-	276 191
Effect of changes foreign exchange rates on cash balances in foreign currencies	4 418	-	4 418
Closing balance of cash and cash equivalents	157 361	-	157 361

6. Revenue from the sale of services and finished goods

6.1 Operating segment products and services

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

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

6.2 Geographical information

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

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

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Poland	1 556 603	818 542	1 433 574	731 914
Czech Republic	293 782	144 967	355 657	179 486
Germany	116 913	59 340	85 175	48 067
Slovakia	52 904	25 606	30 592	15 610
Italy	49 127	23 996	30 478	16 508
France	25 478	10 746	34 976	16 918
Other countries	131 395	65 425	118 401	66 307
Total	2 226 202	1 148 622	2 088 853	1 074 810

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

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (restated*)
Poland	3 912 583	3 987 209
Czech Republic	804 387	840 775
Other countries	11 345	13 860
Total	4 728 315	4 841 844

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

6.3 Information about major customers

In the period ended 30 June 2017, sales of services and finished goods to one group exceeded 10% and amounted to 12% of total revenue from the sale of services and finished goods. In the period ended 30 June 2016 no sales to the Group's client exceeded 10% of its revenue from the sale of services and finished goods.

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

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

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

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Revenue from rail freight transport and shipping services	1 886 861	977 556	1 725 659	884 974
Revenue from other transport activities	81 099	41 692	85 402	46 594
Siding and track line revenue	122 175	61 372	132 793	66 624
Cargo revenue	39 671	20 580	42 462	19 615
Reclamation services	30 803	14 585	34 334	21 091
Other revenue ⁽¹⁾	65 593	32 837	68 203	35 912
Total	2 226 202	1 148 622	2 088 853	1 074 810

⁽¹⁾ The item other revenue for the period of 6 months ended 30 June 2017 consists primarily of revenue from renting assets in the amount of PLN 21.487 thousand, from customs services in the amount of PLN 7.260 thousand, from the sale of finished goods in the amount of PLN 11.775 thousand, as well as from rolling stock repairs in the amount of PLN 10.033 thousand. In the period of 6 months ended 30 June 2016, the other revenue item consisted primarily of revenue from renting assets in the amount of PLN 21.651 thousand, from customs services in the amount of PLN 7.334 thousand, from the sale of finished goods in the amount of PLN 14.141 thousand and from rolling stock repairs in the amount of PLN 13.449 thousand.

7. Expenses by kind

7.1 Depreciation / amortization and impairment

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Depreciation of property, plant and equipment	278 580	139 037	278 390	141 684
Amortization of intangible assets	8 533	4 235	9 919	4 734
Recognized / (released) impairment allowances:				
Property, plant and equipment	247	247	35 829	35 361
Total	287 360	143 519	324 138	181 779

7.2 Consumption of raw materials and energy

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Consumption of fuel	87 616	42 024	74 358	38 123
Consumption of materials	49 063	24 668	51 938	26 962
Consumption of electricity, gas and water	204 301	103 591	200 103	98 423
Recognized / (released) impairment losses	(444)	(51)	(557)	(239)
Other	705	366	711	466
Total	341 241	170 598	326 553	163 735

7.3 External services

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Access to infrastructure connections	341 032	179 312	319 524	164 891
Repair services	17 789	11 085	18 905	10 589
Rental and lease fees for real properties and rolling stock	77 734	38 209	98 666	46 192
Transport services	214 641	103 011	217 062	120 421
Telecommunications services	3 796	1 853	4 334	2 091
Legal, advisory and similar services	9 164	4 693	10 478	5 925
IT services	23 014	11 554	24 118	11 578
Services related to property maintenance and operation of fixed assets	13 660	7 077	15 087	8 125
Cargo services	10 478	5 345	13 031	6 628
Reclamation services	18 225	9 617	23 769	14 672
Siding services	5 926	3 440	5 355	2 537
Other services	24 165	12 422	23 797	13 909
Total	759 624	387 618	774 126	407 558

7.4 Employee benefits

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Salaries and wages	545 499	274 690	567 903	281 614
Costs of social insurance	117 167	58 210	123 875	61 330
Contributions to Company Social Benefits Fund	13 873	7 246	13 324	6 669
Other employment benefits	19 744	9 129	17 708	8 066
Post-employment benefits	3 601	1 342	2 983	1 733
Changes in provisions for employee benefits	52 974	31 428	25 263	7 234
Other costs of employee benefits	802	430	1 936	998
Total	753 660	382 475	752 992	367 644

7.5 Other expenses by kind

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Business travels	15 619	8 081	15 964	8 269
Insurances	6 579	3 355	6 110	3 077
Other	5 240	2 946	4 216	3 381
Total	27 438	14 382	26 290	14 727

8. Other operating revenue and expenses

8.1 Other operating revenue

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Gains on disposal				
Gain on the sale of non-financial fixed assets ⁽¹⁾	6 469	283	1 806	656
Released impairment losses				
Trade receivables	2 140	980	366	145
Other receivables	28	23	70	64
	<u>2 168</u>	<u>1 003</u>	<u>436</u>	<u>209</u>
Other				
Penalties and damage compensation	8 215	4 705	8 235	3 830
Release of provision for fine from UOKiK	-	-	357	-
Release of other provisions	3 262	2 570	3 241	2 000
Interest on trade and other receivables	1 110	556	1 074	840
Net results on foreign exchange on trade receivables and trade payables	-	-	3 939	799
Grants	409	268	215	91
Other	1 546	1 093	1 248	572
Total	<u>23 179</u>	<u>10 478</u>	<u>20 551</u>	<u>8 997</u>

⁽¹⁾ In the period of 6 months ended 30 June 2017 the item consists primarily of the profit earned on the sale of a property in Plzen.

8.2 Other operating expenses

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Recognized impairment losses				
Trade receivables	3 141	2 356	67 751	63 756
Other receivables	-	-	48	23
	<u>3 141</u>	<u>2 356</u>	<u>67 799</u>	<u>63 779</u>
Other				
Penalties and damage compensation	4 037	2 074	5 044	2 563
Costs of liquidating non-current and current assets	1 333	595	2 502	1 122
Provision for fines from UOKiK	957	957	2 032	-
Other provisions	910	581	2 304	1 633
Court and collection costs	713	367	628	428
Costs of transport benefits for non-employees	800	507	1 372	417
Interest on trade and other payables	185	44	1 129	1 061
Net results on foreign exchange on trade receivables and trade payables	4 838	2 227	-	-
Donations	1 098	85	-	-
Other	762	393	29	(308)
Total	<u>18 774</u>	<u>10 186</u>	<u>82 839</u>	<u>70 695</u>

9. Financial revenue and expenses

9.1 Financial revenue

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Interest income				
Bank deposits and accounts	4 399	1 899	217	36
Loans granted	266	185	286	151
Other (including interest on state settlements)	135	109	89	16
	4 800	2 193	592	203
Dividend income from capital investments	-	-	162	162
Total interest and dividend income	4 800	2 193	754	365
Other				
Gain on valuation of assets and liabilities measured at fair value through profit or loss, of which:				
Valuation of liability relating to put option for non-controlling interests	4 694	(665)	-	-
Valuation of forward contracts	162	48	-	-
	4 856	(617)		
Net result on foreign exchange differences	4 584	2 577	-	-
Other	-	-	20	19
Total	14 240	4 153	774	384

9.2 Financial expenses

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (restated*)	3 months ended 30/06/2016 (restated*)
Interest expense				
Interest on loans and borrowings	14 457	7 104	8 048	4 076
Interest on liabilities under finance lease agreements	3 241	1 661	4 591	2 259
Interest on long-term liabilities	410	148	1 624	729
Other (including interest on state settlements)	896	83	1 170	543
Total interest expense	19 004	8 996	15 433	7 607
Other				
Loss on the valuation of financial assets and liabilities measured at fair value through profit or loss, of which:				
Valuation of liability relating to put option for non-controlling shares	-	-	6 415	5 559
Valuation of forward contracts	-	-	751	1 562
	10 305	5 385	7 166	7 121
Unwinding discount on employee benefits provision	-	-	4 783	3 504
Net result on foreign exchange differences	1 184	928	1 163	772
Total	30 493	15 309	38 581	24 022

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

10. Income tax

10.1 Income tax recognized in profit or loss

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Current income tax				
Current tax expense	33 981	23 372	2 558	1 979
Adjustments recognized in current year relating to tax from previous years	394	(1)	(62)	(62)
	<u>34 375</u>	<u>23 371</u>	<u>2 496</u>	<u>1 917</u>
Deferred income tax				
Deferred tax formed in the reporting period	(23 386)	(13 914)	(37 192)	(28 378)
Income tax recognized in profit or loss	<u>10 989</u>	<u>9 457</u>	<u>(34 696)</u>	<u>(26 461)</u>

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

10.2 Tax Group

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

10.3 Deferred tax recognized in other comprehensive income

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)	3 months ended 30/06/2016 (unaudited)
Deferred tax on re-measurement of fair value of financial instruments designated as cash flow hedges	3 838	151	(687)	(802)
Actuarial gains / (losses) on post-employment benefit plans	(4 755)	(4 755)	-	-
Foreign exchange differences on revaluation of deferred tax balances of foreign entities recognized in other comprehensive income ⁽¹⁾	(1 589)	3 274	4 045	3 949
Deferred tax recognized in other comprehensive income	<u>(2 506)</u>	<u>(1 330)</u>	<u>3 358</u>	<u>3 147</u>

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

10.4 Deferred income tax assets and liabilities

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

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Deferred income tax assets	132 130	107 554
Deferred income tax liabilities	(105 359)	(106 675)
Total	26 771	879

10.4.1 Deferred income tax movements

6 months ended 30/06/2017 (unaudited)	As at 01/01/2017 (audited)	Recognized in profit or loss	Recognized in other comprehensive income	Foreign exchange differences on translation of deferred income tax recognized in other comprehensive income	As at 30/06/2017 (unaudited)
Temporary differences relating to deferred income tax assets / (liabilities):					
Property, plant and equipment, intangible assets and non-current assets held for sale (including finance leases)	(183 033)	21 774	-	1 818	(159 441)
Long-term liabilities	(97)	78	-	-	(19)
Inventories	936	(1 175)	-	(6)	(245)
Receivables - impairment allowance	7 138	32	-	(7)	7 163
Interest accrued on assets	(241)	(205)	-	-	(446)
Interest accrued on 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
Foreign exchange differences	2 235	(817)	(1 768)	-	(350)
Valuation of derivative instruments	218	(31)	(2 070)	-	(1 883)
Other	-	(1 511)	-	-	(1 511)
	(39 890)	26 196	917	1 722	(11 055)
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 income tax assets on tax losses to be used in future periods represented the loss of the Parent Company in the amount of PLN 140.877 thousand, and of the subsidiary companies in the amount of PLN 58.204 thousand. The tax loss in the amount of PLN 168.220 thousand will be deductible in the five consecutive tax years following the end of operations of the Tax Group. The other tax losses will be deductible for five consecutive years from their incurrence. The Parent Company's Management is of the opinion that as at 30 June 2017 there is no risk of being unable to realize the above assets.

10.4.1 Deferred income tax movements (continued)

6 months ended 30/06/2016 (unaudited)	As at 01/01/2016 (audited)	Recognized in profit or loss	Recognized in other comprehensive income	Foreign exchange differences on translation of deferred income tax recognized in other comprehensive income	As at 30/06/2016 (unaudited)
Temporary differences relating to deferred income tax assets / (liabilities):					
Property, plant and equipment, intangible assets and non-current assets held for sale (including finance leases)	(185 146)	13 841	-	(4 344)	(175 649)
Trade payables	4 608	(4 608)	-	-	-
Long-term liabilities	(543)	311	-	-	(232)
Inventories	466	401	-	9	876
Receivables - impairment allowance	6 856	870	-	17	7 743
Interest accrued on assets	(157)	(56)	-	-	(213)
Interest accrued on liabilities	(6)	(5)	-	-	(11)
Provisions for employee benefits	133 800	2 421	-	99	136 320
Other provisions	4 652	(114)	-	104	4 642
Accrued expenses	7 265	253	-	-	7 518
Deferred income	(4 731)	(2 139)	-	-	(6 870)
Unpaid employee benefits	7 188	(345)	-	11	6 854
Foreign exchange differences	1 582	117	677	-	2 376
Valuation of derivative instruments	450	91	10	(19)	532
Other	858	(2 130)	-	-	(1 272)
	(22 858)	8 908	687	(4 123)	(17 386)
Unused tax losses ⁽¹⁾	9 092	28 284	-	78	37 454
Total	(13 766)	37 192	687	(4 045)	20 068

⁽¹⁾ As at 30 June 2016 deferred income tax assets on tax losses to be used in future periods represented the loss of the Parent Company in the amount of PLN 93.180 thousand, and of the subsidiary companies in the amount of PLN 103.946 thousand.

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

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Deferred income tax assets on the following tax losses were not recognized as at the balance sheet date	115 817	115 682

The amount of tax losses not included in the calculation of a deferred income tax asset as at 30 June 2017 represents the losses incurred by the companies of the AWT Group in the amount of PLN 104.973 thousand (AWT B.V. in the amount of PLN 60.219 thousand, AWT a.s. (legal successor of AWT Coal Logistics s.r.o.) in the amount of PLN 30.439 thousand, AWT Rail HU Zrt. in the amount of PLN 14.315 thousand), as well as the loss of PKP CARGOTABOR USŁUGI Sp. z o.o. in the amount of PLN 7.540 thousand and of CARGOSPED Terminal Braniewo Sp. z o.o. in the amount of PLN 3.304 thousand. Whereas as at 31 December 2016 the tax losses not included in the calculation of a deferred income tax asset represented the losses of the companies of the AWT Group in the amount of PLN 104.774 thousand (AWT B.V. in the amount of PLN 59.333 thousand, AWT Coal Logistics s.r.o. in the amount of PLN 30.930 thousand and AWT Rail HU Zrt. in the amount of PLN 14.511 thousand), the loss of PKP CARGOTABOR USŁUGI Sp. z o.o. in the amount of PLN 7.540 thousand and of CARGOSPED Terminal Braniewo Sp. z o.o. in the amount of PLN 3.368 thousand.

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

Year	2017	2018	2019	2020	2021	2022 and later	Total
Unused tax losses	5 484	6 047	17 623	19 359	40 096	27 208	115 817

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

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

11. Property, plant and equipment

6 months ended 30 June 2017 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Plant, equipment and machinery	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
As at 1 January 2017 (audited)	162 389	742 757	381 563	5 925 512	39 889	44 274	7 296 384
<i>Additions / (disposals):</i>							
Acquisition	-	-	-	-	-	199 849	199 849
Foreign exchange differences on translation of financial statements of foreign entities	(333)	(2 058)	(598)	(13 441)	(35)	(182)	(16 647)
Transfer of fixed assets under construction	9	4 225	8 012	187 790	429	(200 465)	-
Sale	(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 June 2017 (unaudited)	160 483	736 236	387 254	5 973 436	38 950	43 589	7 339 948
Accumulated depreciation							
As at 1 January 2017 (audited)	-	167 999	241 431	1 953 606	31 223	-	2 394 259
<i>Additions / (disposals):</i>							
Depreciation charges	-	16 863	17 057	243 401	1 259	-	278 580
Foreign exchange differences on translation of financial statements of foreign entities	-	(166)	(115)	(1 462)	(6)	-	(1 749)
Sale	-	(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 June 2017 (unaudited)	-	177 833	256 896	2 090 343	31 154	-	2 556 226
Accumulated impairment							
As at 1 January 2017 (audited)	2 380	1 924	317	194 486	8	2 460	201 575
<i>Additions / (disposals):</i>							
Recognition of impairment loss	-	-	-	-	-	247	247
Sale	-	-	-	(5)	-	-	(5)
Liquidation	-	(1 559)	-	(8 407)	-	-	(9 966)
Foreign exchange differences on translation of financial statements of foreign entities	(3)	(2)	-	(1 578)	-	-	(1 583)
As at 30 June 2017 (unaudited)	2 377	363	317	184 496	8	2 707	190 268
Net value							
As at 1 January 2017 (audited)	160 009	572 834	139 815	3 777 420	8 658	41 814	4 700 550
<i>of which finance leases</i>	<i>-</i>	<i>-</i>	<i>8 633</i>	<i>319 689</i>	<i>-</i>	<i>-</i>	<i>328 322</i>
As at 30 June 2017 (unaudited)	158 106	558 040	130 041	3 698 597	7 788	40 882	4 593 454
<i>of which finance leases</i>	<i>-</i>	<i>-</i>	<i>6 871</i>	<i>259 370</i>	<i>-</i>	<i>-</i>	<i>266 241</i>

11. Property, plant and equipment (continued)

6 months ended 30 June 2016 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Plant, equipment and machinery	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
As at 1 January 2016 (audited)	153 323	735 423	362 904	5 441 611	39 283	30 332	6 762 876
<i>Additions / (disposals):</i>							
Acquisition	-	-	-	-	-	260 578	260 578
Finance leases	-	-	-	2 980	-	-	2 980
Reclassification from assets held for sale	6 489	-	-	94 689	-	-	101 178
Foreign exchange differences on translation of financial statements of foreign entities	542	3 620	1 380	28 000	56	260	33 858
Transfer of fixed assets under construction	-	1 431	5 428	238 440	417	(245 716)	-
Grants	-	-	-	-	-	(5 407)	(5 407)
Sale	-	-	(192)	(1 786)	(83)	-	(2 061)
Liquidation	-	-	(1 131)	(53 885)	(346)	(120)	(55 482)
Other	-	-	-	(38)	-	-	(38)
As at 30 June 2016 (unaudited)	160 354	740 474	368 389	5 750 011	39 327	39 927	7 098 482
Accumulated depreciation							
As at 1 January 2016 (audited)	-	129 544	215 838	1 508 843	28 717	-	1 882 942
<i>Additions / (disposals):</i>							
Depreciation charges	-	16 087	17 011	243 295	1 997	-	278 390
Reclassification from assets held for sale	-	-	-	41 234	-	-	41 234
Foreign exchange differences on translation of financial statements of foreign entities	-	217	255	2 314	7	-	2 793
Sale	-	-	(135)	(1 216)	(78)	-	(1 429)
Liquidation	-	-	(1 032)	(51 337)	(345)	-	(52 714)
Other	-	-	-	(6)	-	-	(6)
As at 30 June 2016 (unaudited)	-	145 848	231 937	1 743 127	30 298	-	2 151 210
Accumulated impairment							
As at 1 January 2016 (audited)	751	8 809	317	147 799	8	2 502	160 186
<i>Additions / (disposals):</i>							
Recognition of impairment loss	133	335	-	35 361	-	-	35 829
Reclassification from assets held for sale	1 495	-	-	22 451	-	-	23 946
Use of impairment loss	-	-	-	(430)	-	-	(430)
Foreign exchange differences on translation of financial statements of foreign entities	1	2	-	-	-	-	3
As at 30 June 2016 (unaudited)	2 380	9 146	317	205 181	8	2 502	219 534
Net value							
As at 1 January 2016 (audited)	152 572	597 070	146 749	3 784 969	10 558	27 830	4 719 748
<i>of which finance leases</i>	<i>-</i>	<i>-</i>	<i>12 427</i>	<i>346 493</i>	<i>-</i>	<i>-</i>	<i>358 920</i>
As at 30 June 2016 (unaudited)	157 974	585 480	136 135	3 801 703	9 021	37 425	4 727 738
<i>of which finance leases</i>	<i>-</i>	<i>-</i>	<i>10 140</i>	<i>331 529</i>	<i>-</i>	<i>-</i>	<i>341 669</i>

12. Subsidiaries

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

No.	Name of subsidiary	Core business	Place of registration and operations	Percent of shares held by the Group	
				As at 30/06/2017	As at 31/12/2016
1	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Services in support of land transport, reloading of cargo and wholesale and retail of waste and scrap	Małaszewicze	100,0%	100,0%
2	PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	Reloading of cargo at other reloading centers	Żurawica	100,0%	100,0%
3	PKP CARGO SERVICE Sp. z o.o.	Comprehensive siding services	Warsaw	100,0%	100,0%
4	PKP CARGO CONNECT Sp. z o.o.	Shipping services	Warsaw	100,0%	100,0%
5	PKP CARGOTABOR Sp. z o.o.	Maintenance and repair of rolling stock	Warsaw	100,0%	100,0%
6	PKP CARGOTABOR USŁUGI Sp. z o.o.	Collection, processing and neutralization of waste and recovery of raw materials	Warsaw	100,0%	100,0%
7	CARGOTOR Sp. z o.o.	Management of logistics and service infrastructure in the form of railway sidings and railroad tracks. Provision of such infrastructure to rail carriers.	Warsaw	100,0%	100,0%
8	CARGOSPED Terminal Braniewo Sp. z o.o.	Reloading of cargo, customs warehouse	Braniewo	100,0%	100,0%
9	Advanced World Transport B.V.	Holding and financial activities	Amsterdam	80,0%	80,0%
10	Advanced World Transport a.s. ⁽¹⁾	Provision of comprehensive services: rail transport, rail shipping, siding services, rolling stock repairs	Ostrava	80,0%	80,0%
11	AWT ROSCO a.s.	Rolling stock management and rentals	Ostrava	80,0%	80,0%
12	AWT Čechofracht a.s.	Rail shipping and customs services	Prague	80,0%	80,0%
13	AWT Rekultivace a.s.	Provision of comprehensive services: land reclamation, construction services, waste management, landscape planning	Havířov-Prostřední Sucha	80,0%	80,0%
14	AWT Rail HU Zrt.	Provision of comprehensive services: rail transport, rail shipping, siding services	Budapest	80,0%	80,0%
15	AWT Coal Logistics s.r.o. ⁽¹⁾	Rail shipping	Prague	-	80,0%

⁽¹⁾ Two companies from the AWT Group merged effective 1 June 2017: Advanced World Transport a.s. acquired AWT Coal Logistics s.r.o., as a result of which AWT Coal Logistics s.r.o. ceased to exist as a separate entity.

12. Subsidiaries (continued)

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

No.	Name of subsidiary	Core business	Place of registration and operations	Percent of shares held by the Group	
				As at 30/06/2017	As at 31/12/2016
16	ONECARGO Sp. z o.o.	Rail transport of freight	Warsaw	100,0%	100,0%
17	ONECARGO CONNECT Sp. z o.o.	Services in support of land transport	Warsaw	100,0%	100,0%
18	Trade Trans Karya Sp. z o.o. in bankruptcy ⁽¹⁾	Reloading of cargo, customs warehouse	Lublin	100,0%	100,0%
19	Transgaz S.A.	Shipping agency	Zalesie k. Małaszewicz	64,0%	64,0%
20	Trade Trans Finance Sp. z o.o.	Financial and accounting services	Warsaw	100,0%	100,0%
21	PKP CARGO CONNECT GmbH	Customs and shipping services	Hamburg	100,0%	100,0%
22	PPHU "Ukpol" Sp. z o.o.	Reloading, commercial services	Werchrata	100,0%	100,0%
23	AWT Rail SK a. s.	Rail transport, rail shipping	Bratislava	80,0%	80,0%
24	AWT Rail PL Sp. z o.o. in liquidation	Rail shipping	Rybnik	80,0%	80,0%
25	AWT DLT s.r.o.	Siding services	Kladno	80,0%	80,0%
26	AWT Trading s.r.o.	Sale of military products	Petrvald	80,0%	80,0%
27	AWT Rekultivace PL Sp. z o.o.	Provision of comprehensive services: land reclamation, construction services, waste management, landscape planning	Cieszyn	80,0%	80,0%
28	RND s.r.o.	Rail shipping, transport monitoring	Olomouc	40,8%	40,8%

⁽¹⁾ On 2 February 2017 the District Court for Lublin-Wschód in Lublin issued a decision declaring Trade Trans Karya Sp. z o.o. bankrupt.

13. Investments accounted for under the equity method

	6 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (restated*)
Opening balance	58 219	57 240
Share in profits / (losses) of investments accounted for under the equity method	1 183	2 002
Change in equity arising out of dividend payment	(4 931)	(2 157)
Foreign exchange differences on translation of financial statements of foreign entities	(595)	179
Closing balance	53 876	57 264

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

13.1 Detailed information on entities accounted for under the equity method

Name of entity accounted for under the equity method	Percent of shares held by the Group		Carrying amount	
	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)	As at 30/06/2017 (unaudited)	As at 31/12/2016 (restated*)
COSCO Shipping Lines (POLAND) Sp. z o.o.	20,0%	20,0%	276	763
Pol – Rail S.r.l	50,0%	50,0%	7 804	8 088
Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	50,0%	50,0%	20 831	20 983
Trade Trans Karya Sp. z o.o. in bankruptcy	100,0%	100,0%	-	-
Transgaz S.A.	64,0%	64,0%	6 024	6 897
Trade Trans Finance Sp. z o.o.	100,0%	100,0%	7 880	7 830
PPHU "Ukpol" Sp. z o.o.	100,0%	100,0%	-	-
Rentrans Cargo Sp. z o.o.	29,3%	29,3%	8 044	8 477
Gdański Terminal Kontenerowy S.A. in liquidation ⁽¹⁾	41,9%	41,9%	-	-
AWT Rail SK a. s.	80,0%	80,0%	3 017	5 181
Total			53 876	58 219

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

⁽¹⁾ An Ordinary General Meeting of Gdański Terminal Kontenerowy S.A. was held on 14 June 2017, at which a resolution was passed to open the company's liquidation proceeding.

14. Other financial assets

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Derivative instruments		
Currency forwards and spots	10 749	235
Investments in shares		
Shares of Polish entities ⁽¹⁾	7 091	7 141
Shares of foreign entities ⁽¹⁾	1 341	1 360
	8 432	8 501
Loans and receivables		
Loans granted to related parties	1 065	796
Deposits for over 3 months	307 309	-
	308 374	796
Other		
Other	-	9
Total	327 555	9 541
Non-current assets	11 466	8 649
Current assets	316 089	892
Total	327 555	9 541

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

15. Other non-financial assets

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Expenses settled in time		
Contribution to Company Social Benefits Fund	16 915	-
Lease fees	13 633	14 210
Insurances	12 990	7 667
Transport benefits for eligible persons	7 200	-
Prepaid electrical energy	5 495	14 673
Other prepaid expenses	5 726	5 583
	<u>61 959</u>	<u>42 133</u>
Other		
Advances towards the purchase of fixed assets	17 254	10 477
Other	262	654
	<u>17 516</u>	<u>11 131</u>
Total	79 475	53 264
Non-current assets	31 720	25 987
Current assets	47 755	27 277
Total	79 475	53 264

16. Inventories

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Raw materials ⁽¹⁾	133 492	120 619
Semi-finished products	2 609	6 027
Merchandise	1 578	1 872
Impairment allowance	(6 833)	(7 329)
Total	130 846	121 189

⁽¹⁾ The increase in the value of inventories in the period of 6 months ended on 30 June 2017 was caused primarily by the Parent Company's decision to liquidate 94 engines while recovering spare parts and scrap. The residual value of the engines, which was recognized in inventories, amounted to PLN 9.762 thousand.

17. Trade and other receivables

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Trade receivables	782 488	768 873
Impairment allowance for trade receivables	(151 141)	(152 873)
	<u>631 347</u>	<u>616 000</u>
State receivables	3 800	5 216
Guarantees, security deposits and bid bonds	3 006	1 415
Dividend receivables	2 208	-
VAT settlements	20 909	17 754
Other receivables	2 367	1 704
Total	663 637	642 089
Non-current assets	1 661	2 223
Current assets	661 976	639 866
Total	663 637	642 089

18. Cash and cash equivalents

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

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Cash in hand and at bank	157 580	282 870
Bank deposits for up to 3 months	166 833	473 049
Total	324 413	755 919

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

19. Equity

19.1 Share capital

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
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Share capital consists of:

Ordinary shares - fully paid up and registered	2 239 346	2 239 346
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As at 30 June 2017 and 31 December 2016 the Parent Company's share capital consisted of ordinary shares with a nominal value of PLN 50 per share. Each fully paid up ordinary share, with a nominal value of PLN 50, is equal to a single vote at a general meeting and entitled to a dividend.

No changes were made in the Parent Company's share capital in the period of 6 months ended 30 June 2017, or the period of 6 months ended 30 June 2016.

19.2 Share premium

The changes made in the Group's share premium in the period of 6 months ended 30 June 2017 were the result of a resolution passed on 30 June 2017 by the Ordinary Shareholders Meeting of CARGOSPED Terminal Braniewo Sp. z o.o. on partially covering the net loss for the year 2016 from the share premium.

19.3 Retained earnings

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

20. Earnings per share

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

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (restated*)	3 months ended 30/06/2016 (restated*)
Profit/loss attributable to shareholders of the Parent Company	19 362	20 796	(195 252)	(128 874)

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

20.1 Basic earnings per share

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (restated*)	3 months ended 30/06/2016 (restated*)
Weighted average number of ordinary shares	44 786 917	44 786 917	44 786 917	44 786 917
Basic earnings per share (PLN per share)	0,43	0,46	(4,36)	(2,88)

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

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

20.2 Diluted earnings per share

	6 months ended 30/06/2017 (unaudited)	3 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (restated*)	3 months ended 30/06/2016 (restated*)
Weighted average number of ordinary shares	44 786 917	44 786 917	44 786 917	44 786 917
Diluted earnings per share (PLN per share)	0,43	0,46	(4,36)	(2,88)

No dilutive transactions took place in the period of 6 months ended 30 June 2017 or the period of 6 months ended 30 June 2016.

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

21. Bank loans and credit facilities

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Bank loans - pledged on assets	107 284	118 236
Bank loans - other	1 252 808	1 348 479
Borrowings from related parties	1 372	3 605
Borrowings from other parties	1 013	1 088
Total	1 362 477	1 471 408
Long-term liabilities	1 154 754	1 273 605
Short-term liabilities	207 723	197 803
Total	1 362 477	1 471 408

21.1 Change in bank loans and credit facilities

	6 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)
Opening balance	1 471 408	714 169
Taken out	50 844	275 325
Repayment	(146 208)	(64 951)
Interest accrued	(171)	-
Currency valuation	(11 256)	3 571
Foreign exchange differences on translation of financial statements of foreign entities	(2 140)	4 750
Closing balance	1 362 477	932 864

21.2 Summary of loans agreements

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

Parent Company

Type of loan	Name of bank	Currency	Pledge	Interest terms and conditions	Maturity date	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Investment loan	mBank S.A.	PLN	Bank enforcement title	WIBOR 1M + margin	30/06/2017	-	4 210
Investment loan	Bank Pekao S.A.	PLN	Bank enforcement title	WIBOR 1M + margin	31/12/2017	4 920	9 840
Investment loan	Bank Gospodarstwa Krajowego	PLN	Bank enforcement title	WIBOR 1M + margin	31/03/2021	326 391	377 478
Investment loan	European Investment Bank	PLN	None	WIBOR 3M + margin	29/05/2020	51 091	59 608
Investment loan	Bank Gospodarstwa Krajowego	EUR	Notary certified declaration of submission to execution	EURIBOR 3M + margin	20/12/2026	62 140	66 373
Investment loan	Bank Gospodarstwa Krajowego	EUR	Notary certified declaration of submission to execution	EURIBOR 3M + margin	20/12/2026	82 995	75 884
Investment loan	Bank Pekao S.A.	PLN	Notary certified declaration of submission to execution	WIBOR 3M + margin	31/12/2026	633 697	649 759
Investment loan	European Bank for Reconstruction and Development	PLN	None	WIBOR 6M + margin	25/09/2027	-	42 748
Investment loan	European Investment Bank	EUR	None	EURIBOR 3M + margin	29/08/2031	57 680	62 494
Total						1 218 914	1 348 394

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

21.2 Summary of loans agreements (continued)

Subsidiaries

Type of loan	Name of bank	Currency	Pledge	Interest terms and conditions	Maturity date	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Overdraft	PKO BP S.A.	PLN	Capped mortgage, pledge on inventory	WIBOR 1M + margin	15/07/2019	756	429
Investment loan	Bank Pekao S.A. ⁽²⁾	PLN	Notary certified declaration of submission to execution	WIBOR 3M + margin	20/12/2021	6 749	-
Investment loan	Bank Pekao S.A. ⁽²⁾	PLN	Notary certified declaration of submission to execution	WIBOR 3M + margin	31/12/2021	12 963	-
Investment loan	mBank S.A.	PLN	Guarantee granted by PKP CARGO S.A	WIBOR 1M + margin	30/06/2017	-	85
Loan	WFOŚIGW Łódź ⁽¹⁾	PLN	1) Blank promissory note 2) Irrevocable authorization to bank account 3) Guarantee granted by PKP CARGO S.A.	fixed	31/03/2024	1 013	1 088
Investment loan	Bank Pekao S.A. ⁽²⁾	PLN	Notary certified declaration of submission to execution	WIBOR 3M + margin	31/12/2021	4 240	-
Investment loan	Bank Pekao S.A. ⁽²⁾	PLN	Notary certified declaration of submission to execution	WIBOR 3M + margin	31/12/2021	9 942	-
Investment loan	ING Bank N.V. UniCredit Bank Czech Republik and Slovakia a.s. Raiffeisenbank a.s.	CZK	1) Pledge on property, plant and equipment and receivables 2) Lien on bank accounts 3) Assignment of insurance policy	PRIBOR 3M + margin	26/09/2021	47 884	48 663
Investment loan	ING Bank N.V. UniCredit Bank Czech Republik and Slovakia a.s. Raiffeisenbank a.s. ⁽¹⁾	EUR	1) Pledge on property, plant and equipment and receivables 2) Lien on bank accounts 3) Assignment of insurance policy	fixed	30/06/2021	58 644	69 144
Loan	AWT Rail SK a.s. ⁽¹⁾	EUR	None	fixed	31/12/2017	1 372	3 605
Total						143 563	123 014

⁽¹⁾ As at 30 June 2017 interest rates on bank credits and loans with a fixed interest rate fell within the range of 0,06% do 4%.

⁽²⁾ In February and March 2017 the companies: PKP CARGO SERVICE Sp. z o.o., CARGOTOR Sp. z o.o., PKP CARGOTABOR Sp. z o.o., PKP CARGO CONNECT Sp. z o.o. concluded credit agreements with Bank Pekao S.A. to refinance fixed assets purchased in the years 2015 - 2016.

21.3 Unused credit lines

Type	Name of bank	Availability period	Currency	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Investment loan	European Investment Bank	31/12/2016	PLN	-	155 000
Investment loan	European Investment Bank	19/07/2020	EUR	108 832	113 918
Investment loan	Bank Gospodarstwa Krajowego ⁽¹⁾	27/12/2017	EUR	276 272	300 171
Investment loan	Bank Pekao S.A.	31/12/2016	PLN	-	50 500
Investment loan	European Bank for Reconstruction and Development	31/12/2016	EUR	-	398 160
Overdraft	mBank S.A. ⁽²⁾	31/05/2017	PLN	-	100 000
Overdraft	Bank Pekao S.A. ⁽³⁾	25/05/2018	PLN	100 000	-
Overdraft	PKO BP S.A.	15/07/2019	PLN	244	572
Total				485 348	1 118 321

⁽¹⁾ On 14 March 2017 an annex was concluded to the credit agreement with Bank Gospodarstwa Krajowego, based on which the availability of the credit was extended from 31 December 2016 to 27 December 2017.

⁽²⁾ An overdraft agreement with mBank S.A. ended on 31 May 2017.

⁽³⁾ On 26 May 2017 an overdraft agreement was concluded with Bank Pekao S.A.

The above changes in overdraft agreements are caused by a change in the bank that handles the cash pooling agreement covering the selected companies belonging to the PKP CARGO Group.

21.4 Breaches of credit agreements

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

22. Other financial liabilities

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Derivative instruments		
Interest rate swap (IRS)	682	1 042
Currency forwards and swaps	-	185
Liability relating to put option for non-controlling shares ⁽¹⁾	-	118 704
Liability relating to the acquisition of shares of AWT B.V. ⁽¹⁾	114 116	-
Total	114 798	119 931
Long-term liabilities	-	1 042
Short-term liabilities	114 798	118 889
Total	114 798	119 931

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

23. Finance lease liabilities and leases with purchase option

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

	As at 30/06/2017 (unaudited)			As at 31/12/2016 (audited)		
	Minimum lease payments	Future financial liabilities	Present value of minimum lease payments	Minimum lease payments	Future financial liabilities	Present value of minimum lease payments
Up to 1 year	53 835	(4 535)	49 300	65 173	(5 606)	59 567
Over 1 to 5 years	110 982	(8 953)	102 029	113 170	(10 890)	102 280
Over 5 years	8 352	(277)	8 075	39 348	(705)	38 643
Total	173 169	(13 765)	159 404	217 691	(17 201)	200 490
Long-term	119 334	(9 230)	110 104	152 518	(11 595)	140 923
Short-term	53 835	(4 535)	49 300	65 173	(5 606)	59 567
Total	173 169	(13 765)	159 404	217 691	(17 201)	200 490

24. Trade and other payables

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Trade payables	303 382	327 389
Accruals	53 679	49 826
Liabilities relating to purchase of non-financial fixed assets	15 560	46 402
Security related liabilities (bonds, security deposits, guarantees)	20 150	20 289
State liabilities	97 193	103 170
Employee liabilities	79 468	78 836
Subsidies received	8 101	8 490
Other liabilities ⁽¹⁾	12 463	3 287
VAT settlements	6 515	34 177
Total	596 511	671 866
Long-term liabilities	1 152	1 845
Short-term liabilities	595 359	670 021
Total	596 511	671 866

⁽¹⁾ As at 30 June 2017 other liabilities consist primarily of a statutory contribution to the Social Benefits Fund in the amount of PLN 8,244 thousand.

25. Employee benefits

As at 30 June 2017 the Parent Company performed an actuarial valuation of its provisions for employee benefits further to the inclusion in the valuation of a change in discount rate and a rise in wages agreed with the employees effective September 2017. The Parent Company's share in the value of the Group's provisions for employee benefits determined using actuarial methods amounts to more than 90%. The valuation of provisions for employee benefits as at 30 June 2017 and as at 31 December 2016 were based on the following assumptions:

	Valuation as at	
	30/06/2017 %	31/12/2016 %
Discount rate	3,15	3,5
Average assumed annual growth of calculation base for provision for retirement compensation, jubilee bonuses	7,6 in 2017, 1,5 in subsequent years	1,35
Assumed growth in price of entitlement for transport benefits	0 - 2,5	0 - 2,5
Average assumed annual growth of calculation base for contribution to Company Social Benefits Fund	3,5 - 5	3,5 - 8,4
Weighted average employee mobility factor	2,3	2,3
Inflation (annually)	1,3 - 2,5	1,3 - 2,5

25. Employee benefits (continued)

The 30 June 2017 valuation of provisions for employee benefits at the other companies was based on the assumptions used as at 31 December 2016.

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

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
<u>Defined post-employment benefit plans</u>		
– retirement compensation	163 052	153 230
– contributions to Company Social Benefits Fund for retirees	142 587	128 614
– death benefits	7 258	6 836
– transport benefits	33 200	33 286
<u>Other employee benefits</u>		
– jubilee bonuses	286 019	268 875
– other employee benefits (unused annual leave / bonuses)	52 659	33 986
Total	684 775	624 827
Long-term liabilities	562 863	525 571
Short-term liabilities	121 912	99 256
Total	684 775	624 827

26. Other provisions

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Provision for fines from antimonopoly office UOKiK	17 412	16 455
Reclamation provision	4 875	4 908
Provision for onerous contracts	8 030	8 159
Other	18 653	21 848
Total	48 970	51 370
Long-term provisions	24 079	26 420
Short-term provisions	24 891	24 950
Total	48 970	51 370

Provision for fines from antimonopoly office UOKiK

As at 30 June 2017 and 31 December 2016 the provision represented the Parent Company's Management Board's estimate in connection with the likelihood of payment of two fines imposed by the Office of Competition and Consumer Protection (UOKiK).

In the period of 6 months of 2017 a change was made in the value of provisions for a fine imposed on the Parent Company based on decision RWR 44/2012 issued by the President of UOKiK on 31 December 2012, finding that the Parent Company made it difficult for its business partner to compete with shipping companies belonging to the PKP CARGO Group. A fine of PLN 16.576 thousand was imposed. The Parent Company appealed the decision, as a result of which on 23 November 2015 the District Court in Warsaw changed the appealed decision and lowered the initially imposed fine from PLN 16.576 thousand to PLN 2.231 thousand. Consequently, as at 31 December 2015 the Parent Company revalued the provision to the amount of PLN 2.231 thousand. Both parties appealed the ruling of the court of first instance. On 24 August 2017 the Appellate Court in Warsaw issued a ruling changing the decision of the court of first instance and raising the fine to PLN 3.188 thousand. As the ruling is legally binding, as at 30 June 2017 the Parent Company raised its provision for the said fine by the amount of PLN 957 thousand.

With regard to the second fine, there have been no circumstances making it necessary to revalue the existing provision of PLN 14.224 thousand.

Reclamation provision

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

26. Other provisions (continued)

Provision for onerous contracts

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

Other provisions

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

27. Financial instruments

27.1 Categories and classes of financial instruments

Financial assets by category and class	Note	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Hedging financial instruments			
Derivative instruments	14	10 749	235
Financial assets available for sale			
Shares of unlisted companies	14	8 432	8 501
Loans and receivables			
Trade receivables	17	631 347	616 000
Loans granted	14	1 065	796
Bank deposits for over 3 months	14	307 309	-
Other	14	-	9
Cash and cash equivalents	18	324 413	755 919
		<u>1 264 134</u>	<u>1 372 724</u>
Total		1 283 315	1 381 460

Financial liabilities by category and class	Note	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Financial liabilities measured at fair value through profit or loss			
Liabilities relating to put option for non-controlling shares	22	-	118 704
Hedging financial instruments ⁽¹⁾			
Derivative instruments	22	682	1 227
Bank loans and credit facilities	21	<u>202 779</u>	<u>204 711</u>
		203 461	205 938
Financial liabilities measured at amortized cost			
Bank loans and credit facilities	21	1 159 698	1 266 697
Trade payables	24	357 061	377 215
Liabilities relating to purchase of non-financial fixed assets	24	15 560	46 402
Liability relating to the acquisition of shares of AWT B.V.	22	<u>114 116</u>	<u>-</u>
		1 646 435	1 690 314
Financial liabilities excluded from the scope of IAS 39	23	159 404	200 490
Total		2 009 300	2 215 446

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

27.1 Categories and classes of financial instruments (continued)

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

The Parent Company has established the following hedging instruments:

- investment loans expressed in EUR starting from 1 January 2016. The hedged cash flows are being realized since February 2017. As at 30 June 2017 the nominal value of the hedging instrument was EUR 47.978 thousand, which is the equivalent of PLN 202.779 thousand,
- currency forward contracts starting from 1 June 2016. The hedged cash flows are being realized since July 2016. As at 30 June 2017 the value of the hedging instrument was PLN 8.977 thousand.

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

- interest rate swaps (IRS) to hedge cash flows relating to the future payment of lease payables at variable rates. As at 30 June 2017 the value of the liabilities arising out the hedging instrument is PLN 682 thousand,
- currency forwards and swaps on the EUR/PLN currency pair, to hedge future cash flows. As at 30 June 2017 the value of the assets arising out of the valuation of the hedging instrument is PLN 1.772 thousand.

The effect of hedge accounting valuation for the period of 6 months ended 30 June 2017 and for the period of 6 months ended 30 June 2016 on the interim statement of comprehensive income is presented in Note 27.5 to these Interim Condensed Consolidated Financial Statements.

27.2 Fair value hierarchy

As at 30 June 2017 and as at 31 December 2016 financial instruments measured at fair value consisted of derivative financial instruments and the liabilities relating to put option for non-controlling shares. The maturity date of the derivative instruments falls after the end of the reporting period, whereas the liabilities relating to put option for non-controlling shares were settled in the period of 6 months ended 30 June 2017.

Financial assets and liabilities measured at fair value	As at 30/06/2017 (unaudited)		As at 31/12/2016 (audited)	
	Level 2	Level 3	Level 2	Level 3
Assets	10 749	-	235	-
Derivative instruments - currency forwards and swaps	10 749	-	235	-
Liabilities	682	-	1 227	118 704
Derivative instruments - currency forwards and swaps and IRS	682	-	1 227	-
Liabilities relating to put option for non-controlling shares	-	-	-	118 704

27.3 Valuation of financial instruments measured at fair value

a) Currency forwards and swaps

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

b) Interest rate swaps IRS

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

27.3 Valuation of financial instruments measured at fair value (continued)

c) Other financial instruments

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

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

	6 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)
Opening balance	118 704	155 198
Re-measurement (gains) / losses	(4 694)	6 415
Settlement of put option for non-controlling shares ⁽¹⁾	(114 010)	-
Closing balance	-	161 613

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

There were no transfers between level 2 and 3 of the fair value hierarchy in the period of 6 months ended 30 June 2017, or in the period of 6 months ended 30 June 2016.

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

6 months ended 30/06/2017 (unaudited)	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)
Foreign exchange differences	47	(9 015)	-	4 287	4 230	(451)
Impairment / revaluation	162	(1 001)	4 694	-	-	3 855
Commissions on bank loans	-	-	-	(784)	-	(784)
Effect of cash flow hedge accounting ⁽¹⁾	3 632	-	-	-	-	3 632
Gross profit / (loss)	3 318	(4 241)	4 694	(11 026)	989	(6 266)
Change in valuation	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 the settlement of cash flow hedge accounting was disclosed in the following items of the interim consolidated statement of comprehensive income:

- revenue from the sale of services and finished goods in the amount of PLN 4.101 thousand,
- financial expenses - interest on finance lease payables in the amount of PLN (469) thousand.

6 months ended 30/06/2016 (unaudited)	Hedging financial instruments	Financial assets available for sale	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
Dividends and shares in profits	-	162	-	-	-	-	162
Interest income/(expense)	-	-	1 577	-	(10 801)	(4 591)	(13 815)
Foreign exchange differences	(10)	-	2 195	-	740	(3 769)	(844)
Impairment/revaluation	(751)	-	(67 363)	(6 415)	-	-	(74 529)
Commissions on bank loans	-	-	-	-	(514)	-	(514)
Effect of cash flow hedge accounting ⁽¹⁾	(928)	-	-	-	-	-	(928)
Gross profit / (loss)	(1 689)	162	(63 591)	(6 415)	(10 575)	(8 360)	(90 468)
Change in valuation	(3 616)	-	-	-	-	-	(3 616)
Other comprehensive income	(3 616)	-	-	-	-	-	(3 616)

⁽¹⁾ In the period of 6 months ended 30 June 2016 the effect of the settlement of cash flow hedge accounting was disclosed in the following items of the interim consolidated statement of comprehensive income:

- revenue from the sale of services and finished goods in the amount of PLN (395) thousand,
- financial expenses - interest on finance lease payables in the amount of PLN (533) thousand.

28. Transactions with related parties

28.1 Transaction with the State Treasury

In the period of 6 months ended 30 June 2017 and in the period of 6 months ended 30 June 2016, the State Treasury was the ultimate parent company of the PKP CARGO Group. In view of this, all of the companies belonging (directly or indirectly) to the State Treasury are the Group's related parties and are presented broken down into related entities from the PKP Group and other entities related to the State Treasury. In these Interim Condensed Consolidated Financial Statements the Management Board of the Parent Company has disclosed transactions with significant related parties, identified as related parties to the best of the Management's knowledge.

No individual transactions concluded between the PKP CARGO Group and the State Treasury were identified in the period of 6 months ended 30 June 2017 or in the period of 6 months ended 30 June 2016, which would be significant due to their unusual scope or amount.

28.1.1 Transactions with related parties from PKP Group

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

	6 months ended 30/06/2017 (unaudited)		6 months ended 30/06/2016 (unaudited)	
	Sales to related parties	Purchases from related parties	Sales to related parties	Purchases from related parties
Parent company (PKP S.A.)	219	33 550	235	36 325
Subsidiaries / joint ventures - unconsolidated	4 979	8 245	7 893	10 312
Associates - unconsolidated	1 234	211	850	263
Other related parties from PKP Group	18 443	326 130	19 355	309 694

	As at 30/06/2017 (unaudited)		As at 31/12/2016 (audited)	
	Receivables from related parties	Liabilities to related parties	Receivables from related parties	Liabilities to related parties
Parent company (PKP S.A.)	336	5 583	1 247	7 811
Subsidiaries / joint ventures - unconsolidated	2 169	2 313	1 389	1 559
Associates - unconsolidated	130	17	161	4
Other related parties from PKP Group	5 350	74 370	3 062	75 331

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

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

28.1.2 Transactions with other related parties of the State Treasury

No individual transactions concluded between the Group and other related parties of the State Treasury were identified in the period of 6 months ended 30 June 2017 and the period of 6 months ended 30 June 2016, which would be significant due to their unusual scope or amount. In the periods covered by these Interim Condensed Consolidated Financial Statements the Group's most significant customers that are other related parties of the State Treasury were Jastrzębska Spółka Węglowa S.A., Azoty Group, Enea Group, Węglukoks S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. Whereas in the periods covered by these Interim Condensed Consolidated Financial Statements no significant purchases were recorded from other related parties of the State Treasury.

All transactions with related parties were performed on market terms.

28.2 Loans granted to / received from related parties

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Loans granted to related parties	1 065	796
Loans received from related parties	1 372	3 605

28.3 Remuneration of key management personnel

Remuneration of members of the Parent Company's Management Board:	6 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)
--	--	--

Short-term benefits	1 348	1 780
Post-employment benefits	829	355
Severance benefits	-	459
Total	2 177	2 594

Remuneration of members of the Parent Company's Supervisory Board:	6 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)
---	--	--

Short-term benefits	639	525
Total	639	525

Remuneration of the Parent Company's other key personnel (Representatives-Managing Directors):	6 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)
---	--	--

Short-term benefits	-	752
Post-employment benefits	443	325
Severance benefits	-	28
Total	443	1 105

Remuneration of members of the Management Boards of subsidiary companies:	6 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)
--	--	--

Short-term benefits	4 801	3 342
Post-employment benefits	500	928
Severance benefits	-	470
Total	5 301	4 740

Remuneration of members of the Supervisory Boards of subsidiary companies:	6 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)
---	--	--

Short-term benefits	820	630
Total	820	630

Remuneration of other key personnel (Representatives-Managing Directors) of subsidiary companies:	6 months ended 30/06/2017 (unaudited)	6 months ended 30/06/2016 (unaudited)
--	--	--

Short-term benefits	2 971	2 605
Post-employment benefits	76	-
Severance benefits	31	145
Total	3 078	2 750

28.3 Remuneration of key management personnel (continued)

No loan or guarantee transactions were concluded with the Group by members of the key management personnel of the Parent Company or of the subsidiaries of the PKP CARGO Group in the period of 6 months ended 30 June 2017 or the period of 6 months ended 30 June 2016.

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

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

Contractual obligations relating to the acquisition of non-financial fixed assets	Agreement performance period	Unrealized value of agreement as at 30/06/2017 (unaudited)
Agreement for the supply and maintenance of engines, of which:		
- supply of 3 engines,	do 31/12/2017	39 307
- supply of computer equipment	do 31/12/2017	3 095
Periodic rolling stock repairs and reviews	do 31/12/2017	3 538
Expansion of terminal in Paskov	do 31/12/2017	2 522
Other contractual obligations	do 31/12/2017	1 423
Total		49 885

30. Contingent liabilities

	As at 30/06/2017 (unaudited)	As at 31/12/2016 (audited)
Guarantees issued by banks at the request of the Group ⁽¹⁾	119 545	142 251
Other contingent liabilities ⁽²⁾	152 253	73 525
Total	271 798	215 776

⁽¹⁾ Guarantees issued at the request of the Group

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

⁽²⁾ Other contingent liabilities

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

The rise in contingent liabilities as at 30 June 2017 is a result of a claim filed by one of the vendors, in the amount of PLN 70.000 thousand, for the payment of damages for a loss in the value of the claimant's business resulting from unfair competition practices, as well as compensation for infringement on the claimant's personal rights resulting from the Parent Company's alleged unlawful actions in the years 2010-2013. The Parent Company was notified of the claim on 22 June 2017 and is currently gathering case documentation and preparing its response to the claim. As at 30 June 2017, because the case is at an early stage, it is not possible to estimate the amount or likelihood of any future payment in connection with this claim.

On 30 January 2015 the Parent Company was notified of an administrative proceeding started by the President of the Office of Rail Transport (UTK) in the matter of imposing a fine on the Parent Company for conducting operations without proper authorization, i.e. managing rail infrastructure without security authorization. As part of the proceeding the Parent Company exercised its right to express its views on the evidence and materials collected and on the demands submitted prior to the issue of a decision. The proceeding completion date has been extended until 31 August 2017. As at 30 June 2017 the amount of the potential contingent liability arising out of the proceeding and the likelihood of its payment are not known.

31. Subsequent events

No events with an effect on the Group's operations took place after the balance sheet date.

32. Approval of financial statements

These Interim Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 30 August 2017.

The Parent Company's Management Board

Maciej Libiszewski

President of the Management Board

Grzegorz Fingas

Member of the Management Board

Arkadiusz Olewnik

Member of the Management Board

Zenon Kozendra

Member of the Management Board

Warsaw, 30 August 2017



MANAGEMENT BOARD REPORT
ON THE ACTIVITY
OF THE **PKP CARGO** GROUP
FOR H1 2017

MANAGEMENT BOARD REPORT ON THE ACTIVITY OF THE GROUP IN THE FIRST HALF OF 2017

TABLE OF CONTENTS

1. Financial highlights of the PKP CARGO Group and PKP CARGO S.A.	4
2. Organization of the PKP CARGO Group	7
2.1. Highlights on the Company and the PKP CARGO Group	7
2.2. Consolidated entities	7
2.3. Structure of the PKP CARGO Group	10
3. Information about the Parent Company	13
3.1. Composition of the Management Board and Supervisory Board of PKP CARGO S.A.	13
3.2. Structure of PKP CARGO S.A.'s share capital	18
3.3. Shareholders holding at least 5% of the total votes	18
3.4. Listing of shares held by management and supervisory board members	19
4. Key areas of operation of the PKP CARGO Group	20
4.1. Macroeconomic environment	20
4.2. Freight transportation activity	28
4.2.1. Rail transport market in Poland	28
4.2.2. Position of the PKP CARGO Group in the rail transport market in Poland	30
4.2.3. Rail freight transport market in the Czech Republic	31
4.2.4. Position of the AWT Group in the rail transport market in the Czech Republic	33
4.2.5. PKP CARGO Group's rail transport	35
4.3. Other services	38
4.4. Headcount	39
4.5. PKP CARGO Group's investments	40
4.6. Key information and events	41
4.7. Description of the key threats and risks	43
5. Analysis of the financial situation and assets of the PKP CARGO Group	49
5.1. Rules for preparing the Condensed Interim Consolidated Financial Statements	49
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 entity authorized to audit the issuer's financial statements or regarding such entity's refusal to issue a financial statements review report	49
5.3. Key economic and financial figures	49
5.3.1. Consolidated Statement of Comprehensive Income	49
5.3.2. Description of the structure of assets and liabilities of the consolidated statement of financial position	55
5.3.3. Consolidated cash flow statement	58
5.3.4. Selected consolidated financial and operating ratios	59
5.4. Factors that will affect the financial performance in the next quarter	61
5.5. The Management Board's stance with respect to the possibility of realizing previously published result forecasts for the year	64
5.6. Information about production assets	64
5.6.1. Rolling stock	64
5.6.2. Real estate	65
6. Other key information and events	66
6.1. Proceedings pending before courts, arbitration bodies or public administration authorities	66
6.2. Information on transactions with related parties	66
6.3. Information on granted guarantees and sureties of loans or credits	66
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.	66

LIST OF TABLES

Table 1 Financial highlights of the PKP CARGO Group.....	4
Table 2 Financial highlights of PKP CARGO S.A.	5
Table 3 Reconciliation of the differences between the reported and adjusted result on operating activities	6
Table 4 Composition of the PKP CARGO S.A. Management Board from 1 January 2017 to the delivery date of this report	13
Table 5 Composition of the PKP CARGO S.A. Supervisory Board from 1 January 2017 to the delivery date of this report	16
Table 6 Composition of the Audit Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2017 to the delivery date of this report.....	17
Table 7 Composition of the Nomination Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2017 to the delivery date of this report	17
Table 8 Composition of the Strategic Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2017 to the delivery date of this report	18
Table 9 Structure of PKP CARGO S.A.'s share capital	18
Table 10 Shareholder structure of PKP CARGO S.A. as at 30 June 2017 and as at the delivery date of this report.....	18
Table 11 PKP CARGO S.A. shares held by Management Board members	19
Table 12 PKP CARGO S.A. shares held by Supervisory Board members.....	19
Table 13 Freight turnover of the PKP CARGO Group in H1 and Q2 2016 and 2017.....	37
Table 14 PKP CARGO Group's freight volume in H1 and Q2 2016 and 2017	37
Table 15 Average haul of the PKP CARGO Group in H1 and Q2 2016 and 2017	37
Table 16 Headcount in H1 2017 in the PKP CARGO Group (taking into account only active employees)	39
Table 17 Headcount in H1 2016 in the PKP CARGO Group (taking into account only active employees)	39
Table 18 Average headcount in H1 2017 and H1 2016 in the PKP CARGO Group (taking into account only active employees).....	39
Table 19 Change in the headcount structure in H1 2017 in the PKP CARGO Group (taking into account only active employees)	39
Table 20 Change in the headcount structure in H1 2016 in the PKP CARGO Group (taking into account only active employees)	39
Table 21 Capital expenditures on property, plant and equipment and intangible assets in the PKP CARGO Group in H1 2017 compared to H1 2016 (PLN thousand)	40
Table 22 Key information and events which occurred in H1 2017 and after the balance sheet date	41
Table 23 Results of the PKP CARGO Group in H1 2017 and Q2 2017 compared to corresponding periods of 2016 (thousands of PLN)	50
Table 24 Adjusted results of the PKP CARGO Group in H1 2017 and Q2 2017 compared to corresponding periods of 2016 (thousands of PLN).....	50
Table 25 Operating revenue of the PKP CARGO Group in H1 2017 and Q2 2017 compared to corresponding periods of 2016 (thousands of PLN).....	51
Table 26 Operating expenses of the PKP CARGO Group in H1 2017 and Q2 2017 compared to corresponding periods of 2016 (thousands of PLN).....	52
Table 27 Adjusted operating expenses of the PKP CARGO Group in H1 2017 and Q2 2017 compared to corresponding periods of 2016 (thousands of PLN).....	52
Table 28 Financial activities of the PKP CARGO Group in H1 2017 and Q2 2017 compared to corresponding periods of 2016 (thousands of PLN).....	54
Table 29 Horizontal and vertical analysis of PKP CARGO Group's assets (thousands of PLN)	55
Table 30 Horizontal and vertical analysis of PKP CARGO Group's liabilities (thousands of PLN)	57
Table 31 Main line items in the PKP CARGO Group's cash flow statement in H1 2017 compared to the corresponding period of 2016.....	58
Table 32 Selected consolidated financial and operating ratios and adjusted selected financial and operating ratios in H1 2017 compared to the corresponding period of 2016	59
Table 33 Selected consolidated financial and operating ratios and adjusted selected financial and operating ratios in Q2 2017 compared to the corresponding period of 2016	60
Table 34 Structure of the locomotives used by the PKP CARGO Group by traction type and ownership	64
Table 35 Structure of the wagons used by the PKP CARGO Group, by ownership	65
Table 36 Real estate owned and used by the PKP CARGO Group as at 30 June 2017 compared to 31 December 2016	65

LIST OF FIGURES

Figure 1 Structure of equity links of PKP CARGO S.A. as at 30 June 2017	11
Figure 2 Structure of equity links of AWT as at 30 June 2017	12
Figure 3 Duties and responsibilities of the Parent Company's Management Board Members.....	15
Figure 4 GDP growth in Poland in 2012-2016 per annum and forecasts for the subsequent years.....	21
Figure 5 Real GDP growth in the Czech Republic in 2012-2016 and 2017 and 2018 forecasts	21
Figure 6 Coal prices on ARA vs. RB markets*	24
Figure 7 Quarterly extraction of hard coal in the Czech Republic in 2015-2017 (thousand tons)	27
Figure 8 Rail freight volumes in Poland (in million tons) in individual quarters of 2014-2017	29
Figure 9 Rail freight turnover in Poland (in billions tkm) in individual quarters of 2014-2017	29
Figure 10 Share of the PKP CARGO Group in freight volume in 2014-2017 in Poland	30
Figure 11 Share of the PKP CARGO Group in freight turnover in 2014-2017 in Poland	30
Figure 12 Market shares of the largest rail operators in Poland in H1 2017, by freight volume and freight turnover	31
Figure 13 Rail freight transport in the Czech Republic, by freight volume in individual quarters of 2013-2016 (million tons)	32
Figure 14 Rail freight transport in the Czech Republic, by freight turnover in individual quarters of 2013-2016 (billion tkm).....	32
Figure 15 AWT a.s.'s market shares in terms of freight volume in the Czech Republic quarterly in 2014-2017.....	33
Figure 16 AWT a.s.'s market shares in terms of freight turnover in the Czech Republic quarterly in 2014-2017	33
Figure 17 Market shares of the largest rail operators by operational freight turnover in the Czech Republic in January-June 2017 (btkm)	34

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

Table 1 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN 000s ¹		EUR 000s	
	6 months of 2017	6 months of 2016 (restated*)	6 months of 2017	6 months of 2016 (restated*)
Operating revenues	2,267,413	2,123,009	533,836	483,844
Result on operating activities	45,421	-194,143	10,694	-44,246
Result before tax	30,351	-229,948	7,146	-52,406
Net result on continuing operations	19,362	-195,252	4,559	-44,499
Total comprehensive income attributable to the owners of the parent company	4,997	-170,530	1,176	-38,865
Adjusted result on operating activities**	45,421	-95,849	10,694	-21,844
Adjusted result before tax**	30,351	-131,654	7,146	-30,005
Adjusted net result**	19,362	-115,634	4,559	-26,353
Adjusted total comprehensive income attributable to the owners of the parent company**	4,997	-90,912	1,176	-20,719
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted result	44,786,917	44,786,917	44,786,917	44,786,917
Result per share (PLN/EUR)	0.43	-4.36	0.10	-0.99
Diluted result per share (PLN/EUR)	0.43	-4.36	0.10	-0.99
Net cash flow from operating activities***	248,711	19,166	58,556	4,368
Net cash flow from investing activities	-527,088	-309,082	-124,097	-70,441
Net cash flow from financing activities	-151,256	166,668	-35,611	37,984
Movement in cash and cash equivalents	-429,633	-123,248	-101,152	-28,089
	30/06/2017	31/12/2016	30/06/2017	31/12/2016
Non-current assets	4,873,572	4,960,270	1,153,099	1,121,218
Current assets	1,482,861	1,547,936	350,848	349,895
Share capital	2,239,346	2,239,346	529,835	506,181
Equity attributable to the owners of the parent company	3,265,275	3,260,278	772,572	736,953
Non-current liabilities	1,958,311	2,076,081	463,341	469,277
Current liabilities	1,132,847	1,171,847	268,034	264,884

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2017 prepared according to EU IFRS

* translation of comparable data is described in detail in Note 5² to the Condensed Interim Consolidated Financial Statements

** the financial data for H1 2016 are adjusted for presentation purposes for an impairment loss on receivables from OKD in the amount of PLN 62.9 million (described in Note 16 to the Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016) and impairment losses arising from a test for impairment of the AWT Group's non-current assets in the amount of PLN 35.4 million (described in Note 10.1 to the Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016), moreover, the adjusted net result and the adjusted comprehensive income attributable to the owners of the parent company include deferred tax resulting from an impairment of receivables from OKD in the amount of PLN 12.0 million and the related deferred tax on account of an impairment loss resulting from a test for impairment of AWT's value in the amount of PLN 6.7 million

*** including the payment of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Programs in the amount of PLN 48.2 million in H1 2016

¹ In this Management Board Report on the Activity of the PKP CARGO Group in the first half of 2017, to facilitate the reading, some figures have been rounded off, which may cause slight deviations in the presented data. In all cases of possible distortions, an attempt has been made at presenting the pertinent data with greater accuracy.

² Any reference to a Note in these Statements should be construed as a Note to the Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2017 prepared according to EU IFRS, unless indicated otherwise

Table 2 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN 000s		EUR 000s	
	6 months of 2017	6 months of 2016	6 months of 2017	6 months of 2016
Operating revenues	1,712,752	1,536,838	403,247	350,253
Result on operating activities	30,312	-86,315	7,137	-19,672
Result before tax	25,321	-95,879	5,962	-21,851
Net result on continuing operations	18,490	-83,994	4,353	-19,143
Comprehensive income	12,704	-87,395	2,991	-19,918
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted result	44,786,917	44,786,917	44,786,917	44,786,917
Result per share (PLN/EUR)	0.41	-1.88	0.10	-0.43
Diluted result per share (PLN/EUR)	0.41	-1.88	0.10	-0.43
Net cash flow from operating activities*	203,577	-52,223	47,930	-11,902
Net cash flow from investing activities	-488,456	-242,143	-115,001	-55,186
Net cash flow from financing activities	-208,781	225,447	-49,155	51,380
Movement in cash and cash equivalents	-493,660	-68,919	-116,226	-15,707
	30/06/2017	31/12/2016	30/06/2017	31/12/2016
Non-current assets	4,478,905	4,441,320	1,059,720	1,003,915
Current assets	1,024,253	1,106,405	242,341	250,092
Assets classified as held for sale	6,000	6,000	1,420	1,356
Share capital	2,239,346	2,239,346	529,835	506,181
Equity	3,031,144	3,018,440	717,176	682,288
Non-current liabilities	1,574,378	1,697,385	372,502	383,677
Current liabilities	903,636	837,900	213,802	189,399

Source: Condensed Interim Standalone Financial Statements of the PKP CARGO S.A. for the period of 6 months ended 30 June 2017 prepared according to EU IFRS

* including the payment of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Programs in the amount of PLN 47.4 million in H1 2016

The following average PLN to EUR exchange rates set by the National Bank of Poland have been used to translate selected financial data in the periods covered by the Condensed Interim Standalone Financial Statements and Condensed Interim Consolidated Financial Statements:

- exchange rate in force on the last day of the reporting period: 30 June 2017: EUR 1 = PLN 4.2265; 31 December 2016: EUR 1 = PLN 4.4240,
- the average exchange rate in the period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in a given period: 1 January – 30 June 2017: EUR 1 = PLN 4.2474, 1 January – 30 June 2016: EUR 1 = PLN 4.3878.

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

PKP CARGO Group	PLN 000s		EUR 000s	
	6 months of 2017	6 months of 2016 (restated*)	6 months of 2017	6 months of 2016 (restated*)
Result on operating activities	45,421	-194,143	10,694	-44,246
Adjustments:				
Operating expenses				
Impairment loss on receivables from OKD		62,933		14,343
Impairment loss on AWT's assets		35,361		8,059
Adjusted result on operating activities**	45,421	-95,849	10,694	-21,844

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2017 prepared according to EU IFRS

* translation of comparable data is described in detail in Note 5 to the Condensed Interim Consolidated Financial Statements

** the financial data for H1 2016 are adjusted for presentation purposes for an impairment loss on receivables from OKD in the amount of PLN 62.9 million (described in Note 16 to the Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016) and impairment losses arising from a test for impairment of the AWT Group's non-current assets in the amount of PLN 35.4 million (described in Note 10.1 to the Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016)

2. Organization of the PKP CARGO Group

2.1. Highlights on the Company and the PKP CARGO Group³

The PKP CARGO Group is a major rail freight operator in the European Union („EU”). The Group’s development is focused on enhancing and extending its operations in terms of its product range and geographic area. At present, the Group is the leader on the Polish market (according to the Office of Rail Transport - UTK⁴) and it is the second largest operator on the Czech market (according to SZDC⁵). Notwithstanding the areas mentioned above, the Group conducts operations that it is constantly developing in Czech Republic, Slovakia, Germany, Austria, the Netherlands, Lithuania and Hungary.

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

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

2.2. Consolidated entities

The Condensed Interim Consolidated Financial Statements for the period of 6 months ended 30 June 2017 encompass PKP CARGO S.A. and 14 subsidiaries consolidated by the full method:

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

In addition, the following companies are measured using the equity method as at 30 June 2017 in the PKP CARGO Group’s Condensed Interim Consolidated Financial Statements (Note 13.1):

- Cosco Shipping Lines (Poland) Sp. z o.o.
- Pol – Rail s.r.l.
- Terminale Przeładunkowe Sławków – Medyka Sp. z o.o.
- Trade Trans Karya Sp. z o.o. in bankruptcy
- Transgaz S.A.
- Trade Trans Finance Sp. z o.o.

³ Whenever the Report mentions:

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

⁴ Office of Rail Transport

⁵ Správa železniční dopravní cesty (entity responsible for management of the state railway network in the Czech Republic)

- PPHU "Ukpol" Sp. z o.o.
- Rentrans Cargo Sp. z o.o.
- Gdański Terminal Kontenerowy S.A. in liquidation
- AWT Rail SK a.s.

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

PKP CARGO S.A.

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

PKP CARGO SERVICE Sp. z o.o.

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

PKP CARGOTABOR Sp. z o.o.

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

PKP CARGOTABOR USŁUGI Sp. z o.o.

Until 22 October 2014, PKP CARGOTABOR USŁUGI Sp. z o.o. did business under the name of PKP CARGOLOK Sp. z o.o. The Company's line of business includes activity related to collecting, processing and neutralizing waste and recovery of raw materials. As at the delivery date of the report, the company does not conduct any operating activity.

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

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

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

PKP CARGO Centrum Logistyczne Medyka - Żurawica Sp. z o.o. was established on 5 January 2011. It has been conducting business since 1 February 2011. The company's line of business is to provide comprehensive cargo handling through transshipment, storage, segregation, packaging, crushing and a number of other border services. The company has the ability to offer rail gauge switching services (change of carriages at an intersection point between normal, i.e. 1,435 mm, and wide, i.e. 1,520 mm gauge rail tracks), chiefly in the transport of hazardous materials and the transshipment of oversized consignments necessitating the usage of specialized transshipment equipment and as the only company on the country's eastern border has a 6-chamber thaw room with a technological capacity of concurrent defrosting of goods in 120 rail cars.

PKP CARGO CONNECT Sp. z o.o.

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

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

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

Cargosped Terminal Braniewo Sp. z o. o.

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

CARGOTOR Sp. z o.o.

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

Advanced World Transport B.V.

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

Advanced World Transport a.s.

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

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

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

On 1 June 2017, Advanced World Transport a.s. acquired a wholly-owned subsidiary, namely AWT Coal Logistics s.r.o., as a result of which Advanced World Transport a.s. has become the legal successor of AWT Coal Logistics s.r.o, which itself has ceased to exist as a separate entity.

AWT Čechofracht a.s.

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

AWT Rekultivace a.s.

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

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

AWT ROSCO a.s.

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

AWT Rail HU Zrt.

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

2.3. Structure of the PKP CARGO Group

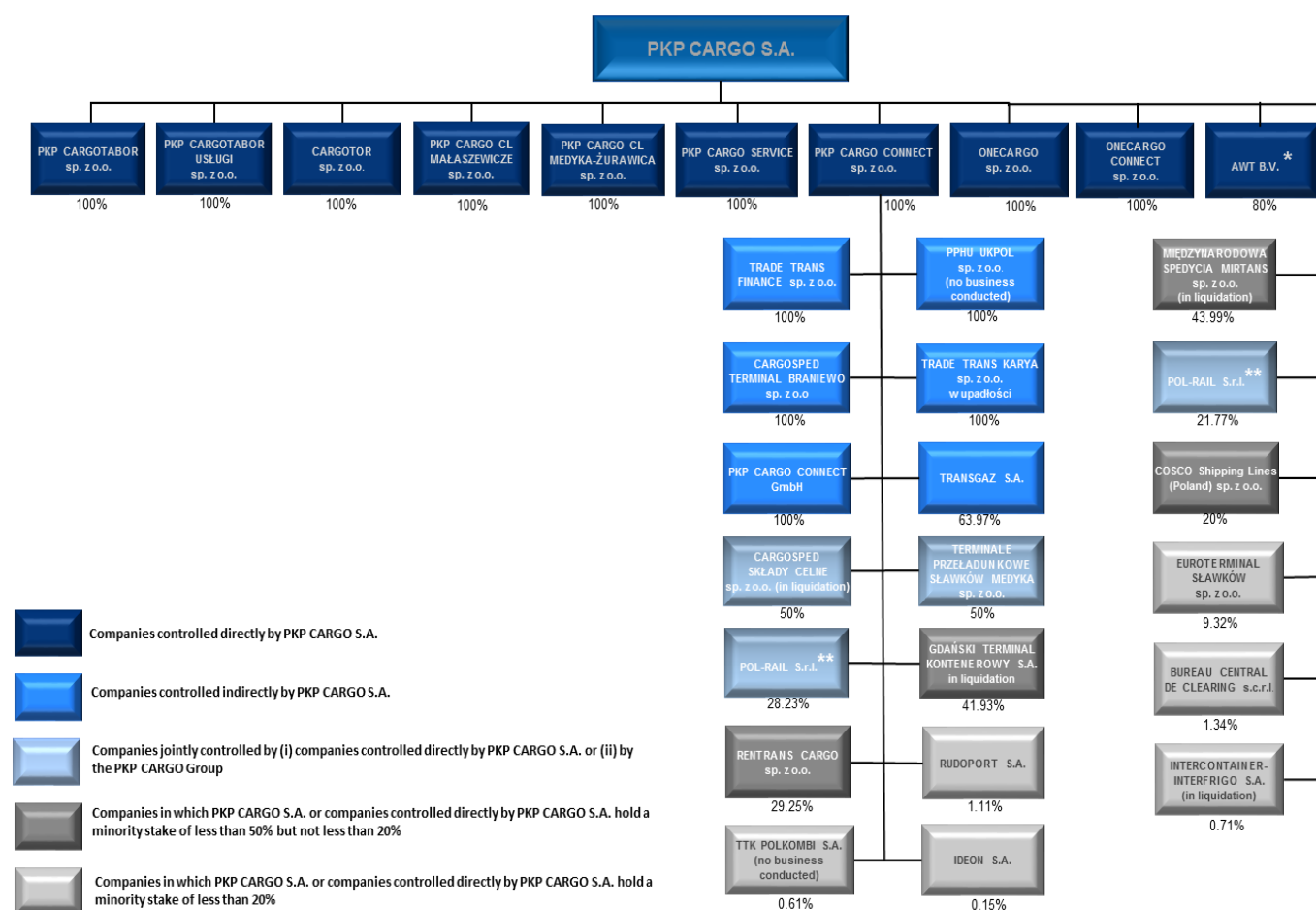
As of 30 June 2017, the PKP CARGO Group included, besides PKP CARGO S.A., 27 subsidiaries controlled directly or indirectly (by entities controlled by PKP CARGO S.A.), including:

- 10 subsidiaries controlled directly by PKP CARGO S.A.,
- 13 subsidiaries controlled directly by companies directly controlled by PKP CARGO S.A. (and indirectly controlled by PKP CARGO S.A.), including 6 companies directly controlled by PKP CARGO CONNECT Sp. z o.o. and 7 companies directly controlled by AWT B.V.,
- 4 AWT Group companies controlled directly by companies indirectly controlled by PKP CARGO S.A. (indirectly controlled by PKP CARGO S.A.);

In addition the Group had 6 associated entities and shares in 3 joint ventures.

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

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

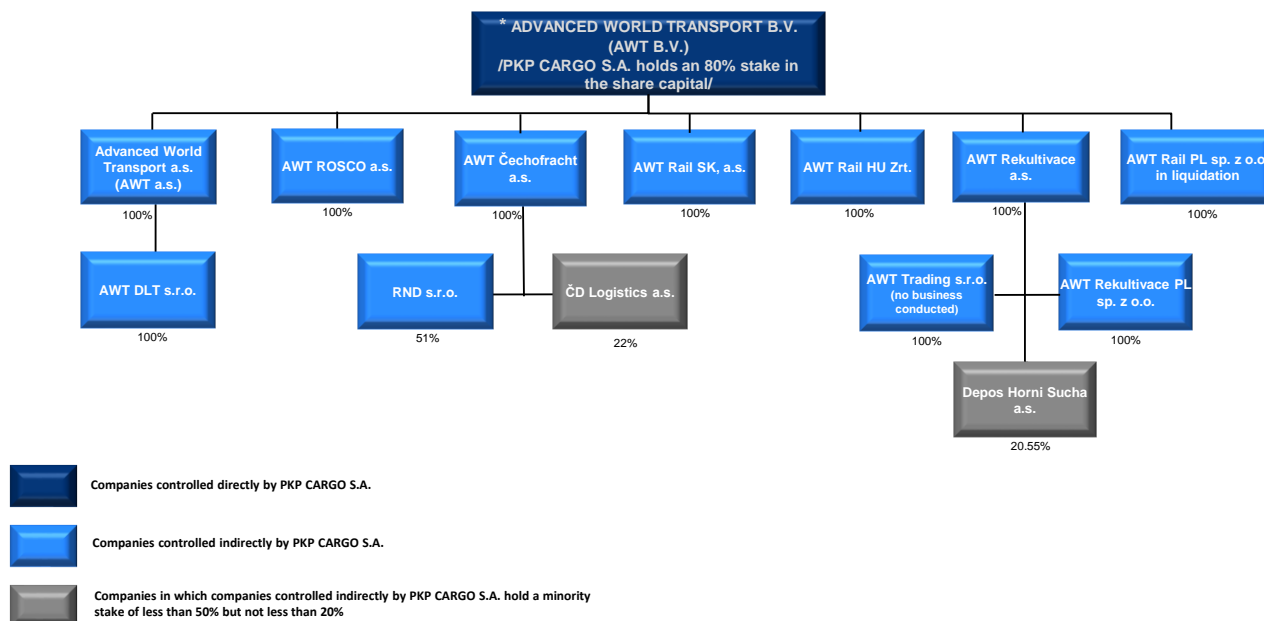


Source: Proprietary material

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

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

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



Source: Proprietary material

3. Information about the Parent Company

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

MANAGEMENT BOARD

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

- 1) Act of 15 September 2000 entitled Commercial Company Code (Journal of Laws, Number 94, Item 1037, as amended);
- 2) Act of 8 September 2000 on the Commercialization and Restructuring of the State-Owned Enterprise "Polskie Koleje Państwowe" (Journal of Laws No. 84 Item 948, as amended)
- 3) Articles of Association of PKP CARGO S.A. (consolidated text adopted by Resolution No. 1682/VI/2017 of the PKP CARGO S.A. Supervisory Board dated 27 June 2017)
- 4) Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution No. 252/2016 of the PKP CARGO S.A. Management Board dated 29 July 2016
- 5) other internal regulations.

Powers of the Management Board

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

Operation of the Management Board

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

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

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

Name	Position	Period in office	
		from	to
Maciej Libiszewski	President of the Management Board	19 January 2016	to date
Arkadiusz Olewnik	Management Board Member in charge of Finance	1 April 2016	to date
Grzegorz Fingas	Management Board Member in charge of Commerce	1 April 2016	to date
Jarosław Klasa	Management Board Member in charge of Operations	1 April 2016	31 July 2017 (dismissal)
Zenon Kozendra	Management Board Member – Employee Representative	14 July 2016	to date

Source: Proprietary material

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

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

- business strategy,
- business security and internal audit.

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

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

- finance management,
- purchase and sale of assets.

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

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

- commercial policy,
- sales of transportation services.

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

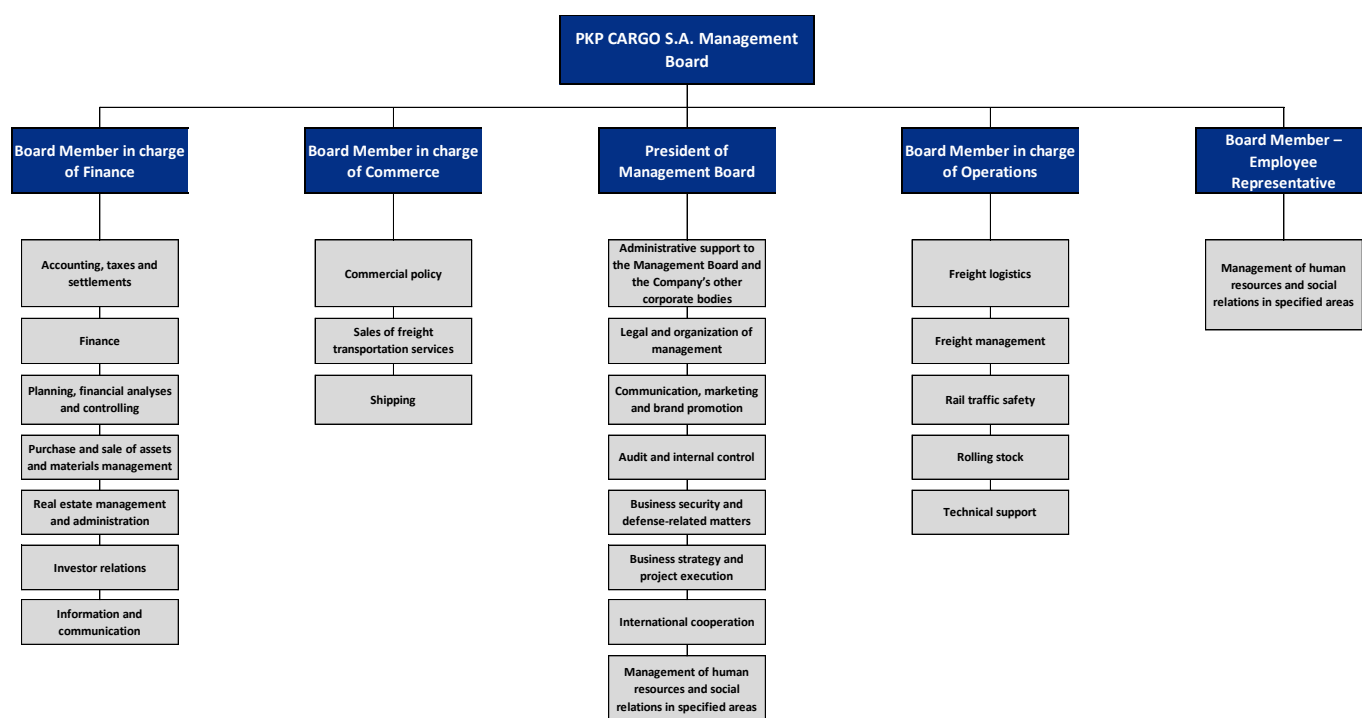
- execution of transports,
- maintenance of rolling stock.

- 5) Management Board Member – Employee Representative – the scope of activity of the Employee Representative in the Management Board includes overseeing the management of specific areas of the Company's activity, particularly in the following areas:

- management of human resources and relations with social partners in specified areas.

Due to the dismissal of Mr. Jarosław Klasa on 31 July 2017 from the position of Management Board Member in charge of Operations, temporary supervision (that is, until the appointment of a new Management Board Member in charge of Operations) over matters and organizational units lying within the realm of his powers has been entrusted to the Management Board Member in charge of Commerce.

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



Source: Proprietary material

SUPERVISORY BOARD

The Supervisory Board consists of 11 to 13 members (including the Supervisory Board Chairperson and Deputy Chairperson) appointed for a joint term of office. The term of office of the Supervisory Board is 3 years. The Supervisory Board is appointed and dismissed by the Shareholder Meeting, subject to the provisions of § 19 Sections 2 and 3 of the Articles of Association of PKP CARGO S.A. The Company's employees are entitled to appoint and dismiss their 3 representatives to the Supervisory Board.

Powers of the Supervisory Board

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

Operation of the Supervisory Board

The procedure of the Supervisory Board's operation is described in detail in the Supervisory Board Bylaws adopted by the Supervisory Board. In accordance with the provisions of these Bylaws, the Supervisory Board makes decisions in the form of resolutions. For Supervisory Board resolutions to be valid, all the Supervisory Board members must have been invited and at least half of them must be present, including the Supervisory Board Chairperson. Resolutions of the Supervisory Board are adopted by an absolute majority of votes. If an equal number of votes is cast "for" and "against", the latter including abstentions, the Supervisory Board Chairperson has the casting vote. Supervisory Board resolutions in the matter of suspension of Management Board members or Management Board require the consent of the Supervisory Board Chairperson. Supervisory Board resolutions may also be adopted without holding a meeting, except for resolutions pertaining to the election of the Supervisory Board Chairperson or Deputy Chairperson, the appointment of a Management Board member and the dismissal or

suspension of these persons in their duties. The Supervisory Board holds its meetings no less frequently than once every two months.

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

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

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

Name	Position	Period in office	
		from	to
Krzysztof Mamiński	Supervisory Board Member	6 March 2017	to date
	Supervisory Board Chairman	20 March 2017	to date
Mirosław Antonowicz	Supervisory Board Member	1 June 2017	to date
	Supervisory Board Deputy Chairman	27 June 2017	to date
Krzysztof Czarnota	Supervisory Board Member	20 May 2016	to date
Zofia Dzik	Supervisory Board Member	11 May 2016	to date
Raimondo Eggink	Supervisory Board Member	13 April 2015*	to date
Małgorzata Kryszkiewicz	Supervisory Board Member	17 December 2015*	to date
Marek Podskalny	Supervisory Board Member	20 May 2016	to date
Tadeusz Stachaczyński	Supervisory Board Member	20 May 2016	to date
Władysław Szczepkowski	Supervisory Board Member	14 March 2017	to date
Czesław Warsewicz	Supervisory Board Member	17 December 2015*	to date
Mirosław Pawłowski	Supervisory Board Member	17 December 2015	18 December 2015
	Supervisory Board Chairman	18 December 2015*	6 March 2017 (resignation)
Jerzy Kleniewski	Supervisory Board Member	17 December 2015*	14 March 2017 (resignation)
	Supervisory Board Member	17 December 2015*	27 April 2016
Andrzej Wach	Supervisory Board Member	27 April 2015	11 May 2016
	Supervisory Board Deputy Chairman	20 May 2016	29 May 2017 (resignation)

Source: Proprietary material

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

SUPERVISORY BOARD AUDIT COMMITTEE

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

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

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

Source: Proprietary material

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

NOMINATION COMMITTEE

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

Table 7 Composition of the Nomination Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2017 to the delivery date of this report

Name	Position	Period in office	
		from	to
Zofia Dzik	Committee Chairwoman	20 May 2016	to date
Krzysztof Mamiński	Committee Member	20 March 2017	to date
Mirosław Antonowicz	Committee Member	27 June 2017	to date
Mirosław Pawłowski	Committee Member	18 December 2015	11 May 2016*
		20 May 2016 – 6th term of office	6 March 2017
Andrzej Wach	Committee Member	18 December 2015	11 May 2016*
		20 May 2016 – 6th term of office	29 May 2017

Source: Proprietary material

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

STRATEGIC COMMITTEE

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

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

Source: Proprietary material

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

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

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

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

Source: Proprietary material

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

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

Table 10 Shareholder structure of PKP CARGO S.A. as at 30 June 2017 and as at the delivery date of this report

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

Source: Proprietary material

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

(2) According to a notice sent by the shareholder on 18 October 2016

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

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

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

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 26 May 2017, i.e. the delivery date of the Q1 2017 report to the delivery date of this report, was as follows:

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

Name	Number of PKP CARGO S.A. shares held by Management Board members
Maciej Libiszewski	0
Arkadiusz Olewnik	0
Grzegorz Fingas	0
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 26 May 2017, i.e. the delivery date of the Q1 2017 report to the delivery date of this report, was as follows:

Table 12 PKP CARGO S.A. shares held by Supervisory Board members

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

Source: *Proprietary material*

4. Key areas of operation of the PKP CARGO Group

4.1. Macroeconomic environment

Polish economy

According to the annual report published by the European Commission (EC), the Polish economy is currently experiencing a period of strong growth.⁶ According to the EC's forecasts, in 2017-2018 Poland's real GDP will increase to 3.5% yoy and 3.2% yoy. Domestic demand is expected to be the main growth stimulus (including household consumption driven by increasing salaries and employment as well as a time-lagged effect of higher social transfers). Moreover, after a clear decline in 2016, a strong growth in public investments is expected as a result of the execution of investment projects and the disbursement of structural EU funds under the new EU funding perspective. This trend should also continue throughout 2018 due to the anticipated disbursement of EU funds prior to the local government elections scheduled for 2018. At the same time, private investments are expected to rebound in 2018 after a sluggish period in 2017. It is anticipated that strong internal demand, strong exports, high capacity utilization rates and high corporate earnings in an environment of low interest rates maintained by the Monetary Policy Council will create a favorable business environment supportive of investments. On the other hand, certain risks are noted associated with national politics which, through an element of business uncertainty, may undermine the favorable investment outlook. HICP inflation is forecast at 1.8% yoy in 2017 and 2.1% yoy in 2018 (which is a revision of the previous forecast of 1.3% and 1.8%, respectively), mainly due to the anticipated changes in the prices of raw materials on global markets, a lower pressure on domestic prices, a relatively low inflation rate in the other EU states and a gradual growth in salaries.⁷

In turn, the current forecasts published by the National Bank of Poland indicate a 4.0% GDP growth in 2017 and 3.5% yoy and 3.3% yoy in the following years. Compared to the forecasts prepared in March of this year, the GDP figures are higher by 0.3 p.p., 0.2 p.p. and 0.1 p.p., respectively. The revision of the GDP growth estimates published in July 2017 was mainly caused by an increase in growth forecasts for the Polish economy by the country's main business partners, especially Germany, affecting the forecasts of demand for Polish exports.⁸

The National Bank of Poland identified the source of significant uncertainty of that forecast to be primarily the following:

- possible worse business conditions in the global economy, in China in particular, due to the high debt levels of the country's companies caused by excessive investments (mainly in the steelmaking sector). It may cause a slowdown of the Chinese economy and in the global economy in general, and consequently may adversely affect the level of investments from China's business partners;
- uncertainty with regard to the future state of the U.S. economy (the existing potential risk of a narrower scope of expected economic reforms, delays in their implementation and a possible correction on the equities market). Given the current global links between the world's economies, this would exert a potentially strong impact also on the economic situation of Poland.

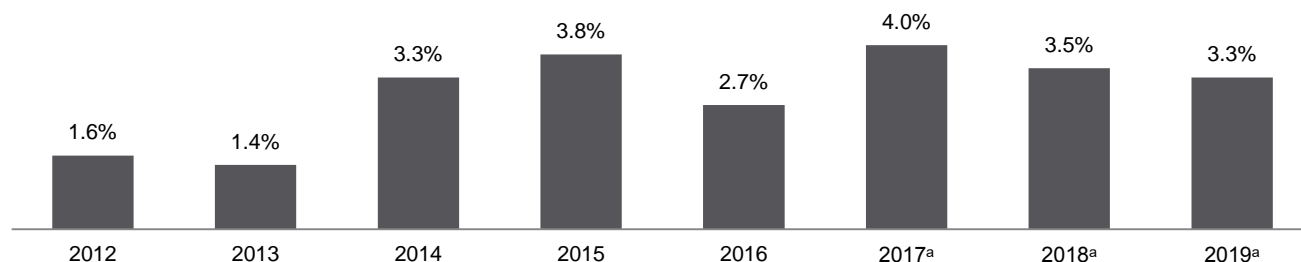
According to data published by the National Bank of Poland, CPI-measured inflation will be at 1.9% yoy in 2017, 2.0% in 2018 and 2.5% in 2019. This is a correction of the March forecasts of 2.0% yoy in 2017 and 2018 and 2.3% yoy in 2019. The current projection of the rate of inflation of the prices for domestic consumer goods and services results primarily from the expected higher demand pressure (an increase in consumer and investment spending) and cost pressure (an insufficient supply of labor), simultaneously offset by falling prices of energy carriers (crude oil, hard coal, natural gas) on the global in the first quarter of the projection period with a concurrent depreciation of the U.S. dollar (in which these commodities are quoted), as well as a low rate of growth in the prices of imports (as a result of a low inflation rate in the euro area) and a further appreciation of the Polish zloty.

⁶ 2017 European Semester: Country Report – Poland

⁷ European Economic Forecast Spring 2017, May 2017

⁸ Inflation Report. July 2017, NBP

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



Source: Central Statistical Office (revised estimate of gross domestic product for 2012-2016 dated 2 June 2017); NBP forecast (July 2017)

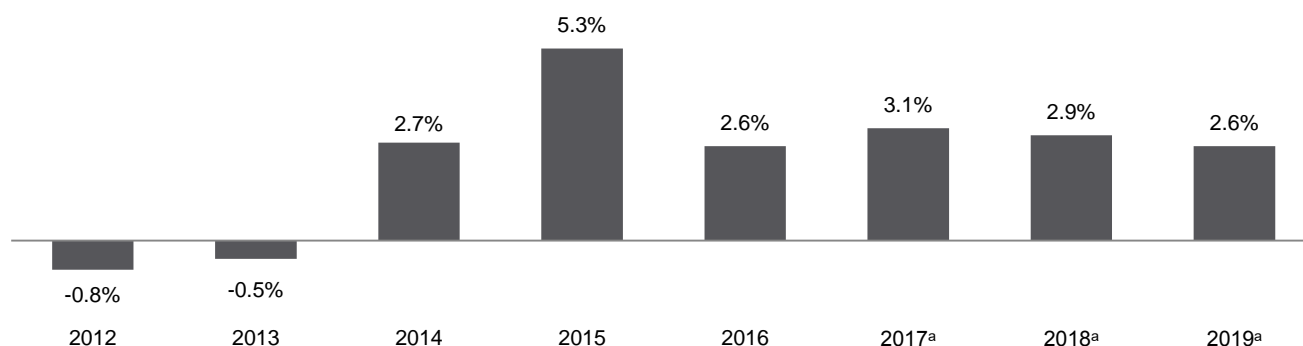
^a NBP forecast on the basis of the Inflation Report, July 2017

Czech economy

In Q1 2017, thanks to a favorable impact of both external and internal factors, the rate of growth of the Czech economy accelerated significantly to 1.5% qoq, which, compared to the corresponding period of the previous year, represented an increase by 1.1 p.p. The rate of real GDP growth in the Czech Republic in Q1 2017 turned out to be even higher measured on a yoy basis, having reached 4.0%. This significant improvement in economic indicators was driven mainly by a high level of private consumption (an increase by 3.5% yoy due to a high growth in employment and employee compensations coupled with incentives to decrease savings due to low interest rates), development of foreign trade supported by a growing demand for products of the automotive industry (real exports of goods and services in Q1 2017 increased by 6.5% yoy, or +4.3 p.p. qoq and +0.5 p.p. yoy, and imports increased by 5.1% yoy, or +4.0 p.p. qoq and -0.9 p.p. yoy) and growth in investments (an increase in gross capital expenditures in Q1 2017 of 2.2% yoy, that is +5.3 p.p. qoq and +1.8 p.p. yoy). The increase in the Czech economy's gross value added (+ 1.5% qoq) was also achieved due to favorable trends transpiring mainly in industrial production (the chemical, electronics and automotive industries in particular), trade and transport.

Nominal GDP⁹ increased by CZK 41 billion in 2015 and by CZK 58 billion the year before, representing a real GDP growth of 5.3% and 2.6%, respectively. The higher rate of GDP growth in both these years was driven predominantly by a high rate of growth in household consumption and gross capital expenditures. For 2017 and 2018, the Finance Ministry of the Czech Republic forecasts a rate of GDP growth of 2.9% and 2.6%¹⁰, respectively, while according to the European Commission forecasts, this rate of growth will stand at 2.6% and 2.7%, respectively.

Figure 5 Real GDP growth in the Czech Republic in 2012-2016 and 2017 and 2018 forecasts



Source: European Commission (data consistent with the update for 2015 and 2016), Finance Ministry of the Czech Republic

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

⁹ Annual Report of the Czech Statistical Office (CZSO) published on 30 June 2017

¹⁰ Forecast of the Czech Republic's Finance Ministry – July 2017

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

- the Czech economy will grow by 3.1% yoy in 2017, 2.9% yoy in 2018 and 2.6% yoy in 2019;
- the increase in the inflation rate in 2017 will reach 2.2% yoy;
- thanks to the positive economic growth rate, the demand pressure in the labor market will continue, as a result of which the employment growth rate will increase to 1.4% yoy in 2017, and in 2018, due to the decrease in labor resources, it will stand at 0.4% yoy;
- the unemployment rate will drop from 4.0% in 2016 to 3.2% in 2017 and to 2.9% in 2018;

The positive business conditions in the Czech Republic can also be seen in the level of public debt, which has been successively dropping since 2013 (44.9% of GDP), expected to reach 35.2% of GDP in 2017 (down by 1.5 p.p. yoy). In 2016 the balance of finances of the central and local government institution sector increased by 1.2 p.p. yoy, reaching, for the first time in the history of the Czech Republic, a surplus of 0.6% of GDP. This should be attributable mainly to revenues in connection with the introduced reforms of the tax collection system and legislative changes (e.g. electronic VAT reporting and, as of December 2016, also electronic sales registration). The expenditure side was positively impacted by the decrease in interest costs (by nearly 9% yoy), resulting primarily from favorable conditions in the financial markets and the decrease in state debt. The significant drop in capital expenditures compared to the high base in 2015 (end of the EU financial perspective for 2007-2013) results from budget savings in connection with unspent monies as part of EU project co-financing.

The positive moods of entrepreneurs in the industry sector can be seen in the high PMI (*Purchasing Managers' Index*) readings. In H1 2017, the average reading readings was 56.9, compared to 54.2 in the corresponding period of the previous year.

One of the factors affecting the accuracy of the sales forecasts prepared by the Finance Ministry of the Czech Republic is the business conditions in the Czech Republic's key trade partners. Confirmation of the positive macroeconomic forecasts of such business centers as Poland, Germany, France, United Kingdom and Slovakia, will have significant impact on the strongly export-oriented Czech economy. A potential risk which may contribute to a slow-down of the growth of foreign demand is an increase of barriers in international trade between the United Kingdom and the EU. The next potential risk is further appreciation of the Czech crown to Euro, which in the medium and long run may bring decreases of the revenues of export-oriented companies. Other forecast variables include: the current situation in the labor market constituting a barrier for further increase of production of industry and services, i.e. strong pressure on salary growth following from the increasing demand for employees and shrinking supply side of the labor market (among others increase in employment and dropping unemployment rates), expected recovery of the investment cycle associated with disbursement of the monies from EU funds, and low interest rates and high growth rate of mortgage debt (which, together with factors restricting the supply of residential real estate, contributes to intensive increase of home prices and may lead to a "price bubble" in the real estate market).

The expected continuation of the gradual slow-down in China's economic growth should not be of key importance for the Czech Republic despite the fact that the mutual connections between the Czech and Chinese economies via global supply chains are more extensive than foreign trade data may suggest.¹¹

European economy

According to the latest European Commission projection from May this year, the economic growth in the Euro zone in 2017 will reach 1.7% yoy to speed up by 0.1 p.p. in 2018. Corresponding growth rates for the entire European Union are expected to be 1.9% yoy in both periods. It is expected that continuation of the stable growth will still result mainly from the strong internal demand, i.e. particularly private consumption, combined with recovery of public investments (in connection with the launch of co-financing from EU funds) and private investments (under the condition of limitation of the uncertainty factors). Growth can be additionally supported by increasing production capacity utilization rates, profitability of enterprises and attractive financing terms thanks to, among others, the investment plan for Europe. At the same time, the probability of downgrading the projected rate of growth of the European economy follows from external factors, e.g. future economic and trade policy of the US, escalation of geopolitical tensions, future economic corrections of the Chinese economy, condition of the banking sector in Europe and continuing negotiations with the United Kingdom on leaving the Community.

EC economists also predict that foreign demand for export in the Euro area will grow in connection with the expected economic growth in the emerging economies and in some developed economies. The unemployment rate in the euro area will show a downward trend and reach 9.4% in 2017 and to 8.9% in 2018 (the lowest level since 2008). It is expected that inflation will increase to 1.6% yoy in 2017 and then drop to 1.3% yoy in 2018, due to the assumed decreasing impact of oil prices.¹²

¹¹ Macroeconomic Forecast of the Czech Republic, July 2017

¹² European Economic Forecast Spring 2017, May 2017

Also according to European Central Bank experts, the economic growth rate in the Euro zone should continue to follow an upward trend. The economic recovery in the Euro zone is anticipated to be supported by the expected global economic growth, stable internal demand and the observed improvement in labor market indicators. The real GDP growth forecasts are slightly different from those published by the European Commission. Real GDP growth is expected to be 1.8% yoy in 2017 (0.1 p.p. more than according to the EC) and 1.7% yoy in 2018 (0.1 p.p. less than according to the EC). Increasing internal demand is stated as the main factor facilitating economic growth. In addition, increase in exports outside of the Euro zone, on the back of the more robust global demand and a weaker Euro exchange rate, is expected. The European Central Bank also notes that the measure of economic policy uncertainty (EPU) increased sharply, which was likely related to the outcome of the referendum in the United Kingdom to leave the EU and the outcome of the election in the US and France. The elevated EPU level can have an adverse impact on activity within the European Union, which usually translates into decrease of investment activity of the private enterprise sector.¹³

Industry in Poland

The economic situation in the main branches of Polish industry (especially mining, metallurgy and construction) exert strong impact on the rail transport in Poland. Also such industries as: fuel, metal processing, chemical, timber and motor industries, show a slightly weaker but still strong correlation with freight transport.

In H1 2017, total industrial production sold increased 5.7% yoy, compared to a 4.4% yoy growth in the corresponding period of 2016. Increases were recorded in such industries as: industrial processing (+6.2% yoy); production and supply of electricity, gas, steam and hot water (+5.3% yoy); production of metals (+9.6% yoy) and metal products (+10.0% yoy); manufacture of motor vehicles, trailers and semi-trailers (+7.6% yoy); manufacture of other transport equipment (+7.5%), including locomotives and rolling stock (+23.1% yoy); production of chemicals and chemical products (+4.1% yoy); production of rubber and plastic products (+7.5% yoy); production of furniture (+6.8% yoy); manufacture of products of wood, cork and wicker (+5.7% yoy); manufacture of paper and paper products (+4.6% yoy); manufacture of other non-metallic mineral products (+7.7% yoy). Decreases in industrial production sold were recorded in: mining and quarrying (-4.5% yoy); manufacture of coke and refined petroleum products (-2.7% yoy).¹⁴

Labor productivity in the industry, which is defined as industrial production sold per employee, was 2.5% higher yoy in H1 2017. At the same time, in the same period, the average headcount increased by 3.1% yoy, and average monthly gross salary by 5.0% yoy.¹⁵

In the period of January-May 2017, compared to a corresponding period of 2016, Poland increased its overall foreign trade (exports grew by 6.7% yoy, while imports by 9.8% yoy). Poland also increased foreign trade with developed countries (exports grew by 6.0% yoy and imports by 6.4% yoy), including with European Union countries (exports up by 5.4% yoy and imports by 5.5% yoy). The most significant improvement of the value of foreign trade was with the Central and Eastern Europe countries (exports up by 24.1% yoy and imports up by 30.4% yoy).¹⁶

Exports in 5M'17 amounted in total to PLN 350.7 billion and thus increased 6.7% compared to the corresponding period of the previous year, and imports (PLN 346.9 billion) increased 9.8% yoy. Thus, Poland's net foreign trade recorded a positive balance of PLN 3.9 billion, which is worse than in 5M'16, when the balance was PLN 12.7 billion.¹⁷

In June 2017, PMI (*Purchasing Managers Index*) was 53.1, increasing from June 2016 (51.8¹⁸).

Following the deep decrease last year, growth in construction and installation production strengthened, showing the strongest growth rate among the economic growth factors. In H1 this year construction and installation production in Poland was 7.6% higher than in the corresponding period of 2016, which means an even faster growth rate than in Q1 this year (3.9% yoy). In June 2017 this ratio increased 11.6% yoy (compared to the 13.0% yoy decline in June 2016) and was higher than in May this year, when it amounted to 8.4% yoy.¹⁹ It is anticipated that in the next months the construction and installation production will continue to show an upward trend, which can be attributable to the anticipated increasing absorption of EU funds, significant increase in public expenditures on development and modernization of infrastructure and expected recovery in residential construction.

¹³ECB staff macroeconomic projections for the euro area – March 2017

¹⁴ Central Statistical Office of Poland

¹⁵ Central Statistical Office of Poland

¹⁶ Central Statistical Office of Poland

¹⁷ Central Statistical Office of Poland

¹⁸ <http://stooq.pl/>

¹⁹ Central Statistical Office of Poland, tentative data

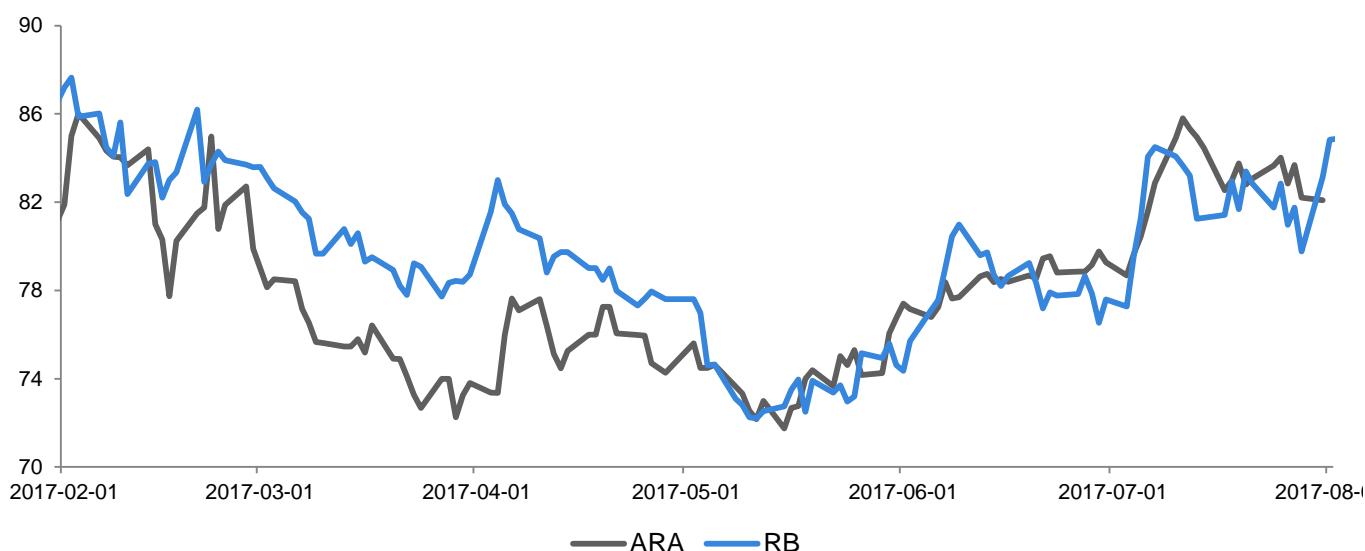
Mining industry

In H1 2017, the mines in Poland produced 32.90 million tons of hard coal, down 1.52 thousand tons, or 4.4% yoy (in H1 2016, 34.41 million tons were mined). This is attributable mainly to the clearly lower yoy mining in February and June this year (by 954 thousand tons yoy, i.e. 15.5% and by 698 thousand tons yoy, i.e. 11.8%, respectively).²⁰ One should also note the still decreasing inventories of this raw material in the storage yards. In June 2017 the inventories decreased by 3.31 million tons to 1.93 million tons (in June 2016 inventories were 5.24 million tons).²¹

The Polish mining industry was spurred by both increases in coking coal and steam coal prices on the domestic market and the resulting sales revenues, and the cost reductions achieved by the coal companies. In H1 2017, the volume of energy produced from hard coal dropped by 1.9% yoy. The Polish mining industry was spurred by increases in steam coal prices on the domestic market. The price index for the electricity production market PSCM1 in Q1 2017 was 199.05 PLN/t and in Q2 amounted to 206.12 PLN/t (increase by 3.5% qoq and 6.0% yoy), while in June it amounted to 208.45 PLN/t (7.7% yoy increase). The price index for the coal for the heating industry PSCM2 in Q1 2017 reached 227.47 PLN/t and in Q2 2017 amounted to 234.38 PLN/t (increase by 3.0% qoq and 19.0% yoy), while in June it amounted to 223.54 PLN/t (17.1% yoy increase). In the period from January to June 2017, the revenues of the hard coal mining industry from coal sales reached PLN 10.6 billion (up by more than 33% yoy), which translated into the industry's net profit of approx. PLN 1.45 billion (compared to a loss of PLN 800 million in the corresponding period of 2016).

H1 2017 saw an increase in the average coal price in ARA ports to 78.72 USD/t, i.e. by 31.85 USD/t (i.e. 67.9%) compared to the average price from H1 2016. Despite the visible downward trend in the months of January-May 2017 (presented in the chart below), the average monthly prices in the ARA ports should still be considered to be high, especially in the context of continuation of the June increase in the average price also in July to 83.32 USD/t (up by 45.5% yoy and by 6.0% mom).

Figure 6 Coal prices on ARA vs. RB markets*



Source: Virtual New Industry

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

²⁰ Central Statistical Office of Poland

²¹ Polski Rynek Węgla [Polish Coal Market]

Steel industry

According to data published by the World Steel Association, steel production in the 67 member countries in H1 2017 increased by 35.2 million tons yoy or 4.4% (from 800.8 million tons in H1 2016 to 836.0 million tons in H1 2017). In Poland production in H1 2017 increased by 707 thousand tons yoy or 16.1% yoy ²²(from 4.4 million tons in H1 2016 to 5.1 million tons in H1 2017).

Steel production in the European Union also increased by 3.4 million tons i.e. by 4.1% from 82.7 million tons in H1 2016 to 86.1 million tons in the period of January-June this year. The leading producers in the European Union also recorded yoy production growth in H1 2017. The leaders included: Germany (increase of production by 1.7% yoy from 21.9 million tons to 22.2 million tons, Italy (increase by 1.7% yoy from 12.2 million tons to 12.4 million tons), France (increase by 9.6% yoy from 7.2 million tons to 7.9 million tons), Spain (increase by 0.6% yoy from 7.2 million tons to 7.3 million tons) and the UK (increase by 3.4% yoy from 3.9 million tons to 4.0 million tons). The yoy decrease in steel production in H1 2017 was recorded among others in the Czech Republic (decrease by 6.9% yoy from 2.7 million tons to 2.5 million tons). Outside the EU, steel production increased on a yoy basis in Russia (by 0.8% yoy from 35.1 million tons to 35.3 million tons) and Belarus (by 6.4% yoy from 1.0 million tons to 1.1 million tons) and decreased in Ukraine (by 15.4% yoy from 12.4 million tons to 10.5 million tons).

As regards non-European countries, special attention should be paid to global leaders in steel production, namely China, Japan and India. In January-June 2017, each of these countries recorded an increase in steel production: China by 4.4% yoy (from 402.1 million tons to 419.8 million tons), Japan by 0.5% yoy (from 52.1 million tons to 52.3 million tons) and India by 5.3% yoy (from 47.0 million tons to 49.5 million tons).²³

According to European Steel Association (Eurofer) projections, compared to last year, 2017 will see an increase in apparent steel consumption by 2%, and in the steel-using industries by over 3%. In Q1 2017 apparent steel consumption in the European Union increased by 3.1% yoy, mainly as a result of an increase in consumption by end users. At the same time the level of inventories in the distribution network turned out lower than in Q1 2016. The increased steel consumption benefited both importers and European manufacturers (positive impact of antidumping customs duties). As Eurofer indicates, the increasing protectionism and trade barriers pose a potential threat to the steel market. Nearly all European steel industry players point out that introduction of emissions trading (UE ETS) after 2020 will contribute to a significant increase in the costs for steel producers in Europe and thus impair the competitiveness of the whole European steel industry in the global market.²⁴

Construction industry

According to data published by the Central Statistical Office of Poland, construction and installation production at constant prices in June of this year was higher by 16.7% mom and 11.6% yoy (compared to the 13.0% yoy decrease in June 2016). This indicator adjusted for seasonality was 2.1% higher mom and 12.9% higher yoy. In H1 2017, total construction and installation production was higher by 7.6% than in the corresponding period of the previous year (compared to a 11.9% yoy decrease in H1 2016).

The increases in output on a yoy basis in H1 2017 were recorded in all construction sectors, including in particular in construction of civil engineering facilities (+14.8% yoy), specialized construction works (+4.9% yoy) and construction of buildings (+3.6% yoy). In construction of civil engineering facilities the biggest growth was recorded in construction of roads and railways (29.7%). The above increases were attributable to the discontinued period of low capital expenditures and low readings pertaining to investments for H1 2016 (effect of the low base). In H1 2016, declines in construction output resulted from delays in the preparation for the absorption of funds under the new EU budget framework. These projects bounced back only at the end of 2016 and bore fruit noticeably in H1 2017. Among the breakthrough events that supported this increase in capital expenditure spending in this sector were earlier amendments to public procurement law.

In June 2017 the Council of Ministers adopted resolution no. 97/2017 amending resolution on establishing the long-term "National Road Building Program in 2014-2023 (with an outlook to 2025)", according to which the budget of the National Road Building Program was increased from PLN 107 billion to PLN 135 billion. The list of key projects was supplemented by projects supplementing the road courses (among others S3 Świnoujście – Troszyn, S17 junction Drewnica – junction Zakręt, S52 Southern Kraków Ring Road, S74 Przełom/Mniów – Kielce) and new ring roads in the national road coarse (among others the Olesno S11 ring road, Chełm S12 ring road, Opatów DK9/S74 ring road, Nowy Sącz and Chełmiec DK28 ring road or the Poręba and Zawiercie DK78 ring road).

In June this year the European Commission gave positive assessment to 4 applications of PKP Polskie Linie Kolejowe S.A. submitted in the third selection in the "Connecting Europe" (CEF) facility in the EU financial perspective for 2014-2020. The projects accepted by the EU pertain to construction of a railway traffic control system ensuring the possibility of free and seamless

²² World Steel Association

²³ World Steel Association

²⁴ Eurofer

traffic of trains in the national railways of individual EU states (ERTMS/ETCS) within the framework of the corridors of the Trans-European Transport Network (TEN-T), modernization of the E75 line (Rail Baltica from Białystok to Elk), and reconstruction of the E30 line from Kędzierzyn Koźle to Opole and the E65 line from Będzin to Zebrzydowice. These projects envisage comprehensive modernization of the above railway routes and stations located in their course. The anticipated support from EU funds for the above projects will be PLN 3 billion (EUR 816 million).

Industry in the Czech Republic

In Q2 2017, seasonally adjusted industrial output at constant prices increased by 1.3% qoq and adjusted by the number of business days increased by 6.2% yoy (unadjusted seasonally it increased by 2.6% yoy), which means that the positive trend observed in Q1 this year continued. The following industries contributed primarily to the increase in the rate of growth in industrial output in H1 2017 (data unadjusted seasonally): production of chemicals and chemical products (total growth of 19.9% yoy), manufacture of production of computers, electronic and optical goods (+12.2% yoy), production of basic pharmaceutical substances, medicines and other pharmaceutical preparations (+9.6% yoy), production of motor vehicles, trailers and semi-trailers (+9.1% yoy), manufacture of rubber and plastic products (+8.3% yoy) and manufacture of electrical devices (+7.0% yoy). A decrease in industrial output was observed among others in the following industries: production of other transport equipment (overall decline by 11.7% yoy), repair and assembly of machinery and equipment (-9.4% yoy) and mining and extraction of raw materials (-7.9% yoy).²⁵

Revenues from industrial activity at current prices rose by 5.7% yoy in Q2 2017 and direct export sales revenues of industrial enterprises at current prices increased by 4.9% yoy. Domestic sales, which comprised indirect exports (through non-industrial companies), at current prices increased by 6.9% yoy.

In April-June 2017, the value of new orders in selected industrial sectors increased by 3.5% yoy, and the number of new foreign orders increased 2.2% yoy and domestic orders by 6.0% yoy.

In Q2 2017, the headcount in companies with 50 employees or more increased by 1.9% yoy. Their average monthly nominal gross salary in this period increased by 8.0% yoy and reached CZK 31,863 (currently, nearly PLN 5,200).

Mining industry

In Q2 2017, hard coal with the total mass of 1,092 thousand tons was extracted which, compared to the mining level recorded in the corresponding period of the previous year means a decrease by 30.7% (-483 thousand tons of this raw material). In H1 2017, there was a decline of coal production by 25.9% yoy, i.e. by 932 thousand tons, as a result of decommissioning of the Paskov mine in March this year and the continued restructuring processes involving primarily gradual decommissioning of the Czech mines. According to the rescue plan for OKD prepared by the Czech Republic Finance Ministry, after its adoption, it will be possible to sell the mines to the state-owned enterprise Prisko. The mines owned by the coal company are to be gradually phased out until 2023. The Darkow and Lazy mines are to close their operations before the end of 2018 and two other ones, i.e. CSA and CSM, will be decommissioned in 2021 and 2023, respectively.

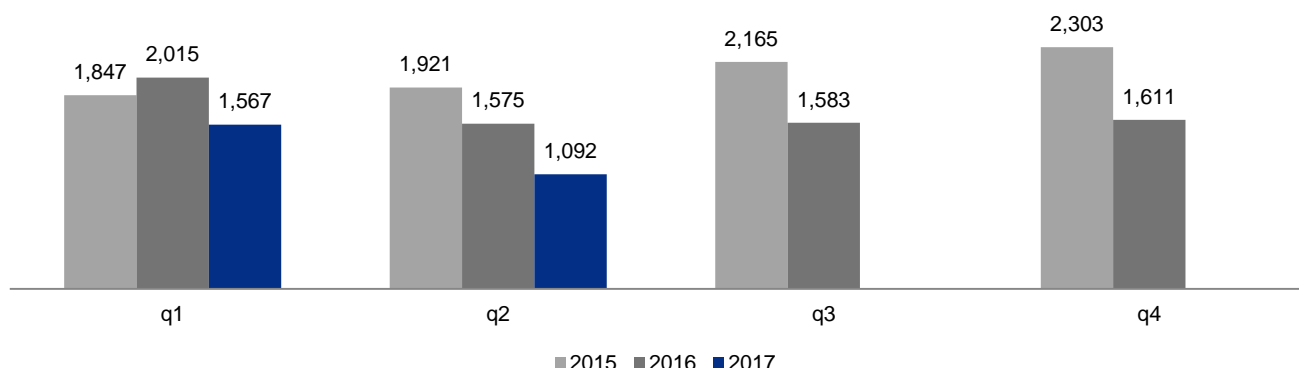
It should also be noted that the Czech mining industry will be affected by a change in the energy mix. The Czech Republic is focused primarily on increasing nuclear power generation (according to the Nuclear Energy Program until 2040). Currently, nuclear energy production represents 32.5% of total energy output in the Czech Republic and this share is expected to rise to 58.0% by 2040 at the cost of reduction of energy produced from brown coal. By the end of 2040, energy generated from renewable sources is expected to account for 25.0% (in 2013 the target set for 2020, i.e. 13.0% share of RES energy in consumption, and in 2015, the consumption of 15.1% was recorded) and gas energy, 15.0% of total energy output generated in the Czech Republic.²⁶

²⁵ Czech Statistical Office (CZSO), Industry - June 2017

²⁶ Wirtualny Nowy Przemysł [Virtual New Industry]

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

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



Source: Czech Ministry of Industry and Trade

Steel industry

The metallurgical industry in the Czech Republic consists mainly of two sectors: ferrous and non-ferrous metal processing and metal founding. The steel production industry is driven predominantly demand from the automotive, construction and mechanical engineering sectors. Barriers to its growth include high costs inherently associated with other kinds of transport than maritime or inland waterway transport, which is due to the Czech Republic's lack of direct access to the seam and location away from key water reservoirs. For this reason this industry is forced to use more costly road or railway transport.²⁷

In H1 2017 the steel industry in each of the three main product groups recorded production declines. According to the data of Steel Federation a.s., in the period from January to June this year, the highest decrease rate was recorded in production of raw steel, both in nominal and relative terms. Production of raw steel during the first 6 months of 2017 was 2.44 million tons and was lower than in H1 2016 by 0.26 million tons, i.e. 9.6% yoy. By the same token, production of metallurgical pig iron recorded a decrease in H1 2017, compared to H1 2016, by 181.4 thousand tons yoy, i.e. 8.6% yoy, reaching 1.92 million tons. Also the hot-rolled materials category recorded a decline of production in H1 2017 compared to the corresponding period of the previous year by 155.8 thousand tons, or 5.9% yoy, to 2.49 million tons.²⁸

Construction industry

In Q2 2017, seasonally adjusted construction and installation output increased by 8.1% yoy (whereas seasonally unadjusted construction and installation output increased by 5.9% yoy). Output in the construction of buildings increased by 10.7% yoy (and its share in total construction output rose by 7.3 p.p.), whereas output in construction engineering declined by 4.5% yoy (and its share in total construction output fell by 1.4% p.p.).²⁹

The average number of registered employees³⁰ in construction companies employing 50 or more staff in Q2 2017 fell by 2.3% yoy. The average monthly nominal gross salary of this group of employees increased by 5.9% yoy to CZK 34,676 (currently approx. PLN 5,655).

In Q2 2017, the number of construction orders undertaken by companies employing 50 or more staff increased by 1.9% yoy, reaching the level of 16,891 orders executed in the Czech Republic. Their total value increased by 9.2% yoy to CZK 53.5 billion (or approx. PLN 8.73 billion).

In the period from April to June 2017 the number of granted building permits amounted to 21,935 (up by 1.5% yoy) and their estimate value was 1.4% lower yoy – CZK 84.0 billion (i.e. approx. PLN 13.70 billion).

²⁷ National Training Fund, o.p.s., "Manufacture of basic metals and fabricated metal products"

²⁸ The Steel Federation, a.s.

²⁹ Czech Statistical Office (CZSO), Construction - June 2017

³⁰ The breakdown does not comprise persons working on the basis of different employment contracts, business owners and cooperating household members who do not have employment contracts

Automotive Industry

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

The biggest producers of passenger cars operating in the Czech Republic in H1 2017 were: Škoda Auto a.s. (60.7% market share), Hyundai Motor Manufacturing Czech s.r.o. (25.0% market share) and TPCA Czech s.r.o. (Toyota, Peugeot, Citroën, 14.3% market share). In H1 2017, the automotive industry branch manufacturing delivery vans and buses was made up of the following entities: Iveco Czech Republic a.s. (89.2% market share), SOR Libchavy spol. s.r.o. (9.6% market share) and other producers (1.2% market share).

According to the Automotive Industry Association, during H1 2017, the Czech Republic manufactured 775 thousand road vehicles, which, compared to the corresponding period of the previous year (737.6 vehicles) constituted a 5.1% yoy increase. The biggest nominal increase in production of road vehicles occurred in the passenger car segment. In H1 2017, 756.5 cars were manufactured, i.e. 37.0 thousand more than in the corresponding period of the previous year (+5.1% yoy). The biggest increase of production was recorded in the truck segment. In H1 2017, 776 cars were manufactured, 247 more than in the corresponding period of the previous year (+46.7% yoy). In addition, in the period from January to June this year, 2,318 buses (up by 106, i.e. 4.8% yoy) and 866 motorcycles were produced (down by 215, i.e. 19.9% yoy).³¹

4.2. Freight transportation activity

4.2.1. Rail transport market in Poland

Rail freight transport is a market regulated by the Office of Rail Transport which issues licenses authorizing business entities to conduct rail transport activity. In H1 2017, rail freight services were provided by 70 licensed operators, including PKP CARGO S.A. and PKP CARGO SERVICE Sp. z o.o. In this period they transported in total 114.1 million tons of cargo, i.e. 10.3 million tons more yoy (+9.9% yoy). Also freight turnover increased compared to the corresponding period of 2016 by 1.9 billion tkm, i.e. by 7.8% yoy. The average haul in rail transport in H1 2017 decreased by 4.5 km yoy (or -2.0% yoy) to 226.1 km.³²

This increase in rail freight transport results primarily from increased transport of hard coal in Poland in import and in transit (with decreased production of this raw material in Poland (-4.3% yoy)³³, lower hard coal sales (-3.3% yoy)³⁴ and lower electricity generation in hard coal-fired commercial power plants (-1.9% yoy)³⁵. In the period from January to May 2017, 38.0 million tons of hard coal was transported, 3.8 million tons more than in the corresponding period of 2016 (+11.1% yoy).³⁶ Economic recovery in such industries as: construction (in connection with intensification of road and railway investments, and favorable atmospheric conditions in January and March this year), and metallurgical industry (in connection with the favorable situation in the global market, increased steel production worldwide in H1 2017 by 4.4% yoy³⁷, increased domestic and foreign demand) brought positive trends in the rail freight market. During the first 5 months of 2017, railways transported in Poland in total 16.3 million tons of aggregates, sand and gravel and 8.5 million tons of iron ore, metals and metal products, up by 1.3 million tons yoy (+8.4%) and 0.9 million tons yoy (+11.1%), respectively³⁸. The favorable economic conditions in Poland and in foreign markets also impacted intermodal freight transport, mainly in connection with the development of transit routes and the handling of cargo connections on the China-Europe-China route as part of the "New Silk Road" and a higher percentage of bulk cargo now being transported in containers, e.g. coke, wood chips. In Q1 2017, total volume of container shipments was 3.6 million tons, which represents increase vis-a-vis the corresponding period of the previous year of 0.7 million tons (+25.7%), while transport calculated in UTIs increased during that period to 258.7 thousand items, i.e. an increase of 52 thousand items yoy (+25.2% yoy).³⁹

During the first five months of 2017, transport of timber and wooden products declined on a yoy basis (a decrease by 245 thousand tons yoy, or 24.3% yoy, to almost 0.8 million tons).⁴⁰ This was associated predominantly with the suspension of exports of this raw material by Belarus in January of this year and the subsequent significant reduction in such exports (following their resumption). In the same period, transport of chemicals and chemical products also declined (by 237 thousand tons yoy, or 6.1% yoy, to 3.6

³¹ AutoSAP

³² Office of Rail Transport

³³ polskirynekwegla.pl

³⁴ polskirynekwegla.pl

³⁵ pse.pl

³⁶ Central Statistical Office of Poland

³⁷ worldsteel.org

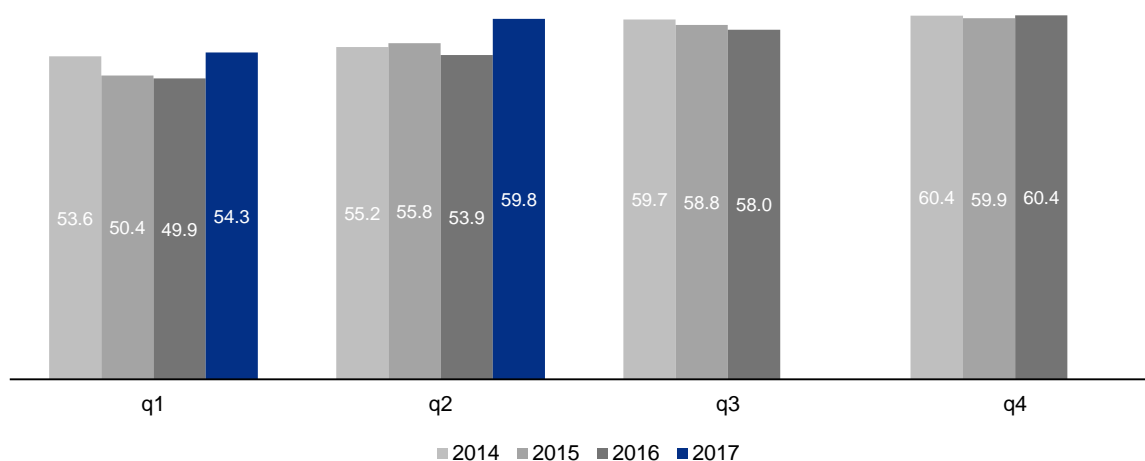
³⁸ Central Statistical Office of Poland

³⁹ Office of Rail Transport

⁴⁰ Central Statistical Office of Poland

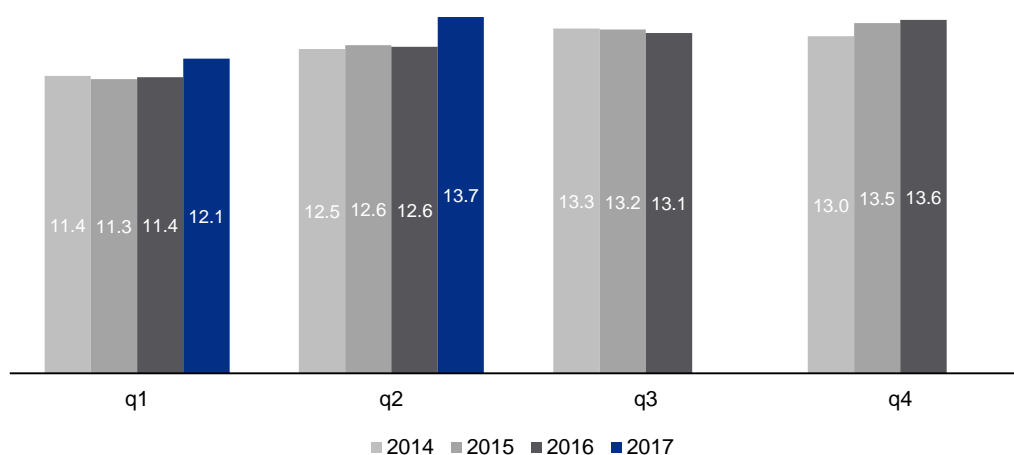
million tons)⁴¹ due to a decrease in the price of sulfuric acid, the profitability of its sales and the associated lower volume of this commodity intended for exports.

Figure 8 Rail freight volumes in Poland (in million tons) in individual quarters of 2014-2017



Source: Office of Rail Transport

Figure 9 Rail freight turnover in Poland (in billions tkm) in individual quarters of 2014-2017



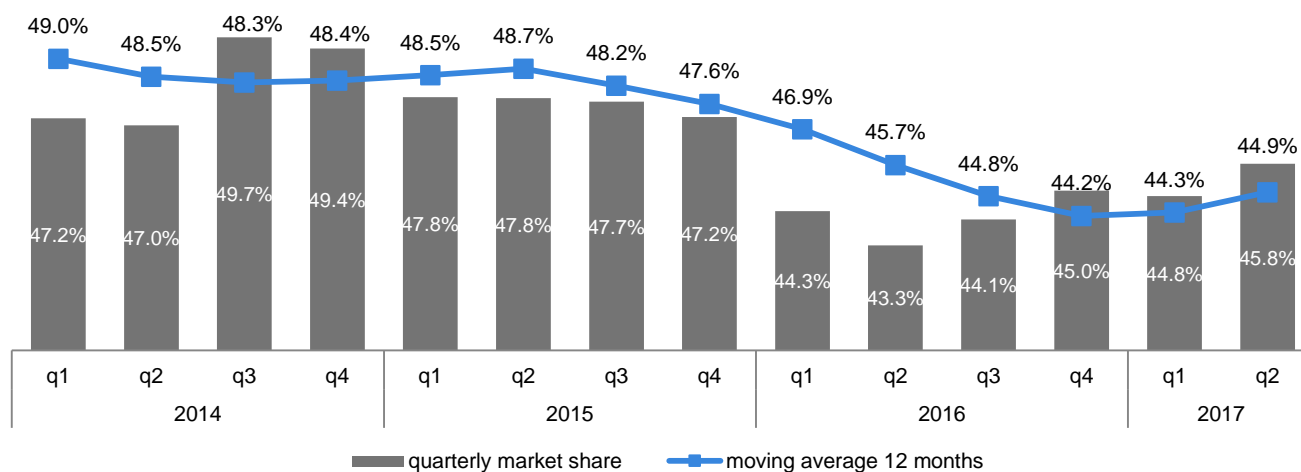
Source: Office of Rail Transport

⁴¹ Central Statistical Office of Poland

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

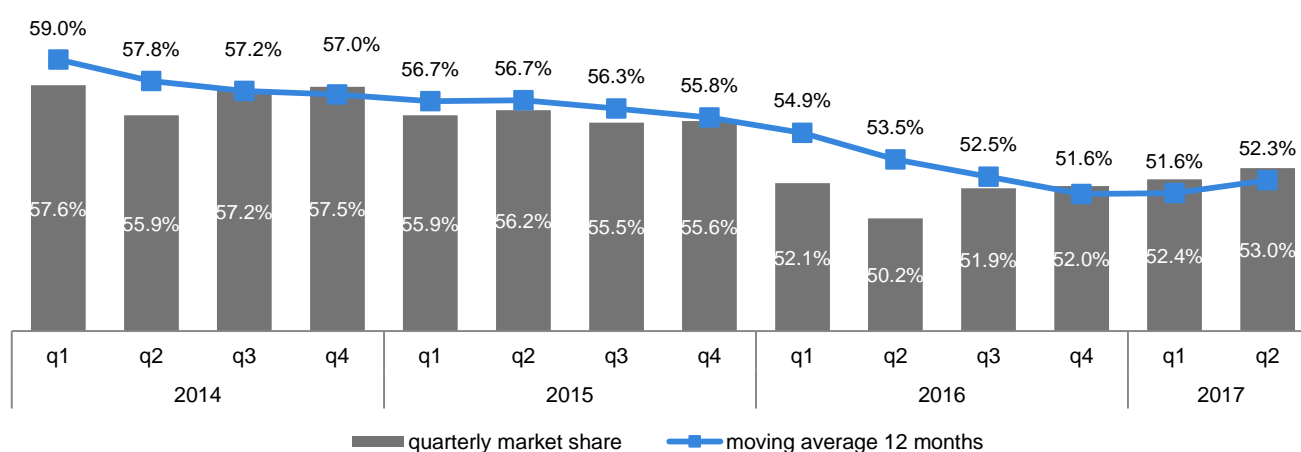
In H1 2017, the PKP CARGO Group unchangeably maintained its leading position on the Polish rail freight market with a 45.3% market share (+1.5 p.p. yoy) in terms of freight volume and a 52.7% market share in terms of freight turnover (+1.6 p.p. yoy).⁴²

Figure 10 Share of the PKP CARGO Group in freight volume in 2014-2017 in Poland



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

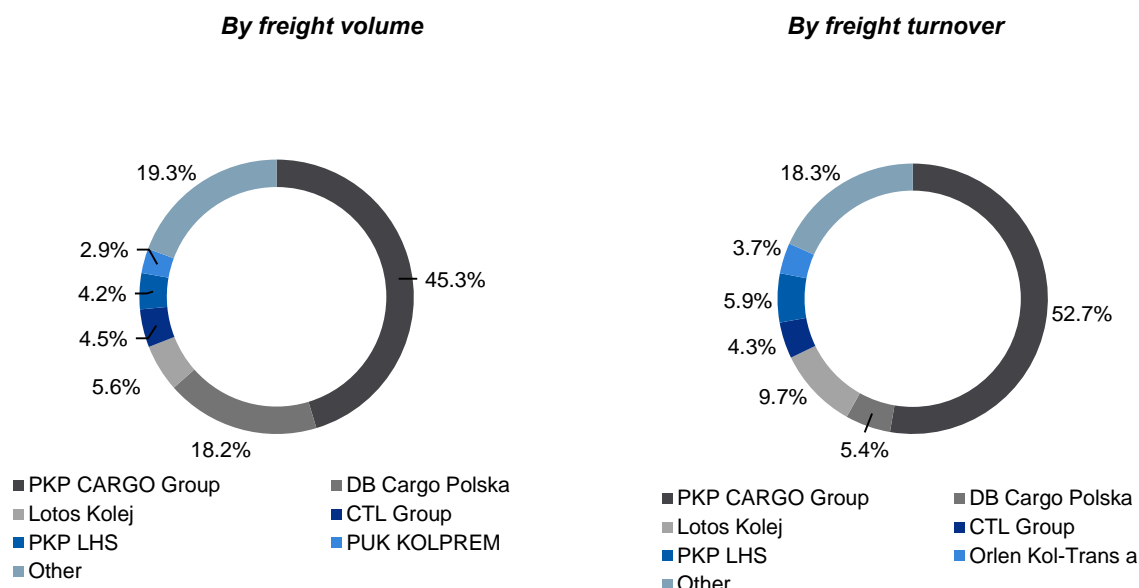
Figure 11 Share of the PKP CARGO Group in freight turnover in 2014-2017 in Poland



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

⁴² Office of Rail Transport

Figure 12 Market shares of the largest rail operators in Poland in H1 2017, by freight volume and freight turnover



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

^a As of 1 June 2017, Euronat Trzebinia sp. z o.o. contributed to Orlen Koltrans sp. z o.o. the financially, functionally and organizationally separated part of the enterprise providing the services related to rail transport. The aforementioned share of Orlen KolTrans includes the transport volumes carried out by Euronat Trzebinia sp. z o.o. before 1 June 2017.

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

In H1 2017, the following PKP CARGO Group's competitors transported the largest freight volumes: DB Cargo Polska (20.7 million tons), Lotos Kolej (6.4 million tons) and the CTL Group (5.1 million tons), which held market shares of 18.2%, 5.6% and 4.5%, respectively. On the other hand, the greatest freight turnover (besides the PKP CARGO Group) was recorded by the following: Lotos Kolej (2.5 billion tkm), PKP LHS (1.5 billion tkm) and DB Cargo Polska (1.4 billion tkm) with a market share of 9.7%, 5.9% and 5.4%, respectively.

In period from January to June 2017, compared to the corresponding period of 2016, the largest increases in freight turnover were posted by the following rail operators competitive to the PKP CARGO Group: Inter Cargo (+200.3 million tkm, which translated into an increase in the share of 0.7 p.p.) and STK (+141.8 million tkm, which translated into an increase in the share of 0.5 p.p.). The most sizeable decreases in the market share were recorded by the CTL Group (-309.4 million tkm, which translated into a decrease in the share of 1.6 p.p.) and PKP LHS (-40.7 million tkm, which means a decrease of 0.6 p.p.). On the other hand, as regards freight volume, the following competitive carriers recorded the largest increase in H1 2017 as compared to the corresponding period of the previous year: DB Cargo Polska (+1 846.2 thousand t, thanks to which that carrier maintained its market share), Freightliner PL (+529.0 thousand t, market share increase of 0.3 p.p.) and Czech Railways (+368.6 thousand t, market share increase of 0.2 p.p.). The largest decrease yoy in H1 2017 in terms of freight volume was recorded by the CTL Group (-662.8 thousand tons, market share decrease of 1.1 p.p.).⁴³

4.2.3. Rail freight transport market in the Czech Republic

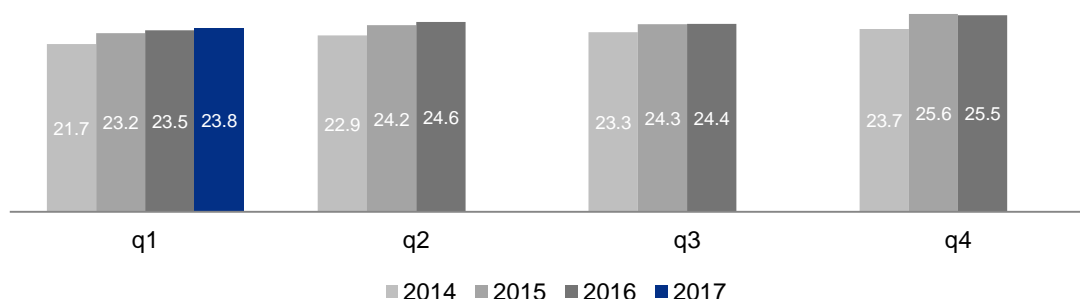
According to the data of the Czech Ministry of Transport, in Q1 2017, 103.7 million tons of goods were transported and 14.7 billion tkm of freight turnover were carried out in the Czech Republic. Road transport had the largest share in the freight transport market, from the standpoint of volume as well as freight turnover, amounting to 76.7% (79.6 million tons) and 71.8% (10.6 billion tkm), respectively. As compared to Q1 2016, the freight volume carried by road was 1.0 million tons greater (+1.3% yoy), and the realized freight turnover was 1.1 billion tkm lower (-9.8%), which means decrease of average haul in road transport in Q1 2017 of 16.4 km yoy, i.e. to the level of 132.8 km (-11.0% yoy).

⁴³ Office of Rail Transport

On the other hand, in Q1 2017, 23.8 million tons of cargo were carried by rail, which represents an increase of 316.7 thousand tons yoy, i.e. 1.3%. The volume of cargo carried by rail represented 23.0% of total freight volume. In Q1 2017, the freight turnover recorded by the railways accounted for 27.1% of the freight turnover recorded by the entire transportation industry and was 4.0 billion tkm (increase of 329.4 million tkm yoy, i.e. 9.0%). In Q1 2017, the average haul of cargo by rail stood at 167.7 km, representing an increase of 11.8 km yoy (+7.5% yoy).

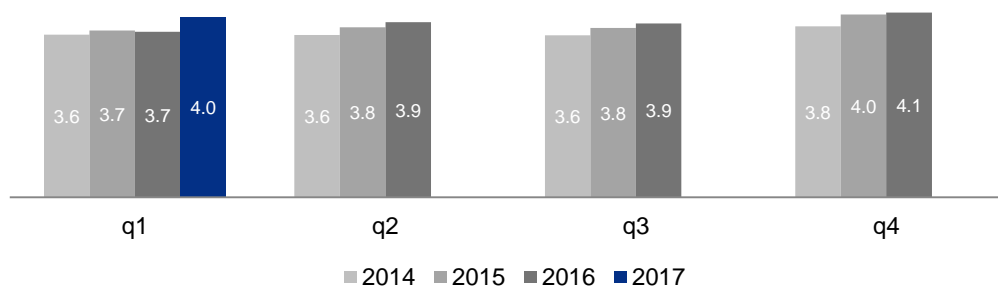
In Q1 2017, air transport and inland navigation jointly represented 0.35% of cargo volume carried in the Czech Republic, and from the standpoint of realized freight turnover, those means of transport had a 1.1% share in the transportation industry.⁴⁴

Figure 13 Rail freight transport in the Czech Republic, by freight volume in individual quarters of 2013-2016 (million tons)



Source: Czech Statistical Office

Figure 14 Rail freight transport in the Czech Republic, by freight turnover in individual quarters of 2013-2016 (billion tkm)



Source: Czech Statistical Office

⁴⁴ Ministry of Transport of the Czech Republic

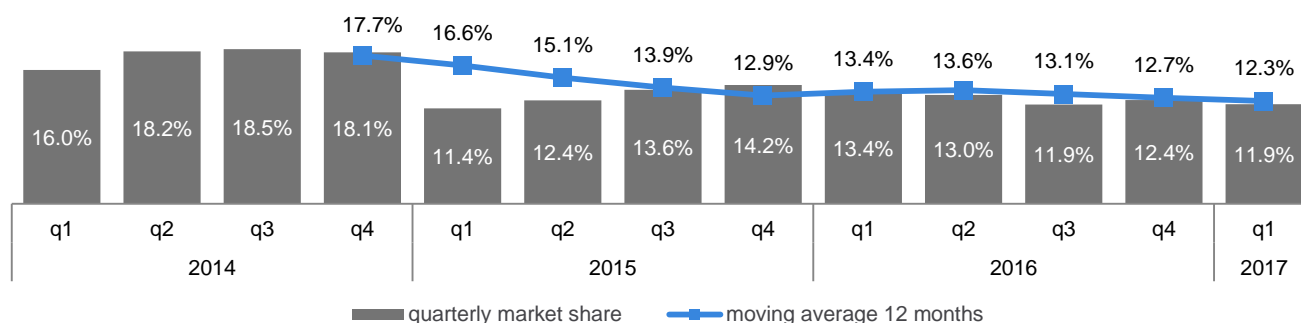
4.2.4. Position of the AWT Group in the rail transport market in the Czech Republic

According to the official data published by the Czech infrastructure manager (SŽDC), in Q1 2017 there were 98 carriers in the Czech Republic which held licenses and provided rail freight services on the grounds of such licenses, including PKP CARGO S.A. and Advanced World Transport a.s.⁴⁵

The restructuring program of the hard coal mining sector, consisting mostly in gradual decommissioning of OKD mines, which is currently implemented by the state-owned enterprise Prisko representing the Ministry of Finance of the Czech Republic, continues to have a strong impact on AWT's freight results. In H1 2017, AWT recorded a market share of 8.64%, representing a decrease of 0.93 p.p. yoy.

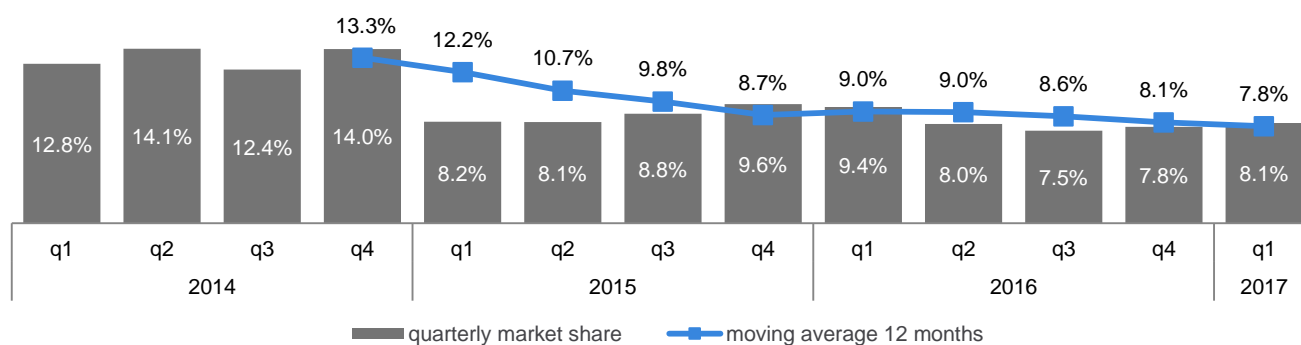
Decreases in hard coal transports carried out by AWT were partially offset in H1 2017 by increased transports of agricultural produce, mostly grain and other crops (+340.5 thousand tons yoy), liquid fuels (+188.4 thousand tons yoy), metals and metal products (+60.1 thousand tons yoy) and other cargo (+100.4 thousand tons yoy). Talks are currently being conducted with clients and agreements are begin negotiated to offset as much as possible the decrease of transported volumes attributable to lower transported volumes of hard coal to be contracted in the future.

Figure 15 AWT a.s.'s market shares in terms of freight volume in the Czech Republic quarterly in 2014-2017.



Source: Proprietary material

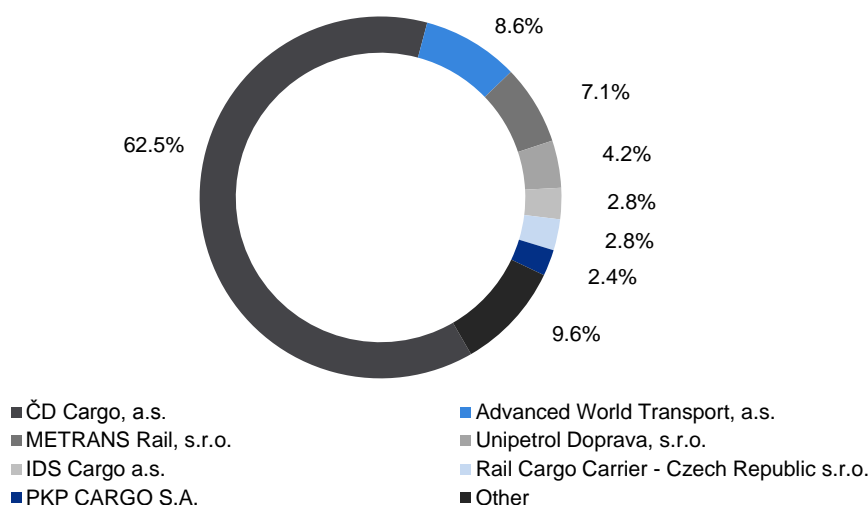
Figure 16 AWT a.s.'s market shares in terms of freight turnover in the Czech Republic quarterly in 2014-2017.



Source: Proprietary material

⁴⁵ Správa železniční dopravní cesty (SŽDC) – data as at 18 May 2017

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



Source: SŽDC

Unchangeably, in H1 2017, the rail freight leader in the Czech Republic was ČD Cargo a.s. which had a market share of 62.49% in terms of gross freight turnover. That company has been recording gradual decline in market share, also in comparison with the corresponding period of 2016 when the market share stood at 65.43% (-2.94 p.p. yoy). Part of the market share was taken over primarily by: PKP CARGO S.A. (attaining a 2.35% market share in H1 2017, and a year before the Company was not even mentioned in the classification of the largest rail carriers responsible for at least 1% of transports on the market), Rail Cargo Carrier - Czech Republic s.r.o. (increase of market share from 2.18% in H1 2016 to 2.78% after 6 months of 2017, i.e. 0.60 p.p. yoy) and Unipetrol Doprava, s.r.o. (0.44 p.p. market share increase yoy, i.e. from 3.79% in 6 months of 2016 to 4.23% in 6 months of 2017). Decrease of market share in H1 2017 could be also observed in the second largest rail freight carrier, i.e. AWT a.s. – in the period from January to June 2016, the company recorded freight turnover corresponding to 9.57% of the freight turnover of the entire market, whilst a year later that share stood at 8.64% (-0.93 p.p.). The appearance of PKP CARGO S.A. in the classification published by the Rail Infrastructure Authority (SŽDC) means that the Company has exceeded the 1% threshold of market share as a result of intensification of the Company's foreign transportation activity in the Czech Republic which was driven predominantly by the following factors:

- takeover of hard coal transport orders from a competitive carrier for exports from Poland to Slovakia via the Czech Republic,
- acquisition of hard coal transport orders for exports from Poland to the Czech Republic,
- acquisition of coke transport orders for exports from Poland to Romania with some routes running via the Czech Republic,
- increase in freight volume of iron ore in transit from Polish seaports and Ukraine to the Czech Republic,
- increase in intermodal transport between Poland and Italy, including via the territory of the Czech Republic, and transport of cars and car components in containers in transit from the Czech Republic to Russia,
- increase of carriage of cars from and to Italy via conventional means of transport.

The carriers which exceeded 5% of the share in the Czech rail freight transport market in terms of gross freight turnover in H1 2017 were the following: the state-owned company ČD Cargo a.s., Advanced World Transport a.s. and METRANS Rail s.r.o. Other carriers with a market share of less than 5% but more than 1% included: Unipetrol Doprava, s.r.o., IDS Cargo a.s., Rail Cargo Carrier - Czech Republic s.r.o., PKP CARGO S.A., SD - Kolejova doprava a.s.⁴⁶

⁴⁶ SŽDC; the classification presents operators holding more than 1% share in the Czech market

4.2.5. PKP CARGO Group's rail transport

The data on the transport activity conducted by the PKP CARGO Group in H1 2017 and H1 2016 comprise consolidated data for PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and the AWT Group⁴⁷. The transport activity in H1 2017 was conducted by five entities from the Group.

The PKP CARGO Group collaborates with the largest Polish and global groups, including ArcelorMittal, PKN Orlen, PGNiG, Lafarge Group, Azoty Group, Jastrzębska Spółka Węglowa, Węglokoks, Enea Group, PGE Group, Tauron Group, Polska Grupa Górnicza and International Paper. The contracts with these business partners are regularly renewed, which confirms the high quality of the transportation services provided by the PKP CARGO Group. An example confirming the foregoing facts is the signing in Q2 2017 of one of the largest contracts in the history of PKP CARGO S.A. with a value of almost PLN 1.3 billion for the term of the next three years with the ArcelorMittal Group for transport of coal, coke, iron ore, stone and metals.

The PKP CARGO Group provides rail freight services in the territory of Poland as well as seven other European Union states, i.e.: Germany, the Czech Republic, Slovakia, Austria, the Netherlands, Hungary and Lithuania. The presence in these markets is a growth opportunity for the Group, since it allows the Group to handle independently the volumes transported to and from key European seaports, including those located on the North Sea (Amsterdam, Rotterdam, Zeebrugge, Antwerp, Hamburg) and those located on the Adriatic Sea (Koper, Trieste, Rijeka). In July 2017, PKP CARGO S.A. and Port of Gdańsk signed the memorandum of collaboration with the Romanian rail operator CFR Marfa and Port of Konstanca for development of logistics services in the rail corridor between the Port of Gdańsk and the Port of Konstanca, with the aim of stimulating the economic activities on Europe's North-South axis as part of the Three Seas Initiative spanning the Adriatic Sea, the Baltic Sea and the Black Sea. The opening of the PKP CARGO Group to local as well as international markets causes exposure to various macroeconomic factors (such as e.g. economic growth on domestic and international markets, growth of particular sectors of the industry, condition and availability of transport infrastructure, adequate potential of the market for rolling stock repairs and maintenance, intensity of competitors' activities within the transportation industry and among various types of transport), which to significant extent condition the outlook for development of transport activities conducted by each and every carrier.

Regardless of foreign ports, the PKP CARGO Group remains actively involved in the operation and further development of transport as part of a route leading from China through Poland to Western Europe, which has led to cooperation with Chinese partners aimed at developing a whole-train rail link between China and Europe and developing strategic cooperation in the field of transshipment activity in the Małaszewicze Logistics Center. The primary objective of the project is to increase the volumes of overland intermodal transport between China and Western Europe through Małaszewicze and back to Asia.

In H1 2017, the PKP CARGO Group carried 57.6 million tons of cargo (+10% yoy) and achieved freight turnover of 15.0 billion tkm (+11% yoy). This performance was driven by increase in transport in Poland, which reached 51.7 million tons (+14% yoy)⁴⁸ in terms of freight volume and 13.6 billion tkm (+11% yoy) in terms of freight turnover, and maintaining of the figures for international transport, which reached 9.0 million tons in terms of freight volume, i.e. at the level equal to the actuals for H1 2016, and 1.4 billion tkm (+16% yoy) in terms of freight turnover. In H1 2017, members of the AWT Group carried 6.0 million tons of cargo (-12% yoy) and achieved freight turnover of 0.9 billion tkm (+10% yoy).

Solid fuels were the main type of goods carried by the Group, with hard coal being the dominating cargo. Transportation of solid fuels represented 50% of freight volumes and 39% of freight turnover recorded by the PKP CARGO Group in H1 2017. In the analyzed period, transport of solid fuels was 1% higher yoy in terms of freight volume and 3% lower yoy in terms of freight turnover. In H1 2017, freight volume in hard coal transport increased by 1% yoy and freight turnover decreased by 3% yoy, accompanied by a decrease in haul by 4% yoy, resulting primarily from an increase in the share of export carriage through Poland's southern border at the expense of export carriage through Polish seaports. Freight volume in hard coal transport in Poland recorded a 7% increase yoy in terms of freight volume while the freight turnover was recorded on the level from H1 2016, which is attributable to decrease of average distance by 7% yoy (associated mostly with decrease of the share of sea exports). The increase in freight volume in H1 2017 was driven, among other factors, by the acquisition of contracts for transport services to a major power plant in the north of the country, exports to the Czech Republic, Slovakia and Ukraine, imports from Russia and transit from seaports to Slovakia. This increase occurred despite a decline in hard coal output in Poland (-4.3% yoy)⁴⁹, lower sales of this commodity (-3.3% yoy)⁵⁰ and lower electricity generation in hard coal-fired power plants (-1.9% yoy)⁵¹. Freight volume in hard coal transport outside the country decreased by 29% yoy and freight turnover fell by 28% yoy, driven primarily by less extensive transport of this commodity from OKD's mines. In another cargo category included in solid fuels, namely in coke, the PKP CARGO Group's

⁴⁷ This applies to the AWT Group companies consolidated by the full method.

⁴⁸ Transports in Poland contain part of the freight volume which was carried by PKP CARGO S.A. also beyond Polish boundaries – in H1 2017, 2.5 million tons of goods were carried, representing increase of 66% yoy.

⁴⁹ polskirynekwegla.pl.

⁵⁰ polskirynekwegla.pl.

⁵¹ pse.pl.

transport performance decreased in H1 2017 by 2% yoy in terms of freight volume, and freight turnover was 1% lower yoy. Decrease in transports of coke in Poland by 10% yoy was offset by increase in transports of coke by the AWT Group companies by 16% yoy as a result of PKP CARGO Group's acquisition from the competitor of the deliveries of that raw material in exports from Poland to Romania. The decrease in transports of that commodity was attributable to shift of part of transports from conventional transports to intermodal transports due to the clients' growing interest in transports of that commodity in containers.

Aggregates and construction materials were the second largest group of products carried by the PKP CARGO Group in H1 2017, with a 16% share in total freight turnover (13% in H1 2016). In transport of aggregates and construction materials, in H1 2017 an increase by 28% yoy was recorded in terms of freight volume coupled with a 32% yoy increase in terms of freight turnover. The increase in freight performance in this segment is associated with intensification of road and rail construction projects co-funded by the European Union from the Financial Framework 2014-2020 and increased demand for transports of aggregates to concrete-mixing plants and bituminous mass production plants, as well as higher demand for limestone resulting from a higher output of metallurgical products. The quantity of transport of aggregates and construction materials in H1 2017 was also positively influenced by acquisition of aggregates transports from the competitor as well as higher deliveries of limestone exported to Ukraine.

Products associated with the metallurgical industry, i.e. metals and ores, are another important market area serviced by the PKP CARGO Group. Their share in the Group's freight turnover in H1 2017 was 14% (13% in H1 2016). This segment recorded an increase in freight volume by 21% yoy and freight turnover by 19% yoy in connection with stronger demand for metal ores resulting from a favorable situation in the metallurgical industry on the global markets (a 4.4% yoy increase in global steel output in H1 2017 according to data published by the World Steel Association)⁵², improving economic conditions and lower imports from China (due to the European Commission's imposition of customs duties on products sold at dumping prices). A significant impact on the level of transport of metals and ores (both raw materials and semi-finished products) in H1 2017 was also exerted by increase of steel production in Poland to the level of 5.1 million tons (increase of 16% yoy). This partly stems from low comparative base because 2016 marked overhaul of the blast furnace in Kraków as well as renovation of the COS line in Zawiercie. Additionally, as a result of active trade policy, transports of metal were acquired from the competitor, including, among others, in exports to Hungary and imports from Austria.

The PKP CARGO Group continues to be the market leader in intermodal transport in Poland, an important element of its growth strategy. In H1 2017, the transport of intermodal units, realized by the Group, increased in terms of container freight volume by 22% yoy, while freight turnover increased by 33% yoy, which was attributable in part to increase of average haul by 9% yoy. The increase in intermodal transport is driven mainly by the development of transit routes and the handling of cargo connections on the China-Europe-China route as part of the "New Silk Road" and a higher percentage of cargo that used to be transported in conventional ways and is now being transported in containers (e.g. coke, grain, car parts). Transit between marine ports and terminals located in greater distances from the sea has a significant share as well. In H1 2017, transshipment of containers in Polish seaports declined by 2.8% yoy⁵³, while the weight of containers transported by the PKP CARGO Group to/from Polish seaports increased during that period by 12.3% yoy.

In H1 2017, freight volume rose by 8% yoy and freight turnover by 14% yoy in the transport of chemicals, which was due in part to an increase in the average haul by 6% yoy. The growth in the transport of this cargo group was driven by higher imports of gas from the East and exports of fertilizers by domestic producers.

The transport of timber and agricultural produce in H1 2017 was the same as in H1 2016 in terms of freight volume, whilst in terms of freight turnover it increased by 15% yoy. The increase of freight turnover in that segment was primarily attributable to greater transports of grain and agricultural products outside of Poland by the AWT Group companies.

In transport of liquid fuels in H1 2017, freight volume rose by 61% yoy and freight turnover by 17% yoy, whilst the average haul decreased by 27% yoy (decrease of haul in the transport of imports in Poland by 60% yoy in connection with increase of the share of short-distance transport in imports from Belarus and Lithuania). The increase in the quantum of transport in this cargo category was driven mainly by curtailment of the so-called "grey economy" in trade in liquid fuels as a result of last year's amendments to legislation (the so-called "fuel package") and more effective law enforcement measures that were undertaken. Transport of liquid fuels has experienced robust growth: the first quarter of this year witnessed increase of freight volume by 46% yoy and freight turnover by 10% yoy, whilst the second quarter of this year witnessed increase by 75% yoy in terms of freight volume and 25% yoy in terms of freight turnover.

⁵² worldsteel.org

⁵³ GUS – Statistical Bulletin No. 6/2017

Table 13 Freight turnover of the PKP CARGO Group in H1 and Q2 2016 and 2017.

Item	6 months of 2017	6 months of 2016	Change	% change	6 months of 2017	6 months of 2016	Q2 2017	Q2 2016	% change
	(million tkm)			%	percentage of total (%)		(million tkm)		%
Solid fuels ¹	5,926	6,098	-172	-3%	39%	45%	2,818	2,998	-6%
<i>of which hard coal</i>	5,232	5,400	-168	-3%	35%	40%	2,459	2,577	-5%
Aggregates and construction materials ²	2,360	1,784	576	32%	16%	13%	1,596	1,154	38%
Metals and ores ³	2,047	1,719	328	19%	14%	13%	1,111	815	36%
Chemicals ⁴	1,189	1,044	145	14%	8%	8%	601	539	11%
Liquid fuels ⁵	646	550	96	17%	4%	4%	347	277	25%
Timber and agricultural produce ⁶	864	750	114	15%	6%	6%	441	335	32%
Intermodal transport	1,520	1,146	374	33%	10%	9%	789	604	31%
Other ⁷	470	384	85	22%	3%	3%	244	213	14%
Total	15,022	13,474	1,548	11%	100%	100%	7,947	6,935	15%

Source: Proprietary material

Table 14 PKP CARGO Group's freight volume in H1 and Q2 2016 and 2017

Item	6 months of 2017	6 months of 2016	Change	% change	6 months of 2017	6 months of 2016	Q2 2017	Q2 2016	% change
	(thousand tons)			%	percentage of total (%)		(thousand tons)		%
Solid fuels ¹	29,092	28,874	217	1%	50%	55%	14,134	14,224	-1%
<i>of which hard coal</i>	26,134	25,852	282	1%	45%	49%	12,604	12,648	0%
Aggregates and construction materials ²	8,965	7,001	1,964	28%	16%	13%	5,909	4,444	33%
Metals and ores ³	6,575	5,440	1,135	21%	11%	10%	3,464	2,599	33%
Chemicals ⁴	3,466	3,218	248	8%	6%	6%	1,720	1,622	6%
Liquid fuels ⁵	2,315	1,435	880	61%	4%	3%	1,321	756	75%
Timber and agricultural produce ⁶	2,196	2,189	7	0%	4%	4%	1,165	994	17%
Intermodal transport	3,696	3,031	665	22%	6%	6%	1,847	1,589	16%
Other ⁷	1,330	1,049	282	27%	2%	2%	673	571	18%
Total	57,635	52,237	5,398	10%	100%	100%	30,234	26,800	13%

Source: Proprietary material

Table 15 Average haul of the PKP CARGO Group in H1 and Q2 2016 and 2017

Item	6 months of 2017	6 months of 2016	Change	% change	Q2 2017	Q2 2016	% change
	km			%	km		%
Solid fuels ¹	204	211	-7	-4%	199	211	-5%
<i>of which hard coal</i>	200	209	-9	-4%	195	204	-4%
Aggregates and construction materials ²	263	255	8	3%	270	260	4%
Metals and ores ³	311	316	-5	-1%	321	314	2%
Chemicals ⁴	343	324	19	6%	349	332	5%
Liquid fuels ⁵	279	383	-104	-27%	263	366	-28%
Timber and agricultural produce ⁶	394	343	51	15%	379	337	12%
Intermodal transport	411	378	33	9%	427	380	12%
Other ⁷	353	367	-13	-4%	363	374	-3%
Total	261	258	3	1%	263	259	2%

Source: Proprietary material

¹ Includes hard coal, coke and lignite.

² Includes all kinds of stone, sand, bricks and cement.

³ Includes ores and pyrites, as well as metals and metal products.

⁴ Includes fertilizers and other chemicals.

⁵ Includes crude oil and petrochemical products.

⁶ Includes grain, potatoes, sugar beets, other produce, wood and wooden products.

⁷ Includes ferry transportation and other freight.

From the point of view of the directions in which the PKP CARGO Group's transportation services were provided, transportation within Poland was dominant, constituting 90% of the realized freight turnover in H1 2017. Compared to H1 2016, the share of realized freight turnover outside the territory of Poland increased by 0.4 p.p., which points to a gradual development of freight outside of Poland.

4.3. Other services

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

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

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

4.4. Headcount

Information on changes in the headcount in the PKP CARGO Group in H1 2017 and 2016 is provided below.

Table 16 Headcount in H1 2017 in the PKP CARGO Group (taking into account only active employees)

Item	Headcount as at:			Change YTD	Change in Q2 2017
	30/06/2017	31/03/2017	31/12/2016		
PKP CARGO Group	23,371	23,281	23,144	227	90
including: PKP CARGO S.A.	17,205	17,247	17,429	-224	-42

Source: Proprietary material

Table 17 Headcount in H1 2016 in the PKP CARGO Group (taking into account only active employees)

Item	Headcount as at:			Change YTD	Change in Q2 2016
	30/06/2016	31/03/2016	31/12/2015		
PKP CARGO Group	23,479	23,625	23,805	-326	-146
including: PKP CARGO S.A.	17,715	17,802	17,979	-264	-87

Source: Proprietary material

Table 18 Average headcount in H1 2017 and H1 2016 in the PKP CARGO Group (taking into account only active employees)

Item	Average headcount in FTEs		Change 2017/2016	Average headcount in persons		Change 2017/2016
	6 months	6 months		6 months	6 months	
	2017	2016		2017	2016	
PKP CARGO Group	23,299	23,619	-320	23,324	23,649	-325
including: PKP CARGO S.A.	17,277	17,829	-552	17,281	17,834	-553

Source: Proprietary material

Table 19 Change in the headcount structure in H1 2017 in the PKP CARGO Group (taking into account only active employees)

Item	Headcount as at:			Change YTD	Change in Q2 2017
	30/06/2017	31/03/2017	31/12/2016		
White-collar positions – Group	5,293	5,250	5,272	21	43
including: PKP CARGO S.A.	3,815	3,798	3,825	-10	17
Blue-collar positions – Group	18,078	18,031	17,872	206	47
including: PKP CARGO S.A.	13,390	13,449	13,604	-214	-59
Total	23,371	23,281	23,144	227	90
including: PKP CARGO S.A.	17,205	17,247	17,429	-224	-42

Source: Proprietary material

Table 20 Change in the headcount structure in H1 2016 in the PKP CARGO Group (taking into account only active employees)

Item	Headcount as at:			Change YTD	Change in Q2 2016
	30/06/2016	31/03/2016	31/12/2015		
White-collar positions – Group	5,297	5,328	5,324	-27	-31
including: PKP CARGO S.A.	3,847	3,871	3,863	-16	-24
Blue-collar positions – Group	18,182	18,297	18,481	-299	-115
including: PKP CARGO S.A.	13,868	13,931	14,116	-248	-63
Total	23,479	23,625	23,805	-326	-146
including: PKP CARGO S.A.	17,715	17,802	17,979	-264	-87

Source: Proprietary material

The average headcount (in FTEs) in the PKP CARGO Group was lower by 320 FTEs, or -1.3% yoy, than in the corresponding period of the previous year, mainly as a result of termination of employment contracts due to the acquisition of old-age and disability pension rights.

4.5. PKP CARGO Group's investments

In H1 2017, the Group incurred capital expenditures for the acquisition of property, plant and equipment in the form of purchases, modernizations and the so-called overhaul component (periodic inspections and repairs of the rolling stock) and intangible assets in the amount of PLN 200.8 million, which accounted for 75% of the figure in the corresponding period of 2016, i.e. PLN 267.5 million (of which PLN 100.7 million constituted the purchase of multi-system locomotives).

The majority of capital expenditures in H1 2017 in the Group was allocated to the execution of capital expenditure endeavors associated with the rolling stock, mainly to periodic repairs and checkups of the rolling stock and modernization of locomotives and wagons – in total PLN 181.1 million (i.e. 90% of capital expenditures). Moreover, expenditures were incurred on ICT development, i.e. purchases of computer hardware and intangible assets (software) in the amount of PLN 3.6 million, investment construction activity in the amount of PLN 9.8 million and purchases of other machinery and other workshop and office equipment for PLN 6.3 million.

A detailed schedule of the Group's capital expenditures for H1 2017 and a comparison with the actuals from H1 2016 is presented in the table below.

Table 21 Capital expenditures on property, plant and equipment and intangible assets in the PKP CARGO Group in H1 2017 compared to H1 2016 (PLN thousand)

Item	6 months of 2017	6 months 2016	Absolute change yoy	Change rate yoy (stated as %)
Investment construction activity	9,824	6,312	3,512	56%
Locomotive purchases	0	101,513	-101,513	-100%
Locomotive upgrades	26,652	14,525	12,127	83%
Purchase of wagons	25	0	25	n/a
Wagon upgrades	10	0	10	n/a
Workshop machinery and equipment	5,699	2,578	3,121	121%
ICT development	3,570	8,951	-5,381	-60%
Other	575	2,460	-1,885	-77%
Components in overhaul:	154,398	131,125	23,273	18%
<i>Repairs and periodic inspections of locomotives</i>	<i>32,811</i>	<i>46,967</i>	<i>-14,156</i>	<i>-30%</i>
<i>Repairs and periodic inspections of wagons</i>	<i>121,587</i>	<i>84,158</i>	<i>37,429</i>	<i>44%</i>
Total	200,753	267,464	-66,711	-25%

Source: Proprietary material

4.6. Key information and events

Table 22 Key information and events which occurred in H1 2017 and after the balance sheet date

Period	Event
January	<ul style="list-style-type: none"> PKP CARGO S.A. signed an annex to the Investment Loan Agreement with Bank Polska Kasa Opieki S.A., extending the term of availability of funds to PKP CARGO Group companies.
	<ul style="list-style-type: none"> Mr. Mirosław Pawłowski stepped down from his function of the PKP CARGO S.A. Supervisory Board Chairman. Mr. Krzysztof Mamiński was appointed to the PKP CARGO S.A. Supervisory Board as of 6 March 2017. Mr. Jerzy Kleniewski stepped down from his function of PKP CARGO S.A. Supervisory Board Member. <p>On 14 March 2017, the Parent Company entered into an annex to the Investment Loan Agreement of 16 November 2015 with Bank Gospodarstwa Krajowego. According to the Annex, the loan will be available until 27 December 2017 in the amount of EUR 67,850,591.20.</p> <ul style="list-style-type: none"> Mr. Władysław Szczepkowski was appointed to the PKP CARGO S.A. Supervisory Board as of 14 March 2017.
March	<ul style="list-style-type: none"> Early repayment of a loan obtained from the European Bank for Reconstruction and Development. <p>Four PKP CARGO Group companies entered into an investment loan agreement with Bank Polska Kasa Opieki S.A. for the maximum amount of PLN 50,500,000.00 (WIBOR 3M + margin). The loans were granted for financing and/or refinancing of the investment plan. The loans were available until 19 March 2017. The final repayment date for the loans is 20 December 2021.</p> <p>Receipt of a notification that, following the settlement on 21 March 2017 of the purchase of PKP CARGO S.A. shares effected on 17 March 2017, the stake held by TFI PZU Funds in the overall number of votes at the Company's Shareholder Meeting exceeded the 5% threshold. Prior to the acquisition of the shares, the Funds held 2,231,450 shares in the</p> <ul style="list-style-type: none"> Company representing 4.98% of its share capital and were entitled to 2,231,450 votes at the Shareholder Meeting representing 4.98% of the total number of votes. Following the transaction, the TFI PZU Funds hold 2,302,843 shares in the Company representing 5.14% of its share capital and are entitled to 2,302,843 votes at the Shareholder Meeting representing 5.14% of the total number of votes.
April	<p>The Regional Court in Ostrava published a draft OKD a.s. restructuring plan. In accordance with the published Plan, OKD, through an increase in the share capital of its subsidiary, will contribute its enterprise (without claims specified as excluded) to OKD's Subsidiary; subsequently, OKD will sell a 100% stake in OKD's Subsidiary to PRISKO a.s., a company wholly owned by the State Treasury of the Czech Republic, for approx. CZK 79 million (approx. EUR 2.6 million). The closing of the transaction is contingent on the following conditions precedent: approval of the restructuring plan by the</p> <ul style="list-style-type: none"> court, approval of the transaction by the Czech anti-monopoly authority, increase in the share capital of OKD's Subsidiary and deposit of the purchase price for a 100% stake in OKD's Subsidiary. In addition, OKD will use the proceeds from the transaction to satisfy priority creditors in accordance with Czech law and to partly satisfy the remaining creditors. The closing is expected to take place in Q3 or Q4 2017. The current freight contract between AWT and OKD is not included in the list of Excluded Claims, hence OKD's rights and obligations arising therefrom will be contributed to OKD's Subsidiary acquired by PRISKO a.s. <ul style="list-style-type: none"> PKP CARGO S.A. was awarded with the prestigious title "Transparent Company of the Year 2016" for high quality of market communication and fulfillment of information and reporting duties.
May	<ul style="list-style-type: none"> Minezit SE ("MSE") has exercised its right to demand that the Company repurchases all of the shares in AWT owned by MSE ("Put Option"). MSE is entitled to the above right under the Shareholder Agreement concluded between PKP CARGO, MSE and AWT on 30 December 2014. In accordance with the Shareholder Agreement, the total purchase price for the 15,000 shares, constituting 20% of all shares in AWT's share capital, is EUR 27,000,000. <p>Concluding an agreement for transportation of coal for Enea Wytwarzanie from Lubelski Węgiel "Bogdanka" coal mine to</p> <ul style="list-style-type: none"> Kozienice Power Plant. Under the new contract, PKP CARGO S.A. will transport more than 5.3 million tons of coal over a period of 14 months. <ul style="list-style-type: none"> On 26 May 2017, PKP CARGO S.A. entered into an agreement with Bank Polska Kasa Opieki S.A. for current account overdraft up to the amount of PLN 100,000,000.00 (WIBOR O/N + margin). The loan is available for the term of 12 months. Mr. Andrzej Wach stepped down from his function of Supervisory Board Member. 31 May 2017 marked the elapse of the deadline for repayment of the current account overdraft which PKP CARGO S.A. used on the basis of the loan agreement concluded on 2 June 2014 with mBank S.A. The agreement was not renewed.
	<ul style="list-style-type: none"> Mr. Mirosław Antonowicz was appointed to the PKP CARGO S.A. Supervisory Board as of 1 June 2017.

June

- 13 June 2017 marked the execution of the letter of intent ("Letter of Intent") with Minezit SE ("MSE"). The subject matter of the Letter of Intent is to define the rules of cooperation between PKP CARGO and MSE on their joint venture project related to the rental and lease of rolling stock ("Project"). Execution of the project will be a way to settle the put option relating to the shares held by MSE, which constitute 20% of the share capital of AWT B.V.

Execution on 20 June 2017 with MSE of a binding memorandum of agreement ("Agreement") under the Dutch law between PKP CARGO and MSE concerning the execution of a joint project, which will be a way to settle the put option relating to the shares held by MSE, which constitute 20% of the share capital of Advanced World Transport B.V.

According to the Agreement:

- The Parties confirm that they are interested in establishing a joint venture together, which will conduct the business of renting and leasing rolling stock ("Project");
- MSE agrees to defer the settlement of the put option for the sale of 20% of AWT shares held by MSE on the following conditions:
 - by 30 September 2017, the Parties will: (i) have completed the negotiation of the conditional shareholder agreement, (ii) have agreed on the non-cash contribution (contribution-in-kind) to the joint venture to be made by PKP CARGO, and (iii) have completed the negotiation of the conditional sale and leaseback agreement, to be executed between the joint venture company and PKP CARGO (all of the above referred to as "Project Execution").
 - by 31 December 2017, the Parties will: (i) have established the joint venture company (ii) have signed the shareholder agreement, (iii) PKP CARGO will have made the contribution-in-kind to the joint venture and (iv) procure the execution of the sale and leaseback agreement between the joint venture and PKP CARGO (all of the above referred to as: "Project Closing").
- Either Party may withdraw from Project Execution if Project Execution is not completed by 30 September 2017 or if Project Closing is not effected by 31 December 2017. The withdrawal will be possible on or after 1 October 2017. In the event of a withdrawal from Project Execution, the price of the put option of EUR 27,000,000 (twenty seven million Euro) will be payable by PKP CARGO to MSE within 20 business days of the date of withdrawal by any of the parties.
- The Parties additionally agreed that if a decision is made by AWT BV or PKP CARGO to sell AWT Rekultivace a.s. with its registered office in Havířov, Czech Republic, MSE would have the right to purchase the shares or the enterprise of that company, for the price negotiated with a third party interested in buying AWT Rekultivace a.s.

- Granting the co-financing to PKP CARGO S.A. in the amount of EUR 1,775,723 as part of CEF Transport 2016 competition. The CEF financial aid was recommended by the European Commission for project entitled "Acoustic upgrade of cargo wagons to make them compliant with functional and system requirements".

Entering into the memorandum of agreement on 26 June 2017 between the Parties to the Company Collective Bargaining Agreement for Employees Hired by the PKP CARGO S.A. Units ("Memorandum of Agreement"). Pursuant to the Memorandum of Agreement, the Parties have decided that a salary increase will be implemented as of 1 September 2017. The Company has estimated that the cost of the increase until the end of 2017 will amount to approx. PLN 26.7 million.

- Adoption of the consolidated text of the Company's Articles of Association by the Supervisory Board.

Signing on 30 June 2017 of annexes to agreements concluded on 20 April 2011 between PKP CARGO and the ArcelorMittal Group companies (ArcelorMittal Poland S.A., ArcelorMittal Warszawa Sp. z o.o. and ArcelorMittal Ostrava a.s.). The aforementioned agreements pertain to provision of freight rail transport services by the Company to the business partners and the signed annexes extend their term till 30 June 2020. The Company estimates the value of the cooperation in the period from 1 July 2017 to 30 June 2020 at PLN 1,268,569.30 thousand. The agreement with the highest value is the contract with ArcelorMittal Poland S.A.; its value in the period from 1 July 2017 to 30 June 2020 is estimated at PLN 1,061,467.39 thousand.

July

- PKP CARGO S.A. and the Management Board of Morski Port Gdańsk S.A. signed the Memorandum of Cooperation with CFR Marfa, Romanian state-owned cargo carrier and the Management Board of Romanian Port of Konstanca. The document opens another stage in development of current collaboration between the parties in the area of logistical services in the rail corridor between the Port of Gdańsk and the Port of Konstanca.

State-of-the-art wagon wheel sets production and repair line was launched in Zakład Napraw Taboru Spółki PKP CARGOTABOR in Zduńska Wola-Karsznice. The manufactured wheel sets were granted with a certificate admitting them for usage in the EU, and they will be used in the rolling stock of the PKP CARGO Group not only throughout the country but also in the entire Europe.

- At the meeting held on 31 July 2017, the Company Supervisory Board adopted a resolution to dismiss Mr. Jarosław Klasa from the function of PKP CARGO S.A. Management Board Member responsible for Operations effective as of 31 July 2017.

August

- Meeting with delegation of Chinese Henan province devoted to the Group's collaboration with that province's key container terminal – Zhengzhou International Hub Development and Construction Co., Ltd. The talks covered further expansion of rail transport over the New Silk Road by Centrum Logistyczne PKP CARGO in Małaszewicze on Polish-Belorussian border, in response to increased trade between China and the European Union.

- On 24 August 2017, the Meeting of Creditors of OKD a.s. ("OKD"), a company established under Czech law, a business partner of the Issuer's subsidiaries AWT and AWT Rekultivace a.s. ("AWTR") adopted the restructuring plan for OKD ("Plan"). During the Meeting of Creditors, the representatives of AWT and AWTR voted for adopting the Plan. The adoption

of the Plan opens up the possibility of further cooperation between the AWT Group and OKD, including in the provision of transport services and reclamation work. The restructuring process will prevent OKD's bankruptcy, provided that OKD's existing business is phased out gradually. The Plan will be subject to approval by the Regional Court in Ostrava.

- The Regional Court in Warsaw – Court for the Protection of Competition and Consumers (SOKIK) – in its judgment of 23 November 2015 changed the challenged decision no. RWR 44/2012 issued by the President of the Competition and Consumer Protection Office in the part imposing a fine on PKP CARGO S.A. by reducing its original amount of PLN 16,575,676.95 to PLN 2,231,719.95. PKP CARGO S.A. filed an appeal against part of the judgment. As a result of an appeal filed by both parties, on 24 August 2017 the Court of Appeals amended the challenged judgment by increasing the fine imposed therein from PLN 2,231,719.95 to PLN 3,188,169.95.

Source: Proprietary material

4.7. Description of the key threats and risks

Risks related to the economic and market environment

Risk arising from macroeconomic conditions – Transport is one of the main branches of every country's economy. Both types of land transportation of goods (vehicle and rail) specifically condition the economic development of other branches of economy of every country, including Poland and the Czech Republic, while remaining closely linked to the market condition (on the national as well as international level). Expansion or contraction of economy translates itself into rejuvenation or slowdown in the transportation industry and vice versa – increase or decrease of transports is reflected by positive or negative growth rate of the economy. The level of industrial output and growth of individual industry segments dependent on supplies of raw materials for production and semi-finished products as well as expansion of its import-intensive branches and the possibility of exporting the products that have a material impact on international trade, all have a significant influence on development of rail transport. Road transport, which is a competitive means of transport, also has influence on volumes of cargo to be transported by rail.

The macroeconomic environment, including levels of economic development of domestic and international markets on which the PKP CARGO Group provides its transportation services, directly affects the service activities conducted by the Group. The size of realized freight turnover is strongly correlated to growth rate of Poland's gross domestic product as well as long-term cycles of the economy and fluctuations of its individual production segments.

The main source of revenues for the PKP CARGO Group is the provision of rail transport services both domestically and internationally. Therefore, the Group's freight results as well as financial results are influenced not only by the economic conditions of Poland and the Czech Republic but also by development and growth rate of international economies which are their significant trade partners. Hence, the results of the Group's business activity are strongly dependent on economic situation on domestic as well as international markets on which the Group operates or which have the potential for conducting rail freight activities on them. Therefore, unfavorable economic conditions may have a negative impact on the Group's financial performance.

The entire freight industry is significantly influenced by openness and overall attitude to economic activities of business partners participating in international trade in goods. To date, wide and open trade in goods among entities from individual European Union member states has not encountered any significant obstacles, however, significant uncertainty regarding the ultimate outcome of the Brexit negotiations, which have just started, brings about new business risks. The growing uncertainty regarding the future operational model of the common market as well as changes that will likely be made to UK's economic model, result in postponement of decisions to enter into new international contracts and place orders from outside of UK, despite depreciation of pound sterling (which is favorable to European importers). Despite the fact that negotiations will not be conducted towards the so-called "hard Brexit", in medium-term perspective we should expect significant business uncertainties and disruptions in international trade. Brexit negotiations will most likely be conducted for the next two years.⁵⁴

Prices of industrial raw materials on global markets as well as overall condition of the global economy are the most significant factors contributing to improvement or deterioration of China's economic conditions, which in turn translate themselves into variations in growth rate and structure of commodities trade and transport in Central and Easter Europe. In Q2 2017, China's GDP grew 6.9%, which, as compared to predicted figure of 6.8% and the growth of 6.9% recorded in the previous quarter, points to a better condition of the economy than previously expected. High GDP growth rate was not curtailed even by interventions of state authorities aimed at reducing the availability of speculative investment financing on the real estate market. At the same time, the Chinese production output increased in June of this year by 7.6% yoy, and, as compared to May figures, represented 1.1 p.p. of growth rate increase.⁵⁵ The current economic growth observed in H1 of this year, which is higher than assumed for the entire 2017 (6.7% yoy), may contribute to intensification of rail transports via New Silk Road realized by the PKP CARGO Group from

⁵⁴ <http://www.rp.pl/Gospodarka/>

⁵⁵ Business Insider Polska

Poland's eastern border to Western European countries (and back). For the same reason, we are likely to see the increase in deliveries and pick-ups of cargo from and to China transported by sea using the currently expanding Polish seaports.

Risk of a temporary reduction in transport of major cargo categories – Rail transport of cargo is significantly correlated with the following sectors of the industry: mining, metallurgy, refinery, chemical, construction and timber. The condition of each of those industry sectors directly affects the available freight volume ordered by the enterprises operating in such industries as well as the freight turnover realized by the PKP CARGO Group.

Due to the structure of the PKP CARGO Group's freight operations, mining and processing of hard coal is the industry sector that is unchangeably the most important to the PKP CARGO Group. Despite improved conditions in the mining sector and increase of global ARA hard coal prices by 67.9% yoy, i.e. from the average level of 46.87 USD/t to 78.2 USD/t, there still exists the risk of a change of trend and periodic drop in hard coal prices. The factors causing uncertainty on the market and, thereby, posing business risk to the PKP CARGO Group, include:

- the ongoing work on the draft EU regulations compiled by the European Commission (referred to as "Winter package"), assuming promotion of, among other things, increased energy efficiency combined with further expansion of renewable energy sources, which means lack of support for energy sources based on fossil fuels with the aim of completely eliminating hard coal and brown coal from the European economy by 2050.⁵⁶
- assumptions for the "Program for the Polish hard coal sector" outlining the directions for the sector's development until 2030, according to which the share of hard coal and brown coal in Poland's energy mix should fall to approx. 60% by the end of the period covered by the forecast, and even to 50% by 2050⁵⁷ (as compared to 80.2% in H1 2017).⁵⁸
- growing importance of Renewable Energy Sources ("RES"): towards the end of Q1 of this year, Eurostat published the data according to which the share of RES in gross consumption of energy in the EU in 2015 stood at 16.7% as compared to the 20% goal set to be achieved by 2020. In Poland, the consumption of electricity from RES stood at 11.8% of domestic consumption (11.5% in 2014) and was 3.5 p.p. below the 15% goal set to be achieved by 2020. At the same time, the Czech Republic already exceeded its 2020 target in 2013, that is a 13% share of RES in electricity consumption, and that figure stood at 15.1% in 2015. Another EU goal proposed in the "Winter package" to be achieved by 2030 is to attain consumption of energy from renewable sources at the level of 27%.⁵⁹
- the restructuring program of the hard coal mining sector, consisting mostly in gradual decommissioning of OKD Nastupnicka mines (new name of Ostrava-Karvina Mines). According to the reorganization plan of the Czech coal mining company, the following mines will be successively decommissioned: Darkow and Lazy (by the end of 2018), CSA (in 2021) and CSM (in 2023).⁶⁰

In H1 2017, 32.90 million tons of hard coal were produced in Poland, which, in comparison to the corresponding period of 2016, when 34.14 million tons were produced, means the decrease of 1.52 million tons (-4.4% yoy).⁶¹ The reason for negative growth rate of production are the current restructuring activities being carried out in the Polish mines in the capital area (consolidation of entities from that sector) as well as in terms of reduction of the number of longwalls in the previous years (it has been recently announced that in the second half of this year, actions will be taken with the aim of resuming production on some of the longwalls).⁶² In the period January-June 2017, production of electricity by hard-coal-fired power plants stood at 40,005 GWh, which, as compared to 40,792 GWh in the corresponding period of 2016, means the decrease of 787 GWh yoy, i.e. 1.9%.⁶³

Risk associated with the rail freight sector – In Poland and in the Czech Republic, rail freight markets are regulated markets. Due to large number of competitors and the possibility that the regulations and standards for such entities' operation on those markets may be softened, the number of rail operators may vary. The market regulators' reduction of entry barriers brings about an additional risk in the form of a possible change of the number of freight operators which are competitive to the PKP CARGO Group; this is reflected in the previous statistics: in 2015, there were 67 operators on the market, at the end of 2016 – 69, and in H1 2017, 70 entities conducted rail freight activities.⁶⁴ In addition to the risk of new operators entering the market, there is also the risk that the entities, which previously decided to temporarily suspend their rail freight operations, may exercise their right to renew their licenses issued by the President of the Office of Rail Transport.

The Group is still a leader on the rail cargo transport market in Poland. In terms of freight volume, in H1 2017, competitors transported 54.7% of cargo, which means a decrease of 1.5 p.p. yoy as compared to corresponding period of the previous year. On the other hand, when it comes to realized freight turnover, the Group's competitors jointly recorded a decrease of that figure

⁵⁶ <http://biznesalert.pl/>

⁵⁷ Ministry of Energy

⁵⁸ Polskie Sieci Elektroenergetyczne

⁵⁹ Wysokienapiecie.pl

⁶⁰ Wirtualny Nowy Przemysł [Virtual New Industry]

⁶¹ Central Statistical Office of Poland

⁶² Ministry of Energy

⁶³ Polskie Sieci Elektroenergetyczne

⁶⁴ Office of Rail Transport

from the level of 48.9% in H1 2016 to 47.3% after the first six months of this year (-1.6 p.p. yoy).⁶⁵ AWT's share in the Czech Republic's rail freight market measured by gross freight turnover in H1 2017 stood at 8.6% (decrease by 1.0 p.p. as compared to 9.6% in H1 2016).⁶⁶

The Group's key competitors in rail transport in Poland, especially in transport of the cargo groups such as coal, aggregates, other bulk commodities, liquid fuels, chemicals and intermodal, include: DB Cargo Polska, Lotos Kolej, PKP LHS and CTL Logistics. AWT's key competitors on the Czech market include: ČD CARGO a.s., METRANS Rail s.r.o., Unipetrol Doprava s.r.o., IDS Cargo a.s., Rail Cargo Carrier - Czech Republic, SD – Kolejova doprava a.s. and České dráhy, a.s. Transport services on the territory of the Czech Republic are also provided by PKP CARGO S.A. which has a market share of 2.4% in terms of gross freight turnover after H1 2017 (the Company is not included in the SZDC list in the corresponding period of the previous year because it had the market share of less than 1%). Transport services offered by competitor carriers occur mostly in the following segments: transport of coal, bulk commodities, liquid fuels, chemicals and intermodal transport.

Previous delays in resolution of tenders and delays in launch of construction phase of the completed tenders in the construction industry still pose one of the greatest risks to conducting rail freight activities in Poland and are directly reflected in the available volumes of aggregates and other cargo which is of key importance to execution of infrastructural investment projects. On the other hand, in case of the Czech market, the key factor contributing to uncertainty regarding the future scale of rail freight operations is the mining industry – because of the ongoing restructuring processes and decommissioning of the hard coal mines belonging to the only hard coal mining enterprise, i.e. the Ostrava-Karvina Mines.

Risks in the operations conducted

Risks associated with rail infrastructure – The activities of the PKP CARGO Group depend on the condition of the rail infrastructure and the railway network being used is characterized by low quality. An intensive railway network modernization program, although ultimately it will entail improvement of operating conditions, during the course of the construction and renovation work will cause hindrances and a necessity to route the railway traffic using detours. Since many tracks are closed and there is no throughput available, there are instances where schedules are received for distant dates, which adversely affect wagon turnover and therefore the possibility of using wagons for additional routes.

Risk of changes to legal regulations

Technical specifications for interoperability Noise (NOI TSI)

The European Commission continues its work on the revision of TSI Noise, which will most probably result in an obligation imposed on rail cargo operators to install composite brake blocks or possibly also to change wheelsets, especially in the case of wagons equipped with tyred wheel sets. According to the most recent proposals, the deadlines for installing the composite brake blocks is the year 2022 for international traffic and 2026 for domestic traffic. Alternatively, the EC is also considering the concept of "silent rail line sections" but its final outcome and the possible deadlines for the operators are not yet known. It must be noted that the work and analysis is in progress and their ultimate outcome remains unknown. Both PKP Cargo and MIB are involved in the discussion with the EC aimed at delaying those deadlines and a separate approach to the Polish rolling stock, which uses mainly tyred wheelset.

Implementing act in the matter of establishing a single European railway area

The draft act (implementing act for Article 13 of Directive 2012/34/EU of the European Parliament and of the Council of 21 November 2012 establishing a single European railway area) is the subject matter of intensive work in the European Commission (the work is scheduled for completion in H2 2017). The draft sets out the detailed rules of using service infrastructure facilities. The proposed provisions may entail risks involving:

- increased bureaucracy and increased administrative expenses of service infrastructure facilities in the PKP CARGO Group,
- the necessity of conducting organizational changes,
- lower profitability of some PKP CARGO Group companies.

⁶⁵ Office of Rail Transport

⁶⁶ SZDC

Sunday trading restrictions

The bill initiated by citizens to restrict Sunday trading may introduce restrictions for conducting business on Sundays in entities such as logistic centers, warehouse centers, container terminals, distribution centers. Entry of this act into force may have an adverse effect for the entire TSL sector.

Provision of access to rail infrastructure

The draft regulation of the Minister of Infrastructure and Construction in the matter of providing access to rail infrastructure introduces new procedures and deadlines for submitting applications to provide access to rail infrastructure, which affect PKP CARGO S.A. in the following areas:

- ordering train routes in the annual timetable,
- extending deadlines for the filing of requests for an individual timetable,
- increasing booking fees.

EU Emissions Trading Scheme (EU ETS)

Uncertainty related to the changes in the EU Emissions Trading Scheme (EU ETS) made the Company's client, ArcelorMittal Poland (AMP) suspend its decision to renovate the blast furnace no. 2 in Dąbrowa Górnicza. The possible resignation from the furnace could affect not only AMP but also e.g. on mining and rail transport. Closure of the blast furnace would require a fundamental change of the entire production model of the steel mill and many other plants. First of all, the level of raw steel production would decline and the level of material supplies would follow. The risk of extinguishing one of two currently operational blast furnaces in Dąbrowa Górnicza would create risk that some of the transport business provided by PKP CARGO S.A. could be lost.

Road transport constitutes increasing competition for the Group – Road transport of cargo is the most significant competitor of rail transport. The program of modernization and development of road infrastructure, which has been implemented for many years, in combination with delays in development of rail routes, all cause that at the present moment, the vast majority of the growing demand for transport services is met by motor vehicles. In addition, the rail infrastructure modernization and construction projects, which are currently being carried out on large scale as part of the National Railway Program, cause numerous temporary hindrances in passenger and freight train traffic in the form of line closures, traffic reorganization and the need to use burdensome detours. This consequently translates itself into reduction of rail transport's competitive advantage and the clients' current preference of trucks as the means for transporting cargo. The entire rail freight market, including also the PKP CARGO Group, is adversely affected by an increasingly well-developed network of express roads and motorways which may be used by cargo trucks. Pursuant to the Regulation of the Council of Ministers of 2016, the total length of motorways and express roads in Poland is to be almost 7,650 km, of which 5,650 km will be express roads and the remaining 2,000 km – motorways.⁶⁷ In H1 2017, approx. 68 km of express roads were commissioned and contracts were signed for the construction of another 31 km. It is planned that by the end of 2017, contracts will be signed for construction of sections with total length of approx. 330 km. It is planned that in 2018, approx. 369 km of express roads will be commissioned.⁶⁸ The total length of motorways in the Czech Republic is 1,225 km (as at 1 January 2017). The network of express roads and motorways, which is currently under development, is to double in length by 2030, which is of particular importance to road carriers providing transport services in the Czech Republic.

Shorter travel time and, therefore, shorter cargo delivery time in combination with reduction of costs of transport, are the direct consequences of expansion of the road network and improvement of the road surface quality which the road carriers may benefit from. However, this has an adverse impact on the rail services market because the progress in development of subsequent express road sections in combination with disproportionately smaller pace of modernization of the Polish rail infrastructure put the rail companies at competitive disadvantage. Since rail transport frequently requires synchronization and collaboration with other means of transport when making deliveries of goods to the indicated recipient (e.g. road carriers must deliver the cargo from the terminal), the road carriers gain an additional competitive advantage in that area in the form of significant independence from other means of transport.

The Group's customer base is highly dependent on a limited number of industries and their suppliers – Initiating and maintaining long-term business collaboration between entities operating under variable conditions on local and global markets is an important element of functioning and development of the PKP CARGO Group as well as its key customers. This is reflected in the contracting structure related to rail freight since most of trade contracts are concluded for longer periods of time. The necessity to ensure transportation capacity for large quantities of goods (including, among other things, coal, aggregate, construction

⁶⁷ Regulation issued by the Council of Ministers on 19 May 2016 amending the regulation in the matter of the network of motorways and express roads (Journal of Laws of 2016, Item 784)

⁶⁸ money.pl/gospodarka

materials, metal ores, metals and metal products) as well as intra-market and inter-industry competition of transportation companies, all bring about the risk of temporary or permanent loss of freight contracts to competitor entities from the transportation sector. Subsequent risk factors include volatility of cargo volumes ordered to be carried (despite contractually declared volumes to be transported during the term of the contract), a possibility of the contract not being continued due to change of macroeconomic conditions of the given client (e.g. lack of cargo to be transported), and also potential acquisition activities of the competitor entities from the transportation sector (e.g. price war). Due to a limited number of industries and the business entities conducting their operations within them, the loss of any of the Group's key clients brings about the risk that no collaboration will be initiated with another entity and, therefore, it will not be possible to ensure the same adequate freight volume as in the previously concluded contracts that were lost. This risk is of particular significance to AWT which provides services to the only hard coal mining enterprise in the Czech Republic, i.e. OKD. According to the adopted restructuring plan, the mines belonging to OKD are scheduled to be consecutively shut down by 2023. The synergy effects achieved after acquisition of AWT by PKP CARGO S.A. and the signed new contracts in chemical, agricultural, metallurgical industries and intermodal transport mitigate that risk to certain extent. The Group's another business risk factor includes changes in the number of carriers offering competitive services, which translates itself into intensification of competitive war among the enterprises.

Structural changes in the business of key customers – On the Polish rail freight market there also operate the entities which are the subsidiaries of a few of the PKP CARGO Group's key clients. The establishment of subsequent entities on that market by the Group's clients may result in intensification of competitive activities on the market and their takeover of all or part of the carrying contracts. The PKP CARGO Group's clients also include transportation companies that provide only part of transports ordered on the market by the parent company. However, there exists the risk that the aforementioned transport entities will be acquiring increasingly greater portions of services previously provided by the PKP CARGO Group to their parent companies. Consequently, the Group's share in transport of such client's cargo may decrease with simultaneous increase of the share of such transportation company being the client's subsidiary. Similar significant risk is posed by expansion of such entities' activity profile to include provision of transport services to other enterprises (including those which are the Group's clients) – rather than only to the companies of which they are the subsidiaries. This could potentially translate itself into intensification of competition on the rail freight market.

Structural changes in business activity conducted by the Group's clients may also take the form of change of production cycle or change of location of the enterprise or the location of conducting the activity. Such changes could affect the scale of freight orders contracted to the Group.

Risk associated with shortage of trained personnel – In connection with increase of the average age of many train crews and shortage of graduates, the Group has undertaken a number of actions aimed at reducing the risk of shortage of personnel. However there is still a risk of shortage of key professionals, such as members of train crews, mainly train engineers. However, the Group takes measures to mitigate that risk. These include, among other things, recruitment campaigns, dialog with technical education institutions, personnel skills improvement and broadening the knowledge of the rail routes.

Risk of collective disputes and strike – On 26 June 2017, the memorandum of agreement was entered into by and between the Parties to the Company Collective Bargaining Agreement for Employees Hired by the PKP CARGO S.A. Units. Pursuant to the Memorandum of Agreement, the Parties have decided that a salary increase will be implemented as of 1 September 2017.

On the delivery date of this report, there was no risk of protest and strike activities.

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 uses investment loans and leasing (financing of capital expenditures).

To optimize financial expenses in the PKP CARGO Group, a cash pooling system is in place which comprises, as at 30 June 2017, 7 Group companies (including the Parent Company).

Market risk – The Group is exposed to market risks associated with changes of the exchange rates and interest rates. 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 Group is exposed to FX risk resulting from its receivables, cash and payables. The Group's receivables expressed in foreign currencies are short-term receivables (up to 1 month) and payables expressed in foreign currencies are mostly short- and long-term investment loan liabilities.

Balance sheet valuation of the receivables and liabilities expressed in foreign currencies, and settlements in foreign currencies both on the side of receivables and liabilities, lead to financial revenues (positive FX differences) and financial expenses (negative FX differences). The level of financial revenues and financial expenses fluctuates during the year, which is caused by changes in the exchange rates.

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

In the long run, the valuation risk matches the risk of change of cash flows, therefore it is the cash flows, not balance sheet items, that are subject to hedging transactions.

For the EUR/PLN exchange rate, there is partial natural hedging due to the fact that proceeds in EUR are partly balanced out by expenditures in the same currency. The FX risk management transactions used by the Group are aimed at hedging the net free position (understood as the difference between FX proceeds and expenditures) exposed to change of the value in PLN.

In accordance with the Financial Risk Management Policy prevailing in the Group, the remaining part of proceeds in EUR is partly hedged until the end of H1 2019 through application of derivative transactions. To hedge the FX risk, the Group used term hedging forward transactions on the EUR/PLN pair at the levels and with transaction maturities determined in accordance with the procedures stipulated in the Financial Risk Management Policy.

In terms of derivative transactions and FX investment loans, the Group uses hedge accounting which precludes the impact of valuation as at the balance sheet date on the Group's net result.

Interest rate risk – Most of financial investments made by the Group include term bank deposits which were concluded for the 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 financial liabilities based on variable interest rates.

In the six-month period ended on 30 June 2017, interest on financial liabilities was accrued according to reference rates increased by the financing entity's margin, i.e. according to the following reference rates: WIBOR 1M, WIBOR 3M, WIBOR 6M, EURIBOR 3M, EURIBOR 6M and PRIBOR 3M.

In accordance with the financial risk management policy prevailing in the Group, PKP CARGO CONNECT applied interest rate hedging transactions, referred to as IRS.

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 Condensed Interim Consolidated Financial Statements

The Condensed Interim Consolidated Financial Statements for the period of 6 months ended 30 June 2017 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 and in accordance with the Finance Minister's Regulation of 19 February 2009 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2014 Item 133, as amended) ("Regulation").

The Condensed Interim Consolidated Financial Statements for the period of 6 months ended 30 June 2017 should be read together with the audited Consolidated Financial Statements of the PKP CARGO Group for the year ended 31 December 2016 prepared according to EU IFRS.

The Condensed Interim Consolidated Financial Statements for the period of 6 months ended 30 June 2017 have been prepared based on the assumption that the Group will continue to be a going concern in the foreseeable future. As at the preparation date of the financial statements, there are no circumstances indicating any substantial doubt about the Group's ability to continue as a going concern operations for the period of at least 12 months of the date of the financial statements.

The Condensed Interim Consolidated Financial Statements for the period of 6 months ended 30 June 2017 have been prepared in accordance with the historic cost principle, except for derivatives measured at fair value.

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 entity authorized to audit the issuer's financial statements or regarding such entity's refusal to issue a financial statements review report

The entity authorized to audit the PKP CARGO Group's financial statements issued an unqualified review report.

5.3. Key economic and financial figures

5.3.1. Consolidated Statement of Comprehensive Income

Analysis of basic economic and financial figures of the PKP CARGO Group presented in this chapter takes into account a presentation adjustment of data in H1 2016 and Q2 2016. The financial data for H1 2016 and Q2 2016 are adjusted for presentation purposes for an impairment loss on receivables from OKD in the amount of PLN 62.9 million (described in Note 16 to the Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016) and impairment losses arising from a test for impairment of AWT Group's non-current assets in the amount of PLN 35.4 million (described in Note 10.1 to the Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016), additionally the adjusted net profit includes deferred tax resulting from an impairment of receivables from OKD in the amount of PLN 12.0 million and the related deferred tax on account of an impairment loss resulting from a test for impairment of AWT's value in the amount of PLN 6.7 million.

In H1 2017, the PKP CARGO Group transported 57.6 million tons of cargo (i.e. 10% more than in H1 2016) and recorded freight turnover at the level of 15.0 billion tkm (i.e. 11% more than in H1 2016), while in Q2 2017 the PKP CARGO Group transported 30.2 million tons of cargo (i.e. 13% more than in Q2 2016) and recorded freight turnover at the level of 7.9 billion tkm (i.e. 15% more than in Q2 2016), which is described in detail in the "PKP CARGO Group rail transport" chapter.

The Group's operating revenue in H1 2017 increased by 6.8% yoy, and operating expenses decreased by -4.1% yoy, while in Q2 2017 the Group's operating revenue increased by 7.2% yoy, and operating expenses decreased by -7.9% yoy. In H1 2017, the Group generated a result on operating activities and net result in the amount of PLN 45.4 million and PLN 19.4 million, respectively, while in Q2 2017 the Group's result on operating activities and net result were PLN 42.2 million and PLN 20.8 million, respectively.

The details of individual line items of the Statement of comprehensive income are presented in the further part of this section. The following tables present the results of the PKP CARGO Group in H1 2017 and Q2 2017 compared to the corresponding periods of 2016.

Table 23 Results of the PKP CARGO Group in H1 2017 and Q2 2017 compared to corresponding periods of 2016 (thousands of PLN)

No	Item	6 months of 2017	6 months of 2016 (restated*)	Change 6M 2017 – 6M 2016	% change 6M 2017/6M 2016	Q2 2017	Q2 2016 (restated*)	Change Q2 2017 – Q2 2016	% change Q2 2017/Q2 2016
1	Total operating revenue	2,267,413	2,123,009	144,404	6.8%	1,167,212	1,088,655	78,557	7.2%
2	Total operating expenses	2,221,992	2,317,152	-95,160	-4.1%	1,124,967	1,220,990	-96,023	-7.9%
3	Result on operating activities	45,421	-194,143	239,564	-	42,245	-132,335	174,580	-
4	EBIT margin	2.0%	-9.1%	11.1, p.p.	-	3.6%	-12.2%	15.8, p.p.	-
5	EBITDA margin	14.7%	6.1%	8.6, p.p.	141.0%	15.9%	4.5%	11.4, p.p.	253.3%
6	Financial revenue	14,240	774	13,466	1739.8%	4,153	384	3,769	981.5%
7	Financial expenses	30,493	38,581	-8,088	-21.0%	15,309	24,022	-8,713	-36.3%
8	Share in the profit / (loss) of entities accounted for under the equity method	1,183	2,002	-819	-40.9%	-836	638	-1,474	-
9	Result before tax	30,351	-229,948	260,299	-	30,253	-155,335	185,588	-
10	Net profit margin	1.3%	-10.8%	12.1, p.p.	-	2.6%	-14.3%	16.9, p.p.	-
11	Income tax	10,989	-34,696	45,685	-	9,457	-26,461	35,918	-
12	NET RESULT	19,362	-195,252	214,614	-	20,796	-128,874	149,670	-
13	Net profit margin	0.9%	-9.2%	10.1, p.p.	-	1.8%	-11.8%	13.6, p.p.	-

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2017 prepared according to EU IFRS

* translation of comparable data is described in detail in Note 5 to the Condensed Interim Consolidated Financial Statements

Table 24 Adjusted results of the PKP CARGO Group in H1 2017 and Q2 2017 compared to corresponding periods of 2016 (thousands of PLN)

No	Item	6 months of 2017	6 months of 2016, adjusted** (restated*)	Change 6M 2017 – 6M 2016	% change 6M 2017/6M 2016	Q2 2017	Q2 2016, adjusted** (restated*)	Change Q2 2017 – Q2 2016	% change Q2 2017/Q2 2016
1	Total operating revenue	2,267,413	2,123,009	144,404	6.8%	1,167,212	1,088,655	78,557	7.2%
2	Total operating expenses	2,221,992	2,218,858	3,134	0.1%	1,124,967	1,122,696	2,271	0.2%
3	Result on operating activities	45,421	-95,849	141,270	-	42,245	-34,041	76,286	-
4	EBIT margin	2.0%	-4.5%	6.5, p.p.	-	3.6%	-3.1%	6.7, p.p.	-
5	EBITDA margin	14.7%	9.1%	5.6, p.p.	61.5%	15.9%	10.3%	5.6, p.p.	54.4%
6	Financial revenue	14,240	774	13,466	1739.8%	4,153	384	3,769	981.5%
7	Financial expenses	30,493	38,581	-8,088	-21.0%	15,309	24,022	-8,713	-36.3%
8	Share in the profit / (loss) of entities accounted for under the equity method	1,183	2,002	-819	-40.9%	-836	638	-1,474	-
9	Result before tax	30,351	-131,654	162,005	-	30,253	-57,041	87,294	-
10	Net profit margin	1.3%	-6.2%	7.5, p.p.	-	2.6%	-5.2%	7.8, p.p.	-
11	Income tax	10,989	-16,020	27,009	-	9,457	-7,785	17,242	-
12	NET RESULT	19,362	-115,634	134,996	-	20,796	-49,256	70,052	-
13	Net profit margin	0.9%	-5.4%	6.3, p.p.	-	1.8%	-4.5%	6.3, p.p.	-

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2017 prepared according to EU IFRS

* translation of comparable data is described in detail in Note 5 to the Condensed Interim Consolidated Financial Statements

*** the data for H1 2016 and Q2 2016 are adjusted for presentation purposes for an impairment loss on receivables from OKD in the amount of PLN 62.9 million and an impairment loss arising from a test for impairment of non-current assets of the AWT Group in the amount of PLN 35.4 million; moreover, the adjusted net result includes deferred tax resulting from an impairment of receivables from OKD in the amount of PLN 12.0 million and the related deferred tax on account of an impairment loss resulting from a test for impairment of AWT's value in the amount of PLN 6.7 million*

Operating revenues

Table 25 Operating revenue of the PKP CARGO Group in H1 2017 and Q2 2017 compared to corresponding periods of 2016 (thousands of PLN)

No.	Item	6 months of 2017	6 months of 2016	Change 6M 2017 – 6M 2016	% change 6M 2017/6M 2016	Q2 2017	Q2 2016	Change Q2 2017 – Q2 2016	% change Q2 2017/Q2 2016
1	Revenue from sales of services and finished products	2,226,202	2,088,853	137,349	6.6%	1,148,622	1,074,810	73,812	6.9%
1.1	Revenue from rail transportation and freight forwarding services	1,886,861	1,725,659	161,202	9.3%	977,556	884,974	92,582	10.5%
2	Revenue from sales of goods and materials	18,032	13,605	4,427	32.5%	8,112	4,848	3,264	67.3%
3	Other operating revenue	23,179	20,551	2,628	12.8%	10,478	8,997	1,481	16.5%
4	Total operating revenue	2,267,413	2,123,009	144,404	6.8%	1,167,212	1,088,655	78,557	7.2%

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2017 prepared according to EU IFRS

The biggest item in the Group's total operating revenue is revenue from sales of services and finished products (98.2% in H1 2017 compared to 98.4% in H1 2016). Revenue from sales of services and finished products comprises: revenue from rail transportation and freight forwarding services, revenue from other transportation activity, revenue from siding and traction services, revenue from transshipment, revenue from land reclamation, as well as other revenue, including primarily: revenue from the lease of assets, revenue on the customs agency, revenue from sales of finished products and revenue from rolling stock repair services. The remaining part of operating revenue of the PKP CARGO Group comprises revenue from sales of goods and materials, which includes, among others, sales of steel and cast iron scrap and goods, including coal, as well as other operating revenue comprising, among others, gains from sales of non-financial non-current assets, reversal of impairment losses on trade and other receivables, received fines and compensations, net foreign exchange gains/(losses) on trade receivables and liabilities, reversal of provisions, subsidies and other.

Revenue from rail transportation and freight forwarding services in H1 2017 increased PLN 161.2 million, i.e. 9.3% yoy, and in Q2 2017 by PLN 92.6 million, i.e. 10.5% yoy. The details pertaining to PKP CARGO Group's transport services are described in the chapter "PKP CARGO Group's rail transport". The other items in revenue from sales of services and finished products decreased by PLN 23.9 million, or -6.6% yoy, mainly as a result of a decrease in revenues from siding and traction services by PLN 10.6 million, or -8.0% yoy, as a result of discontinuation of the mining activity of the Makoszowy and Krupiński hard coal mines and lower revenues recorded on hard coal mine sidings (lower output as a derivative of OKD's problems), a decrease in revenue from other transportation activity by PLN 4.3 million, or -5.0% yoy. In Q2 2017, other items in revenue from sales of services and finished products decreased by PLN 18.8 million, i.e. -9.9% yoy, mainly as a result of lower revenues from reclamation by PLN 6.5 million, i.e. by -30.8% yoy as a result of lower volume of services provided caused by shifting the construction tenders and decrease in revenue from siding and traction services by PLN 5.3 million, i.e. -7.9% yoy due to the aforementioned problems.

The increase in revenue from sales of goods and materials in H1 2017 by PLN 4.4 million, i.e. 32.5% yoy, was attributable mainly to the higher sale of scrap (i.e. waste from overhaul activities) by PKP CARGOTABOR and higher sales of goods, in particular coal, in CARGOSPED Terminal Braniewo, while in Q2 2017 the aforementioned revenue increased by PLN 3.3 million, i.e. 67.3% yoy.

The increase in other operating revenue by PLN 2.6 million, or 12.8% yoy, was caused by higher profit on sale of non-financial non-current assets by PLN 4.7 million, or 258.2% yoy (sale of container trailers in PKP CARGO CONNECT and sale of Plzen land in AWT), with a decrease in foreign exchange gains by PLN 3.9 million (exchange rate changes) and revenues from reversed impairment losses for receivables higher by PLN 1.7 million, or 476.1% yoy. The increase in other operating revenue by PLN 1.5 million, or 16.5% yoy in Q2 2017 was caused by higher revenue from reversed impairment losses for receivables by PLN 0.9

million, or 575.9% yoy and higher received fines and compensations by PLN 0.9 million, or 22.8% yoy, in connection with the failure of the Group's business partners to provide transportation services on the declared level.

Operating expenses

Table 26 Operating expenses of the PKP CARGO Group in H1 2017 and Q2 2017 compared to corresponding periods of 2016 (thousands of PLN)

No.	Item	6 months of 2017	6 months of 2016	Change 6M 2017 – 6M 2016	% change 6M 2017/6M 2016	Q2 2017	Q2 2016	Change Q2 2017 – Q2 2016	% change Q2 2017/Q2 2016
1	Depreciation and amortization and impairment losses	287,360	324,138	-36,778	-11.3%	143,519	181,779	-38,260	-21.0%
2	Consumption of materials and energy	341,241	326,553	14,688	4.5%	170,598	163,735	6,863	4.2%
3	External services	759,624	774,126	-14,502	-1.9%	387,618	407,558	-19,940	-4.9%
4	Taxes and charges	20,905	18,298	2,607	14.2%	10,595	11,272	-677	-6.0%
5	Employee benefits	753,660	752,992	668	0.1%	382,475	367,644	14,831	4.0%
6	Other expenses by kind	27,438	26,290	1,148	4.4%	14,382	14,727	-345	-2.3%
7	Cost of goods and materials sold	12,990	11,916	1,074	9.0%	5,594	3,580	2,014	56.3%
8	Other operating expenses	18,774	82,839	-64,065	-77.3%	10,186	70,695	-60,509	-85.6%
9	Total operating expenses	2,221,992	2,317,152	-95,160	-4.1%	1,124,967	1,220,990	-96,023	-7.9%

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2017 prepared according to EU IFRS

Table 27 Adjusted operating expenses of the PKP CARGO Group in H1 2017 and Q2 2017 compared to corresponding periods of 2016 (thousands of PLN)

No.	Item	6 months of 2017	6 months of 2016, adjusted*	Change 6M 2017 – 6M 2016	% change 6M 2017/6M 2016	Q2 2017	Q2 2016, adjusted*	Change Q2 2017 – Q2 2016	% change Q2 2017/Q2 2016
1	Depreciation and amortization and impairment losses	287,360	288,777	-1,417	-0.5%	143,519	146,418	-2,899	-2.0%
2	Consumption of materials and energy	341,241	326,553	14,688	4.5%	170,598	163,735	6,863	4.2%
3	External services	759,624	774,126	-14,502	-1.9%	387,618	407,558	-19,940	-4.9%
4	Taxes and charges	20,905	18,298	2,607	14.2%	10,595	11,272	-677	-6.0%
5	Employee benefits	753,660	752,992	668	0.1%	382,475	367,644	14,831	4.0%
6	Other expenses by kind	27,438	26,290	1,148	4.4%	14,382	14,727	-345	-2.3%
7	Cost of goods and materials sold	12,990	11,916	1,074	9.0%	5,594	3,580	2,014	56.3%
8	Other operating expenses	18,774	19,906	-1,132	-5.7%	10,186	7,762	2,424	31.2%
9	Total operating expenses	2,221,992	2,218,858	3,134	0.1%	1,124,967	1,122,696	2,271	0.2%

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2017 prepared according to EU IFRS

* the data for H1 2016 and Q2 2016 are adjusted for presentation purposes for an impairment loss on receivables from OKD in the amount of PLN 62.9 million and an impairment loss arising from a test for impairment of non-current assets of the AWT Group in the amount of PLN 35.4 million

In H1 2017, operating expenses decreased by PLN 95.2 million, or -4.1% yoy, to PLN 2 222.0 million, while adjusted operating expenses increased by PLN 3.1 million, or 0.1% yoy. In Q2 2017 operating expenses decreased by PLN 96.0 million, or -7.9% yoy to PLN 1 125.0 million, while adjusted operating expenses increased by PLN 2.3 million, or 0.2% yoy.

In H1 2016 amortization and depreciation expenses and impairment losses fell by PLN 36.8 million, or -11.3% yoy, to PLN 287.4 million, mainly on account for the impairment loss arising from a test carried out in H1 2016 for impairment of non-current assets of the AWT Group in the amount of PLN 35.4 million. Adjusted amortization and depreciation expenses and impairment losses in H1 2017 fell by PLN 1.4 million, or -0.5% yoy. In Q2 2017, amortization and depreciation expenses and impairment losses fell by PLN 38.3 million, or -21.0% yoy for the aforementioned reasons, while adjusted amortization and depreciation expenses and impairment losses fell by PLN 2.9 million, or -2.0% yoy due to a lower level of investments (in H1 2016, PLN 100.7 million spent on purchase of multi-system locomotives).

In H1 2017, the cost of consumption of materials and energy were higher by PLN 14.7 million, i.e. 4.5% yoy, of which: fuel consumption costs increased PLN 13.3 million, i.e. 17.8% yoy, mainly as a result of higher price levels, costs of consumption of electricity, gas and water increased PLN 4.2 million, i.e. 2.1% yoy as a result of increase in transport, with improved unit cost of consumption of traction energy as a result of optimization of the transportation process and decrease of the variable cost of traction energy. In Q2 2017, the cost of consumption of materials and energy increased by PLN 6.9 million, i.e. 4.2% yoy, of which: fuel consumption costs increased PLN 3.9 million, i.e. 10.2% yoy, for the reason described above, costs of consumption of electricity, gas and water increased PLN 5.2 million, i.e. 5.3% yoy.

In H1 2017, the costs of external services decreased by PLN 14.5 million, or -1.9% yoy, to PLN 759.6 million. The main reason for the lower costs was a decrease in costs of rent and charges for the use of property and rolling stock by PLN 20.9 million, or -21.2% yoy, as a result of lower rents for leased rolling stock (as a result of purchase of multi-system locomotives), decrease in the costs of rent of property as a result of termination of lease of redundant properties, reduced lease of wagons in AWT as a result of expiry of earlier long-term lease agreements and increased use of own rolling stock, decrease in reclamation services by PLN 5.5 million, or -23.3% yoy, which corresponds to decrease in related revenues. At the same time, as part of the costs of external services, there was an increase in the fees for access to the lines of infrastructure managers by PLN 21.5 million, or 6.7% yoy, caused by increasing freight transport. In Q2 2017, there was a decrease in the costs of external services by PLN 19.9 million, or -4.9% yoy, as a result of decrease in: transportation services by PLN 17.4 million, or -14.5% yoy, as a result of higher use of the Group's internal resources while reducing subcontracting, decrease in reclamation services by PLN 5.1 million, or -34.5% yoy, which corresponds to the decrease in rents and fees for the use of property and rolling stock by PLN 8.0 million, or -17.3% yoy, for the aforementioned reason. At the same time, as part of the costs of external services, there was an increase in the costs of access to the lines of infrastructure managers by PLN 14.4 million, or 8.7% yoy, for the reason described above.

The taxes and charges in H1 2017 increased compared to the corresponding period of 2016 by PLN 2.6 million, i.e. 14.2% yoy, due to a one-off payment of VAT upon transfer of assets to the Wolsztyn Railway Roundhouse in the amount of PLN 1.1 million and recovery of the overdue VAT for 2014 in Germany in the amount of PLN 2.2 million in H1 2016. In Q2 2017, taxes and charges fell by PLN 0.7 million, or -6.0% yoy.

In H1 2017, employee benefits increased by PLN 0.7 million, i.e. 0.1% yoy, to PLN 753.7 million (PLN 753.0 million in H1 2016). The higher level of employee benefits, accompanied by a decrease in average headcount in the Group by 320 FTEs, i.e. -1.4% yoy, resulted mainly from update of the actuarial valuation of provisions for employee benefits in connection with change of the discount rate and the increase of employee salaries since September 2017 agreed with the trade unions. In Q2 2017, employee benefits increased by PLN 14.8 million, i.e. 4.0% yoy, to PLN 382.5 million (PLN 367.6 million in Q2 2016). The increase in employee benefits, accompanied by a decrease in the average headcount in the Group occurred for the reasons described above. Changes in headcount are presented in the section "Information on headcount".

The remaining expenses by kind in H1 2017 increased compared to the corresponding period of 2016 by PLN 1.1 million, i.e. 4.4% yoy. In Q2 2017, expenses by kind fell by PLN 0.3 million, or -2.3% yoy.

In H1 2017, the cost of goods and materials sold increased by PLN 1.1 million, or 9.0% yoy, to PLN 13.0 million, which corresponds to an increase in revenue from sales of goods and materials. In Q2 2017, an increase in the cost of consumption of supplies and materials by PLN 2.0 million, i.e. 56.3% yoy, was recorded for the reason described above.

Other operating expenses in H1 2017 amounted to PLN 18.8 million and were PLN 64.1 million, i.e. -77.3% yoy lower, mainly as a result of the impairment loss recognized in H1 2016 for the receivables from OKD in the amount of PLN 62.9 million, and adjusted operating expenses in H1 2017 fell by PLN 1.1 million, i.e. -5.7% yoy, chiefly due to recognition of a provision for a UOKiK fine in the amount of PLN 2.0 million in H1 2016. In Q2 2017, other operating expenses fell by PLN 60.5 million, or -85.6% yoy for the aforementioned reason, while adjusted operating expenses increased by PLN 2.4 million, or 31.2% yoy due to negative FX differences on trade receivables and liabilities in the amount of PLN 2.2 million as a result of exchange rate changes.

Result on operating activities

As a result of the aforementioned changes of operating revenue and expenses, the result on operating activities in H1 2017 reached PLN 45.4 million.

EBITDA

The result on operating activities increased by the line item "Amortization/depreciation and impairment losses", referred to as EBITDA, amounted to PLN 332.8 million in H1 2017.

Financial activities

Table 28 Financial activities of the PKP CARGO Group in H1 2017 and Q2 2017 compared to corresponding periods of 2016 (thousands of PLN)

No	Item	6 months of 2017	6 months of 2016 (restated*)	Change 6M 2017 – 6M 2016	% change 6M 2017/6M 2016	Q2 2017	Q2 2016 (restated*)	Change Q2 2017 – Q2 2016	% change Q2 2017/Q2 2016
1	Financial revenue	14,240	774	13,466	1739.8%	4,153	384	3,769	981.5%
2	Financial expenses	30,493	38,581	-8,088	-21.0%	15,309	24,022	-8,713	-36.3%
3	Share in the profit / (loss) of entities accounted for under the equity method	1,183	2,002	-819	-40.9%	-836	638	-1,474	-
4	Result on financial activities	-15,070	-35,805	20,735	-	-11,992	-23,000	11,008	-

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2017 prepared according to EU IFRS

* translation of comparable data is described in detail in Note 5 to the Condensed Interim Consolidated Financial Statements

In H1 2017, the PKP CARGO Group recorded a loss on financial activities in the amount of PLN -15.1 million, compared to PLN -35.8 million recorded in the corresponding period of the previous year. The main reason for the improvement of the result on financial activities by PLN 20.7 million was the decline in the valuation of the put option liability for non-controlling interest, which translated into an increase in the result on financial activities by PLN 11.1 million and increase of the result on FX differences by PLN 9.4 million. In Q2 2017, the PKP CARGO Group recorded a loss on financial activities in the amount of PLN -12.0 million, compared to PLN -23.0 million recorded in the corresponding period of the previous year. The main reason for the improvement of the result on financial activities by PLN 11.0 million was the decline in the valuation of the put option liability for non-controlling interest, which translated into an increase in the result on financial activities by PLN 4.9 million and increase of the result on FX differences by PLN 6.1 million.

Details are presented Notes 9.1 and 9.2 to the Condensed Interim Consolidated Financial Statements.

Result before tax

In H1 2017, the result before tax stood at PLN 30.4 million, compared to PLN -229.9 million in the corresponding period of the previous year.

Income tax

In H1 2017, the PKP CARGO Group recorded income tax in the amount of PLN 11.0 million, of which current tax amounted to PLN 34.4 million, and deferred tax to PLN -23.4 million.

Net result

In H1 2017, the Group generated net result of PLN 19.4 million compared to PLN -195.3 million in the corresponding period of the previous year.

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

ASSETS

Table 29 Horizontal and vertical analysis of PKP CARGO Group's assets (thousands of PLN)

	As at 30 June 2017 (unaudited)	As at 31 December 2016 (restated*)	Asset structure		Change 2017 - 2016	% change 2017/2016
			30/06/2017	31/12/2016		
ASSETS						
Non-current assets						
Property, plant and equipment	4,593,454	4,700,550	72.3%	72.2%	-107,096	-2.3%
Intangible assets	48,034	55,831	0.8%	0.9%	-7,797	-14.0%
Investment property	1,231	1,257	0.0%	0.0%	-26	-2.1%
Investments accounted for under the equity method	53,876	58,219	0.8%	0.9%	-4,343	-7.5%
Trade and other receivables	1,661	2,223	0.0%	0.0%	-562	-25.3%
Other long-term financial assets	11,466	8,649	0.2%	0.1%	2,817	32.6%
Other long-term non-financial assets	31,720	25,987	0.5%	0.4%	5,733	22.1%
Deferred tax assets	132,130	107,554	2.1%	1.7%	24,576	22.8%
Total non-current assets	4,873,572	4,960,270	76.7%	76.2%	-86,698	-1.7%
Current assets						
Inventories	130,846	121,189	2.1%	1.9%	9,657	8.0%
Trade and other receivables	661,976	639,866	10.4%	9.8%	22,110	3.5%
Income tax receivables	1,782	2,793	0.0%	0.0%	-1,011	-36.2%
Other short-term financial assets	316,089	892	5.0%	0.0%	315,197	35336.0%
Other short-term non-financial assets	47,755	27,277	0.8%	0.4%	20,478	75.1%
Cash and cash equivalents	324,413	755,919	5.1%	11.6%	-431,506	-57.1%
Total current assets	1,482,861	1,547,936	23.3%	23.8%	-65,075	-4.2%
Total assets	6,356,433	6,508,206	100.0%	100.0%	-151,773	-2.3%

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2017 prepared according to EU IFRS

* translation of comparable data is described in detail in Note 5 to the Condensed Interim Consolidated Financial Statements

Non-current assets

The biggest share in the asset structure was held by property, plant and equipment, which as at the end of H1 2017 constituted 72.3% of total assets, compared to 72.2% at the end of 2016. Property, plant and equipment is dominated by the means of transportation (mainly locomotives and wagons) which as at the end of H1 2017 represented 80.5% of total property, plant and equipment, compared to 80.4% at the end of 2016. The decrease in property, plant and equipment and intangible assets in H1 2017 by PLN 114.9 million, i.e. -2.4%, is attributable mainly to the higher level of depreciation over the expenditures on property, plant and equipment and intangible assets incurred in this period. Additionally, there was a decrease in investments accounted for under the equity method by PLN 4.3 million, or 7.5%, primarily due to lower equity of entities accounted for under the equity method as a result of recognition of dividend liabilities by these entities in the amount of PLN 2.8 million. In addition, the value of deferred income tax assets increased by PLN 24.6 million, i.e. 22.8%, which is presented in detail in Note 10.4 of the Condensed Interim Consolidated Financial Statements for the financial year ended 30 June 2017 and in Note 11.5 of the Annual Consolidated Financial Statements for the financial year ended 31 December 2016 and the value of other long-term non-financial assets increased by PLN 5.7 million, or 22.1%, mainly as a result of higher advances for purchase of non-financial non-current assets by PLN 6.8 million.

Current assets

Current assets decreased as at the end of H1 2017 by PLN 65.1 million, i.e. -4.2%, PLN compared to the end of 2016. The decrease in cash and cash equivalents by 431.5 million was caused primarily by repayment of bank loans, with simultaneous reclassification of PLN 306.0 million from cash and cash equivalents to bank deposits. In addition, the value of current assets was affected by an increase in trade and other receivables by PLN 22.1 million, or 3.5%, as a result of increase in freight transport. The level of current assets at the end of H1 2017 was also affected by the increase in other short-term non-financial assets by PLN 20.5 million, i.e. 75.1%, resulting from charges for the Company Social Benefits Fund (ZFŚS) in the amount of PLN 16.9 million, to be settled in future periods, and purchase of transportation services for employees in the amount of PLN 7.2 million.

Current assets expressed as a percentage of total assets dropped and as at 30 June 2017, amounted to 23.3%, compared to 23.8% as at 31 December 2016.

The biggest share in the structure of current assets as at the end of H1 2017 was held by trade and other receivables (44.6%), cash and cash equivalents (21.9%) and other short-term financial assets (21.3%).

EQUITY AND LIABILITIES

Table 30 Horizontal and vertical analysis of PKP CARGO Group's liabilities (thousands of PLN)

	As at 30 June 2017 (unaudited)	As at 31 December 2016 (restated*)	Structure of equity and liabilities		Change 2017 - 2016	% change 2017/2016
			30/06/2017	31/12/2016		
EQUITY AND LIABILITIES						
Equity						
Share capital	2,239,346	2,239,346	35.2%	34.4%	0	0.0%
Supplementary capital	618,050	618,666	9.7%	9.5%	-616	-0.1%
Other items of equity	7,537	11,447	0.1%	0.2%	-3,910	-34.2%
Exchange differences resulting from conversion of financial statements of foreign operations	50,039	60,494	0.8%	0.9%	-10,455	-17.3%
Retained earnings	350,303	330,325	5.5%	5.1%	19,978	6.0%
Equity attributable to the owners of the parent company	3,265,275	3,260,278	51.4%	50.1%	4,997	0.2%
Total equity	3,265,275	3,260,278	51.4%	50.1%	4,997	0.2%
Non-current liabilities						
Long-term bank loans and borrowings	1,154,754	1,273,605	18.2%	19.6%	-118,851	-9.3%
Non-current finance lease liabilities and leases with a purchase option	110,104	140,923	1.7%	2.2%	-30,819	-21.9%
Long-term trade and other payables	1,152	1,845	0.0%	0.0%	-693	-37.6%
Long-term provisions for employee benefits	562,863	525,571	8.9%	8.1%	37,292	7.1%
Other long-term provisions	24,079	26,420	0.4%	0.4%	-2,341	-8.9%
Other long-term financial liabilities	0	1,042	0.0%	0.0%	-1,042	-100.0%
Deferred tax liabilities	105,359	106,675	1.7%	1.6%	-1,316	-1.2%
Non-current liabilities, total	1,958,311	2,076,081	30.8%	31.9%	-117,770	-5.7%
Current liabilities						
Short-term bank loans and borrowings	207,723	197,803	3.3%	3.0%	9,920	5.0%
Current finance lease liabilities and leases with a purchase option	49,300	59,567	0.8%	0.9%	-10,267	-17.2%
Short-term trade and other payables	595,359	670,021	9.4%	10.3%	-74,662	-11.1%
Short-term provisions for employee benefits	121,912	99,256	1.9%	1.5%	22,656	22.8%
Other short-term provisions	24,891	24,950	0.4%	0.4%	-59	-0.2%
Other short-term financial liabilities	114,798	118,889	1.8%	1.8%	-4,091	-3.4%
Current tax liabilities	18,864	1,361	0.3%	0.0%	17,503	1286.0%
Current liabilities, total	1,132,847	1,171,847	17.8%	18.0%	-39,000	-3.3%
Total liabilities	3,091,158	3,247,928	48.6%	49.9%	-156,770	-4.8%
Total liabilities and equity	6,356,433	6,508,206	100.0%	100.0%	-151,773	-2.3%

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2017 prepared according to EU IFRS

* translation of comparable data is described in detail in Note 5 to the Condensed Interim Consolidated Financial Statements

Equity

Equity expressed as a percentage of total assets as at 30 June 2017 was 51.4% compared to 50.1% at the end of 2016. The increase in the share of equity in total assets was caused by a decrease in liabilities. The value of equity rose by PLN 5.0 million, or 0.2%, driven mainly by an increase in retained earnings by PLN 20.0 million, or 6.0%, with the exchange differences resulting from the conversion of financial statements of foreign operations which decreased PLN 10.5 million, or -17.3%, as a result of exchange rate changes, with the remaining items of equity having decreased by PLN 3.9 million, or -34.2%, as presented in the statement of changes in equity.

Non-current liabilities

Non-current liabilities at the end of H1 2017 fell by PLN 117.8 million, or -5.7%, compared to the end of 2016. This decrease was driven by the lower amount of long-term bank loans and borrowings by PLN 118.9 million, or -9.3%, and long-term liabilities on account of leasing and leases with a purchase option by PLN 30.8 million, or -21.9%, as a result of their partial repayment and reclassification to current liabilities i.e. to short-term bank loans and borrowings and short-term liabilities on account of leasing

and leases with a purchase option. Moreover, long-term provisions for employee benefits increased by PLN 37.3 million, or 7.1%, as a result of the above update of the actuarial valuation of provisions for employee benefits.

Current liabilities

Current liabilities dropped at the end of H1 2017 compared to the end of 2016 by PLN 39.0 million, or -3.3%. The largest movements were recorded in the following line items:

- Short-term trade and other payables – a decline by PLN 74.7 million caused primarily by the following:
 - 1) drop in trade payables by PLN 23.9 million, or -7.3%, in line with the movement in costs
 - 2) drop in liabilities arising from the purchase of non-financial non-current assets by PLN 30.8 million, or -66.5%, mainly as a result of the repayment of subsequent installments to NEWAG S.A. under the agreement entered into in April 2011 for the modernization of 100 SM 42 diesel locomotives
 - 3) decrease in VAT settlements by PLN 27.7 million, or -80.9%, primarily due to the repayment of a liability resulting from an inspection by the Tax Office, as described in more detail in Note 5 to the Condensed Interim Consolidated Financial Statements
- Short-term provisions for employee benefits – up by PLN 22.7 million, or 22.8%, resulting from an increase in the provisions for unused holiday leaves
- Short-term bank loans and borrowings – an increase by PLN 9.9 million, or 5.0%, as a result of reclassification from long-term bank loans and borrowings
- Short-term lease liabilities and leases with a purchase option – a decrease by PLN 10.3 million, or -17.2%, resulting from the Group's reduced needs for the lease or rental of rolling stock components or technical equipment.

Short-term liabilities expressed as a percentage of total assets at the end of H1 2017 were 17.8% versus 18.0% at the end of 2016.

5.3.3. Consolidated cash flow statement

The table below depicts the main line items in the PKP CARGO Group's cash flow statement in H1 2017 compared to the same period in 2016.

Table 31 Main line items in the PKP CARGO Group's cash flow statement in H1 2017 compared to the corresponding period of 2016.

Item	6 months of 2017	6 months of 2016 (restated*)	Change 2017 - 2016	% change 2017/2016
Net cash on operating activities	248,711	19,166	229,545	1197.7%
Net cash on investing activities	-527,088	-309,082	-218,006	-
Net cash on financial activities	-151,256	166,668	-317,924	-
Net increase / (decrease) in cash and cash equivalents	-429,633	-123,248	-306,385	-
Cash and cash equivalents at the beginning of the reporting period	755,919	276,191	479,728	173.7%
Impact exerted by FX rate movements on the cash balance in foreign currencies	-1,873	4,418	-6,291	-
Cash and cash equivalents at the end of the reporting period	324,413	157,361	167,052	106.2%

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2017 prepared according to EU IFRS

* translation of comparable data is described in detail in Note 5 to the Condensed Interim Consolidated Financial Statements

Cash flow from operating activities

In H1 2017, net cash flow from operating activities was PLN 248.7 million compared to PLN 19.2 million in the corresponding period of 2016. The cash flow was generated on the result before tax of PLN 30.4 million and amortization and depreciation and impairment losses of PLN 287.4 million (down by PLN 36.8 million compared to the corresponding period of the previous year as

a result of an impairment loss arising from a test for impairment of the AWT Group's non-current assets in the amount of PLN 35.4 million posted in H1 2016), with a simultaneous decrease in the balance of trade and other payables by PLN 47.6 million.

Cash flow from investing activities

In H1 2017, net cash flow used in connection with investing activities was PLN -527.1 million versus PLN -309.1 million in the corresponding period of 2016. The negative cash flows were related directly to the capital expenditures incurred by the PKP CARGO Group and opening of bank deposits for PLN 306.0 million. The details of the capital expenditures are described in this chapter "PKP CARGO Group's investments".

Cash flow on financial activities

Net cash flow from financing activities in H1 2017 was PLN -151.3 million versus PLN 166.7 million in the same period in 2016. Proceeds of PLN 50.8 million were obtained from loans taken out in H1 2017, compared to PLN 275.3 million in the corresponding period of 2016. In H1 2017, total cash expenditures for leases, to repay loans and borrowings and interest on leases and loans and borrowings were PLN 200.2 million versus PLN 111.9 million in the corresponding period of 2016.

5.3.4. Selected consolidated financial and operating ratios

The tables below present key financial and operating ratios of the PKP CARGO Group in H1 2017 and Q2 2017 compared to the corresponding periods of the previous year.

Table 32 Selected consolidated financial and operating ratios and adjusted selected financial and operating ratios in H1 2017 compared to the corresponding period of 2016

No.	Item	6 months of 2017	6 months of 2016 (restated*)	Change 6M 2017 – 6M 2016	% change 6M 2017/6M 2016	6 months of 2017**	6 months of 2016, adjusted*** (restated*)	Change 6M 2017 – 6M 2016	% change 6M 2017/6M 2016
1	EBITDA margin ¹	14.7%	6.1%	8.6 p.p.	139.7%	14.7%	9.1%	5.6 p.p.	61.5%
2	Net profit margin ²	0.9%	-9.2%	10.1 p.p.	-	0.9%	-5.4%	6.3 p.p.	-115.7%
3	Net financial debt to EBITDA ratio ³	1.4	2.6	-1.2	-45.5%	1.3	2.3	-1.0	-43.6%
4	ROA ⁴	1.3%	-5.5%	6.8 p.p.	-	2.7%	-1.7%	4.5 p.p.	-257.6%
5	ROE ⁵	2.5%	-10.3%	12.8 p.p.	-	5.3%	-3.2%	8.6 p.p.	-263.2%
6	Average distance covered per locomotive (km/day) ⁶	245.3	242.3	3.0	1.2%	245.3	242.3	3.0	1.2%
7	Average gross train tonnage per operating locomotive (tons) ⁷	1465.0	1468.0	-3.0	-0.2%	1465.0	1468.0	-3.0	-0.2%
8	Average running time of train locomotives (hours per day) ⁸	14.9	14.9	0.0	0.0%	14.9	14.9	0.0	0.0%
9	Freight turnover per employee (thousands tkm/employee) ⁹	644.7	570.5	74.2	13.0%	644.7	570.5	74.2	13.0%

Source: Proprietary material

Table 33 Selected consolidated financial and operating ratios and adjusted selected financial and operating ratios in Q2 2017 compared to the corresponding period of 2016

No	Item	Q2 2017	Q2 2016 (restated*)	Change Q2 2017 – Q2 2016	% change Q2 2017/Q2 2016	Q2 2017	Q2 2016, adjusted** (restated*)	Change Q2 2017 – Q2 2016	% change Q2 2017/Q2 2016
1	EBITDA margin ¹	15.9%	4.5%	11.4 p.p.	250.4%	15.9%	10.3%	5.6 p.p.	54.2%
2	Net profit margin ²	1.8%	-11.8%	13.6 p.p.	-	1.8%	-4.5%	6.3 p.p.	-139.4%
3	Net financial debt to EBITDA ratio ³	1.4	2.6	-1.2	-45.5%	1.3	2.3	-1.0	-43.6%
4	ROA ⁴	1.3%	-5.5%	6,8 p.p.	-	2.7%	-1.7%	4.5 p.p.	-257,6%
5	ROE ⁵	2.5%	-10.3%	12,8 p.p.	-	5.3%	-3.2%	8.6 p.p.	-263,2%
6	Average distance covered per locomotive (km/day) ⁶	245.5	241.5	4.0	1.7%	245.5	241.5	4.0	1.7%
7	Average gross train tonnage per operating locomotive (tons) ⁷	1475.0	1458.0	17.0	1.2%	1475.0	1458.0	17.0	1.2%
8	Average running time of train locomotives (hours per day) ⁸	15.0	14.9	0.1	0.7%	15.0	14.9	0.1	0.7%
9	Freight turnover per employee (thousands tkm/employee) ⁹	341.0	295.2	45.9	15.5%	341.0	295.2	45.9	15.5%

Source: Proprietary material

* translation of comparable data is described in detail in Note 5 to the Condensed Interim Consolidated Financial Statements

** Annualized data for H1 2017 (from July 2016 to June 2017) and Q2 2017 adjusted for presentation purposes for (1) impairment loss on receivables from OKD in the amount of PLN 72.7 million (2) impairment loss arising from a test for impairment of non-current assets from the AWT Group in the amount of PLN 34.1 million; moreover, the adjusted net profit includes deferred tax resulting from a test for impairment of AWT's value in the amount of PLN 6.5 million and deferred tax on account of an impairment loss on the receivables from OKD a.s. ("OKD") in the amount of PLN 8.0 million

*** Annualized data for H1 2016 (from July 2015 to June 2016) and Q2 2016 adjusted for presentation purposes for (1) impairment loss on receivables from OKD in the amount of PLN 62.9 million (2) impairment loss arising from a test for impairment of non-current assets from the AWT Group in the amount of PLN 35.4 million; (3) impairment loss on non-current assets and assets classified as held for sale in the amount of PLN 178.7 million; moreover, the adjusted net profit includes deferred tax resulting from a test for impairment of AWT's value in the amount of PLN 6.7 million and deferred tax on account of an impairment loss on the receivables from OKD a.s. ("OKD") in the amount of PLN 12.0 million and deferred tax on impairment of non-current assets and assets classified as held for sale in the amount of PLN 33.9 million

**** Financial data for Q2 2016 adjusted for presentation purposes for (1) impairment loss on receivables from OKD in the amount of PLN 62.9 million (2) impairment loss arising from a test for impairment of non-current assets from the AWT Group in the amount of PLN 35.4 million; moreover, the adjusted net profit includes deferred tax resulting from a test for impairment of AWT's value in the amount of PLN 6.7 million and deferred tax on account of an impairment loss on the receivables from OKD a.s. ("OKD") in the amount of PLN 12.0 million.

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

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

In H1 2017, due to the reasons described above, the key profitability ratios, i.e. EBITDA margin, net profit margin, ROA and ROE were higher than in the same period of the previous year. The net financial debt to EBITDA ratio also deteriorated to 1.4 from 2.6 in the corresponding period of 2016. The improvement of the ratios in H1 2017 compared to the corresponding period of the previous year is attributable to the Group's higher results, in particular EBITDA and net result. In Q2 2017, the EBITDA margin and net profit margin also improved due to the reasons described above.

In H1 2017, the average daily mileage of locomotives was 245.3 km/day and, compared to the corresponding period of the previous year, increased by 3.0 km/day, or 1.2% yoy. In Q2 2017, the average daily mileage of locomotives was 245.5 km/day and, compared to the corresponding period of the previous year, increased by 4.0 km/day, or 1.7% yoy. The key driver of the improvement of this indicator was the optimization of the transportation process.

In H1 2017, the gross average train freight turnover per locomotive moved down from 1,468.0 tons in H1 2016 to 1465.0 tons, i.e. by 3.0 tons (-0.2% yoy). However, in Q2 2017 alone the gross average train freight turnover per locomotive moved up from 1,458.0 tons in Q2 2016 to 1,475.0 tons, i.e. by 17.0 tons (1.2% yoy). This is the effect of a better utilization of locomotives and optimization of the transportation process coupled with rising freight transport.

In H1 2017, the average running time of locomotives was 14.9 hours/day and did not change from the corresponding period of the previous year. In Q2 2017, the average running time of locomotives was 15.0 hours/day and, compared to the corresponding period of 2016, increased by 0.1 hours/day, that is by 0.7% yoy. This is an outcome of constantly monitoring how the freight turnover process is run while concurrently optimizing the match between the number of active locomotives and doing the work with changing freight turnover.

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

Situation on the rail transport market in the main cargo categories

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

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

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

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

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

Due to the anticipated growth in the Polish rail freight market in the coming years, it will be necessary to adapt accordingly the rolling stock used in the business. In light of the aging nature of the available rolling stock and the limited capacities of repair plants, the future may bring a temporary misalignment between the quantities and types of the available rolling stock to the actual needs of the transportation market.

Situation in the Czech coal sector

According to the rescue plan for OKD prepared by the Czech Republic Finance Ministry, after its adoption, it will be possible to sell the mines to the state-owned enterprise Prisko. The mines owned by the coal company are to be gradually phased out until 2023. The Darkow and Lazy mines are to close their operations before the end of 2018 and two other ones, i.e. CSA and CSM, will be decommissioned in 2021 and 2023, respectively.⁶⁹

It should also be noted that the Czech mining industry will be affected by a change in the energy mix. The Czech Republic is focused primarily on increasing nuclear power generation (according to the Nuclear Energy Program until 2040). Currently, nuclear energy represents 32.5% of total energy output in the Czech Republic and this share is expected to rise to 58.0% by 2040. The increase in the share of nuclear energy is anticipated be achieved at the expense of energy generated from lignite. By the end of

⁶⁹ Wirtualny Nowy Przemysł [Virtual New Industry]

2040, energy generated from renewable sources is expected to account for 25.0% (in 2013 the target set for 2020, i.e. 13.0% share of RES energy in consumption, and in 2015, the consumption of 15.1% was recorded) and gas energy, 15.0% of total energy output generated in the Czech Republic.⁷⁰

Track construction and maintenance market

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

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

Costs of access to infrastructure

The PKP CARGO Group's activity results largely depend on the amount of rail infrastructure access charges. The cost of access to infrastructure in H1 2017 accounted for approx. 15.4% of the PKP CARGO Group's operating expenses.

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

Currently, infrastructure managers, including PKP PLK, are gradually adjusting their rules and price lists to the new requirements. The whole picture of changes introduced by infrastructure managers will be known at the end of the year, because they are currently pending the approval process at the Office of Rail Transport. On 6 July 2017, the President of the Office of Rail Transport refused PKP PLK, and subsequently also other infrastructure managers, to approve their draft price lists in the part pertaining to the setting of the unit rates for the basic fee and the maneuvering fee for the 2017/2018 timetable. From 10 December 2017 onward, PKP PLK will continue to apply the current price list for minimum access to rail infrastructure (basic fee).

Technical regulations related to rolling stock

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

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

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

Call and put option

On 20 June 2017, a binding agreement ("Agreement") under Dutch law was executed between PKP CARGO and MSE concerning the execution of a joint project which will be a way to settle the put option related to the shares held by MSE, which represent 20% of the share capital of Advanced World Transport B.V. ("AWT").

According to the Agreement:

1. The Parties confirm that they are interested in establishing a joint venture together, which will conduct the business of renting and leasing rolling stock ("Project");
2. MSE agrees to defer the settlement of the put option for the sale of 20% of AWT shares held by MSE on the following conditions:

⁷⁰ Wirtualny Nowy Przemysł [Virtual New Industry]

a) by 30 September 2017, the Parties will: (i) have completed the negotiation of the conditional shareholder agreement, (ii) have agreed on the non-cash contribution (contribution-in-kind) to the joint venture to be made by PKP CARGO, and (iii) have completed the negotiation of the conditional sale and leaseback agreement, to be executed between the joint venture company and PKP CARGO (all of the above referred to as "Project Execution").

b) by 31 December 2017, the Parties will: (i) have established the joint venture company (ii) have signed the shareholder agreement, (iii) PKP CARGO will have made the contribution-in-kind to the joint venture and (iv) procure the execution of the sale and leaseback agreement between the joint venture and PKP CARGO (all of the above referred to as: "Project Closing").

3. Either Party may withdraw from Project Execution if Project Execution is not completed by 30 September 2017 or if Project Closing is not effected by 31 December 2017. The withdrawal will be possible on or after 1 October 2017. In the event of a withdrawal from Project Execution, the price of the put option of EUR 27,000,000 (twenty seven million Euro) will be payable by PKP CARGO to MSE within 20 business days of the date of withdrawal by any of the parties.

4. The Parties additionally agreed that if a decision is made by AWT BV or PKP CARGO to sell AWT Rekultivace a.s. with its registered office in Havířov, Czech Republic, MSE would have the right to purchase the shares or the enterprise of that company, for the price negotiated with a third party interested in buying AWT Rekultivace a.s.

Capital expenditure financing

The Group will finance capital expenditures from investment loans obtained from the European Investment Bank and commercial banks as well as from its own funds. The increase in borrowing liabilities will result in an increase in (short- and long-term) liabilities and financial expenses.

Operating difficulties on rail lines

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

Railway track closures caused by modernization works have and will continue to have direct negative impact on the throughput of the lines and stations used, and rejection of applications for individual timetables (IRJ)⁷¹, extension of the travel time, longer train travel courses and longer train stays at the stations. This situation, especially where unscheduled track closures are involved, requires an increased level of human resources engaged in the transportation process, in terms of the rolling stock and train crews, which impacts the costs incurred by the Group.

Infrastructural investments

Due to the fact that Poland will be the main beneficiary of the cohesion fund in 2014-2020, a significant growth of the construction industry is expected, driven by numerous road and railway investments.

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

FX rates

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

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

Interest rates

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

⁷¹Individual Train Timetable - timetable prepared on the carrier's application, for one or more travel times within the framework of free transport throughput capacity.

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

In the 6-month period ended 30 June 2017, interest on financial liabilities was accrued according to the applicable reference rates, namely WIBOR 1M, WIBOR 3M, WIBOR 6M, EURIBOR 3M, EURIBOR 6M and PRIBOR 3M, plus the financing entity's margin.

In accordance with the financial risk management policy prevailing in the Group, PKP CARGO CONNECT applied interest rate hedging transactions, referred to as IRS.

Scrap price level

The scrap market is very unstable and it is difficult to predict how the prices will behave in the coming quarters. However, based on historical data, drops in scrap prices should be expected in Q3 of this year.

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

The Parent Company has not published financial forecasts pursuant to § 5 Section 1 Item 25 of the Regulation issued by the Finance Minister on 19 February 2009 on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent, consolidated version of 27 June 2013 (Journal of Laws of 2014 Item 133 as amended) pertaining to the results of the Company and the PKP CARGO Group in the first 6 months of 2017.

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 units are the main elements of the PKP CARGO Group's production assets. Changes in the rolling stock levels result directly from such actions as liquidation and sale of rolling stock or purchase of rolling stock. Additionally, locomotive modernizations are carried out, which do not affect the overall size of the rolling stock but they do change 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 Q1 2017, the process of decommissioning of redundant or obsolete rolling stock was started. The first batch of locomotives classified for physical liquidation was deleted from the books.

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

Table 34 Structure of the locomotives used by the PKP CARGO Group by traction type and ownership

Item	30/06/2017	31/12/2016	Change YTD
diesel locomotives	1,374	1,398	-24
electric locomotives	1,102	1,173	-71
Total	2,476	2,571	-95
owned locomotives (including financial lease)	2,462	2,556	-94
locomotives in operational lease or rented	14	15	-1
Total	2,476	2,571	-95

Source: Proprietary material

Table 35 Structure of the wagons used by the PKP CARGO Group, by ownership

Item	30/06/2017	31/12/2016	Change YTD
owned wagons (including financial lease)	64,220	64,519	-299
wagons in operational lease or rented	944	1,167	-223
Total	65,164	65,686	-522

Source: *Proprietary material*

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

Between 1 January 2016 and the delivery date of this report, 12 locomotives were delivered by the manufacturer. For the remaining 3 multi-system locomotives, in August 2017 the Office of Rail Transport issued a permit to operate these locomotives in Poland. Acceptance procedures pertaining to these locomotives should be wrapped up in the coming months.

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. Most real estate used by the Group is used on the basis of lease and rental agreements. The table below presents the movement in real estate owned and used by the PKP CARGO Group in H1 2017.

Table 36 Real estate owned and used by the PKP CARGO Group as at 30 June 2017 compared to 31 December 2016

Item	30/06/2017	31/12/2016	Change YTD
Land - owned, in perpetual usufruct and leased from other entities [ha]	1,571	1,584	-13
Buildings - owned, leased and rented from other entities [sqm]	754,333	781,998	-27,665

Source: *Proprietary material*

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

6. Other key information and events

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

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

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

6.2. Information on transactions with related parties

In H1 2017, no entity from the PKP CARGO Group entered into any transactions with related parties on non-market terms. Also after the balance sheet date no such transactions have been entered into.

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

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

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

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

This Consolidated Semi-Annual Report was approved by the PKP CARGO S.A. Management Board on 30 August 2017.

.....
Maciej Libiszewski
President of the Management Board

.....
Arkadiusz Olewnik
Management Board Member

.....
Grzegorz Fingas
Management Board Member

.....
Zenon Kozendra
Management Board Member

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 2017 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 Maciej Libiszewski – President of the Board

2 Arkadiusz Olewnik – Board Member

3 Grzegorz Fingas – Board Member

4 Zenon Kozendra – Board Member

Warsaw, 30 August 2017

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 Maciej Libiszewski – President of the Board

2 Arkadiusz Olewnik – Board Member

3 Grzegorz Fingas – Board Member

4 Zenon Kozendra – Board Member

Warsaw, 30 August 2017



For more information on PKP CARGO please contact
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