

# PKP CARGO Capital Group Consolidated Quarterly Report for III quarter 2014

Warsaw, 13th November 2014



# PKPCGFGO

Interim Condensed Consolidated Financial Statements of the PKP CARGO Capital Group for the period of 9 months ended 30 September 2014 prepared in accordance with IFRS as endorsed by the European Union . . . . .



Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Capital Group for the period of 9 months ended 30 September 2014, prepared in accordance with IFRS EU

(translation of a document originally issued in Polish)

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# QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2014 TO 30 SEPTEMBER 2014

		for the 9 months	for the 3 months	for the 9 months	for the 3 months
		period ended	period ended	period ended	period ended
	Note	30/09/2014	30/09/2014	30/09/2013	30/09/2013
		(unaudited))	(unaudited))	(unaudited)	(unaudited)
		PLN thousand	PLN thousand	PLN thousand	PLN thousand
Continuing operations					
Sales revenue	4	3 100 <del>44</del> 8	1 047 122	3 351 548	1 198 874
Revenue from sales of goods and materials	•	39 617	15 962	140 884	26 835
Other operating revenue	6.1	28 815	5 968	25 342	835
Total operating revenue		3 168 880	1 069 052	3 517 774	1 226 544
Depreciation / amortization and impairment losses	5.1	272 059	90 520	280 300	94 341
Consumption of raw materials and supplies	5.2	468 096	154 290	525 297	189 758
External services	5.3	966 097	328 123	1 137 827	399 509
Taxes and charges		30 703	10 370	26 864	8 330
Employee benefits	5.4	1 072 970	348 172	1 327 087	587 502
Other expenses by kind		29 356	7 438	46 535	15 869
Cost of merchandise and raw materials sold		26 640	10 774	120 073	21 972
Other operating expenses	6.2	21 200	6 557	36 869	18 683
Total operating expenses		2 887 121	956 244	3 500 852	1 335 964
Profit / (or loss) on operating activities		281 759	112 808	16 922	(109 420)
Financial revenue	7.1	28 920	17 312	26 092	6 731
Financial revenue  Financial expenses	7.1 7.2	26 920 25 074	8 597	40 819	(399)
Share in the profit of equity accounted associates	13	(34)	400	630	(399) 448
Profit on sales of shares in an associate	13	(34)	-	-	<del>110</del>
Profit / (or loss) before tax		285 571	121 923	2 825	(101 842)
Income tax expense	8.1.1	58 183	22 684	7 605	(20 296)
Net profit / (or loss) on continuing operations		227 388	99 239	(4 780)	(81 546)
Discontinued operations					
Net profit / (loss) on discontinued operations					
NET PROFIT / (OR LOSS)		227 388	99 239	(4 780)	(81 546)
Net profit / (loss) attributable to:					
Shareholders of the parent company		225 789	99 052	(4 598)	(81 006)
Non-controlling interest		1 599	187	(182)	(540)
		227 388	99 239	(4 780)	(81 546)
Earnings / (loss) per share (PLN per share)					
Continuing operations (ordinary):	20.1	5.08	2.22	(0.11)	(1.87)
Continuing operations (diluted):	20.2	5.04	2.21	(0.11)	(1.87)

# QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2014 TO 30 SEPTEMBER 2014

TROM I JANUARY 2014 TO 30 SEP	Note	for the 9 months period ended 30/09/2014 (unaudited)	for the 3 months period ended 30/09/2014 (unaudited)	for the 9 months period ended 30/09/2013 (unaudited)	for the 3months period ended 30/09/2013 (unaudited)
		PLN thousand	PLN thousand	PLN thousand	PLN thousand
NET PROFIT / (LOSS)		227 388	99 239	(4 780)	(81 546)
Other comprehensive income					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		(1 905)	(862)	(621)	555
The effective portion of changes in fair value of cash- flow hedging instruments		(2 352)	(1 064)	(767)	685
Income tax on other comprehensive income	8.1.2	447	202	146	(130)
Items not to be reclassified to profit or loss in subsequent periods		-	-	-	-
Actuarial gains / (losses) on employee benefits after employment period		-	-	-	-
Income tax on other comprehensive income		-	-	-	-
		(1 905)	(862)	(621)	555
TOTAL COMPREHENSIVE INCOME		225 483	98 377	(5 401)	(80 991)
Total comprehensive income attributable to:					
Shareholders of the parent company		224 730	98 572	(4 943)	(80 698)
Non-controlling interest		753	(195)	(458)	(293)
		225 483	98 377	(5 401)	(80 991)

# QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 SEPTEMBER 2014

	Note	As at 30/09/2014 (unaudited)	As at 31/12/2013 (audited)
		PLN thousand	PLN thousand
ASSETS			
Non-current assets			
Property, plant and equipment	10	3 986 681	3 855 446
Intangible assets		55 054	61 395
Goodwill		2 712	2 712
Investment property		1 375	1 415
Investments accounted for under the equity method	13	34 297	38 214
Other long-term financial assets	15	6 051	6 090
Other long-term non-financial assets	16	1 730	1 438
Deferred tax assets	8.2	34 236	83 185
Total non-current assets	-	4 122 136	4 049 895
Current assets			
Inventory		83 287	76 041
Trade and other receivables	17	582 318	609 267
Income tax receivables		298	2 394
Other short-term financial assets	15	315 781	691 404
Other short-term non-financial assets	16	33 986	33 355
Cash and cash equivalents	18	349 338	263 700
·	- -	1 365 008	1 676 161
Assets held for sale	11	17 560	17 560
Total current assets	<del>-</del>	1 382 568	1 693 721
Total assets	<del>-</del>	5 504 704	5 743 616

# QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

# PREPARED AS AT 30 SEPTEMBER 2014 (cont'd.)

	Note	As at 30/09/2014 (unaudited)	As at 31/12/2013 (audited)
		PLN thousand	PLN thousand
EQUITY AND LIABILITIES			
Equity			
Share capital	19.1	2 239 346	2 166 901
Share premium	19.2	615 343	692 761
Other items of equity		(17 451)	(16 392)
Retained earnings	-	694 472	603 247
Equity attributable to the shareholders of the parent company	-	3 531 710	3 446 517
Equity attributable to non-controlling interest	_	63 130	62 377
Total equity	-	3 594 840	3 508 894
Non-current liabilities	22	176.640	121 550
Long-term bank loans and credit facilities	22	176 649	121 558
Long-term finance lease liabilities and leases with purchase option	23	215 147	313 136
Long-term trade and other liabilities	24	79 873	113 688
Long-term provisions for employee benefits	25	566 886	592 923
Other long-term provisions	26	8 416	22 854
Deferred tax provision	8.2	2 419	2 577
Total non-current liabilities	-	1 049 390	1 166 736
Current liabilities			
Short-term bank loans and credit facilities	22	76 337	73 217
Short-term finance lease liabilities and leases with purchase option	23	128 291	115 790
Short-term trade and other liabilities	24	528 794	675 841
Short-term provisions for employee benefits	25	98 950	176 461
Other short-term provisions	26	23 889	26 127
Other short-term financial liabilities	27	2 877	306
Income tax liability	_	1 336	244
		860 474	1 067 986
Total current liabilities	-	860 474	1 067 986
Total liabilities	-	1 909 864	2 234 722
Total equity and liabilities	- -	5 504 704	5 743 616



Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Capital Group for the period of 9 months ended 30 September 2014, prepared in accordance with IFRS EU

(translation of a document originally issued in Polish)

# QUARTERLY STATEMENT OF CHANGES IN CONSOLIDATED EQUITY FOR THE REPORTING PERIOD ENDED 30 SEPTEMBER 2014

	Share capital	Share premium	Actuarial gains/losses on employee benefits after	Changes in fair value of cash-flow hedging	Retained earnings /(uncovered	Attributable to shareholders of the Parent	Attributable to non- controlling	Total
			employment period	instruments	loss)	company	interest	
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Balance as at 1/01/2013 (audited)	2 889 200	122 773	(29 059)	(267)	159 947	3 142 594	72 078	3 214 672
Net result for the financial year	=	=	-	=	(4 598)	(4 598)	(182)	(4 780)
Other net comprehensive income for the period		-	-	(345)	-	(345)	(276)	(621)
Total comprehensive income	-	-	-	(345)	(4 598)	(4 943)	(458)	(5 401)
Issuance of shares	1	117 079	-	-	-	117 080	-	117 080
Reduction of share capital	(722 300)	139 982	-	-	582 318		-	-
Dividend payment	-	-	-	-	-		(1 111)	(1 111)
Provision for share-based payments	-	108 121	-	-	-	108 121	-	108 121
Other changes in equity		210 477	-	-	(210 477)	-	-	•
Balance as at 30/09/2013 (unaudited)	2 166 901	698 432	(29 059)	(612)	527 190	3 362 852	70 509	3 433 361
Balance as at 1/01/2014 (audited)	2 166 901	692 761	(16 182)	(210)	603 247	3 446 517	62 377	3 508 894
Net result for the financial year	-	-	-	-	225 789	225 789	1 599	227 388
Other net comprehensive income for the period		-	-	(1 059)	-	(1 059)	(846)	(1 905)
Total comprehensive income	-	-	-	(1 059)	225 789	224 730	753	225 483
Issuance of shares	72 445	25 529	-	-	-	97 974	-	97 974
Dividend payment	-	-	-	-	(137 496)	(137 496)	-	(137 496)
Share based payment provision	-	(100 015)	-	-	-	(100 015)	-	(100 015)
Other changes in equity		(2 932)		-	2 932	-	-	-
Balance as at 30/09/2014 (unaudited)	2 239 346	615 343	(16 182)	(1 269)	694 472	3 531 710	63 130	3 594 840



Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Capital Group for the period of 9 months ended 30 September 2014, prepared in accordance with IFRS EU

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# QUARTERLY CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2014 TO 30 SEPTEMBER 2014 (INDIRECT METHOD)

	Note	for the 9 months period ended 30/09/2014 (unaudited) PLN thousand	for the 3 months period ended 30/09/2014 (unaudited) PLN thousand	for the 9 months period ended 30/09/2013 (unaudited) PLN thousand	for the 3 months period ended 30/09/2013 (unaudited) PLN thousand
Net cash flows from operating activities					
Profit before tax		285 571	121 923	2 825	(101 842)
Adjustments:					
Depreciation and amortization of non-current assets	5.1	272 059	90 520	282 186	95 425
Impairment of assets	5.1	-	-	(1 886)	(1 084)
(Gain) / Loss on disposal of property, plant and equipment and intangible assets		6 270	1 056	21 204	9 602
(Profit) / loss on other investing activities		3 460	3 468	-	-
Foreign exchange (gains)/losses		1 556	912	9 806	(7 631)
(Gains) / losses on interest, dividends		5 704	1 424	127	1 933
Share in the (profit) / loss of equity accounted associates		34	(400)	(630)	(448)
Other adjustments		(2 352)	(1 065)	107 354	108 806
Changes in working capital:					
(Increase) / decrease in trade and other receivables		19 162	(15 462)	(27 493)	(40 440)
(Increase) / decrease in inventory		130	(1 572)	4 533	7 112
(Increase) / decrease in other assets		(812)	35 016	(7 356)	22 074
Increase / (decrease) in trade and other liabilities		(108 290)	11 924	10 149	16 369
Increase / (decrease) in other financial liabilities		-	(1 709)	893	(3 108)
Increase / (decrease) in provisions		(120 225)	(20 173)	59 077	62 066
Cash flows from operating activities		362 267	225 862	460 789	168 834
Interest received / (paid)		2 590	477	3 748	504
Income taxes received / (paid)		(5 756)	(2 427)	(4 783)	(2 551)
Net cash provided by operating activities		359 101	223 912	459 754	166 787

# QUARTERLY CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2014 TO 30 SEPTEMBER 2014 (INDIRECT METHOD) (cont'd.)

for the 9 for the 3 for the 9 for the 3 months period months period months period months period Note ended ended ended ended 30/09/2014 30/09/2014 30/09/2013 30/09/2013 (unaudited) (unaudited) (unaudited) (unaudited) PLN PLN PLN PLN thousand thousand thousand thousand Cash flows from investing activities Acquisition of property, plant and equipment and intangible assets (495257) $(185\ 366)$ (300888)(91081)Proceeds from sale of property, plant and equipment and 1 020 181 2 105 1 028 intangible assets Expenses for the acquisition of subsidiaries, associates and joint (271)(271)ventures Expenses for the acquisition of other financial assets (161)(161)Proceeds from sale of other financial assets 38 17 137 2 071 20 934 6 092 Interest received Dividend received 444 175 1 134 228 Repayment of loans granted (2826)(2826)Proceeds from loans granted 51 559 Other proceeds / (acquisitions) on investing activities (1) 377 549 (100667)691 (49414)Net cash (used in) / provided by investing activities  $(102\ 204)$ (286703)(224588) $(133\ 305)$ Cash flows from financing activities Proceeds from issuance of shares Payments of liabilities under finance lease (89 426) (26652)(86201)(28209)Payments of interest under lease agreement (9288)(2.867)(12292)(3757)Proceeds from credit / loans received 115 403 115 403 31 662 30 934 (48 083) Repayments of credit facilities / loans received (16044)(82961)(24821)Repayments of interest on credit facilities / loans received (4548)(1287)(8201)(2461)Repayments of overdraft facilities (9108)(385)6 436 Grants received 17 826 Dividends paid to shareholders of the Parent company (137496)Dividends paid to non-controlling shareholders  $(1\ 111)$  $(1\ 111)$ Other inflows / (outflows) from financing activities (6539)(1846)(7675)(2432)Net cash used in financing activities  $(171\ 259)$ 72 758 (166779)(31857)Net increase / (decrease) in cash and cash equivalents 85 638 9 967 68 387 1 625 263 700 339 371 188 008 254 770 Opening balance of cash and cash equivalents 18 Closing balance of cash and cash equivalents 18 349 338 349 338 256 395 256 395

<sup>(1)</sup> Other inflows / (outflows) from investing activities for nine month period ended 30 September 2014 represent mainly a decrease in short-term deposits over 3 months, which are classified as short-term financial assets in the amount of PLN 297,935 thousand, and the decrease of receivables from Employee Guarantee Program representing employee share based payments in the amount of PLN 79,614 thousand. The above mentioned positions are disclosed in Note 15.

# EXPLANATORY NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS AT 30 SEPTEMBER 2014

## 1. General information

#### 1.1 Information on the Parent Company

The Company PKP Cargo S.A. ("Company", "Parent company") was established based on the Notarial Deed dated 29 June 2001 (Repertory A No. 1287/2001). The registered office of the Company is located in Warsaw at Grójecka street no. 17. The Company is registered in the National Court Register in the District Court in Katowice, Department of the National Court Register under the number KRS 0000027702. Currently, due to a subsequent change of the registered office of the Company, records of the Company are run by the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register. The Company was assigned a statistical number REGON 277586360 and a tax identification number (NIP) 954-23-81-960. Composition of the Company's management and supervisory bodies as at the date of preparation of these quarterly condensed consolidated financial statements:

# **Management Board:**

Adam Purwin - President of the Management Board

Jacek Neska - Member of the Management Board, responsible for Trade Matters

Łukasz Hadyś - Member of the Management Board, responsible for Finance Matters

Wojciech Derda - Member of the Management Board, responsible for Operation Matters

Dariusz Browarek - Member of the Management Board, Employees representative in the Management Board

### **Supervisory Board:**

Jakub Karnowski Chairman Piotr Ciżkowicz Vice Chairman Krzysztof Czarnota Member Marek Podskalny Member Kazimierz Jamrozik Member Konrad Anuszkiewicz Member Stanisław Knaflewski Member Paweł Ruka Member Jarosław Pawłowski Member Jacek Leonkiewicz Member

On 6 February 2014 the Supervisory Board of the PKP CARGO S.A. appointed Mr. Adam Purwin to the position of President of the Management Board. Adam Purwin has been a Board Member responsible for finance matters from 25 February 2013 to 5 February 2014. From 18 November 2013 he has been in charge of matters and organizational units of Company's Headquarters belonging to the competences of President of the Management Board.

On 17 February 2014 Mr Sylwester Sigiel has resigned from the position of the Management Board Member responsible for trade matters. The resignation is effective from the day of a resolution of the Supervisory Board of PKP CARGO S.A. on appointment of the new Management Board Member responsible for trade matters. On 24 April 2014, the Supervisory Board appointed a new Member of the Management Board, responsible for Trade Matters, therefore, the resignation of Mr. Sylwester Sigiel entered into force.

On 24 April 2014 the Supervisory Board of PKP CARGO SA as a result of the contest has appointed four new Members of Management Board.: Mr. Jacek Neska - Member of the Management Board, responsible for Trade Matters, Mr. Wojciech Derda - Member of the Management Board, responsible for Operation Matters, Mr. Łukasz Hadyś - Member of the Management Board, responsible for Financial Matters and Mr. Dariusz Browarek - Member of the Management Board, Employee representatives in the Management Board. Mr. Łukasz Hadyś was appointed effectively from 12 May 2014.

On 16 April 2014 Mr. Michał Karczyński resigned from the position of the member of the Supervisory Board effective from 25 April 2014.

On 24 April 2014 the Company's shareholder - PKP SA dismissed from the Supervisory Board Ms. Danuta Tyszkiewicz (effective from 25 April 2014) and on 26 April 2014 appointed the Members of the Supervisory Board Mr. Jarosław Pawłowski and Mr. Łukasz Górnicki.

On 27 June 2014 Ms. Milena Pacia has resigned from the position of the Supervisory Board Member. The resignation is effective from 27 June 2014.

On 29 July 2014 the Company's shareholder – PKP S.A. dismissed from the Supervisory Board Mr. Artur Kawaler and appointed as the Supervisory Board Members Mr. Piotr Ciżkowicz and Jacek Leonkiewicz with effect from 29 July 2014.

On 24 October 2014 Mr. Łukasz Górnicki resigned from the position of the member of the Supervisory Board effective from 24 October 2014.

The Parent company's shareholder's structure as at 30 November 2014 is as follows:

Entity		Registered office	Number of shares	% of share capital held
PKP S.A. <sup>(1)</sup>	Warsaw	14 784 194	33.01%	33.01%
ING OFE (2)	Warsaw	4 738 369	10.58%	10.58%
Morgan Stanley (3)	New York	2 380 008	5.31%	5.31%
Aviva OFE (4)	London	2 338 371	5.22%	5.22%
EBRD (5)	Warsaw	2 286 008	5.10%	5.10%
Other shareholders		18 259 967	40.78%	40.78%
Total		44 786 917	100.00%	100.00%

- (1) In accordance with the notice sent by shareholder dated 24 June 2014.
- (2) In accordance with the notice sent by shareholder dated 30 June 2014.
- (3) In accordance with the notice sent by shareholder dated 18 June 2014. The total number of shares held by Morgan Stanley amounts to 14,916 shares and indirectly held by its subsidiary Morgan Stanley Investment Management Inc. amounts to 2,365,092 shares.
- <sup>(4)</sup> In accordance with the notice sent by shareholder dated 13 August 2014.
- (5) In accordance with the notice sent by shareholder dated 5 November 2013.

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

#### 1.2 Information on the Capital Group

As at the reporting date the PKP Cargo Capital Group ("the Group") comprised of PKP CARGO S.A. as the Parent company and 14 subsidiaries. Additionally the Group also includes 7 associates and shares in 4 joint ventures.

Additional information about the subsidiaries and shares in associates and co-subsidiaries is presented in Notes 12, 13 and 14.

The duration of the companies belonging to the PKP CARGO Capital Group is unlimited. On 17 January 2014 the Extraordinary General Shareholders Meeting of PKP CARGO International a.s. located in Bratislava adopted the resolution to dissolve the company.

The Parent Company's and Capital Group companies' financial year is the calendar year.

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

- a) intermodal services,
- b) spedition (national and international),
- c) terminals (handling and storage of goods),
- d) siding services.

PKP CARGO Capital Group occupies also with repair and maintenance of rolling stock.

# 1.3 Functional and presentation currency

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

# 2. International Financial Reporting Standards Applied

#### 2.1 Statement of compliance

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

The Parent company keeps its accounting records in accordance with the accounting policy (principles) specified in the Accounting Act of 29 September 1994 (the "Act") as amended, and related secondary legislation ("Polish Accounting Standards") and in accordance with International Accounting Standards ("IAS")/ International Financial Reporting Standards as endorsed by the European Union ("IFRS EU").

# 2.2. Standards and interpretations issued for the first time in 2014

The following amendments to existing standards issued by the International Accounting Standards Board and adopted by European Union are effective since 2014:

- IFRS 10 "Consolidated Financial Statements", applicable to the annual periods beginning on or after 1 January 2014,
- IFRS 11 "Joint Arrangements", applicable to the annual periods beginning on or after 1 January 2014,
- IFRS 12 "Disclosure of Interests in Other Entities", applicable to the annual periods beginning on or after
- 1 January 2014,
- IAS 27 (amended in 2011) "Separate Financial Statements", applicable to the annual periods beginning on or after 1 January 2014,
- IAS 28 (amended In 2011) "Investments In Associates and Joint Ventures", applicable to the annual periods beginning on or after 1 January 2014,
- Amendments to IAS 32 "Financial Instruments: Presentation" compensation of financial assets and financial liabilities, applicable to the annual periods beginning on or after 1 January 2014,
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" (amendment of derivatives and hedge accounting) applicable to the annual periods beginning on or after 1 January 2014,
- Amendments to IAS 36 "Impairment of Assets" (disclosures of recoverable amount for non-financial assets) applicable to the annual periods beginning on 1 January 2014.

The Parent company anticipates that adoption of these standards, amendments to the existing standards and interpretations had no material impact on the previously applied accounting principles of the Group.

### 2.3. Standards and Interpretations issued by European Union, but not yet effective

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

• **Interpretation to IFRIC 21 "Levies"** - applicable to the annual periods beginning on or later 17 June 2014 (effective date specified by the IASB is 1 January 2014).

The Parent Company anticipates that adoption of these standards, amendments to the existing standards and interpretations will not have material impact on the previously applied accounting principles of the Group.

# 2.4 Standards and interpretations issued by IASB, but not yet endorsed by the EU

At present, IFRS as endorsed by the EU, do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in the EU as at 30 September 2014:

- IFRS 9 "Financial instruments" applicable to the annual periods beginning on or after 1 January 2018,
- Amendments to IAS 19 "Employee benefits" (Defined Benefit Plans: Employee Contributions), applicable to annual periods beginning on or after 1 July 2014,
- **Improvements to IFRS for the 2010 2012**, contain 8 improvements to 7 standards, with consequential amendments to other standards and interpretations, applicable to the reporting periods beginning on or after 1 July 2014.
- **Improvements to IFRS for the 2011 2013**, contain 4 amendments to standards with consequential amendments to other standards and interpretations, applicable to the reporting periods beginning on or after 1 July 2014,
- IFRS 14 "Regulatory Deferral Accounts", applicable to the annual periods beginning on 1 January 2016.
- Recognition of the acquisition of shares in joint activities (Amendment to IFRS 11 "Joint Arrangements") applicable to the annual periods beginning on 1 January 2016,
- Explanations in terms of acceptable methods of depreciation and amortization (Amendment to IAS 16
   "Property, Plant and Equipment" and IAS 38 "Intangible Assets") applicable to the annual periods beginning on
   1 January 2016,
- IFRS 15 "Revenue from contracts with customers" applicable to the annual periods beginning on 1 January 2017.
- **Amendments to IAS 27 "Separate Financial Statements"** entitled Equity Method in Separate Financial Statements applicable to the annual periods beginning on 1 January 2016,
- Amendments to "IFRS 10 Consolidated Financial Statements" and to "IAS 28 Investments in Associates and Joint Ventures" entitled Sales or contributions of assets between an inwestor and its associate/joint venture applicable to the annual periods beginning on 1 January 2016.

The Parent Company anticipates that adoption of these standards, amendments to the existing standards and interpretations would have no material impact on the financial statements if they were applied as at the reporting date.

# 3. Applied accounting principles

### 3.1 Going concern assumption

These Quarterly Condensed Consolidated Financial Statements were prepared under the going concern assumption. As at the date of preparation of these Quarterly Condensed Consolidated Financial Statements there were no circumstances indicating a threat to the Group's ability to continue as a going concern within 12 months from signing the financial statements.

### 3.2 Basis for preparation of financial statements

These Quarterly Condensed Consolidated Financial Statements have been prepared in accordance with the International Accounting Standard 34 – Interim Financial Reporting ("IAS 34") and in accordance with accounting standards applicable to interim financial reporting adopted by the European Union, issued and effective at the time of preparation these Quarterly Condensed Consolidated Financial Statements. The foregoing Quarterly Condensed Consolidated Financial Statements were prepared on the historical cost basis except derivatives measured at fair value and non-current assets classified as held for sale.

These Quarterly Condensed Consolidated Financial Statements should be read along with audited financial statements of PKP Cargo S.A. for the year ended 31 December 2013, prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS EU), that include notes "Financial Statement prepared in accordance to IFRS EU". Quarterly Condensed Consolidated Financial Statements consist of the consolidated statement of comprehensive income, consolidated statement of financial position, statement of changes in consolidated equity, consolidated statement of cash flows and explanatory notes to the financial statements.

## 3.3. Statement of accounting principles

The accounting principles and calculations methods adopted in the preparation of quarterly condensed consolidated financial statements are consistent with those described in audited financial statements for the year ended 31 December 2013 prepared in accordance with IFRS EU (see note 3 to consolidated financial statement prepared for the year ended 31 December 2013, prepared in accordance with IFRS EU).

## 3.4. Explanations concerning seasonality or cyclicality of quarterly Group operations

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

#### 3.5. Changes in estimates

During the nine month period ended 30 September 2014 there were no significant changes in estimates and methodology of making estimates that would affect the current or future periods, with the following exception:

- deferred income tax the effect of the conversion of the balance of deferred income tax is presented in note 8 of the Quarterly Condensed Consolidated Financial Statements,
- provision for unused holidays and provision for employee benefits provisions have been calculated as at the date 30 September 2014, the effect of the conversion is presented in note 25 of the Quarterly Condensed Consolidated Financial Statements.

# 4. Operating segments

# 4.1. Products and services of the operating segment

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

Group's revenues gained from external customers accordingly to geographical areas presents note 4.2.

### 4.2. Geographical information

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

The Group operates in one geographical area, Poland, which is its country of residence. The total revenue for all geographical areas except from Poland for 9 month periods ended 30 September 2014 and 30 September 2013 do not exceed 15% of revenue grand total. No other geographical area (except from Poland) exceeds 10% of revenue from sales of services.

Below are presented Group revenues from external customers by location:

	for the 9 months	for the 3 months	for the 9 months	for the 3 months
	period ended	period ended	period ended	period ended
	30/09/2014	30/09/2014	30/09/2013	30/09/2013
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Poland	2 662 161	908 468	2 846 859	1 019 908
Germany	126 660	39 662	162 530	49 111
Czech Republic	65 781	20 447	71 485	21 077
Slovakia	64 120	20 441	109 214	50 040
Cyprus	62 996	23 328	40 526	14 035
Other countries	118 730	34 776_	120 934	44 703
Total	3 100 448	1 047 122	3 351 548	1 198 874

#### 4.3 Structure of the sales revenue

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

	for the 9 months	for the 3 months	for the 9 months	for the 3 months
	period ended	period ended	period ended	period ended
	30/09/2014	30/09/2014	30/09/2013	30/09/2013
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Transport revenue and railway shipping	2 829 093	954 561	3 049 684	1 089 262
Revenue from other transport activities	83 557	29 034	87 530	31 047
Siding and traction revenue	116 924	40 488	127 317	48 285
Cargo revenues	34 157	11 910	27 250	9 058
Other revenue 1)	36 717	11 129	59 767	21 222
Total	3 100 448	1 047 122	3 351 548	1 198 874

<sup>&</sup>lt;sup>(1)</sup> The position of other revenue for 9 month period ended 30 September 2014 presents mainly revenue arising from renting of railroad fleet of PLN 11,556 thousand, revenue from repair services of railroad fleet of PLN 8,584 thousand and PLN 7,370 thousand revenues from customs agency services and other. For the same period in 2013 this position presents revenue of PLN 16,836 thousand from renting of railroad fleet, PLN 20,250 thousand revenue from repair services of railroad fleet, PLN 6,777 thousand revenue from comprehensive support in extraction of chalk and PLN 6,308 thousand revenue from customs agency services and other.

### 5. Operating expenses

#### 5.1 Depreciation and amortization

	for the 9 months period ended 30/09/2014 PLN thousand	for the 3 months period ended 30/09/2014 PLN thousand	for the 9 months period ended 30/09/2013 PLN thousand	for the 3 months period ended 30/09/2013 PLN thousand
Depreciation of property, plant and equipment	259 158	86 448	265 165	89 665
Amortization of intangible assets	12 901	4 072	17 021	5 760
Impairment losses recognized / (derecognized):	-	-	=	-
Property, plant and equipment	-	-	(1 886)	-
Intangible assets	-	-	-	-
Non-current assets held for sale	-	-	-	(1 084)
Total depreciation / amortization	272 059	90 520	280 300	94 341

# 5.2 Consumption of raw materials and energy

	for the 9 months	for the 3 months	for the 9 months	for the 3 months
	period ended	period ended	period ended	period ended
	30/09/2014	30/09/2014	30/09/2013	30/09/2013
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Fuel consumption	155 293	53 203	159 791	59 530
Consumption of materials	28 918	5 101	44 942	15 098
Electricity, gas and water consumption	284 150	94 521	319 754	107 936
Impairment losses recognized / (derecognized)	(1 255)	1 445	(686)	6 493
Other	990	20	1 496	701
Total consumption of materials and energy	468 096	154 290	525 297	189 758

# 5.3 External services

	for the 9 months period ended 30/09/2014	for the 3 months period ended 30/09/2014	for the 9 months period ended 30/09/2013	for the 3 months period ended 30/09/2013
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Access to infrastructure connections	504 923	178 382	700 667	255 756
Repair services	11 839	4 333	8 819	2 690
Rent and lease fees (real estate and railroad fleet)	121 293	39 053	117 242	41 351
Transport services	201 158	59 775	190 548	63 045
Telecommunication services	8 891	2 979	12 618	4 252
Legal, advisory and similar services	13 243	6 279	10 294	4 157
IT services	40 294	16 816	35 982	12 071
Services related to property maintenance and operation of tangible assets	22 303	4 568	25 863	8 709
Cargo services Siding services	13 537	4 797	9 935	1 492
Other services	16 002	3 992	12 143	4 552
Access to infrastructure connections	12 614	7 149	13 716	1 434
Total external services	966 097	328 123	1 137 827	399 509

# 5.4. Employee benefit

	for the 9 months period ended 30/09/2014 PLN thousand	for the 3 months period ended 30/09/2014 PLN thousand	for the 9 months period ended 30/09/2013 PLN thousand	for the 3 months period ended 30/09/2013 PLN thousand
Salaries and wages	820 603	274 707	1 009 372	455 648
Costs of social insurance	160 402	51 261	200 803	89 747
Appropriation to the Company's Social Benefits Fund	24 439	7 894	25 438	8 694
Other employee benefits	27 159	6 106	28 605	9 515
Other post-employment benefits	8 295	2 305	5 733	2 272
Changes in provision for employee benefits	31 109	5 501	55 581	21 340
Other employee benefit costs	963	398	1 555	286
Total employee benefits	1 072 970	348 172	1 327 087	587 502

# 6. Other operating revenue and expenses

# **6.1 Other operating revenue**

	for the 9	for the 3	for the 9	for the 3
	months period ended	months period ended	months period ended	months period ended
	30/09/2014	30/09/2014	30/09/2013	30/09/2013
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Gains on disposal of assets:				
Gains on sales of non-current assets		<del>_</del> _	1 355	526
	-	=	1 355	526
Derecognized impairment losses:				
Trade receivables	4 422	2 686	3 663	839
Other (including interest on receivables)	543	51	1 371	37
	4 965	2 737	5 034	876
Other operating revenue:				
Release of provisions for the fine imposed by OCCP	14 362	-	9 945	-
Release of provisions for other fines	3 964	558	1 756	17
Interest on trade and other receivables	1 326	324	1 695	267
Forex gains on trade receivables and liabilities	-	-	2 256	(1 815)
Grants Other	53	17		` ,
		=-	2 201	-
Release of provisions for the fine imposed by OCCP	4 145	2 332	3 301	964
Other operating revenue total	28 815	5 968	25 342	835

# **6.2 Other operating expenses**

	for the 9 months period ended 30/09/2014	for the 3 months period ended 30/09/2014	for the 9 months period ended 30/09/2013	for the 3 months period ended 30/09/2013
Losses on disposal of assets:	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Loss on sales of non-current assets  Loss on sales of investment property	1 583	79 -	-	-
	1 583	79		
Recognized impairment losses:	2 303			
Trade receivables	4 521	656	2 913	1 627
Other (including on interest on receivables)	535	214	189	98
· · · · · · · · · · · · · · · · · · ·	5 056	870	3 102	1 725
Other operating expense:				
Costs of liquidation of non-current and current assets	6 784	2 044	25 646	11 791
Provisions for OCCP fines	-	-	-	-
Provisions for other fines	2 832	2 032	3 350	3 262
Court and collection costs	704	335	576	193
Costs of transport benefits for non-employees	2 082	596	1 746	523
Interest on trade and other liabilities	30	11	1 083	916
Forex gains on trade receivables and liabilities	161	32	=	-
Trade receivables written off	4	4	7	2
Other	1 964	554	1 359	271
Total other operating expenses	21 200	6 557	36 869	18 683

# 7. Financial revenue, Financial expenses

# 7.1 Financial revenue

711 I maneiai i evenae				
	for the 9	for the 3	for the 9	for the 3
	months period	months period	months period	months period
Interest revenue by class of financial instruments:	ended	ended	ended	ended
	30/09/2014	30/09/2014	30/09/2013	30/09/2013
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Interest income:				
Bank deposits and accounts	14 805	4 170	21 934	5 909
Bid bonds and collateral	234	66	284	83
Loans granted	24	9	1 147	1
Other	12 951	12 753	1 245	784
Total interest income and dividend	28 014	16 998	24 610	6 777
•				
	for the 9	for the 3	for the 9	for the 3
Interest revenue by category of financial	months period	months period	months period	months period
instruments:	ended	ended	ended	ended
	30/09/2014	30/09/2014	30/09/2013	30/09/2013
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Interest income:				
Loans and receivables (including cash in hand and				
bank deposits)	15 063	4 245	23 365	5 993
Other	12 951	12 753	1 245	784
	28 014	16 998	24 610	6 777
Revenue from dividend earned on shares	-	-		-
Total interest income and dividend	28 014	16 998	24 610	6 777
Other financial revenue				
Gains on measurement of financial assets and liabilities at			266	266
FVTPL	-	-	200	200
Other financial revenue:				
Net forex gain	=	-	432	(240)
Other	906	314	784	(72)
Total financial revenue	28 920	17 312	26 092	6 731
•				

# 7.2. Financial expenses

7.2. Financial expenses	for the 9	for the 3	for the 9	for the 3
<b>Interest expense by class of financial instruments:</b>	months period ended	months period ended	months period ended	months period ended
	30/09/2014	30/09/2014	30/09/2013	30/09/2013
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Interest expense:	T LIT GIOGSGIIG	T EIT GIOGSGIIG	T EIT GIOGSGIIG	i Lit diousuna
Interest on loans and overdraft facilities	4 548	1 287	8 201	2 461
Interest on liabilities under finance lease agreements	9 288	2 867	12 292	3 757
Interest on long-term liabilities	5 988	1 845	7 675	2 431
Interest on bid bonds and guarantees	289	66	212	41
Other	1 326	1 043	1 289	695
Total interest expense	21 439	7 108	29 669	9 385
	for the O	South a 2	Sau Alea O	South a D
Interest evenes by sategony of financial	for the 9 months period	for the 3 months period	for the 9 months period	for the 3 months period
Interest expense by category of financial instruments:	months period ended	months period ended	months period ended	ended
instruments.	30/09/2014	30/09/2014	30/09/2013	30/09/2013
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Interest expense:	1 Lit circusuria	T ZIT CITOUSUITU	1 Liv cirousaria	r zir tilousunu
Financial liabilities measured at amortized cost	20 113	6 065	28 380	8 690
Other	1 326	1 043	1 289	695
Total interest expense	21 439	7 108	29 669	9 385
Other financial expenses				
Losses on shares:				
Recognized impairment losses on shares	9	_	-	-
	9			
Losses on measurement of financial assets and liabilities	_			
at FVTPL	1 133	192		(2 831)
Other financial expenses:				
Net forex loss	1 664	928	9 821	(7 620)
Other financial expenses	829	369	1 329	667
Total financial expenses	25 074	8 597	40 819	(399)
Total Illiandial expenses	25 07 4		-10 017	(333)

# 8. Income tax on continuing operations

# 8.1.1 Income tax recognized in profit or loss

	for the 9 months period ended 30/09/2014 PLN thousand	for the 3 months period ended 30/09/2014 PLN thousand	for the 9 months period ended 30/09/2013 PLN thousand	for the 3 months period ended 30/09/2013 PLN thousand
Current income tax:				
Current tax expense	8 877	2 793	5 145	2 243
Adjustments recognized in the current period with respect to prior year tax	68	693	(34)	-
,	8 945	3 486	5 111	2 244
Deferred income tax:				
Deferred tax that occurred in the reporting period	49 238	19 198	2 494	(22 539)
	49 238	19 198	2 494	(22 539)
Total tax expense on continued operations recognized in the current year	58 183	22 684	7 605	(20 296)

# 8.1.2. Income tax recognized in other comprehensive income

	for the 9 months period ended 30/09/2014 PLN	for the 3 months period ended 30/09/2014 PLN	for the 9 months period ended 30/09/2013 PLN	for the 3 months period ended 30/09/2013 PLN
Deferred income tax				
Due to income and expenses recognised in other comprehensive income: Fair value measurement of financial instruments designated as cash flow hedges	(447)	(202)	(146)	130
S S	(447)	(202)	(146)	130
Due to income and expenses reclassified from equity to profit or loss				
	-	-	-	-
Income tax recognised in other comprehensive income	(447)	(202)	(146)	130

# 8.2. Deferred income tax:

			Recognized in	
For the 9 months period ended			other	
30/09/2014		Recognized in	comprehensive	As at
	As at 01/01/2014	profit or loss	income	30/09/2014
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Temporary differences resulting in items of	f deferred tax (liabilities	s) / assets:		
Property, plant and equipment (including lease)	(155 333)	(64 694)	-	(220 027)
Long-term liabilities	(3 031)	1 136	-	(1 895)
Inventory - impairment allowance	4 364	(1 257)	-	3 107
Receivables - impairment allowance	9 042	(2 550)	-	6 492
Accrued interest on assets	(2 374)	1 566	-	(808)
Accrued interest on liabilities	1	(1)	-	-
Provisions for employee benefits	165 191	(38 663)	-	126 528
Other provisions	4 381	(535)	-	3 846
Accrued expenses	5 654	515	-	6 169
Deferred revenue	(2 665)	(4 922)	-	(7 587)
Unpaid employee benefits	9 050	(1 243)	-	7 807
Forex losses	9 354	(9 340)	-	14
Forex gains	(7)	6 999	-	6 992
Other (including hedging derivatives)	1 754	(1 575)	447	626
Total	45 381	(114 564)	447	(68 736)
Unused tax losses and other reliefs				
Tax losses (1)	35 227	65 326		100 553
Total	35 227	65 326		100 553
Total deferred tax assets (liabilities)	80 608	(49 238)	447	31 817

 $<sup>^{(1)}</sup>$  As at 30 September 2014 deferred tax asset arising from tax losses to be used in future periods consists mainly of a loss incurred by the Parent Company of PLN 181 million that expires in 2014 and PLN 340 million that expires in 2019, and subsidiaries' tax losses in amount of PLN 8 million that expire in year 2018.

# 8.2 Deferred income tax (cont'd.)

For the 9 months period ended			Recognized in other	
30/09/2014		Recognized in	comprehensive	As at
30/03/2014	As at 01/01/2014	profit or loss	income	30/09/2014
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Temporary differences resulting in items of			i zir mousunu	i zit tiloubullu
Property, plant and equipment (including lease)	(106 471)	(35 448)	-	(141 919)
Long-term liabilities	(4 718)	1 252	-	(3 466)
Inventory - impairment allowance	4 830	(140)	_	4 690
Receivables - impairment allowance	8 001	` 58Ś	-	8 586
Accrued interest on assets	(3 399)	1 260	-	(2 139)
Accrued interest on liabilities	` <u>Ś</u>	(3)	-	2
Provisions for employee benefits	135 468	212	-	135 680
Other provisions	2 318	(43)	-	2 275
Accrued expenses	482	3 911	-	4 393
Deferred revenue	(837)	(5 307)	-	(6 144)
Unpaid employee benefits	7 673	(532)	-	7 141
Forex losses	12 487	(974)	-	11 513
Forex gains	(11)	(53)	-	(64)
Employment Guarantees Program	-	39 666	-	39 666
Other (including hedging derivatives)	1 937	(165)	146	1 918
Total	57 765	4 221	146	62 132
Unused tax losses and other reliefs				
Tax losses	43 197	(6 715)	-	36 482
Total	43 197	(6 715)	-	36 482
Total deferred tax assets (liabilities)	100 962	(2 494)	146	98 614

# 8.3 Unrecognized deferred tax asset and unused tax reliefs

	As at	As at
	30/09/2014	31/12/2013
	PLN thousand	PLN thousand
As at the reporting date, the following deferred tax assets remained		
unrecognized:		
- Unused tax losses (1)	11 952	14 885

<sup>&</sup>lt;sup>(1)</sup> As at 30 September 2014 tax losses unrecognised in deferred tax asset represents mainly the tax loss of companies PKP CARGOLOK Sp. z o.o. of PLN 8,698 thousand, PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o. of PLN 1,861 thousand and Cargosped Terminal Braniewo of PLN 1,393 thousand. As at 31 December 2013 the largest portion of tax loss represent PKP CARGOLOK of PLN 7,571 thousand and PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o. of PLN 3,938 thousand.

# 9. Discontinued operations

In the nine months period ended 30 September 2014 and 30 September 2013 the Group did not discontinue any operations that would require recognition herein.

10. Property, plant and equipment

Counting amounts	As at	As at
Carrying amounts:	30/09/2014	31/12/2013
	PLN thousand	PLN thousand
Land	141 739	141 739
Buildings, premises, civil and water engineering structures	507 742	505 168
Technical equipment and machinery	118 890	134 361
Vehicles	3 194 369	3 034 047
Other fixed assets	7 676	9 935
Fixed assets under construction	16 265	30 196
Total	3 986 681	3 855 446

Including finance lease:	As at 30/09/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Technical equipment and machinery	11 475	18 895
Vehicles	328 691	349 008
Other fixed assets	-	43
Total	340 166	367 946

For the 9 months period ended 30 September 2013	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Vehicles	Other fixed assets	Total
	PLN	PLN thousand	PLN	PLN	PLN	PLN
	thousand	T EN Clousaria	thousand	thousand	thousand	thousand
Gross value Balance as at 1 January 2013	115 053	511 809	263 885	4 116 823	30 787	5 038 357
Increases:						
Acquisition	-	3 303	8 635	208 749	1 664	222 351
Finance leases	-	-	5 176	4 696	-	9 872
Contribution in kind	33 866	81 601	1 608	-	5	117 080
Other	-	602	1 849	328	631	3 410
Decreases						
Sales	-	(27)	(515)	(763)	(66)	(1 371)
Contribution in kind	-	-	-	-	-	-
Liquidation		(11 229)	(1 823)	(105 740)	(224)	(119 016)
Reclassification to assets held for sale	(12 226)	-	-	(15 506)	(18)	(27 750)
Other	-	-	(840)	(805)	(1 798)	(3 443)
Balance as at 30 September 2013	136 693	586 059	277 975	4 207 782	30 981	5 239 490

For the 9 months period ended 30 September 2014	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Vehicles	Other fixed assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Gross value	tilousallu		tilousallu	tilousallu	tilousaliu	tilousallu
Balance as at 1 January 2014	142 430	600 987	290 583	4 235 250	31 926	5 301 176
Increases:						
Acquisition	-	20 104	10 483	386 375	593	417 555
Finance leases	-	-	275	-	-	275
Other	-	194	207	2	-	403
Decreases						
Sales	-	-	(240)	(1 540)	(46)	(1 826)
Liquidation	-	(9 602)	(3 083)	(164 295)	(71)	(177 051)
Other	<u> </u>	-	(313)	(492)	(393)	(1 198)
Balance as at 30 September 2014	142 430	611 683	297 912	4 455 300	32 009	5 539 334

10. Property, plant and ed	laibinent (c	Jiic a. j				
For the 9 months period ended 30 September 2013	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Vehicles	Other fixed assets	Total
-	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Accumulated depreciation	tilousullu	tilousullu		thousand		tilousulu
Balance as at 1 January 2013	-	69 711	129 620	1 041 769	18 730	1 259 830
Increases Depreciation charges Other Decreases	-	12 960	22 339 981	226 389 32	3 477 680	265 165 1 693
Sales Liquidation	- -	(8) (1 697)	(357) (1 301)	(469) (92 931)	(49) (213)	(883) (96 142)
Reclassification to assets held for sale	-	-	-	(2 941)	(18)	(2 959)
Other		<u> </u>	(682)	<u>-</u>	(1 091)	(1 773)
Balance as at 30 September 2013	-	80 966	150 600	1 171 849	21 516	1 424 931
For the 9 months period ended 30 September 2014	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Vehicles	Other fixed assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Accumulated depreciation Balance as at 1 January 2014	<u>-</u>	84 519	156 222	1 201 203	21 991	1 463 935
Increases Depreciation charges Other Decreases	- -	17 643 -	24 103 159	214 611	2 801	259 158 159
Sales Liquidation Other	- - -	(911)	(143) (1 213) (106)	(1 504) (153 083) (296)	(18) (69) (372)	(1 665) (155 276) (774)
Balance as at 30 September 2014		101 251	179 022	1 260 931	24 333	1 565 537
For the 9 months period ended	Land	Buildings, premises, civil and water	Technical equipment and	Vehicles	Other fixed assets	Total
For the 9 months period ended 30 September 2013	Land	premises, civil and	equipment	Vehicles PLN		Total PLN
30 September 2013		premises, civil and water engineering structures	equipment and machinery		assets	
30 September 2013  Accumulated impairment Balance as at 1 January 2013	PLN	premises, civil and water engineering structures PLN	equipment and machinery PLN	PLN	assets PLN	PLN
30 September 2013  Accumulated impairment	PLN	premises, civil and water engineering structures PLN	equipment and machinery PLN	PLN thousand	assets PLN	PLN thousand

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

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For the 9 months period ended 30 September 2014	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Vehicles	Other fixed assets	Total
	PLN	PLN	PLN	PLN	PLN	PLN
	thousand	thousand	thousand	thousand	thousand	thousand
Accumulated impairment						
Balance as at January 2014	691	11 300				11 991
-	091	11 300			<del></del>	11 991
Increases	-	-	-	-	-	-
Decreases						
Other (allowance used)		(8 610)				(8 610)
Balance as at 30 September 2014	691	2 690				3 381

Fixed assets under construction	for the 9 months period ended 30/09/2014 PLN thousand	for the 9 months period ended 30/09/2013 PLN thousand
Opening balance Increases Grants to property, plant and equipment Decreases - transfer to non-current assets Decreases - discontinued investments Closing balance	31 996 412 715 (8 330) (417 831) (485) 18 065	30 473 359 982 - (349 304) - 41 151
Accumulated impairment of fixed assets under construction	for the 9 months period ended 30/09/2014 PLN thousand	for the 9 months period ended 30/09/2013 PLN thousand
Opening balance Increases Decreases Closing balance	1 800	- - - -

The amount of expenditures on property, plant and equipment for the 9 months period of 2014 amounted to PLN 495,257 thousand, while in the same period of prior year of PLN 300,888 thousand.

The amount of expenditures on property, plant and equipment is higher in comparison to additions to property, plant and equipment mainly due to repayment of long term investment liabilities on modernization of railroad fleet by the Parent company.

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

Non-current assets classified as held for sale	As at <b>30/09/2014</b>	Stan na 31/12/2013
	PLN thousand	PLN thousand
Land held for sale Vehicles	4 995 12 565	4 995 12 565
Total	17 560	17 560
Liabilities related directly to non-current assets classified as held for sale		

As at 30 September 2014 and 31 December 2013 the Group had some redundant non-current assets and decided to sell them. Non-current assets classified as held for sale consisted of 77 engines which, due to technical consumption, are not in use, and 3 land properties. Engines will be sold at auctions held by the Company for the purpose of scrapping them by the purchaser.

### 12. Subsidiaries

Detailed information regarding subsidiaries as at 30 September 2014 and 31 December 2013 are as follow:

No.	Name of subsidiary	Place of Core business registration		% of interest rights held by S./	
			and operation	As at 30/09/2014	As at 31/12/2013
1	CARGOSPED Sp. z o.o.	Forwarding services (transport of aggregate as well as domestic and international intermodal transport)	Warszawa	100.0%	100.0%
2	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Services supporting land transport, transshipment of goods, wholesale and retail sale of waste and metal scrap	Małaszewicze	100.0%	100.0%
3	PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	Transshipment of goods in other terminals	Żurawica	100.0%	100.0%
4	PKP CARGO SERVICE Sp. z o.o.	Siding services	Warszawa	100.0%	100.0%
5	PKP CARGO TABOR – Karsznice Sp. z o.o. (1)	Repair and maintenance of railroad fleet	Zduńska Wola	-	100.0%
6	PKP CARGO International a.s. z siedzibą w Bratysławie <sup>(3)</sup>	Shipping outside of Poland	Bratysława	51.0%	51.0%
7	PS Trade Trans Sp. z o.o.	Shipping services	Warszawa	55.6%	55.6%
8	PKP CARGOTABOR Sp. z o.o. (1)	Repair and maintenance of railroad fleet	Warszawa	100.0%	100.0%
9	PKP CARGOLOK Sp. z o.o. (2)	Collection, processing and disposal of waste; recovery of recyclable materials.	Warszawa	100.0%	100.0%
10	CARGOTOR Sp. z o.o. (4)	Management of logistics infrastructure including railway sidings and tracks	Warszawa	100.0%	100.0%

<sup>(1)</sup> On 2 June 2014 the Extraordinary General Shareholders Meetings of PKP CARGOWAG Sp. z o.o. and PKP CARGO TABOR-KARSZNICE Sp. z o.o. has adopted a resolutions to take-over of subsidiary PKP CARGO TABOR-KARSZNICE Sp. z o.o. in Zduńska Wola by PKP CARGOWAG Sp. z o.o. in Warsaw. The take-over was proceeded under Article 492 § 1 of the Commercial companies code, i.e. by transfer of all property from entity to acquiring company. The take-over was registered by the National Register Court on 1 July 2014. From 1 July 2014 PKP CARGOWAG Sp. z o.o operates under the name of PKP CARGOTABOR Sp. z o.o with its registered office in Warsaw, 100% of the share capital of the company belongs to the PKP CARGO S.A.

<sup>&</sup>lt;sup>(2)</sup> On 1 July 2014 an agreement was signed for sale of the company between CARGOLOK Sp. z o.o. (vendor) and PKP CARGOTABOR Sp. z o.o. (buyer). The subject of the agreement is sale of the company, which is understood as sale of organized units of tangible and intangible assets for business within the meaning of Art. 551 of the Civil Code (including the name of the company - PKP CARGOLOK, ownership of movable property, rights arising from contracts, cash, cash receivables, business secrete information, accounting books and documents related to business of the enterprise) and the takeover of liabilities associated with entrepreneurship. On 22 October 2014, Founding Act of PKP CARGOLOK Sp. z o.o. was changed in terms of changing the company's name and the subject of business activity. Since the 22 October 2014, the company has been operating under the firm of PKP CARGOTABOR USŁUGI Sp. z o.o. and its main business activities are: collection, processing and disposal of waste; recycling of materials.

<sup>(3)</sup> On 17 January 2014 the Extraordinary General Shareholders Meeting adopted a resolution and decided to dissolve the PKP CARGO International a.s. with registered office in Bratislava and conduct its liquidation.

<sup>&</sup>lt;sup>(4)</sup> CARGOTOR Sp. z o.o. was founded on 10 October 2013 and registered in the National Court Register on 13 November 2013.

Information on the companies which are indirectly dependent (belonging to **PS Trade Trans Sp. z o.o.**) are as follow:

	Name of subsidiary	Core business	Place of registration and operation	% of interests and voting rights held by PS Trade Trans Sp. z o.o. (nominal value)	
			and operation	As at 30/09/2014	As at 31/12/2013
11	Trade Trans Karya Sp. z o.o.	Transshipment of goods, customs depot	Lublin	60.3%	60.3%
12	Transgaz S.A.	Transport agency	Zalesie k. Małaszewicz	64.0%	64.0%
13	Trade Trans Finance Sp. z o.o.	Financial and accounting services	Warszawa	100.0%	100.0%
14	PPHU "Ukpol" Sp. z o.o.	Transshipment of goods, customs depot	Werchrata	75.0%	75.0%

Information on the companies which are indirectly dependent (belonging to **Cargosped Sp. z o.o.**) are as follow:

Name of subsidiary	Core business	Place of registration	% of interests and voting rights held by PS Trade Trans Sp. z o.o. (nominal value)	
		and operation	As at 30/09/2014	As at 31/12/2013
Cargosped Terminal Braniewo Sp. z o.o.	Transshipment of goods, customs depot	Braniewo	100.0%	100.0%

13. Investments in subsidiaries and associates accounted for under the equity method

	for the 9 months period ended 30/09/2014 PLN thousand	For the 3 months period ended 30/09/2014 PLN thousand	For the 9 months period ended 30/09/2013 PLN thousand	For the 3 months period ended 30/09/2013 PLN thousand
Opening balance	38 214	33 626	60 514	60 166
Acquisition of shares Sale of shares	271 -	271 -	- -	- -
Share in (losses) / profits of investments accounted for under the equity method	(34)	400	630	448
Changes in equity arising from dividend payment	(1 052)	-	(1 309)	(779)
Reclassification of shares to non-current assets held for sale Change in method of consolidation of	-	-	(7 782)	(7 782)
investments that were accounted for under the equity method to full method	(3 102)	-	-	-
Closing balance	34 297	34 297	52 053	52 053

 $<sup>^{(1)}</sup>$  Because of the fact that since 30 June 2014, CARGOTOR Sp. z o.o. has met the criteria defined in the accounting principles applied by the PKP Cargo Capital Group, this entity is consolidated using the full method. As at 31 December 2013 CARGOTOR Sp. z o.o. was accounted for using the equity method in the consolidated financial statements of PKP Cargo Capital Group.

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

Name of outile accounted for under the equity	% if interests and	l voting rights held by Group	Carrying amount of assets	
Name of entity accounted for under the equity method	As at 30/09/2014	As at 31/12/2013	As at 30/09/2014	Stan na 31/12/2013
	%	%	PLN thousand	PLN thousand
COSCO POLAND Sp. z o.o.	20.0	20.0	1 198	1 128
Pol – Rail S.r.l <sup>3)</sup>	37.4	35.7	6 138	5 740
PKP CARGO INTERNATIONAL a.s. 1)	51.0	51.0	-	1
CARGOTOR Sp. z o.o. <sup>2)</sup>	-	100.0	-	3 103
Cargosped Składy Celne Sp. z o.o.	50.0	50.0	-	1
Terminale Przeładunkowe Sławków – Medyka Sp. z o.o.	27.8	27.8	20 130	21 000
Trade Trans Karya Sp. z o.o.	33.5	33.5	-	334
Transgaz S.A.	35.5	35.5	3 692	3 990
Trade Trans Finance Sp. z o.o.	55.6	55.6	260	529
PPHU "Ukpol" Sp. z o.o. <sup>4)</sup>	41.7	41.7	-	-
Rail Cargo Spedition GmbH	20.9	20.9	881	869
RENTRANS Cargo Sp. z o.o. (Szczecin)	15.2	14.7	1 559	1 075
TI Ferest Cargo Service Sp. z o.o. (Rail Cargo Service Sp.				
z o.o. Wrocław)	11.1	11.1	128	160
SC Trade Trans Terminal SRL 4)	13.2	13.2	-	
Gdański Terminal Kontenerowy S.A.	41.9	41.9	311	286
Total			34 297	38 214

<sup>&</sup>lt;sup>(1)</sup> On 17 January 2014 the Extraordinary General Shareholders Meeting has adopted a resolution and has decided to dissolve the Company PKP CARGO International a.s. with its seat in Bratislava and conduct its liquidation, therefore, the Parent company has recognised an impairment allowance on shares and written down their value to 0.

The Group held no interests in joint operations in the above disclosed periods.

<sup>&</sup>lt;sup>(2)</sup> CARGOTOR Sp. z o.o. was founded on 10 October 2013 and registered in the National Court Register on 13 November 2013. As at 31 December 2013 CARGOTOR Sp. z o.o. was accounted for using the equity method in the consolidated financial statements of PKP Cargo Capital Group. Because of the fact that since 30 June 2014, CARGOTOR Sp. z o.o. has met the criteria defined in the accounting principles applied by the PKP Cargo Capital Group, this entity is consolidated using the full method.

 $<sup>^{(3)}</sup>$  On 24 July 2014, the Ordinary General Shareholders Meeting of the Trade Trans Sp. z o.o has adopted a resolution to purchase a 3.23% shares of POL-RAIL S.r.l. The share purchase agreement was signed on 16 September 2014. As at 30th September 2014 PS Trade Trans Sp. z o.o has a 28.2% shares, while PKP CARGO SA has 21.8% of the share capital of POL – RAIL S.r.l

<sup>&</sup>lt;sup>(4)</sup> On 31 December 2013 the Group decided to recognise an impairment allowance related to owned shares in PPHU "Ukpol" Sp. z o.o. and SC Trade Trans Terminal S.r.l. and write down their values to 0, respectively. As at 30 September 2014 the impairment allowance has not been changed.

### 15. Other financial assets

15. Other infancial assets	As at 30/09/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Financial assets measured at fair value through profit or loss		
Currency forwards and spots	1 473	2 387
	1 473	2 387
Investments in shares		
Shares in Polish entities 1)	6 021	6 020
Shares in foreign entities 1)	-	9
	6 021	6 029
Loans and receivables measured at amortized cost		
Loans granted to other entities	3 000	-
Loans granted to foreign entities	5 078	5 044
Deposits over 3 months	306 260	604 420
	314 338	609 464
Other financial assets		
Receivables from EGP 2)	-	79 614
		79 614
Total	321 832	697 494
Current assets	315 781	691 404
Non-current assets	6 051	6 090
Total	321 832	697 494

<sup>(1)</sup> As at 30 September 2014 the impairment allowance on shares amounts to PLN 11,834 thousand, while as at 31 December 2013 amounted to PLN 11,825 thousand.

### 16. Other non-financial assets

	As at 30/09/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Advance for purchase of fixed assets	1 059	1 059
Prepayments	33 419	33 240
Other	1 238	494
Total	35 716	34 793
Current assets	33 986	33 355
Non-current assets	1 730	1 438
Total	35 716	34 793

The value of other non-financial assets mainly consist of prepaid expenses, the value of which as at 30 September 2014 amounts to PLN 33,419 thousand and as at 31 December 2013 PLN 33,240 thousand. As at 30 September 2014 the most significant items of prepayments are: Social Benefit Fund appropriations of PLN 9,688 thousand, the costs of transport services of PLN 6,139 thousand, the costs of IT services of PLN 3,713 thousand, prepaid transport benefits for employees of PLN 3,582 thousand and costs of insurance of PLN 2,779 thousand. As at 31 December 2013 the most significant items of prepayments were: the costs of IT services of PLN 7,148 thousand, prepaid rents of PLN 2,648 thousand, prepaid transport benefits for employees of PLN 9,750 thousand.

<sup>&</sup>lt;sup>(2)</sup> Receivables from EGP represent the value of cash paid by PKP CARGO S.A. and its subsidiaries related to Employee Guarantee Program to the entitled employees' accounts at a brokerage house as payment for the acquisition of the shares by entitled employees. Cash transferred to the brokerage house was returned to PKP CARGO S.A. on 5 May 2014 after registration of the Company's share capital increase as a payment for employee shares. The share based payment cost on this transaction was incurred by Group companies, which were obliged to pay for the shares of PKP CARGO S.A. granted to employees of subsidiaries.

### 17. Trade and other receivables

	Anak	Ac ob
	As at	As at
	30/09/2014	31/12/2013
	PLN thousand	PLN thousand
Trade receivables	629 649	657 543
Impairment allowance for receivables	(90 977)	(102 511)
Total	538 672	555 032
Receivables from sales of non-financial non-current assets	19 682	21 325
State receivables (excluding CIT)	4 327	4 796
Dividends	608	-
Guarantee, deposits and bid bonds	1 019	999
Receivables from co-financing agreements	1 287	10 782
VAT settlements	11 324	9 840
Other	5 399	6 493
Total	582 318	609 267

# 18. Cash and cash equivalents

For the purpose of preparation of the statement of cash flows, cash and cash equivalents consist of cash in hand and cash at bank, including bank deposits up to 3 months maturity.

	As at	As at
	30/09/2014	31/12/2013
	PLN thousand	PLN thousand
Cash in hand and at bank	52 083	82 738
Bank deposits up to 3 months	297 255	180 962
Total	349 338	263 700
Cash and cash equivalents classified as held for sale	-	-
Total	349 338	263 700

19. Changes in share capital, dividends

	As at	As at
	30/09/2014	31/12/2013
	PLN thousand	PLN thousand
Share capital consists of:		
Ordinary shares, fully paid and registered	2 239 346	2 166 901
Ordinary shares, fully paid and not registered	-	-
Total share capital	2 239 346	2 166 901

As at 30 September 2014 and 31 December 2013 share capital consisted of ordinary shares with the nominal value of PLN 50 each. Fully covered ordinary shares with nominal value of PLN 50 are equivalent to one vote at the shareholders' meeting and are entitled to the dividend.

On 12 May 2014, the General Shareholders Meeting of PKP CARGO S.A. ("GSM") adopted a resolution on distribution of profit recognized in 2013, resulting of the separate financial statements of the Parent company for the year ended 31 December 2013. In accordance with the GSM resolution a net profit achieved in 2013 in amount of PLN 94,083 thousand will be allocated to:

- 1) payment of the dividend in amount of PLN 86,556 thousand,
- 2) share premium in amount of PLN 7,527 thousand.

Additionally, the General Shareholders Meeting decided to allocate PLN 50,939 thousand from retained earnings on the payment of dividends. The dividend day was established on 20 May 2014 and the dividend payment date on 4 June 2014.

# 19.1 Ordinary shares fully covered with capital

During the period covered by these Quarterly Condensed Consolidated Financial Statements, the following changes in the Parent Company's share capital took places:

	Number of shares	Share capital
	units	PLN thousand
As at 1 January 2013	2 889 200	2 889 200
Issue of shares series L Decreasing of share capital by decreasing nominal value of shares	1 -	1 (722 300)
Share capital after changes	2 889 201	2 166 901
Split of shares 1:15	43 338 015	2 166 901
As at 30 September 2013	43 338 015	2 166 901
As at 1 January 2014	43 338 015	2 166 901
Issue of shares series C	1 448 902	72 445
As at 30 September 2014	44 786 917	2 239 346

According to the agreement between the Management Board of PKP CARGO S.A. and trade unions signed on 2 September 2013 on subject of the Employment Guarantees Program (PGP), the Parent Company made the transaction of payment in form of shares. On 2 October 2013 the Extraordinary General Shareholders Meeting adopted resolution of share capital increase by issuance of series C shares, which were acquired in the open subscription. On 7 March 2014, the Management Board allocated shares of series C to eligible employees. In the subscription, the Parent Company has allocated 1,448,902 shares of series C at a nominal price of PLN 50 per each.

Issuance of series C shares was registered in the National Court Register by the District Court for the Capital City Warsaw in Warsaw, XII Commercial Division of the National Court Register on 25 April 2014.

# 19.2 Share Premium

During the period covered by these Quarterly Condensed Consolidated Financial Statements, ended 30 September 2014, the following changes in the Group share premium took places:

	Agio	Profit appropriations (statutory	Profit appropriation (above the statutory minimum)	Capital created from shares redemption	Share- based payment provision	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
As at 1 January 2013	58 662	19 158	44 953	-	-	122 773
Issue of shares series L Decreasing of share capital of Parent	117 079	-	-	-	-	117 079
Company	-	-	-	139 982	-	139 982
Transfer of financial results of 2012 (1)	-	17 339	199 398	-	-	216 737
Cover losses of subsidiaries for 2012 (2)	-	-	(6 260)	-	-	(6 260)
Provision for EGP	-	-	-	-	108 121	108 121
As at 30 September 2013	175 741	36 497	238 091	139 982	108 121	698 432

As at 1 January 2014	Agio PLN thousand 175 741	Profit appropriations (statutory PLN thousand	Profit appropriation (above the statutory minimum) PLN thousand 240 526	Capital created from shares redemption PLN thousand 139 982	Share-based payment provision PLN thousand	Total PLN thousand 692 761
Issue of shares series C	26 080	-	-	-	(98 525)	(72 445)
Cost of issue of shares series C	(551)	-	-	-	-	(551)
Adjustment to EGP provisions	-	=	-	-	(1 490)	(1 490)
Distribution of profit	-	7 527	-	-	=	7 527
Cover losses of subsidiaries (2)	-	-	(10 459)	-	-	(10 459)
As at 30 September 2014	201 270	44 024	230 067	139 982		615 343

<sup>(1)</sup> result for 2012 based on the financial statements prepared in accordance with PAS

Agio represents the excess of the issue value over the nominal value of Company's shares which is transferred into the share premium with no ability to pay dividend.

Profit appropriation made in order to cover losses in accordance with Article 396 of the Code of Commercial Companies to cover losses of future years.

Capital created from shares redemption is the capital created by reduction of the Parent Company's share capital in 2013 and intended to cover losses.

The share-based payment results from Employee Guarantee Program (EGP) described in note 21. Adjustment to the provision for Employee Guarantee Program is the result of change of the form of employees' bonus payment for a part of eligible employees, in exchange for shares employees received cash benefits. This amount was paid on account of the obligations claimed by the enforcement authorities.

On 12 May 2014, the GSM of PKP CARGO S.A. has adopted a resolution on distribution of profit made in 2013, resulting from the separate financial statements of the Parent Company for the year ended 31 December 2013. In accordance with the resolution part of net profit achieved in 2013 in amount of PLN 7,527 thousand was dedicated to increase share premium.

# 20. Earnings /(loss) per share

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

i	Trone about to calculate basic carrings and anatou carri	for the 9	For the 3	For the 9	For the 3
		months	months period	months period	months period
					the state of the s
		period ended	ended	ended	ended
		30/09/2014	30/09/2014	30/09/2013	30/09/2013
		PLN	PLN thousand	PLN thousand	PLN thousand
		thousand	· III diousunu	T Zirt Giloubullu	. In thousand
	Profit / (loss)on continuing operations attributable to the	225 789	99 052	(4 598)	(81 006)
	Parent Company's shareholders	223 709	99 032	(4 330)	(81 000)
	Profit / (loss) on discontinued operations attributable to the				
	Parent Company's shareholders	-	-	-	-
	Profit / (loss) used to calculate basic earnings per				
	share on continuing operations	225 789	99 052	(4 598)	(20 06)

<sup>(2)</sup> cover losses from the separate financial statements of subsidiaries of PKP CARGO S.A

# 20.1. Basic earnings / (loss) per share

	for the 9 months period ended 30/09/2014 (unaudited) PLN thousand	for the 3 months period ended 30/09/2014 (unaudited) PLN thousand	for the 9 months period ended 30/09/2013 (unaudited) PLN thousand	for the 3months period ended 30/09/2013 (unaudited) PLN thousand
Weighted average number of ordinary shares (units)  Basic earnings / (loss) per share (PLN per share)	44 436 633	44 786 917	43 338 004	43 338 011
On continuing operations On discontinued operations	5.08	2.22	(0.11)	(1.87)

The net profit per share for each period is calculated as a quotient of the net profit for the period and the weighted average number of shares existing in that period. The weighted average number of shares existing in a given period includes treasury shares. On 8 July 2013 the Parent Company carried out a procedure involving a split of nominal value of shares at a ratio of 1:15. After the split the nominal value of one share amounts to PLN 50.00 (previously PLN 750.00). This operation did not have an impact on the value of share capital of the Parent company. In order to ensure comparability of data, the value of earnings per share for the period ended 30 September 2013 has been calculated taking into account the share split.

### 20.2. Diluted earnings /(loss) per share

	for the 9 months period ended 30/09/2014 (unaudited) PLN thousand	for the 3 months period ended 30/09/2014 (unaudited) PLN thousand	for the 9 months period ended 30/09/2013 (unaudited) PLN thousand	for the 3months period ended 30/09/2013 (unaudited) PLN thousand
Weighted average number of ordinary shares (units)  Basic earnings / (loss) per share (PLN per share)	44 792 213	44 786 917	43 501 143	43 822 110
On continuing operations On discontinued operations	5.04	2.21	(0.11)	(1.87)

In accordance with IAS 33 the Parent Company prepares diluted earnings per share calculation taking into account the potential shares which are issued conditionally under the incentive program - the employee of share based payment program (EGP) described in Note 21. The diluted number of shares was calculated as the weighted average of ordinary shares adjusted as if they were converted into shares that result in dilution of potential ordinary shares. The number of shares was estimated on the basis of the sales price of shares offered in PKP CARGO S.A public offering at the level of PLN 68 per share.

The weighted average number of shares applied in the calculation of diluted earnings per share was calculated including the 1,470,807 shares that have been estimated for the employee of the Parent Company and employees of subsidiaries within the share based program EGP concluded on 2 September 2013 and actually granted 1,448,902 shares on 7 March 2014 of the issue of shares of series C.

#### 21. Employee benefits - share based payment

In 2013 PKP CARGO S.A. has concluded a share based payment transaction in an equity settled instruments.

On 2 September 2013 an agreement was concluded between the Management Board of PKP CARGO S.A. and trade unions on subject of the Employment Guarantees Program (PGP). According to the agreement employees of Parent Company and employees of entities belonging to PKP CARGO Capital Group will receive a one-off share based payment settled in shares of PKP CARGO S.A. The right to a share based payment was granted to the employees, who at the time of the conclusion of the agreement were employed in the Parent Company or in PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o., PKP CARGO Centrum Logistyczne Medyka – Żurawica Sp. z o.o., PKP CARGO Tabor – Karsznice Sp. z o.o., PKP CARGOWAG Sp. z o.o. and PKP CARGOLOK Sp. z o.o. with an exception of Management Board Members and members of the management boards of subsidiaries included in the share based program. The vesting condition for a share based payment was an initial public offering of PKP CARGO S.A. shares on a WSE market.

The value of one-off bonus for entitled employees is dependent on their seniority in the railways sector. The number of employee shares will be equal to the quotient of the amount of one-off bonus and the sales price of the Company's shares offered by PKP S.A in public offer, i.e. PLN 68 per share.

On 2 October 2013 the Extraordinary General Shareholders Meeting of Parent Company adopted resolution of share capital increase by issuance of series C shares, which were acquired in the open subscription. Shares of series C were only offered to employees of the Parent Company and eligible employees of the Group PKP CARGO. Entitled employees could sign up for shares in the period from 2 December 2013 to 28 February 2014.

In order to realize this employees' entitlement the Parent Company will increase its share capital by issuing new shares, excluding issuance rights. On 7 March 2014, the Management Board allocated shares of series C to eligible employees. In the subscription, the Parent Company has allocated 1,448,902 shares of series C at a nominal price of PLN 50 per each.

Employee shares may not be sold within 2 years from the date of the first listing of the new shares. However, employee shares will participate in the dividend from 1 January 2013. The expiration date of this limitation is 30 October 2015.

On 7 March 2014, the Management Board allocated 1,448,902 shares of series C to eligible employees. Issuance of Series C shares was registered in the National Court Register on 25 April 2014.

Amounts which are recognized in the statement of financial position and result from PKP Cargo Group liabilities in relation to

Employment Guarantee Program are as follow:

	As at	As at
	30/09/2014	31/12/2013
	PLN	PLN
	thousand	thousand
Share capital (shares series C)	72 445	-
Share premium including:	25 529	100 015
Share premium (agio)	26 080	-
Share premium (agio) - cost of issue of shares series C	(551)	
Share premium (share based payments granted to employees of PKP CARGO S.A.)	` -	90 623
Share premium (share based payments granted to employees of subsidiaries)	-	9 392
Short term provisions for employee benefits	-	73 171

Issuance of employee shares under the Employee Guarantee Program had no impact on the Capital Group's result in the period ended 30 September 2014. The total cost of the bonuses has been included in profit or loss of 2013.

# 22. Credit facilities and loans received

	As at 30/09/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Credit facilities and loans received measured at amortized cost		
Overdraft facilities	38	9 147
Bank loans - secured on assets	135 894	183 833
Loans - other	115 403	-
Borrowings from other entities	1 651	1 795
Total	252 986	194 775
Current liabilities	76 337	73 217
Non-current liabilities	176 649	121 558
Total	252 986	194 775

# 22.1 Summary of loan agreements

In Parent Company investment loans agreements were signed to finance the modernization and scheduled overhauls of rolling stock and to finance the purchase of real estate. The reference rate for loan agreements is WIBOR 1M and 3M plus margin. The agreements are signed for the period of maximum 5 years. Repayment is made in PLN. Details of Parent Company's investment loans are presented below:

Parent Company as at 30/09/2014

Parent Co	mpany as at 3	30/09/20	14					
Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in currency	Contractual amount in PLN thousand	Liability in PLN thousand
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	05.10.2015	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money.	53 000	53 000	11 170
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money.	36 400	36 400	10 780
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Registered pledge on the electric engines EU07 which is gradually released after payment of specific amount of money.	36 600	36 600	13 423
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money.	39 000	39 000	23 295
Investment loan	FM Bank PBP S.A.	PLN	WIBOR 1M + margin	31.10.2017	Registered pledge on the diesel engines ST44 which is gradually released after payment of specific amount of money.	60 000	60 000	30 222
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Registered pledge on the diesel engines ST45 which is gradually released after payment of specific amount of money.	49 200	49 200	31 980
Investment loan	Bank Millennium S.A.	PLN	WIBOR 3M + margin	21.08.2017	Mortgage to the amount of PLN 20,000 thousand.	16 667	16 667	9 717
Investment loan	Bank Gospodarstwa Krajowego	PLN	WIBOR 1M + margin	31.03.2021	Bank enforcement.	515 200	515 200	115 403

Total <u>245 990</u>

# Subsidiaries as at 30/09/2014

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in currency	Contractual amount in PLN thousand	Liability in PLN thousand
Loan	BGŻ Leasing Sp. z o.o.	PLN	WIBOR 1M + margin	15.03.2015	Transfer of ownership, registered pledge on company's assets.	88	88	16
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	30.06.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge.	7 600	7 600	786
Loan	BGŻ Leasing Sp. z o.o.	PLN	WIBOR 1M + margin	15.08.2015	Transfer of ownership, registered pledge on company's assets.	186	186	39
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge.	18 400	18 400	3 173
Overdraft facilities	PKO BP S.A.	PLN	WIBOR 1M + margin	15.04.2016	Capped mortgage in amount of PLN 700 thousand, Pledge on inventories PLN 600 thousand.	1 300	1 300	38
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.09.2016	Surety of PKP CARGO S.A. up to PLN 1,048 thousand.	911	911	362
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.10.2016	Surety of PKP CARGO S.A. up to PLN 1,380 thousand with submission to enforcement by the guarantor.	1 200	1 200	517
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Surety of PKP CARGO S.A. up to PLN 1,028 thousand.	894	894	469
Loan	WFOŚIGW Łódź	PLN	2.5% (fixed interest rate)	10.03.2024	1) Blank promissory notes, 2) Non-revocable authorization to charge bank accounts, 3) Surety of PKP CARGO S.A.	1 500	1 500	1 596

Total 6 996

# Parent Company as at 31/12/2013

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractu al amount in currency	Contractual amount in PLN thousand	Liability in PLN thousand
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	05.10.2015	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money.	53 000	53 000	19 180
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money.	36 400	36 400	16 270
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Registered pledge on the electric engines EU07 which is gradually released after payment of specific amount of money.	36 600	36 600	20 138
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money.	39 000	39 000	29 658
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Registered pledge on the diesel engines ST45 which is gradually released after payment of specific amount of money.	49 200	49 200	39 360
Investment loan	FM Bank PBP S.A.	PLN	WIBOR 1M + margin	31.10.2017	Registered pledge on the diesel engines ST44 which is gradually released after payment of specific amount of money.	60 000	60 000	38 562
Investment loan	Bank Millennium S.A.	PLN	WIBOR 3M + margin	21.08.2017	Mortgage to the amount of PLN 20,000 thousand.	16 667	16 667	12 219

Total 175 387

#### Subsidiaries as at 31/12/2013

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in currency	Contractual amount in PLN thousand	Liability in PLN thousand
Overdraft facilities	Bank Pekao S.A.	PLN	WIBOR 1M + margin	30.06.2014	Transfer of receivables,     Authorization to charge bank accounts,     Statement of submission to enforcement,	15 000	15 000	7 772
Overdraft facilities	CITI Handlowy	PLN	WIBOR 1M + margin	30.01.2015	Transfer of receivables in amount of PLN 30,000 thousand.	20 000	20 000	295
Loan	BGŻ Leasing Sp. z o.o.	PLN	WIBOR 1M + margin	15.03.2015	Transfer of ownership, registered pledge on company's assets.	88	88	40
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	30.06.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge	7 600	7 600	1 572
Loan	BGŻ Leasing Sp. z o.o.	PLN	WIBOR 1M + margin	15.08.2015	Transfer of ownership, registered pledge on company's assets.	186	186	69
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge	18 400	18 400	5 076
Overdraft facilities	PKO BP	PLN	WIBOR 1M + margin	15.04.2016	Capped mortgage in amount of PLN 700 thousand, Pledge on inventories PLN 600 thousand.	1 300	1 300	1 080
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.09.2016	Surety of PKP CARGO S.A. up to PLN 1,048 thousand.	911	911	498
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.10.2016	Surety of PKP CARGO S.A. up to PLN 1,380 thousand with submission to enforcement by the guarantor.	1 200	1 200	703
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Surety of PKP CARGO S.A. up to PLN 1,028 thousand.	894	894	597
Loan	WFOŚIGW Łódź	PLN	2,5% (fixed interest rate)	10.03.2024	1) Blank promissory notes, 2) Non-revocable authorization to charge bank accounts, 3) Surety of PKP CARGO S.A.	1 500	1 500	1 686
	1				ı	Total		19 388

On 3 December 2013 the Parent Company signed a loan agreement with the European Investment Bank based in Luxembourg for the credit facility up to PLN 200,000 thousand. This loan is dedicated for investments in the railway fleet. The Parent Company can use this credit facility within 24 months from the date of signing the contract. The repayment period will be adjusted to the depreciation period of the fixed asset financed, however cannot be longer than 15 years. As at 30 September 2014 and 31 December 2013 the Parent Company has not exercised the option to use the credit facility. After the reporting date, i.e. on 2 October 2014, the Parent Company signed an annex increasing the amount of credit facility available in EBI by PLN 40,000 thousand.

The Parent Company signed also an agreement with mBank S.A. for the overdraft facility up to PLN 100,000 thousand. As at 30 September 2014 and as at 31 December 2013 the Parent Company did not use granted facility.

On 11 September 2014 the Parent Company signed a investment loan agreement with Bank Gospodarstwa Krajowego up to PLN 515,200 thousand. The loan is dedicated to finance and refinance the modernization of engines and scheduled overhauls of rolling stock. The agreement has been divided into projects, where the repayment period for single project is 5 years from the moment of drawdown of each advance of the loan. The last date when the last advance of the loan will be available is 31 March 2016. On 19 September 2014 the Parent Company received first advance of the loan in the amount of PLN 115,403 thousand.

Additionally a subsidiary PS Trade Trans Sp. z o.o. has an overdraft facility up to PLN 2,500 thousand. As at 30 September 2014 the company has not exercised the option to use the overdraft facility.

As at 31 December 2013 PS Trade Trans Sp. z o.o. had an overdraft facility up to PLN 35,000 thousand. As at 31 December 2013 the value of used limit amounted to PLN 8,067 thousand.

# 22.2 Events default in loan agreements

Within the period covered by these quarterly condensed consolidated financial statements no breaches of covenants in loan agreements occurred.

23. Short- and long-term finance liabilities and leases with purchase option

	Min_	Minimum lease payments		
	As at 30/09/2014	As at 31/12/2013		
	PLN thousand	PLN thousand		
Up to one year	139 095	129 093		
Over one year, up to five years	186 008	280 892		
Over five years	50 563	61 434		
	375 666	471 419		
Less future lease charges	(32 228)	(42 493)		
Present value of minimum lease payments	343 438	428 926		

	Present value of minimum lease payments		
	As at 30/09/2014	As at 31/12/2013	
	PLN thousand	PLN thousand	
Up to one year	128 291	115 790	
Over one year, up to five years	166 616	255 250	
Over five years	48 531	57 886	
Present value of minimum lease payments	343 438	428 926	

	As at 30/09/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Included in the financial statements under:		
Short-term liabilities due to finance lease and leases with purchase option	128 291	115 790
Long-term liabilities due to finance lease and leases with purchase option	215 147	313 136
Total	343 438	428 926

# 24. Trade and other liabilities

	As at 30/09/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Trade liabilities	224 457	266 864
Accruals	29 625	23 305
Liabilities due to purchase non-financial non-current assets	126 821	203 866
Liabilities related to securities (deposits)	24 335	32 279
State liabilities	108 451	124 784
Settlements with employees	82 591	82 332
Other liabilities	2 275	4 341
VAT liabilities	10 112	51 758
Total	608 667	789 529
Current liabilities	528 794	675 841
Non-current liabilities	79 873	113 688
Total	608 667	789 529

#### 25. Employee benefits

Amounts recognized in the statement of financial position in relation to employee benefit plans liabilities are as follow:

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	As at 30/09/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Post-employment defined benefit plans		
- retirement benefits	143 407	148 188
<ul> <li>appropriations to the Social Benefit Fund for pensioners</li> </ul>	144 384	145 039
- transport benefits	36 567	36 232
Other long-term employee benefits		
– jubilee bonuses	315 265	329 546
Short-term benefits		
<ul> <li>other employee benefits (unused holidays)</li> </ul>	26 213	37 208
<ul> <li>provision for Employment Guarantee Program (EGP)</li> </ul>	-	73 171
Total	665 836	769 384
Including:		
– short-term	98 950	176 461
– long-term	566 886	592 923

26. Other provisions

	As at 30/09/2014 PLN thousand	As at 31/12/2013 PLN thousand
	TEN GIOGSANG	i EN cilousulla
Provision for the fine imposed by OCCP	8 416	22 778
Other provisions	23 889	26 203
Total	32 305	48 981
Short-term provisions	23 889	26 127
Long-term provisions	8 416	22 854
Total	32 305	48 981

Other provisions	Provision for the fine imposed by OCCP	Other	Total
	PLN thousand	PLN thousand	PLN thousand
A 2012	16.536	40.572	27.140
As at 1 January 2013	16 576	10 573	27 149
Provisions recognized	-	5 673	5 673
Derecognized	(9 946)	(2 332)	(12 278)
Used	· -	(50)	(50)
Interest expense	-	` -	` -
As at 30 September 2013	6 630	13 864	20 494
As at 1 January 2013	22 778	26 203	48 981
Provisions recognized	=	3 634	3 634
Derecognized	(14 362)	(5 948)	(20 310)
Used	<u> </u>	<u>-</u>	-
Interest expense	-	-	=
As at 30 September 2013	8 416	23 889	32 305

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

The provision represents a fine imposed on Parent company by the Office of Competition and Consumer Protection in Warsaw. First of them (in the amount of PLN 16,576 thousand imposed on 31 December 2012 on the basis of the Decision no RWR, 44/2012) was imposed on the basis of statement that PKP CARGO S.A was accused of blocking the possibility of compete with shipping companies belonging to PKP CARGO Capital Group. In 2013 as a result of recalculation of the provision for known and quantifiable risk related to OCCP's proceedings, the Parent company derecognized the provision in the amount of PLN 9,946 thousand, acknowledging that provision in amount of PLN 6,630 thousand is the best estimate of the amount of which payment is probable. As at 30 September 2014, these estimates have not been changed. Second fine (in the amount of PLN 1,786 thousand on the basis of the Decision no DOK-4/2012 dated on 26 July 2012) was related to delay in implementation of the OCCP's President's decision dated on 31 December 2004 concerning unjustified differentiation of discounts in the carriage of coal. In both cases, Parent company filed an appeal to district Court in Warsaw - Court of Competition and Consumer Protection. OCCP's decision is unlawful.

On 3 October 2013 the Supreme Court rescinded the judgments of District Court in Warsaw - Court of Competition and Consumer Protection (dismissal of the Company's appeal from the decision no DOK-3/2009) and Court of Appeal in Warsaw (dismissal of

Parent company's appeal from the District Court's judgment). As a result, Office for Competition and Customer Protection returned the fine paid by PKP CARGO S.A in the amount of PLN 60,362 thousand. As at 31 December 2013, the Management Board estimated that the provision in amount of PLN 14,362 thousand is the best estimate of the amount of which payment is probable. On 17 March 2014 Court of Competition and Consumer Protection in the decision no DOK-3/2009 repealed from the decision no DOK-3/2009 stating that it is bound by the law applied by the Supreme Court, and as a result, the Management Board of the Parent company has decided to reverse the remaining amount of the provision for the fine on decision no DOK-3/2009. The OCCP President did not appeal from the above described judgment and because of this fact on 3 May 2014 the judgment became final.

#### Other provisions

According to the Management Board of the Parent company, the amount of other provisions as at 30 September 2014 and as at 31 December 2013 represents the best estimation of probable payment. If any penalties are imposed, their value is dependent on the future events with uncertain result. Consequently, the amount of provisions may vary in future periods.

#### 27. Other financial liabilities

	As at 30/09/2014 PLN thousand	As at 31/12/2013 PLN thousand
Other financial liabilities Interest rate SWAP Total	2 877 <b>2 877</b>	306 <b>306</b>
Current liabilities Non-current liabilities <b>Total</b>	2 877 	306 - <b>306</b>

28. Financial instruments – categories and classes of financial instruments

2011 mancial modulinons categories and classes of imancial modulinents		
Financial instruments by category	As at 30/09/2014	As at 31/12/2013
	PLN	PLN
	thousand	thousand
Financial assets		
Financial assets measured at fair value through profit or loss	1 091	2 224
Hedge instruments	382	163
Loans and receivables	1 222 030	1 529 135
Total assets by category	1 223 503	1 531 522
Financial liabilities		
Liabilities arising from derivatives assigned as hedge instruments - hedge accounting	2 877	306
Financial liabilities measured at amortized cost	633 889	688 810
Liabilities excluded from IAS 39 (finance lease)	343 438	428 926
Total liabilities by category	980 204	1 118 042

Financial instruments by classes	As at	As at
Thandar metralicably diases	30/09/2014	31/12/2013
	PLN thousand	PLN thousand
Trade receivables	538 672	555 032
Receivables from sales of non-current assets	19 682	21 325
Loans granted	8 078	5 0 <del>44</del>
Receivables related to EGP	-	79 614
Bank deposits (over 3 months)	306 260	604 420
Cash	349 338	263 700
Assets from measurement of derivatives and embedded derivatives including:		
Derivatives - hedge of cash flow	382	163
Derivatives held for trading	1 091	2 224
Total financial assets	1 223 503	1 531 522
	252 986	194 775
Credit facilities and loans	202 300	25
Trade liabilities	254 082	290 169
Liabilities arising from purchase of non-current assets	126 821	203 866
Finance leases	343 438	428 926
Valuation of derivatives and embedded derivatives, including:	343 436	420 920
Derivatives- hedge of cash flow	2 877	306
5		
Total financial liabilities	980 204	1 118 042

# 29. Related party transactions

#### 29.1 Commercial transactions

In the financial year, the Group concluded the following commercial transactions with related parties:

In the infancial year, the group concluded the following confinercial transactions with related parties.					
	for the 9 months period ended 30/09/2014		for the 9 months period ended 30/09/2013		
	Sales to related parties	Purchases from related parties	Sales to related parties	Purchases from related parties	
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	
Parent Company (PKP S.A.)	887	52 471	1 089	73 880	
Subsidiaries / Co-subsidiaries	7 384	5 326	1 235	4 583	
Associates	3 432	1 606	11 237	4	
Other related parties from PKP S.A. Group	53 402	929 218	70 582	1 161 310	

	As at 30	0/09/2014	As at 31/12/2013		
	Receivables		Receivables		
	from related	Liabilities to related	from related	Liabilities to	
	parties	parties	parties	related parties	
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	
Parent Company (PKP S.A.)	20 487	8 836	22 447	7 961	
Subsidiaries / Co-subsidiaries	2 809	387	2 515	375	
Associates	513	-	-	3	
Other related parties from PKP S.A. Group	12 981	103 687	9 565	124 353	

During reporting periods the Group carried out related party transactions with the State Treasury. All transactions were concluded on the arm's length basis.

# 29.2 Loans granted to /received from related parties

29.2 Loans granted to /received from related parties		
	As at 30/09/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Short-term benefits	3 000	-
Total	3 000	
29.3 Remuneration of executive management		
Remuneration of Members of the Management Board of Parent Company in the	for the 9 months	for the 9 months
reporting period:	period ended	period ended
reporting period:	30/09/2014	30/09/2013
	PLN thousand	PLN thousand
Short-term benefits	2 008	1 377
Post-employment benefits	731	340
Employment termination benefits	421	288
Total	3 160	2 005
	for the 9 months	for the 9 months
Remuneration of Members of the Supervisory Board of the Parent Company in the	period ended	period ended
reporting period:	30/09/2014	30/09/2013
	PLN thousand	PLN thousand
Short-term benefits	523	250
Total	<u>523</u>	250
Total	<u> </u>	
	for the 9 months	for the 9 months
Remuneration of other executive management (Proxies, Managing Directors) in the	period ended	period ended
reporting period:	30/09/2014	30/09/2013
	PLN thousand	PLN thousand
Short-term benefits	1 093	195
Share-based payments	11	-
Employment termination benefits	19	-
Total	1 123	195
Remuneration of Members of Management Board of subsidiaries in the reporting	for the 9 months	for the 9 months
period:	period ended	period ended
	30/09/2014	30/09/2013
	PLN thousand	PLN thousand
Short-term benefits	3 369	5 513
Post-employment benefits	1 397	27
Employment termination benefits		57
Total	4 766	5 597
	for the 9 months	for the 9 months
Remuneration of Members of the Supervisory Board of the subsidiaries in the	period ended	period ended
reporting period:	30/09/2014	30/09/2013
	PLN thousand	PLN thousand
Short-term benefits	2 632	2 377
Total	2 632	2 377
• • • • • • • • • • • • • • • • • • • •	2 002	

During the period of 9 months ended 30 September 2014 and the period of 9 months ended 30 September 2013 Members of the Management Board and Supervisory Board of the Parent company and subsidiaries of PKP Cargo Capital Group did not conclude any purchase or sale transactions as well as did not grant nor receive any loans or guarantees.

#### 30. Contingent liabilities

	As at 30/09/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Sureties granted to subsidiaries (i)	24 807	24 951
Guarantees issued on request of PKP Cargo Group (ii)	36 493	47 539
Proceedings carried out by OCCP (iii)	9 946	9 946
Other contingent liabilities	30 769	35 802
Total	102 015	118 238

#### (i) Sureties and guarantees granted to subsidiaries

As at 30 September 2014 the following valid sureties were granted by the Parent company: PKP CARGO Service Sp. z o.o. (surety regarding a multi-currency credit facility agreement and sureties of the guarantee lines), PKP CARGOTABOR Sp. z o.o. (sureties regarding credit agreements, surety regarding an operating lease, surety of the guarantee line and surety regarding a loan agreement).

As at 31 December 2013 the following valid sureties were granted by the Parent Company: PKP CARGO Service Sp. z o.o. (surety regarding a multi-currency credit facility agreement and surety of the guarantee lines), PKP CARGOWAG Sp. z o.o. (surety regarding an operating lease and credit agreement), PKP CARGOLOK Sp. z o.o. (surety regarding two investment loans), PKP CARGO Tabor Karsznice Sp. z o.o. (surety regarding a loan agreement).

#### (ii) Guarantees issued by banks on request of PKP CARGO Capital Group

As at 30 September 2014 a number of guarantees issued by banks at the Parent Company's request to counterparties were effective. The guarantees included bid bonds (worth PLN 200 thousand), performance bonds (worth PLN 32,060 thousand), payment bonds (worth PLN 2,969 thousand) and rental bonds (worth PLN 1,264 thousand).

As at 31 December 2013 a number of guarantees issued by banks at the Group's request to counterparties were effective. The guarantees included bid bonds (worth PLN 2,500 thousand) and performance bonds (worth PLN 42,070 thousand) and payment bonds (worth PLN 2,969 thousand).

#### (iii) Proceedings conducted by the OCCP

As at 30 September 2014 and 31 December 2013 the Parent Company recognizes as a contingent liability part of provision for the fine imposed by OCCP of PLN 9,946 thousand, which has not been recognized in provisions for liabilities. In case of a negative outcome of the proceeding described in note 26, the Parent Company may have to recognize the cost in profit or loss.

On 22 August 2014 the Management Board of PKP Cargo S.A. was informed by the President of the Office of Competition and Consumer Protection about further conducting of the antimonopoly proceeding regarding PKP Cargo S.A.'s abuse of the dominant position on the domestic market of rail transport of goods (proceeding which resulted in decision no. DOK-3/2009). In the view of the Management Board of the Parent Company, there is no basis to end this proceeding with imposing another fine on the Parent Company. Because of the early stage of the proceeding, it cannot be excluded that as a result of future events, the view of Management Boards may change in next reporting periods.

# (iv) Other contingent liabilities

Other liabilities include mainly conducted by the subsidiary PS Trade Trans Sp. z o.o. guarantee agreements with recourse to insurance company. As at 30 September 2014 value of these contracts amounted to PLN 30,100 thousand, and as at 31 December 2013 amounted to PLN 35,050 thousand.

On 24 June 2014 the Parent company received a demand for payment from a potential breach of a trade agreement by the Company. Due to the early stage of the case, the Parent company is not able to reliably assess the amount of the liability and the likelihood of its payment. Consequently, the assessment of future events may vary in future periods.

#### 31. Commitments to incur expenses for non-current assets

In May 2013 the Parent company concluded an agreement with a counterparty regarding overhaul of 30 SM-48 series diesel engines. The process of implementation of the agreement is being gradually realized and future value of the liabilities as at 30 September 2014 will range from PLN 109.4 million to PLN 112.2 million, depending on fulfillment of specific technical conditions. According to the timetable, the completion date of the agreement expires in February 2016.

In September 2013 the Parent company concluded an agreement with a contractor for the execution and delivery of 330 newly built Sggrss series container wagons. Until 30 September 2014, the Parent company received 207 wagons, while the remainder part of wagons according to the scheduled timetable, should be delivered until the end of 2014. The future value of the liabilities under this agreement as at 30 September 2014 will amount to PLN 43.5 million. For the implementation of this project the Parent company will be granted a funding under the Operational Program "Infrastructure and Environment", in a total amount not exceeding 30% of contract value.

# 32. Events after reporting date

On 2 October 2014 the Parent Company signed an annex increasing the amount of credit facility available in European Investment Bank. For more information please refer to the Note 22.1.

On 22 October 2014, the Founding Act of PKP CARGOLOK Sp. z o.o. was changed in terms of changing the company's name and the object of activity. For more information please refer to the Note 12.

On 24 October 2014 Mr. Łukasz Górnicki resigned from the position of the member of the Supervisory Board. For more information please refer to the Note 1.1.

# 33. Approval of the financial statements

These Quarterly Condensed Consolidated Financial Statements were approved for publication by the Management Board of the Parent company on 12 November 2014.

# The Management Board

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

Warsaw, 12 November 2014



# PKPCargo

Quarterly Financial Information of PKP CARGO S.A. for III quarter 2014



# QUARTERLY SAPARATE STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2014 TO 30 SEPTEMBER 2014

	9 months ended 30/09/2014 (unaudited)	3 months ended 30/09/2014 (unaudited)	9 months ended 30/09/2013 (unaudited)	3 months ended 30/09/2013 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Continuing operations Sales revenue Revenue from sales of goods and materials Other operating revenue	2 811 088 16 217 25 903	959 395 5 439 3 704	3 070 457 42 802 19 894	1 092 537 12 122 48
Total operating revenue	2 853 208	968 538	3 133 153	1 104 707
Depreciation / amortization and impairment losses	245 883	81 745	261 332	86 287
Consumption of raw materials and supplies External services Taxes and charges Employee benefits Other expenses by kind Cost of merchandise and raw materials sold Other operating expenses	457 421 880 863 27 811 967 420 17 950 7 999 14 837	151 927 308 754 9 381 314 232 8 741 2 477 3 378	506 038 1 023 192 23 716 1 210 155 37 216 25 916 33 905	183 225 353 770 7 050 537 046 17 160 7 738 18 016
Total operating expenses	2 620 184	880 636	3 121 470	1 210 292
Profit / (or loss) on operating activities	233 024	87 902	11 683	(105 585)
Financial revenue Financial expenses	45 335 19 724	16 461 6 317	34 198 35 622	9 754 (1 474)
Profit / (or loss) before tax	258 635	98 046	10 259	(94 357)
Income tax expense	49 101	18 373	4 770	(19 641)
Net profit /(or loss) on continuing operations Discontinued operations Net profit / (or loss) on discontinued operations	209 534	79 673 -	5 489	(74 716) -
NET PROFIT / (OR LOSS)	209 534	79 673	5 489	(74 716)
Earnings/ (or loss) per share (PLN per share)				
Continuing operations (ordinary): Continuing operations (diluted):	4,72 4,68	1,78 1,78	0,13 0,13	(1,72) (1,72)



# QUARTERLY SAPARATE STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2014 TO 30 SEPTEMBER 2014 (cont'd.)

	9 months ended 30/09/2014 (unaudited) PLN thousand	3 months ended 30/09/2014 (unaudited) PLN thousand	9 months ended 30/09/2013 (unaudited) PLN thousand	3 months ended 30/09/2013 (unaudited) PLN thousand
NET PROFIT/ (LOSS) Other comprehensive income: Other comprehensive income to be reclassified to profit or loss in subsequent	209 534	79 673	5 489	(74 716)
periods: The effective portion of changes in fair value of cash-flow hedging instruments Income tax on other comprehensive income Items not to be reclassified to profit or loss in subsequent periods.	-	-	-	-
in subsequent periods Actuarial gains/(losses) on employee benefits after employment period Income tax on other comprehensive income	- -	- -	- -	- -
TOTAL COMPREHENSIVE INCOME	209 534	79 673	5 489	(74 716)



# QUARTERLY SAPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 SEPTEMBER 2014

	As at 30/09/2014	As at 31/12/2013
	(unaudited)	(audited)
ASSETS	PLN thousand	PLN thousand
ASSETS		
Non-current assets		
Property, plant and equipment	3 681 725	3 533 830
Intangible assets	52 865	58 545
Investments in sunsidaries and associates	262 846	243 164
Other long-term financial assets	6 021	7 440
Other long-term non-financial assets	1 481	1 201
Deferred tax assets	11 802	61 239
Total non-current assets	4 016 740	3 905 419
Current assets		
Inventory	53 220	46 277
Trade and other receivables	453 743	477 236
Other short-term financial assets	307 129	689 157
Other short-term non-financial assets	24 365	24 743
Cash and cash equivalents	300 904	229 232
	1 139 361	1 466 645
Assets held for sale	17 560	22 607
Total current assets	1 156 921	1 489 252
i otal tullelit assets	1 130 921	1 409 232
Total assets	5 173 661	5 394 671



# QUARTERLY SAPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 SEPTEMBER 2014 (cont'd.)

	As at 30/09/2014	As at 31/12/2013
	<u>(unaudited)</u>	(audited)
	PLN thousand	PLN thousand
EQUITY AND LIABILITIES		
Equity		
Share capital	2 239 346	2 166 901
Share premium	584 513	651 472
Other items of equity	(9 901)	(9 901)
Retained earnings	619 005	554 494
Total equity	3 432 963	3 362 966
Non-current liabilities		
Long-term bank loans and credit facilities	173 855	115 654
Long-term finance lease liabilities and leases with purchase option	136 802	228 832
Long-term trade and other liabilities	79 779	113 509
Long-term provisions for employee benefits	532 861	551 951
Other long-term provisions	8 416	22 778
Deferred tax provision	-	=
Total non-current liabilities	931 713	1 032 724
Current liabilities		
Short-term bank loans and credit facilities	72 136	59 733
Short-term finance lease liabilities and leases with purchase option	120 882	108 770
Short-term trade and other liabilities	477 566	604 599
Short-term provisions for employee benefits	89 182	165 790
Other short-term provisions	16 219	20 449
Other short-term financial liabilities	32 861	39 640
Income tax liability	139	=
	808 985	998 981
Liabilities directly related to non-current assets classifified as held for sale	<del>-</del>	
Total current liabilities	808 985	998 981
Total liabilities	1 740 698	2 031 705
Total equity and liabilities	5 173 661	5 394 671
rotar equity and nabilities	3 173 001	3 334 07 1



#### QUARTERLY SAPARATE STATEMENT OF CHANGES IN EQUITY FOR THE REPORTING PERIOD ENDED 30 SEPTEMBER 2014

	Share capital	Share premium	Revaluation of financial assets available for sale	ther items of equity Actuarial profit/(loss) on employee programs after employment period	Changes in fair value of cash-flow hedging instruments	Retained earnings /(uncovered loss)	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Balance as at 1/01/2013 (audited)  Net result for the financial year  Other net comprehensive income for the period	2 889 200	77 809	-	(23 339)	- - -	<b>94 829</b> 5 489	3 038 499 5 489 -
Total comprehensive income Issuance of shares		117 079	-	- -	- -	5 489 -	5 489 117 080
Reduction of share capital Dividend payment	(722 300)	139 982	-	-	-	582 318 -	
Provision for share-based payments Other changes in equity	-	108 121 216 737	-	-	<u>-</u>	- (216 737)	108 120
Balance as at 30/09/2013 (unaudited)	2 166 901	659 728	-	(23 339)	-	465 899	3 269 189
Balance as at 1/01/2014 (audited)	2 166 901	651 472	_	(9 901)	_	554 494	3 362 966
Net result for the financial year Other net comprehensive income for the period		-	- -	(0 00 1) - -	- -	209 534	209 534
Total comprehensive income	-	-	-	-	-	209 534	209 534
Issuance of shares	72 445	25 529	-	-	-	- (427,400)	97 974
Dividend payment Share based payment provision	-	(100 015)	-	-	- -	(137 496) -	(137 496) (100 015)
Other changes in equity		7 527	-	-	-	(7 527)	· 1
Balance as at 30/09/2014 (unaudited)	2 239 346	584 513	-	(9 901)	-	619 005	3 432 963



# QUARTERLY SAPARATE STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2014 TO 30 SEPTEMBER 2014 (INDIRECT METHOD)

	9 months	3 months	9 months	3 months
	ended	ended	ended	ended
	30/09/2014	30/09/2014	30/09/2013	30/09/2013
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Net cash flows from operating activities				
Profit before tax	258 635	98 046	10 259	(94 357)
Adjustments:				( /
Depreciation and amortization of non-current assets	245 883	81 745	263 218	86 287
Impairment of assets	-	-	(1 886)	
(Gain) / Loss on disposal of property, plant and	4.000	400	10.004	0.404
equipment and intangible assets	4 839	190	13 964	2 421
(Profit) / loss on other investing activities	1 142	1 133	900	900
Exchange (gains) / losses	1 556	914	9 806	(7 632)
(Gains) / losses on interest, dividends	(15 273)	960	(11 082)	(9 276)
Other adjustments	· -	-	108 121	108 121
Changes in working capital:				
(Increase) / decrease in trade and other receivables	(10 522)	(28 306)	(54 407)	(26 126)
(Increase) / decrease in inventory	434	2 036	9 124	10 331
(Increase) / decrease in other assets	98	35 338	(10 896)	18 914
Increase / (decrease) in trade and other liabilities	(81 946)	24 291	19 490	9 851
Increase / (decrease) in other financial liabilities	· · · · · · · · · · · · · · · · · · ·	-	-	(2 831)
Increase / (decrease) in provisions	(114 291)	(20 911)	54 734	57 977
Cash flows from operating activities	290 555	195 436	411 345	154 580
Interest received / (paid)	2 590	476	3 748	504
Income taxes received / (paid)	474	(38)	96	(132)
Net cash provided by operating activities	293 619	195 874	415 189	154 952



# QUARTERLY SAPARATE STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2014 TO 30 SEPTEMBER 2014 (INDIRECT METHOD) (cont'd.)

	9 months ended 30/09/2014 (unaudited)	3 months ended 30/09/2014 (unaudited)	9 months ended 30/09/2013 (unaudited)	3 months ended 30/09/2013 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Cash flows from investing activities				
Acquisition of property, plant and equipment and				
intangible assets	(484 954)	(182 122)	(276 386)	(77 082)
Proceeds from sale of property, plant and equipment	E 60E	1.46	000	70
and intangible assets	5 625	146	909	78
Proceeds from sale of other financial assets	-	-	38	-
Interest received	16 263	1 838	20 934	6 092
Dividend received	15 536	15 470	11 035	10 658
Proceeds from loans granted	(8 030)	(3 000)	(710)	(710)
Repayment of loans granted	8 709	3 110	51 559	3
Other proceeds/(acquisitions) on investing activities	372 263	(99 483)	3 056	(49 625)
Net cash (used in) / provided by investing	(74 588)	(264 041)	(189 565)	(110 586)
activities	(74 366)	(204 041)	(169 505)	(110 300)
Cash flows from financing activities				
Proceeds from issuance of shares	8 763	-	-	-
Payments of liabilities under finance lease	(83 581)	(24 405)	(84 705)	(27 783)
Payments of interest under lease agreement	(5 936)	(1 807)	(7 929)	(2 452)
Proceeds from credit facilities/loans received	115 403	115 403	11 631	11 630
Repayments of credit facilities/loans received	(44 799)	(14 933)	(44 799)	(16 031)
Repayments of interest on credit facilities/loans	(4 367)	(1 332)	(7 245)	(2 134)
received	` ,	` ,	( - /	( - /
Grants received	17 826 (137 496)	6 436	-	-
Dividends paid to shareholders of the Company Cash pool inflows / (outflows)	(137 496)	(736)	-	-
Other inflows / (outflows) from financing activities	(5 989)	(1 846)	(7 675)	(2 431)
Other lilliows / (outflows) from financing activities	(5 363)	(1040)	(1 013)	(2 431)
Net cash used in financing activities	(147 359)	76 780	(140 722)	(39 201)
Net increase / (decrease) in cash and cash				
equivalents	71 672	8 613	84 902	5 165
Opening balance of cash and cash equivalents	229 232	292 291	94 844	174 581
Closing balance of cash and cash equivalents	300 904	300 904	179 745	179 745





# OTHER INFORMATION TO THE CONSOLIDATED QUARTERLY REPORT OF THE PKP CARGO GROUP FOR THE Q3 2014

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# 1. Selected financial figures of PKP CARGO S.A. and the PKP CARGO Group

Table 1 Selected financial figures of the PKP CARGO Group

PKP CARGO GROUP	9 months ended 30.09.2014	9 months ended 30.09.2013	9 months ended 30.09.2014	9 months ended 30.09.2013
	PLN '	000	EUR '	000
Total operating revenue	3 168 880	3 517 774	758 051	832 984
Profit on operating activities	281 759	16 922	67 402	4 007
Profit before tax	285 571	2 825	68 313	669
Net profit	227 388	-4 780	54 395	-1 132
Net profit attributable to shareholders of the parent company	224 730	-4 943	53 759	-1 171
Adjusted profit on operating activities*	281 759	225 693	67 402	53 443
Adjusted profit before tax*	285 571	211 596	68 313	50 104
Adjusted net profit*	227 388	164 324	54 395	38 911
Adjusted net profit attributable to shareholders of the parent company*	224 730	164 506	53 759	38 954
Weighted average number of shares	44 436 633	43 338 004	44 436 633	43 338 004
Weighted average number of shares assumed for the calculation of diluted earnings	44 792 213	43 501 143	44 792 213	43 501 143
Earnings per share	5,08 PLN	(0,11) PLN	1,22 EUR	(0,03) EUR
Adjusted earnings per share*	5,08 PLN	3,80 PLN	1,22 EUR	0,90 EUR
Diluted earnings per share	5,04 PLN	(0,11) PLN	1,21 EUR	(0,03) EUR
Net cash flow provided by operating activities	359 101	459 754	85 903	108 866
Net cash flow provided by investment activities	-102 204	-224 588	-24 449	-53 181
Net cash flow provided by financing activities	-171 259	-166 779	-40 968	-39 492
Change in balance of cash and cash equivalents	85 638	68 387	20 486	16 194
PKP CARGO GROUP	2014-09-30	2013-12-31	2014-09-30	2013-12-31
Non-current assets	4 122 136	4 049 895	987 220	976 537
Current assets	1 365 008	1 676 161	326 909	404 167
Assets held for sale	17 560	17 560	4 206	4 234
Share capital	2 239 346	2 166 901	536 306	522 497
Equity attributable to the shareholders of the parent company	3 531 710	3 446 517	845 817	831 047
Equity attributable non-controlling interest	63 130	62 377	15 119	15 041
Non-current liabilities	1 049 390	1 166 736	251 321	281 331
Current liabilities	860 474	1 067 986	206 077	257 520

<sup>\*</sup> Data for the purpose of presentation adjusted for the costs resulting from the Agreement ending partially the collective dispute of 10 June 2013 between the Trade Unions and PKP CARGO S.A. signed by the parties on 22 August 2013, and also from the Employees' Guarantees Pact signed on 2 September 2013 in the total amount of PLN 208.8 million

Source: The Quarterly Condensed Consolidated Financial Statement of the PKP CARGO Group for the period of 9 months of 2014 ended on 30 September 2014 in accordance with IFRS EU



Table 2 Selected financial figures of PKP CARGO S.A.

PKP CARGO S.A.	9 months ended 30.09.2014	9 months ended 30.09.2013	9 months ended 30.09.2014	9 months ended 30.09.2013
	PLN '		EUR '	
Total operating revenue	2 853 208	3 133 153	682 537	741 908
Profit on operating activities	233 024	11 683	55 743	2 767
Profit before tax	258 635	10 259	61 870	2 429
Net profit on continuing operations	209 534	5 489	50 124	1 300
Total comprehensive income	209 534	5 489	50 124	1 300
Adjusted profit on operating activities*	233 024	205 689	55 743	48 706
Adjusted profit before tax*	258 635	204 264	61 870	48 368
Adjusted net profit*	209 534	162 633	50 124	38 510
Adjusted total comprehensive income*	209 534	162 633	50 124	38 510
Weighted average number of shares	44 436 633	43 338 004	44 436 633	43 338 004
Weighted average number of shares assumed for the calculation of diluted earnings	44 792 213	43 501 143	44 792 213	43 501 143
Earnings per share	4,72 PLN	0,13 PLN	1,13 EUR	0,03 EUR
Adjusted earnings per share*	4,72 PLN	3,75 PLN	1,13 EUR	0,89 EUR
Diluted earnings per share	4,68 PLN	0,13 PLN	1,12 EUR	0,03 EUR
Net cash flow provided by operating activities	293 619	415 189	70 239	98 314
Net cash flow used in investment activities	-74 588	-189 565	-17 843	-44 888
Net cash flow used in financial activities	-147 359	-140 722	-35 251	-33 322
Change in balance of cash and cash equivalents	71 672	84 902	17 145	20 104
PKP CARGO S.A.	2014-09-30	2013-12-31	2014-09-30	2013-12-31
Non-current assets	4 016 740	3 905 419	961 978	941 700
Current assets	1 139 361	1 466 645	272 868	353 647
Assets held for sale	17 560	22 607	4 206	5 451
Share capital	2 239 346	2 166 901	536 306	522 497
Equity	3 432 964	3 362 966	822 168	810 900
Non-current liabilities	931 713	1 032 724	223 138	249 017
Current liabilities	808 985	998 981	193 746	240 881

<sup>\*</sup> Data for the purpose of presentation adjusted for the costs resulting from the Agreement ending partially the collective dispute of 10 June 2013 between the Trade Unions and PKP CARGO S.A. signed by the parties on 22 August 2013, and also from the Employees' Guarantees Pact signed on 2 September 2013 in the total amount of PLN 194 million

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Source: The Quarterly Condensed Consolidated Financial Statement of the PKP CARGO Group for the period of 9 months of 2014 ended on 30 September 2014 prepared in accordance with IFRS EU

In the periods covered by the Quarterly Condensed Consolidated Financial Statement, the following average exchange rates of PLN to EUR, provided by the National Bank of Poland were used to calculate selected financial data:

- exchange rate applicable on the last day of the reporting period: 30.09.2014 PLN/EUR 4.1755, 31.12.2013 PLN/EUR 4.1472,
- average exchange rate in the period, calculated as arithmetic mean of exchange rates applicable on the last day of each month in a given period: 01.01 -30.09.2014 PLN/EUR 4.1803, 01.01 -30.09.2013 PLN/EUR 4.2231.

#### 2. Organisation of the PKP CARGO Group

## 2.1. Key information on the PKP CARGO Company and PKP CARGO Group <sup>1</sup>

The PKP CARGO Group is the largest rail freight operator in Poland (according to the data of the Office of Rail Transportation, UTK), and the second largest rail freight operator in the EU in terms of freight turnover in 2013 (according to the data of Eurostat). The Group is expanding the geographical scope of its operations, taking advantage of possibilities afforded by the liberalisation of the European rail freight market. Currently, the Group Parent Company, i.e. PKP CARGO S.A., holds safety certificates which allow to provide independent rail freight services in Slovakia, Czech Republic, Germany, Austria, Belgium, Hungary, Netherlands and Lithuania.

In addition to rail freight services, PKP CARGO Group offers its clients additional services listed below, related to rail freight services:

- intermodal services;
- freight forwarding (national and international);
- terminals (transloading and storing of cargo at the junction of standard and broad gauge tracks on the eastern border of Poland, and also in other key locations in Poland);
- siding and traction services,
- maintenance and repair of rolling stock.

#### 2.2. Entities subject to consolidation

Consolidation for the purposes of the Quarterly Condensed Consolidated Financial Statement for the period of 9 months ended on 30 September 2014 includes PKP CARGO S.A. and 9 subsidiaries being consolidated using the full method:

- 1. PKP CARGO SERVICE Sp. z o.o.
- 2. "PKP CARGOTABOR" Sp. z o.o.
- 3. "PKP CARGOLOK" Sp. z o.o.
- 4. "PKP CARGO Centrum Logistyczne Małaszewicze" Sp. z o.o.
- 5. PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o.
- 6. "Cargosped" Sp. z o.o.
- 7. "Przedsiębiorstwo Spedycyjne TRADE TRANS" Sp. z o.o. (PS TRADE TRANS Sp. z o.o.)
- 8. Cargosped Terminal Braniewo Sp. z o.o. (an entity indirectly dependent on PKP CARGO S.A.)
- 9. CARGOTOR Sp. z o.o.

Other entities of the Group, referred to in the note No. 14 to the Quarterly Condensed Consolidated Financial Statement of the PKP CARGO Group for the period of 9 months ended on 30 September 2014 according to IFRS EU, are evaluated using the equity method.

Presented below is the brief description of companies subject to consolidation using the full method.

#### PKP CARGO S.A.

The Parent Company was established pursuant to Article 14 of Act of 8 September 2000 on commercialisation, restructuring and privatisation of the state-owned enterprise "Polskie Koleje Państwowe". The Company was incorporated in the notarial deed of 17 July 2001, and then registered under the name PKP CARGO Spółka Akcyjna (joint stock company) in the District Court in Katowice, 8th Commercial Department of the National Court Register under KRS number 0000027702. Following a change of the registered office of the Company as of 7 October 2002 to to Warsaw, Grójecka 17 str., the registration files have been kept by the District Court for the Capital City of Warsaw, 12th Commercial Department of the National Court Register. Since its

Each time when the Report mentions:

<sup>•</sup> The Company, the Dominant Entity this shall be solely understood as PKP Cargo S.A.,

PKP CARGO Group, Group or Capital Group this shall be solely understood as PKP Cargo S.A. and its subsidiaries jointly.



inception, the Company has been a member of the PKP Group. The main subject matter of Company's operations is domestic and international rail freight.

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

PKP CARGO SERVICE Sp. z o. o. was established as Customs Agencies of PKP CARGO Sp. z o.o. on 11 July 2002 by PKP CARGO S.A. The Company commenced its operations as of 1 December 2002. The so-called executive areas are established for servicing of sidings in places where the company concentrates its siding activity. The main activity of the Company are services of complex maintenance of sidings, as well as rail freight services. PKP CARGO SERVICE also runs unloading and car-related activities, supporting rail forwarding.

#### "PKP CARGOTABOR" Sp. z o.o.

On 1 July 2014 consolidation took place of activities of companies from the PKP CARGO Group dedicated to repairs of the rolling stock. Currently, competencies in this area are concentrated in CARGOTABOR Sp. z o.o. The main subject matter of company's operations are services of repairs and maintenance of the rolling stock and physical liquidation of carriages and locomotives. Furthermore, the company provides complex services as regards repairs of electrical machines and wheelsets as well as weighing and regulation of the traction and carriage rolling stock.. The Company concentrates on implementing repairs of the rolling stock of the PKP CARGO Group.

#### "PKP CARGOLOK" Sp. z o.o.

"PKP CARGOLOK" Sp. z o.o., having its registered office in Warsaw until 1 March 2013 was registered under the name PKP CARGO TABOR-CZERWIEŃSK Sp. z o.o. On 1 October 2013 two locomotive companies merged, and the acquiring company was "PKP CARGOLOK" Sp. z o.o. On 1 July 2014 Agreement for Sale of the Company was concluded, between PKP CARGOLOK Sp. z o.o. and PKP CARGOTABOR Sp. z o.o., whose subject matter was sale of an organised part of the company PKP CARGOLOK Sp. z o.o. as a whole for the benefit of PKP CARGOTABOR Sp. z o.o.

Since 22 October 2014 the firm under which the company operates has been "PKP CARGOTABOR USŁUGI" Sp. z o.o. On the same day changes concerning extension of the subject matter of Company's operations were registered in point 38 of PKD (Polish Classification of Economic Activities), i.e. activity in connection with collecting, processing and neutralising waste; recovering raw materials.

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

"PKP CARGO Centrum Logistyczne Małaszewicze" Sp. z o.o. was established on 22 February 2010. The subject matter of the company's operation is complex handling of goods - reloading, storing, segregating, packing, crushing and a whole range of other limit associated services. "PKP CARGO Centrum Logistyczne Małaszewicze" Sp. z o.o. has terminals which allow to reload any freight in bulk and in pieces.

#### 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. The Company has been running business activity since 1 February 2011. The subject matter of company's operation is complex handling of goods – reloading, storing, segregating, packing, crushing and a whole range of other auxiliary services. The company's competitive advantage lies in the use of gauge switching railroad, mainly when transporting dangerous materials and reloading of oversized shipments, requiring applying specialist reloading equipment.

#### "Cargosped" Sp. z o.o.

"Cargosped" Sp. z o. o. was established on 28 February 2000. In 2005, PKP CARGO S.A. received from PKP S.A. by means of in-kind contribution 100% of shares in "Cargosped" Sp. z o.o. The main activity of the company are forwarding and logistic services in the country and abroad, in particular as regards rail freight and related logistic services.

As part of implementation of the process associated with optimisation of activities of forwarding companies in the PKP CARGO Group , it was dedicated to provide forwarding services as regards aggregate transport and intermodal transport. In addition, the company provides terminal services, including services on its own terminals.



#### PS TRADE TRANS Sp. z o. o.

PS TRADE TRANS Sp. z o.o. was established on 8 March 1990. The company's core business are domestic and international forwarding and logistic services. The company implements complex logistic services using rail and car transport, sea and inland by organising transporting, reloading, storing, warehousing, packaging and distributing. Also, the company implements comprehensive customs services for clients of the PKP CARGO Group.

# Cargosped Terminal Braniewo Sp. z o. o.

Cargosped Terminal Braniewo Sp. z o. o. has been a part of the PKP CARGO Group since January 2010, when it was purchased by "Cargosped" Sp. z o. o. Main areas of firm's operations are reloading of various goods and coal trade. The company is a direct importer of Russian coal. It engages in wholesale and retail of coal.

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

CARGOTOR Sp. z o.o. was registered on 13 November 2013 and 100% of shares were taken up byPKP CARGO S.A. The company carries out activities throughout the country as regards managing the track and service infrastructure in the form of rail sidings and track systems together with necessary devices and buildings and making the infrastructure available to railway carriers on commercial terms.

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

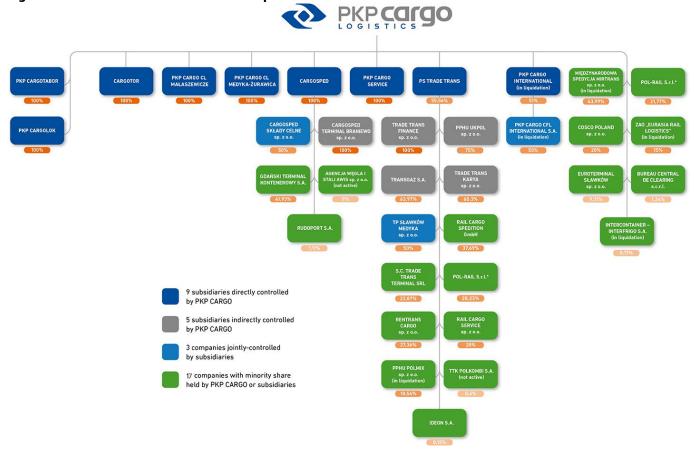
On 30 September 2014 the PKP CARGO Group, except for PKP CARGO S.A., was composed of 9 direct subsidiaries and 5 indirect subsidiaries. The subject matter of activities of these companies are forwarding and logistic services, reloading services, repair of carriage and traction rolling stock as well as maintenance of rail sidings.

Additionally, the PKP CARGO Group is composed of 3 companies jointly controlled by companies dependent on PKP CARGO S.A. (having 50% of shares in the share capital) and 17 companies where PKP CARGO S.A. (7 companies) or companies dependent on PKP CARGO S.A. (11 companies) have minority shareholding in the share capital.

Additionally, PKP CARGO SA and PS TRADE TRANS Sp. z o.o jointly holds in total 50% of the shares of POL-RAIL S.r.l.



Figure 1 Structure of the PKP CARGO Group as at 30.09.2014.



<sup>\*</sup> Share of companies of the Group in Pol-Rail S.r.l. is in total 50%, out of which PS TRADE TRANS Sp. z o.o. has 28.23% and PKP CARGO S.A. has 21.77%. Shares of the Group of Companies in Pol-Rail S.r.l. are in total 37.45%

Source: Own review

#### 2.4. Effects of changes in the structure of the Company and the Group in Q3 2014

#### **Changes in PKP CARGO S.A.**

On 5 May 2014 the Management Board PKP CARGO S.A. decided to consolidate regional establishments of which the Company is composed. Changes were introduced on 1 July 2014 as a result of which seven out of ten establishments operating so far were created. The main assumption behind a decision to implement the new structure of PKP CARGO S.A. was the need to increase effectiveness in managing the Company and to optimally useits resources.

On 1 July 2014 the change to the Organisational By-laws came into effect, consisting of verticalisation of organizational structures by more closely connecting the Central Office with the Plants and by developing functional divisions which are managed by directors located at the Central Office.

#### **Changes in the PKP CARGO Group**

On 1 July 2014, in the National Court Register registered a merger of PKP CARGOWAG Sp. z o.o. (the Acquiring Company) and PKP CARGO TABOR – Karsznice Sp. z o.o. (the Acquired Company). All assets of PKP CARGO TABOR – Karsznice Sp. z o.o. (the Acquired Company) was transferred to the Acquiring Company, namely to PKP CARGOWAG Sp. z o.o. At the same time, a change took place as regards PKP CARGOWAG Sp. z o.o. and since 1 July 2014 PKP CARGOWAG Sp. z o.o. has been operating under the name of PKP CARGOTABOR Sp. z o.o., having its registered office in Warsaw (the share capital PLN 88,087,000 – 100% of shares in the share capital of this company belongs to PKP CARGO S.A.).



On 1 July 2014 an Enterprise Sales Agreement was concluded between PKP CARGOLOK Sp. z o.o. and PKP CARGOTABOR Sp. Z o.o., for sales of enterprise PKP CARGOLOK Sp. z o.o. to PKP CARGOTABOR Sp. z o.o. (assignment to PKP CARGOTABOR Sp. Z o.o. of the ownership of organised system of intangible and fixed assets intended for the pursue of economic activities, in the form of PKP CARGOLOK Sp. z o.o. as defined by Article 551 of the Civil Code) and taking over of liabilities related to the Enterprise.

On 16 September 2014 an Agreement for Purchase of Share was concluded between KTF VIAFER S.A. in liquidation (the company of the PKP Group) and PS TRADE TRANS Sp. z o.o., under which PS TRADE TRANS Sp. z o.o. (subsidiary of PKP CARGO S.A. ) purchased from KTF VIAFER S.A. in liquidation shares in the company POL-RAIL S.r.l., constituting 3.23% in the share capital of this company. After the said shares has been purchased by PS TRADE TRANS Sp. z o.o., the capital structure of POL-RAIL s.r.l. is as follows:

- PS TRADE TRANS Sp. z o.o. 28.23% of shares in the share capital,
- PKP CARGO S.A. 21.77% of shares in the share capital (which in total gives companies from the PKP CARGO Group 50%) and
- TRENITALIA S.p.A. 50% of shares in the share capital.



# 3. Information on the Parent Company

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

#### MANAGEMENT BOARD OF THE COMPANY

Management Board of PKP CARGO S.A. having its registered office in Warsaw operates pursuant to the provisions of law, in particular:

- 1) the Commercial Companies Code of 15 September 2000 (Journal of Laws, No. 94, item 1037, as amended);
- 2) the Act of 8 September 2000 on commercialisation, restructuring and privatisation of the state-owned enterprise "Polskie Koleje Państwowe" (Journal of Laws, No. 84, item 948, as amended);
- 3) the Articles of Association of PKP CARGO S.A. adopted by way of Resolution No.1354/V/2014 of the Supervisory Board of PKP CARGO S.A. of 28 August 2014;
- 4) The By-Laws of the Management Board of PKP CARGO S.A. adopted by way of Resolution No.174/2014 of the Management Board of PKP CARGO S.A. of 13 May 2014;
- 5) other internal regulations.

The Management Board manages Company's affairs, assets thereof and represents it externally. The Management Board performs all activities reserved neither for the General Assembly, nor for the Supervisory Board. It makes decisions in the form of Resolutions which are promulgated by an absolute majority of votes present in the meeting, with the participation of at least half of the total number of members of the Management Board, and which can be adopted only if all members of the Management Board have been duly notified of the meeting of the Management Board. Meetings of the Management Board are held at least once a week. In the case of an equal number of votes in favour and against together with abstaining votes, the President of the Management Board is entitled to a casting vote.

The table below presents personal composition of the Management Board, as at the date of submission of the present report.

Table 3 Composition of the Management Board PKP CARGO S.A. in the period from 1 July 2014 to the day the report is published

Full name	Function	Period in office			
Tun name	name ranction		То		
Adam Purwin	President of the Management Board	06.02.2014 r.	in office		
Jacek Neska	Member of the Board	24.04.2014 r.	in office		
Łukasz Hadyś	Member of the Board	12.05.2014 r.	in office		
Wojciech Derda	Member of the Board	24.04.2014 r.	in office		
Dariusz Browarek	Member of the Board	24.04.2014 r.	in office		

Source: Own review

#### SUPERVISORY BOARD

In accordance with the adopted consolidated text of Company's Articles of Association (Resolution No.1354/V/2014 of the Supervisory Board of PKP CARGO S.A. of 28 August 2014) the Supervisory Board is composed from 11 to 13 members (including the Chairman and the Vice-Chairman of the Supervisory Board) being appointed for a period of a common term of office subject to provisions of Article 14(8) of the Statute of PKP CARGO S.A. The Supervisory Board is appointed and dismissed by the General Meeting of Shareholders (WZA) subject to provisions of Article 19 Paragraphs 2 and 3 of the Statute of PKP CARGO S.A.

The table below presents composition of the Supervisory Board, as at the date the report is published.

Table 4 Composition of the Supervisory Board of PKP CARGO S.A. in the period from 1 July 2014 to the day the report is published

Full name	Function	Representation:	Period in office		
		rtopi cocintacioni	From	То	
Jakub Karnowski	Chairman of the Supervisory Board	PKP S.A.	24.05.2012	in office	
Piotr Ciżkowicz	Vice-Chairman of the Supervisory Board	PKP S.A.	29.07.2014	in office	
Artur Kawaler	Member of the Supervisory Board	Ministry of Finance	24.05.2012 - for the 5th term;	29.07.2014	
Krzysztof Czarnota	Member of the Supervisory Board	The Employees	24.05.2012 - for the 5th term;	in office	
Marek Podskalny	Member of the Supervisory Board	The Employees	24.05.2012 - for the 5th term;	in office	
Kazimierz Jamrozik	Member of the Supervisory Board	Employees	24.05.2012	in office	
Konrad Anuszkiewicz	Member of the Supervisory Board	PKP S.A.	13.12.2013	in office	
Stanisław Knaflewski	Member of the Supervisory Board	Independent	17.12.2013	in office	
Paweł Ruka	Member of the Supervisory Board	Independent	17.12.2013	in office	
Jarosław Pawłowski	Member of the Supervisory Board	PKP S.A.	26.04.2014	in office	
Łukasz Górnicki	Member of the Supervisory Board	PKP S.A.	26.04.2014	24.10.2014	
Jacek Leonkiewicz	Member of the Supervisory Board	PKP S.A.	29.07.2014	in office	

Source: Own review

#### AUDIT COMMITTEE OF THE SUPERVISORY BOARD

Audit Committee of PKP CARGO S.A. is appointed by the Supervisory Board of PKP CARGO S.A. and comprises three members of the Supervisory Board, including at least two Board Members meeting the independence criteria and appointed as laid down in Articles 20 and 21 of the Statute of the Company. Members of the committee are appointed for a period of time equal to the term of office of the Supervisory Board. Responsibilities of the Audit Committee in particular include: supervising an organisational unit engaged in the internal audit, monitoring of the financial reporting process, monitoring of performance of the financial audit activities, monitoring of the independence of the chartered auditor and an entity authorised to audit financial statements, recommending to the Supervisory Board an entity authorised to audit financial statements, etc.

Table 5 Composition of the Audit Committee of the Supervisory Board of PKP CARGO S.A. in the period from 1 July 2014 to the day the report is published

Full name	Function	Period	in office
ruii iiaiiie	ranction	from	to
Paweł Ruka	The Chairman of the Committee	6.02.2014	in office
Stanisław Knaflewski	Committee Member	6.02.2014	in office
Konrad Anuszkiewicz	Committee Member	6.02.2014	in office

Source: Own review

#### NOMINATION COMMITTEE

The Nomination Committee is appointed by the Supervisory Board of PKP CARGO S.A., and comprises of three members of the Supervisory Board, including at least one Board Member meeting the independence criteria and appointed as laid down in Articles 20 and 21 of the Statute of the Company. Members of the Committee are appointed for a period equal to the term of office of the Supervisory Board. The Nomination Committee organises and exercises current supervision over the qualification proceedings for the positions of Management Board Members and the process of assessment and appointment of Management Board Members.

Table 6 Composition of the Supervisory Board Nomination Committee of PKP CARGO S.A. in the period from 1 July 2014 to the day the report is published

Full name	Europien	Period	in office
ruii name	Function	from	to
Stanisław Knaflewski	The Chairman of the Committee	17.12.2013	in office
Jakub Karnowski	Committee Member	17.12.2013	in office
Jacek Leonkiewicz	Committee Member	31.07.2014	in office

Source: Own review

#### 3.2. Structure of the share capital of PKP CARGO S.A.

Structure of the share capital of PKP CARGO S.A. as at the date this report is handed over is presented in the table below.

Table 7 Structure of the share capital of PKP CARGO S.A.

Shares	Date of issue	Date of issue registration	Number of shares
A Series	08.07.2013 r.	02.10.2013 r.	43 338 000
B Series	08.07.2013 r.	02.10.2013 r.	15
C Series	02.10.2013 r.	25.04.2014 r.	1 448 902
Total			44 786 917

Source: Own review

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

As at the date this report is handed over, the total number of Company's shares amounted to 44,786,917. In accordance with notifications received by the Company, the structure of shareholders with at least 5% of the total number of votes at a General Meeting of the Company held directly or through subsidiaries was as follows:

Table 8 Structure of the shareholders of PKP CARGO S.A. as at the date the report is published

Shareholder	Number of shares	Percentage share in the share capital	Number of votes	Percentage share in the total number of votes at WZA
PKP S.A.(1)	14 784 194	33,01%	14 784 194	33,01%
ING OFE (2)	4 738 369	10,58%	4 738 369	10,58%
Morgan Stanley (3)	2 380 008	5.31%	2 380 008	5.31%
AVIVA OFE (4)	2 338 371	5.22%	2 338 371	5.22%
EBRD (5)	2 286 008	5.10%	2 286 008	5.10%
Other shareholders	18 259 967	40,78%	18 259 967	40,78%
Total	44 786 917	100.00%	44 786 917	100.00%

<sup>(1)</sup> In accordance with a notification submitted by the shareholder on 24.06.2014

(5) In accordance with a notification submitted by the shareholder on 05.11.2013.

Source: Own review

In the period from the day the report for 1H2014 was handed over, i.e. from 28 August 2014, until publication of this report, the structure of the shareholders with at least 5% of the total number of votes at a General Meeting of the Company, held directly or through subsidiaries did not change.

#### 3.4. Presentation of shareholdings of executive and supervisory persons

Ownership of Company's shares or rights thereto by persons managing the Company in the period from 28 August 2014, i.e. the day the report for H1 2014 was handed over to the day this report was published was as follows:

<sup>(2)</sup> In accordance with a notification submitted by the shareholder on 30.06.2014.

<sup>(3)</sup> In accordance with a notification submitted by the shareholder on 18.06.2014

<sup>(4)</sup> In accordance with a notification submitted by the shareholder on 13.08.2014.



Table 9 Ownership of PKP CARGO S.A. shares by managing persons

Full name	Number of PKP	CARGO shares
	as of the date the report was handed over	
Adam Purwin		545
Jacek Neska		450
Wojciech Derda		300
Łukasz Hadyś		300
Dariusz Browarek		370
	as of 28.08.2014.	
Adam Purwin		545
Jacek Neska		450
Wojciech Derda		300
Łukasz Hadyś		300
Dariusz Browarek		370

Source: Own review

Ownership of Company's shares or rights thereto by persons supervising the Company in the period from 28 August 2014, i.e. the day the report for H1 2014 was handed over to the day this report was published was as follows:

Table 10 Ownership of PKP CARGO S.A. shares by supervising persons

Full name	Number of PKP CARGO shares
as of the date the report was ha	nded over
Krzysztof Czarnota Kazimierz Jamrozik Jarosław Pawłowski Jakub Karnowski Marek Podskalny Konrad Anuszkiewicz Paweł Ruka Stanisław Knaflewski Jacek Leonkiewicz Piotr Ciżkowicz	70 70 0 915 70 0 0 0
as of 28.08.2014.	0/3
Krzysztof Czarnota Kazimierz Jamrozik Jarosław Pawłowski Jakub Karnowski Marek Podskalny Konrad Anuszkiewicz Paweł Ruka Łukasz Górnicki Stanisław Knaflewski Jacek Leonkiewicz Piotr Ciżkowicz	70 70 0 915 70 0 0 245 0 0

Source: Own review



# 4. Operations of the PKP CARGO Group

#### Core business areas of the PKP CARGO Group

# Position of the PKP CARGO Group on the rail freight market in Poland (according to the Office of Rail Transportation (UTK))

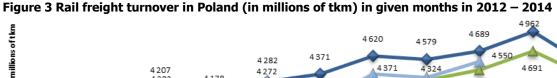
In accordance with the data of UTK, in Poland 168.5 million tons of goods (decrease by 1.15% YOY) was transported by rail within the period of three quarters of 2014, in the 1st quarter of 2014, there was increase in the mass transported by 1.95%, while weakening of the situation became to be evident in the 2nd quarter. To August inclusive decrease in transport were growing worse (after 8 months of the year the market results were weaker by already 1.62% as compared to the previous year). This situation was mostly connected with lower transport on the coal market being a result of an unfavorable situation of the Polish mining. It is being estimated that the rail transport of the coal in the period of the 1st half of 2014 decreased by as much as 8.3% on the year. Yet, September 2014 turned out to be very advantageous, the rail transport for the first time this year reached the level of almost 21 million tons which means increase by 2,28% as compared to September 2013. Positive transport results in September allowed the market to partially make up for losses from the previous months.

In the period of 9 months of 2014 the rail freight turnover amounted to nearly 37.1 billion tkm, i.e. at the level by 0.33% lower as compared to the last year results. Smaller decrease in the market freight turnover than the volumes is caused by increase in average haul, which in the period of 9 months of 2013 stood at 218.6 km, and in the same period of 2014 increased by 1.8 km to the level of 220.4 km.

thousands of tonnes 22 466 20970 20864 20 503 20380 20351 21687 19 928 19 607 19635 19 609 20671 20 252 19 033 19 03 18 576 18280 19 058 19 155 19097 18752 18914 16810 18 471 17753 18 563 16736 18 5 1 4 17914 17877 17 139 16512 2012 september february march april iuk october december ianuary may iune august navember

Figure 2 Volumes of rail freight in Poland (in thousands of tons) in given months in 2012 - 2014

Source: Railway Transport Office (UTK)





Source: Office of Rail Transportation (UTK)



On the domestic rail freight market in the period of 9 months of 2014, next to the PKP CARGO Group (PKP CARGO S.A. and PKP CARGO Service Sp. z o.o.), there were 64 railway operators, holding licenses for transportation of goods.

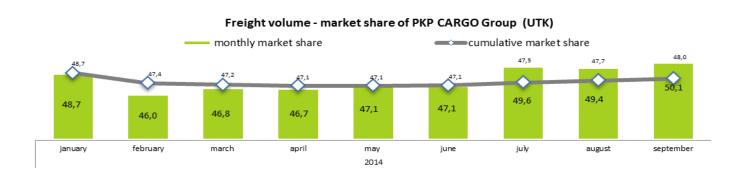
Both in terms of freight volume and freight turnover, PKP CARGO Group remains a leader in rail freight in Poland. The Office of Rail Transportation (UTK) stated that in the first three quarters of 2014, PKP CARGO Group had 48.01% of the market share in terms of the freight volume, recording increase by 0.28 p.p. as compared to the results after eight months of 2014 and increase by 0.92 p.p. as compared to the result after the first half of 2014. At the same time, the share of the Group in terms of the freight turnover amounted to 56.90% and increased respectively by 0.14 p.p. and 0.20 p.p.

The PKP CRAGO Group in September 2014 recorded the best result of the market share in terms of volume from the beginning of the year, exceeding the barrier of 50% of the market share.

Among the rail operators being competitors to PKP CARGO, the following are the leading carriers: DB Schenker Group, CTL Group, Lotos Kolej and Freightliner PL. Those carriers together with PKP CARGO Group are responsible for approx. 80% of the rail freight market in Poland.

Detailed monthly, cumulative shares of PKP CARGO Group in the rail freight market in the period of 9 months of 2014 are presented in the graph below (freight volume in accordance with UTK).

Figure 4 Share of the PKP CARGO Group in the freight volume in the period of 9 months of 2014



Source: UTK, own review

Monthly, cumulative shares of the PKP CARGO Group in the rail freight market in the period of 9 months of 2014 are presented in the graph below (freight turnover - UTK).

Figure 5 Share of the PKP CARGO Group in the total freight turnover in the period of 9 months of 2014

Freight turnover - market share of PKP CARGO Group (UTK)



Source: UTK, own review



Market shares - freight volume

#### PKP CARGO GROUP - CONSOLIDATED REPORT FOR THE Q3 2014

Figure 6 Market shares of railway operators according to the freight volume and freight turnover performed (9 months of 2014 vs. 9 months of 2013)

# months of 2014 vs. 9 months of 2013)

Market shares - freight turnover

■ Others

# 14,36% 15,46% Others 2,02% 2,99% 4,05% 4,17% 4,64% Freightliner PL 6,96% 6,60% 6,50% 6,50% 6,55%



<sup>\*</sup> in 2014 the data include only transport by DB Schenker Rail Polska

Source: UTK, own review

In accordance with the data of UTK, in the annual perspective the PKP CARGO Group maintained the market share in terms of the freight volume transported at the level similar to 2013 - after 9 months of 2014 it amounted to 48.01% (-1.07 p.p. yoy). At the same time, the Group share in terms of the freight turnover performed decreased by 2.67 p.p., reaching the level of 56.90%

After 9 months of 2014, the following railway operators occupied next places in terms of the freight volume transported: DB Schenker Rail Polska (18.57%), PKP LHS (4.64%, increase from 4.17% a year ago), Lotos Kolej (4.58%, increase from 4.05%) and Freightliner PL (3.11%, increase from 1.96% a year ago).

In terms of the freight turnover the vice-leader on the market is Lotos Kolej with a share amounting to 8.85% (7.70% a year ago), PKP LHS took the third place (6.95% as compared to 6.50% a year ago), the next place is taken by DB Schenker Rail with a share amounting to 5.32% and CTL Logistic with a share amounting to 4.83%.

For DB Schenker Rail and CTL Logistic the data from the previous year are incomparable due to the change in presentation methodology of the results by UTK.

# 4.1.2. Rail freight

The principal service provided by the PKP CARGO Group is rail freight performed both in Poland, and abroad, i.e. in countries where the Group has obtained licences – in Germany, Czech Republic, Slovakia, Austria, Belgium, Netherlands, Hungary and Lithuania.

#### Segments of goods transported

The Group has at its disposal diversified railway rolling stock which makes it possible to transport every type of freight, and in particular solid fuels, aggregates and construction materials, metals and ores, timber and agricultural produce as well as chemicals and liquid fuels, and hazardous and oversized goods, and also intermodal goods. The PKP CARGO Group provides a full range of transport services, taking into account the full-train and dispersed carriage, performed per single wagon or group of wagons.

<sup>\*\*</sup>in 2014 the data include only transport by CTL Logistics, CTL Rail and CTL Train as regards the freight volume and CTL Logistics and CTL Rail as regards the freight turnover



Processes taking place in the period of 9 months of 2014 in the Polish and European economy as well as this year's mild winter significantly influenced the quantity and the structure of the whole rail freightmarket in Poland; including the results of the PKP CARGO Group which in the period of 9 months of 2014 transported 80.9 million tons, i.e. 3% less than in the period of 9 months of 2013 and performed the freight turnover in the amount of 21.1 billion tkm, i.e. 5% less than in the period of 9 months of 2013. The main reason for such decrease was reduced transport of the hard coal.

The main segment of cargo transported by the PKP CARGO Group are solid fuels, predominantly hard coal. They constitute 50% of the volume transported in the period of 9 months of 2014 as compared to 53% in the period of 9 months of 2013, while based on the freight turnover the share of solid fuels amounted to respectively 42% and 45%. Solid fuels freight in the period of 9 months of 2014 in terms of freight turnover demonstrated a decreasing tendency (-12% yoy). Decrease in the share as regards the freight turnover was a consequence of reduction in transport of the hard coal following (1) decrease in demand for this raw material (mild winter, production of thermal energy using hard coal lower by 5.9% yoy); (2) decrease in export of this raw material (by 40% yoy) due to reduction in hard coal prices in the world markets; (3) decrease in average haul (by 13 km yoy), above all being a result of the lower level of the export of coal to seaports which affected the lower total average haul. Excluding exports, the Group's freight turnover of the hard coal increased by 11% yoy, taking into account domestic transport, import and transit.

The second largest segment of cargo transported by the PKP CARGO Group are aggregates and construction materials. The share of aggregates in the freight turnover in the period of 9 months of 2014 amounted to 21%, while in the period of 9 months of 2013 amounted to 18%. Increase in the freight turnover of aggregates by 16% was a consequence of significant growth in the freight volume (by 13% yoy) and the increase of average haul (by 3.0% yoy). Transport of aggregates and construction materials in the period of 9 months of 2014, (due to weather conditions favouring earlier implementation of infrastructural investments in the first half of 2014), was characterised by considerable growth. The observed lower freight turnover in Q3 2014 is due to the high freight turnover in the first half, and thus the accumulation of aggregates and construction materials by contractors compared to the same period last year. In 2014, General Directorate of National Roads and Motorways (GDDKiA) intends to provide drivers with approx. 344 km of new roads. The third largest segment of cargo carried by the PKP CARGO Group are metals and ores, whose share in the freight turnover amounted to 13% in the period of 9 months of 2014 and 14% in the period of 9 months of 2013. Transport in this segment decreased by 8% as compared to 9 months of 2013, and reduction in transport of ores in transit from Polish ports (such transport is characterised by long distances) and weaker transport results within the segment as regards metals ultimately influenced the result.

Table 11 Freight turnover of the PKP CARGO Group

	9 months of 2014	9 months of 2013	Change 2014- 2013	Change 2014- 2013	9 months of 2014	9 months of 2013	Q3 2014	Q3 2013	Change 2014- 2013
	(	million tkm)		%	Share in	total %	(million	tkm)	%
Solid fuels <sup>1</sup>	8 806	10 007	-1 202	-12%	42%	45%	3 073	3 269	-6%
out of which hard coal	7 767	8 930	-1 163	-13%	37%	40%	2 747	2 953	-7%
Aggregates and construction materials <sup>2</sup>	4 530	3 922	608	16%	21%	18%	1 856	1 982	-6%
Metals and ores <sup>3</sup>	2 653	3 146	-494	-16%	13%	14%	912	1 193	-24%
Chemicals <sup>4</sup>	1 404	1 265	139	11%	7%	6%	527	429	23%
Liquid fuels <sup>5</sup>	531	597	-66	-11%	3%	3%	206	217	-5%
Timber and agricultural produce <sup>6</sup>	1 299	1 192	107	9%	6%	5%	370	451	-18%
Intermodal transport	1 321	1 370	-49	-4%	6%	6%	445	436	2%
Other <sup>7</sup>	549	667	-118	-18%	3%	3%	182	241	-24%
Total	21 092	22 166	-1 074	-5%	100%	100%	7 570	8 218	-8%

Source: Own review

Table 12 Freight volume of the PKP CARGO Group

	9 months of 2014	9 months of 2013	Change 2014- 2013	Change 2014- 2013	9 months of 2014	9 months of 2013	Q3 2014	Q3 2013	Change 2014- 2013
	(tho	usands of t	ons)	%	Share in	total %	(thousand	s of tons)	%
Solid fuels <sup>1</sup>	40 769	43 956	-3 187	-7%	50%	53%	14 953	14 764	1%
out of which hard coal	37 122	40 219	-3 097	-8%	46%	48%	13 696	13 632	0%
Aggregates and construction materials <sup>2</sup>	15 878	14 101	1 777	13%	20%	17%	6 530	7 055	-7%
Metals and ores <sup>3</sup>	9 360	10 141	-781	-8%	12%	12%	3 197	3 623	-12%
Chemicals <sup>4</sup>	4 470	4 417	53	1%	6%	5%	1 559	1 458	7%
Liquid fuels <sup>5</sup>	1 933	2 268	-334	-15%	2%	3%	721	826	-13%
Timber and agricultural produce <sup>6</sup>	3 522	3 107	415	13%	4%	4%	1 076	1 159	-7%
Intermodal transport	3 422	3 607	-185	-5%	4%	4%	1 135	1 201	-5%
Other <sup>7</sup>	1 559	2 071	-512	-25%	2%	2%	521	750	-31%
Total	80 914	83 668	-2 753	-3%	100%	100%	29 693	30 836	-4%

Hard coal, coke and brown coal taken into account.

Source: Own review

Table 13 Structure of the freight turnover of the PKP CARGO Group according to the type of communication

	9 months of 2014	9 months of 2013	Change 2014- 2013	Change 2014- 2013	9 months of 2014	9 months of 2013	Q3 2014	Q3 2013	Change 2014- 2013
		million tkm,	)	%	Share in	total %	(millior	tkm)	%
Domestic	11 043	10 592	451	4%	52%	48%	4 288	4 364	-2%
Export	4 432	6 253	-1 822	-29%	21%	28%	1 360	1 941	-30%
Import	3 914	3 422	493	14%	19%	15%	1 329	1 226	8%
Transit	1 703	1 900	-197	-10%	8%	9%	593	687	-14%
Total	21 092	22 166	-1 074	-5%	100%	100%	7 570	8 218	-8%

Source: Own review

Table 14 Structure of the freight volume of the PKP CARGO Group according to the type of communication

	9 months of 2014	9 months of 2013	Change 2014- 2013	Change 2014- 2013	9 months of 2014	9 months of 2013	Q3 2014	Q3 2013	Change 2014- 2013
	(tho	usands of to	ons)	%	Share in	total %	(thousana	s of tons)	%
Domestic	50 354	50 205	149	0%	62%	60%	19 748	19 774	0%
Export	13 613	17 295	-3 682	-21%	17%	21%	4 280	5 456	-22%
Import	14 165	13 189	976	7%	18%	16%	4 735	4 568	4%
Transit	2 783	2 979	-196	-7%	3%	4%	931	1 038	-10%
Total	80 914	83 668	-2 753	-3%	100%	100%	29 694	30 836	-4%

Source: Own review

Table 15 Average haul of PKP CARGO according to the type of communication

	9 months of 2014	9 months of 2013	Change 2014- 2013	Change 2014- 2013	Q3 2014	Q3 2013	Change 2014- 2013
	(k	m)		%	(k.	m)	%
Kraj	219	211	8	4%	217	221	-2%
Eksport	326	362	-36	-10%	318	356	-11%
Import	276	259	17	7%	281	268	5%
Tranzyt	612	638	-26	-4%	637	662	-4%
Ogółem	261	265	-4	-2%	255	267	-4%

Source: Own review

Any types of stone, sand, bricks and cement taken into account.

Ores and pyrites as well as metals and metal products taken into account.

Chemical fertilisers and other chemicals taken into account.

Petroleum and petroleum-derivative products taken into account.

Crops, potatoes, sugar beets, other crops, wood and wooden ware taken into account. Ferry transport and other cargo transport taken into account.



#### Directions of transport

The share of domestic transport in the freight turnover of PKP CARGO Group stood at the level of 52% and 48% respectively for 9 months of 2014 and for 9 months of 2013.. Growth in the share of domestic transport was caused in the first place by greater transport of aggregates and construction materials (by 16% yoy) which are mainly transported as part of the domestic communication in Poland as well as reduction in the freight turnover performed in export the hard coal.

Growth was achieved in import by 14% in terms of the freight turnover and by 7% in terms of the freight volume. It is an effect of growth in transport of ores and metals as well as timber and agricultural produce.

In the period of 9 months of 2014 the decrease of transport was recorded in:

- export transport by 29% in terms of freight turnover and by 21% in terms of freight volume. It is an effect of reduction in export of the hard coal.
- transit transport by 10% in terms of freight turnover and by 7% in terms of freight volume. It is particularly an effect of reduction in transport of ores in transit.

## 4.1.3. Other services

## Siding services

Apart from the transport activity, the Group provides a number of near-transport services, including, *inter alia*, siding services which cover forming trains, shunting services using own railway rolling stock and third parties' railway rolling stock, managing railway traffic on sidings, maintenance of positions using personnel providing siding services and transport. Sidings operated by the Group are the property of third parties and usually combine production plants of the Group clients with the main railway network. The main entity providing listed services is PKP CARGO SERVICE Sp. z o.o.

PKP CARGO SERVICE Sp. z o.o., as part of complex operation of rail sidings, provides its clients with shunting service of the rail sidings, running the railway traffic on the rail sidings, manning of positions connected with running the railway traffic on the sidings, leasing of the railway rolling stock, diagnostics and ongoing maintenance of the railway infrastructure, drawing up regulations for work of the sidings, commercial service of shipments sent to be transported and periodic training courses for employees.

PKP CARGO SERVICE Sp. z o.o. provides its services for enterprises operating in the mining industry: these are mainly hard coal mines and aggregates mines as well as in the power industry: power plants as well as combined heat and power plants. In accordance with the situation as at 30 September 2014 the company serves in total 32 sidings, so comparing with the same period of 2013 increase in sidings operated took place by 1 pc.

## Transloading operations

PKP CARGO develops the transloading activity based on conventional and intermodal transloading terminals belonging to subsidiaries, which are PKP CARGO Centrum Logistyczne Małaszewicze, PKP CARGO Centrum Logistyczne Medyka-Żurawica, Przedsiębiorstwo Spedycyjne Trade Trans and Cargosped.

On conventional terminals goods are reloaded, from among which the following are dominating: hard coal, petroleum and petroleum-derivative products, chemical articles, metals and metal products, wood, wooden chips, chemical fertilisers, ores, cars. PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o. as the only company has a thaw room and the shifting terminal for wagon carts to handle shipments in non-reloading communication. In the three quarters of 2014 goods were reloaded in the greatest amount on terminals belonging to CL Małaszewicze.

In the period of three quarters of 2014 as compared to the same period in 2013 we can observe clear growth in the volume of goods reloaded on container terminals by approx. 12% and on conventional terminals by 25%.

## Intermodal services

The PKP CARGO Group provides complex intermodal transport services mainly including rail transport of containers, and also transport of containers on car semitrailers. The Group offers logistic solutions based on intermodal transport according to the model *door-to-door* and *just-in-time*. The Group implements intermodal services mainly as a rail freight carrier and as a container terminals operator.



#### Forwarding activity

As part of the PKP CARGO Group, forwarding services are chiefly implemented by companies PS TRADE TRANS Sp. z o.o. (domestic and international forwarding) and CARGOSPED Sp. z o.o. (domestic forwarding).

PS TRADE TRANS provides complex logistic services taking advantage of the rail, car, sea and inland transport by organising transporting, reloading, storing, warehousing, packaging and distributing. Also, the company implements the customs service. The CARGOSPED company specialises in railway freight forwarding as regards transport of aggregate.

## Rolling stock maintenance and repair activity

Maintaining the railway rolling stock of PKP CARGO Group is implemented by repair outlets functioning within the structures of Plants of the Company of PKP CARGO S.A. and in subsidiaries. The rolling stock maintenance resources of the PKP CARGO Group is competent in performing wagons, electric locomotives and diesel locomotives repairs. Apart from the railway rolling stock being the property of the PKP CARGO Group, the resources of the Group repairs of rolling stock of third parties.

Numbers of repairs and periodic inspections carried out in particular periods result from cycles specified in the Maintenance System Documentation (DSU) and a number of the railway rolling stock maintained in working order in accordance with the demand submitted by the commercial division. Apart from scheduled activities the repair outlets functioning within the structures of the PKP CARGO Group perform ongoing repairs of the railway rolling stock aimed at removal of faults arising in the operation of rolling stock.

In the period of three quarters of 2014 as compared to the same period in 2013 we can observe growth in the number of periodic repairs of locomotives by 152% and of carriages by 18%, and also of periodic inspection of railway carriages by 275%.

On 1 July 2014 consolidation took place of activities of companies from the Group of PKP CARGO dedicated to repairs of the railway rolling stock. Currently, competencies in this field are concentrated in the CARGOTABOR Sp. z o.o. company.

#### 4.2. Macroeconomic and market situation

#### European economy

The market data observed in the Eurozone confirm that the largest European economies are still unstable. Dynamics of actual GDP in the yoy perspective have been fluctuating in the Eurozone since a few quarters between -1% to 1%.

However, the most recent data concerning the PMI reading in October 2014 indicate marginal improvement of the situation in the Eurozone. The PMI Index for industry of the Eurozone increased in October to 50.7 pt (50.3 pt in September), while the German industrial sector index increased to 51.8 pt from 49.9 pt in September 2014.

## Polish economy

The Polish economy from January to September was characterised by positive trends. Despite unstable external conditions, relatively high dynamics of GDP is still being maintained, manifesting itself in, for example, quite fast growth pace of production sold of industry and sale of transport services as well as in revival of in construction sector. In October, the PMI Index increased to 51.2 pt as compared to 49.5 pt in September.

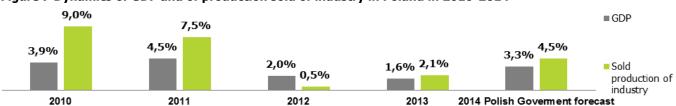


Figure 7 Dynamics of GDP and of production sold of industry in Poland in 2010-2014

Source: GUS, Ministry of Economy



In the period of three quarters of 2014 growth was recorded of production sold of industry by 3.4% yoy. Growth in production was also recorded in industrial processing by 4.8% yoy, whereas reduction was recorded in mining and extraction by 5.4% as well as in manufacturing and supply with electric energy by 4.8%.

As compared to the same period of the previous year, growth in production sold was recorded in 28 out of 34 industry sectors, *inter alia*, in metals production (by 7.2%), metal products (by 7.7%), concrete, cement and gypsum products (by 15.4%), plastic products (by 9.8%), and also motor vehicles (by 5.1%).

Prices of production sold of industry were lower than a year ago by 1.4% (including in mining and extraction by 5.8% and in industrial processing by 1.4%), whereas inflation (measured with the CPI Index) stood at the level of 0.2%.

#### **Transport**

In total, transport of cargo in the period of three quarters of 2014 amounted to 351.2 million tons, i.e. 3.3% more than a year ago (data from GUS <sup>2</sup>). Increase in freight was observed in car transport and in inland water transport; in other types of transport decrease was observed. By rail 167.7 million tons of freight was transported (less than a year ago by 1.4%). Transport in domestic communication was smaller than in the period of 9 months of the last year (by approx. 3%). In international communication growth was recorded in transport by approx. 3%, including increase in imported freight by approx. 14%, whereas transport in transit reduced by approx. 15%, and in export by approx. 8%.

## Mining industry

The Polish mining in the period of 9 months of this year was still characterised by low demand for raw material the result of which was vast stores of coal. After 8 months of 2014, the price of coal in total reached the level of PLN/ton 276.58, i.e. PLN 21.23 less than in the same period of the last year (i.e. by approx. 7% yoy). Furthermore, the difficult situation in the industry is composed of the high level of imported coal and the change in the so-called energy mix in generating the energy. By the end of August this year 47.2 million tons of coal have been extracted, i.e. 6.5% less than in the same period of 2013.

## Construction industry

According to data from GUS, increase in the construction production index after 9 months of 2014 amounted to 5.5% yoy (as compared to reduction by 15.6% a year ago). The greatest increase occurred in companies implementing infrastructure projects - increase in construction works in civil and water engineering by 12.4% and in units focusing on specialist works by 11%.

## Steel industry

Revival on the steel market, in particular in the 2nd quarter of this year and improvement in the economic situation in machine, transport, automotive and construction sectors were reason for increase in purchase of smelting products.

After 9 months of 2014 production of raw steel in Poland amounted to 6.6 million tons and was higher by 6.4% as compared to the same period of the last year (data from GUS). Also, production of pig iron increased to the level of 3.5 million tons (by 11.1%), and production of ores and copper concentrates reached 26.1 million tons and increased in the reporting period by 1.1%. As well, increase in production of other metal products is being recorded, e.g., hot-rolled products 4.6%, thin sheet metals 18.3%, bars and flat bars 7.6%, steel pipes by 10.0%.

### <u>Intermodal transport</u>

According to data of UTKfor the 1st half of 2014, in the period being examined increase in a share of intermodal transport in the rail freight market in terms of freight volume occurred. After the first quarter of 2014, it amounted to 4.2% and after the first half year it was as much as 4.3%. For comparison, in 2013 this share amounted to 3.7%.

In the first half year the industry recorded increase in the volume of intermodal transport by 12.7% yoy and increase by 12.2% in the intermodal freight turnover.

 $<sup>^{\</sup>rm 2}$  Data according to the Statistical Bulletin of the Central Statistical Office (GUS) no. 9/2014

## 4.3. Seasonality /cyclicity of operations

Operations of the PKP CARGO Group do not exhibit any significant seasonal or cyclic trends.

## 4.4. Information on employment

Data concerning changes as regards the employment in the PKP CARGO Group in the period of 9 months of 2014 are presented below.

Table 16 Employment at the end of the reporting period in the PKP CARGO Group

	Number of employees, as at:								
Specification	30.09.2014	31.12.2013	30.06.2014	Change from the beginning of the year	Change in Q3 2014				
Company	21 870	22 480	22 046	-610	-176				
Subsidiaries	4 220	4 073*	4 216	147	4				
The Group	26 090	26 553	26 262	-463	-172				

<sup>\*</sup> The level of employment as at 31.12.2013 is higher by 108 people as compared to the data given for this date in the consolidated annual report for 2013 and for the 1st quarter of 2014 due to including additionally CARGOTOR Sp. z o.o. in the consolidated financial report for H1 2014 Source: Own review

Table 17 Average employment in the PKP CARGO Group in the period of 9 months of 2013 and 2014

Description	average employ	ment in FTE's	Change -	average emplo	Change	
	9 months of 2014	9 months of 2013	2014-2013	9 months of 2014	9 months of 2013	2014-2013
Company	22 135	22 688	-553	22 138	22 691	-553
Subsidiaries	4 183	3 867	316	4 211	3 892	319
The Group	26 318	26 555	-237	26 349	26 583	-234

Source: Own review

Table 18 Average employment in the PKP CARGO Group in Q3 2013 and 2014

Description	average employ	average employment in FTE's		average empl perso	Change 2014- 2013	
	Q3 2014	Q3 2013	2014-2013 —	Q3 2014	Q3 2013	2013
Company	21 975	22 850	-875	21 978	22 853	-875
Subsidiaries	4 206	3 850	356	4 229	3 869	359
The Group	26 181	26 700	-519	26 207	26 722	-516

Source: Own review

Table 19 Change to the structure of employment in the PKP CRAGO Group in the period of 9 months of 2013 and 2014

	Number of emp	loyees, as at:	Change from	Number of emp	Change from	
Specification	30.09.2014	31.12.2013	the beginning of the year	30.09.2013	31.12.2012	the beginning of the year
Non-worker positions	5 464	5 566	-102	5 551	5 786	-235
Worker positions	20 626	20 987	-361	21 267	21 841	-574
Total	26 090	26 553	-463	26 818	27 627	-809

Source: Own review

Table 20 Change to the structure of employment in the PKP CRAGO Group in Q3 2013 and 2014

Specification	Number of emp	oloyees, as at:	Change in Q3	Number of emp	Change in Q3	
Specification	30.09.2014	30.06.2014	2014	30.09.2013	30.06.2013	2014
Non-worker positions	5 464	5 539	-75	5 551	5 583	-32
Worker positions	20 626	20 723	-97	21 267	20 924	343
Total	26 090	26 262	-172	26 818	26 507	311

Source: Own review



In the period of 9 months of 2014 the number of persons employed in the PKP CARGO decreased by 463 employees. Decrease in employment in the Group was above all an effect of termination of employment in PKP CARGO S.A. due to retirement. In the period in question, in subsidiaries, mainly in repair companies and PKP CARGO SERVICE Sp. z o.o., increase in employment occurred. It was caused by an increasing volume of services provided in terms of maintenance and repairs of rolling stock, as well as services as part of complex service of sidings.

## 4.5. Investments by the PKP CARGO Group

The Group in the period of 9 months of 2014 incurred investment outlays for purchase of tangible fixed assets and intangible assets in the form of purchases, modernisation and the so-called renovation component (periodic repairs of the railway rolling stock) in the amount of PLN 419.1 million, which constitutes 164.8% of outlays of the same period of 2013.

Altogether, outlays for means of transport amounted to PLN 396.8 million (94.6% of outlays in total), including for the renovation component PLN 300.8 million, for the investment construction PLN 8.3 million, for IT PLN 9.4 million, for machines and equipment PLN 3.1 million and other PLN 1.4 million.

Higher investment outlays in the period of 9 months of 2014 than in the same period of 2013 are a consequence of, *inter alia*, purchase this year of 167 carriages for transport of containers, modernisation of 10 pcs. of diesel locomotives SM48, and also a larger amount of periodic repairs of locomotives and carriages.

Table 21 Capital expenditure in the PKP CARGO Group of in the period of 9 months of 2014 as compared to 9 months of 2013

Investment directions	Performance 9 months of 2014	Performance 9 months of 2013	Absolute change	Pace of changes
Investment construction	8 349,1	25 287,9	-16 938,8	-67,0%
Modernisation of locomotives	48 278,1	22 619,1	25 659,0	113,4%
Purchase of carriages	47 780,4	6 808,1	40 972,3	601,8%
Machines and equipment	3 060,3	6 559,4	-3 499,2	-53,3%
IT	9 404,8	20 839,9	-11 435,2	-54,9%
including intangible assets	6 369,5	11 439,0	-5 069,50	-44,32%
Other	1 434,9	1 357,7	77.2	5.7%
Components in repairs:	300 776,8	170 868,3	129 908,5	76,0%
NO locomotives	88 416,0	26 383,3	62 032,7	235,1%
NO carriages	212 360,7	144 485,0	67 875,7	47,0%
Total	419 084,3	254 340,4	164 743,9	64,8%

Source: Own review

# 4.6. Important events and achievements of the PKP CARGO Group, having significant impact on operations in the 3rd quarter of 2014

#### **Consolidation of establishments**

On 5 May 2014 the Management Board of PKP CARGO S.A. decided to consolidate establishments of which the Company is composed. Changes were introduced on 1 July 2014 as a result of which seven out of ten establishments operating so far were created. This new structure comprises of seven establishments: Central (Mazowiecko-Podlaski merged with Central), Southern (Śląsko-Dąbrowski merged with Southern), Western (Wielkopolski merged with Zachodniopomorski), Dolnośląski, Śląski, Eastern and Northern. Additionally, boundaries of particular Plants will be changed. The main assumption supporting a decision to accept the new structure of PKP CARGO S.A. was the need to increase effectiveness in managing the Company and the possibility to use its resources optimally.

The transport will take place within two establishments at the most, which as an effect will translate into:

- · more efficient functioning of managing offices and train crews,
- faster deliveries and response to changes as regards workloads in particular sections,
- faster and more efficient movement of trains on main transport lines,
- limitation of situations where it is necessary to send electric locomotives between particular establishments,
- elimination of unnecessary activities when operating trains.



## Change to Company's organisational structure

On 1 July 2014 the change to the Organisational By-laws came into effect, consisting of verticalisation of organizational structures by more closely connecting the Central Office with the Plants and by developing functional divisions which are managed by directors located at the Central Office. It, for example, allowed to:

- strengthen management within particular areas functioning in PKP CARGO S.A.;
- apply uniform solutions across the Company, facilitated implementation of standard mechanisms;
- improve effectiveness of using Company's resources;
- use the best practices in other locations, share knowledge between the Plants;
- improve the quality of services provided due to specialisations under particular areas;
- make decisions more guickly due to a better flow of information;
- reduce operating costs of PKP CARGO S.A.

## Resolutions adopted by the Company's EGM

On 30 July 2014 the Extraordinary General Meeting of PKP CARGO S.A. adopted a Resolution on determining the amount of remuneration of Members of the Supervisory Board of PKP CARGO S.A. Full text of the Resolution was published in the current report No. 47/2014, available on the PKP CARGO S.A. website.

On 30 July 2014 the Extraordinary General Assembly of PKP CARGO S.A. adopted a Resolution on introducing amendments to the Statute of the Company. In Article 5(1) point 3 of Company's Statute ("Statute") the numbering of the sub-item a) has been altered to sub-item a 1) and a new sub-item a) has been added which reads as follows:

"a) accounting and booking activities; tax consultancy of PKD - 69.20.Z".

Also, Article 25(3) point 13 has new wording:

## "13) giving consent to:

- a) purchase, sell or encumbrance with the limited property right of the fixed property, perpetual usufruct or the share in the fixed property or in the right of perpetual usufruct by the Company,
- b) take up, purchase or sale of another company's shares, except for taking up shares in the increased share capital of subsidiaries of the Company,
- c) purchase or sale by the Company of licences or copyrights,
- d) take out liabilities by the Company and dispose of rights,
- e) purchase and sale fixed assets by the Company
- of the market value equal or exceeding the amount of PLN 20,000,000.00 (twenty million) yet, in the case of concluding contracts for an indefinite period , the contractual value or anticipated value of the Company's performance in a 5-year period is adopted, except for concluding contracts related to the areas of the Company's business specified in § 5(1)(1) of the Articles of Association, including contracts for transport and forwarding services as well as traction and shunting services."

In Article 27 of the Statute a new Paragraph 8 has been added of the following wording:

"8. All amounts indicated in the Statute are gross amounts."

At the same time the Extraordinary General Assembly authorised the Supervisory Board to draw up the uniform text of Company's Statute taking into account of the above-mentioned changes.

The above changes to Company's Statute have been recorded by the District Court for the Capital City of Warsaw, 12th Commercial Department of the National Court Register on 3 October 2014.



## Implementation of the Agreement ending a collective dispute

When implementing provisions of the Agreement of 9 April 2014 ending the collective dispute, as of 1 August 2014 remuneration increase was implemented for almost 22 thousand of employees of the Company.

## Signing the contract with ENEA Wytwarzanie S.A.

In July 2014 the Company signed with ENEA two contracts for transport of in total more than 4.5 million tons of coal. Transport shall be realised from mines located in the Śląskie Voivodeship and from Bogdanka in Lublin to the power plant in Kozienice. Contracts are binding until the first half of July 2015.

## Signing the credit agreement with the Bank Gospodarstwa Krajowego

On 11 September 2014 the Company concluded with the Bank Gospodarstwa Krajowego the investment credit agreement to the amount of PLN 515.2 million. The loan was given for funding and/or re-funding of modernisation of locomotives and periodic repairs of the railway rolling stock. It is not secured against the assets of the Company. The repayment date expires on 31 March 2021.

## Consolidation of companies dedicated to repair of the railway rolling stock

As of 1 July 2014, in the National Court Register an entry was made on the merger of PKP CARGOWAG Sp. z o.o. (the Acquiring Company) and PKP CARGO TABOR – Karsznice Sp. z o.o. (the Acquired Company). All assets of PKP CARGO TABOR – Karsznice Sp. z o.o. has been transferred to PKP CARGOWAG Sp. z o.o. At the same time a change took place as regards PKP CARGOWAG Sp. z o.o. and since 1 July 2014 PKP CARGOWAG Sp. z o.o. has been operating under the name of PKP CARGOTABOR Sp. z o.o. with the registered office in Warsaw.

On 1 July 2014 Agreement for Sale of the Company was concluded, between PKP CARGOLOK Sp. z o.o. and PKP CARGOTABOR Sp. z o.o., whose subject matter was sale of the Enterprise PKP CARGOLOK Sp. z o.o. as a whole for the benefit of PKP CARGOTABOR Sp. z o.o. (i.e. transfer of property of an organised set of intangible and tangible assets, intended for running the business activity which is PKP CARGOLOK Sp. z o.o. as defined by Article 55  $^{\,1}$  of the Civil Code), taking over liabilities related to the Enterprise.

## **Purchase of shares by PS Trade Trans**

On 16 September 2014 an agreement for purchase of shares was concluded between KTF VIAFER S.A. in liquidation and PS TRADE TRANS Sp. z o.o., under which PS TRADE TRANS Sp. z o.o. (subsidiary of PKP CARGO S.A.) purchased from KTF VIAFER S.A. in liquidation shares in POL-RAIL S.r.l., constituting 3.23% in the share capital of this company. As a result of this transaction, PS Trade Trans has 28.23% of shares in POL-RAIL S.r.l.

## 4.7. Essential information and events which occurred after the reporting date

## Signing of an annex to the credit agreement

On 2 October 2014 PKP CARGO S.A. concluded with the European Investment Bank an annex increasing the value of the investment credit agreement intended for investments in the railway rolling stock concluded on 3 December 2013 from PLN 200 million to the amount of PLN 240 million.

## Signing the agreement with companies of the Azoty Group

On 16 October 2014 PKP CARGO S.A. signed a two-year contract for transport of chemicals, containers and other freight for companies of the Azoty Group. It is continuation and extension of the past agreements with the Group of Azoty Kopalnie and Chemical Plants of Sulphur "Siarkopol". Some operations are carried out in the wagonload freight system

## Resignation of a member of the Supervisory Board

On 24 October 2014 Mr. Łukasz Górnicki resigned from the position of a Member of the Supervisory Board.



#### Implementation of the Agreement ending a collective dispute

Fulfilling provisions of the Agreement of 9 April 2014 ending the collective dispute, the first tranche of a discretionary bonus was allocated to the management team, excluding employees from the Central Office and Plants identified by the Management Board as participants in the Management by Objectives Programme.

#### Existence of a collective dispute

On 3 November 2014 the Company submitted to the National Labour Inspectorate in Warsaw a notification on existence of the collective dispute with the union organisations. Demands contained in the letter of 30 October 2014 concern, above all, pay and organisational questions. The Management Board refused to satisfy the demands.

## Change of the name of PKP CARGOLOK Sp. z o.o.

In accordance with provisions of the agreement for sale of the company PKP CARGOLOK Sp. z o.o. of 1 July 2014, the Company changed the name to: "PKP CARGOTABOR USŁUGI" Sp. z o.o. Change of the name of the company has been disclosed in the National Court Register on 22.10.2014. On the same day changes concerning the subject matter of Company's operations were registered – on PKD 38 - Activity in connection with collecting, processing and neutralising waste; recovering raw materials.

## Turnover and estimate of a significant value with companies from Jastrzębska Spółka Węglowa Group

On 12 November 2014 PKP CARGO S.A. learned about signing of two annexes to the contracts for rail freight services with companies of JSW Group.

Consequently, the total estimated future revenue from contracts signed and annexed by PKP CARGO Group and JSW Group in the period of last 12 months together with the trade value carried out in the last 12 months reached the amount of approximately PLN 340 million. The total value exceeds 10% of the Company's equity. An analysis of the financial and property standing of the PKP CARGO Group. The Company informed with current report No. 64/2014.

## 5. Main economic and financial figures

## 5.1.1. Statement of comprehensive income

Analysis of basic economic and financial quantities of the PKP CARGO Group demonstrated in this Chapter takes into account presentation adjustment of data for 9 months of 2013 for costs resulting from the Agreement ending partially the collective dispute of 10 June 2013 between the Trade Unions and PKP CARGO S.A. signed by the parties on 22 August 2013, and also from the Guarantees Pact signed on 2 September 2013, in the total amount of PLN 208.8 million, which were in full included in the costs of the employee benefits.

In the period of 9 months of 2014, the PKP CARGO Group transported 80,914 thousand tons of freight, i.e. 3% less than in the same period in 2013, and performed the freight turnover at the level of 21,092 million tkm, i.e. 5% less than in the period of 9 months of 2013. The transport data have been presented in detail in the Chapter 4.1.2. "Rail freight"

The Group in the period of 9 months of 2014 generated total operating revenue of PLN 3,168.9 million, i.e. 9.9% lower compared to the same period of 2013. Total operating expenses amounted to PLN 2,887.1 million and were lower by 12.3% as compared to the adjusted operating expenses for 9 months of 2013. Therefore, the PKP CARGO Group generated in the period of 9 months of 2014 profit on operating activities and net profit higher by 24.8% and 38,4%, respectively, than in the same period of 2013. Profit on operating activities and net profit amounted to PLN 281.8 million and PLN 227.4 million, respectively.

Detailed information as regards particular items in the Statement of comprehensive income have been described in the further part of this Chapter. The table below presents results of the PKP CARGO Group in the period of 9 months of 2014 as compared to the same period of 2013.

Table 22 Results of the PKP CARGO Group (thousands PLN)

	Specification	9 months 2014	9 months 2013	9 months 2013 Adjusted*	Change 2014- 2013 Adjusted*	Pace of changes 2014/2013 Adjusted*	Q3 2014	Q3 2013 Adjusted*	Pace of changes Q3 2014/ Q3 2013 Adjusted*
1	Total operating revenue	3 168 880	3 517 774	3 517 774	-348 894	-9,9%	1 069 052	1 226 544	-12,8%
2	Total operating expenses	2 887 121	3 500 852	3 292 081	-404 960	-12,3%	956 244	1 127 193	-15,2%
3	Profit on operating activities	281 759	16 922	225 693	56 066	24,8%	112 808	99 351	13,5%
4	Financial revenue	28 920	26 092	26 092	2 828	10,8%	17 312	6 731	157,2%
5	Financial expenses	25 074	40 819	40 819	-15 745	-38,6%	8 597	-398	-
6	Share in the profit of equity accounted associates	-34	630	630	-664	-	400	448	-10,7%
7	Profit before taxes	285 571	2 825	211 596	73 975	35,0%	121 923	106 928	14,0%
8	Income tax expense	58 183	7 605	47 272	10 911	23,1%	22 684	19 370	17,1%
9	Net profit on continuing operations	227 388	-4 780	164 324	63 064	38,4%	99 239	87 558	13,3%
10	Net profit (loss) on discontinued operations	-	-	-	-	-	-	-	-
11	NET PROFIT	227 388	-4 780	164 324	63 064	38,4%	99 239	87 558	13,3%

<sup>\*</sup> Data for the purpose of presentation adjusted for the costs resulting from the Agreement ending partially the collective dispute of 10 June 2013 between the Trade Unions and PKP CARGO S.A. signed by the parties on 22 August of 2013, and also from the Guarantees Pact signed on 2 September 2013, in the total amount of PLN 208.8 million

Source: The Quarterly Condensed Consolidated Financial Statement of the PKP CARGO Group for the period of 9 months of 2014 ended on 30 September 2014 prepared in accordance with IFRS EU

## Revenue from operating activities

Revenue from sales constitute the largest share in the structure of operating revenue of the Group which in the period of 9 months of 2014 amounted to 97.8% of the total operating revenue, whereas in 9 months of 2013 95.3%. A remaining part of total operating revenue of the Group constitutes revenue from sales of goods and materials which,inter alia, include sale of steel and iron scrap metal, as well as other operating revenue of the Group including, for example, sale of property plant and equipment, change in write-downs for receivables and interest on receivables, release of provisions.

In the period of 9 months of 2014 revenue from sales of the Group decreased to PLN 3,100.5 million from PLN 3,351.5 million and was lower by PLN 251.1 million, i.e. 7.5% compared to the same period of 2013. Reduction in revenue from sales in the period of three quarters of 2014 was caused mainly by lower transport revenue and forwarding revenue which amounted to PLN 2,829.1 million and decreased by PLN 220.6 million, i.e. 7.2% as compared to the same period of 2013. Revenue from



sales of goods and materials decreased from PLN 140.9 million in the period of three quarters of 2013 to PLN 39.6 million in the period of three quarters of 2014, namely by PLN 101.3 million, i.e. 71,9%. This change is mainly caused by termination of commercial activities by PS TRADE TRANS Sp. z o.o. (reduction of PLN 75.6 million in the period of 9 months of 2014 as compared to 9 months of 2013).

Table 23 Operating revenue in the PKP CARGO (thousands PLN)

	Specification	9 months 2014	9 months 2013	Change 2014-2013	Pace of changes 2014/2013	Q3 2014	Q3 2013	Pace of changes Q3 2014/ Q3 2013
1	Sales revenue, including:	3 100 448	3 351 548	-251 099	-7,5%	1 047 122	1 198 874	-12,7%
1.1	Transport revenue and railway shipping	2 829 093	3 049 684	-220 591	-7,2%	954 561	1 089 262	-12,4%
2	Revenues from sales of goods and materials	39 617	140 884	-101 267	-71,9%	15 962	26 835	-40,5%
3	Other operating revenues	28 815	25 342	3 473	13,7%	5 968	835	614,8%
4	Total operating revenue	3 168 881	3 517 774	-348 893	-9,9%	1 069 052	1 226 544	-12,8%

Source: The Quarterly Condensed Consolidated Financial Statement of the PKP CARGO Group for the period of 9 months of 2014 ended on 30 September 2014 prepared in accordance with IFRS EU

#### Operating expenses

In the period of 9 months of 2014 total operating expenses amounted to PLN 2,887.1 million and were lower by PLN 405 million, i.e. 12.3% as compared to the costs adjusted for 9 months of 2013.

Reduction in costs of external services was recorded which within the three quarters of 2014 reached the level of PLN 966.1 million and were lower by PLN 171.7 million, i.e. 15.1% than in the same period of 2013. This results from lower freight transport and lower costs of access to infrastructure due to more effective use of routes and lower unit access rates applied by PKP Polskie Linie Kolejowe S.A. As a result within 9 months of 2014 the costs on account of this reduced by PLN 195.7 million as compared to the last year. Among the costs of external services the following items recorded a considerable growth on transport services (by PLN 10.6 million).

Apart from reduction in the costs of external services in the period of 9 months of 2014, the decrease of cost of merchandise and raw materials sold also significantly influenced financial quantities of the PKP CARGO Group, i.e. costs of merchandise and raw materials decrease from PLN 120.0 million to PLN 26.6 million, namely by PLN 93.4 million, i.e. 77.8% less than in the period of 9 months of 2013 which is caused by reduction in revenue from sale of goods and materials by PLN 101.3 million, i.e. 71.9% in the same period.

In the period of 9 months of 2014 among operating expenses as compared to 9 months of 2013 reduction was as well recorded in the costs of consumption of raw materials and supplies by PLN 57.2 million, i.e. 10,9%. This reduction is mainly a consequence of a decrease in the costs of electric and gas energy as well as of water consumption (by PLN 35.6 million, i.e. 11,1%).

Table 24 Operating costs in the PKP CARGO (thousands PLN)

	Specification	9 months 2014	9 months 2013	9 months 2013 Adjusted*	Change 2014-2013 Adjusted*	Pace of changes 2014/2013 Adjusted*	Q3 2014	Q3 2013 Adjusted*	Pace of changes Q3 2014/ Q3 2013
						Adjusted**			Adjusted*
1	Depreciation/amortisation and impairment losses	272 059	280 300	280 300	-8 241	-2,90%	90 520	94 341	-4,05%
2	Consumption of raw materials and supplies	468 096	525 297	525 297	-57 201	-10,90%	154 290	189 757	-18,69%
3	External services	966 097	1 137 827	1 137 827	-171 730	-15,10%	328 123	399 509	-17,87%
4	Taxes and charges	30 703	26 864	26 864	3 839	14,30%	10 371	8 330	24,49%
5	Employee benefits	1 072 970	1 327 087	1 118 316	-45 346	-4,10%	348 172	378 731	-8,07%
6	Other expenses by kind	29 356	46 535	46 535	-17 178	-36,90%	7 438	15 869	-53,13%
7	Cost of merchandise and raw materials sold	26 640	120 073	120 073	-93 433	-77,80%	10 774	21 973	-50,96%
8	Other operating expenses	21 200	36 869	36 869	-15 669	-42,50%	6 557	18 683	-64,90%
9	Total operational expenses	2 887 121	3 500 852	3 292 081	-404 960	-12,30%	956 244	1 127 193	-15,17%



\* Data for the purpose of presentation adjusted for the costs resulting from the Agreement ending partially the collective dispute of 10 June 2013 between the Trade Unions and PKP CARGO S.A. signed by the parties on 22 August 2013, and also from the Guarantees Pact signed on 2 September 2013, in the total amount of PLN 208.8 million.

PEN 208.8 million.

Source: The Quarterly Condensed Consolidated Financial Statement of the PKP CARGO Group for the period of 9 months of 2014 ended on 30 September 2014 prepared in accordance with IFRS EU

#### Profit on operating activities

As a result of the above-described changes of operating revenue and operating expenses the profit on the operating activities increased by PLN 56.1 million to the level of PLN 281.8 million in the period of 9 months of 2014 as compared to the adjusted profit from the operating activities in the same period of 2013.

## **EBITDA**

Result on operating activities plus depreciation and amortisation defined as EBITDA, as a result of the above-described events increased by PLN 47.8 million, i.e. 9.5% to the level of PLN 553.8 million in the period of 9 months of 2014 as compared to the adjusted EBITDA in the same period of 2013.

## Financial activities

In the period of 9 months of 2014 the Group recorded a profit from financial activities in the amount of PLN 3.8 million, thus as compared to the same period of 2013 the result on financial activities improved by PLN 17.9 million. It was influenced by increased interest revenues and improvement in net forex result.

## Profit before tax

In the period of 9 months of 2014 profit before tax increased by PLN 74 million to the level of PLN 285.6 million as compared to the adjusted profit before tax in the same period of 2013. Increase in profit before tax was, above all, a result of improvement of ratio of revenue to operating expenses.

## Income tax

In the period of 9 months of 2014 the Group reported income tax in the amount of PLN 58.2 million, out of which deferred tax amounted to PLN 49.2 million, and current tax to PLN 8.9 million.

#### Net profit

In the period of 9 months of 2014 net result increased as compared to the adjusted net result for 9 months of 2013 by PLN 63.1 million, i.e. 38,4% and reached PLN 227.4 million.



## 5.1.2. Description of the structure of assets, equity and liabilities

Table 25 Horizontal and vertical analysis of assets (thousands PLN)

	As of	As of	Structure	of assets	Dynamics o	fichanges
	30/09/2014	31/12/2013	30/09/2014	31/12/2013	Dynamics	Changes
ASSETS						
Non-current assets						
Property, plant and equipment	3 986 681	3 855 446	72.4%	67,1%	131 235	3.4%
Intangible assets	55 054	61 395	1.0%	1.1%	-6 341	-10,3%
Goodwill	2 712	2 712	0.0 %	0.0 %	0	0.0 %
Investment properties	1 375	1 415	0.0 %	0.0 %	-40	-2,8%
Investments accounted for under the equity method	34 297	38 214	0.6%	0.7%	-3 917	-10,3%
Other long-term financial assets	6 051	6 090	0.1%	0.1%	-39	-0,6%
Other long-term non-financial assets	1 730	1 438	0.0 %	0.0 %	292	20,3 %
Deferred tax assets	34 236	83 185	0.6%	1.4%	-48 949	-58 <b>,</b> 8%
Total non-current assets	4 122 136	4 049 895	74,88%	70,51%	72 241	1.8%
Current assets						
Inventory	83 287	76 041	1.5%	1.3%	7 246	9.5%
Trade and other receivables	582 318	609 267	10.6%	10.6%	-26 949	-4,4%
Income tax receivables	298	2 394	0.0 %	0.0 %	-2 096	-87,6%
Other short-term financial assets	315 781	691 404	5.7%	12.0%	-375 623	-54,3%
Other short-term non-financial assets	33 986	33 355	0.6%	0.6%	631	1.9%
Cash and cash equivalents	349 338	263 700	6.3%	4.6%	85 638	32,5%
Assets s held for sale	17 560	17 560	0.3%	0.3%	0	0.0 %
Total current assets	1 382 568	1 693 721	25.1%	29.5%	-311 153	-18,4%
Total assets	5 504 704	5 743 616	100.0%	100.0%	-238 912	-4.2%

Source: The Quarterly Condensed Consolidated Financial Statement of the PKP CARGO Group for the period of 9 months of 2014 ended on 30 September 2014 prepared in accordance with IFRS EU



Table 26 Horizontal and vertical analysis of equity and liabilities (thousands PLN)

	As of	As of	Structure of			
	30/09/2014	31/12/2013	liabil 30/09/2014	31/12/2013	Dynamics of	r cnanges
EQUITY AND LIABILITIES			30,03,2021	01,11,1010		
Equity						
Share capital	2 239 346	2 166 901	40,7%	37,7%	72 445	3.3%
Share premium	615 343	692 761	11.2%	12.1%	-77 418	-11.2%
Other items of equity	-17 451	-16 392	-0.3%	-0.3%	-1 059	6.5%
Retained earnings	694 472	603 247	12.6%	10.5%	91 225	15,1%
Equity attributable to the shareholders of the parent company	3 531 710	3 446 517	64,2%	60.0%	85 193	2,5%
Equity attributable to non-controlling interest	63 130	62 377	1.1%	1.1%	753	1.2%
Total equity	3 594 840	3 508 894	65,3%	61,1%	85 946	2.4%
Non-current liabilities						
Long-term bank loans and credit facilities	176 649	121 558	3.2%	2.1%	55 091	45,3%
Long-term finance lease liabilities and leases with purchase option	215 147	313 136	3.9%	5.5%	-97 989	-31,3%
Long-term trade and others liabilities	79 873	113 688	1.5%	2.0%	-33 815	-29,7%
Long-term provisions for employee benefits	566 886	592 923	10.3%	10.3%	-26 037	-4,4%
Other long-term provisions	8 416	22 854	0.2%	0.4%	-14 438	-63,2%
Other long-term financial liabilities	-	-	-	-	-	· -
Deferred tax provision	2 419	2 577	0.0 %	0.0 %	-158	-6,1%
Total non-current liabilities	1 049 390	1 166 736	19,1%	20,3%	-117 349	-10,1%
Current liabilities						
Short-term bank loans and credit facilities	76 337	73 217	1.4%	1.3%	3 120	4.3%
Short-term finance lease liabilities and leases with purchase option	128 291	115 790	2.3%	2.0%	12 501	10.8%
Short-term trade and other liabilities	528 794	675 841	9.6%	11.8%	-147 047	-21.8%
Short-term provisions for employee benefits	98 950	176 461	1.8%	3.1%	-77 511	-43,9%
Other short-term provisions	23 889	26 127	0.4%	0.5%	-2 238	-8,6%
Other short-term financial liabilities	2 877	306	0.1%	0.0 %	2 571	840,2%
Income tax liability	1 336	244	0.0 %	0.0 %	1 092	447,5%
Liabilities directly related to non-current assets held for sale	-	-	-	-	-	-
Total current liabilities	860 474	1 067 986	15.6%	18.6%	-207 512	-19,4%
Total liabilities	1 909 864	2 234 722	34.7%	38.9%	-324 858	-14,5%
Total equity and liabilities	5 504 704	5 743 616	100.0%	100.0%	-238 912	-4.2%

Source: The Quarterly Condensed Consolidated Financial Statement of the PKP CARGO Group for the period of 9 months of 2014 ended on 30 September 2014 prepared in accordance with IFRS EU

#### 5.1.3. Selected financial and operational ratios

The following table presents key financial and operational ratios of the PKP CARGO Group in the 9 months of 2014 and in the 9 months of 2013.

**Table 27 Selected financial and operational ratios** 

Specification	9 months 2014	9 months 2013	9 months 2013 Adjusted*	Change 2014-2013 Adjusted*	Pace of changes 2014/2013 Adjusted*	Q3 2014	Q3 2013 Adjusted*	Pace of changes Q3 2014/ Q3 2013 Adjusted*
EBITDA margin <sup>1</sup>	17,48	8,45	14,38	3,09	21,50%	19,02	15,79	20,44%
Net profit margin <sup>2</sup>	7,18	-0,14	4,67	2,5	53,60%	9,28	7,14	30,04%
Net financial debt to EBITDA <sup>3</sup>	-0,12	-0,53	-0,31	0,19	-	-0,32	-0,34	-
ROA⁴	4,13	-0,08	2,89	1,24	43,10%	1,8	0,02	-
ROE <sup>5</sup>	6,33	-0,14	4,7	1,62	34,50%	2,76	0,03	-
Average distance covered by 1 locomotive (km a day) <sup>6</sup>	246,3	254,9	254,9	-8,6	-3,40%	238,1	248,9	-4,34%
Average train tonnage gross per working locomotive (in tons) <sup>7</sup>	1475	1457	1457	18	1,20%	1499	1473	1,77%
Average working time of locomotives (hrs. a day) <sup>8</sup>	15,4	15,3	15,3	0,1	0,70%	15,7	15,5	1,29%
Freight turnover per hired (thousands tkm/hired) <sup>9</sup>	801,44	834,73	834,73	-33,29	-4,00%	289,16	307,79	-6,05%

<sup>\*</sup> Data for the purpose of presentation adjusted for the costs resulting from the Agreement ending partially the collective dispute of 10 June 2013 between the Trade Unions and PKP CARGO S.A. signed by the parties on 22 August 2013, and also from the Employees' Guarantees Pact signed on 2 September 2013 in the total amount of PLN 208.8 million.

- 1. Calculated as the quotient of profit on operating activities plus depreciation/amortisation and impairment losses, and total operating revenue \* 100.
- 2. Calculated as the quotient of net profit and total operating revenue \* 100.
- 3. Calculated as the quotient of net financial debt (being the sum of (i) long-term loans and bank credit facilities; (ii) short-term loans and bank credit facilities; (iii) long term finance lease liabilities and lease with a purchase option; and (v) other current financial liabilities, less (i) cash and cash equivalents; and (ii) other short-term financial assets) and EBITDA (profit on operating activities increased by Depreciation/amortisation and impairment losses.)
- 4. Calculated as the quotient of net profit and total assets \* 100.
- 5. Calculated as the quotient of net profit and equity \* 100.
- 6. Calculated as the quotient of vehicle-kilometres (i.e. distance covered by PKP CARGO Group vehicles in a given period) and vehicle-days (i.e. the product of the number of operational vehicles and the number of calendar days in the given period)
- 7. Calculated as the quotient of gross ton-kilometres and train-kilometres in freight movement in reference to locomotives pulling a train (in double traction, or working on the pushing side in the given period).
- 8. Calculated as the quotient of vehicle-hours (i.e. number of hours worked by PKP CARGO Group vehicles in a given period) and vehicle-days (i.e. the product of the number of operational vehicles and the number of calendar days in the given period)
- 9. Calculated as the quotient of freight turnover by the Group by the average employment (in FTE's) in the Group in the given period.

Source: Own review

EBITDA margin and net profit margin for 9 months of 2014 increase as compared to the adjusted EBITDA margin and net profit margin in the same period of 2013 by 3.1 p.p. and 2.5 p.p., respectively. Improvement in indexes is a derivative of increase in operating profit and increase in net result in connection with improvement in cost effectiveness of the PKP CARGO Group..

Also, increase in the net profit influenced improvement in the ROA and ROE indexes which in the period of 9 months of 2014 increased as compared to the adjusted values of respective indexes in 2013 by 1.2 p.p. and by 1.6 p.p respectively.

An index of the net financial debt to EBITDA both in the period of three quarters 2014, and in the period of three quarters of 2013 reached the negative value due to a surplus of cash and cash equivalents and other short-term financial assets over the liabilities.

In the three quarters of 2013 average daily mileage of locomotives was 254.9 km/day. In the same period of 2014 this index reduced by 8.6 km/day, falling to the level of 246.3 km/day. Thus, decrease in average daily mileage by 3.4% occurred. The fundamental reason for this phenomenon was growth in closures and operating difficulties on the network of PKP PLK.

Increase occurred in average gross mass of a train per locomotive from 1457.0 tons (Jan-Sep 2013) to 1475.0 tons (Jan-Sep 2014). Thus, increase took place by 18.0 tons (growth in average mass of trains led by 1.2%). It is an effect of more efficient use of locomotives and optimisation of the transport process.



In the three quarters of 2013 average daily working time of locomotives was 15.3 hrs./day. In the same period of 2014 this amount increased by 0.1 hrs./day, reaching the level of 15.4 hrs./day. Thus, increase occurred in average working time of locomotives by 0.7%. This results from continuous monitoring of the freight process and simultaneous adjustment of the number of operational locomotives to variable freight volumes and the level of closures and operating difficulties on the network of PKP PLK.

## 5.2. Factors which will influence the financial results over the next quarter

#### **Acquisitions**

Outcome of the ongoing acquisition processes in which PKP CARGO S.A. is currently participating should have impact on the Group's results achieved. The Company informed about the acquisition processes concerning the companies of AWT and CTL Logistics with current reports No. 56/2014 and No. 57/2014.

On 1 September 2014 an initial agreement was reached with shareholders of the company of Advanced World Transport B.V. on potential purchase by the Company of 100% stake in AWT, which agreement allowed the Company to enter into negotiations on the terms and conditions of binding contracts as regards the Potential Transaction. The Agreement entitled the Company to perform due diligence of the enterprise of AWT and subsidiaries thereof. Despite the fact that market exclusivity expired on 20 October 2014, the Company and Potential Sellers decided to conduct further negotiations on a non-exclusive basis.

On 2 September 2014 a letter of intent was signed with European Rail Freight II S.à r.l. the majority shareholder of CTL Logistics Sp. z o.o. on potential purchase by PKP CARGO S.A. of 100% of shares from all CTL shareholders.

At the beginning of September 2014 works have been initiated in connection with the capital entrance of PKP CARGO S.A. to Pol-Miedź Trans Sp. z o.o. It is intended to purchase up to 50% stake in the company, fully owned by KGHM Polska Miedź S.A.

On 30 September 2014 PKP CARGO in a consortium with Węglokoks submitted a binding offer to purchase 100% stake in the company of Port Gdański Eksploatacja S.A.

## Fees for access to the network

The results of activities of the PKP CARGO Group are largely dependent on the amount of network access fees incurred. Cost of network access fees accounts for 17.5% of operating costs in the Group of PKP CARGO. The level of fees for network access fees in Poland was and still is relatively high, in particular as compared to other EU countries. Rates of network access fees are calculated by PKP PLK and are subject to approval by the Chairman of UTK.

As of 15 December 2013, a new price list of network fess is applicable for the period until 13 December 2014, in which the average network rate has been reduced by approx. 20%. According to the decision of the Chairman of UTK, dated 28 October 2014, on approval of unit rates of the basic fee for minimum access to the network in 2015, rates for freight trains in 2015 will remain at similar levels to those binding in 2014. One should bear in mind, however, that after reduction in 2013, the cost of access to the infrastructure is still high in Poland and is a major item in the costs of freight, and a significant factor hindering the competitiveness of rail freight compared to road transport.

## Condition of railway infrastructure

The activities of the PKP CARGO Group is dependent on the condition of the railway infrastructure, which is still inefficient in Poland, as compared with railway infrastructures of other, more developed EU countries, such as Germany or France. Although the rail network is dense in a large portion of the country, railway lines, in particular those used by freight carriers, are of low quality. It was only recently that investment began in Poland in modernisation of the railway infrastructure, in order to improve quality standards.

In its operations, PKP CARGO Group predominantly uses railway lines owned by PKP PLK, a company controlled by the State Treasury. Due to the inadequate technical condition, caused, above all, by many years of negligence in modernisation and maintenance of railway lines, the maximum commercial speed on railway lines managed by PKP PLK, and the throughput of the lines, is low. Average commercial speed of freight trains in Poland is twice as low as the European average. This results in



higher demand for employees and the necessity of keeping, maintaining and servicing more rolling stock in order to perform the haulage.

Technical regulations concerning the rolling stock

The rolling stock utilised in rail transport must comply with applicable standards and technical requirements, which determine the scale of the Group's modernisation and repair activities. The related expenditure is directly dependent on the current technical condition of the rolling stock held and the resulting mandatory scheduled overhauls. In the reporting period, the repair activities of PKP CARGO Group were maintained on a higher level compared with the same period of 2013.level.

#### Situation on the coal market

Hard coal is a core freight group of PKP CARGO Group, and the situation on this market has a major impact on the results achieved and on the market share. In the period of 9 months in 2014 deterioration is observed in the Polish mining sector, which is affected by the conditions in the Polish and world market - mainly low demand, large stock of coal, competition on the part of renewable energy sources, oversupply in raw material and, as a consequence, decrease in the prices of coal (now ca. 70 USD/t, whereas in 2011 more than 120 USD/t) and low price of coal on the Polish market – after 8 months of 2014 coal price stood at the level of 276.58 PLN/t - 21.23 PLN less than in the same period of the previous year (i.e. by ca. 7% yoy).

In July 2014, PKP CARGO S.A. signed two contracts with the ENEA company for the transport of nearly 4.6 million tons of coal. By July 2015 PKP CARGO S.A. will have transported 1 million tons of steam coal for ENEA from Silesian mines and 3.6 million tons of coal mined by Bogdanka in Lublin, thus the total share of PKP CARGO in coal transport from LW Bogdanka over this period would breach over 96%.

# 5.3. Position of the Management Board as regards the feasibility of achieving previously published forecasts of results for the year

The Management Board of PKP Cargo S.A. decided not to publish forecasts or approximate data that could be considered as forecasts.

## 5.4. Information on the production assets

## 5.4.1. Rolling stock

Traction rolling stock and wagons are the main elements of productive assets of PKP CARGO Group. Changes in the rolling stock of the Group result directly from activities causing its reduction, such as the cassation of the rolling stock, and activities causing increase of the quantity by purchasing of the rolling stock.

The basic cause of decrease in the number of wagons in the period of 9 months of 2014 was scrapping as a result of poor technical condition causing the loss of capacity of further operation.

Data on the quantity of the rolling stock of PKP CARGO Group is presented below with breakdown into the type of traction and the ownership structure.

Table 28 Structure of locomotives used by PKP CARGO Group by type of traction and ownership

Specification	30.09.2014	31.12.2013	30.06.2014	Change from the beginning of the year	Change in the Q3 2014
diesel locomotives	1 300	1 298	1 299	2	1
electrical locomotives	1 162	1 162	1 162	0	0
Total	2 462	2 460	2 461	2	1
owned locomotives (including financial lease)	2 451	2 450	2 450	1	1
locomotives in operational leasing or rented	11	10	11	1	0
Total	2 462	2 460	2 461	2	1

Source: Own review



Table 29 Structure of wagons used by PKP CARGO Group by type of ownership

Specification	30.09.2014	31.12.2013	30.06.2014	Change from the beginning of the year	Change in the Q3 2014
wagons owned (including financial lease)	62 429	63 021	62 929	-592	-500
wagons in operational leasing or rented	228	84	81	144	147
Total	62 657	63 105	63 010	-448	-353

Source: Own review

## 5.4.2. Real estate

In the transport process, taking into consideration the need to guarantee respective maintenance and repair facilities, real estate plays an important role. Most of the real estate used by PKP CARGO Group is used on the basis of lease and rent agreements. The following table presents the condition of real estate in the period of III quarters of 2014

Table 30 Own and used real estate of PKP CARGO Group as at the date of 30.09.2014. as compared to 31.12.2013

Specification	30.09.2014	31.12.2013*	Change in the Q3 2014
Lands owned, in perpetual usufruct and leased from other entities [ha]	1 009,48	1 015,60	-6,12
Buildings own, leased and rented from other entities [m <sup>2</sup> ]	686 631,36	704 576,40	-17 945,04

<sup>\*</sup> Surfaces of real estate according to state as at 31.12.2013 are larger as compared to data specified for this date in previous consolidated reports due to additional covering of CARGOTOR Sp. z o.o. with consolidation from the first half of 2014



#### 6. Other material information and events

### 6.1. Proceedings in court, arbitration or public administrative authorities

PKP CARGO S.A. and subsidiaries take part in proceedings concerning their obligations and liabilities, however, the total value of obligations and liabilities does not constitute accordingly at least 10% of the Company's equity.

The largest proceedings with regard to obligations and liabilities of the Company

- 1. Proceedings pending as a result of a cash fine of PLN 60 362 071.69 imposed with a decision of the President of the Office for Competition and Consumer Protection ("UOKiK") no. DOC-3/2009 of 7 July 2009. As a result of a ruling of the Supreme Court of 3 October 2013, ref. no. III SK 67/12 rulings of courts of 1st and 2nd instance were repealed. Therefore, the President of UOKiK repaid the fine to PKP CARGO S.A. On 17 March 2014 the Court of Competition and Consumer Protection ("SOKiK") repealed the decision of the President of UOKiK no. DOC-3/2009. Since the deadline for effective lodging of the appeal by the UOKiK, has passed on 4 August 2014 an amount of 12 555 310.91 PLN was received at the bank account of the Company, which constitutes the refund of the interest on the said fine. On 22 August 2014 the Management Board of PKP CARGO S.A. received information from the President of UOKiK, in which the President of UOKiK notifies about a further conduct of the anti-trust proceedings regarding abuse by PKP CARGO of the dominant position on the domestic rail freight market during the period from 1 May 2006 to 20 April 2007. As at the date of submitting the foregoing report, the Management Board of PKP CARGO S.A. sees no basis to for completion of this proceedings with a decision to impose another cash fine on the Parent Company. Due to the early stage of the proceedings, it cannot be excluded that as a result of the occurrence of future events, the assessment of the Management Board may be changed and may have an impact on the financial information presented in subsequent reporting periods.
- 2. PKP CARGO S.A.'s appeal of the Decision of the President of UOKiK no. RWR 44/2012 of 31 December 2012. The aforementioned decision states abuse by PKP CARGO S.A. of its dominant position on the domestic rail freight market in the period from 1 April 2011 until 31 March 2012 by counteracting development of conditions necessary for emergence or development of competition, involving hindering of Majkoltrans Sp. z o.o. company's possibility of competing with freight forwarding companies of PKP CARGO Group, which led the President of UOKiK to imposing a fine of PLN 16 575 676.95. On 26 June 2013 PKP CARGO S.A. submitted a response to the letter of the President of UOKiK to SOKiK, in which it applied for change of decision as a whole, by statement of not having found the practice in question being used. The decision of UOKiK is not final and binding. The date of the hearing was scheduled by the SOKiK for 1 December of 2014.
- 3. On 7 April 2014 PKP CARGO S.A. filed an action against PROKONT Sp. z o.o., claiming payment of PLN 62 475 646.00 for outstanding debt for intermodal freight supplied to PROKONT Sp. z o.o. in 2011-2012. On 21 October 2014 a ruling in absentia was rendered taking into account the full demand of PKP CARGO S.A.
- 4. CTL Logistics Sp. z o.o. (CTL) by the suit of 17 June 2013 has been claiming payment of compensation from PKP CARGO S.A. at PLN18 435 325.00 along with statutory interest from the date of filing the suit until the payment date. Suit concerning the demand of payment relates to CTL's claims for the repair of the damage which PKP CARGO S.A. purportedly caused to CTL as a result of improper functioning of the settlement system in 2002 The hearing concerning CTL suit scheduled for 29 October has been withdrawn. New date of the hearing shall be appointed after the end of mediation (planned for 31 March 2015).

#### Other (administrative) proceedings

- 1. In March 2013, an investigation procedure was initiated by the UOKiK for determining if, in connection with principles for providing access to railroad infrastructure and the rules for providing rail freight services, , in particular the pricing policy applied by PKP CARGO S.A., provisions of the Competition and Consumer Protection Act of 16 February 2007 might be violated. The UOKiK submitted inquiries as part of the investigation procedure and requested that information and clarifications be provided. PKP CARGO S.A. submitted the requested information.
- 2. On 28 May 2013, the President of the UTK issued a decision, stating PKP CARGO's infringement of the railroad industry regulation of Art. 5 (3) of the Act on Railroad Transportation, consisting of PKP CARGO S.A. combining rail freight operations with actual execution of functions assigned to the railway infrastructure administrator. The President



of the UTK scheduled a deadline for 31 December 2013 for the removal of identified irregularities. On 12 June 2013, PKP CARGO S.A. submitted a request for the President of UTK for reconsideration of the matter. The procedure was extended until 29 November 2013. The procedure initiated by the aforementioned application ended in issue of the UTK decision of 31 December 2013, in which the President of the UTK sustained the UTK decision 28 May 2013, including the fulfilment of the obligation until 31 December 2013. In both decisions no fine was imposed on PKP CARGO. On 14 February 2014 PKP CARGO S.A. filed a complaint to the Provincial Administrative Court ("WSA") in Warsaw, in which the Company fully appealed against the decision of the UTK. In its ruling rendered on 12 November 2014, the WSA dismissed PKP CARGO's complaint and thus stated that the decision of the President of the UTK was correct. The ruling is not final and binding. PKP CARGO S.A. has the right to lodge a cassation complaint the to the Supreme Administrative Court ("NSA").

- 3. In 2012 the European Commission initiated explanatory proceedings regarding the alleged anti-competition activities of PKP CARGO S.A. as part of railway services conducted in Poland. So far the European Commission sent one letter with a request for information. PKP CARGO S.A. on 21 September 2012 provided the requested information. At the same time, the company informed the European Commission that the scope of the conducted proceedings coincides to a great extent with the object of explanatory proceedings conducted by the UTK, which is the Polish regulator of railroad transportation.
- 4. On 30 December of 2013, a letter of the Wrocław office of the UOKiK was received by PKP CARGO S.A., which notified of investigation procedure being initiated for preliminary determination of whether the actions of PKP CARGO S.A. in relation to Majkoltrans infringe upon provisions of the Competition and Consumer Protection Act of 16 February 2007 (Journal of Laws No.50, item 331 as amended), in particular Art. 9 thereof. On 3 February 2014 the Company provided its responses to the aforementioned letter.

## 6.2. Related parties transactions

In the period of 9 months 2014, no transaction with associated entities has been entered into on conditions other than arms' length terms. No such transactions were entered into after the balance sheet date.

## 6.3. Information about guarantees for credit or loans

No guarantees of loans or credit were issued by PKP CARGO S.A. or its subsidiary jointly to one entity or a subsidiary of such an entity, the equivalent of which is at least 10% of equities of PKP CARGO S.A.

# 6.4. Other information essential to evaluate personnel, material and financial situation and changes to such situations, as well as information essential to evaluate potential to satisfy obligations by the issuer

In addition to information presented in this Report, no other information was identified which is essential to evaluate personnel, material and financial situation and changes to such situations, as well as information essential to evaluate potential to satisfy obligations by the issuer.



This Consolidated Quarterly Report has been authorized by the Management Board of PKP Cargo S.A. on 12 November 2014

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

