PKP CARGO GROUP'S CONSOLIDATED QUARTERLY REPORT FOR Q1 2017

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QUARTELY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE **PKP CARGO** GROUP FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017 PREPARED IN ACCORDANCE WITH IFRS AS ENDORSED BY THE EUROPEAN UNION

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QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

**QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 MARCH 2017**

	Note	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (restated*)
Revenue from sales of services and finished goods	6	1 077 580	1 014 043
Revenue from sales of merchandise and raw materials		9 920	8 757
Other operating revenue	8.1	12 701	11 554
Total operating revenue		**1 100 201**	**1 034 354**
Depreciation / amortization and impairment losses	7.1	143 841	142 359
Consumption of raw materials and energy	7.2	170 643	162 818
External services	7.3	372 006	366 568
Taxes and charges		10 310	7 026
Employee benefits	7.4	371 185	385 348
Other expenses by kind	7.5	13 056	11 563
Cost of merchandise and raw materials sold		7 396	8 336
Other operating expenses	8.2	8 588	12 144
Total operating expenses		**1 097 025**	**1 096 162**
Profit / (loss) on operating activities		**3 176**	**(61 808)**
Financial revenue	9.1	10 087	390
Financial expenses	9.2	15 184	14 559
Share in the profit / (loss) of equity accounted entities	13	2 019	1 364
Profit / (loss) before tax		**98**	**(74 613)**
Income tax	10.1	1 532	(8 235)
NET PROFIT / (LOSS)		**(1 434)**	**(66 378)**
Other comprehensive income			
Other comprehensive income that will be reclassified to profit or loss:		**(17 040)**	**1 072**
The effective portion of gains / (losses) on a cash flow hedging instrument		19 404	606
Income tax on other comprehensive income	10.3	(3 687)	(115)
Foreign exchange differences on translation of financial statements of foreign entities		(32 757)	581
Total other comprehensive income		**(17 040)**	**1 072**
TOTAL COMPREHENSIVE INCOME		**(18 474)**	**(65 306)**
Net profit / (loss) attributable to:			
Shareholders of the parent company		(1 434)	(66 378)
Total comprehensive income attributable to:			
Shareholders of the parent company		(18 474)	(65 306)
Earnings per share (PLN per share)			
Basic earnings per share:	20.1	(0,03)	(1,48)
Diluted earnings per share:	20.2	(0,03)	(1,48)

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

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

**QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION
PREPARED AS AT 31 MARCH 2017**

	Note	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)	As at 31/03/2016 (restated*)
ASSETS				
Non-current assets				
Property, plant and equipment	11	4 594 168	4 700 550	4 763 797
Intangible assets		52 066	55 831	62 495
Investment properties		1 244	1 257	1 296
Investments accounted for under the equity method	13	41 988	40 810	41 204
Trade and other receivables	17	1 767	2 223	5 101
Other long-term financial assets	14	12 531	8 649	9 841
Other long-term non-financial assets	15	34 700	25 987	26 394
Deferred income tax assets	10.4	113 137	107 554	109 941
Total non-current assets		**4 851 601**	**4 942 861**	**5 020 069**
Current assets				
Inventories	16	125 238	121 189	130 799
Trade and other receivables	17	627 143	639 866	702 131
Income tax receivables		2 081	2 793	3 276
Other short-term financial assets	14	257 635	892	5 254
Other short-term non-financial assets	15	51 440	27 277	49 847
Cash and cash equivalents	18	447 674	755 919	137 900
		1 511 211	**1 547 936**	**1 029 207**
Non-current assets classified as held for sale		-	-	43 210
Total non-current assets		**1 511 211**	**1 547 936**	**1 072 417**
Total assets		**6 362 812**	**6 490 797**	**6 092 486**

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

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 MARCH 2017 (continued)

	Note	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)	As at 31/03/2016 (restated*)
EQUITY AND LIABILITIES				
Equity				
Share capital	19.1	2 239 346	2 239 346	2 239 346
Share premium		618 666	618 666	619 407
Other items of equity		27 164	11 447	(2 288)
Foreign exchange differences on translation of financial statements of foreign entities		27 213	59 970	32 081
Retained earnings		312 006	313 440	380 093
Total equity		**3 224 395**	**3 242 869**	**3 268 639**
Non-current liabilities				
Long-term bank loans and credit facilities	21	1 206 019	1 273 605	585 632
Long-term finance lease liabilities and leases with purchase option	23	123 518	140 923	182 761
Long-term trade and other payables	24	1 160	1 845	17 018
Long-term provisions for employee benefits	25	524 447	525 571	607 156
Other long-term provisions	26	25 974	26 420	28 443
Other long-term financial liabilities	22	901	1 042	-
Deferred tax provision	10.4	101 610	106 675	115 104
Total non-current liabilities		**1 983 629**	**2 076 081**	**1 536 114**
Current liabilities				
Short-term bank loans and credit facilities	21	235 710	197 803	299 292
Short-term finance lease liabilities and leases with purchase option	23	58 979	59 567	58 700
Short-term trade and other payables	24	601 685	670 021	642 162
Short-term provisions for employee benefits	25	111 996	99 256	109 353
Other short-term provisions	26	23 624	24 950	19 257
Other short-term financial liabilities	22	113 530	118 889	158 028
Current income tax liabilities		9 264	1 361	941
Total current liabilities		**1 154 788**	**1 171 847**	**1 287 733**
Total liabilities		**3 138 417**	**3 247 928**	**2 823 847**
Total equity and liabilities		**6 362 812**	**6 490 797**	**6 092 486**

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

OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

QUARTERLY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 MARCH 2017

			Other items of equity						
	Share capital	Share premium	Actuarial gains / losses on post employment benefits	Gains / losses on a cash flow hedging instrument	Foreign exchange differences on translation of financial statements of foreign entities	Retained earnings	Attributable to shareholders of the parent company	Attributable to non-controlling interests	Total
As at 1/01/2017 (audited)	**2 239 346**	**618 666**	**13 521**	**(2 074)**	**59 970**	**313 440**	3 242 869	-	3 242 869
Net profit / (loss) for the period	-	-	-	-	-	(1 434)	(1 434)	-	(1 434)
Other net comprehensive income for the period	-	-	-	15 717	(32 757)	-	(17 040)	-	(17 040)
Total comprehensive income	**-**	**-**	**-**	**15 717**	**(32 757)**	**(1 434)**	(18 474)	-	(18 474)
As at 31/03/2017 (unaudited)	**2 239 346**	**618 666**	**13 521**	**13 643**	**27 213**	**312 006**	3 224 395	-	3 224 395
As at 1/01/2016 (audited)	**2 239 346**	**619 407**	**(3 880)**	**1 101**	**31 500**	**446 471**	3 333 945	-	3 333 945
Net profit / (loss) for the period	-	-	-	-	-	(66 378)	(66 378)	-	(66 378)
Other net comprehensive income for the period	-	-	-	491	581	-	1 072	-	1 072
Total comprehensive income	**-**	**-**	**-**	**491**	**581**	**(66 378)**	(65 306)	-	(65 306)
As at 31/03/2016 (restated*)	**2 239 346**	**619 407**	**(3 880)**	**1 592**	**32 081**	**380 093**	3 268 639	-	3 268 639

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

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

QUARTERLY CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 MARCH 2017 (INDIRECT METHOD)

	Note	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (restated*)
Cash flows from operating activities			
Profit / (loss) before tax		**98**	**(74 613)**
Adjustments:			
Depreciation of property, plant and equipment and amortization of intangible assets	7.1	143 841	141 891
Impairment loss on non-current assets	7.1	-	468
(Gain) / loss on disposal / liquidation of property, plant and equipment, intangible assets and non-current assets classified as held for sale		(5 215)	(806)
(Gain) / loss on investing activities		-	-
Foreign exchange (gain) / loss		(2 819)	(2 392)
(Gain) / loss on interest, dividends		7 445	7 383
Share in (profit) / loss of equity accounted entities	13	(2 019)	(1 364)
Interest received / (paid)		491	(161)
Income tax received / (paid)		(2 410)	(3 663)
Other adjustments		9 589	736
Changes in working capital:			
(Increase) / decrease in trade and other receivables		12 639	(49 805)
(Increase) / decrease in inventories		6 269	(1 806)
(Increase) / decrease in other assets		(33 212)	(36 331)
Increase / (decrease) in trade and other payables		(46 403)	(106 092)
Increase / (decrease) in other financial liabilities		(5 500)	656
Increase / (decrease) in provisions		9 844	13 463
Net cash provided by operating activities		**92 638**	**(112 436)**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(118 436)	(175 047)
Proceeds from sale of property, plant and equipment, intangible assets and non-current assets classified as held for sale		7 854	4 117
Interest received		1 092	316
Dividends received		600	-
Granted loans		(120)	-
Repayment of loans granted		-	125
Outflows from bank deposits over 3 months		(250 000)	-
Net cash provided by investing activities		**(359 010)**	**(170 489)**
Cash flows from financing activities			
Payments of liabilities under finance lease		(12 610)	(20 245)
Payments of interest under lease agreement	9.2	(1 580)	(2 332)
Proceeds from credit facilities / loans received	21.1	80 181	199 347
Repayment of credit facilities / loans received	21.1	(94 422)	(28 823)
Interest paid on credit facilities / loans received		(7 456)	(3 972)
Grants received		-	1 627
Other outflows from financing activities		(313)	(968)
Net cash provided by financing activities		**(36 200)**	**144 634**
Net increase / (decrease) in cash and cash equivalents		(302 572)	(138 291)
Opening balance of cash and cash equivalents	18	755 919	276 191
Effect of changes in foreign exchange rates on cash balances in foreign currencies		(5 673)	-
Closing balance of cash and cash equivalents	18	**447 674**	**137 900**

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

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

EXPLANATORY NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS AT 31 MARCH 2017

1. General information

1.1 Information about the Parent Company

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

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

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

Management Board:

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

Supervisory Board:

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

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

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

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

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

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

1.1 Information about the Parent Company (continued)

The Parent Company's shareholders as at 31 March 2017 was as follows:

Entity	Registered office	Number of shares	% of share capital	% of voting rights
PKP S.A.[(1)]	Warsaw	14 784 194	33,01%	33,01%
Nationale-Nederlanden OFE [(2)]	Warsaw	6 854 195	15,30%	15,30%
MetLife OFE [(3)]	Warsaw	2 494 938	5,57%	5,57%
Aviva OFE [(4)]	Warsaw	2 338 371	5,22%	5,22%
TFI PZU S.A. [(5)]	Warsaw	2 302 843	5,14%	5,14%
Other shareholders		16 012 376	35,76%	35,76%
Total		**44 786 917**	**100,00%**	**100,00%**

(1) As per notice sent by shareholder on 24 June 2014.
(2) As per notice sent by shareholder on 18 October 2016.
(3) As per notice sent by shareholder on 18 August 2016.
(4) As per notice sent by shareholder on 13 August 2014.
(5) As per notice sent by shareholder on 27 March 2017.

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

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

1.2 Information about the Group

As at the balance sheet date the PKP CARGO Group (hereinafter referred to as the Group) comprises PKP CARGO S.A. as the parent company and 28 subsidiary companies. In addition, the Group has 6 associated companies and shares in 4 joint ventures.

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

The Group's main area of activity is the rail transport of freight. In addition to the rail transport of freight, the Group provides the following services:
a) intermodal services,
b) shipping services (domestic and international),
c) terminal services,
d) siding and track line services,
e) rolling stock maintenance and repair services,
f) reclamation services.

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

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

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

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

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

These Quarterly Condensed Consolidated Financial Statements have been prepared on a historical cost basis, with the exception of derivative financial instruments measured at fair value and liabilities relating to put options for non-controlling interests.

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

These Quarterly Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 25 May 2017.

3. Basis for the application of International Financial Reporting Standards

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

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

- **IFRS 15 "Revenue from Contracts with Customers"** – applies to annual periods beginning on and after 1 January 2018. This standard specifies how and when to recognize revenue, and calls for more detailed disclosures. The standard replaces IAS 18 Revenue, IAS 11 Construction Contracts and several interpretations relating to recognition of revenue. The new standard requires the disclosure in the financial statements of much more information on the nature, amount, distribution in time and uncertainty with regard to revenue and cash flows from contracts with customers.
- **Clarifications to IFRS 15 "Revenue from Contracts with Customers"** – apply to annual periods beginning or and after 1 January 2018.
- **IFRS 9 "Financial Instruments"** – applies to periods beginning on and after 1 January 2018. IFRS 9 introduces an approach to the classification and valuation of financial assets that reflects the business model in which they are managed and the nature of the cash flows. IFRS 9 introduces a new model of impairment testing, which will require a more timely recognition of anticipated credit losses. The new model will also result in the introduction of a standardized approach to impairment tests used on all financial instruments. In addition, IFRS 9 introduces a new model of hedge accounting, requiring extensive risk management disclosures. The changes are meant to adapt the methods used to recognize risk management matters in the financial statements, to allow entities to better reflect their actions in the financial statements.

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

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

At present the IFRS endorsed by the EU do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, amendments to standards and interpretations, which as at 31 March 2017 had not yet been endorsed by the EU and were not effective:

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

The Group is analyzing the effect on its accounting policies of the published IFRS 16 "Leases" and IFRIC 22 "Foreign Currency Transactions and Advance Consideration". Our initial analysis of the effect of IFRS 16 on the existing accounting methods indicates that the Group will have to recognize retrospectively its significant lease liabilities and asset items (mainly land, buildings and constructions), which are currently covered by long-term operating lease or rental agreements. The Group is currently in the process of identifying the agreements that are subject to the new requirements and of developing preliminary models for the valuation and recognition of the above agreements in the financial statements. At this stage it is not possible to quantify the effect of IFRS 16 on the Group's financial statements. The Group has analyzed the potential effect of the other above-listed standards, interpretations and amendments to standards on its accounting policies. In the opinion of the Parent Company's Management Board, they will have no material effect on the existing accounting policies.

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

4.1 Statement on accounting policies

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

4.2 Material values based on professional judgement and estimates

In the period of 3 months ended 31 March 2017 no changes were made in methodology or assumptions adopted by the Parent Company's Management Board when making estimates, with an significant effect on the current or future periods.

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

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

4.4 Functional currency and presentation currency

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

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

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

Foreign exchange differences resulting form the above translation are recognized in equity as foreign exchange differences on translation of foreign entity financial statements.

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

Currency	Statement of financial position items		Statement of comprehensive income and statement of cash flows items	
	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (unaudited)
EUR	4,2198	4,4240	4,2891	4,3559
CZK	0,1559	0,1637	0,1586	0,1611
HUF	0,0137	0,0142	0,0139	0,0139

5. Prior period error adjustment

Starting with the Consolidated Financial Statements for the financial year ended 31 December 2016, the Company has corrected a prior period error in its value added tax settlements with the Tax Inspection Office.

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

To ensure comparability of the presented data, the Group has restated its comparatives for the period of 3 months ended 31 March 2016. The effect of the restatements is presented below. The information presented in the explanatory notes to these Quarterly Condensed Consolidated Financial Statements has also been restated accordingly.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

5. Prior period error adjustment (continued)

QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 MARCH 2016

	3 months ended 31/03/2016 (unaudited)	Adjustment of value added tax settlements	3 months ended 31/03/2016 (restated)
Financial expenses	14 228	331	14 559
Profit / (loss) before tax	**(74 282)**	**(331)**	**(74 613)**
NET PROFIT / (LOSS)	**(66 047)**	**(331)**	**(66 378)**
TOTAL COMPREHENSIVE INCOME	**(64 975)**	**(331)**	**(65 306)**
Net profit / (loss) attributable to:			
Shareholders of the parent company	(66 047)	(331)	(66 378)
Total comprehensive income attributable to:			
Shareholders of the parent company	(64 975)	(331)	(65 306)
Earnings per share (PLN per share)			
Basic earnings per share:	**(1,47)**	**(0,01)**	**(1,48)**
Diluted earnings per share:	**(1,47)**	**(0,01)**	**(1,48)**

QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2016

	As at 31/032016 (unaudited)	Adjustment of value added tax settlements	As at 31/03/2016 (restated)
ASSETS			
Current assets			
Trade and other receivables	713 399	(11 268)	702 131
Total current assets	**1 083 685**	**(11 268)**	**1 072 417**
Total assets	**6 103 754**	**(11 268)**	**6 092 486**
EQUITY AND LIABILITIES			
Equity			
Retained earnings	400 345	(20 252)	380 093
Total equity	**3 288 891**	**(20 252)**	**3 268 639**
Current liabilities			
Short-term trade and other payables	633 178	8 984	642 162
Total current liabilities	**1 278 749**	**8 984**	**1 287 733**
Total liabilities	**2 814 863**	**8 984**	**2 823 847**
Total equity and liabilities	**6 103 754**	**(11 268)**	**6 092 486**

QUARTERLY CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 MARCH 2016 [INDIRECT METHOD]

	3 months ended 31/03/2016 (unaudited)	Adjustment of value added tax settlements	3 months ended 31/03/2016 (restated)
Cash flows from operating activities			
Profit / (loss) before tax	**(74 282)**	**(331)**	**(74 613)**
Changes in working capital:			
(Increase) / decrease in trade and other receivables	(50 868)	1 063	(49 805)
Increase / (decrease) in trade and other payables	(105 360)	(732)	(106 092)
Net cash provided by operating activities	**(112 436)**	**-**	**(112 436)**
Increase / (decrease) in net cash and cash equivalents	(138 291)	-	(138 291)
Opening balance of cash and cash equivalents	276 191	-	276 191
Closing balance of cash and cash equivalents	**137 900**	**-**	**137 900**

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

6. Revenue from the sale of services and finished goods

6.1 Operating segment products and services

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

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

6.2 Geographical information

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

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

	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (unaudited)
Poland	738 061	701 660
Czech Republic	148 815	176 171
Germany	57 573	37 108
Slovakia	27 298	14 982
Italy	25 131	13 970
France	14 732	18 057
Other countries	65 970	52 095
Total	**1 077 580**	**1 014 043**

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

	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
Poland	3 924 985	3 971 390
Czech Republic	785 942	840 775
Other countries	13 239	12 270
Total	**4 724 166**	**4 824 435**

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

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

	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (unaudited)
Transport revenue and railway shipping	909 305	840 685
Revenue from other transport activities	39 407	38 808
Siding and traction revenue	60 803	66 169
Cargo revenue	19 091	22 847
Reclamation services	16 218	13 243
Other revenue (1)	32 756	32 291
Total	**1 077 580**	**1 014 043**

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

6.3 Structure of revenue from the sale of services and finished products (continued)

(1) The item other revenue for the period of 3 months ended 31 March 2017 consists primarily of revenue from renting assets in the amount of PLN 10.626 thousand, from customs services in the amount of PLN 4.060 thousand, from the sale of finished goods in the amount of PLN 4.705 thousand, as well as from rolling stock repairs in the amount of PLN 5.511 thousand.

In the period of 3 months ended 31 March 2016, the other revenue item consisted primarily of revenue from renting assets in the amount of PLN 10.680 thousand, from customs services in the amount of PLN 3.494 thousand, from the sale of finished goods in the amount of PLN 6.166 thousand and from rolling stock repairs in the amount of PLN 4.309 thousand.

7. Expenses by kind

7.1 Depreciation / amortization and impairment

	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (unaudited)
Depreciation of property, plant and equipment	139 543	136 706
Amortization of intangible assets	4 298	5 185
Recognized / (released) impairment allowances:		
Property, plant and equipment	-	468
Total	**143 841**	**142 359**

7.2 Consumption of raw materials and energy

	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (unaudited)
Consumption of fuel	45 592	36 235
Consumption of materials	24 395	24 976
Consumption of electricity, gas and water	100 710	101 680
Recognized / (derecognized) impairment losses	(393)	(318)
Other	339	245
Total	**170 643**	**162 818**

7.3 External services

	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (unaudited)
Access to infrastructure connections	161 720	154 633
Repair services	6 704	8 316
Rental and lease fees for real properties and rolling stock	39 525	52 474
Transport services	111 630	96 641
Telecommunications services	1 943	2 243
Legal, advisory and similar services	4 471	4 553
IT services	11 460	12 540
Services related to property maintenance and operation of fixed assets	6 583	6 962
Cargo services	5 133	6 403
Siding services	2 486	2 818
Reclamation services	8 608	9 097
Other services	11 743	9 888
Total	**372 006**	**366 568**

7.4 Employee benefits

	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (unaudited)
Salaries and wages	270 809	286 289
Costs of social insurance	58 957	62 545
Contributions to Company Social Benefits Fund	6 627	6 655
Other employment benefits	10 615	9 642
Post-employment benefits	2 259	1 250
Changes in provisions for employee benefits	21 546	18 029
Other costs of employee benefits	372	938
Total	**371 185**	**385 348**

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

7.5 Other expenses by kind

	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (unaudited)
Business travel	7 538	7 695
Insurance	3 224	3 033
Other	2 294	835
Total	**13 056**	**11 563**

8. Other operating revenue and expenses

8.1 Other operating revenue

	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (unaudited)
Gains on disposal		
Gain on the sale of non-financial assets	6 186	1 150
Derecognized impairment losses		
Trade receivables	1 129	221
Other receivables	5	6
	1 134	227
Other		
Penalties and damage compensation	3 510	4 405
Release of provision for fine from UOKiK	-	357
Release of other provisions	692	1 241
Interest on trade and other receivables	554	234
Net results on foreign exchange on trade receivables and trade payables	-	3 140
Grants	141	124
Other	484	676
Total	**12 701**	**11 554**

8.2 Other operating expenses

	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (unaudited)
Recognized impairment losses		
Trade receivables	785	3 995
Other receivables	-	25
	785	4 020
Other		
Penalties and damage compensation	1 963	2 481
Costs of liquidating non-current and current assets	738	1 380
Provision for fine from UOKiK	-	2 032
Other provisions	329	671
Court and collection costs	346	200
Costs of transport benefits for non-employees	293	955
Interest on trade and other payables	141	68
Net results on foreign exchange on trade receivables and trade payables	2 611	-
Donations (1)	1 013	-
Other	369	337
Total	**8 588**	**12 144**

(1) The item consists of the book value of assets contributed based on a donation agreement to the cultural institution Wolsztyn Steam Engine Depot, which was formed by the Parent Company jointly with the Wielkopolskie Voivodship, the County of Wolsztyn and the Municipality of Wolsztyn in the year 2016.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

9. Financial revenue and expenses

9.1 Financial revenue

	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (unaudited)
Interest income		
Bank deposits and accounts	2 500	181
Loans granted	81	135
Other (including interest on state settlements)	26	73
Total interest income	**2 607**	**389**
Other		
Gain on valuation of assets and liabilities measured at fair value through profit or loss, of which:		
Valuation of liability relating to put options for non-controlling interests	5 359	-
Valuation of forward contracts	114	-
	5 473	-
Net result on foreign exchange differences	2 007	-
Other	-	1
Total	**10 087**	**390**

9.2 Financial expenses

	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (restated*)
Interest expense		
Interest on loans and borrowings	7 353	3 972
Interest on liabilities under finance lease agreements	1 580	2 332
Interest on long-term liabilities	262	895
Other (including interest on state settlements)	813	627
Total interest expense	**10 008**	**7 826**
Other		
Loss on the valuation of financial assets and liabilities measured at fair value through profit or loss, of which:		
Valuation of liability relating to put options for non-controlling interests	-	856
Valuation of forward contracts	-	(811)
	-	45
Unwinding discount on employee benefits provision	4 920	5 018
Net result on foreign exchange differences	-	1 279
Other	256	391
Total	**15 184**	**14 559**

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

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

10. Income tax

10.1 Income tax recognized in profit or loss

	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (unaudited)
Current income tax		
Current tax expense	10 609	579
Adjustments recognized in current year relating to tax from previous years	395	-
	11 004	579
Deferred income tax		
Deferred tax occurred in the reporting period	(9 472)	(8 814)
Income tax recognized in profit or loss	**1 532**	**(8 235)**

The Group's current tax liability is calculated based on binding tax regulations. The application of these regulations distinguishes tax result from gross profit, due to the exclusion of non-taxable income and non-tax deductible costs, as well as costs and revenue that will never be subject to taxation. Tax liabilities are calculated based on rates binding in a given financial year. Currently binding regulations do not provide for applying different rates to future periods. The tax authorities may perform an audit of the books of account and of tax settlements within 5 years of the end of the year, in which a return was filed, and may impose on the Group additional tax and penalties with interest charges.

10.2 Tax Group

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

10.3 Deferred tax recognized in other comprehensive income

	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (unaudited)
Deferred tax on re-measurement of fair value of financial instruments designated as cash flow hedges	3 687	115
Foreign exchange differences on revaluation of deferred tax balances of foreign entities recognized in other comprehensive income (1)	(4 863)	96
Deferred tax recognized in other comprehensive income	**(1 176)**	**211**

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

10.4 Deferred income tax assets and provisions

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

	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
Deferred income tax assets	113 137	107 554
Deferred income tax provisions	(101 610)	(106 675)
Total	**11 527**	**879**

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

10.4.1 Deferred income tax movements

3 months ended 31/03/2017	**As at 01/01/2017 (audited)**	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**Foreign exchange differences on translation of deferred income tax recognized in other comprehensive income**	**As at 31/03/2017 (unaudited)**
Temporary differences relating to deferred income tax assets / (provisions):					
Property, plant and equipment, intangible assets and non-current assets held for sale (including finance leases)	(183 033)	12 033	-	5 478	(165 522)
Long-term liabilities	(97)	50	-	-	(47)
Inventories	936	(1 328)	-	(15)	(407)
Receivables – impairment allowance	7 138	(71)	-	(28)	7 039
Interest accrued on assets	(241)	(244)	-	-	(485)
Interest accrued on liabilities	182	(23)	-	-	159
Provisions for employee benefits	118 565	1 845	-	(120)	120 290
Other provisions	3 904	818	-	(126)	4 596
Accrued expenses	6 008	2 282	-	-	8 290
Deferred income	(3 080)	(3 237)	-	-	(6 317)
Unpaid employee benefits	7 375	(476)	-	(3)	6 896
Foreign exchange differences	2 235	(529)	(1 836)	-	(130)
Valuation of derivative instruments	218	(22)	(1 851)	-	(1 655)
Other	-	1 518	-	(2)	1 516
	(39 890)	**12 616**	**(3 687)**	**5 184**	**(25 777)**
Unused tax losses (1)	40 769	(3 144)	-	(321)	37 304
Total	**879**	**9 472**	**(3 687)**	**4 863**	**11 527**

(1) As at 31 March 2017 deferred income tax assets on tax losses to be used in future periods represented the loss of the Parent Company in the amount of PLN 139.330 thousand, and of the subsidiary companies in the amount of PLN 57.002 thousand. The tax loss in the amount of PLN 166.673 thousand will be deductible in the five consecutive tax years following the end of operations of the Tax Group. The other tax losses will be deductible for five consecutive years from their incurrence. The Parent Company's Management is of the opinion that as at 31 March 2017 there is no threat of not being able to realize the above assets.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

10.4.1 Deferred income tax movements (continued)

3 months ended 31/03/2016	As at 01/01/2016 (audited)	Recognized in profit or loss	Recognized in other comprehensive income	Foreign exchange differences on translation of deferred income tax recognized in other comprehensive income	As at 31/03/2016 (unaudited)
Temporary differences relating to deferred income tax assets / (provisions):					
Property, plant and equipment, intangible assets and non-current assets held for sale (including finance leases)	(185 146)	11 711	-	(93)	(173 528)
Trade payables	4 608	(4 608)	-	-	-
Long-term liabilities	(543)	170	-	-	(373)
Inventories	466	205	-	1	672
Receivables – impairment allowance	6 856	620	-	-	7 476
Interest accrued on assets	(157)	(2)	-	-	(159)
Interest accrued on liabilities	(6)	-	-	-	(6)
Provisions for employee benefits	133 800	1 682	-	3	135 485
Other provisions	4 652	(26)	-	-	4 626
Accrued expenses	7 265	1 895	-	-	9 160
Deferred income	(4 731)	(1 826)	-	-	(6 557)
Unpaid employee benefits	7 188	(152)	-	(3)	7 033
Foreign exchange differences	1 582	(500)	(4)	-	1 078
Valuation of derivative instruments	450	(158)	(111)	-	181
Other	858	285	-	-	1 143
	(22 858)	**9 296**	**(115)**	**(92)**	**(13 769)**
Unused tax losses [(1)]	9 092	(482)	-	(4)	8 606
Total	**(13 766)**	**8 814**	**(115)**	**(96)**	**(5 163)**

[(1)] As at 31 March 2016 deferred income tax assets on tax losses to be used in future periods represented the loss of the subsidiary companies in the amount of PLN 45.295 thousand.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

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

	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
Deferred income tax assets on the following tax losses were not recognized as at the balance sheet date	111 952	115 682

Tax losses not included in the calculation of a deferred income tax asset as at 31 March 2017 represent the losses incurred by the companies of the AWT Group in the amount of PLN 101.108 thousand (AWT B.V. in the amount of PLN 58.194 thousand, AWT Coal Logistics s.r.o. in the amount of PLN 28.770 thousand, AWT Rail HU Zrt. in the amount of PLN 14.144 thousand), the loss of PKP CARGOTABOR USŁUGI Sp. z o.o. in the amount of PLN 7.540 thousand and of CARGOSPED Terminal Braniewo Sp. z o.o. in the amount of PLN 3.304 thousand. Whereas as at 31 December 2016 the tax losses not included in the calculation of a deferred income tax represented the losses of the companies of the AWT Group in the amount of PLN 104.774 thousand (AWT B.V. in the amount of PLN 59.333 thousand, AWT Coal Logistics s.r.o. in the amount of PLN 30.930 thousand and AWT Rail HU Zrt. in the amount of PLN 14.511 thousand), the loss of PKP CARGOTABOR USŁUGI Sp. z o.o. in the amount of PLN 7.540 thousand and of CARGOSPED Terminal Braniewo Sp. z o.o. in the amount of PLN 3.368 thousand.

The unused tax losses on which no deferred tax assets were recognized as at 31 March 2017 may be used in the following future years:

Year	2017	2018	2019	2020	2021	2022 and later	Total
Unused tax losses	5 479	6 046	17 598	19 330	38 413	25 086	**111 952**

The unused tax losses on which no deferred tax assets were recognized as at 31 December 2016 could have been used in the following future periods:

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

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

11. Property, plant and equipment

Period of 3 months ended 31 March 2017 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
As at 1 January 2017 (audited)	**162 389**	**742 757**	**381 563**	**5 925 512**	**39 889**	**44 274**	**7 296 384**
Additions / (disposals):							
Acquisition	-	-	-	-	-	85 734	**85 734**
Foreign exchange differences on translation of financial statements of foreign entities	(795)	(5 169)	(1 846)	(38 855)	(95)	(476)	**(47 236)**
Transfer of fixed assets under construction into use	10	1 382	5 947	80 426	96	(87 861)	**-**
Sale	(878)	(231)	(415)	(3 833)	(23)	-	**(5 380)**
Liquidation	-	(4 033)	(546)	(59 839)	(35)	-	**(64 453)**
Other	(686)	(3 280)	(343)	(4 303)	(1 161)	-	**(9 773)**
As at 31 March 2017 (unaudited)	**160 040**	**731 426**	**384 360**	**5 899 108**	**38 671**	**41 671**	**7 255 276**
Accumulated depreciation							
As at 1 January 2017 (audited)	**-**	**167 999**	**241 431**	**1 953 606**	**31 223**	**-**	**2 394 259**
Additions / (disposals):							
Depreciation charges	-	8 308	8 691	121 883	661	-	**139 543**
Foreign exchange differences on translation of financial statements of foreign entities	-	(462)	(344)	(5 184)	(18)	-	**(6 008)**
Sale	-	(11)	(311)	(3 486)	(23)	-	**(3 831)**
Liquidation	-	(3 158)	(532)	(41 365)	(35)	-	**(45 090)**
Other	-	(3 280)	(342)	(4 108)	(1 161)	-	**(8 891)**
As at 31 March 2017 (unaudited)	**-**	**169 396**	**248 593**	**2 021 346**	**30 647**	**-**	**2 469 982**
Accumulated impairment							
As at 1 January 2017 (audited)	**2 380**	**1 924**	**317**	**194 486**	**8**	**2 460**	**201 575**
Additions / (disposals):							
Sale	-	-	-	(5)	-	-	**(5)**
Liquidation	-	(829)	-	(7 971)	-	-	**(8 800)**
Foreign exchange differences on translation of financial statements of foreign entities	(9)	(4)	-	(1 631)	-	-	**(1 644)**
As at 31 March 2017 (unaudited)	**2 371**	**1 091**	**317**	**184 879**	**8**	**2 460**	**191 126**
Net value							
As at 1 January 2017 (audited)	**160 009**	**572 834**	**139 815**	**3 777 420**	**8 658**	**41 814**	**4 700 550**
of which finance leases	-	-	*8 633*	*319 689*	-	-	***328 322***
As at 31 March 2017 (unaudited)	**157 669**	**560 939**	**135 450**	**3 692 883**	**8 016**	**39 211**	**4 594 168**
of which finance leases	-	-	*7 247*	*309 960*	-	-	***317 207***

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

11. Property, plant and equipment (continued)

Period of 3 months ended 31 March 2016 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
As at 1 January 2016 (audited)	**153 323**	**735 423**	**362 904**	**5 441 611**	**39 283**	**30 332**	**6 762 876**
Additions / (disposals):							
Acquisition	-	-	-	-	-	181 424	**181 424**
Finance leases	-	-	-	2 108	-	-	**2 108**
Foreign exchange differences on translation of financial statements of foreign entities	12	51	24	564	2	162	**815**
Transfer of fixed assets under construction into use	-	3 062	2 389	179 046	123	(184 620)	**-**
Grants	-	-	-	-	-	(1 627)	**(1 627)**
Sale	-	-	(114)	(413)	(71)	-	**(598)**
Liquidation	-	-	(655)	(30 203)	(2)	(208)	**(31 068)**
As at 31 March 2016 (unaudited)	**153 335**	**738 536**	**364 548**	**5 592 713**	**39 335**	**25 463**	**6 913 930**
Accumulated depreciation							
As at 1 January 2016 (audited)	**-**	**129 544**	**215 838**	**1 508 843**	**28 717**	**-**	**1 882 942**
Additions / (disposals):							
Depreciation charges	-	7 842	8 418	119 202	1 244	-	**136 706**
Foreign exchange differences on translation of financial statements of foreign entities	-	(2)	(4)	(53)	(1)	-	**(60)**
Sale	-	-	(80)	(293)	(71)	-	**(444)**
Liquidation	-	-	(552)	(29 131)	(2)	-	**(29 685)**
Other	-	-	111	-	-	-	**111**
As at 31 March 2016 (unaudited)	**-**	**137 384**	**223 731**	**1 598 568**	**29 887**	**-**	**1 989 570**
Accumulated impairment							
As at 1 January 2016 (audited)	**751**	**8 809**	**317**	**147 799**	**8**	**2 502**	**160 186**
Additions / (disposals):							
Recognition of impairment loss	133	335	-	-	-	-	**468**
Use of impairment loss	-	-	-	(93)	-	-	**(93)**
Foreign exchange differences on translation of financial statements of foreign entities	-	2	-	-	-	-	**2**
As at 31 March 2016 (unaudited)	**884**	**9 146**	**317**	**147 706**	**8**	**2 502**	**160 563**
Net value							
As at 1 January 2016 (audited)	**152 572**	**597 070**	**146 749**	**3 784 969**	**10 558**	**27 830**	**4 719 748**
of which finance leases	-	-	*12 427*	*346 493*	-	-	***358 920***
As at 31 March 2016 (unaudited)	**152 451**	**592 006**	**140 500**	**3 846 439**	**9 440**	**22 961**	**4 763 797**
of which finance leases	-	-	*11 565*	*331 478*	-	-	***343 043***

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

12. Subsidiaries

Detailed information about consolidated subsidiaries as at 31 March 2017 and 31 December 2016:

No.	Name of subsidiary	Core business	Place of registration and operations	Percent of shares held by the Group	
				As at 31/03/2017	As at 31/12/2016
1	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Services in support of land transport, reloading of cargo and wholesale and retail of waste and scrap	Małaszewicze	100,0%	100,0%
2	PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	Reloading of cargo at other reloading centers	Żurawica	100,0%	100,0%
3	PKP CARGO SERVICE Sp. z o.o.	Comprehensive siding services	Warsaw	100,0%	100,0%
4	PKP CARGO CONNECT Sp. z o.o.	Shipping services	Warsaw	100,0%	100,0%
5	PKP CARGOTABOR Sp. z o.o.	Maintenance and repair of rolling stock	Warsaw	100,0%	100,0%
6	PKP CARGOTABOR USŁUGI Sp. z o.o.	Collection, processing and neutralization of waste and recovery of raw materials	Warsaw	100,0%	100,0%
7	CARGOTOR Sp. z o.o.	Management of logistics and service infrastructure in the form of railway sidings and railroad tracks. Provision of such infrastructure to rail carriers.	Warsaw	100,0%	100,0%
8	CARGOSPED Terminal Braniewo Sp. z o.o.	Reloading of cargo, customs warehouse	Braniewo	100,0%	100,0%
9	Advanced World Transport B.V.	Holding and financial activities	Amsterdam	80,0%	80,0%
10	Advanced World Transport a.s.	Provision of comprehensive services: rail transport, rail shipping, siding services, rolling stock repairs	Ostrava	80,0%	80,0%
11	AWT ROSCO a.s.	Rolling stock management and rentals	Ostrava	80,0%	80,0%
12	AWT Čechofracht a.s.	Rail shipping and customs services	Prague	80,0%	80,0%
13	AWT Rekultivace a.s.	Provision of comprehensive services: land reclamation, construction services, waste management, landscape planning	Havirov-Prostredni Sucha	80,0%	80,0%
14	AWT Rail HU Zrt.	Provision of comprehensive services: rail transport, rail shipping, siding services	Budapest	80,0%	80,0%
15	AWT Coal Logistics s.r.o.	Rail shipping	Prague	80,0%	80,0%

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12. Subsidiaries (continued)

Detailed information about other subsidiaries belonging to the Group as at 31 March 2017 and 31 December 2016:

No.	Name of subsidiary	Core business	Place of registration and operations	Percent of shares held by the Group	
				As at 31/03/2017	As at 31/12/2016
16	ONECARGO Sp. z o.o.	Rail transport of freight	Warsaw	100,0%	100,0%
17	ONECARGO CONNECT Sp. z o.o.	Services in support of land transport	Warsaw	100,0%	100,0%
18	Trade Trans Karya Sp. z o.o.	Reloading of cargo, customs warehouse	Lublin	100,0%	100,0%
19	Transgaz S.A.	Shipping agency	Zalesie k. Małaszewicz	64,0%	64,0%
20	Trade Trans Finance Sp. z o.o.	Financial and accounting services	Warsaw	100,0%	100,0%
21	PKP CARGO CONNECT GmbH	Customs and shipping services	Hamburg	100,0%	100,0%
22	PPHU "Ukpol" Sp. z o.o.	Reloading, commercial services	Werchrata	100,0%	100,0%
23	AWT Rail SK a. s.	Rail transport, rail shipping	Bratislava	80,0%	80,0%
24	AWT Rail PL Sp. z o.o. w likwidacji	Rail shipping	Rybnik	80,0%	80,0%
25	AWT DLT s.r.o.	Siding services	Kladno	80,0%	80,0%
26	AWT Trading s.r.o.	Sale of military products	Petrvald	80,0%	80,0%
27	AWT Rekultivace PL Sp. z o.o.	Provision of comprehensive services: land reclamation, construction services, waste management, landscape planning	Cieszyn	80,0%	80,0%
28	RND s.r.o.	Rail shipping, transport monitoring	Olomouc	40,8%	40,8%

13. Investments in entities accounted for under the equity method

	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (unaudited)
Opening balance	**40 810**	**39 831**
Share in profits of entities accounted for under the equity method	2 019	1 364
Change in equity arising out of dividend payment	(600)	-
Foreign exchange differences on translation of financial statements of foreign entities	(241)	9
Closing balance	**41 988**	**41 204**

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13.1 Detailed information on entities accounted for under the equity method

Name of entity accounted for under the equity method	Percent of shares held by the Group		Carrying amount of assets	
	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
COSCO Shipping Lines (POLAND) Sp. z o.o.	20,0%	20,0%	279	763
Pol – Rail S.r.l	50,0%	50,0%	7 662	6 499
Terminale Przeładunkowe Sławków – Medyka Sp. z o.o.	50,0%	50,0%	19 537	19 593
Trade Trans Karya Sp. z o.o.	100,0%	100,0%	-	-
Transgaz S.A.	64,0%	64,0%	5 282	5 000
Trade Trans Finance Sp. z o.o.	100,0%	100,0%	494	341
PPHU "Ukpol" Sp. z o.o.	100,0%	100,0%	-	-
Rentrans Cargo Sp. z o.o.	29,3%	29,3%	3 701	3 433
Gdański Terminal Kontenerowy S.A.	41,9%	41,9%	-	-
AWT Rail SK a. s.	80,0%	80,0%	5 033	5 181
		Total	**41 988**	**40 810**

14. Other financial assets

	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
Derivative instruments		
Currency forwards	9 950	235
Investments in shares		
Shares of Polish entities [(1)]	7 089	7 141
Shares of foreign entities [(1)]	1 301	1 360
	8 390	8 501
Loans and receivables		
Loans granted to related parties	1 052	796
Deposits for over 3 months	250 774	-
	251 826	796
Other	-	9
Total	**270 166**	**9 541**
Non-current assets	12 531	8 649
Current assets	257 635	892
Total	**270 166**	**9 541**

[(1)] As at 31 March 2017 and 31 December 2016 the value of impairment allowance on investments in shares amounted to PLN 11.833 thousand.

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15. Other non-financial assets

	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
Expenses settled in time		
Contribution to Company Social Benefits Fund	25 262	-
Rental fees	13 788	14 210
Transport benefits for eligible persons	10 505	-
Insurance	7 306	7 667
Prepaid electrical energy	3 246	14 673
Other prepaid expenses	5 161	5 583
	65 268	42 133
Other		
Advances for the purchase of fixed assets	19 856	10 477
Other	1 016	654
	20 872	11 131
Total	**86 140**	**53 264**
Non-current assets	34 700	25 987
Current assets	51 440	27 277
Total	**86 140**	**53 264**

16. Inventories

	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
Raw materials	126 771	120 619
Semi-finished products	4 723	6 027
Merchandise	599	1 872
Impairment allowance	(6 855)	(7 329)
Total	**125 238**	**121 189**

17. Trade and other receivables

	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
Trade receivables	750 701	768 873
Impairment allowance for trade receivables	(146 504)	(152 873)
Total	**604 197**	**616 000**
State receivables	4 379	5 216
Guarantees, security deposits and bid bonds	2 934	1 415
VAT settlements	15 056	17 754
Other receivables	2 344	1 704
Total	**628 910**	**642 089**
Non-current assets	1 767	2 223
Current assets	627 143	639 866
Total	**628 910**	**642 089**

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

18. Cash and cash equivalents

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

	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
Cash in hand and at bank	138 476	282 870
Bank deposits for up to 3 months	309 198	473 049
Total	**447 674**	**755 919**

19. Equity

19.1 Share capital

	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
Share capital consists of:		
Ordinary shares – fully paid up and registered	2 239 346	2 239 346

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

No changes were made in the Parent Company's share capital in the period of 3 months ended 31 March 2017, or the period of 3 months ended 31 March 2016.

20. Earnings per share

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

	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (restated*)
Profit / (loss) attributable to shareholders of the parent company	**(1 434)**	**(66 378)**

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

20.1 Basic earnings per share

	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (restated*)
Weighted average number of ordinary shares	44 786 917	44 786 917
Basic earnings per share (PLN per share)	**(0,03)**	**(1,48)**

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

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

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

20.2 Diluted earnings per share

	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (restated*)
Weighted average number of ordinary shares	44 786 917	44 786 917
Diluted earnings per share (PLN per share)	**(0,03)**	**(1,48)**

No dilutive transactions occurred in the period of 3 months ended 31 March 2017 or the period of 3 months ended 31 March 2016.

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

21. Bank loans and credit facilities

	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
Overdrafts	30 073	-
Bank loans – pledged on assets	108 560	118 236
Bank loans – other	1 298 568	1 348 479
Borrowings from related parties	3 478	3 605
Borrowings from other parties	1 050	1 088
Total	**1 441 729**	**1 471 408**
Non-current liabilities	1 206 019	1 273 605
Current liabilities	235 710	197 803
Total	**1 441 729**	**1 471 408**

21.1 Changes in bank loans and credit facilities

	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (unaudited)
Opening balance	**1 471 408**	**714 169**
Taken out	80 181	199 347
Repayment	(94 422)	(28 823)
Interest accrued	(86)	36
Currency valuation	(9 663)	(13)
Foreign exchange differences on translation of financial statements of foreign entities	(5 689)	208
Closing balance	**1 441 729**	**884 924**

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21.2 Summary of credit agreements

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

Parent Company

Type of loan	Name of bank	Currency	Pledge	Interest terms and conditions	Maturity date	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
Investment loan	mBank S.A.	PLN	Bank enforcement title	WIBOR 1M + margin	30.06.2017	2 087	4 210
Investment loan	Bank Pekao S.A.	PLN	Bank enforcement title	WIBOR 1M + margin	31.12.2017	7 380	9 840
Investment loan	Bank Gospodarstwa Krajowego	PLN	Bank enforcement title	WIBOR 1M + margin	31.03.2021	351 945	377 478
Investment loan	European Investment Bank	PLN	None	WIBOR 3M + margin	29.05.2020	55 351	59 608
Investment loan	Bank Gospodarstwa Krajowego	EUR	Notary certified declaration of submission to execution	EURIBOR 3M + margin	20.12.2026	62 676	66 373
Investment loan	Bank Gospodarstwa Krajowego	EUR	Notary certified declaration of submission to execution	EURIBOR 3M + margin	20.12.2026	82 865	75 884
Investment loan	Bank Pekao S.A.	PLN	Notary certified declaration of submission to execution	WIBOR 3M + margin	31.12.2026	641 845	649 759
Investment loan	European Bank for Reconstruction and Development	PLN	None	WIBOR 6M + margin	25.09.2027	-	42 748
Investment loan	European Investment Bank	EUR	None	EURIBOR 3M + margin	29.08.2031	58 599	62 494
Overdraft	mBank S.A.	PLN	Bank enforcement title	WIBOR O/N	31.05.2017	29 616	-
					Total	**1 292 364**	**1 348 394**

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

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21.2 Summary of credit agreements (continued)

Subsidiaries

Type of loan	Name of bank	Currency	Pledge	Interest terms and conditions	Maturity date	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
Overdraft	PKO BP S.A.	PLN	Capped mortgage, pledge on inventory	WIBOR 1M + margin	15.07.2019	457	429
Investment loan	Bank Pekao S.A. (2)	PLN	Notary certified declaration of submission to execution	WIBOR 3M + margin	20.12.2021	7 124	-
Investment loan	Bank Pekao S.A. (2)	PLN	Notary certified declaration of submission to execution	WIBOR 3M + margin	31.12.2021	13 683	-
Investment loan	mBank S.A.	PLN	Guarantee granted by PKP CARGO S.A	WIBOR 1M + margin	30.06.2017	43	85
Loan	WFOŚIGW Łódź (1)	PLN	1) Blank promissory note 2) Irrevocable authorization to bank account 3) Guarantee granted by PKP CARGO S.A.	fixed	31.03.2024	1 050	1 088
Investment loan	Bank Pekao S.A. (2)	PLN	Notary certified declaration of submission to execution	WIBOR 3M + margin	31.12.2021	10 495	-
Investment loan	Bank Pekao S.A. (2)	PLN	Notary certified declaration of submission to execution	WIBOR 3M + margin	31.12.2021	4 475	-
Investment loan	ING Bank N.V. UniCredit Bank Czech Republik and Slovakia a.s. Raiffeisenbank a.s.	CZK	1) Pledge on property, plant and equipment and receivables 2) Lien on bank accounts 3) Assignment of insurance policy	PRIBOR 3M + margin	26.09.2021	46 340	48 663
Investment loan	ING Bank N.V. UniCredit Bank Czech Republik and Slovakia a.s. Raiffeisenbank a.s. (1)	EUR	1) Pledge on property, plant and equipment and receivables 2) Lien on bank accounts 3) Assignment of insurance policy	fixed	30.06.2021	62 220	69 144
Loan	AWT Rail SK a.s. (1)	EUR	None	fixed	31.12.2017	1 357	3 605
Loan	AWT Rail SK a.s. (1)	EUR	None	fixed	31.12.2017	2 121	-
					Total	**149 365**	**123 014**

(1) As at 31 March 2017 interest rates on bank credits and loans with a fixed interest rate fell within the range of 0,06% do 4%.

(2) In February and March 2017 the companies: PKP CARGO SERVICE Sp. z o.o., CARGOTOR Sp. z o.o., PKP CARGOTABOR Sp. z o.o., PKP CARGO CONNECT Sp. z o.o. concluded credit agreements with Bank Pekao S.A. to refinance the investment plan.

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21.3 Unused credit lines

Type	Name of bank	Availability period	Currency	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
Investment loan	European Investment Bank	31.12.2016	PLN	-	155 000
Investment loan	European Investment Bank	19.07.2020	EUR	108 660	113 918
Investment loan (1)	Bank Gospodarstwa Krajowego	27.12.2017	EUR	275 834	300 171
Investment loan	Bank Pekao S.A.	31.12.2016	PLN	-	50 500
Investment loan	European Bank for Reconstruction and Development	31.12.2016	EUR	-	398 160
Overdraft	mBank S.A.	31.05.2017	PLN	70 384	100 000
Overdraft	PKO BP S.A.	15.07.2019	PLN	543	572
			Total	**455 421**	**1 118 321**

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

21.4 Breaches of credit agreement

As at 31 March 2017 there have been no breaches of credit agreements.

22. Other financial liabilities

	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
Derivative instruments		
Interest rate swap (IRS)	901	1 042
Currency forwards	185	185
Liability relating to put options for non-controlling interests	113 345	118 704
Total	**114 431**	**119 931**
Non-current liabilities	901	1 042
Current liabilities	113 530	118 889
Total	**114 431**	**119 931**

23. Finance lease liabilities and leases with purchase option

As at 31 March 2017 based on lease agreements the Group uses primarily rolling stock components, technical equipment, cars and computer hardware. Currently binding agreements have been concluded for 3 to 10 years in PLN, EUR and CZK.

	As at 31/03/2017 (unaudited)			As at 31/12/2016 (audited)		
	Minimum lease payments	Future financial liabilities	Present value of minimum lease payments	Minimum lease payments	Future financial liabilities	Present value of minimum lease payments
Up to 1 year	63 939	(4 960)	58 979	65 173	(5 606)	59 567
Over 1 to 5 years	98 127	(9 795)	88 332	113 170	(10 890)	102 280
Over 5 years	35 607	(421)	35 186	39 348	(705)	38 643
Total	**197 673**	**(15 176)**	**182 497**	**217 691**	**(17 201)**	**200 490**
Long-term	133 734	(10 216)	123 518	152 518	(11 595)	140 923
Short-term	63 939	(4 960)	58 979	65 173	(5 606)	59 567
Total	**197 673**	**(15 176)**	**182 497**	**217 691**	**(17 201)**	**200 490**

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24. Trade and other payables

	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
Trade payables	278 704	327 389
Accruals	55 599	49 826
Liabilities relating to purchase of non-financial fixed assets	23 008	46 402
Security related liabilities (bid bonds, security deposits, guarantees)	19 986	20 289
State liabilities	94 459	103 170
Employee liabilities	80 128	78 836
Grants [(1)]	8 148	8 490
Other liabilities [(2)]	36 633	3 287
VAT settlements	6 180	34 177
Total	**602 845**	**671 866**
Non-current liabilities	1 160	1 845
Current liabilities	601 685	670 021
Total	**602 845**	**671 866**

[(1)] As at 31 March 2017 and 31 December 2016 the item consisted of a grant received by AWT as part of the CEF program to support the construction of a multi-modal container terminal in Paskow. The capital expenditures covered by the grant will be incurred in the subsequent periods.

[(2)] As at 31 March 2017 other liabilities consist primarily of a statutory contribution to the Social Benefits Fund in the amount of PLN 32.923 thousand.

25. Employee benefits

The 31 March 2017 valuation of provisions for employee benefits is based on the assumptions used in the valuation as at 31 December 2016.

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

	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
Defined post-employment benefit plans		
– retirement compensation	151 376	153 230
– contributions to Company Social Benefits Fund for retirees	129 726	128 614
– death benefits	6 758	6 836
– transport benefits	33 450	33 286
Other employee benefits		
– jubilee bonuses	267 854	268 875
– other employee benefits (unused annual leave / bonuses)	47 279	33 986
Total	**636 443**	**624 827**
Non-current liabilities	524 447	525 571
Current liabilities	111 996	99 256
Total	**636 443**	**624 827**

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26. Other provisions

	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
Provision for fines from antimonopoly office UOKiK	16 455	16 455
Reclamation provision	4 692	4 908
Provision for onerous contracts	7 770	8 159
Other	20 681	21 848
Total	**49 598**	**51 370**
Long-term provisions	25 974	26 420
Short-term provisions	23 624	24 950
Total	**49 598**	**51 370**

Provision for fines from antimonopoly office UOKiK

As at 31 March 2017 and 31 December 2016 the provision represented the Parent Company's Management Board's estimate in connection with the likelihood of payment of two fines imposed by the Office of Competition and Consumer Protection (UOKiK), amounting to PLN 14.224 thousand and PLN 2.231 thousand respectively.

No circumstances occurred in the period of 3 months ended 31 March 2017 causing the Management of the Parent Company to change its estimates. Future events may lead to changes in the Management Board's estimates in the subsequent reporting periods.

Reclamation provision

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

Provision for onerous contracts

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

Other

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

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

27. Financial instruments

27.1 Categories and classes of financial instruments

Financial assets by category and class	Note	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
Hedging financial instruments		**9 950**	**235**
Derivative instruments	14	9 950	235
Financial assets available for sale		**8 390**	**8 501**
Shares of unlisted companies	14	8 390	8 501
Loans and receivables		**1 303 697**	**1 372 724**
Trade receivables	17	604 197	616 000
Loans granted	14	1 052	796
Bank deposits	14	250 774	-
Other	14	-	9
Cash and cash equivalents	18	447 674	755 919
Total		**1 322 037**	**1 381 460**

Financial liabilities by category and class	Note	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
Financial liabilities measured at fair value through profit or loss		**113 345**	**118 704**
Liabilities relating to put options for non-controlling interests	22	113 345	118 704
Hedging financial instruments (1)		**205 187**	**205 938**
Derivative instruments	22	1 086	1 227
Credits and loans	21	204 101	204 711
Financial liabilities measured at amortized cost		**1 594 939**	**1 690 314**
Credits and loans	21	1 237 628	1 266 697
Trade payables	24	334 303	377 215
Liabilities relating to purchase of non-current assets	24	23 008	46 402
Financial liabilities excluded from the scope of IAS 39	23	**182 497**	**200 490**
Total		**2 095 968**	**2 215 446**

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

(1) In the period from 1 January 2017 to 31 March 2017 the Group applied cash flow hedge accounting. The objective of the hedging activities is to limit the effect of currency risk arising out of the EUR/PLN exchange rates on future cash flows. The hedged item consists of the highly probable future cash flows expressed in EUR. The following hedging instruments have been established:

– investment credits expressed in EUR starting from 1 January 2016. The hedged cash flows are being realized since February 2017. As at 31 March 2017 the nominal value of the hedging instrument was EUR 48.367 thousand, which is the equivalent of PLN 204.101 thousand,

– currency forward contracts starting from 1 June 2016. The hedged cash flows are being realized since July 2016. As at 31 March 2017 the value of the hedging instrument was PLN 9.950 thousand.

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

– interest rate swaps (IRS) to hedge cash flows relating to the future payment of lease payables at variable rates. As at 31 March 2017 the value of the liabilities arising out of the hedging instrument is PLN 901 thousand,

– currency forwards to hedge future cash flows. As at 31 March 2017 the value of the liabilities arising out of the valuation of the hedging instrument is PLN 185 thousand.

The effect of hedge accounting valuation for the period of 3 months ended 31 March 2017 and for the period of 3 months ended 31 March 2016 on the quarterly consolidated statement of comprehensive income is presented in Note 27.5 to these Quarterly Condensed Consolidated Financial Statements.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

27.2 Fair value hierarchy

As at 31 March 2017 and 31 December 2016 financial instruments measured at fair value consisted of derivative financial instruments and the liability relating to put options for non-controlling interests. The maturity dates of these instruments fall after the end of the reporting period.

Financial assets and liabilities measured at fair value	As at 31/03/2017 (unaudited)		As at 31/12/2016 (audited)	
	Level 2	Level 3	Level 2	Level 3
Assets	**9 950**	**-**	**235**	**-**
Derivative instruments – forward contracts	9 950	-	235	-
Liabilities	**1 086**	**113 345**	**1 227**	**118 704**
Derivative instruments – forward contracts and IRS	1 086	-	1 227	-
Liability relating to put options for non-controlling interests	-	113 345	-	118 704

27.3 Valuation of financial instruments measured at fair value

a) Liabilities relating to put options for non-controlling interests

The Parent Company concluded with Minezit S.E. (hereinafter "MSE", "Minezit"), a minority shareholder holding 20% of the shares of AWT, an Agreement relating to call and put options for a packet of non-controlling shares of Advanced World Transport B.V. (hereinafter AWT B.V). Based on the Agreement the Parent Company is both the buyer of call options and the issuer of put options, i.e. has the right to both buy the shares from MSE (exercising call option), as well as an obligation to buy the shares from MSE (if MSE performs the put option).

In accordance with the Parent Company's accounting policies:

- the call option has not been recognized in the consolidated statement of financial position, as it did not meet the definition of derivative instrument in IAS 39,
- the put option has been recognized using the anticipated acquisition method.

The fair value of the liability relating to the put options is based on discounted cash flows at an interest rate appropriate for such liabilities. The fair value of the put options depends on the results of the AWT Group and is determined as the product of EBITDA and the multiplier specified in the Agreement, adjusted by net debt.

The main assumptions used in the valuation are:

- EBITDA and net debt,
- the EUR/PLN exchange rate,
- the discount rate appropriate for such liabilities.

As at 31 March 2017, the model used in the valuation of liabilities relating to put options assumes that the put options will be exercised within 1 year. The EBITDA and net debt parameters of the entity that is the subject of the option contract used in the model were adopted based on financial data as at 31 December 2016. This results from the provisions of the Agreement, under which when the options are exercised the data relating to AWT's EBITDA and net debt will come from the last statutory consolidated financial statements of AWT preceding the option exercise date.

All changes to the amount of the liability after its initial recognition affect the financial result through the financial revenue and expenses. The amount recognized on re-measurement of the liability after its initial recognition is presented in Note 9 to these Quarterly Condensed Consolidated Financial Statements.

Level 3 unobservable input data used to measure the pub options at fair value are updated at the end of each financial year. The change in the valuation of the put options as at 31 March 2017 compared to 31 December 2016 was caused by a change in the EUR/PLN exchange rate. Level 3 unobservable input data are described in Note 32.1.5 to the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2016.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

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

b) Currency forward contracts

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

c) Interest rate swaps IRS

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

d) Other financial instruments

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

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

	3 months ended 31/03/2017 (unaudited)	3 months ended 31/03/2016 (unaudited)
Opening balance	**118 704**	**155 198**
Re-measurement (gains) / losses	(5 359)	856
Closing balance	**113 345**	**156 054**

There were no transfers between level 2 and 3 of the fair value hierarchy in the period of 3 months ended 31 March 2017 or in the period of 3 months ended 31 March 2016.

OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

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

3 months ended 31/03/2017 (unaudited)	Hedging financial instruments	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
Interest income / (expense)	(257)	3 135	-	(7 499)	(1 580)	(6 201)
Foreign exchange differences	-	(4 955)	-	1 510	2 841	(604)
Impairment / revaluation	114	344	5 359	-	-	5 817
Commissions on bank loans	-	-	-	(51)	-	(51)
Effect of cash flow hedge accounting [1]	1 243	-	-	-	-	1 243
Gross profit / (loss)	**1 100**	**(1 476)**	**5 359**	**(6 040)**	**1 261**	**204**
Change in valuation	19 404	-	-	-	-	19 404
Other comprehensive income	**19 404**	**-**	**-**	**-**	**-**	**19 404**

[1] In the period of 3 months ended 31 March 2017 the effect of cash flow hedge accounting disclosed in the following quarterly consolidated statement of comprehensive income items:

- revenue from the sale of services and finished products in the amount of PLN 1.480 thousand,
- financial expenses – interest on finance lease payables in the amount of PLN (237) thousand.

3 months ended 31/03/2016 (unaudited)	Financial assets measured at fair value through profit or loss	Hedging financial instruments	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
Interest income / (expense)	-	(59)	550	-	(4 876)	(2 332)	(6 717)
Foreign exchange differences	-	-	(322)	-	2 722	(539)	1 861
Impairment / revaluation	811	-	(3 793)	(856)	-	-	(3 838)
Commissions on bank loans	-	-	-	-	(73)	-	(73)
Effect of cash flow hedge accounting [1]	-	(826)	-	-	-	-	(826)
Gross profit / (loss)	**811**	**(885)**	**(3 565)**	**(856)**	**(2 227)**	**(2 871)**	**(9 593)**
Change in valuation	-	606	-	-	-	-	606
Other comprehensive income	**-**	**606**	**-**	**-**	**-**	**-**	**606**

[1] In the period of 3 months ended 31 March 2016 the effect of cash flow hedge accounting disclosed in the following quarterly consolidated statement of comprehensive income items:

- revenue from the sale of services and finished products in the amount of PLN (61) thousand,
- financial expenses – interest on finance lease payables in the amount of PLN (765) thousand.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

28. Transactions with related parties

28.1 Transaction with the State Treasury

In the period of 3 months ended 31 March 2017 and in the period of 3 months ended 31 March 2016, the State Treasury was the ultimate parent company of the PKP CARGO Group. In view of this, all of the companies belonging (directly or indirectly) to the State Treasury are the Group's related parties and are presented broken down into related entities from the PKP Group and other entities related to the State Treasury. In these Quarterly Condensed Consolidated Financial Statements the Management Board of the Parent Company has disclosed transactions with significant related parties, identified as related parties to the best of the Management's knowledge.

No individual transactions concluded between the PKP CARGO Group and the State Treasury were identified in the period of 3 months ended 31 March 2017 or in the period of 3 months ended 31 March 2016, which would be significant due to their unusual scope or amount.

28.1.1 Transactions with related parties from PKP Group

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

	3 months ended 31/03/2017 (unaudited)		3 months ended 31/03/2016 (unaudited)	
	Sales to related parties	Purchases from related parties	Sales to related parties	Purchases from related parties
Parent company (PKP S.A.)	157	17 563	153	17 389
Subsidiaries / joint ventures - unconsolidated	2 104	4 502	3 705	4 639
Associates	985	89	246	116
Other related parties from PKP Group	8 932	153 727	8 653	148 534

	As at 31/03/2017 (unaudited)		As at 31/12/2016 (audited)	
	Receivables from related parties	Liabilities to related parties	Receivables from related parties	Liabilities to related parties
Parent company (PKP S.A.)	1 959	6 373	1 247	7 811
Subsidiaries / joint ventures - unconsolidated	1 983	2 378	1 389	1 559
Associates	499	9	161	4
Other related parties from PKP Group	3 788	72 257	3 062	75 331

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

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

28.1.2 Transactions with other related parties of the State Treasury

No individual transactions concluded between the Group and the State Treasury and the State Treasury's related parties were identified in the period of 3 months ended 31 March 2017 or the period of 3 months ended 31 March 2016, which would be significant due to their unusual scope or amount. In the periods covered by these Quarterly Condensed Consolidated Financial Statements the Group's most significant customers that are companies controlled by the State Treasury were Jastrzębska Spółka Węglowa S.A., Azoty Group, Węglokoks S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. Whereas in the periods covered by these Quarterly Condensed Consolidated Financial Statements no significant purchases were recorded from companies controlled by the State Treasury.

All transactions with related parties were performed on market terms.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

28.2 Loans granted to/received from related parties

	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
Loans granted to related parties	1 052	796
Loans received from related parties	3 478	3 605

28.3 Remuneration of key management personnel

Remuneration of members of the Parent Company's Management Board:	**3 months ended 31/03/2017 (unaudited)**	**3 months ended 31/03/2016 (unaudited)**
Short-term benefits	678	844
Post-employment benefits	568	28
Severance benefits	-	432
Total	**1 246**	**1 304**

Remuneration of members of the Parent Company's Supervisory Board:	**3 months ended 31/03/2017 (unaudited)**	**3 months ended 31/03/2016 (unaudited)**
Short-term benefits	319	250
Total	**319**	**250**

Remuneration of the Parent Company's other key personnel (Representatives-Managing Directors):	**3 months ended 31/03/2017 (unaudited)**	**3 months ended 31/03/2016 (unaudited)**
Short-term benefits	-	424
Post-employment benefits	268	189
Total	**268**	**613**

Remuneration of members of the Management Boards of subsidiary companies:	**3 months ended 31/03/2017 (unaudited)**	**3 months ended 31/03/2016 (unaudited)**
Short-term benefits	1 899	1 782
Post-employment benefits	353	288
Severance benefits	-	401
Total	**2 252**	**2 471**

Remuneration of members of the Supervisory Boards of subsidiary companies:	**3 months ended 31/03/2017 (unaudited)**	**3 months ended 31/03/2016 (unaudited)**
Short-term benefits	399	337
Total	**399**	**337**

Remuneration of other key personnel (Representatives-Managing Directors) of subsidiary companies:	**3 months ended 31/03/2017 (unaudited)**	**3 months ended 31/03/2016 (unaudited)**
Short-term benefits	1 639	1 214
Severance benefits	31	145
Total	**1 670**	**1 359**

No loan or guarantee transactions were concluded with the Group by members of the key management personnel of the Parent Company or of the subsidiaries of the PKP CARGO Group in the period of 3 months ended 31 March 2017 or the period of 3 months ended 31 March 2016.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

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

The Group's future contractual investment obligations as at 31 March 2017:

Contractual obligations relating to the acquisition of non-financial fixed assets	Agreement performance period	Unrealized value of agreement as at 31/03/2017 (unaudited)
Agreement for the supply locomotives, of which:		
- supply of 3 engines,	by 30.06.2017	39 307
- supply of computer equipment	by 30.06.2017	3 095
Periodic rolling stock repairs and reviews	by 31.12.2017	8 085
Expansion of terminal in Paskow	by 31.12.2017	2 432
Other contractual obligations	by 30.09.2017	1 968
Total		**54 887**

30. Contingent liabilities

	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
Guarantees issued at the request of the Group (1)	127 911	142 251
Other contingent liabilities (2)	67 622	73 525
Total	**195 533**	**215 776**

(1) Guarantees issued at the request of the Group

As at 31 March 2017 the Group recognizes as contingent liabilities the guarantees issued by banks and insurance companies at the request of the entities comprising the PKP CARGO Group. The item consists primarily of performance bonds, bid bonds and customs bonds.

(2) Other contingent liabilities

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

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

31. Subsequent events

On 4 May 2017 the Parent Company's Management Board received a letter informing of Minezit's exercise of its right to sell (put option) to the Parent Company 15.000 of its shares, constituting 20% of the share capital of AWT, as per the Agreement concluded on 30 December 2014. The total sale price of the said shares is EUR 27.000 thousand. The Parent Company has secured funds for the exercise of the put option. The Parent Company's Management is considering alternative solutions relating to the form of payment for the performance of the put option.

32. Approval of financial statements

These Quarterly Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 25 May 2017.

The Parent Company's Management Board

Maciej Libiszewski	President of the Management Board
Grzegorz Fingas	Member of the Management Board
Jarosław Klasa	Member of the Management Board
Arkadiusz Olewnik	Member of the Management Board
Zenon Kozendra	Member of the Management Board

Warsaw, 25 May 2017

PKPCARGO

QUARTELY FINANCIAL INFORMATION OF **PKP CARGO S.A.** FOR Q1 2017

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QUARTERLY FINANCIAL INFORMATION PKP CARGO S.A. FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

SEPARATE STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2017 TO 31 MARCH 2017

	for the 3 months period ended 31/03/2017 (unaudited)	for the 3 months period ended 31/03/2016 (unaudited)
Revenue from sales of services	811 880	743 644
Revenue from sales of raw materials	1 747	4 270
Other operating revenue	4 698	9 380
Total operating revenue	**818 325**	**757 294**
Depreciation / amortisation and impairment losses	118 923	116 466
Consumption of raw materials and energy	132 694	127 477
External services	265 270	248 061
Taxes and charges	8 514	5 006
Employee benefits	282 774	293 359
Other expenses by kind	9 797	9 672
Cost of raw materials sold	684	3 824
Other operating expenses	5 376	9 583
Total operating expenses	**824 032**	**813 448**
Profit / (loss) on operating activities	**(5 707)**	**(56 154)**
Financial revenue	8 205	1 447
Financial expenses	12 287	11 493
Profit / (loss) before tax	**(9 789)**	**(66 200)**
Income tax expense	(603)	(7 951)
NET PROFIT / (LOSS)	**(9 186)**	**(58 249)**
Other comprehensive income		
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:	**15 603**	**19**
The effective portion of changes in fair value of cash-flow hedging instruments	19 263	24
Income tax on other comprehensive income	(3 660)	(5)
TOTAL COMPREHENSIVE INCOME	**6 417**	**(58 230)**
Earnings per share (PLN per share)		
Earnings per share on operations (basic):	**(0,21)**	**(1,30)**
Earnings per share on operations (diluted):	**(0,21)**	**(1,30)**

QUARTERLY FINANCIAL INFORMATION PKP CARGO S.A. FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 MARCH 2017

	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)
ASSETS		
Non-current assets		
Property, plant and equipment	3 512 729	3 561 993
Intangible assets	47 610	50 778
Investments in subsidiaries and associates	737 974	737 974
Other long-term financial assets	10 161	6 169
Other long-term non-financial assets	18 593	8 162
Deferred tax assets	80 684	76 244
Total non-current assets	**4 407 751**	**4 441 320**
Current assets		
Inventories	69 957	59 701
Trade and other receivables	410 086	413 607
Income tax receivables	-	1 304
Other short-term financial assets	263 480	87
Other short-term non-financial assets	38 518	19 716
Cash and cash equivalents	266 889	611 990
	1 048 930	**1 106 405**
Non-current assets classified as held for sale	6 000	6 000
Total current assets	**1 054 930**	**1 112 405**
Total assets	**5 462 681**	**5 553 725**
EQUITY AND LIABILITIES		
Equity		
Share capital	2 239 346	2 239 346
Share premium	589 202	589 202
Other items of equity	34 018	18 415
Retained earnings	162 291	171 477
Total equity	**3 024 857**	**3 018 440**
Non-current liabilities		
Long-term bank loans and credit facilities	1 082 230	1 170 224
Long-term finance lease liabilities and leases with purchase option	24 928	36 159
Long-term trade and other payables	42	582
Long-term provisions for employee benefits	473 112	473 965
Other long-term provisions	16 455	16 455
Non-current liabilities	**1 596 767**	**1 697 385**
Current liabilities		
Short-term bank loans and credit facilities	210 134	178 170
Short-term finance lease liabilities and leases with purchase option	42 940	43 176
Short-term trade and other payables	441 458	465 411
Short-term provisions for employee benefits	89 877	80 524
Other short-term provisions	11 636	11 640
Other short-term financial liabilities	37 279	58 979
Current tax liabilities	7 733	-
Total current liabilities	**841 057**	**837 900**
Total liabilities	**2 437 824**	**2 535 285**
Total equity and liabilities	**5 462 681**	**5 553 725**

QUARTERLY FINANCIAL INFORMATION PKP CARGO S.A. FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

STATEMENT OF CHANGES IN SEPARATE EQUITY FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 MARCH 2017

	Share capital	Share premium	Other items of equity: Actuarial gains / (losses) on post-employment benefits	Other items of equity: Gains / (losses) on a cash flow hedging instrument	Retained earnings	Total
Balance as at 1/01/2017 (audited)	**2 239 346**	**589 202**	**22 249**	**(3 834)**	**171 477**	**3 018 440**
Net result for the period	-	-	-	-	(9 186)	(9 186)
Other net comprehensive income for the period	-	-	-	15 603	-	15 603
Total comprehensive income	**-**	**-**	**-**	**15 603**	**(9 186)**	**6 417**
Balance as at 31/03/2017 (unaudited)	**2 239 346**	**589 202**	**22 249**	**11 769**	**162 291**	**3 024 857**
Balance as at 1/01/2016 (audited)	**2 239 346**	**589 202**	**3 726**	**-**	**240 042**	**3 072 316**
Net result for the period	-	-	-	-	(58 249)	(58 249)
Other net comprehensive income for the period	-	-	-	19	-	19
Total comprehensive income	**-**	**-**	**-**	**19**	**(58 249)**	**(58 230)**
Balance as at 31/03/2016 (unaudited)	**2 239 346**	**589 202**	**3 726**	**19**	**181 793**	**3 014 086**

QUARTERLY FINANCIAL INFORMATION PKP CARGO S.A. FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2017, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

SEPARATE STATEMENT OF CASH FLOWS FROM 1 JANUARY 2017 TO 31 MARCH 2017

	for the 3 months period ended 31/03/2017 (unaudited)	for the 3 months period ended 31/03/2016 (unaudited)
Cash flows from operating activities		
Profit / (loss) before tax	**(9 789)**	**(66 200)**
Adjustments:		
Depreciation of property, plant and equipment and amortisation of intangible assets	118 923	116 131
Impairment of fixed assets	-	335
(Gain) / loss on disposal / liquidation of property, plant and equipment and intangible assets classified as held for sale	1 048	(586)
(Profit) / loss on investing activities	(2 853)	(2 261)
(Gains) / losses on interest, dividends	5 157	5 592
Interest received / (paid)	493	(275)
Income taxes received / (paid)	(596)	(2 067)
Other adjustments	9 600	-
Changes in working capital:		
(Increase) / decrease in trade and other receivables	4 663	(47 882)
(Increase) / decrease in inventory	62	4 232
(Increase) / decrease in other assets	(28 247)	(34 695)
Increase / (decrease) in trade and other payables	(15 398)	(122 313)
Increase / (decrease) in other financial liabilities	(2 483)	(423)
Increase / (decrease) in provisions	8 497	9 782
Net cash (used in) / provided by operating activities	**89 077**	**(140 630)**
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(97 231)	(137 812)
Proceeds from sale of property, plant and equipment, intangible assets and non-current assets classified as held for sale	36	2 046
Interest received	949	56
Dividend received	600	-
Outflows of bank deposits over 3 months	(250 000)	-
Net cash (used in) / provided by investing activities	**(345 646)**	**(135 710)**
Cash flows from financing activities		
Payments of liabilities under finance lease	(8 615)	(15 947)
Payments of interest under lease agreement	(278)	(857)
Proceeds from credit facilities / loans received	40 349	199 043
Repayments of credit facilities / loans received	(86 597)	(27 546)
Interest on credit facilities / loans received	(7 068)	(3 382)
Grants received	-	1 627
Cash pool inflows / (outflows)	(26 048)	52 954
Other inflows / (outflows) from financing activities	(275)	(968)
Net cash (used in) / provided by financing activities	**(88 532)**	**204 924**
Net increase / (decrease) in cash and cash equivalents	(345 101)	(71 416)
Opening balance of cash and cash equivalents	611 990	84 097
Closing balance of cash and cash equivalents	**266 889**	**12 681**

OTHER INFORMATION TO **PKP CARGO** GROUP'S CONSOLIDATED QUARTERLY REPORT FOR Q1 2017

ADDITIONAL INFORMATION TO THE CONSOLIDATED QUARTERLY REPORT FOR Q1 2017

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

Table 1 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN 000s[1]		EUR 000s	
	Q1 2017	Q1 2016 (restated*)	Q1 2017	Q1 2016 (restated*)
Operating revenues	1,100,201	1,034,354	256,511	237,460
Profit / (loss) on operating activities	3,176	-61,808	740	-14,189
Profit (loss) before tax	98	-74,613	23	-17,129
Net profit (loss) from continuing operations	-1,434	-66,378	-334	-15,239
Total comprehensive income attributable to the owners of the parent company	-18,474	-65,306	-4,307	-14,993
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / (loss) per share (PLN/EUR)	-0.03	-1.48	-	-0.34
Diluted earnings / (loss) per share (PLN/EUR)	-0.03	-1.48	-	-0.34
Net cash flow from operating activities**	92,638	-112,436	21,598	-25,812
Net cash flow from investing activities	-359,010	-170,489	-83,703	-39,140
Net cash flow from financing activities	-36,200	144,634	-8,440	33,204
Movement in cash and cash equivalents	-302,572	-138,291	-70,545	-31,748
	31/03/2017	**31/12/2016**	**31/03/2017**	**31/12/2016**
Non-current assets	4,851,601	4,942,861	1,149,723	1,117,283
Current assets	1,511,211	1,547,936	358,124	349,895
Share capital	2,239,346	2,239,346	530,676	506,181
Equity	3,224,395	3,242,869	764,111	733,017
Non-current liabilities	1,983,629	2,076,081	470,077	469,277
Current liabilities	1,154,788	1,171,847	273,659	264,884

Source: Condensed quarterly consolidated financial statements of the PKP CARGO Group for the period of 3 months ended 31 March 2017 prepared according to EU IFRS

* restatement of comparative data is described in detail in Note[2] 5 to the Condensed Quarterly Consolidated Financial Statements
** including the payment of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Programs in the amount of PLN 48.2 million in Q1 2016.

[1] In this document, in the Additional Information to the Consolidated Quarterly Report of the PKP CARGO Group for Q1 2017, to facilitate the reading, some figures were rounded off which may cause slight deviations in the presented data. If there was a risk of distortion, data were presented with more accuracy.
[2] Any reference to a Note in these Statements should be construed as a Note to the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2017 prepared according to EU IFRS.

Table 2 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN 000s		EUR 000s	
	Q1 2017	Q1 2016	Q1 2017	Q1 2016
Operating revenues	818,325	757,294	190,792	173,855
Profit / (loss) on operating activities	-5,707	-56,154	-1,331	-12,891
Profit (loss) before tax	-9,789	-66,200	-2,282	-15,198
Net profit (loss) from continuing operations	-9,186	-58,249	-2,142	-13,372
Comprehensive income	6,417	-58,230	1,496	-13,368
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / (loss) per share (PLN/EUR)	-0.21	-1.30	-0.05	-0.30
Diluted earnings / (loss) per share (PLN/EUR)	-0.21	-1.30	-0.05	-0.30
Net cash flow from operating activities*	89,077	-140,630	20,768	-32,285
Net cash flow from investing activities	-345,646	-135,710	-80,587	-31,155
Net cash flow from financing activities	-88,532	204,924	-20,641	47,045
Movement in cash and cash equivalents	-345,101	-71,416	-80,460	-16,395
	31/03/2017	31/12/2016	31/03/2017	31/12/2016
Non-current assets	4,407,751	4,441,320	1,044,540	1,003,915
Current assets	1,048,930	1,106,405	248,574	250,092
Non-current assets classified as held for sale	6,000	6,000	1,422	1,356
Share capital	2,239,346	2,239,346	530,676	506,181
Equity	3,024,857	3,018,440	716,825	682,287
Non-current liabilities	1,596,767	1,697,385	378,399	383,677
Current liabilities	841,057	837,900	199,312	189,399

Source: Quarterly Financial Information of PKP CARGO S.A. for the period of 3 months ended 31 March 2017 prepared according to EU IFRS

* including the payment of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Programs in the amount of PLN 47.4 million in Q1 2016.

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

- exchange rate in force on the last day of the reporting period: 31 March 2017: EUR 1 = PLN 4.2198; 31 December 2016: EUR 1 = PLN 4.4240,
- the average exchange rate in the period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in a given period: 1 January – 31 March 2017: EUR 1 = PLN 4.2891, 1 January – 31 March 2016: EUR 1 = PLN 4.3559.

2. Organization of the PKP CARGO Group

2.1. Highlights on the Company and the PKP CARGO Group[3]

The PKP CARGO Group is a major rail freight operator in the European Union („EU"). The Group's development is focused on enhancing and extending its operations in terms of its product range and geographic area. At present, the Group is the leader on the Polish market (according to the Office of Rail Transport - UTK[4]) and it is the second largest operator on the Czech market (according to SZDC[5]). Notwithstanding the areas mentioned above, the Group conducts operations that it is constantly developing in Czech Republic, Slovakia, Germany, Austria, the Netherlands, Lithuania and Hungary.

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

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

2.2. Consolidated entities

The Condensed Quarterly Consolidated Financial Statements for the period of 3 months ended 31 March 2017 encompass PKP CARGO S.A. and 15 subsidiaries consolidated by the full method:

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

In addition, the following companies are measured using the equity method as at 31 March 2017 in the PKP CARGO Group's Condensed Quarterly Consolidated Financial Statements:

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

[4] Office of Rail Transport
[5] Správa železniční dopravní cesty (entity responsible for management of the state railway network in the Czech Republic)

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

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

PKP CARGO S.A.

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

PKP CARGO SERVICE Sp. z o.o.

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

PKP CARGOTABOR Sp. z o.o.

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

PKP CARGOTABOR USŁUGI Sp. z o.o.

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

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

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

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

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

PKP CARGO CONNECT Sp. z o.o.

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

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

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

Cargosped Terminal Braniewo Sp. z o. o.

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

CARGOTOR Sp. z o.o.

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

Advanced World Transport B.V.

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

Advanced World Transport a.s.

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

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

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

AWT Čechofracht a.s.

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

AWT Rekultivace a.s.

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

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

AWT ROSCO a.s.

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

AWT Coal Logistics s.r.o.

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

AWT Rail HU Zrt.

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

2.3. Structure of the PKP CARGO Group

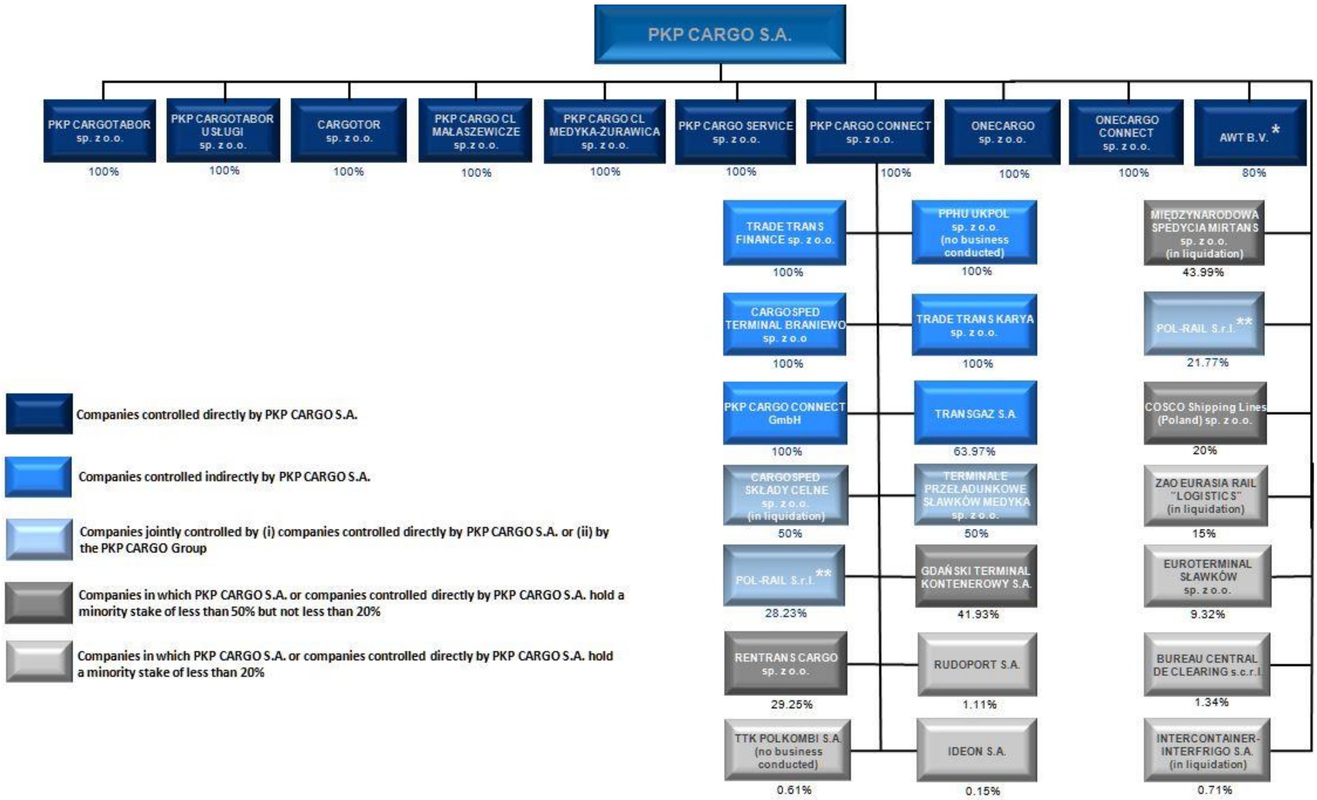
As at 31 March 2017, the PKP CARGO Group included, besides PKP CARGO S.A., 28 subsidiaries controlled directly or indirectly (by entities controlled by PKP CARGO S.A.), including:

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

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

The figure below presents the equity links between PKP CARGO S.A. and other entities as at 31 March 2017:

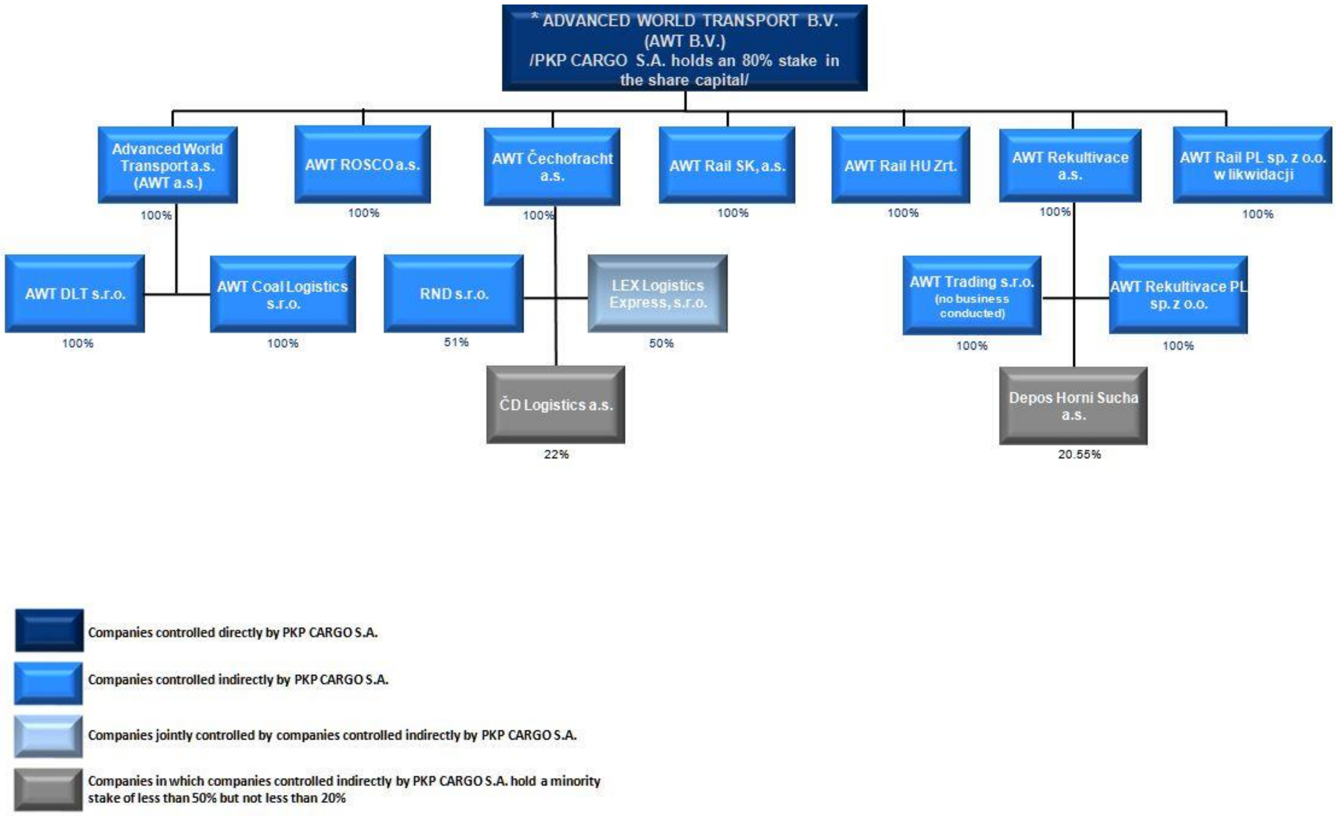
Figure 1 Structure of equity links of PKP CARGO S.A. as at 31 March 2017



Source: Proprietary material

* Figure 2 depicts the AWT Group's full structure and capital ties with companies in which the AWT Group's companies hold shares or interests (minority stakes)
** both PKP CARGO S.A. and one of the companies controlled directly by PKP CARGO S.A. - PKP CARGO CONNECT Sp. z o.o. hold shares in POL-RAIL s.r.l. with its registered office in Rome in such a manner that in total these two entities belonging to the PKP CARGO Group hold a 50% equity stake in the share capital of POL-RAIL s.r.l.

Figure 2 Structure of equity links of AWT as at 31 March 2017.



Source: Proprietary material

3. Information about the Parent Company

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

MANAGEMENT BOARD

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

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

Powers of the Management Board

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

Operation of the Management Board

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

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

Table 3 Composition of the PKP CARGO S.A. Management Board from 1 January 2017 to the delivery date of this report

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

Source: Proprietary material

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

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

   - business strategy,
   - business security and internal audit.

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

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

   - finance management,
   - purchase and sale of assets.

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

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

   - commercial policy,
   - sales of transportation services.

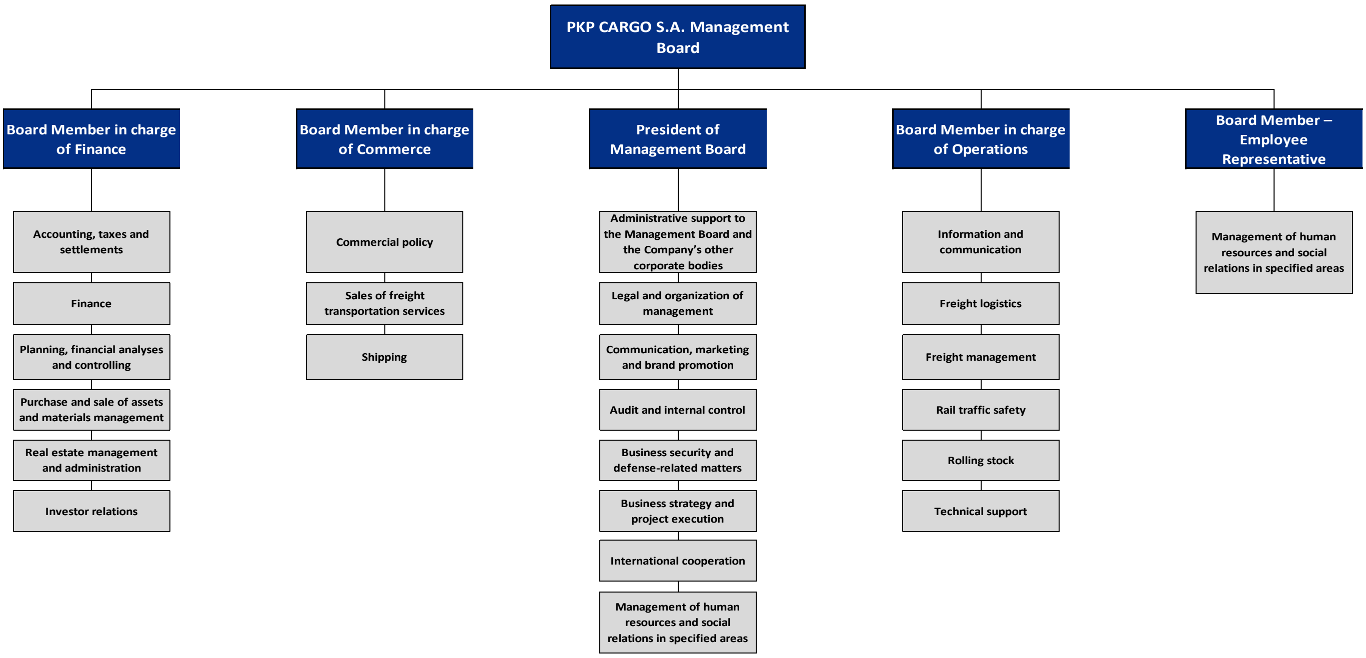
4) Management Board Member in charge of Operations – the scope of activity of the Management Board Member in charge of Operations includes caring for the effective execution of the Company's business and technological processes and overseeing the management of specific areas of the Company's activity,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

   - execution of transports,
   - maintenance of rolling stock.

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

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

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



Source: Proprietary material

SUPERVISORY BOARD

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

Powers of the Supervisory Board

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

Operation of the Supervisory Board

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

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

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

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

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

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

Source: Proprietary material

SUPERVISORY BOARD AUDIT COMMITTEE

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

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

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

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

Source: Proprietary material

NOMINATION COMMITTEE

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

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

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

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

Source: Proprietary material

STRATEGIC COMMITTEE

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

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

Name	Position	Period in office	
		from	to
Czesław Warsewicz	Committee Chairman	23 June 2016	to date
Raimondo Eggink	Committee Member	23 June 2016	to date
Andrzej Wach	Committee Member	23 June 2016	to date

Source: Proprietary material

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

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

Table 8 Structure of PKP CARGO S.A.'s share capital

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

Source: Proprietary material

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

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

Table 9 Shareholder structure of PKP CARGO S.A. as at 31 March 2017 and as at the delivery date of this report

Shareholder	Number of shares	% in share capital	Number of votes	% in the total number of votes at the Shareholder Meeting
PKP S.A. (1)	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE (2)	6,854,195	15.30%	6,854,195	15.30%
MetLife OFE (3)	2,494,938	5.57%	2,494,938	5.57%
AVIVA OFE (4)	2,338,371	5.22%	2,338,371	5.22%
TFI PZU S.A. (5)	2,302,843	5.14%	2,302,843	5.14%
Other shareholders	16,012,376	35.76%	16,012,376	35.76%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

Source: Proprietary material

(1) According to a notice sent by the shareholder on 24 June 2014.
(2) According to a notice sent by the shareholder on 18 October 2016.
(3) According to a notice sent by the shareholder on 18 August 2016.
(4) According to a notice sent by the shareholder on 13 August 2014.
(5) According to a notice sent by the shareholder on 27 March 2017.

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

The holdings of shares in the Company or rights to such shares by members of the Company's Management Board from 17 March 2017, i.e. from the delivery date of the 2016 annual report to the delivery date of this report, were as follows:

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

Name	Number of PKP CARGO S.A. shares held by Management Board members
Maciej Libiszewski	0
Arkadiusz Olewnik	0
Grzegorz Fingas	0
Jarosław Klasa	46
Zenon Kozendra	46

Source: Proprietary material

The holdings of shares in the Company or rights to such shares by members of the Company's Supervisory Board from 17 March 2017, i.e. the delivery date of the 2016 annual report to the delivery date of this report, were as follows:

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

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

Source: Proprietary material

4. Key areas of operation of the PKP CARGO Group

4.1. Macroeconomic environment

Polish economy

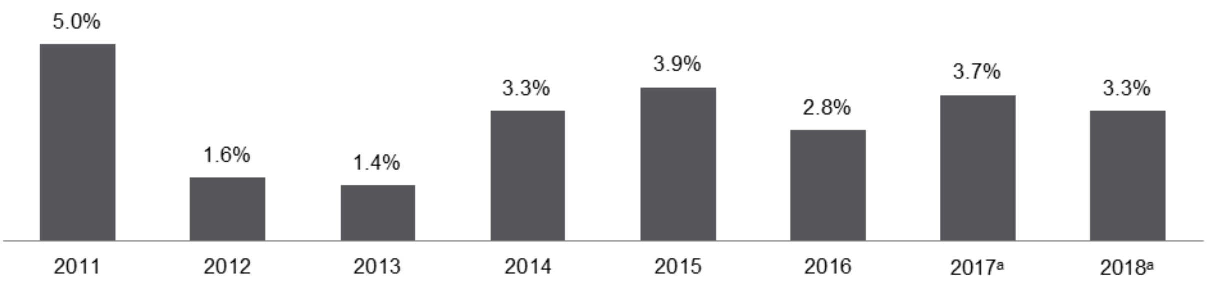
According to the Country Report Poland 2017 study[6] prepared by the European Commission, Poland's economy is currently in a strong growth phase, despite the low level of investments. According to the EC, GDP will continue to grow by 3.4% yoy and 3.2% yoy in 2017 and 2018, respectively. Domestic demand is expected to be the main growth stimulus (including household consumption driven by increasing salaries and employment). Therefore, the economic outlook is perceived to be positive, despite certain risks associated with domestic politics that may contribute to a reduction in corporate trust and consequently, the level of investments. On the other hand, after a clear decline last year, a strong growth in public investments is expected as a result of the execution of projects and disbursement of structural EU funds under the new EU funding perspective. HICP inflation is forecast at 1.3% yoy in 2017 and 1.8% yoy in 2018, mainly due to the forecast raw material prices on global markets, weak pressure on domestic prices, low inflation in other EU states and a gradual salary growth.

On the other hand, the National Bank of Poland forecasts of GDP growth in 2017 indicate growth of 3.7% and 3.3% yoy and 3.2% yoy in the following years, which is largely consistent with Poland's economic growth forecasts for that year according to international financial institutions.[7]

The National Bank of Poland identified the source of significant uncertainty of that forecast to be the possible worse business conditions in the global economy, in China in particular. The significant indebtedness of companies caused by excessive investments (mainly in the steelmaking sector) remains the main threat. It may cause a slowdown of the Chinese economy and global economy in general and consequently adversely affect the level of investments from China's business partners.

According to the NBP data, inflation will amount to 2.0% in 2017 and in 2018. It is an upward adjustment as compared to the November 2016 forecasts, which estimated 1.3% in 2017 and 1.5% in 2018. The clear adjustment of the domestic consumer goods and services price index was caused among others by the increasing prices of energy fuels (oil, hard coal, natural gas) and food on global markets.

Figure 4 GDP growth in Poland in 2011-2016 per annum and 2017, 2018 and 2019 forecasts



Source: Central Statistical Office (revised estimate of gross domestic product for 2010-2015 dated 19 October 2016); NBP forecast (March 2017)

a NBP forecast on the basis of the Inflation Report, March 2017

Czech economy

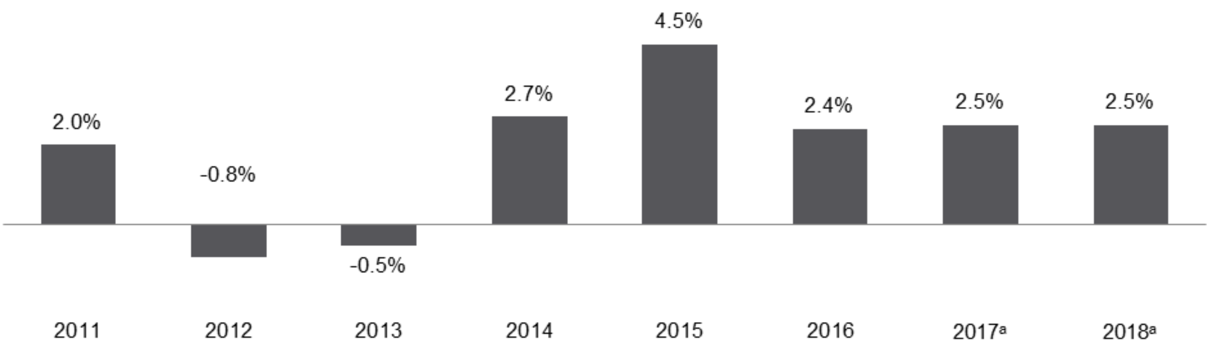
In Q4 2016, economic growth in the Czech Republic improved slightly by 0.4% qoq and compared to Q4 2015, real GDP increased by 1.9% yoy. Over the entire year 2016, economic growth was 2.4% yoy. The main growth driver in 2016 was the consumption of households, which rose by 2.9% yoy. The increased consumption was supported by the increase in employment and salaries and by the very low inflation for the most part of the year. Economic growth was also fostered by an increase in foreign trade. The lower growth in foreign trade globally and in the European Union led to the decline in the real growth of goods and services exports, from 7.7% yoy in 2015 to 4.3% yoy in 2016. A more significant decrease could be observed in imports, which fell from 8.2% yoy in 2015 to 3.2% yoy in 2016, which was caused in particular by a decline

[6] European Commission Staff Working Document, Country Report Poland 2017, February 2017.
[7] Inflation Report. March 2017, NBP

in investments. It was an effect of a considerable decrease in investments in IT and communication technologies as well as machinery and equipment (not related to the transportation business). The purchase of transportation machinery and investments in intellectual property led to a decline in gross capital expenditures for fixed assets. On the other hand, it must be noted that investment activity in the non-financial sector increased in Q4 2016.[8]

In 2016, the growth ratio of gross real added value increased by 2.2% yoy. Industrial production (mainly automotive) was the single largest contributor to growth. A year over year decline was recorded in the construction segment, whose growth last year corresponded to the investment activity, and in non-manufacturing industry sectors.[9]

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



Source: European Commission
a) Forecast of the Czech Republic's Finance Ministry – April 2017

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

- the Czech economy will grow by 2.5% yoy in 2017 as well as in 2018.
- an increase in the inflation rate in 2017 will be greater than predicted in January and will reach 2.4% yoy (instead of the previous 2.0% yoy). The 2018 forecast was also raised, from 1.6% yoy to 1.7% yoy. That was caused by the increase in consumer prices in February 2017 by 2.5% yoy (vs. the projected 2.0% yoy). The deviation from the forecast was caused by changes in prices of food and non-alcoholic beverages.
- Because of the economic growth, employment should rise to 1.1% in 2017. Earlier forecasts anticipated a slower employment growth at 0.8% yoy, mainly because of the high employment growth measures in Q4 2016 (by 2.2% yoy). The 2018 forecast remained unchanged at 0.3% yoy.
- the unemployment rate should drop from 4.0% in 2016 to 3.4% in 2017 and down to 3.3% in 2018. This constitutes an adjustment to the prior forecasts, which anticipated a decline to 3.9% in 2017 and 3.9% in 2018. The forecast has been revised because of the persistent reduction in unemployment in the beginning of 2017 (continuing the Q4 2016 trend when the unemployment level fell to 3.6%).
- current account balance will be at a level of 0.4% of GDP in 2017 and 0.5% of GDP in 2018. This is a positive development, since an increase in capital surplus from current account will improve the country's foreign currency reserves, which in turn may have a positive effect on Czech Republic's investment security and its perception by investors.

The balanced policy of the Czech Republic is shown by the level of public debt, which has been decreasing consistently since 2013 (44.9% of GDP in 2013 down to 37.2% of GDP in 2016). On the other hand, sentiments of industrial sector businesses are shown by the high PMI readings; in Q1 2017 they were: 55.7 in January, 57.6 in February and 57.5 in March. In the corresponding months of 2016, this metric was 56.9 in January, 55.9 in February and 54.3 in March.

The Czech Republic's Finance Ministry continues to note threats to forecasts, which originate mainly from the processes and consequences of the United Kingdom's exit from the European Union. This occurrence may have a significant impact on foreign trade (and may reduce growth of foreign demand), especially if UK's future international trade relations with the EU are different

[8] Macroeconomic Forecast of the Czech Republic, April 2017
[9] Macroeconomic Forecast of the Czech Republic, April 2017

from the current situation. Uncertainty may rise as the parliamentary election in Germany draws closer. In the past, some uncertainty was caused by the outcome of the presidential election in France, however the Czech prime minister Bohuslav Sobotka recognized Emmanuel Macron's election for the presidential post as a positive sign for the entire European Union and for the Czech Republic. Global economic growth may be adversely affected by a possible change of the economic policies of the USA, especially with respect to the openness of foreign trade. Another threat would result from the materialization of risk in the financial sector, which could affect economic growth of some EU countries and indirectly (through foreign trade) also the economic growth of the Czech Republic. The materialization of risk may result from the high percentage of non-performing loans on the balance sheets of some European banks and concerns for the future evolution of profitability of institutions important for the financial system. The expected continuation of the gradual decline in China's economic growth should not be of key importance for the Czech Republic despite the fact that the mutual connections between the Czech and Chinese economies are more extensive than foreign trade data may suggest (because of their participation in global supply chains).

European economy

The first forecasts important for the European Union in 2017 were the European Commission estimates[10] of February 2017. According to the European Commission, the GDP growth rate will be 1.6% yoy in 2017 and 1.8% yoy in 2018. This constant moderate growth will be driven by internal demand. Investment growth is to remain at a moderate level. The increased global activity and political support should have a positive effect on the level of investments (low financing costs and the European Investment Plan – the Juncker Plan). On the other hand, the adverse effect may result from the high indebtedness of businesses and households in some member states, moderate outlook in respect to the level of demand in Europe and the general level of uncertainty.

Growth expected in emerging economies and in some advanced economies should boost foreign demand for exports in the Euro zone. Also, the unemployment rate is expected to drop to 9.6% in 2017 and to 9.1% in 2018, while inflation will be 1.7% in 2017 and 1.4% in 2018.

According to the European Central Bank[11], the economic growth rate in the Euro zone should continue to follow an upward trend. The economic recovery in the Euro zone is anticipated to be caused by the expected global economic recovery, stable internal demand and the observed improvement in labor market indicators. The real GDP growth forecasts are slightly different from those published by the European Commission. Real GDP growth is expected to be 1.8% yoy in 2017 and 1.7% yoy in 2018, with internal demand stated as the facilitating factor.

The European Central Bank notes that the measure of economic policy uncertainty (EPU) increased sharply, which was likely related to the outcome of the referendum in the United Kingdom to leave the EU and the outcome of the election in the US and France. The elevated EPU level can have an adverse impact on activity within the European Union, as it may lead enterprises to postpone or cancel investment decisions until uncertainty has declined. Nevertheless EPU currently has quite limited importance for the perspectives.

ECB also forecasts an increase of exports outside of the euro area, on the back of the more robust global demand and a weaker Euro exchange rate.

Industry in Poland

Rail transport in Poland is strongly correlated with the economic situation in the main branches of Polish industry, i.e. mining, metallurgy and construction. The level of freight transport by rail is also affected, though to a smaller extent, by the condition of the fuel, metal processing, chemical, wood and automotive industries.

Total industrial production sold in Q1 2017 rose by 7.3% yoy compared to a 3.0% yoy increase in Q1 2016. Increases were recorded in such industries as: industrial processing (+8.1% yoy); production and supply of electricity, gas, steam and hot water (+3.6% yoy); water supply, sewerage, waste management and remediation (+4.9% yoy); manufacture of food products (+8.1% yoy); manufacture of products of wood, cork and wicker (+8.3% yoy); manufacture of paper and paper products (+6.1% yoy); production of chemicals and chemical products (+6.7% yoy); production of rubber and plastic products (+10.2% yoy); production of furniture (+9.1% yoy); manufacture of motor vehicles, trailers and semi-trailers (+12.1% yoy); manufacture of other transport equipment (except for motor vehicles, trailers and semi-trailers; + 14.7% yoy); manufacture of other non-metallic mineral products (+10.8% yoy); manufacture of metals (+11.3% yoy) and metal products (+12.5% yoy).

[10] European Economic Forecast Winter 2017, February 2017
[11] ECB staff macroeconomic projections for the euro area – March 2017

Decreases in industrial production sold were recorded in: mining and quarrying (-3.3% yoy); manufacture of coke and refined petroleum products (-2.9% yoy).[12]

Labor productivity in the industry, which is defined as industrial production sold per employee, was 4.0% higher yoy in Q1 2017. Also, in the same period the average headcount increased by 3.2% yoy and average monthly gross salary by 4.1% yoy.[13]

In the period of January-February 2017, compared to a corresponding period of 2016, Poland increased its overall foreign trade (exports grew by 4.8% yoy to PLN 132.2 billion, while imports by 8.6% yoy up to PLN 132.0 billion). Poland also increased foreign trade with developed countries (exports grew by 3.4% yoy and imports by 5.6% yoy), including with European Union countries (exports up by 2.6% yoy and imports by 4.6% yoy). The most significant improvement of foreign trade was with the Central and Eastern Europe countries (exports up by 24.6% yoy and imports up by 31.9% yoy).[14]

Poland's net foreign trade in the period from January to February 2017 closed with a positive balance of PLN 0.2 billion, which is worse than in 2M 2016 when the balance was PLN 4.6 billion.[15]

In March 2017, PMI (*Purchasing Managers Index*) was 53.5, declining slightly from March 2016 (53.8[16]).

The largest positive change among growth ratios in the economy was observed in construction and installation production. In March of this year, it increased by as much as 17.2% yoy, which was the highest increase in a span of the last three years.[17] Despite the fact that the increase was forecasted already for January or February 2017, such high readings were actually not expected, and for March of this year even a slight drop was projected. This can be considered to be a piece of evidence that the stagnation in capital expenditure projects (mainly infrastructural projects) has ended. In the subsequent months, increases in construction and installation production are projected, but it would be unreasonable to expect them to be as high as in March of this year.

Mining industry

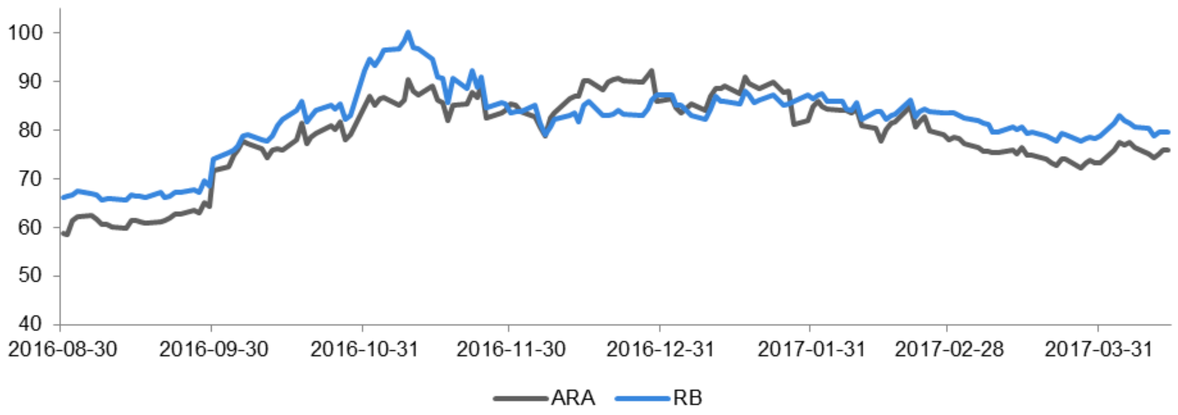
In Q1 2017, the mines in Poland produced 16.8 million tons of hard coal, down 0.9 million tons, or 5% yoy, compared to Q1 2016 (in Q1 2016, the volume of production was 17.7 million tons). The deterioration in mining output was affected by significantly lower yoy extraction in February 2017, which stood at 5.2 million tons, down 1.0 million tons or 15.5% yoy.[18] At the same time, in February 2017 inventories declined to 2.0 million tons and were 4.2 million tons lower than in February 2016 (when they stood at 6.1 million tons).[19]

The Polish mining industry was spurred by increases in steam coal prices on the domestic market. In March of this year, these prices were the highest since January 2016, which translated into an increase in revenues generated by mining companies. In March of this year, the price index for coal used in the electricity generation sector was PLN 200.2 per ton and for that used in the heating sector was PLN 233.6 per ton. According to ARP, this fact confirms the observation that the situation on the Polish coal market continues to be on an upward trend for another month in a row.[20]

Coal prices in sea ports also exert a significant impact on the direction of development of the mining sector in Poland. In each month of Q1 2017, these prices were significantly higher than the corresponding average monthly prices in Q1 2016. In January 2017, the average monthly price was USD 87.0 per ton, whereas a year earlier the price was USD 40.7 per ton lower and stood at USD 46.3 per ton; in February 2017, the price was higher by USD 38.1 per ton and stood at USD 82.1 per ton (USD 44.0 per ton in February 2016); in March 2017, the average price was USD 75.0 per ton and was higher by USD 29.1 per ton yoy (USD 45.9 per ton in March 2016). Despite the obvious downward trend in the months of January-March 2017, the average monthly prices in the ARA ports should still be considered to be high.

[12] Central Statistical Office of Poland
[13] Central Statistical Office of Poland
[14] Central Statistical Office of Poland
[15] Central Statistical Office of Poland
[16] http://stooq.pl/
[17] wGospodarce.pl
[18] Central Statistical Office of Poland
[19] Polski Rynek Węgla [Polish Coal Market]
[20] money.pl

Figure 6 Coal prices on ARA vs. RB markets*



Source: Virtual New Industry
*ARA – Amsterdam, Rotterdam and Antwerp; RB – Richards Bay (RSA)

Steel industry

According to data published by the World Steel Association, steel production in the 67 member countries in Q1 2017 increased by 22.2 million tons yoy (from 388.4 million tons in Q1 2016 to 410.5 million tons in Q1 2017), or 5.7% yoy. In Poland, steel production in Q1 2017 increased by 0.2 million tons (from 2.3 million tons in 3M 2016 to 2.5 million tons in 3M 2017), or 9.6% yoy.[21]

In this period, steel production in the European Union also increased by 1.6 million tons yoy (from 40.9 million tons to 42.5 million tons. This was driven by higher production in Germany by 1.8% yoy from 10.8 million tons to 11.0 million tons, in Italy by 5.5% yoy from 5.8 million tons to 6.1 million tons, in France by 3.3% yoy from 3.8 million tons to 3.9 million tons, in Spain by 0.9% yoy from 3.5 million tons to 3.6 million tons and in the UK by 4.1% yoy from 1.8 million tons to 1.9 million tons with a concurrent yoy decrease in steel production in, among others, the Czech Republic (down by 1.4% yoy from 1.31 million tons to 1.29 million tons). Outside the EU, steel production increased on a yoy basis in Russia (by 4.1% yoy from 17.2 million tons to 18.0 million tons) and Belarus (by 24.2% yoy from 0.5 million tons to 0.6 million tons).

As regards non-European countries, special attention should be paid to global leaders in steel production, namely China, Japan and India. In January-March 2017, each of these countries recorded an increase in steel production: China by 4.5% yoy (from 192.4 million tons to 201.1 million tons), Japan by 1.5% yoy (from 25.8 million tons to 26.2 million tons) and India by 10.7% yoy (from 23.3 million tons to 25.8 million tons).[22]

Construction industry

According to data published by the Central Statistical Office of Poland, construction and installation production at constant prices in March of this year was higher by 49.4% mom and 17.2% yoy. This indicator, when adjusted for seasonal differences, was higher by 10.2% yoy and 9.7% mom.
In Q1 2017, total construction and installation production was higher by 3.9% than in the corresponding period of the previous year (compared to a 13.3% yoy decrease in Q1 2016).

Increases in output on a yoy basis in Q1 2017 were also observed in the following sectors: construction of buildings (+18.6% yoy), construction of civil engineering facilities (+14.3% yoy), specialized construction works (+18.3% yoy).

In Q1 2016, declines in construction output resulted from delays in the preparation for the use of funds under the new EU budget framework. These projects bounced back only at the end of 2016 and bore fruit noticeably in Q1 2017. Among the breakthrough events that supported this increase in capital expenditure spending in this sector were earlier amendments to public procurement law.

In March of this year, the Ministry of Development announced that nine large Polish cities (Bielsko-Biała, Gdańsk, Katowice, Konin, Piotrków Trybunalski, Poznań, Szczecin, Toruń, Wrocław) will obtain a total of PLN 1.2 billion in EU co-financing

[21] World Steel Association
[22] World Steel Association

for the execution of construction projects aimed at improving their road infrastructure. Moreover, five road construction projects were co-financed in the same period (two sections of the S5 expressway, one section of the S8 expressway, the Wałcz ring road and the Kościerzyna ring road) in the total amount of PLN 2.4 billion as a result of which approx. 140 km of roads will be constructed.[23]

Industry in the Czech Republic

In Q1 2017, seasonally adjusted industrial output increased by 3.5% yoy (whereas seasonally unadjusted industrial output increased by 5.3% yoy). The following factors had the strongest impact on the increase in the rate of growth in annual industrial output in 3M 2017: production of chemicals and chemical products (total growth of 21.7% yoy), manufacture of motor vehicles, trailers and semi-trailers (+14.9% yoy), manufacture of rubber and plastic products (+11.0% yoy) and manufacture of finished metal products (+7.4% yoy). Industrial output recorded decreases in the following industries: production of other transport equipment (overall decline by 12.0% yoy), mining and extraction of raw materials (-4.5% yoy) and repair and assembly of machinery and equipment (-2.0% yoy).[24]

Revenues from industrial activity at current prices rose by 10.7% yoy in Q1 2017 and direct export sales revenues of industrial enterprises at current prices increased by 11.2% yoy. Domestic sales, which comprised indirect exports (through non-industrial companies), at current prices decreased by 10.1% yoy.

In January-March 2017, the value of new orders in selected industrial sectors increased by 10.2% yoy. The number of new orders from abroad increased by 9.9% yoy, while new domestic orders rose by 10.9% yoy.

In Q1 2017 in companies with 50 employees or more, the headcount increased by 1.9% yoy. Their average monthly nominal gross salary in 2016 increased by 5.3% yoy and reached CZK 29,653 (or approx. PLN 4,685).

Mining industry

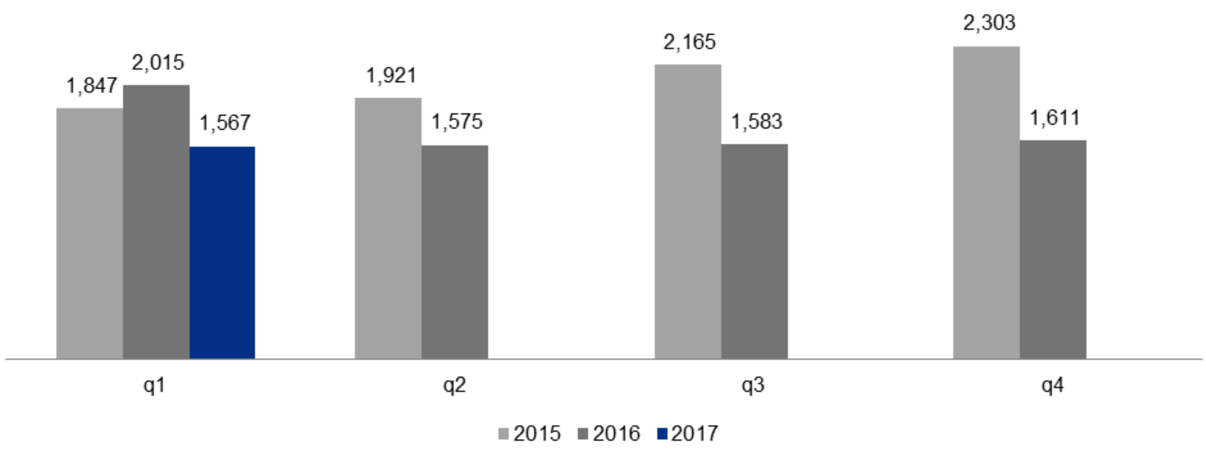
In Q1 2017, total hard coal mining output was 1.6 million tons, down 22.3% yoy, or 0.4 million tons, compared to Q1 2016, mainly as a result of the uncertain situation of the Czech mining sector. In accordance with the adopted contingency plan, OKD, through an increase in the share capital of its subsidiary, will contribute its enterprise (without claims specified as excluded; the current contract between AWT and OKD for the provision of transport services is not part of the exclusion list) to OKD's subsidiary. Subsequently, OKD is expected to sell a 100% stake in the subsidiary OKD PRISKO to a company wholly owned by the State Treasury of the Czech Republic. The purchase price for OKD PRISKO will be approx. CZK 79 million (approx. PLN 12.5 million). The conditions for the sale will include approval of the restructuring plan by the court and approval of the transaction by the Czech antimonopoly authority. Proceeds from the transaction are intended to be used for repayment of debt to the creditors.[25]

It should also be noted that the Czech mining industry may be affected by a change in the energy mix. The Czech Republic is focused primarily on increasing nuclear power generation (according to the Nuclear Energy Program until 2040). Currently, nuclear energy represents 32.5% of total energy output in the Czech Republic and this share is expected to rise to 58.0% by 2040. The increase in the share of nuclear energy is anticipated be achieved at the expense of energy generated from lignite. By the end of 2040, energy generated from renewable sources and gas is expected to account for 25.0% and 15.0% of the Czech Republic's total energy output, respectively.[26]

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

[23] Wirtualny Nowy Przemysł [Virtual New Industry]
[24] CZSO, Industry in December 2016
[25] Wyborcza.biz
[26] Wirtualny Nowy Przemysł [Virtual New Industry]

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



Source: Czech Ministry of Industry and Trade

Steel industry

The metallurgical industry in the Czech Republic consists mainly of two sectors: ferrous and non-ferrous metal processing and metal founding. The steel production industry is driven predominantly demand from the automotive, construction and mechanical engineering sectors. Barriers to its growth include high costs inherently associated with other kinds of transport than maritime or inland waterway transport, which is due to the Czech Republic's location away from seas and larger rivers. For this reason, the industry must make use of the more expensive road or rail transport.[27]

Steel Federation a.s. published data which suggest that in Q1 2017 the rate of growth in output increased for only one of the three major products, namely hot-rolled materials (an increase by 3.3% yoy to 1.3 million tons). Output of the other two products, i.e. pig iron and crude steel, declined on a yoy basis. Pig iron output fell by 0.9% yoy to 1.0 million tons in Q1 2017, whereas crude steel output declined by 1.4% yoy to 1.3 million tons.[28]

Construction industry

In Q1 2017, seasonally adjusted construction and installation output declined by 2.1% yoy (whereas seasonally unadjusted construction and installation output declined by 0.1% yoy). Output in the construction of buildings increased by 3.9% yoy (and its share in total construction output rose by 3.0 p.p.), whereas output in construction engineering declined by 13.4% yoy (and its share in total construction output fell by 3.1% p.p.).[29]

The average number of registered employees[30] in construction companies employing 50 or more staff in Q1 2017 fell by 3.1% yoy. The average monthly nominal gross salary of such employees increased by 3.2% yoy to CZK 31,014 (or approx. PLN 4,900).

In Q1 2017, the number of construction orders undertaken by companies employing 50 or more staff increased by 3.1% yoy, which translated into 12,046 orders executed in the Czech Republic. In turn, the total value of orders increased by 18.1% yoy to CZK 39.5 billion (or approx. PLN 6.2 billion).

In the period January-March 2017, the number of granted building permits was 18.9 thousand, up 8.2% yoy. The approximate value of construction orders for which building permits were obtained is estimated at CZK 79.8 billion (or approx. PLN 12.6 billion), up 41.5% yoy.

Automotive Industry

The Czech Republic is among the most significant car manufacturers in Europe with its automotive industry providing a very important driving force for the development of the country's economy. This is the effect of the country's long tradition of car

[27] http://www.budoucnostprofesi.cz/sectoral-studies/industries-development/14_manufacture-of-basic-metals-and-fabricated-metal-products.html
[28] The Steel Federation, A.S.
[29] Czech Statistical Office
[30] the breakdown does not comprise persons working on the basis of different employment contracts, business owners and cooperating household members who do not have employment contracts

manufacturing. Thanks to the maintenance of a high number of jobs in this industry and a continuous increase in yoy output, the car production market is perceived as one of the best stimuli for the Czech economy.[31]

The biggest manufacturers of passenger cars in the Czech Republic include: Škoda Auto (a 60.0% share in Czech output in Q1 2017), Hyundai Motor Manufacturing Czech s.r.o. (a 25.3% share) and TPCA – Toyota Peugeot Citroën Automotive (a 14.7% share). Vans and buses are manufactured by: Iveco Czech Republic (a 90.9% share in total bus production in the Czech Republic in Q1 2017), SOR Libchavy (a 8.1% share) and other manufacturers (a 1% share).

According to data published by the Automotive Industry Association, in Q1 2017, a total of 395 thousand road vehicles were manufactured in the Czech Republic (357 thousand in Q1 2016), representing an increase by 10.7% yoy, including: 387.3 thousand passenger cars (up 10.7% yoy), more than 1 thousand buses (up 4.6% yoy) and approx. 0.5 thousand motorcycles (down 32.1% yoy). The largest relative increase was observed in the production of trucks: from 229 in Q1 2016 to 394 in the corresponding period of 2017 (up 72.1% yoy).

4.2. Freight transportation activity

4.2.1. Rail transport market in Poland

In Q1 2017, rail freight services in Poland were provided by 63 carriers holding a license issued by the Office of Rail Transport, among them PKP CARGO S.A. and PKP CARGO SERVICE Sp. z o.o. During this period, rail freight volume reached 54.1 million tons, compared to 49.9 million tons transported in Q1 2016 (up 8.4% yoy). Rail freight turnover in the reporting period increased by 6.4% yoy (or 0.7 billion tkm), whereas the average haul in rail transport decreased by 4.3 km yoy (or -1.9% yoy) to 223.8 km.[32]

The increased freight volume in Q1 2017 compared to the corresponding period of the previous year was mainly driven by economic recovery, which was most evident in intermodal transport (development of transit routes and handling of cargo connections on the China-Europe-China route as part of the “New Silk Road” and a higher percentage of bulk cargo now being transported in containers, e.g. coke, wood chips) and the construction industry (commencement of road and rail construction projects coupled with favorable weather conditions in January and March of this year). Other presumed drivers of this growth in transport include an increase in electricity generation and a higher volume of foreign trade. The decrease in the average haul is also a positive aspect, because it means that clients are willing to order rail transport services also for shorter distances to be covered than a year earlier.

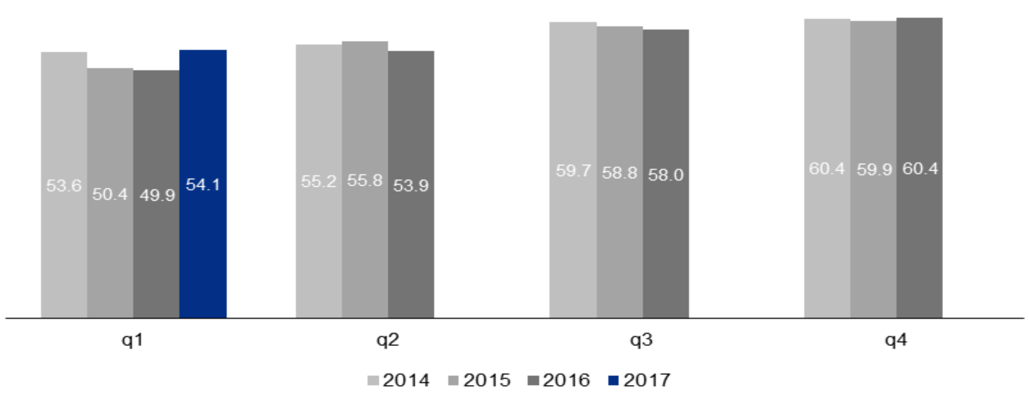
In January-February 2017, an increase in freight volume was recorded in the hard coal rail transport segment from 14.2 million tons (in January-February 2016) to 14.7 million tons, up 3.5% yoy. Moreover, both in January and in February 2017 inventories of coal stockpiled in mine storage yards declined compared to the corresponding months of the previous year. In January 2017, inventories of hard coal stood at 2.3 million tons, down by 3.4 million tons yoy (from 5.7 million tons), whereas in February 2017 this figure decreased by 4.2 million tons to slightly more than 1.9 million tons. The higher sales of this commodity were driven by higher coal prices on international markets (ARA and RB) in the months in question.

In 2M 2017, transport of metal ores also went up, mainly in the subgroup of iron ores (an increase by 0.3 million tons, or 26% yoy, to 1.7 million tons). This stemmed from a low base in 2M 2016. The poorer transport performance in January-February 2016 was associated with the tough situation in the metallurgical industry on global markets resulting from the economic slowdown in China, which suppressed demand for steel.

In 2M 2017, transport of timber and wooden products declined on a yoy basis (a decrease by 0.1 million tons, or 36% yoy, to 0.2 million tons). This was associated predominantly with the suspension of exports of this raw material by Belarus in January of this year and the subsequent significant reduction in such exports (following their resumption). In the same period, transport of chemical products also declined (by 0.1 million tons, or 8% yoy, to 1.4 million tons), primarily due to a decrease in the price of sulfuric acid, the profitability of its sales and the associated lower volume of this commodity intended for exports.

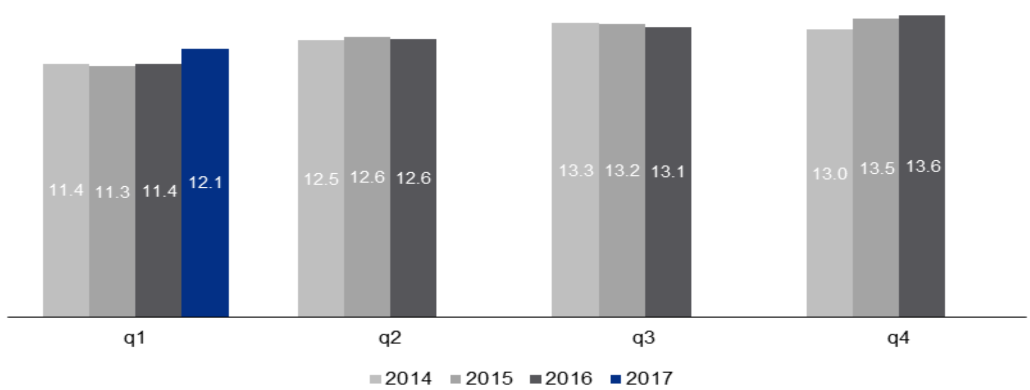
[31] AutoSAP
[32] Office of Rail Transport

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



Source: Office of Rail Transport

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

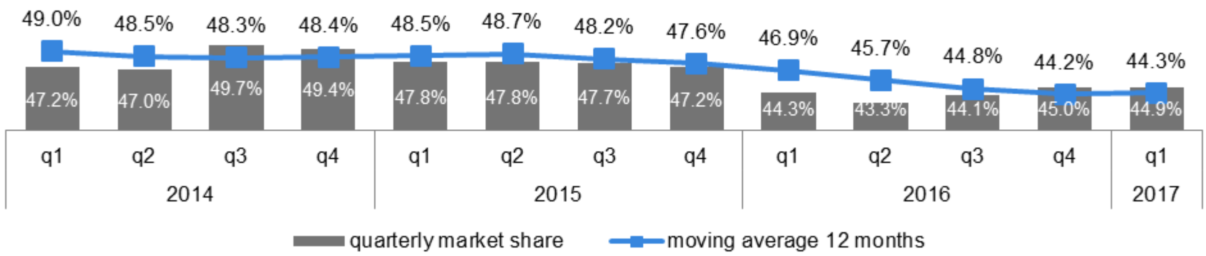


Source: Office of Rail Transport

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

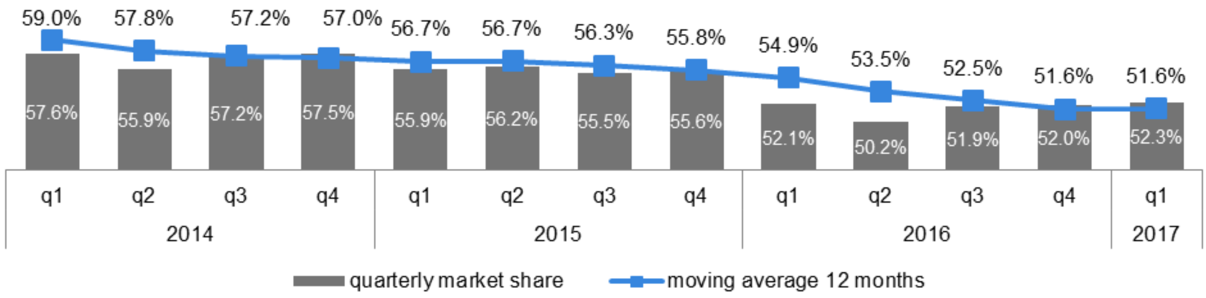
In Q1 2017, the PKP CARGO Group maintained its leading position on the rail freight market with a 44.9% market share (+0.6 p.p. yoy) in terms of freight volume and a 52.3% market share in terms of freight turnover (+0.2 p.p. yoy).

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



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

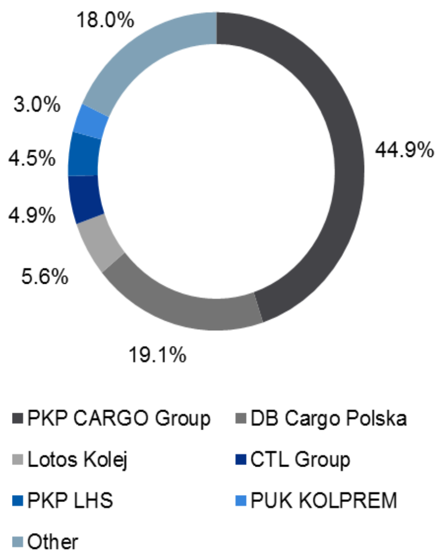
Figure 11 Share of the PKP CARGO Group in freight turnover in 2014-2017 in Poland



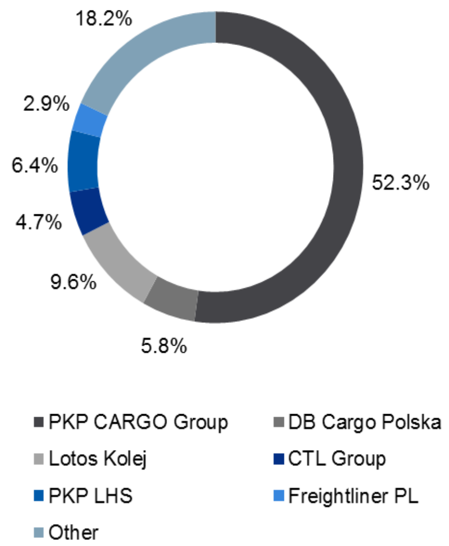
Source: proprietary material based on Office of Rail Transport's data

Figure 12 Market shares of the biggest rail operators in Poland in Q1 2017, by freight volume and freight turnover

By freight volume



By freight turnover



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

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

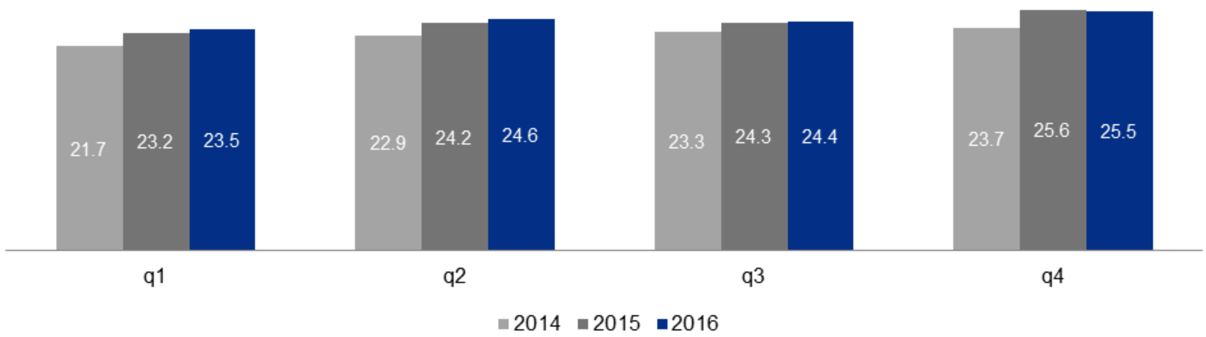
In Q1 2017, the PKP CARGO Group's most significant competitors in terms of freight volume included: DB Cargo Polska, Lotos Kolej and the CTL Group, which held market shares of 19.1%, 5.6% and 4.9%, respectively. In terms of freight turnover, the most active operators (besides the PKP CARGO Group) were Lotos Kolej, PKP LHS and DB Cargo Polska with a market share of 9.6%, 6.4% and 5.8%, respectively.

In January-March 2017, compared to the corresponding period in 2016, the largest increases in freight turnover were posted by the following rail operators competing against the PKP CARGO Group: DB Cargo Polska (+132.5 million tkm, which translated into an increase in the market share by 0.8 p.p.) and PKP LHS (+91.0 million tkm, which translated into an increase in the market share by 0.4 p.p.). The most sizeable decreases in the market share were recorded by the CTL Group (-143.4 million tkm, a decrease by 1.6 p.p.) and Lotos Kolej (-69.4 million tkm, a decrease by 1.2 p.p.). In the reporting period, the following competitive carriers recorded increases in their rail freight volume compared to Q1 2016: DB Cargo Polska (+1,062.3 thousand tons, up 0.5 p.p.), PKP LHS (+350.3 thousand tons, up 0.3 p.p.) and Freightliner PL (+269.0 thousand tons, up 0.3 p.p.). The largest decreases in terms of freight volume on a yoy basis were recorded in Q1 2017 by the following operators: the CTL Group (-181.0 thousand tons, down 0.8 p.p.), Rail Polska (-95.2 thousand tons, down 0.3 p.p.) and Lotos Kolej (-74.9 thousand tons, down 0.6 p.p.).

4.2.3. Rail freight transport market in the Czech Republic

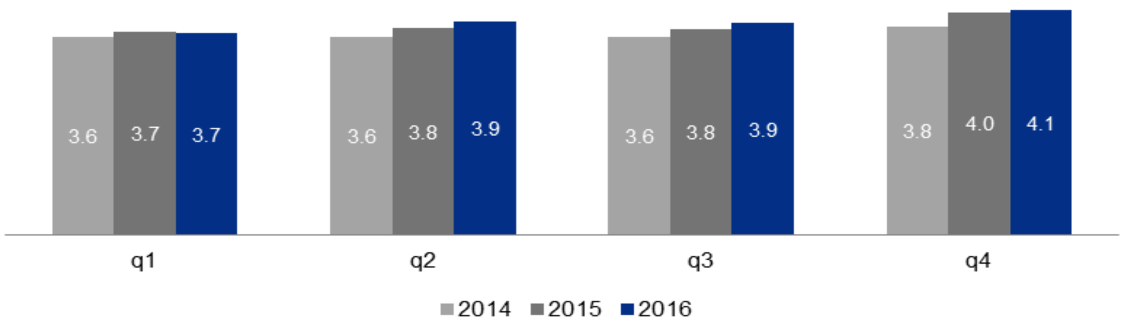
The total cargo transport market in the Czech Republic in 2016 in terms of freight volume was 531.6 million tons and in terms of freight turnover it reached 66.5 billion tkm. Out of that, 98.0 million tons of cargo (an increase by 0.7 million tons or 0.7% yoy), representing 18.4% of total freight volume, was transported by rail. Rail freight turnover reached 15.5 billion tkm (an increase by 224.3 million tkm or 1.5% yoy) and accounted for 23.3% of total freight turnover on the cargo transport market.[33] The largest market share, both in terms of freight volume and turnover, was held by road transport. The volume carried by road in 2016 was 431.9 million tons (a decrease by 7.0 million tons or 1.6% yoy) and freight turnover stood at 50.3 billion tkm (a decrease by 8.4 billion tkm or 14.3% yoy). These values accounted for 81.2% and 75.7% of the whole cargo transport market, respectively. Air transport and inland navigation had marginal shares in cargo transport in the Czech market, reaching a total share of more than 0.3% in freight volume and less than 1.0% in freight turnover.

Figure 13 Rail freight transport in the Czech Republic, by freight volume in individual quarters of 2014-2016 (million tons)



Source: Czech Statistical Office

Figure 14 Rail freight transport in the Czech Republic, by freight turnover in individual quarters of 2014-2016 (billion tkm)



Source: Czech Statistical Office

[33] Ministry of Transport of the Czech Republic

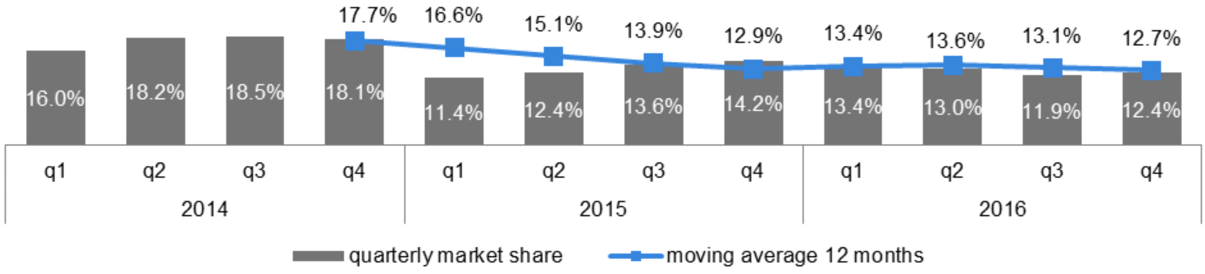
4.2.4. Position of the AWT Group in the rail transport market in the Czech Republic

According to a classification published by the Czech Rail Infrastructure Authority (SŽDC), in 2016 there were 97 carriers on the Czech cargo transport market, including PKP CARGO S.A. and Advanced World Transport a.s.[34]

In each quarter of H1 2016, AWT had a bigger share in terms of freight volume than in the corresponding periods of the year before (+2.0 p.p. yoy in Q1 2016, +0.6 p.p. yoy in Q2 2016, in total +1.3 p.p. yoy with an 11.9% share in 6M 2015 to a 13.2% share in 6M 2016). In H2 2016, AWT recorded a poorer result in terms of market share than in 2015. This was due to an unstable financial situation of OKD being the only hard coal mining company in the Czech Republic. AWT's market share in Q3 2016 declined by 1.8 p.p. yoy to 11.9% (in Q3 2015, the share was 13.6%) and in Q4 2016 by 1.8 p.p. from 14.2% in Q4 2015 to 12.4% in Q4 2016. In total in H2 2016, the market share fell by 1.8 p.p. yoy from 13.9% in H2 2015 to 12.1% in H2 2016. The annual market share in 2016 declined to 12.7% from 12.9% in 2015, or 0.2 p.p. yoy. The declines, starting in Q3 2016, were driven predominantly by a significantly lower hard coal output by OKD, which translated into smaller freight volume ordered from AWT. As part of the adopted OKD restructuring plan and gradual decommissioning of the company's mines, it is anticipated that mining operations will be completed within the next six years.[35]

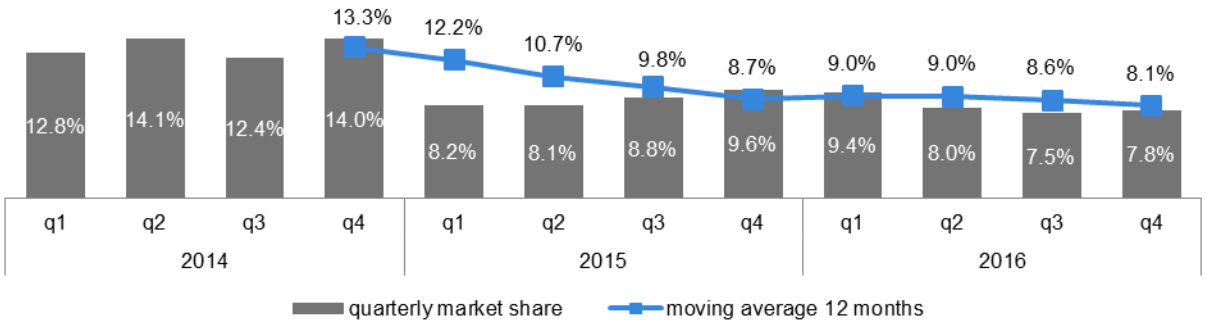
The decreases in coal freight volumes in Q2 2016 were partly offset by an increase in freight volume of liquid fuels (up by 129.9 thousand tons yoy), chemicals (up by 71.6 thousand tons yoy), timber and agricultural produce (up by 59.3 thousand tons yoy) and aggregates (up by 33 thousand tons yoy). Currently, discussions are underway aimed at replacing the lost freight volume of coal with other merchandise.

Figure 15 AWT a.s.'s market shares in terms of freight volume in the Czech Republic quarterly in 2014-2016.



Source: Proprietary material

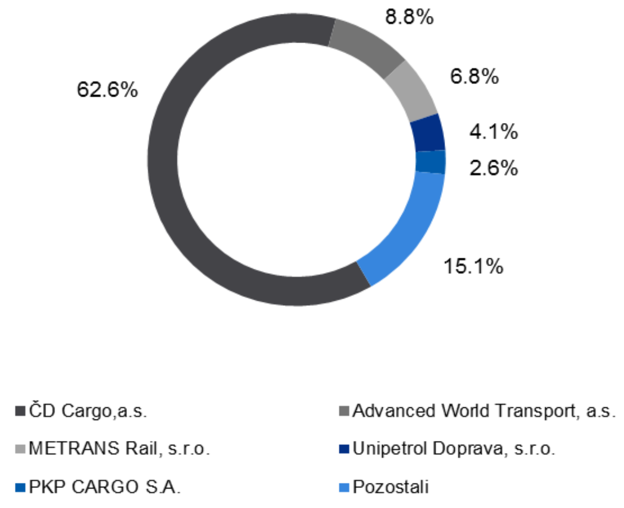
Figure 16 AWT a.s.'s market shares in terms of freight turnover in the Czech Republic quarterly in 2014-2016.



Source: Proprietary material

[34] Správa železniční dopravní cesty (SŽDC) – data as at 25 April 2017
[35] Nettg.pl

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



Source: SŽDC

In Q1 2017, the leading operator in the Czech rail freight market was again ČD Cargo a.s. with a share of 62.6% in terms of gross freight turnover, however it should be noted that the Company is recording a steady decrease in its market share. Compared to Q1 2016, the company's market share decreased by 2.0 p.p. yoy (from 64.6%) in favor of the following carriers: PKP CARGO S.A. (which did not appear in the Q1 2016 classification and which held a 2.6% market share in the period from January to March 2017), Rail Cargo Carrier – Czech Republic s.r.o. (an increase in the market share by 0.4 p.p. yoy from 2.3% in 3M 2016 to 2.7% in 3M 2017) and Unipetrol Doprava, s.r.o. (an increase in the market share by 0.1 p.p. yoy from 4.0% in 3M 2016 to 4.1% in 3M 2017). AWT a.s. recorded a market share decrease by 1.5 p.p. yoy from 10.2% in Q1 2016 to 8.8% in Q1 2017. The appearance of PKP CARGO S.A. in the classification published by the Rail Infrastructure Authority (SŽDC)[36] is a result of the Company's intensification of foreign transportation activity in the Czech Republic which was driven predominantly by the following factors:

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

The carriers which exceeded 5% of the share in the Czech rail freight transport market in terms of gross freight turnover in Q1 2017 were the following: the state-owned company ČD Cargo a.s., Advanced World Transport a.s. and METRANS Rail s.r.o. Other carriers with a market share of less than 5% but more than 1% included: Unipetrol Doprava, s.r.o., Rail Cargo Carrier – Czech Republic s.r.o, PKP CARGO S.A., IDS Cargo a.s. and SD – Kolejova doprava a.s.

[36] SZDC; the classification presents operators holding more than 1% share in the Czech market

4.2.5. PKP CARGO Group's rail transport

Data on the transport activities of the PKP CARGO Group for Q1 2017 and Q1 2016 contain consolidated data of PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and the AWT Group.

In Q1 2017, transport activities were conducted by 5 members of the Group, namely PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o., AWT a.s., AWT Rail HU Zrt. and AWT Rail SK a.s.

The PKP CARGO Group collaborates with the largest Polish and global groups, including ArcelorMittal, PKN Orlen, PGNiG, Lafarge Group, Azoty Group, Jastrzębska Spółka Węglowa, Węglokoks, Enea Group, PGE Group, Tauron Group, Polska Grupa Górnicza and International Paper. The contracts with these business partners are regularly renewed, which confirms the high quality of the transportation services provided by the PKP CARGO Group. Examples of this include extensions of cooperation with key clients in such segments as transport of solid fuels, chemicals and wood, and the acquisition of a contract from one of the competing carriers for carriage of commodities to a major power plant in the northern part of the country and for exports to the south of Europe.

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

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

In Q1 2017, the PKP CARGO Group carried 27.4 million tons of cargo (+8% yoy) and achieved freight turnover of 7.1 billion tkm (+8% yoy). This performance was driven by improved results in international transport, which reached 4.7 million tons (+9% yoy) in terms of freight volume and 0.7 billion tkm (+23% yoy) in terms of freight turnover. In Q1 2017, members of the AWT Group carried 3.1 million tons of cargo (-7% yoy) and achieved freight turnover of 0.5 billion tkm (+12% yoy)[37].

Solid fuels were the main type of goods carried by the Group, with hard coal being the dominating cargo. Transportation of solid fuels accounted for 55% of freight volumes and 44% of the PKP CARGO Group's realized freight turnover in Q1 2017. In the same period, transportation of solid fuels was higher by 2% yoy in terms of freight volume and remained at the same level as in Q1 2016 in terms of freight turnover. In Q1 2017, freight volume in hard coal transport increased by 2% yoy and freight turnover decreased by 2% yoy, accompanied by a decrease in haul by 4% yoy, resulting primarily from an increase in the share of export carriage through Poland's southern border (shorter haul) at the expense of export carriage through Polish seaports (longer haul). As regards transport of hard coal within Poland, freight volume increased by 7% yoy, while freight turnover was the same as in Q1 2016. The increase in freight volume in Q1 2017 was driven, among other factors, by the acquisition of contracts for transport services to a major power plant in the north of the country, exports to the Czech Republic, Slovakia and Ukraine, imports from Russia and transit from seaports to Slovakia. This occurred despite a decline in hard coal output in Poland (-11% yoy)[38], lower sales of this commodity (-4% yoy)[39] and lower electricity generation in hard coal-fired power plants (-0.5% yoy). Freight volume in hard coal transport outside the country decreased by 19% yoy and freight turnover fell by 22% yoy, driven primarily by less extensive transport of this commodity from OKD's mines. In another cargo category included in solid fuels, namely in coke, the PKP CARGO Group's transport performance decreased by 1% yoy in terms of freight volume but surged in terms of freight turnover by 21% yoy, mainly due to an increase in the average haul by 22% yoy, which was due to a higher share of transport from seaports (with long hauls involved).

Products associated with the metallurgical industry, i.e. metals and ores, are another important market area serviced by the PKP CARGO Group. Their percentage in the Group's freight turnover in Q1 2017 was 13% (14% in Q1 2016). This segment recorded an increase of freight volume by 9% yoy in connection with stronger demand for metal ores resulting from the situation in the metallurgical industry on the global markets (a 6% yoy increase in output according to data published by the World Steel Association), improving economic conditions and lower exports from China (due to the imposition of customs duties on products

[37] This applies to the AWT Group companies consolidated by the full method.
[38] polskirynekwegla.pl. Data for 2M 2017.
[39] polskirynekwegla.pl. Data for 2M 2017.

sold at dumping prices). The increase in freight turnover in this segment was 3% yoy while the average haul fell by 5% yoy (due to a change in the structure of freight routes in this segment in Q1 2017). A significant impact on the level of transport of metals and ores (both raw materials and semi-finished products) in Q1 2017 was also exerted by greater steel production (in Q1 2017, Poland produced 2.5 million tons of steel, up 10% yoy). According to projections by the Polish Steel Association (HIPH), crude steel output in 2017 is expected to grow by approx. 5-6% yoy and the consumption of steel products is expected to increase by approx. 2-3% yoy.

Aggregates and construction materials were the third largest group of commodities transported by the PKP CARGO Group in Q1 2017, with a 11% share in total freight turnover (10% in Q1 2016). In transport of aggregates and construction materials, in Q1 2017 an increase by 20% yoy was recorded in terms of freight volume coupled with a 21% yoy increase in terms of freight turnover. The increase in freight performance in this segment is associated with the commencement of road and rail construction projects and higher demand for limestone resulting from a higher output of metallurgical products. Conducive weather conditions also contributed to the quantum of transport of aggregates and construction materials in Q1 2017: above-zero temperatures permitted an earlier commencement of new road and rail construction projects and an earlier resumption of work on projects that were already underway. In the reporting period, the supplies of limestone in exports to Ukraine and the Czech Republic also increased.

The PKP CARGO Group continues to be the market leader in intermodal transport in Poland, an important element of its growth strategy. In Q1 2017, the transport of intermodal units increased in terms of container freight volume by 28% yoy, while realized freight turnover increased by 35% yoy. The increase in intermodal transport is driven mainly by the development of transit routes and the handling of cargo connections on the China-Europe-China route as part of the "New Silk Road" and a higher percentage of bulk cargo now being transported in containers (e.g. coke, wood chips). Transit between marine ports and inland terminals has a significant share as well. In Q1 2017, transshipment of containers in Polish seaports declined by 2.8% yoy[40], while the weight of containers transported by the PKP CARGO Group to/from Polish seaports increased by 13.6% yoy.

In Q1 2017, freight volume rose by 9% yoy and freight turnover by 17% yoy in the transport of chemicals, which was due in part to an increase in the average haul by 7% yoy. The growth in the transport of this cargo group was driven by higher imports of gas from the East and higher exports of fertilizers by domestic producers.

In transport of liquid fuels in Q1 2017, freight volume rose by 46% yoy and freight turnover by 10% yoy, which is attributable mainly to an decrease in the average haul by 25% yoy (the average haul in the transport of imports in Poland declined by 51% yoy). The increase in the quantum of transport in this cargo category was driven mainly by curtailment of the so-called "grey economy" in trade in liquid fuels as a result of last year's amendments to legislation (the so-called "fuel package") and more effective law enforcement measures that were undertaken. In Q1 2017 in Poland, the PKP CARGO Group recorded an increase in freight volume in this segment by 33% yoy, which was composed of an increase in domestic freight volume (+137% yoy) and freight volume in the transport of imported merchandise (+8% yoy).

In the transport of timber and agricultural produce in Q1 2017, freight volume declined by 14% yoy with a concurrent increase in realized freight turnover by 2% yoy, which is attributable mainly to an increase in the average haul by 18% yoy. The main reason for the poorer transport performance in this segment was a decline in imports of wood from Belarus due to the introduction of restrictions by the Belarusian government on the exports of timber from that country. The inter-category shifting of some timber chip transport into the category of cargo container transport also contributed to lower timber transport.

Table 12 Freight turnover of the PKP CARGO Group in Q1 2017 and the corresponding period of 2016

Item	Q1 2017	Q1 2016	Change	% change	Q1 2017	Q1 2016
	(million tkm)			*%*	*percentage of total (%)*	
Solid fuels[1]	3,108	3,100	7	0%	44%	47%
of which hard coal	2,774	2,824	-50	-2%	39%	43%
Aggregates and construction materials[2]	764	630	134	21%	11%	10%
Metals and ores[3]	936	904	32	3%	13%	14%
Chemicals[4]	589	505	84	17%	8%	8%
Liquid fuels[5]	299	273	26	10%	4%	4%
Timber and agricultural produce[6]	423	415	8	2%	6%	6%
Intermodal transport	731	542	189	35%	10%	8%
Other[7]	226	171	55	32%	3%	3%
Total	**7,075**	**6,540**	**535**	**8%**	**100%**	**100%**

Source: Proprietary material

[40] GUS – Statistical Bulletin No. 3/2017

Table 13 Freight volume of the PKP CARGO Group in Q1 2017 and the corresponding period of 2016

Item	Q1 2017	Q1 2016	Change	% change	Q1 2017	Q1 2016
	(000s tons)			%	percentage of total (%)	
Solid fuels[1]	14,958	14,650	308	2%	55%	58%
of which hard coal	13,529	13,204	325	2%	49%	52%
Aggregates and construction materials[2]	3,056	2,556	499	20%	11%	10%
Metals and ores[3]	3,111	2,841	270	9%	11%	11%
Chemicals[4]	1,746	1,596	150	9%	6%	6%
Liquid fuels[5]	994	679	315	46%	4%	3%
Timber and agricultural produce[6]	1,031	1,195	-164	-14%	4%	5%
Intermodal transport	1,849	1,442	407	28%	7%	6%
Other[7]	657	478	180	38%	2%	2%
Total	**27,401**	**25,437**	**1,964**	**8%**	**100%**	**100%**

Source: Proprietary material

Table 14 Average haul of the PKP CARGO Group in Q1 2017 and the corresponding period of 2016

Item	Q1 2017	Q1 2016	Change	% change
	km			%
Solid fuels[1]	208	212	-4	-2%
of which hard coal	205	214	-9	-4%
Aggregates and construction materials[2]	250	246	4	2%
Metals and ores[3]	301	318	-17	-5%
Chemicals[4]	337	316	21	7%
Liquid fuels[5]	301	402	-101	-25%
Timber and agricultural produce[6]	410	347	63	18%
Intermodal transport	395	376	20	5%
Other[7]	343	358	-15	-4%
Total	**258**	**257**	**1**	**0%**

Source: Proprietary material

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

From the point of view of the directions in which the PKP CARGO Group's transportation services were provided, transportation within Poland was dominant, constituting 90% of the realized freight turnover in Q1 2017. In comparison with Q1 2016, the percentage of freight turnover performed outside Poland rose by 1 p.p., which highlights the steady growth of freight outside Poland.

4.3. Other services

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

- forwarding services – the Group's freight forwarding offering consists of comprehensive logistics services using vehicle, marine and inland water transportation incorporating transshipment, storage, warehousing and packaging. The Group also offers customs handling. The comprehensive transport solutions designed and implemented (3PL solutions) are an additional strength for the Group's services. Freight forwarding services are provided chiefly by PKP CARGO CONNECT Sp. z o.o. and AWT Čechofracht a.s.;
- traction services and locomotive lease services which involve the provision of a traction unit with an operating team to perform a railway transport operation or to ensure its readiness, e.g. to propel repair or rescue trains. Such services are provided on the Polish market and abroad;

- comprehensive siding services, entailing among others formation of trains, maneuvering services, rail traffic management on sidings, loading and unloading, warehouse management, conservation and ongoing maintenance of point infrastructure. PKP CARGO SERVICE Sp. z o.o. and AWT a.s. are the main entities providing these services. Siding services are offered in Poland, the Czech Republic and Hungary;

- transshipment services – the PKP CARGO Group has been developing its transshipment activity on the basis of conventional and intermodal transshipment terminals owned by PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o., PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o., PS TRADE TRANS Sp. z o.o., CARGOSPED Sp. z o.o. and AWT a.s.;

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

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

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

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

4.4. Headcount

Information about changes in the headcount in the PKP CARGO Group in Q1 2017 and in 2016 is provided below.

Table 15 Headcount in Q1 2017 and 2016 in the PKP CARGO Group (active employees only)

Item	Headcount as at:		Change YTD	Headcount as at:		Change YTD
	31/03/2017	31/12/2016		31/03/2016	31/12/2015	
PKP CARGO Group	**23,281**	**23,144**	**137**	**23,625**	**23,805**	**-180**
including: PKP CARGO S.A.	17,247	17,429	**-182**	17,802	17,979	**-177**

Source: Proprietary material

Table 16 Average headcount in Q1 2017 and Q1 2016 in the PKP CARGO Group (active employees only)

Item	Average headcount in FTEs		Change 2017 - 2016	Average headcount in persons		Change 2017 - 2016
	3 months 2017	3 months 2016		3 months 2017	3 months 2016	
PKP CARGO Group	**23,253**	**23,737**	**-484**	**23,272**	**23,766**	**-494**
including: PKP CARGO S.A.	17,335	17,926	-591	17,339	17,930	-591

Source: Proprietary material

Table 17 Movement in the headcount structure in Q1 2017 in the PKP CARGO Group (active employees only)

Item	Headcount as at: 31/03/2017	Headcount as at: 31/12/2016	Change YTD	Headcount as at: 31/03/2016	Headcount as at: 31/12/2015	Change YTD
White-collar positions - Group	**5,250**	**5,272**	**-22**	**5,328**	**5,324**	**4**
including: PKP CARGO S.A.	3,798	*3,825*	*-27*	*3,871*	*3,863*	*8*
Blue-collar positions - Group	**18,031**	**17,872**	**159**	**18,297**	**18,481**	**-184**
including: PKP CARGO S.A.	13,449	*13,604*	*-155*	*13,931*	*14,116*	*-185*
Total	**23,281**	**23,144**	**137**	**23,625**	**23,805**	**-180**
including: PKP CARGO S.A.	*17,247*	*17,429*	*-182*	*17,802*	*17,979*	*-177*

Source: Proprietary material

The average headcount (in FTEs) in the PKP CARGO Group was lower by 484 FTEs, or -2.0% yoy, than in the corresponding period of the previous year, mainly as a result of termination of employment contracts due to the acquisition of old-age and disability pension rights.

4.5. PKP CARGO Group's investments

In Q1 2017, the Group incurred capital expenditures for the acquisition of property, plant and equipment in the form of purchases, modernizations and the so-called overhaul component (periodic inspections and repairs of the rolling stock) and intangible assets in the amount of PLN 86.4 million, which accounted for 47% of the figure in the corresponding period of 2016, i.e. PLN 184.7 million (of which PLN 100.7 million constituted the purchase of multi-system locomotives).

The majority of capital expenditures in Q1 2017 in the Group was allocated to the execution of capital expenditure endeavors associated with the rolling stock, mainly to periodic repairs and checkups of the rolling stock and modernization of locomotives and wagons – in total PLN 76.6 million (i.e. 89% of capital expenditures). Moreover, expenditures were incurred on ICT development, i.e. purchases of computer hardware and intangible assets (software) in the amount of PLN 2.2 million, investment construction activity in the amount of PLN 5.1 million and purchases of other machinery and other workshop and office equipment for PLN 2.4 million.

A detailed schedule of capital expenditures in Q1 2017 and comparison with the actuals from Q1 2016 is presented in the table below.

Table 18 Capital expenditures on property, plant and equipment and intangible assets in the PKP CARGO Group in Q1 2017 compared to Q1 2016 (thousands of PLN)

Item	Q1 2017	Q1 2016	Change	% change
Investment construction activity	5,136	2,718	2,418	89%
Locomotive purchases	-	100,742	-100,742	-
Locomotive upgrades	8,439	13,920	-5,481	-39%
Wagon upgrades	10	-	10	-
Workshop machinery and equipment	2,388	1,343	1,045	78%
ICT development	2,160	1,806	354	20%
Other	118	2,056	-1,938	-94%
Components in overhaul:	68,124	62,162	5,962	10%
Repairs and periodic inspections of locomotives	*12,844*	*17,200*	*-4,356*	*-25%*
Repairs and periodic inspections of wagons	*55,280*	*44,962*	*10,318*	*23%*
Total	**86,375**	**184,747**	**-98,372**	**-53%**

Source: Proprietary material

4.6. Key information and events

Table 19 Key information and events which occurred in Q1 2017 and after the balance sheet date

Period	Event
January	• PKP CARGO S.A. signed an annex to the investment loan agreement with Bank Polska Kasa Opieki S.A., extending the term of availability for PKP CARGO Group companies.
March	• Mr. Mirosław Pawłowski stepped down from his function of the PKP CARGO S.A. Supervisory Board Chairman. • Mr. Krzysztof Mamiński was appointed to the PKP CARGO S.A. Supervisory Board as of 6 March 2017. • Mr. Jerzy Kleniewski resigned from the position of PKP CARGO S.A. Supervisory Board Member. • On 14 March 2017, the Parent Company entered into an annex to the Investment Loan Agreement of 16 November 2015 with Bank Gospodarstwa Krajowego. According to the Annex, the loan will be available until 27 December 2017 in the amount of EUR 67,850,591.20. • Mr. Władysław Szczepkowski was appointed to the PKP CARGO S.A. Supervisory Board as of 14 March 2017. • Early repayment of a loan obtained from the European Bank for Reconstruction and Development. • Four PKP CARGO Group companies entered into an investment loan agreement with Bank Polska Kasa Opieki S.A. for the maximum amount of PLN 50,500,000.00 (WIBOR 3M + margin). The loans were granted for financing and/or refinancing of the investment plan. The loans were available until 19 March 2017. The final repayment date for the loans is 20 December 2021. • Receipt of a notification that, following the settlement on 21 March 2017 of the purchase of PKP CARGO S.A. shares effected on 17 March 2017, the stake held by TFI PZU Funds in the overall number of votes at the Company's Shareholder Meeting exceeded the 5% threshold. Prior to the acquisition of the shares, the Funds held 2,231,450 shares in the Company representing 4.98% of its share capital and were entitled to 2,231,450 votes at the Shareholder Meeting representing 4.98% of the total number of votes. Following the transaction, the TFI PZU Funds hold 2,302,843 shares in the Company representing 5.14% of its share capital and are entitled to 2,302,843 votes at the Shareholder Meeting representing 5.14% of the total number of votes.
April	• The Regional Court in Ostrava published a draft OKD a.s. restructuring plan. In accordance with the published plan, OKD, through an increase in the share capital of its subsidiary, will contribute its enterprise (without claims specified as excluded) to OKD's Subsidiary; subsequently, OKD will sell a 100% stake in OKD's Subsidiary to PRISKO a.s., a company wholly owned by the State Treasury of the Czech Republic, for approx. CZK 79 million (approx. EUR 2.6 million). The closing of the transaction is contingent on the following conditions precedent: approval of the restructuring plan by the court, approval of the transaction by the Czech anti-monopoly authority, increase in the share capital of OKD's Subsidiary and deposit of the purchase price for a 100% stake in OKD's Subsidiary. In addition, OKD will use the proceeds from the transaction to satisfy priority creditors in accordance with Czech law and to partly satisfy the remaining creditors. The closing is expected to take place in Q3 or Q4 2017. The current freight contract between AWT and OKD is not included in the list of Excluded Claims, hence OKD's rights and obligations arising therefrom will be contributed to OKD's Subsidiary acquired by PRISKO a.s. • PKP CARGO S.A. was awarded with the prestigious title "Transparent Company of the Year 2016" for high quality of market communication and fulfillment of information and reporting duties.
May	• Minezit SE ("MSE") has exercised its right to demand that the Company repurchase of all the shares in AWT owned by MSE ("Put Option"). MSE is entitled to the above right under the Shareholder Agreement concluded between PKP CARGO, MSE and AWT on 30 December 2014. In accordance with the Shareholder Agreement, the total purchase price for the 15,000 shares, constituting 20% of all shares in AWT's share capital AWT, is EUR 27,000,000. • Signing coal transport contracts with the Enea Wytwarzanie from Lubelski Węgiel "Bogdanka" to Kozienice Power Plant. Under the new contract PKP CARGO S.A. during the 14 months will transport 5.3 million tons of coal.

Source: Proprietary material

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

5.1. Key economic and financial figures

5.1.1. Statement of comprehensive income

In Q1 2017, the PKP CARGO Group transported 27.4 million tons of cargo (i.e. 8% more than in Q1 2016) and recorded freight turnover of 7.1 billion tkm (i.e. 8% more than in Q1 2016), which is described in detail in the chapter entitled "PKP CARGO Group rail transport".

In Q1 2017, the Group's operating revenues increased by 6.4% yoy and operating expenses rose by 0.1% yoy. In Q1 2017, the Group generated a result on operating activities and net result in the amount of PLN 3.2 million and PLN -1.4 million, respectively.

The details of individual line items of the Statement of comprehensive income are presented in the further part of this section. The tables below present the results of the PKP CARGO Group in Q1 2017 as compared to the corresponding period of 2016.

Table 20 Results of the PKP CARGO Group in Q1 2017 compared to the corresponding period of 2016 (thousands of PLN)

No.	Item	Q1 2017	Q1 2016 (restated*)	Change 2017 - 2016	% change 2017/2016
1	Total operating revenue	1,100,201	1,034,354	65,847	6.4%
2	Total operating expenses	1,097,025	1,096,162	863	0.1%
3	**Result on operating activities**	**3,176**	**-61,808**	**64,984**	**-**
4	*EBIT margin*	*0.3%*	*-6.0%*	*6.3 p.p.*	-
5	*EBITDA margin*	*13.4%*	*7.8%*	*5.6 p.p.*	*71.6%*
6	Financial revenue	10,087	390	9,697	2486.4%
7	Financial expenses	15,184	14,559	625	4.3%
8	Share in the profit of entities measured by the equity method	2,019	1,364	655	48.0%
9	**Result before tax**	**98**	**-74,613**	**74,711**	**-**
10	*Net profit margin*	*0.0%*	*-7.2%*	*7.2 p.p.*	-
11	Income tax	1,532	-8,235	9,766	-
12	**NET RESULT**	**-1,434**	**-66,378**	**64,944**	**-**
13	*Net profit margin*	*-0.1%*	*-6.4%*	*6.3 p.p.*	-

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2017 prepared according to EU IFRS

* restatement of comparative data is described in detail in Note 5 to the Condensed Quarterly Consolidated Financial Statements

Operating revenues

Table 21 Operating revenue of the PKP CARGO Group in Q1 2017 compared to the corresponding period of 2016 (thousands of PLN)

No.	Item	Q1 2017	Q1 2016	Change 2017 - 2016	% change 2017/2016
1	Revenue from sales of services and finished products	1,077,580	1,014,043	63,537	6.3%
1.1	*Revenue from rail transportation and freight forwarding services*	*909,305*	*840,685*	*68,620*	*8.2%*
2	Revenue from sales of goods and materials	9,920	8,757	1,163	13.3%
3	Other operating revenue	12,701	11,554	1,147	9.9%
4	**Total operating revenue**	**1,100,201**	**1,034,354**	**65,847**	**6.4%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2017 prepared according to EU IFRS

In the Group's total operating revenue the biggest item was revenue from sales of services and finished products (97.9% in Q1 2017, with 98.0% in Q1 2016). Revenue from sales of services and finished products comprises: revenue from rail transportation and freight forwarding services, revenue from other transportation activity, revenue from siding and traction services, revenue from transshipment, revenue from land reclamation, as well as other revenue, including primarily: revenue from the lease of assets, revenue on the customs agency, revenue from sales of finished products and revenue from rolling stock repair services. The remaining part of operating revenue of the PKP CARGO Group comprises revenue from sales of goods and materials, which includes, among others, sales of steel and cast iron scrap and goods, including coal, as well as other operating revenue comprising, among others, gains from sales of non-financial non-current assets, reversal of impairment losses on trade and other receivables, received fines and compensations, net foreign exchange gains/(losses) on trade receivables and liabilities, reversal of provisions and subsidies.

Revenue from rail transportation and freight forwarding services in Q1 2017 increased PLN 68.6 million, i.e. 8.2% yoy. The details pertaining to PKP CARGO Group's transport services are described in detail in the chapter "PKP CARGO Group's rail transport". Other items in revenue from sales of services and finished products decreased by PLN 5.1 million, i.e. -2.9% yoy, mainly as a result of decrease in revenues from siding and traction services by PLN 5.4 million, i.e. -8.1% yoy as a result of discontinuation of the mining activity of the Makoszowy hard coal mine and discontinuation of the mining activity of the Krupiński hard coal mine.

The increase in revenue from sales of goods and materials in Q1 2017 by PLN 1.2 million, i.e. 13.3% yoy, was attributable mainly to the higher sale of scrap (i.e. waste from overhaul activities) by PKP CARGOTABOR and higher sales of goods, in particular coal, in CARGOSPED Terminal Braniewo.

The increase in other operating revenue by PLN 1.1 million, or 9.9% yoy, was caused by higher profit on sale of non-financial non-current assets by PLN 5.0 million, or 437.9% yoy (sale of container trailers in PKP CARGO CONNECT and sale of Plzen land in AWT), with a decrease in foreign exchange gains by PLN 3.1 million as a result of exchange rate changes and lower revenues on received fines and compensations by PLN 0.9 million, or -20.3% yoy.

Operating expenses

Table 22 Operating expenses of the PKP CARGO Group in Q1 2017 compared to the corresponding period of 2016 (thousands of PLN)

No.	Item	Q1 2017	Q1 2016	Change 2017 - 2016	% change 2017/2016
1	Depreciation and amortization and impairment losses	143,841	142,359	1,482	1.0%
2	Consumption of materials and energy	170,643	162,818	7,824	4.8%
3	External services	372,006	366,568	5,439	1.5%
4	Taxes and charges	10,310	7,026	3,284	46.7%
5	Employee benefits	371,185	385,348	-14,163	-3.7%
6	Other expenses by kind	13,056	11,563	1,493	12.9%
7	Cost of goods and materials sold	7,396	8,336	-939	-11.3%
8	Other operating expenses	8,588	12,144	-3,556	-29.3%
9	**Total operating expenses**	**1,097,025**	**1,096,162**	**863**	**0.1%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2017 prepared according to EU IFRS

In Q1 2017, operating expenses increased by PLN 0.9 million, or 0.1% yoy, to PLN 1,097.0 million.

In Q1 2017, depreciation and amortization expenses and impairment losses rose by PLN 1.5 million, or 1.0% yoy, to PLN 143.8 million, as a result of increased capital expenditures on fixed assets which have a depreciation term of several years, in particular repair components.

In Q1 2017, the cost of consumption of materials and energy were higher by PLN 7.8 million, i.e. 4.8%, yoy, of which: fuel consumption costs increased PLN 9.4 million, i.e. 25.8% yoy, as a result of higher freight transport in diesel traction and the price level, costs of consumption of electricity, gas and water dropped PLN 1.0 million, i.e. -1.0% yoy as a result of decrease in the share of transport in electric traction, consumption of materials (excluding fuel) dropped PLN 0.6 million, i.e. -2.3% yoy.

In Q1 2017, the costs of external services increased by PLN 5.4 million, or 1.5% yoy, to PLN 372.0 million. The main reason for the hike in the above costs was the increase in the fees for access to the lines of infrastructure managers by PLN 7.1 million, or 4.6% yoy, caused by increasing freight transport. In addition, the increase in transport boosted the costs of transportation services by PLN 15.0 million, or 15.5% yoy, in particular freight forwarding costs. At the same time, in the costs of external services, there was a decrease in costs of rent and charges for the use of property and rolling stock by PLN 12.9 million, or -24.7% yoy, as a result of lower rents for leased rolling stock (as a result of purchase of multi-system locomotives), decrease in the charges for parking wagons to external railways and decrease of rental of wagons in AWT.

The taxes and charges in Q1 2017 increased compared to the corresponding period of 2016 by PLN 3.3 million, i.e. 46.7% yoy, due to a one-off payment of VAT upon transfer of assets to the Wolsztyn Railway Roundhouse in the amount of PLN 1.1 million and recovery of the overdue VAT for 2014 in Germany in the amount of PLN 2.2 million in Q1 2016.

In Q1 2017, a decrease in employee benefits by PLN 14.2 million, i.e. -3.7% yoy, to PLN 371.2 million was recorded (PLN 385.3 million in Q1 2016) as a result of decrease in average headcount in the Group by 484 FTEs, i.e. -2.0% yoy, due to termination of employment contracts in connection with obtaining retirement rights. Changes in headcount are presented in the section “Information on headcount”.

The remaining expenses by kind in Q1 2017 increased compared to the corresponding period of 2016 by PLN 1.5 million, i.e. 12.9% yoy.

In Q1 2017, the cost of goods and materials sold dropped by PLN 0.9 million, i.e. -11.3% yoy, to PLN 7.4 million as a result of taking into account impairment losses.

Other operating expenses in Q1 2017 fell by PLN 3.6 million, i.e. -29.3% yoy to PLN 8.6 million, chiefly on account of the lower costs of impairment losses on trade and other receivables by PLN 3.2 million, i.e. -80.4% yoy, recognition of a provision for a UOKiK fine in the amount of PLN 2.0 million in Q1 2016, while at the same time foreign exchange translation losses increased by PLN 2.6 million (the total change of the foreign exchange differences exerting negative impact on the result was PLN 5.8 million) as a result of changes in the exchange rates.

Result on operating activities

As a result of the aforementioned changes of operating revenue and expenses, the result on operating activities in Q1 2017 reached PLN 3.2 million.

EBITDA

The result on operating activities increased by the line item “Amortization/depreciation and impairment losses”, referred to as EBITDA, amounted to PLN 147.0 million in Q1 2017.

Financial activities

Table 23 Financial activities of the PKP CARGO Group in Q1 2017 compared to the corresponding period of 2016 (thousands of PLN)

No.	Item	Q1 2017	Q1 2016 (restated*)	Change 2017 - 2016	% change 2017/2016
1	Financial revenue	10,087	390	9,697	2486.4%
2	Financial expenses	15,184	14,559	625	4.3%
3	Share in the profit of entities measured by the equity method	2,019	1,364	655	48.0%
4	**Result on financial activities**	**-3,079**	**-12,805**	**9,727**	**-**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2017 prepared according to EU IFRS

* restatement of comparative data is described in detail in Note 5 to the Condensed Quarterly Consolidated Financial Statements

In Q1 2017, the PKP CARGO Group recorded a loss on financial activities in the amount of PLN -3.1 million, compared to PLN -12.8 million recorded in the corresponding period of the previous year. The main reason for the improvement of the result on financial activities by PLN 9.7 million was the decline in the valuation of the put option liability for non-controlling interest, which translated into an increase in financial revenue by 5.4 million and increase of the net result on FX differences by PLN 3.3 million.

Details are presented Notes 9.1 and 9.2 to the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group.

Result before tax

In Q1 2017, the result before tax stood at PLN 0.1 million, compared to PLN -74.6 million in the corresponding period of the previous year.

Income tax

In Q1 2017, the PKP CARGO Group recorded income tax in the amount of PLN 1.5 million, of which current tax amounted to PLN 11.0 million, and deferred tax to PLN -9.5 million.

Net result

In Q1 2017, the Group generated net result of PLN -1.4 million compared to PLN -66.4 million in the corresponding period of the previous year.

5.1.2. Description of the structure of assets and liabilities

ASSETS

Table 24 Horizontal and vertical analysis of PKP CARGO Group's assets (thousands of PLN)

	As at 31/03/2017 (unaudited)	As at 31/12/2016 (audited)	Asset structure 31/03/2017	Asset structure 31/12/2016	Change 2017 - 2016	% change 2017/2016
ASSETS						
Non-current assets						
Property, plant and equipment	4,594,168	4,700,550	72.2%	72.4%	-106,382	-2.3%
Intangible assets	52,066	55,831	0.8%	0.9%	-3,765	-6.7%
Investment property	1,244	1,257	0.0%	0.0%	-13	-1.0%
Investments accounted for under the equity method	41,988	40,810	0.7%	0.6%	1,178	2.9%
Trade and other receivables	1,767	2,223	0.0%	0.0%	-456	-20.5%
Other long-term financial assets	12,531	8,649	0.2%	0.2%	3,881	44.9%
Other long-term non-financial assets	34,700	25,987	0.5%	0.4%	8,713	33.5%
Deferred tax assets	113,137	107,554	1.8%	1.7%	5,583	5.2%
Total non-current assets	**4,851,601**	**4,942,861**	**76.2%**	**76.2%**	**-91,261**	**-1.8%**
Current assets						-
Inventories	125,238	121,189	2.0%	1.9%	4,049	3.3%
Trade and other receivables	627,143	639,866	9.9%	9.9%	-12,724	-2.0%
Income tax receivables	2,081	2,793	0.0%	0.0%	-713	-25.5%
Other short-term financial assets	257,635	892	4.0%	0.0%	256,743	28795.8%
Other short-term non-financial assets	51,440	27,277	0.8%	0.4%	24,163	88.6%
Cash and cash equivalents	447,674	755,919	7.0%	11.6%	-308,245	-40.8%
Total current assets	**1,511,211**	**1,547,936**	**23.8%**	**23.8%**	**-36,725**	**-2.4%**
Total assets	**6,362,812**	**6,490,797**	**100.0%**	**100.0%**	**-127,985**	**-2.0%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2017 prepared according to EU IFRS

Non-current assets

The biggest share in the asset structure was held by property, plant and equipment, which, as at the end of Q1 2017, amounted to 72.2% of total assets, compared to 72.4% at the end of 2016. Property, plant and equipment is dominated by the means of transportation (mainly locomotives and wagons) which as at the end of Q1 2017 represented 80.4% of total property, plant and equipment. This share did not changed in relation to the end of 2016. The decrease in property, plant and equipment in Q1 2017 by PLN 106.4 million, i.e. -2.3%, is attributable mainly to the higher level of amortization costs over the expenditures on property, plant and equipment incurred in the period, and decrease in the exchange rates used for valuation of the property, plant and equipment items owned by foreign entities. In addition, the value of other long-term financial assets increased by PLN 3.9 million, i.e. 44.9%, as a result of increased balance sheet value of FX forwards and the value of other long-term non-financial assets increased by PLN 8.7 million, or 33.5%, mainly as a result of higher advances for purchase of non-financial non-current assets by PLN 9.4 million.

Current assets

Current assets decreased as at the end of Q1 2017 by PLN 36.7 million, i.e. -2.4%, PLN compared to the end of 2016. The decrease in cash and cash equivalents and bank deposits by 58.2 million was caused primarily by repayment of bank loans, with simultaneous reclassification of PLN 250.0 million from cash and cash equivalents to bank deposits. In addition, the value of current assets was affected by a decrease in trade and other receivables by PLN 12.7 million, or -2.0%. The level of current assets at the end of Q1 2017 was also affected by the increase in other short-term non-financial assets by PLN 24.2 million, i.e. 88.6%, resulting from charges for the Company Social Benefits Fund in the amount of PLN 25.3 million, to be settled in future periods, and purchase of transportation services for employees in the amount of PLN 10.5 million.

The share of current assets in total assets did not change and both as at 31 March 2017 and as at 31 December 2016 was 23.8%.

The biggest share in the structure of current assets was held by trade and other receivables (41.5%), cash and cash equivalents (29.6%) and other short-term financial assets (17.0%).

EQUITY AND LIABILITIES

Table 25 Horizontal and vertical analysis of PKP CARGO Group's liabilities (thousands of PLN)

	As at 31/03/2017	As at 31/12/2016	Structure of equity and liabilities		Change	% change
	(unaudited)	(audited)	31/03/2017	31/12/2016	2017 - 2016	2017/2016
EQUITY AND LIABILITIES						
Equity						
Share capital	2,239,346	2,239,346	35.2%	34.5%	0	0.0%
Supplementary capital	618,666	618,666	9.7%	9.5%	0	0.0%
Other items of equity	27,164	11,447	0.4%	0.2%	15,717	137.3%
Exchange differences resulting from conversion of financial statements of foreign operations	27,213	59,970	0.4%	0.9%	-32,758	-54.6%
Retained earnings	312,006	313,440	4.9%	4.8%	-1,433	-0.5%
Equity attributable to the owners of the parent company	**3,224,395**	**3,242,869**	**50.7%**	**50.0%**	**-18,474**	**-0.6%**
Total equity	**3,224,395**	**3,242,869**	**50.7%**	**50.0%**	**-18,474**	**-0.6%**
Non-current liabilities						-
Long-term bank loans and borrowings	1,206,019	1,273,605	19.0%	19.6%	-67,586	-5.3%
Non-current finance lease liabilities and leases with purchase option	123,518	140,923	1.9%	2.2%	-17,405	-12.4%
Long-term trade and other payables	1,160	1,845	0.0%	0.0%	-685	-37.1%
Long-term provisions for employee benefits	524,447	525,571	8.2%	8.1%	-1,123	-0.2%
Other long-term provisions	25,974	26,420	0.4%	0.4%	-446	-1.7%
Other long-term financial liabilities	901	1,042	0.0%	0.0%	-141	-13.5%
Deferred tax liabilities	101,610	106,675	1.6%	1.6%	-5,065	-4.7%
Non-current liabilities, total	**1,983,629**	**2,076,081**	**31.2%**	**32.0%**	**-92,452**	**-4.5%**
Current liabilities						-
Short-term bank loans and borrowings	235,710	197,803	3.7%	3.0%	37,907	19.2%
Current finance lease liabilities and leases with purchase option	58,979	59,567	0.9%	0.9%	-588	-1.0%
Short-term trade and other payables	601,685	670,021	9.5%	10.3%	-68,335	-10.2%
Short-term provisions for employee benefits	111,996	99,256	1.8%	1.5%	12,740	12.8%
Other short-term provisions	23,624	24,950	0.4%	0.4%	-1,326	-5.3%
Other short-term financial liabilities	113,530	118,889	1.8%	1.8%	-5,359	-4.5%
Current tax liabilities	9,264	1,361	0.1%	0.0%	7,903	580.7%
Current liabilities, total	**1,154,788**	**1,171,847**	**18.1%**	**18.1%**	**-17,059**	**-1.5%**
Total liabilities	**3,138,417**	**3,247,928**	**49.3%**	**50.0%**	**-109,511**	**-3.4%**
Total liabilities and equity	**6,362,812**	**6,490,797**	**100.0%**	**100.0%**	**-127,985**	**-2.0%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2017 prepared according to EU IFRS

Equity

Equity expressed as a percentage of total assets as at 31 March 2017 was 50.7% compared to 50.0% at the end of 2016. Increase in the share of equity in total assets is caused by the decrease in long-term and short-term liabilities. Equity dropped to a lesser extent – by PLN 18.5 million, or -0.6%, driven mainly by exchange differences resulting from conversion of financial statements of foreign operations, which decreased PLN 32.8 million, or -54.6%, as a result of exchange rate changes, with other items of equity increasing by PLN 15.7 million, i.e. 137.3%, which was presented in the statement of changes in equity.

Non-current liabilities

Non-current liabilities at the end of Q1 2017 fell by PLN 92.5 million, i.e. -4.5%, compared to the end of 2016. The above decrease was driven by the lower amount of long-term bank loans and borrowings by PLN 67.6 million, i.e. -5.3%, and long-term liabilities on account of leasing and leases with purchase option by PLN 17.4 million, or -12.4%, as a result of repayments and reclassification to current liabilities i.e. to short-term bank loans and borrowings and short-term liabilities on account of leasing and leases with purchase option.

Current liabilities

Current liabilities dropped at the end of Q1 2017 compared to the end of 2016 by PLN 17.1 million, or -1.5%. The largest movements were recorded in the following line items:

- Short-term trade and other payables - decline by PLN 68.3 million caused primarily by the following:
  1) drop in trade payables by PLN 48.5 million, i.e. -14.9%, as a result of settlement of the liabilities associated with freight transport in Q4 2016
  2) drop in liabilities arising from the purchase of non-financial non-current assets by PLN 23.4 million, or -50.4%
- Short-term provisions for employee benefits – up by PLN 12.7 million, i.e. by 12.8%, resulting from increase in the provisions for unused holiday leaves
- Short-term bank loans and borrowings – an increase by PLN 37.9 million, or 19.2%, as described above

Short-term liabilities expressed as a percentage of total assets at the end of Q1 2017 was 18.1% and did not change from the end of 2016.

5.1.3. Cash flow statement

The table below depicts the main line items in the PKP CARGO Group's cash flow statement in Q1 2017 compared to Q1 2016.

Table 26 Main line items in the PKP CARGO Group's cash flow statement in Q1 2017 compared to the corresponding period of 2016.

Item	Q1 2017	Q1 2016 (restated*)	Change 2017 - 2016	% change 2017/2016
Net cash on operating activities	92,638	-112,436	205,075	-
Net cash on investing activities	-359,010	-170,489	-188,522	-
Net cash on financial activities	-36,200	144,634	-180,834	-
Net increase / (decrease) in cash and cash equivalents	**-302,572**	**-138,291**	**-164,281**	**-**
Cash and cash equivalents at the beginning of the reporting period	**755,919**	**276,191**	**479,728**	**173.7%**
Impact exerted by FX rate movements on the cash balance in foreign currencies	-5,673	-	-5,673	-
Cash and cash equivalents at the end of the reporting period	**447,674**	**137,900**	**309,774**	**224.6%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2017 prepared according to EU IFRS

* restatement of comparative data is described in detail in Note 5 to the Condensed Quarterly Consolidated Financial Statements

Cash flow from operating activities

In Q1 2017 net cash flow from operating activities was PLN 92.6 million compared to PLN -112.4 million in the corresponding period of 2016. The cash flow was generated on the result before tax of PLN 0.1 million and amortization and depreciation and impairment losses of PLN 143.8 million (increase by PLN 1.5 million compared to the corresponding period of the previous year), with simultaneous decrease in the balance of trade and other payables by PLN 46.2 million.

Cash flow from investing activities

In Q1 2017 net cash flow used in connection with investing activities was PLN -359.0 million versus PLN -170.5 million in the corresponding period of the previous year. The negative cash flows were related directly to the capital expenditures incurred by the PKP CARGO Group and opening of bank deposits for PLN 250.0 million. The details of the capital expenditures are described in "PKP CARGO Group's investments".

Cash flow from financing activities

Net cash flow from financing activities in Q1 2017 was PLN -36.2 million versus PLN 144.6 million in the same period in 2016. Proceeds of PLN 80.2 million were obtained from loans taken out in Q1 2017, compared to PLN 199.3 million in the corresponding period of 2016. In Q1 2017, total cash expenditures for leases, to repay loans and borrowings and interest on leases and loans and borrowings were PLN 116.1 million versus PLN 55.4 million in the corresponding period of the previous year.

5.1.4. Selected financial and operating ratios

The table below presents key financial and operating ratios of the PKP CARGO Group in Q1 2017 compared to the corresponding period of the previous year.

Table 27 Key financial and operating ratios in Q1 2017 compared to the corresponding period of 2016.

No.	Item	Q1 2017	Q1 2016 (restated*)	Q1 2017, adjusted**	Q1 2016, adjusted*** (restated*)	Change 2017 - 2016 adjusted	% change 2017/2016 adjusted
1	EBITDA margin[1]	13.4%	7.8%	13.4%	7.8%	5.6 p.p.	71.6%
2	Net profit margin[2]	-0.1%	-6.4%	-0.1%	-6.4%	6.3 p.p.	-98.0%
3	Net financial debt to EBITDA ratio[3]	1.9	1.8	1.6	2.0	-31.4 p.p.	-16.0%
4	ROA[4]	-1.1%	-1.0%	0.4%	0.1%	0.3 p.p.	314.6%
5	ROE[5]	-2.1%	-1.8%	0.7%	0.2%	0.6 p.p.	338.9%
6	Average distance covered by one locomotive (km/day)[6]	244.8	242.7	244.8	242.7	2.1	0.9%
7	Average gross train tonnage per operating locomotive (tons)[7]	1453.0	1480.0	1453.0	1480.0	-27.0	-1.8%
8	Average running time of train locomotives (hours per day)[8]	14.8	14.9	14.8	14.9	-0.1	-0.7%
9	Freight turnover per employee (thousands tkm/employee)[9]	304.3	275.5	304.3	275.5	28.7	10.4%

Source: Proprietary material

* restatement of comparative data is described in detail in Note 5 to the Condensed Quarterly Consolidated Financial Statements

** The annualized data for Q1 2017 (4M 2016 – 3M 2017) were adjusted for presentation purposes for (1) impairment loss on receivables from OKD in the amount of PLN 72.7 million (2) impairment loss arising from a test for impairment of non-current assets from the AWT Group in the amount of PLN 34.1 million; moreover, the adjusted net profit includes deferred tax resulting from a test for impairment of AWT's value in the amount of PLN 6.5 million and the deferred tax on account of an impairment loss on the receivables from OKD a.s. ("OKD") in the amount of PLN 8.0 million.

** The annualized data for Q1 2016 (4M 2015 – 3M 2016) were adjusted for presentation purposes for (1) the profit on the bargain acquisition of AWT in the amount of PLN 137.8 million, (2) the costs following from the implemented 2nd Voluntary Redundancy Program (VRP 2) pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million, (3) impairment loss on non-current assets and assets classified as held for sale in the amount of PLN 178.7 million; additionally, the adjusted net profit includes deferred tax on account of VRP 2 in the amount of PLN 13.3 million, deferred tax on impairment of non-current assets and assets classified as held for sale in the amount of PLN 33.9 million, while profit on bargain acquisition of AWT does not include deferred tax

The adjustments concern only data from the Statement of Comprehensive Income.

1. Calculated as the ratio of the operating profit plus amortization/depreciation and impairment losses to total operating revenue
2. Calculated as the ratio of net profit to total operating revenue

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

In Q1 2017, due to reasons described above, the key profitability ratios, i.e. EBITDA margin and net profit margin, were higher than in the same period of the previous year. ROE, ROA and net financial debt to EBITDA ratios deteriorated. The last ratio increased from 1.9 in Q1 2017 to 1.8 in the corresponding period of 2016. The improvement of the ratios in Q1 2017 compared to the corresponding period of the previous year is attributable to the Group's higher results, in particular EBITDA and net result.

If annualized performance is adjusted by non-recurring events, the foregoing ratios (ROA, ROE and net financial debt) are better than the reported figures. This results from the aforementioned adjustments of the financial performance in earlier periods.

In Q1 2017, the average daily mileage of locomotives was 244.8 km/day and, compared to the corresponding period of the previous year, increased by 2.1 km/day, i.e. by 0.9% yoy. The key driver of the improvement of this indicator was the optimization of the transportation process.

In Q1 2017 the gross average train freight turnover per locomotive moved down from 1,480.0 tons in Q1 2016 to 1,453.0 tons, i.e. by 27.0 tons (-1.8% yoy). The decrease of the figure results from execution of the transport process with a very high level of closures and operating difficulties in the PKP PLK grid.

In Q1 2017, the average daily work time of locomotives was 14.8 h/day and, compared to the corresponding period of the previous year, decreased by 0.1 h/day, i.e. by -0.7% yoy. The decrease of the figure results from execution of the transport process with a very high level of closures and operating difficulties in the PKP PLK grid.

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

Situation on the rail transport market in the main cargo categories

Favorable business conditions on the market for coal, aggregates, coke, iron ore, metals, petroleum oil refinery products, chemical products and container transport directly affect the situation in the rail freight turnover sector.

Changes in transport of the foregoing groups of commodities directly affect the changes in volumes of those commodities transported by the PKP CARGO Group. Majority of revenues in the PKP CARGO Group comes from activity linked to rail freight transport in Poland, both domestically, exports, imports and transit, as well as in the CEE region. Therefore, the Group's activity and financial performance depend on the market situation not just in Poland and the Czech Republic but also in countries which are their main trading partners.

Deterioration of business conditions on domestic markets or in countries constituting the existing or potential areas of the Group's operations may have adverse effect on the demand for the services provided by the Group, which in turn may directly affects its financial performance.

The uncertain situation in the mining industry significantly affects the market for hard coal transportation. It is caused predominantly by the low prices of coal and the increasing role of renewable energy sources ("RES").

Transport of metallurgical products and raw materials required for their production, i.e. iron ore, stone or coke, depend on the situation in the metallurgical industry, which faces a number of factors restricting the competitiveness of the ironworks and steelworks located in Poland. The restrictions associated with the climate and energy package and high energy prices have direct impact on their condition and, indirectly, on the transport market.

Situation in the Czech coal sector

On 11 April 2017 the Regional Court in Ostrava published a draft OKD a.s. restructuring plan. In accordance with the published plan, OKD, through an increase in the share capital of its subsidiary, will contribute its enterprise (without claims specified as excluded) to OKD's Subsidiary, subsequently, OKD will sell a 100% stake in OKD's Subsidiary to PRISKO a.s., a company wholly owned by the State Treasury of the Czech Republic, for approx. CZK 79 million (approx. EUR 2.6 million). The closing of the transaction is contingent on the following conditions precedent: approval of the restructuring plan by the court, approval of the transaction by the Czech anti-monopoly authority, increase in the share capital of OKD's Subsidiary and deposit of the purchase price for a 100% stake in OKD's Subsidiary. In addition, OKD will use the proceeds from the transaction to satisfy priority creditors in accordance with Czech law and to partly satisfy the remaining creditors. The closing is expected to take place in Q3 or Q4 2017. The current freight contract between AWT and OKD is not included in the list of excluded claims, hence OKD's rights and obligations arising therefrom will be contributed to OKD's Subsidiary acquired by PRISKO a.s.

Track construction and maintenance market

Through AWT Group companies the Group specializes in the construction and maintenance of rail tracks. On top of maintenance alone, the function of OKD sidings operator necessitates the application of unique technological solutions to maintain the efficiency of OKD's external logistics. One of the examples of activity in this area is the construction of new tracks for new locations to store coal and gangue. Accordingly, the Group has at its disposal a qualified and professional workforce and the required equipment.

Its resources and experience in this field poise the Group to participate in open tenders and form an incentive for the further development of these types of services.

Costs of access to infrastructure

The PKP CARGO Group's activity results largely depend on the amount of rail infrastructure access charges. The cost of access to infrastructure in Q1 2017 accounted for approx. 14.7% of PKP CARGO Group's operating expenses.

In the 2016/2017 timetable, PKP PLK reduced the basic fee rates slightly for the 1435 mm gauge rail infrastructure and raised most of the additional fees and fees for the basic services of access to devices related to the handling of trains. Other domestic managers in the 2016/2017 timetable raised the rates for minimum access, additional services, basic services related to the access to devices.

International managers in countries such as Germany, Netherlands, Hungary, Austria, except for Slovakia and Czech Republic, also increased the fees for access to infrastructure in the 2016/2017 timetable.

Technical regulations related to rolling stock

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

Put and call option

Minezit SE ("MSE") has exercised its right to demand that the Company repurchase of all the shares in AWT owned by MSE ("Put Option"). MSE is entitled to the above right under the Shareholder Agreement concluded between PKP CARGO, MSE and AWT on 30 December 2014. In accordance with the Shareholder Agreement, the total purchase price for the 15,000 shares, constituting 20% of all shares in AWT's share capital AWT, is EUR 27,000,000.

Considering the good cooperation with MSE, the PKP CARGO S.A. Management Board is considering alternative solutions regarding the form of payment for exercise of the Put Option. Having carried out an analysis the PKP CARGO S.A. Management Board will make a decision regarding the most favorable settlement of the Put Option from the standpoint of the Company's interests. At the same time, the Company has secured funds for exercising the Put Option.

Capital expenditure financing

The Group will finance capital expenditures from investment loans obtained from the European Investment Bank, European Bank for Reconstruction and Development and commercial banks. The increase of borrowing liabilities will result in an increase of (short- and long-term) liabilities and financial expenses.

Operating difficulties on rail lines

The activities of the PKP CARGO Group depend on the condition of the rail infrastructure, and the railway network is of low quality. An intense railway network modernization program, although expected to ultimately result in improved operating conditions, during the course of the construction and renovation work will cause hindrances and the need to route railway traffic through detours.

Railway track closures caused by modernization works have and will continue to have direct negative impact on the throughput of the lines and stations used, and rejection of applications for individual timetables (IRJ)[41], extension of the travel time, longer train travel courses and longer train stays at the stations. This situation requires increased human resources involved in the transport process, in terms of the rolling stock and train crews, which impacts the costs incurred by the Group.

Infrastructural investments

Due to the fact that Poland will be the main beneficiary of the cohesion fund in 2014-2020, a significant growth of the construction industry is expected, driven by numerous road and railway investments.

It is expected that development of the construction industry will have positive impact on the volume of rail transport, as an important provider of services in transport of aggregates and other construction materials.

FX rates

The Parent Company and the Group companies are exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies. The Parent Company's receivables expressed in foreign currencies are short-term receivables, and payables expressed in foreign currencies are mostly short- and long-term liabilities on account of investment loan agreements with maturities of up to 15 years and liability arising from put option on a non-controlling interest.

According to the Financial Risk Management Policy prevailing in the Company, in Q1 2017, the Parent Company and PKP CARGO CONNECT sp. z o.o. used FX risk management transactions for the EUR/PLN currency pair.

Interest rates

Most financial investments made by the Company and other Group companies as at the end of Q1 2017 were bank deposits, which are concluded for the period from a few days up to 7 months, depending on the Company's liquidity needs.

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

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

At the same time, in accordance with the Financial Risk Management Policy, PKP CARGO CONNECT Sp. z o.o. used hedge accounting as regards the hedging of interest rate risk for leasing agreements pertaining to the lease of 210 series TALNS wagons concluded in 2013. As at the balance sheet date, PKP CARGO CONNECT Sp. z o.o. had outstanding interest rate transactions (IRS).

The Parent Company did not use transactions hedging against the interest rate risk in Q1 2017.

Scrap price level

The scrap market is very unstable. Due to steelworks suspending purchases of steel scrap dictated by the very high inventory levels, scrap prices are expected to decline in the months to come. In addition, steel scrap prices at the London Metal Exchange are expected to drop by 46 USD/ton over the next few months.[42]

[41] Individual Train Timetable - timetable prepared on the carrier's application, for one or more travel times within the framework of free transport throughput capacity.
[42] www.zlom.info.pl

5.3. The Management Board's stance with respect to the possibility of realizing previously published result forecasts for the year

The Parent Company has not published financial forecasts pursuant to § 5 Section 1 Item 25 of the Regulation issued by the Finance Minister on 19 February 2009 on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent, consolidated version of 27 June 2013 (Journal of Laws of 2014 Item 133 as amended) pertaining to the results of the Company and the PKP CARGO Group in 3M 2017.

5.4. Information about production assets

5.4.1. Rolling stock

PKP CARGO Group's rolling stock is maintained through repair points functioning within the structures of PKP CARGO S.A. Units and in subsidiaries. The PKP CARGO Group's rolling stock repair and maintenance organization has the competences to repair and maintain wagons, electric locomotives at all the maintenance levels from P1 to P5 and to repair diesel locomotives at maintenance levels from P1 to P4. In addition to the rolling stock owned by the PKP CARGO Group, this organization belonging to the Group also repairs rolling stock and subassemblies for other owners.

Wagons and traction units are the main elements of the PKP CARGO Group's production assets. Changes in the rolling stock levels result directly from such actions as liquidation and sale of rolling stock or purchase of rolling stock. Additionally, locomotive modernizations are carried out, which do not affect the overall size of the rolling stock but they do change its age structure and in some cases change the quantities in individual series when a locomotive after a modernization changes its series and purpose.

In Q1 2017, the process of decommissioning of redundant or obsolete rolling stock was started. The first batch of locomotives classified for physical liquidation was deleted from the books.

The tables below present the structure of the locomotives and wagons used, by type and ownership during the reporting period.

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

Item	31/03/2017	31/12/2016	Change YTD
diesel locomotives	1,374	1,398	-24
electric locomotives	1,098	1,173	-75
Total	**2,472**	**2,571**	**-99**
owned locomotives (including financial lease)	2,462	2,556	-94
locomotives in operational lease or rented	10	15	-5
Total	**2,472**	**2,571**	**-99**

Source: Proprietary material

Table 29 Structure of the wagons used by the PKP CARGO Group, by ownership

Item	31/03/2017	31/12/2016	Change YTD
owned wagons (including financial lease)	64,452	64,519	-67
wagons in operational lease or rented	890	1,167	-277
Total	**65,342**	**65,686**	**-344**

Source: Proprietary material

On 23 September 2015, an agreement was signed with the Consortium composed of Siemens Sp. z o.o. and Siemens A.G. for the delivery of 15 multi-system locomotives from 31 January 2016 to 30 June 2017 (basic order) with an option to purchase 5 additional locomotives at basic order prices, where PKP CARGO S.A. must take the decision to exercise this option no later than on 31 December 2017 (optional order).

Between 1 January 2016 and the delivery date of this report, 12 locomotives were delivered by the manufacturer.

5.4.2. Real estate

In the transport process, due to the necessity to guarantee appropriate maintenance and repair support, real estate plays an important role. Most real estate used by the Group is used on the basis of lease and rental agreements. The table below presents change of the balance of real estate owned and used by the PKP CARGO Group in Q1 2017.

Table 30 Real estate owned and used by the PKP CARGO Group as at 31 March 2017 compared to 31 December 2016.

Item	31/03/2017	31/12/2016	Change YTD
Land - owned, in perpetual usufruct and leased from other entities [ha]	1,580	1,584	-4
Buildings - owned, leased and rented from other entities [sqm]	767,346	781,998	-14,652

Source: Proprietary material

Decrease of the size of buildings owned, leased and rented results from the on-going verification of the size of the assets used by the Parent Company and its subsidiaries.

6. Other key information and events

6.1. Proceedings pending before courts, arbitration bodies or public administration authorities

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

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

6.2. Information on transactions with related parties

No entity from the PKP CARGO Group entered in any transactions with related parties on non-market terms in Q1 2017. Also after the balance sheet date no such transactions have been entered into.

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

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

6.4. Other information of relevance for evaluation of the employment situation, financial standing, financial performance, assets and their movements as well as information of relevance for assessment of the ability of the Issuer and other Group companies to pay their debts.

Other than the information presented in this Report, no other information has been identified that would be of relevance for evaluation of the employment situation, financial standing, financial performance, assets or their movements or information of relevance for assessment of the ability of the Issuer to pay its debts.

This Consolidated Quarterly Report was authorized by the PKP CARGO S.A. Management Board on 25 May 2017.

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Maciej Libiszewski

President of the Management Board

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Arkadiusz Olewnik

Management Board Member

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Grzegorz Fingas

Management Board Member

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Jarosław Klasa

Management Board Member

....

Zenon Kozendra

Management Board Member

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