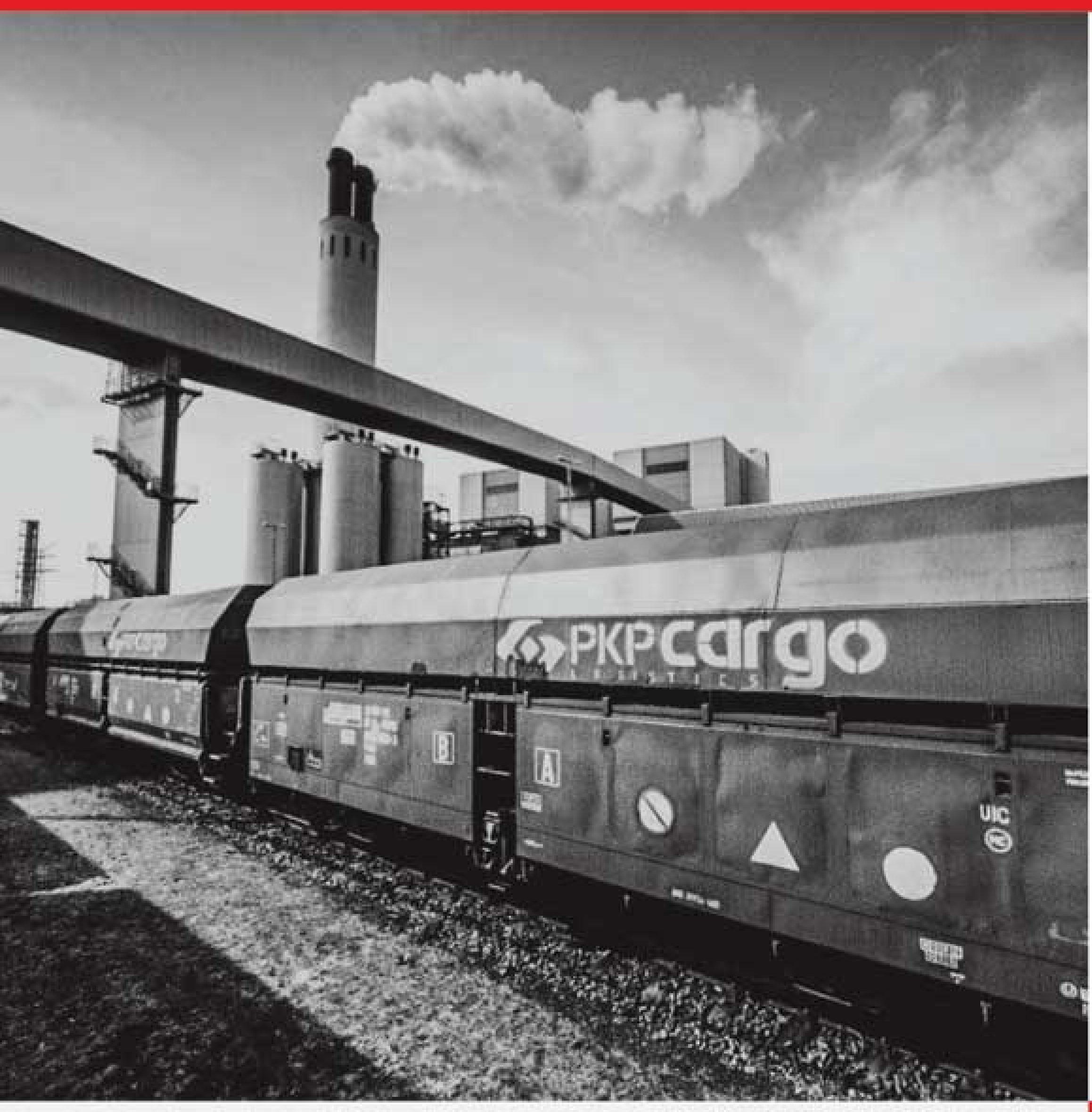

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PKP CARGO GROUP'S CONSOLIDATED QUARTERLY REPORT FOR Q3 2015

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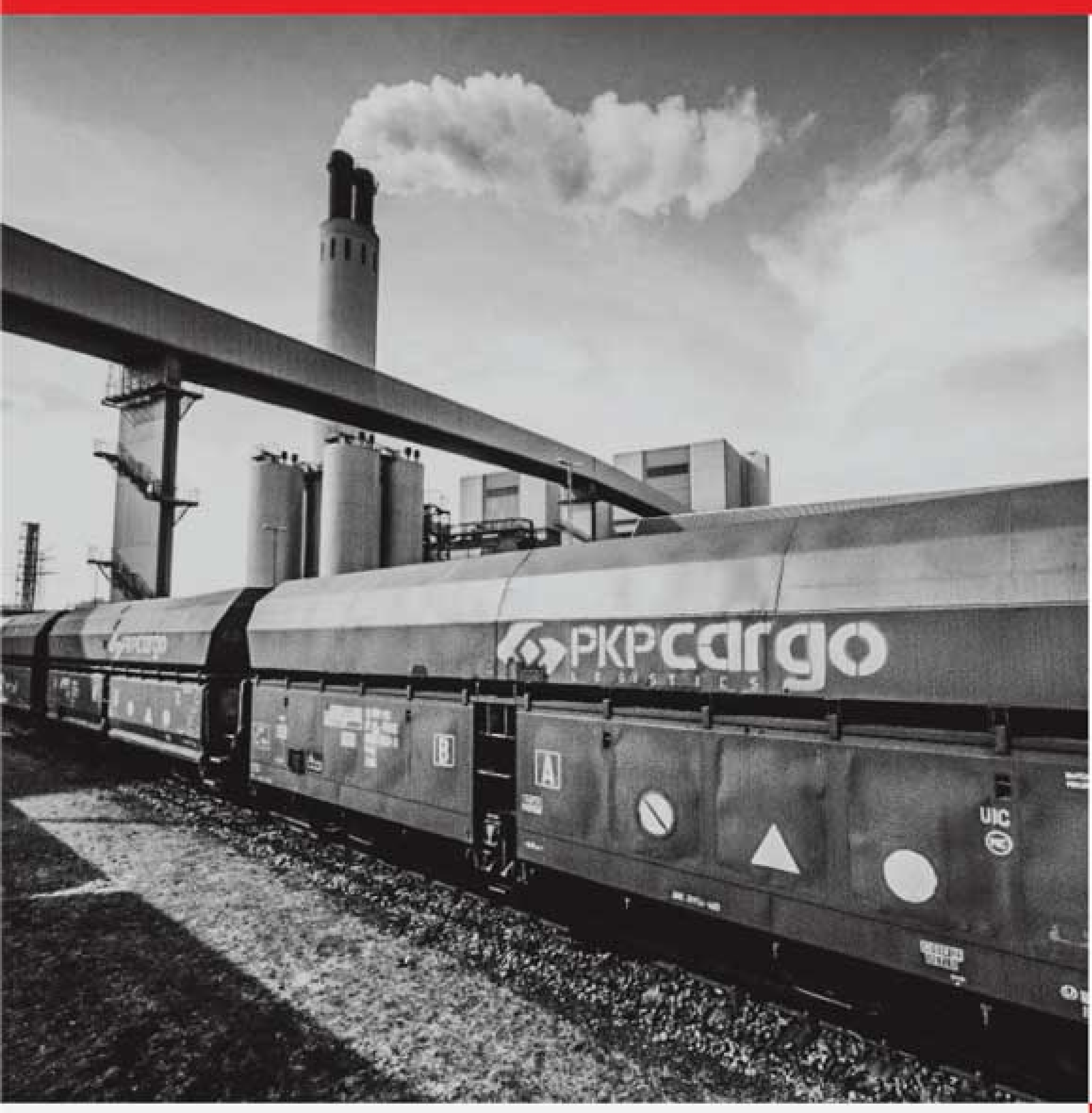

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QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE **PKP CARGO** GROUP FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2015 PREPARED IN ACCORDANCE WITH IFRS AS ENDORSED BY THE EUROPEAN UNION

TABLE OF CONTENTS

QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2015 TO 30 SEPTEMBER 2015

	Note	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 3 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand	For the 3 months period ended 30/09/2014 (unaudited) PLN thousand
Revenue from sales of services and finished goods	5	3 083 886	1 187 347	3 100 448	1 047 122
Revenue from sales of goods and materials		25 512	7 837	39 617	15 962
Other operating revenue	7.1	160 034	11 681	28 815	5 968
Total operating revenue		**3 269 432**	**1 206 865**	**3 168 880**	**1 069 052**
Depreciation / amortisation and impairment losses	6.1	318 619	120 311	272 059	90 520
Consumption of raw materials and energy	6.2	496 592	184 162	468 096	154 290
External services	6.3	1 019 421	408 562	966 097	328 123
Taxes and charges		28 463	10 855	30 703	10 370
Employee benefits	6.4	1 089 530	371 129	1 072 970	348 172
Other expenses by kind		32 016	13 386	29 356	7 438
Cost of merchandise and raw materials sold		19 092	6 697	26 640	10 774
Other operating expenses	7.2	14 499	3 650	21 200	6 557
Total operating expenses		**3 018 232**	**1 118 752**	**2 887 121**	**956 244**
Profit on operating activities		**251 200**	**88 113**	**281 759**	**112 808**
Financial revenue	8.1	9 455	79	28 920	17 312
Financial expenses	8.2	28 088	11 530	25 074	8 597
Share in the profit / (loss) of entities accounted for under the equity method	12	3 572	90	(34)	400
Result on sale of entities accounted for under the equity method		1 865	-	-	-
Profit before tax		**238 004**	**76 752**	**285 571**	**121 923**
Income tax expense	9.1	17 504	12 337	58 183	22 684
NET PROFIT		**220 500**	**64 415**	**227 388**	**99 239**

QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2015 TO 30 SEPTEMBER 2015 (cont'd.)

	Note	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 3 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand	For the 3 months period ended 30/09/2014 (unaudited) PLN thousand
NET PROFIT		**220 500**	**64 415**	**227 388**	**99 239**
Other comprehensive income					
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:		**24 102**	**9 167**	**(1 905)**	**(862)**
The effective portion of changes in fair value of cash-flow hedging instruments		510	(1 258)	(2 352)	(1 064)
Income tax on other comprehensive income	9.1	(97)	239	447	202
Foreign exchange differences on translation of subsidiaries' financial statements		23 689	10 186	-	-
Other comprehensive income that will not be reclassified to profit or loss:		**51 547**	**-**	**-**	**-**
Actuarial gains / (losses) on employee benefits after employment period		63 638	-	-	-
Income tax on other comprehensive income	9.1	(12 091)	-	-	-
		75 649	**9 167**	**(1 905)**	**(862)**
TOTAL COMPREHENSIVE INCOME		**296 149**	**73 582**	**225 483**	**98 377**
Net profit / (loss) attributable to:					
Shareholders of the Parent company		220 643	64 415	225 789	99 052
Non-controlling interest		(143)	-	1 599	187
		220 500	**64 415**	**227 388**	**99 239**
Total comprehensive income / (loss) attributable to:					
Shareholders of the Parent company		296 292	73 582	224 730	98 572
Non-controlling interest		(143)	-	753	(195)
		296 149	**73 582**	**225 483**	**98 377**
Earnings per share (PLN per share)					
Earnings per share on operations (basic):		**4.93**	**1.44**	**5.08**	**2.22**
Earnings per share on operations (diluted):		**4.93**	**1.44**	**5.04**	**2.21**

QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 SEPTEMBER 2015

	Note	As at 30/09/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
ASSETS			
Non-current assets			
Property, plant and equipment	10	4 857 646	4 011 542
Intangible assets		67 519	58 268
Goodwill		2 712	2 712
Investment property		1 323	1 362
Investments accounted for under the equity method	12,13	38 952	35 246
Other long-term receivables	16	4 962	-
Other long-term financial assets	14	9 797	6 051
Other long-term non-financial assets	15	21 158	14 645
Deferred tax assets	9.2	58 927	88 273
Total non-current assets		**5 062 996**	**4 218 099**
Current assets			
Inventories		131 838	115 298
Trade and other receivables	16	748 740	526 149
Income tax receivables		3 806	3 053
Other short-term financial assets	14	6 545	306 383
Other short-term non-financial assets	15	39 973	28 246
Cash and cash equivalents	17	144 507	429 178
		1 075 409	**1 408 307**
Assets classified as held for sale	18	65 340	17 560
Total current assets		**1 140 749**	**1 425 867**
Total assets		**6 203 745**	**5 643 966**

QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 SEPTEMBER 2015 (cont'd.)

	Note	As at 30/09/2015 (unaudited)	As at 31/12/2014 (audited)
		PLN thousand	PLN thousand
EQUITY AND LIABILITIES			
Equity			
Share capital	19.1	2 239 346	2 239 346
Supplementary capital	19.2	619 407	615 343
Other items of equity		273	(51 687)
Foreign exchange differences on translation of subsidiaries' financial statements		23 689	-
Retained earnings		657 430	527 670
Equity attributable to the shareholders of the Parent company		**3 540 145**	**3 330 672**
Non-controlling interest	19.3	-	63 500
Total equity		**3 540 145**	**3 394 172**
Non-current liabilities			
Long-term bank loans and credit facilities	21	463 166	208 077
Long-term finance lease liabilities and leases with purchase option	23	212 530	190 836
Long-term trade and other payables	24	36 367	67 982
Long-term provisions for employee benefits	25	529 084	658 217
Other long-term provisions	26	24 197	8 416
Other long-term financial liabilities	22	148 994	-
Deferred tax provision	9.2	115 834	2 328
Non-current liabilities		**1 530 172**	**1 135 856**
Current liabilities			
Short-term bank loans and credit facilities	21	279 640	92 123
Short-term finance lease liabilities and leases with purchase option	23	73 983	127 742
Short-term trade and other payables	24	654 209	530 440
Short-term provisions for employee benefits	25	100 837	334 844
Other short-term provisions	26	18 652	24 214
Other short-term financial liabilities	22	5 317	3 934
Current tax liabilities		790	641
Total current liabilities		**1 133 428**	**1 113 938**
Total liabilities		**2 663 600**	**2 249 794**
Total equity and liabilities		**6 203 745**	**5 643 966**

QUARTERLY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2015

			Other items of equity						
	Share capital	Supplementary capital	Actuarial gains/(losses) on employee benefits after employment period	Changes in fair value of cash-flow hedge	Foreign exchange differences on translation of subsidiaries' financial statements	Retained earnings	Attributable to shareholders of the Parent company	Attributable to non-controlling interest	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Balance as at 1/01/2014 (audited)	**2 166 901**	**692 761**	**(16 182)**	**(210)**	**-**	**603 247**	3 446 517	**62 377**	3 508 894
Net result for the period	-	-	-	-	-	225 789	225 789	**1 599**	227 388
Other net comprehensive income for the period	-	-	-	(1 059)	-	**-**	(1 059)	**(846)**	(1 905)
Total comprehensive income	**-**	**-**	**-**	**(1 059)**	**-**	**225 789**	224 730	**753**	225 483
Issuance of shares	72 445	25 529	-	-	-	**-**	97 974	**-**	97 974
Dividend payment	-	-	-	-	-	(137 496)	(137 496)	**-**	(137 496)
Share-based payment provision	-	(100 015)	-	-	-	-	(100 015)	**-**	(100 015)
Other changes in equity	-	(2 932)	-	-	-	2 932	-	**-**	-
Balance as at 30/09/2014 (unaudited)	**2 239 346**	**615 343**	**(16 182)**	**(1 269)**	**-**	**694 472**	3 531 710	**63 130**	3 594 840
Balance as at 1/01/2015 (audited)	**2 239 346**	**615 343**	**(50 056)**	**(1 631)**	**-**	**527 670**	3 330 672	**63 500**	3 394 172
Net result for the period	-	-	-	-	-	220 643	220 643	(143)	220 500
Other net comprehensive income for the period	-	-	51 547	413	23 689	-	75 649	-	75 649
Total comprehensive income	**-**	**-**	**51 547**	**413**	**23 689**	**220 643**	296 292	**(143)**	296 149
Dividend payment	-	-	-	-	-	(110 176)	(110 176)	-	(110 176)
Transactions with non-controlling interest	-	-	-	-	-	23 357	23 357	(63 357)	(40 000)
Other changes in equity	-	4 064	-	-	-	(4 064)	-	-	-
Balance as at 30/09/2015 (unaudited)	**2 239 346**	**619 407**	**1 491**	**(1 218)**	**23 689**	**657 430**	3 540 145	**-**	3 540 145

QUARTERLY CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY 2015 TO 30 SEPTEMBER 2015 [INDIRECT METHOD]

	Note	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 3 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand	For the 3 months period ended 30/09/2014 (unaudited) PLN thousand
Cash flows from operating activities					
Profit before tax		**238 004**	**76 752**	**285 571**	**121 923**
Adjustments:					
Depreciation and amortisation of non-current assets	6.1	318 276	120 311	272 059	90 520
Impairment loss on non-current assets	6.1	343	-	-	-
(Gain) / loss on disposal / liquidation of property, plant and equipment and intangible assets		1 038	312	6 270	1 056
(Profit) / loss on investing activities		-	-	3 460	3 468
Foreign exchange (gain) / loss		(2 855)	281	1 556	912
(Gains) / losses on interest, dividends		17 220	9 160	5 704	1 424
Share in the (profit) / loss of entities accounted for under the equity method	12	(3 572)	(90)	34	(400)
Result on sales of entities accounted for under the equity method		(1 865)	-	-	-
Bargain purchase gain on acquisition of AWT	4	(137 779)	-	-	-
Other adjustments (1)		64 540	(165)	(2 352)	(1 065)
Changes in working capital:					
(Increase) / decrease in trade and other receivables		(50 697)	(25 557)	19 162	(15 462)
(Increase) / decrease in inventories		17 526	9 473	130	(1 572)
(Increase) / decrease in other assets		(8 680)	19 813	(812)	35 016
Increase / (decrease) in trade and other payables (2)		24 932	(101 291)	(108 290)	11 924
Increase / (decrease) in other financial liabilities		6 032	4 845	-	(1 709)
Increase / (decrease) in provisions (3)		(390 121)	(27 321)	(120 225)	(20 173)
Cash flows from operating activities		**92 342**	**86 523**	**362 267**	**225 862**
Interest received / (paid)		372	(888)	2 590	477
Income taxes received / (paid)		(9 245)	(1 010)	(5 756)	(2 427)
Net cash provided by operating activities		**83 469**	**84 625**	**359 101**	**223 912**

QUARTERLY CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY 2015 TO 30 SEPTEMBER 2015 [INDIRECT METHOD] (cont'd.)

	Note	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 3 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand	For the 3 months period ended 30/09/2014 (unaudited) PLN thousand
Cash flows from investing activities					
Acquisition of property, plant and equipment and intangible assets		(396 895)	(152 884)	(495 257)	(185 366)
Proceeds from sale of property, plant and equipment and intangible assets		2 808	2 646	1 020	181
Acquisition of entities accounted for under the equity method		(1 613)		(271)	(271)
Proceeds from the sale of entities accounted for under the equity method		2 000	-	-	-
Acquisition of subsidiary, net of cash acquired	4	(325 956)	-	-	-
Interest received		6 309	345	17 137	2 071
Dividends received		1 192	1 088	444	175
Proceeds from loans granted		-	-	(2 826)	(2 826)
Repayments of loans granted		90	90	-	-
Inflows / (outflows) from bank deposits over 3 months		299 836	2	297 935	(100 667)
Inflows / (outflows) related to the Employment Guarantees Program		-	-	79 614	-
Other proceeds/(acquisitions) on investing activities		3 469	3 469	-	-
Net cash (used in) / provided by investing activities		**(408 760)**	**(145 244)**	**(102 204)**	**(286 703)**
Cash flows from financing activities					
Payments of liabilities under finance lease		(108 013)	(25 597)	(89 426)	(26 652)
Payments of interest under lease agreement		(6 871)	(2 452)	(9 288)	(2 867)
Proceeds from credit facilities / loans received		398 268	52 832	115 403	115 403
Repayments of credit facilities / loans received		(81 047)	(35 897)	(57 191)	(16 429)
Interest on credit facilities / loans received		(10 953)	(6 143)	(4 548)	(1 287)
Grants received		2 833	2 833	17 826	6 436
Dividends paid to shareholders of the Parent company	19.2	(110 176)	-	(137 496)	-
Transactions with non-controlling interest	19.3	(40 000)	-	-	-
Other inflows / (outflows) from financing activities		(5 324)	(1 408)	(6 539)	(1 846)
Net cash (used in)/ provided by financing activities		**38 717**	**(15 832)**	**(171 259)**	**72 758**
Net increase / (decrease) in cash and cash equivalents		(286 574)	(76 451)	85 638	9 967
Opening balance of cash and cash equivalents	17	429 178	220 814	263 700	339 371
Effects of foreign exchange differences on the balance of cash denominated in foreign currency		1 903	144	-	-
Closing balance of cash and cash equivalents	17	**144 507**	**144 507**	**349 338**	**349 338**

(1) In the 9 months period ended 30 September 2015 an item includes mainly actuarial gains regarding post-employment benefits in the amount of PLN 63,638 thousand, recognized in the other comprehensive income.
(2) In the 9 months period ended 30 September 2015 an item includes increase in liabilities due to Voluntary Redundancy Program of PLN 48,249 thousand.
(3) In the 9 months period ended 30 September 2015 an item includes mainly a decrease in provision for Voluntary Redundancy Program of PLN 265,331 thousand and decrease in other employee benefits provision of PLN 97,809 thousand.

EXPLANATORY NOTES TO QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS AT 30 SEPTEMBER 2015

1. General information

1.1 Information on the Parent company

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

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

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

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

Management Board:

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

Supervisory Board:

Jakub Karnowski	-	Chairman
Piotr Ciżkowicz	-	Vice Chairman
Kazimierz Jamrozik	-	Member
Konrad Anuszkiewicz	-	Member
Stanisław Knaflewski	-	Member
Jacek Leonkiewicz	-	Member
Sławomir Baniak	-	Member
Raimondo Eggink	-	Member
Jarosław Bator	-	Member

On 18 February 2015 the Parent company's shareholder - PKP S.A. dismissed Mr. Jarosław Pawłowski from the Supervisory Board and appointed Mr. Zbigniew Klepacki as a Member of the Supervisory Board (effective from 19 February 2015).
On 13 March 2015 Mr. Paweł Ruka resigned from the position of a Member of the Supervisory Board (effective from 13 March 2015).
On 13 April 2015 the Extraordinary General Meeting of Shareholders of the Parent company appointed Mr. Raimondo Eggink as a Member of the Supervisory Board.
On 9 June 2015 Mr. Zbigniew Klepacki resigned from the position of a Member of the Supervisory Board (effective from 9 June 2015).
On 15 September 2015 the Parent company's shareholder - PKP S.A. appointed Mr. Jarosław Bator as a Member of the Supervisory Board.
On 29 September 2015 the Extraordinary General Meeting of Shareholders of the Parent company dismissed Mr. Marek Podskalny and Mr. Krzysztof Czarnota from the Supervisory Board.

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

The Parent company's shareholder's structure as at 30 September 2015 is as follows:

Entity	Registered office	Number of shares	% of share capital held	% of voting rights
PKP S.A. [(1)]	Warsaw	14 784 194	33,01%	33,01%
Nationale-Nederlanden OFE [(2)]	Warsaw	4 738 369	10,58%	10,58%
Morgan Stanley [(3)]	New York	2 380 008	5,31%	5,31%
Aviva OFE [(4)]	Warsaw	2 338 371	5,22%	5,22%
Other shareholders		20 545 975	45,88%	45,88%
Total		**44 786 917**	**100,00%**	**100,00%**

[(1)] In accordance with the notice sent by shareholder dated 24 June 2014.
[(2)] In accordance with the notice sent by shareholder dated 30 June 2014. On 20 July 2015 name of shareholder ING OFE was changed to Nationale-Nedelanden OFE.
[(3)] In accordance with the notice sent by shareholder dated 18 June 2014.
[(4)] In accordance with the notice sent by shareholder dated 13 August 2014.

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

1.2 Information on the Group

As at the reporting date PKP CARGO Group ("the Group") comprised of PKP CARGO S.A. as the Parent company and 32 subsidiaries. Additionally, the Group includes 6 associates and shares in 4 joint ventures.

Additional information about the subsidiaries and shares in associates and co-subsidiaries is presented in Notes 11, 12, 13.

Principal activity of the Group is rail transport of goods. In addition to the rail transport services, Group offers additional services:

a) intermodal services,
b) shipping (domestic and international),
c) terminals (handling and storage of goods),
d) siding services,
e) maintenance and repair of rolling stock,
f) recultivation services.

The duration of the companies belonging to the Group is unlimited, except for companies in liquidation.

1.3 Functional currency and presentation currency

The Parent company's functional and presentation currency in these Quarterly Condensed Consolidated Financial Statements is Polish Zloty (PLN). The data in the financial statements were presented in PLN thousand, unless more accuracy was required in particular cases.

Financial data of foreign subsidiaries are translated into PLN for consolidation purposes as follows:

- assets and liabilities at the exchange rate as at the end of the reporting period,
- items of the statement of comprehensive income and statement of cash flows according to the average exchange rate during the reporting period, calculated as the arithmetic average of the rates on the last day of each month in the period.

Foreign exchange difference resulting from these translations are recognized in equity as foreign exchange difference on translation of subsidiaries financial statements.

As at 30 September 2015 the Parent company translated financial statements of foreign subsidiaries for the consolidation purposes using the following exchange rates:

Currency	Item of the statement of financial position	Item of the statement of comprehensive income
EUR	4.2386	4.1913
CZK	0.1560	0.1541
HUF	0.0135	0.0134

2. International Financial Reporting Standards applied

2.1 Basis for preparation of Quarterly Condensed Consolidated Financial Statements

These Quarterly Condensed Consolidated Financial Statements have been prepared in accordance with the International Accounting Standard 34 – Interim Financial Reporting ("IAS 34") and in accordance with accounting standards applicable to quarterly financial reporting adopted by the European Union ("IFRS EU"), issued and effective at the time of preparation these Quarterly Condensed Consolidated Financial Statements and in accordance with the Regulation of the Finance Minister dated 19 February 2009 on current and periodic information published by securities issuers and conditions of recognition the information required by the laws of non-member to the European Union as equivalent (Official Journal No. 33, item 259) ("Regulation").

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

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

These Quarterly Condensed Consolidated Financial Statements have been prepared on the historical cost basis except for derivatives measured at fair value, liabilities arising from the put option for non-controlling shares and non-current assets classified as held for sale.

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

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

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

2.2 Status of endorsement of the Standards in the EU

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

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

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

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

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

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

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

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

At present, IFRS as endorsed by the EU, do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in the EU as at 30 September 2015:

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

The Group is currently analyzing the impact of published in 2014 IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the accounting policy. The Group has analyzed the potential impact of the other aforementioned standards, interpretations and amendments to standards used by the Group's accounting policy. According to the Management Board they will not result in a material impact on the currently used accounting policy.

3. Applied accounting principles

3.1 Statement on accounting principles

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

3.2. Explanations concerning seasonality or cyclicality of Group's interim operations

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

3.3. Changes in estimates

In the 9 months period ended 30 September 2015 the following changes in estimates occurred:

- the valuation of liabilities arising from put option for non-controlling shares - description of the applied method of estimates and the effect of the valuation as at 30 September 2015 is presented in note 4 of the Quarterly Condensed Consolidated Financial Statements,
- deffered income tax – the effect of recalculated balance of deferred income tax as at 30 September 2015 is presented in note 9 to the Quarterly Condensed Consolidated Financial Statements,
- provisions for employee benefits – provisions were estimated as at 30 September 2015, the effect of valuation is presented in note 25 to the Quarterly Condensed Consolidated Financial Statements.

During the period of 9 months ended 30 September 2015 there were no other changes in estimates and methodology of calculation that would affect the current or future periods.

4. Business combination

On 28 May 2015 the Parent company has acquired from Mr. Zdenek Bakala and The Bakala Trust 80% shares in share capital (entitling to 80% votes) of Advanced World Transport B.V. (hereinafter "AWT") with its registered office in Amsterdam, which is the parent entity for AWT Group.

The core business of AWT is primarily providing complex services of cargo rail transport. AWT renders services mainly in Czech Republic. Following the acquisition the Group should increase its presence on this market, develop new routes and provide complex logistics and transportation services for new customers. It is also expected that operating costs will be decreased as a consequence of economies of scale.

The acquisition was accounted for under the acquisition method in accordance with IFRS 3.

The Parent company concluded with Minezit S.E. (hereinafter "MSE"), a minority shareholder holding 20% shares of AWT, the Agreement on the purchase option (call) and sale option (put) of non-controlling shares in AWT. Based on the Agreement, the Parent company is both buyer of a call option and the issuer of put option and therefore has both the right to purchase the shares from MSE through exercise of a call option and an obligation to purchase shares from MSE when MSE will exercise a put option.

According to the accounting policy applied by the Parent company:

- call option was not recognised in the statement of financial position as it did not meet the definition of a derivative in accordance with IAS 39;
- put option was recognised under the anticipated-acquisition method.

By recognition of the put option under the anticipated-acquisition method, the Parent company assumes that that future transaction has already taken place. As a consequence, the recognition of put option is the same as it would be when the option was exercised.

Assuming that the sales transaction has already taken place, under this method, non-controlling interests was derecognised while the financial liability was recognized - the non-controlling interests subject to the put option are assumed to have been acquired already, even though formally it is still non-controlling interests. In the consolidated statement of financial position and consolidated statement of comprehensive income these shares are presented as shares already held by the Parent company.

Under IFRS 3, the liability due to put option recognised under the anticipated-acquisition method is a part of the contingent consideration and influences the amount of bargain purchase gain.

The fair value of liability due to put option is based on the discounted cash flows, with applied discount rate adequate for such liabilities. The fair value of put option depends on the financial results of the AWT Group and is set as a multiplication of EBITDA and a coefficient defined in the Agreement, adjusted by the amount of net debt.

The table below presents the fair value of main categories of total consideration to be paid on the purchase of AWT:

Category of consideration	Fair value as at the acquisition date PLN thousand
Cash	427 300
Contingent consideration	144 460
Total consideration	**571 760**

As at the date of acquisition of AWT, the fair value of liability due to put option amounted to PLN 144,460 thousand. As at 30 September 2015 the liability amounted to PLN 148,994 thousand. The difference arising from valuation of PLN 4,534 thousand was recognized in financial expenses.

The process of analysis of facts and circumstances that existed as at the acquisition date and could have affected the fair value measurement of identified assets and acquired liabilities of AWT is still not finished. In case of new information obtained about facts and circumstances that could have affected the fair value of identified assets and acquired liabilities determined as at the transaction date presented in these Quarterly Condensed Consolidated Financial Statements, the Parent company shall retrospectively adjust the provisional amounts during the measurement period in accordance with IFRS 3.

Provisional fair value of the identifiable assets and liabilities of AWT as at the acquisition date is as follows:

ASSETS	Fair value as at the acquisition date PLN thousand
Property, plant and equipment	847 597
Intangible assets	6 560
Investments in subsidiaries and associates	4 292
Trade and other receivables	166 902
Income tax receivables	1 561
Inventories	30 026
Other financial assets	4 749
Other non-financial assets	9 064
Cash and cash equivalents	93 066
Assets classified as held for sale	911
Total assets	**1 164 728**

LIABILITIES	Fair value as at the acquisition date PLN thousand
Bank loans and credit facilities	121 501
Finance lease liabilities and leases with purchase option	64 926
Trade and other payables	114 565
Provisions for employee benefits	13 511
Other provisions	19 909
Other financial liabilities	2 093
Deffered tax liabilities	112 253
Current tax liabilities	6 431
Total liabilities	**455 189**
Total identifiable net assets	**709 539**

The fair value of trade and other receivables amounted to PLN 166,902 thousand and comprises trade receivables of fair value of PLN 159,103 thousand. The contractual gross amount of due trade receivables is PLN 172,709 thousand, from which the receivables of PLN 13,606 thousand were considered uncollectable as at the acquisition date.

As the consideration transferred is lower than provisional fair value of acquired identifiable assets and liabilities, a bargain purchase gain of PLN 137,779 thousand was recognised on the acquisition of AWT which is presented in other operating revenue.

The bargain purchase gain resulted from the seller's decision on restructuring its business and, as a consequence, the necessity to sell part of its own assets during short period of time. It is worth emphasizing that the value of acquired net assets represents their current market value, while consideration transferred was determined on the basis of current market conditions concerning a sector, in which the acquired company operates.

BARGAIN PURCHASE GAIN	PLN thousand
Consideration transferred	571 760
Fair value of identifiable net assets	709 539
Bargain purchase gain	**137 779**

Acquisition expenses totalled to PLN 8,440 thousand and were recognised as external services in the consolidated statement of comprehensive income for the 9 month period ended 30 September 2015 in the amount of PLN 2,521 thousand and in the consolidated statement of comprehensive income for the financial year ended 31 December 2014 in the amount of PLN 5,919 thousand.

These Quarterly Condensed Consolidated Financial Statements contains financial results of AWT for the period from the acquisition date till 30 September 2015. The revenues of AWT generated in this period amounted to PLN 283,726 thousand. The AWT Group achieved in this period the net profit of PLN 13,966 thousand.

If the business combination had taken place on 1 January 2015, the consolidated revenues of the Group would have amounted to PLN 3,423,018 thousand and consolidated net profit would have amounted to PLN 60,478 thousand. The estimated amounts do not consider the bargain purchase gain on acquisition of AWT and at the same time it is assumed that provisionally determined fair value adjustments as at the acquisition date would not change if the acquisition took place on 1 January 2015.

The reconciliation of acquisition of AWT for the purposes of consolidated statement of cash flows is presented below:

CASH FLOWS RELATED TO AWT ACQUISITION	PLN thousand
Acquired cash and cash equivalents	93 066
Cash transferred according to historical exchange rate	(419 022)
Cash flows in the statement of cash flows	**(325 956)**

5. Revenue from sales of services and finished goods

5.1 Products and services of the operating segment

The Group has not determined operating segments since it has a single product to which all services provided by the Group are assigned. The Group operates only in one segment - domestic and international transport of goods and providing comprehensive logistics services in the field of railway freight. The Management Board of the Parent company analyses financial data in a manner in which they have been presented in these Quarterly Condensed Consolidated Financial Statements. The Group additionally renders services connected with repairs of the rolling stock as well as recultivation services, however, they are not significant to the Group's activities and are not treated as separate operating segments.

Revenue of the Group from external customers according to geographical areas are presented in note 5.2.

5.2 Geographical information

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

The main geographical area in which operates the Group is Poland, however the Group actively extends the geographical area of its operation, taking advantage of opportunities arising from the liberalisation of the European railway market.

As a result of the acquisition of AWT shares, the PKP CARGO Group's share in the Czech market significantly increased. For the period of 9 months ended 30 September 2015, total revenue from Czech customers amounted to over 9% of total revenue from sales of services, while for the corresponding period of previous year it amounted to 2%. Because of the fact that these Quarterly Condensed Consolidated Financial Statements include financial data of AWT for the period of 4 months only, it is expected that the share will increase in the following reporting periods.

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

	For the 9 months period ended 30/09/2015 (unaudited)	For the 3 months period ended 30/09/2015 (unaudited)	For the 9 months period ended 30/09/2014 (unaudited)	For the 3 months period ended 30/09/2014 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Poland	2 430 013	852 182	2 662 161	908 468
Czech Republic	293 163	192 135	65 781	20 447
Germany	121 680	49 067	126 660	39 662
Slovakia	55 405	20 504	64 120	20 441
Cyprus	38 998	13 672	62 996	23 328
Other countries	144 627	59 787	118 730	34 776
Total	**3 083 886**	**1 187 347**	**3 100 448**	**1 047 122**

5.3 Structure of the sales revenue

Within the scope of its activities, the Group distinguish types of services presented in this note. However, the Management Board of Parent company does not take this division into account during evaluation of the Group's results and making decisions about the resource allocation to each group of services. Therefore the disclosed groups of activities cannot be treated as operating segments of the Group.

	For the 9 months period ended 30/09/2015 (unaudited)	For the 3 months period ended 30/09/2015 (unaudited)	For the 9 months period ended 30/09/2014 (unaudited)	For the 3 months period ended 30/09/2014 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Transport revenue and railway shipping	2 703 482	1 005 852	2 829 093	954 561
Revenue from other transport activities	91 130	35 784	83 557	29 034
Siding and traction revenue	163 573	79 570	116 924	40 488
Cargo revenue	33 248	10 232	34 157	11 910
Recultivation	36 552	28 268	-	-
Other revenue [1]	55 901	27 641	36 717	11 129
Total	**3 083 886**	**1 187 347**	**3 100 448**	**1 047 122**

[1] The position of other revenue for the 9 months period ended 30 September 2015 presents mainly revenue arising from renting of railroad assets of PLN 10,158 thousand, revenue arising from customs agencies of PLN 9,691 thousand, revenue from sale of finished goods of PLN 8,880 thousand and revenue arising from repair services of railroad fleet of PLN 7,147 thousand. For the 9 months period ended 30 September 2014 this position presents mainly revenue arising from renting of assets of PLN 11,556 thousand, revenue arising from customs agencies of PLN 7,370 thousand and revenue arising from repair services of railroad fleet of PLN 8,584 thousand.

6. Expenses by kind

6.1 Depreciation / amortisation

	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 3 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand	For the 3 months period ended 30/09/2014 (unaudited) PLN thousand
Depreciation of property, plant and equipment	304 222	114 327	259 158	86 448
Amortisation of intangible assets	14 054	5 984	12 901	4 072
Impairment losses recognised / (derecognised):				
Property, plant and equipment	343	-	-	-
Total depreciation / amortisation	**318 619**	**120 311**	**272 059**	**90 520**

6.2 Consumption of raw materials and energy

	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 3 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand	For the 3 months period ended 30/09/2014 (unaudited) PLN thousand
Fuel consumption	135 385	51 268	155 293	53 203
Consumption of materials	58 335	25 354	28 918	5 101
Electricity, gas and water consumption	301 618	107 459	284 150	94 521
Impairment losses recognised / (derecognised)	620	(54)	(1 255)	1 445
Other	634	135	990	20
Total consumption of materials and energy	**496 592**	**184 162**	**468 096**	**154 290**

6.3 External services

	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 3 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand	For the 3 months period ended 30/09/2014 (unaudited) PLN thousand
Access to infrastructure connections	489 720	182 001	504 923	178 382
Repair services	9 229	3 573	11 839	4 333
Rent and lease fees (real estate and railroad fleet)	134 082	55 317	121 293	39 053
Transport services	218 691	97 427	201 158	59 775
Telecommunication services	6 905	2 262	8 891	2 979
Legal, advisory and similar services	18 873	7 769	13 243	6 279
IT services	39 950	12 610	40 294	16 816
Services related to property maintenance and operation of fixed assets	19 345	7 583	22 303	4 568
Cargo services	14 505	3 860	13 537	4 797
Siding services	17 677	4 196	16 002	3 992
Other services (1)	50 444	31 964	12 614	7 149
Total external services	**1 019 421**	**408 562**	**966 097**	**328 123**

(1) Other services include AWT expenses of PLN 32,656 thousand mainly on subcontracting services related to recultivation works (for the 3 months period ended 30 September 2015 in the amount of PLN 24,669 thousand)

6.4 Employee benefits

	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 3 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand	For the 3 months period ended 30/09/2014 (unaudited) PLN thousand
Salaries and wages	803 252	288 220	820 603	274 707
Costs of social insurance	167 712	61 056	160 402	51 261
Appropriation to the Company's Social Benefits Fund	19 841	6 041	24 439	7 894
Other employee benefits during employment	29 378	7 902	27 159	6 106
Other post-employment benefits	1 098	538	8 295	2 305
Voluntary Redundancy Program	70 179	-	-	-
Changes in provisions for employee benefits	(7 075)	6 033	31 109	5 501
Other employee benefit costs	5 145	1 339	963	398
Total employee benefits	**1 089 530**	**371 129**	**1 072 970**	**348 172**

7. Other operating revenue and expenses

7.1 Other operating revenue

	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 3 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand	For the 3 months period ended 30/09/2014 (unaudited) PLN thousand
Gains on disposal of assets:				
Gain on sale of non-current assets	770	479	-	-
Derecognised impairment losses:				
Trade receivables	4 897	2 876	4 422	2 686
Other (including interest on receivables)	223	13	543	51
	5 120	2 889	4 965	2 737
Other operating revenue:				
Bargain purchase gain on acquisition of AWT	137 779	-	-	-
Release of provisions for the fine imposed by OCCP	-	-	14 362	-
Release of other provisions	10 999	4 407	3 964	558
Interest on trade and other receivables	941	302	1 326	324
Grants	889	814	53	17
Other	3 536	2 790	4 145	2 332
Total other operating revenue	**160 034**	**11 681**	**28 815**	**5 968**

7.2 Other operating expenses

	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 3 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand	For the 3 months period ended 30/09/2014 (unaudited) PLN thousand
Losses on disposal of assets:				
Loss on sale of non-current assets	-	-	1 583	79
Recognised impairment losses:				
Trade receivables	2 812	735	4 521	656
Other (including on interest on receivables)	303	30	535	214
	3 115	765	5 056	870
Other operating expenses:				
Costs of liquidation of non-current and current assets	2 557	1 383	6 784	2 044
Other provisions	2 682	372	2 832	2 032
Court and collection costs	1 120	747	704	335
Costs of transport benefits for non-Employees	2 058	599	2 082	596
Interest on trade and other payables	245	13	30	11
Forex losses on trade receivables and Payables	1 404	(660)	161	32
Other	1 318	431	1 968	558
Total other operating expenses	**14 499**	**3 650**	**21 200**	**6 557**

8. Financial revenue and expenses

8.1 Financial revenue

Interest income by class of financial instruments:	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 3 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand	For the 3 months period ended 30/09/2014 (unaudited) PLN thousand
Interest income:				
Bank deposits and accounts	4 090	274	14 805	4 170
Bid bonds and collateral	166	37	234	66
Loans granted	14	10	24	9
Other (including interest on state settlements)	222	56	12 951	12 753
	4 492	377	28 014	16 998
Dividends from capital investments	27	27	-	-
Total interest income and dividends	**4 519**	**404**	**28 014**	**16 998**

Interest income by category of financial instruments:	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 3 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand	For the 3 months period ended 30/09/2014 (unaudited) PLN thousand
Interest income:				
Loans and receivables (including cash in hand and bank deposits)	4 270	321	15 063	4 245
Other (including interest on state settlements)	222	56	12 951	12 753
	4 492	377	28 014	16 998
Dividends from capital investments	27	27	-	-
Total interest income and dividends	**4 519**	**404**	**28 014**	**16 998**
Other financial revenue				
Gains on shares:				
Reversal of impairment losses on shares	33	19	-	-
Gains on measurement of financial assets and liabilities at fair value through profit or loss	-	(1 220)	-	-
Other financial revenue:				
Net forex gain	4 902	907	-	-
Other	1	(31)	906	314
Total financial revenue	**9 455**	**79**	**28 920**	**17 312**

8.2. Financial expenses

Interest expense by class of financial instruments:	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 3 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand	For the 3 months period ended 30/09/2014 (unaudited) PLN thousand
Interest expense:				
Interest on loans and overdraft facilities	9 842	4 616	4 548	1 287
Interest on liabilities under finance lease Agreements	7 634	2 722	9 288	2 867
Interest on long-term liabilities	4 134	1 220	5 988	1 845
Interest on bid bonds and guarantees	258	173	289	66
Other (including interest on state settlements)	660	307	1 326	1 043
Total interest expense	**22 528**	**9 038**	**21 439**	**7 108**

Interest expense by category of financial instruments:	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 3 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand	For the 3 months period ended 30/09/2014 (unaudited) PLN thousand
Interest expense:				
Financial liabilities measured at amortized cost	21 868	8 731	20 113	6 065
Other (including interest on state settlements)	660	307	1 326	1 043
Total interest expense	**22 528**	**9 038**	**21 439**	**7 108**
Other financial expenses				
Losses on shares:				
Recognised impairment losses on shares	13	13	9	-
Losses on measurement of financial assets and liabilities at fair value through profit or loss, including:	3 977	1 920	1 133	192
Valuation of liabilities due to put option for non-controlling interest	*4 533*	*2 476*	-	-
Other financial expenses:				
Net forex result	-	-	1 664	928
Other	1 570	559	829	369
Total financial expenses	**28 088**	**11 530**	**25 074**	**8 597**

9. Income tax

9.1.1 Income tax recognized in profit or loss

	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 3 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand	For the 3 months period ended 30/09/2014 (unaudited) PLN thousand
Current income tax:				
Current tax expense	2 679	1 756	8 877	2 793
Adjustments recognised in the current period with respect to prior year tax	-	-	68	693
	2 679	**1 756**	**8 945**	**3 486**
Deferred income tax:				
Deferred tax that occurred in the reporting period	14 825	10 581	49 238	19 198
Total income tax expense recognised in profit or loss	**17 504**	**12 337**	**58 183**	**22 684**

The decrease of the effective tax rate for the period of 9 months ended 30 September 2015 in comparison with the corresponding period of the previous year was caused mainly by recognition in the current period of the bargain purchase gain on acquisition of AWT of PLN 137,779 thousand.

9.1.2. Income tax recognized in other comprehensive income

	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 3 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand	For the 3 months period ended 30/09/2014 (unaudited) PLN thousand
Deferred income tax				
Due to income and expenses recognised in other comprehensive income:				
Fair value measurement of financial instruments designated as cash flow hedges	97	(239)	(447)	(202)
Actuarial gains / (losses) on post-employment benefit plans	12 091	-	-	-
Foreign exchange from translation of deferred tax in foreign subsidiaries recognised in other comprehensive income [(1)]	3 586	1 505	-	-
Income tax recognised in other comprehensive income	**15 774**	**1 266**	**(447)**	**(202)**

[(1)] The position is presented in equity as foreign exchange differences on translation of subsidiaries' financial statements.

9.2 Deffered tax balance

Below is presented the balance of deferred tax assets and liabilities recognised in the quarterly consolidated statement of financial position:

	As at 30/09/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Deferred tax assets	58 927	88 273
Deferred tax liabilities	(115 834)	(2 328)
Total	**(56 907)**	**85 945**

9.2.1 Deffered income tax:

For the 9 months period ended 30/09/2015	As at 01/01/2015 (audited)	Acquisition of AWT	Recognised in profit or loss	Recognised in other comprehensive income	Foreign exchange differences on translation of deferred tax recognized in other comprehensive income	As at 30/09/2015 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Temporary differences resulting in items of deferred tax (liabilities) / assets						
Property, plant and equipment	(139 061)	(119 645)	32 194	-	(3 843)	(230 355)
Intangible assets	-	(765)	211	-	(23)	(577)
Assets classified as held for sale	3 364	-	(3 364)	-	-	-
Long-term liabilities	(1 575)	-	849	-	-	(726)
Inventories	(1 177)	219	59	-	8	(891)
Receivables - impairment allowances	6 128	651	(349)	-	23	6 453
Accrued interest on assets	(608)	-	485	-	-	(123)
Provisions for employee benefits	137 682	2 737	(9 464)	(12 091)	87	118 951
Provisions and liabilities due to Voluntary Redundancy Program	50 413	-	(41 244)	-	-	9 169
Other provisions	2 586	3 468	(1 179)	-	110	4 985
Accrued expenses	5 982	-	5 418	-	1	11 401
Deferred income	(5 454)	-	(3 345)	-	-	(8 799)
Unpaid employee benefits	8 244	89	(1 041)	-	3	7 295
Forex losses	6 974	-	(4 759)	-	-	2 215
Forex gain	6	-	(4)	-	-	2
Other (including derivatives)	2 670	383	(1 517)	(97)	13	1 452
	76 174	**(112 863)**	**(27 050)**	**(12 188)**	**(3 621)**	**(79 548)**
Unused tax losses						
Tax losses (1)	9 771	610	12 225	-	35	22 641
Total deferred tax assets/(liabilities)	**85 945**	**(112 253)**	**(14 825)**	**(12 188)**	**(3 586)**	**(56 907)**

(1) As at 30 September 2015 deferred tax assets arising from tax losses to be used in future periods represents loss incurred by entities comprising the Tax Capital Group of PLN 71,281 thousand and tax loss incurred by remaining subsidiaries of PLN 47,882 thousand.

9.2.1 Deffered income tax: (cont'd.)

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

[1] On 30 September 2014 deferred tax assets arising from tax losses to be used in future periods represents loss incurred by the Parent company of PLN 521,185 thousand and tax loss incurred by subsidiaries of PLN 8,043 thousand.

9.3 Tax losses unrecognised in deffered tax asset

	As at 30/09/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
As at the reporting date, the following deferred tax assets remained unrecognised:		
- Unused tax losses (1)	83 292	12 960

(1) As at 30 September 2015 tax losses unrecognised in deferred tax asset represents the tax loss of companies belonging to the AWT Group of PLN 79,192 thousand which mainly arose before taking control (AWT B.V. of PLN 55,836 thousand, AWT Rail HU Zrt. of PLN 11,705 thousand, AWT Cechofracht a.s. of PLN 11,651 thousand) and Cargosped Terminal Braniewo Sp. z o.o. of PLN 4,100 thousand. As at 31 December 2014 tax losses unrecognised in deferred tax asset represented the tax loss of companies PKP CARGOTABOR Usługi Sp. z o.o. of PLN 8,737 thousand, PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o. of PLN 1,861 thousand and Cargosped Terminal Braniewo Sp. z o.o. of PLN 2,362 thousand.

10. Property, plant and equipment

Carrying amounts	As at 30/09/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Land	154 288	139 876
Buildings, premises, civil and water engineering structures	601 207	504 665
Technical equipment and machinery	140 633	120 825
Means of transport	3 920 411	3 220 195
Other fixed assets	8 576	7 757
Fixed assets under construction	32 531	18 224
	4 857 646	**4 011 542**

including finance lease	As at 30/09/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Technical equipment and machinery	8 880	6 138
Means of transport	353 505	324 810
	362 385	**330 948**

Fixed assets under construction	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand
Gross value		
Opening balance (audited)	**20 024**	**31 996**
Additions	332 003	412 715
Acquisition of AWT	3 229	-
Grants to property, plants and equipments	(2 783)	(8 330)
Disposals - transfer to non-current assets	(318 125)	(417 831)
Disposals - discontinued investments	(79)	(485)
Foreign exchange differences on translation of subsidiaries' financial statements	62	-
Closing balance (unaudited)	**34 331**	**18 065**
Accumulated impairment		
Opening balance (audited)	**1 800**	**1 800**
Additions	-	-
Disposals	-	-
Closing balance (unaudited)	**1 800**	**1 800**

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

For the 9 months period ended 30 September 2014	Land PLN thousand	Buildings, premises, civil and water engineering structures PLN thousand	Technical equipment and machinery PLN thousand	Means of transport PLN thousand	Other fixed assets PLN thousand	Total PLN thousand
Gross value						
Balance as at 1 January 2014 (audited)	**142 430**	**600 987**	**290 583**	**4 235 250**	**31 926**	**5 301 176**
Additions:						
Acquisition	-	20 104	10 483	386 375	593	417 555
finance leases	-	-	275	-	-	275
Other	-	194	207	2	-	403
Disposals:						
Sales	-	-	(240)	(1 540)	(46)	(1 826)
Liquidation	-	(9 602)	(3 083)	(164 295)	(71)	(177 051)
Other	-	-	(313)	(492)	(393)	(1 198)
Balance as at 30 September 2014 (unaudited)	**142 430**	**611 683**	**297 912**	**4 455 300**	**32 009**	**5 539 334**
Accumulated depreciation						
Balance as at 1 January 2014 (audited)	**-**	**84 519**	**156 222**	**1 201 203**	**21 991**	**1 463 935**
Additions:						
depreciation charges	-	17 643	24 103	214 611	2 801	259 158
Other	-	-	159	-	-	159
Disposals:						
Sales	-	-	(143)	(1 504)	(18)	(1 665)
Liquidation	-	(911)	(1 213)	(153 083)	(69)	(155 276)
Other	-	-	(106)	(296)	(372)	(774)
Balance as at 30 September 2014 (unaudited)	**-**	**101 251**	**179 022**	**1 260 931**	**24 333**	**1 565 537**
Accumulated impairment loss						
Balance as at 1 January 2014 (audited)	**691**	**11 300**	**-**	**-**	**-**	**11 991**
Disposals:						
impairment loss utilization	-	(8 610)	-	-	-	**(8 610)**
Balance as at 30 September 2014 (unaudited)	**691**	**2 690**	**-**	**-**	**-**	**3 381**

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

For the 9 months period ended 30 September 2015	Land PLN thousand	Buildings, premises, civil and water engineering structures PLN thousand	Technical equipment and machinery PLN thousand	Means of transport PLN thousand	Other fixed assets PLN thousand	Total PLN thousand
Gross value						
Balance as at 1 January 2015 (audited)	**140 567**	**610 590**	**309 442**	**4 516 074**	**32 904**	**5 609 577**
Additions:						
acquisition	77	12 706	9 483	290 216	2 200	314 682
acquisition of AWT	13 866	101 062	32 105	695 862	1 473	844 368
finance leases	-	-	-	3 443	-	3 443
foreign exchange differences on translation of subsidiaries' financial statements	480	3 068	1 087	23 040	65	27 740
Disposals:						
sales	(11)	(44)	(95)	(1 079)	(5)	(1 234)
liquidation	-	(72)	(1 614)	(110 766)	(348)	(112 800)
reclassification to assets held for sale	-	-	-	(91 969)	-	(91 969)
other	-	-	-	(37)	(1)	(38)
Balance as at 30 September 2015 (unaudited)	**154 979**	**727 310**	**350 408**	**5 324 784**	**36 288**	**6 593 769**
Accumulated depreciation						
Balance as at 1 January 2015 (audited)	**-**	**102 894**	**188 591**	**1 295 879**	**25 139**	**1 612 503**
Additions:						
depreciation charges	-	20 165	22 413	258 824	2 820	304 222
foreign exchange differences on translation of subsidiaries' financial statements	-	21	25	223	2	271
Disposals:						
sales	-	-	(43)	(725)	(4)	(772)
liquidation	-	(8)	(1 580)	(106 491)	(252)	(108 331)
reclassification to assets held for sale	-	-	-	(43 300)	-	(43 300)
other	-	-	-	(37)	(1)	(38)
Balance as at 30 September 2015 (unaudited)	**-**	**123 072**	**209 406**	**1 404 373**	**27 704**	**1 764 555**
Accumulated impairment loss						
Balance as at 1 January 2015 (audited)	**691**	**3 031**	**26**	**-**	**8**	**3 756**
Additions:						
impairment	-	-	343	-	-	**343**
Balance as at 30 September 2015 (unaudited)	**691**	**3 031**	**369**	**-**	**8**	**4 099**

11. Subsidiaries

Detailed information regarding subsidiaries consolidated using full method as at 30 September 2015 and 31 December 2014:

No.	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the Parent company	
				As at 30/09/2015	As at 31/12/2014
1	CARGOSPED Sp. z o.o.	Forwarding services (transport of aggregate as well as domestic and international intermodal transport)	Warsaw	100.0%	100.0%
2	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Services supporting land transport, transshipment of goods, wholesale and retail sale of waste and metal scrap	Małaszewicze	100.0%	100.0%
3	PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	Transshipment of goods in other terminals	Żurawica	100.0%	100.0%
4	PKP CARGO SERVICE Sp. z o.o.	Siding services	Warsaw	100.0%	100.0%
5	Przedsiębiorstwo Spedycyjne Trade Trans Sp. z o.o. (1)	Shipping services	Warsaw	100.0%	55.6%
6	PKP CARGOTABOR Sp. z o.o.	Repair and maintenance of railroad fleet	Warsaw	100.0%	100.0%
7	PKP CARGOTABOR USŁUGI Sp. z o.o.	Collection, processing and disposal of waste; recovery of recyclable materials	Warsaw	100.0%	100.0%
8	CARGOTOR Sp. z o.o.	Management of logistics infrastructure including railway sidings and tracks. Providing access to infrastructure for rail carriers	Warsaw	100.0%	100.0%
9	Cargosped Terminal Braniewo Sp. z o.o.	Transshipment of goods, customs depot	Braniewo	100.0%	100.0%
10	Advanced World Transport B.V. (2)	Holding and financial activity	Amsterdam	80.0%	-
11	Advanced World Transport a.s. (2)	Providing complex services: rail transport, railway shipping, siding services, repair of railroad fleet	Ostrava	80.0%	-
12	AWT ROSCO a.s. (2)	Managing and lease of railroad fleet	Ostrava	80.0%	-
13	AWT Čechofracht a.s. (2)	Railway shipping and customs service	Prague	80.0%	-
14	AWT Rekultivace a.s. (2)	Providing complex services: recultivation of land, construction services, waste management, designing of land development	Havířov-Prostřední Suchá	80.0%	-
15	AWT Rail HU Zrt. (2)	Providing complex services: rail transport, railway shipping, siding services	Budapest	80.0%	-
16	AWT Coal Logistics s.r.o. (2)	Railway shipping	Prague	80.0%	-

(1) On 5 February 2015 the Parent company acquired 44.44% shares in PS Trade Trans Sp. z o.o. from Trade Trans Invest a.s. The purchase price of acquired shares was PLN 40,000 thousand. As at 30 September 2015 the Parent company owns 100% of shares in PS Trade Trans Sp. z o.o. On 17 August 2015 the Extraordinary Meeting of Shareholders of PS Trade Trans Sp. z o.o., adopted the resolution on changing the company's 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.

(2) On 28 May 2015 the Parent company has acquired from Mr. Zdenek Bakala and The Bakala Trust 80% shares in share capital of Advanced World Transport B.V. ("AWT B.V.") with headquarters in Amsterdam. AWT B.V. is a Parent company in AWT Group, which includes:

- 8 subsidiaries – controlled directly by AWT B.V.,
- 7 entities controlled indirectly by AWT B.V.,
- 1 entity jointly controlled by the subsidiary of AWT B.V.,
- 2 entities in which subsidiaries of AWT B.V. hold a minority stake in the share capital.

Acquisition of AWT is described in note 4 of these Quarterly Condensed Consolidated Financial Statements.

(3) On 23 June 2015 the Management Board of PKP CARGOTABOR USŁUGI Sp. z o.o. adopted resolution on the resumption of business from 1 July 2015.

Detailed information regarding other subsidiaries belonging to the Group as at 30 September 2015 and 31 December 2014 are as follows:

	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the Group	
				As at 30/09/2015	As at 31/12/2014
17	PKP CARGO International a.s. in liquidation (1)	Shipping outside of Poland	Bratislava	100.0%	51.0%
18	ONECARGO Sp. z o.o. (2)	Rail transport of goods	Warsaw	100.0%	-
19	ONECARGO CONNECT Sp. z o.o. (2)	Services supporting land transport	Warsaw	100.0%	-
20	Trade Trans Karya Sp. z o.o.	Transshipment of goods, customs depot	Lublin	100.0%	55.6%
21	Transgaz S.A.	Transport agency	Zalesie k. Małaszewicz	64.0%	35.5%
22	Trade Trans Finance Sp. z o.o.	Financial and accounting services	Warsaw	100.0%	55.6%
23	PPHU "Ukpol" Sp. z o.o.	Transshipment of goods, customs depot	Werchrata	100.0%	55.6%
24	AWT Rail SK a. s.	Rail transport, railway shipping	Bratyslava	80.0%	-
25	AWT Rail PL Sp.z o.o.	Railway shipping	Rybnik	80.0%	-
26	AWT DLT s.r.o.	Siding services	Kladno	80.0%	-
27	XZD a.s. in liquidation	Railway shipping	Bratyslava	80.0%	-
28	G.I.B. s.r.o. in liquidation	Railway shipping	Prague	80.0%	-
29	AWT Trading s.r.o.	Trading of military purpose products	Petřvald	80.0%	-
30	AWT Rekultivace PL Sp. z o.o.	Providing complex services: recultivation of land, construction services, waste management, designing of land development	Cieszyn	80.0%	-
31	Spedrapid Sp. z o.o.	Railway shipping	Gdynia	52.8%	-
32	RND s.r.o.	Railway shipping, monitoring of transportation	Olomuoc	40.8%	-

(1) On 5 February 2015 the Parent company acquired 49% of shares in PKP CARGO International a.s. in liquidation from Rail Cargo Spedition a.s. As at 30 September 2015 the Parent company owns 100% of the shares in PKP CARGO International a.s. in liquidation.

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

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

(3) On 7 August 2015 the Extraordinary Shareholders Meeting of AWT Rail PL Sp. z o.o. adopted the resolution on dissolution and liquidation of the company. This change is awaiting registration in court.

The remaining changes in the percentage of interests held by the Group are an effect of concluded by the Parent company transactions for purchase of shares in PS Trade Trans Sp. z o.o. and Advanced World Transport B.V. described in this note.

12. Investments in entities accounted for under the equity method

	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand
Opening balance (audited)	**35 246**	**38 214**
Purchase of shares	1 613	271
Sales of shares	(135)	-
Share in profit / (loss) of investments accounted for under the equity method	1 661	(34)
Reversal of impairment allowance on investments accounted for under the equity method	1 911	-
Changes in equity arising from dividend payment	(2 186)	(1 052)
The effect of mass liquidation from entities accounted for under equity method	(3 514)	-
Change in method of consolidation of investments that were accounted for under the equity method to full method	-	(3 102)
Recognition of entities accounted for under the equity method on the acquisition of AWT	4 292	-
Foreign exchange differences on translation of subsidiaries' financial statements	64	-
Closing balance (unaudited)	**38 952**	**34 297**

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

Name of entity accounted for under the equity method	% of interests by the Group		Carrying amount of assets	
	As at 30/09/2015	As at 31/12/2014	As at 30/09/2015 (unaudited)	As at 31/12/2014 (audited)
	%	%	PLN thousand	PLN thousand
COSCO POLAND Sp. z o.o.	20.0	20.0	1 078	1 171
Pol – Rail S.r.l [4]	50.0	37.4	6 587	7 882
PKP CARGO INTERNATIONAL a.s. in liquidation [3]	100.0	51.0	-	-
Terminale Przeładunkowe Sławków – Medyka Sp. z o.o. [4]	50.0	27.8	19 612	19 989
Trade Trans Karya Sp. z o.o. [4]	100.0	55.6	-	-
Transgaz S.A. [4]	64.0	35.5	4 364	3 774
Trade Trans Finance Sp. z o. o. [4]	100.0	55.6	324	225
PPHU "Ukpol" Sp. z o.o. [4]	100.0	55.6	-	13
Rail Cargo Spedition GmbH [1]	-	20.9	-	-
Rentrans Cargo Sp. z o.o. [4]	28.3	15.2	2 313	1 771
Rail Cargo Service Sp. z o.o. [1]	-	11.1	-	135
SC Trade Trans Terminal S.r.l [1]	-	13.2	-	-
Gdański Terminal Kontenerowy S.A.	41.9	41.9	171	286
ONECARGO Sp. z o.o. [2]	100.0	-	5	-
ONECARGO CONNECT Sp. z o. o. [2]	100.0	-	5	-
AWT Rail SK a. s. [5]	80.0	-	4 493	-
Total			**38 952**	**35 246**

[1] On 5 February 2015 the company PS Trade Trans Sp. z o.o. sold 20% of shares in Rail Cargo Services Sp. z o.o., 37.7% of shares in Rail Cargo Spedition GmbH and 23.9% of shares in S.C. Trade Trans Terminal S.r.l. to Trans Trade Invest a.s. As at 30 September 2015 PS Trade Trans Sp. z o.o. does not own shares in aforementioned entities.

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

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

[3] On 5 February 2015 the Parent company acquired 49% shares in PKP CARGO International a.s. in liquidation. As at 30 September 2015 the Parent company owns 100% of the shares in PKP CARGO International a.s. in liquidation.

On 29 July 2015 the Extraordinary General Meeting of PKP Cargo International a.s. in liquidation distributed the liquidation mass of the company. As a result the Parent company reversed impairment loss on shares of PLN 1,911 thousand. The cash from the mass liquidation was paid out on 5 August 2015 to the Parent company. Accordingly, the Parent company reduced its gross value of shares in PKP Cargo International in liquidation. The administrative authorities currently proceed with formal steps necessary to complete the liquidation process.

[4] During period of 9 months ended 30 September 2015 the value of shares held indirectly by the Group in entities accounted for under the equity method has changed due to acquisition of additional shares in PS Trade Trans Sp. z o.o.

[5] AWT Rail SK a.s. is accounted for under the equity method from the date of taking control over AWT.

14. Other financial assets

	As at 30/09/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Financial instruments		
Forwards and spots	296	-
Investments in shares		
Shares in Polish entities [1]	7 089	6 020
Shares in foreign entities [1]	2 708	-
	9 797	6 020
Loans and receivables measured at amortized cost		
Loans granted to related parties	636	-
Loans granted to other entities	4 970	4 999
Deposits over 3 months	643	301 415
	6 249	306 414
Total	**16 342**	**312 434**
Non-current assets	9 797	6 051
Current assets	6 545	306 383
Total	**16 342**	**312 434**

[1] As at 30 September 2015 and as at 31 December 2014 the impairment allowance on investments in shares amounted to PLN 11,833 thousand.

15. Other non-financial assets

	As at 30/09/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Advances for purchase of fixed assets	1 155	1 059
Prepayments	58 921	40 664
Other	1 055	1 168
Total	**61 131**	**42 891**
Non-current assets	21 158	14 645
Current assets	39 973	28 246
Total	**61 131**	**42 891**

As at 30 September 2015 the most significant items of prepayments are: Social Benefit Fund appropriations of PLN 8,240 thousand, cost of prepaid rents related to future periods of PLN 17,291 thousand, costs of prepaid transport benefits for employees of PLN 4,383 thousand, cost of insurance of PLN 9,617 thousand and advances for purchase of remaining traction energy of PLN 10,210 thousand and real estate tax of PLN 2,197 thousand. As at 31 December 2014 the most significant items of prepayments were: advances for purchase of remaining traction energy of PLN 16,534 thousand, cost of prepaid rents related to future periods of PLN 16,174 thousand and the cost of IT services of PLN 3,706 thousand.

16. Trade and other receivables

	As at 30/09/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Trade receivables	891 524	581 790
Impairment allowance for receivables	(167 426)	(84 213)
Total	**724 098**	**497 577**
Settlements under public law (excluding CIT)	3 706	4 932
Guarantee, deposits and bid bonds	5 897	1 269
Dividend settlements	1 021	-
VAT settlements	14 071	16 262
Other settlements	4 909	6 109
Total	**753 702**	**526 149**
Non-current assets	4 962	-
Current assets	748 740	526 149
Total	**753 702**	**526 149**

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

17. Cash and cash equivalents

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

	As at 30/09/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Cash in hand and at bank	108 022	73 647
Bank deposits up to 3 months	36 485	355 531
Total	**144 507**	**429 178**

18. Non-current assets classified as held for sale

Non-current assets classified as held for sale	**As at 30/09/2015 (unaudited) PLN thousand**	**As at 31/12/2014 (audited) PLN thousand**
Land held for sale	5 206	4 994
Buildings, premises, civil and water engineering structures	725	-
Means of transport	59 409	12 566
Total	**65 340**	**17 560**

As at 31 December 2014 non-current assets held for sale include 3 land properties, as well as 77 train engines. During 9 months period ended 30 September 2015 the following changes in assets held for sale occured:

1) The Parent company made decision on selling next 256 train engines and 1376 wagons.
2) As part of the acquisition of AWT, Group acquired properties held for sale.

Presented as part of this note rolling stock is offered for sale in the tender proceedings. During the period of 9 months ended 30 September 2015, the Parent company sold 11 train engines, realizing a profit on the transaction of PLN 158 thousand. In the period after the reporting date the Parent company sold a further 18 train engines gaining profit of PLN 1,018 thousand.

Additionally, the Group actively searches for potential buyers of land.

As a result of the occurrence of events beyond the Group's control, sale of above mentioned assets have not been finalized within 12 months from the date of classification as assets held for sale. However, the Group is still determined to carry out the plan of sale and takes active steps to finalize it.

19. Equity

19.1 Share capital

	As at 30/09/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Share capital consists of:		
Ordinary shares, fully paid and registered	2 239 346	2 239 346
Total share capital	**2 239 346**	**2 239 346**

As at 30 September 2015 and as at 31 December 2014 share capital consisted of ordinary shares with the nominal value of PLN 50 each. The fully paid ordinary shares with a nominal value of PLN 50 are equivalent to one vote at the meeting of shareholders and bear the right to dividend.

Within the period covered by these Quarterly Condensed Consolidated Financial Statement there were no changes in the share capital of the Parent company.

In the corresponding period of the previous year the changes in the share capital of the Parent company were as follows:

	Number of shares units	Share capital PLN thousand
As at 1 January 2014	**43 338 015**	**2 166 901**
Issuance of shares series C	1 448 902	72 445
As at 30 September 2014	**44 786 917**	**2 239 346**

19.2 Supplementary capital

In the 9 months period ended 30 September 2015 changes in the supplementary capital of the Parent company were as follows:

On 21 April 2015 the Ordinary General Meeting of Shareholders (OGM) of PKP CARGO S.A. adopted a resolution on distribution of net profit of PLN 58,610 thousand achieved in 2014, as follows:
a) the amount of PLN 4,689 thousand was allocated to the supplementary capital,;
b) the amount of PLN 53,921 thousand was allocated to the payment of the dividend.
In addition, the OGM decided to allocate PLN 56,255 thousand to the payment of the dividend derived from retained earnings. The dividend of PLN 110,176 thousand was paid on 26 June 2015.

Moreover, changes in the supplementary capital of the subsidiaries were as follows:
a) on 28 May 2015 the Ordinary Meeting of Shareholders (OGM) of Cargosped Terminal Braniewo Sp. z o. o. adopted a resolution to cover a net loss of PLN 650 thousand generated in 2014 from supplementary capital,
b) on 23 June 2015 the Ordinary Meeting of Shareholders (OGM) of PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o. o. adopted a resolution on distribution of net profit of PLN 3,085 thousand achieved in 2014, as follows:

- the amount of PLN 3,060 thousand was allocated to cover the loss from previous years,
- the amount of PLN 25 thousand was allocated to the supplementary capital.

19.3 Non-controlling interest

On 5 February 2015 the Parent company acquired 44.44% shares in PS Trade Trans Sp. z o.o. from Trade Trans Invest a.s. The purchase price amounted to PLN 40,000 thousand.

As at 30 September 2015 the Parent company owns 100% of the shares in PS Trade Trans Sp. z o.o.

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

	Transactions with non-controlling interest PLN thousand
Consideration transferred	40 000
Change in non-controlling interest	(63 357)
Adjustment recognised in retained earnings of the Group	**23 357**

Non-controlling interest was not recognized as a result of acquisition of AWT in the consolidated statement of financial position. Details are described in note 4 to these Quarterly Condensed Consolidated Financial Statements.

20. Earnings per share

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

	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 3 months period ended 30/03/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand
Profit attributable to shareholders of the Parent company	**220 643**	**64 415**	**225 789**	**99 052**

20.1 Basic earnings per share

	For the 9 months period ended 30/09/2015 (unaudited)	For the 3 months period ended 30/09/2015 (unaudited)	For the 9 months period ended 30/09/2014 (unaudited)	For the 9 months period ended 30/09/2015 (unaudited)
Weighted average number of ordinary shares (units)	44 786 917	44 786 917	44 436 633	44 786 917
Basic earnings per share (PLN per share)	4.93	1.44	5.08	2.21

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

20.2 Diluted earnings per share

	For the 9 months period ended 30/09/2015 (unaudited)	For the 3 months period ended 30/09/2015 (unaudited)	For the 9 months period ended 30/09/2014 (unaudited)	For the 9 months period ended 30/09/2015 (unaudited)
Weighted average number of ordinary shares (units)	44 786 917	44 786 917	44 792 213	44 786 917
Diluted earnings per share (PLN per share)	4.93	1.44	5.04	2.21

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

21. Credit facilities and loans received

	As at 30/09/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Credit facilities and loans received measured at amortized cost		
Overdraft facilities	19 815	271
Bank loans – pledged on assets	125 995	39 387
Bank loans – other	591 275	258 956
Borrowings from related parties	4 309	-
Borrowings from other entities	1 412	1 586
Total	**742 806**	**300 200**
Non-current liabilities	463 166	208 077
Current liabilities	279 640	92 123
Total	**742 806**	**300 200**

21.1 Summary of loan and borrowings agreements

Loans agreements that are denominated in PLN, were concluded mainly to finance the modernization and scheduled overhauls of the rolling stock and to finance the purchase of real estate. Loans agreements that are denominated in CZK and EUR were acquired on the acquisition of AWT. The agreements were signed mainly to finance the investment expenditures and to finance current operations. Details concerning the bank loans of the Group are presented below:

Parent company

As at 30/09/2015

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in PLN thousand	Liability in PLN thousand
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	05.10.2015	Bank enforcement	53 000	490
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Bank enforcement	36 400	3 460
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Bank enforcement	36 600	4 472
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Bank enforcement	39 000	14 812
Investment loan	FM Bank PBP S.A.	PLN	WIBOR 1M + margin	31.10.2017	Bank enforcement [(1)]	60 000	19 101
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Bank enforcement	49 200	22 140
Investment loan	Bank Millennium S.A.	PLN	WIBOR 3M + margin	21.08.2017	Mortgage to the amount of PLN 20,000 thousand	16 667	6 380
Investment loan	Bank Gospodarstwa Krajowego	PLN	WIBOR 1M + margin	31.03.2021	Bank enforcement	515 200	445 303
Investment loan	European Investment Bank	PLN	WIBOR 3M + margin	29.05.2020	No pledges	240 000	80 750
Overdraft	mBank S.A.	PLN	WIBOR O/N	31.05.2017	Bank enforcement	100 000	19 354
						Total	**616 262**

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

Subsidiaries
As at 30/09/2015

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in PLN thousand	Liability in PLN thousand
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge	18 400	634
Overdraft	PKO BP S.A.	PLN	WIBOR 1M + margin	15.04.2016	Capped mortgage in amount of PLN 700 thousand, pledge on inventories PLN 600 thousand	1 300	461
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.09.2016	Surety of PKP CARGO S.A.	911	181
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.10.2016	Surety of PKP CARGO S.A.	1 200	268
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Surety of PKP CARGO S.A.	894	298
Loan	WFOŚIGW Łódź	PLN	Fixed interest rate (1)	31.03.2024	Surety of PKP CARGO S.A.	1 686	1 412
Investment loan	ING Bank N.V. UniCredit Bank Czech Republic, a.s.	CZK	PRIBOR 6M + margin	30.09.2016	1) security over the shares of AWT a.s. 2) security over tangible fixed assets	215 767	96 614
Investment loan	ING Bank N.V. UniCredit Bank Czech Republic, a.s.	EUR	EURIBOR 6M + margin	30.09.2016	1) security over the shares of AWT a.s. 2) security over tangible fixed assets	40 778	19 190
Investment loan	Raiffeisenbank a.s.	EUR	Fixed interest rate (1)	30.06.2016	1) registered pledge on tangible fixed assets and receivables 2) promissory notes 3) assignment of insurance	28 746	3 177
Loan	AWT Rail SK a.s.	EUR	Fixed interest rate (1)	30.06.2016	No pledges	3 391	3 391
Loan	G.I.B. s.r.o. in liquidation	CZK	Fixed interest rate (1)	31.12.2015	No pledges	679	918
						Total	**126 544**

(1) The interest rate on the bank loans and the other loans with a fixed interest rate falls between 2.5% and 6.5%.

Parent company
As at 31/12/2014

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

Subsidiaries
As at 31/12/2014

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

21.2 Not utilized credit and overdraft facilities

Type of loan	Name of bank	Currency	As at 30/09/2015 (unaudited)	As at 31/12/2014 (audited)
			PLN thousand	PLN thousand
Investment loan	Bank Gospodarstwa Krajowego	PLN	39 298	336 771
Investment loan	European Investment Bank	PLN	155 000	240 000
Overdraft facility	mBank S.A.	PLN	80 646	100 000
Overdraft facility	PKO BP S.A.	PLN	840	1 029
Overdraft facility	ING Bank Śląski S.A.	PLN	19 000	-
Overdraft facility	Bank Pekao S.A.	PLN	-	2 500
Overdraft facility	ING Bank N.V. UniCredit Bank Czech Republic, a.s.	CZK	26 769	-
Total not utilized credit and overdraft facilities			**321 553**	**680 300**

21.3 Events of default in loan agreement

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

22. Other financial liabilities

	As at 30/09/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Financial instruments		
Interest-rate swap (IRS)	2 718	3 284
Currency forwards and spots	77	650
Commodity derivatives	2 522	-
Other financial liabilities		
Liabilities due to put option for non-controlling interest [1]	148 994	-
Total	**154 311**	**3 934**
Non-current liabilities	148 994	-
Current liabilities	5 317	3 934
Total	**154 311**	**3 934**

[1] Position is described in note 4 to these Quarterly Condensed Consolidated Financial Statements.

23. Finance lease liabilities and leases with purchase option

23.1 General terms of lease

The Group uses rolling stock components, transshipment devices, technical facilities equipment, cars and computer hardware under finance leases. The leases are concluded for 3 to 11 years. The lease contracts are denominated in PLN, EUR, CHF and CZK.

23.2 Finance lease liabilities

	Minimum lease payments	
	As at 30/09/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Up to one year	84 375	137 662
Over one year, up to five years	170 674	161 747
Over five years	63 302	48 136
	318 351	**347 545**
Less future lease charges	(31 838)	(28 967)
Present value of minimum lease payments	**286 513**	**318 578**

	Present value of minimum lease payments	
	As at 30/09/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Up to one year	73 983	127 742
Over one year, up to five years	151 412	144 327
Over five years	61 118	46 509
Present value of minimum lease payments	**286 513**	**318 578**

	As at 30/09/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Included in the financial statements as:		
Long-term finance lease liabilities and leases with purchase option	212 530	190 836
Short-term finance lease liabilities and leases with purchase option	73 983	127 742
Total	**286 513**	**318 578**

24. Trade and other payables

	As at 30/09/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Trade payables	265 696	227 664
Accruals	71 925	20 453
Liabilities due to purchase of non-financial non-current assets	86 261	134 685
Liabilities related to securities (deposits, bid bonds)	21 555	21 624
State settlements	100 027	106 215
Liabilities due to Voluntary Redundancy Program (1)	48 249	-
Other settlements with employees	80 670	79 764
Other settlements	2 191	3 987
VAT settlements	14 002	4 030
Total	**690 576**	**598 422**
Non-current liabilities (2)	36 367	67 982
Current liabilities	654 209	530 440
Total	**690 576**	**598 422**

(1) Voluntary Redundancy Program liabilities are described in note 25.1 to these Quarterly Condensed Consolidated Financial Statements.

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

25. Employee benefits

The actuarial valuation as at 30 September 2015 and 31 December 2014 was based on the following assumptions:

	30/09/2015 %	31/12/2014 %
Discount rates	3.1	2.6
The average annual increase assumed for the basis of calculation of the provision for retirement benefits and jubilee bonuses	1.5	1.5
Assumed increase in the price of benefit entitlement	2.5	2.5
The average annual increase assumed for the basis of calculation of the provision for Social Benefit Fund	3.6	3.6
Weighted average employee mobility ratio	2.5	2.5
Inflation (annual)	2.5	2.5

Amount recognised in the quarterly condensed consolidated statement of financial position in relation to Group's liabilities arising from employee benefit plans is as follows:

	As at 30/09/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Post-employment defined benefit plans		
– retirement benefits	147 283	158 448
– appropriations to the Social Benefit Fund for pensioners	114 008	168 876
– transport benefits	31 743	37 719
Other employee benefits		
– jubilee bonuses	297 231	323 382
– other employee benefits (including unused holidays)	39 656	39 305
– provision for Voluntary Redundancy Program (VRP)	-	265 331
Total	**629 921**	**993 061**
including:		
– long-term	529 084	658 217
– short-term	100 837	334 844
Total	**629 921**	**993 061**

25.1 Employee benefits – Voluntary Redundancy Program

Based on Resolutions of the Management Board and Supervisory Board of PKP CARGO S.A and PKP CARGOTABOR Sp. z o.o, Voluntary Redundancy Programs for the employees (VRP or Program) were introduced in both companies in the second quarter of 2015. The main purpose of the Program was restructuring of employment in the Group. These Programs did not meet the definition of collective redudancies within the meaning of Act of 13 March 2013 on the specific principies of terminating labour relationship for reasons not attributable to employees.

The employees were allowed to apply for the Voluntary Redundancy Program at the following dates:
a) from 1 June 2015 to 17 June 2015 in PKP CARGO S.A. and,
b) from 1 July 2015 to 15 July 2015 in PKP CARGOTABOR Sp. z o.o.
As a result of the verification of declarations of employees, the Group agreed that 981 employees could benefit from the Program.

The total value of liabilities resulting from the implemented Program amounted PLN 70,179 thousand.

The major part of benefits related to the VRP was paid out together with the salaries for July and August 2015. The remaining part of the benefits related to the VRP of PLN 10,301 thousand, will be paid in 2016.

As at 30 September 2015 the Group also recognized liabilities arising from the Program that was introduced in 2014 of PLN 37,948 thousand, which will be paid in January 2016.

Amount relating to the Group's liabilities concerning the Voluntary Redundancy Program recognised in the quarterly consolidated statement of financial position is as follows:

	As at 30/09/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Long-term employee benefits	-	37 852
Short-term employee benefits	-	227 479
Trade and other payables	48 249	-

26. Other provisions

	As at 30/09/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Provision for the fine imposed by OCCP	8 416	8 416
Recultivation provision	6 311	-
Provision for onerous contracts	10 448	-
Other provisions	17 674	24 214
Total	**42 849**	**32 630**
Long-term provisions	24 197	8 416
Short-term provisions	18 652	24 214
Total	**42 849**	**32 630**

Other provisions	Provision for the fine imposed by OCCP PLN thousand	Recultivation provision PLN thousand	Provision for onerous contracts PLN thousand	Other provisions PLN thousand	Total PLN thousand
As at 1 January 2014 (audited)	**22 778**	**-**	**-**	**26 203**	**48 981**
Provisions recognised	-	-	-	3 634	3 634
Derecognised	(14 362)	-	-	(5 948)	(20 310)
As at 30 September 2014 (unaudited)	**8 416**	**-**	**-**	**23 889**	**32 305**
As at 1 January 2015 (audited)	**8 416**	**-**	**-**	**24 214**	**32 630**
Acquisition of AWT	-	7 262	10 107	2 541	19 910
Provisions recognised	-	35	-	2 765	2 800
Derecognised	-	-	-	(9 459)	(9 459)
Used	-	(1 217)	-	(2 467)	(3 684)
Foreign exchange differences on translation of subsidiaries financial statements	-	231	341	80	652
As at 30 September 2015 (unaudited)	**8 416**	**6 311**	**10 448**	**17 674**	**42 849**

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

As at 30 September 2015 and 31 December 2014, the provision represents the estimate of the Management Board of the Parent company in connection with the probability of paying two fines imposed to Parent company by the Office of Competition and Consumer Protection of PLN 6,630 thousand and PLN 1,786 thousand, respectively. During the period of 9 months ended 30 September 2015 no circumstances occurred that could result in change of estimates applied by the Parent company. As a result of future events, this assessment may change in next reporting periods.

Recultivation provision

The provision was recognized to cover the future expenses related to the recultivation works of land. The provision was estimated at the present value of the expected future expenses.

Provision for onerous contracts

The Group recognized a provision for onerous contract related to real estate lease agreement, where the expected revenues will not cover the lease costs incurred by the Group.

Other provisions

According to the Management Board of Parent company the amount of other provisions as at 30 September 2015 and 31 December 2014 represents the best estimate of probable payment. If any penalties are imposed, their value is dependent on the future events with uncertain result. Consequently, the amount of provisions may change in future periods.

27. Categories and classes of financial instruments

Financial instruments by categories	As at 30/09/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Financial assets		
Assets arising from derivatives designated as hedges: hedge accounting	296	-
Loans and receivables	875 875	1 233 169
Total assets by category	**876 171**	**1 233 169**
Financial liabilities		
Financial liabilities measured at fair value through profit or loss	149 071	633
Liabilities arising from derivatives designated as hedges: hedge accounting	5 240	3 301
Financial liabilities measured at amortized cost	1 166 688	683 002
Liabilities excluded from IAS 39 (finance lease)	286 513	318 578
Total liabilities by category	**1 607 512**	**1 005 514**

Financial instruments by classes	As at 30/09/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Trade receivables	724 098	497 577
Loans granted	5 606	4 999
Dividends receivables	1 021	-
Bank deposits over 3 months	643	301 415
Cash	144 507	429 178
Derivatives designated as cash flow hedges	296	-
Total financial assets	**876 171**	**1 233 169**
Credit facilities and loans	742 806	300 200
Trade payables	337 621	248 117
Liabilities arising from purchase of non-current assets	86 261	134 685
Finance leases	286 513	318 578
Derivatives designated as cash flow hedges	5 240	3 301
Derivatives - held for trading	77	633
Liabilities due to put option for non-controlling shares	148 994	-
Total financial liabilities	**1 607 512**	**1 005 514**

28. Related party transactions

28.1 Commercial transactions

During the period covered by these Quarterly Condensed Consolidated Financial Statements, the Group entered into the following commercial transactions with related parties:

	For the 9 months period ended 30/09/2015 (unaudited)		For the 9 months period ended 30/09/2014 (unaudited)	
	Sales to related parties	Purchases from related parties	Sales to related parties	Purchases from related parties
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Parent company (PKP S.A.)	569	59 920	887	52 471
Subsidiaries / co-subsidiaries	5 151	9 368	7 384	5 326
Associates	4 669	1 113	3 432	1 606
Other related parties from PKP S.A. Group	31 744	875 924	53 402	929 218

	As at 30/09/2015 (unaudited)		As at 31/12/2014 (audited)	
	Receivables from related parties	Liabilities to related parties	Receivables from related parties	Liabilities to related parties
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Parent company (PKP S.A.)	323	7 346	1 026	6 584
Subsidiaries / co-subsidiaries	3 719	2 058	2 475	530
Associates	1 725	219	-	-
Other related parties from PKP S.A. Group	4 439	90 982	9 971	86 556

Due to changes in ownership in PKP Group transactions with TK Telekom Sp. z o.o. are disclosed in this note till the period ended July of 2015.

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

28.2 Loans granted to / received from related parties

	As at 30/09/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Loans granted to related parties	636	-
Loans received from related parties	(4 309)	-

28.3 Remuneration of executive management

Remuneration of Members of the Management Board of the Parent company:	For the 9 months period ended 30/09/2015 (unaudited)	For the 9 month period ended 30/09/2014 (unaudited)
	PLN thousand	PLN thousand
Short-term benefits	3 239	2 008
Post-employment benefits	69	731
Employment termination benefits	-	421
Total	**3 308**	**3 160**

Remuneration of Members of the Supervisory Board of the Parent company:	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand
Short-term benefits	950	523
Total	**950**	**523**

Remuneration of Parent company's other executive management (Proxies, Managing Directors) in the reporting period:	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand
Short-term benefits	1 594	1 093
Post-employment benefits	90	-
Share-based payments	-	11
Employment termination benefits	84	19
Total	**1 768**	**1 123**

Remuneration of Members of the Management Boards of the Subsidiaries:	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand
Short-term benefits	4 725	3 369
Post-employment benefits	573	1 397
Total	**5 298**	**4 766**

Remuneration of Members of the Supervisory Boards of the Subsidiaries:	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand
Short-term benefits	730	2 632
Post-employment benefits	-	-
Employment termination benefits	-	-
Total	**730**	**2 632**

Remuneration of Subsidiaries other executive management (Proxies, Managing Directors) in the reporting period:	For the 9 months period ended 30/09/2015 (unaudited) PLN thousand	For the 9 months period ended 30/09/2014 (unaudited) PLN thousand
Short-term benefits	2 647	1 693
Post-employment benefits	214	-
Employment termination benefits	96	-
Total	**2 957**	**1 693**

In the 9 months period ended 30 September 2015 and 30 September 2014 Members of Management Boards and Supervisory Boards of the Parent company and subsidiaries of the Group did not grant or receive any loans or guarantees.

29. Commitments to incur expenses

In May 2013 the Parent company concluded an agreement with a counterparty regarding modernisation of 30 SM-48 series diesel engines. Until 30 September 2015, the Parent company received 25 modernized engines. As at 30 September 2015 the future value of the liabilities connected with the aforementioned agreement ranges between PLN 34,381 – 37,105 thousand, depending on fulfillment of specific technical conditions. According to the timetable, the completion date of the agreement expires in March 2016.

In September 2013 the Parent company concluded an agreement with a counterparty for construction and delivery of 330 newly built Sggrss container wagons. Until 30 September 2015, the Parent company received 300 wagons.
As at 30 September 2015 the future value of liabilities connected with the aforementioned agreement amounts to PLN 10,609 thousand.
For the implementation of this project, the Parent company was granted a funding under the Operational Program "Infrastructure and Environment", in a total amount not exceeding 30% of contract value.

In September 2015 the Parent company concluded an agreement for delivery and maintenance of 15 multisystem engines. The contract agreement covers the supply of 15 multisystem engines, hardware and computer software, spare parts and full maintenance of engines within 8 years period. The agreement also includes the service of first overhaul after 8 years of exploitation, with an option to withdraw. According to the schedule engines will be delivered between January 2016 and June 2017. As at 30 September 2015 the future value of liabilities connected with the aforementioned agreement amounts to EUR 78,846 thousand, which is equivalent of PLN 334,195 thousand.
The agreement also provides for the possibility of extending the delivery for further 5 multisystem engines with additional services. The contract value of additional purchase amounts to EUR 27,253 thousand, which is equivalent of PLN 115,513 thousand.

30. Contingent liabilities

	As at 30/09/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Guarantees issued by banks on request of PKP Cargo Group (i)	84 634	36 431
Proceedings carried out by OCCP (ii)	9 946	9 946
Other contingent liabilities (iii)	76 397	75 797
Total	**170 977**	**122 174**

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

As at 30 September 2015 and 31 December 2014 the contingent liabilities of the Group include guarantees issued by banks on request of the entities belonging to the PKP CARGO Group. The guarantees mainly include good performance bonds and bid bonds.

The increase in contingent liabilities from bank guarantees issued in the period of 9 months 2015 is mainly a result of the acquisition of AWT B.V.

(ii) OCCP proceedings

As at 30 September 2015 and 31 December 2014 the Parent company recognised as a contingent liability a part of provision for the fine imposed by the OCCP (PLN 9,946 thousand) that has not been recognised in provisions for liabilities.

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

During the period of 9 months ended 30 September 2015 no circumstances occurred that could result in change of estimates applied by the Parent company. As a result of future events, this assessment may change in next reporting periods.

(iii) Other liabilities

In 2014 the Parent company received payment requests from external entities. The total value of claims does not exceed PLN 48,000 thousand. On the basis of legal analysis of these claims, the Parent company estimates that as at 30 September 2015 and as at 31 December 2014 the likelihood of outflow of cash connected with these claims is remote. As a result of future events, this assessment may change in next periods.

Other liabilities include mainly conducted by the subsidiary PS Trade Trans Sp. z o.o. guarantee agreements with recourse to insurance company. As at 30 September 2015 value of conducted by PS Trade Trans Sp. z o.o. insurance contracts amounted to PLN 27,700 thousand, and as at 31 December 2014 amounted to PLN 27,100 thousand.

31. Events after reporting date

On 11 November 2015 the Parent company concluded the purchase agreement of the organized part of the business of PKP Informatyka Sp. z o.o. for the amount of PLN 21,079 thousand.

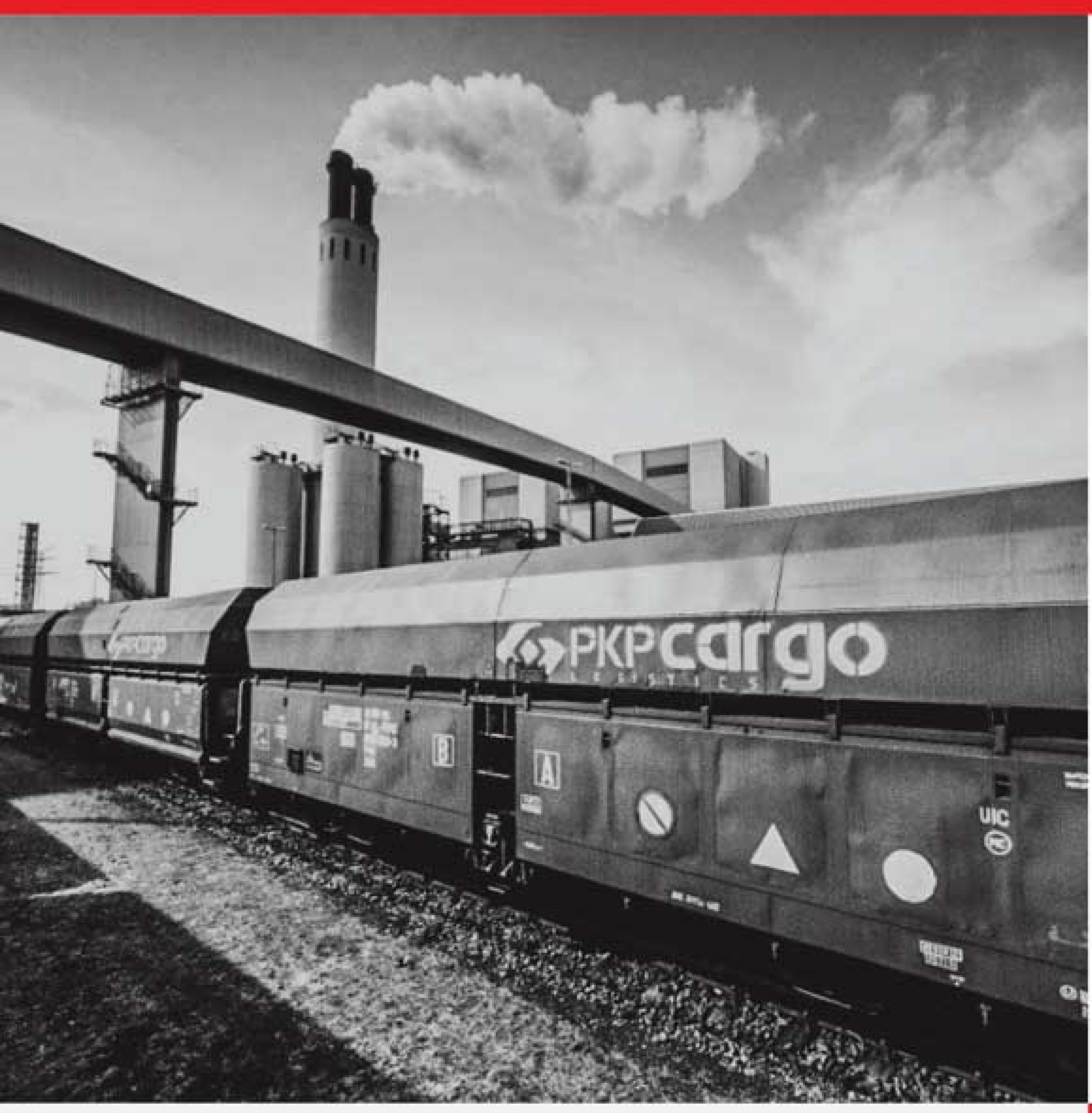
32. Approval of the financial statements

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

Management Board of the Parent company

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

Warsaw, 11 November 2015



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QUARTERLY FINANCIAL INFORMATION OF **PKP CARGO S.A.** FOR Q3 2015

SEPARATE STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2015 TO 30 SEPTEMBER 2015

	for the 9 months period ended 30/09/2015 (unaudited)	for the 3 months period ended 30/09/2015 (unaudited)	for the 9 months period ended 30/09/2014 (unaudited)	for the 3 months period ended 30/09/2014 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Revenue from sales of services	2 565 189	894 844	2 811 088	959 396
Revenue from sales of goods and materials	8 548	3 295	16 217	5 439
Other operating revenue	13 744	5 444	25 903	3 704
Total operating revenue	**2 587 481**	**903 583**	**2 853 208**	**968 538**
Depreciation/amortisation and impairment losses	269 573	92 720	245 883	81 745
Consumption of raw materials and energy	439 266	149 934	457 421	151 927
External services	821 697	291 267	880 863	308 754
Taxes and charges	23 689	9 063	27 811	9 381
Employee benefits	910 052	287 630	967 420	314 232
Other expenses by kind	31 780	10 268	17 950	8 741
Cost of merchandise and raw materials sold	5 217	2 321	7 999	2 477
Other operating expenses	10 652	2 115	14 837	3 378
Total operating expenses	**2 511 926**	**845 318**	**2 620 184**	**880 636**
Profit on operating activities	**75 555**	**58 265**	**233 024**	**87 902**
Financial revenue	42 328	(806)	45 335	16 461
Financial expenses	41 836	5 261	19 724	6 317
Profit before tax	**76 047**	**52 198**	**258 635**	**98 046**
Income tax expense	10 926	11 686	49 101	18 373
NET PROFIT	**65 121**	**40 512**	**209 534**	**79 673**

SEPARATE STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2015 TO 30 SEPTEMBER 2015

	for the 9 months period ended 30/09/2015 (unaudited) PLN thousand	for the 3 months period ended 30/09/2015 (unaudited) PLN thousand	for the 9 months period ended 30/09/2014 (unaudited) PLN thousand	for the 3 months period ended 30/09/2014 (unaudited) PLN thousand
NET PROFIT	**65 121**	**40 512**	**209 534**	**79 673**
Other comprehensive income				
Other comprehensive income that will not be reclassified to profit or loss:	**49 805**	**-**	**-**	**-**
Actuarial gains / (losses) on employee benefits after employment period	61 487	-	-	-
Income tax on other comprehensive income	(11 682)	-	-	-
Total other comprehensive income	**49 805**	**-**	**-**	**-**
TOTAL COMPREHENSIVE INCOME	**114 926**	**40 512**	**209 534**	**79 673**
Earnings per share (PLN per share)				
Earnings per share on operations (basic):	**1,45**	**0,90**	**4,72**	**1,78**
Earnings per share on operations (diluted):	**1,45**	**0,90**	**4,68**	**1,78**

SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 SEPTEMBER 2015

	As at 30/09/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
ASSETS		
Non-current assets		
Property, plant and equipment	3 690 209	3 709 121
Intangible assets	60 039	55 990
Investments in subsidiaries and associates	730 155	262 846
Other long-term financial assets	6 021	6 021
Other long-term non-financial assets	6 657	1 464
Deferred tax assets	35 795	58 359
Total non-current assets	**4 528 876**	**4 093 801**
Current assets		
Inventories	67 215	75 759
Trade and other receivables	446 771	423 171
Other short-term financial assets	4 080	301 818
Other short-term non-financial assets	29 340	24 921
Cash and cash equivalents	24 922	381 420
	572 328	**1 207 089**
Assets classified as held for sale	64 404	17 560
Total current assets	**636 732**	**1 224 649**
Total assets	**5 165 608**	**5 318 450**

SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 SEPTEMBER 2015

	As at 30/09/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
EQUITY AND LIABILITIES		
Equity		
Share capital	2 239 346	2 239 346
Supplementary capital	589 202	584 513
Other items of equity	10 162	(39 642)
Retained earnings	418 338	468 081
Total equity	**3 257 048**	**3 252 298**
Non-current liabilities		
Long-term bank loans and credit facilities	461 786	206 112
Long-term finance lease liabilities and leases with purchase option	85 887	114 027
Long-term trade and other payables	32 786	67 938
Long-term provisions for employee benefits	478 016	611 418
Other long-term provisions	8 416	8 416
Other long-term financial liabilities	25 149	-
Non-current liabilities	**1 092 040**	**1 007 911**
Current liabilities		
Short-term bank loans and credit facilities	154 476	87 971
Short-term finance lease liabilities and leases with purchase option	57 704	120 505
Short-term trade and other payables	511 274	457 602
Short-term provisions for employee benefits	81 571	315 213
Other short-term provisions	11 201	17 414
Other short-term financial liabilities	78	59 393
Current tax liabilities	216	143
Total current liabilities	**816 520**	**1 058 241**
Total liabilities	**1 908 560**	**2 066 152**
Total equity and liabilities	**5 165 608**	**5 318 450**

STATEMENT OF CHANGES IN SEPARATE EQUITY FOR THE REPORTING PERIOD ENDED 30 SEPTEMBER 2015

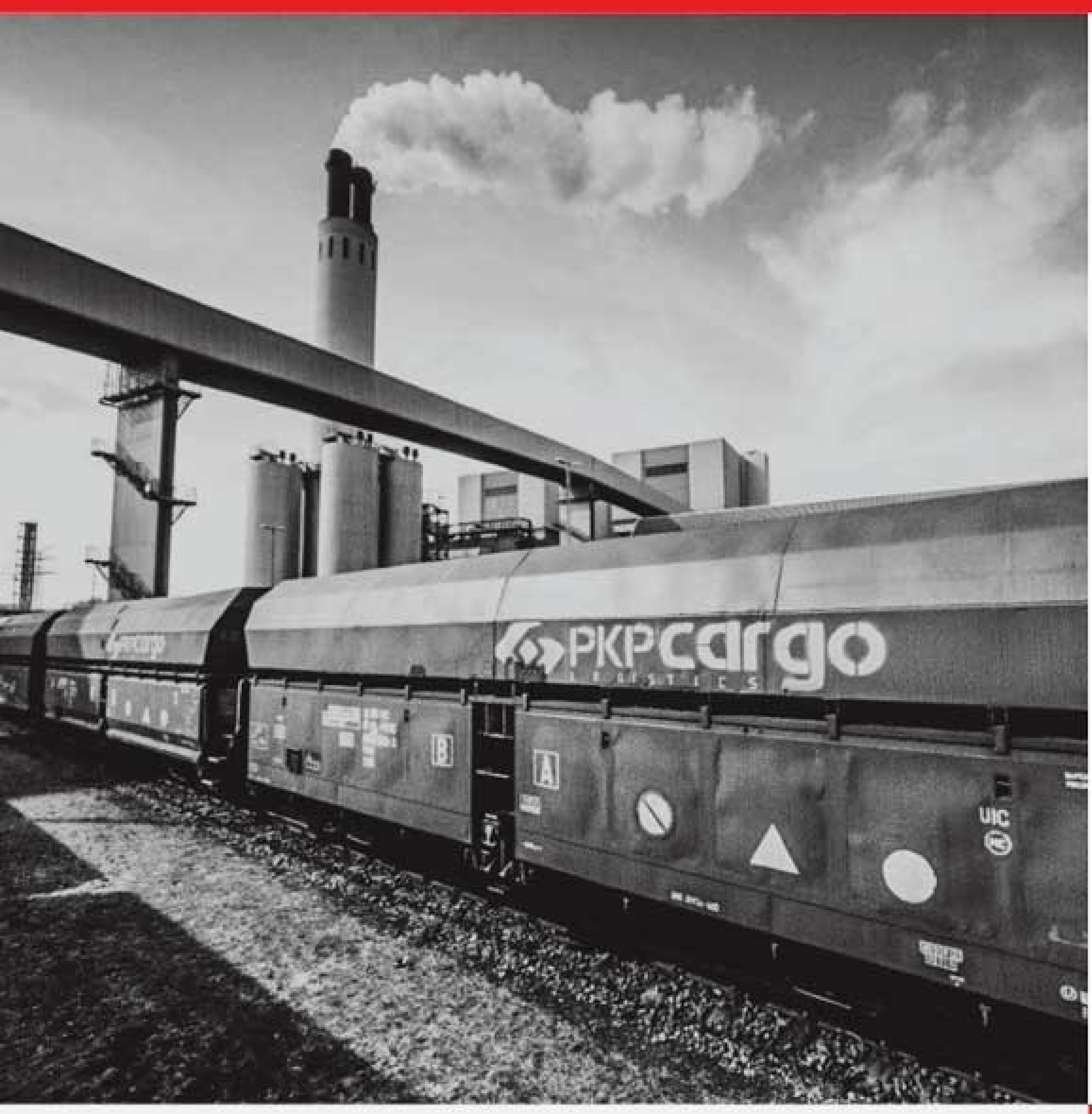
			Other items of equity			
	Share capital	Supplementary capital	Actuarial gains/(losses) on employee benefits after employment period	Changes in fair value of cash-flow hedge	Retained earnings	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Balance as at 1/01/2014 (audited)	**2 166 901**	**651 472**	**(9 901)**	**-**	**554 494**	**3 362 966**
Net result for the period	-	-	-	-	209 534	209 534
Other net comprehensive income for the period	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**209 534**	**209 534**
Issuance of shares	72 445	25 529	-	-	-	97 975
Dividend payment	-	-	-	-	(137 496)	(137 496)
Share-based payment provision	-	(100 015)	-	-	-	(100 015)
Other changes in equity	-	7 527	-	-	(7 527)	-
Balance as at 30/09/2014 (unaudited)	**2 239 346**	**584 513**	**(9 901)**	**-**	**619 005**	**3 432 964**
Balance as at 1/01/2015 (audited)	**2 239 346**	**584 513**	**(39 642)**	**-**	**468 081**	**3 252 298**
Net result for the period	-	-	-	-	65 121	65 121
Other net comprehensive income for the period	-	-	49 805	-	-	49 805
Total comprehensive income	**-**	**-**	**49 805**	**-**	**65 121**	**114 926**
Dividend payment	-	-	-	-	(110 176)	(110 176)
Other changes in equity	-	4 689	-	-	(4 689)	-
Balance as at 30/09/2015 (unaudited)	**2 239 346**	**589 202**	**10 163**	**-**	**418 337**	**3 257 048**

SEPARATE STATEMENT OF CASH FLOWS FROM 1 JANUARY 2015 TO 30 SEPTEMBER 2015

	for the 9 months period ended 30/09/2015 (unaudited)	for the 3 months period ended 30/09/2015 (unaudited)	for the 9 months period ended 30/09/2014 (unaudited)	for the 3 months period ended 30/09/2014 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Cash flows from operating activities				
Profit before tax	**76 047**	**52 198**	**258 635**	**98 046**
Adjustments:				
Depreciation and amortization of non-current assets	269 573	92 720	245 883	81 745
(Gain) / loss on disposal / liquidatioon of property, plant and equipment and intangible assets	825	594	4 839	190
(Profit) / loss on investing activities	(1 911)	-	1 142	1 133
Foreign exchange (gain) / loss	(2 667)	406	1 556	914
(Gains) / losses on interest, dividends	(20 117)	5 887	(15 273)	960
Other adjustments	61 487	-	-	-
Changes in working capital:				
(Increase) / decrease in trade and other receivables	(22 499)	15 872	(10 522)	(28 306)
(Increase) / decrease in inventory	11 847	4 667	434	2 036
(Increase) / decrease in other assets	(9 335)	15 407	98	35 338
Increase / (decrease) in trade and other payables	70 430	(107 079)	(81 946)	24 291
Increase / (decrease) in other financial liabilities	24 594	(279)	-	-
Increase / (decrease) in provisions	(373 256)	(19 175)	(114 291)	(20 911)
Cash flows from operating activities	**85 018**	**61 218**	**290 555**	**195 436**
Interest received / (paid)	372	(203)	2 590	476
Income taxes received / (paid)	(1 018)	(238)	474	(38)
Net cash provided by operating activities	**84 372**	**60 777**	**293 619**	**195 874**

SEPARATE STATEMENT OF CASH FLOWS FROM 1 JANUARY 2015 TO 30 SEPTEMBER 2015

	for the 9 months period ended 30/09/2015 (unaudited)	for the 3 months period ended 30/09/2015 (unaudited)	for the 9 months period ended 30/09/2014 (unaudited)	for the 3 months period ended 30/09/2014 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Cash flows from investing activities				
Acquisition of property, plant and equipment and intangible assets	(359 276)	(131 767)	(484 954)	(182 122)
Proceeds from sale of property, plant and equipment and intangible assets	2 326	2 211	5 625	146
Acquisition of subsidiaries, associates and joint ventures	(460 635)	-	-	-
Interest received	5 390	69	16 263	1 838
Dividends received	31 139	7 174	15 536	15 470
Proceeds from loans granted	-	-	(8 030)	(3 000)
Repayments of loans granted	433	-	8 709	3 110
Inflows / (outflows) of bank deposits over 3 months	300 000	-	292 649	(108 797)
Inflows / (outflows) related to the Employment Guarantees Program	-	-	79 614	9 314
Other proceeds/(acquistions) on investing activities	3 469	3 469	-	-
Net cash (used in)/ provided by investing activities	**(477 154)**	**(118 844)**	**(74 588)**	**(264 041)**
Cash flows from financing activities				
Proceeds from issuance of shares	-	-	8 763	-
Payments of liabilities under finance lease	(98 921)	(21 497)	(83 581)	(24 405)
Payments of interest under lease agreement	(3 636)	(1 044)	(5 936)	(1 807)
Proceeds from credit facilities/loans received	398 086	52 632	115 403	115 403
Repayments of credit facilities/loans received	(75 908)	(34 035)	(44 799)	(14 933)
Interest on credit facilities/loans received	(7 939)	(3 308)	(4 367)	(1 332)
Grants received	2 833	2 833	17 826	6 436
Dividends paid to shareholders of the Parent company	(110 176)	-	(137 496)	-
Cash pool inflows /(outflows)	(62 895)	(35 443)	(7 183)	(736)
Other inflows /(outflows) from financing activities	(5 160)	(1 244)	(5 989)	(1 846)
Net cash (used in)/ provided by financing activities	**36 284**	**(41 106)**	**(147 359)**	**76 780**
Net increase / (decrease) in cash and cash equivalents	(356 498)	(99 173)	71 672	8 613
Opening balance of cash and cash equivalents	381 420	124 095	229 232	292 291
Closing balance of cash and cash equivalents	**24 922**	**24 922**	**300 904**	**300 904**



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OTHER INFORMATION TO PKP CARGO GROUP'S CONSOLIDATED QUARTERLY REPORT FOR Q3 2015

ADDITIONAL INFORMATION TO THE CONSOLIDATED QUARTERLY REPORT FOR Q3 2015

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

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

Table 1. Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN 000s		EUR 000s	
	9 months* of 2015	9 months** of 2014	9 months of 2015	9 months of 2014
Operating revenues	3,269,432	3,168,880	786,205	758,051
Profit on operating activities	251,200	281,759	60,406	67,402
Profit before tax	238,004	285,571	57,233	68,313
Net profit	220,500	227,388	53,024	54,395
Total comprehensive income attributable to the owners of the Parent Company	296,292	224,730	71,250	53,759
*Adjusted profit on operating activities****	183,600	281,759	44,151	67,402
*Adjusted profit before tax****	170,404	285,571	40,977	68,313
*Adjusted net profit****	139,566	227,388	33,562	54,395
*Adjusted total comprehensive income attributable to the owners of the Parent Company****	215,358	224,730	51,787	53,759
Weighted average number of shares (units)	44,786,917	44,436,633	44,786,917	44,436,633
Weighted average number of shares used to calculate diluted profit (units)	44,786,917	44,792,213	44,786,917	44,792,213
Earnings per share (PLN/EUR)	4.93	5.08	1.19	1.22
*Adjusted earnings per share (PLN/EUR)****	3.12	5.08	0.75	1.22
Diluted earnings per share (PLN/EUR)	4.93	5.04	1.19	1.21
Net cash flow from operating activities***	83,469	359,101	20,072	85,903
Net cash flow from investing activities	-408,760	-102,204	-98,295	-24,449
Net cash flow from financing activities	38,717	-171,259	9,310	-40,968
Movement in cash and cash equivalents	-286,574	85,638	-68,913	20,486

	30/09/2015	31 December 2014	30/09/2015	31 December 2014
Non-current assets	5,062,996	4,218,099	1,194,497	989,630
Current assets	1,075,409	1,408,307	253,718	330,410
Non-current assets classified as held for sale	65,340	17,560	15,415	4,120
Share capital	2,239,346	2,239,346	528,322	525,384
Equity attributable to the owners of the Parent Company	3,540,145	3,330,672	835,216	781,426
Equity attributable to minority shareholders	-	63,500	-	14,898
Non-current liabilities	1,530,172	1,135,856	361,049	266,489
Current liabilities	1,133,428	1,113,938	267,365	261,347

Source: Condensed quarterly consolidated financial statements of the PKP CARGO Group for the period of 9 months ended 30 September 2015 prepared according to EU IFRS

* each time whenever the Report mentions 9 months of 2015, it should be understood as 9 months ended 30 September 2015
** each time whenever the Report mentions 9 months of 2014, it should be understood as 9 months ended 30 September 2014
*** the data for 9 months of 2015 were adjusted for presentation purposes for the profit on bargain purchase of AWT in the amount of PLN 137.8 million and the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million.
**** including the performance of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Program in the amount of PLN 287.4 million

Table 2. Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN 000s		EUR 000s	
	9 months of 2015	9 months of 2014	9 months of 2015	9 months of 2014
Operating revenues	2,587,481	2,853,208	622,215	682,537
Profit on operating activities	75,555	233,024	18,169	55,743
Profit before tax	76,047	258,635	18,287	61,870
Net profit	65,121	209,534	15,660	50,124
Comprehensive income	114,926	209,534	27,636	50,124
*Adjusted profit on operating activities**	139,416	233,024	33,526	55,743
*Adjusted profit before tax**	139,908	258,635	33,644	61,870
*Adjusted net profit**	116,848	209,534	28,099	50,124
*Adjusted comprehensive income**	166,653	209,534	40,076	50,124
Weighted average number of shares (units)	44,786,917	44,436,633	44,786,917	44,436,633
Weighted average number of shares used to calculate diluted profit (units)	44,786,917	44,792,213	44,786,917	44,792,213
Earnings per share (PLN/EUR)	1.45	4.72	0.35	1.13
*Adjusted earnings per share (PLN/EUR)**	2.61	4.72	0.63	1.13
Diluted earnings per share (PLN/EUR)	1.45	4.68	0.35	1.12
Net cash flow from operating activities**	84,372	293,619	20,289	70,239
Net cash flow from investing activities	-477,154	-74,588	-114,742	-17,843
Net cash flow from financing activities	36,284	-147,359	8,725	-35,251
Movement in cash and cash equivalents	-356,498	71,672	-85,728	17,145
	30/09/2015	**31 December 2014**	**30/09/2015**	**31 December 2014**
Non-current assets	4,528,876	4,093,801	1,068,484	960,468
Current assets	572,328	1,207,089	135,028	283,201
Non-current assets classified as held for sale	64,404	17,560	15,195	4,120
Share capital	2,239,346	2,239,346	528,322	525,384
Equity	3,257,048	3,252,298	768,425	763,038
Non-current liabilities	1,092,040	1,007,911	257,642	236,471
Current liabilities	816,520	1,058,241	192,639	248,279

Source: Condensed quarterly standalone financial statements of the PKP CARGO S.A. for the period of 9 months ended 30 September 2015 prepared according to EU IFRS

* the 9M 2015 data were adjusted for presentation purposes for the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Board of PKP CARGO S.A. in the amount of PLN 63.9 million.
** including the performance of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Program in the amount of PLN 273.7 million

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

- exchange rate prevailing on the last day of the reporting period: 30 September 2015: 4.2386 PLN/EUR; 31 December 2014: 4.2623 PLN/EUR;
- the average exchange rate in the period calculated as the arithmetic mean of the FX rates prevailing on the last day of each month in a given period: 1 January - 30 September 2015: 4.1585 PLN/EUR, 1 January - 30 September 2014: 4.1803 PLN/EUR.

2. Organization of the PKP CARGO Group

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

The PKP CARGO Group is the second largest 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[2]) and it is the second largest operator on the Czech market (according to SZDC[3]). Notwithstanding the areas mentioned above, the Group conducts operations that it is constantly developing in Slovakia, Germany, Austria, Belgium, the Netherlands, Lithuania and Hungary.

The Group offers comprehensive logistics handling under which, on top of the rail freight transport service, the following auxiliary and complementary services are provided:

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

2.2. Units subject to consolidation

The Condensed Quarterly Consolidated Financial Statements for the period of 9 months ended 30 September 2015 encompass PKP CARGO S.A. and 16 subsidiaries consolidated by the full method:

1. PKP CARGO SERVICE Sp. z o.o.
2. PKP CARGOTABOR Sp. z o.o.
3. PKP CARGOTABOR USŁUGI Sp. z o.o.
4. PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.
5. PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o.
6. CARGOSPED Sp. z o.o.
7. CARGOSPED Terminal Braniewo Sp. z o.o.
8. CARGOTOR Sp. z o.o.
9. Przedsiębiorstwo Spedycyjne TRADE TRANS Sp. z o.o.[4]
10. Advanced World Transport B.V. (“AWT B.V.”, “AWT”)
11. Advanced World Transport a.s. (“AWT a.s.”)
12. AWT ROSCO a.s.
13. AWT Čechofracht a.s.
14. AWT Rekultivace a.s.
15. AWT Coal Logistics s.r.o.
16. AWT Rail HU Zrt.

In addition, the following companies are measured using the equity method as at 30 September 2015 in the PKP CARGO Group's Condensed Quarterly Consolidated Financial Statements:

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

[2] Office of Rail Transport
[3] Správa železniční dopravní cesty (entity responsible for management of the state railway network in the Czech Republic)
[4] On 30 October 2015, a change in the name of the company PS Trade Trans Sp. z o.o., to PKP CARGO CONNECT Sp. z o.o., was registered in the KRS

- COSCO POLAND Sp. z o.o.
- Pol – Rail S.r.l.
- PKP CARGO International a.s. w likwidacji
- 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.
- ONECARGO CONNECT Sp. z o.o.
- ONECARGO Sp. z o.o.
- 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, VIII Commercial Division of the National Court Register under file number KRS 0000027702. As a consequence of moving the Company's registered office, which as of 7 October 2002 was specified as Warsaw, ul. Grójecka 17, the registration files are kept by the District Court for the capital city of Warsaw, XII Commercial Division of the National Court Register. From its inception the Company has functioned within the PKP Group. The Company's core business is domestic and international rail freight transportation.

PKP CARGO SERVICE Sp. z o.o.

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

PKP CARGOTABOR Sp. z o.o.

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

PKP CARGOTABOR USŁUGI Sp. z o.o.

Until 22 October 2014 PKP CARGOTABOR USŁUGI Sp. z o.o. did business 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 of 1 April 2015 PKP CARGOTABOR USŁUGI Sp. z o.o. suspended business activity for 9 months, i.e. until the end of 2015; however, as of 1 July 2015 it resumed 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 commodities.

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

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

CARGOSPED Sp. z o.o.

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

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

PS TRADE TRANS Sp. z o. o.

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

On 17 August 2015, the Extraordinary Shareholder Meeting of PS TRADE TRANS sp. z o.o. was held and adopted a Resolution to amend the Articles of Association of PS TRADE TRANS sp. z o.o. in the part concerning 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.

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.

In April 2015, the President of the Office of Rail Transport (UTK) issued CARGOTOR Sp. z o.o. a railway infrastructure manager security authorization, which makes it possible to make the railway infrastructure available to operators.

Advanced World Transport B.V.

The 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 service is 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 premises (including mining areas), work to raze objects, managing facilities allocated to utilize waste, eliminate underground mining pits, de-contaminate the 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 entail 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 of 30 September 2015, the PKP CARGO Group consisted of the following entities besides PKP CARGO S.A.:

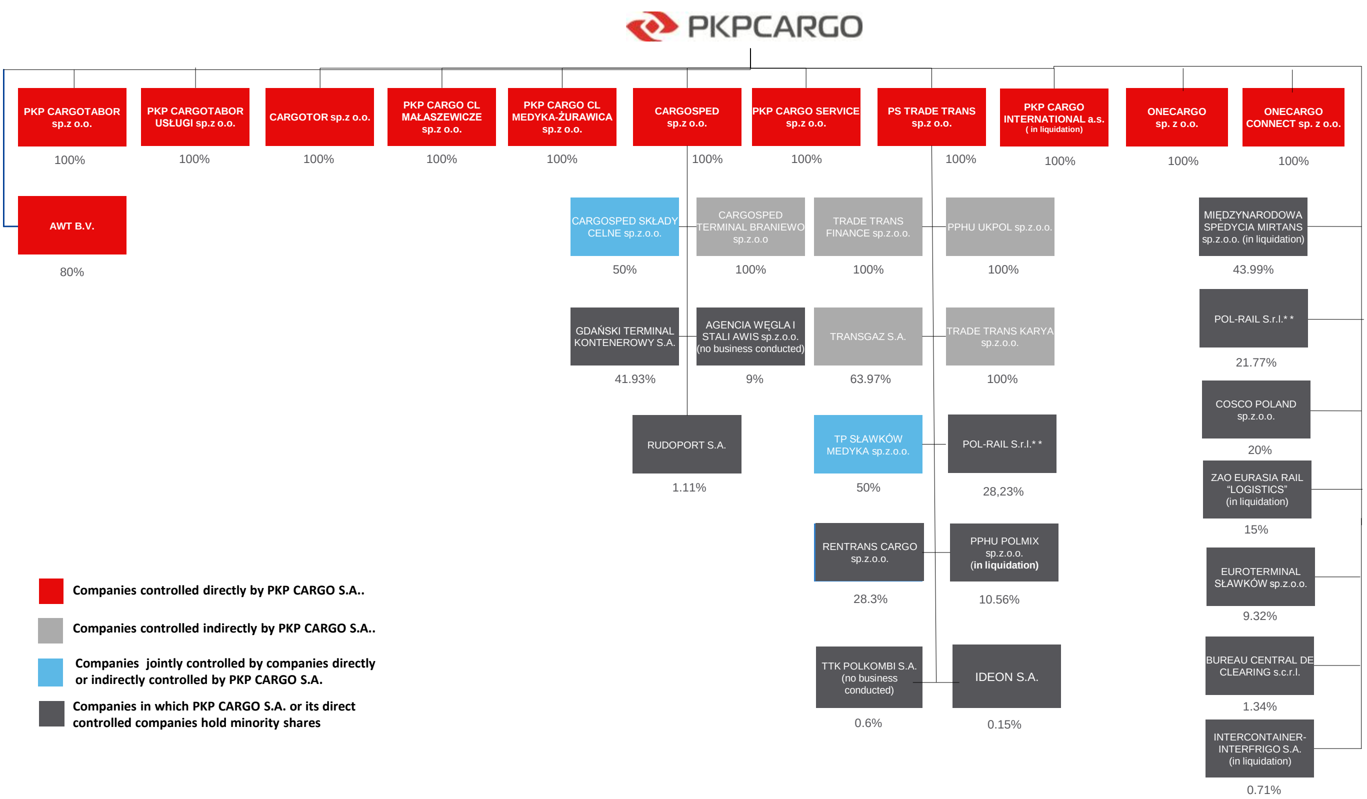
- 32 subsidiaries of PKP CARGO S.A. or entities controlled by PKP CARGO S.A., including:
  - 12 subsidiaries controlled directly by PKP CARGO S.A.,
  - 13 subsidiaries controlled directly by companies directly controlled by PKP CARGO S.A. (and indirectly controlled by PKP CARGO S.A.),
  - 7 AWT Group companies controlled directly by companies indirectly controlled by PKP CARGO S.A. (indirectly controlled by PKP CARGO S.A.)

- 4 jointly controlled companies (in which entities from the PKP CARGO Group hold a 50% stake), including:
  - 2 companies under joint control of companies controlled directly by PKP CARGO S.A. (under indirect joint control of PKP CARGO S.A.) - CARGOSPED SKŁADY CELNE sp. z o.o. and TP SŁAWKÓW MEDYKA sp. z o.o.,
  - 1 company under joint control of a company controlled indirectly by PKP CARGO S.A. - LEX Logistics Express s.r.o.,
  - 1 company - POL-RAIL s.r.l. with its registered office in Rome (Italy) jointly controlled by the PKP CARGO Group in which both PKP CARGO S.A. and one of the companies controlled directly by PKP CARGO S.A. - PS TRADE TRANS Sp. z o.o. hold shares 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.;

Moreover, PKP CARGO S.A. or PKP CARGO S.A.'s subsidiaries (direct or indirect) hold shares or interests in 15 companies that were not controlled or jointly controlled by PKP CARGO S.A. or subsidiaries of PKP CARGO S.A., including:

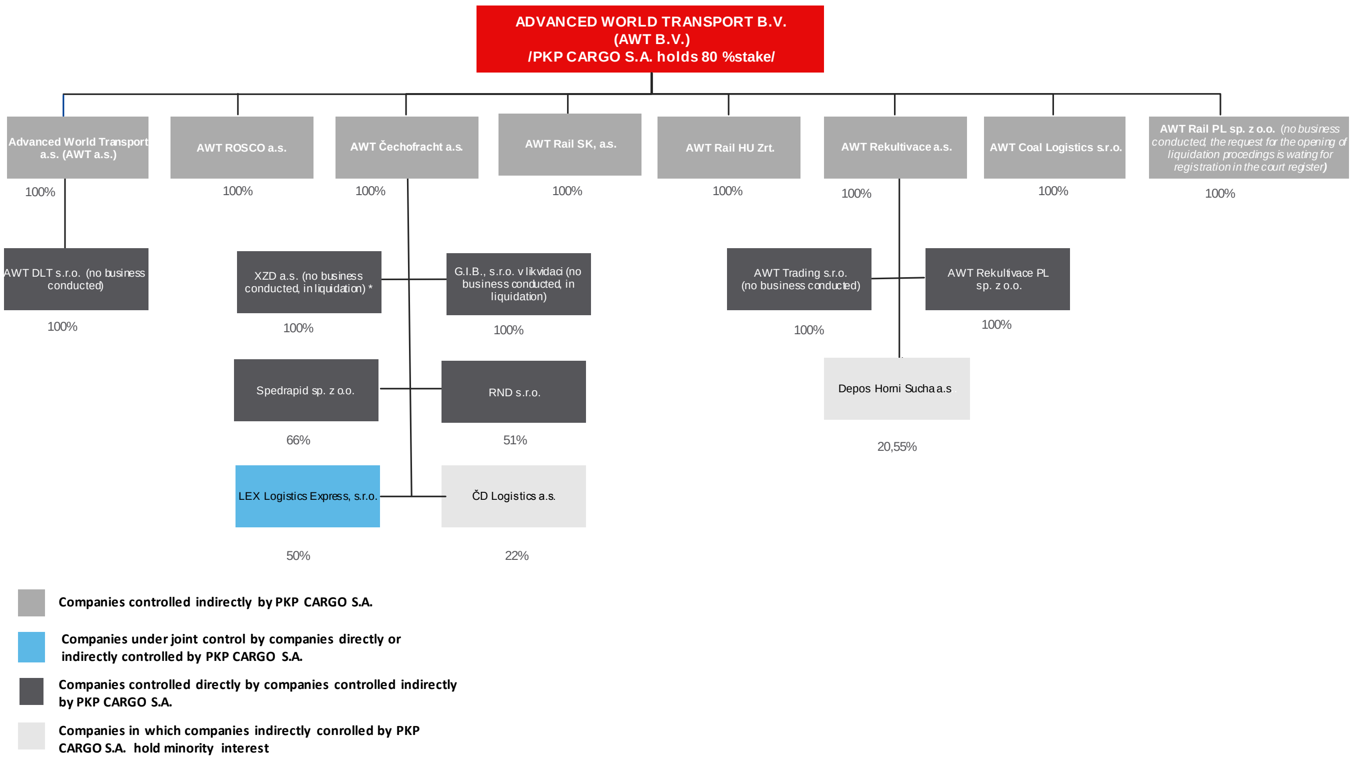
- 6 companies in which PKP CARGO S.A. directly holds a minority stake (this does not include POL-RAIL s.r.l., which has been classified as an entity jointly controlled by the PKP CARGO Group),
- 7 companies in which direct subsidiaries of PKP CARGO S.A. hold a minority stake that does not make it possible to exercise control or joint control (this does not include POL-RAIL s.r.l., which has been classified as an entity jointly controlled by the PKP CARGO Group),
- 2 companies from the AWT Group in which indirect subsidiaries of PKP CARGO S.A. hold a minority stake that does not make it possible to exercise control or joint control.

Figure 1. Structure of the PKP CARGO Group as at 30 September 2015



** 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. - PS TRADE TRANS Sp. z o.o. hold shares in POL-RAIL s.r.l. with its registered office in Rome in such a manner that in total these two entities belonging to the PKP CARGO Group hold a 50% equity stake in the share capital of POL-RAIL s.r.l.*

Figure 2. Structure of the AWT Group as at 30 September 2015



*as at the delivery date of the report, AWT Čechofracht a.s. holds a 20% stake in XZD a.s.

2.4. Consequences of changes to the structure of the Company and the Group

In 9M 2015, PKP CARGO S.A. acquired shares in its subsidiaries:

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

- on 5 February 2015 PKP CARGO S.A. acquired 490 shares in PKP CARGO International, a.s. w likwidacji (in liquidation) with its registered office in Bratislava, representing in total a 49% stake in this company's share capital in the possession of Rail Cargo Spedition, a.s. with its registered office in Bratislava. As a result of this transaction, PKP CARGO S.A. became this company's sole shareholder with a 100% equity stake in its share capital.

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

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

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

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

In addition, as of 28 May 2015, PKP CARGO S.A. acquired 60,000 shares, representing in total 80% of the share capital, in Advanced World Transport B.V. with its registered office in Amsterdam (Netherlands). Another shareholder in this company, holding 15,000 shares, representing in total 20% of the share capital of AWT B.V., is MINEZIT SE with its registered office in Prague (Czech Republic). AWT B.V. has in its group:

- 8 subsidiaries - directly controlled by AWT B.V.,
- 7 subsidiaries indirectly controlled by AWT B.V.,
- 1 subsidiary under joint control of AWT B.V.'s subsidiary,
- 2 companies in which AWT B.V.'s subsidiaries hold a minority stake in the share capital.

AWT's line of business includes mainly the comprehensive rail cargo transport services. AWT provides services mainly in the Czech Republic. Following the acquisition, the Group should increase its presence on that market, develop new connections and provide comprehensive logistic and freight services to new customers. The operating expenses are expected to decline due to economies of scale.

In parallel with the AWT B.V. acquisition agreement, PKP CARGO S.A. also concluded a shareholder agreement with Minezit SE ("MSE") regarding AWT ("Shareholder Agreement"). The agreement provides for, among others, MSE's right to request the Company to purchase all the AWT shares held by MSE ("Put Option") and the Company's right to request MSE to sell the AWT shares held by MSE to the Company ("Call Option"). Additionally, the Shareholder Agreement awards the Company the pre-emption rights to purchase the AWT shares held by MSE when MWE sells them and provides for MSE's tag along right in case the Company sells its AWT shares.

The Put Option may be exercised by MSW in the period from 1 January 2017 to 31 December 2020 for the market price calculated using the formula provided in the Shareholder Agreement, where the price depends on AWT Group's consolidated EBITDA and its net debt, but will not be less than EUR 27 million.

The Company will be able to exercise the Call Option in the period from 1 January 2017 to 31 December 2021 for the market price calculated using the formula provided in the Shareholder Agreement in reference to AWT Group's EBITDA and its net debt, but no less than the difference between (i) EUR 40 million and (ii) the amount of all dividend and similar payments made by AWT to MSE.

Details are presented in note 4 to the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group.

As of 1 April 2015 PKP CARGOTABOR USŁUGI Sp. z o.o. suspended business activity for 9 months, i.e. until the end of 2015. The suspension of business activity by the company had no effect on the operating activity of the PKP CARGO Group. The company's operations were recommenced as of 1 July 2015.

On 7 August 2015, the Extraordinary Shareholder Meeting of AWT Rail PL sp. z o.o. adopted a resolution to dissolve AWT Rail PL and open its liquidation as of 7 August 2015. The change is waiting for registration in the court register but it will have no effect on the Group's operating activity.

On 16 September 2015 the Meeting of Shareholders representing Class B shares of AWT B.V. was held, which adopted a resolution on the approval to sell in order to liquidate 100% of the shares held in the company XZD a.s. with its registered offices in Kosice (Slovakia), by the company AWT Čechofracht a.s. - a wholly owned subsidiary of AWT B.V., to the law firm Ecker Khan for the amount of € 1. The agreement concerning the sale of 80% of the shares held in XZD a.s. was concluded on 5 November 2015. The conclusion of a contract for the sale of the remaining 20% of shares in the company is planned to take place by the end of 2015. This change will have no significant effect on the Group's operating activity.

On 17 August 2015, the Extraordinary Shareholder Meeting of PS TRADE TRANS sp. z o.o. was held and adopted a Resolution to amend the Articles of Association of PS TRADE TRANS sp. z o.o. in the part concerning 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 the companies: 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 equity companies: Przedsiębiorstwo Spedycyjne TRADE TRANS sp. z o.o. and CARGOSPED sp. z o.o.". On 30 September 2015 this merger plan was submitted to the relevant court of registration. The merger of the companies will be carried out following the procedure set forth in Article 492 § 1 item 1) of the Commercial Companies 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 PS TRADE TRANS sp. z o.o. will issue to PKP CARGO S.A. as the sole shareholder of CARGOSPED sp. z o.o.

As a result of these changes, the entity formed from CARGOSPED sp. z o.o., PS Trade Trans sp. z o.o. and other assets (i.e. PKP CARGO CONNECT) will provide commercial and freight forwarding support to the PKP CARGO Group, will also be responsible for the terminal business and will offer cargo transshipment and storage services. The comprehensive logistic services will be provided on the Polish market and internationally.

3. Information about the Parent Company

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

COMPANY'S MANAGEMENT BOARD

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

1. Act of 15 September 2000 entitled Commercial Companies Code (Journal of Laws, Number 94, Item 1037, as amended);
2. Act of 8 September 2008 on Commercialization, Restructuring and Privatization of the State-Owned Enterprise „Polskie Koleje Państwowe" (Journal of Laws, Number 84, Item 948, as amended);
3. Articles of Association of PKP CARGO S.A. (consolidated text adopted by Resolution no. 1468/V/2015 of the PKP CARGO S.A. Supervisory Board on 29 October 2015);
4. Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution no. 222/2015 of the PKP CARGO S.A. Management Board on 17 June 2015;
5. other internal regulations.

Powers of the Management Board

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

Operation of the Management Board

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

In special justified cases, Management Board meetings may be held at a later date, but no later than within 14 days of the date of the preceding meeting.

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

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

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

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

Source: Proprietary material

The internal allocation of tasks and functions discharged by Management Board members in 9M 2015 was as follows:

1. President of the Management Board – the scope of the President's activity include directing the activities of the Management Board and the Company's ongoing operations and overseeing the management of specific areas of the Company's activity, in particular:
   - business strategy,
   - safety of business and internal audit,

   Special powers of the President of the Company's Management Board include performance of the Company's defense tasks resulting from the regulations on general defense obligation.
2. Management Board Member responsible for Finance – the scope of activity of the Management Board Member responsible for Finance include responsibility for rational management of the Company's resources and overseeing the management of specific areas of the Company's activity, in particular:
   - finance management,
   - purchase and sale of assets.

   Special powers of the Management Board Member responsible for Finance include the performance, on behalf of PKP CARGO S.A., of obligations arising from accounting, tax and insurance regulations.
3. Management Board Member responsible for Trade – the scope of activity of the Management Board Member responsible for Trade include responsibility for adequate sales levels and customer relations and overseeing the management of specific areas of the Company's activity, in particular:
   - commercial policy,
   - sales of transportation services.
4. Management Board Member responsible for Operations – the scope of this Management Board Member's activity include overseeing the management of specific areas of the Company's activity, in alignment with the powers assigned in a separate resolution adopted by the Management Board, as regards:
   - management of transportation,
   - organization of transportation.
5. Management Board Member - Employee Representative in the Management Board - the scope of activity of the Management Board Member - Employee Representative includes overseeing the supervision of specific areas of the Company's activity, in accordance with the powers established by a separate Management Board resolution, as regards:
   - monitoring of relations with social partners,
   - contacts with social organizations.

Commercial proxies established and revoked:

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

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

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

SUPERVISORY BOARD

In accordance with the consolidated wording of the Articles of Association of PKP CARGO S.A. (Resolution no. 1468/V/2015 adopted by the PKP CARGO S.A. Supervisory Board on 29 October 2015), the Supervisory Board consists of 11 to 13 members (including the Supervisory Board Chairperson and Deputy Chairperson) appointed for a joint term of office. The Supervisory Board is appointed and dismissed by the Shareholder Meeting, subject to provisions of § 19 sections 2 and 3 of the Articles of Association of PKP CARGO S.A.

On 29 September 2015, the Shareholder Meeting of PKP CARGO S.A. dismissed two employee representatives from the PKP CARGO S.A. Supervisory Board, the PKP CARGO S.A. Supervisory Board adopted a resolution no. 1471/V/2015 of 29 October 2015 to conduct supplementary election for two candidates for employee representatives in the Supervisory Board of PKP CARGO S.A. The date of the election was set at 30 November 2015.

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

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

Full name	Position	Period in office	
		from	to
Jakub Karnowski	Supervisory Board Chairman	24 May 2012	to date
Piotr Ciżkowicz	Supervisory Board Deputy Chairman	29 July 2014 (appointed Deputy Chairman on 31 July 2014)	to date
Krzysztof Czarnota	Supervisory Board Member	6 July 2006; 24 May 2012 for the 5th term of office	29 September 2015
Marek Podskalny	Supervisory Board Member	6 July 2006; 24 May 2012 for the 5th term of office	29 September 2015
Kazimierz Jamrozik	Supervisory Board Member	24 May 2012	to date
Konrad Anuszkiewicz	Supervisory Board Member	13 December 2013	to date
Stanisław Knaflewski	Supervisory Board Member	17 December 2013	to date
Jacek Leonkiewicz	Supervisory Board Member	29 July 2014	to date
Sławomir Baniak	Supervisory Board Member	24 November 2014	to date
Jarosław Bator	Supervisory Board Member	15 September 2015	to date
Raimondo Eggink	Supervisory Board Member	13 April 2015	to date

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 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: oversight over the organizational unit responsible for internal audit, monitoring the financial reporting process, monitoring the performance of financial review activities, monitoring the independence of the statutory auditor and the entity authorized to audit financial statements, recommending an entity authorized to audit financial statements to the Supervisory Board to perform financial review activities for the Company, etc.

Table 5. Composition of the PKP CARGO S.A. Supervisory Board Audit Committee from 1 July 2015 to the delivery date of the report

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

Source: Proprietary material

NOMINATION COMMITTEE

The Nomination Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of three Supervisory Board members, of which at least one Supervisory Board Member meeting the independence criteria and appointed in the manner specified in § 20 and 21 of the Company's Articles of Association. Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The Nomination Committee organizes and exercises ongoing oversight over the recruitment procedure to the positions of Management Board members and over the Management Board member evaluation and appointment process.

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

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

Source: Proprietary material

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

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

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

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

Source: Proprietary material

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

On 17 February 2015, the Management Board of the Company received a notice sent by the European Bank for Reconstruction and Development ("EBRD") with information that as a result of a sale of the Company's shares in a block transaction concluded on the Warsaw Stock Exchange ("WSE") on 11 February 2015, settled on 13 February 2015, EBRD reduced its stake below 5% of all the votes at the Company's Shareholder Meeting.

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

Table 8. Shareholder structure of PKP CARGO S.A. as at 27 August 2015 and as at the delivery date of this report

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

Source: Proprietary material

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

(2) According to the notice sent by a shareholder on 30 June 2014; from 20 July 2015, the name ING OFE was changed to Nationale-Nederlanden OFE

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

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

In the period from the delivery date of the H1 2015 report, i.e. from 27 August 2015 until the delivery of this report, the structure of shareholders who hold, directly or indirectly through subsidiaries at least 5% of the total number of votes at the Shareholder Meeting, did not change.

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

The holdings of Company's shares or rights to such shares by members of the Company's Management Board from 27 August 2015, i.e. the delivery date of the H1 2015 report to the delivery date of this report, was as follows:

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

Full name	Number of PKP CARGO S.A. shares held by Management Board members
as at the delivery date of this report	
Adam Purwin	545
Jacek Neska	450
Wojciech Derda	300
Łukasz Hadyś	300
Dariusz Browarek	370
as at 27 August 2015	
Adam Purwin	545
Jacek Neska	450
Wojciech Derda	300
Łukasz Hadyś	300
Dariusz Browarek	370

Source: Proprietary material

The holdings of Company's shares or rights to such shares by members of the Company's Supervisory Board from 27 August 2015, i.e. the delivery date of the H1 2015 report to the delivery date of this report, was as follows:

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

Full name	Number of PKP CARGO S.A. shares held by Supervisory Board members
as at the delivery date of this report	
Jakub Karnowski	915
Piotr Ciżkowicz	675
Kazimierz Jamrozik	70
Konrad Anuszkiewicz	0
Sławomir Baniak	0
Stanisław Knaflewski	0
Jacek Leonkiewicz	0
Jarosław Bator	0
Raimondo Eggink	0
as at 27 August 2015	
Jakub Karnowski	915
Piotr Ciżkowicz	675
Krzysztof Czarnota	70
Kazimierz Jamrozik	70
Marek Podskalny	70
Konrad Anuszkiewicz	0
Sławomir Baniak	0
Stanisław Knaflewski	0
Jacek Leonkiewicz	0
Raimondo Eggink	0

Source: Proprietary material

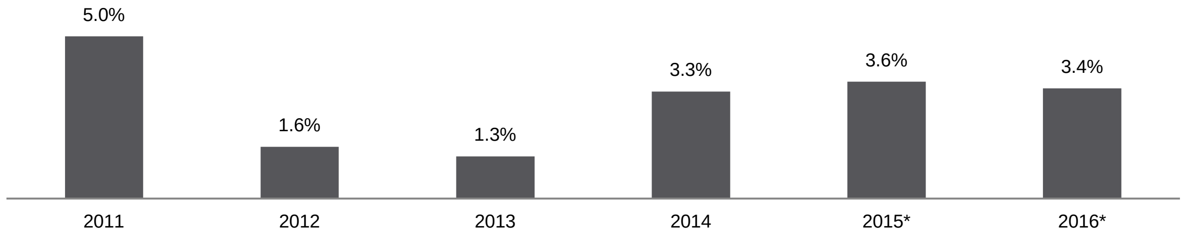
4. Key areas of operation of the PKP CARGO Group

4.1. Macroeconomic environment

Polish economy[5]

According to the current forecasts,[6] at the end of 2015 Polish economy will achieve growth of 3.6% yoy. The inflation will be -0.8% yoy. The positive business conditions are confirmed by the good conditions in the industry – industrial production sold during the first 9 months of the current year recorded a 4.5% yoy growth. This is confirmed by good readings of the PMI index (*Purchasing Managers Index*). In September of this year, it was 50.9 points thus confirming the higher level of activity and better sentiments in Polish industry. In September 2014 it was 49.5 points that is 1.4 percentage points lower. The expected growth of the Polish economy will considerably outpace the average growth of EU economies for which the average projected GDP growth in 2015 is 1.8%[7].

Figure 3. GDP growth in Poland in 2011-2014 per annum and forecast for 2015 and 2016



Source: Main Statistical Office (note: in 2014, the Main Statistical Office aligned its GDP calculation methodology with the ESA 2010 standards; this modified methodology has also been applied to adjust GDP readings in the previous years in October 2015)

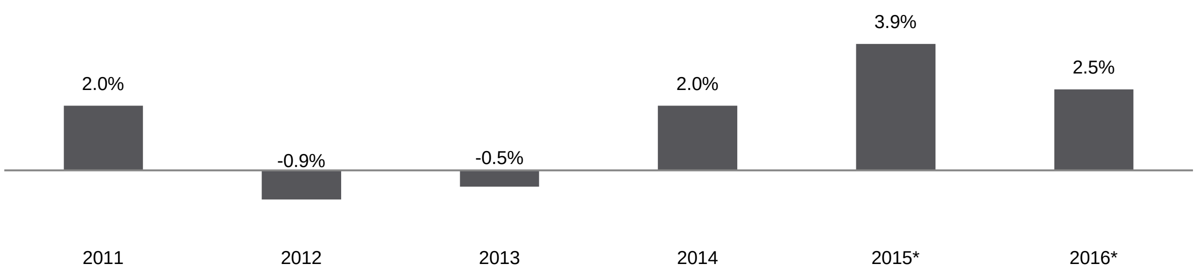
** data for previous periods have been adjusted by the Main Statistical Office*

* NBP forecast (July 2015)

Czech economy

After a period of negative growth in 2012 and 2013, the Czech economy increased by 2.0% yoy in 2014. Moreover, in Q1 and Q2 2015, the economy posted growth of 4.1% yoy and 4.6% yoy, respectively[8]. The key factors, which contributed to the better business conditions included higher domestic and foreign demand and a change of the fiscal policy from fiscal consolidation to expansionary policy. The Czech Finance Ministry's forecast calls for real GDP growth of 3.9% in 2015 and 2.5% in 2016. [9] On the other hand, Erste Group Research forecast set the yoy growth at 4.3% and 2.5%, respectively.[10] In 2015, the driver in the economy is mainly increased private consumption and an increase in capital expenditures through more intensive utilization of EU funding. The risk of a slow-down in GDP growth through deflation decreased in H1 and the consumer price index (CPI) grew to 0.8% yoy in June, compared to nearly zero in the beginning of 2015. CPI is expected to increase gradually to 2% yoy in 2016 and therefore it is quite unlikely for the Czech National Bank to continue to weaken the EUR/CZK exchange rate.[11]

Figure 4. Real GDP growth in the Czech Republic in 2011-2014 per annum and 2015 and 2016 forecast



[5] Unless specified otherwise, data based on GUS
[6] NBP's forecast (July 2015) and the Budget Act for 2015 (September 2014)
[7] EC forecasts, European Economic Forecast Spring 2015.
[8] Eurostat
[9] Czech Republic's Finance Ministry, Macroeconomic Forecast April 2015
[10] Erste Group Research – Czech Republic macro Outlook (October 2015)
[11] ibid.

Source: Czech Republic's Finance Ministry,
**Macroeconomic Forecast July 2015*

According to the survey pertaining to macroeconomic forecasts prepared by the Czech Republic's Finance Ministry[12], in 2015 and 2016 the following macroeconomic trends are to be expected:

- In 2015, GDP is to grow by 3.9% and the institutions participating in the survey expect delicate slowdown in the GDP growth rate in 2016 (up to 2.5%). It is anticipated that economic growth will be primarily driven by internal demand and investments in fixed assets. The slowdown in the growth rate in 2016 will be mainly driven by the completion of EU projects financed within the Financial Perspective 2007-2013 and slower payouts at the beginning of the new EU perspective 2014-2020 – this will be seen mostly in a lower level of expenditures for projects;
- In 2015, a very low inflation rate is expected, with a significant impact possibly exerted by low prices of oil. This year's inflation rate is expected to be 0.5% yoy as compared to 0.4% yoy near the end of 2014, while in 2016 consumer prices are forecasted to rise by 1.5%.
- Due to the forecasted economic growth, the situation on the labor market is to improve as well. The increase in the employment level is to occur gradually: in 2015, by 1% yoy, and in 2016, by 0.2% yoy. On the other hand, the unemployment rate is to decrease gradually to ultimately reach 5.7% in 2015 r. (a level similar to the previous year's) and 5.5% in 2016;
- A growth in the salary fund of 4.2% and 4.1% in 2015 (as compared to 1.9% in 2014) and 2016 respectively is anticipated;
- The current account in the balance of payments should show a slight surplus in 2015 and 2016. Low oil prices will exert a positive impact on the current account.

European economy

Individual consumption continues to be a factor in the European Union's economic growth. The Industrial PMI for the Eurozone has increased since last year's September. In 2014, it was at the level of 50.3 points, and in September 2015, it already reached 52.0 points. This shows that the economy is stimulated chiefly thanks to robust internal demand, with what might be described as a slight growth in external demand. The latest forecast of economic growth according to the European Commission for the EU is 1.8% in 2015. The major threat to the continuation of GDP growth in the Eurozone is stagnation in the important economies of the common currency area - France and Italy – and, still, the situation of Greece.[13] For the Hungarian economy, the GDP growth rate is expected to fall to 2.8% yoy and 2.2% yoy in 2015 and 2016 respectively. The deceleration in the pace of growth is precipitated by less support from EU funds. Inflation should hit a level close to zero this year and the budgetary deficit in the years 2015-2016 is to remain below 3% of GDP[14].

A favorable influence on the growth of the entire area of the European Union is exerted by the countries of Central and Eastern Europe. The emerging economies from this region show the capacity to recover after the downturn and maintain high economic growths in the European Union.

Attention should also be drawn to Greece, which continues to pose a threat to the development of the European economy. At present, the position of Greece is more stable than towards the end of H1 2015. In August, an agreement was signed with the creditors, pursuant to which Greece was granted a three-year aid package of EUR 86 billion. The situation in the government has also become stable, due to which it is more probable that Greece will fulfill its obligations.[15]

Industry in Poland

The level of rail freight is strictly dependent on the standing of the economy in the sectors of industry most important for Poland, which include first of all mining, metallurgy and construction industry, but also chemical industry, wood economy and automotive industry.

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[12] Finance Ministry
Twice a year, the Finance Ministry runs research (called the Colloquium) whose purpose is to learn how significant institutions perceive the Czech economy's prospects and how they assess the major trends in the forecasts. Results 39 The Colloquium held in April 2015 relied on the forecasts of 20 institutions (MoF; Ministry of Industry and Trade; Ministry of Labor and Social Affairs; Czech National Bank; Citibank; CYRRUS; Česká spořitelna; ČSOB; Generali Investments CEE; Czech Chamber of Commerce; IDEA CERGE-EI; Institute of Economic Studies, Faculty of Social Sciences, Charles University; ING Bank; J&T Banka; Komerční banka; Liberální Institut + Faculty of Economics, University of Economics; Raiffeisenbank; Union of Czech and Moravian Production Co-operatives; Confederation of Industry of the Czech Republic; UniCredit Bank). To make this survey more representative, EC's forecasts (winter 2015) and the European IMF's economic forecasts (April 2015 World Economic Outlook) were added.
[13] eGospodarka.pl
[14] EC forecasts, European Economic Forecast Spring 2015
[15] Reuters

In the period of three quarters of 2015, industrial production sold grew by 4.5% yoy, and most branches of industry recorded growth in production sold, including production of motor vehicles, trailers and semi-trailers with 10.1% yoy; production of other transport machines with 8.6% yoy (among others, locomotives and rolling stock with 29.7% yoy); production of furniture with 7.6% yoy; production of metallic goods with 6.0% yoy; manufacturing industry with 5.5% yoy; production of paper and paper products with 5.4% yoy; production of chemical agents and chemicals with 4.6% yoy; production of wooden products with 4.2% yoy; hard coal and lignite mining with 4.0% yoy; production of coke and petroleum oil refined products with 2.8% yoy; and production of metals with 0.8% yoy[16]. Factors that contributed to increased coal production include more efficient coal mining by mines undergoing a restructuring program and decreased extraction costs of one ton of coal from PLN 300 to PLN 240.[17] The production of metals should be noticed – during 9 months of this year, no more than a slight growth was recorded, which was caused by weather anomalies observed in August (heat) and limited deliveries of electricity to companies in Poland. The deliveries were limited to the minimum level at which technological facilities are not damaged. In particular, this is important for energy-intensive branches of industry, such as metallurgy or mining and extraction of raw materials.

As regards the production sold of oil and its refined products, important factors may be the nuclear agreement with Iran and the abolishment of the embargo on oil from Iran. Iran, as one of the biggest exporters of oil in the world, will aim at achieving back the level of export from before the sanctions were imposed. At present, the production volume is 2.8 million barrels per day.[18] Over the next few months, the production is to increase up to 3.8-3.9 million barrels per day in order to reach the target level of 4.2 million barrels per day towards the end of 2016.[19] Due to such a level of processing and the accumulated inventories (40 million barrels), exports are to rise from 1 million to 2 million barrels per day. One of the outlets for oil and liquefied natural gas is to be Poland,[20] where prices of oil and its products can be already seen to fall again. According to the European Commission, the maximum price of diesel oil in Poland was recorded in the beginning of June (precisely on 8 June 2015) and, converted to euro, was EUR 1,151.76/1,000 l. Since then, the price has been falling all the time. In the beginning of October (5 October 2015) already amounted to EUR 1,003.22/1,000 l. It is also noticeable that Saudi Arabia's share in the market has been decreasing [21] and in the near future, the shares of Russia are forecasted to fall, too.[22]

The prices of industrial production sold in 9 months of 2015 were 2.4% lower yoy than in the corresponding period of the previous year. This was caused by declines in prices in the mining and extraction industry by 3.0% yoy and in industrial processing by 2.9% yoy. The price decreases were impacted by low quotations of hard coal (price pressure observed in ARA ports) and oil. Furthermore, the decline in the prices of oil in global markets significantly contributes to reduction of the prices of refined products of oil. In addition, due to a decrease in the costs of transport, prices of other products are also at low levels.

Mining industry

In Poland, from January to September 2015, hard coal production reached 52.2 million tons. Compared to the similar period of 2014, when the production was 54 million tons, it can be noted that output dropped by 3.0% yoy in 2015. In the same period, the average monthly ARA prices further decreased. In December 2014, the average ARA price was USD 70.7/t, and in September 2015, it was USD 53.5/t, or by 17.2 USD/t less than in the beginning of 2015.[23] The difficult situation of the Polish mining in the period January-September was affected not only by the unfavorable situation on the global market but also a high level of coal inventories in mine storage yards. In December 2014, inventories in mines reached the volume of 8.2 million tons[24], which, after the fall to 6.4 million tons in June[25], rose again up to about 6.2 million tons in September 2015.[26]

The Polish mining continues to be significantly affected by restructuring processes in the mines (in particular in Kompania Węglowa). From the perspective of the Polish economy, it is especially important to increase the effectiveness of the mines and their capabilities to compete in the global market. According the most recent news, the process of changes in Kompania Węglowa is to involve the following companies: Silesia, PGE, Energa and PGNiG Termika. They declare the willingness to start talks about setting up a coal and energy consortium that would become the seed of a New Kompania Węglowa. The above companies as business partners would have the task of supporting the restructuring processes of the companies operating in the sectors of industry which are crucial for the development of Poland. The incorporation of energy companies to the New

[16] GUS Statistical Bulletin
[17] Information Center on the Energy Market
[18] PressTV-Iran
[19] Rzeczpospolita
[20] Defence24. Energy security
[21] Information Center on the Energy Market
[22] Defence24. Energy security
[23] Globalcoal.com
[24] Polish Coal Market
[25] ARP
[26] ARP

Kompania Węglowa is to take place until the end of Q1 2016, and the entire restructuring process with the participation of the energy industry – from 4 to 5 years.[27]

Steel industry

In the first 9 months of 2015, Polish steel industry produced 7.3 million tons of raw steel (9.8% growth yoy). In this same period, the global steel production edged downward by 2.4% yoy, while the European Union recorded growth of 0.3% yoy.[28] Just in September, the steel production in Poland recorded an increase by 6% yoy (from the level of 749 thousand tons in September 2014 to 794 thousand tons in September 2015 r.), and a 12.3% increase mom (from 707 thousand tons August 2015). The high increase mom results from a lower steel production in August, which was caused by the heat and limited deliveries of electricity to companies in order to protect technological facilities from damage. This is especially important for energy-intensive branches of industry, including metallurgy.

An important factor which considerably affects the economic situation in the industry has been observed since April 2015 is a decline in the prices of metal products mom. After 2 months of the increase in the prices mom (in May and in June), there was another decline in July (by 0.4% mom). Compared to the previous year, an increase was recorded only in June (by 0.1% yoy), while in the remaining months, lower prices than last year were observed. In August 2015, prices of metal products were 1% yoy lower and the aggregated decrease in the period of 8 months was 0.8% yoy. This was caused by price pressure and low prices of raw material and semi-finished products which are indispensable in the manufacturing process. Prices in the global trade of iron ore in July 2015 decreased again (after the increase in June from approx. 60.2 USD/ton to 62.3 USD/ton), reaching the level of 51.5 USD/ton. At present, another increase in the prices of iron ore is observed. In September 2015, the prices reached the average level of 56.4 USD/ton. This commodity's prices reached their peak in 2011 and in 2013, when they were nearly USD 190/ton and 150 USD/ton respectively.

The World Steel Association estimates that the global use of steel is to reach 1,544 million tons[29] in 2015. If the forecasts come true, an increase of 0.5% yoy will be recorded.

Construction industry

The construction and installation production index rose by 2.0% yoy in the period January-September 2015, which was affected most significantly by production in companies carrying out specialized construction work (by 3.4% yoy), construction of buildings (by 2.1% yoy) and civil and hydro engineering investments (by 0.9% yoy).

In September, the market conditions index in the construction industry was -5, against -1 in August. This is a clear sign that entrepreneurs from the construction sector assess the market situation as less favorable compared to the situation in this year's August.[30] Both the portfolio of orders and construction and installation production or the financial standing of companies were assessed less optimistically. This translates into a further decline in headcount. The average headcount in the construction industry in the 9 months of the current year dropped by 6.0% yoy. This is linked to the major obstacles enumerated by Polish businesses such as: high costs of employment (important to 62% of businesses) high contributions to the State Treasury (41%) and complicated and incoherent legal regulations (30%).

The forecasted improvement of the situation in the construction industry because of started performance of contracts funded from the budget of the European Union may be delayed even to 2017. This is connected with procedural reasons because quite often even two years may elapse from a call for tender to the beginning of construction. Effect in subsequent periods may have a resolution of tenders for PLN 30 billion by GDDKiA. Within the framework of the National Roads Construction Program in the years 2014-2025, infrastructural investments for the total amount of PLN 107 billion have been planned.[31]

Industry in the Czech Republic

According to the most recent report of the Czech statistical office, published on 7 October 2015, the Czech industrial production recorded an increase of 5.1% yoy in the first 8 months, due to which the country is placed in the group of the first five member states of the European Union with the fastest industrial growth.

Industrial production increased by 6.3% yoy in August 2015. The biggest contribution in the annual growth of industrial production was made by the production of passenger cars, trailers and semi-trailers (an increase by 10.2% yoy), production of finished metal products (an 8.9% increase yoy) and production of rubber and plastic products (an increase by 11.1% yoy).

[27] Wirtualny Nowy Przemysł
[28] Wirtualny Nowy Przemysł
[29] World Steel Association
[30] Economic Situation, Central Statistical Office
[31] Deloitte

Industrial production decreased, among others, in the section of the production of chemical agents and chemical products (by 10.1% yoy).

Revenues from industrial activity at current prices rose by 0.9% yoy in 2015. Direct export revenues of industrial companies at current prices increased by 6.6% yoy. The value of new orders in August 2015 in selected sectors increased by 7.9% yoy. The category of new orders from abroad increased by 12.5% yoy, while the number of new domestic orders dropped by 0.7% yoy. An increase in the number of new orders per year was most visible in the industry of production of cars, trailers and semi-trailers (+28.3% yoy), production of finished metal products (+8.2% yoy) and machines and equipment (+8.4% yoy). The number of new orders was lower in the production of chemical agents and products (-18.7% yoy) and production of metals and finished metal products (-11.5% yoy).

Mining industry

The value of the Czech Republic's mining sector is estimated roughly at USD 2.3 billion. The following commodities are mined in the Czech Republic: hard coal, lignite and uranium.[32]

The Czech Republic is the fourth largest producer of hard coal in the European Union and one of the largest coal producers in Europe. This results primarily from the nature of the Czech economy, which relies on coal to satisfy its energy needs. The Czech Republic is forecasted to mine 53.4 million tons of coal in 2018.[33]

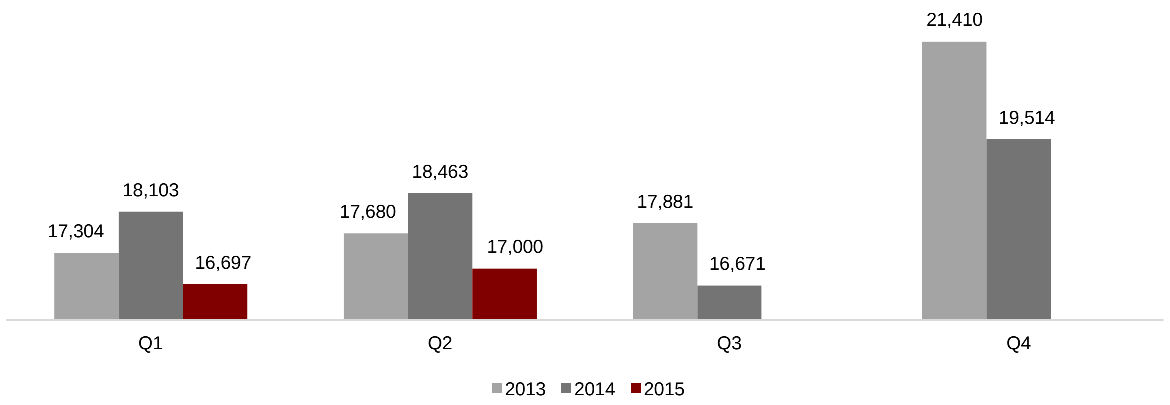
In the Czech Republic, heat and electricity are mainly obtained from coal-fired power plants (51% of the energy generated in 2013, a decrease of 7 p.p. from the level of 58% in 2010) and nuclear power plants (35% in 2013, an increase of 2 p.p. from the level of 33% in 2010),[34] which shows how important the generation of energy from coal and uranium is for this country.[35]

The most important area of hard coal extraction is the Ostrava-Karvina Coal Basin, directly adjacent to the Upper Silesian Coal Basin in Poland. Deposits of lignite are not concentrated in one location, and the sites where lignite is mined are widely spread. The largest deposits are found in the western part of the Czech Republic close to the German border. Total coal resources in the Czech Republic in 2013 were estimated to be 25 billion tons.[36]

Data from the Czech Statistical Office show that revenues from the production in the sector of mining and minerals (denominated in Czech crowns) fall in consecutive years. A decrease in the revenues was recorded: in 2013, by 11.6% yoy, and in 2014, by 2.4% yoy. In the first two quarters of 2015, the downward trend continued.

Figure 5 below shows that revenues vary during a year - the highest level of production in 2013 and 2014 was in the 4th quarter because of a higher consumption of coal in winter months. Based on this observation, it may be expected that in 2015, an increase in the revenues from production of mining and minerals will also occur in the 4th quarter.

Figure 5. Revenues from mining and minerals (including commercial margin) in million CZK on a quarterly basis



Source: Czech Statistical Office

[32] Business Monitor International Czech Republic Mining Report 2014
[33] ibid.
[34] 4liberty.eu
[35] Eurostat, "Energy, transport and environment indicators" 2013
[36] Mineral Commodity Summaries of the Czech Republic 2014

Steel industry

Metal and metal products manufacturing in the Czech Republic consists mainly of sub-groups: metallurgy (ferrous and non-ferrous) and the metal foundry industry. Recently, this sector's development has been under the influence of robust demand from the automotive, construction and mechanical engineering industries. The impediment the Czech Republic's economy faces is its geographic location – lack of access to the sea and water connections. As a result, the costs of international transport are higher, thereby forming an export barrier of sorts.[37]

According to Eurofer (European Steel Association), the SWIP index (Steel Weighted Industrial Production) in the Czech Republic increased by 5.7% yoy in 2014, and in 2015, a 4.3% increase yoy is anticipated and another 4.0% yoy in 2016. The index includes such sectors of the steel industry as automotive industry, construction, metal products, steel pipes and machine construction. Each of the aforementioned sectors recorded a growth in 2014 (from 1.5% yoy in mechanical engineering to 13.1% yoy in automotive industry). It is expected that each of these industries will continue to grow both in 2015 and in 2016. The major factors affecting the growth of these sectors are first of all: a significant increase of economic recovery in 2014 and a significant increase in the number of orders from manufacturers from the Czech Republic and abroad. Factors having less significant impact on the SWIP index included changes in the motor industry production (due to development of new models of cars), increase of manufacture of metal products (mainly for exports) and yoy growth of the construction industry.[38]

Despite announced growths in the above sectors, attention should be drawn to the current readings in the sector of the production of metals. During the first 8 months of 2015, yoy decreases were recorded in the production of pig iron, raw steel and rolled materials by 3.4%, 0.5% and 4.7% respectively.[39]

Construction industry

After several years of downturns in the construction sector, the sector is now observed to recover as can be seen from the expected growth at a level of 1% in 2015. According to Euroconstruct's projections, "the years of stagnation in the European construction industry have definitively ended".[40]

Real construction production rose in August of this year by 4.7% yoy. In this same month the Czech institutions responsible for the process of planning and construction monitoring obtained 1.6% less building permits yoy (a total of 7,069 building permits), with the estimated value of the permitted construction projects having increased by 14.3% yoy (achieving the value of CZK 25.7 billion). The number of investment projects launched in residential construction rose by 31.9% yoy.

Automotive Industry

The automotive industry is a very important industry for the Czech Republic. It is one of the most important drivers of the country's economy, not only because of creating a considerable number of jobs but also because of long-term tradition and significant production of vehicles at the level of over million vehicles a year. Another reason is the Czech Republic's position in this industry as compared to other European Union countries. Even though the Czech Republic has a relatively small economy and a small land mass as a country compared to other member states, its automotive industry has not forfeited its pace of growth, but has even been called a future-looking one. The major indices proving the above include: the number of cars produced and the percentage of employees in the automotive sector. According to Czech Invest (Investment and Development Agency), 56 of the top 100 suppliers in the automotive industry have their base in the Czech Republic.[41]

The major car passenger manufacturers are: Škoda Auto, Hyundai Motor Manufacturing Czech (HMMC) and Toyota Peugeot Citroen Automobile (TPCA). Buses and vans are manufactured by: SOR Libchavy, Iveco Bus, Skoda Electric and Tatra.[41] During the whole previous year, in the Czech Republic, 1,277,877 motor vehicles were manufactured (up 10.7% yoy), of which 1,252,295 cars and 25,582 trailers. This is the highest annual production of vehicles in the history of the Czech Republic and Czechoslovakia. In the period January-September 2015, a total of 978,443 vehicles were manufactured in the Czech Republic.[42]

Chemical industry

The Czech chemical industry comprises mainly the following sectors: petrochemical and chemical production, rubber industry, plastics and pharmaceuticals and cosmetic industry. Industry is concentrated mainly in the northern region of the Czech

[37] http://www.budoucnostprofesi.cz/sectoral-studies/industries-development/14_manufacture-of-basic-metals-and-fabricated-metal-products.htm
[38] Steel Production in Czech Republic, Eurofer Economic Committee Meeting April 2015
[39] The Steel Federation a.s.
[40] www.czech.cz/Podnikani
[41] CzechInvest "Automotive Industry in the Czech Republic", February 2015
[42] PlasticPortal.eu

Republic – from Ústí nad Labem to Hradec Králové. Oil is processed in the areas located near the pipeline, primarily in the cities of Litvínov and Kralupy nad Vltavou.

4.2. Freight transportation activity

The situation on the rail transport market has been presented including both the Polish and Czech markets. The inclusion of the data about the Czech market to the report follows from the integration of the AWT Group with the PKP CARGO Group as of 1 June 2015. The above markets are at present crucial for the PKP CARGO Group (PKP CARGO S.A. and AWT a.s.).

4.2.1. Rail freight market in Poland

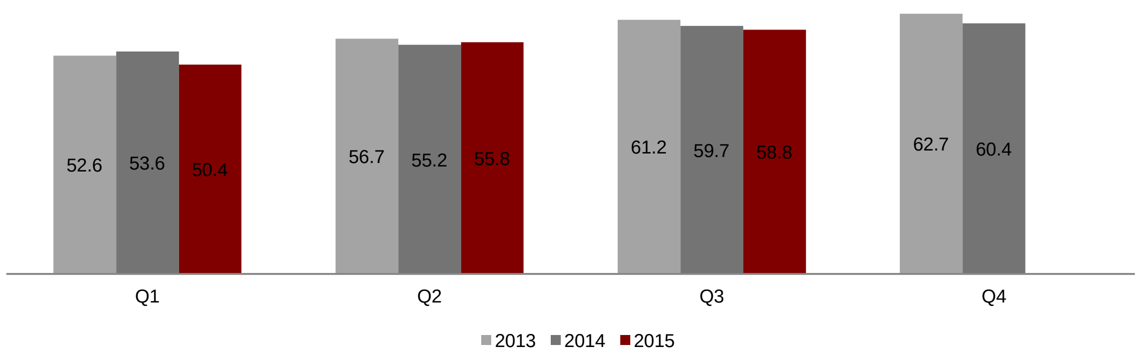
In 2014, in addition to the PKP CARGO Group, rail freight services were provided by 65 railway carriers holding a license to provide freight transport services. The same number of carriers was observed in September 2015.

During the three quarters of 2015, 165 million tons of goods were transported by rail transport. Compared to the data for the 3 quarters of 2014, this means a decrease by -2.1% yoy. The volume of performed freight turnover over the first nine months of 2015 amounted to 37.1 billion tkm, i.e. -0.01% less than the year before. On the other hand, the average haul increased by 4.7 km (+2.1% yoy).[43]

The decrease of the freight volume in the first nine months was caused, among other factors, by strikes in Jastrzębska Spółka Węglowa ("JSW") and Kompania Węglowa (at the end of January and the beginning of February); the military conflict in Ukraine's Donbass region, which affects the level of transportation of, for example, metals; delays in road investments (lower transport of aggregates); lower coal output caused by low extraction efficiency and a high level of coal supplies stored in the mines.

For the standing of rail transport, transports of aggregates, sand and gravel are important. Construction projects within EU funding in the budget perspective 2007-2014 were completed, while the allocation of funds for the new perspective 2015-2020 is still going on. Therefore many construction works were delayed or were planned to start in the next construction seasons of 2015 and 2016. According to forecasts, the demand for aggregates in 2015 will be at a lower level than that in the previous year. It is estimated that in 2018 and 2019, the demand for aggregates will increase by 10% yoy[44]. It should be also noticed that within the new EU subsidies, the use of cement pavement technology in the road construction is anticipated to increase, due to which the production and transports of such materials as cement and ready-mix concrete should be expected to grow. The acceleration of their production, however, is expected as late as in 2017.[45]

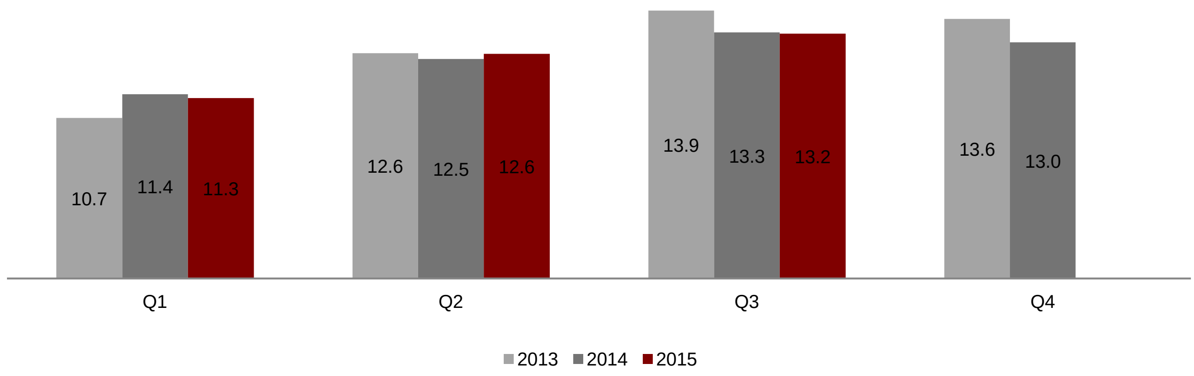
Figure 6. Rail freight volumes in Poland (in million tons) in individual quarters of 2013-2015



Source: Office of Rail Transport

[43] Urząd Transportu Kolejowego
[44] Materiały Budowlane monthly
[45] Wirtualny Nowy Przemysł

Figure 7. Rail freight volumes in Poland (in billion tkm) in individual quarters of 2013-2015

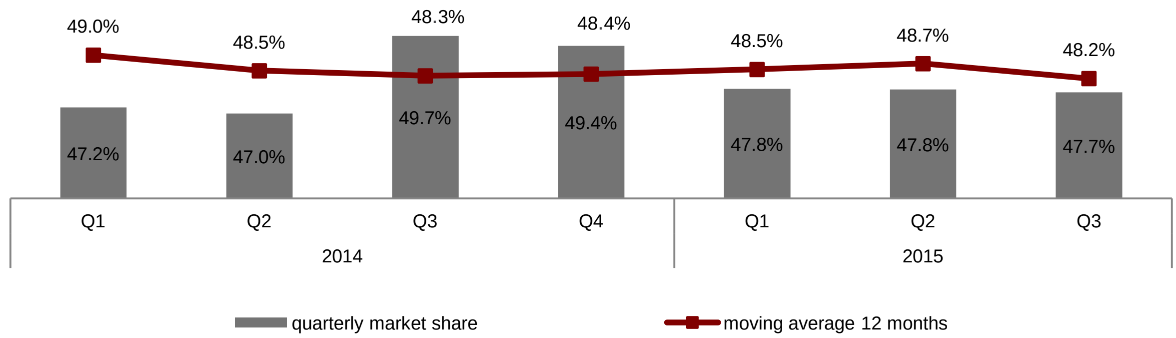


Source: Office of Rail Transport

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

In the period from January to September 2015, the PKP CARGO Group retained the market leader position with a 47.8% market share (-0.2 p.p. yoy) in terms of freight volume carried, and 55.8% as regards the freight turnover (-1 p.p. yoy).

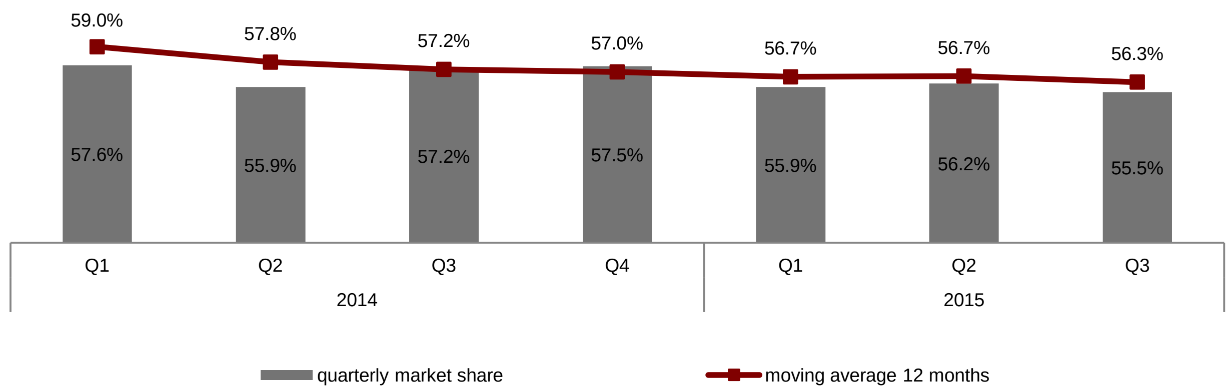
Figure 8. Share of the PKP CARGO Group in freight volume in 2014 and in 2015 in Poland



* source data for previous periods have been adjusted by the Office of Rail Transport.

Source: Proprietary material

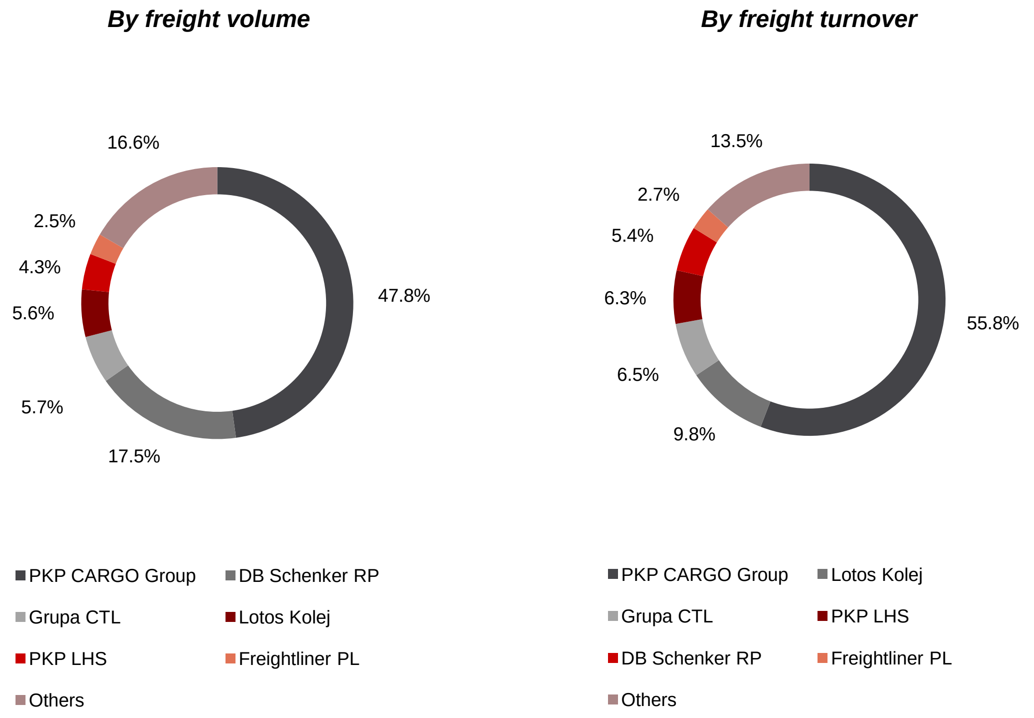
Figure 9. Share of the PKP CARGO Group in freight turnover in 2014 and 2015 in Poland



** source data for previous periods have been adjusted by the Office of Rail Transport*

Source: Proprietary material

Figure 10. Rail operators' market shares by freight volume and freight turnover in January-September 2015 in Poland



Source: Proprietary material

The leading rail operators on the Polish market competing with PKP CARGO Group include: DB Schenker Group, CTL Group, Lotos Kolej, PKP LHS and Freightliner PL.

After 3 quarters of 2015, the key competitors of the PKP CARGO Group in terms of freight volume achieved the following market shares: DB Schenker (17.5%), the CTL Group (5.7%) and Lotos Kolej (5.6%). In turn, in terms of freight turnover, the main rivals were Lotos Kolej (9.8%), CTL Group (6.5%) and PKP LHS (6.3%).

Rail transport companies with the biggest increase of freight turnover in the first 9 months of 2015, compared to the corresponding period of the year before, included: Lotos Kolej (+353 million tkm, which boosted the turnover by +10.7%) and Orlen Kol-Trans (+14.8 million tkm, +1.7%).

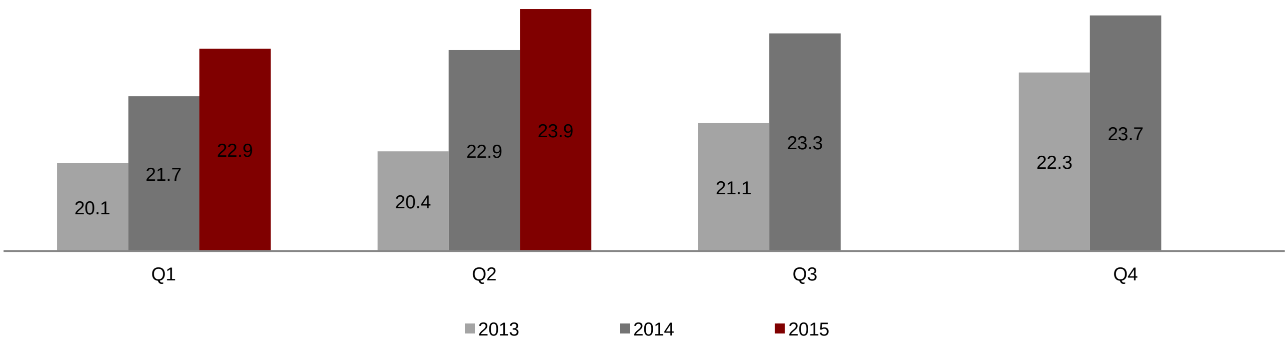
4.2.3. Rail freight market in the Czech Republic

The rail freight market in the Czech Republic amounts to approx. 480 million tons per annum.[46] Such a volume of mass was transported by various means of transport in 2014, of which the biggest part is road transport, with the share of 81%. Rail transport is the second most important means of freight transport, carrying 19% of total freight volume. Other means of freight transport are of marginal significance on the Czech market.

In Q2 of this year roughly 23.9 million tons of cargo was transported by rail, which represented a 5.3% yoy increase and 1 million tons more than in Q1 2015. This is also the best quarter in terms of the volume of rail cargo since 2013.

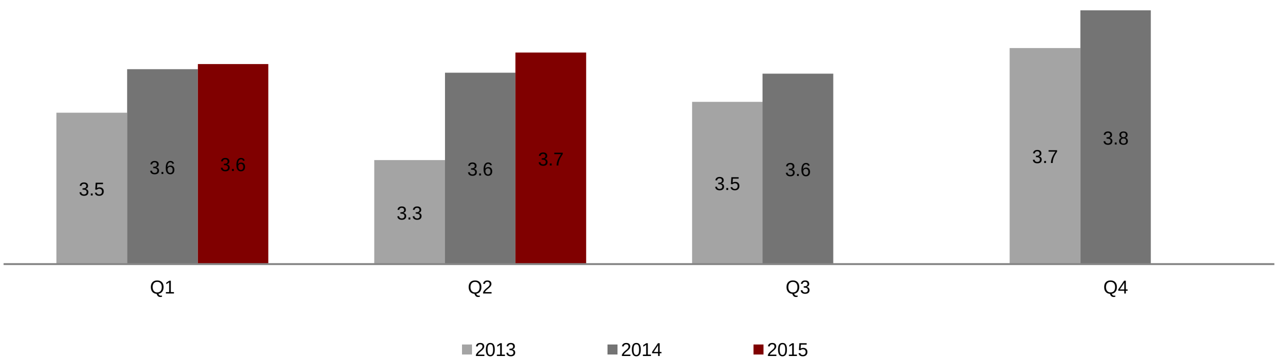
[46] *Czech Statistical Office, data for 2014.*

Figure 11. Rail freight transport by freight volume in Czech Republic in individual quarters of 2013-2015 (million tons)



Source: Czech Statistical Office

Figure 12. Rail freight transport by freight turnover in the Czech Republic in individual quarters of 2013-2015 (in billions of tkm)



Source: Czech Statistical Office

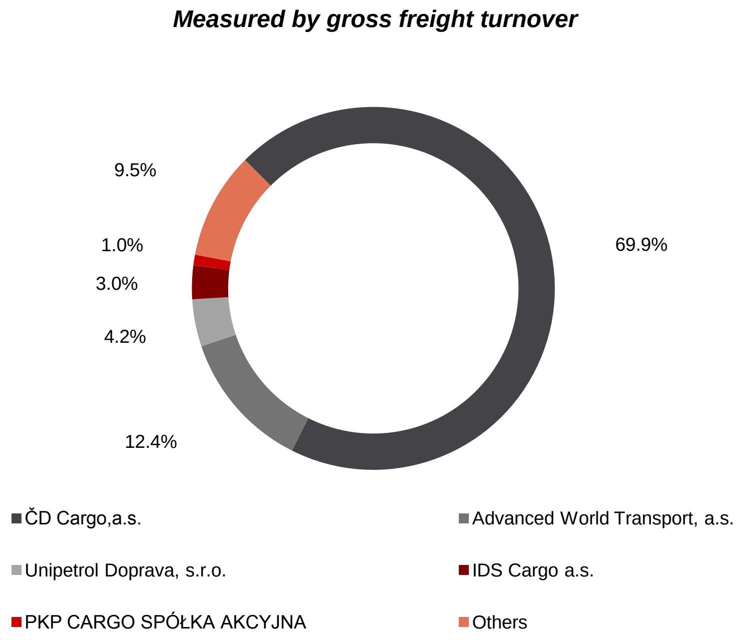
4.2.4. Position of the AWT Group in the rail transport market in the Czech Republic

According to information provided in the annual report of the Czech infrastructure manager (SŽDC), in 2014 rail freight services in the Czech Republic were provided by 89 carriers.[47]

In the previous year, in the period of January to September, a downward trend could be noticed in the freight turnover on the rail freight market, but it was stopped. In 2014, freight turnover reached a level that was slightly higher than in 2013. It should be noted that the market share of ČD Cargo a.s., which was the only market operator until 1995 and today is a leader of the Czech market, fell to 69.9% in 2014 from 76.3% in 2013 (market share measured by gross freight turnover) which constitutes a yoy drop of 6.4 percentage points. The market share lost by ČD Cargo a.s. was taken over largely by the AWT Group, which increased its market share from 7.8% in 2013 to 12.4% in 2014 (measured by gross freight turnover) that is by 4.6 percentage points.[48] Other market players with more than 1% of the market share each included: Unipetrol Doprava, s.r.o., IDS Cargo a.s. SD – Kolejova doprava and Rail Cargo Austria. In 2014, before the acquisition of AWT, PKP CARGO S.A. held 0.95% of the Czech market share in terms of freight turnover.

[47] Správa železniční dopravní cesty (SŽDC)
[48] SŽDC, Annual Report 2014

Figure 13. Market share of rail operators by operational freight turnover in 2014 in the Czech Republic (btkm)



Source: SŽDC, Annual Report 2014

Considering the Czech rail freight market, in 2014 AWT held a 17.7% market share in terms of freight volume and 12.4% in terms of gross freight turnover.[49]

4.2.5. PKP CARGO Group's rail transport

The data on the transport activity conducted by the PKP CARGO Group in 9M 2015 and 9M 2014 comprise consolidated data for PKP CARGO S.A., PKP CARGOSERVICE Sp. z o.o. and the AWT Group[50], however the data on the AWT Group pertain only to the period from its acquisition by PKP CARGO (it has been consolidated by the full method since 28 May 2015). After the company was acquired, AWT recorded freight turnover of 548 million tkm and carried freight volume of 4,661 thousand tons.

The transport activity in 9M 2015 was carried out by 5 Group entities. Following the acquisition (80% of shares) of the Czech company AWT B.V., 3 carriers (AWT a.s., AWT Rail HU Zrt, AWT Rail SK a.s.) joined as of 28 May 2015 the two other carriers from the PKP CARGO Group, i.e. PKP CARGO S.A. and PKP CARGO SERVICE sp. z o.o. (a 100% subsidiary of PKP CARGO S.A.).

The PKP CARGO Group provides rail freight services in the territory of Poland and eight other European Union states, i.e.: Germany, the Czech Republic, Slovakia, Austria, Belgium, the Netherlands, Hungary and Lithuania. The presence in these markets is a growth opportunity for the Group, since it allows the Group to independently handle the volumes transported from/to key European seaports, including those located in the North Sea (Amsterdam, Rotterdam, Zeebrugge, Antwerp, Hamburg) and those located in the Adriatic Sea (Koper, Triest, Rijeka). The size of the rail freight market in the countries where the PKP CARGO Group operates was over 900 million tons in 2014.[51]

Regardless of foreign ports, the 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 work on the establishment of a joint venture aimed at developing a whole-train rail link between China and Europe via Małaszewicze and developing strategic cooperation in

[49] Proprietary material on the basis of data from AWT and the Czech Statistical Office
[50] This applies to the AWT Group companies consolidated by the full method.
[51] Eurostat

the field of transshipment activity in Małaszewicze. The primary objective of the project is to increase the volumes of intermodal transport between China and Western Europe through Małaszewicze.

The PKP CARGO Group works with the largest Polish and global groups, including ArcelorMittal, PKN Orlen, PGNiG, Lafarge Group, Azoty Group, Węglokoks, Jastrzębska Spółka Węglowa, Kompania Węglowa, Enea Group, PGE Group, International Paper and the Tauron Group. The contracts with these counterparties are regularly renewed, which confirms the high quality of the transportation services provided by the Group. This is exemplified by won tender procedures for transport of coal to the Kozienice power plant (ENEA Wytwarzanie) and the Veolia Group co-generation plants, transport of timber and wood chips (International Paper Kwidzyn, Kronospan Szczecinek, Mondi Świecie), and aggregates for the construction of roads and rail infrastructure.

During 9M 2015, the PKP CARGO Group carried 83.9 million tons of cargo (+4% yoy) and achieved freight turnover of 21.7 billion tkm (+1% yoy). The Group's transport results in 9M 2015 were adversely affected by the transports in Q1 2015. In Q2 and Q3 2015, the transportation activity recovered, resulting in an increase in freight volume by 8% yoy in Q2 and by 7% yoy in Q3 (up to 31.7 million tons) and realized freight turnover by 4% yoy in Q2 and 3% yoy in Q3 (up to 7.9 billion tkm). This was related among others to the acquisition of shares in AWT.

The Group's transport activity in 9M 2015 was characterized by increased inter-branch and intra-branch price competition. 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 53% of transported volumes and 45% of realized freight turnover by the PKP CARGO Group in 9M 2015. In the same period, transportation of solid fuels was 9% yoy higher in terms of freight turnover as well as freight volume. Thanks to active sales policy, the share in the Polish hard coal rail freight market was increased by 6% yoy in terms of freight turnover. An unfavorable impact on the transport of solid fuels in 9M 2015 was exerted by the transport of coke within Poland, whose volume was 11% lower yoy, mainly due to decreasing demand for coke transport to Germany and via seaports.

Aggregates and construction materials were the second largest group of products carried by the PKP CARGO Group in 9M 2015, with an 18% share in total freight turnover (21% in the corresponding period of 2014). The transportation of aggregates and construction materials in 9M 2015 (decrease by 6% yoy in terms of freight volume) was affected by the stagnation in infrastructural investment projects while waiting for the decisions on pending tenders and commencement of work on new infrastructural investment projects (in October 2015, GDDKiA announced tenders, opened the price proposals and signed contracts for the construction of about dozen sections of roads and highways, including A1, A2, A6, S1, S3, S6, S7, S8, S10, S11, S17). One should note that the year 2014 saw intensification of transport in connection with the need to urgently complete the investments from the EU framework for 2007-2013.

Products associated with the metallurgic industry, i.e. metals and iron ore, are another important market area serviced by the PKP CARGO Group. The share of this group of commodities in the PKP CARGO Group's freight turnover in 9M 2015 was 13% (unchanged compared to the corresponding period of 2014). No decrease in freight volume was recorded in this segment: transportation of metals was 16% yoy lower (limited transportation of metals imported from Ukraine as a result of the reallocation of some production processes to other countries, including Poland), with a simultaneous increase in the transportation of iron ores (by 18% yoy in terms of freight turnover and by 20% yoy in terms of freight volume). In Q3 2015, in connection with the restrictions introduced by PSE in the supply and consumption of electricity in Poland, freight volume in this segment fell by 4% and freight turnover by 7%.

During the 9 months of 2015, a 8% yoy decline in freight turnover in timber and agricultural produce was recorded, which was driven by lower volume of timber carried from Belarus (mainly due to high raw material prices). The upward trend, which began in Q2 2015, was maintained in Q3 2015; freight volume increased by 1% yoy while freight turnover by 9% yoy.

The PKP CARGO Group continues to lead the Polish market in intermodal transport, which is an important element of the Group's growth strategy. In 9M 2015, the transport of intermodal units increased in terms of container freight volume by 6% yoy, while freight turnover increased by 4% yoy. The increase in intermodal transport results from the acquisition of new clients and freight routes, which is closely associated with the development of this segment of the rail market. However the sanctions imposed on the Russian Federation have a direct impact on the lower number of containers with spare car parts and cars transported in transit through Poland. The HUB terminal located in Poznań Franowo is of fundamental importance for the expansion of the intermodal connection network (the construction of the terminal has started to increase its capacity by nearly 40%).

Table 11. Freight turnover of the PKP CARGO Group in 9M and Q3 2014 and 2015*

Item	9 months of 2015	9 months of 2014	Change	% change	9 months of 2015	9 months of 2014	Q3 2015	Q3 2014	% change
	(million tkm)			*%*	*percentage of total (%)*		*(million tkm)*		*%*
Solid fuels[1]	9,667	8,873	793	9%	45%	41%	3,515	3,094	14%
of which hard coal	8,758	7,819	938	12%	40%	37%	3,166	2,769	14%
Aggregates and construction materials[2]	4,005	4,533	-528	-12%	18%	21%	1,645	1,858	-11%
Metals and ores[3]	2,718	2,782	-64	-2%	13%	13%	871	940	-7%
Chemicals[4]	1,530	1,406	124	9%	7%	7%	500	528	-5%
Liquid fuels[5]	584	571	13	2%	3%	3%	238	230	4%
Timber and agricultural produce[6]	1,192	1,300	-108	-8%	5%	6%	402	370	9%
Intermodal transport	1,438	1,380	58	4%	7%	6%	523	464	13%
Other[7]	557	575	-18	-3%	3%	3%	208	192	8%
Total	**21,691**	**21,422**	**270**	**1%**	**100%**	**100%**	**7,903**	**7,675**	**3%**

* In connection with the acquisition of AWT, foreign transports started to be presented under own licenses and the data concerning freight turnover performed in Poland were unified with the data delivered to the Office of Rail Transport (freight turnover achieved in the area of infrastructure managers other than PLK was added), hence data for the first 9 months of 2014 have been updated

Source: Proprietary material

Table 12. Freight volume of the PKP CARGO Group in 9M and Q3 2014 and 2015

Item	9 months of 2015	9 months of 2014	Change	% change	9 months of 2015	9 months of 2014	Q3 2015	Q3 2014	% change
	(000s tons)			*%*	*percentage of total (%)*		*(000s tons)*		*%*
Solid fuels[1]	44,560	40,769	3,791	9%	53%	50%	17,077	14,953	14%
of which hard coal	40,664	37,122	3,542	10%	48%	46%	15,532	13,696	13%
Aggregates and construction materials[2]	14,890	15,878	-989	-6%	18%	20%	6,313	6,530	-3%
Metals and ores[3]	9,318	9,360	-42	0%	11%	12%	3,084	3,197	-4%
Chemicals[4]	4,417	4,470	-53	-1%	5%	6%	1,420	1,560	-9%
Liquid fuels[5]	2,131	1,933	198	10%	3%	2%	858	721	19%
Timber and agricultural produce[6]	3,426	3,522	-96	-3%	4%	4%	1,090	1,076	1%
Intermodal transport	3,623	3,422	201	6%	4%	4%	1,288	1,135	13%
Other[7]	1,516	1,559	-43	-3%	2%	2%	581	520	12%
Total	**83,882**	**80,914**	**2,967**	**4%**	**100%**	**100%**	**31,712**	**29,693**	**7%**

Source: Proprietary material

Table 13. Average haul of the PKP CARGO Group in 9M and Q3 2014 and 2015

Item	9 months of 2015	9 months of 2014	Change	% change	Q3 2015	Q3 2014	% change
	km			*%*	*km*		*%*
Solid fuels[1]	217	218	-1	0%	206	207	-1%
of which hard coal	215	211	5	2%	204	202	1%
Aggregates and construction materials[2]	269	286	-17	-6%	261	285	-8%
Metals and ores[3]	292	297	-6	-2%	282	294	-4%
Chemicals[4]	346	314	32	10%	352	338	4%
Liquid fuels[5]	274	296	-21	-7%	278	318	-13%
Timber and agricultural produce[6]	348	369	-21	-6%	368	344	7%
Intermodal transport	397	403	-6	-2%	406	409	-1%
Other[7]	368	369	-2	0%	358	370	-3%
Total	**259**	**265**	**-6**	**-2%**	**249**	**258**	**-4%**

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

Source: Proprietary material

From the point of view of the directions in which the PKP CARGO Group's transportation services were provided, the dominant share was transportation within Poland (96% of the realized freight turnover).

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:

- 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, Slovakia and Hungary;
- transshipment services – the PKP CARGO Group has developed its transshipment activity based on 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. In the Group, CARGOSPED 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.
- other 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 PS TRADE TRANS Sp. z o.o., CARGOSPED Sp. z o.o. and AWT Čechofracht, a.s.
- 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, to which all the material services provided by the Group are ascribed. The Group conducts its business activity within one main segment – domestic and international cargo freight and provision of comprehensive logistic services relating 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

Due to the consolidation, as of 28 May 2015, of the AWT Group companies, the following data include their employees: in terms of data presented only as at 30 June 2015 and 30 September 2015, as regards the average headcount data, the figures take into account only data from the acquisition date.

Information on changes in the headcount in the PKP CARGO Group in 9M 2015 and 2014 is provided below.

Table 14. Headcount in 9M and Q3 2015 in the PKP CARGO Group (active employees only)

Item	Headcount as at:			Change YTD	Change in Q3 2015
	30 September 2015*	30 June 2015**	31 December 2014		
Company	17,819	18,743	20,830	-3,011	-924
Subsidiaries	5,815	5,915	4,130	1,685	-100
Total	**23,634**	**24,658**	**24,960**	**-1,326**	**-1,024**

** including AWT Group's employees (2,132 persons)*
*** including AWT Group's employees (2,107 persons)*

Source: Proprietary material

Table 15. Headcount in 9M and Q3 2014 in the PKP CARGO Group (active employees only)

Item	Headcount as at:			Change YTD	Change in Q3 2014
	30 September 2014	30 June 2014	31 December 2013		
Company	21,870	22,046	22,480	-610	-176
Subsidiaries	4,220	4,216	4,073	147	4
Total	**26,090**	**26,262**	**26,553**	**-463**	**-172**

Source: Proprietary material

Table 16. Average headcount in 9M 2015 and 2014 in the PKP CARGO Group (active employees only)

Item	Average headcount in FTEs		Change	Average headcount in persons		Change
	9 months of 2015*	9 months of 2014		9 months of 2015*	9 months of 2014	
Company	18,655	22,135	-3,480	18,657	22,138	-3,481
Subsidiaries	5,922	4,183	1,739	5,951	4,211	1,740
Total	**24,577**	**26,318**	**-1,741**	**24,608**	**26,349**	**-1,741**

** Including AWT Group's employees in the period after the acquisition date of AWT B.V. (2,108 FTEs / 2,116 persons)*

Source: Proprietary material

Table 17. Change in the headcount structure in 9M and Q3 2015 in the PKP CARGO Group (active employees only)

Item	Headcount as at:			Change YTD	Change in Q3 2015
	30 September 2015*	30 June 2015**	31 December 2014		
White-collar positions	5,284	5,415	5,349	-65	-131
Blue-collar positions	18,350	19,243	19,611	-1,261	-893
Total	**23,634**	**24,658**	**24,960**	**-1,326**	**-1,024**

** including AWT Group's employees (2,132 persons)*
*** including AWT Group's employees (2,107 persons)*

Source: Proprietary material

Table 18. Change in the headcount structure in 9M and Q3 2014 in the PKP CARGO Group (active employees only)

Item	Headcount as at:			Change YTD	Change in Q3 2014
	30 September 2014	30 June 2014	31 December 2013		
White-collar positions	5,464	5,539	5,566	-102	-75
Blue-collar positions	20,626	20,723	20,987	-361	-97
Total	**26,090**	**26,262**	**26,553**	**-463**	**-172**

Source: Proprietary material

In 9M 2015, the average headcount in the PKP CARGO Group decreased (despite the acquisition of AWT) by 1,741 FTEs in comparison to 9M 2014, mainly as a result of the headcount optimization process in the form of Voluntary Redundancy Program ("VRP").

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

As a result of verification of applications for the second Voluntary Redundancy Program, 874 employees were given consent to take advantage of the Program. They stopped being employees of PKP CARGO S.A. as of 1 July 2015. The program was also implemented in PKP CARGOTABOR Sp. z o.o. As a result of verification of applications, 107 employees were given consent to leave as of 1 August 2015.

In addition, the Group's headcount was also decreased as a result of termination of employment contracts in connection with obtaining retirement rights.

4.5. PKP CARGO Group's investments

During the first 9 months of 2015, the Group incurred capital expenditures for the acquisition of property, plant and equipment and intangible assets in the form of purchases, modernizations and the so-called overhaul component (periodic repairs of the rolling stock) in the amount of PLN 347.9 million, which accounted for 83% of the actuals for the first 9 months of 2014.

The biggest part of capital expenditures in the Group was allocated for the execution of investment tasks associated with the rolling stock, mainly for periodic repairs of the rolling stock, modernization of locomotives (13 locomotives) and purchase of wagons (60 platform wagons for transport of containers) for a total amount of PLN 303.5 million. In addition, expenditures were incurred on computerization, i.e. purchases of computer hardware and intangible assets (software) in the amount of PLN 21.4 million, investment construction activity in the amount of PLN 12.0 million and purchases of other machinery and equipment for PLN 10.9 million.

A detailed schedule of capital expenditures in the first 9 months of 2015 and a comparison with the actuals from the first 9 months of 2014 is presented in the table below.

Table 19. Capital expenditures on property, plant and equipment and intangible assets in the PKP CARGO Group in 9M 2015 as compared to 9M 2014 (thousands of PLN)

Item	9 months of 2015	9 months of 2014	Change	Change %
Investment construction activity	11,982	8,349	3,633	44%
Modernization of locomotives	60,881	48,278	12,603	26%
Purchase of wagons	17,188	47,780	-30,592	-64%
Machinery and equipment	5,160	3,060	2,100	69%
ITC development	21,435	9,405	12,030	128%
Other	5,760	1,435	4,325	301%
Components in overhaul:	225,460	300,777	-75,317	-25%
Periodic repairs of locomotives	*128,941*	*88,416*	*40,525*	*46%*
Periodic repairs of wagons	*96,519*	*212,361*	*-115,842*	*-55%*
Total	**347,866**	**419,084**	**-71,218**	**-17%**

Source: Proprietary material

In addition to capital expenditures on property, plant and equipment and intangible assets, as part of capital investments in 9M 2015, PKP CARGO S.A.:

— acquired 640 shares in PS TRADE TRANS sp. z o.o., representing in total a 44.44% stake in this company's share capital, having incurred expenditures of PLN 40 million;

— acquired 490 shares in PKP CARGO International a.s. in liquidation, representing in total a 49% stake in this company's share capital, having incurred expenditures of PLN 1.6 million;

— acquired 60,000 shares in Advanced World Transport B.V., representing in total an 80% stake in this company's share capital, having incurred expenditures of PLN 427 million.

4.6. Key information and events

Table 20. Key information and events which occurred during the 9 months of 2015 and after the balance sheet date

Period	Event
January	• PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o., as employers, gave consent to 3,041 out of 3,300 interested employees from the PKP CARGO Group to take advantage of the Voluntary Redundancy Program. The final total amount of the resulting liabilities was PLN 266 million. This amount, as a provision for future liabilities under the Voluntary Redundancy Program, was reflected in the ledgers and charged to the consolidated result of the PKP CARGO Group for Q4 2014. The people who obtained the employers' consent stopped being employees of PKP CARGO Group as of 1 February 2015. Payment of severance pays under the Voluntary Redundancy Program: The first tranche in the amount of approx. PLN 227 million was paid out together with the salaries for January 2015 and the second tranche in the amount of approx. PLN 38 million will be paid out in January 2016. • PKP CARGO S.A. announced a tender for the purchase of 20 multi-system locomotives for cross-border connections, out of which 5 are optional. The total value of the order may amount to PLN 400 million. The hand-over of the first new locomotives for operation is planned for H2 2016. They will take trains to Germany, Czech Republic, Slovakia, Austria, Hungary and Netherlands. • PKP CARGO S.A. signed a railway infrastructure access agreement with PKP PLK S.A. The agreement is in effect from 14 December 2014 to 12 December 2015. The expected value of the Agreement during its term will total PLN 684,713,941 net (PLN 842,198,147 gross). • The Company submitted a notification of a collective dispute with a trade union organization - Federation of Trade Unions of Polish Rail Employees (FZZPPK), active in PKP CARGO S.A. Due to elapse of the deadline for acceptance of the demands (mainly of compensation nature) and presentation of the method of meeting them, the Company embarked on a collective dispute with FZZPPK, effective as of 13 January 2015. • PKP CARGO S.A. decided to expand the Poznań - Franowo terminal. The storage area will increase from the existing 1,280 TEUs to 1,760 TEUs. The expansion will be co-financed in 50% from EU funds. The total value of the investment project is PLN 5.8 million. Completion of the construction work is planned for November 2015. • A tax group under the name of PKP CARGO LOGISTICS – Tax Group ("Tax Group") started to operate in the Group. The agreement will be in effect for 3 years till 31 December 2017. The Tax Group comprises PKP CARGO S.A., as the representative company, CARGOSPED Sp. z o.o., PKP CARGO SERVICE Sp. z o.o., PKP CARGOTABOR Sp. z o.o. and CARGOTOR Sp. z o. o.
February	• PKP CARGO S.A. entered into a memorandum of agreement ending the collective dispute effective as of 30 October 2014. The memorandum of agreement envisages partial fulfilment of the postulates pertaining primarily to: a benefit paid on the occasion of the Railway Man Day, introduction of a benefit for change of the work schedule, increase of daily rates for purchase of supportive meals and regenerative meals, introduction of an allocation and incentive allowance, and organizational matters. • Receipt of a notice that as a result of a sale of the Company's shares in a block trade, the European Bank for Reconstruction and Development reduced its shareholding below 5% of the total number of votes at the PKP CARGO S.A. shareholder meeting ("SM"). Before the Transaction EBRD held 5.10% of the Company's share capital and was entitled to 5.10% of the total number of votes. • PKP CARGO S.A. and KGHM Polska Miedź S.A. entered into a preliminary agreement on potential acquisition, by PKP CARGO S.A., of 49% shares in Pol-Miedź Trans (PMT), which is currently wholly-owned by KGHM. • PKP CARGO S.A. received information from Mr. Zdeněk Bakala and The Bakala Trust on the fulfillment of one of the conditions precedent laid down in the agreement on acquisition, by PKP CARGO S.A., of 80% shares in the share capital of Advanced World Transport B.V. (AWT), involving convalidation of the transfer of the legal title to a collective share slip of AWT. • PKP CARGO S.A. signed a purchase agreement for 44.44% shares in PS Trade Trans Sp. z o.o. from Trade Trans Invest a.s. Currently PKP CARGO S.A. owns 100% shares in the company. • PKP CARGO S.A. signed an agreement for the acquisition of 49% of shares in PKP CARGO International a.s. in liquidation from Rail Cargo Spedition a.s. Currently, PKP CARGO S.A. holds 100% shares in the company.

	● PS Trade Trans Sp. z o.o. signed agreements for the sale of shares in Rail Cargo Spedition GmbH, Trade Trans Terminal SRL and Rail Cargo Service Sp. z o.o. Currently, PS Trade Trans Sp. z o.o. does not hold any shares in these companies.
March	● PKP CARGO S.A. received information from Mr. Zdeněk Bakala and The Bakala Trust on the fulfillment of the second condition precedent laid down in the agreement on acquisition, by PKP CARGO S.A., of 80% shares in the share capital of Advanced World Transport B.V. (AWT), involving the obtaining of confirmation by some AWT group companies from banks and other financial institutions funding the AWT Group's activities that the transaction will not constitute a breach of the agreements with these institutions. ● PKP CARGO S.A. signed a strategic cooperation agreement with HŽ Cargo, a Croatian national rail freight carrier. Both companies will cooperate in providing services to their existing customers, transporting goods in the North-South corridor and will prepare a joint logistic offering for prospective new customers. ● PKP CARGO S.A. signed agreements with three leaders of the Polish industries using wood – International Paper Kwidzyn, Kronospan Szczecinek and Mondi Świecie. These are agreements for the transportation of, among others, timber, wooden products and wood chips. The total volume of the goods transported by PKP CARGO S.A. over two years will exceed 5 million tons, out of which 65% will be the transportation of timber.
April	● The Annual Shareholder Meeting (ASM) adopted a resolution on distributing the profit earned in 2014 – the ASM resolved to earmark the net profit of PLN 58,610,399.18 for: 1. payment of dividend in the amount of PLN 53,921,567.25; 2. supplementary capital in the amount of PLN 4,688,831.93. Additionally, the ASM resolved to earmark for dividend the amount of PLN 56,254,248.57 from retained earnings. At the same time, the Company's ASM set 15 June 2015 as the dividend record date and 26 June 2015 as the dividend payment date. The total value of the dividend is PLN 110,175,815.82, i.e. PLN 2.46 per share. The dividend applies to all 44,786,917 shares of the Company. The contents of the ASM resolution were consistent with the Company's Management Board recommendation regarding distribution of the profit earned in 2014. As for allocation of the additional amount for dividend from retained earnings, the Management Board recommended the amount of PLN 56,078,432.75. ● The President of the Office of Rail Transport issued to PKP CARGO S.A. for 5 years safety certificate part B no. PL 1220150006 valid from 23 April 2015, being an extension of safety certificate part B no. PL 1220100001 dated 22 April 2010. The safety certificate confirms acceptance of the regulations adopted by the rail company to satisfy the national requirements regarding security of transport in a given network, in accordance with Directive 2004/49/EC and pertinent national regulations. ● Commencement of the consolidation process of freight forwarding activity in the Group. Freight forwarding services provided by PKP CARGO S.A. are currently spread between three companies: Trade Trans, CARGOSPED and PKP CARGO S.A. itself. The objective of the process is to harmonize the provision of services primarily from the customer's perspective. ● The Extraordinary Shareholder Meeting adopted changes in PKP CARGO S.A.'s Articles of Association; the Supervisory Board adopted the consolidated version of the Company's Articles of Association. ● PKP CARGOTABOR USŁUGI Sp. z o.o. suspended business activity for 9 months, i.e. until the end of 2015 (if necessary, this activity may be resumed earlier by the company – before the elapse of 9 months). ● The President of the Office of Rail Transport (UTK) issued a security authorization for railway infrastructure manager to CARGOTOR Sp. z o.o., a PKP CARGO Group company. This constitutes confirmation that this company ensures safe conduct of railway traffic and railway infrastructure access to rail operators.
May	● On 10 May 2015, the Management Board of PKP CARGO S.A. adopted a resolution to continue the optimization of headcount in the Company through the implementation of the Voluntary Redundancy Program. The anticipated value of liabilities arising from the implemented Program has been estimated at approx. PLN 20 million. This amount of liabilities is based on the assumption that approx. 250 employees will take advantage of the Voluntary Redundancy Program. A condition for an employee's eligibility for the Voluntary Redundancy Program is to obtain the employer's consent. ● The PKP CARGO S.A. Management Board reported that the last condition precedent has been fulfilled, i.e. that the Company has obtained, from the relevant antitrust authorities, approval of the concentration between the Company and AWT as laid down in the agreement for the Company's acquisition of a 80% stake in AWT's share capital. The transfer of legal title to shares in AWT's share capital will take place under a Dutch notarial deed in return for the Company's payment of the purchase price.

- PKP CARGO S.A. won a tender for the transportation of coal for PLN 62.5 million and will continue to deliver coal from Bogdanka in Lublin and from the Silesian mines to ENEA Wytwarzanie's Kozienice Power Plant. The new contract will be in force for 12 months starting in July 2015. The total volume of fuel to be transported under this agreement will be in excess of 5 million tons.

- In the performance of a share purchase agreement entered into on 30 December 2014, PKP CARGO S.A. acquired 60,000 shares in AWT's share capital with a par value of EUR 1 each, representing 80% of AWT's total share capital and carrying the right to exercise 80% of the total number of votes at AWT's shareholder meeting, following the Company's execution of an agreement transferring ownership of the shares to the Company and the Company's payment of EUR 103,200 thousand (PLN 427,300 thousand).

June

- The final value of liabilities following from running the Voluntary Redundancy Program is PLN 63.9 million. 1,193 employees in the Company in total filed applications to enroll in the Voluntary Redundancy Program. Considering the need to preserve continuity in running processes and the economic conditions, 319 interested employees did not receive consent to take advantage of this Program. The 874 employees in the Company who received their employers' consent to enroll in the Voluntary Redundancy Program ceased to be employed by the Company starting on 1 July 2015. Severance payments in the Voluntary Redundancy Program will be made in two tranches: The first tranche in the amount of approx. PLN 54.5 million was paid out with the salaries for June 2015; the second tranche in the amount of approx. PLN 9.5 million will be paid out in February 2016. The liability of PLN 63.9 million under the Voluntary Redundancy Program was recognized in the Company's financial result for Q2 2015.

- Execution by PKP CARGO S.A. of an annex to the Overdraft Facility Agreement with mBank S.A. changing the repayment date to 31 May 2017.

- PKP CARGO S.A. concluded a letter of intent for cooperation with Zhengzhou International Hub Development and Construction Co., Ltd. in which the Parties declared that they would establish an international logistics operator dedicated to supporting container transport to/from China from/to Western Europe through Małaszewicze. The Parties will pursue the objective of taking joint actions towards further development and increase in efficiency of a whole-train rail link between the Zhengzhou province in China and the Western Europe, consolidation of trade relations between China and Poland and development of strategic cooperation in the field of transshipment activity in the Małaszewicze container terminal.

- PKP CARGO S.A. signed a three-year agreement with Veolia in Poland to transport 4.25 million tons of hard coal. This contract will be performed in 2016-2018. This contract chiefly anticipates coal supplies from Silesian mines to central and western Poland.

- SAWT a.s., AWT B.V., AWT Rekultivace a.s. and AWT Coal Logistics s.r.o. as borrowers signed an annex to the Consortium Credit Facility Agreement. The consortium's members are as follows: ING Bank N.V. and UniCredit Bank Czech Republic and Slovakia, a.s. as lenders. According to the executed Annex, the term of validity of the line of credit and the lines for bank guarantees and letters of credit is extended for one year, until September 2016 for the line of credit and the usage of new guarantees and until September 2017 for bank guarantees and letters of credit. As of the date of signing the Annex (25 June 2015), the outstanding amount to be repaid under this facility is roughly EUR 27 million.

- In PKP CARGOTABOR Sp. z o.o., a workforce optimization project has been implemented in the form of the Voluntary Redundancy Program. As a result of verification of applications, 107 employees were given consent to leave as of 1 August 2015. The provision for liabilities under the implementation of the program amounting to PLN 6.3 million was recognized in the Company's financial result and consequently also the Group's consolidated result for Q2 2015.

July

- Signing of a letter of intent between PKP CARGO S.A. and Greenbrier Europe Wagony Świdnica on launching the production of wagons in Szczecin. Under this cooperation Greenbrier will furnish the indispensable documentation, technology, quality control standards and the production line equipment. PKP CARGOTABOR Sp. z o.o. (a company belonging to the PKP CARGO Group) will be charged among others with providing qualified production and administrative staff and workshops.

- On 8 July 2015 the Company filed a notification with the State Labor Inspection Service on the emergence of a collective dispute with the trade union organizations operating in the Company. By letter dated 2 July 2015, four trade union organizations operating in the Company requested the implementation of their demands pertaining to increases in employee compensation, setting a five-day time limit, expiring on 7 July 2015, for such implementation. The demands put forward by the trade unions in their letter of 2 July 2015 concern the following issues:
  1. Implementing a wage increase as of 1 July 2015 in base salary in the amount of PLN 250 for all employees paid in accordance with the Collective Bargaining Agreement ("CBA") for persons employed in PKP CARGO as of 1 July 2015;
  2. Implementing a change in the base for the ratio in Q4 2014 for PKP CARGO S.A.'s employees paid on a ratio basis according to the Management Board's Resolution,
  where the consequence of the refusal to fulfill these demands will be entry into a collective dispute in respect of each one of the postulates described above. According to the Company's estimates, the annual cost of fulfillment of the demands put forward by the trade union organizations would amount to approx. PLN 120 million. The PKP CARGO S.A. Management Board, in its letter dated 7 July 2015, refused to fulfill the demands formulated by the trade unions in their letter of 2 July

2015, as a result of which a collective dispute emerged with effect from 2 July 2015. The Management Board refused to accept the demands put forward by the social side during the mediation held on 30 July 2015. A consequence of the failure to reach an agreement was to complete the mediation within the framework of a collective dispute by preparing a discrepancy report, which took place on 30 July 2015. The completion of the mediation stage entitles the trade unions to take strike action.

- On 29 July 2015, the Company's Management Board adopted a resolution to increase employee salaries as of 1 July 2015: (i) for employees remunerated under the Company Collective Bargaining Agreement, the gross base salary is to increase by PLN 110, (ii) for employees remunerated on the basis of coefficients, the net salary is to increase by PLN 110. The Management Board will request the Supervisory Board for consent to raise the salaries. According to the Company's estimates, the cost of such a raise, including associated payments, is approx. PLN 50 million per full calendar year.

- PKP CARGO S.A. commenced an expansion of the container terminal in Poznań Franowo. After completing this work, its capacity will be enhanced by nearly 40%. This investment is slated for completion in December 2015. In the future this terminal will form part of the Logistics Center in Poznań, which renders comprehensive logistics services. As a result of this expansion, the terminal in Poznań Franowo will obtain a new maneuvering plaza and storage yard with an area of 8.2 thousand square meters, while this facility's storage capacity in Franowo will grow from its current 1,280 TEUs to nearly 1,800 TEUs. The expansion will be co-financed in 50% from EU funds. The total net value of the investment is PLN 6.8 million.

- The Extraordinary Shareholder Meeting of PKP CARGO International a.s. w likwidacji divided the company's liquidation assets. Cash from liquidation assets was paid to the sole shareholder, PKP CARGO S.A., on 5 August 2015. Completion of the PKP CARGO International a.s. liquidation process is conditional upon obtaining consents of relevant administrative bodies with geographic jurisdiction over the company.

- The PKP CARGO S.A. Supervisory Board expressed its consent for the sale of additional part of the rolling stock.

August

- The Extraordinary Shareholder Meeting of AWT Rail PL sp. z o.o. adopted a resolution to dissolve AWT Rail PL, open its liquidation as of 7 August 2015 and appoint the liquidators. A petition for the opening of the liquidation proceedings was filed with the court of registration in Gliwice.

- In a resolution adopted on 10 August 2015, the Company's Supervisory Board issued a positive opinion on the resolution adopted by the Management Board of PKP CARGO S.A. on 29 July 2015 providing for salary increases for employees working for employers operating in the Company in the following amounts: (i) PLN 110 gross for employees remunerated under the Company Collective Bargaining Agreement, (ii) PLN 110 net for employees remunerated on the basis of coefficients, with the change in salaries due to take effect as of 1 July 2015.

September

- Signing on 23 September 2015, with the Consortium composed of Siemens Sp. z o.o. in Warsaw as the Consortium leader and Siemens A.G. in Munich as a Consortium member, an agreement for delivery of 15 multi-system locomotives in three batches from 31 January 2016 to 30 June 2017 (the 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 (the optional order).
  The net value of the agreement will not exceed EUR 75 million under the basic order (15 locomotives) and PLN 26 million under the optional order (5 locomotives), however for deliveries and maintenance services under the optional order a one-time price restatement mechanism was introduced with a specified negative and positive rate, which will not exceed +/-2% of the initial prices.

- Approval by the PKP CARGO S.A. Supervisory Board of the "PKP CARGO Group's Strategy for 2016-2020". The Strategy assumed that by 2020, PKP CARGO S.A. would become the leading logistics operator in Central and Eastern Europe. The planned outcome of its implementation is the growth of transport performed entirely beyond Poland from the current 2% to approx. 22% and almost doubling the intermodal transport, among others through increase of transport to and from China. Diversification of revenues should make the PKP CARGO Group more independent from transport of its basic cargo, i.e. coal and aggregates. The PKP CARGO Group will be expanding its rail transport in Central Europe using the assets of PKP CARGO as well as Czech Republic's AWT which was acquired in 2015. The main directions of expansion (organic and through acquisitions) will involve the services provided on North – South and East – West corridors. On the Baltic Sea – Adriatic Sea route, the Company intends to collaborate with Croatia's HŽ Cargo. On the other hand, through collaboration with a subsidiary company Pol-Rail (joint-venture with Italian national carrier Trenitalia), we are planning to increase PKP CARGO Group's presence on the Apennine Peninsula.

- Signing by the Management Boards of the companies: PS TRADE TRANS sp. z o.o. (as the Acquiring Company) and CARGOSPED sp. z o.o. (as the Acquired Company) of the "Merger Plan for equity companies: Przedsiębiorstwo Spedycyjne TRADE TRANS sp. z o.o. and CARGOSPED sp. z o.o.". That plan was submitted to the relevant court of registration.

- On 16 September 2015 the Meeting of Shareholders representing Class B shares of AWT B.V. was held and adopted a resolution on the approval to sell, in order to liquidate, 100% of the shares held in the company as XZD a.s. with its registered offices in Kosice (Slovakia), by the company AWT Čechofracht a.s. - a wholly owned subsidiary of AWT B.V., to the law firm Ecker Khan for the amount of € 1.

	• PKP CARGO S.A. began the consolidation of part of the sales services in a single company – PKP CARGO CONNECT. Its line of business will include sales of PKP CARGO S.A.'s comprehensive logistical services in Poland and on international markets. That company will be responsible for commercial and freight forwarding services of the PKP CARGO Group. It will combine the services provided to international clients with a comprehensive logistical offer based on PKP CARGO Group's assets (sidings, terminals, know-how related to freight forwarding, intermodal logistics and customs administration). PKP CARGO CONNECT will be also responsible for the terminal business and will offer cargo transshipment and storage services. • End of ban on disposing employee shares (lock-up) – pursuant to §6 sec. 5 of the Company's Articles of Association, employee shares were subject to a lock-up for two years from the floating date on the Warsaw Stock Exchange, i.e. until 30 October 2015. • Registering changes to PKP CARGO S.A.'s Articles of Association concerning, among other things, defining the authorities of supervisory board members, in particular those elected by employees, and management board members (they may not discharge an elected function or sit in the bodies of a company, inter-company or national trade union organization, a federation of trade unions or a confederation of trade unions). • Approval by the President of Office of Rail Transport of the new price list of PKP PLK S.A. As of 13 December 2015 (i.e. as of the new schedule), the unit rates of the basic charge and certain unit rates of the basic charge for access to the train control devices on the rail network administrated by PKP PLK S.A. will increase. In addition, as of the new schedule, PKP PLK S.A. will introduce, as part of separate regulations (which are not subject to the Rail Transport Act of 28 March 2003), the new type of broad-gauge (1520 mm) rail infrastructure access charges. • The Company's Management Board received a letter from the National Protest and Strike Committee active in PKP CARGO S.A. ("KKPS") in which KKPS announced a decision to carry out, on 9 November 2015, a rolling general strike in the Company.
October	
November	• AWT Čechofracht a.s. - a wholly owned subsidiary of AWT B.V., signed the agreement for the sale of 80% of the shares held in XZD a.s. • The Management Board of Krajowy Depozyt Papierów Wartościowych S.A. (National Securities Depository, "KDPW") adopted a resolution on conversion of the Company's series C registered shares to bearer shares. • The Company's Management Board received a resolution adopted by the Management Board of Giełda Papierów Wartościowych S.A. (Warsaw Stock Exchange, "GPW") to admit the Company's series C ordinary bearer shares and introduce them into stock exchange trading on GPW's Main Market. • On 6 November 2015, the Management Board of KDPW decided to assimilate 1,448,902 Company's shares designated by code PLPKPCR00045 with 43,338,015 Company's shares designated by code PLPKPCR00011. The Management Board of KDPW asserts that as at 6 November 2015, 44,786,917 of the Company's shares have been designated by code PLPKPCR00011. Accordingly, the condition for introducing the Company's series C shares into stock exchange trading has been fulfilled. • The Extraordinary Shareholder Meeting of CARGOSPED sp. z o.o. and the Extraordinary Shareholder Meeting of PKP CARGO CONNECT sp. z o.o. gave consent and adopted a resolution to merge CARGOSPED sp. z o.o. (as the Acquired Company) with PKP CARGO CONNECT sp. z o.o. (as the Acquiring Company). In connection with the adopted resolutions on the merger and share capital increase in PKP CARGO CONNECT sp. z o.o., PKP CARGO S.A. subscribed to all the shares in the increased share capital of PKP CARGO CONNECT sp. z o.o. in exchange for the shares held by PKP CARGO S.A. in CARGOSPED sp. z o.o. • The Company and the employers acting on the Company's behalf filed a claim to rule non-existence of collective disputes in the Company's individual plants and on the level of the entire Company. The above claims were filed because, in the opinion of the Company's Management Board, the manner in which the collective dispute was conducted by the trade union organizations active in the Company was unlawful. These statements of claim comprise also petitions for injunctive relief in the form of prohibiting an industrial action until the claims of the statements of claim are resolved. • KKPS informed the Management Board of suspending until 9 December 2015 start of a general strike in the Company. KKPS reserved the right to take immediate strike action in individual plants of the Company before 9 December 2015 in the event the employer takes restructuring actions or makes decisions about the allocation of employees. • On 11 November 2015, PKP CARGO S.A. has concluded an agreement to acquire from PKP Informatyka Sp. z o.o. organized part of the enterprise for a net amount of PLN 21.1 million.

Source: Proprietary material

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

5.1. Basic economic and financial figures

5.1.1. Statement of comprehensive income

In connection with the acquisition of an 80% stake in AWT B.V., the figures include AWT's financial data for the period from the acquisition date. AWT revenue generated in this period amounted PLN 283.7 million. AWT Group has achieved in the same period net profit of PLN 14 million. Analysis of basic economic and financial figures of the PKP CARGO Group presented in this chapter takes into account a presentation adjustment of data in 9M 2015. The presentation data adjusted for the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million. This amount was captured in the costs of employee benefits. The adjustments were made also in other operating revenue after recognition of the profit from bargain purchase of AWT. The profit on this transaction amounted to PLN 137.8 million.

In 9M 2015, the PKP CARGO Group transported 83.9 million tons of cargo (i.e. 4% more than in 9M 2014) and recorded freight turnover of 21.7 billion tkm (i.e. 1% more than in 9M 2014), which is described in detail in the chapter entitled "PKP CARGO Group's rail transport".

In 9M 2015, the Group's operating revenues increased by 3.2% yoy and operating expenses by 4.5% yoy. In 9M 2015, the Group generated profit on operating activities and net profit in the amount of PLN 251.2 million and PLN 220.5 million, respectively. The Group's adjusted operating revenues, in turn, dropped 1.2% yoy and operating expenses increased by 2.1% yoy. The Group's adjusted results are: profit on operating activities in the amount of PLN 183.6 million and net profit in the amount of PLN 139.6 million. In Q3 2015 alone, operating revenues increased by 12.9% compared to Q3 2014. At the same time, operating expenses increased in Q3 2015 by 17.0% yoy. The changes resulted mainly from the consolidation of AWT.

The details of individual line items of the Statement of comprehensive income are presented in the further part of this section. The table below presents the results of the PKP CARGO Group in 9M 2015 as compared to the corresponding period of 2014.

Table 21. Results of the PKP CARGO Group in 9M and Q3 2015 compared to 2014 (thousands of PLN)

No.	Item	9 months of 2015	9 months of 2014	9 months of 2015 Adjusted*	Change 2015-2014 Adjusted*	Change rate 2015/2014 Adjusted*	Q3 2015	Q3 2014	Change rate Q3 2015/Q3 2014
1	Total operating revenue	3,269,432	3,168,880	3,131,653	-37,227	-1.2%	1,206,865	1,069,052	12.9%
2	Total operating expenses	3,018,232	2,887,121	2,948,053	60,932	2.1%	1,118,752	956,244	17.0%
3	**Profit on operating activities**	**251,200**	**281,759**	**183,600**	**-98,159**	**-34.8%**	**88,113**	**112,808**	**-21.9%**
4	Financial revenue	9,455	28,920	9,455	-19,465	-67.3%	79	17,312	-99.5%
5	Financial expenses	28,088	25,074	28,088	3,014	12.0%	11,530	8,597	34.1%
6	Share in the profit of equity accounted entities	3,572	-34	3,572	3,606	-	90	400	-77.5%
7	Result on the sale of shares in entities accounted for under the equity method	1,865	-	1,865	-	-	-	-	-
8	**Profit before tax**	**238,004**	**285,571**	**170,404**	**-115,167**	**-40.3%**	**76,752**	**121,923**	**-37.0%**
9	Income tax	17,504	58,183	30,838	-27,345	-47.0%	12,337	22,684	-45.6%
10	**NET PROFIT**	**220,500**	**227,388**	**139,566**	**-87,822**	**-38.6%**	**64,415**	**99,239**	**-35.1%**

* The data for 9 months of 2015 were adjusted for presentation purposes for the profit on bargain purchase of AWT in the amount of PLN 137.8 million and the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million.

Source: Condensed quarterly consolidated financial statements of the PKP CARGO Group for the period of 9 months ended 30 September 2015 prepared according to EU IFRS

Operating revenue

Table 22. Operating revenues of the PKP CARGO Group in 9M and Q3 2015 compared to 2014 (thousands of PLN)

No.	Item	9 months of 2015	9 months of 2014	9 months of 2015 Adjusted*	Change 2015-2014 Adjusted*	Change rate 2015/2014 Adjusted*	Q3 2015	Q3 2014	Change rate Q3 2015/Q3 2014
1	Revenue from sales of services and finished products, including:	3,083,886	3,100,448	3,083,886	-16,562	-0.5%	1,187,347	1,047,122	13.4%
1.1	*Revenue from rail transportation and freight forwarding services*	*2,703,482*	*2,829,093*	*2,703,482*	-125,611	-4.4%	*1,005,852*	*954,561*	5.4%
2	Revenue from sales of goods and materials	25,512	39,617	25,512	-14,105	-35.6%	7,837	15,962	-50.9%
3	Other operating revenue	160,034	28,815	22,255	-6,560	-22.8%	11,681	5,968	95.7%
4	**Total operating revenue**	**3,269,432**	**3,168,880**	**3,131,653**	**-37,227**	**-1.2%**	**1,206,865**	**1,069,052**	**12.9%**

* The 9M 2015 data were adjusted for presentation purposes for the effect of the bargain acquisition of AWT in the amount of PLN 137.8 million

Source: Condensed quarterly consolidated financial statements of the PKP CARGO Group for the period of 9 months ended 30 September 2015 prepared according to EU IFRS

In the Group's total operating revenue the biggest item was revenue from sales of services and finished products (94.3% in 9M 2015 compared to 97.8% in 9M 2014). Revenue from sales of services comprises mainly: transport revenue, revenue from freight forwarding, revenue from siding and traction services, land reclamation services and revenue from the lease of rolling stock. The remaining part of operating revenue of the PKP CARGO Group comprises revenue from sales of goods and materials, which comprises, among others, sales of steel and cast iron scrap, as well as other operating revenue comprising, among others, sales of fixed assets, change of the balance of receivables impairment losses and interest on receivables, and change of the balance of provisions for liabilities. In Q3 2015, operating revenues were PLN 1,207 million, increasing by 12.9% compared to the corresponding period of 2014. Revenue from sales of services and finished products increased by 13.4% compared to Q3 2014.

The decrease in revenue on rail transportation and freight forwarding services in 9M 2015 was driven mainly by the strong price pressure on transportation services (section PKP CARGO Group's railway transport).

The increase in revenue from rail transportation and freight forwarding services in Q3 2015 by 5.4% yoy resulted mainly from the consolidation of AWT.

The decrease in revenue from sales of goods and materials in Q3 2015 by 50.9% yoy was caused mainly by temporary restrictions in liquidation of redundant rolling stock and resulting lower revenue from sales of scrap.

Operating expenses

Table 23. Operating expenses of the PKP CARGO Group in 9M and Q3 2015 compared to 2014 (thousands of PLN)

No.	Item	9 months of 2015	9 months of 2014	9 months of 2015 Adjusted*	Change 2015-2014 Adjusted*	Change rate 2015/2014 Adjusted*	Q3 2015	Q3 2014	Change rate Q3 2015/Q3 2014
1	Depreciation/ amortization and impairment losses	318,619	272,059	318,619	46,560	17.1%	120,311	90,520	32.9%
2	Consumption of materials and energy	496,592	468,096	496,592	28,496	6.1%	184,162	154,290	19.4%
3	External services	1,019,421	966,097	1,019,421	53,324	5.5%	408,562	328,123	24.5%
4	Taxes and charges	28,463	30,703	28,463	-2,240	-7.3%	10,855	10,370	4.7%
5	Employee benefits	1,089,530	1,072,970	1,019,351	-53,619	-5.0%	371,129	348,172	6.6%
6	Other expenses by kind	32,016	29,356	32,016	2,660	9.1%	13,386	7,438	80.0%
7	Cost of goods and materials sold	19,092	26,640	19,092	-7,548	-28.3%	6,697	10,774	-37.8%
8	Other operating expenses	14,499	21,200	14,499	-6,701	-31.6%	3,650	6,557	-44.3%
9	**Total operating expenses**	**3,018,232**	**2,887,121**	**2,948,053**	**60,932**	**2.1%**	**1,118,752**	**956,244**	**17.0%**

* Presentation data for 9 months of 2015 adjusted for the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million.

Source: Condensed quarterly consolidated financial statements of the PKP CARGO Group for the period of 9 months ended 30 September 2015 prepared according to EU IFRS

In 9M 2015, the adjusted operating expenses increased by PLN 60.9 million, or 2.1% yoy, up to PLN 2.9 billion. The growth was driven mainly by higher amortization/depreciation costs (with impairment losses), which increased by PLN 46.6 million following the increase in property, plant and equipment associated with the acquisition of AWT and capital expenditures (especially periodic repairs of the rolling stock).

Moreover, external services grew by 5.5% yoy up to PLN 1 billion. This growth was driven mainly by the increase in rent and charges for the use of property and rolling stock and the cost of transportation services. Additionally, the consumption cost of materials and energy increased by PLN 28.5 million. These increases were related directly to the purchase of shares in AWT.

The period of 9M 2015 saw a significant decrease of adjusted costs of employee benefits, which reached the level of PLN 1.0 billion compared to PLN 1.1 billion in the corresponding period of 2014, dropping by 5.0% yoy. This resulted from the implementation of the headcount optimization model in the form of the Voluntary Redundancy Program and termination of employment contracts in connection with obtaining retirement rights. Consequently, the average headcount in 9M 2015 decreased by 1,741 FTEs yoy (taking into account the AWT employees in the period starting in June 2015). Changes of headcount are presented in section "Headcount".

In 9M 2015 the value of goods and materials sold decreased by PLN 7.5 million, i.e. 28.3% to PLN 19.1 million, following the decrease of revenue from sales of scrap.

Other operating expenses in 9M 2015 fell by PLN 6.7 million, i.e. 31.6% yoy to PLN 14.5 million, chiefly on account of the lower expenses to decommission non-current and current assets (decline of PLN 4.2 million yoy) and impairment losses for receivables (decline of PLN 1.7 million yoy) while at the same time expenses rose on account of foreign exchange translation losses by PLN 1.2 million.

When the Group's expenses incurred in Q3 2015 are compared with the expenses incurred in Q3 2014, an increase can be observed in almost all expense items. This was a direct consequence of the purchase of shares in AWT by PKP CARGO S.A. in May 2015.

Profit on operating activities

As a result of the aforementioned changes of operating revenue and operating expenses, adjusted profit on operating activities in 9M 2015 reached PLN 184 million.

EBITDA

The adjusted result on operating activities increased by the line item "Amortization/depreciation and impairment losses" referred to as EBITDA, amounted to PLN 502 million in 9M 2015.

Financial activities

Table 24. Financial activities of the PKP CARGO Group in 9M and Q3 2015 compared to 2014 (thousands of PLN)

No.	Item	9 months of 2015	9 months of 2014	Change 2015-2014	Change rate 2015/2014	Q3 2015	Q3 2014	Change rate Q3 2015/Q3 2014
1	Financial revenue	9,455	28,920	-19,465	-67.3%	79	17,312	-99.5%
2	Financial expenses	28,088	25,074	3,014	12.0%	11,530	8,597	34.1%
3	Share in the profit of equity accounted entities	3,572	-34	3,606	-	90	400	-77.5%
4	Result on the sale of shares in entities accounted for under the equity method	1,865	-	1,865	-	-	-	-
5	**Result on financial activities**	**-13,196**	**3,812**	**-17,008**	**-446.2%**	**-11,361**	**9,115**	**-224.6%**

Source: Condensed quarterly consolidated financial statements of the PKP CARGO Group for the period of 9 months ended 30 September 2015 prepared according to EU IFRS

In 9M 2015, the PKP CARGO Group recorded a loss on financial activities in the amount of PLN 13.2 million, compared to a profit on financial activities of PLN 3.8 million earned in the corresponding period of the previous year. The negative result on financial activities was a decline in interest income by PLN 23.5 million yoy (-83.9% yoy).

In Q3 2015, the PKP CARGO Group recorded a loss on financial activities in the amount of PLN 11.4 million as its interest income fell by PLN 16.6 million.

Details are presented in the note 8 to the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group.

Profit before tax

In 9M 2015, adjusted profit before tax decreased by PLN 115 million or 40.3% yoy to PLN 170 million. This decrease resulted from the lower adjusted profit on operating activities.

Income tax

In 9M 2015, the PKP CARGO Group reported income tax in the amount of PLN 17.5 million, of which current tax was PLN 2.7 million and deferred tax was PLN 14.8 million.

Net profit

In 9M 2015, the PKP CARGO Group generated net profit of PLN 220.5 million while adjusted net profit was PLN 139.6 million compared to PLN 227.4 million in the corresponding period of the previous year.

5.1.2. Description of the asset and liability structure

ASSETS

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

	As at 30/09/2015 (unaudited)	As at 31/12/2014 (audited)	Asset structure 30/09/2015	Asset structure 31/12/2014	Change	
ASSETS						
Non-current assets						
Property, plant and equipment	4,857,646	4,011,542	78.3%	71.1%	846,104	21.1%
Intangible assets	67,519	58,268	1.1%	1.0%	9,251	15.9%
Goodwill	2,712	2,712	0.0%	0.0%	-	0.0%
Investment property	1,323	1,362	0.0%	0.0%	-39	-2.9%
Investments accounted for under the equity method	38,952	35,246	0.6%	0.6%	3,706	10.5%
Other long-term receivables	4,962	-	0.1%	-	4,962	-
Other long-term financial assets	9,797	6,051	0.2%	0.1%	3,746	61.9%
Other long-term non-financial assets	21,158	14,645	0.3%	0.3%	6,513	44.5%
Deferred tax assets	58,927	88,273	1.0%	1.6%	-29,346	-33.2%
Total non-current assets	**5,062,996**	**4,218,099**	**81.6%**	**74.7%**	**844,897**	**20.0%**
Current assets						
Inventories	131,838	115,298	2.1%	2.1%	16,540	14.3%
Trade and other receivables	748,740	526,149	12.1%	9.3%	222,591	42.3%
Income tax receivables	3,806	3,053	0.1%	0.1%	753	24.6%
Other short-term financial assets	6,545	306,383	0.1%	5.4%	-299,838	-97.9%
Other short-term non-financial assets	39,973	28,246	0.6%	0.5%	11,727	41.5%
Cash and cash equivalents	144,507	429,178	2.3%	7.6%	-284,671	-66.3%
Assets classified as held for sale	65,340	17,560	1.1%	0.3%	47,780	272.1%
Total current assets	**1,140,749**	**1,425,867**	**18.4%**	**25.3%**	**-285,118**	**-20.0%**
Total assets	**6,203,745**	**5,643,966**	**100.0%**	**100.0%**	**559,779**	**9.9%**

Source: Condensed quarterly consolidated financial statements of the PKP CARGO Group for the period of 9 months ended 30 September 2015 prepared according to EU IFRS

The main changes made to statement of financial position are related to the acquisition and consolidation of the AWT Group. The fair value on the date of acquisition to identify AWT's assets is PLN 1,164.7 million while the fair value on the date of acquisition of AWT's identifiable non-current and current liabilities is PLN 455.2 million. Accordingly, identifiable net assets were recognized at the level of PLN 709.5 million. The consequences of the acquisition are presented in note 4 to the Condensed Quarterly Consolidated Financial Statements.

Non-current assets

The biggest share in the asset structure was held by property, plant and equipment, which, as at the end of Q3 2015, amounted to 78.3% of total assets, compared to 71.1% at the end of 2014. Means of transport (PLN 3.9 billion) should be cited as belonging to the most important items shaping the level of property, plant and equipment. The growth in property, plant and equipment at the end of Q3 2015 by PLN 846.1 million is related to consolidating the AWT Group and executing capital expenditures (especially periodic repairs and maintenance of rolling stock).

Current assets

Current assets dropped at the end of Q3 2015 by nearly PLN 285.1 million, i.e. by 20.0%, in relation to the end of 2014, mainly as a result of lower other short-term financial assets by 97.9% and cash and cash equivalents by 66.3% - this was directly related to the acquisition of an 80% stake in the AWT Group and performance of the obligations following from the Voluntary Redundancy Program. The share of total current assets in total assets dropped from 25.3% as at 31 December 2014 to 18.4% as at 30 September 2015.

The biggest share in the structure of total current assets was held by trade and other receivables (65.6%), cash and cash equivalents (12.7%) and inventories (11.6%). The growth in the level of inventories and receivables at the end of Q3 2015 by PLN 16.5 million and PLN 222.6 million, respectively, resulted from the consolidation of AWT Group's assets.

LIABILITIES

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

	As at 30/09/2015 (unaudited)	As at 31/12/2014 (audited)	Structure of equity and liabilities 30/09/2015	Structure of equity and liabilities 31/12/2014	Change	
EQUITY AND LIABILITIES						
Equity						
Share capital	2,239,346	2,239,346	36.1%	39.7%	-	-
Supplementary capital	619,407	615,343	10.0%	10.9%	4,064	0.7%
Other items of equity	273	-51,687	0.0%	-0.9%	51,960	-
Exchange differences resulting from conversion of financial statements of foreign operations	23,689	-	0.4%	-	23,689	-
Retained earnings	657,430	527,670	10.6%	9.3%	129,760	24.6%
Equity attributable to the shareholders of the Parent Company	**3,540,145**	**3,330,672**	**57.1%**	**59.0%**	**209,473**	**6.3%**
Non-controlling interest	-	63,500	-	1.1%	-63,500	-
Total equity	**3,540,145**	**3,394,172**	**57.1%**	**60.1%**	**145,973**	**4.3%**
Non-current liabilities						
Long-term bank loans and credit facilities	463,166	208,077	7.5%	3.7%	255,089	122.6%
Long-term finance lease liabilities and leases with purchase option	212,530	190,836	3.4%	3.4%	21,694	11.4%
Long-term trade and other payables	36,367	67,982	0.6%	1.2%	-31,615	-46.5%
Long-term provisions for employee benefits	529,084	658,217	8.5%	11.7%	-129,133	-19.6%
Other long-term provisions	24,197	8,416	0.4%	0.1%	15,781	187.5%
Other long-term financial liabilities	148,994	-	2.4%	-	148,994	-
Deferred tax provision	115,834	2,328	1.9%	0.0%	113,506	4875.7%
Non-current liabilities, total	**1,530,172**	**1,135,856**	**24.7%**	**20.1%**	**394,316**	**34.7%**
Current liabilities						
Short-term bank loans and credit facilities	279,640	92,123	4.5%	1.6%	187,517	203.6%
Short-term finance lease liabilities and leases with purchase option	73,983	127,742	1.2%	2.3%	-53,759	-42.1%
Short-term trade and other payables	654,209	530,440	10.5%	9.4%	123,769	23.3%
Short-term provisions for employee benefits	100,837	334,844	1.6%	5.9%	-234,007	-69.9%
Other short-term provisions	18,652	24,214	0.3%	0.4%	-5,562	-23.0%
Other short-term financial liabilities	5,317	3,934	0.1%	0.1%	1,383	35.2%
Current tax liabilities	790	641	0.0%	0.0%	149	23.2%
Liabilities directly related to non-current assets classified as held for sale	-	-	-	-	-	-
Current liabilities, total	**1,133,428**	**1,113,938**	**18.2%**	**19.7%**	**19,490**	**1.7%**
Total liabilities	**2,663,600**	**2,249,794**	**42.9%**	**39.9%**	**413,806**	**18.4%**
Total liabilities and equity	**6,203,745**	**5,643,966**	**100.0%**	**100.0%**	**559,779**	**9.9%**

Source: Condensed quarterly consolidated financial statements of the PKP CARGO Group for the period of 9 months ended 30 September 2015 prepared according to EU IFRS

Equity

The share of equity in total assets as at 30 September 2015 was 57.1% compared to 60.1% at 31 December 2014. The decline in the percentage held by equity in total assets, despite nominal growth of PLN 146.0 million, is caused by the higher level of liabilities. On 5 February 2015, the Parent Company purchased from Trade Trans Invest a.s. 44.44% shares of PS Trade Trans Sp. z o.o. for PLN 40 million, and the amount of the difference between the price paid for the shares and the balance sheet value of the non-controlling interest (PLN 23.4 million) was captured in the Group's retained earnings.

Non-current liabilities

Non-current liabilities at the end of Q3 2015 rose by PLN 394.3 million, or 34.7%, compared to 31 December 2014. Long-term loans and credit facilities increased PLN 255.1 million (122.6%) – this is attributable to disbursement of individual tranches of the loan in Bank Gospodarstwa Krajowego ("BGK") and the loan from the European Investment Bank ("EIB") and also the consolidation of the AWT Group. Other long-term financial liabilities reached PLN 149.0 million, mainly as a result of recognition of the liability under the put option for AWT shares that do not give control - this item has been described in note 4 to the Condensed Quarterly Consolidated Financial Statements. At the same time, a decrease of long-term provisions for employee benefits by PLN 129.1 million was recorded, primarily as a result of updating the actuarial provision and using the provision for Voluntary Redundancy Program I.

Current liabilities

Current liabilities rose at the end of Q3 2015 compared to the end of 2014 by PLN 19.5 million (i.e. 1.7%). The largest movements were recorded in the following line items:

- short-term provisions for employee benefits – down by PLN 234.0 million. This was directly related to the disbursement of benefits under the Voluntary Redundancy Program;
- short-term trade and other payables - growth of PLN 123.8 million. This followed chiefly from the liability for the Voluntary Redundancy Program and consolidating the AWT Group;

5.1.3. Cash flow statement

The table below depicts the main line items in the PKP CARGO Group's cash flow statement in 9M 2015 compared to 9M 2014.

Table 27. Main line items in the PKP CARGO Group's cash flow statement in 9M 2015 compared to 9M 2014.

Item	9 months of 2015	9 months of 2014	Change 2015 - 2014	Change 2015/2014
Net cash on operating activities	83,469	359,101	-275,632	-76.8%
Net cash (used) / generated in connection with investing activities	-408,760	-102,204	-306,556	300.0%
Net cash used in financing activities	38,717	-171,259	209,976	-122.6%
Net increase / (decrease) in cash and cash equivalents	**-286,574**	**85,638**	**-372,212**	**-434.6%**
Cash and cash equivalents at the beginning of the reporting period	**429,178**	**263,700**	**165,478**	**62.8%**
Impact exerted by FX rate movements on the cash balance in foreign currencies	1,903	-	1,903	-
Cash and cash equivalents at the end of the reporting period	**144,507**	**349,338**	**-204,831**	**-58.6%**

Source: Condensed quarterly consolidated financial statements of the PKP CARGO Group for the period of 9 months ended 30 September 2015 prepared according to EU IFRS

Cash flow on operating activities

In 9M 2015 net cash flow from operating activities was PLN 83.5 million compared to PLN 359.1 million in the same period of 2014. The cash flow was generated on adjusted gross profit of PLN 170.4 million (adjusted among others by non-cash effect of PLN 137.8 million for the bargain purchase of AWT) and amortization and depreciation of PLN 318.6 million. This is chiefly related to the disbursement of benefits under the Voluntary Redundancy Program for PLN 287.4 million and the decrease in other provisions for employee benefits of PLN 97.8 million. At the same time, the increase in liabilities under the Voluntary Redundancy Programs was PLN 48.2 million.

Cash flow from investing activities

In 9M 2015 net cash flow used in connection with investing activities was PLN -408.8 million versus PLN -102.2 million in the same period of the previous year. This decline is related to the AWT acquisition; this transaction's impact after deducting the acquired cash is PLN 326.0 million. Expenditures to acquire property, plant and equipment and intangible assets in 9M 2015 were PLN 396.9 million versus PLN 495.3 million in the corresponding period of 2014.

Cash flow from financial activities

In 9M 2015 net cash flow from financing activities was PLN 38.7 million compared to PLN -171.3 million in the same period of 2014. Proceeds of PLN 398.3 million were received from loan drawn down in 9M 2015, versus PLN 115.4 million in the corresponding period of 2014. In the analyzed period of 2015, total cash expenditures for leases and to repay bank credits and loans were PLN 206.9 million versus PLN 160.5 million in 9M 2014. The dividend paid out in the amount of PLN 110.2 million in 2015 compared to PLN 137.5 million in 2014 also contributed to lower cash levels. Moreover, in 9M 2015 a 44.44% stake was acquired in PS Trade Trans Sp. z o.o. for PLN 40.0 million.

5.1.4. Selected financial and operating ratios

The table below presents the PKP CARGO Group's key financial and operating ratios in 9M 2015 compared to 9M 2014.

Table 28. Key financial and operating ratios in 9M 2015 compared to 9M 2014.

Item	9 months of 2015	9 months of 2014	9 months of 2015 *Adjusted	Change 2015 - 2014 *Adjusted		Change 2015/2014 *Adjusted	Q3 2015	Q3 2014	Change Q3 2015/ Q3 2014
EBITDA margin[1]	17.4%	17.5%	16.0%	-1.4	p.p.	-8.2%	17.3%	19.0%	-9.2%
Net profit margin[2]	6.7%	7.2%	4.5%	-2.7	p.p.	-37.9%	5.3%	9.3%	-42.5%
Net financial debt to EBITDA ratio[3]	2.2	-0.1	1.6	1.7		-			
ROA[4]	0.9%	5.4%	3.0%	-2.4	p.p.	-43.8%			
ROE[5]	1.5%	8.3%	5.3%	-3.0	p.p.	-35.7%			
Average distance covered by one locomotive (km/day)[6]	241.8	246.3	241.8	-4.5		-1.8%	230.5	238.1	-3.2%
Average gross train tonnage per operating locomotive (tons)[7]	1,519	1475	1,519	44.0		3.0%	1,522	1,499	1.5%
Average running time of train locomotives (hours per day)[8]	15.2	15.4	15.2	-0.2		-1.3%	15.1	15.7	-3.8%
Freight turnover per employee (thousands tkm/employee)[9]	883	814	883	69		8.4%	334	271	23.1%

* The annualized 2015 data adjusted for presentation purposes for (1) the costs following from the implemented 1st Voluntary Redundancy Program (VRP 1) pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. These liabilities were estimated at PLN 265.3 million, (2) the profit on bargain purchase of AWT in the amount of PLN 137.8 million and (3) the provisions following from the implemented 2nd Voluntary Redundancy Program (VRP 2) pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million.
The adjustment concerns only data from the Statement of comprehensive income.

1. *Calculated as the quotient of profit on operating activities plus amortization/depreciation and impairment losses by total operating revenue*
2. *Calculated as the quotient of net profit and total operating revenue*
3. *Calculated as the quotient of net financial debt (constituting the sum of (i) long-term bank loans and credit facilities; (ii) short-term bank loans and credit facilities, (iii) long-term finance lease liabilities and leases with purchase option; (iv) short-term finance lease liabilities and leases with purchase option; and (v) other short-term financial liabilities and (iv) other long-term financial liabilities, minus (i) cash and cash equivalents; and (ii) other short-term financial assets) and annualized EBITDA for the last 12 months (profit on operating activities plus amortization and impairment charges).*
4. *Calculated as the quotient of annualized net profit for the past 12 months and total assets.*
5. *Calculated as the quotient of annualized net profit for the past 12 months and 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 by the average headcount (in FTEs) in the group in the given period.*

Source: Proprietary material

In 2015, due to reasons described above, the key annualized profitability ratios, i.e. EBITDA margin, net profit margin, ROA, ROE were lower than in the same period of the previous year. The net financial debt to EBITDA ratio also deteriorated. It increased from 0.3 in 2014 to 2.3 in the same period of 2015.

If annualized performance is adjusted by non-recurring events, the foregoing ratios (ROA, ROE, net financial debt / EBITDA) are better than the reported figures. This primarily results from occurrence of a windfall related to a gainful purchase of AWT (PLN 137.8 million) and costs related to optimization of headcount in the form of Voluntary Redundancy Programs (adjustment by PLN 265.3 million and PLN 70.2 million with regard to, respectively, the first and the second Voluntary Redundancy Program).

During 9 months of 2015, the average daily mileage of locomotives decreased by 4.5 km/day, i.e. by 1.8% compared to the same period of 2014. In Q3 2015 alone, the average daily mileage shrunk by 7.6 km/day, i.e. by 3.2%. The larger number of closures and operating difficulties in the PKP PLK S.A. grid constituted the main cause of this phenomenon.

The gross average train freight turnover per locomotive moved up by 44 tons (9 months of 2015 vis-a-vis 9 months of 2014) and 23 tons (Q3 2015 vis-a-vis Q3 2014). This is the effect of better utilization of locomotives and optimization of the transportation process.

During 9 months of 2015, the average daily running time of locomotives decreased by 0.2 hours/day, i.e. by 1.3% compared to the same period of 2014. In Q3 2015 alone, the average daily running time shrunk by 0.6 hours/day, or 3.8%. The drop of this figure stems from how the freight turnover process is run, the growing number of closures and operating difficulties, and growth in the number of active locomotives which are doing the work with changing freight turnover.

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

Introduction of the Voluntary Redundancy Program

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

On 10 May 2015, the Management Board of PKP CARGO S.A. adopted a resolution to continue the optimization of headcount in the Company through the implementation of the Voluntary Redundancy Program. The total value of liabilities following from running the Voluntary Redundancy Program was PLN 63.9 million. As a result of verification of applications for the Voluntary Redundancy Program, 874 employees of the Company were given consent to take advantage of the Program. They stopped being employed by the Company as of 1 July 2015. The severance pays under the Voluntary Redundancy Program will be paid out in two tranches: The first tranche in the amount of approx. PLN 54.4 million was paid out with the salaries for June 2015; the second tranche in the amount of approx. PLN 9.5 million will be paid out in February 2016. The liability of PLN 63.9 million under the Voluntary Redundancy Program was recognized in the Company's financial result for Q2 2015.

The program was also implemented in PKP CARGOTABOR Sp. z o.o. As a result of verification of applications, 107 employees were given consent to leave as of 1 August 2015. The provision for future liabilities under the implementation of the program amounting to PLN 6.3 million was recognized in the Company's financial result and consequently also the Group's consolidated result for Q2 2015.

Resolution to increase salary

On 29 July 2015, the Management Board of the Company adopted a resolution to increase salaries for its employees as of 1 July 2015:

- for employees remunerated under the Company Collective Bargaining Agreement, the gross basic salary is to increase by PLN 110,
- for employees remunerated on the basis of coefficients, the net salary is to increase by PLN 110.

In a resolution adopted on 10 August 2015, the Company's Supervisory Board issued a positive opinion on the resolution adopted by the Management Board of PKP CARGO S.A. on 29 July 2015 providing for the salary increase of the employees working for employers operating in the Company. According to the Company's estimates, the cost of such a raise, including associated payments, is about PLN 50 million per full calendar year.

General strike in the Company

On 30 October 2015, the Company's Management Board received a letter from the National Protest and Strike Committee active in PKP CARGO S.A. ("KKPS") in which KKPS announced a decision to carry out, on 9 November 2015, a rolling general strike in the Company.

At the same time, on 2 November 2015, the Company and the employers acting on the Company's behalf filed a claim to rule non-existence of collective disputes in the Company's individual plants and on the level of the entire Company. The above claims were filed because, in the opinion of the Company's Management Board, the manner in which the collective dispute was conducted by the trade union organizations active in the Company was unlawful. These statements of claim comprise also petitions for injunctive relief in the form of prohibiting an industrial action until the claims of the statements of claim are resolved.

On 6 November 2015, KKPS informed the Management Board of suspending until 9 December 2015 start of a general strike in the Company. KKPS reserved the right to take immediate strike action in individual plants of the Company before 9 December 2015 in the event the employer takes restructuring actions or decisions about the allocation of employees.

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 primarily caused by:

- Decreases in global coal prices – the average ARA price in December 2014 was USD 70.68/t, while in September 2015 it was USD 53.52/t, which is the worst result in the analyzed period,
- decreasing but still relatively high levels of coal inventories in Poland – at the end of August 2015 there were 6.5 million tons (as compared to 8.2 million tons in December 2014),
- increasing role of Renewable Energy Sources ("RES") – it is estimated that in 2014 in Poland renewable energy accounted for 11.5% gross final energy consumption (compared to 11.3% in 2013); ultimately in 2020 it is to reach 15%; in the Czech Republic RES provided an estimated 11% of electricity while the plan is to obtain 13% by 2020.

In the period of 8 months of 2015, 46.3 million tons of coal were mined in Poland, which was 2.7% less year on year. This decline is the outcome of excess coal supply on the domestic market (the large amount of inventories on coal yards). In the Czech Republic, the situation is equally tough: 8.6 million tons of hard coal were mined there in 2014, i.e. 2% less year on year while the coal production sold plunged by 14% yoy.

The persisting trend concerning the generation of electricity in power plants in Poland is also a material factor. According to the National Electrical Energy System and the Balancing Market, 105,845 GWh of electricity were generated in Poland during 8 months of 2015, signifying generation growth of 3.3% yoy. In turn, the energy mix proved to be favorable to hard coal (the generation of energy using hard coal grew by 5.5% points yoy) coupled with growth in the generation of electricity using wind power plants (growth by 0.6% points yoy).

The abolishment of sanctions on the exports of Iranian oil planned for December 2015 may result in a significant reduction of rail transportation. Cheap raw materials from Iran poses a threat of increased imports using car transport.

Situation in the Czech coal sector

One of the Group's key clients is OKD a.s., the only producer of hard coal in the Czech Republic. In 2014, the OKD underwent a general restructuring process, however since the situation on the hard coal market is unpredictable, OKD is perceived as financially unstable and may have liquidity problems within the next 12 months. If such a situation arises, this may have an adverse effect on AWT's performance and consequently there is a risk of deterioration of AWT's financial liquidity.

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 Poland in 9M 2015 accounted for approx. 16.2% of operating expenses in the PKP CARGO Group.

As of 13 December 2015 (i.e. as of the new schedule), the unit rates of the basic charge and certain unit rates of the basic charge for access to the train control devices on the rail network administrated by PKP PLK S.A. will increase. The higher rates were approved on 23 October 2015 by the President of the Office of Rail Transport. In addition, as of the new schedule, PKP PLK S.A. will introduce, as part of separate regulations, the new type of access charges to broad-gauge (1520 mm) rail infrastructure.

Additionally, the activities of the PKP CARGO Group depend on the condition of the railway infrastructure and the railway network is characterized by low quality. An intensive railway network modernization program, although ultimately it will entail improvement of operating conditions, during the course of the construction work will cause hindrances and necessity to route the railway traffic using detours.

Technical regulations regarding 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.

Acquisition activities

The outcome of pending acquisition processes in which PKP CARGO S.A. has participated and is currently participating will influence the Group's results.

The finalization of the acquisition of an 80% stake in AWT B.V. in May 2015 was a key element of further development through international expansion. This transaction will enable the Group to harness Poland's strategic location even better, especially Silesia, to develop new connections and render comprehensive logistics and transportation services in the Baltic - Adriatic - North Sea triangle. This transaction will enable the Group to expedite significantly the development of activity in neighboring countries and expand the scope of operations to include new countries where the Group has not been active so far. Additionally, due to the scope of operations of the AWT Group, the transaction gives the Group a prospect of diversification of the service portfolio and achievement of numerous synergies in sales, transport management and rolling stock management.

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

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

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

Put and call option

In parallel with the AWT B.V. acquisition agreement, PKP CARGO S.A. also concluded a shareholder agreement with Minezit SE ("MSE") regarding AWT ("Shareholder Agreement"). The agreement provides for, among others, MSE's right to request the Company to purchase all the AWT shares held by MSE ("Put Option") and the Company's right to request MSE to sell the AWT shares held by MSE to the Company ("Call Option"). Additionally, the Shareholder Agreement awards the Company the pre-emption rights to purchase the AWT shares held by MSE when MSE sells them and provides for MSE's tag along right in case the Company sells its AWT shares.

The Put Option may be exercised by MSE in the period from 1 January 2017 to 31 December 2020 for the market price calculated using the formula provided in the Shareholder Agreement, where the price depends on AWT Group's consolidated EBITDA and its net debt, but will not be less than EUR 27 million.

The Company will be able to exercise the Call Option in the period from 1 January 2017 to 31 December 2021 for the market price calculated using the formula provided in the Shareholder Agreement in reference to AWT Group's EBITDA and its net debt, but no less than the difference between (i) EUR 40 million and (ii) the amount of all dividend and similar payments made by AWT to MSE.

Capital expenditure financing

The Group will finance capital expenditures with investment loans, its own funds and from other sources. Increase of borrowing liabilities will result in increase of (short- and long-term) liabilities and financial expenses.

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

In 2015, the Group is exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies. The Group's receivables expressed in foreign currencies are short-term receivables (up to 1 month) and payables expressed in foreign currencies are mostly short- and long-term leasing liabilities.

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

Due to the long maturities, short- and long-term leasing liabilities denominated in EUR have the biggest share in financial revenue and expenses, and cause volatility in the Company's result on the level of financial expenses and revenues on account of unrealized FX differences. In 2015, due to repayment of liabilities, the risk of volatility of results due to valuation of FX financial liabilities has been successively decreasing.

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

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

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

For the EUR/PLN exchange rate, there is partial natural hedging due to the fact that sales revenues in EUR are partly balanced out by costs in the same currency. In accordance with the Financial Risk Management Policy prevailing in the Group, the remaining part of revenues in EUR is partly hedged until the end of Q3 2016 through application of derivative transactions.

To present the effects of the hedging transactions in accordance with their economic content in the Group, one of the subsidiaries uses hedge accounting.

Acquisition of organized part of the enterprise from PKP Informatyka Sp. z o.o.

PKP CARGO S.A. has concluded an agreement to acquire from PKP Informatyka Sp. z o.o. organized part of the enterprise for a net amount of PLN 21.1 million. This transaction will have a significant effect on the costs incurred in the maintenance and development of IT systems.

Traction fuel price level

In 9M 2015, a PLN 19.9 million or 12.8% yoy decrease in the fuel consumption costs was also recorded. This is directly related to a decline in fuel market prices.

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

The Parent Company has not published financial forecasts pursuant to § 5 Section 1 Item 25 of the Regulation issued by the Finance Minister on 19 February 2009 on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent, consolidated version of 27 June 2013 (Journal of Laws of 2014 Item 133) pertaining to the results of the Company and the PKP CARGO Group in 9M 2015.

5.4. Information about production assets

5.4.1. Rolling stock

Due to the consolidation of AWT Group companies as of 28 May 2015, the data stated below include their rolling stock and properties presented only as at 30 June 2015 and 30 September 2015.

Wagons and traction rolling stock are the main elements of the PKP CARGO Group's production assets. Changes in the Group's rolling stock levels result directly from the actions leading to its decrease, such as liquidation of rolling stock, and efforts aimed at increase of the rolling stock levels through purchases. In Q3 2015 alone, the number of diesel locomotives declined as a result of their sale, while the reduction of owned wagons resulted from removing them from the books following a decision to liquidate them (due to the technical condition).

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

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

Item	30 September 2015*	30 June 2015**	31 December 2014	Change YTD	Change in Q3 2015
diesel locomotives	1,442	1,454	1,300	142	-12
electric locomotives	1,176	1,176	1,162	14	0
Total	**2,618**	**2,630**	**2,462**	**156**	**-12**
owned locomotives (including financial lease)	2,597	2,609	2,451	146	-12
locomotives in operational lease or rented	21	21	11	10	0
Total	**2,618**	**2,630**	**2,462**	**156**	**-12**

** including AWT Group locomotives (167 units)*
*** including AWT Group locomotives (168 units)*

Source: Proprietary material

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

Item	30 September 2015*	30 June 2015**	31 December 2014	Change YTD	Change in Q3 2015
owned wagons (including financial lease)	65,000	65,343	62,086	2,914	-343
wagons in operational lease or rented	1,915	1,186	0	1,915	729
Total	**66,915**	**66,529**	**62,086**	**4,829**	**386**

** including AWT Group's wagons (4,923 units)*
*** including AWT Group's wagons (4,559 units)*
Source: Proprietary material

On 24 October 2013, PKP CARGO S.A. signed an agreement on co-financing from European Union funds of a project under the name "Purchase and delivery of newly built platform 80' wagons for transport of containers". Under the project, PKP CARGO S.A. will purchase 330 series Sggrss 80` container platforms, under an agreement concluded on 25 September 2013 with the contractor selected in an unlimited tender - European Railway Consortium "Wagon" Sp. z o.o. The net value of the wagon delivery agreement is PLN 94,875,000.00. The maximum value of the project co-financing from the Infrastructure and Environment Operational Program will amount to PLN 28,366,090.26. By 30 September 2015, 300 wagons were delivered under the delivery agreement. The remaining wagons will be delivered by the end of 2015.

5.4.2. Real estate

In the transport process, due to the necessity to guarantee appropriate maintenance and repair support, real estate plays an important role. Most real estate used by the Group is used on the basis of lease and rental agreements. The table below presents change of the balance of real estate owned and used by the PKP CARGO Group during 9 months of 2015.

Table 31. Real estate owned and used by PKP CARGO Group as at 30 September 2015 compared to 31 December 2014.

Item	30 September 2015*	31 December 2014	Change YTD
Land - owned, in perpetual usufruct and leased from other entities [ha]	1,557	1,006	551
Buildings - owned, leased and rented from other entities [sqm]	804,550	684,945	119,605

**including AWT Group's real property*

Source: Proprietary material

The increase of the size of land and buildings owned and in perpetual usufruct by the Group and increase of the size of leased and rented land and buildings is a direct result from PKP CARGO S.A.'s acquisition of shares in AWT.

6. Other key information and events

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

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

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

6.2. Information on transactions concluded with related entities

No entity from the PKP CARGO Group entered in 9M 2015 into any transactions with related parties on non-market terms. Also after the balance sheet date no such transactions were concluded.

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 which is significant to evaluate state of employment, financial standing, financial result, assets and adequate changes as well as information which is significant to evaluate if the issuer and Group companies are capable of liabilities payment.

In addition to the information presented in this Report, no other information which is significant to evaluate the employment, assets, financial standing, financial result and adequate changes, as well as information which is significant to evaluate if the issuer is capable of liabilities payment.

This Consolidated Quarterly Report was authorized by the PKP CARGO S.A. Management Board on 11 November 2015.

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Adam Purwin

President of the Management Board

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Jacek Neska

Management Board Member

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Łukasz Hadyś

Management Board Member

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Wojciech Derda

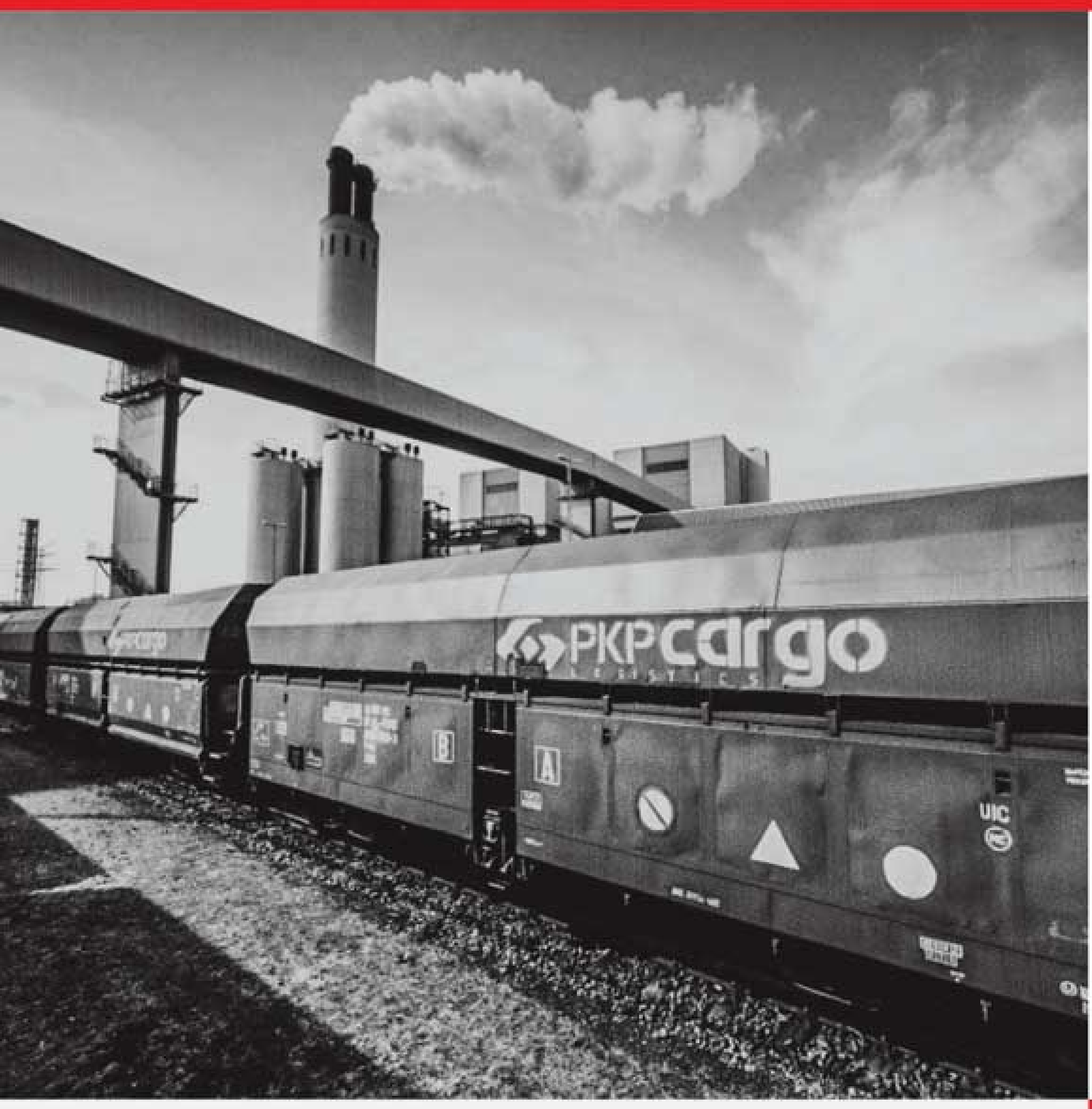
Management Board Member

……………………………………………

Dariusz Browarek

Management Board Member

PKPCARGO



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