QUARTERLY REPORT FOR 3Q 2018

PKP CARGO GROUP'S
consolidated quarterly report for q3 2018

PKPCARGO

Quarterly condensed consolidated financial statements of the **PKP CARGO GROUP** for the period of 9 months

Ended 30 september 2018
Prepared in accordance with IFRS
as endorsed by
the European Union

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

QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2018 TO 30 SEPTEMBER 2018

	Note	9 months ended 30/09/2018	3 months ended 30/09/2018	9 months ended 30/09/2017	3 months ended 30/09/2017
Revenue from sales of services and finished products	5	3,764,964	1,304,940	3,403,946	1,176,037
Revenue from sales of goods and raw materials		40,223	13,540	29,330	11,298
Other operating revenue	7	34,072	10,904	26,464	5,551
Total operating revenue		**3,839,259**	**1,329,384**	**3,459,740**	**1,192,886**
Depreciation, amortization and impairment losses	6	425,902	137,262	428,972	141,612
Consumption of raw materials and energy	6	573,735	195,719	513,988	172,747
External services	6	1,248,002	428,434	1,170,243	410,619
Taxes and charges		24,209	9,515	30,136	9,231
Employee benefits	6	1,199,282	384,759	1,111,421	357,761
Other expenses by kind	6	41,258	13,857	41,374	13,936
Cost of goods and raw materials sold		24,303	8,688	20,867	7,877
Other operating expenses	7	26,856	9,388	40,265	22,050
Total operating expenses		**3,563,547**	**1,187,622**	**3,357,266**	**1,135,833**
Profit on operating activities		**275,712**	**141,762**	**102,474**	**57,053**
Financial revenue	8	13,302	3,005	15,155	915
Financial expenses	8	42,699	13,308	44,854	14,361
Share in the profit / (loss) of entities accounted for under the equity method	11	(1,124)	933	1,430	247
Profit before tax		**245,191**	**132,392**	**74,205**	**43,854**
Income tax	9	50,945	27,700	22,464	11,475
NET PROFIT		**194,246**	**104,692**	**51,741**	**32,379**
OTHER COMPREHENSIVE INCOME					
Other comprehensive income subject to reclassification in the financial result					
Effective portion of profits / (losses) related to a hedging instrument to hedge cash flows	27	(18,587)	16,416	10,637	(9,564)
Income tax referring to the other comprehensive income line item	9	3,549	(3,101)	(2,021)	1,817
Foreign exchange differences resulting from translation of financial statements of foreign entities		12,880	(7,190)	8,290	18,745
Total other comprehensive income subject to reclassification in the financial result		**(2,158)**	**6,125**	**16,906**	**10,998**
Other comprehensive income not subject to reclassification in the financial result					
Actuarial profits / (losses) on post-employment benefits		(3,950)	-	(25,028)	-
Income tax referring to the other comprehensive income line item	9	750	-	4,755	-
Total other comprehensive income not subject to reclassification in the financial result		**(3,200)**	**-**	**(20,273)**	**-**
Total other comprehensive income		**(5,358)**	**6,125**	**(3,367)**	**10,998**
TOTAL COMPREHENSIVE INCOME		**188,888**	**110,817**	**48,374**	**43,377**
Net profit attributable:					
To shareholders of the parent company		194,246	104,692	51,741	32,379
Total other comprehensive income attributable:					
To shareholders of the parent company		188,888	110,817	48,374	43,377
Earnings per share (PLN per share)					
Basic	19	4.34	2.34	1.16	0.73
Diluted	19	4.34	2.34	1.16	0.73

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

QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 SEPTEMBER 2018

	Note	As at 30/09/2018	As at 31/12/2017
ASSETS			
Non-current assets			
Property, plant and equipment	10	4,733,717	4,687,982
Intangible assets		32,975	43,927
Investment property		1,166	1,205
Investments in entities accounted for under the equity method	11	51,411	53,610
Trade and other receivables	15	1,365	1,836
Other non-current financial assets	12	6,646	10,537
Other non-current non-financial assets	13	13,112	14,726
Deferred tax assets	9	136,769	133,583
Total non-current assets		**4,977,161**	**4,947,406**
Current assets			
Inventories	14	155,676	148,464
Trade and other receivables	15	780,253	729,535
Income tax receivables		54	115
Other current financial assets	12	407,527	263,670
Other current non-financial assets	13	61,781	35,593
Cash and cash equivalents	16	262,574	516,776
Total current assets		**1,667,865**	**1,694,153**
Non-current assets classified as held for sale	17	1,472	-
TOTAL ASSETS		**6,646,498**	**6,641,559**
EQUITY AND LIABILITIES			
Equity			
Share capital	18	2,239,346	2,239,346
Supplementary capital	18	628,174	619,306
Other items of equity		(26,315)	4,872
Foreign exchange differences resulting from translation of financial statements of foreign entities		72,776	59,896
Retained earnings		605,875	411,358
Total equity		**3,519,856**	**3,334,778**
Long-term liabilities			
Long-term bank loans and borrowings	20	1,146,327	1,312,629
Long-term finance lease liabilities	21	76,831	91,055
Long-term trade and other payables	24	5,783	1,578
Long-term provisions for employee benefits	25	557,361	558,547
Other long-term provisions	26	22,188	22,446
Other long-term financial liabilities	22	89	-
Deferred tax liability	9	99,434	107,418
Total long-term liabilities		**1,908,013**	**2,093,673**
Short-term liabilities			
Short-term bank loans and borrowings	20	248,540	249,701
Short-term finance lease liabilities	21	27,659	48,040
Short-term trade and other payables	24	766,062	749,736
Short-term provisions for employee benefits	25	123,563	104,006
Other short-term provisions	26	49,177	59,726
Other short-term financial liabilities	22	13	272
Short-term tax liabilities		3,615	1,627
Total short-term liabilities		**1,218,629**	**1,213,108**
Total liabilities		**3,126,642**	**3,306,781**
TOTAL EQUITY AND LIABILITIES		**6,646,498**	**6,641,559**

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

QUARTERLY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2018 TO 30 SEPTEMBER 2018

			Other items of equity					Equity		
	Share capital	Supplementary capital	Profits / (losses) on measurement of equity instruments at fair value	Actuarial profits / (losses) on post-employment benefits	Profits / (losses) related to a hedging instrument to hedge cash flow	Foreign exchange differences resulting from translation of financial statements of foreign entities	Retained earnings	Attributable to the owners of the parent company	Attributable to non-controlling interests	Total
As at 1/01/2018 (audited)	**2,239,346**	**619,306**	**-**	**(15,625)**	**20,497**	**59,896**	**411,358**	**3,334,778**	**-**	**3,334,778**
Changes resulting from the implementation of IFRS 9	-	-	(12,949)	-	-	-	9,139	**(3,810)**	-	**(3,810)**
As at 1/01/2018 (restated)	**2,239,346**	**619,306**	**(12,949)**	**(15,625)**	**20,497**	**59,896**	**420,497**	**3,330,968**	**-**	**3,330,968**
Net result for the period	-	-	-	-	-	-	194,246	**194,246**	-	**194,246**
Other comprehensive income for the period (net)	-	-	-	(3,200)	(15,038)	12,880	-	**(5,358)**	-	**(5,358)**
Total comprehensive income	**-**	**-**	**-**	**(3,200)**	**(15,038)**	**12,880**	**194,246**	**188,888**	**-**	**188,888**
Other changes for the period	-	8,868	-	-	-	-	(8,868)	**-**	-	**-**
As at 30/09/2018	**2,239,346**	**628,174**	**(12,949)**	**(18,825)**	**5,459**	**72,776**	**605,875**	**3,519,856**	**-**	**3,519,856**
As at 1/01/2017	**2,239,346**	**618,666**	**-**	**13,521**	**(2,074)**	**60,494**	**330,325**	**3,260,278**	**-**	**3,260,278**
Net result for the period	-	-	-	-	-	-	51,741	**51,741**	-	**51,741**
Other comprehensive income for the period (net)	-	-	-	(20,273)	8,616	8,290	-	**(3,367)**	-	**(3,367)**
Total comprehensive income	**-**	**-**	**-**	**(20,273)**	**8,616**	**8,290**	**51,741**	**48,374**	**-**	**48,374**
Other changes for the period	-	(616)	-	-	-	-	616	**-**	-	**-**
As at 30/09/2017	**2,239,346**	**618,050**	**-**	**(6,752)**	**6,542**	**68,784**	**382,682**	**3,308,652**	**-**	**3,308,652**

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

QUARTERLY CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD FROM 1 JANUARY 2018 TO 30 SEPTEMBER 2018

	Note	9 months ended 30/09/2018	9 months ended 30/09/2017
Cash flow from operating activities			
Profit before tax		**245,191**	**74,205**
Adjustments:			
Depreciation of property, plant and equipment and amortization of intangible assets	6	407,868	428,725
Impairment loss of non-current assets	6	18,034	247
(Profit) / loss on the sale and liquidation of property, plant and equipment, intangible assets and non-current assets held for sale		(2,324)	(5,285)
(Profit) / loss on other investing activities	8	(4,114)	-
Foreign exchange (profit) / loss		1,350	(2,868)
(Profit) / loss on interest, dividends		12,773	19,416
Share in the (profit) / loss of entities accounted for under the equity method	11	1,124	(1,430)
Received / (paid) interest		3,987	1,426
Received / (paid) income tax		(57,077)	(36,330)
Other adjustments		(10,305)	(19,297)
Change in working capital:			
(Increase) / decrease in trade and other receivables		(55,174)	(55,014)
(Increase) / decrease in inventories		(2,781)	(681)
(Increase) / decrease in other assets		(18,291)	(2,760)
Increase / (decrease) in trade and other payables		58,130	(8,156)
Increase / (decrease) in other financial liabilities		(171)	(5,512)
Increase / (decrease) in provisions		7,564	71,538
Net cash from operating activities		**605,784**	**458,224**
Cash flow from investing activities			
Expenditures to acquire property, plant and equipment and intangible assets		(509,481)	(367,906)
Proceeds from disposal of property, plant and equipment, intangible assets and non-current assets held for sale		23,017	8,475
Proceeds from disposal of other financial assets		5,335	-
Proceeds from interest received		7,247	6,339
Proceeds from dividends received		1,081	3,174
Outflow from loans granted		-	(121)
Proceeds from repayment of loans		251	-
(Outflow) / inflow from bank deposits over 3 months		(149,000)	(257,000)
Net cash from investing activities		**(621,550)**	**(607,039)**
Cash flow from financing activities			
Payments of financial lease liabilities	23	(37,111)	(47,484)
Interest paid on finance lease liabilities	23	(3,392)	(4,748)
Proceeds from bank loans and borrowings	23	367	50,521
Repayment of bank loans and borrowings	23	(181,652)	(194,074)
Interest paid on bank loans and borrowings	23	(19,878)	(21,525)
Grants received		3,040	-
Other outflows from financing activities		(1,601)	(2,106)
Net cash from financing activities		**(240,227)**	**(219,416)**
Net increase / (decrease) in cash and cash equivalents		(255,993)	(368,231)
Cash and cash equivalents at the beginning of the reporting period	16	516,776	755,919
Impact of changes foreign exchange rates on the cash balance in foreign currencies		1,791	1,038
Cash and cash equivalents at the end of the reporting period	16	**262,574**	**388,726**

EXPLANATORY NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 SEPTEMBER 2018

1. General information

Information about the Parent Company

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

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

The composition of the Parent Company's management and supervisory bodies and the Parent Company's shareholding structure as at 30 September 2018 are presented in the Additional Information to the Consolidated Quarterly Report for Q3 2018 in **Chapters 3.1** and **3.2**, respectively.

Information about the Group

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

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

The duration of individual Group companies is unlimited.

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

1. General information (cont.)

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

Item	Name of the subsidiary	Core business	Place of registration and business	Percent of shares held by the Group	
				As at 30/09/2018	As at 31/12/2017
1	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Service activity incidental to land transport, transshipment of cargo and wholesale and retail sale of waste and scrap	Małaszewicze	100.0%	100.0%
2	PKP CARGO Centrum Logistyczne Medyka - Żurawica Sp. z o.o.	Service activity incidental to cargo transshipment in other transshipment points	Żurawica	100.0%	100.0%
3	PKP CARGO SERVICE Sp. z o.o.	Comprehensive siding services	Warsaw	100.0%	100.0%
4	PKP CARGO CONNECT Sp. z o.o.	Freight forwarding services	Warsaw	100.0%	100.0%
5	PKP CARGOTABOR Sp. z o.o.	Service activity incidental to repair and overhaul of rolling stock	Warsaw	100.0%	100.0%
6	PKP CARGOTABOR USŁUGI Sp. z o.o.	Activity related to collecting, processing and neutralizing waste and recovery of raw materials	Warsaw	100.0%	100.0%
7	CARGOTOR Sp. z o.o.	Management of logistic and service infrastructure in the form of rail sidings and railway tracks, providing access to such infrastructure to rail operators	Warsaw	100.0%	100.0%
8	CARGOSPED Terminal Braniewo Sp. z o.o.	Freight transshipment, customs warehouse	Braniewo	100.0%	100.0%
9	Advanced World Transport CE s.r.o. (1)	Holding and financial activity	Prague	100.0%	100.0%
10	Advanced World Transport a.s.	Provision of comprehensive services: rail transport, railway shipping, sidings handling, rolling stock repairs	Ostrava	100.0%	100.0%
11	AWT ROSCO a.s.	Rolling stock management, rolling stock lease	Ostrava	100.0%	100.0%
12	AWT Čechofracht a.s.	Rail freight forwarding and customs service	Prague	100.0%	100.0%
13	AWT Rekultivace a.s.	Provision of comprehensive services: land reclamation, construction services, waste management, zoning design	Havířov-Prostřední Suchá	100.0%	100.0%
14	AWT Rail HU Zrt.	Provision of comprehensive services: rail transport, railway shipping, sidings handling	Budapest	100.0%	100.0%

(1) On 9 September 2018, Czech court registered the transformation of the Dutch company Advanced World Transport B.V. with its registered office in Amsterdam into the Czech company Advanced World Transport CE s.r.o. with its registered office in Prague. This means that Advanced World Transport B.V. has terminated its legal existence in the Netherlands. The AWT Group's parent company is currently Advanced World Transport CE s.r.o.

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1. General information (cont.)

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

Item	Name of the subsidiary	Core business	Place of registration and business	Percent of shares held by the Group	
				As at 30/09/2018	As at 31/12/2017
15	ONECARGO Sp. z o.o.	Cargo rail transport	Warsaw	100.0%	100.0%
16	ONECARGO CONNECT Sp. z o.o.	Service activities incidental to land transport	Warsaw	100.0%	100.0%
17	Transgaz S.A.	Transport agency	Zalesie near Małaszewicze	64.0%	64.0%
18	Trade Trans Finance Sp. z o.o.	Financial and accounting service	Warsaw	100.0%	100.0%
19	PKP CARGO CONNECT GmbH	Customs and freight forwarding service	Hamburg	100.0%	100.0%
20	PPHU "Ukpol" Sp. z o.o.	Freight transshipment, trading services	Werchrata	100.0%	100.0%
21	AWT Rail SK a.s.	Rail transport, rail freight forwarding	Bratislava	100.0%	100.0%
22	AWT DLT s.r.o.	Siding services	Kladno	100.0%	100.0%
23	AWT Trading s.r.o.	Trading in products for the army	Petřvald	100.0%	100.0%
24	AWT Rekultivace PL Sp. z o.o.	Provision of comprehensive services: land reclamation, construction services, waste management, zoning design	Cieszyn	100.0%	100.0%
25	RND s.r.o.	Rail freight forwarding, transport monitoring	Olomouc	51.0%	51.0%

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

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

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

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

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

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

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

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.

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

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

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

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

FX differences resulting from the above conversions are presented in equity within FX differences resulting from translation of financial statements of foreign entities.

As at 30 September 2018 and 31 December 2017, for the needs of valuation of the financial statements of foreign entities subject to consolidation, the following exchange rates were adopted:

Currency	Items of the statement of financial position		Items of the statement of comprehensive income and the cash flow statement	
	As at 30/09/2018	As at 31/12/2017	9 months ended 30/09/2018	9 months ended 30/09/2017
EUR	4.2714	4.1709	4.2535	4.2566
CZK	0.1664	0.1632	0.1662	0.1604
HUF	0.0132	0.0134	0.0133	0.0138

These Quarterly Condensed Consolidated Financial Statements have not been audited by a statutory auditor. The line items of the consolidated statement of financial position as at 31 December 2017 were audited by a statutory auditor during the audit of the Consolidated Financial Statements of the PKP CARGO Group for the year ended 31 December 2017 prepared according to EU IFRS.

The line items of the consolidated statement of comprehensive income for the period of 9 months ended 30 September 2017 have been restated due to the retrospective application of IFRS 15.

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

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

These Quarterly Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 21 November 2018.

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

Statement on accounting policies

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

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

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

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

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

  1) Changes of the rules of classification and valuation of financial assets which are based on the entity's business model for managing the assets and the cash flow characteristics. The existing categories of financial assets have been replaced with new ones, i.e. carried out at:
   – amortized cost,
   – fair value through other comprehensive income,
   – fair value through profit or loss.

  The amended standard imposes an obligation to carry shares in unlisted companies in fair value and significantly reduces the existing possibility of carrying assets at cost.

  2) Introduction of a new model for assessment of impairment of financial assets which replaces the concept of incurred losses with the concept of expected losses.

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

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

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

Impact on consolidated financial statements:

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

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

Change in the principles of classification and measurement of financial assets

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

Shares in other companies not listed on active markets are measured at cost, which as at 1 January 2018 was PLN 2,096 thousand, taking into account impairment losses of PLN 832 thousand. In the Group's opinion, due to limitations in the extent of available information, this method of measurement reflects the fair value of these assets.
As at the date of the first application of IFRS 9, the Group restated the data resulting from the Group's Consolidated Financial Statements for the financial year ended 31 December 2017 as follows:
– the effects of measurement of the shares in Euroterminal Sławków Sp. z o.o. at fair value as at 1 January 2018 in the amount of PLN 1,138 thousand decreased other financial assets and other items of equity,
– the impairment loss on investment in equity instruments recognized in previous periods in the amount of PLN 11,811 thousand increased retained earnings and decreased other items of equity.

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

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

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

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

Model for the assessment of impairment of financial assets

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

Hedge accounting

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

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

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

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

- **IFRS 15 "Revenue from Contracts with Customers" –** since the Group generates revenues primarily from the provision of rail transport services, the entry of IFRS 15 into force has chiefly affected transportation agreements. As a result of completed works, it has been concluded that the commercial agreements contain a variable compensation component resulting from:
  – the possibility of imposing penalties on the client in connection with its failure to meet the contractual provisions pertaining to transportation of a specified freight volume during the term of the agreement,
  – the possibility of imposing a penalty on the Group by the client in the event of failure to transport the ordered freight volume.
  Previously, these penalties have been presented as other operating revenues or expenses depending on the nature of the penalty. According to the new standard, these penalties are treated as a component of revenues from sales. Based on IFRS 15 C3 a) the Management Board of the Parent Company has decided that the standard will be implemented retrospectively in accordance with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, with the possibility of taking into account the instructions contained in clause C5. The application of this approach did not result in an adjustment of the Group's equity as at the date of its first application of IFRS 15. In accordance with the previously applied accounting principles, the following items were recognized in the period from 1 January 2017 to 30 September 2017:
  – in other operating revenues, provisions for penalties imposed on a client in the amount of PLN 2,322 thousand,
  – in other operating expenses, provisions for penalties charged by the client in the amount of PLN 559 thousand.
  In line with the aforedescribed changes, the Group has restated its comparative data.

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

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

Presented below is the restatement of comparative data. The information presented in additional explanatory notes to this Quarterly Condensed Consolidated Financial Statements has also been amended accordingly.
Presented below is the impact of the implementation of IFRS 15 on the consolidated statement of comprehensive income for the 9 months ended 30 September 2017:

	9 months ended 30/09/2017 (published)	Penalties resulting from sales agreements	9 months ended 30/09/2017 (restated)
Revenue from sales of services and finished products	3,402,183	1,763	3,403,946
Other operating revenue	28,786	(2,322)	26,464
Total operating revenue	**3,460,299**	**(559)**	**3,459,740**
Other operating expenses	40,824	(559)	40,265
Total operating expenses	**3,357,825**	**(559)**	**3,357,266**
Profit / (loss) on operating activities	**102,474**	-	**102,474**
Profit / (loss) before tax	**74,205**	-	**74,205**
NET PROFIT / (LOSS)	**51,741**	-	**51,741**
Total other comprehensive income	**(3,367)**	-	**(3,367)**
TOTAL COMPREHENSIVE INCOME	**48,374**	-	**48,374**

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

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

Approving these Quarterly Condensed Consolidated Financial Statements the Group did not apply the following standards, amendments of the standards and interpretations which have been issued by the International Accounting Standards Board and approved for application by the EU but have not entered into effect:

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

Impact on consolidated financial statements:

- **IFRS 16 "Leasing"** – as at the moment of preparation of these Quarterly Condensed Consolidated Financial Statements, the Group is in the course of work related to the implementation of the new standard IFRS 16. The Group has conducted a preliminary analysis of the impact of IFRS 16 on the accounting principles used. The analysis has shown that the Group's financial statements will have to recognize material assets and liabilities resulting from operating leases, lease or rent (agreements are mainly related to lease and rental of real estates and rolling stock) and owned perpetual usufruct rights of the land.

  The Parent Company's Management Board plans to implement the standard retrospectively in accordance with IFRS 16 Annex C item 5b, by presenting as at 1 January 2019 the combined effect of the application of this standard by adjusting the opening balance of retained earnings, without restating the comparative data.

  Applying IFRS 16 for the first time, the Group plans to apply the following practical simplifications permitted by the standard, including:

  - adjustment of the value of the right to use assets by the amount of the provision for onerous contracts recognized in accordance with IAS 37 directly before the date of first application of IFRS 16,
  - the use of post-factual knowledge and experience in determining the term of the lease if the contract contains options for renewal or termination,
  - not recognizing the right to use assets and liabilities for short-term lease contracts. Agreements for which the remaining term of the lease as at 1 January 2019 is shorter than 12 months will be classified as short-term leases,
  - not recognizing the right to use lease assets and liabilities for contracts pertaining to assets of low unit value (IT equipment, furniture, office equipment, etc.),
  - not separating leasing and non-leasing components for lease contracts for all classes of the basic asset.

  The Group intends to present its rights to the use of assets in a separate statement of financial position. This line item will also include assets used under current finance lease agreements in accordance with IAS 17.

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

Based on its preliminary analysis, the Group estimates that as a result of implementation of IFRS 16 the value of assets will increase by PLN 749 million, liabilities by PLN 744 million and equity by PLN 5 million as at 1 January 2019.

The application of IFRS 16 will also affect the structure of the statement of comprehensive income in 2019 and in subsequent years. Based on its preliminary analysis, the Group estimates that in 2019 there will be an increase of depreciation by PLN 90 million and interest expenses by PLN 28 million and a decrease of external services by PLN 105 million. The aforementioned changes will affect the increase of result on operating activities by PLN 15 million, EBITDA by PLN 105 million and the decrease of result before tax by PLN 13 million.

This estimation has been prepared on the basis of contracts in force as at 30 September 2018 and is based on certain material assumptions which are actual on that date, in particular with respect to:

- the actual period of validity of the agreements, including agreements concluded for an indefinite term;
- discount rate used for the measurement of the lease liabilities;
- period of using the right to use assets;
- exchange rates for contracts denominated in foreign currencies.

The assumptions adopted for the purpose of this analysis and the scope of agreements covered by IFRS 16 may change as at 1 January 2019, in particular in connection with the change of the legal status of the contracts and macroeconomic parameters.

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

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

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

- **Amendment to IAS 28 "Investments in Associates and Joint Ventures" –** Long-term interests in associates and joint ventures (applicable to annual periods beginning on or after 1 January 2019). The amendments were introduced to clarify that an entity applies IFRS 9 (including regulations pertaining to impairment) to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendments also delete paragraph 41 because it has been concluded that it merely reiterated requirements in IFRS 9 and had created confusion about the accounting for long-term interests.
- **Amendments to different standards "Amendments to IFRS (cycle 2015-2017)" -** changes made as part of the procedure of annual amendments to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) focused mainly on resolving inconsistencies and unification of terminology (applicable to annual periods beginning on or after 1 January 2019).
- **Amendments to IAS 19 "Employee Benefits" –** Amendment, limitation or settlement of the plan (applicable to annual periods beginning on or after 1 January 2019). The amendments require that after change of the plan, updated assumptions for valuation should be applied to determine the current costs of the services and interest (net) for the remaining part of the reporting period.
- **Interpretation of IFRIC 23 "Uncertainty over Income Tax Treatments"** – applicable to annual periods beginning on or after 1 January 2019. The interpretation applies to determining the income to be taxed (tax loss), taxation basis, unused tax losses, unused tax reliefs, tax rates, if there is uncertainty as the treatment of the income tax pursuant to IAS 12.
- **Amendments to references to the IFRS Framework** – applicable to annual periods beginning on or after 1 January 2020.
- **Amendments to IFRS 3 "Business Combinations"** entitled Definition of a Business – applicable to annual periods beginning on or after 1 January 2020. The amendments are to make it easier for business entities to make decisions whether the acquired types of business or assets meet the definition of a business or constitute a group of assets.
- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** entitled Definition of Material – applicable to annual periods beginning on or after 1 January 2020. The amendments pertain mainly to the adjustment of the wording of the term "material" in all the EU IFRS standards and other publication and introduction of small corrections to this definition.
- **IFRS 17 "Insurance Contracts"** – applicable to annual periods beginning on or after 1 January 2021. The aim of the standard is to introduce uniform, formalized accounting principles applicable to insurance contracts. The new standard stipulates that insurance liabilities are carried at the current value of the obligation performance and introduces uniform rules for valuation and presentation for all types of insurance contracts. IFRS 17 replaces IFRS 4 Insurance Contracts and the related interpretations.

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

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

4. Material values based on professional judgment and estimates

In the period of 9 months ended 30 September 2018, changes to material estimates related to the following items:

- **property, plant and equipment:**
  – residual value and depreciation of rolling stock assets – as at 31 December 2017, the Group updated the residual value of rolling stock caused by the increase in the market prices of scrap metal compared to the prices adopted by the Group for measurement of the residual value of rolling stock in previous periods. The increase in the residual value and the decrease in the base for calculating depreciation charges caused a decrease in depreciation costs for the period of 9 months ended 30 September 2018 by approximately PLN 25,000 thousand.
  – impairment loss on rolling stock assets – in the period of the first 9 months of 2018, certain redundant rolling stock assets were identified as part of the optimization processes executed in the AWT group. After the analysis and taking into account the effects of the optimization processes, the Parent Company's Management Board made a decision to recognize an impairment loss on the redundant rolling stock assets in the amount of PLN 18,034 thousand.
- **provisions for employee benefits** – the valuation of provisions for employee benefits in the Parent Company is based on the assumptions adopted as at 30 June 2018. The actuarial valuation as at 30 June 2018 was performed in connection with the need to include in the valuation the employee wage increase agreed upon with trade unions coming into effect in September 2018. Moreover, an actuarial valuation of provisions for employee benefits was performed by PKP CARGOTABOR Sp. z o.o. due to a change in the assumptions regarding an increase in the minimum employee compensation rate. The valuation of provisions for employee benefits as at 30 September 2018 in other companies is based on the assumptions adopted for valuation as at 31 December 2017. The Parent Company's share in the value of the Group's provisions for employee benefits, as measured using the actuarial method, is approx. 90%. The effect of the recalculation is presented in **Note 25** to these Quarterly Condensed Consolidated Financial Statements.
- **deferred tax** – the effect of the recalculated balance of deferred tax as at 30 September 2018 is presented in **Note 9** to these Quarterly Condensed Consolidated Financial Statements.

During the 9 months ended 30 September 2018, no other changes were made to the assumptions adopted by the Parent Company's Management Board for the calculation of estimates that would have a material impact on the current period or any future periods.

5. Revenue from sales of services and finished products

Structure of revenue from sales of services and finished products

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

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

	9 months ended 30/09/2018	3 months ended 30/09/2018	9 months ended 30/09/2017 (*)	3 months ended 30/09/2017 (*)
Revenue from rail transportation and freight forwarding services, including:	3,193,921	1,100,867	2,899,165	1,010,597
Penalties for non-performed sales agreements	3,727	381	1,763	56
Revenue from other transportation activity	137,862	47,271	121,701	40,602
Revenue from siding and traction services	186,245	61,598	178,564	56,389
Revenue from transshipment services	95,325	39,066	57,891	18,220
Revenue from reclamation services	66,450	24,631	50,785	19,982
Other revenue, including:	85,161	31,507	95,840	30,247
Lease of assets	26,091	8,943	30,426	8,939
Revenue from customs agency services	12,893	4,641	11,053	3,793
Sales of finished products	15,053	7,610	18,411	6,636
Repair of rolling stock	7,731	2,567	12,884	2,851
Other	23,393	7,746	23,066	8,028
Total	**3,764,964**	**1,304,940**	**3,403,946**	**1,176,037**

(*) Data for the period of 9 months ended 30 September 2017 have been restated due to the retrospective application of IFRS 15, as has been described in **Note 3** to these Quarterly Condensed Consolidated Financial Statements.

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

5. Revenue from sales of services and finished products (cont.)

Geography

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

Revenue from sales of the Group's services and finished products to external customers broken down based on their country of residence is presented below:

	9 months ended 30/09/2018	3 months ended 30/09/2018	9 months ended 30/09/2017 (*)	3 months ended 30/09/2017 (*)
Poland	2,664,756	937,771	2,422,224	863,914
Czech Republic	452,988	151,659	431,001	137,219
Germany	208,845	75,020	170,645	53,732
Slovakia	114,366	39,570	78,907	26,003
Italy	52,378	15,729	64,240	15,113
Other countries	271,631	85,191	236,929	80,056
Total	**3,764,964**	**1,304,940**	**3,403,946**	**1,176,037**

(*) Data for the period of 9 months ended 30 September 2017 have been restated due to the retrospective application of IFRS 15, as has been described in **Note 3** to these Quarterly Condensed Consolidated Financial Statements.

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

	As at 30/09/2018	As at 31/12/2017
Poland	4,037,945	3,984,039
Czech Republic	781,615	804,841
Other countries	12,821	12,570
Total	**4,832,381**	**4,801,450**

Information on key customers

In the period of 9 months ended 30 September 2018, revenue from any single client did not exceed 10% of the total revenue from sales of services and finished products. In the period of 9 months ended 30 September 2017, the share of sales to one group exceeded 10% and stood at 11.5% of the total revenue from sales of services and finished products.

6. Expenses by kind

Depreciation, amortization and impairment losses

	9 months ended 30/09/2018	3 months ended 30/09/2018	9 months ended 30/09/2017	3 months ended 30/09/2017
Depreciation of property, plant and equipment	394,611	133,123	415,710	137,130
Amortization of intangible assets	13,257	4,185	13,015	4,482
Recognized / (reversed) impairment losses:				
Property, plant and equipment	18,034	(46)	247	-
Total	**425,902**	**137,262**	**428,972**	**141,612**

Consumption of raw materials and energy

	9 months ended 30/09/2018	3 months ended 30/09/2018	9 months ended 30/09/2017	3 months ended 30/09/2017
Fuel consumption	169,977	58,835	135,384	47,768
Consumption of raw materials	76,138	26,745	72,617	23,554
Consumption of electricity, gas and water	325,364	109,717	305,296	100,995
Recognized / (reversed) impairment losses on inventories	887	249	(288)	156
Other	1,369	173	979	274
Total	**573,735**	**195,719**	**513,988**	**172,747**

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6. Expenses by kind (cont.)

External services

	9 months ended 30/09/2018	3 months ended 30/09/2018	9 months ended 30/09/2017	3 months ended 30/09/2017
Line access services from infrastructure managers	543,221	188,296	528,563	187,531
Repair services	35,021	14,188	31,335	13,546
Rent and fees for the use of real properties and rolling stock	154,405	55,897	120,448	42,714
Transport services	341,625	107,894	324,129	109,488
Telecommunication services	4,749	1,574	5,810	2,014
Legal, consulting and similar services	10,181	3,792	14,383	5,219
IT services	32,964	11,199	34,182	11,168
Maintenance and operation services for facilities and fixed assets	22,087	7,773	19,204	5,544
Transshipment services	11,735	4,305	15,840	5,362
Reclamation services	51,563	20,347	29,067	10,842
Other services	40,451	13,169	47,282	17,191
Total	**1,248,002**	**428,434**	**1,170,243**	**410,619**

Employee benefits

	9 months ended 30/09/2018	3 months ended 30/09/2018	9 months ended 30/09/2017	3 months ended 30/09/2017
Payroll	898,494	309,784	823,634	278,135
Social security expenses	192,794	65,199	176,805	59,638
Expenses for contributions to the Company Social Benefits Fund	19,768	6,586	18,308	4,435
Other employee benefits during employment	29,608	7,916	29,985	9,439
Post-employment benefits	5,068	1,670	5,452	1,851
Movement in provisions for employee benefits	53,550	(6,396)	57,237	4,263
Total	**1,199,282**	**384,759**	**1,111,421**	**357,761**

Other expenses by kind

	9 months ended 30/09/2018	3 months ended 30/09/2018	9 months ended 30/09/2017	3 months ended 30/09/2017
Business trips	24,867	8,477	23,542	7,923
Insurance	10,561	3,042	10,023	3,444
Advertising and representation	3,430	1,520	5,418	1,697
Other	2,400	818	2,391	872
Total	**41,258**	**13,857**	**41,374**	**13,936**

7. Other operating revenue and expenses

Other operating revenue

	9 months ended 30/09/2018	3 months ended 30/09/2018	9 months ended 30/09/2017 (*)	3 months ended 30/09/2017 (*)
Profit on disposal				
Profit on sales of non-financial non-current assets	3,842	2,349	6,572	103
Reversed impairment losses				
Trade receivables	8,513	1,506	2,767	627
Other receivables	40	9	35	7
Other				
Penalties and compensations	12,029	5,699	11,150	2,935
Reversal of other provisions	747	368	851	(145)
Interest on trade and other receivables	3,789	1,587	1,826	716
Net result on foreign exchange differences on trade receivables and payables	1,596	(2,067)	-	-
Grants	2,066	1,072	1,191	782
Other	1,450	381	2,072	526
Total	**34,072**	**10,904**	**26,464**	**5,551**

(*) Data for the period of 9 months ended 30 September 2017 have been restated due to the retrospective application of IFRS 15, as has been described in **Note 3** to these Quarterly Condensed Consolidated Financial Statements.

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

7. Other operating revenue and expenses (cont.)

Other operating expenses

	9 months ended 30/09/2018	3 months ended 30/09/2018	9 months ended 30/09/2017 (*)	3 months ended 30/09/2017 (*)
Impairment losses recognized				
Trade receivables	8,062	2,413	4,410	1,269
Other				
Penalties and compensations	6,912	2,424	8,263	4,226
Costs of liquidation of non-current and current assets	3,221	1,956	1,735	402
Provision for penalties imposed by anti-monopoly authorities	1,662	3	957	-
Other provisions	2,916	1,242	15,728	15,377
Court and enforcement expenses	932	330	1,030	317
Expenses under benefits in the form of train fares for persons who are not employees	1,220	386	1,208	408
Interest on trade and other payables	428	97	499	314
Net result on foreign exchange differences on trade receivables and payables	-	-	4,116	(722)
Donations made	159	80	1,206	108
Other	1,344	457	1,113	351
Total	**26,856**	**9,388**	**40,265**	**22,050**

(*) Data for the period of 9 months ended 30 September 2017 have been restated due to the retrospective application of IFRS 15, as has been described in **Note 3** to these Quarterly Condensed Consolidated Financial Statements.

8. Financial income and expenses

Financial revenue

	9 months ended 30/09/2018	3 months ended 30/09/2018	9 months ended 30/09/2017	3 months ended 30/09/2017
Interest income				
Bank deposits and accounts	7,403	2,347	7,065	2,666
Loans granted	564	304	408	142
Other	-	-	198	63
Dividend income on shares and stocks	273	273	256	256
Other				
Profit on shares and stocks, including:				
Profit on sales of shares and stocks	4,969	9	-	-
Profit on valuation of financial assets and liabilities accounted for at fair value through profit or loss, including:				
Valuation of a liability on account of a put option for non-controlling interest	-	-	4,694	-
Valuation of FX forward contracts	-	(21)	114	(48)
Net result on foreign exchange differences	-	-	2,420	(2,164)
Other	93	93	-	-
Total	**13,302**	**3,005**	**15,155**	**915**

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

8. Financial income and expenses (cont.)

Financial expenses

	9 months ended 30/09/2018	3 months ended 30/09/2018	9 months ended 30/09/2017	3 months ended 30/09/2017
Interest expenses				
Interest on bank loans and borrowings	19,539	6,312	21,384	6,927
Interest on finance lease liabilities	3,392	954	4,748	1,507
Interest on long-term liabilities	4	-	480	70
Other	6	1	988	92
Other				
Impairment losses on the value of loans granted	855	208	-	-
Losses on valuation of financial assets and liabilities accounted for at fair value through profit or loss, including:				
Valuation of FX forward contracts	48	48	-	-
Settlement of the discount on provisions for employee benefits	15,245	4,959	15,469	5,164
Net result on foreign exchange differences	1,321	(227)	-	-
Other	2,289	1,053	1,785	601
Total	**42,699**	**13,308**	**44,854**	**14,361**

9. Income tax

Income tax recognized in profit / loss

	9 months ended 30/09/2018	3 months ended 30/09/2018	9 months ended 30/09/2017	3 months ended 30/09/2017
Current income tax				
Current tax expense	57,542	20,360	52,692	18,711
Adjustments recognized in the current year with reference to past years' tax	1,585	320	394	-
Deferred tax				
Deferred income tax of the reporting period	(8,182)	7,020	(30,622)	(7,236)
Income tax recognized in profit / loss	**50,945**	**27,700**	**22,464**	**11,475**

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

Deferred income tax recognized in other comprehensive income

	9 months ended 30/09/2018	3 months ended 30/09/2018	9 months ended 30/09/2017	3 months ended 30/09/2017
Deferred tax on re-measurement of fair value of financial instruments designated as security of cash flows hedges	(3,549)	3,101	2,021	(1,817)
Deferred tax on actuarial earnings / (losses) on post-employment benefits	(750)	-	(4,755)	-
FX differences from translation of the balance of deferred income tax recognized in other comprehensive income (1)	1,938	(991)	1,169	2,758
Deferred income tax recognized in other comprehensive income	**(2,361)**	**2,110**	**(1,565)**	**941**

(1) This item is disclosed under equity within FX differences resulting from translation of financial statements of foreign entities.

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

9. Income tax (cont.)

Balance of deferred tax assets and liabilities

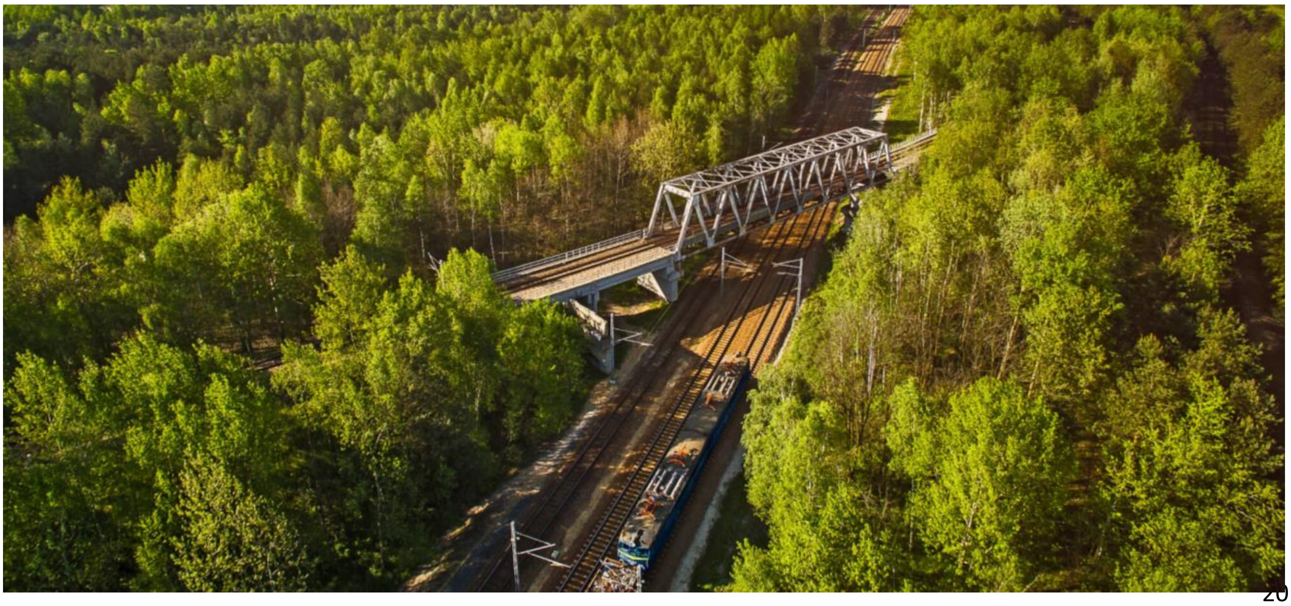
	As at 30/09/2018	As at 31/12/2017
Deferred tax assets	136,769	133,583
Deferred tax liability	(99,434)	(107,418)
Total	**37,335**	**26,165**

Movements in deferred tax

9 months ended 30/09/2018	As at 1/01/2018 (1)	Recognized in profit / loss	Recognized in other comprehensive income	FX differences from translation of deferred income tax balance recognized in other comprehensive income	As at 30/09/2018
Temporary differences relating to deferred tax (liabilities) / assets:					
Property, plant and equipment, intangible assets and non-current assets held for sale (including finance lease)	(144,084)	5,180	-	(2,172)	**(141,076)**
Long-term liabilities	-	(34)	-	-	**(34)**
Inventories	(1,924)	(3,158)	-	6	**(5,076)**
Receivables – impairment losses	8,432	2,543	-	30	**11,005**
Accrued interest related to assets	(333)	7	-	-	**(326)**
Accrued interest related to liabilities	153	(28)	-	-	**125**
Provisions for employee benefits	125,819	1,978	750	54	**128,601**
Other provisions	6,386	(1,641)	-	44	**4,789**
Accrued expenses	1,151	4,047	-	-	**5,198**
Deferred income	(3,351)	(4,306)	-	-	**(7,657)**
Unpaid employee benefits	1,831	6,348	-	-	**8,179**
FX differences	(1,671)	(248)	2,269	-	**350**
Valuation of derivatives instruments	(2,535)	307	1,280	-	**(948)**
Other	(112)	(1,201)	-	(2)	**(1,315)**
Unused tax losses (2)	37,030	(1,612)	-	102	**35,520**
Total	**26,792**	**8,182**	**4,299**	**(1,938)**	**37,335**

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

(2) As at 30 September 2018, deferred tax assets on account of tax losses for use in future periods represented loss of the Parent Company in the amount of PLN 139,748 thousand and of the subsidiaries in the amount of PLN 47,197 thousand. It will be possible to deduct tax losses in the amount of PLN 167,092 thousand within five fiscal years following the end of operation of the tax group. Other tax losses may be deducted within five fiscal years since they have occurred. According to the Parent Company Management Board there is no risk as at 30 September 2018 that it will be impossible to realize the above assets.



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

9. Income tax (cont.)

9 months ended 30/09/2017	As at 1/01/2017	Recognized in profit / loss	Recognized in other comprehensive income	FX differences from translation of deferred income tax balance recognized in other comprehensive income	As at 30/09/2017
Temporary differences relating to deferred tax (liabilities) / assets:					
Property, plant and equipment, intangible assets and non-current assets held for sale (including financial lease)	(183,033)	31,669	-	(1,252)	**(152,616)**
Long-term liabilities	(97)	91	-	-	**(6)**
Inventories	936	(1,284)	-	-	**(348)**
Receivables – impairment losses	7,138	(12)	-	8	**7,134**
Accrued interest related to assets	(241)	(182)	-	-	**(423)**
Accrued interest related to liabilities	182	(44)	-	-	**138**
Provisions for employee benefits	118,565	1,995	4,755	25	**125,340**
Other provisions	3,904	3,662	-	28	**7,594**
Accrued expenses	6,008	1,489	-	-	**7,497**
Deferred income	(3,080)	(1,008)	-	-	**(4,088)**
Unpaid employee benefits	7,375	(38)	-	6	**7,343**
FX differences	2,235	(381)	(1,015)	-	**839**
Valuation of derivatives instruments	218	(22)	(1,006)	-	**(810)**
Other	-	(1,520)	-	-	**(1,520)**
Unused tax losses [(1)]	40,769	(3,793)	-	16	**36,992**
Total	**879**	**30,622**	**2,734**	**(1,169)**	**33,066**

[(1)] As at 30 September 2017, deferred tax assets on account of tax losses for use in future periods represented loss of the Parent Company in the amount of PLN 139,918 thousand and of the subsidiaries in the amount of PLN 54,774 thousand.

Tax loss not recognized in calculation of deferred tax assets

	As at 30/09/2018	As at 31/12/2017
As at the balance sheet date, no deferred tax assets related with the following tax losses were disclosed	55,232	113,508

The amount of tax losses not recognized in the calculation of deferred tax assets as at 30 September 2018 represented losses of the companies of the AWT Group in the amount of PLN 46,087 thousand (AWT CE s.r.o. in the amount of PLN 18,721 thousand, AWT Rail HU Zrt. in the amount of PLN 19,708 thousand and AWT Cechofracht a.s. in the amount of PLN 7,658 thousand) as well as losses incurred by PKP CARGOTABOR USŁUGI Sp. z o.o. in the amount of PLN 7,540 thousand and CARGOSPED Terminal Braniewo Sp. z o.o. in the amount of PLN 1,605 thousand. As at 31 December 2017, the amount of tax losses not recognized in the calculation of deferred tax assets represented losses of the companies of the AWT Group in the amount of PLN 104,345 thousand (AWT B.V. in the amount of PLN 59,073 thousand, AWT a.s. in the amount of PLN 27,389 thousand, AWT Rail HU Zrt. in the amount of PLN 17,883 thousand) as well as losses incurred by PKP CARGOTABOR USŁUGI Sp. z o.o. in the amount of PLN 7,558 thousand and CARGOSPED Terminal Braniewo Sp. z o.o. in the amount of PLN 1,605 thousand. In the period of 9 months ended 30 September 2018, in connection with the registration of a change in the registered office of AWT CE s.r.o. (former AWT B.V.), the company lost the possibility of settling tax losses in the amount of PLN 42,153 thousand.

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

Year	2018	2019	2020	2021	2022	2023 and later on	Total
Unused tax losses	789	3,948	7,881	15,053	13,011	14,550	**55,232**

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

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

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

10. Property, plant and equipment

Change in the balance of property, plant and equipment

9 months ended 30/09/2018	Land	Buildings, premises and civil engineering facilities	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
As at 1/01/2018	**157,192**	**757,406**	**405,900**	**6,125,175**	**39,432**	**41,263**	**7,526,368**
Increases / (decreases):							
Acquisition	-	-	-	-	-	473,813	**473,813**
Finance lease	-	-	766	-	-	-	**766**
Exchange differences resulting from translation of financial statements of foreign entities	319	2,238	742	16,080	41	214	**19,634**
Settlement of fixed assets under construction	3,473	9,547	6,880	428,872	1,140	(449,912)	**-**
Grants	-	-	-	-	-	(6,856)	**(6,856)**
Sales	(20)	(324)	(1,134)	(2,696)	-	-	**(4,174)**
Liquidation	-	(558)	(1,000)	(243,307)	(105)	(1)	**(244,971)**
Reclassified to assets held for sale	-	-	-	(30,306)	-	-	**(30,306)**
Other	-	1	626	22	(649)	-	**-**
As at 30/09/2018	**160,964**	**768,310**	**412,780**	**6,293,840**	**39,859**	**58,521**	**7,734,274**
Accumulated depreciation							
As at 1/01/2018	**-**	**195,696**	**270,627**	**2,189,999**	**31,610**	**-**	**2,687,932**
Increases / (decreases):							
Depreciation expenses	-	27,292	24,465	340,773	2,081	-	**394,611**
Exchange differences resulting from translation of financial statements of foreign entities	-	338	254	3,178	13	-	**3,783**
Sales	-	(156)	(1,003)	(2,551)	-	-	**(3,710)**
Liquidation	-	(492)	(878)	(237,349)	(105)	-	**(238,824)**
Reclassified to assets held for sale	-	-	-	(8,598)	-	-	**(8,598)**
Other	-	1	609	6	(616)	-	**-**
As at 30/09/2018	**-**	**222,679**	**294,074**	**2,285,458**	**32,983**	**-**	**2,835,194**
Accumulated impairment							
As at 1/01/2018	**2,378**	**364**	**317**	**144,759**	**8**	**2,628**	**150,454**
Increases / (decreases):							
Recognition	-	-	-	18,034	-	-	**18,034**
Exchange differences resulting from translation of financial statements of foreign entities	3	2	-	827	-	-	**832**
Liquidation	-	(13)	-	(503)	-	-	**(516)**
Reclassified to assets held for sale	-	-	-	(3,441)	-	-	**(3,441)**
As at 30/09/2018	**2,381**	**353**	**317**	**159,676**	**8**	**2,628**	**165,363**
Net value							
As at 1/01/2018	**154,814**	**561,346**	**134,956**	**3,790,417**	**7,814**	**38,635**	**4,687,982**
including financial lease	-	-	*10,796*	*253,155*	-	-	***263,951***
As at 30/09/2018	**158,583**	**545,278**	**118,389**	**3,848,706**	**6,868**	**55,893**	**4,733,717**
including financial lease	-	-	*7,583*	*184,777*	-	-	***192,360***

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

10. Property, plant and equipment (cont.)

9 months ended 30/09/2017	Land	Buildings, premises and civil engineering facilities	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
As at 1/01/2017	**162,389**	**742,757**	**381,563**	**5,925,512**	**39,889**	**44,274**	**7,296,384**
Increases / (decreases):							
Acquisition	-	-	-	-	-	329,824	**329,824**
Finance lease	-	-	-	702	-	-	**702**
Exchange differences resulting from translation of financial statements of foreign entities	92	752	320	7,952	16	89	**9,221**
Settlement of fixed assets under construction	10	5,388	15,142	302,694	749	(323,983)	**-**
Subsidies	-	-	-	-	-	(1,136)	**(1,136)**
Sales	(934)	(628)	(716)	(4,114)	(102)	-	**(6,494)**
Liquidation	-	(4,976)	(917)	(188,084)	(163)	-	**(194,140)**
Other	(686)	(3,280)	(343)	(4,303)	(1,423)	114	**(9,921)**
As at 30/09/2017	**160,871**	**740,013**	**395,049**	**6,040,359**	**38,966**	**49,182**	**7,424,440**
Accumulated depreciation							
As at 1/01/2017	**-**	**167,999**	**241,431**	**1,953,606**	**31,223**	**-**	**2,394,259**
Increases / (decreases):							
Depreciation expenses	-	25,217	24,949	363,593	1,951	-	**415,710**
Exchange differences resulting from translation of financial statements of foreign entities	-	108	86	1,364	4	-	**1,562**
Sales	-	(243)	(486)	(3,683)	(102)	-	**(4,514)**
Liquidation	-	(3,370)	(887)	(166,634)	(152)	-	**(171,043)**
Other	-	(3,280)	(342)	(4,108)	(1,423)	-	**(9,153)**
As at 30/09/2017	**-**	**186,431**	**264,751**	**2,144,138**	**31,501**	**-**	**2,626,821**
Accumulated impairment							
As at 1/01/2017	**2,380**	**1,924**	**317**	**194,486**	**8**	**2,460**	**201,575**
Increases / (decreases):							
Recognition	-	-	-	-	-	247	**247**
Sales	-	-	-	(5)	-	-	**(5)**
Liquidation	-	(1,559)	-	(8,559)	-	-	**(10,118)**
Exchange differences resulting from translation of financial statements of foreign entities	2	-	-	(918)	-	-	**(916)**
As at 30/09/2017	**2,382**	**365**	**317**	**185,004**	**8**	**2,707**	**190,783**
Net value							
As at 1/01/2017	**160,009**	**572,834**	**139,815**	**3,777,420**	**8,658**	**41,814**	**4,700,550**
including financial lease	-	-	*8,633*	*319,689*	-	-	***328,322***
As at 30/09/2017	**158,489**	**553,217**	**129,981**	**3,711,217**	**7,457**	**46,475**	**4,606,836**
including financial lease	-	-	*6,871*	*259,370*	-	-	***266,241***

(in PLN 000s)

11. Investments in entities accounted for under the equity method

Detailed information on the entities accounted for under the equity method

Name of the entity accounted for under the equity method	Percent of shares held by the Group		Carrying amount	
	As at 30/09/2018	As at 31/12/2017	As at 30/09/2018	As at 31/12/2017
COSCO Shipping Lines (POLAND) Sp. z o.o.	20.0%	20.0%	991	483
Pol - Rail S.r.l	50.0%	50.0%	7,825	8,437
Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	50.0%	50.0%	14,747	18,885
Transgaz S.A.	64.0%	64.0%	7,001	6,362
Trade Trans Finance Sp. z o.o.	100.0%	100.0%	8,155	7,935
Rentrans Cargo Sp. z o.o.	29.3%	29.3%	8,174	7,889
PPHU “Ukpol” Sp. z o.o.	100.0%	100.0%	-	-
PKP CARGO CONNECT GmbH	100.0%	100.0%	1,088	465
AWT Rail SK a. s.	100.0%	100.0%	3,430	3,154
Total			**51,411**	**53,610**

Investments in entities accounted for under the equity method

	9 months ended 30/09/2018	9 months ended 30/09/2017
Balance as at the beginning of the reporting period	**53,610**	**58,219**
Share in the profit / (loss) of entities accounted for under the equity method	(1,124)	1,430
Change in equity arising from dividends	(1,365)	(4,936)
Exchange differences resulting from translation of financial statements of foreign entities	290	(477)
Balance as at the end of the reporting period	**51,411**	**54,236**

12. Other financial assets

Structure of other financial assets

	As at 30/09/2018	As at 31/12/2017
FX forwards	5,091	12,047
Shares of Polish entities [1]	4,902	6,040
Shares of foreign entities [1]	904	1,246
Loans granted to related parties	-	1,069
Bank deposits over 3 months	403,276	253,805
Total	**414,173**	**274,207**
Non-current assets	6,646	10,537
Current assets	407,527	263,670
Total	**414,173**	**274,207**

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

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

13. Other non-financial assets

Structure of other non-financial assets

	As at 30/09/2018	As at 31/12/2017
Costs settled in time		
Prepayments for purchase of electricity	30,790	23,433
Lease rents	13,338	12,829
Insurance	9,491	7,934
IT services	3,855	802
Transportation benefits for eligible persons	3,702	-
Prepayments to the Company Social Benefits Fund	8,634	-
Other costs settled over time	4,181	3,291
Other		
Prepayments for purchase of non-financial non-current assets	1	1,060
Other	901	970
Total	**74,893**	**50,319**
Non-current assets	13,112	14,726
Current assets	61,781	35,593
Total	**74,893**	**50,319**

14. Inventories

Structure of inventories

	As at 30/09/2018	As at 31/12/2017
Raw materials	157,133	145,820
Semi-finished products	2,786	5,912
Goods for resale	1,168	1,766
Impairment losses	(5,411)	(5,034)
Total	**155,676**	**148,464**

15. Trade and other receivables

Structure of trade and other receivables

	As at 30/09/2018	As at 31/12/2017
Trade receivables	901,136	844,834
Impairment loss on trade receivables	(160,027)	(156,028)
	741,109	688,806
Receivables from sale of non-financial non-current assets	-	111
Public law settlements	3,962	1,682
Guarantees, deposits and bid bonds	1,019	1,474
Dividends settlements	572	-
VAT settlements	31,292	37,276
Other settlements	3,664	2,022
Total	**781,618**	**731,371**
Non-current assets	1,365	1,836
Current assets	780,253	729,535
Total	**781,618**	**731,371**

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

16. Cash and cash equivalents

Structure of cash and cash equivalents

	As at 30/09/2018	As at 31/12/2017
Cash on hand and on bank accounts	142,016	172,100
Bank deposits up to 3 months	120,558	344,676
Total	**262,574**	**516,776**
including restricted cash	33,207	35,444

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

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

17. Non-current assets classified as held for sale

Structure of non-current assets classified as held for sale

	As at 30/09/2018	As at 31/12/2017
Means of transport	1,472	-
Total	**1,472**	**-**

In June 2018, the Parent Company decided to sell 2,246 freight cars worth PLN 18,267 thousand, reclassifying them to the group of non-current assets held for sale. The sale is currently underway and as at 30 September 2018 the value of rail cars remaining to be sold was PLN 1,472 thousand.

18. Equity

Share capital

	As at 30/09/2018	As at 31/12/2017
The share capital consists of:		
Ordinary shares – fully paid up and registered	2,239,346	2,239,346

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

In the period of 9 months ended 30 September 2018 and the period of 9 months ended 30 September 2017, there were no movements in the Parent Company's share capital.

Supplementary capital

	As at 30/09/2018	As at 31/12/2017
Share premium (agio)	201,263	201,263
Distribution of profit (established pursuant to statutory regulations)	56,230	48,712
Distribution of profit (established in excess statutory value)	230,699	229,349
Capital formed from redemption of shares	139,982	139,982
Total	**628,174**	**619,306**

In the period of 9 months ended 30 September 2018, changes in the Group's supplementary capital resulted from a resolution of 13 June 2018 adopted by the Ordinary Shareholder Meeting of PKP CARGO S.A. in the matter of a partial allocation to supplementary capital of the net profit generated in 2017 of PLN 7,518 thousand, and a resolution of 29 June 2018 adopted by the Ordinary Shareholder Meeting of PKP CARGO SERVICE Sp. z o.o. in the matter of a partial allocation to supplementary capital of the net profit generated in 2017 of PLN 733 thousand and resolution of 29 May 2018 adopted by the Ordinary Shareholder Meeting of CARGOSPED Terminal Braniewo Sp. z o.o. in the matter of a partial allocation to supplementary capital of the net profit generated in 2017 of PLN 617 thousand.

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

18. Equity (cont.)

Retained earnings

On 13 June 2018, the Shareholder Meeting of PKP CARGO S.A. adopted a resolution on the distribution of the net profit earned in 2017 of PLN 93,967 thousand as follows:

a) allocate PLN 7,518 thousand to increase the supplementary capital,

b) allocate PLN 86,449 thousand to cover losses for previous years.

As at 1 January 2018, retained earnings were restated in connection with the implementation of IFRS 9, as described in **Note 3** to these Quarterly Condensed Consolidated Financial Statements.

19. Earnings per share

Earnings used for calculation of basic and diluted earnings per share:

	9 months ended 30/09/2018	3 months ended 30/09/2018	9 months ended 30/09/2017	3 months ended 30/09/2017
Profit attributable to the owners of the Parent Company	194,246	104,692	51,741	32,379

Basic earnings per share

	9 months ended 30/09/2018	3 months ended 30/09/2018	9 months ended 30/09/2017	3 months ended 30/09/2017
Weighted average number of common shares (pcs.)	44,786,917	44,786,917	44,786,917	44,786,917
Basic earnings per share (PLN per share)	**4.34**	**2.34**	**1.16**	**0.73**

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

Diluted earnings per share

	9 months ended 30/09/2018	3 months ended 30/09/2018	9 months ended 30/09/2017	3 months ended 30/09/2017
Weighted average number of common shares (pcs.)	44,786,917	44,786,917	44,786,917	44,786,917
Diluted earnings per share (PLN per share)	**4.34**	**2.34**	**1.16**	**0.73**

In the period of 9 months ended 30 September 2018 and the period of 9 months ended 30 September 2017, there were no transactions of a diluting nature.

20. Bank loans and borrowings

Structure of bank loans and borrowings

	As at 30/09/2018	As at 31/12/2017
Bank loans – secured on assets	90,763	99,430
Bank loans – other	1,301,897	1,460,651
Loans from related parties	1,382	1,311
Loans from other entities	825	938
Total	**1,394,867**	**1,562,330**
Long-term liabilities	1,146,327	1,312,629
Short-term liabilities	248,540	249,701
Total	**1,394,867**	**1,562,330**

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

20. Bank loans and borrowings (cont.)

Summary of loan agreements

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

Parent Company

Type of loan	Bank Name	Collateral	Maturity	As at 30/09/2018	As at 31/12/2017
Investment loan	Bank Polska Kasa Opieki S.A. (1)	Bank enforcement title	31/12/2017	-	822
Investment loan	Bank Gospodarstwa Krajowego	Bank enforcement title	31/03/2021	198,728	275,341
Investment loan	European Investment Bank	No collateral	29/05/2020	29,802	42,578
Investment loan	Bank Gospodarstwa Krajowego	Statement on submission to enforcement certified by a notary	20/12/2026	57,674	60,072
Investment loan	Bank Gospodarstwa Krajowego	Statement on submission to enforcement certified by a notary	20/12/2026	326,827	340,421
Investment loan	Bank Polska Kasa Opieki S.A.	Statement on submission to enforcement certified by a notary	31/12/2026	573,576	617,489
Investment loan	European Investment Bank	No collateral	29/08/2031	90,801	93,777
Total				**1,277,408**	**1,430,500**

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

Subsidiaries

Type of loan	Bank Name	Collateral	Maturity	As at 30/09/2018	As at 31/12/2017
Overdraft	PKO Bank Polski S.A.	Capped mortgage, pledge on inventories	15/07/2019	392	25
Investment loan	Bank Polska Kasa Opieki S.A.	Statement on submission to enforcement certified by a notary	20/12/2021	4,878	6,004
Investment loan	Bank Polska Kasa Opieki S.A.	Statement on submission to enforcement certified by a notary	31/12/2021	3,064	3,771
Loan	WFOŚIGW Łódź	1) Blank promissory note 2) Irrevocable power-of-attorney to bank account 3) Surety of PKP CARGO S.A.	31/03/2024	825	938
Investment loan	Bank Polska Kasa Opieki S.A.	Statement on submission to enforcement certified by a notary	31/12/2021	7,185	8,844
Investment loan	Bank Polska Kasa Opieki S.A.	Statement on submission to enforcement certified by a notary	31/12/2021	9,362	11,532
Investment loan	ING Bank N.V. UniCredit Bank Czech Republic and Slovakia a.s. Raiffeisenbank a.s.	1) Pledge on property, plant and equipment and receivables 2) Pledge on bank accounts 3) Assignment of rights under insurance policy	26/09/2021	49,473	48,713
Investment loan	ING Bank N.V. UniCredit Bank Czech Republic and Slovakia a.s. Raiffeisenbank a.s.	1) Pledge on property, plant and equipment and receivables 2) Pledge on bank accounts 3) Assignment of rights under insurance policy	30/06/2021	40,898	50,692
Loan	AWT Rail SK a.s.	No collateral	31/12/2018	1,382	1,311
Total				**117,459**	**131,830**

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

20. Bank loans and borrowings (cont.)

Unused lines of credit

Type of loan	Bank Name	Period of availability	Currency	As at 30/09/2018	As at 31/12/2017
Investment loan	European Investment Bank	19/07/2020	EUR	70,200	68,549
Overdraft	Bank Polska Kasa Opieki S.A.	25/05/2018	PLN	-	100,000
Overdraft	Bank Polska Kasa Opieki S.A. (1)	24/05/2019	PLN	100,000	-
Overdraft	PKO Bank Polski S.A.	15/07/2019	PLN	608	974
Total				**170,808**	**169,523**

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

Breaches of the terms and conditions of loan agreements

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

21. Finance lease liabilities

Structure of finance lease liabilities

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

	As at 30/09/2018			As at 31/12/2017		
	Minimum fees	Future financial charges	Current value of minimum fees	Minimum fees	Future financial charges	Current value of minimum fees
Up to 1 year	30,838	(3,179)	**27,659**	51,955	(3,915)	**48,040**
Longer than 1 year and up to 5 years	81,446	(5,388)	**76,058**	93,623	(7,444)	**86,179**
Over 5 years	777	(4)	**773**	4,991	(115)	**4,876**
Total	**113,061**	**(8,571)**	**104,490**	**150,569**	**(11,474)**	**139,095**
Long-term liabilities	82,223	(5,392)	**76,831**	98,614	(7,559)	**91,055**
Short-term liabilities	30,838	(3,179)	**27,659**	51,955	(3,915)	**48,040**
Total	**113,061**	**(8,571)**	**104,490**	**150,569**	**(11,474)**	**139,095**

22. Other financial liabilities

Structure of other financial liabilities

	As at 30/09/2018	As at 31/12/2017
Interest Rate Swap (IRS)	-	272
FX forwards	102	-
Total	**102**	**272**
Long-term liabilities	89	-
Short-term liabilities	13	272
Total	**102**	**272**

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

23. Reconciliation of debt liabilities

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

Net debt

	As at 30/09/2018	As at 31/12/2017
Bank loans and borrowings	1,394,867	1,562,330
Finance lease liabilities	104,490	139,095
Total debt	**1,499,357**	**1,701,425**
Cash and cash equivalents	262,574	516,776
Bank deposits over 3 months	403,276	253,805
Total net debt	**833,507**	**930,844**
EBITDA for the last 12 months	**872,053**	**701,885**
Net debt / EBITDA	**1.0**	**1.3**

Debt liabilities – broken down into currencies / interest rate type

As at 30/09/2018	In the functional currency - PLN	In foreign currency		Total
		EUR	CZK	
Bank loans and borrowings	827,812	517,582	49,473	**1,394,867**
Finance lease liabilities	56,526	42,387	5,577	**104,490**
Total	**884,338**	**559,969**	**55,050**	**1,499,357**
Variable-interest-rate liabilities	883,513	484,963	49,473	**1,417,949**
Fixed-interest-rate liabilities	825	75,006	5,577	**81,408**
Total	**884,338**	**559,969**	**55,050**	**1,499,357**

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

Reconciliation of movement in debt liabilities

	Bank loans and borrowings	Finance lease liabilities	Total
As at 1/01/2018	**1,562,330**	**139,095**	**1,701,425**
Obtained debt	367	766	**1,133**
Commission expenses	1,211	-	**1,211**
Accrual of interest	19,539	3,392	**22,931**
Payments under debt, including:			
Repayments of the principal	(181,652)	(37,111)	**(218,763)**
Paid interest	(19,878)	(3,392)	**(23,270)**
Commission expenses	(1,211)	-	**(1,211)**
FX valuation	12,246	954	**13,200**
Exchange differences resulting from translation of financial statements of foreign entities	1,915	786	**2,701**
As at 30/09/2018	**1,394,867**	**104,490**	**1,499,357**

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

23. Reconciliation of debt liabilities (cont.)

	Bank loans and borrowings	Finance lease liabilities	Other	Total
As at 1/01/2017	**1,471,408**	**200,490**	**118,704**	**1,790,602**
Obtained debt	50,521	-	-	**50,521**
Commission expenses	1,275	-	-	**1,275**
Accrual of interest	21,343	4,748	-	**26,091**
Payments under debt, including:				
Repayments of the principal	(194,074)	(47,484)	-	**(241,558)**
Paid interest	(21,525)	(4,748)	-	**(26,273)**
Commission expenses	(1,275)	-	-	**(1,275)**
(Profits) / losses from revaluation of liability related to the put option for non-controlling interest	-	-	(4,694)	**(4,694)**
Settlement of the “put” option for non-controlling interest	-	-	(114,010)	**(114,010)**
FX valuation	(7,795)	(3,844)	-	**(11,634)**
Exchange differences resulting from translation of financial statements of foreign entities	769	1,349	-	**2,113**
As at 30/09/2017	**1,320,647**	**150,511**	**-**	**1,471,158**

24. Trade and other payables

Structure of trade and other payables

	As at 30/09/2018	As at 31/12/2017
Trade payables (including accrued expenses)	466,843	447,186
Liabilities arising from the purchase of non-financial non-current assets	47,247	79,046
Liabilities arising out of collateral (deposits, bid bonds, guarantees)	33,875	42,114
Public law liabilities [1]	113,792	78,360
Settlements with employees	95,433	87,261
Received grants	2,910	6,019
Other settlements	4,566	3,070
VAT settlements	7,179	8,258
Total	**771,845**	**751,314**
Long-term liabilities	5,783	1,578
Short-term liabilities	766,062	749,736
Total	**771,845**	**751,314**

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

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

25. Provisions for employee benefits

Structure of provisions for employee benefits

	As at 30/09/2018	As at 31/12/2017
Post-employment defined benefit plans		
Retirement and disability severance benefits	179,915	166,898
Company Social Benefits Fund	131,853	143,522
Transportation benefits	33,297	33,665
Post-mortem benefits	7,255	7,145
Other employee benefits		
Jubilee awards	276,815	274,116
Other employee benefits (unused holidays/bonuses)	51,789	37,207
Total	**680,924**	**662,553**
Long-term liabilities	557,361	558,547
Short-term liabilities	123,563	104,006
Total	**680,924**	**662,553**

26. Other provisions

Structure of other provisions

	As at 30/09/2018	As at 31/12/2017
Provisions for penalties imposed by anti-monopoly authorities	15,888	14,224
Provision for land reclamation	5,187	5,000
Provision for onerous contracts	6,989	16,660
Provision for liabilities related to VAT settlements	23,276	22,334
Other provisions	20,025	23,954
Total	**71,365**	**82,172**
Long-term liabilities	22,188	22,446
Short-term liabilities	49,177	59,726
Total	**71,365**	**82,172**

Provisions for penalties imposed by anti-monopoly authorities

As at 30 September 2018, this item included:

- provision of PLN 14,224 thousand for a penalty imposed by the Office for Competition and Consumer Protection,
- provision of PLN 1,664 thousand for a penalty, recognized in connection with a pending procedure initiated by the Czech Antimonopoly Office.

In the period of 9 months ended 30 September 2018, the movement in provisions was due to the administrative procedure initiated in October 2016 by the Czech Antimonopoly Office against AWT Čechofracht a.s. in connection with the suspicion of involvement in a cartel arrangement in 2004-2010. As a result of the progress of the procedure and analysis of its current status, the Group decided to recognize a provision of PLN 1,664 thousand for a potential penalty.

Provision for land reclamation

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

Provision for onerous contracts

As at 31 December 2017, this provision represented the amount of the anticipated loss for two procurement agreements for which the inevitable costs of fulfilling the resulting duties were higher than the predicted benefits achievable under those agreements. As a result of the performance of these agreements in the period of 9 months ended 30 September 2018, the amount of PLN 9,671 thousand of the provision was utilized.

Provision for liabilities related to VAT settlements

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

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

26. Other provisions (cont.)

Other provisions

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

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

27. Financial instruments

Categories and classes of financial instruments

Financial assets by categories and classes	Note	As at 30/09/2018	Financial assets by categories and classes	As at 31/12/2017
Hedging financial instruments [1]			**Hedging financial instruments**	
Derivatives	**12**	5,091	Derivatives	12,047
Financial assets measured at fair value through other comprehensive income			**Available-for-sale financial assets**	
Investments in equity instruments	**12**	5,806	Shares in unlisted companies	7,286
Financial assets measured at amortized cost			**Loans and receivables**	
Trade receivables	**15**	741,109	Trade receivables	688,806
Receivables from sale of non-financial non-current assets	**15**	-	Receivables from sale of non-financial non-current assets	111
Loans granted	**12**	-	Loans granted	1,069
Bank deposits over 3 months	**12**	403,276	Bank deposits over 3 months	253,805
Cash and cash equivalents	**16**	262,574	Cash and cash equivalents	516,776
Total		**1,417,856**	**Total**	**1,479,900**

Financial liabilities by categories and classes	Note	As at 30/09/2018	As at 31/12/2017
Hedging financial instruments [1]			
Derivatives	**22**	102	272
Bank loans and borrowings	**20**	475,213	494,171
Financial liabilities measured at amortized cost			
Bank loans and borrowings	**20**	919,654	1,068,159
Trade payables	**24**	466,843	447,186
Liabilities arising from the purchase of non-financial non-current assets	**24**	47,247	79,046
Financial liabilities excluded from the scope of IFRS 9 / IAS 39	**21**	104,490	139,095
Total		**2,013,549**	**2,227,929**

Impairment losses on the value of equity shares in unlisted companies and trade receivables are described in **Note 12** and **Note 15** to these Quarterly Condensed Consolidated Financial Statements, respectively.

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

The Parent Company established the following hedging instruments:

- investment loans denominated in EUR. The hedged cash flows will be realized until August 2031. As at 30 September 2018, the nominal amount of the hedging instrument was EUR 111,255 thousand, which is an equivalent of PLN 475,213 thousand,
- in forward foreign exchange contracts. The hedged cash flows will be realized until September 2020. As at 30 September 2018, the value of assets and liabilities on account of the measurement of hedging instruments was PLN 4,768 thousand and PLN 102 thousand, respectively.

This item also includes measurement of hedging instruments in a subsidiary in the form of forward foreign exchange contracts on the EUR/PLN currency pair, hedging future cash flows. The hedged cash flows will be realized until August 2019. As at 30 September 2018, the value of the assets on account of the measurement of hedging instruments was PLN 323 thousand.

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

27. Financial instruments and principles of financial risk management (cont.)

Fair value hierarchy

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

	As at 30/09/2018		As at 31/12/2017
	Level 2	Level 3	Level 2
Assets			
Derivatives – forward foreign exchange contracts	5,091	-	12,047
Investments in equity instruments – shares in unlisted companies	-	5,806	-
Liabilities			
Derivatives – IRS contracts	-	-	272
Derivatives – forward foreign exchange contracts	102	-	-

Measurement methods for financial instruments carried at fair value

a) Forward foreign exchange contracts

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

b) Investments in equity instruments

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

Shares in other companies not listed on active markets are measured at cost, which as at 30 September 2018 was PLN 1,755 thousand, less impairment losses of PLN 832 thousand. In the Group's opinion, due to limitations in the extent of available information, this method of measurement reflects the fair value of these assets.

c) IRS contracts

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

d) Other financial instruments

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

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

	9 months ended 30/09/2018	9 months ended 30/09/2017
As at the beginning of the reporting period (1)	**6,147**	**(118,704)**
Profit / (loss) on revaluation	-	4,694
Settlement of put option for non-controlling interest	-	114,010
Sale of a shares in an unlisted company	(366)	-
Exchange differences resulting from translation of financial statements of foreign entities	25	-
As at the end of the reporting period	**5,806**	**-**

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

In the period of 9 months ended 30 September 2018 and the period of 9 months ended 30 September 2017, there were no transfers between level 2 and level 3 of the fair value hierarchy.

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

27. Financial instruments and principles of financial risk management (cont.)

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

9 months ended 30/09/2018	Hedging financial instruments	Investments in equity instruments	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Dividends and profit-sharing	-	273	-	-	-	**273**
Interest income / (expense)	(2,234)	-	10,506	(17,404)	(3,392)	**(12,524)**
FX differences	17	-	3,734	(2,424)	(954)	**373**
Impairment losses / revaluation	(48)	-	(404)	-	-	**(452)**
Commission in connection with bank loans	-	-	-	(1,211)	-	**(1,211)**
(Profit) / loss on the sale of investments	-	4,969	-	-	-	**4,969**
Effect of settlement of cash flow hedge accounting [(1)]	5,623	-	-	-	-	**5,623**
Gross profit / (loss)	**3,358**	**5,242**	**13,836**	**(21,039)**	**(4,346)**	**(2,949)**
Movement in revaluation [(2)]	(18,587)	-	-	-	-	**(18,587)**
Other comprehensive income	**(18,587)**	**-**	**-**	**-**	**-**	**(18,587)**

[(1)] In the period of 9 months ended 30 September 2018, the effect of settling cash flow hedge accounting was recognized in revenues from the sale of services and finished products in the amount of PLN 5,910 thousand and in financial expenses in respect of interest on finance lease liabilities in the amount of PLN (287) thousand.
[(2)] In the period of 9 months ended 30 September 2018, this item includes movement in the valuation of derivatives in the amount of PLN (6,738) thousand and bank loans in the amount of PLN (11,849) thousand designated as hedging financial instruments as part of the hedge accounting applied by the Group.

9 months ended 30/09/2017	Hedging financial instruments	Available-for-sale financial assets	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
Dividends and profit-sharing	-	256	-	-	-	-	**256**
Interest income / (expense)	(793)	-	9,299	-	(21,570)	(4,748)	**(17,812)**
FX differences	7	-	(7,834)	-	4,497	1,509	**(1,821)**
Impairment losses / revaluation	114	-	(1,351)	4,694	-	-	**3,457**
Commission in connection with bank loans	-	-	-	-	(1,275)	-	**(1,275)**
Effect of settlement of cash flow hedge accounting [(1)]	5,454	-	-	-	-	-	**5,454**
Gross profit / (loss)	**4,782**	**256**	**114**	**4,694**	**(18,348)**	**(3,239)**	**(11,741)**
Movement in revaluation [(2)]	10,637	-	-	-	-	-	10,637
Other comprehensive income	**10,637**	**-**	**-**	**-**	**-**	**-**	**10,637**

[(1)] In the period of 9 months ended 30 September 2017, the effect of settling cash flow hedge accounting was recognized in revenues from the sale of services and finished products in the amount of PLN 6,150 thousand and in financial expenses in respect of interest on finance lease liabilities in the amount of PLN (696) thousand.
[(2)] In the period of 9 months ended 30 September 2017, this item includes movement in the valuation of derivatives in the amount of PLN 5,297 thousand and bank loans in the amount of PLN 5,340 thousand designated as hedging financial instruments as part of the hedge accounting applied by the Group.

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

28. Related party transactions

Transactions with the State Treasury and its other related parties

In the period of 9 months ended 30 September 2018 and the period of 9 months ended 30 September 2017, the State Treasury was a higher-level parent entity of the PKP CARGO Group. Accordingly, all companies owned by the State Treasury (directly or indirectly) are the Group's related parties and are presented separately as PKP Group related parties and other State Treasury related parties. In these Quarterly Condensed Consolidated Financial Statements, the Parent Company's Management Board has disclosed transactions with material related parties identified as such according to the best knowledge of the Management Board.

In the period of 9 months ended 30 September 2018 and the period of 9 months ended 30 September 2017, there were no individual transactions effected between the PKP CARGO Group and the State Treasury or other entities related to the State Treasury which would be significant due to a non-standard scope or amount. In the periods covered by these Quarterly Condensed Consolidated Financial Statements, the Group's most important clients among other parties related to the State Treasury were members of the following groups: JSW, Azoty, Enea, PGG and PGE. In the periods covered by these Quarterly Condensed Consolidated Financial Statements, there were no purchase transactions with other entities related to the State Treasury with any material value.

Transactions with PKP Group related parties

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

	9 months ended 30/09/2018		9 months ended 30/09/2017	
	Sales to related parties	Purchases from related parties	Sales to related parties	Purchases from related parties
Parent Company (PKP S.A.)	281	52,173	273	51,084
Subsidiaries / co-subsidiaries	6,785	10,102	6,682	11,376
Associates	1,725	235	1,755	425
Other PKP Group related parties	9,387	536,291	24,879	508,187

	As at 30/09/2018		As at 31/12/2017	
	Receivables from related parties	Liabilities to related parties	Receivables from related parties	Liabilities to related parties
Parent Company (PKP S.A.)	261	9,416	1,292	7,950
Subsidiaries / co-subsidiaries	1,515	964	1,226	1,580
Associates	1,481	9	179	-
Other PKP Group related parties	2,200	72,288	2,529	60,879

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

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

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

28. Related party transactions (cont.)

Loans granted to / received from related parties

	As at 30/09/2018	As at 31/12/2017
Loans granted to related parties	-	1,069
Loans received from related parties	1,382	1,311

Remunerations of key management personnel

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

Remunerations of the Parent Company's Management Board Members were as follows:	9 months ended 30/09/2018	9 months ended 30/09/2017
Short-term benefits	1,726	1,952
Post-employment benefits	461	872
Termination benefits	129	352
Total	**2,316**	**3,176**

Remunerations of the Parent Company's Supervisory Board Members were as follows:	9 months ended 30/09/2018	9 months ended 30/09/2017
Short-term benefits	737	831
Total	**737**	**831**

Remunerations of the other members of the Parent Company’s key management personnel were as follows:	9 months ended 30/09/2018	9 months ended 30/09/2017 (restated*)
Short-term benefits	4,725	4,193
Post-employment benefits	659	851
Termination benefits	85	355
Total	**5,469**	**5,399**

Remunerations of the Subsidiaries’ Management Board Members were as follows:	9 months ended 30/09/2018	9 months ended 30/09/2017
Short-term benefits	5,487	6,965
Post-employment benefits	2,083	663
Termination benefits	48	-
Total	**7,618**	**7,628**

Remunerations of the Subsidiaries’ Supervisory Board Members were as follows:	9 months ended 30/09/2018	9 months ended 30/09/2017
Short-term benefits	830	1,173
Total	**830**	**1,173**

Remunerations of the other members of the Subsidiaries’ key management personnel were as follows:	9 months ended 30/09/2018	9 months ended 30/09/2017 (restated*)
Short-term benefits	14,739	13,963
Post-employment benefits	668	521
Termination benefits	132	50
Total	**15,539**	**14,534**

(*) In the financial year ended 31 December 2017, the Group changed the presentation of other key management personnel, by including into this group, in addition to Managing Directors, also Head Office Department Directors and Directors of other organizational units responsible for the various areas of the Group’s operations. In connection with the change in the presentation, the Group accordingly restated the comparable data for the period of 9 months ended 30 September 2017.

In the period of 9 months ended 30 September 2018 and the period of 9 months ended 30 September 2017, members of the key management personnel of the Parent Company and the PKP CARGO Group subsidiaries did not enter into any loan or guarantee transactions with the Group.

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

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

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

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

	As at 30/09/2018	As at 31/12/2017
Contractual liabilities arising from the acquisition of non-financial non-current assets	664,843	23,908
Total	**664,843**	**23,908**

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

- a contract entered into with NEWAG S.A. for modernization of 60 SM48 locomotives with a total value of PLN 375,489 thousand, to be performed by May 2021,
- a contract entered into with Pojazdy Szynowe PESA Bydgoszcz S.A. to conduct level five maintenance repairs of 38 ST44 locomotives with a total value of PLN 176,334 thousand, to be performed from January 2019 to September 2020,

The remaining part of the Group's investment commitments consisted predominantly of contracts for repairs and periodic inspections of wagons for PLN 42,487 thousand, contracts for the purchase of 70 wagons for PLN 39,970 thousand and a contract to extend the transshipment terminal in Pasków worth PLN 19,762 thousand.

30. Contingent liabilities

Structure of contingent liabilities

	As at 30/09/2018	As at 31/12/2017
Guarantees issued on the Group's order	108,521	130,097
Other contingent liabilities	121,505	129,243
Total	**230,026**	**259,340**

Guarantees issued on the Group's order

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

Other contingent liabilities

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

31. Subsequent events

On 30 October 2018, the Management Board of the Parent Company received information on awarding the grants for three projects submitted by the Parent Company and its subsidiary PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. under the Operational Programme Infrastructure and Environment:

- project entitled: “Multi-system locomotives and wagons for intermodal transport” – awarded grants: PLN 92.4 million,
- project entitled: “Platform wagons for intermodal transport” – awarded grants: PLN 183.4 million,
- project entitled: “Modernization and extension of the Intermodal Terminal in Małaszewicze including the purchase of equipment” – awarded grants: PLN 12.9 million.

On 6 November 2018, the Management Board of the Parent Company concluded an agreement with the trade unions in the matter of launching a pilot of the quarterly task bonus for Q4 2018. The Parent Company estimated that if the assumed objectives are fully realized the amount of additional payouts will be PLN 29.3 million. The parties have additionally decided that insofar as the estimated results of the PKP CARGO Group for the 9 months of 2018 are confirmed, what finally happened, the gratification related to Railway Employee Day will be raised. The Parent Company estimated that the payouts on this account will amount to PLN 13.9 million.

Other subsequent events were described in the Additional Information to the Consolidated Quarterly Report for Q3 2018 in **Chapters 4.6**.

32. Approval of the financial statements

These Quarterly Condensed Consolidated Financial Statements were approved for publication by the Parent Company’s Management Board on 21 November 2018.

Parent Company's Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 21 November 2018

PKPCARGO

Quartely financial information of **PKP CARGO S.A.**

For q3 2018

PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

QUARTERLY SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2018 TO 30 SEPTEMBER 2018

	9 months ended 30/09/2018 (unaudited)	3 months ended 30/09/2018 (unaudited)	9 months ended 30/09/2017 (unaudited restated)	3 months ended 30/09/2017 (unaudited restated)
Revenue from sales of services	2 851 811	992 139	2 611 257	912 076
Revenue from sales of raw materials	20 062	5 132	7 743	3 876
Other operating revenue	20 423	6 224	13 938	4 793
Total operating revenue	**2 892 296**	**1 003 495**	**2 632 938**	**920 745**
Depreciation, amortization and impairment losses	333 808	114 042	352 192	115 645
Consumption of raw materials and energy	464 761	159 892	410 583	141 493
External services	844 623	298 244	847 144	299 764
Taxes and charges	18 296	7 344	24 817	7 339
Employee benefits	914 211	290 259	848 419	270 771
Other expenses by kind	31 425	11 201	31 424	10 651
Cost of raw materials sold	11 171	2 395	4 568	2 629
Other operating expenses	15 052	6 304	24 669	13 643
Total operating expenses	**2 633 347**	**889 681**	**2 543 816**	**861 935**
Profit on operating activities	**258 949**	**113 814**	**89 122**	**58 810**
Financial revenue	37 664	2 644	22 013	62
Financial expenses	34 128	11 058	39 210	12 268
Profit before tax	**262 485**	**105 400**	**71 925**	**46 604**
Income tax	51 140	23 239	17 312	10 481
NET PROFIT	**211 345**	**82 161**	**54 613**	**36 123**
OTHER COMPREHENSIVE INCOME				
Other comprehensive income subject to reclassification in the financial result				
Effective portion of profits / (losses) related to a hedging instrument to hedge cash flows	(17 681)	14 804	9 797	(8 088)
Income tax referring to the other comprehensive income line item	3 377	(2 795)	(1 861)	1 537
Total other comprehensive income subject to reclassification in the financial result	**(14 304)**	**12 009**	**7 936**	**(6 551)**
Other comprehensive income not subject to reclassification in the financial result				
Actuarial profits / (losses) on post-employment benefits	(1 486)	-	(25 028)	-
Income tax referring to the other comprehensive income line item	282	-	4 755	-
Total other comprehensive income not subject to reclassification in the financial result	**(1 204)**		**(20 273)**	**-**
Total other comprehensive income	**(15 508)**	**12 009**	**(12 337)**	**(6 551)**
TOTAL COMPREHENSIVE INCOME	**195 837**	**94 170**	**42 276**	**29 572**
Earnings per share (PLN per share)				
Basic	**4,72**	**1,83**	**1,22**	**0,81**
Diluted	**4,72**	**1,83**	**1,22**	**0,81**

PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

QUARTERLY SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 SEPTEMBER 2018

	As at 30/09/2018 (unaudited)	As at 31/12/2017 (audited)
ASSETS		
Non-current assets		
Property, plant and equipment	3 721 382	3 611 262
Intangible assets	29 163	39 561
Investments in subsidiaries, associates and joint ventures	807 333	804 629
Other non-current financial assets	5 723	8 647
Other non-current non-financial assets	4 093	4 484
Deferred tax assets	87 794	89 904
Total non-current assets	**4 655 488**	**4 558 487**
Current assets		
Inventories	91 188	86 426
Trade and other receivables	522 606	486 607
Other current financial assets	405 195	281 630
Other current non-financial assets	49 771	27 976
Cash and cash equivalents	81 785	295 910
Total current assets	**1 150 545**	**1 178 549**
Non current assets classified as held for sale	1 472	-
TOTAL ASSETS	**5 807 505**	**5 737 036**
EQUITY AND LIABILITIES		
Equity		
Share capital	2 239 346	2 239 346
Supplementary capital	596 720	589 202
Other items of equity	(15 988)	12 469
Retained earnings	479 723	265 444
Total equity	**3 299 801**	**3 106 461**
Long-term liabilities		
Long-term bank loans and borrowings	1 053 207	1 211 148
Long-term finance lease liabilities	251	3 308
Long-term trade and other payables	4 119	-
Long-term provisions for employee benefits	496 838	502 856
Other long-term provisions	14 224	14 224
Other long-term financial liabilities	89	-
Total long-term liabilities	**1 568 728**	**1 731 536**
Short-term liabilities		
Short-term bank loans and borrowings	224 201	219 352
Short-term finance lease liabilities	10 742	31 069
Short-term trade and other payables	576 179	549 188
Short-term provisions for employee benefits	97 788	81 424
Other short-term provisions	9 292	16 905
Other long-term financial liabilities	17 159	-
Short-term tax liabilities	3 615	1 101
Total short-term liabilities	**938 976**	**899 039**
Total liabilities	**2 507 704**	**2 630 575**
TOTAL EQUITY AND LIABILITIES	**5 807 505**	**5 737 036**

PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

QUARTERLY SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2018 TO 30 SEPTEMBER 2018

			Other items of equity				
	Share capital	Supplementary capital	Profits / (losses) on measurement of equity instruments at fair value	Actuarial profits / (losses) on post-employment benefits	Profits / (losses) related to a hedging instrument to hedge cash flow	Retained earnings	TOTAL
As at 1/01/2018 (audited)	**2 239 346**	**589 202**	**-**	**(4 278)**	**16 747**	**265 444**	**3 106 461**
Changes resulting from the implementation of IFRS 9	-	-	(12 949)	-	-	10 452	**(2 497)**
Balance as at 1/01/2018 (restated)	**2 239 346**	**589 202**	**(12 949)**	**(4 278)**	**16 747**	**275 896**	**3 103 964**
Net result for the period	-	-	-	-	-	211 345	**211 345**
Other comprehensive income for the period (net)	-	-	-	(1 204)	(14 304)	-	**(15 508)**
Total comprehensive income	**-**	**-**	**-**	**(1 204)**	**(14 304)**	**211 345**	**195 837**
Other changes equity		7 518				(7 518)	**-**
As at 30/09/2018 (unaudited)	**2 239 346**	**596 720**	**(12 949)**	**(5 482)**	**2 443**	**479 723**	**3 299 801**
As at 1/01/2017 (audited)	**2 239 346**	**589 202**	**-**	**22 249**	**(3 834)**	**171 477**	**3 018 440**
Net result for the period	-	-	-	-	-	54 613	**54 613**
Other comprehensive income for the period (net)	-	-	-	(20 273)	7 936	-	**(12 337)**
Total comprehensive income	**-**	**-**	**-**	**(20 273)**	**7 936**	**54 613**	**42 276**
As at 30/09/2017 (unaudited)	**2 239 346**	**589 202**	**-**	**1 976**	**4 102**	**226 090**	**3 060 716**

PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN '000)

QUARTERLY SEPARATE STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2018 TO 30 SEPTEMBER 2018

	9 months ended 30/09/2018 (unaudited)	9 months ended 30/09/2017 (unaudited)
Cash flows from operating activities		
Profit / (loss) before tax	**262 485**	**71 925**
Adjustments:		
Depreciation of property, plant and equipment and amortization of intangible assets	333 808	351 945
Impairment loss of non-current assets	-	248
(Profit) / loss on the sale and liquidation of property, plant and equipment, intangible assets and non-current assets held for sale	(243)	(1 144)
Foreign exchange (profit) / loss	739	295
(Profit) / loss on interest, dividends	(20 946)	(20)
Received / (paid) interest	3 410	1 452
Received / (paid) income tax	(40 792)	(26 985)
Other adjustments	(7 315)	(20 571)
Change in working capital:		
(Increase) / decrease in trade and other receivables	(41 046)	(53 871)
(Increase) / decrease in inventories	(330)	388
(Increase) / decrease in other assets	(16 300)	(1 308)
Increase / (decrease) in trade and other payables	41 228	(6 935)
Increase / (decrease) in other financial liabilities	102	1 873
Increase / (decrease) in provisions	2 733	39 376
Net cash from operating activities	**517 533**	**356 668**
Cash flows from investing activities		
Expenditures to acquire property, plant and equipment and intangible assets	(472 947)	(307 409)
Proceeds from disposal of property, plant and equipment, intangible assets and non-current assets held for sale	20 178	8 261
Proceeds from interest received	5 784	5 288
Proceeds from dividend received	30 686	14 669
Outflows from bank deposit over 3 months	(150 000)	(250 000)
Net cash from investing activities	**(566 299)**	**(529 191)**
Cash flows from financing activities		
Payments of finance lease liabilities	(24 048)	(35 358)
Interest paid on finance lease liabilities	(366)	(973)
Proceeds from bank loans and borrowings	-	10 733
Repayments of bank loans and borrowings	(164 825)	(172 671)
Interest paid on bank loans and borrowings	(18 006)	(19 965)
Grants received	3 040	-
Inflows / (outflows) as part of cash pool	40 392	(50 329)
Other outflows from financing activities	(1 546)	(1 896)
Net cash from financing activities	**(165 359)**	**(270 459)**
Net increase / (decrease) in cash and cash equivalents	(214 125)	(442 982)
Cash and cash equivalents as at the beginning of the reporting period	295 910	611 990
Cash and cash equivalents as at the end of the reporting period	**81 785**	**169 008**

Other information to **PKP CARGO GROUP'S** consolidated quarterly report

For q3 2018

ADDITIONAL INFORMATION TO THE CONSOLIDATED QUARTERLY REPORT FOR Q3 2018

LIST OF TABLES

LIST OF FIGURES

1. Introduction

Dear Stakeholders,

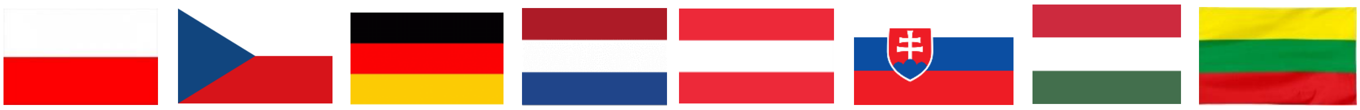
The PKP CARGO Group's excellent performance in Q3 2018 was a result of the hard work put in by all persons employed by the Group in all positions of our organizational structure. By working together, we strive to improve our efficiency, increase the competitiveness of our services and do our best to make our clients satisfied with their cooperation with PKP CARGO. For these reasons, our excellent financial performance is exactly what should have been expected and comes as no surprise to me.

2. Organization of the PKP CARGO Group

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

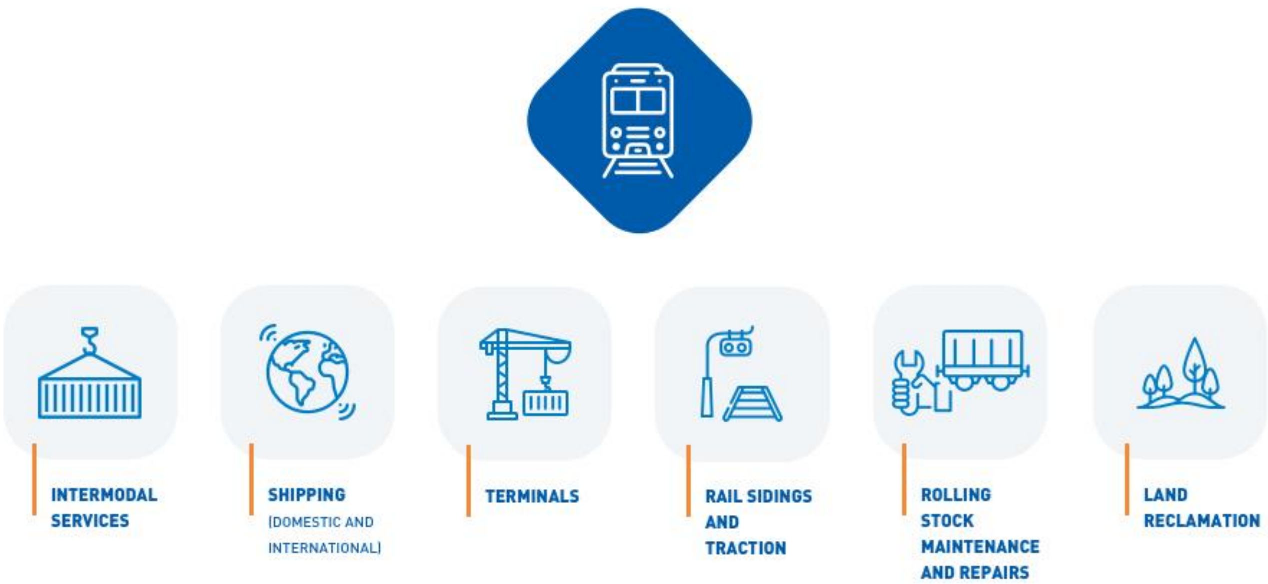
The PKP CARGO Group is the biggest in Poland and one of the biggest rail freight operators in the European Union ("EU"). The Group's development is focused on enhancing and extending its operations in terms of its product range and geographic area. At present, the Group is the leader on the Polish market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

The PKP CARGO Group has a license to provide rail freight services in the territory of the following 8 European Union states:



Poland Czech Republic Germany The Netherlands Austria Slovakia Hungary Lithuania

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



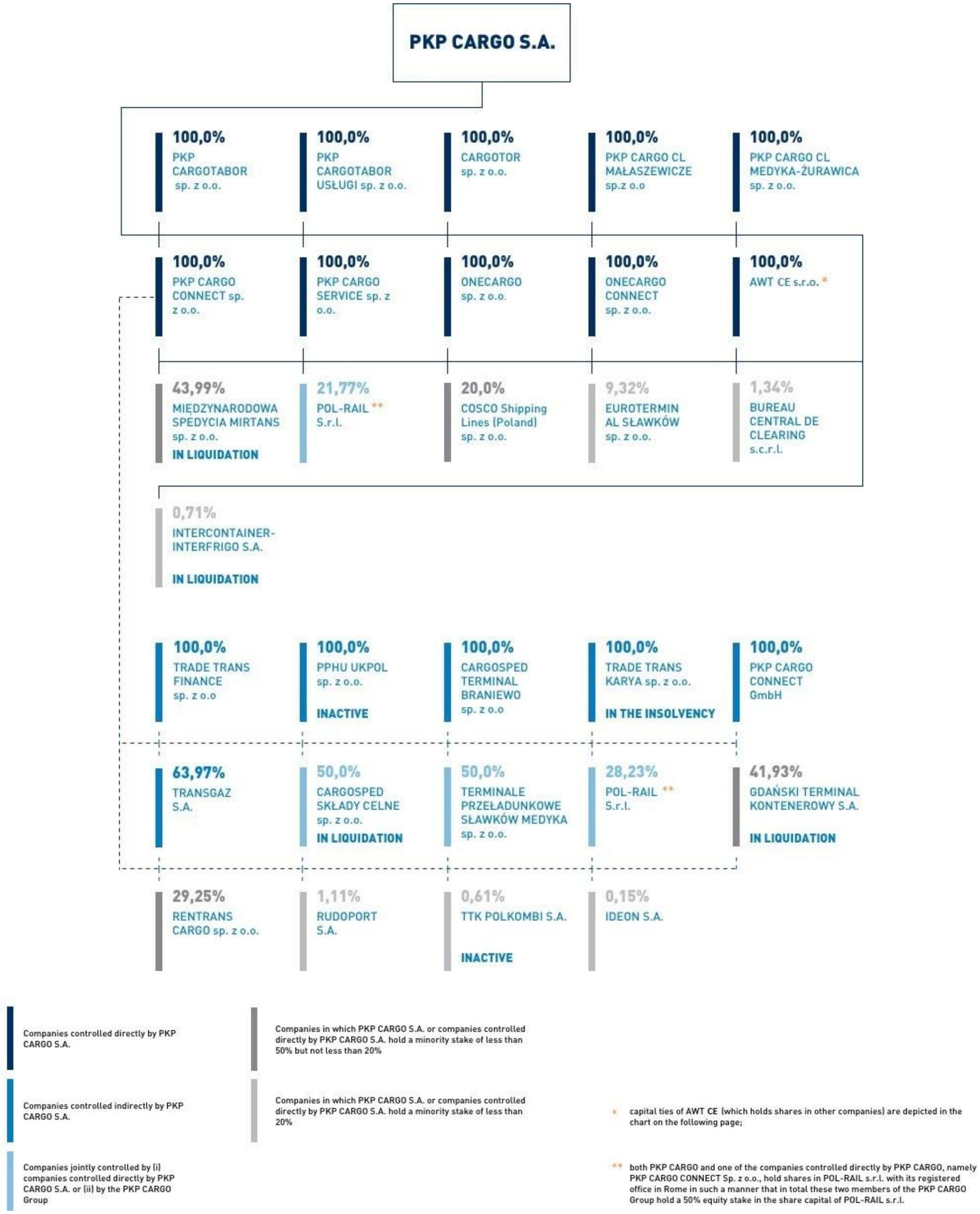
As at 30 September 2018, the PKP CARGO Group comprised of PKP CARGO S.A. as its parent company and 25 subsidiaries. Moreover, the Group has 3 associated entities and holds a stake in 2 joint ventures.

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

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

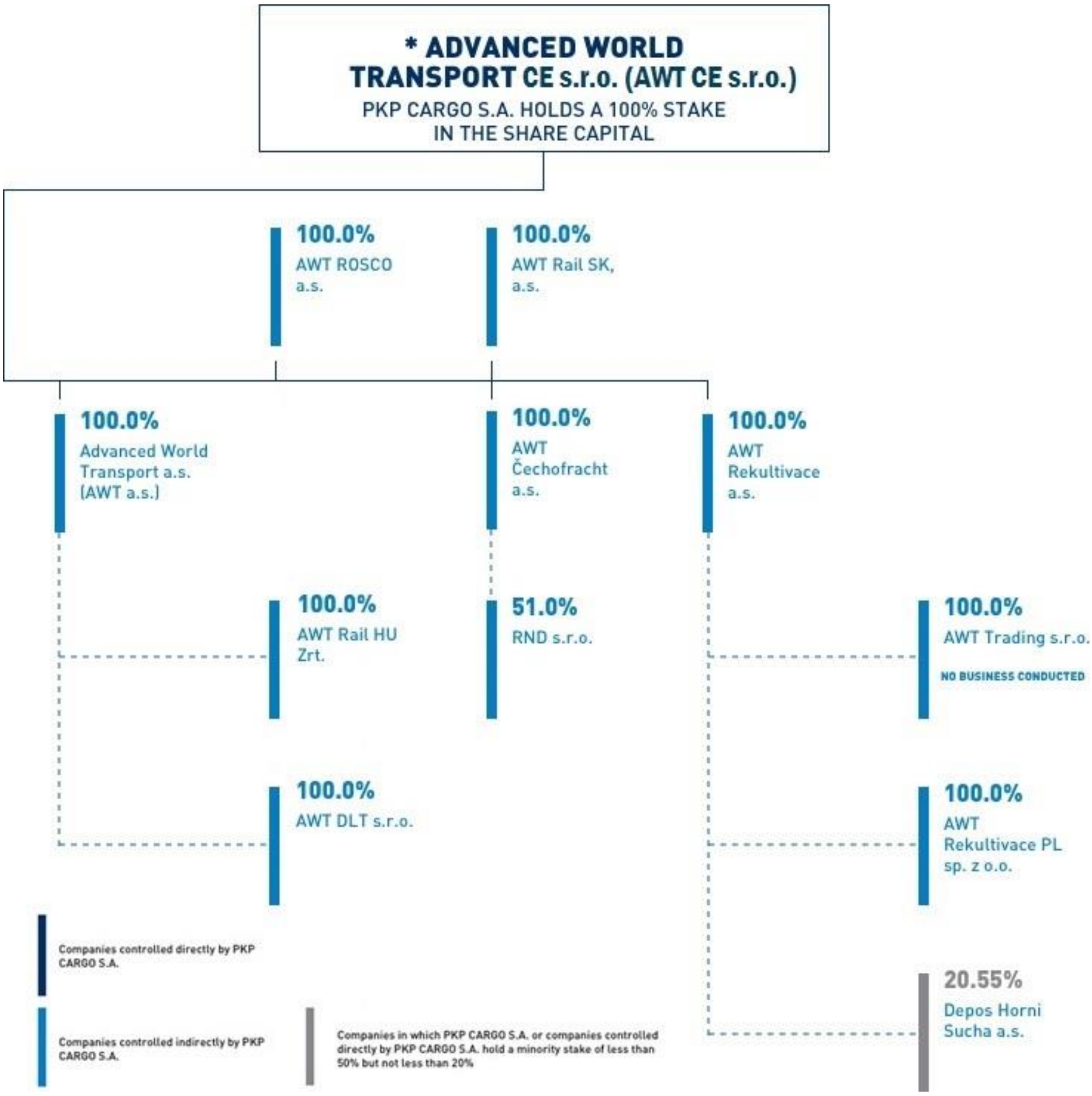
The figure below presents the equity links between PKP CARGO S.A. and other entities as at 30 September 2018:

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



Source: Proprietary material

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



Source: Proprietary material

During the first 9 months of 2018, in terms of the structure of capital ties, the following changes occurred: the ruling on the liquidation and deletion of AWT Rail PL Sp. z o.o. in liquidation from the register of commercial undertakings of the National Court Register became final and non-appealable, meaning that the company's existence as a legal person has been terminated. Moreover, the Czech company AWT Čechofracht a.s. sold its 22% stake in the share capital of ČD Logistics a.s., as a result of which AWT Čechofracht ceased to be a related party of PKP CARGO S.A. In September, AWT B.V. sold a 100% equity stake in AWT Rail HU Zrt. to AWT a.s.

Also in September, the Czech court registered the transformation of the Dutch company AWT B.V. with its registered office in Amsterdam into the Czech company AWT CE s.r.o. with its registered office in Prague. Accordingly, AWT B.V. has terminated its legal existence in the Netherlands. The AWT Group's parent company is currently AWT CE s.r.o.

2.2 Consolidated entities

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

Table 1 Subsidiaries consolidated by the full method

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

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

3. Information about the Parent Company

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

MANAGEMENT BOARD

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

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

Powers of the Management Board

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

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

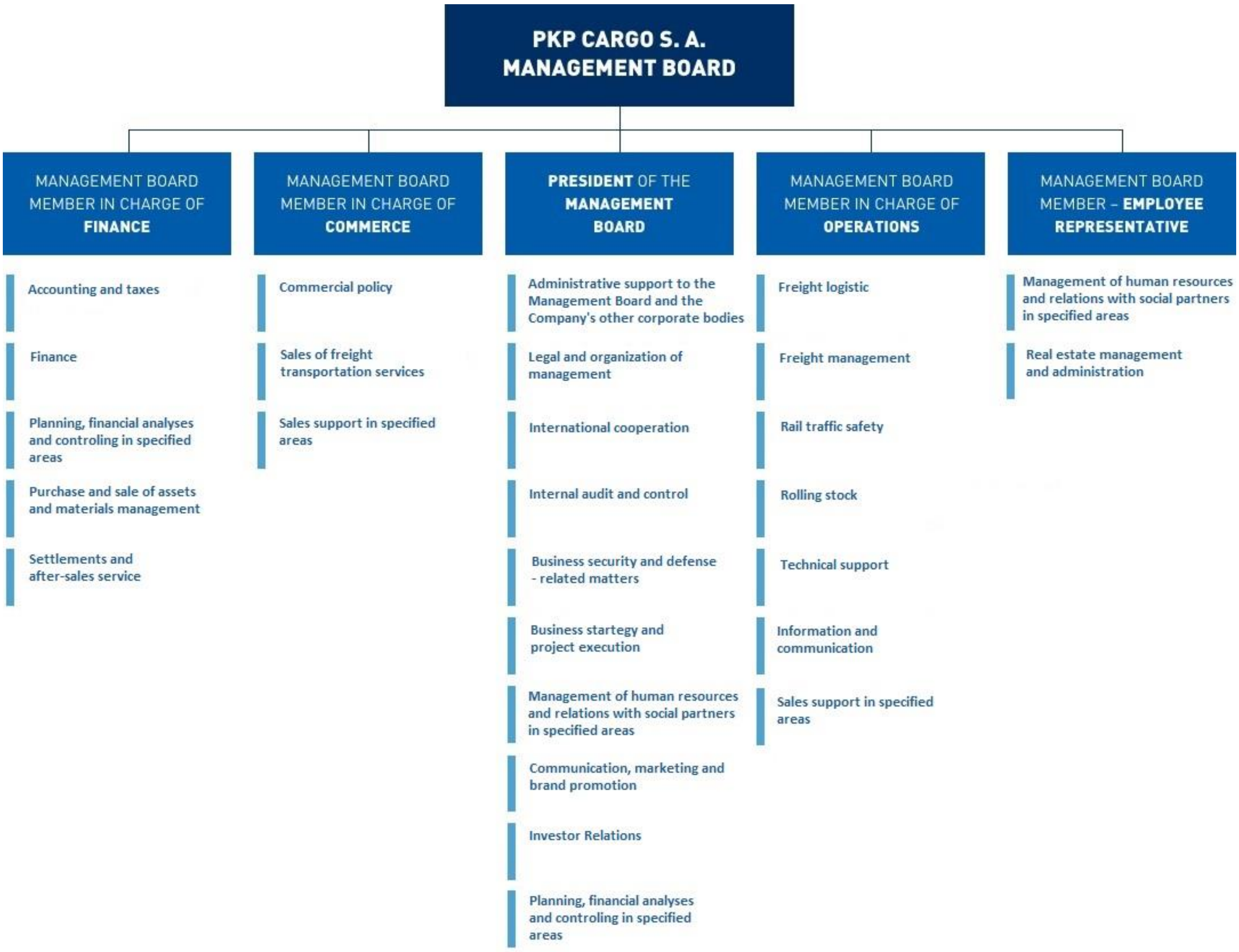
Name	Position	Period in office	
		from	to
Czesław Warsewicz	President of the Management Board	27 March 2018	to date
Leszek Borowiec	Management Board Member in charge of Finance	27 March 2018	to date
Witold Bawor	Management Board Member in charge of Operations	26 October 2017	to date
Grzegorz Fingas	Management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

Source: Proprietary material

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

The following chart presents the internal allocation of duties and functions discharged by Management Board members:

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



Source: Proprietary material

SUPERVISORY BOARD

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

Powers of the Supervisory Board

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

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

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

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

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

Source: Proprietary material

SUPERVISORY BOARD'S AUDIT COMMITTEE

The PKP CARGO S.A. Audit Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of at least three Supervisory Board members, provided that the majority of the Committee members (including its Chairperson) meet the independence criteria and are appointed in the manner specified in § 20 and § 21 of the Company's Articles of Association and in the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017 Item 1089). At least one member of the Audit Committee must have qualifications in the area of accounting or audit of financial statements and at least one member of the Audit Committee must have knowledge and skills in the specific industry in which the Company operates. Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The tasks of the Audit Committee include in particular: oversight of the organizational unit responsible for internal audit, monitoring the financial reporting process, monitoring the performance of internal control systems, risk management and internal audit systems, including the area of financial reporting, monitoring financial review activities, monitoring the independence of the statutory auditor and the firm authorized to audit financial statements, also when it provides to the Company other services than financial audit and review, assessing the independence of a statutory auditor and giving consent for it to provide permitted financial audit or review services, recommending a firm authorized to audit financial statements to the Supervisory Board to perform financial audit and review activities in the Company, in compliance with the policies in force in the Company.

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

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

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

NOMINATION COMMITTEE

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

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

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

Source: Proprietary material

STRATEGIC COMMITTEE

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

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

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

Source: Proprietary material

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

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

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

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

Source: Proprietary material

3.3 Shareholders holding at least 5% of the total votes

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

Shareholder	Number of shares	% of capital	Number of votes	% of votes
PKP S.A. (1)	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE (2)	7,751,187	17.31%	7,751,187	17.31%
MetLife OFE (3)	2,494,938	5.57%	2,494,938	5.57%
Aviva OFE (4)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	17,418,227	38.89%	17,418,227	38.89%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

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

Source: Proprietary material

On 29 August 2018, the Company received a notice from Aegon Powszechne Towarzystwo Emerytalne S.A. with its registered office in Warsaw stating that it had reduced the number of votes held in PKP CARGO S.A. Aegon Open-End Pension Fund, following a sales transaction executed on 24 August 2018 and settled on 28 August 2018, reduced its shareholding in PKP CARGO S.A. below 5% of votes. After the sale of the equity stake in the Company, Aegon Open-End Pension Fund held 2,154,979 shares in the Company, which represented 4.812% of its share capital, and 2,154,979 votes, that is 4.812% of the total number of votes.

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 21 August 2018, i.e. the delivery date of the H1 2018 report, to the delivery date of this report, were as follows:

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

Name	Number of PKP CARGO S.A. shares held by Management Board members
as at the delivery date of this report	
Czesław Warsewicz	0
Leszek Borowiec	0
Grzegorz Fingas	0
Witold Bawor	46
Zenon Kozendra	46
as at 21 August 2018	
Czesław Warsewicz	0
Leszek Borowiec	0
Grzegorz Fingas	0
Witold Bawor	46
Zenon Kozendra	46

Source: Proprietary material

The holdings of the Company's shares or rights to such shares by members of the Company's Supervisory Board from 21 August 2018, i.e. the delivery date of the H1 2018 report, to the delivery date of this report, were as follows:

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

Name	Number of PKP CARGO S.A. shares held by Supervisory Board members
as at the delivery date of this report	
Krzysztof Mamiński	0
Mirosław Antonowicz	0
Krzysztof Czarnota	70
Zofia Dzik	0
Raimondo Eggink	0
Małgorzata Kryszkiewicz	0
Tadeusz Stachaczyński	0
Władysław Szczepkowski	0
Jerzy Sośnierz	70
Paweł Sosnowski	0
as at 21 August 2018	
Krzysztof Mamiński	0
Mirosław Antonowicz	0
Krzysztof Czarnota	70
Zofia Dzik	0
Raimondo Eggink	0
Małgorzata Kryszkiewicz	0
Tadeusz Stachaczyński	0
Władysław Szczepkowski	0
Jerzy Sośnierz	70
Paweł Sosnowski	0

Source: Proprietary material

4. Key areas of operation of the PKP CARGO Group

4.1 Macroeconomic environment

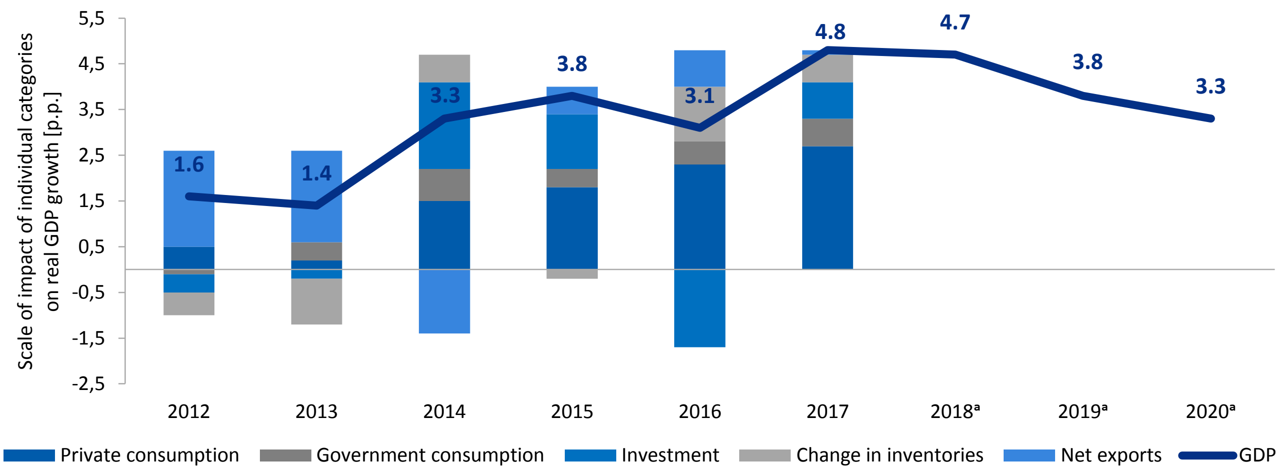
Polish economy

According to the preliminary estimates published by the Central Statistical Office, the rate of yoy GDP growth in Poland subsided in Q2 2018 to 5.1% from 5.2% in Q1 2018, while the seasonally adjusted rate of growth stood at 1.0% qoq compared to 1.6% a quarter earlier[5]. These data suggest that the domestic economy has already passed the peak of the current business cycle. At the same time, the current monthly data on economic activity (industrial output, construction, real retail sales) indicate the maintenance of a strong, albeit slightly weaker than in the first half of the year, GDP growth also in Q3 2018.

The key factors driving the rate of GDP growth in Poland in Q2 and H1 2018 were as follows:

- individual consumption, which accelerated in Q2 2018 to 4.9% and which in the whole of H1 2018 stood at 4.8% yoy, that is the same as in the whole of 2017.[6] Household consumption was supported by the stable growth in wages and employment and the continued decline in registered unemployment;
- investments, although with a rate of growth down to 4.5% yoy in Q2 2018 from 8.1% yoy in the previous quarter. The increase in capital expenditures was driven predominantly by public sector players, in particular local government units, due to the growing utilization of EU structural funds granted to Poland as part of the financial perspective for 2014-2020. Investments by large companies[7], both public and private, were also growing at a double-digit rate. In turn, the SME sector continues to show signs of stagnation or even a decline in investments. According to economists, this is chiefly due to the rapidly deteriorating financial standing of this segment, caused by falling margins and rising expenses (e.g. resulting from wage increases and higher prices of fuels and electricity);
- net exports, which in Q2 2018 made a positive contribution to GDP after a significant negative contribution in Q1. This was driven predominantly by a strong rebound in the rate of growth in exports, which, despite the observed downturn in the economies of Poland's main trading partners (i.e. the euro zone, especially Germany), was backed by the strong depreciation of the Polish zloty against the US dollar and the euro, which was conducive to the improvement of price competitiveness of Polish goods on the international markets.

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



a – median forecasts according to the Macroeconomic Survey of the National Bank of Poland – September 2018; data without decomposition
Source: Proprietary material based on the data of the Central Statistical Office of Poland and the National Bank of Poland

[5] Central Statistical Office of Poland, August 2018
[6] Central Statistical Office of Poland
[7] Employing more than 50 persons

According to the September 2018 Macroeconomic Survey of the National Bank of Poland, economists expect a decrease in the rate of GDP growth in Poland in the coming quarters, pointing to such adverse factors as weaker data from the macroeconomic environment (chiefly from the euro zone), rising geopolitical tensions unfavorably affecting business sentiment (including the uncertainty about the final shape of the Brexit agreement or the possible escalation of the global trade war) and the expected dwindling of domestic demand. Experts quoted in the Macroeconomic Survey of the National Bank of Poland predict that the rate of real GDP growth in Poland will decline to 4.7% on average in 2018, 3.8% in 2019 and 3.3% in 2020 from 4.8% in 2017. In the coming quarters, they also expect a gradual increase in the inflation rate (CPI) in Poland to an average level of 1.8% in 2018, 2.3% in 2019 and 2.4% in 2020, driven by such factors as higher prices of fuels and electricity, pressure on wage increases and others.

Czech economy

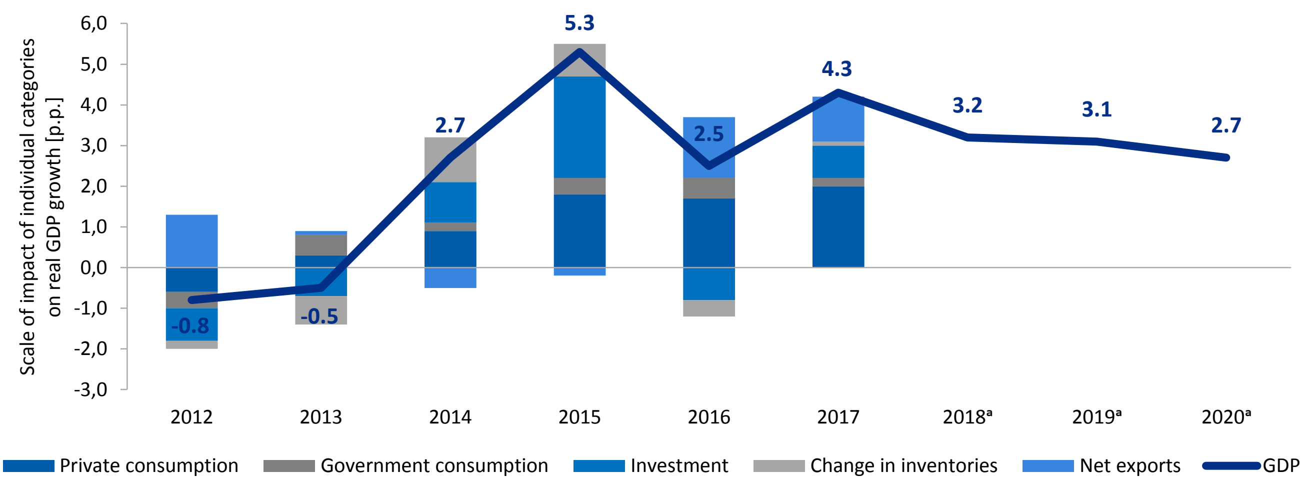
In Q2 2018, the rate of GDP growth in the Czech Republic was 2.4% yoy, the lowest since Q4 2016.[8] This indicates a strong slowdown in economic growth also in relation to Q1 2018 (4.1% yoy). In terms of seasonally unadjusted data, the rate of GDP growth declined slightly, from 3.4% yoy in Q1 2018 to 2.7% yoy in Q2 2018.

Compared to Q1 2018, a lower rate of growth on a yoy basis was recorded for each of the significant components of GDP: private and public consumption, investments and exports. The following factors continued to be advantageous to the rate of economic growth:

- individual consumption, although its rate of growth declined from 4.4% yoy in Q1 2018 to 3.5% yoy in Q2 2018. The continuing strong consumer demand is driven chiefly by the increasing disposable income of domestic households due to a robust rate of growth in wages and employment;
- investments, which in Q2 2018 improved by 7.8% yoy compared to 10.3% yoy in Q1 2018. Among the drivers of the increase in capital expenditures were expenditures incurred by private enterprises on the purchase of machinery and other manufacturing equipment and means of transport as well as intensification of public-sector investments co-financed with EU cohesion funds.

In Q2 2018, an unfavorable effect on the rate of GDP growth in the Czech Republic was exerted by the negative contribution of inventories and net exports as a result of the weakening economies of the Czech Republic's main trading partners (specifically, Germany and the entire euro area) and the strengthening of the domestic currency against major currencies resulting in a weaker competitiveness of Czech goods on the international markets.[9]

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



a Forecast of the Czech Republic's Ministry of Finance – July 2018, data without decomposition
Source: Proprietary material based on data from the Czech Statistical Office and the Czech Republic's Ministry of Finance

[8] Czech Statistical Office
[9] Czech National Bank

According to the most recent forecast of the Czech Ministry of Finance published in July, a gradual decline in the rate of yoy GDP growth may be expected in the coming quarters to an average of 3.2% in 2018, 3.1% in 2019 and 2.7% in 2020, due to the steady weakening of domestic demand and the continuing unfavorable impact of net exports[10]. At the same time, economists of the Czech Ministry of Finance expect the inflation rate (CPI) to increase to 2.2% on average in 2018 and 2.3% in 2019, owing to a further acceleration in the growth of unit labor costs, increases in administrative fees (including electricity) and higher prices of fuels[11]. As a result, in 2018-2019, according to experts of the Czech Ministry of Finance, the inflation rate (CPI) will be slightly above the central bank's inflation target (2.0%) on average.

Industry in Poland

In Q3 2018, the rate of growth of total industrial output sold[12] declined to an average of 5.4% yoy, compared to 7.0% yoy in Q2 2018. In September 2018, the domestic industrial sector grew at a rate of 2.8 % yoy, the lowest since the beginning of the year[13].

Among the most significant industries, owing to the specific nature of the PKP CARGO Group's transport services, in the first 9 months of 2018 the highest growth in output sold was recorded in coke and refined petroleum products (+11.8% yoy), metal products (+11.5% yoy), products made of other mineral non-metallic raw materials (+8.4% yoy), wood and wood products (+7.6% yoy), metals (+4.6% yoy) and chemicals and chemical products (+2.9% yoy), although in most of these categories the rate of growth subsided somewhat in Q3 of year. In the period from January to September 2018, output sold of the hard coal and lignite mining industries remained at the same level as in the corresponding period of 2017. This implies an improvement over H1 2018 when a decrease by 0.8% yoy[14] was recorded.

Overall, compared to H1 2018, the economic situation in the industrial sector deteriorated in Q3 2018, as evidenced by the following selected observations:

- PMI (Purchasing Managers' Index) dropped to an average level of 51.6 points from 53.8 points in Q2 and 53.9 points in the whole of H1 2018.[15] In September, PMI stood at 50.5 points, meaning that the industrial sector was on the verge of stagnation. The gradual deterioration of the index is consistent with a decline in the level of optimism expressed by managers in the sector and their perception that the rate of growth in the industry is currently the lowest since October 2016, which was caused predominantly by the decrease in growth components related to the portfolio of new orders – both from the domestic market (the first drop since October 2016) and from the export markets (the largest drop in almost 4 years). At the same time, economic forecasts for the coming 12 months for the Polish industrial sector have reached the lowest level since the end of 2016 regarding growth in manufacturing output;
- deterioration of the overall business climate indicator in the industrial sector calculated by the Central Statistical Office of Poland down to an average level of 10.3 points in Q3 from 15.3 points in Q2 and 16.2 points in the whole of H1 2018. The deterioration of the indicator was caused by decreases in all its components, including the current output levels, the portfolio of new orders and the financial standing.[16] Compared to H1 2018, industrial players are less optimistic about the future economic growth in the sector.

Overall, economists surveyed by "Gazeta Giełdy Parkiet" expect a further slowdown of business in the industrial sector in Q4 2018 to approx. 3.0% yoy, chiefly due to the economic downturn in the euro area countries adversely affecting the volume of orders from foreign markets[17]. This is especially evident in the industrial processing sector, which remains the most sensitive branch of the economy to shifts in international demand. An additional factor suppressing the rate of growth in the industry is the difficulty in recruiting appropriately qualified staff.

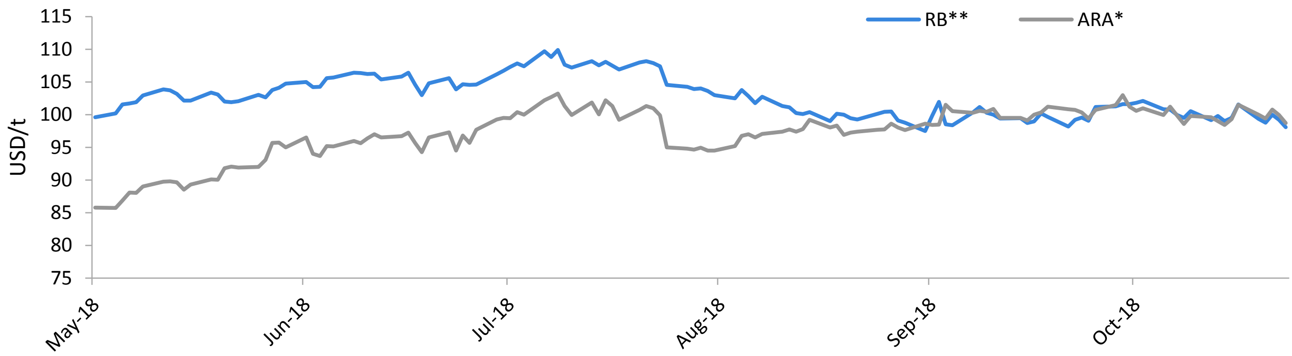
Other factors significantly affecting the condition of the industries of key importance from the PKP CARGO Group' point of view in Q3 2018 included:

[10] Czech Republic's Ministry of Finance
[11] Czech Republic's Ministry of Finance
[12] enterprises employing more than 9 persons
[13] Central Statistical Office of Poland
[14] Central Statistical Office of Poland
[15] Markit IHS
[16] Central Statistical Office of Poland
[17] "Gazeta Giełdy Parkiet"

Mining industry

- continued decrease in hard coal output (-4.2% yoy to 15.5 million tons, chiefly due to the very weak September in which the monthly mining output was for the first time in history lower than 5 million tons, having plummeted by as much as 13.2% yoy); during the first 9 months of 2018, the average rate of decline in the output of this raw material was -3.3% yoy[18];
- continuing (except for the months of July and August of this year) downward trend in hard coal sales since the summer of 2017; overall, in the period from January to September 2018, the sales of this commodity dropped by 4.8% on average yoy[19];
- replenishment of coal inventories in storage yards – in September they were more than 30% higher than in January 2018[20];
- increase in hard coal imports in the first 8 months of 2018 by 69.9% yoy to 12.6 million tons, predominantly from Russia (+94.4% yoy to 9.0 million tons)[21];
- continuing upward trend in coal prices on the international markets[22] (the average price of ARA coal in Q3 increased by 14.6% yoy to USD 99.0 per ton) and in Poland (in January-September 2018, the PSCMI 1 index the power sector increased 16.6% yoy to an average of PLN 236.9 per ton, and the PSCMI 2 index for the heating sector increased 28.6% yoy to an average of PLN 299.2 per ton)[23];
- increase in the share of coal in the national energy mix (+1.5 p.p. yoy in Q3 and in total +1.2 p.p. yoy in the first 9 months of 2018)[24];
- agreement by Poland, France, the United Kingdom, Italy, Greece, Ireland and Hungary on a common stance regarding the mechanism of the European power market proposed by the European Commission, opposing to the discrimination of hard coal as one of the energy sources[25].

Figure 6 Current and historical values of coal price indices on the European ARA vs. RB markets

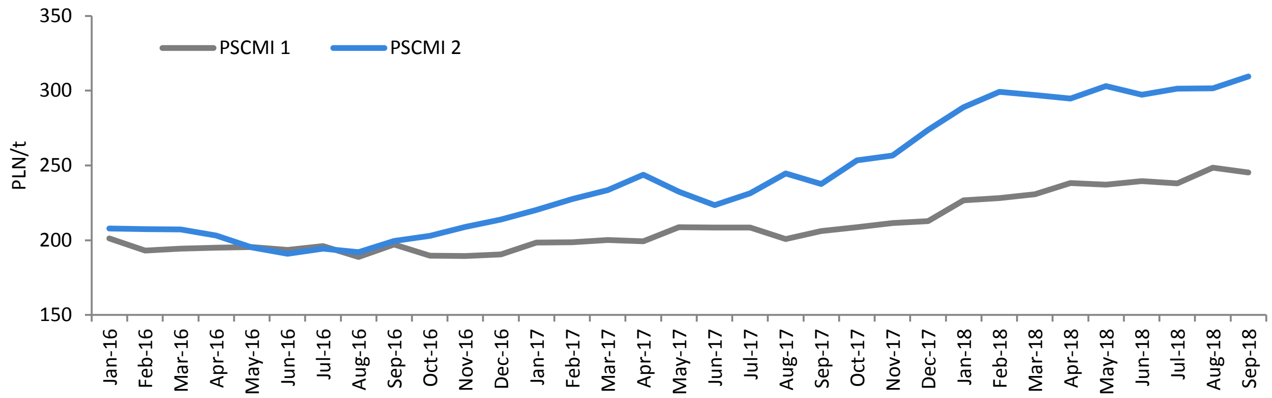


* ARA – Amsterdam, Rotterdam and Antwerp;
** RB – Richards Bay (South Africa)

Source: Proprietary material based on Virtual New Industry data

[18] Central Statistical Office of Poland
[19] Industrial Development Agency (ARP)
[20] Industrial Development Agency (ARP)
[21] Eurostat
[22] Wirtualny Nowy Przemysł [Virtual New Industry]
[23] Industrial Development Agency (ARP)
[24] Polskie Sieci Elektroenergetyczne
[25] Nettg.pl

Figure 7 Current and historical values of coal price indices on the Polish market: power industry (PSCMI 1) and heating sector (PSCMI 2)



Source: Proprietary material based on the Industrial Development Agency's data

Construction industry

- increase in construction and assembly production by an average of 19.8% yoy in the first 9 months of 2018, with a slight slowdown in yoy growth in Q3;
- intensification of infrastructural investments within the framework of "National Road Construction Program" and the "National Railway Program" coupled with higher spending by local governments on public facilities. The branch of the sector dealing with the construction of civil and hydro engineering structures grew in the first 9 months of 2018 by 26.7% yoy, of which construction output in motorways, expressways and streets increased 28.1% yoy, while construction output in rail infrastructure increased 45.5% yoy.

At the same time, the construction sector is experiencing the intensifying phenomenon of a deteriorating profitability of existing contracts, chiefly caused by the rapidly increasing costs of materials and wages. This translates, among other problems, into growing difficulties with financial liquidity experienced by companies operating in the sector (as evidenced by the growing number of bankruptcies) and into the cessation of decisions in pending tender procedures for infrastructural construction projects. This is because in a number of cases the bids exceed the maximum budget of the ordering party. According to experts, this situation may deteriorate even further in the coming quarters, which, along with the increasing difficulties in recruiting new staff, poses a serious threat to the future rate of growth of the construction sector in Poland.

Steel industry

- increase in steel output both globally (+4.7% yoy) and in the European Union (+1.3% yoy)[26];
- decrease in crude steel output (-10.5% yoy), increase in the volume of hot-rolled products (+0.7% yoy) and steel pipes (+1.4% yoy) in Poland[27];
- increase in revenues from sales of metals during the first 9 months of 2018 to PLN 46.2 billion (+4.6% yoy in real terms) and in total revenues from sales of metal products to PLN 77.4 billion (+11.5% yoy in real terms)[28];
- decline in coke production in Poland (-3.1% yoy)[29];
- announced introduction, by the end of 2018, by the Ministry of Energy of a support system for industrial consumers of electricity in Poland with a view to preventing sudden increases in the prices of electricity (including in the prices of fees for carbon dioxide emissions) and the resulting worsening of the international competitiveness of Polish steel products.[30]

In the opinion of experts, the coming quarters are expected to be marked by continued relatively strong demand for steel and steel products in Poland[31] and the country's macroeconomic environment[32] (especially in the euro zone). As a consequence,

[26] World Steel Association – data for 9M 2018
[27] Central Statistical Office of Poland
[28] Central Statistical Office of Poland
[29] Central Statistical Office of Poland
[30] wnp.pl website
[31] Mining Chamber of Industry and Commerce
[32] Eurofer

this should translate into higher steel and coke output and an increase in revenues from sales of metals and metal products in Poland.

Industry in the Czech Republic

In the first 9 months of 2018, industrial output in the Czech Republic increased 2.7% yoy[33]. This implies that the rate of growth of the sector in Q3 2018 increased compared to H1 2018 (+2.5% yoy). The growth in output was driven chiefly by the industrial processing sector (+3.1% yoy). Slight increases were also recorded in the mining sector and the output of raw materials (+0.1% yoy) and in the water, gas and energy supply sector (+0.2% yoy).

In the first 9 months of 2018, the volume of new orders in the industrial sector grew at a higher rate than in H1 2018, as it increased 3.4% yoy, of which growth in domestic orders stood at 2.3% yoy and in international orders at 3.8% yoy[34].

However, the most recently published PMI values suggest a possible deterioration of the economic situation in the Czech Republic's industrial sector. In Q3 2018, the value of the index declined steadily in relation to H1 2018, reaching a level of 53.4 points in September of this year, the lowest since November 2016. The drop in the index resulted primarily from the weakest growth in new orders in nearly 2 years. In September, the volumes of current output and employment also grew at a lower rate than in the previous months. At the same time, the business sentiment related to the future economic situation in the Czech Republic also deteriorated significantly (due to the current economic slowdown in the euro zone as the country's main trading partner) in anticipation of a worsening situation in the industrial sector in the coming months[35].

The key area of the PKP CARGO Group's business on the Czech market is the transport of hard coal, coke, aggregates and other construction materials as well as intermodal loads (especially automotive products). Accordingly, the situation in the hard coal mining sector and in the construction and steel industries translates directly into the volume of goods available for transport by PKP CARGO Group companies. In the first 9 months of 2018, the following factors were among the most significant issues affecting the condition of the said industries:

- ongoing downward trend in hard coal output (-15.8% yoy to 3.2 million tons)[36] as a result of the implementation of the restructuring program in the Czech mining sector aimed at a gradual (until 2023) phasing out of mining operations in OKD's mines. At the same time, the scale of the decline in output was significantly lower in Q3 (-3.3% yoy) than in H1 of this year (-21.3% yoy), and it appears from the pronouncements by OKD's management that a scenario is also being considered in consultation with the Czech government of extending the mines' operation until 2030. The change in the attitude results chiefly from the increasing profitability of mining owing to the higher prices of coal in global markets and a stronger demand for this commodity[37];
- higher output of the steel sector – during the first 9 months of 2018, the volume of crude steel output increased 9.3% yoy to 3.8 million tons[38]. However, the expected deterioration of the rate of GDP growth in the Czech Republic and the euro zone in the coming quarters is likely to result in a lower demand for Czech steel sector products and thus will probably translate indirectly into lower output;
- continued high rate of growth in construction and assembly output. In this period, total construction output increased 10.6% yoy and engineering construction output increased 10.4% yoy. In Q3 2018 alone, the rate of growth in the construction sector reached 13.2% yoy, the highest since the beginning of 2014. In the coming months, the upturn in the construction sector should continue to be driven by a large inflow of EU structural funds as part of the financial perspective for 2014-2020[39];
- further growth in output of the automotive sector compared to the historically high levels from 2017 – in the first 9 months of 2018, Czech manufacturers made 1,065.2 thousand vehicles of all types (up 0.6% yoy). The automotive sector continues to rank among the leading branches of the Czech economy, accounting for nearly 20% of industrial output and 30% of the country's exports[40].

[33] Czech Statistical Office
[34] Czech Statistical Office
[35] IHS Markit
[36] Czech Ministry of Industry and Trade
[37] Puls Biznesu
[38] Worldsteel.org
[39] Czech Republic's Ministry of Finance
[40] Markit IHS

4.2 Freight transportation activity

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

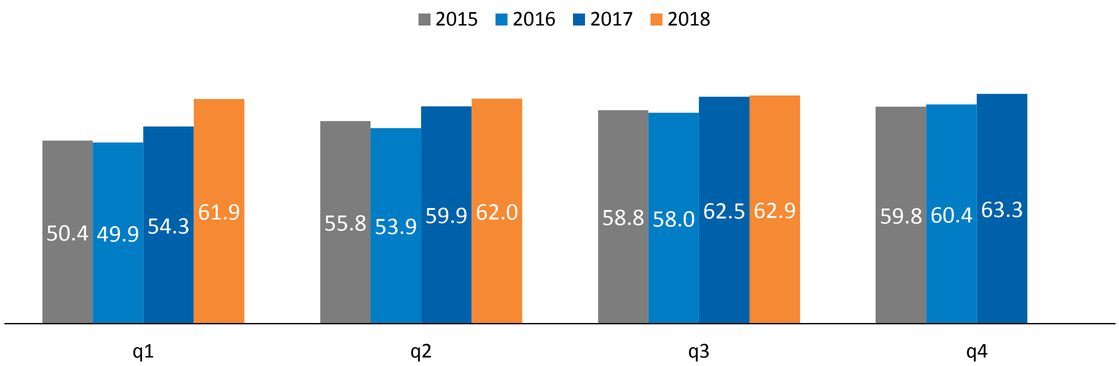
4.2.1 Rail transport market in Poland

During the first 9 months of 2018, a total of 66 freight carriers operated in the Polish rail transport market (including PKP CARGO S.A. and PKP CARGO SERVICE Sp. z o.o.) under a license issued by the Office of Rail Transport. In this period, they carried a total of 186.7 million tons of cargo (+5.7% yoy) and achieved freight turnover of 44.4 billion tkm (+10.5% yoy). The average haul of transported cargo during the period was 237.8 km (+4.5% yoy)[41]. At the same time, in Q3 2018, the rate of growth of the transport market decreased significantly, both in terms of freight volume (+0.7% yoy, with a drop in both August and September) and freight turnover (+6.3% yoy).

The strong increase on a yoy basis in the quantum of cargo transported by the rail was driven, among other factors, by[42]:

- rapidly growing transport of aggregates and other construction materials (+18.3% yoy to 38.2 million tons), resulting chiefly from intensified works on construction projects under the "National Road Construction Program in 2014-2023 (with an outlook to 2025)" and the "National Railway Program to 2023" co-financed with EU structural funds coupled with higher spending by local governments on public facilities;
- increased transport of hard coal (+4.2% yoy to 63.7 million tons) owing to the continued strong demand generated by the power industry, the heating sector and private consumers;
- increased transported volumes of iron ores, coke and metals (+6.3% yoy to 21.8 million tons) due to the strong demand from steel-intensive industries (including the construction sector) in Poland and abroad;
- increased intermodal transport (+11.6% yoy to 8.0 million tons[43]) owing to intensified transport from China as part of the New Silk Road and growing transshipment volumes in seaports.

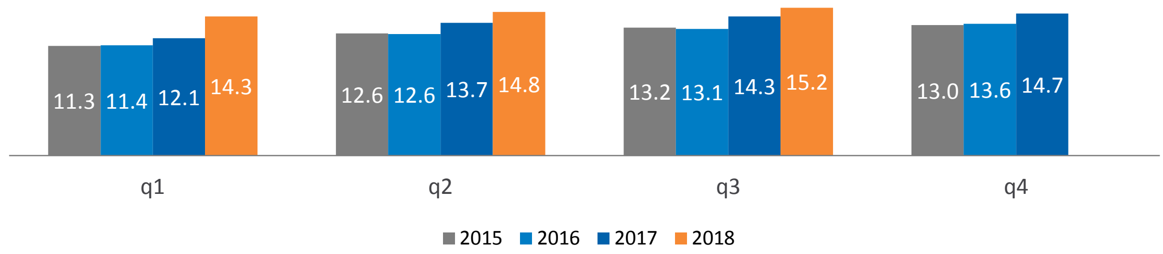
Figure 8 Rail freight volumes in Poland (in million tons) in individual quarters of 2015-2018



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

[41] Office of Rail Transport
[42] Central Statistical Office of Poland – data for the first 8 months of 2018
[43] Office of Rail Transport – data for H1 2018

Figure 9 Rail freight turnover in Poland (billion tkm) broken down by quarter in 2015-2018

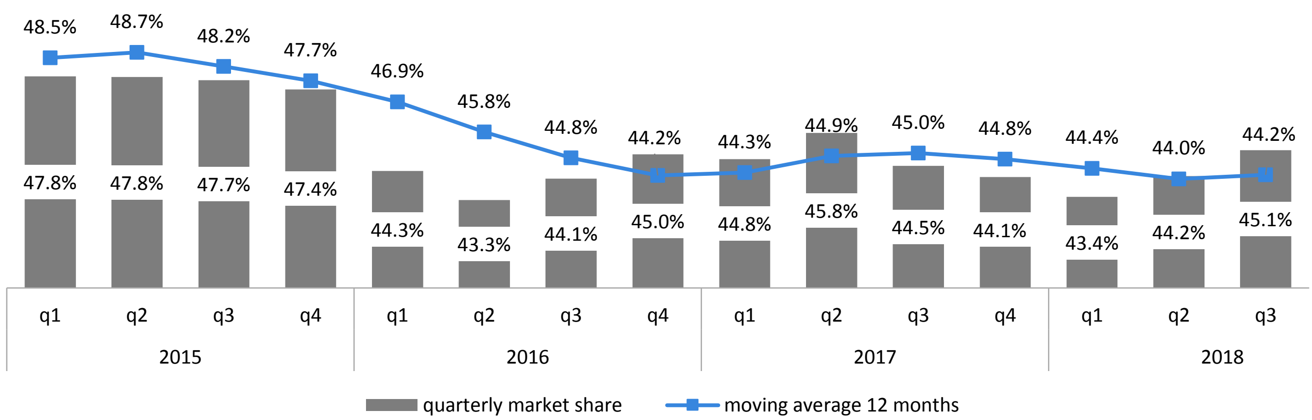


Source: Office of Rail Transport

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

In the first 9 months of 2018, the PKP CARGO Group (with the leading role in transport played by PKP CARGO S.A.) defended its undisputed leader position on the Polish rail freight market. In this period, the Group's share in the Polish market was 44.2% (-0.8 p.p. yoy) in terms of freight volume and 48.3% (-3.7 p.p. yoy) in terms of freight turnover, with the share of the Parent Company at 43.5% (-1.0 p.p. yoy) and 48.1% (-3.7 p.p. yoy), respectively[44]. In Q3 2018 alone, the PKP CARGO Group's share was 45.1% (+0.6 p.p. yoy) in terms of freight volume and 48.2% (-2.7 p.p. yoy) in terms of freight turnover.

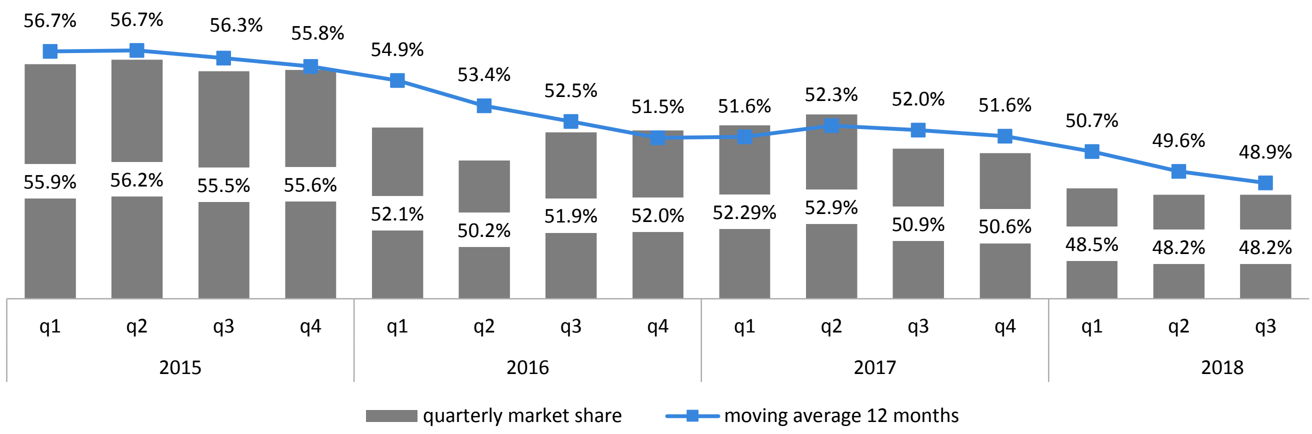
Figure 10 Share of the PKP CARGO Group in freight volume in 2015-2018 in Poland



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

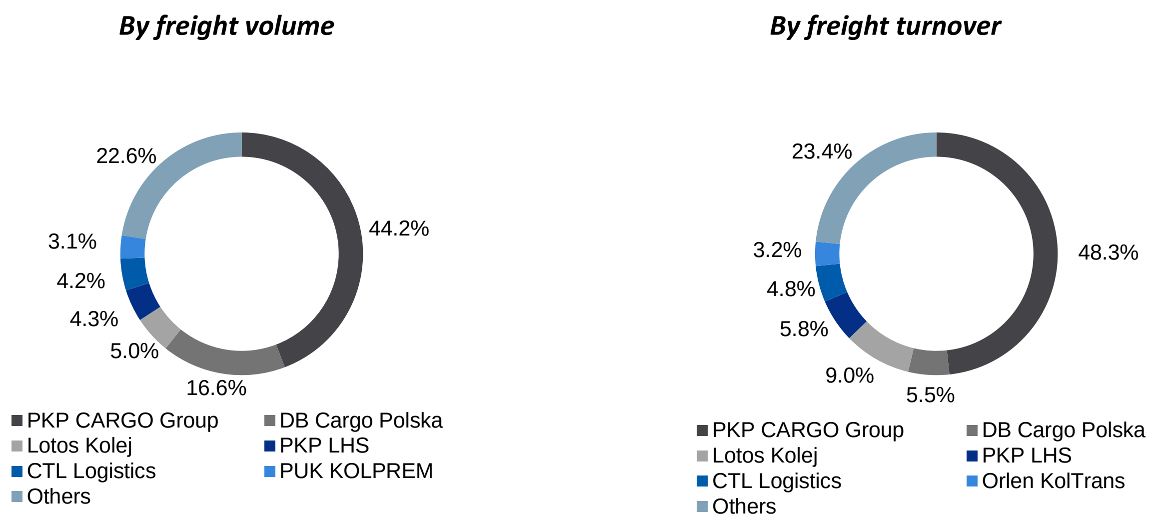
[44] Office of Rail Transport

Figure 11 Share of the PKP CARGO Group in total freight turnover in Poland in 2015-2018



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

Figure 12 Market shares of the biggest cargo rail operators in Poland in 9M 2018



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

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

In 9M 2018, competitive operators transported in total 104.2 million tons of cargo (+7.3% yoy), with the most transported by DB Cargo Polska (31.0 million tons or -2.3% yoy), Lotos Kolej (9.4 million tons or -5.4% yoy) and PKP LHS (8.1 million tons or +13.2% yoy). Freight turnover of the PKP CARGO Group's competitors in this period stood at 23.0 billion tkm (+19.1% yoy), most of which was generated by Lotos Kolej (4.0 billion tkm or +0.7% yoy), PKP LHS (2.6 billion tkm or +15.5% yoy) and DB Cargo Polska (2.4 billion tkm or +13.5% yoy)[45]. The increase in freight turnover recorded by competing carriers resulted predominantly from the sizeable extension of their average haul. In the first 9 months of 2018, it went up by 21.9 km yoy on average (+11.0% yoy) to 220.5 km.

[45] Office of Rail Transport

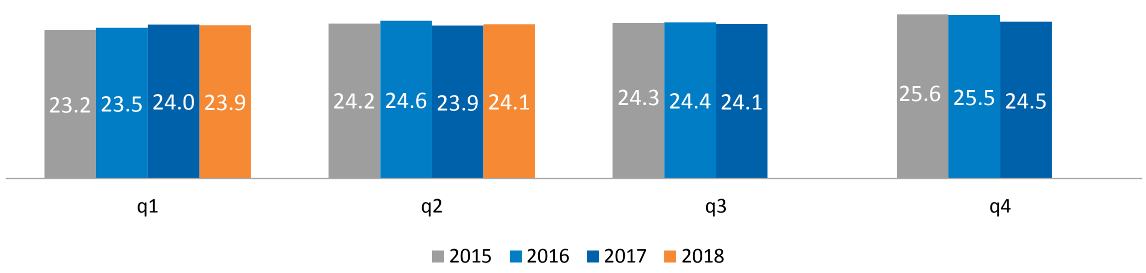
Among the PKP CARGO Group's competitors, steady growth in yoy market share in the first 9 months of 2018 (both in terms of freight volume and freight turnover) was recorded mainly by small carriers (whose unit market shares do not exceed 2.0%). Their combined market share in this period was 18.0% (+1.8 p.p. yoy) in terms of freight volume and 15.9% (+2.2 p.p. yoy) in terms of freight turnover.

In turn, in the period from January to September 2018, the PKP CARGO Group's direct competitors (DB Cargo Polska, Lotos Kolej, PHP LHS and CTL Logistics) experienced a decrease in their combined market share to 30.2% (-1.1 p.p. yoy) in terms of freight volume and stagnation at a 25.1% yoy (+0.0 p.p. yoy) in terms of freight turnover. In both these categories, a significant yoy drop in the market share was suffered by the market's runner-up companies: DB Cargo Polska in terms of freight volume (-1.4 p.p. yoy) and Lotos Kolej in terms of freight turnover (-0.9 p.p. yoy).

4.2.3 Rail freight transport market in the Czech Republic

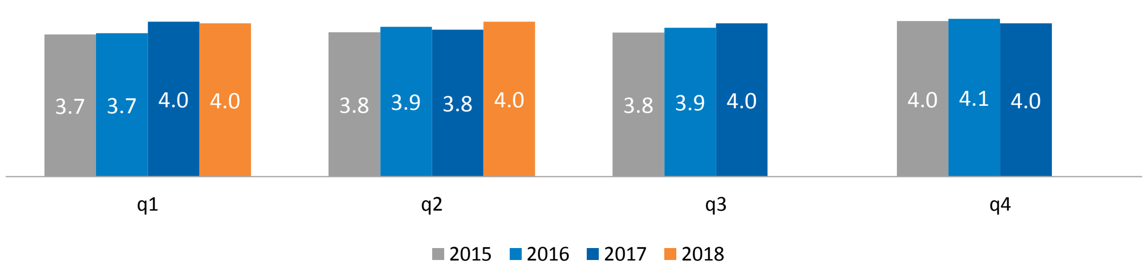
Freight turnover in rail transport in H1 2018 was 8.0 billion tkm (up 2.1% yoy) owing to the increase in freight volume to 48.0 million tons (+0.2% yoy) coupled with a concurrent increase in the average haul to 167.2 km (+1.9% yoy). This translated into an greater market share of rail transport in terms of freight turnover by 1.7 p.p. yoy to 26.3% and a simultaneous decrease in terms of freight volume by 0.5 p.p. yoy to 18.0%. It is also worth pointing out that among the various branches of the freight transport market in the Czech Republic, rail transport is characterized by the highest average haul, which is much greater than in the case of road or pipeline transport.

Figure 13 Quarterly rail freight transport in the Czech Republic by freight volume in 2015-2018 (million tons)



data for Q3 2018 will be available at the turn of 2018 and 2019
Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

Figure 14 Quarterly rail freight transport in the Czech Republic by freight turnover in 2015-2018 (billion tkm)



data for Q3 2018 will be available at the turn of 2018 and 2019
Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

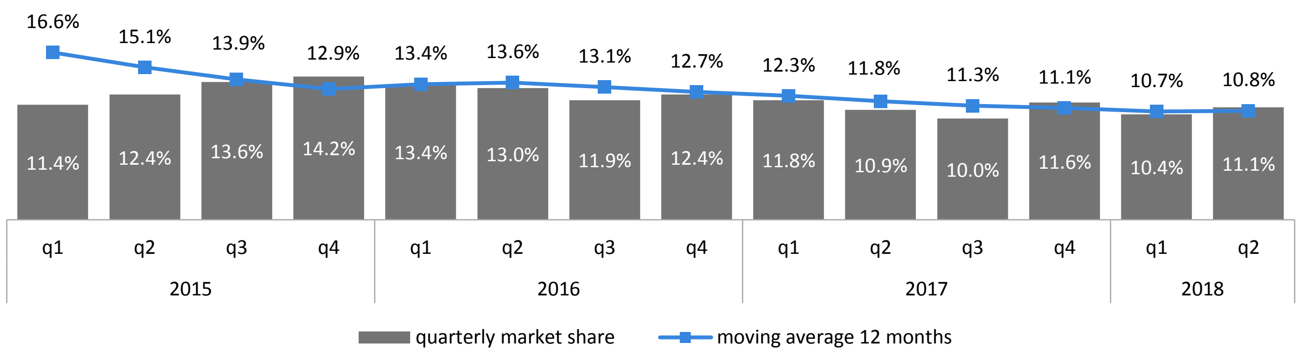
4.2.4 Position of the AWT Group in the rail transport market in the Czech Republic

According to information obtained from the railway infrastructure manager (SŽDC), there are currently 102 active carriers on the Czech rail transport market with a license for the carriage of cargo, including the following PKP CARGO Group companies: PKP CARGO S.A. and Advanced World Transport a.s. (AWT)[46].

In the first 9 months of 2018, AWT transported a total of 7.7 million tons of cargo (-1.5% yoy) and achieved a freight turnover of 0.9 billion tkm (+2.3% yoy). However, the freight turnover generated by the whole rail freight market in the Czech Republic increased in the same period to a greater degree, which resulted in AWT's yoy loss of 0.6 p.p. of the market share to 7.6% in terms of gross freight turnover.

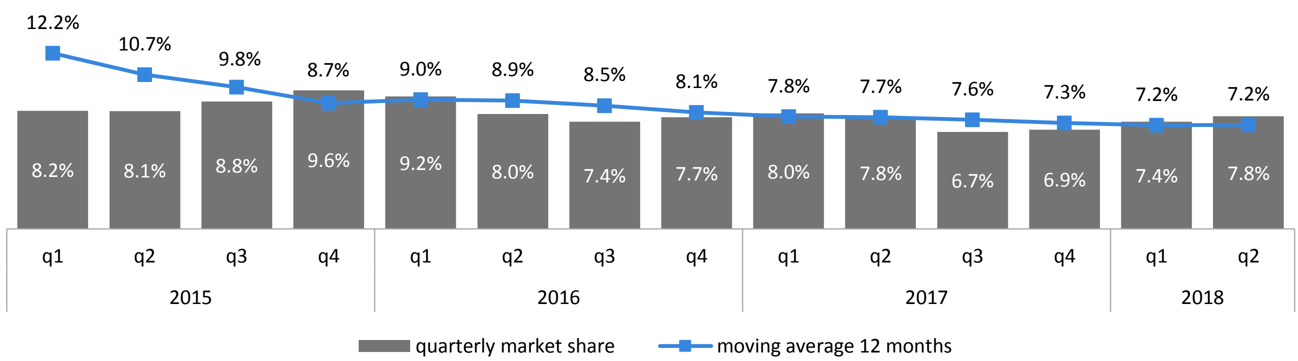
AWT's total freight turnover grew despite a large decrease in the volume of transported hard coal (-11.9% yoy to 2.8 million tons), which resulted from the restructuring processes carried out in the Czech mining sector (the gradual phasing out of mining operations)[47]. At the same time, owing to the efforts undertaken by AWT with a view to increasing the diversification of its transport services and thus reducing its dependence on the situation in the hard coal mining industry, the share of this commodity in the company's total freight volume was reduced 40.3% in the first 9 months of 2017 to 36.0% in the first 9 months of 2018. On the other hand, in the period from January to September 2018, AWT's freight volume increased rapidly in intermodal transport (+78.6% yoy to 1.1 million tons) and chemicals (+12.3% yoy to 0.4 million tons)[48].

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



data for Q3 2018 will be available at the turn of 2018 and 2019
Source: Proprietary material based on data from the Czech Ministry of Transport and AWT a.s.

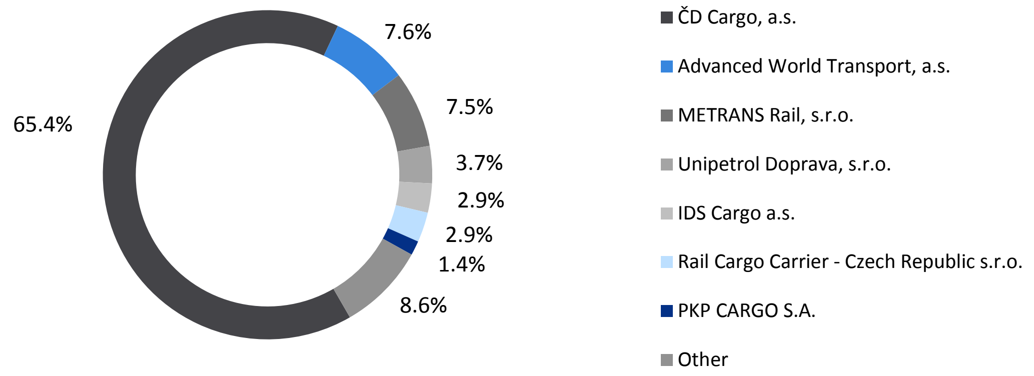
Figure 16 AWT a.s.'s quarterly market shares in total freight turnover in the Czech Republic in 2015-2018



data for Q3 2018 will be available at the turn of 2018 and 2019
Source: Proprietary material based on data from the Czech Ministry of Transport and AWT a.s.

46 SŽDC
47 own statistics prepared by AWT a.s.
48 own statistics prepared by AWT a.s.

Figure 17 Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in January-September 2018 (btkm)



Source: SŽDC

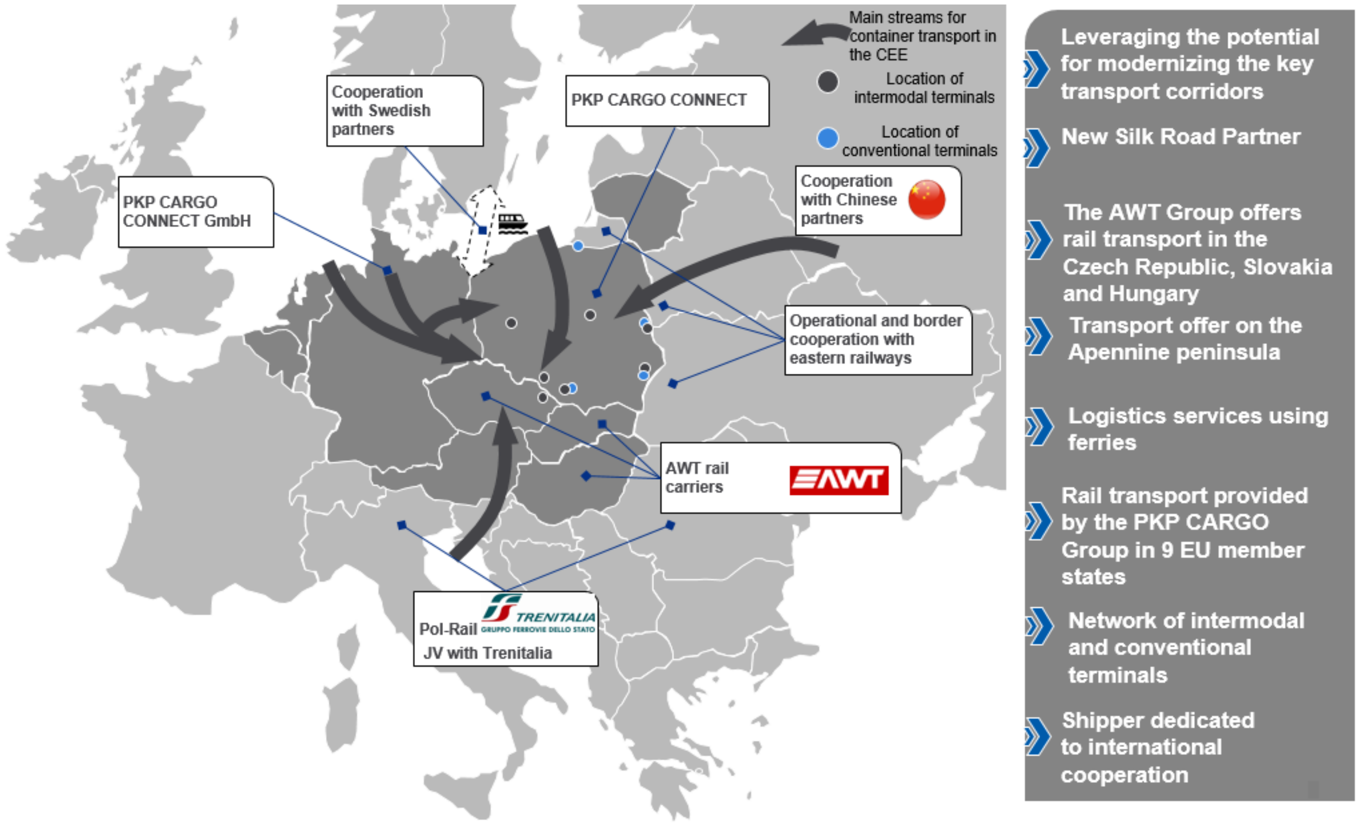
During the first 9 months of 2018, ČD Cargo a.s. upheld its position as the undisputed leader in the rail freight transport market in the Czech Republic and its market share in terms of freight volume increased by 2.6 p.p. compared to the corresponding period of 2017. In the same period, the market significance of METRANS Rail s.r.o. also improved (+0.3 p.p. yoy), the company, in the wake of the declining market share of AWT a.s. (-0.6 p.p. yoy), having come close to the position of the runner-up player on the market in terms of freight turnover. The other carriers listed in the information published by SŽDC recorded declining market shares on a yoy basis in the period from January to September 2018. This also applied to PKP CARGO S.A. whose market share fell 0.6 p.p. yoy to 1.4%[49]. This was caused predominantly by the decline in the volume of transported hard coal caused by the smaller volumes transported in international traffic from OKD's mines to Slovakia and from Poland to Germany. In the same period, however, the volume of transported ores in transit from Ukraine and from one of the Polish ports to the Czech Republic increased as did intermodal transport in transit on the Slovakia-Russia line and from/to Italy[50].

[49] SŽDC
[50] PKP CARGO S.A.'s own statistics

4.2.5 PKP CARGO Group's rail transport business

The data on the transport activity conducted by the PKP CARGO Group in 9M 2018 and 9M 2017 comprise consolidated data for PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and the AWT Group. The transport business in 9M 2018 was conducted by 5 members of the Group. After the acquisition of an equity stake in AWT B.V., 3 additional carriers (AWT a.s., AWT Rail HU Zrt., AWT Rail SK a.s.) were added to the carriers already operating in the PKP CARGO Group

Figure 18 PKP CARGO Group's potential



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

Highlights in January-September 2018:

- meeting between representatives of the PKP CARGO Group and a delegation of the Kazakh Railways – cooperation of the two carriers in handling container transport between China and Europe;
- extension of cooperation with key clients for subsequent one-year periods in the area of hard coal and aggregate transport services;
- signing of a memorandum on cooperation between the Visegrad Group (V4) countries' railways – improvement in the competitiveness of railways, growth of freight transport by rail in the V4 countries and in the European North-South transport corridor.

Table 11 Freight turnover of the PKP CARGO Group in 9M and Q3 2018 compared to the corresponding periods in 2017

Item	9 months of 2018	9 months of 2017*	Change 2018/2017		9 months of 2018	9 months of 2017	Q3 2018	Q3 2017*	Change Q3 2018/ Q3 2017	
	(million tkm)			*%*	*percentage of total (%)*		*(million tkm)*			*%*
Solid fuels[1]	8,043	8,592	-549	-6.4%	35%	37%	2,607	2,666	-58	-2.2%
of which hard coal	6,876	7,566	-689	-9.1%	30%	33%	2,212	2,333	-121	-5.2%
Aggregates and construction materials[2]	5,425	4,238	1,187	28.0%	23%	18%	2,041	1,878	164	8.7%
Metals and ores[3]	2,801	3,017	-216	-7.2%	12%	13%	896	953	-56	-5.9%
Chemicals[4]	1,679	1,777	-97	-5.5%	7%	8%	556	585	-30	-5.1%
Liquid fuels[5]	845	1,030	-185	-18.0%	4%	4%	322	385	-63	-16.3%
Timber and agricultural produce[6]	1,007	1,273	-266	-20.9%	4%	6%	318	398	-80	-20.1%
Intermodal transport	2,926	2,347	579	24.7%	13%	10%	1,009	827	183	22.1%
Other[7]	557	662	-105	-15.8%	2%	3%	187	222	-35	-15.8%
Total	**23,282**	**22,935**	**347**	**1.5%**	**100%**	**100%**	**7,937**	**7,913**	**24**	**0.3%**

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

Source: Proprietary material

Table 12 Freight volume of the PKP CARGO Group in 9M and Q3 2018 compared to the corresponding periods in 2017

Item	9 months of 2018	9 months of 2017*	Change 2018/2017		9 months of 2018	9 months of 2017	Q3 2018	Q3 2017*	Change Q3 2018/ Q3 2017	
	(000s tons)			*%*	*percentage of total (%)*		*(000s tons)*			*%*
Solid fuels[1]	42,090	42,880	-790	-1.8%	46%	49%	13,974	13,793	181	1.3%
of which hard coal	38,093	38,527	-434	-1.1%	42%	44%	12,776	12,398	379	3.1%
Aggregates and construction materials[2]	19,603	15,908	3,694	23.2%	22%	18%	7,496	6,944	553	8.0%
Metals and ores[3]	9,454	9,738	-283	-2.9%	10%	11%	3,012	3,142	-130	-4.1%
Chemicals[4]	5,171	5,205	-34	-0.7%	6%	6%	1,650	1,733	-83	-4.8%
Liquid fuels[5]	2,836	3,582	-747	-20.8%	3%	4%	1,069	1,267	-198	-15.6%
Timber and agricultural produce[6]	2,859	3,223	-364	-11.3%	3%	4%	959	1,007	-48	-4.8%
Intermodal transport	6,610	5,587	1,023	18.3%	7%	6%	2,218	1,891	326	17.2%
Other[7]	2,027	1,927	101	5.2%	2%	2%	707	644	64	9.9%
Total	**90,651**	**88,051**	**2,600**	**3.0%**	**100%**	**100%**	**31,084**	**30,421**	**664**	**2.2%**

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

Source: Proprietary material

Table 13 Average haul of the PKP CARGO Group in 9M and Q3 2018 compared to the corresponding periods in 2017

Item	9 months of 2018	9 months of 2017*	Change 2018/2017		Q3 2018	Q3 2017*	Change Q3 2018 / Q3 2017	
	(km)			%	(km)			%
Solid fuels[1]	191	200	-9	-4.6%	187	193	-7	-3.5%
of which hard coal	181	196	-16	-8.1%	173	188	-15	-8.0%
Aggregates and construction materials[2]	277	266	10	3.9%	272	270	2	0.7%
Metals and ores[3]	296	310	-14	-4.4%	298	303	-6	-1.8%
Chemicals[4]	325	341	-17	-4.9%	337	338	-1	-0.3%
Liquid fuels[5]	298	288	10	3.6%	301	303	-2	-0.7%
Timber and agricultural produce[6]	352	395	-43	-10.8%	332	396	-64	-16.1%
Intermodal transport	443	420	23	5.4%	455	437	18	4.1%
Other[7]	275	344	-69	-20.0%	264	344	-81	-23.4%
Total	**257**	**260**	**-4**	**-1.4%**	**255**	**260**	**-5**	**-1.8%**

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

Source: Proprietary material

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

Factors affecting the volume of transport in various cargo categories in 9M 2018:

SOLID FUELS

- lower volume of coal exports – a result of a significant reduction in total export freight volumes and changes in the supply directions in overland exports;
- lower yoy output, sales and consumption of hard coal (continuation of the downward trend in Q3 2018);
- enactment of anti-smog legislation;
- increase in hard coal imports;
- copious track closures caused by renovation of major railway routes;
- decrease in the average commercial speed in Poland translating into an extended rolling stock circulation;
- increase in the price of steam coal and heating coal.

AGGREGATES AND CONSTRUCTION MATERIALS

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

METALS AND ORES

- The lower freight turnover is a result of the shorter average haul of cargo – a change in the structure of freight routes;
- decrease in freight volume caused by lower ore transport – lower imports of iron ore and lower volumes of slag from steel mills;
- decrease in the volume of transported metals – including lower volumes in export and transit carriage due to a weaker demand for steel (exports to Germany, Hungary and Turkey and in transit to the Czech Republic).

INTERMODAL TRANSPORT

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

CHEMICALS

- Higher quantum of transported hydrocarbons in imports from the East and exports to the Czech Republic, Hungary and Ukraine;
- lower quantum of transported fertilizers in exports (competition from developing countries);
- increase in the quantum of transported fertilizers in imports.

LIQUID FUELS

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

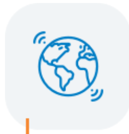
TIMBER AND AGRICULTURAL PRODUCE

- Dwindling imports from Belarus compensated by higher volumes in domestic transport and imports via seaports (shorter hauls);
- higher exports of timber (from windbreaks) to Romania, Slovakia and Hungary;
- overhauls in production plants in Szczecinek and Mielec;
- lower transport volumes of agricultural products: significantly lower volumes of grain exports via seaports, absence of rape imports from Hungary, suspension of rail transport of maize in imports from Ukraine.

4.3 Other services

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

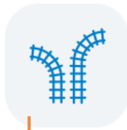
Freight forwarding services – the offering consists of comprehensive logistics services using vehicle, marine and inland water transport incorporating transshipment, storage, warehousing and packaging. The Group also offers customs handling. The comprehensive transport solutions designed and implemented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


FORWARDING SERVICES

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


TRACTION SERVICES AND LOCOMOTIVE LEASE SERVICES

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


COMPREHENSIVE SIDING SERVICES

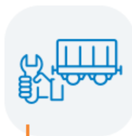
Transshipment services – provided on the basis of conventional and intermodal transshipment terminals owned by PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o., PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o., PKP CARGO CONNECT Sp. z o.o. and its subsidiaries and AWT a.s.


TRANSSHIPMENT SERVICES

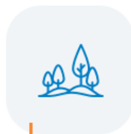
Intermodal logistics services – the Group takes care of all the elements of the logistics chain, including: rail transport, road transport, transshipment and storing intermodal units. This activity is based on a network of intermodal terminals. Within the Group, PKP CARGO CONNECT Sp. z o.o. is the company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


INTERMODAL LOGISTIC SERVICES

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


ROLLING STOCK REPAIRS

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


LAND RECLAMATION SERVICES

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

4.4 Headcount

Information concerning movements in headcount in the PKP CARGO Group and PKP CARGO S.A. in 9M 2018 and in the corresponding period of 2017 is provided below.

Figure 19 Headcount in the Company and the PKP CARGO Group in 9M and Q3 of 2017 and 2018, respectively

The average headcount in the PKP CARGO Group increased by 25 FTEs yoy. In PKP CARGO S.A. alone, the average headcount decreased by 140 FTEs, which ensued directly from the termination of employment contracts for natural causes, chiefly in connection with obtaining retirement rights.

4.5 PKP CARGO Group's investments

In 9M 2018, the PKP CARGO Group incurred capital expenditures for the acquisition of property, plant and equipment and intangible assets in the form of procurement, modernization and the overhaul component (periodic repairs of P4 and P5 rolling stock and periodic checkups of P3 rolling stock) of PLN 476.8 million, which was 43.6% higher than in the corresponding period of 2017.

The majority of capital expenditures in 9M 2018 in the PKP CARGO Group was allocated to the execution of capital expenditure endeavors associated with the rolling stock, mainly to periodic repairs (P4 and P5) and checkups (P3) of rolling stock and modernization of locomotives and purchases of wagons – in total PLN 441.4 million (i.e. 92.6% of total capital expenditures). Moreover, expenditures were incurred on investment construction activity in the amount of PLN 25.3 million, purchases of other machinery and other workshop and office equipment for PLN 5.9 million and ICT development, i.e. purchases of computer hardware and intangible assets (software), in the amount of PLN 4.2 million.

A detailed schedule of capital expenditures incurred by the PKP CARGO Group in 9M 2018 and a comparison with the actuals from 9M 2017 is presented in the table below.

Table 14 Capital expenditures on property, plant and equipment and intangible assets in the PKP CARGO Group in 9M 2018 as compared to 2017 (PLN million)

Item	9 months of 2018	9 months of 2017	Change	% change
			2018 - 2017	2018/2017
Investment construction activity	25.3	15.6	9.6	61.7%
Purchase of traction vehicles	0.0	0.6	-0.6	–
Locomotive upgrades	24.6	44.2	-19.7	-44.5%
Purchase of wagons	1.4	0.0	1.4	5452.0%
Workshop machinery and equipment	4.8	7.6	-2.7	-36.0%
ICT development	4.2	4.6	-0.5	-9.8%
Other	1.1	1.2	-0.1	-8.2%
Components in overhaul, including:	415.5	258.2	157.2	60.9%
Repairs and periodic inspections of locomotives	*110.1*	*56.6*	*53.5*	*94.5%*
Repairs and periodic inspections of wagons	*305.3*	*201.6*	*103.7*	*51.5%*
Total	**476.8**	**332.1**	**144.7**	**43.6%**

Source: Proprietary material

4.6 Key information and events

January

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

February

- Update of the residual value of rolling stock as at 31 December 2017. The increase in the residual value of rolling stock resulted in lower depreciation costs in H1 2018 by approx. PLN 15 million and for the 9M 2018 by approx. PLN 25 million.

March

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

April

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

May

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

June

- Appointment of Mr. Paweł Sosnowski to the PKP CARGO S.A. Supervisory Board.
- Extraordinary Shareholder Meeting of the Company.
- Execution of a memorandum of agreement between the Parties to the Company Collective Bargaining Agreement for Employees Hired by PKP CARGO S.A. Units, under which wage increases were agreed to be implemented on 1 September 2018. The Company estimates that the cost of the raise till the end of 2018 with a one-time bonus will amount to approximately PLN 33.9 million.
- Notification from NN OFE about a change in the stake held: an increase to 17.31%.
- Execution of a letter of intent with JSW for joint innovative investment projects focused on the commercial use of hydrogen fuel.
- Signing of an agreement with the Lithuanian Railways providing for the introduction of mutual assistance in the transport of cargo between Poland and Lithuania.

July

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

August

- Notice from Aegon Powszechne Towarzystwo Emerytalne S.A. about a change in the stake held: a decrease to 4.812%.

September

- Implementation of a wage increase – in accordance with the provisions of the Memorandum of Agreement dated 15 June 2018.
- Signing of a cooperation agreement with Pojazdy Szynowe PESA Bydgoszcz S.A. and Instytut Pojazdów Szynowych "TABOR" to conduct research and development work within the framework of a project to construct an autonomous dual mode locomotive.

October

- Execution of an Electricity Sales and Distribution Service Agreement ("Agreement") between PKP CARGO S.A. and PKP Energetyka S.A. The Agreement was entered into for the period from 1 January 2019 to 31 December 2020. The expected aggregated net value of the Agreement during its term is PLN 987,080,000 (gross value of PLN 1,214,108,400).
- Judgment of the Regional Court in Warsaw, the Court of Competition and Consumer Protection ("SOKiK"), in which it dismissed the appeal filed by PKP CARGO S.A. and upheld Decision No. DOK-5/2015 of 31 December 2015 issued by the President of the Office of Competition and Consumer Protection ("President of UOKiK"). In the opinion of the Company's Management Board, SOKiK's judgment of 15 October 2018 is groundless and the Company intends to file an appeal against it.
- Execution of a contract with NEWAG S.A. for the delivery of 3 electric 6-axle E6ACTa "DRAGON2" locomotives. The three locomotives will be delivered by 31 December 2018. The estimated gross value of this contract is approx. PLN 45.3 million.
- Co-financing awarded for three projects submitted under the Operational Programme Infrastructure and Environment 2014-2020 in the total amount of PLN 288.7 million.

November

- Execution of a Memorandum of Agreement between the parties to the Company Collective Bargaining Agreement. By the power of this Memorandum of Agreement, the parties resolved that a quarterly performance bonus pilot program will be launched for Q4 2018 (the estimated value of additional payouts will total approx. PLN 29.3 million) and, if the results after Q3 2018 are confirmed, greater bonuses will be paid on the occasion of the Railway Employee Day (with the total impact on the result of approx. PLN 13.9 million).

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

5.1 Key economic and financial figures of PKP CARGO Group

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

Table 15 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN 000s[51]		EUR 000s	
	9 months of 2018	9 months of 2017	9 months of 2018	9 months of 2017
Operating revenue	3,839,259	3,459,740	902,612	812,794
Profit / (loss) on operating activities	275,712	102,474	64,820	24,074
Profit / (loss) before tax	245,191	74,205	57,645	17,433
Net profit / (loss)	194,246	51,741	45,667	12,155
Total comprehensive income attributable to the owners of the parent company	188,888	48,374	44,408	11,364
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / (losses) per share	4.34	1.16	1.02	0.27
Diluted earnings / (losses) per share	4.34	1.16	1.02	0.27
Net cash flow from operating activities	605,784	458,224	142,420	107,650
Net cash flow from investing activities	-621,550	-607,039	-146,127	-142,611
Net cash flow from financing activities	-240,227	-219,416	-56,477	-51,547
Movement in cash and cash equivalents	-255,993	-368,231	-60,184	-86,508
	30 September 2018	31 December 2017	30 September 2018	31 December 2017
Non-current assets	4,977,161	4,947,406	1,165,229	1,186,172
Current assets	1,667,865	1,694,153	390,473	406,184
Non-current assets classified as held for sale	1,472	–	345	–
Share capital	2,239,346	2,239,346	524,265	536,898
Equity attributable to the owners of the parent company	3,519,856	3,334,778	824,052	799,534
Non-current liabilities	1,908,013	2,093,673	446,695	501,972
Current liabilities	1,218,629	1,213,108	285,300	290,850

Source: Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2018 prepared according to EU IFRS

In the period of the first 9 months of 2018, the PKP CARGO Group identified a non-recurring event in the form of an impairment loss on the redundant rolling stock assets in the amount of PLN 18.0 million as part of the optimization processes carried out in the AWT Group. This event did not affect EBITDA, hence no adjusted EBITDA has been presented. Starting from the results for H1 2018, the PKP CARGO Group decided to present only its adjusted EBITDA, including material non-recurring events.

[51] *To facilitate the reading of this document, some figures have been rounded off, which will not cause any significant deviations in the presented data. In all cases of possible distortions, an attempt has been made at presenting the pertinent data with greater accuracy.*

Table 16 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN 000s		EUR 000s	
	9 months of 2018	9 months of 2017	9 months of 2018	9 months of 2017
Operating revenue	2,892,296	2,632,938	679,980	618,554
Profit / (loss) on operating activities	258,949	89,122	60,879	20,937
Profit / (loss) before tax	262,485	71,925	61,710	16,897
Net profit / (loss)	211,345	54,613	49,687	12,830
Comprehensive income	195,837	42,276	46,041	9,932
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / (losses) per share	4.72	1.22	1.11	0.29
Diluted earnings / (losses) per share	4.72	1.22	1.11	0.29
Net cash flow from operating activities	517,533	356,668	121,672	83,792
Net cash flow from investing activities	-566,299	-529,191	-133,137	-124,322
Net cash flow from financing activities	-165,359	-270,459	-38,876	-63,539
Movement in cash and cash equivalents	-214,125	-442,982	-50,341	-104,069
	30 September 2018	31 December 2017	30 September 2018	31 December 2017
Non-current assets	4,655,488	4,558,487	1,089,921	1,092,926
Current assets	1,150,545	1,178,549	269,360	282,565
Non-current assets classified as held for sale	1,472	–	345	–
Share capital	2,239,346	2,239,346	524,265	536,898
Equity	3,299,801	3,106,461	772,534	744,794
Non-current liabilities	1,568,728	1,731,536	367,263	415,147
Current liabilities	938,976	899,039	219,829	215,550

Source: Quarterly Financial Information of PKP CARGO S.A. for the period of 9 months ended 30 September 2018 prepared according to EU IFRS

The following average PLN to EUR exchange rates set by the National Bank of Poland have been used to translate selected financial data in the periods covered by the Quarterly Financial Information of PKP CARGO S.A. and the Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2018:

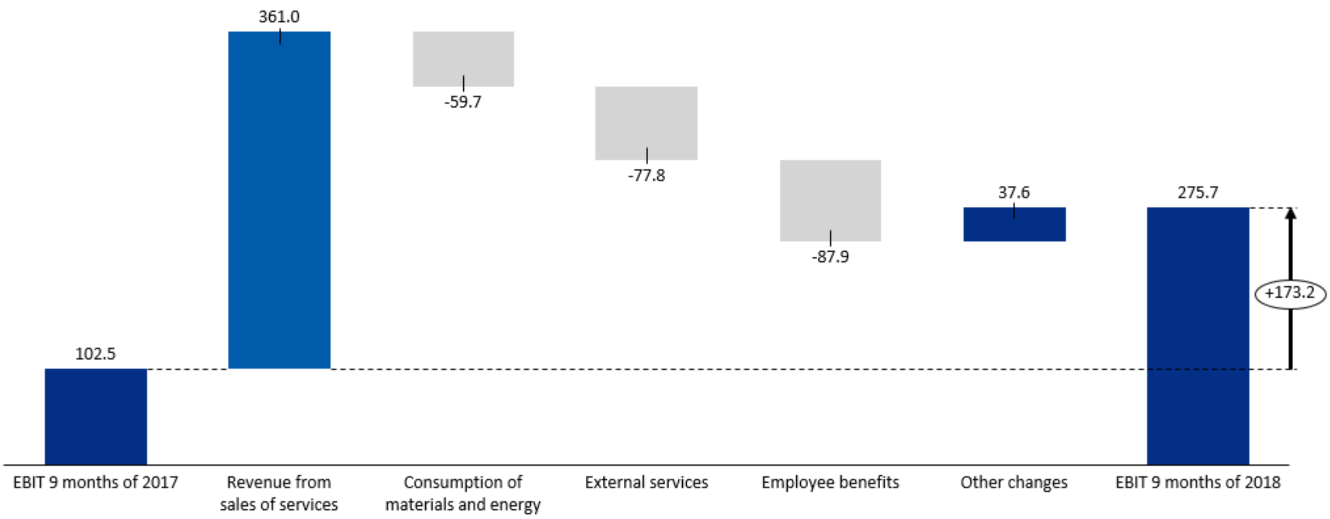
- exchange rate in force on the last day of the reporting period: 30 September 2018: EUR 1 = PLN 4.2714; 31 December 2017: EUR 1 = PLN 4.1709;
- the average exchange rate in the period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in a given period: 1 January – 30 September 2018: EUR 1 = PLN 4.2535, 1 January – 30 September 2017: EUR 1 = PLN 4.2566.

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

Statement of comprehensive income of PKP CARGO Group

In the period of the first 9 months of 2018, EBIT reached PLN 275.7 million, having gone up by PLN 173.2 million (169.1%) compared to the corresponding period of the previous year.

Figure 20 EBIT in 9M 2018 as compared to the corresponding period in 2017 (PLN million)



Source: Proprietary material

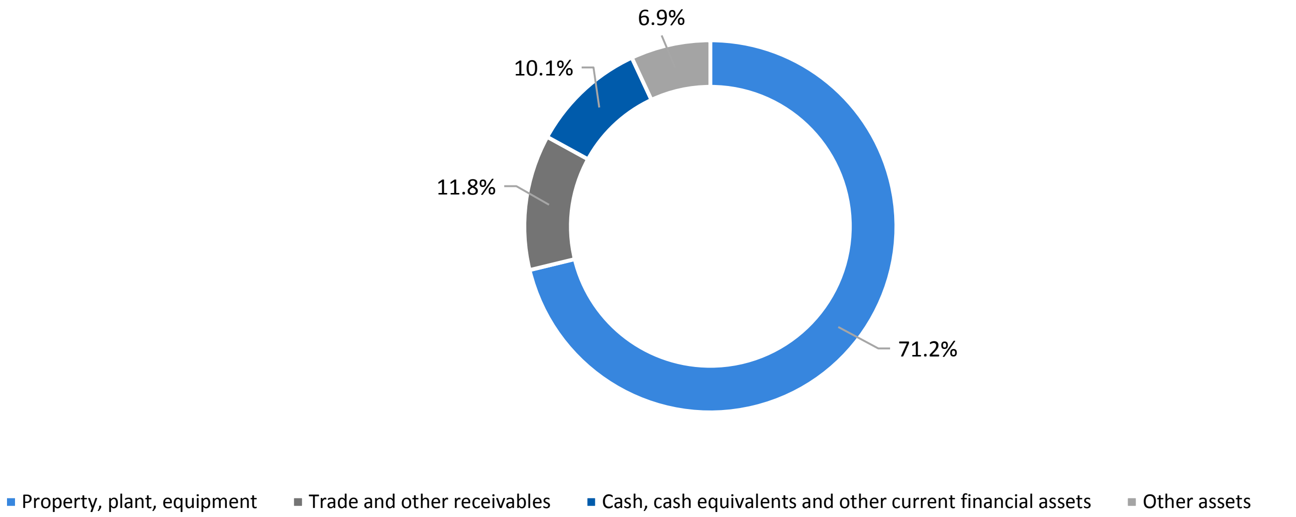
The following is the explanation of the most significant changes affecting EBIT in the first 9 months of 2018 as compared to the first 9 months of 2017:

- the increase in revenue from sales of services and finished products (chiefly revenue from transportation services and freight forwarding services) resulted from higher transport prices and better transport performance (increase in freight volume by 3.0% yoy, increase in freight turnover by 1.5% yoy). The details pertaining to the PKP CARGO Group's transport services are described in section **4.2.5 "PKP CARGO Group's rail transport business"**;
- the increase in the costs of consumption of materials and energy was driven primarily by an increase in fuel costs by PLN 34.6 million as a result of a greater volume of transport performed on the diesel traction due to repairs conducted on PLK lines and the resulting detours, an increase in the volume of transport carried out by the PKP CARGO Group and an increase in unit fuel prices. Moreover, an increase in electricity, gas and water consumption by PLN 20.1 million was recorded, mainly as a result of an increase in the quantum of transport in the PKP CARGO Group;
- the increase by PLN 34.0 million in the cost of external services occurred chiefly in the line item of costs of rents and fees for the use of real properties and rolling stock (a larger quantity and a higher price of leased rolling stock necessary to perform the increased transport orders received by the PKP CARGO Group). Due to the increase in freight turnover by 1.5% yoy, the costs of access to the lines of rail infrastructure managers increased by PLN 14.7 million. Moreover, due to the strong demand for freight forwarding services, the PKP CARGO Group cooperates to a greater extent with external entities, which was reflected in the higher costs of transport services by PLN 17.5 million;
- the increase in employee benefits resulted primarily from wage increases in member companies of the PKP CARGO Group. The increase in wages that had the largest impact on the upswing in employee benefits was granted as of 1 September 2017 to employees of the Parent Company (largest headcount in the PKP CARGO Group). On 1 September 2018, a wage increase came into effect in accordance with the memorandum of agreement of 15 June 2018 entered into between the Parties to the Company Collective Bargaining Agreement for Employees Hired by PKP CARGO S.A.;
- the other key changes which had a favorable impact on EBIT were: an increase in the result on sales of goods and materials by PLN 7.5 million (an increase in sales of scrap metal coupled with higher sales prices), a decline in the costs of taxes and charges by PLN 5.9 million and a decrease in the value of provisions for other operating income and expenses by PLN 12.0 million.

Statement of financial position of the PKP CARGO Group

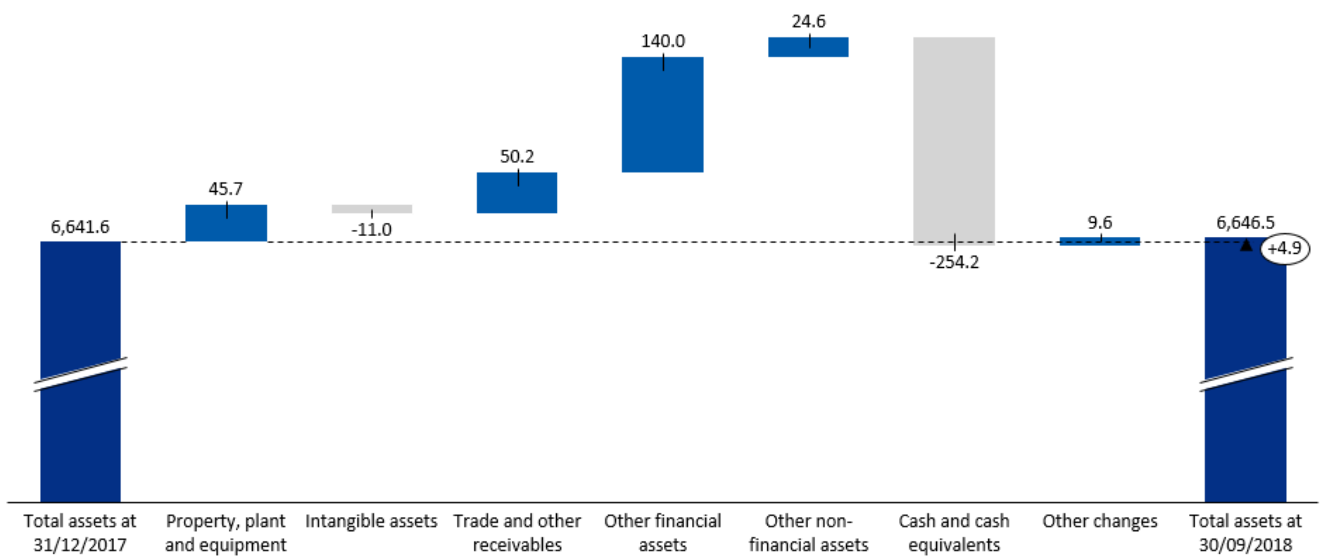
The biggest share in the Group's asset structure was held by property, plant and equipment, which as at 30 September 2018 accounted for 71.2% of total assets, compared to 70.6% as at 31 December 2017. In the period of the first 9 months of 2018, property, plant and equipment increased in value by PLN 45.7 million, or 1.0%, compared to 31 December 2017, which was directly caused by the completed investments rolling stock, despite the decline in the value of non-current assets due to depreciation and recognition of an impairment loss on rolling stock in the AWT Group.

Figure 21 Structure of assets – as at 30 September 2018



Source: Proprietary material

Figure 22 Movement in the PKP CARGO Group's assets in the first 9 months of 2018 (in PLN million)

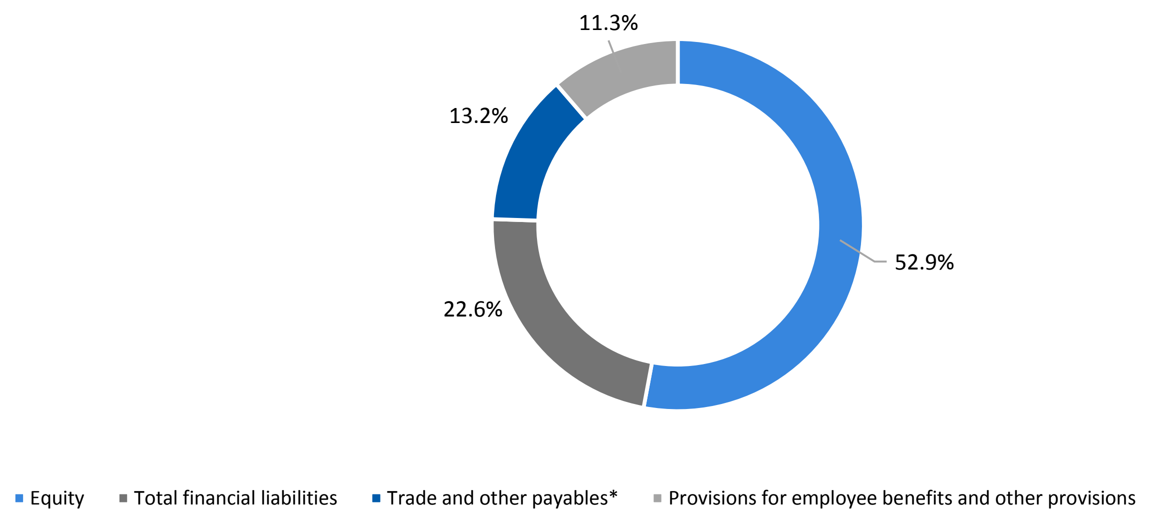


Source: Proprietary material

- The value of other financial assets increased 51.0% from 31 December 2017. This increase was caused mainly by bank deposits with a maturity of over 3 months (PLN 149.0 million);
- in the first 9 months of the year, the value of cash and cash equivalents decreased 49.2%. A significant impact on the decrease in cash value was exerted, among other factors, by expenditures on the acquisition of property, plant and equipment and intangible assets and reclassification to other financial assets (establishment of bank deposits);
- trade and other receivables increased by 6.9% as a result of greater revenues from transport services owing to higher prices and transport volumes.

The largest share in the structure of equity and liabilities is attributable to equity, which as at 30 September 2018 was 53.0% of the sum of equity and liabilities, compared to 50.2% as at 31 December 2017. The share of the total financial debt in the sum of equity and liabilities decreased from 25.6% as at 31 December 2017 to 22.6% as at 30 September 2018.

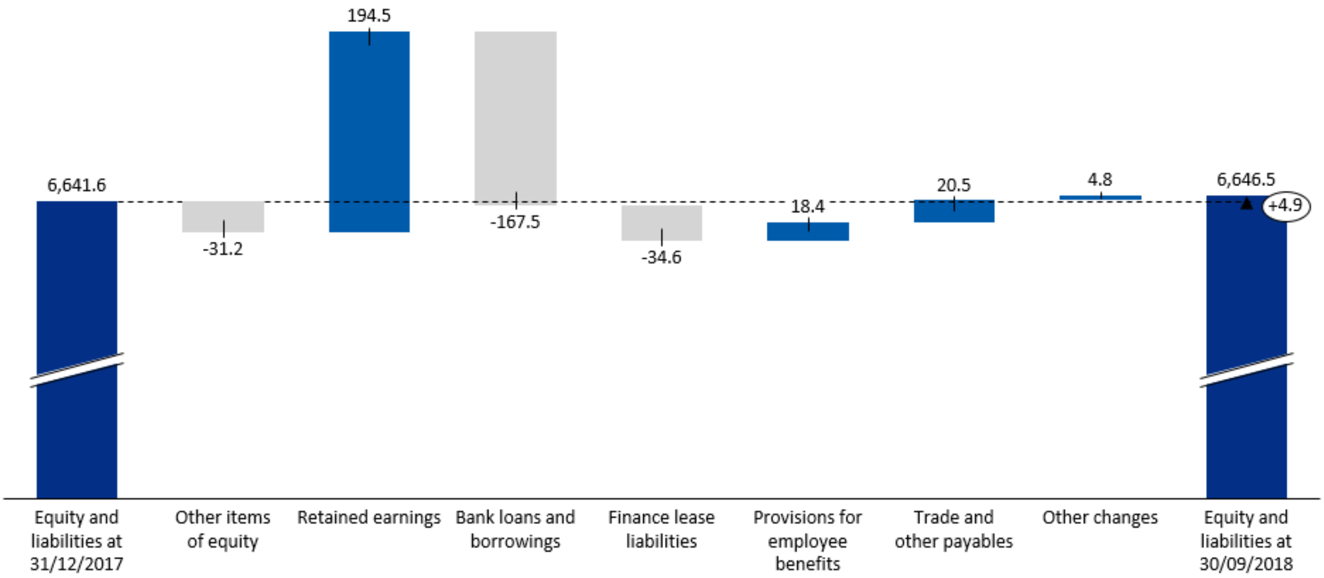
Figure 23 Structure of equity and liabilities – as at 30 September 2018



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

Source: Proprietary material

Figure 24 Movement in the PKP CARGO Group's equity and liabilities in the first 9 months of 2018 (in PLN million)



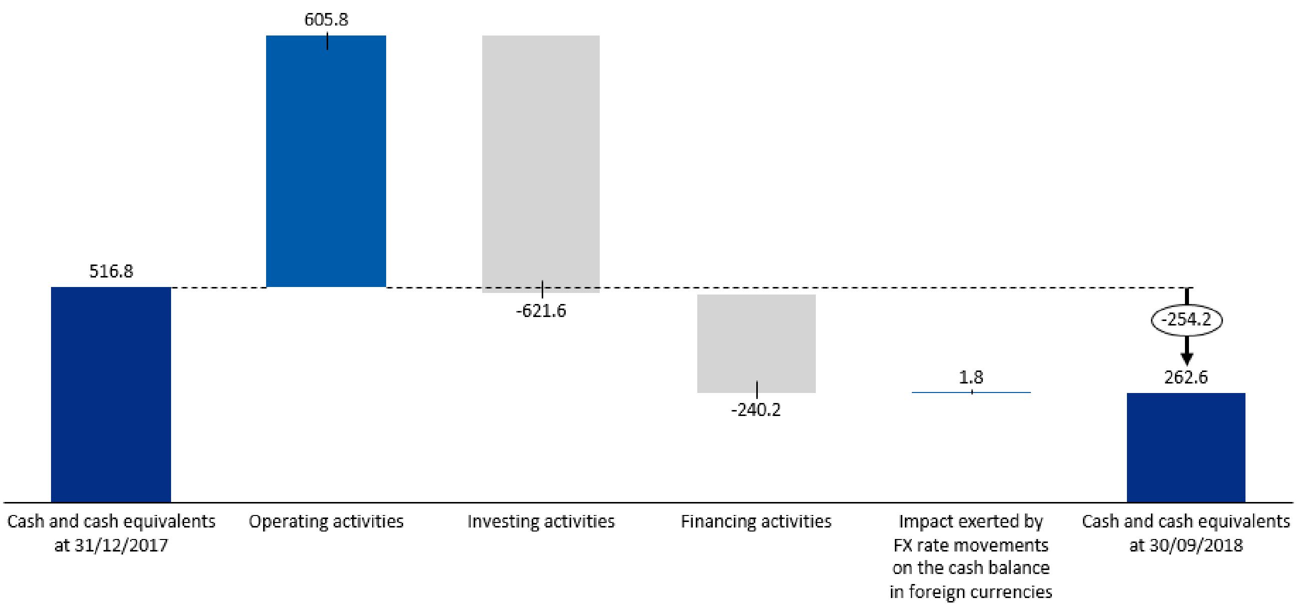
Source: Proprietary material

- The increase in equity was driven predominantly by retained earnings due to the positive financial result for 9M 2018;
- long-term and short-term bank loans and borrowings as at 30 September 2018 decreased 12.9% in comparison with 31 December 2017. The decrease resulted chiefly from the repayment of loans in accordance with the repayment schedules;
- the decrease in the value of other items of equity resulted largely from the measurement of equity instruments at fair value due to the implementation of IFRS 9 and losses incurred on a hedging instrument as part of a cash flow hedging arrangement.

Statement of cash flows of the PKP CARGO Group

The value of cash as at 30 September 2018 decreased 49.2% compared to 31 December 2017.

Figure 25 Cash flows of the PKP CARGO Group in the first 9 months of 2018 (in PLN million)



Source: Proprietary material

- Net cash flow from operating activities were generated on the result before tax of PLN 245.2 million and depreciation of property, plant and equipment, amortization of intangible assets and impairment of non-current assets of PLN 425.9 million;
- the negative cash flows from investing activities directly affected capital expenditures on the acquisition of property, plant and equipment and intangible assets in the amount of PLN 509.5 million and the establishment of bank deposits with a maturity of over 3 months (PLN 149.0 million);
- in 9M 2018, net cash flow from financing activities resulted chiefly from the repayment of loans and borrowings and finance lease instalments with interest (PLN 242.0 million).

5.3.3 Selected financial and operating ratios of the PKP CARGO Group

The table below presents the PKP CARGO Group's key financial and operating ratios in 9M 2018 compared to the corresponding period of the previous year.

Table 17 Key financial and operating ratios of the PKP CARGO Group in 9M 2018 as compared to the corresponding period of 2017[52]

Item	9 months of 2018	9 months of 2017	Change	% change
			2018 - 2017	2018/2017
EBITDA margin[1]	18.3%	15.4%	2.9 p.p.	19.0%
Net profit margin[2]	5.1%	1.5%	3.6 p.p.	238.3%
Net financial debt to EBITDA ratio[3]	1.0	1.3	-0.3	-25.1%
ROA[4]	3.4%	1.9%	1.5 p.p.	81.1%
ROE[5]	6.4%	3.6%	2.8 p.p.	76.8%
Average distance covered per locomotive (km/day)[6]	250.3	247.7	2.6	1.0%
Average gross train tonnage per operating locomotive (tons)[7]	1462.0	1460.0	2.0	0.1%
Average running time of train locomotives (hours per day)[8]	15.7	15.2	0.5	3.3%
Freight turnover per employee (thousands tkm/employee)[9]	998.2	984.4	13.8	1.4%

Source: Proprietary material

- The key profitability ratios, i.e. the EBITDA margin, the net profit/loss margin, ROA and ROE, were higher on a yoy basis for the reasons described in section **5.3.2. Analysis of selected financial highlights of the PKP CARGO Group.** The net financial debt to EBITDA ratio also improved as a result of the stronger financial performance of the PKP CARGO Group;
- the improvement in the average daily mileage of locomotives resulted from the optimization of the transportation process;
- the increase in the average gross train tonnage per operating locomotive was caused by a better utilization of locomotives and optimization of the transportation process;
- the increase in the average daily running time of locomotives was an outcome of the continuous monitoring of how the freight turnover process is run while concurrently optimizing the match between the number of active locomotives and doing the work with changing freight turnover.
- the increase in the freight turnover ratio per employee was caused mainly by the increase in freight turnover by 1.5% yoy, with the increase in the headcount by 0.1% yoy.

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

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

Economic situation in Europe

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

Situation on the energy fuel market

- Due to the largest share of hard coal in rail transport, the fuel and power industries will continue to be the most important sectors of the economy.

Situation on the aggregates market

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

Situation on the intermodal transport market

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

Energy price levels

- The Parent Company and the Group companies are exposed to significant fluctuations in energy prices. The situation on the Polish Power Exchange is very volatile. Accordingly, the final price of energy for 2019 will depend on the quotations of energy prices.

Condition of rail infrastructure

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

Rail infrastructure access charges

- In 9M 2018, they represented approx. 15.2% of the PKP CARGO Group's operating expenses.
- As regards domestic and foreign infrastructure, no significant changes are expected to take place in the coming quarter.

Technical regulations related to rolling stock

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

Situation of OKD a.s.

- The OKD Management Board in consultation with the owner (the state-owned enterprise PRISKO) is working on a new strategy for hard coal mining operations. According to this strategy, mining operations on the existing deposits would be extended in relation to the restructuring plan by another seven years, that is until 2030.
- The Czech prime minister Andrej Babiš intends to make a decision on OKD's mines at the end of December. If the mines continue to operate, Polish exports of coal to the Czech Republic will be smaller than expected.

Scrap price level

- The scrap market is very unstable and it is difficult to predict how the prices will behave in the coming quarters.
- The current scrap metal prices are at a relatively high level.
- Scrap prices translate directly into revenues from decommissioning of rolling stock by the Group.

Risk of changes to legal regulations

- Regulation on access to service facilities and rail-related services.
- Noise TSI.
- EU Emissions Trading Scheme (EU ETS).
- Amendment to the Rail Transport Act.
- Changes in the rules of train driver training programs and licenses.

Capital expenditures

- The Group will finance capital expenditures using partly external financing sources, such as investment loans or other forms of financing and also using its own funds.
- The implementation of the new IFRS 16 as of 1 January 2019 will affect the method of recognizing various asset and liability items, which will translate into changes in the financial result and the balance sheet structure. A preliminary estimate of the potential impact of implementing IFRS 16 is described in Note 3 to the CFS.

Exchange rates and Management Policy

- The Parent Company and the Group companies are exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies. The Group applies hedge accounting to cash flows from EUR-denominated investment loans. Moreover, forward transactions have been executed to hedge FX risk in future periods. In accordance with the concluded FX forward contracts, the Group applied hedge accounting.

Social dialog

- The social dialog in PKP CARGO S.A. is based on the principles contemplated in the generally binding laws, the Company Collective Bargaining Agreement and the agreements defining the mutual obligations of the parties to the social dialog.
- The Company respects and improves the principles of cooperation between the social partners, which contributes to implementation of modern, pro-development solutions aiming at increasing the company's competitiveness and efficiency.

Internal employee compensation regulations

- Memorandum of Agreement between the parties to the Company Collective Bargaining Agreement – wage increases will come into force as of 1 September 2018 (by the end of 2018, the cost of these increases, including a non-recurring bonus, will reach PLN 33.9 million), a quarterly performance bonus pilot program will be launched for Q4 2018 (the estimated value of additional payouts will total approx. PLN 29.3 million) and, if the results for Q3 2018 are confirmed, greater bonuses will be paid on the occasion of the Railway Employee Day (with the total impact on the result of approx. PLN 13.9 million).

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

As at the date of publication of these Quarterly Condensed Consolidated Financial Statements, the Parent Company's Management Board upholds the forecast published by PKP CARGO S.A. and the PKP CARGO Group on 21 August 2018.

5.4 Information about production assets

5.4.1 Rolling stock

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

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

In 9M 2018, the number of locomotives owned by the Group increased. This increase was driven directly by the steadily improving situation on the rail transport market – in order to meet the high demand for the PKP CARGO Group's freight transport services, the Group expanded its rolling stock fleet to 2,350 locomotives.

The decrease in the number of registered rail cars resulted from the sale by PKP CARGO S.A. of more than 2 thousand G, T and U-type freight cars. The wagons sold by the Company had not been used for a long time due to their technical condition, construction, intended use and type of the applied loading/unloading technologies.

Figure 26 Structure of rolling stock used by the PKP CARGO Group as at 30 September 2018 and 31 December 2017

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. The majority of real estate held by the Group is used on the basis of lease and rental agreements.

The table below presents changes in real estate owned and used by the PKP CARGO Group during the first 9 months of 2018.

Table 18 Real estate owned and used by PKP CARGO Group as at 30 September 2018 as compared to 31 December 2017

Item	30 September 2018	31 December 2017	Change 2018-2017
Land - owned, in perpetual usufruct and leased from other entities [ha]	1,608	1,573	35
Buildings - owned, leased and rented from other entities [sqm]	758,370	749,492	8,878

Source: Proprietary material

The increase in the surface area of occupied buildings (owned or leased from other entities) was caused, among other factors, by the acquisition of buildings in the Paskov area by AWT. The Group's assets are adjusted on an ongoing basis to the size and profile of its operations.

6. Other key information and events

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

PKP CARGO S.A. and its subsidiaries did not participate in any major proceedings pending before courts, arbitration bodies or public administration authorities in cases concerning liabilities or receivables of PKP CARGO S.A. or its subsidiaries, except for those disclosed in the consolidated financial statements, in particular in the notes concerning contingent liabilities.

6.2 Information on transactions with related parties

In the first 9 months of 2018, no entity from the PKP CARGO Group entered into any transactions with related parties on non-market terms. Also after the balance sheet date no such transactions have been entered into.

Detailed information on transactions with related parties is presented in **Note 28 to the CFS**.

6.3 Information on granted guarantees and sureties of loans or credits

PKP CARGO S.A. and its subsidiaries did not extend any sureties for loans or borrowings and did not grant guarantees to a single entity or subsidiary of such entity whose total amount would be material.

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

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

This Report was approved by the PKP CARGO S.A. Management Board on 21 November 2018.

Company's Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 21 November 2018

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