



# PKP CARGO GROUP H1 2016 results





# AGENDA

Recap of the interim results

Commercial results

Financial results

Challenges



# H1 2016 results

✓	✓	✓
<b>MARKET SHARE</b>  <b>51.2%</b> measured by freight turnover (-4.8 p.p. yoy) <b>43.8%</b> measured by freight volume (-4.1 p.p. yoy)	<b>EBITDA*</b>  <b>PLN 193 million</b> profitability of 9.1% -51% yoy * reported EBITDA was PLN 130 million	<b>CAPEX</b>  <b>PLN 267 million</b> 6% yoy
<b>REVENUES</b>  <b>PLN 2,123 million</b> 2.6% yoy	<b>NET RESULT*</b>  <b>PLN -115 million</b> * reported net result was PLN -195 million	<b>OPEX</b>  <b>PLN 2,317 million</b> 22.6% yoy

*\* presentation data for H1 2016 were adjusted by an impairment charge for non-current assets from the AWT Group in the amount of PLN 35.4 million and impairment losses for receivables from OKD in the amount of PLN 62.9 million; additionally the adjusted profit includes the deferred tax on the above adjustments.*



# AGENDA

|| Recap of the interim results

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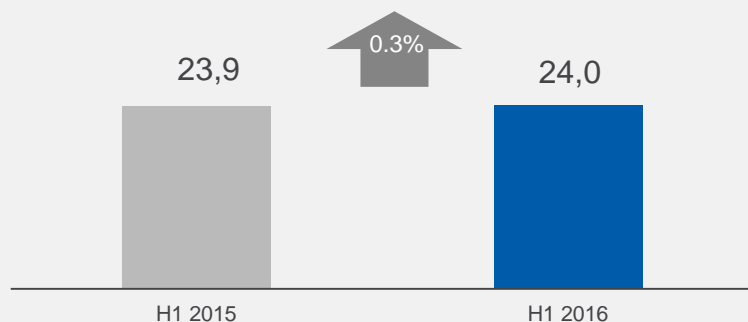
|| Challenges



# Position of the PKP CARGO Group

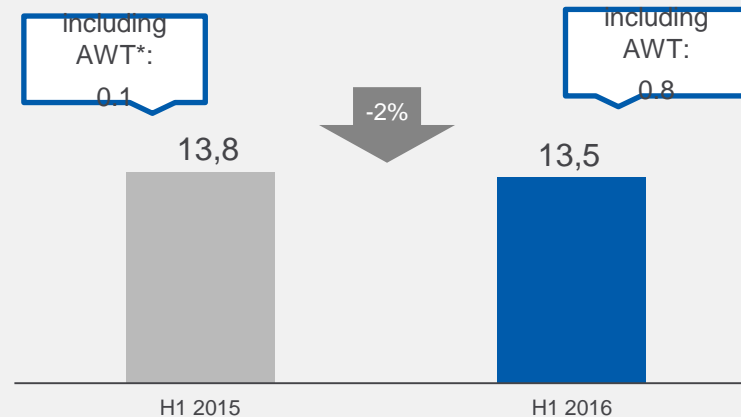
## Market for rail freight transport in Poland

measured by freight turnover data for H1 2016, bn tkm



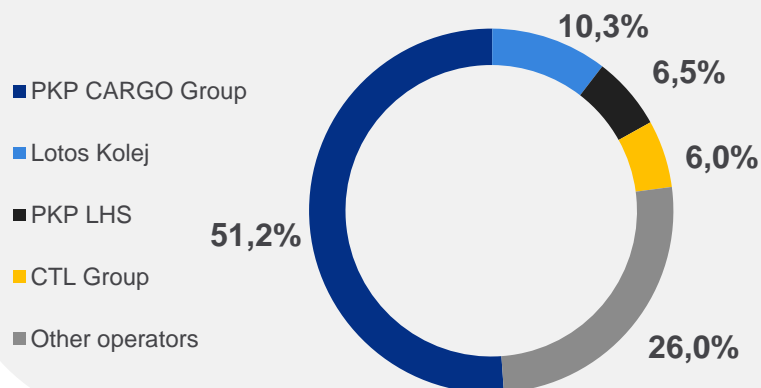
## PKP CARGO Group's freight transport

measured by freight turnover data for H1 2016, bn tkm



## PKP CARGO Group's share of the Polish market

measured by freight turnover data for H1 2016



## Movement in Polish market share vs H1 2015

measured by freight turnover

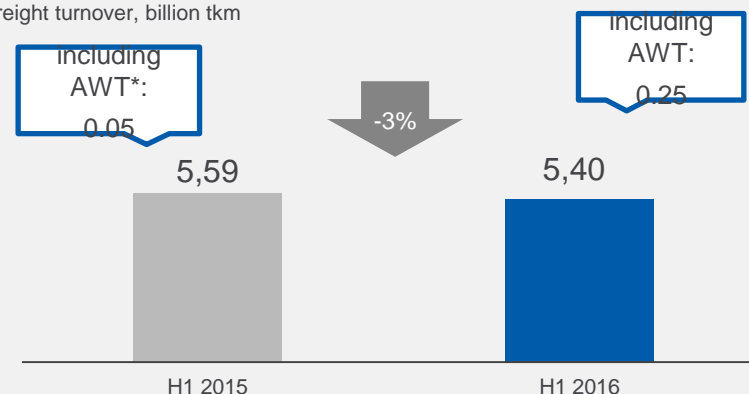
Largest growth [p.p.]	DB Cargo Polska	+0.2
	PUK Kolprem	+0.4
	Lotos Kolej	+0.6
Largest decline [p.p.]	PKP CARGO Group	-4.8
	CTL Group	-0.7
	STK	-0.1

## Key events in H1 2016

- ▶ Average monthly ARA coal price in H1 2016 up 12%
- ▶ Electricity production in H1 2016 up 0.22% yoy, including hard coal-fired by 3.24% yoy (the price rose 17.5% from February to June; in February the average monthly price was 44.0 USD/t; in June the average monthly price was 51.7 USD/t)
- ▶ Polish Mining Group (PGG) as an opportunity to improve the situation in the mining industry
- ▶ Shrinking coal inventories in Poland (5.2 million tons at the end of June 2016 compared to 6.0 million tons at the end of March 2016)

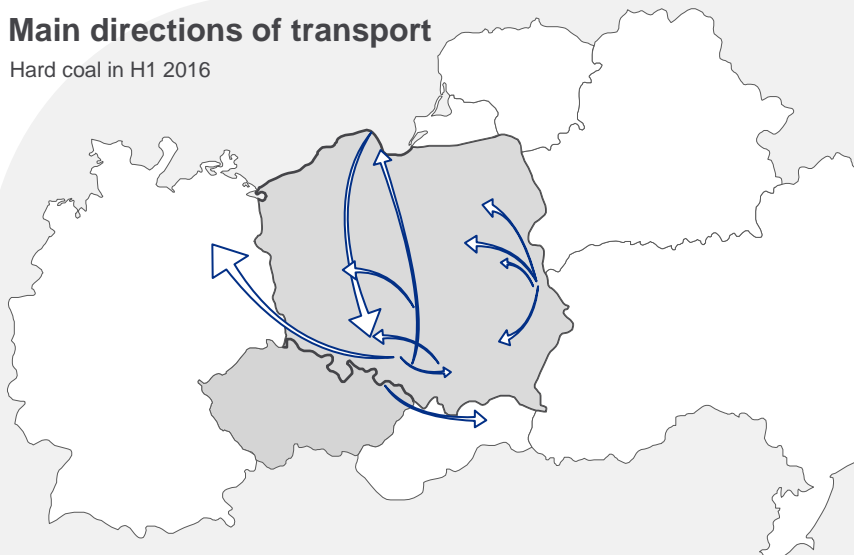
## Hard coal

Freight turnover, billion tkm



## Main directions of transport

Hard coal in H1 2016



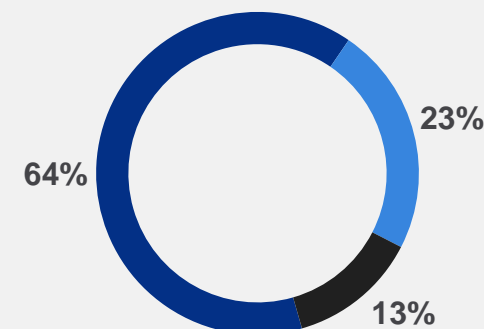
## PKP CARGO Group's freight transport mix in Poland

by types of transportation (freight turnover) in H1 2016

■ Domestic freight

■ Exports

■ Imports

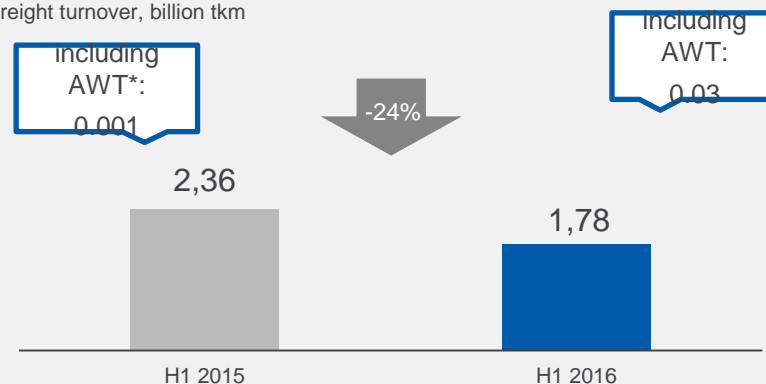


## Key events in H1 2016

- ▶ Construction and assembly production in H1 2016 down 11.9% yoy and in companies specializing in building civil and marine engineering facilities by 17.0%
- ▶ Smaller scale of local investments financed by local governments, with a big share in the demand for construction aggregates
- ▶ “Design and build” - postponement of big infrastructural investment projects

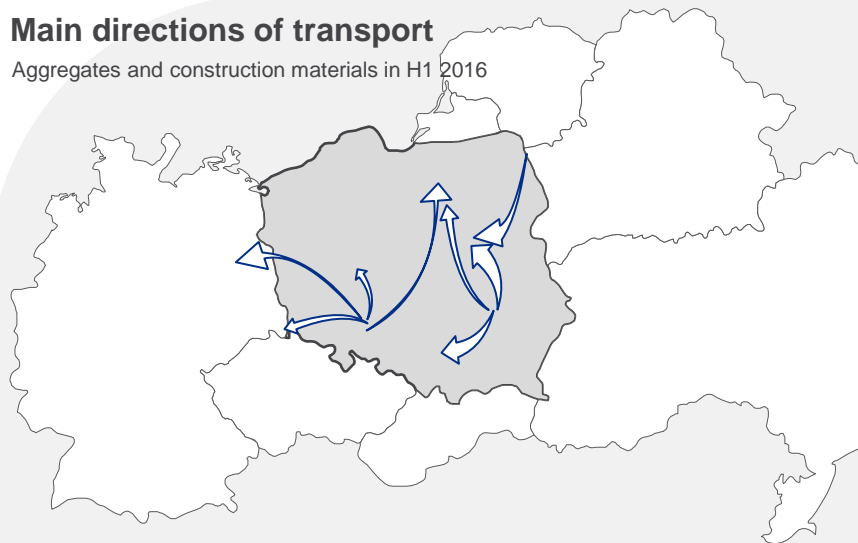
## Aggregates and construction materials

Freight turnover, billion tkm



## Main directions of transport

Aggregates and construction materials in H1 2016



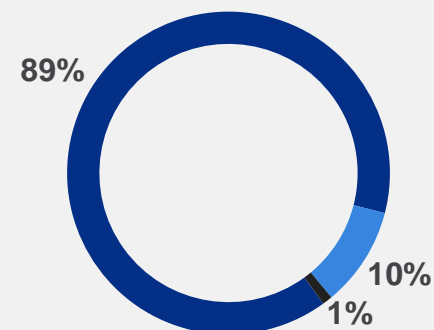
## PKP CARGO Group's freight transport mix in Poland

by types of transportation (freight turnover) in H1 2016

■ Domestic freight

■ Exports

■ Imports





## Key tender procedures announced:

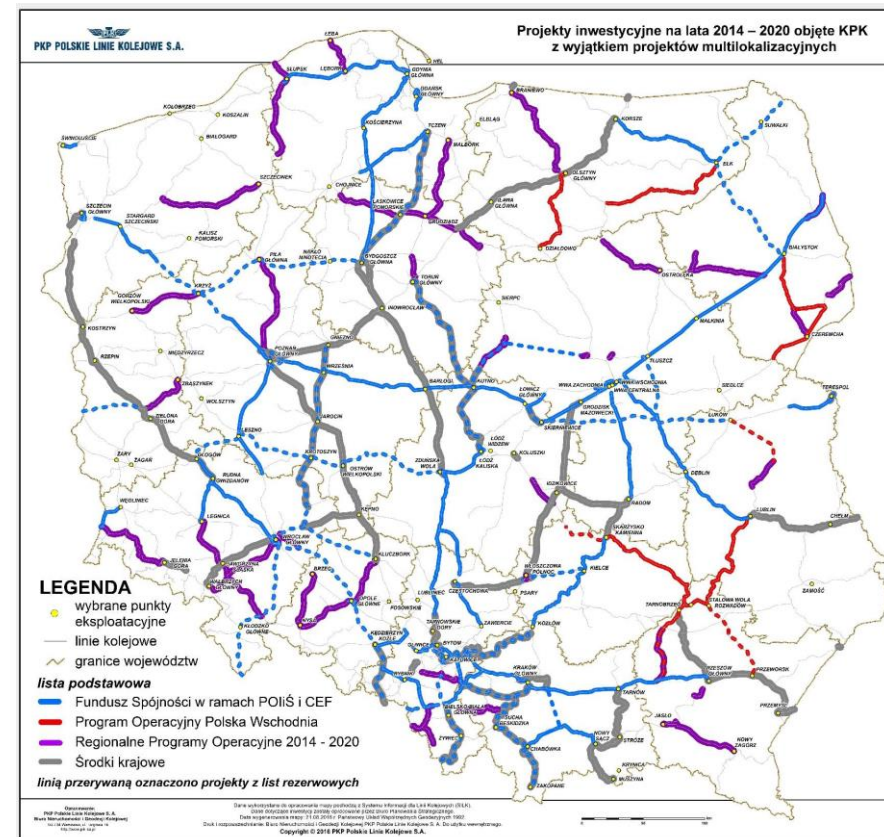
- ▶ Work on rail line no. 7 Warszawa Wschodnia Osobowa–Dorohusk (ca. PLN 3.1 bn)
- ▶ Construction of the infrastructure for the ERTMS/GSM-R system within the framework of NPW ERTMS (ca. PLN 3.1 bn)
- ▶ Execution of construction works and preparation of execution documentation for the project  
Work on the E 30 rail line on section Kraków Gł. Towarowy–Rudzice (ca. PLN 1.6 bn)
- ▶ Execution of construction works – LCS Konin – section Barłogi–Swarzędz (ca. PLN 1.1 bn)

## Railway projects in 2016:

- ▶ **PLN 25 billion** – total value of the projects
- ▶ **PLN 6.5 billion** – still to be announced before the end of 2016
- ▶ **ca. PLN 18.5 billion** – total value of over 100 procedures under New Perspective projects announced so far

**Value of the National Railway Program – PLN 66 billion**

**In August - December 2016, over 160 procedures will be announced for a total estimated amount of ca. PLN 7.0 billion**





## Tenders planned to be announced in 2017:

- ▶ work on the E75 line, Białystok Suwałki Trakiszki RailBaltica (ca. PLN 2.5 bn)
- ▶ Installation of ERTMS/ETCS system, level 2 on line E20, Kunowice–Terespol (excluding the Warsaw junction) and the ERTMS/ETCS system, level 1 on line C-E 20 Łowicz–Łuków (ca. PLN 1.2 bn)

**Over 100 procedures for ca. PLN 11 billion**

ca. 200 projects



expenditures exceeding PLN 5 billion

## Selected key railway projects in 2017:

- ▶ modernization of the E 30 rail line, Zabrze–Katowic–Kraków section
- ▶ work on rail line no. 7 Warszawa Wschodnia Osobowa–Dorohusk, Warszawa–Otwock–Dęblin–Lublin section
- ▶ modernization of rail line no. 4 – Centralna Magistrala Kolejowa
- ▶ modernization of rail line no. 8, Warszawa Okęcie–Radom section
- ▶ work on the peripheral line in Warsaw (Warszawa Gołębki–Warszawa Zachodnia–Warszawa Gdańska section)
- ▶ work on the E75 line, Czyżew–Białystok section
- ▶ ERTMS\_ETCS\_GSM-R, DSAT and traction system power supply - Phase II
- ▶ Modernization of rail line no. 273, Głogów–Zielona Góra–Rzepin–Dolna Odra section

## Key investments executed in 2016:

- ▶ S-51 ring road around Olsztyn along the DK16/S51 route (25 km, completion date of June 2018, investment of PLN 1.3 bn)
- ▶ S-8 Marki – Radzymin (15 km, completion date of March 2017, investment of PLN 738 million)
- ▶ S-7 ring road around Radom (25 km, completion date of September 2018, investment of PLN 729 million)
- ▶ S-7 Nidzica – Napierki (23 km, completion date of March 2017, investment of PLN 493 million)
- ▶ S-11 ring road around Jarocin (13 km, completion date of July 2017, investment of PLN 293 million)

## National Road Building Program in 2014-2023 (with an outlook to 2025)

Program budget – **PLN 107 bn**

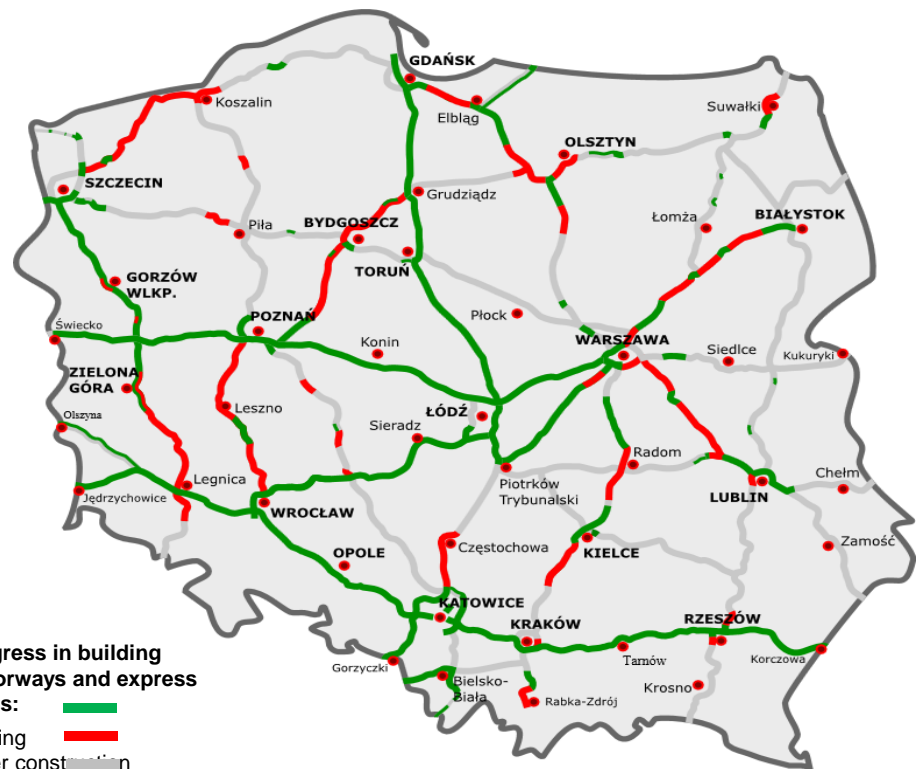
Total length of the roads – **3,840 km**

Demand for aggregate – **96 million tons**

Ring roads – **57**

Budget for investments slated for execution  
– **PLN 80.8 bn**

Budget for investments with signed contracts  
– **PLN 51.4 bn**

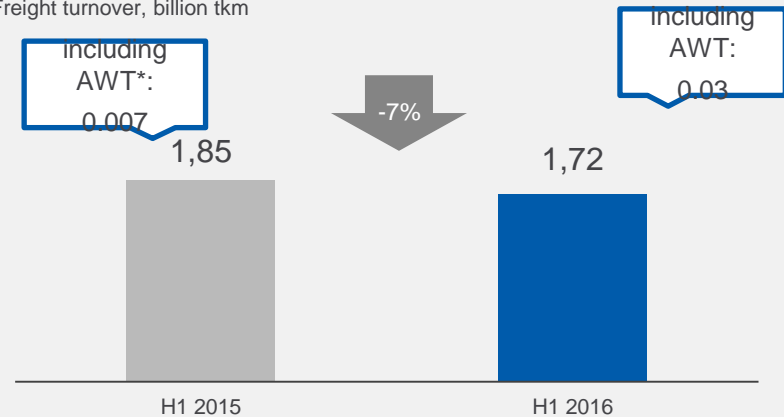


## Key events in H1 2016

- ▶ Overhaul of the metallurgical furnace of PKP CARGO's customer from May to July 2016
- ▶ Steel production in Poland down 11.3% vs 2015
- ▶ Import duties for steel products from China and Russia introduced by the EU
- ▶ Iron ore prices climb 30% (51.4 USD/t in 06'16 vs 39.6 USD/t in 12'15)
- ▶ Rising steel prices

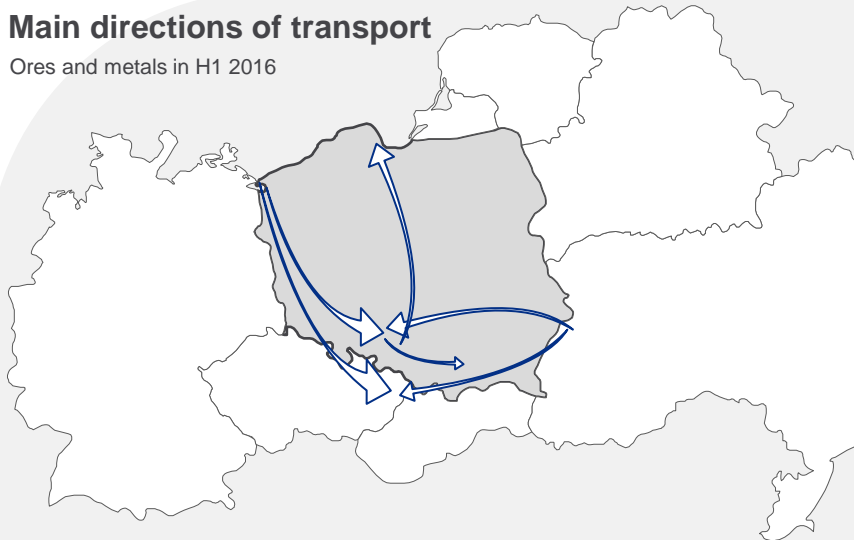
## Ore and metals

Freight turnover, billion tkm



## Main directions of transport

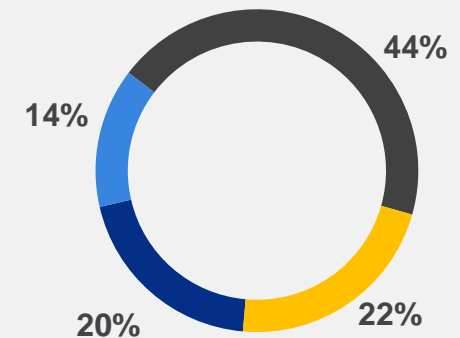
Ores and metals in H1 2016



## PKP CARGO Group's freight transport mix in Poland

by types of transportation (freight turnover) in H1 2016

- Domestic freight
- Exports
- Imports
- Transit



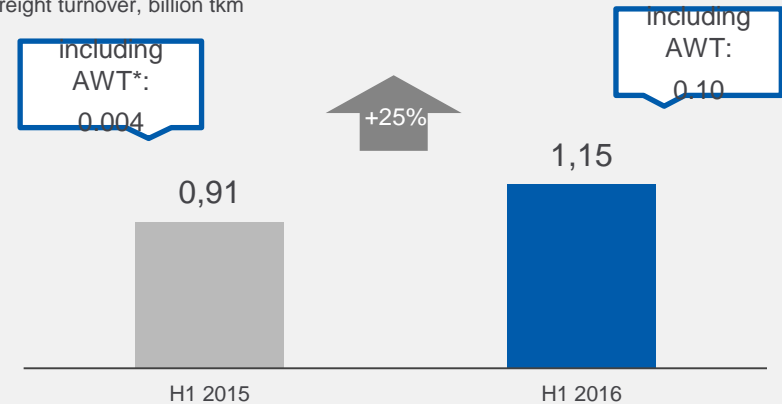


## Key events in H1 2016

- ▶ Rapid development of the New Silk Road. Land transport from/to China up 11.3% yoy.
- ▶ Container freight volume reloaded in Polish ports up 8.3% yoy.
- ▶ Providing freight transport services to new clients
- ▶ Development of connections from sea ports to terminals in Poznań, Warsaw, Radomsko and Łódź

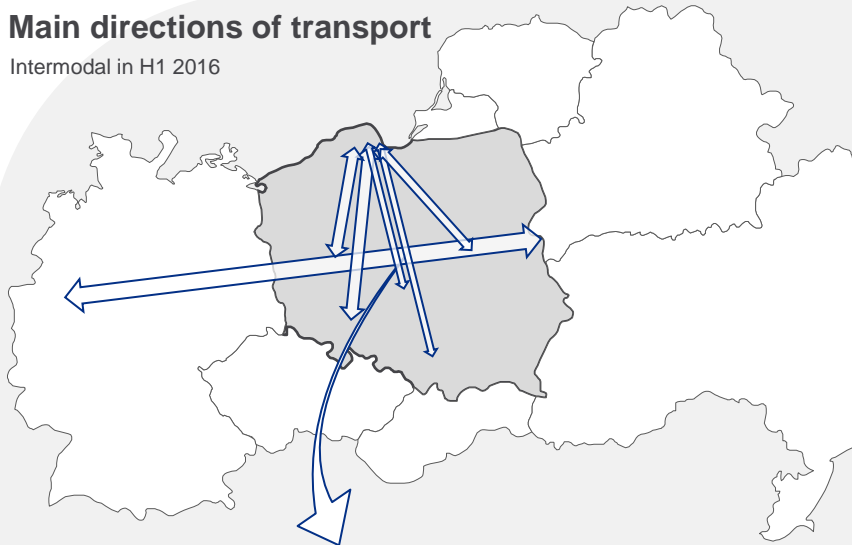
## Intermodal

Freight turnover, billion tkm



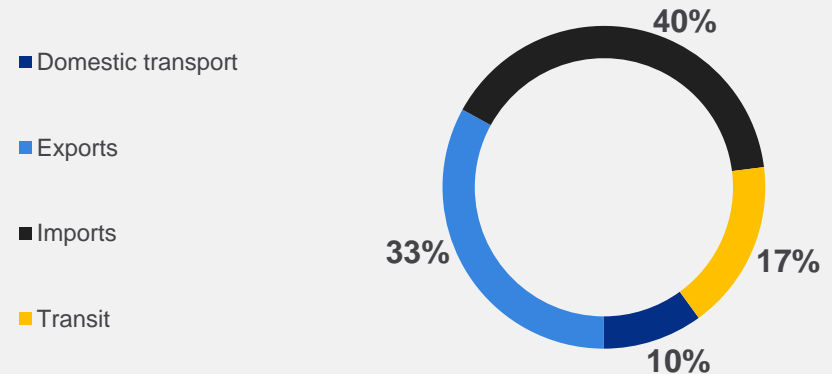
## Main directions of transport

Intermodal in H1 2016



## PKP CARGO Group's freight transport mix in Poland

by types of transportation (freight turnover) in H1 2016



**Share in the  
Czech market**

**9.57%**

measured by gross freight  
turnover – H1 2016

**Market position**

**No. 2 in the  
Czech  
Republic**

**Freight volume**

**6.8 million tons**

H1 2016

**wagons**

**4,632**

72% of own wagons

**locomotives**

**167**

3 multi-system ones

**intermodal terminal**

**Paskov**

25 km from the Polish border

**headcount**

**2,094 persons**

as at 30.06.2016

**own sidings**

**364 km of railway  
tracks**

**siding services**

**26**

## Segments

### Current situation

- ▶ 3 May 2016 – announcement of OKD's bankruptcy
- ▶ NWR (New World Resources) claims rejected (ca. EUR 17.3 million)
- ▶ Receiver accepted 100% of AWT's claims (EUR 17.15 million)
- ▶ AWT one of the 4 members of the Creditor Committee (together with the Insurer Revirska bratská zdravotní pojistovna, CSSZ - Czech social security office and Zeppelin)



Rail transport



Siding operations



Rent of freight wagons



Land reclamation /  
Earthworks



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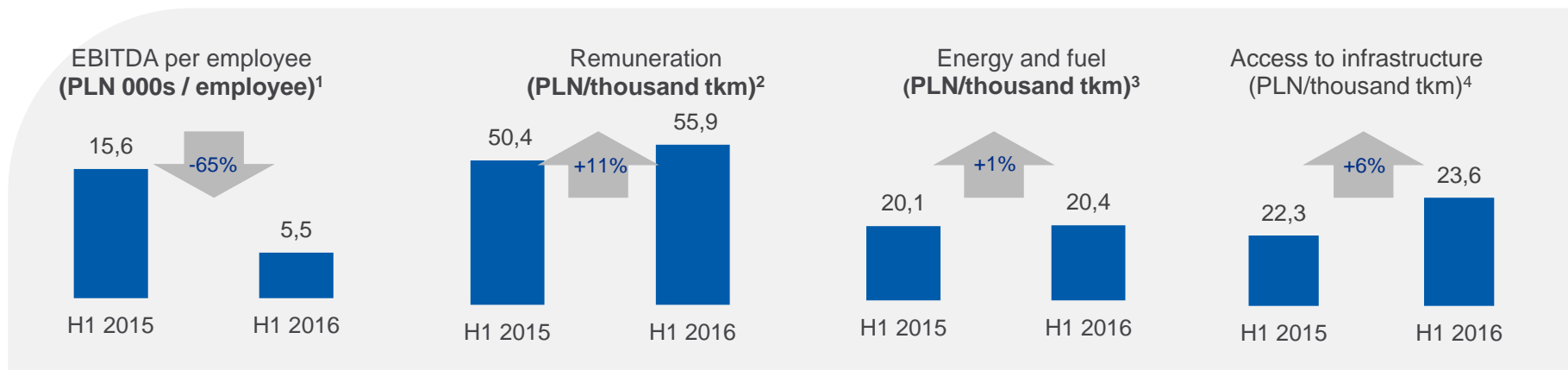
# Financial highlights

PLN million	Group PKP CARGO H1 2015*	PKP CARGO Group without AWT H1 2016	AWT Group H1 2016**	Group PKP CARGO H1 2016	yoy change	Change % yoy	AWT's share in the PKP CARGO Group
<b>Operating revenues</b>	2,070	1,748	375	2,123	53	+3%	18%
<b>Operating expenses</b>	1,889	1,837	480	2,317	428	+23%	21%
<b>EBITDA</b>	391	159	-29	130	-261	-67%	-
<b>EBIT</b>	181	-89	-105	-194	-375	-	54%
<b>Net result</b>	163	-101	-93	-195	-357	-	48%

\* Data transformed according to Note 4 of the Condensed Interim Consolidated Financial Statements of the PKP CARGO Group, AWT Group included in the consolidation as of the date of acquisition

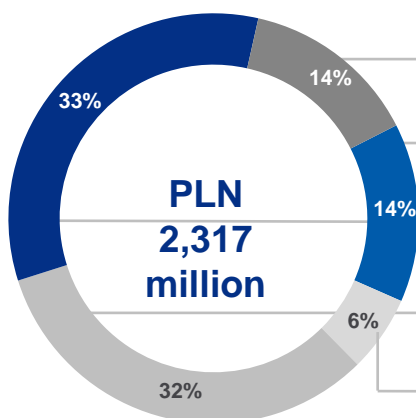
\*\* Data for the AWT Group after consolidation elimination

# Operating expenses



## Operating expenses

PLN million



**Amortization & depreciation**

**Materials & energy**

**External services**

**Employee benefits**

**Other**

**Total**

	Group PKP CARGO H1 2015*	PKP CARGO Group without AWT H1 2016	AWT Group H1 2016**	Group PKP CARGO H1 2016	Change yoy	Change % yoy	AWT's share in the Group
Amortization & depreciation	211	248	76	324	114	+54%	24%
Materials & energy	307	273	53	327	20	+6%	16%
External services	608	598	176	774	167	+27%	23%
Employee benefits	695	651	102	753	58	+8%	14%
Other	69	67	72	139	70	+102%	52%
<b>Total</b>	<b>1,889</b>	<b>1,837</b>	<b>480</b>	<b>2,317</b>	<b>428</b>	<b>+23%</b>	<b>21%</b>

1. Calculated as the quotient of the PKP CARGO Group's EBITDA divided by the average headcount (in FTEs) in the PKP CARGO Group in the given period

2. Calculated as the quotient of the PKP CARGO Group's costs of remuneration divided by the freight turnover performed by the PKP CARGO Group in the given period

3. Calculated as the quotient of the consumption of fuel, electricity, gas and water in the PKP CARGO Group divided by the freight turnover performed by the PKP CARGO Group in the given period

4. Calculated as the quotient of the costs of access services to the lines of the infrastructure managers incurred by the PKP CARGO Group divided by the freight turnover performed by the PKP CARGO Group in the given period

\* Data transformed according to Note 4 of the Condensed Interim Consolidated Financial Statements of the PKP CARGO Group, the AWT Group consolidated from the time of acquisition

\*\* Data for the AWT Group after consolidation elimination



# Employee benefits

PLN million	Group PKP CARGO H1 2015*	PKP CARGO Group without AWT H1 2016	AWT Group H1 2016	Group PKP CARGO H1 2016	Change yoy	Change % yoy	AWT's share in the Group
Payroll	508	496	72	568	60	+12%	12%
Social security costs	104	99	25	124	19	+19%	20%
Charges to the Company Employee Benefit Fund	14	13	0	13	-1	-7%	0%
Other employee benefits	17	14	4	18	1	6%	22%
Post-employment benefits and Voluntary Redundancy Program	71	3	0	3	-68	-96%	0%
Movement in provisions for employee benefits	-22	24	1	25	48	-	4%
Other employee benefits	4	2	0.3	2	-2	-49%	4%
<b>Total</b>	<b>695</b>	<b>651</b>	<b>102</b>	<b>753</b>	<b>58</b>	<b>+8%</b>	<b>14%</b>

\* Data transformed according to Note 4 of the Condensed Interim Consolidated Financial Statements of the PKP CARGO Group

# Selected external services

PLN million	Group PKP CARGO H1 2015*	PKP CARGO Group without AWT H1 2016	AWT Group H1 2016**	Group PKP CARGO H1 2016	Change yoy	Change % yoy	AWT's share in the Group
Access services to lines of infrastructure managers	308	294	24	318	10	+3%	7%
Fees for the use of real properties and rolling stock	78	70	28	98	21	+27%	28%
Transport services	121	133	84	217	96	+79%	39%
Legal and advisory services etc.	11	7	3	10	-1	-9%	29%
Telecom and IT services	32	26	2	28	-4	-13%	7%
Transshipment services	11	13	0	13	2	+18%	0%
Siding services	13	16	2	18	5	+37%	10%
Other services	34	37	34	71	37	+109%	48%
<b>Total</b>	<b>608</b>	<b>598</b>	<b>176</b>	<b>774</b>	<b>167</b>	<b>+27%</b>	<b>23%</b>

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\*\* Data for the AWT Group after consolidation elimination

# Capital expenditures (CAPEX)

PLN million	Group PKP CARGO H1 2015*	PKP CARGO Group without AWT H1 2016	AWT Group H1 2016	Group PKP CARGO H1 2016	Change yoy	Change % yoy	AWT's share in the Group
Investment construction activity	4	5	1	6	2	+50%	17%
Purchase of traction vehicles	0	102	0	102	102	-	0%
Modernization of locomotives	51	14	0.5	15	-37	-72%	7%
Purchase of wagons	11	0	0	0	-11	-	0%
Machinery and equipment	4	2	1	3	-1	-25%	33%
ITC development	20	9	0	9	-11	-54%	0%
Components in overhaul	159	120	11	131	-28	-18%	8%
Other	2	2	0.2	2	0	0%	10%
<b>Total</b>	<b>252</b>	<b>254</b>	<b>13</b>	<b>267</b>	<b>15</b>	<b>+6%</b>	<b>5%</b>

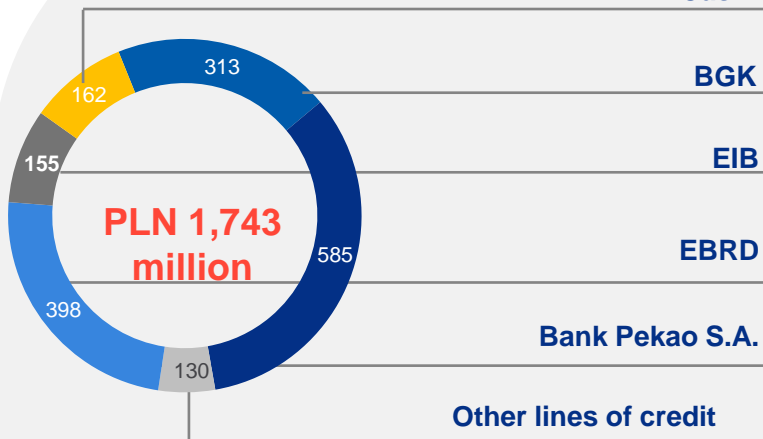
\* Data transformed according to Note 4 of the Condensed Interim Consolidated Financial Statements of the PKP CARGO Group

# Financing structure

## Available funding sources

as at 30 June 2016

Cash<sup>1</sup>



## Debt structure

PLN million

Debt	31.12.2015*	30.06.2016
Long-term	654	826
Short-term	319	340
<b>Total debt</b>	<b>973</b>	<b>1,167</b>

## Financial ratios

Ratio	H1 2015	H1 2016
ND / EBITDA <sup>2</sup>	1.8	2.6

## Cash flows

PLN million

Cash flows	H1 2015*	H1 2016
Operating	20	19
Investment	-284	-309
Financial	55	167

<sup>1</sup> Cash and cash equivalents, other short-term financial assets

<sup>2</sup> Calculated as the quotient of net financial debt (constituting the sum of (i) long-term bank loans and credit facilities; (ii) short-term bank loans and credit facilities, (iii) long-term finance lease liabilities and leases with purchase option; (iv) short-term finance lease liabilities and leases with purchase option; and (v) other short-term financial liabilities and (iv) other long-term financial liabilities, minus (i) cash and cash equivalents; and (ii) other short-term financial assets) and annualized EBITDA for the last 12 months (profit on operating activities plus amortization and impairment charges).

\* Data transformed according to Note 4 of the Condensed Interim Consolidated Financial Statements of the PKP CARGO Group



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PKP cargo  
LOGISTICS



# Challenges for PKP CARGO

## Taking advantage of market conditions



Forecasted GDP growth in Poland in 2016 is approx. 3.2%



Expected growth in steel consumption in 2016 is approx. 3%



Until the end of 2016, PKP PLK will invite tenders for PLN 9 billion (as much as PLN 6.5 billion in H2 2016)

## Commercial

- ▶ Ability to transport materials at the climax of rail and road construction projects at the same time and place
- ▶ Higher profitability of transport services
- ▶ Extension of contracts for coal transport
- ▶ Development of international operations

## Financial

- ▶ Cost discipline
- ▶ Flexibility in aligning resources with market conditions
- ▶ Possibility of obtaining low-cost financing

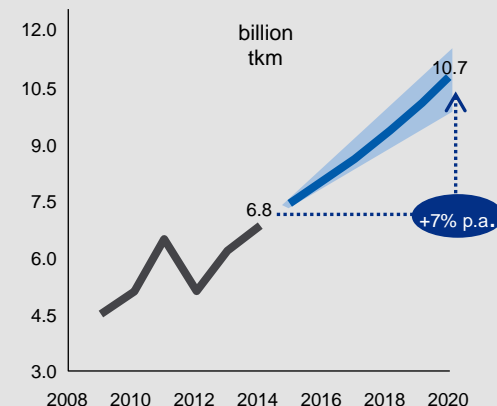
## Operating

- ▶ Obtaining co-financing from EU funds for purchases of modern container platforms
- ▶ Development of process computerization
- ▶ Continuation of rolling stock modernization

# "China Railway Express" (Warsaw, 20 June 2016)



Expected growth in intermodal transport in Poland







To obtain additional information about PKP CARGO, please contact the Investor Relations Department:

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