



PKP CARGO Group's 2015 results



AGENDA

- || Recap of the annual results
- || Key achievements in 2015
- || Commercial results
- || Financial results
- || Outlook for 2016
- || Confirming the extent of strategy execution



2015 results

– international expansion and cost discipline

✓	✓	✓
MARKET SHARE 55.8% by freight turnover (-0.7 p.p. yoy) 47.7% by freight volume (-1.2 p.p. yoy)	EBITDA PLN 705 million +40% yoy profitability of 15%	CAPEX PLN 485 million -16% yoy
REVENUES PLN 4,554 million +7% yoy	NET PROFIT PLN 31 million -60% yoy impact exerted by the charge of PLN 143 million*	OPEX PLN 4,498 million +8% yoy



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Key achievements in 2015

– development of an international logistics group

✓	Directions of development	<ul style="list-style-type: none">▶ CARGO'20 – PKP CARGO Group's Strategy for 2016-2020▶ Funding secured to implement the strategy
✓	Leader in Poland	<ul style="list-style-type: none">▶ Retaining a high rail market share▶ Establishing PKP CARGO Connect – consolidating freight forwarding companies▶ Conditional purchase agreement for ORLEN KolTrans and ZCP Trzebinia
✓	International logistics group	<ul style="list-style-type: none">▶ Development of the New Silk Road – 18 trains per week▶ International connections up 336% yoy (measured by freight turnover)▶ Full integration with AWT - real footprint in four CEE countries
✓	Developing the offering and expanding terminals	<ul style="list-style-type: none">▶ Expansion of the Poznań - Franowo and Ostrava - Paskov terminals▶ Dedicated products - operator trains, ferry services, trans-border products
✓	Optimizing costs and diversifying revenues	<ul style="list-style-type: none">▶ Agreement with Siemens to buy 15 multi-system locomotives▶ Voluntary Redundancy Program - 4 thousand fewer employees, at least PLN 130 million in savings a year▶ 100+ Program, savings of PLN 10 million achieved▶ More than PLN 11 million worth of synergies have been achieved with AWT



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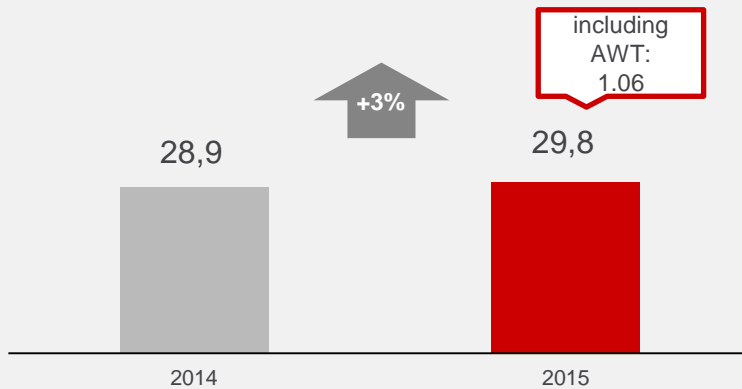


PKP CARGO Group's position

– stable market share

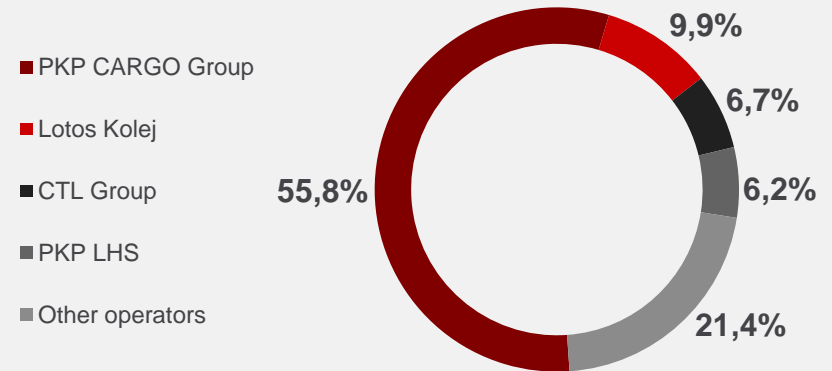
PKP CARGO Group's freight transport

measured by freight turnover data for 2015, billion tkm



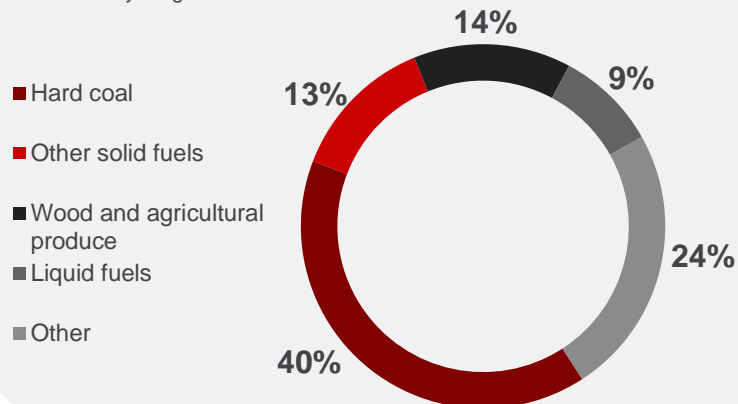
PKP CARGO Group's share of the Polish market

measured by freight turnover data for 2015



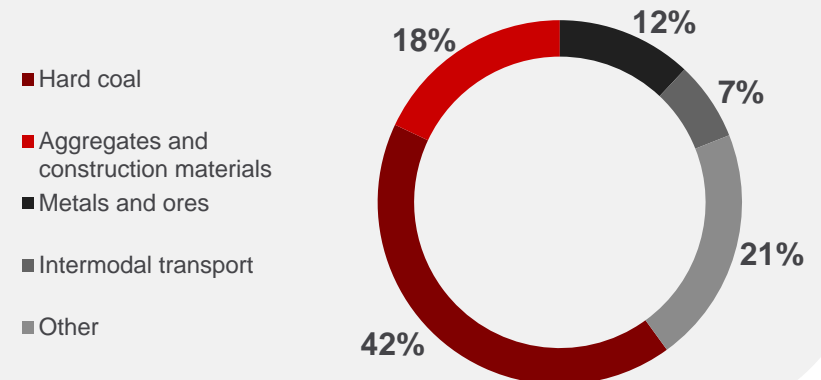
AWT's freight turnover mix

measured by freight turnover data for 2015



PKP CARGO Group's freight turnover mix in Poland

measured by freight turnover data for 2015

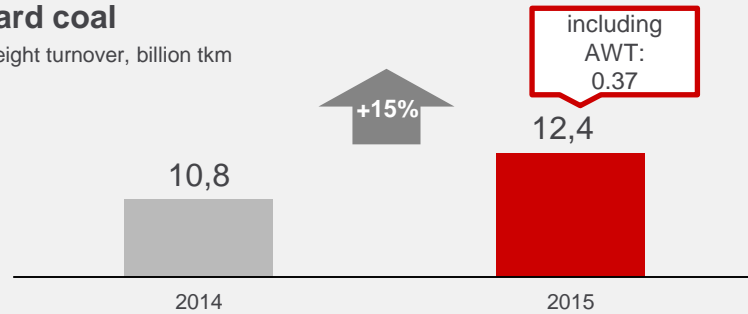


PKP CARGO Group's freight transport

– most important segments

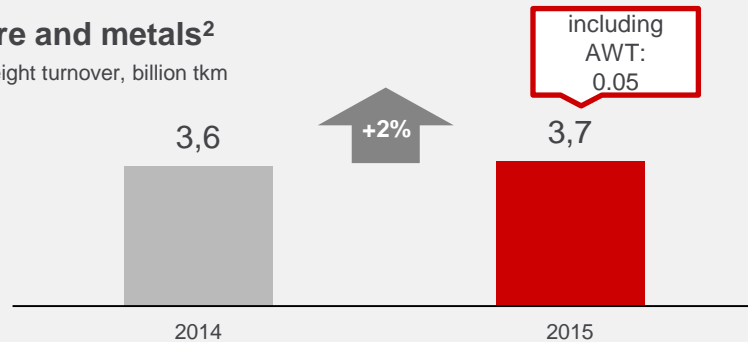
Hard coal

Freight turnover, billion tkm



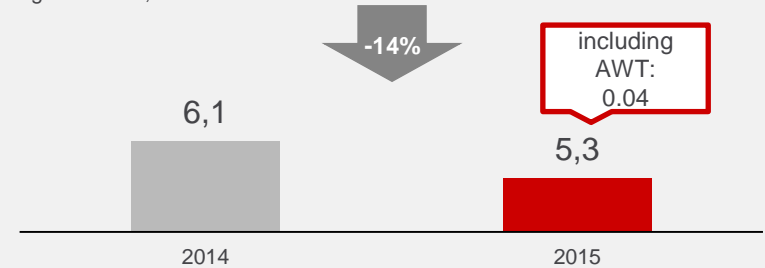
Ore and metals²

Freight turnover, billion tkm



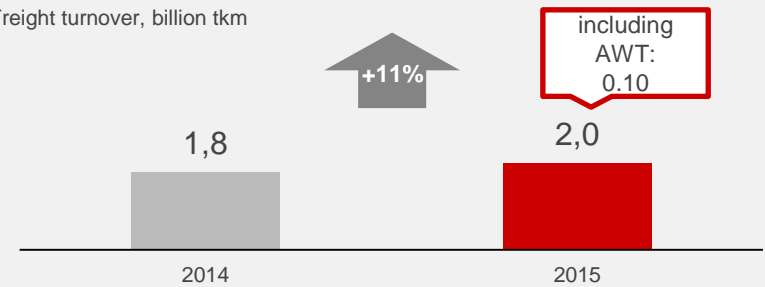
Aggregates and construction materials¹

Freight turnover, billion tkm



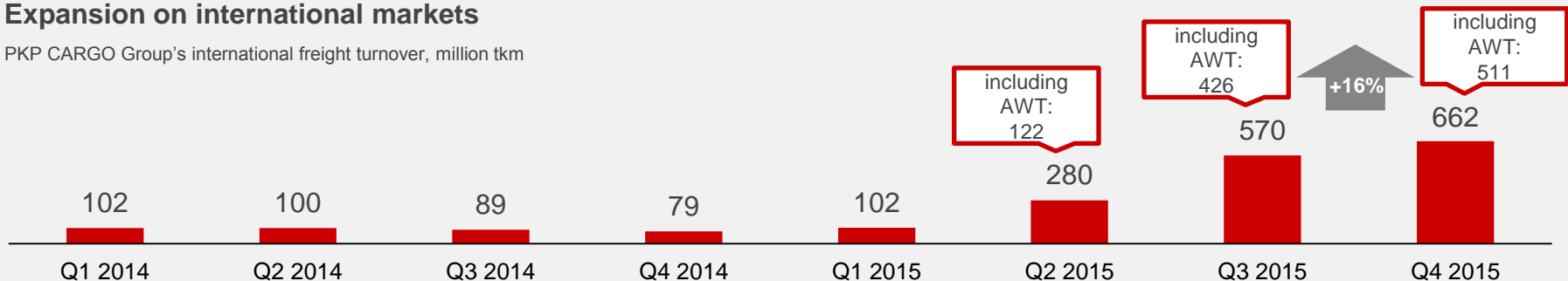
Intermodal

Freight turnover, billion tkm



Expansion on international markets

PKP CARGO Group's international freight turnover, million tkm



Hard coal

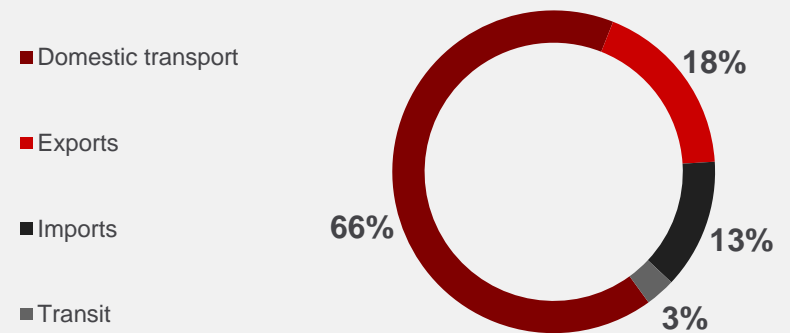
– market share up on a challenging market

Key events in 2015

- ▶ Diminished coal production caused by the industrial actions in Jastrzębska Spółka Węglowa and Kompania Węglowa
- ▶ Global coal price declines (average monthly prices down from 70.4 USD/t in 12'14 to 47.8 USD/t in 12/15, i.e. down 32% yoy)¹
- ▶ Coal inventories in Poland are falling, though remain high (5.8 million tons at the end of November 2015)²

Structure of transport

by types of transportation (freight turnover) in 2015



Main directions of transport

Hard coal in 2015



Outlook

- ▶ Restructuring of the Polish mining sector
- ▶ RES' growing role – ultimately to hold a 15% share of the energy mix by 2020 (11.5% in 2014)³
- ▶ Having regard for the falling demand for coal in China, further price declines are predicted on the global coal markets⁴

¹ http://gornictwo.wnp.pl/notowania/ceny_wegla/

² <http://www.polskiirynekwegla.pl/raport-dynamiczny/stan-zapasow-wegla-kamiennego-caly-okres-czasu>

³ <http://wysokienapiecie.pl/oze/749-oze-w-polsce-udzial-nowelizacja-ustawy-o-oze>

⁴ <http://www.polskiirynekwegla.pl/swiatowy-rynek-wegla-w-grudniu-2015r>

Aggregates and construction materials

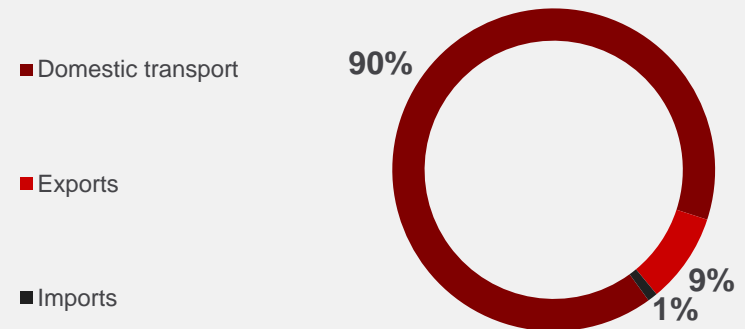
– the market segment with the best prospects

Key events in 2015

- ▶ Slowdown in infrastructural investments
- ▶ Low degree of progress in executing new investments (phase of pronouncing winners of tenders as well as designing and planning) contributing to the decline yoy in the PKP CARGO Group's freight transport in 2015 in this segment (-14% measured by freight turnover and -8% measured by freight volume)

Structure of transport

by types of transportation (freight turnover) in 2015



Main directions of transport

Aggregates and construction materials in 2015



Outlook¹

- ▶ Execution of infrastructural investments under the European Union budget for 2014-2020
- ▶ Demand for aggregates for road investments up to 2020 at the level of 60-70 million tons
- ▶ The incremental growth in the usage of aggregates for rail investments compared to the previous perspective should range from 10 to 12 million tons over the entire 6-year period
- ▶ Annual average demand for the overall construction sector is estimated to be 230-250 million tons per annum

Ore and metals

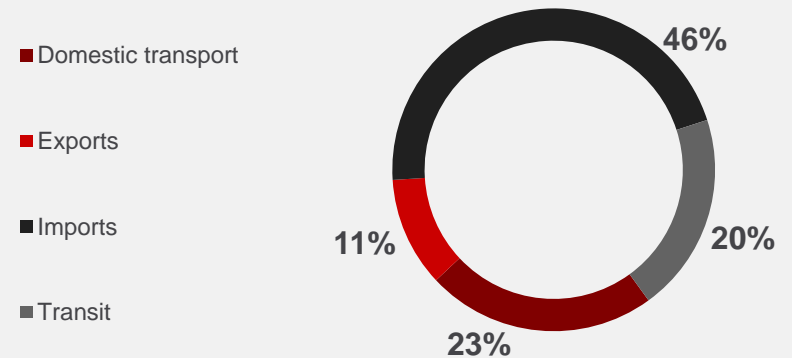
– metallurgical industry’s robust production results

Key events in 2015

- ▶ Higher steel production in Poland (from 8.6 million tons in 2014 to 9.1 million tons in 2015, up 6.4% yoy)¹
- ▶ Impact exerted by the situation in China’s industrial sector on the global markets (global iron ore price decline from 68.8 USD/t in 12’14 to 39.6 USD/t in 12’15; 42.4% decline yoy)²

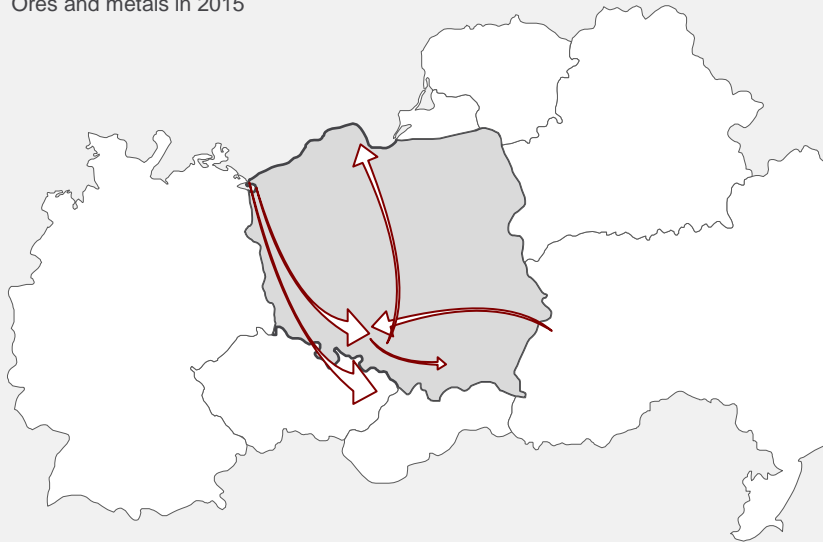
Structure of transport

by types of transportation (freight turnover) in 2015



Main directions of transport

Ores and metals in 2015



Outlook

- ▶ In Poland the growth in the production and usage of steel is estimated to be 2-3% yoy in 2016 and 2017³
- ▶ Poland’s expected re-industrialization
- ▶ Excise tax exemptions for electrical energy
- ▶ China records the lowest GDP growth in 25 years: 6.9% in 2015, 6.3% (2016 forecast), 6.0% (2017 forecast) – high oversupply of industrial metals⁴

¹ World Steel Association

² <http://www.indexmundi.com/commodities/?commodity=iron-ore>

³ <http://budownictwo.inzynieria.com/cat/19/art/46489/wzrost-produkcji-i-zuzycia-stali-w-2015-r->

⁴ <http://www.obserwatorfinansowy.pl/dispatches/mfw-obniza-prognoze-wzrostu-pkb-na-swiecie-na-2016-i-2017-rok/>

Intermodal

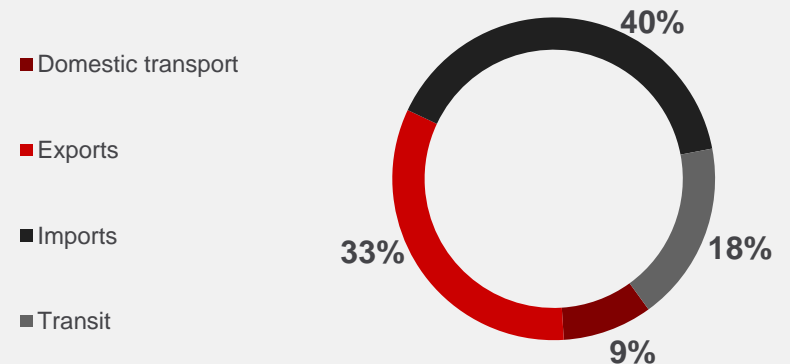
– growth on a market with prospects

Key events in 2015

- ▶ Expansion of the HUB Poznań - Franowo terminal
(raising capacity by 40%)
- ▶ Developing “operator trains”
- ▶ Developing connections in the New Silk Road

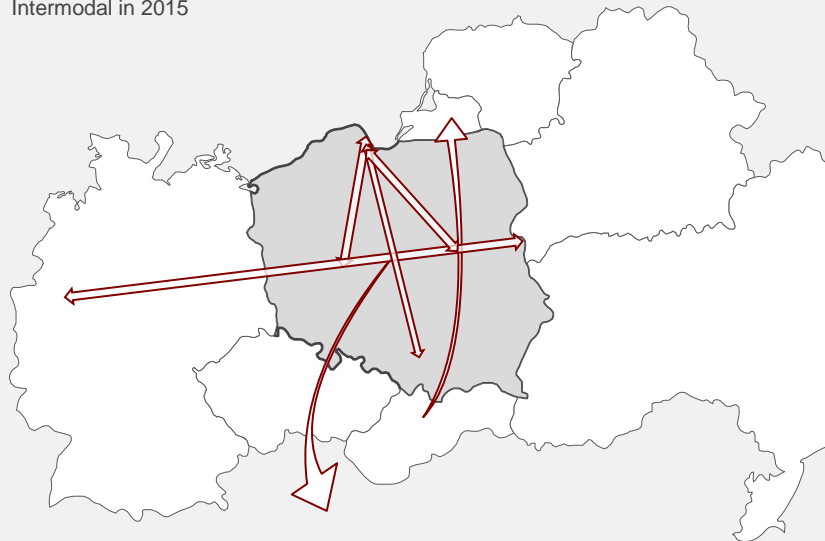
Structure of transport

by types of transportation (freight turnover) in 2015



Main directions of transport

Intermodal in 2015



Outlook

- ▶ Growth in intermodal transport in 2016 ranging from 6 to 8%¹
- ▶ Providing freight transport services to new clients
- ▶ Role of Polish ports growing in terms of their percentage of the container business

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Building the Group's value

– robust financial results

PLN million	Group PKP CARGO 2014*	Group PKP CARGO 2015	Change	Percentage change	AWT's contribution in 2015	AWT's share in the PKP CARGO Group
Operating revenues	4,274	4,554	280	+6.6%	548	12%
Operating expenses	4,153	4,498	345	+8.3%	528	11.7%
EBITDA	504	705	201	+39.9%	69	9.8%
EBIT	121	56	-65	-53.7%	21	37.5%
Net profit	78	31	-47	-60.3%	19	61.3%

Non-recurring events affecting the EBITDA result in 2015

PLN million



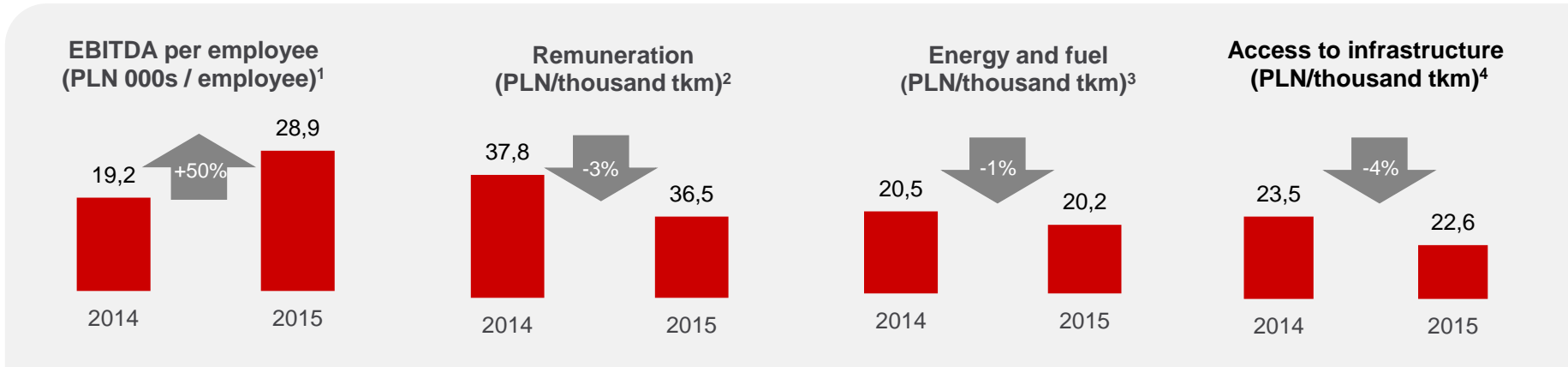
Impairment losses on non-current assets and inventories

PLN million

Assets	2015
Property, plant and equipment (rolling stock)	148
Inventories	5
Non-current assets treated as held for sale	24
Sum total	177**

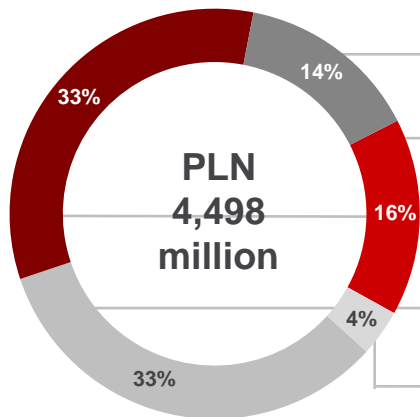
Lower expenses

– steadfast cost discipline



Operating expenses

PLN million



Amortization and depreciation

Materials and energy

External services

Employee benefits

Other

	2014*	2015	Change	Percentage change
Amortization and depreciation	383	649	266	+69.5%
Materials and energy	594	697	103	+17.3%
External services	1,316	1,501	185	+14.1%
Employee benefits	1,699	1,485	-214	-12.6%
Other	161	166	5	+3.1%

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

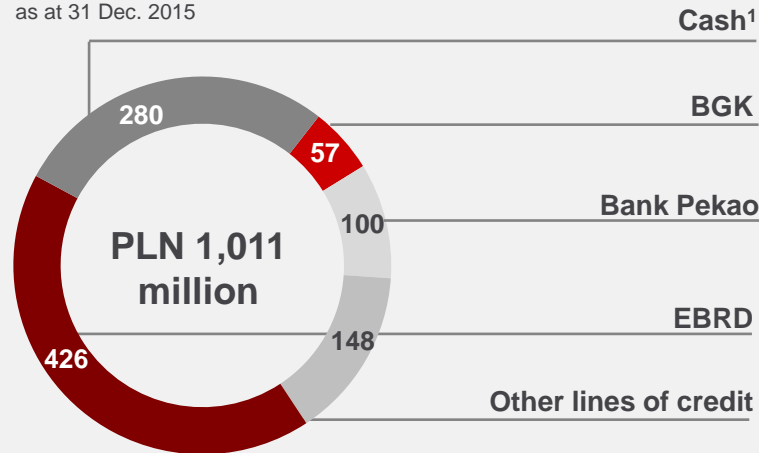
* Data transformed according to note 5 of the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015

Robust foundations for growth

– safe funding structure

Available funding sources

as at 31 Dec. 2015



Debt structure

PLN million

	31.12.2014*	31.12.2015
Non-current	399	654 ²
Current	220	319

Financing investments

PLN million

	Net debt	EBITDA ³	Net debt / EBITDA
31.12.2015	850	637	1.3

Cash flows

PLN million

Cash flows	2014*	2015
On operating activity ⁴	560	388
On investing activity	-239	-515
On financing activity	-156	-29

¹ Cash and cash equivalents, other short-term financial assets

² Long-term debt adjusted for other financial liabilities (PUT option valuation)

³ Adjusted EBITDA

⁴ Operational cash flow includes the expenditures linked to VRP

* Data transformed according to note 5 of the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015

Investments

– CAPEX fitted to needs

CAPEX	PLN thousand	2014	2015	Change	Percentage change
Regular repairs		437,154	307,613	-129,541	-29.6%
Modernization of locomotives		48,544	70,400	21,856	+45%
Purchase of wagons		57,301	20,063	-37,238	-65%
Investment construction activity		18,130	28,084	9,954	+54.9%
Other		35,604	58,400	22,796	+64%
Sum total		596,733	484,560	-112,173	-18.8%

Wagons

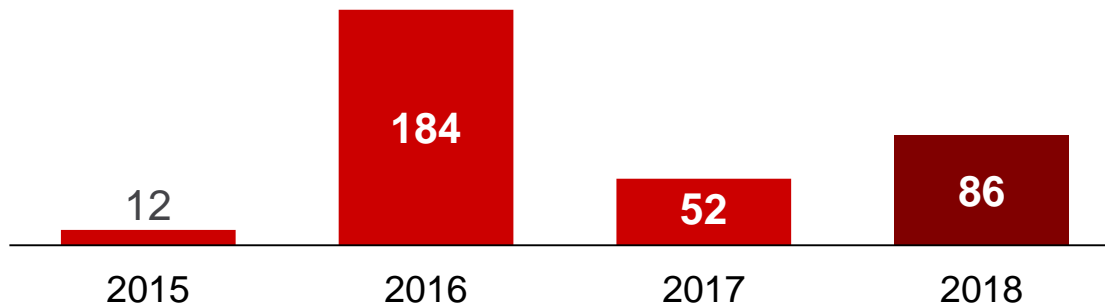


Locomotives



Purchase of 15 multi-system locomotives with an option for another 5 – capital expenditures*

PLN million



Source: PKP CARGO

Vectron



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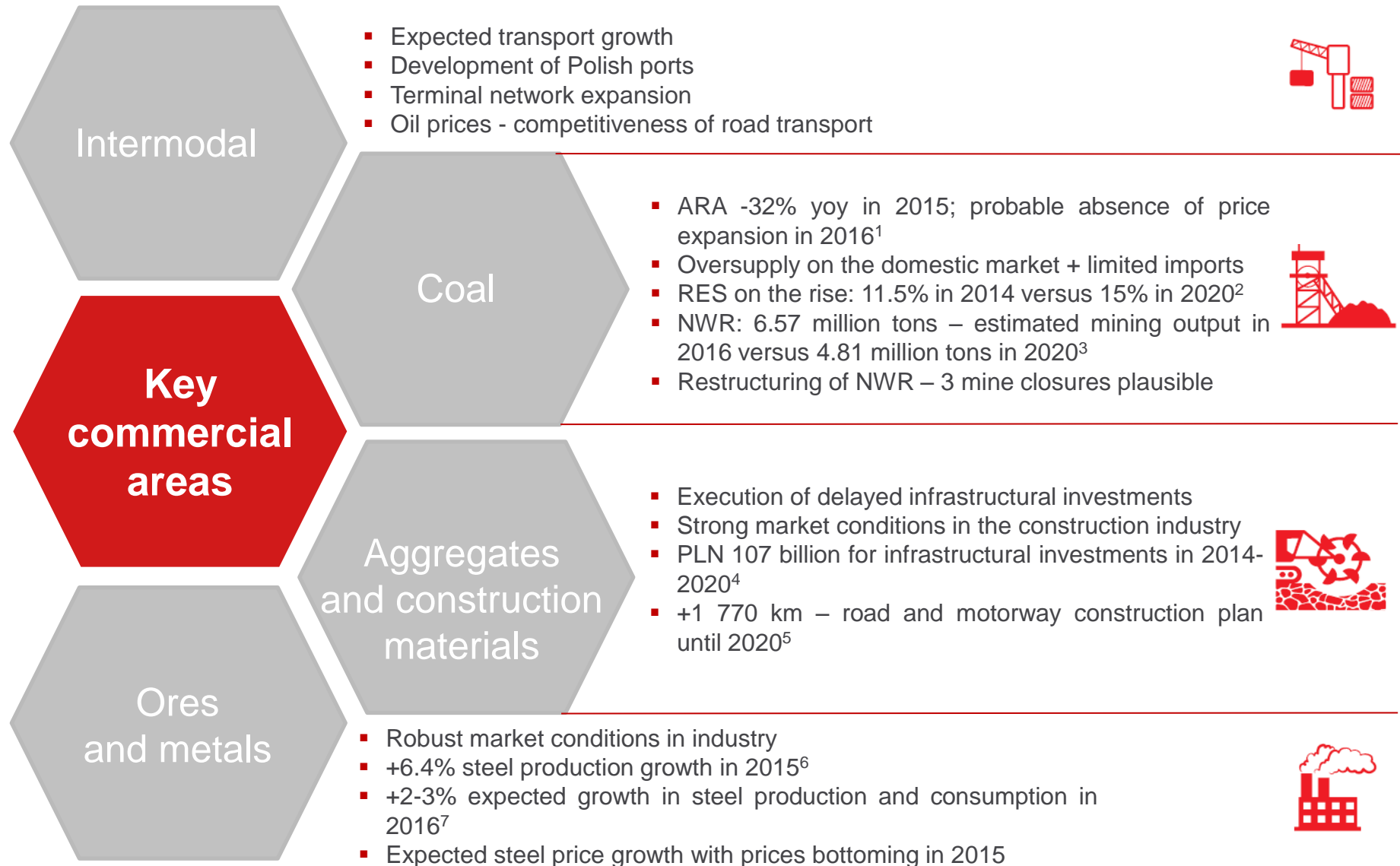
Outlook: economic environment

– good base and growth projections



Outlook: key commercial areas

–challenges to execute the CARGO'20 strategy



¹ http://gornictwo.wnp.pl/notowania/ceny_wegla/

² <http://wysokienapiecie.pl/oze/749-oze-w-polsce-udzial-nowelizacja-ustawy-o-oze>

³ Source: GDDKiA

⁴ Biznes.pl

⁵ Source: GDDKiA

⁶ Virtual New Industry

⁷ <http://budownictwo.inzynieria.com/cat/19/art/46489/wzrost-produkcji-i-zuzycia-stali-w-2015-r->



Outlook: key initiatives for 2016

– strengthening the domestic and international position



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CARGO'20

– PKP CARGO's Strategy for 2016-2020

LEADING LOGISTICS OPERATOR IN CENTRAL AND EASTERN EUROPE

1

**CARGO
LEADER**

2

**CARGO
INTERNATIONAL**

3

**CARGO
INTERMODAL**

4

**CARGO
CONNECT**

COMMERCIAL AND ORGANIZATIONAL EXCELLENCE

OPERATIONAL EXCELLENCE

Optimizing the execution of the freight transport process

Aligning the level of resources to needs

Modern rolling stock and IT tools

Leveraging PKP CARGO's resources outside Poland

CONFIRMING THE EXTENT OF STRATEGY EXECUTION



APPENDIX



Freight results

Freight turnover (million tkm)

	2014	2015	Change	Change %	% 2014	% 2015
solid fuels	12 181	13 593	1 412	12%	42%	46%
<i>including hard coal</i>	10 757	12 387	1 630	15%	37%	42%
aggregates and construction materials	6 142	5 261	-881	-14%	21%	18%
metals and ore	3 650	3 709	59	2%	13%	12%
chemicals	1 903	2 013	110	6%	7%	7%
liquid fuels	781	839	58	7%	3%	3%
timber and agricultural produce	1 694	1 629	-66	-4%	6%	5%
intermodal transport	1 832	2 031	199	11%	6%	7%
other	764	764	-1	0%	3%	3%
Total	28 947	29 839	892	3%	100%	100%

Freight volume (thousand tons)

	2014	2015	Change	Change %	% 2014	% 2015
solid fuels	56 919	63 285	6 366	11%	51%	54%
<i>including hard coal</i>	51 976	57 847	5 870	11%	47%	50%
aggregates and construction materials	21 526	19 898	-1 628	-8%	19%	17%
metals and ore	12 293	12 311	19	0%	11%	11%
chemicals	5 961	5 846	-115	-2%	5%	5%
liquid fuels	2 692	3 001	309	11%	2%	3%
timber and agricultural produce	4 709	4 673	-35	-1%	4%	4%
intermodal transport	4 536	5 173	637	14%	4%	4%
other	2 072	2 070	-2	0%	2%	2%
Total	110 706	116 257	5 551	5%	100%	100%

Consolidated statement of comprehensive income

PLN million	2014	2015
Revenue from sales of services	4 162	4 330
Revenue from sales of goods and materials	55	33
Other operating revenue	57	191
Total operating revenue	4 274	4 554
Depreciation/amortisation and impairment losses	383	649
Consumption of raw materials and energy	594	697
Fuel consumption	207	189
Electricity, gas and water consumption	386	416
External services	1 316	1 501
Access to infrastructure connections	680	675
Taxes and charges	41	39
Employee benefits	1 699	1 485
Other expenses by kind	44	54
Cost of goods and materials sold	38	26
Other operating expenses	39	48
Total operating expenses	4 153	4 498
EBITDA	504	705
Profit on operating activities	121	56
Financial revenue	34	15
Financial expenses	62	65
Share in the profit / (loss) of entities accounted for under the equity method	1	4
Result on sale of entities accounted for under the equity method	-	2
Profit before tax	94	12
Income tax expense	-20	15
NET PROFIT	78	31
Net profit / (loss) attributable to:	0	0
Shareholders of the Parent company	76	32
Non-controlling interest	2	0
Net profit	78	31
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:	-3	34
The effective portion of changes in fair value of cash-flow hedging instruments	1	-
Income tax on other comprehensive income	-	-1
Foreign exchange differences on translation of subsidiaries' financial statements	-	32
Other comprehensive income that will not be reclassified to profit or loss:	-31	43
Actuarial gains / (losses) on employee benefits after employment period	-38	53
Income tax on other comprehensive income	7	-10
Total comprehensive income / (loss) attributable to:	109	45

Consolidated Statement of Financial Position



PLN million	As at 31/12/2014	As at 31/12/2015
Property, plant and equipment	4 045	4 720
Intangible assets	58	66
Goodwill	3	-
Investment property	1	1
Investments accounted for under the equity method	35	40
Other long-term receivables	-	5
Other long-term financial assets	6	10
Other long-term non-financial assets	15	33
Deferred tax assets	92	105
Total non-current assets	4 254	4 980
Inventories	115	129
Trade and other receivables	526	664
Income tax receivables	3	3
Other short-term financial assets	306	4
Other short-term non-financial assets	28	13
Cash and cash equivalents	429	276
Assets classified as held for sale	18	44
Total current assets	1 426	1 133
Total assets	5 680	6 113

Consolidated Statement of Financial Position



PLN million	As at 31/12/2014	As at 31/12/2014
Share capital	2 239	2 239
Supplementary capital	615	619
Other items of equity	-49	-3
Foreign exchange differences on translation of subsidiaries' financial statements	-	32
Retained earnings	526	466
Equity attributable to the owners of the Parent company	3 332	3 354
Non-controlling interest	-	-
Total equity	3 395	3 354
Long-term bank loans and credit facilities	208	461
Long-term finance lease liabilities and leases with purchase option	191	194
Long-term trade and other payables	68	26
Long-term provisions for employee benefits	688	604
Other long-term provisions	8	29
Other long-term financial liabilities		155
Deferred tax provision	2	118
Non-current liabilities	1 165	1 586
Short-term bank loans and credit facilities	92	254
Short-term finance lease liabilities and leases with purchase option	128	65
Short-term trade and other payables	530	730
Short-term provisions for employee benefits	339	100
Other short-term provisions	24	18
Other short-term financial liabilities	4	2
Current tax liabilities	3	3
Total current liabilities	1 120	1 173
Total liabilities	2 285	2 759
Total equity and liabilities	5 680	6 113

Consolidated Cash Flow Statement



PLN million	2014	2015
Profit before tax	94	12
Adjustments:		
Depreciation and amortisation of non-current assets	382	468
Impairment loss on non-current assets	0	181
(Gain) / loss on disposal / liquidation of property, plant and equipment and intangible assets	-4	1
(Profit) / loss on investing activities	-	3
Foreign exchange (gain) / loss	6	-3
(Gains) / losses on interest, dividends	-8	24
Share in the (profit) / loss of entities accounted for under the equity method	-1	-4
Result on sales of entities accounted for under the equity method	-	-2
Bargain purchase gain on acquisition of AWT	-	-138
Other adjustments	-41	59
Changes in working capital:		
(Increase) / decrease in trade and other receivables	77	25
(Increase) / decrease in inventories	-26	21
(Increase) / decrease in other assets	-6	18
Increase / (decrease) in trade and other payables	-126	67
Increase / (decrease) in other financial liabilities	4	7
Increase / (decrease) in provisions	205	-342
Cash flows from operating activities	555	398
Interest received / (paid)	14	0
Income taxes received / (paid)	-10	-10
Net cash provided by/ (used in) operating activities	560	388

Consolidated Cash Flow Statement



PLN million	2014	2015
Acquisition of property, plant and equipment and intangible assets	-663	-509
Proceeds from sale of property, plant and equipment and intangible assets	18	8
Acquisition of entities accounted for under the equity method	0	-2
Proceeds from the sale of entities accounted for under the equity method	-	2
Acquisition of subsidiary, net of cash acquired	-	0
Interest received	-	-326
Dividends received	23	7
Proceeds from loans granted	1	2
Repayments of loans granted	0	0
Inflows / (outflows) from bank deposits over 3 months	303	299
Inflows / (outflows) related to the Employment Guarantees Program	80	-
Other proceeds/(acquisitions) on investing activities	-	3
Net cash (used in) / provided by investing activities	-239	-515
Payments of liabilities under finance lease	-122	-143
Payments of interest under lease agreement	-12	-9
Proceeds from credit facilities / loans received	179	425
Repayments of credit facilities / loans received	-74	-137
Interest on credit facilities / loans received	-7	-15
Grants received	25	-
Dividends paid to shareholders of the Parent company	-137	-110
Transactions with non-controlling interest	-	-40
Other inflows / (outflows) from financing activities	-8	-6
Net cash (used in)/ provided by financing activities	-156	-29
Net increase / (decrease) in cash and cash equivalents	165	-157
Opening balance of cash and cash equivalents	264	429
Effects of foreign exchange differences on the balance of cash denominated in foreign currency	-	4
Closing balance of cash and cash equivalents	429	276

Disclaimer



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