

PKP CARGO Group

Q3 2015 results

12 November 2015



AGENDA

|| Key achievements in Q3 2015

|| Operating results

|| Financial results

|| Outlook



Q3 2015 results

– record-breaking EBITDA

	✓	✓	✓
	MARKET SHARE	EBITDA	CAPEX
9M	55.8%	PLN 570 million profitability of 17.4%	PLN 348 million
Q3	55.5%	PLN 208 million profitability of 17.3%	PLN 117 million
	REVENUES	NET PROFIT	OPEX
9M	PLN 3,269 million	PLN 221 million	PLN 3,018 million
Q3	PLN 1,207 million	PLN 64 million	PLN 1,119 million



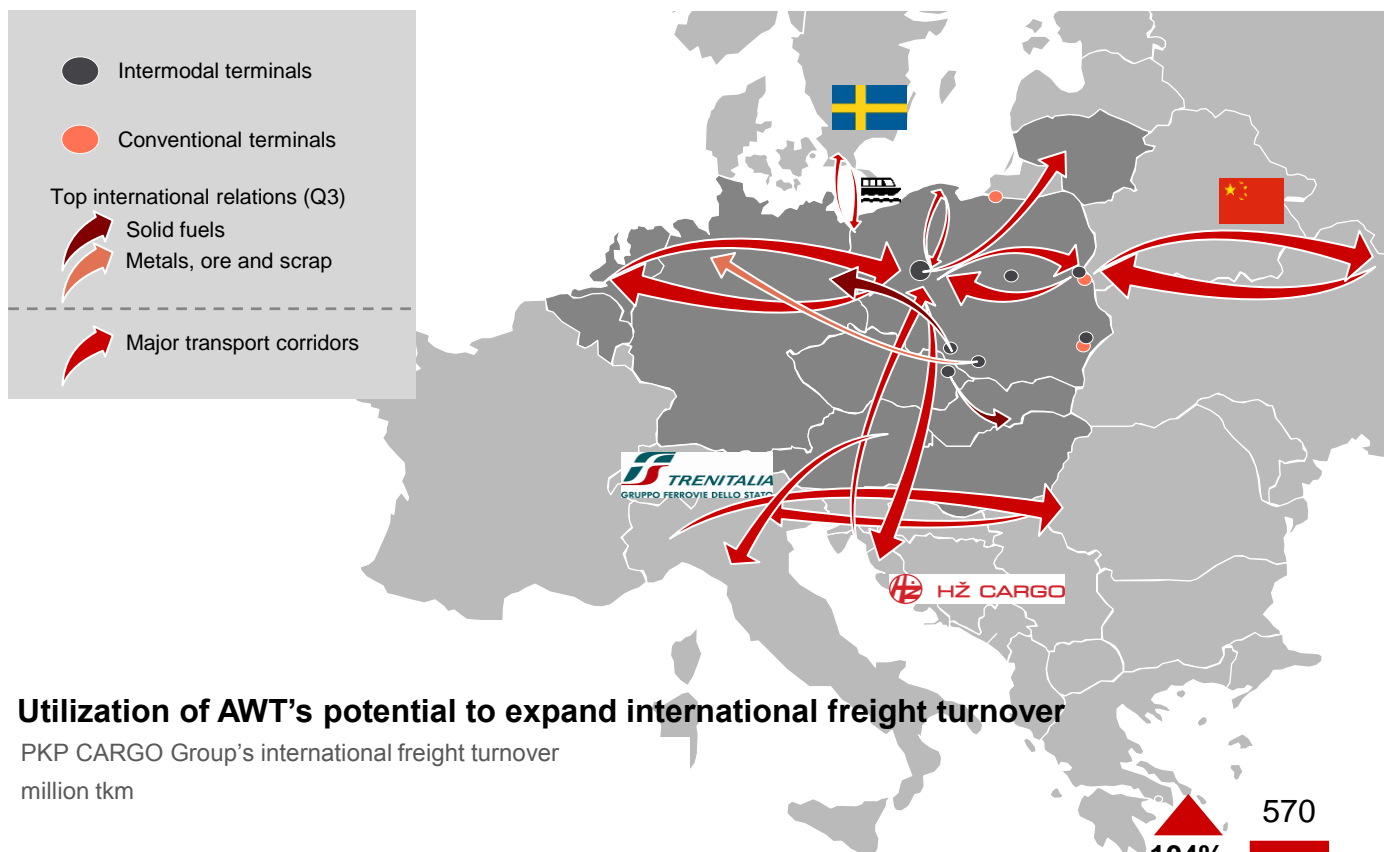
Key achievements in Q3

– business expansion and enlarging the service portfolio

✓	Directions of development	<ul style="list-style-type: none">▶ PKP CARGO Group's Strategy for 2016 – 2020
✓	Strong international position	<ul style="list-style-type: none">▶ Development of the New Silk Road – more & more trains from China▶ Growth in international connections – transport to Italy▶ Full integration with AWT – real footprint in four CEE countries
✓	Integrated logistics operator	<ul style="list-style-type: none">▶ PKP CARGO Connect – a logistical “one stop shop”, full service▶ More operator trains to Warsaw and Wrocław▶ Port to door – expanding cooperation with Maersk Line
✓	Expansion supported by indispensable assets	<ul style="list-style-type: none">▶ Agreement with Siemens to buy 15 multi-system locomotives▶ Project to manufacture cargo wagons in cooperation with Greenbrier▶ Strengthening our team of train drivers – 150 new employees
✓	Constantly reducing fixed expenses	<ul style="list-style-type: none">▶ PLN 10 million in savings have been achieved under the 100+ program▶ Nearly PLN 10 million worth of synergies have been achieved with AWT▶ Outcome of VRP – headcount down by 4 thousand FTEs, PLN 120 million in savings a year

PKP CARGO

– dynamic growth in international freight



- » Leveraging the potential for modernizing the key transport corridors
- » New Silk Road Partner
- » Access to Adriatic Sea ports under cooperation with HZ Cargo
- » Transport offer on the Apennine peninsula
- » Logistics services using ferries
- » Review of the CEE markets in terms of potential acquisitions

A long freight train with PKP Cargo containers is moving along tracks at night. The train is illuminated by overhead lights, and the tracks recede into the distance under a dark sky.

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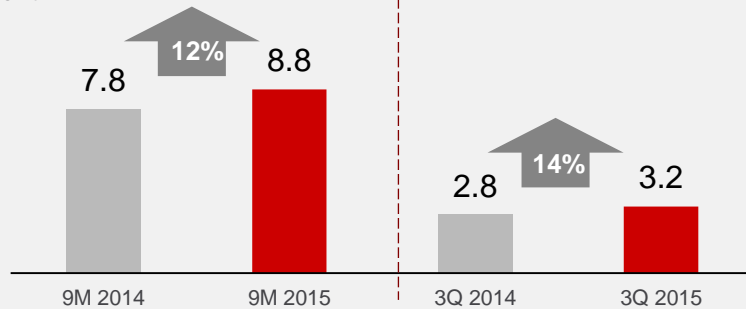


PKP CARGO Group's freight transport

– more coal and container transport

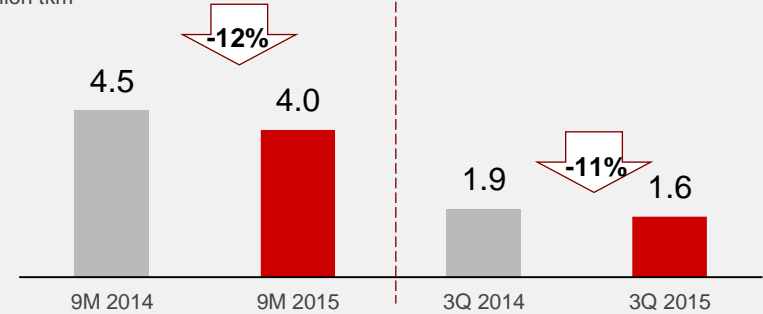
Hard coal

billion tkm



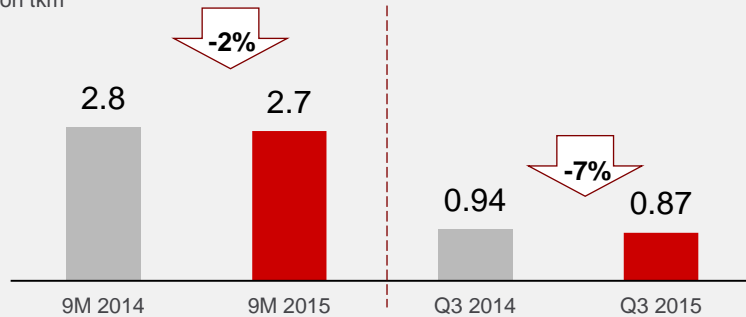
Aggregates and construction materials

billion tkm



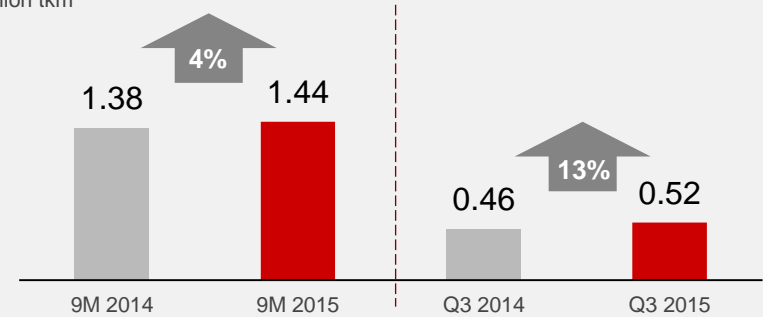
Ore and metals

billion tkm



Intermodal

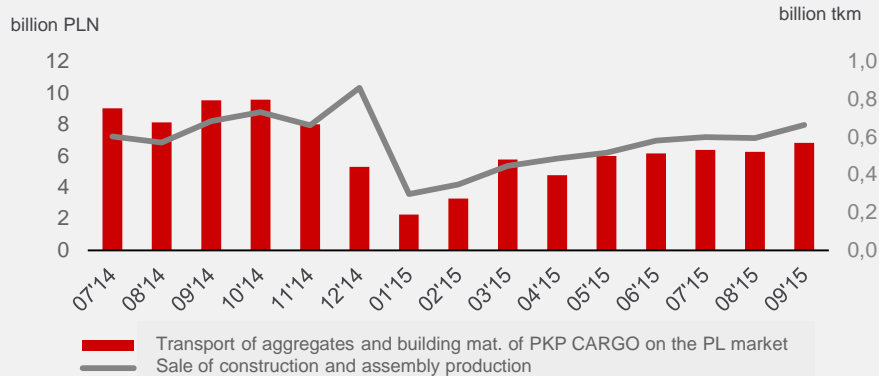
billion tkm



Aggregates and construction materials

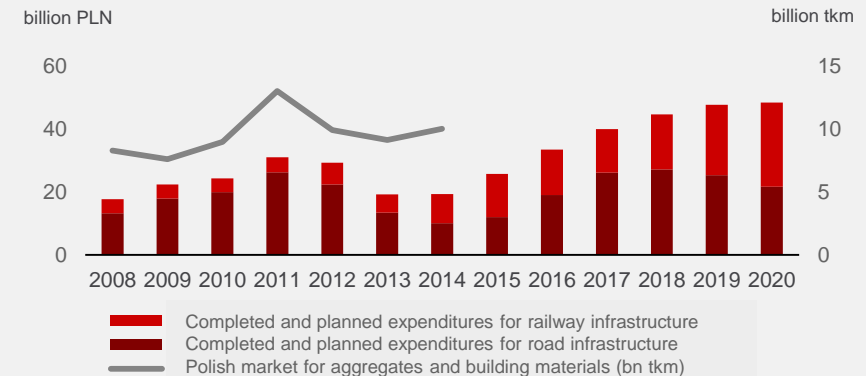
– deferring infrastructural investments

Construction and PKP CARGO's freight turnover



Source: GUS [Main Statistical Office], PKP CARGO

Outlook for rail and road Investment



Source: Ministry of Infrastructure and Development

Main directions of transport

aggregates and construction materials in Q3 2015



Key events

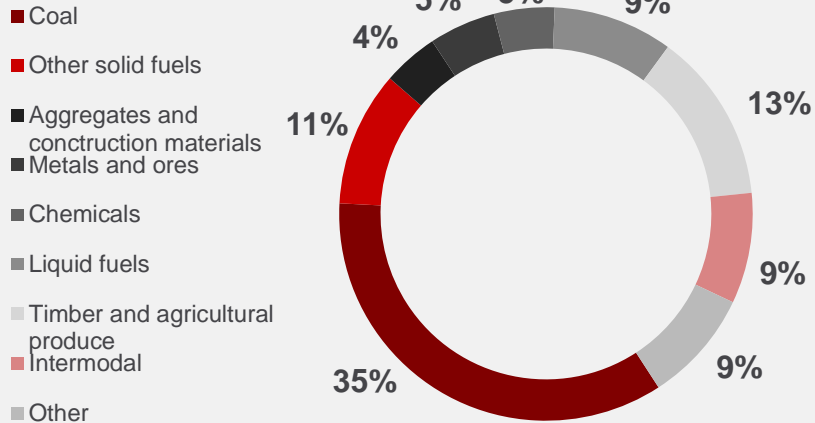
- ▶ PLN 107 billion for infrastructural investments in 2014-2025
- ▶ Design stage in tenders with final decisions made by PKP PLK and GDDKiA
- ▶ Final decisions made by GDDKiA on tenders for PLN 30 billion
- ▶ Postponement of contracts funded by the EU budget

PKP CARGO Group's market share

– stable share of the Polish market

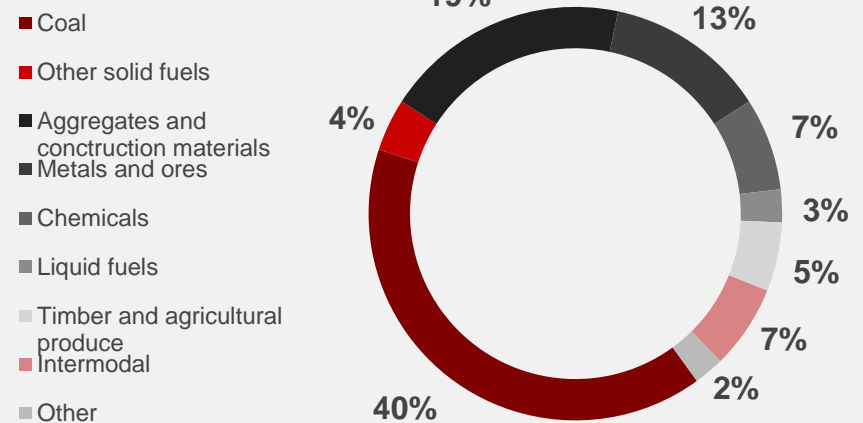
AWT's freight turnover mix

data for June, July, Aug. & Sep. 2015 by freight turnover



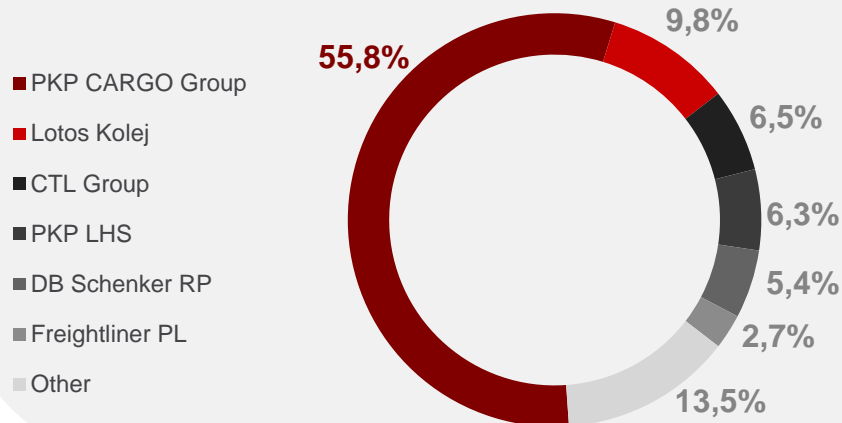
PKP CARGO Group's freight turnover mix in Poland

data for the first 9M of 2015 by freight turnover



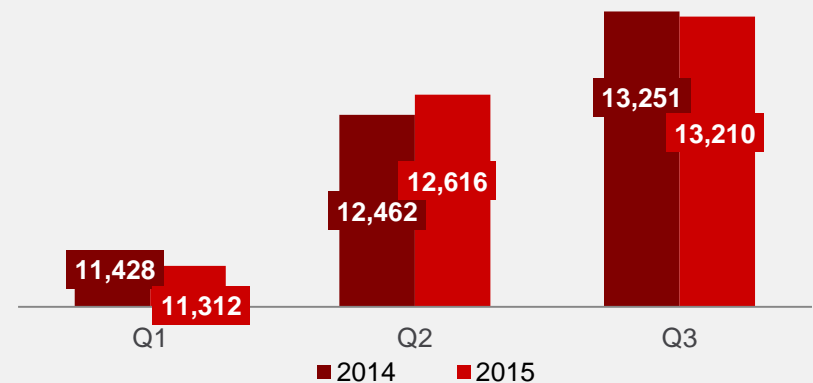
PKP CARGO Group's share of the Polish market

data for the first 9M of 2015 by freight turnover



Transport on the rail market in Poland

million tkm





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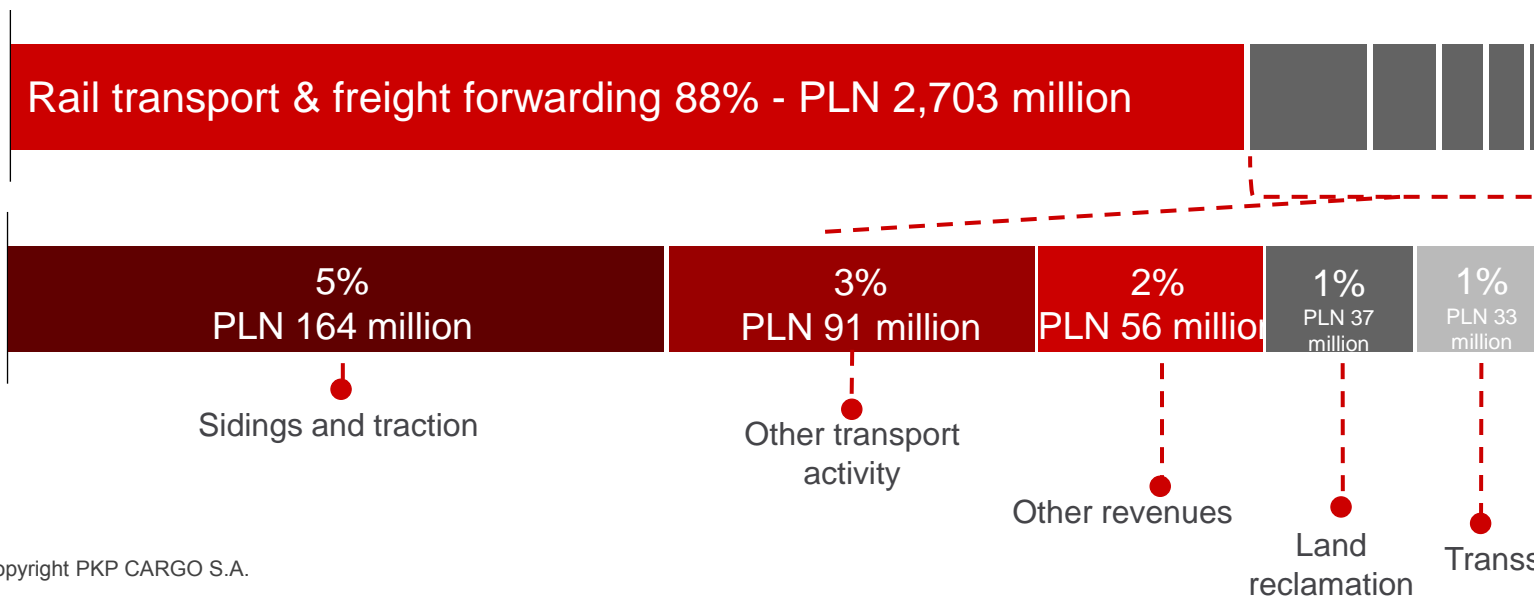
Building company value

– objective: revenue diversification



PLN million	9M 2014	9M 2015	change	% change	Q3 2014	Q3 2015	change	% change
Operating revenues	3,169	3,269	100	3%	1,069	1,207	138	13%
Operating expenses	2,887	3,018	131	5%	956	1,119	163	17%
EBITDA	554	570	16	3%	203	208	5	3%
EBIT	282	251	-31	-11%	113	88	-25	-22%
Net profit	227	221	-6	-3%	99	64	-35	-35%

Revenue structure



Solid foundations for development

– funding to underwrite investments

Available funding sources

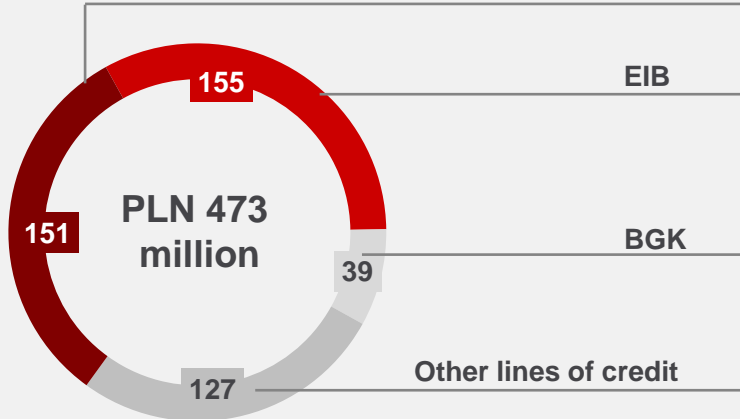
as at 30 September

Cash¹

EIB

BGK

Other lines of credit



Debt structure

PLN million

	31 Dec. 2014	30 Sep. 2015
Non-current²	399	676
Current	224	359

CARGO '20 – financing investments

in PLN million

	Net debt	EBITDA ³	Net debt / EBITDA
30 Sep. 2015	1,033	658	1.6
max			2.0

CASH FLOW⁴

in PLN million

CASH FLOW	9M 2015	Q3 2015
Operating	371	145
Investment	- 409	- 145
Financial	39	- 16

Investments – precisely-defined actions

CAPEX	PLN thousand	9M 2014	9M 2015
Regular repairs		300,777	225,460
Modernization of locomotives		48,278	60,881
Other		22,249	44,337
Purchase of wagons		47,780	17,188
Total		419,084	347,866

Wagons

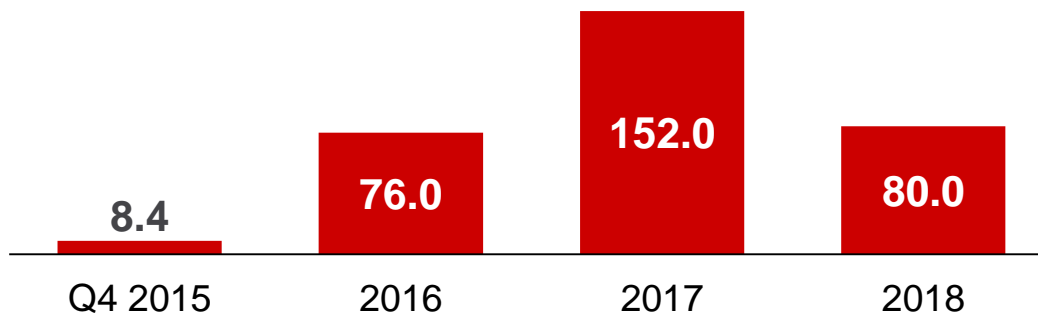


Locomotives



Purchase of 15 multi-system locomotives – financing outlook

PLN million



Source: PKP CARGO

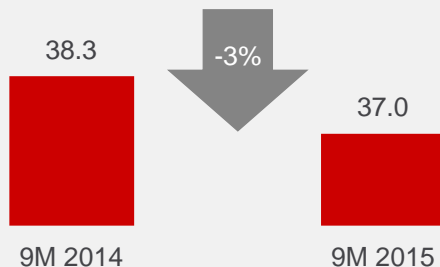
Vectron



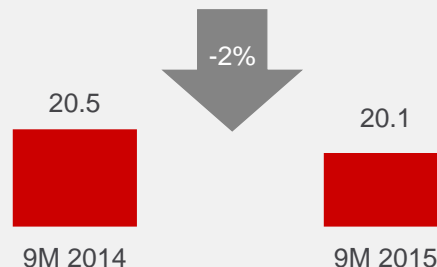
Lower costs

– continuation of the 100+ program

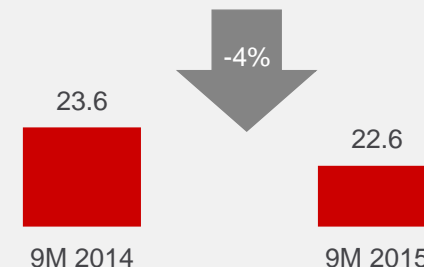
Employee expenses (PLN/thousand tkm)



Energy and fuel (PLN/thousand tkm)

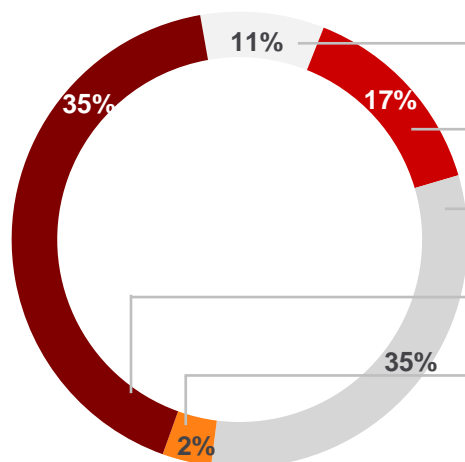


Access to infrastructure (PLN/thousand tkm)



Operating expenses

PLN million



Depreciation

Materials and energy

External services

Employee benefits

Other

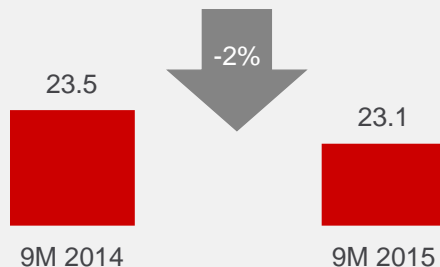
	9M 2014	9M 2015*	change	% change
Depreciation	272	319	47	17%
Materials and energy	468	497	29	6%
External services	966	1,019	53	6%
Employee benefits	1,073	1,019	-54	-5%
Other	108	94	-14	-13%

* Results adjusted for the Voluntary Redundancy Program: PLN 70,179 thousand

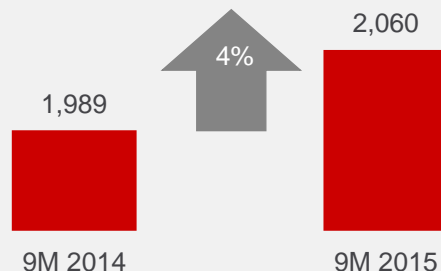
Operating activity

– the answer to the challenges on the rail network

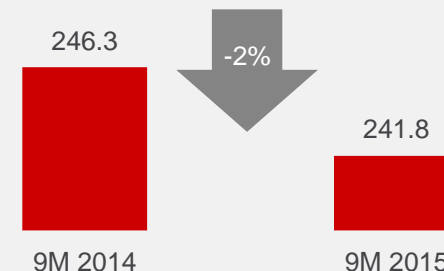
Average commercial speed in Poland
[km/h]



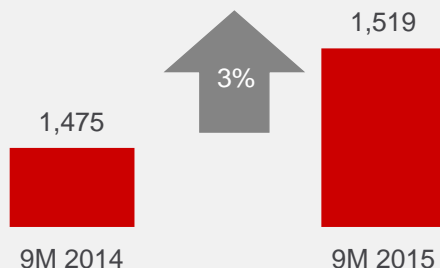
Strategic closures in the network in
Poland



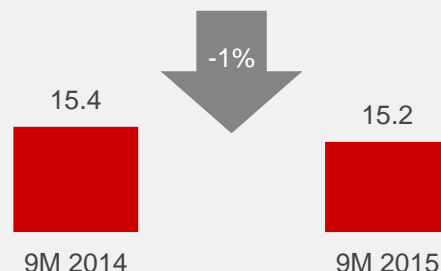
Average distance covered
by one locomotive a day (km/day)¹



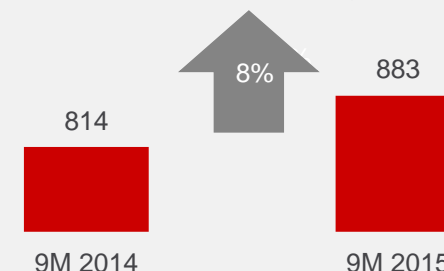
Average gross train tonnage per
operating locomotive [tons]²



Average running time of a locomotive
[hours]³



Freight turnover per employee
[thousands tkm/employee]⁴



1. Calculated as the quotient of vehicle-kilometers (i.e. distance covered by PKP CARGO Group's vehicles in the given period) / vehicle-days (i.e. product of the number of active vehicles and number of calendar days in the given period)

2. Calculated as the quotient of gross ton-kilometers and train-kilometers in train work in relation to the locomotives driving the train (in dual traction or pushing the train in the given period).

3. 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).

4. Calculated as the quotient of the Group's freight turnover by the average headcount (in FTEs) in the group in the given period.

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-



CARGO'20 | four pillars of strategy supported by operational excellence and business flexibility



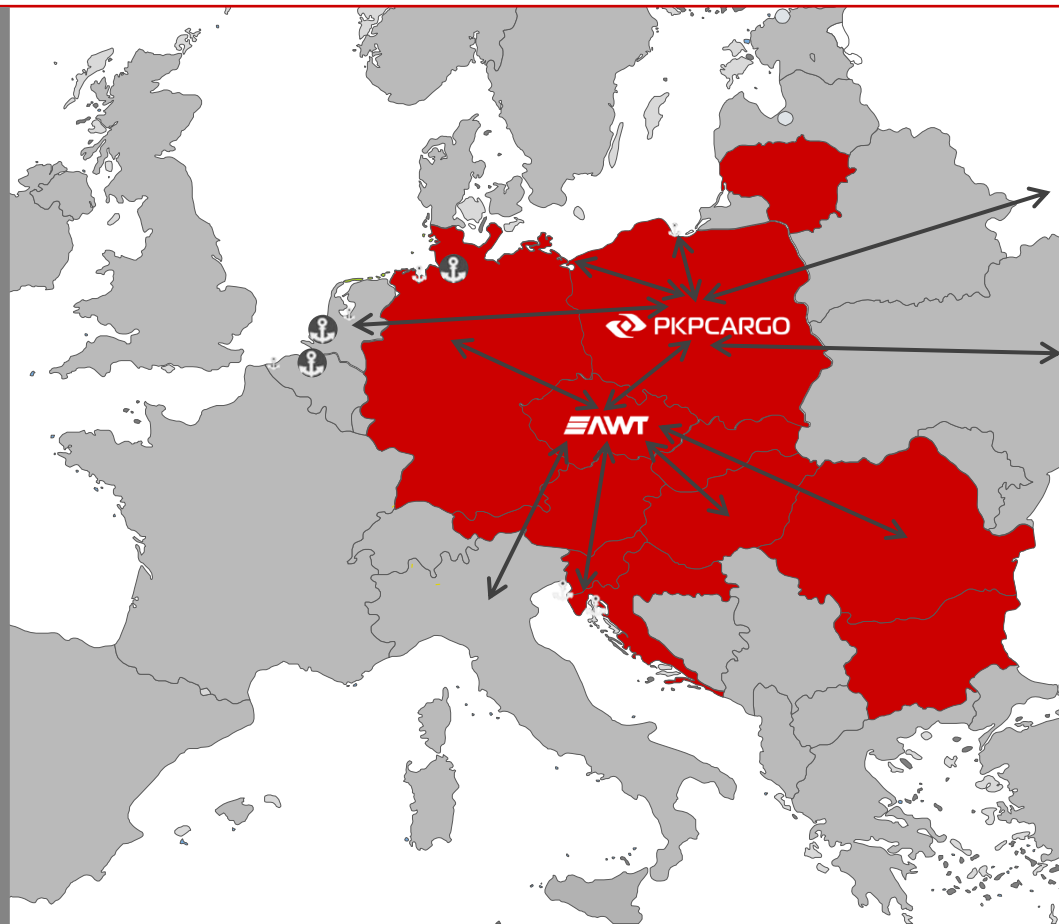
CARGO'20 | Leading logistics operator in Central and Eastern Europe

2015

RAIL
CARGO
CARRIER

- » Operator in Poland and the Czech Republic
- » Logistics chain developed to a limited extent
- » Successful restructuring
- » IPO success

LEADING
LOGISTICS OPERATOR
IN CENTRAL AND EASTERN EUROPE



2020

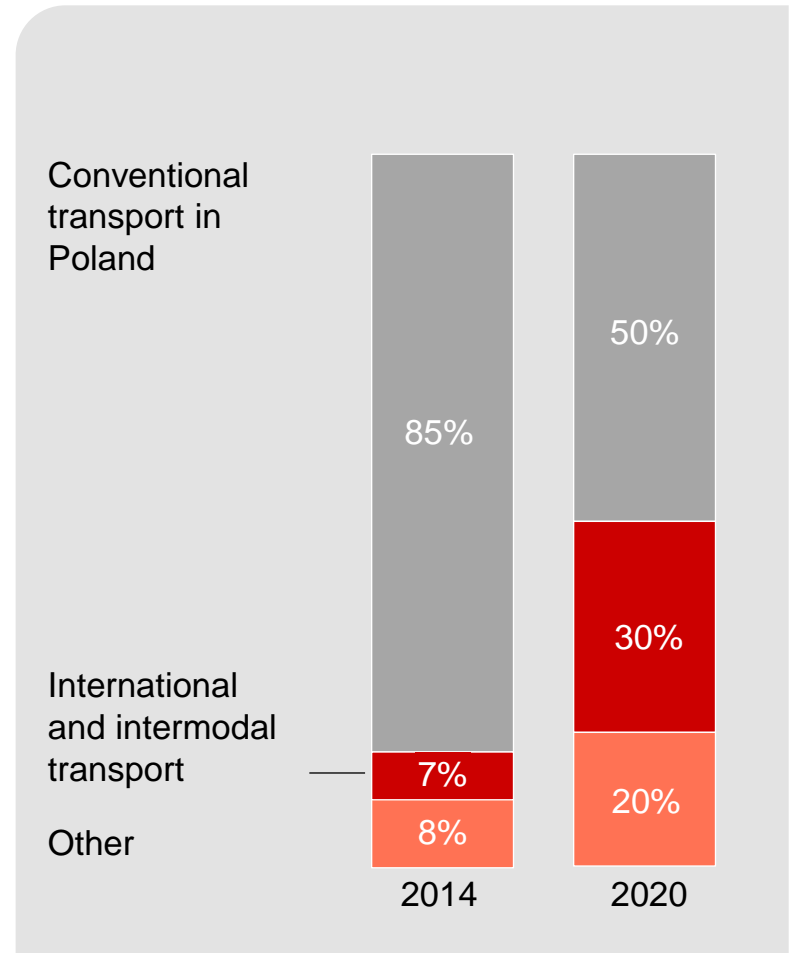
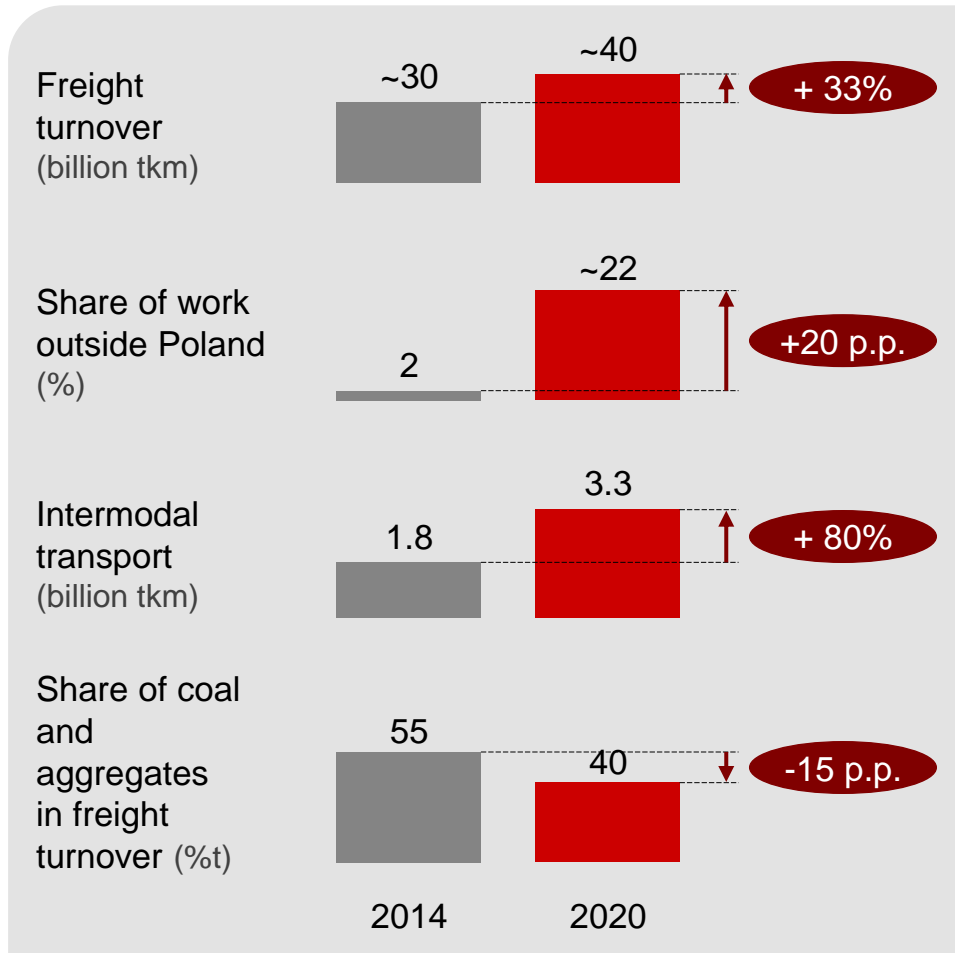
- » UNCONTESTED LEADER IN POLAND
- » KEY INTERNATIONAL TRAFFIC OPERATOR THROUGH POLAND
- » LEADING INTERMODAL OPERATOR IN CEE
- » FREIGHT FORWARDING AND ROAD TRANSPORT IN THE OFFERING
- » DIVERSIFIED PORTFOLIO, SHARE OF COAL DOWN FROM 55% TO 40%

CARGO'20 | Precisely-defined business objectives

Operational ratios ...



... are reflected by
the diversified revenue split



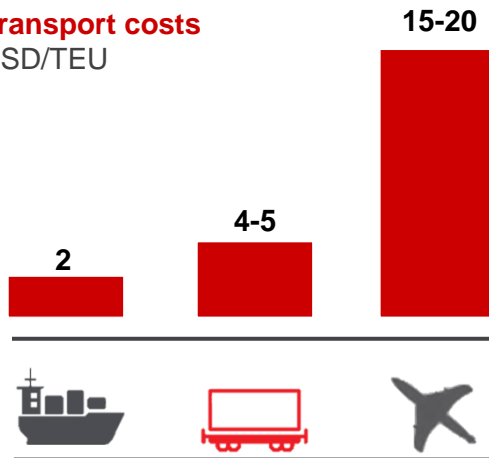
New Silk Road

– rail transport's competitive advantage

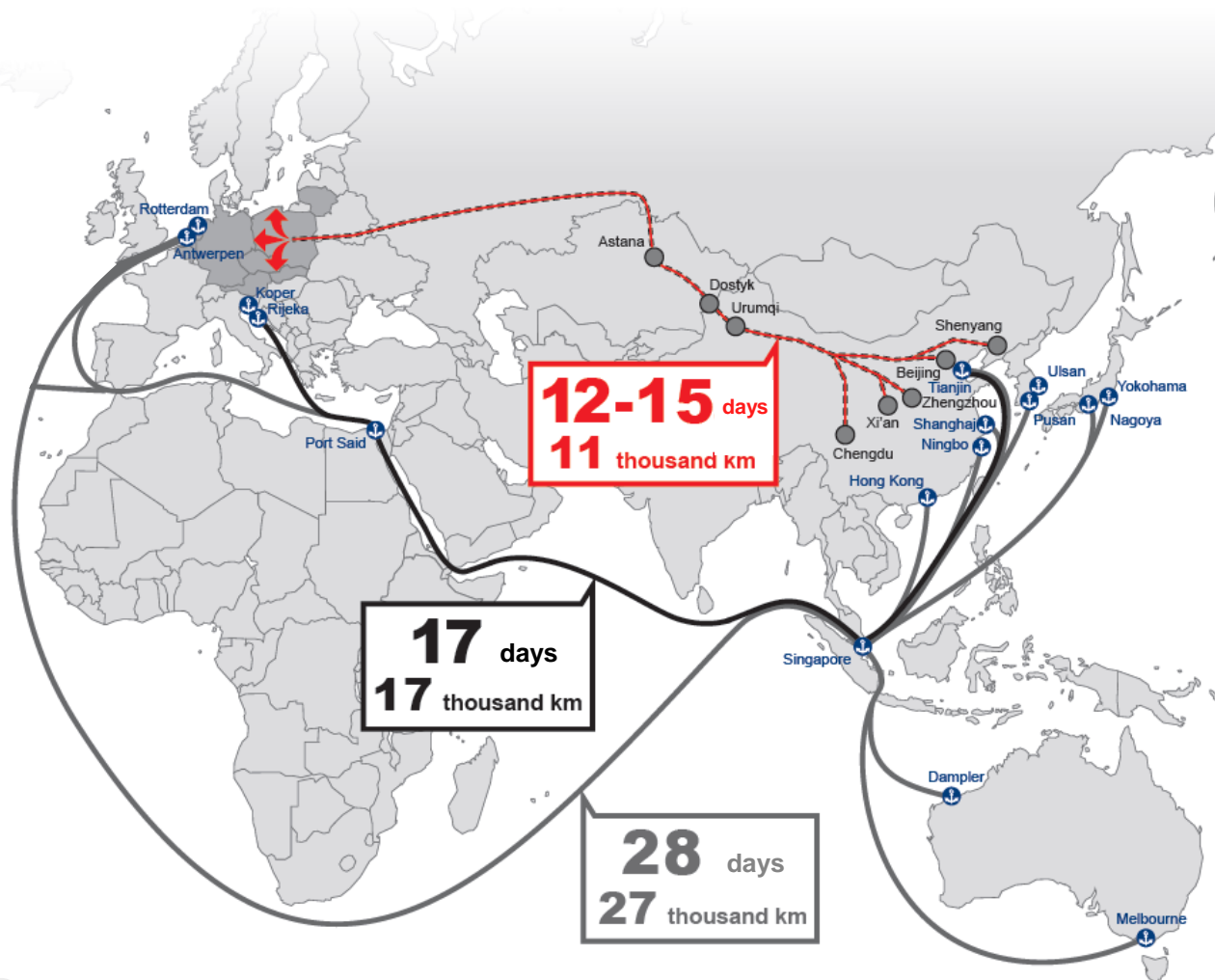
Leveraging transshipment capacities
Major Chinese ports

125%	Shanghai
122%	Guangzhou
107%	Quingdao

Transport costs
USD/TEU



Transport in days	17 - 28	12 - 15	1-2
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APPENDIX



Freight results

Freight turnover (million tkm)

	9M 2014	9M 2015	Change	Change %	% H1 2014	% H1 2015
solid fuels	8 873	9 667	794	9%	41%	45%
<i>including hard coal</i>	7 819	8 758	939	12%	36%	40%
aggregates and construction materials	4 533	4 005	-528	-12%	21%	18%
metals and ore	2 782	2 718	-64	-2%	13%	13%
chemicals	1 406	1 530	124	9%	7%	7%
liquid fuels	571	584	13	2%	3%	3%
timber and agricultural produce	1 300	1 192	-108	-8%	6%	5%
intermodal transport	1 380	1 438	58	4%	6%	7%
other	575	557	-18	-3%	3%	3%
Total	21 422	21 691	269	1%	100%	100%

Freight volume (thousand tons)

	9M 2014	9M 2015	Change	Change %	% H1 2014	% H1 2015
solid fuels	40 769	44 560	3 791	9%	50%	53%
<i>including hard coal</i>	37 122	40 664	3 542	10%	46%	48%
aggregates and construction materials	15 878	14 890	-988	-6%	20%	18%
metals and ore	9 360	9 318	-42	0%	12%	11%
chemicals	4 470	4 417	-53	-1%	6%	5%
liquid fuels	1 933	2 131	198	10%	2%	3%
timber and agricultural produce	3 522	3 426	-96	-3%	4%	4%
intermodal transport	3 422	3 623	201	6%	4%	4%
other	1 559	1 516	-43	-3%	2%	2%
Total	80 914	83 882	2 968	4%	100%	100%

Consolidated statement of comprehensive income

PLN million	9M 2014	9M 2015	Change %
Revenue from sales of services	3100	3084	-1%
Revenue from sales of goods and materials	40	26	-36%
Other operating revenue	29	160	455%
Total operating revenue	3168,88	3269,43	3%
Depreciation/amortisation and impairment losses	272	319	17%
Consumption of raw materials and energy	468	497	6%
<i>Fuel consumption</i>	155	135	-13%
<i>Electricity, gas and water consumption</i>	284	302	6%
External services	966	1019	6%
<i>Access to infrastructure connections</i>	505	490	-3%
Taxes and charges	31	28	-7%
Employee benefits	1073	1090	2%
Other expenses by kind	29	32	9%
Cost of merchandise and raw materials sold	27	19	-28%
Other operating expenses	21	15	-32%
Total operating expenses	2887,12	3018,23	5%
EBITDA	553,82	569,82	3%
Profit on operating activities	281,76	251,2	-11%
Financial revenue	29	9	-67%
Financial expenses	25	28	12%
Share in the profit / (loss) of entities accounted for under the equity method	0	4	-12000%
Result on sale of entities accounted for under the equity method	-	2	-
Profit before tax	286	238	-17%
Income tax expense	58	18	-70%
NET PROFIT	227,39	220,5	-3%
Net profit / (loss) attributable to:	0	0	-
Shareholders of the Parent company	226	220	-3%
Non-controlling interest	1	0	-114%
Net profit	227,39	220,5	-3%
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:	-2	24	-1362%
The effective portion of changes in fair value of cash-flow hedging instruments	-2	1	-122%
Income tax on other comprehensive income	0	0	-122%
Foreign exchange differences on translation of subsidiaries' financial statements	-	23	-
Other comprehensive income that will not be reclassified to profit or loss:	-	52	-
Actuarial gains / (losses) on employee benefits after employment period	-	64	-
Income tax on other comprehensive income	-	-12	-
Total comprehensive income / (loss) attributable to:	225,48	296,15	31%

Consolidated Statement of Financial Position

PLN million	As at 31/12/2014	As at 30/09/2015
Property, plant and equipment	4 012	4 858
Intangible assets	58	68
Goodwill	3	3
Investment property	1	1
Investments accounted for under the equity method	35	39
Other long-term receivables	-	5
Other long-term financial assets	6	10
Other long-term non-financial assets	15	21
Deferred tax assets	88	59
Total non-current assets	4 218,1	5 063
Inventories	115	132
Trade and other receivables	526	749
Income tax receivables	3	4
Other short-term financial assets	306	7
Other short-term non-financial assets	28	40
Cash and cash equivalents	429	145
Assets classified as held for sale	18	65
Total current assets	1 425,87	1 140,75
Total assets	5 643,97	6 203,75

Consolidated Statement of Financial Position

PLN million	As at 31/12/2014	As at 30/09/2015
Share capital	2 239	2 239
Supplementary capital	615	619
Other items of equity	-52	0
Foreign exchange differences on translation of subsidiaries' financial statements	-	24
Retained earnings	528	657
Equity attributable to the owners of the Parent company	3 331	3 540
Non-controlling interest	64	-
Total equity	3 394,17	3 540,15
Long-term bank loans and credit facilities	208	463
Long-term finance lease liabilities and leases with purchase option	191	213
Long-term trade and other payables	68	36
Long-term provisions for employee benefits	658	529
Other long-term provisions	8	24
Other long-term financial liabilities	-	149
Deferred tax provision	2	116
Non-current liabilities	1 135,86	1 530,17
Short-term bank loans and credit facilities	92	280
Short-term finance lease liabilities and leases with purchase option	128	74
Short-term trade and other payables	530	654
Short-term provisions for employee benefits	335	101
Other short-term provisions	24	19
Other short-term financial liabilities	4	5
Current tax liabilities	1	1
Total current liabilities	1 113,94	1 133,43
Total liabilities	2 250	2 664
Total equity and liabilities	5 643,97	6 203,75

Consolidated Cash Flow Statement

PLN million	9M 2014	9M 2015
Profit before tax	286	238
Adjustments:		
Depreciation and amortisation of non-current assets	272	318
Impairment loss on non-current assets	-	0
(Gain) / loss on disposal / liquidation of property, plant and equipment and intangible assets	6	1
(Profit) / loss on investing activities	3	-
Foreign exchange (gain) / loss	2	-3
(Gains) / losses on interest, dividends	6	17
Share in the (profit) / loss of entities accounted for under the equity method	0	-4
Result on sales of entities accounted for under the equity method	-	-2
Bargain purchase gain on acquisition of AWT	-	-138
Other adjustments	-2	65
Changes in working capital:		
(Increase) / decrease in trade and other receivables	19	-51
(Increase) / decrease in inventories	0	18
(Increase) / decrease in other assets	-1	-9
Increase / (decrease) in trade and other payables	-108	25
Increase / (decrease) in other financial liabilities	-	6
Increase / (decrease) in provisions	-120	-390
Cash flows from operating activities	362,27	92,34
Interest received / (paid)	3	0
Income taxes received / (paid)	-6	-9
Net cash provided by/ (used in) operating activities	359,1	83,47

Consolidated Cash Flow Statement

PLN million	9M 2014	9M 2015
Acquisition of property, plant and equipment and intangible assets	-495	-397
Proceeds from sale of property, plant and equipment and intangible assets	1	3
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	-	-326
Interest received	17	6
Dividends received	0	1
Proceeds from loans granted	-3	-
Repayments of loans granted	-	0
Inflows / (outflows) from bank deposits over 3 months	298	300
Inflows / (outflows) related to the Employment Guarantees Program	80	-
Other proceeds/(acquisitions) on investing activities	-	3
Net cash (used in) / provided by investing activities	-102,2	-408,76
Payments of liabilities under finance lease	-89	-108
Payments of interest under lease agreement	-9	-7
Proceeds from credit facilities / loans received	115	398
Repayments of credit facilities / loans received	-57	-81
Interest on credit facilities / loans received	-5	-11
Grants received	18	3
Dividends paid to shareholders of the Parent company	-138	-110
Transactions with non-controlling interest	-	-40
Other inflows / (outflows) from financing activities	-7	-5
Net cash (used in)/ provided by financing activities	-171,26	38,72
Net increase / (decrease) in cash and cash equivalents	86	-287
Opening balance of cash and cash equivalents	264	429
Effects of foreign exchange differences on the balance of cash denominated in foreign currency	-	2
Closing balance of cash and cash equivalents	349,34	144,51

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