



PKP CARGO S.A.

H1 2015 results

*We create an international
logistics group*

27 August 2015

Agenda

- || Summary of H1 2015
- || Operating results
- || Financial results
- || Outlook



H1 2015 results

– consistent optimization



✓	✓	✓
MARKET SHARE 56.15%	EBITDA PLN 361 million	CAPEX PLN 231 million
REVENUES PLN 2,063 million	NET PROFIT PLN 156 million	OPEX PLN 1,899 million

Pillars of PKP CARGO development

– key projects in H1 2015



✓	Further cost optimization	<ul style="list-style-type: none">▪ Voluntary Redundancy Program II – 981 employees have elected to enroll▪ Identifying and tapping into synergies with AWT – rolling stock and staff pool▪ Operating efficiency - lower expenses of key resources
✓	Strengthening our position in Europe	<ul style="list-style-type: none">▪ AWT integration and strategic alliance with HZ Cargo▪ Utilization of European transport corridors - growth in transport outside Poland▪ New Silk Road - cooperation agreement with Zhengzhou International Hub
✓	Developing our logistics offering	<ul style="list-style-type: none">▪ Dedicated products - operator's train, ferry services, transborder products▪ Reorganization of freight forwarding and terminals▪ Terminal expansion in Poznań-Franów

AWT – leading rail carrier in Central Europe




– perfect complement to PKP CARGO's offer

<i>Business unit</i>	<i>Range of services</i>	<i>% of revenues*</i>
TRANSPORT	<ul style="list-style-type: none"> ▪ Key areas of AWT's business ▪ Countries: CZ, Slovakia, Hungary and Poland ▪ Transported goods: coal, metals, automotive, intermodal, chemicals ▪ 300 km of own railway lines 	 <div>70%</div>
SIDINGS	<ul style="list-style-type: none"> ▪ Operator of 26 sidings ▪ 25% of the siding market in the Czech Republic ▪ Serving mines and other key industries in CZ 	
WAGON FLEET MANAGEMENT	<ul style="list-style-type: none"> ▪ AWT ROSCO – lease of wagons ▪ Pool of more than 5,000 wagons ▪ Wagons for transport of coal and dry bulk commodities, cisterns and platforms 	 <div>10%</div>
LAND RECLAMATION	<ul style="list-style-type: none"> ▪ Land reclamation, design work, environmental services, waste management, demolition work and transport ▪ Countries: CZ and Poland; own fleet of machinery ▪ Know-how: removal of organic contamination 	 <div>20%</div>

AWT – leading rail carrier in Central Europe

– areas of synergies



<i>Area of synergies</i>	<i>Scope of synergies</i>	<i>Potential for synergies</i>
TRANSPORT PROCESS 	<ul style="list-style-type: none">▪ Wagon pool▪ Locomotive pool▪ Train driver and rolling stock inspector pool▪ Eliminating locomotives changes at the border▪ Reduction of empty runs▪ Optimization of connections	<ul style="list-style-type: none">▪ Lease of locomotives from PKP CARGO instead of from third party vendors and replacement of diesel locomotives▪ AWT will lease from PKP CARGO up to 300 wagons a year
MAINTENANCE OF ROLLING STOCK 	<ul style="list-style-type: none">▪ Repairs of AWT's rolling stock in PKP CARGO▪ P1 inspections of PKP CARGO's locomotives in AWT (ET22 and ET41)▪ Optimization of DSU	<ul style="list-style-type: none">▪ The repair capacity is for roughly 400 wagons▪ PKP CARGO's performance of locomotive returns on P1 to Poland▪ Optimization of DSU in the rolling stock pool
NEW CONTRACTS 	<ul style="list-style-type: none">▪ Enlargement of the client portfolio and conduct of business in new markets▪ Actual takeover of services on the Czech sections by AWT or PKP CARGO	<ul style="list-style-type: none">▪ Identification of freight volume on Poland - Czech Republic routes to be taken over by the PKP CARGO Group

Agenda






- || **Summary of H1 2015**
- || **Operating results**
- || **Financial results**
- || **Outlook**



PKP CARGO



– we create an international logistics group

Freight transport

-  - hard coal, coke
-  - aggregates and construction materials
-  - iron ores and metals
-  - automobiles and automotive parts
-  - intermodal transport

PKP CARGO's freight turnover

domestic versus international; thousands of tons, million tkm

	H1 2014	H1 2015	% change
Volume	51,221	52,170	2%
 PL	50,001	49,292	-1%
Outside PL	1,220	2,878	↑136%
Freight turnover	13,724	13,759	0%
 PL	13,522	13,379	-1%
Outside PL	202	380	↑88%

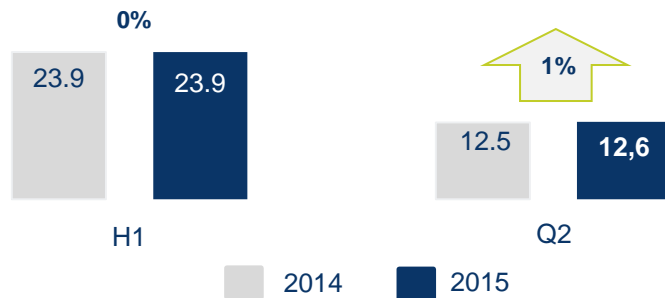


PKP CARGO is growing faster than the market

– railway transport in Poland

Freight turnover – polish market

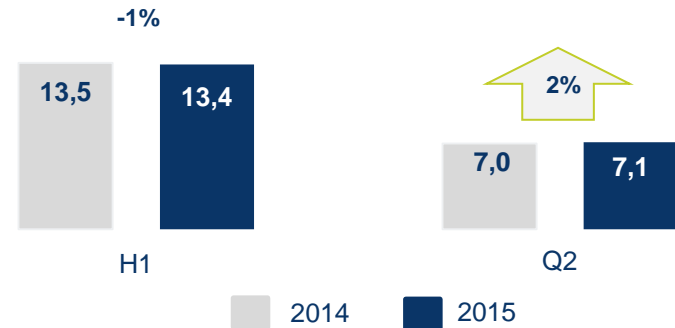
billion tkm



Source: GUS [Main Statistical Office]

Freight turnover – PKP CARGO in Poland

billion tkm



Source: PKP CARGO

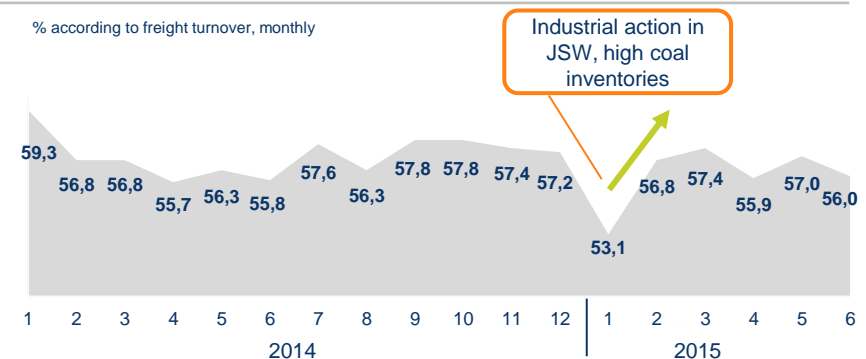
Structure of cargo transport in Poland and the EU

% according to freight volume

	Poland	EU	Germany	Czechia	Hungary
Automotive	84	75	64	80	75
Rail	12	18	24	20	21
Other	4	7	12	0	4

PKP CARGO's market share

% according to freight turnover, monthly



Industrial action in JSW, high coal inventories

SOLID FUELS

– taking advantage of the economic rebound in Q2 2015

ARA prices (57.8 USD/t – 06'2015)



Coal imports from Russia & Ukraine



Higher domestic transport

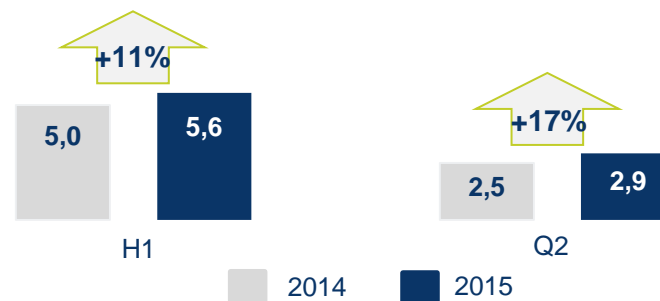


Main directions of transport



Freight turnover

hard coal (billion tkm)



Source: PKP CARGO

Structure of transport

% according to freight turnover

HARD COAL

	H1 2014	H1 2015
Domestic transport	61	63
Exports	20	19
Imports	15	13
Transit	4	5



PKP cargo
LOGISTICS

AGGREGATES AND CONSTRUCTION MATERIALS

– major infrastructure investments in the pipeline

Delay in investments



Market conditions in the construction industry



New sections of A1, S7, S6, S5



New budgetary perspective

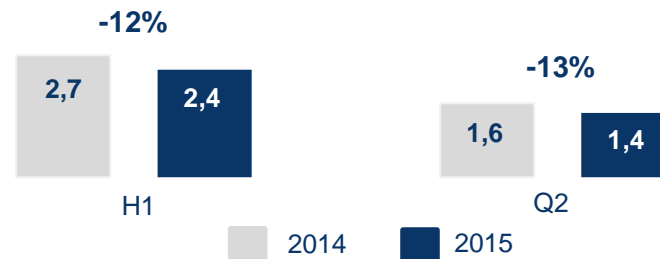


Main directions of transport



Freight turnover

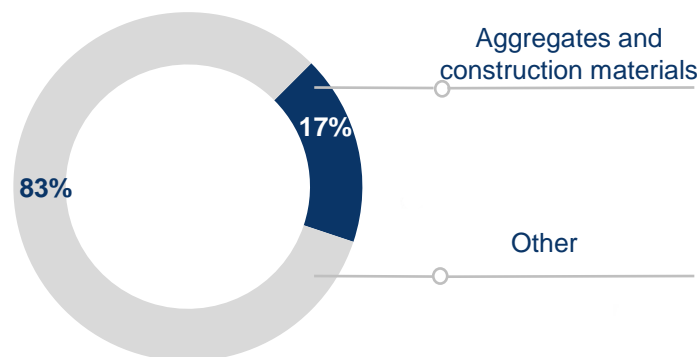
billion tkm



Source: PKP CARGO

Structure of transport

by freight turnover data for H1 2015



Source: PKP CARGO

METALS AND ORES

– improving market situation

Conflict in the east



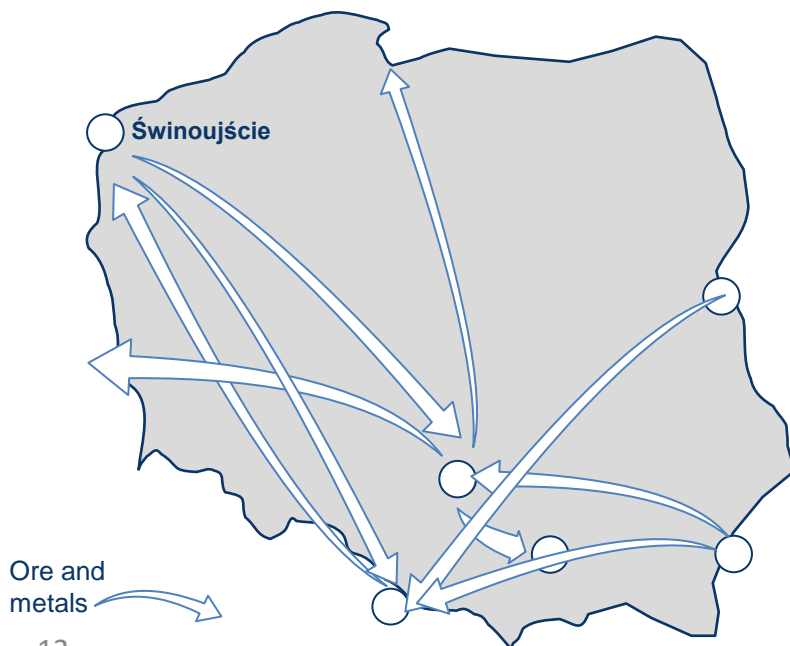
Imports from Russia and Ukraine



Market conditions in industry

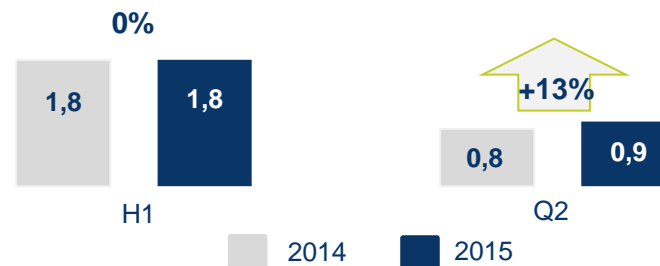


Main directions of transport



Freight turnover

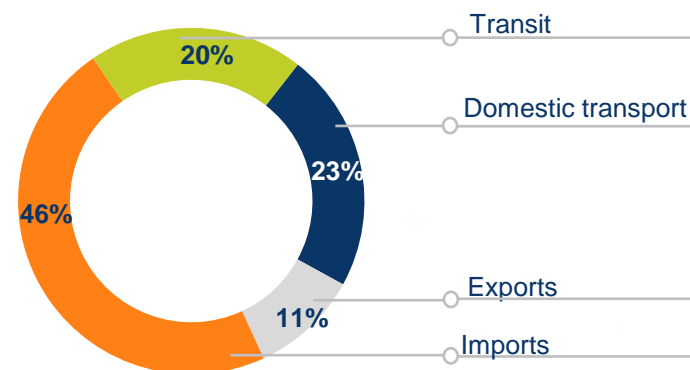
billion tkm



Source: PKP CARGO

Structure of transport

by types of transportation (freight turnover) data for H1 2015



Source: PKP CARGO, this structure does not include AWT's freight transport

INTERMODAL TRANSPORT

– solid base for long-term growth

Decline in transshipments in ports



Modernization of line no. 226



Paskov Terminal



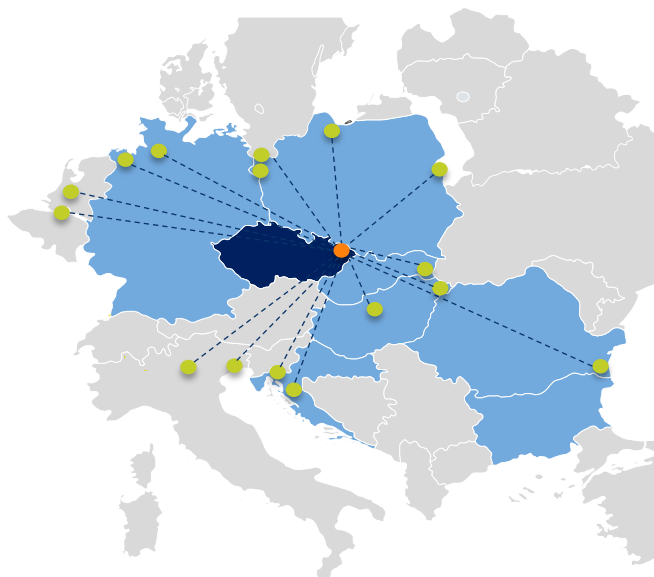
Terminal expansion in Franowo



Acquisition of intermodal platforms

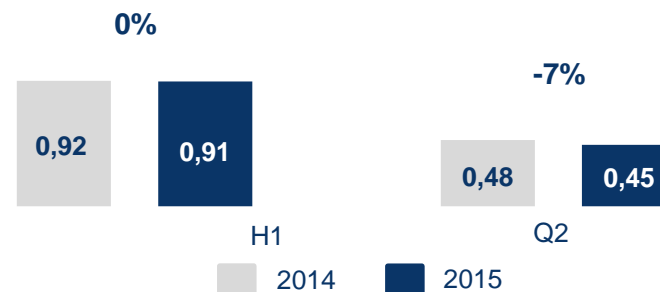


PKP CARGO Group's new Paskov terminal



Freight turnover

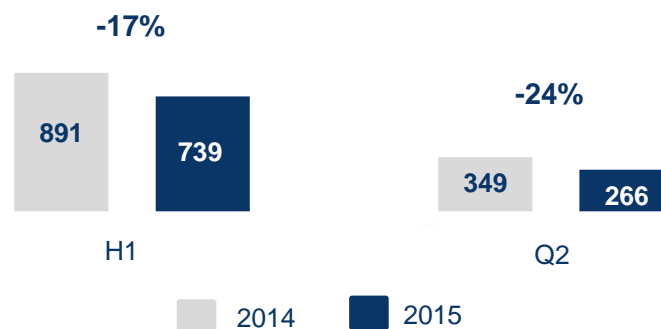
billion tkm



Source: PKP CARGO

Transshipments of containers in Polish ports

thousands of TEU



Source: Ports: Świnoujście - Szczecin, Gdańsk, BCT Gdynia

Agenda

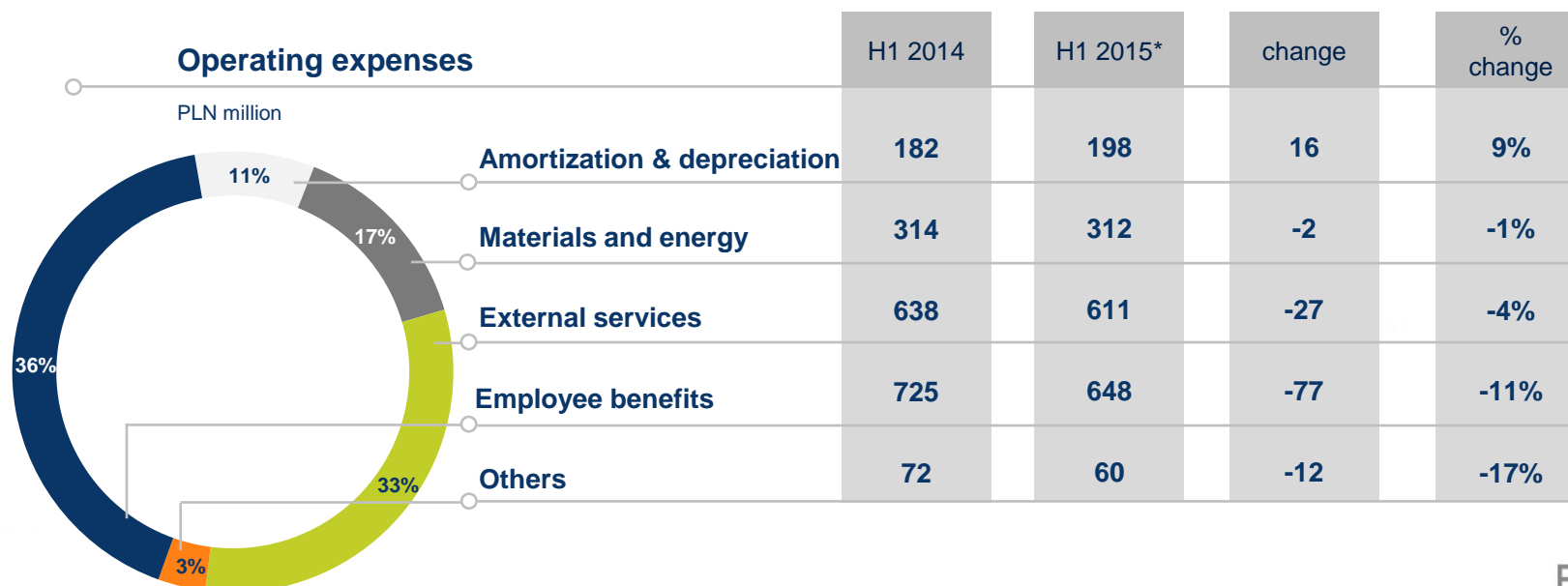
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Active efficiency management

– costs under control

PLN million	H1 2014	H1 2015*	change	% change
Operating revenues	2,100	1,925	-175	-8%
Operating expenses	1,931	1,829	-102	-5%
EBITDA	351	293	-58	-17%
EBIT	169	95	-74	-44%
Net profit	128	75	-53	-41%

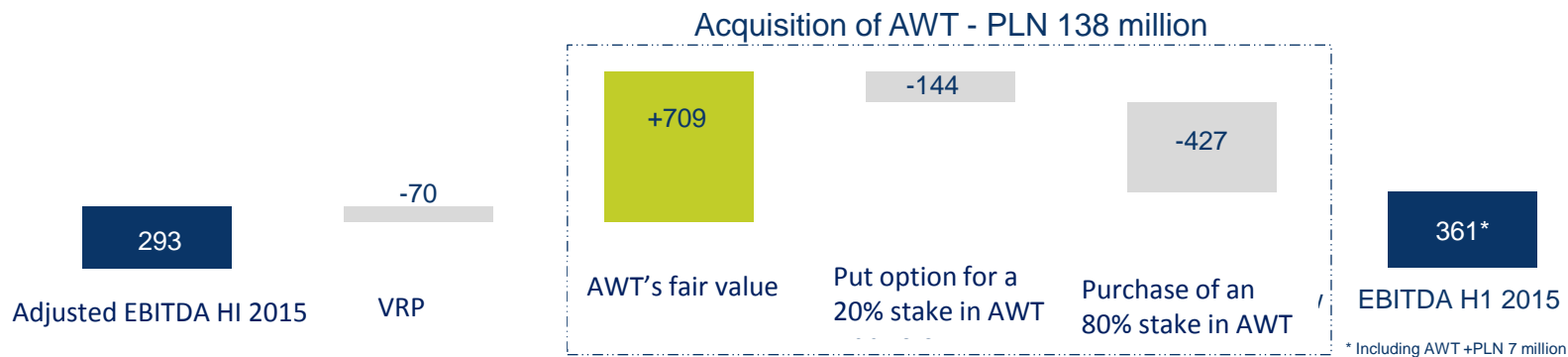


AWT

– profit on bargain purchase

Non-recurring events affecting the EBITDA result in H1 2015

PLN million



Option valuation

Valuation of the put option on the date of acquisition

PLN 144 million



Valuation of the put option on 30 June 2015

PLN 146 million



Valuation differences

PLN 2 million financial expenses

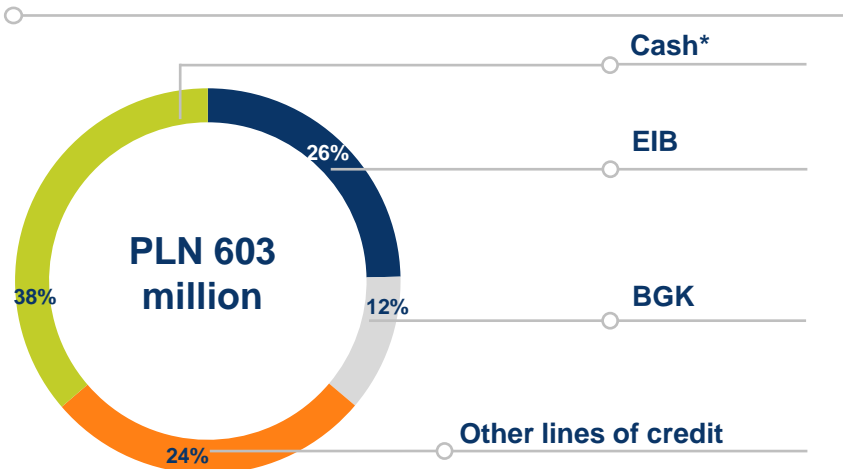


The call option was not recognized in the statement of financial position as it does not meet the definition for a derivative according to IAS 39

CF, CAPEX

– guarantee of investments and development

Available funding sources



CAPEX

000s of PLN

	H1 2014	H1 2015
Modernization of locomotives	47,547	51,439
Purchase of wagons	28,613	11,457
Others	15,571	30,071
Components in rolling stock overhauls	165,011	138,257
Total	256,742	231,224

CASH FLOW

Operating	PLN 226 million (net of VRP)
Investment	-PLN 264 million
Financial	PLN 55 million

Benchmark for debt ratios

PKP CARGO**	1.30
Globaltrans	1.52
TransContainer	0.94
CSX CORP	1.81
PCC Intermodal	2.61
Genesee & Wyoming	2.72

Source: Thomson Reuters data for 2014, PKP CARGO Group data for H1 2015

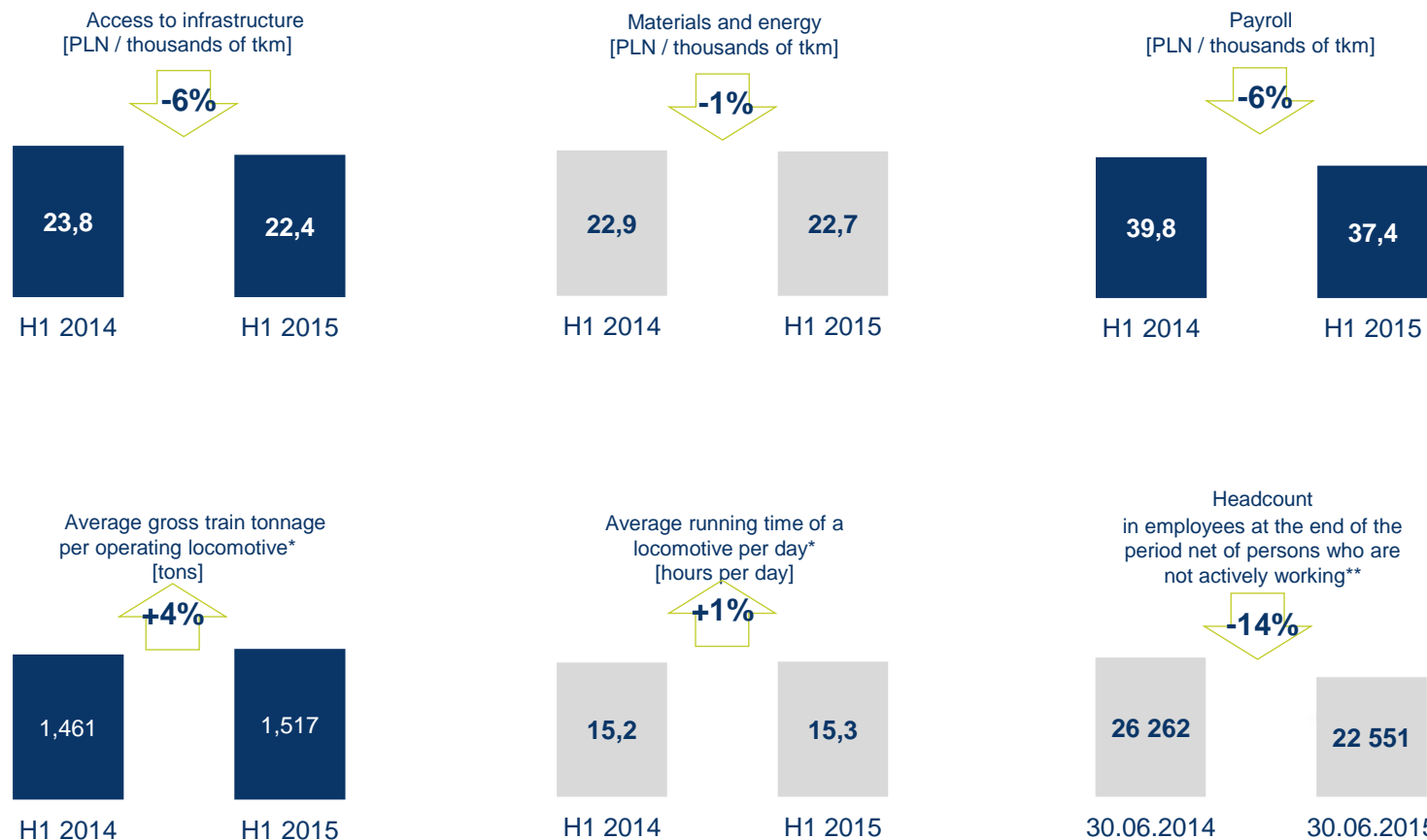


PKP cargo
LOGISTICS

Improvement of transportation process

– increase in operational efficiency

Cost and operational efficiency



In addition, as at 30 June 2015 AWT had 2,107 employees

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Modern sales structures

– reorganization of PKP CARGO Group's sales area



GOAL



Establishing modern sales structures that are flexible and capable of responding to market needs

ASSUMPTIONS



- Reorganization of sales structures
- Reorganizing freight forwarding companies
- Reorganizing terminal assets



Business unit
SALES



Business unit
FREIGHT FORWARDING



Business unit
TERMINALS

EFFECTS



- Enhancing the efficiency and flexibility of the sales process
- Improving the quality of customer service with “one face to the customer”
- Maximizing the utilization of resources
- Operational synergies

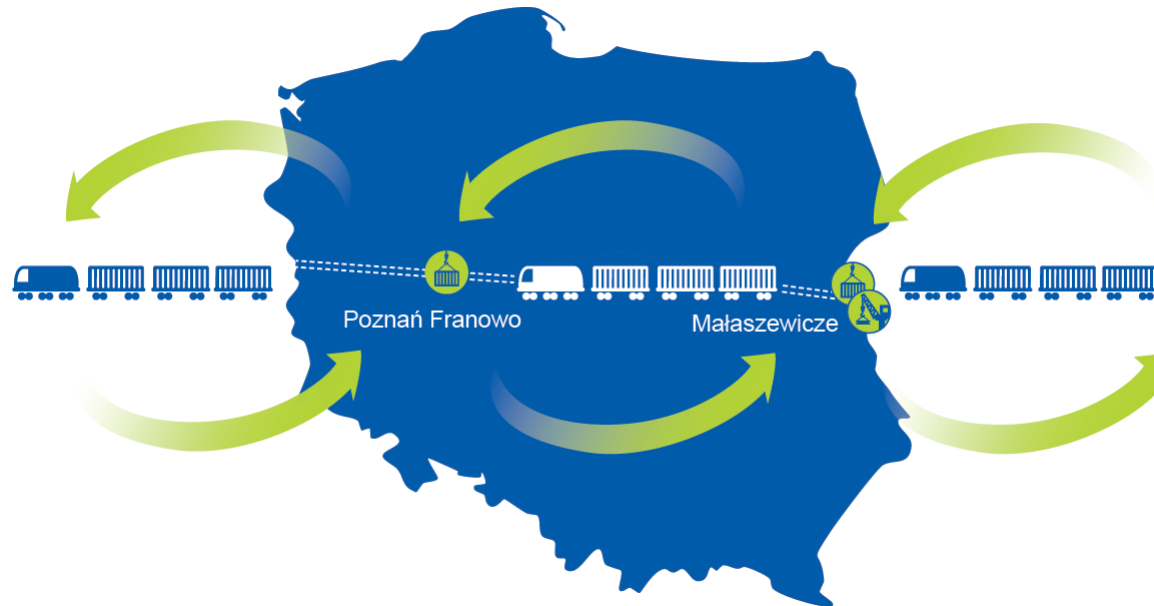
Global presence

– PKP CARGO on the New Silk Road

GOAL

Handling connections between China and Western Europe

BUSINESS CASE



EFFECTS

- Joint venture with Zhengzhou International Hub
- Integrating the Silk Road with the European transport network
- Creating a modern logistics hub in Małaszewicze
- Growing transshipments in PKP CARGO's intermodal terminals

Modern rolling stock fleet

– pioneering project to produce wagons

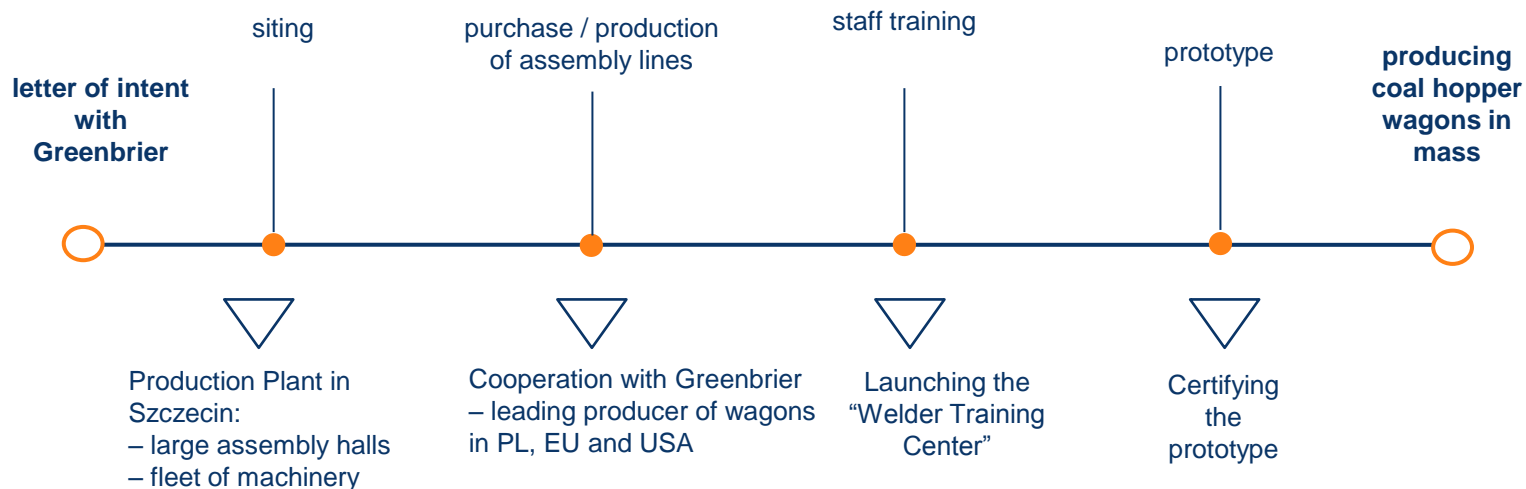


GOAL



Renewing rolling stock fleet using own resources

PROJECT PHASES



EFFECTS



- Reducing the cost of securing a wagon by 8% on average
- Building 500 coal hopper wagons per annum
- Tapping into the Group’s unused production capacities
- Developing skills to produce wagons

Program 100 +

– consistent cost optimization

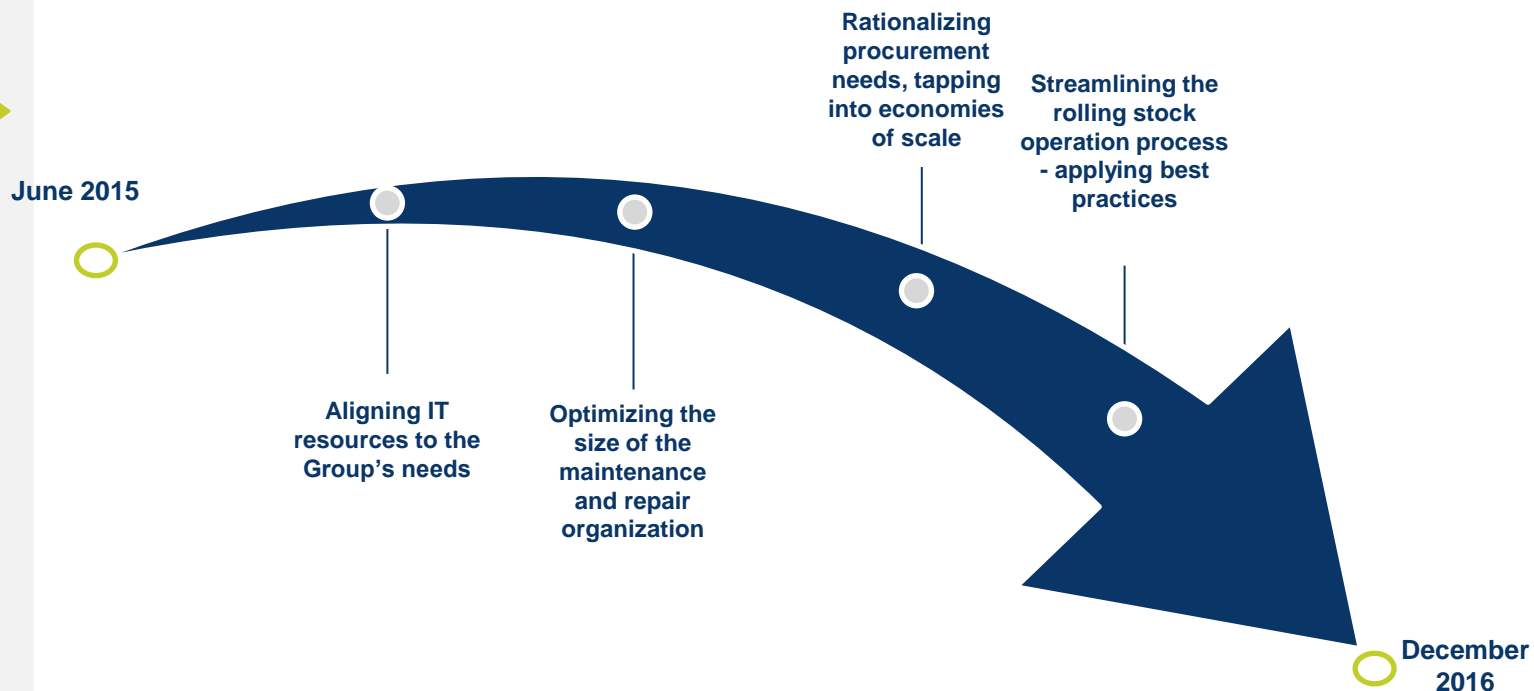


GOAL



Permanently enhancing performance through strategic expense management

PROJECTS



EFFECTS



- Optimizing rolling stock operation and maintenance expenses
- Cutting fixed expenses
- Strengthening the Group's competitive position
- Growing shareholder value



Q&A session

Freight results

Freight turnover (million tkm)

	H1 2014	H1 2015	Change	Change %	% H1 2014	% H1 2015
solid fuels	5 758	6 125	367	6%	42%	45%
<i>including hard coal</i>	5 028	5 565	537	11%	37%	40%
aggregates and construction materials	2 674	2359	-315	-12%	19%	17%
metals and ore	1842	1847	5	0%	13%	13%
chemicals	878	1029	151	17%	6%	7%
liquid fuels	342	346	4	1%	2%	3%
timber and agricultural produce	930	791	-139	-15%	7%	6%
intermodal transport	917	913	-4	0%	7%	7%
other	383	349	-34	-9%	3%	3%
Total	13 724	13 759	35	0%	100%	100%

Freight volume (thousand tons)

	H1 2014	H1 2015	Change	Change %	% H1 2014	% H1 2015
solid fuels	25 816	27 482	1 666	6%	50%	53%
<i>including hard coal</i>	23 426	25 132	1 706	7%	46%	48%
aggregates and construction materials	9 348	8 576	-772	-8%	18%	16%
metals and ore	6 163	6 234	71	1%	12%	12%
chemicals	2 911	2 998	87	3%	6%	6%
liquid fuels	1212	1274	62	5%	2%	2%
timber and agricultural produce	2 446	2 336	-110	-5%	5%	4%
intermodal transport	2 287	2 335	48	2%	4%	4%
other	1038	935	-103	-10%	2%	2%
Total	51 221	52 170	949	2%	100%	100%



Consolidated statement of comprehensive income

PLN million	H1 2014	H1 2015	change %
Revenue from sales of services	2 053,33	1 896,54	-8%
Revenue from sales of goods and materials	23,66	17,67	-25%
Other operating revenue	22,85	148,35	549%
Total operating revenue	2 099,83	2 062,57	-2%
Depreciation/amortisation and impairment losses	181,54	198,31	9%
Consumption of raw materials and energy	313,81	312,43	0%
<i>Fuel consumption</i>	<i>102,09</i>	<i>84,12</i>	<i>-18%</i>
<i>Electricity, gas and water consumption</i>	<i>189,63</i>	<i>194,16</i>	<i>2%</i>
External services	637,97	610,86	-4%
<i>Access to infrastructure connections</i>	<i>326,54</i>	<i>307,72</i>	<i>-6%</i>
Taxes and charges	20,33	17,61	-13%
Employee benefits	724,80	718,40	-1%
Other expenses by kind	21,92	18,63	-15%
Cost of merchandise and raw materials sold	15,87	12,40	-22%
Other operating expenses	14,64	10,85	-26%
Total operating expenses	1 930,88	1 899,48	-2%
EBITDA	350,49	361,39	3%
Profit on operating activities	168,95	163,09	-3%
Financial revenue	11,61	9,38	-19%
Financial expenses	16,48	16,56	0%
Share in the profit / (loss) of entities accounted for under the equity method	-0,44	3,48	-900%
Result on sale of entities accounted for under the equity method	0,00	1,87	-
Profit before tax	163,65	161,25	-1%
Income tax expense	35,50	5,17	-85%
NET PROFIT	128,15	156,09	22%
Net profit / (loss) attributable to:			
Shareholders of the Parent company	126,74	156,23	23%
Non-controlling interest	1,41	-0,14	-110%
Net profit	128,15	156,09	22%
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:	-1,04	14,94	
The effective portion of changes in fair value of cash-flow hedging instruments	-1,29	1,77	
Income tax on other comprehensive income	0,25	-0,34	
Foreign exchange differences on translation of subsidiaries' financial statements	-	13,50	
Other comprehensive income that will not be reclassified to profit or loss:	-	51,55	
Actuarial gains / (losses) on employee benefits after employment period	-	63,64	
Income tax on other comprehensive income	-	-12,09	
Total comprehensive income / (loss) attributable to:	127,11	222,57	

Consolidated Statement of Financial Position

PLN million	As at 31/12/2014	As at 30/06/2015
Property, plant and equipment	4 011,54	4 898,65
Intangible assets	58,27	72,08
Goodwill	2,71	2,71
Investment property	1,36	1,34
Investments accounted for under the equity method	35,25	42,37
Other long-term receivables	-	7,08
Other long-term financial assets	6,05	9,79
Other long-term non-financial assets	14,65	20,92
Deferred tax assets	88,27	70,95
Total non-current assets	4 218,10	5 125,89
Inventories	115,30	139,33
Trade and other receivables	526,15	718,46
Income tax receivables	3,05	4,30
Other short-term financial assets	306,38	7,67
Other short-term non-financial assets	28,25	58,69
Cash and cash equivalents	429,18	220,81
Assets classified as held for sale	17,56	18,48
Total current assets	1 425,87	1 167,75
Total assets	5 643,97	6 293,63

Consolidated Statement of Financial Position

PLN million	As at 31/12/2014	As at 30/06/2015
Share capital	2 239,35	2 239,35
Supplementary capital	615,34	619,41
Other items of equity	-51,69	1,29
Foreign exchange differences on translation of subsidiaries' financial statements	-	13,50
Retained earnings	527,67	593,02
Equity attributable to the owners of the Parent company	3 330,67	3 466,56
Non-controlling interest	63,50	-
Total equity	3 394,17	3 466,56
Long-term bank loans and credit facilities	208,08	581,96
Long-term finance lease liabilities and leases with purchase option	190,84	222,73
Long-term trade and other payables	67,98	48,07
Long-term provisions for employee benefits	658,22	543,64
Other long-term provisions	8,42	23,22
Other long-term financial liabilities	-	146,52
Deferred tax provision	2,33	116,01
Non-current liabilities	1 135,86	1 682,15
Short-term bank loans and credit facilities	92,12	142,21
Short-term finance lease liabilities and leases with purchase option	127,74	86,26
Short-term trade and other payables	530,44	780,61
Short-term provisions for employee benefits	334,84	107,53
Other short-term provisions	24,21	23,33
Other short-term financial liabilities	3,93	4,60
Current tax liabilities	0,64	0,39
Total current liabilities	1 113,94	1 144,92
Total liabilities	2 249,79	2 827,07
Total equity and liabilities	5 643,97	6 293,63



Consolidated Cash Flow Statement

PLN million	H1 2014	H1 2015
Profit before tax	163,65	161,25
Adjustments:		
Amortyzacja aktywów trwałych	181,54	197,97
Utrata wartości aktywów trwałych	-	0,34
(Zysk) / strata ze zbycia / likwidacji rzeczowych aktywów trwałych i wartości niematerialnych	5,21	0,73
(Zysk) / strata na działalności inwestycyjnej	-0,01	-
(Zysk) / strata z tytułu różnic kursowych	0,64	-3,14
(Zysk) / strata z tytułu odsetek, dywidendy	4,28	8,06
Udział w (zysku) / stracie jednostek wycenianych metodą praw własności	0,44	-3,48
Wynik na sprzedaży jednostek wycenianych metodą praw własności	-	-1,87
Zysk z okazjonalnego nabycia AWT	-	-137,78
Pozostałe korekty	-1,29	64,71
Changes in working capital:		
(Increase) / decrease in trade and other receivables	34,62	-25,14
(Increase) / decrease in inventories	1,70	8,05
(Increase) / decrease in other assets	-35,83	-28,49
Increase / (decrease) in trade and other payables	-120,21	126,22
Increase / (decrease) in other financial liabilities	1,71	1,19
Increase / (decrease) in provisions	-100,05	-362,80
Cash flows from operating activities	136,41	5,82
Interest received / (paid)	2,11	1,26
Income taxes received / (paid)	-3,33	-8,24
Net cash provided by/ (used in) operating activities	135,19	-1,16

Consolidated Cash Flow Statement

PLN million	H1 2014	H1 2015
Acquisition of property, plant and equipment and intangible assets	-309,89	-244,01
Proceeds from sale of property, plant and equipment and intangible assets	0,84	0,16
Acquisition of entities accounted for under the equity method	-	-1,61
Proceeds from the sale of entities accounted for under the equity method	-	2,00
Acquisition of subsidiary, net of cash acquired	-	-325,96
Interest received	15,07	5,96
Dividends received	0,27	0,10
Inflows / (outflows) from bank deposits over 3 months	398,60	299,83
Inflows / (outflows) related to the Employment Guarantees Program	79,61	-
Net cash (used in) / provided by investing activities	184,50	-263,52
Payments of liabilities under finance lease	-62,77	-82,42
Payments of interest under lease agreement	-6,42	-4,42
Proceeds from credit facilities / loans received	-	345,44
Repayments of credit facilities / loans received	-40,76	-45,15
Interest on credit facilities / loans received	-3,26	-4,81
Grants received	11,39	-
Dividends paid to shareholders of the Parent company	-137,50	-110,18
Transactions with non-controlling interest	-	-40,00
Other inflows / (outflows) from financing activities	-4,69	-3,92
Net cash (used in)/ provided by financing activities	-244,02	54,55
Net increase / (decrease) in cash and cash equivalents	75,67	-210,12
Opening balance of cash and cash equivalents	263,70	429,18
Effects of foreign exchange differences on the balance of cash denominated in foreign currency	-	1,76
Closing balance of cash and cash equivalents	339,37	220,81

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