PKP CARGO Group Q1 2015 Results

12 May 2015

Agenda

Q1 2015 Summary

Operating results

Financial results

Outlook

Most important achievements in Q1 2015
– on the path to becoming a comprehensive logistics operator

Strengthening the position in Europe

1

- **Acquisitions / strategic alliances** – gateway to southern Europe
- **Utilization of European transport corridors** – growth in transport outside Poland
- **100% equity stake in PS Trade Trans** – pan-European experience

Development of the logistics offering

2

- **Dedicated products** – operator's train, ferry services, transborder products
- **Electronic waybill** – developing IT tools for clients
- **Terminal expansion** in Poznań-Franów

Further optimization of costs

3

- **Voluntary Redundancy Program** – 3,041 employees have elected to use it
- **Transport efficiency enhancement** – shuttle transport
- **Efficient rolling stock management** – minimizing empty transport

PKP cargo LOGISTICS

Results for Q1 2015
– in line with expectations, improved efficiency

56% **MARKET SHARE** by freight turnover Q1 2015	**PLN 119 million** **EBITDA** **profitability of 13.3%**	**PLN 95 million** **CAPEX** mainly rolling stock maintenance and modernization
PLN 896 million **-13.7% yoy** **REVENUES** softening situation on the transport markets	**PLN 18 million** **-69.3% yoy** **NET PROFIT** profitability of 2.0%	**PLN 874 million** **-9.9% yoy** **OPEX** consistent cost optimization

PKP cargo LOGISTICS

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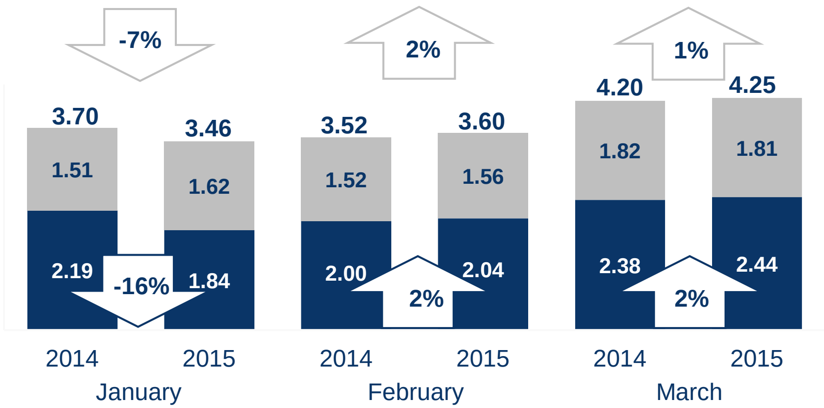
PKP CARGO's market shares stable despite unfavorable trends – uncontested leader in coal and aggregate transportation

Freight turnover and market structure

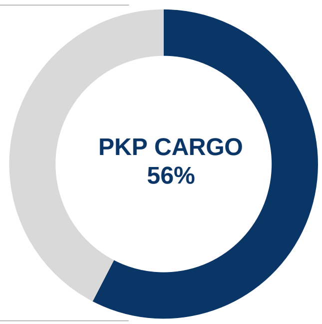
billion tkm



Source: *Office of Rail Transport*

measured by freight turnover data for Q1 2015

Lotos Kolej	10%
PKP LHS	7%
CTL	7%
DB Schenker	6%
Orlen Kol-Trans	3%
Others	11%



Source: *Office of Rail Transport*

PKP CARGO: segmental market shares

Share in cargo categories measured by freight turnover in 2014

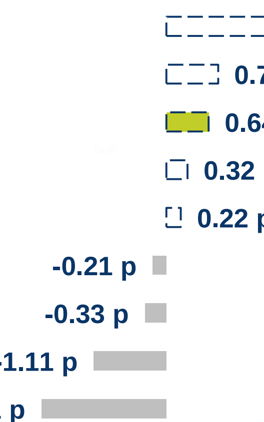
Hard coal	**73%**
Aggregates and construction materials	**63%**
Metals, ore and scrap	**50%**
Intermodal	**52%**

Source: *GUS, PKP CARGO, Intermodal, Office of Rail Transport's data*

Market share changes of rail operators

change in shares yoy measured by volume in Q1 2015

Lotos Kolej	**1.58 p**
Others	**0.79 p**
PKP CARGO	**0.64 p**
Orlen Kol-Trans	**0.32 p**
CTL	**0.22 p**
PKP LHS	**-0.21 p**
Pol-Miedź Trans	**-0.33 p**
Freightliner	**-1.11 p**
DB Schenker	**-1.91 p**

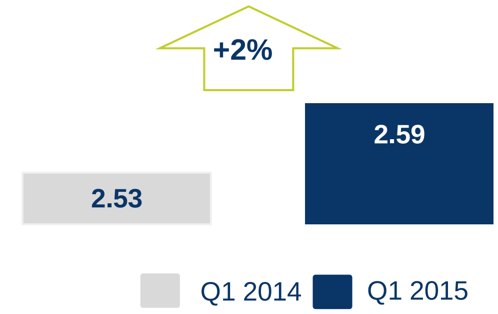


SOLID FUELS – hard coal
– rebound in the latter half of Q1 2015

- ARA prices
- Coal imports from Russia and Ukraine
- Higher domestic transport

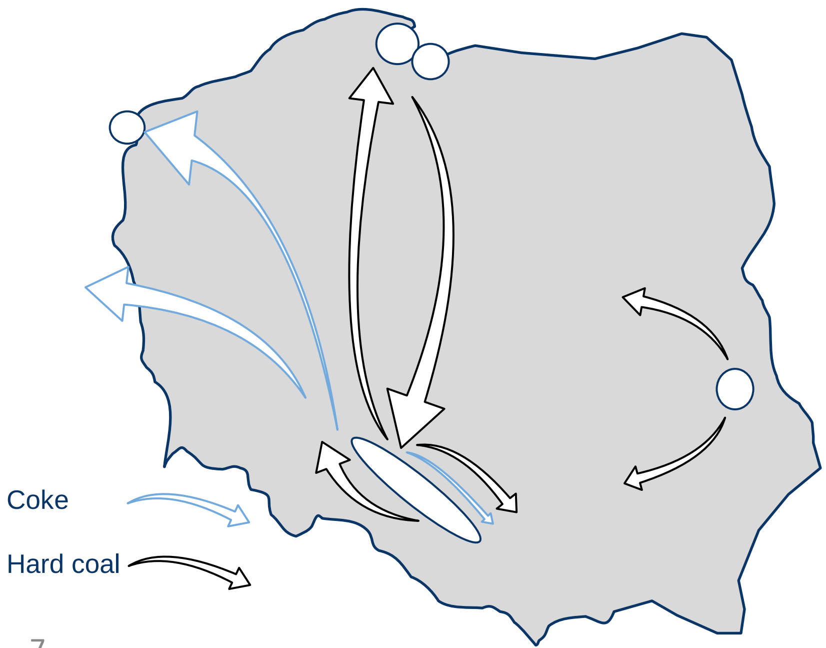
Freight turnover

hard coal (billion tkm)



Source PKP CARGO

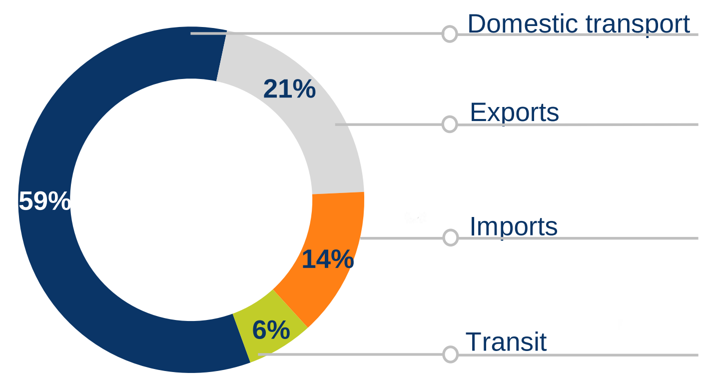
Main directions of transport



Source PKP CARGO

Structure of transport

by types of transportation (freight turnover) data for Q1 2015



Source PKP CARGO

AGGREGATES AND CONSTRUCTION MATERIALS
– good prospects for the latter half of the year

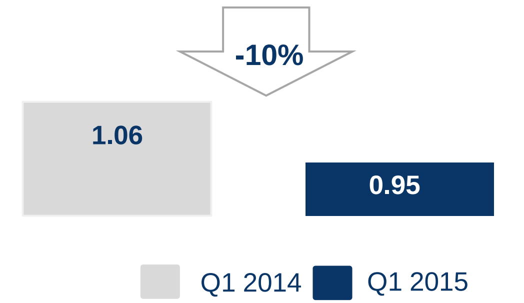
Delay in investments

Exports to Germany

Market conditions in the construction industry

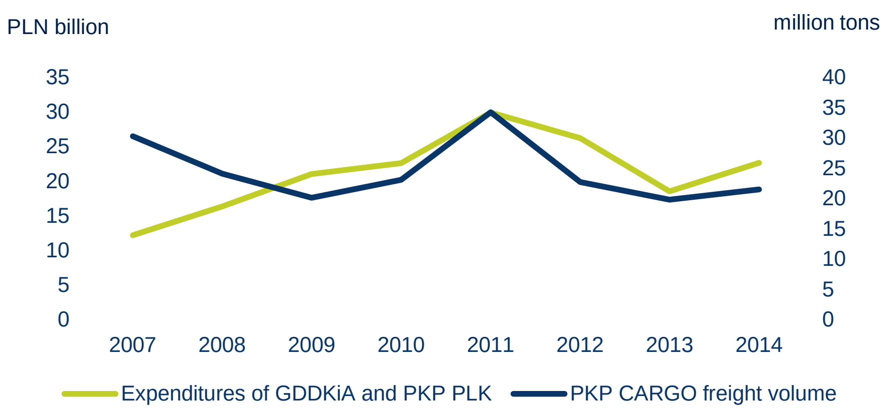
Freight turnover

billion tkm



Source PKP CARGO

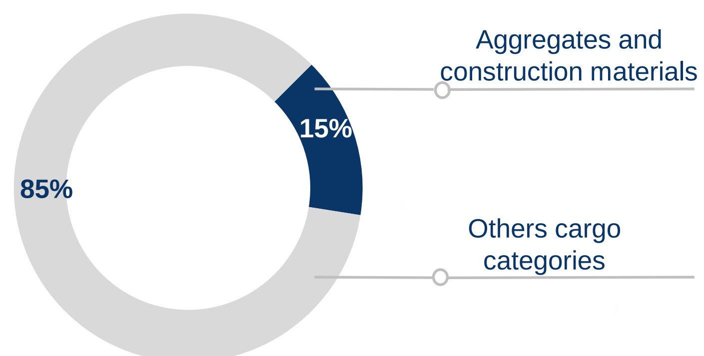
Expenditures for infrastructure GDDKiA and PKP PLK



Source PKP PLK, Ministry of Infrastructure and Development, GDDKiA

Structure of transport

according to freight turnover data for Q1 2015



Source PKP CARGO

METALS, METAL ORES AND SCRAP
– low commodity price, accelerating economy

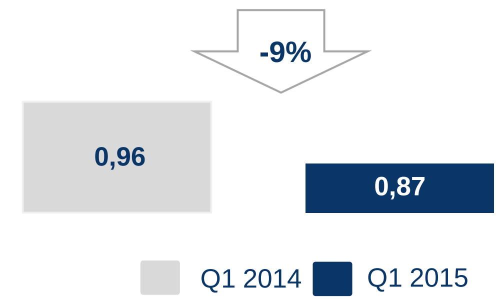
Conflict in the east

Imports from Russia and Ukraine

Market conditions in industry

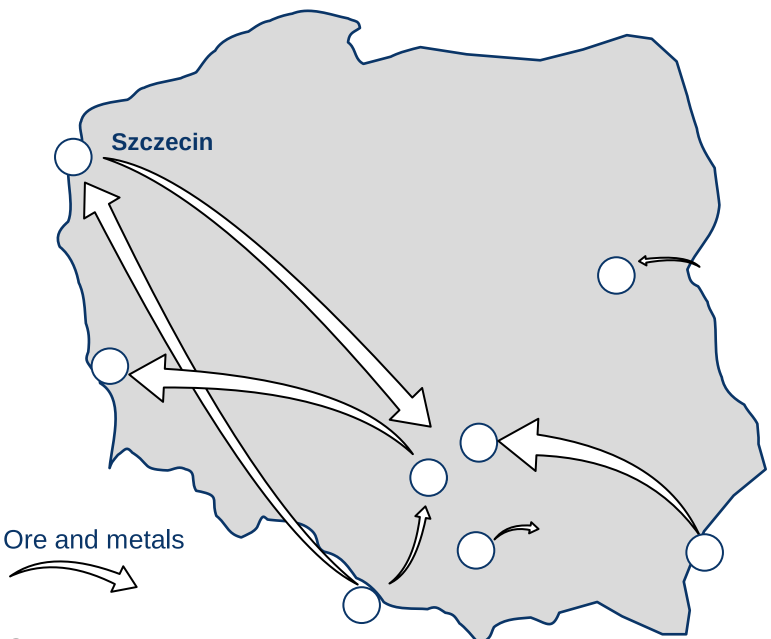
Freight turnover

billion tkm



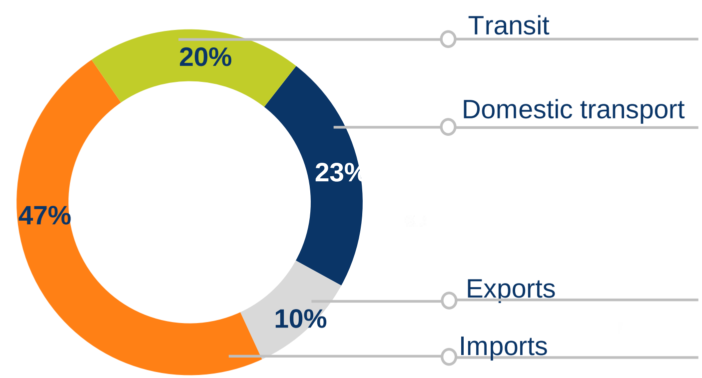
Source PKP CARGO

Main directions of transport



Structure of transport

by types of transportation (freight turnover) data for Q1 2015



Source PKP CARGO

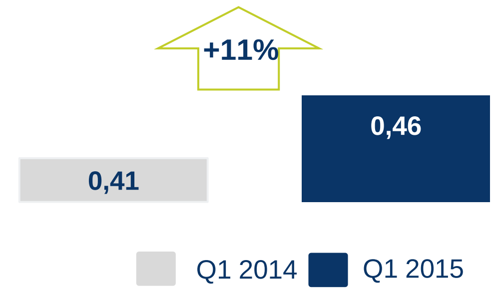
Source PKP CARGO

INTERMODAL TRANSPORT
– double-digit growth YTD

- Development of Polish ports
- Modernization of line no. 226
- Operator train
- Terminal expansion in Franowo
- Acquisition of intermodal platforms

Freight turnover

billion tkm



Source PKP CARGO

Structure of transport

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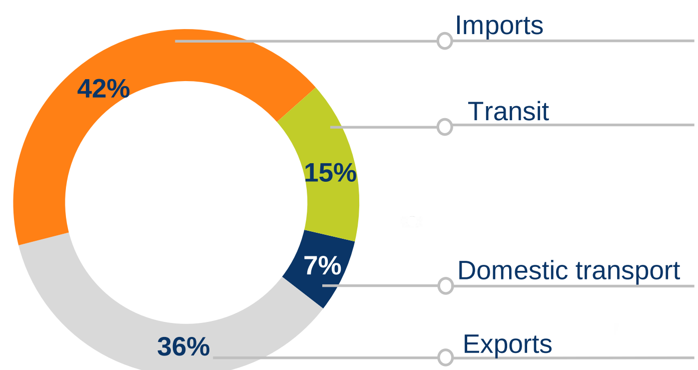
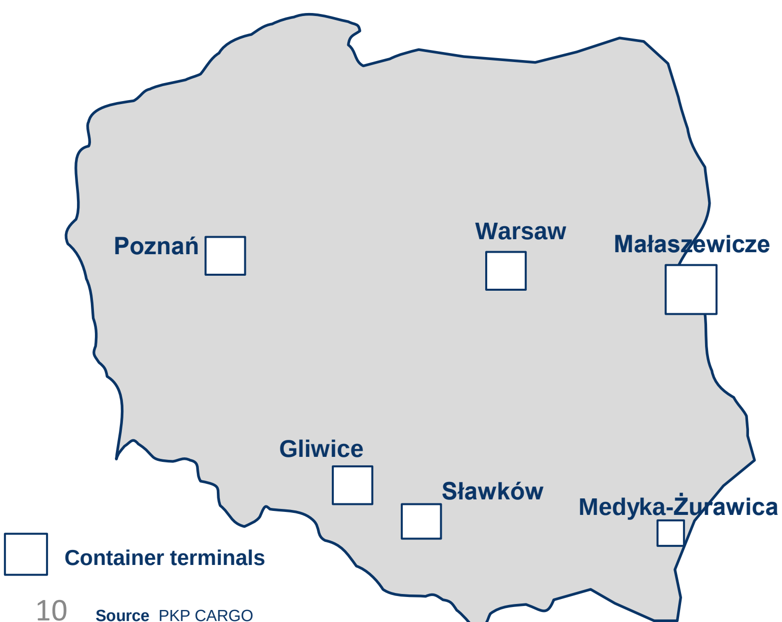


Source PKP CARGO

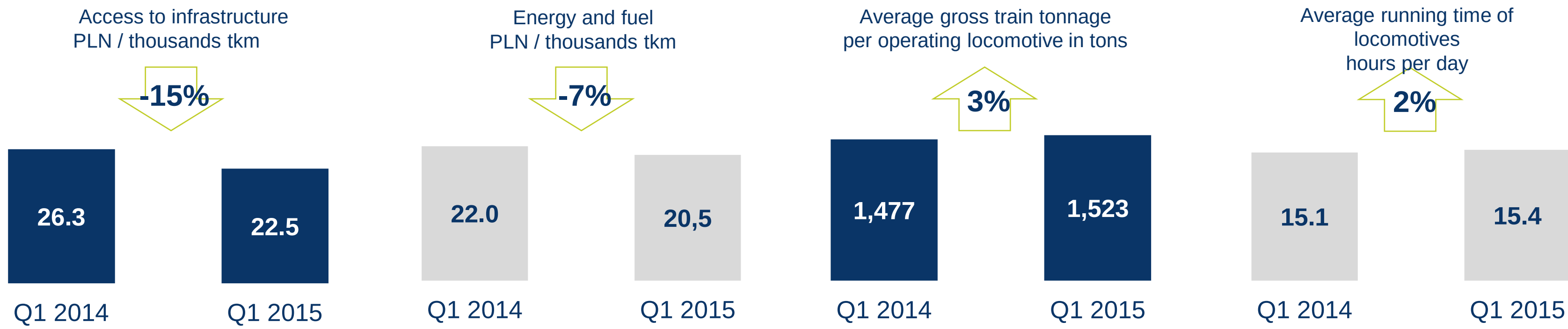
PKP CARGO's container terminals



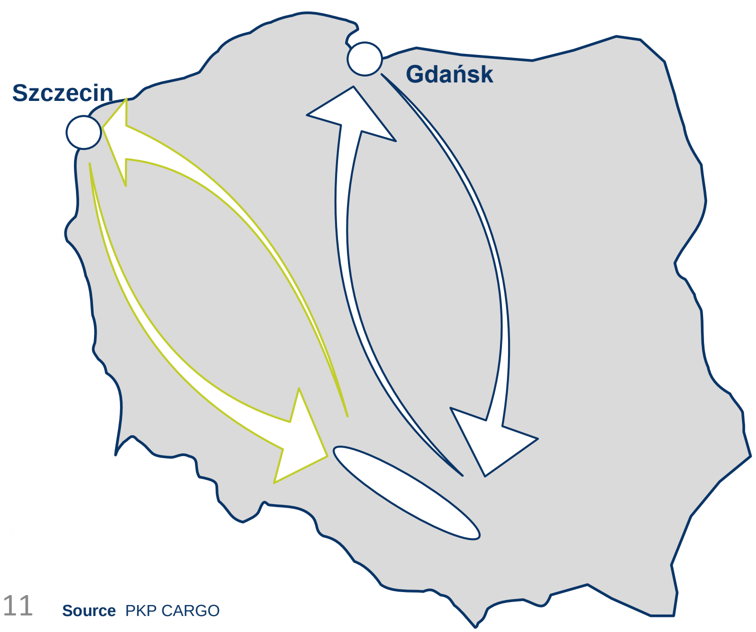
Source PKP CARGO

Operating efficiency
– improving transport and maintenance processes

Operational efficiency



Shuttle transport



Decline in empty transport by 3.9% yoy

Lower resource commitment (wagons, locomotives, train engineers)

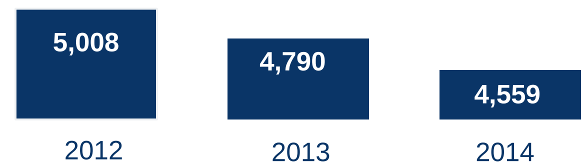
Lower costs of access to infrastructure, fuel and energy

 Source PKP CARGO

PKP CARGO is training new generations – 1,000 new train engineers to be hired by PKP CARGO in 2015/2016

Headcount of train engineers at the end of the period

persons



Number of overtime hours per train engineer

hours

- Reducing overhauls of the PKP PLK network = minimizing overtime hours

Train engineer's average age is 50

500 employed in 2014

162 recruited in Q1 2015

PLN 21 million

annual estimate

EXPENDITURES FOR TRAINING

train engineer candidates

1.5 years – the minimum period to train a train engineer

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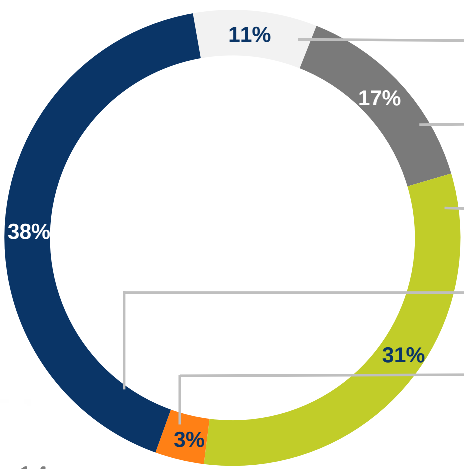
Costs under control
– operational efficiency

PLN million	Q1 2014	Q1 2015	change	% change
Operating revenues	1,038	896	-142	-14%
Operating expenses	970	874	-96	-10%
EBITDA	159	119	-40	-25%
EBIT	68	22	-46	-68%
Net profit	58	18	-40	-69%

Operating expenses

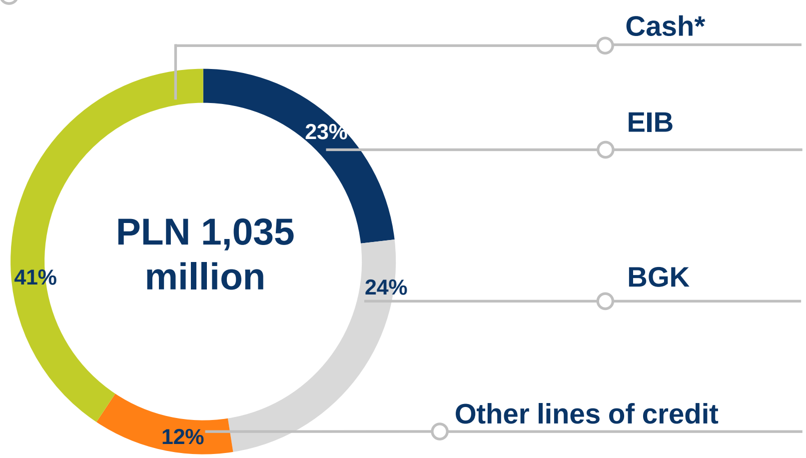
PLN million



	Q1 2014	Q1 2015	change	% change
Amortization/depreciation	91	97	6	6%
Materials and energy	159	145	-14	-9%
External services	320	271	-49	-15%
Employee benefits	364	332	-32	-9%
Others	36	29	-7	-19%

CF, CAPEX
– Financial ratios guaranteeing investments and development

Available funding sources



CASH FLOW

Operating	PLN 59 million (adjusted by the Voluntary Redundancy Program)
Investing	PLN 76 million
Financing	- PLN 30 million

CAPEX thousands of PLN	Q1 2014	Q1 2015
Modernization of locomotives	**28,069**	**14,459**
Purchase of wagons	**8,581**	**8,592**
Others	**5,869**	**5,377**
Components in rolling stock overhauls	**73,351**	**67,052**

Benchmark for debt ratios

PKP CARGO**	**0.33**
Globaltrans	1.74
TransContainer	2.71
CSX CORP	1.85
PCC Intermodal	4.83
Genesee & Wyoming	2.71

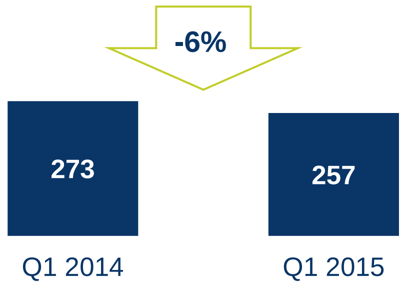
Source: *Thomson Reuters data for 2014, PKP CARGO data for Q1 2015, CSX CORP data for Q3 2014*

* Cash and cash equivalents, other short-term financial assets
** Net debt / annualized adjusted EBITDA

Voluntary Redundancy Program
– improving efficiency and greater flexibility

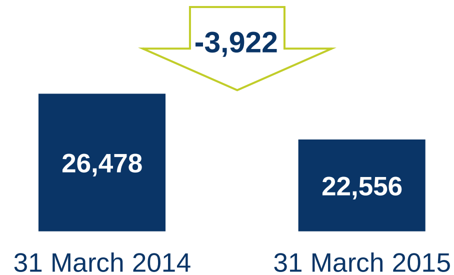
Salaries in PKP CARGO

PLN million



Lower headcount*

Headcount in persons

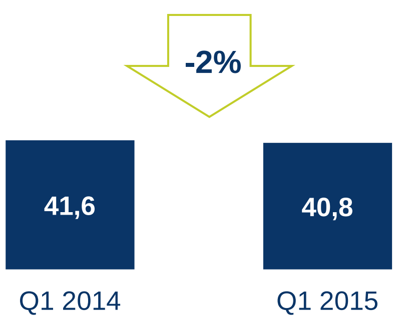


Savings of PLN 16 million yoy

-3,041 employees – outcome of the Voluntary Redundancy Program

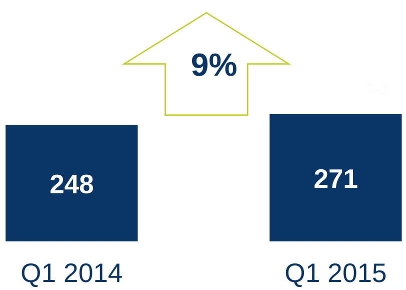
Salaries for freight turnover

PLN / thousands tkm



Freight turnover per employee

thousands tkm / employee



* Headcount includes active emploees. As at 31.03.2014 there were 44 inactive employees vs 120 as at 31.03.2015

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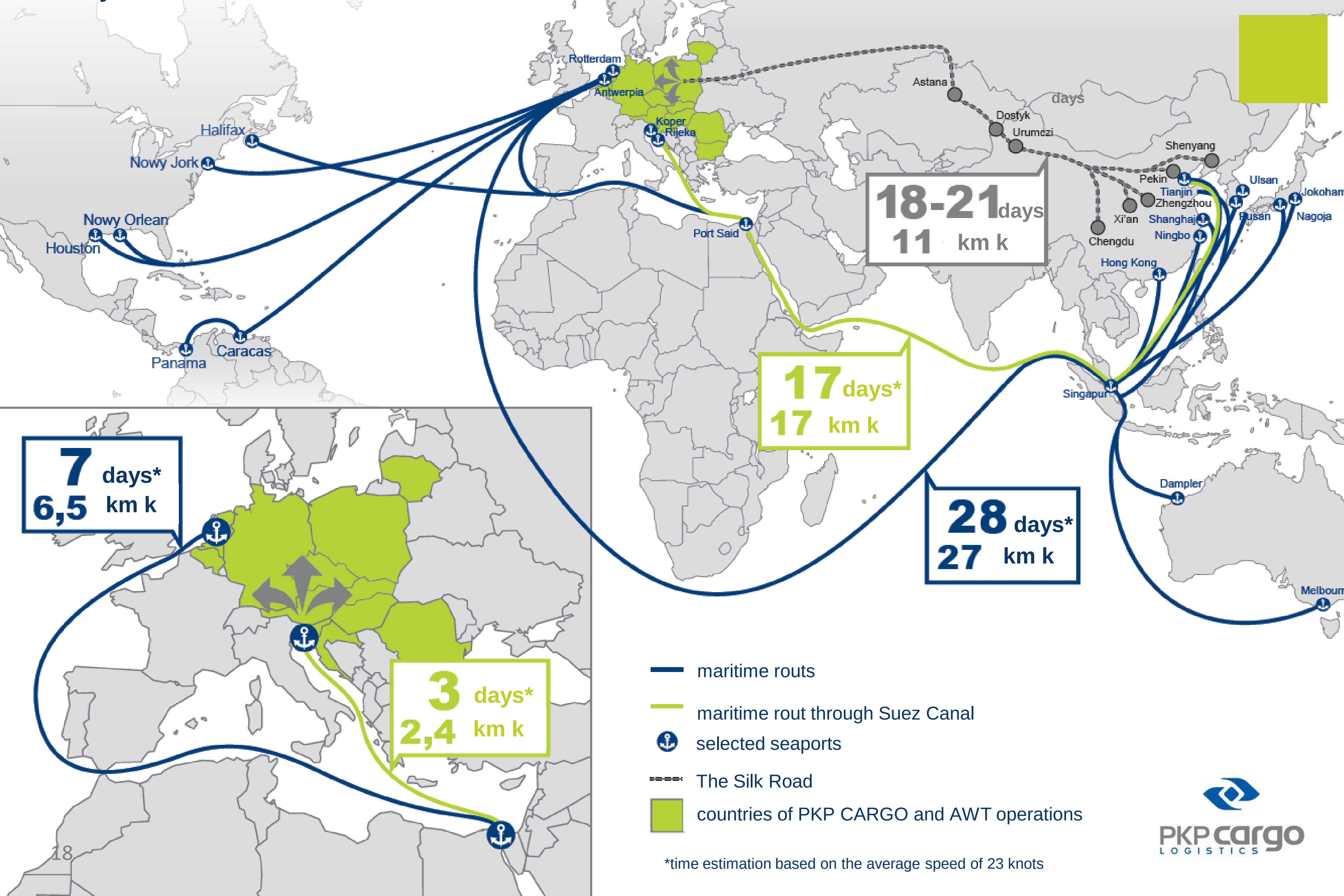
Global approach to logistics services
– competitiveness of Adriatic ports and the potential offered by the Silk Road



PKP cargo LOGISTICS

Main challenges
for the PKP CARGO Group

Acquisitions

- Domestic and international market

Taking advantage of market conditions

- Industrial production in March + 8.8% yoy
- Rapid growth in production growth rate in the mining sector for March +15.6% yoy
- Construction and assembly production in March + 2.9% yoy
- GDP growth forecast in 2015 of 3.5% yoy

Commercial

- Development of the offer for „all in one" clients
- International transport development
- Terminal strategy
- Freight forwarding consolidation

Operational

- Reduce unit costs
- Development of IT tools
- Lean management

Financial

- Funding sources
- Ongoing cost control

Source: Polish Central Statistics Office (GUS), IMF

Q&A Session

PKP cargo LOGISTICS