

Letter of Czesław Warsewicz, CEO of PKP CARGO S.A.

Dear Stakeholders,

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The previous year was a very good period for the PKP CARGO Group. I would even dare to say that it was the best year in the Group's history. This was due to both high levels of transport indicators and outstanding financial performance. Our performance indicators demonstrate that we are improving the efficiency of our core business, as the Group's revenue growth rate is greater than the rate of growth in its expenses. Thus, I can proudly say that I successfully deliver on the promises that I made when I assumed the position of President of the PKP CARGO S.A. Management Board to strengthen the Company's market position and improve its financial performance.

A breakthrough event for the PKP CARGO Group was the adoption of its strategy for the years 2019-2023 with an outlook to 2038. This is a fundamental document for our organization that keeps us on track in terms of our development directions. Our objectives are to strengthen the PKP CARGO Group's position as the largest rail operator in Poland and to become the market leader in the region covered by the Three Seas Initiative and on the European section of the New Silk Road. I am sure that we have the capacity to achieve these objectives. This capacity will be additionally solidified by our planned acquisitions on international markets. One example of such expansion was the purchase by AWT in December 2018 of the Slovenian company Primol-Rail. The deal has opened up new prospects for us, including the possibility of developing transport services to and from the port of Koper, one of the largest ports in the Adriatic Sea.



The adoption of the strategy is of enormous importance to us also for the reason that we have departed from the short-term approach focused on solving ad hoc problems. We now see the transport market in the long-term perspective and we are preparing for changes that rail transport will face in 5, 10 or 20 years. And our analyses suggest that the PKP CARGO Group must undergo a comprehensive change resulting from the conclusion that we will not only perform the role of a rail carrier but will also become a logistics operator. This is what the market expects from us as our clients demand comprehensive door-to-door types of services. This gives rise to the growing significance of enterprises that are capable of satisfying such requirements.

Market trends also suggest that the importance of intermodal transport will continue to increase. Even though the share of bulk cargo, including hard coal, in our total freight turnover will for a long time remain the largest item, the share of intermodal transport will keep increasing steadily. For this reason, we are investing heavily in this branch of transport. Last year, we also obtained EU funding for the purchase of five multi-system locomotives and nearly 1,200 intermodal platforms. The new rolling stock will bolster our transport capacity in the coming years and, as a consequence, will contribute significantly to the achievement of PKP CARGO's strategic plans.

Development entails the need to invest in innovative solutions that will help us improve our customer service and make better use of our resources. This means, for instance, investment in digitalization, application of artificial intelligence solutions at certain stages of the service provision process and acquisitions of modern rolling stock. Last year, PKP CARGO got involved in two projects that are innovative on a European scale. The first such project is the construction of a hydrogen-powered locomotive, which will be executed in partnership with Jastrzębska Spółka Węglowa and H. Cegielski – Fabryka Pojazdów Szynowych [Rail Vehicle Factory]. The second project is the construction of an autonomous locomotive in cooperation with Pesa and Instytut Pojazdów Szynowych "Tabor" ["Rolling Stock" Institute of Rail Vehicles].

It will not be possible to achieve our plans without the involvement of our employees. Keeping this in mind, we will continue making efforts to constantly improve working conditions for our personnel and create the right conditions for their professional development. These are some of the key priorities that we have adopted in our strategy and will do our best to pursue. We can also be proud of the level of social dialog carried out in PKP CARGO, as proven by the successful completion of last year's negotiations with trade unions on wage increases and bonuses for the results generated by the Group in 2018. The Management Board's good cooperation with employees is a driver of PKP CARGO's success. I am sure that we will be able to keep up these high standards in the future as well.

The year 2019 is ahead of us. It will certainly be a period of new challenges. We will do our best to cope with them in a manner enabling the PKP CARGO Group to generate transport and financial results that will be even better than in 2018 to the satisfaction of the market and our shareholders.

A handwritten signature in blue ink, appearing to read "Warsewicz".

Czesław Warsewicz, President of the PKP CARGO S.A. Management Board