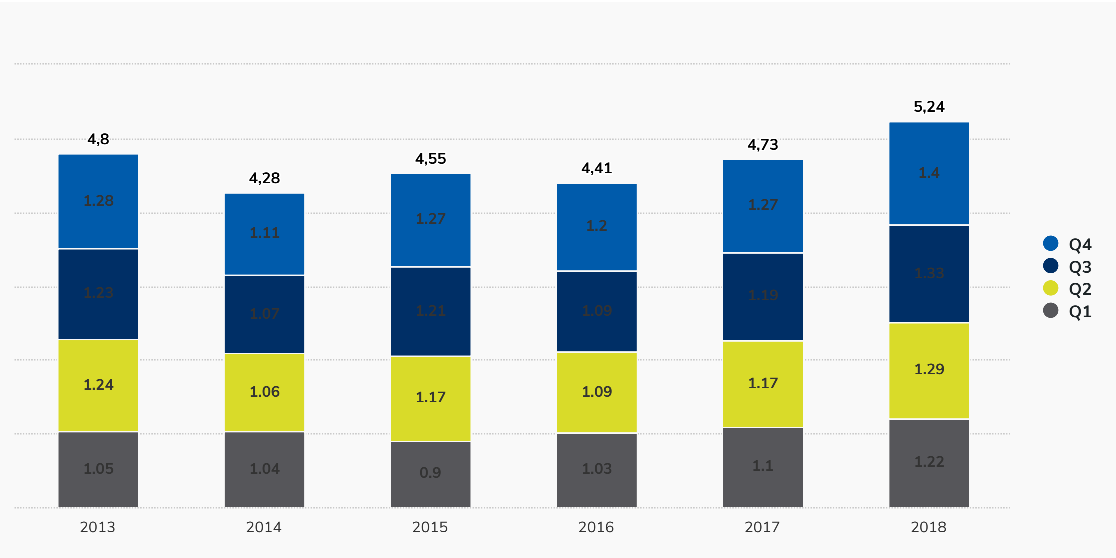
PKP CARGO Group results and perspectives

PKP CARGO Group results

The PKP CARGO Group posted its highest results since going public.

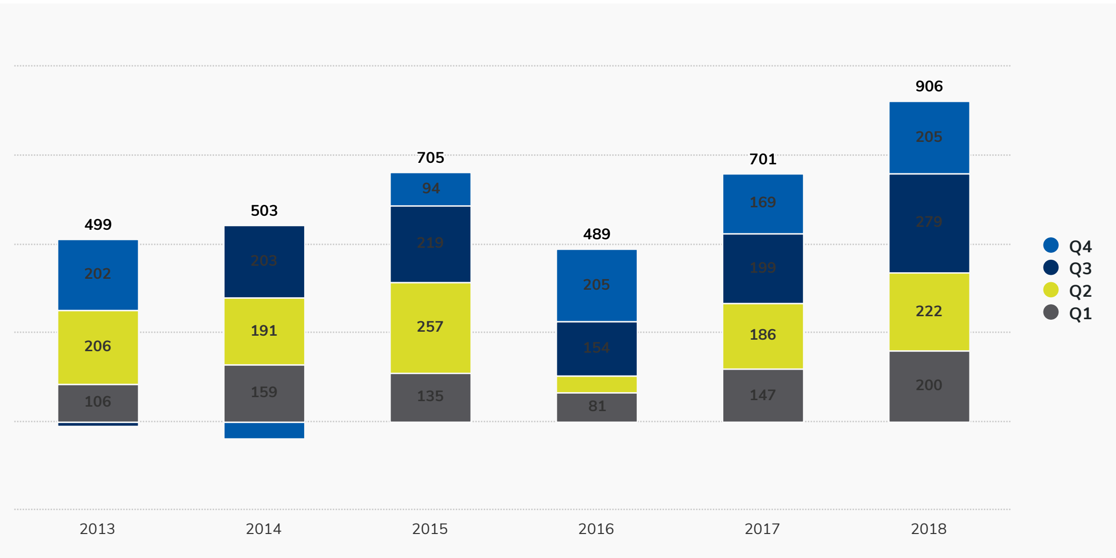
In 2018, the PKP CARGO Group generated the highest operating revenue since 2013

OPERATING REVENUE IN 2013-2018 (PLN BILLION)



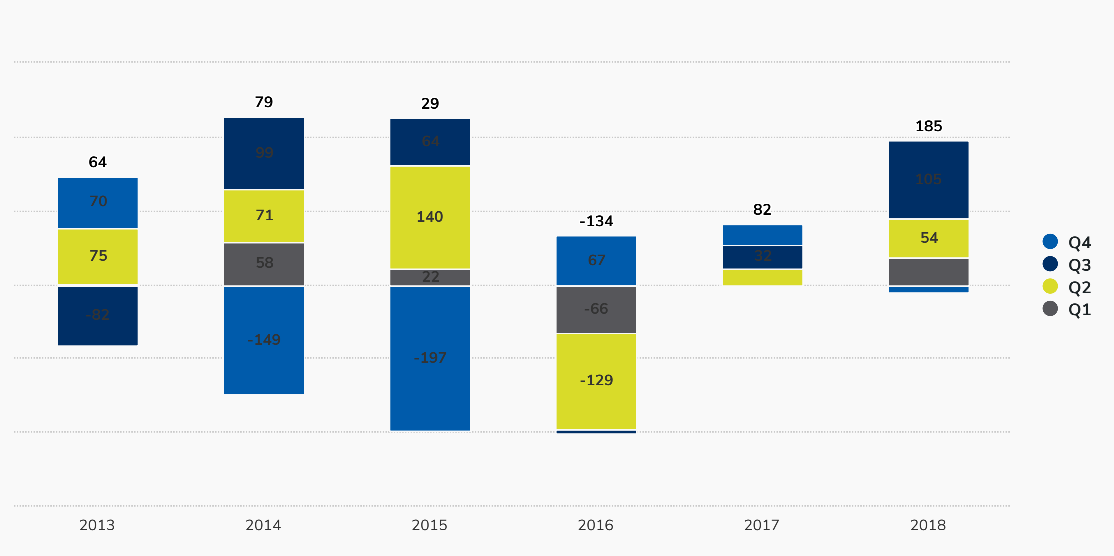
The PKP CARGO Group posted its highest EBITDA since going public

EBITDA OF THE PKP CARGO GROUP IN 2013-2018 (PLN MILLION)



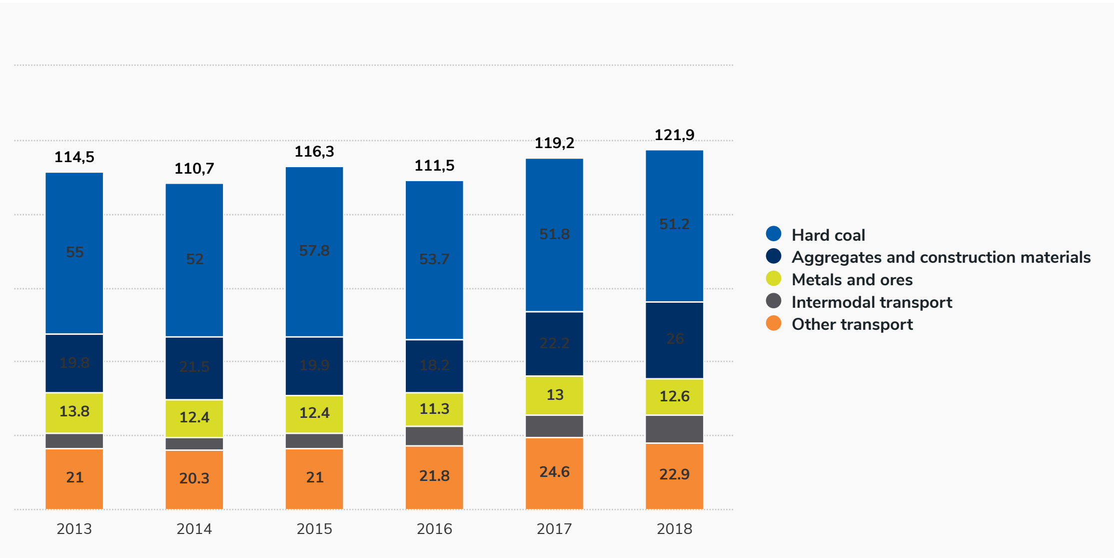
In 2018, the net result increased compared to 2017 by 125%

THE PKP CARGO GROUP'S NET RESULTS IN 2013-2018 (PLN MILLION)



Demand for aggregates and construction materials made the strongest contribution to transport growth

FREIGHT VOLUME IN THE PKP CARGO GROUP IN 2013-2018 (MILLION TONNES)



Key factors affecting the volume of transport in various cargo categories in 2018:

SOLID FUELS

- lower volume of coal exports – a result of a significant reduction in total export freight volumes and changes in the supply directions in overland exports;
- lower yoy production and sales of hard coal;
- increase in electricity generation in hard coal-fired commercial power plants;
- increase in hard coal imports;
- enactment of anti-smog legislation;
- copious track closures caused by renovation of major railway routes;
- decrease in the average commercial speed in Poland translating into an extended rolling stock circulation;
- increase in the price of steam coal and heating coal.

AGGREGATES AND CONSTRUCTION MATERIALS

- intensification of road construction projects in Poland under the National Road Construction Program;

- greater demand for transport of aggregates to concrete-mixing plants and bituminous mass production plants;
- execution of railway capital expenditure projects co-financed with European funds from the financial perspective for 2014-2020 as part of the National Railway Program;
- higher construction and assembly output in Poland, including the construction of civil and water engineering facilities;
- increase in the average haul of cargo as a result of changes in the structure of freight routes;
- limitations related to the capacity of rail lines.

METALS AND ORES

- the lower freight turnover is a result of the shorter average haul of cargo – a change in the structure of freight routes;
- decrease in freight volume caused by lower ore transport – lower imports of iron ore and lower volumes of slag from steel mills;
- overhaul of the great furnace at Arcelor Mittal steel plant – lower demand for raw materials for production;
- decrease in the volume of transported metals – including lower volumes in export and transit carriage due to a weaker demand for steel (exports to Germany, Hungary and Turkey and in transit to the Czech Republic).

INTERMODAL TRANSPORT

- development of transit connections and handling of cargo connections on the China-Europe-China route within the framework of the “New Silk Road”;
- higher percentage of cargo that used to be transported in conventional ways and is now transported in containers (e.g. wood – in the form of timber shavings, timber chips, bituminous coal, automotive parts, paper);
- transport between seaports and terminals located in the country’s interior;
- increase in the number of trains operated on the Group’s own traction in Germany, the Czech Republic and Slovakia.

CHEMICALS

- higher quantum of transported hydrocarbons in imports from the East and exports to Bosnia, Hungary, Italy;
- decrease in the quantum of transported fertilizers in exports compensated by an increase in the transports in imports.

LIQUID FUELS

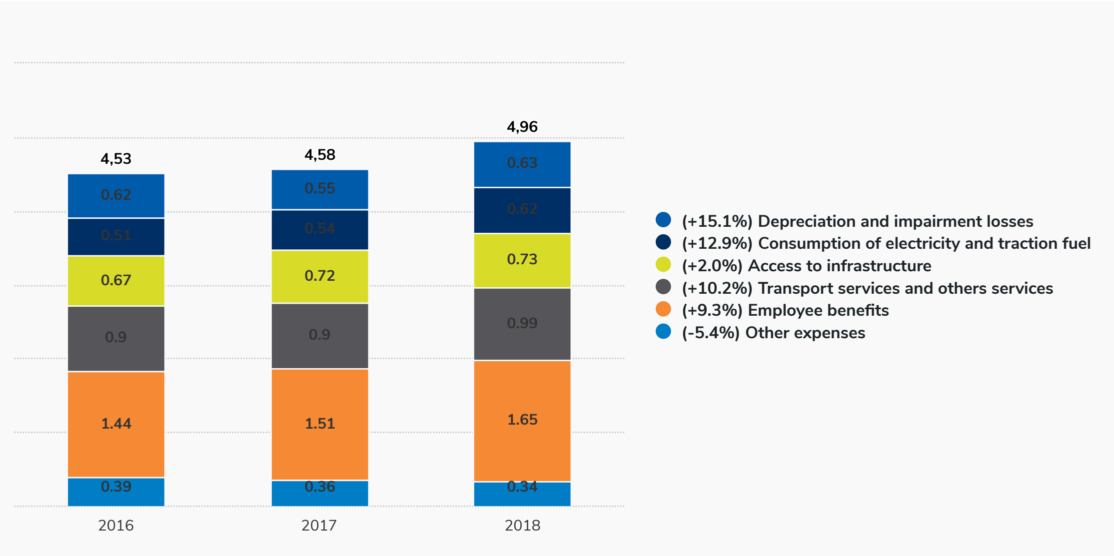
- takeover by competitive rail operators of a portion of transport orders from freight forwarders;
- distribution of biofuels by its producer in road tankers, bypassing rail transport;
- change in the supply logistics at the PKP CARGO Group’s largest client in this segment (due to changes resulting from the current demand and supply situation);
- reversal in Q4 2018 of the downward trend observed in previous quarters of 2018, resulting from an growth in demand for fuels on the domestic market.

TIMBER AND AGRICULTURAL PRODUCE

- dwindling imports from Belarus compensated by higher volumes in domestic transport and imports via seaports (shorter hauls);
- higher exports of timber from windbreaks to Romania, Slovakia and Hungary;
- lower transport volumes of agricultural products: significantly lower volumes of grain exports via seaports, absence of rape imports from Hungary, suspension of rail transport of maize in imports from Ukraine, completion of one of the contracts for transporting grain by the AWT Group.

Costs continue to be under control despite wage hikes and the impairment loss taken on rolling stock

OPERATING EXPENSES IN 2016-2018 (PLN BILLION)



Perspective for the future

On 26 November 2018, the Company's Supervisory Board approved the PKP CARGO Group's Strategy for 2019-2023.

The new PKP CARGO Group Strategy addresses the challenges and opportunities on the Polish and international markets. The Group does not intend to limit its role to a rail operator only: it will also increasingly provide comprehensive forwarding services.

The strategy defines the PKP CARGO Group's vision and mission for 2019-2023, including an outlook to 2038. This is the Group's key document setting out the directions for its development, but it is also an element of its integration.

| Opportunities

In five years' time, the PKP CARGO Group should become the leader on the Central and Eastern European market by becoming the No. 1 in the area of the Three Seas Initiative, i.e. in the pan-European north-south transport corridors. PKP CARGO also intends to achieve a dominating position on the New Silk Road routes within the European Union. In both cases, this is in terms of freight volume and freight turnover. The leading position that the Group wants to achieve by 2023 should be consolidated between 2023 and 2038.

PKP CARGO Group Goals

STRATEGIC OBJECTIVES

- Become number 1 in the area of the "Three Seas Initiative" and on the New Silk Road routes in the European Union measured by freight turnover and freight volume by 2023 and strengthen this position in 2023-2038.
- Gain 65% of the Polish rail freight market by 2023 measured by freight turnover.

SHORT-TERM OBJECTIVES

- Devise the most competitive offer for business partners on the New Silk Road in the European Union and in the area of the Three Seas Initiative.
- Grow operational efficiency measured by KPIs on an annual basis.
- Maintain a pace of growth in the share price that is higher than the WIG30's growth.
- Generate annual net profit equal to at least 5% of revenue starting from 2019 and at least 8% of revenue starting from 2023.

At the same time, PKP CARGO's share of the domestic market should also increase. At present, the Group controls less than 50% of rail transport in Poland in terms of freight turnover, while in 2023 this figure is expected to increase to 65%. Some of the growth will be driven by the Group's organic growth, but acquisitions will also be important. Acquisitions are also to be conducted on international markets, since this is the faster and easier way of implementing the Group's expansion program on Eurasian markets.