



# PKP CARGO GROUP 9M 2017

# AGENDA

Recap of quarterly results

Key achievements in 9M 2017

Commercial results

Financial results

Outlook



# PKP CARGO's performance in 9M 2017\*

– cost discipline along with growing revenue

	✓	✓	✓
	<b>MARKET SHARE</b>	<b>EBITDA</b>	<b>CAPITAL EXPENDITURES</b>
<b>9M</b>	<b>52.0%</b> measured by freight turnover (+0.6 p.p. yoy)	<b>PLN 531 million</b> +54% yoy profitability of 15.4%	<b>PLN 332 million</b> -22% yoy
<b>Q3</b>	<b>50.9%</b> measured by freight turnover (-1.0 p.p. yoy)	<b>PLN 199 million</b> +29% yoy profitability of 16.7%	<b>PLN 131 million</b> -18% yoy
	<b>OPERATING REVENUE</b>	<b>NET RESULT</b>	<b>OPERATING EXPENSES</b>
<b>9M</b>	<b>PLN 3,460 million</b> +7.7% yoy	<b>PLN 52 million</b> PLN +169 million yoy	<b>PLN 3,358 million</b> +1.6% yoy
<b>Q3</b>	<b>PLN 1,193 million</b> +9.4% yoy	<b>PLN 32 million</b> PLN +88 million yoy	<b>PLN 1,136 million</b> +4.9% yoy

\* Adjusted performance in 9M 2016 in accordance with item 5.1 of the Additional Information to the Consolidated Quarterly Report for Q3 2017

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## Challenges in the operational area

– response to growing market needs

9M 2017

### ROLLING STOCK SITUATION STABILIZED

- ▶ Priority for freight trains
- ▶ Resumption of operations by the Rolling Stock Maintenance Unit in Jasło
- ▶ Launch of a modern technological line in Karsznice
- ▶ Further optimization of transport logistics

# AGENDA

- || Recap of quarterly results
- || Key achievements in 9M 2017
- || Commercial results

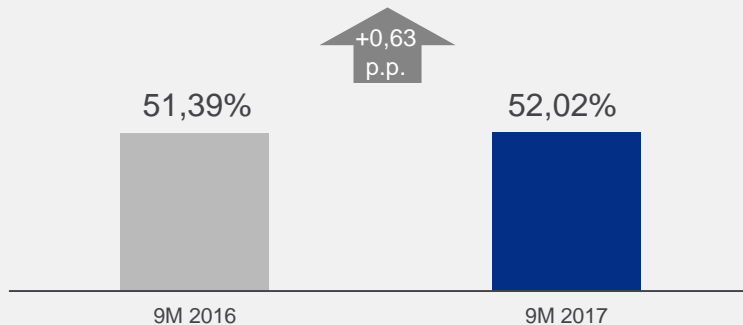
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- || Financial results
- || Outlook

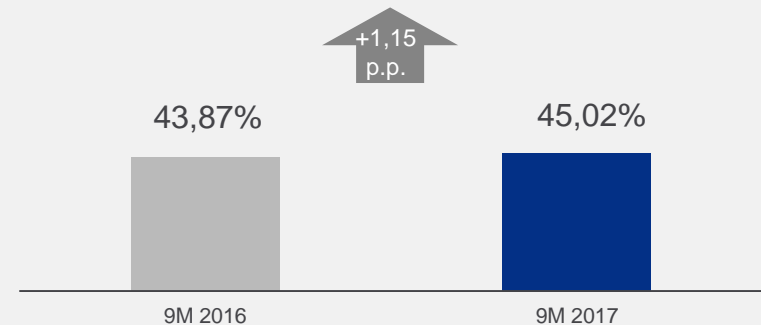
# Position of the PKP CARGO Group

## – strengthening the leading market position

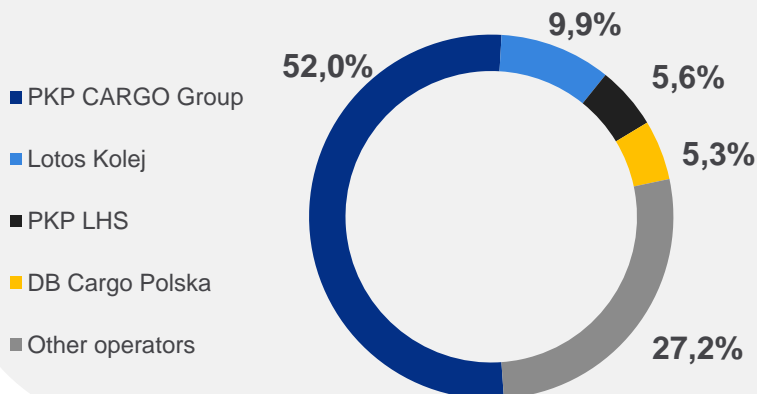
**PKP CARGO Group's share of the Polish market**  
measured by freight turnover data for 9M 2017



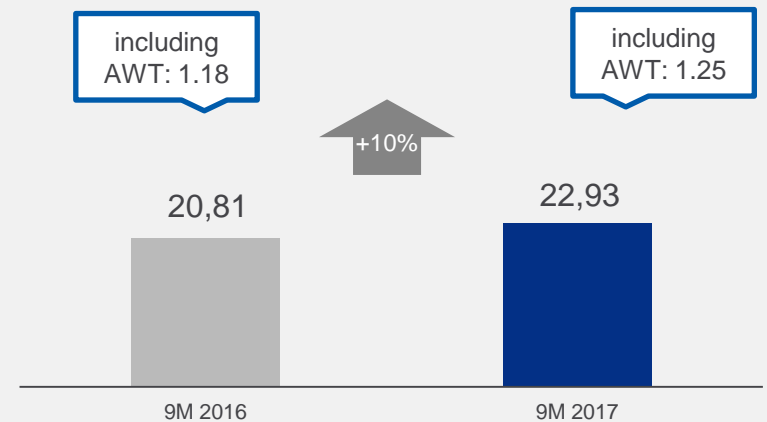
**PKP CARGO Group's share of the Polish market**  
measured by freight volume data for 9M 2017



**PKP CARGO Group's share of the Polish market**  
measured by freight turnover data for 9M 2017



**PKP CARGO Group's freight transport**  
by freight turnover, billion tkm



# Positive developments on major markets

– diversification of transport services

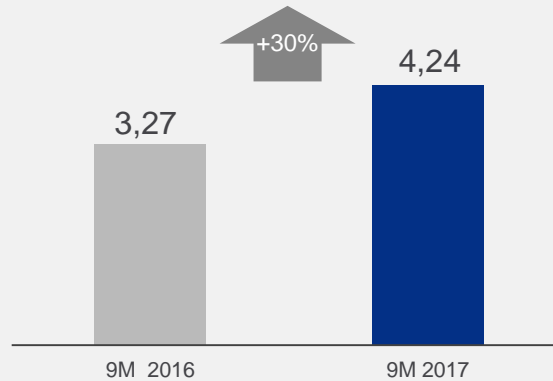
## Intermodal

freight turnover, billion tkm



## Aggregates and construction materials

freight turnover, billion tkm



## Metals and ores

freight turnover, billion tkm



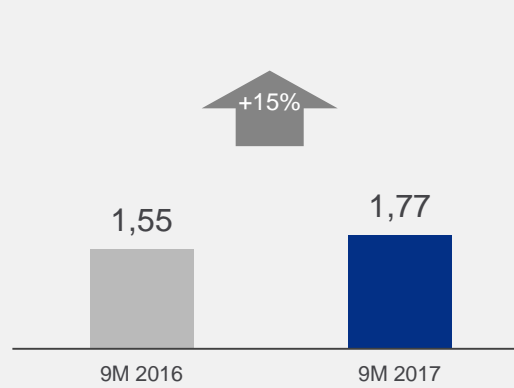
## Liquid fuels

freight turnover, billion tkm



## Chemicals

freight turnover, billion tkm



## Solid fuels\*

freight turnover, billion tkm

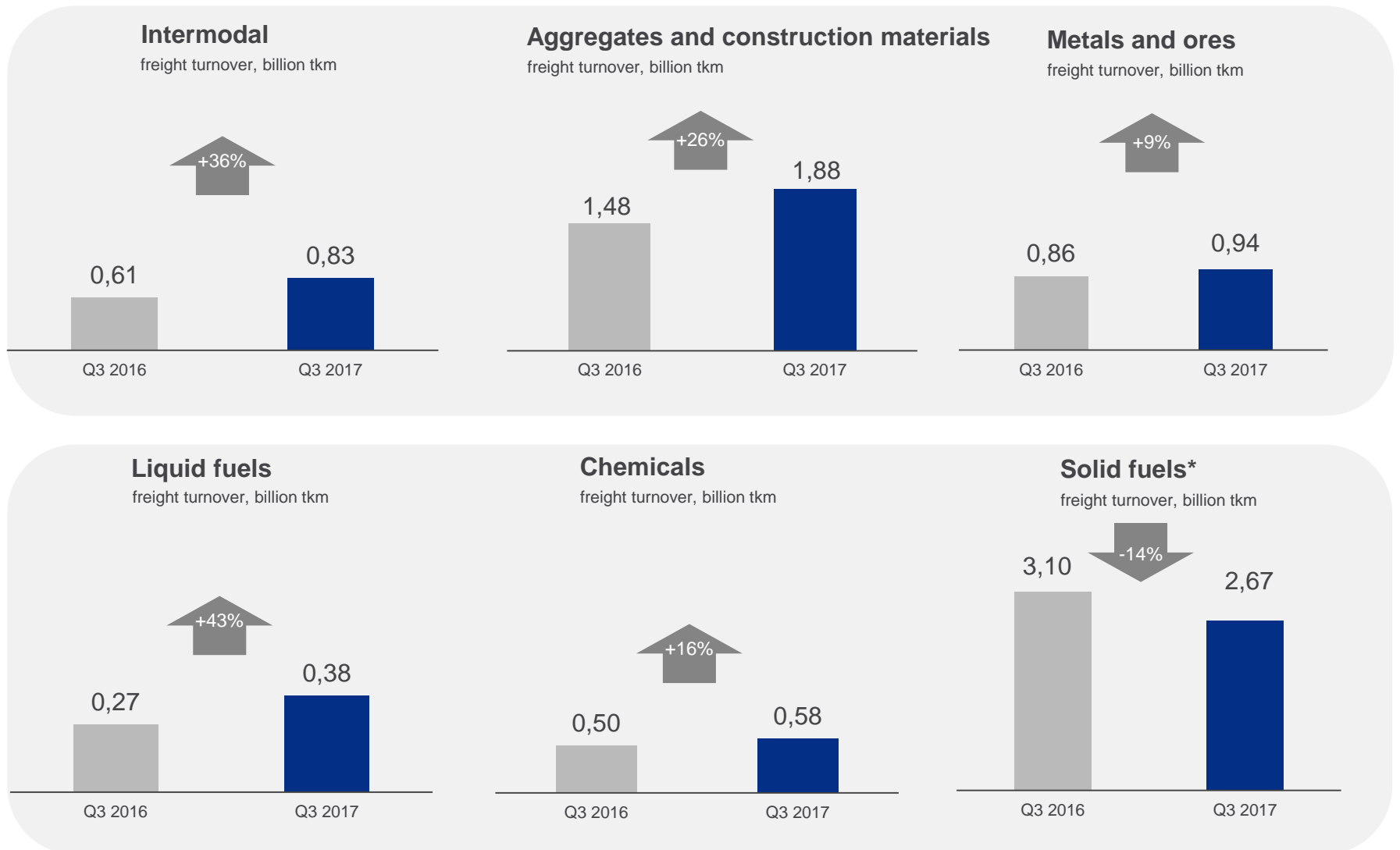


\* hard coal, coke, lignite



# Positive developments on major markets

– diversification of transport services



\* hard coal, coke, lignite

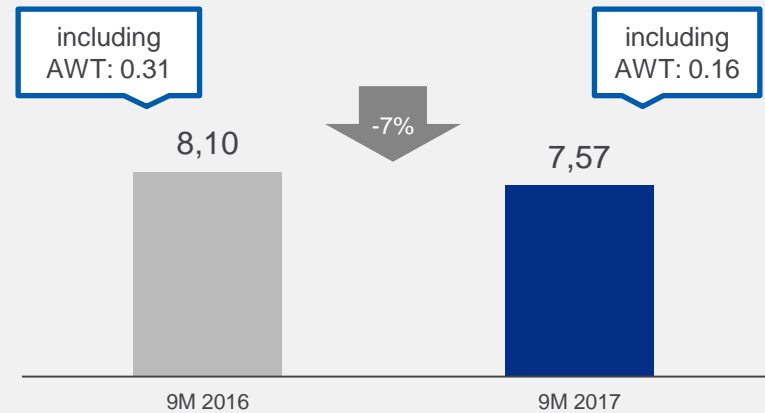
# Hard coal – lower output

## Key events in 9M 2017

- ▶ Hard coal output down 3.1 million tons (-6.0% yoy), hard coal sales down (-9.0% yoy) coupled with inventories down by 1.2 million tons (-36,4% yoy)
- ▶ Transport in Poland measured by freight volume up 4% yoy despite maintaining electricity generation in hard coal-fired commercial power plants at the previous year's level (up 0.02% yoy)
- ▶ Decrease in export carriage from Poland by 18% yoy and increase in import carriage to Poland by 39% yoy
- ▶ Increase in ARA coal prices (up 23% yoy to USD 88.06 per ton at the end of September 2017)

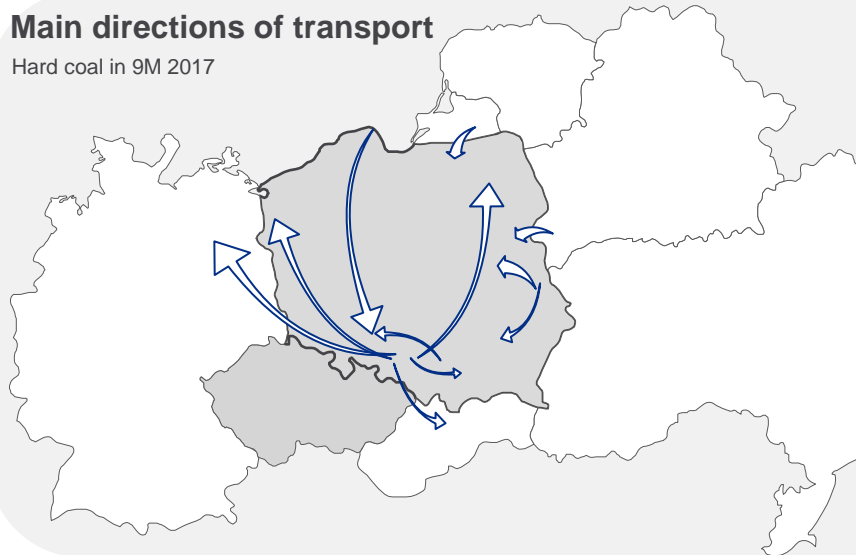
## Hard coal

freight turnover, billion tkm



## Main directions of transport

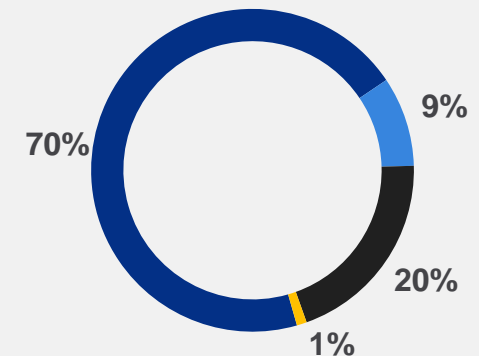
Hard coal in 9M 2017



## PKP CARGO Group's freight turnover mix in Poland

by types of transportation (freight turnover) in 9M 2017

- Domestic transports
- Exports
- Imports
- Transit

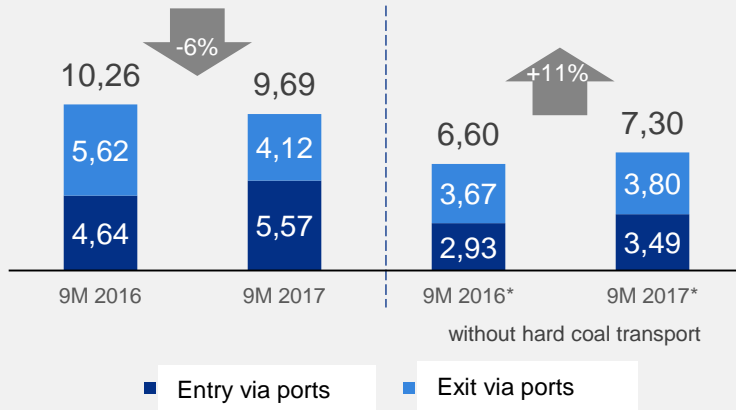


# PKP CARGO Group's freight transport via Polish ports – growing significance of intermodal transport



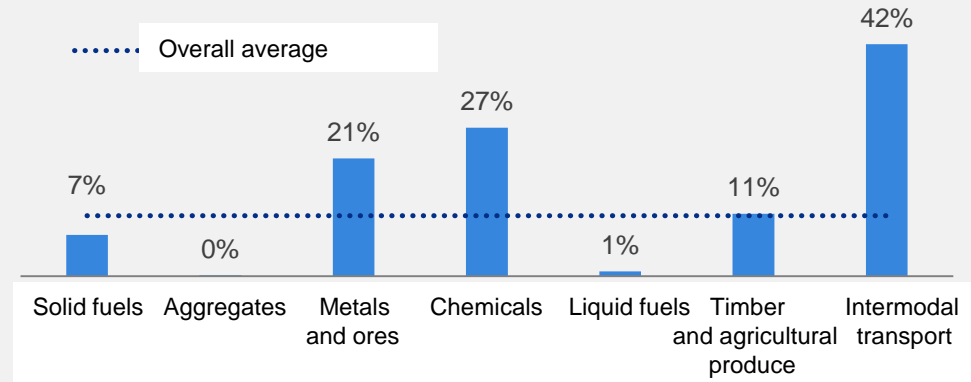
## Freight transport via Polish ports

million tons



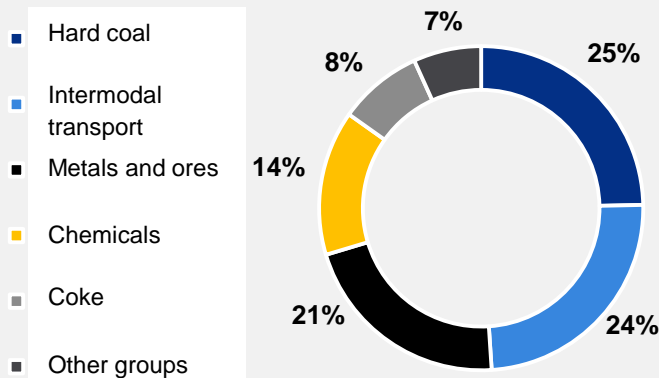
## Share of freight transport via Polish ports

in the PKP CARGO Group's freight transport in 9M 2017 by freight volume



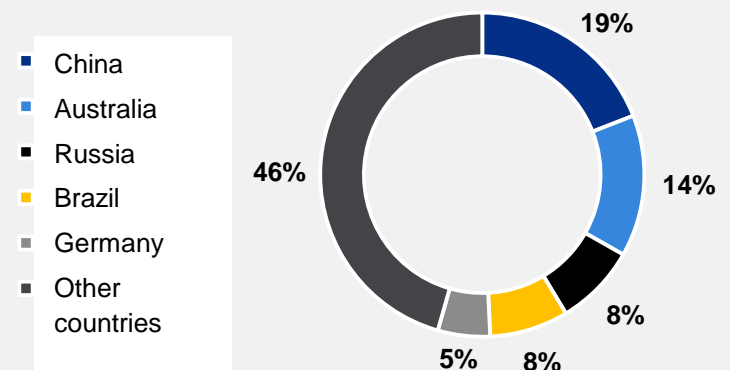
## Structure of the PKP CARGO Group's freight transport via Polish ports by cargo category

data for 9M 2017 by freight volume, entry and exit through the ports



## Freight transport via Polish ports

Freight volume



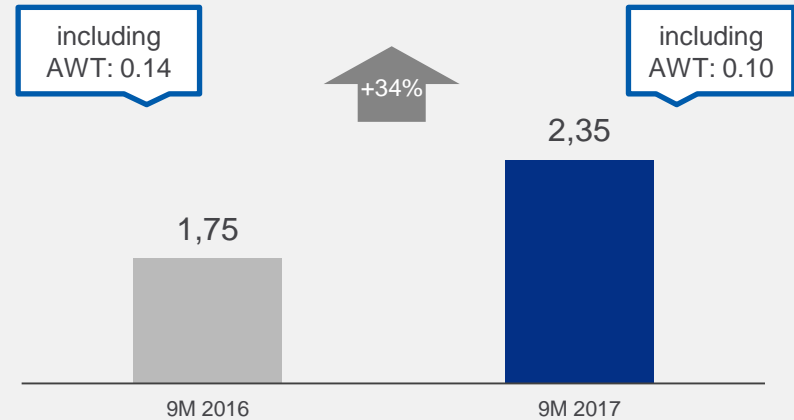
# Intermodal – rapid growth of a promising market

## Key events in 9M 2017

- ▶ Rapid development of the New Silk Road. Higher land transport from/to China by 88% yoy measured by container volume
- ▶ The share of land transport from/to China accounts for 22% of container shipments from/to this country (14% in 9M 2016)
- ▶ The volume of containers transported by PKP CARGO to/from Polish ports increased 10.2% yoy (coupled with an increase in container transshipments in the ports by 6.9% yoy) due to Chinese export recovery
- ▶ Rising transport in Poland – freight volume of containers climbed 26% yoy and freight turnover shot up 33% yoy
- ▶ Rising transport outside Poland – freight volume of containers climbed 36% yoy and freight turnover edged up 40% yoy

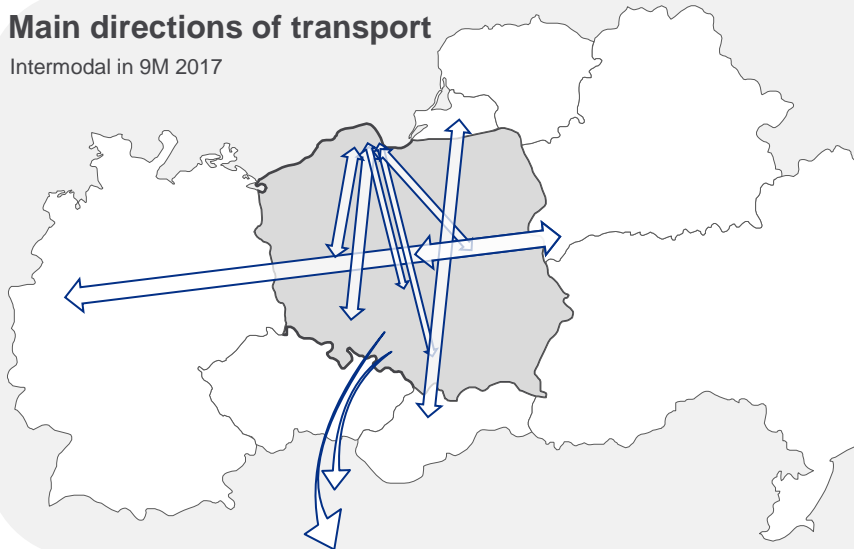
## Intermodal

freight turnover, billion tkm



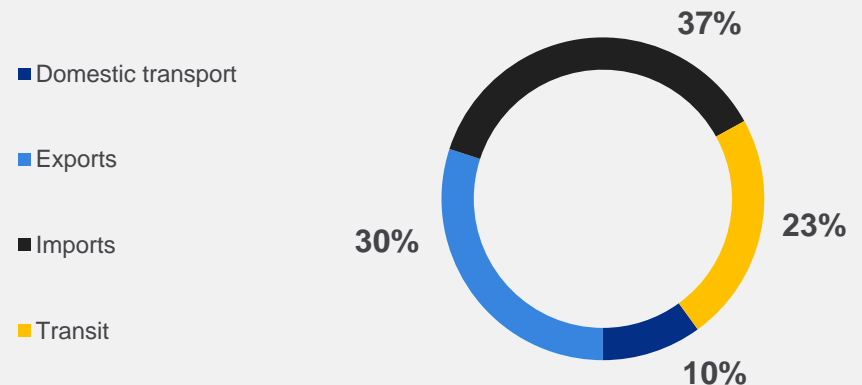
## Main directions of transport

Intermodal in 9M 2017



## PKP CARGO Group's freight turnover mix in Poland

by types of transportation (freight turnover) in 9M 2017



# Aggregates and construction materials

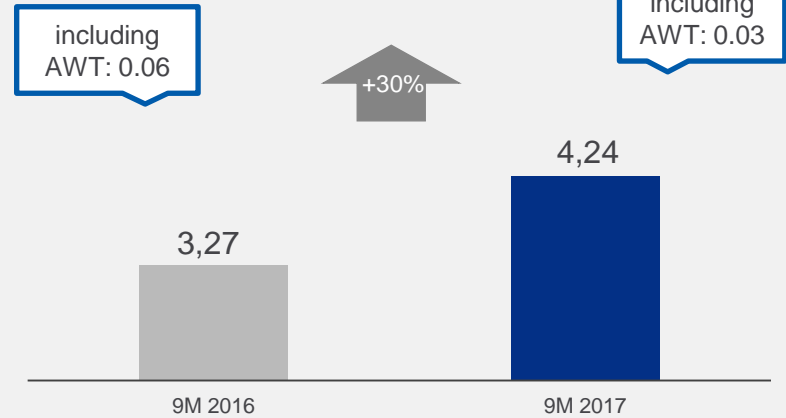
– robust growth in a difficult market

## Key events in 9M 2017

- ▶ The lift of the financial cap for the National Road Building Program in 2014-2020 (with an outlook to 2025) from PLN 107 billion to PLN 135 billion will enable the construction of new sections of the A2 motorway and the S17 and S19 highways (Via Carpathia)
- ▶ Construction and assembly output up 13.4% yoy (19.9% yoy in Q3 2017) and in companies specializing in building civil and marine engineering facilities up 22.2% yoy (28.0% in Q3 2017); output was higher in companies mainly building roads and railways (37.3% growth yoy)
- ▶ More than 380 km of new roads to be commissioned in 2017, including sections of the S3, S5, S7 and S8 highways and ring roads in the following cities: Jarocin, Ostróda, Gorzów Wlkp., Marki and Kościerzyna

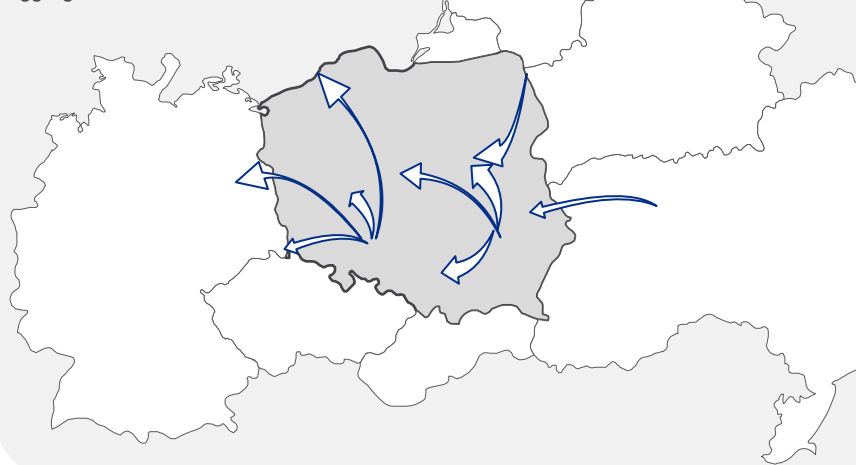
## Aggregates and construction materials

freight turnover, billion tkm



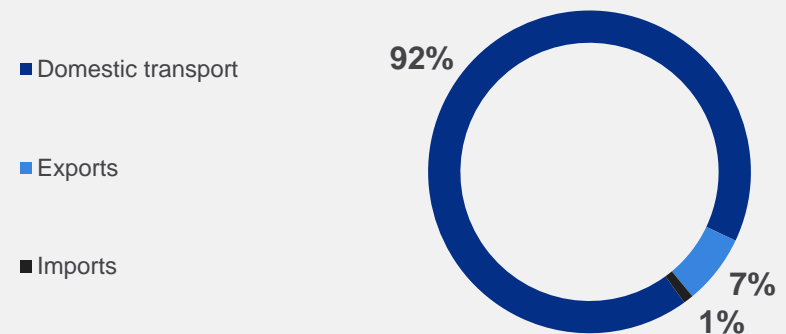
## Main directions of transport

Aggregates and construction materials in 9M 2017



## PKP CARGO Group's freight turnover mix in Poland

by types of transportation (freight turnover) in 9M 2017



# Metals and ores

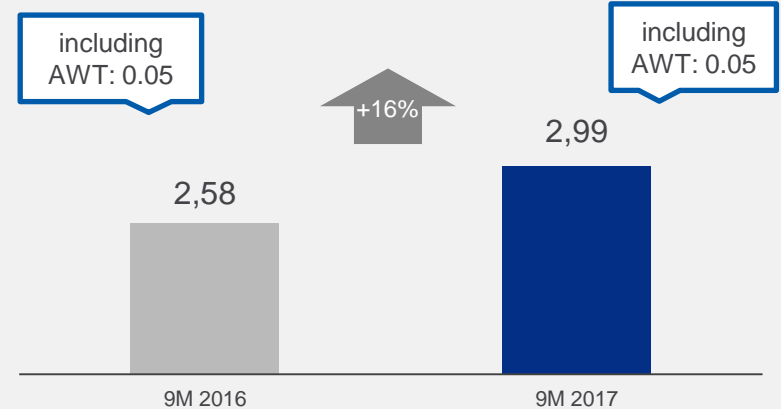
– favorable economic situation

## Key events in 9M 2017

- ▶ Higher steel production: up 18.9% yoy (7.8 million tons) in Poland, up 4.1% yoy (126.4 million tons) in the EU and up 5.6% (1,267 million tons) across the globe
- ▶ Global iron ore production up 1.3% yoy (892 million tons)
- ▶ Industrial sold production trended up in the production of metals (10.9% yoy) and in the production of metal goods (9.7% yoy)
- ▶ Higher prices of iron ore, scrap metal and steel due to stronger market demand

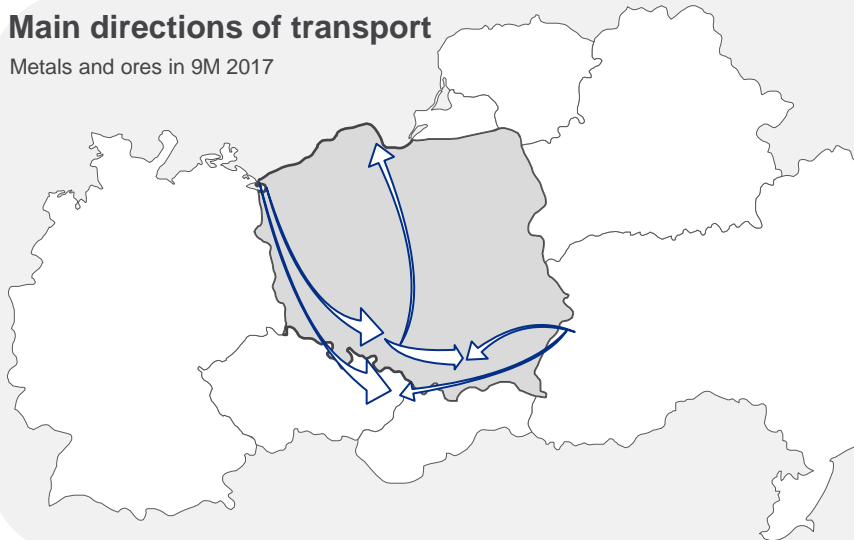
## Metals and ores

freight turnover, billion tkm



## Main directions of transport

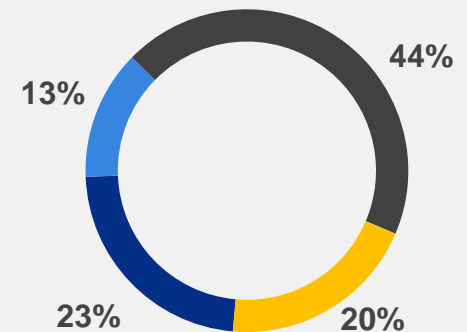
Metals and ores in 9M 2017



## PKP CARGO Group's freight turnover mix in Poland

by types of transportation (freight turnover) in 9M 2017

- Domestic transport
- Exports
- Imports
- Transit



# AGENDA

- || Recap of quarterly results
- || Key achievements in 9M 2017
- || Commercial results
- || Financial results

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- || Outlook

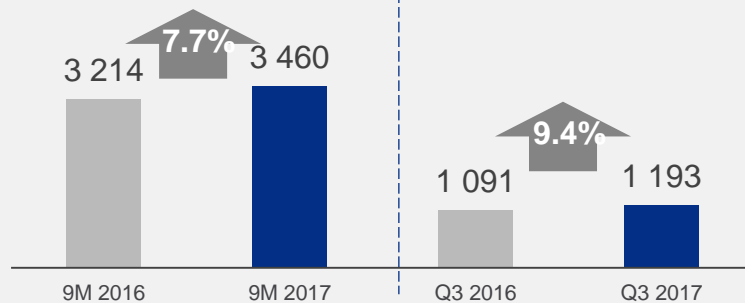


# Building the Group's value\*

– strong financial performance

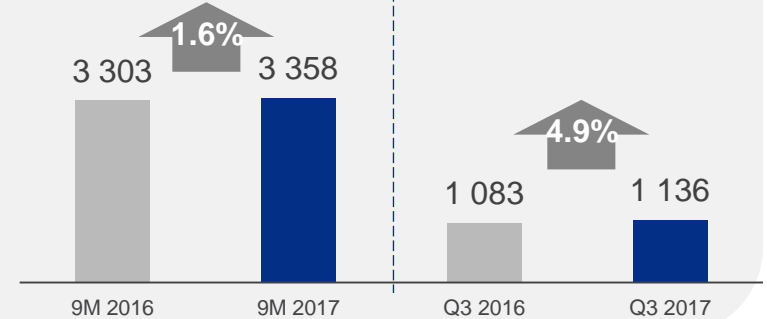
## Operating revenue

PLN million



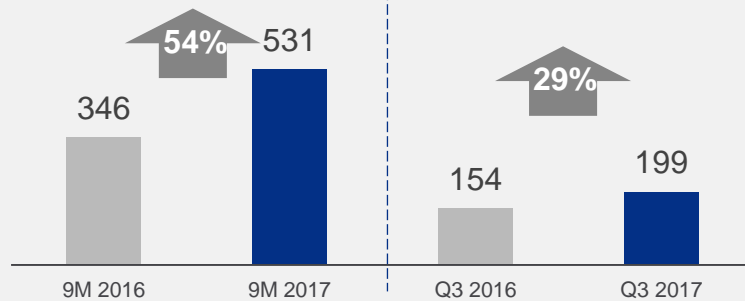
## Operating expenses

PLN million



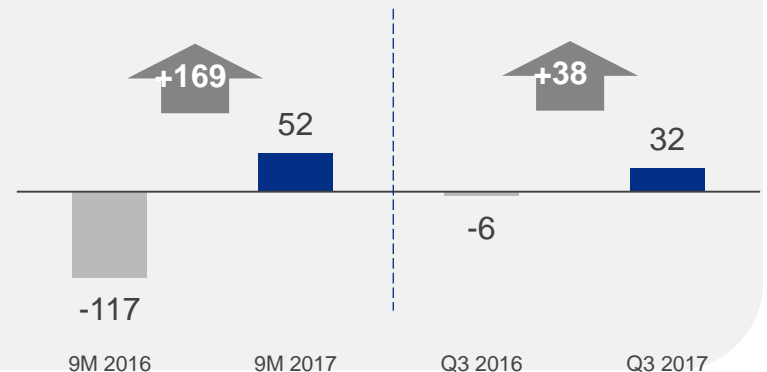
## EBITDA

PLN million



## Net result

PLN million



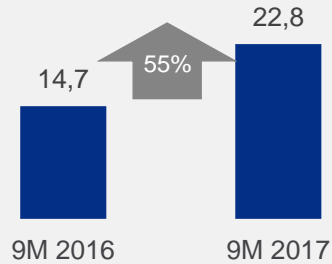
\* Adjusted performance in 9M 2016 in accordance with item 5.1 of the Additional Information to the Consolidated Quarterly Report for Q3 2017



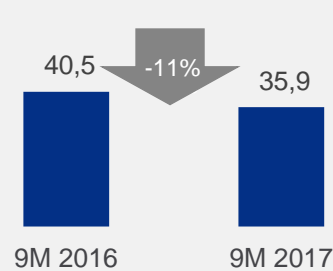
# Steadfast cost discipline

– improved ratios

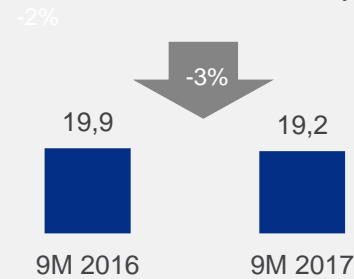
EBITDA per employee  
(000s PLN/employee)



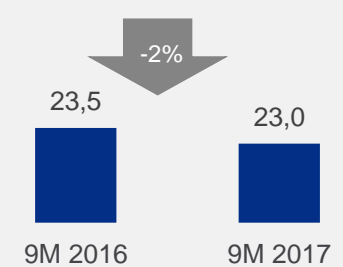
Remuneration  
(PLN/thousand tkm)



Energy and fuel  
(PLN/thousand tkm)

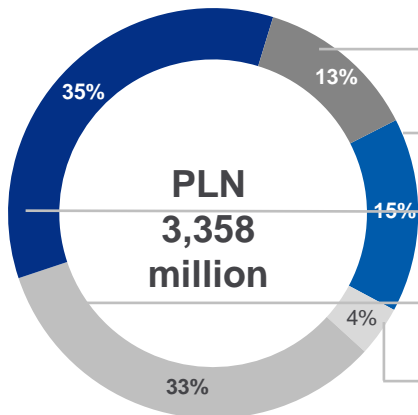


Access to infrastructure  
(PLN/thousand tkm)



## Operating expenses

PLN million



	9M 2016	9M 2017	Change	Percentage change
Amortization and depreciation	436	429	-7	-2%
Materials and energy	492	514	22	4%
External services	1,157	1,170	13	1%
Employee benefits	1,106	1,111	5	1%
Other	112	133	21	19%
<b>Total</b>	<b>3,303</b>	<b>3,358</b>	<b>55</b>	<b>2%</b>

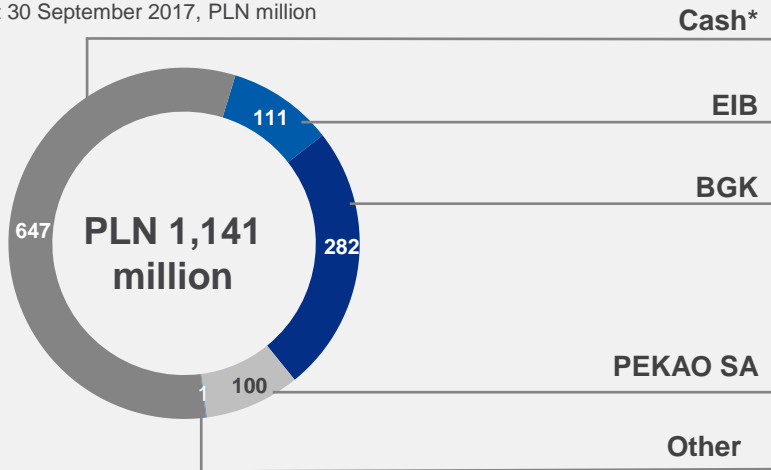
\* Adjusted performance in 9M 2016 in accordance with item 5.1 of the Additional Information to the Consolidated Quarterly Report for Q3 2017

# Increasing cash flow on operating activity

## – safe financing structure

### Available funding sources

as at 30 September 2017, PLN million



### Debt structure

PLN million

	31 Dec 2016	30 Sep 2017
Long-term	1,416	1,206
Short-term	376	382
<b>Total debt</b>	<b>1,792</b>	<b>1,588</b>

### Financial ratios \*\*

Ratio	9M 2016	9M 2017
NET DEBT / EBITDA	2.7	1.3
ROA	-2.8%	2.0%
ROE	-5.3%	3.8%

### Cash flow

PLN million

Cash flow	9M 2016	9M 2017	Change
Operational	132	458	+326
On investing activity	-427	-607	-180
On financing activity	184	-219	-403

\* Cash and cash equivalents, deposits above 3 months

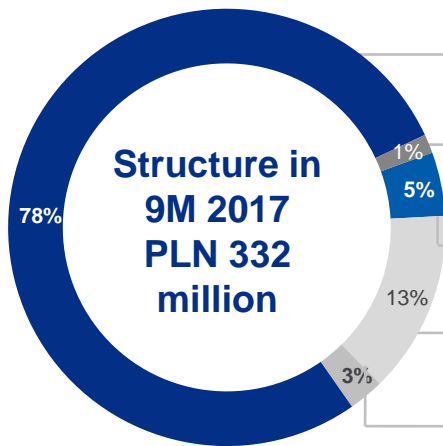
\*\* Financial ratios computed using adjusted data according to table 33 in Additional Information to the Consolidated Quarterly Report for Q3 2017

# Capital expenditures in 9M 2017

– in line with market needs

## Capital expenditures

PLN million



Periodic repairs of rolling stock

ICT development

Investment construction activity

Purchase and modernization of locomotives and wagons\*

Other

Total

	Group PKP CARGO 9M 2016	Group PKP CARGO 9M 2017	Change yoy	Change % yoy
Periodic repairs of rolling stock	185	258	73	40%
ICT development	10	5	-5	-56%
Investment construction activity	8	16	8	93%
Purchase and modernization of locomotives and wagons*	216	45	-171	-79%
Other	8	9	1	4%
<b>Total</b>	<b>428</b>	<b>332</b>	<b>-96</b>	<b>-22%</b>

### Wagons



### Locomotives



\* In 9M 2016 multi-system locomotives were bought for PLN 200.0 million

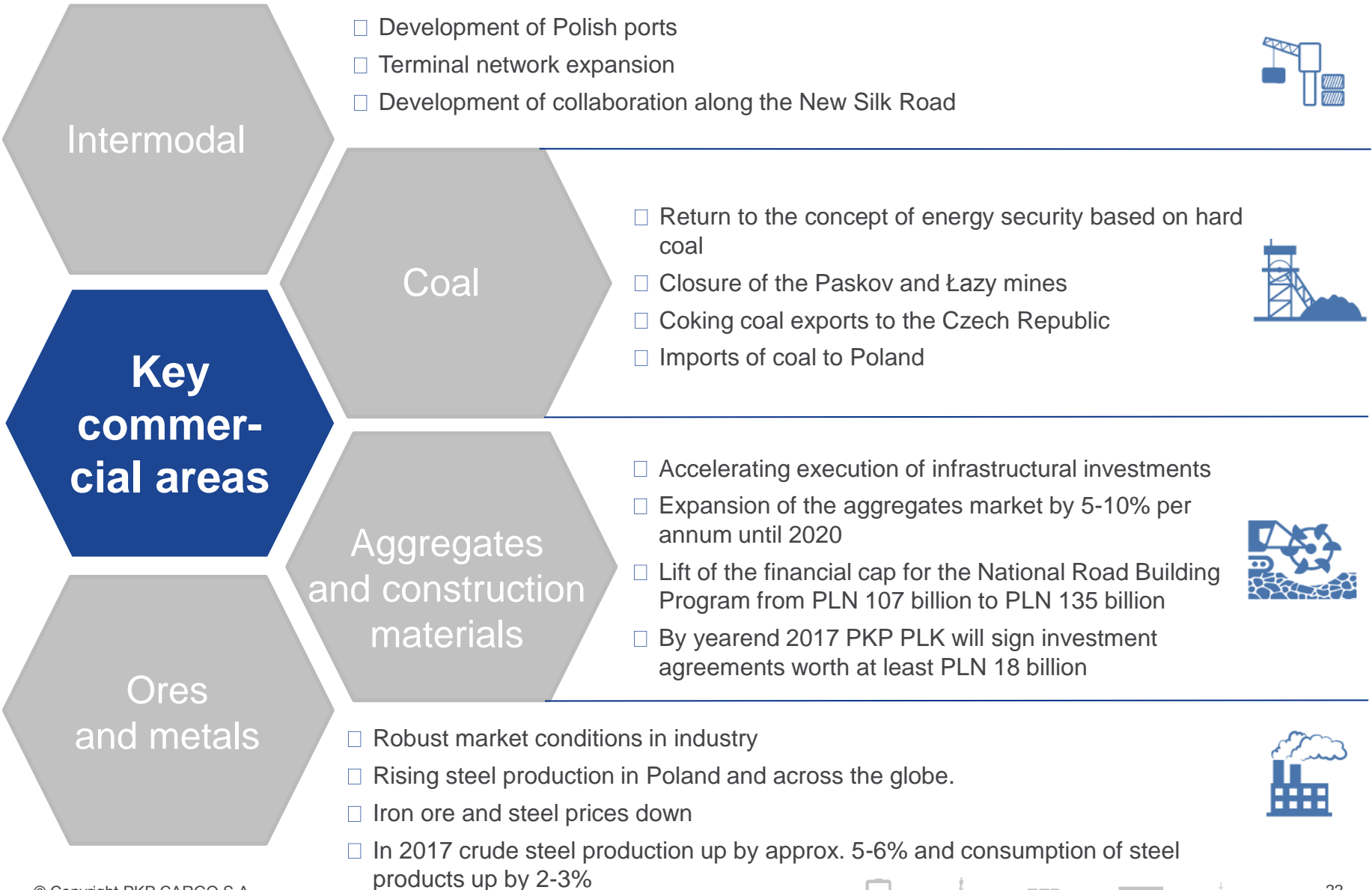
# AGENDA

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- 



# Outlook: key commercial areas

– potential for higher transport volumes



# Attachments



# Consolidated Statement of Comprehensive Income



PLN million	9M 2017	9M 2016	% change
Revenue from sales of services	3,402	3,166	7%
Revenue from sales of goods and materials	29	22	31%
Other operating revenue	29	25	13%
<b>Total operating revenue</b>	<b>3,460</b>	<b>3,214</b>	<b>8%</b>
Depreciation and amortization and impairment losses	429	470	-9%
Consumption of materials and energy, including:	514	492	4%
<i>Fuel consumption</i>	135	114	19%
<i>Consumption of electricity, gas and water</i>	305	300	2%
External services, including:	1,170	1,157	1%
<i>Line access services from infrastructure managers</i>	529	489	8%
Taxes and charges	30	29	3%
Employee benefits	1,111	1,106	1%
Other expenses by kind	41	39	6%
Cost of merchandise and materials sold	21	17	20%
Other operating expenses	41	88	-54%
<b>Operating expenses</b>	<b>3,358</b>	<b>3,400</b>	<b>-1%</b>
<b>EBITDA</b>	<b>531</b>	<b>284</b>	<b>87%</b>
<b>Profit on operating activities</b>	<b>102</b>	<b>-186</b>	<b>-</b>
Financial revenue	15	1	1399%
Financial expenses	45	47	-5%
Share in the profit of entities measured by the equity method	1	3	-45%
Result on the sale of shares in entities measured by the equity method	-	-	-
<b>Profit before tax</b>	<b>74</b>	<b>-230</b>	<b>-</b>
Income tax	22	-29	-
<b>Net profit</b>	<b>52</b>	<b>-201</b>	<b>-</b>
Net profit (loss) attributable:			
to shareholders of the parent company	52	-201	-
<b>Other comprehensive income</b>			
<b>Other comprehensive income subject to reclassification in the financial result:</b>	<b>17</b>	<b>14</b>	<b>22%</b>
Effective portion of profits and losses related to a hedging instrument to hedge cash flow	11	5	134%
Income tax referring to the other comprehensive income line item	-2	-1	134%
Exchange differences resulting from conversion of financial statements of foreign operations	8	10	-18%
<b>Other comprehensive income not subject to reclassification in the financial result:</b>	<b>-20</b>	<b>-</b>	<b>-</b>
Actuarial profit/loss on defined-benefit employee plans after the employment period	-25	-	-
Income tax referring to the other comprehensive income line item	5	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>-3</b>	<b>14</b>	<b>-</b>

# Consolidated Statement of Financial Position



ASSETS [PLN million]	As at 30 September 2017	As at 31 December 2016
Property, plant and equipment	4,607	4,701
Intangible assets	44	56
Investment property	1	1
Investments in entities accounted for under the equity method	54	58
Trade and other receivables	2	2
Other long-term financial assets	9	9
Other long-term non-financial assets	30	26
Deferred income tax assets	142	108
<b>Total non-current assets</b>	<b>4,889</b>	<b>4,960</b>
Inventory	134	121
Trade and other receivables	697	640
Income tax receivables	1	3
Other short-term financial assets	263	1
Other short-term non-financial assets	27	27
Cash and cash equivalents	389	756
<b>Total current assets</b>	<b>1,512</b>	<b>1,548</b>
<b>Total assets</b>	<b>6,401</b>	<b>6,508</b>



# Consolidated Statement of Financial Position

<b>EQUITY AND LIABILITIES [PLN million]</b>	<b>As at 30 September 2017</b>	<b>As at 31 December 2016</b>
Share capital	2,239	2,239
Supplementary capital	618	619
Other items of equity	0	11
Exchange differences resulting from conversion of financial statements of foreign operations	69	60
Retained earnings	383	330
<b>Equity</b>	<b>3,309</b>	<b>3,260</b>
Long-term bank loans and borrowings	1,105	1,274
Long-term finance lease liabilities and leases with a purchase option	101	141
Non-current trade and other payables	1	2
Long-term provisions for employee benefits	549	526
Other long-term provisions	24	26
Other non-current financial liabilities	0	1
Deferred tax liability	109	107
<b>Non-current liabilities</b>	<b>1,889</b>	<b>2,076</b>
Short-term bank loans and borrowings	216	198
Short-term finance lease liabilities and leases with a purchase option	49	60
Short-term trade and other payables	630	670
Short-term provisions for employee benefits	115	99
Other short-term provisions	60	25
Other short-term financial liabilities	117	119
Current tax liabilities	17	1
<b>Current liabilities</b>	<b>1,203</b>	<b>1,172</b>
<b>Total liabilities</b>	<b>3,092</b>	<b>3,248</b>
<b>Total liabilities and equity</b>	<b>6,401</b>	<b>6,508</b>

# Consolidated Cash Flow Statement

Cash flow from operating activities [PLN million]	9M 2017	9M 2016
<b>Gross result for the financial year</b>	74	-230
<b>Adjustments:</b>		
Depreciation of property, plant and equipment and amortization of intangible assets	429	435
Impairment of non-current assets	0	35
(Profit) / loss on the sale and liquidation of property, plant and equipment, intangible assets and non-current assets held for sale	-5	0
Foreign exchange (gains) / losses	-3	-1
(Profits) / losses on interest, dividends	19	-23
Share in the (profit) / loss of entities measured by the equity method	-1	-3
Received / (paid) interest	1	-1
Received / (paid) income tax	-36	-5
Other adjustments	-19	5
<b>Change in working capital:</b>		
(Increase) / decrease in trade and other receivables	-55	11
(Increase) / decrease in inventories	-1	5
(Increase) / decrease in other assets	-3	-12
Increase / (decrease) in trade and other payables	-8	-127
Increase / (decrease) in other financial liabilities	-6	3
Increase / (decrease) in provisions	72	-7
<b>Net cash on operating activities</b>	<b>458</b>	<b>87</b>

# Consolidated Cash Flow Statement

Cash flow from investing activities [PLN million]	9M 2017	9M 2017
Expenditures to acquire property, plant and equipment and intangible assets	-368	-438
Proceeds on the transfer of property, plant and equipment, intangible assets and non-current assets held for sale	8	8
Expenditures to acquire other financial assets	0	0
Proceeds from interest received	6	1
Proceeds from dividends received	3	2
Expenditures on extended loans	0	0
(Expenditures) / proceeds on bank term deposits longer than 3 months	-257	1
<b>Net cash (used) / from investing activities</b>	<b>-607</b>	<b>-427</b>
Expenditures on financial leases	-47	-48
Interest paid on leases	-5	-7
Proceeds from drawn down loans / credit facilities	51	468
Repayment of loans/ credit facilities	-194	-219
Interest paid on loans / credit facilities	-22	-13
Subsidies received	0	0
Other expenditures concerning financing activities	-2	-3
<b>Net cash (used) / generated in connection with financing activities</b>	<b>-219</b>	<b>178</b>
Net increase / (decrease) in cash and cash equivalents	-368	-111
Cash and cash equivalents at the beginning of the reporting period	756	276
Impact exerted by FX rate movements on the cash balance in foreign currencies	1	2
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>389</b>	<b>116</b>

Minor differences in the presented data stem from rounding.

# Freight results

## Freight turnover (million tkm)

	9M 2017	9M 2016	Change	% change	Share in 9M 2016	Share in 9M 2017
solid fuels	8,592	9,202	-611	-7%	37%	44%
including hard coal	7,566	8,099	-533	-7%	33%	39%
aggregates and construction materials	4,238	3,268	970	30%	18%	16%
metals and ores	2,990	2,582	408	16%	13%	12%
chemicals	1,773	1,548	225	15%	8%	7%
liquid fuels	1,030	819	211	26%	4%	4%
timber and agricultural produce	1,257	1,064	194	18%	5%	5%
intermodal transport	2,347	1,753	594	34%	10%	8%
other	708	578	130	22%	3%	3%
<b>Total</b>	<b>22,935</b>	<b>20,814</b>	<b>2,121</b>	<b>10%</b>	<b>100%</b>	<b>100%</b>

## Freight volume (thousands of tons)

	9M 2017	9M 2016	Change	% change	Share in 9M 2016	Share in 9M 2017
solid fuels	42,884	43,691	-806	-2%	49%	54%
including hard coal	38,532	39,170	-639	-2%	44%	48%
aggregates and construction materials	15,908	12,709	3,199	25%	18%	16%
metals and ores	9,704	8,278	1,426	17%	11%	10%
chemicals	5,197	4,692	505	11%	6%	6%
liquid fuels	3,582	2,199	1,384	63%	4%	3%
timber and agricultural produce	3,193	3,123	69	2%	4%	4%
intermodal transport	5,587	4,620	968	21%	6%	6%
other	2,000	1,577	423	27%	2%	2%
<b>Total</b>	<b>88,055</b>	<b>80,888</b>	<b>7,167</b>	<b>9%</b>	<b>100%</b>	<b>100%</b>



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