

Execution of a significant agreement with NEWAG S.A. to modernize diesel engine locomotives as part of the strategy to increase market share

Current Report no. 9/2018 of 4 April 2018

Legal basis (selected in ESPI):

Article 17 Section 1 of MAR – confidential information.

The Management Board of PKP CARGO S.A. (“Company”, “PKP CARGO”) hereby reports that on 4 April 2018 it signed an agreement with NEWAG S.A. (“NEWAG”) with its registered office in Nowy Sącz; ul. Wyspiańskiego 3, to modernize 60 SM48 diesel engine locomotives in the period from October 2018 to May 2021 (“Agreement”).

The subject matter of the Agreement includes: (i) comprehensive modernization of 60 SM48 series locomotives upgrading them to the new ST48 series, by building a new modular technology bodywork, replacing the power generator, braking equipment as well as auxiliary machinery and equipment. As part of the modernization, the locomotives will also be equipped with a contemporary control system and a new, ergonomic driver’s cab, (ii) delivery of software and licenses required to operate the locomotive, (iii) delivery of a set of specialized tools for diagnosing and repairing the combustion engine, (iv) purchase of an “emergency” set, i.e. spare parts and sub-assemblies required for quick emergency repairs, (v) performance of maintenance and repair activities on the combustion engine (inspections) during the quality warranty period granted for the modernized locomotives and guaranteeing high technical availability ratios.

The modernization schedule assumes that a total of 60 locomotives will be modernized, of which: (i) 20 units in Q4 2018; (ii) 20 units in 2019; (iii) 10 units in 2020; (iv) 10 units in 2021.

The estimated net value of the Agreement is approximately PLN 388 million.

The agreement is in effect from the date of its execution until the end of the quality warranty period for the last modernized locomotive.

Payments for the modernized locomotives will be made in installments.

The Agreement provides for contractual penalties payable to PKP CARGO by NEWAG for: (i) delays in the performance of locomotive modernizations, (ii) delays in the performance of obligations under the warranty and delays in the performance of obligations under the seller’s warranty, (iii) delays in the commencement of service activities related to the maintenance of combustion engines in the warranty period, (iv) failure to maintain the technical availability ratio, (v) termination of the Agreement for reasons attributable to NEWAG.

The contractual penalties for termination due to reasons attributable to NEWAG may not in aggregate exceed 10% of the net value of the non-performed part of the Agreement.

If the contractual penalties do not cover all the losses then PKP CARGO will have the right to pursue damages in excess of the contractual penalties on general terms.

Other terms and conditions of the Agreement are substantially similar to those generally used in agreements of this type.

The Agreement supports the implementation of the Company's strategy of consistently increasing the market share and building its competitive advantage. This is a response to the needs of the market, in particular to the increased transport of aggregate in the coming years. The contemporary design solutions applied in the modernization process will improve the traction performance of the locomotives, while reducing their fuel consumption considerably and improving their availability ratio. Another noteworthy consequence is the positive effect of locomotive modernization on the natural environment due to the replacement of combustion engines.

Legal basis: Article 17 Section 1 of Regulation (EU) No. 596/2014 of the European Parliament and of the Council on Market Abuse.