



Financial results of PKP CARGO Group for Q1 2014

15 May 2014



Major achievements

Operating results

Financial results

Summary

Experienced Professionals - the New Management Board of PKP CARGO



Adam Purwin

President of the Management Board

- 16 years of professional experience
- Former employers: PKP Group, PKO BP, Bank Pekao, BRE Bank, BGK



Jacek Neska

**Board Member in charge of
Commerce**

- 20 years of professional experience
- Former employers: Lotos Group, TELE-FONIKA Kable, Arthur Andersen



Wojciech Derda

**Board Member in charge of
Operations**

- 10 years of professional experience
- Former employers: PKP Group, EY



Łukasz Hadyś

Board Member in charge of Finance

- 13 years of professional experience
- Former employers: PGNiG Group, Tauron, EY



Dariusz Browarek

Employees' Representative

- 35 years of professional experience in the railway industry
- 6 years as a Vice-chairman of the PKP Employees' Trade Union Federation

Increase in Freight Turnover and Profit on a Competitive Market

+4%
**FREIGHT
TURNOVER**

+81% aggregates
+12% ores, metals
-13% coal
yoy

No. 1
**ON THE POLISH
MARKET**

Market share in Q1 2014:
58% according to freight
turnover
47% according to freight
volume

+50%
EBITDA
yoy

PLN 159 million in Q1 2014

PLN 1 040m
**REVENUE
LEVEL
MAINTAINED**

-1% yoy in Q1 2014

PLN 58 m
**A RECORD NET
PROFIT**
yoy

EPS PLN 1.3

-6%
**OPERATING
COSTS**
yoy

PLN -65 million in Q1 2014

PLN 137 m
DIVIDEND

PLN 3.07 per share
3.7% dividend yield*

Key Events

- New Management Board of the PKP CARGO Group appointed for a 3-year term in office
- Successful completion of collective bargaining procedures
- Long-term contract worth PLN 1 billion signed with the ArcelorMittal Group
- Allocation of employee shares and capital increase
- Launch of the Management by Objectives Program (MBO)



Agenda

Major achievements

Operating results

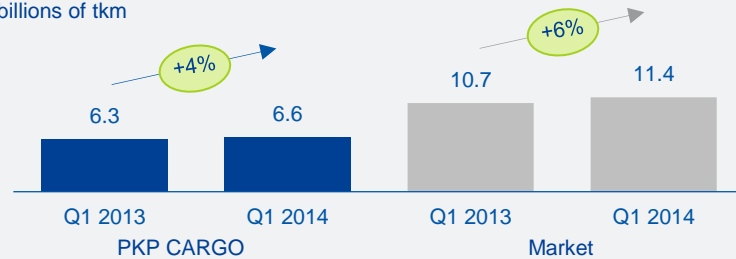
Financial results

Summary

Position of PKP CARGO on the Rail Freight Market

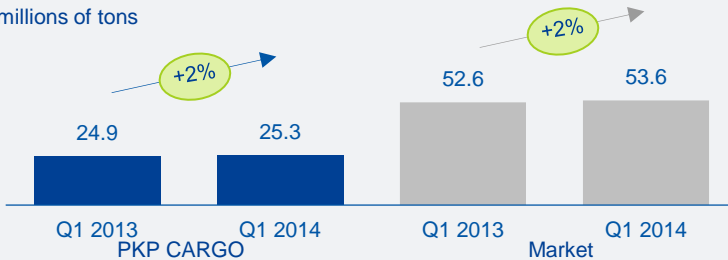
Freight Turnover

billions of tkm



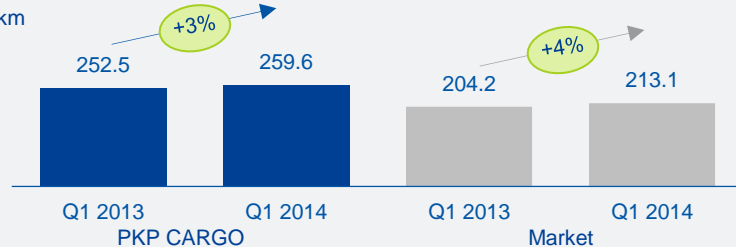
Freight Volume

millions of tons



Average Haul

km



Source: Office of Rail Transportation (UTK)

■ Improvement in the economic environment:

(data for Q1 2014)

- +4.8% yoy industrial production sold
- +10.6% yoy construction and assembly production (after a deep drop in 2013)

■ Change in the transportation structure:

- increase in transportation of aggregates and construction materials
- increase in transportation of metals, ores and timber
- decrease in demand for coal

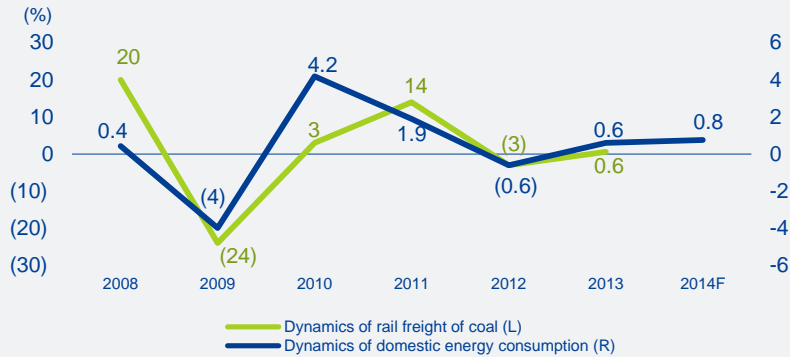
■ Increase in average haul in the following segments:

(data for Q1 2014)

- metals and ores (+7% yoy)
- aggregates and construction materials (+9% yoy)
- timber and agricultural produce (+12% yoy)

■ PKP CARGO: taking advantage of economic revival, rapid response to the changing market environment

Market: Freight of Coal vs. Electricity Consumption



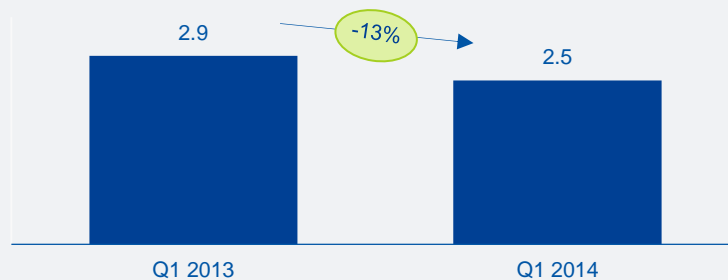
Source: Central Statistical Office (GUS) (dynamics of coal rail freight in 2013 concerns Q1-3/2013), forecast of domestic energy consumption dynamics: analysts' consensus

Comments

- Demand for coal declines due to lower electricity production of coal-fired power plants (a 10% drop compared to Q1 2013)
- Difficult situation of the mining sector: coal stock of approximately 15 million tons (6 million tons at coal mines, 9 million tons at power plants)
- Low coal prices on the world's markets → a further decrease in coal prices in Poland (in 2013: -10%, estimate for 2014: -5%)
- PKP CARGO: Low volumes of coal exported by sea at long distances

PKP CARGO: Coal - Freight Turnover

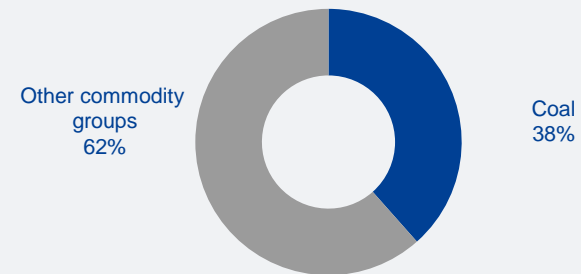
billions of tkm



Source: PKP CARGO

PKP CARGO Mix By Freight Turnover

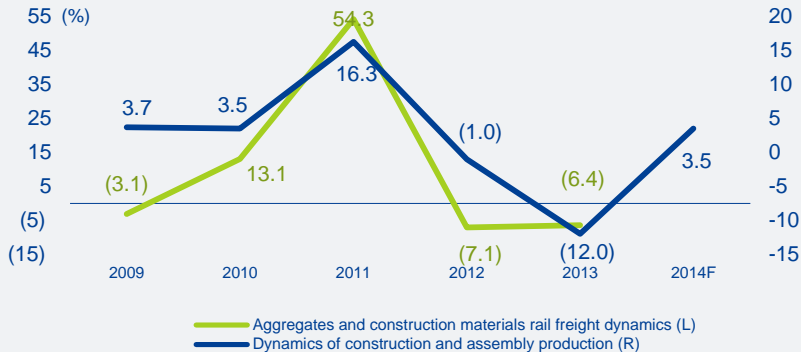
data for Q1 2014



Source: PKP CARGO

Aggregates and Construction Materials

Market: Freight of Aggregates and Construction Materials vs. Construction and Assembly Production



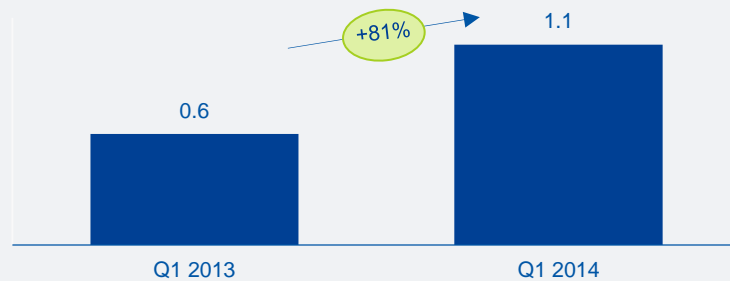
Source: Central Statistical Office (GUS) (dynamics of rail freight of aggregates and construction materials in 2013 concerns Q1-3/2013), construction and assembly production dynamics forecast: Ministry of Economy

Comments

- A relatively early launch of numerous road and rail construction projects compared to Q1 2013
- Better economic outlook in the construction sector:
 - civil and water engineering construction growth of approx. 50% yoy, specialized construction sector growth of 22% yoy*
 - construction and assembly production growth of 11% yoy, mainly due to favorable weather conditions (compared to 15% drop the year before)*
- PKP CARGO: Increase in average haul (+9% yoy)

PKP CARGO: Aggregates and Construction Materials- Freight Turnover

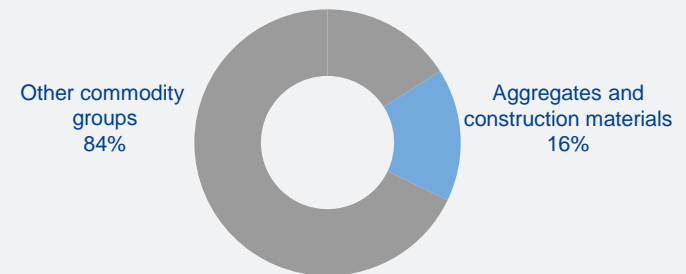
billions of tkm



Source: PKP CARGO

PKP CARGO Mix By Freight Turnover

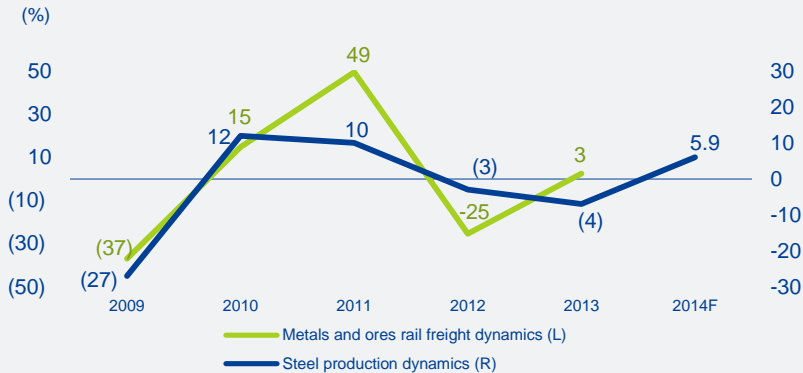
data for Q1 2014



Source: PKP CARGO

Metals and Ores

Market: Freight of Metals and Ores vs. Steel Production



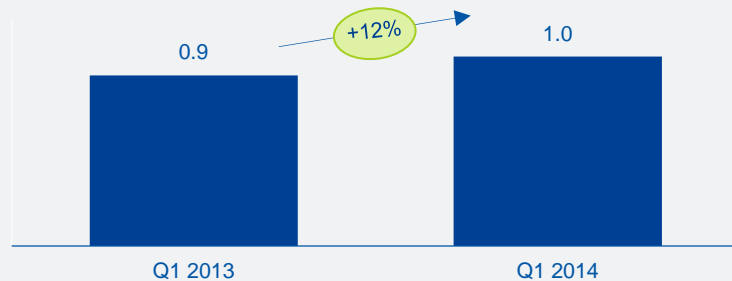
Source: Central Statistical Office (GUS) (metals and ores rail freight dynamics in 2013 concerns Q1-3/2013), steel production forecast: Business Monitor International.

Comments

- Steel production grew by 7% yoy in European Union in 1Q2014 (according to the World Steel Association)
- Better outlook for the Polish steelwork industry (data for Q1 2014)
 - +8% yoy sold output of the metal products industry and + 7% yoy sold metal output*
 - +11% yoy raw steel production, +9% yoy pig iron, +13% yoy rods, +12% yoy steel rails*
- PKP CARGO: Increased long-distance imports and transit of ores (to steelworks located in southern Poland, the Czech Republic and Slovakia)

PKP CARGO: Metals and Ores - Freight Turnover

billions of tkm



Source: PKP CARGO

PKP CARGO Mix By Freight Turnover

data for Q1 2014



Source: PKP CARGO

Intermodal

Market: Intermodal vs. GDP



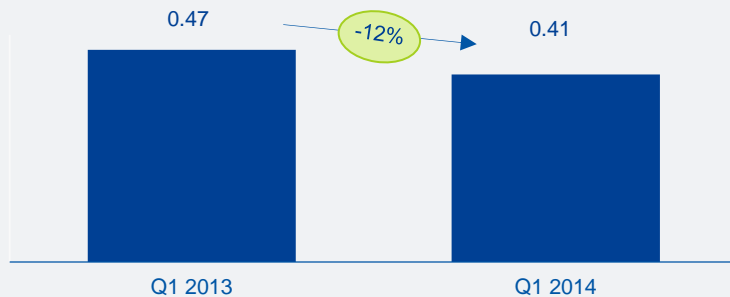
Source: Office of Rail Transportation (UTK), GDP forecast – IMF

Comments

- PKP CARGO: Decline in intermodal freight turnover, mainly due to drop in automotive segment (-20% yoy)
- Quick compensation for lost volumes:
 - loss of important customer in Q4 2013
 - with the transport for one lost customer excepted, a 5.6% yoy increase in transport of the PKP CARGO Group
- Gradual commissioning of 330 modern intermodal platforms subsidized under EU's co-financing schemes (100 wagons already received)
- Poznań Franowo intermodal terminal launched
- Diversified portfolio of intermodal customers maintained

PKP CARGO: Intermodal - Freight Turnover

billions of tkm



Source: PKP CARGO

PKP CARGO Mix By Freight Turnover

data for Q1 2014

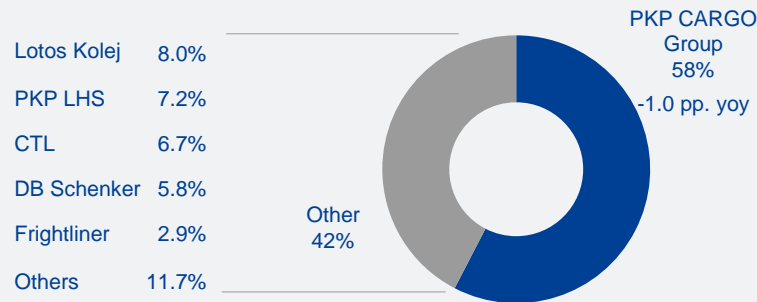


Source: PKP CARGO

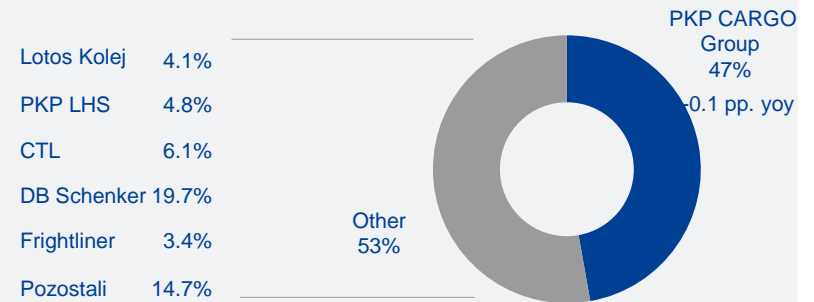
Stable and Strong Market Position

PKP CARGO: The Share of the Group in the Polish Rail Freight Market data for Q1 2014

by Freight Turnover



by Freight Volume

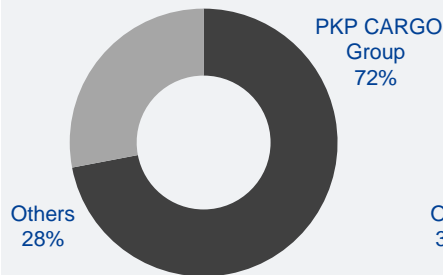


Source: Office of Rail Transportation (UTK)

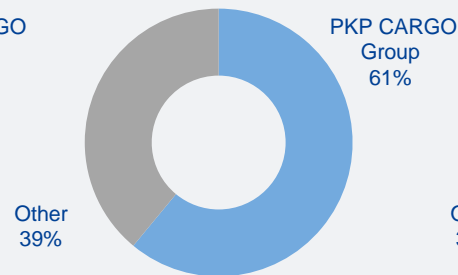
PKP CARGO: The Share in the Polish Rail Freight Market, by Commodity Groups

data by freight turnover for Q1-3/2013; in the case of intermodal segment data for the entire year 2013

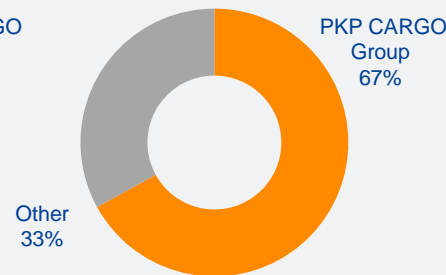
Coal



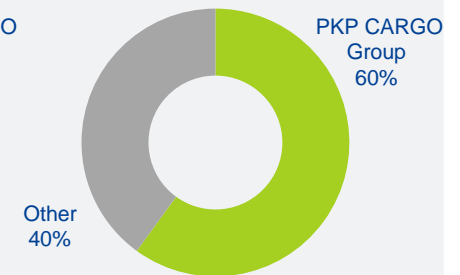
Construction Materials*



Metals and Ores



Intermodal



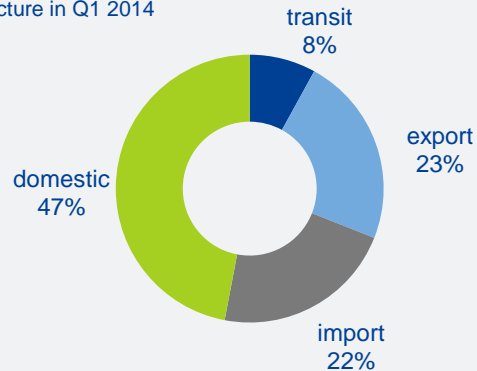
Source: Office of Rail Transportation (UTK)

* includes: stones, aggregates, sand, gravel, clays, cement, lime, gypsum, other construction materials

PKP CARGO Group as a Multi-Purpose Logistics Operator

Freight Turnover by Transport Directions

transport structure in Q1 2014



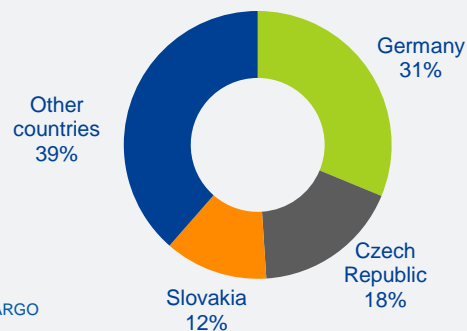
Source: PKP CARGO

Comments

- Basic rail freight operations supplemented by forwarding services, transloading, siding and traction services and other transportation services
- Group revenues diversified in terms of transport directions
- Tangible results of revenue diversification strategy in foreign markets

Revenue from Foreign Customers

revenue structure in Q1 2014



Source: PKP CARGO

Structure of Sales by Area of Operation

PLN million	Q1 2014
Rail freight and forwarding	909
Other transport operations	26
Siding and traction revenues	44
Transloading revenues	11
Other revenue*	14
Total	1 004

* „Other income“ position includes mainly revenue from rental of rolling stock, revenue from rolling stock overhauls and custom agency services

Agenda

Major achievements

Operating results

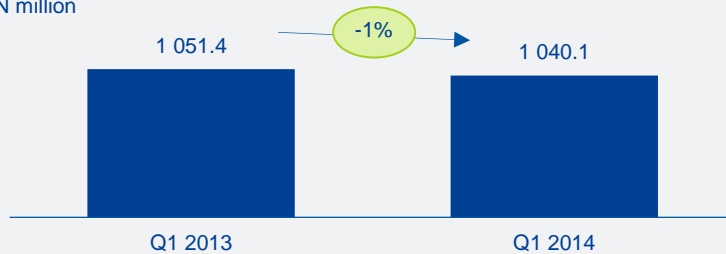
Financial results

Growth prospects

Increase in EBITDA Margin

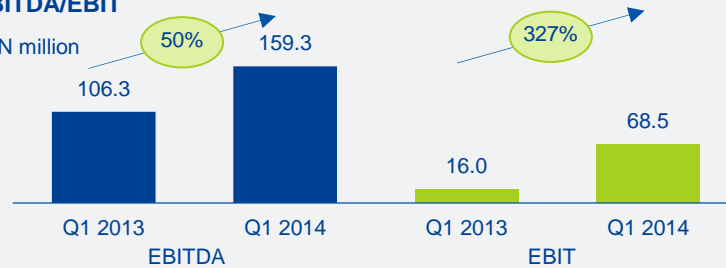
Operating Revenues

PLN million



EBITDA/EBIT

PLN million



Net Profit

PLN million



- Financial result above market consensus
- Revenues maintained near the 1Q2013 level due to increase in freight turnover
- Dynamic EBITDA growth due to cost effectiveness
- A PLN 14 million provision related to a reimbursement of a penalty from the Office of Consumer and Competition Protection (UOKiK) dissolved

Profitability / Efficiency

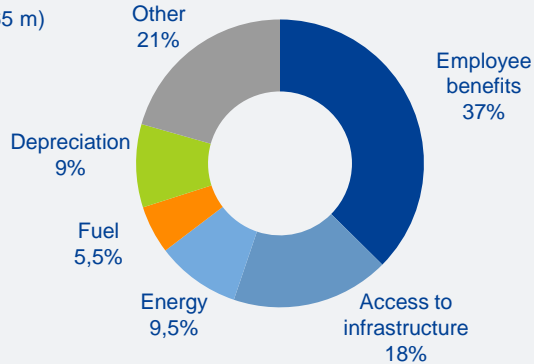
	Q1 2013	Q1 2014
EBITDA margin	10.1%	15.3%
EBIT margin	1.5%	6.6%
Net margin	0.1%	5.5%
EPS (net earnings per share)	PLN 0.09	PLN 1.30

Increasing Cost-Effectiveness

Operating Costs

PLN 970 million in Q1 2014

-6% yoy (-PLN 65 m)

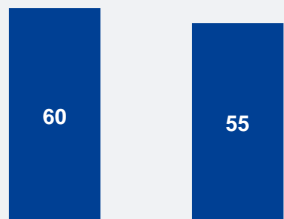


	Q1 2013	Q1 2014	Change
Freight turnover (ths.tkm)	6 287	6 567	+4%
Employment (average in FTEs)	26 829	26 351	-2%
Freight turnover per employee	234	249	+6%
Revenue per employee (PLN ths.)	39.2	39.4	+1%
EBITDA per employee (PLN ths.)	4.0	6.0	+53%

Employee Benefits

PLN/ ths. tkm

-7%



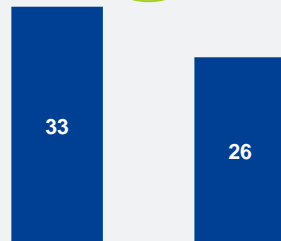
Q1 2013 Q1 2014

With the employment numbers dropping -2% yoy

Access to Infrastructure

PLN/ ths. tkm

-20%



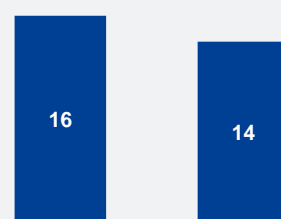
Q1 2013 Q1 2014

Infrastructure access fees lower by approx.20%

Energy

PLN/ ths. tkm

-13%



Q1 2013 Q1 2014

Better energy procurement management

Fuel

PLN/ ths. tkm

-3%



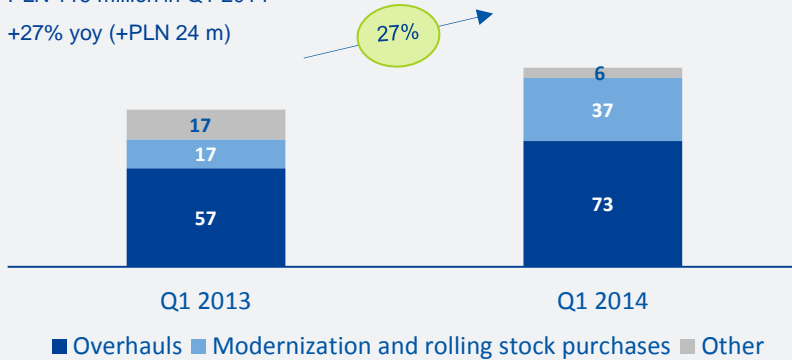
Q1 2013 Q1 2014

Modernization of locomotives, enhancement of the monitoring system

Strong Balance Sheet Despite Growing Investments

Investment

PLN 116 million in Q1 2014
+27% yoy (+PLN 24 m)

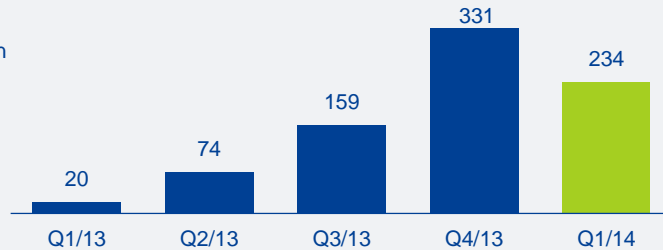


Comments

- Growing rolling stock investment, as planned, and a sufficient number of wagons provided for the peak periods
- 2,216 wagons and 39 locomotives overhauled in Q1 2014 (2019 and 21 respectively in Q1 2013)
- A 30% EU subsidy for the purchase of 30 intermodal wagons
- Modernization of 6 locomotives, contributing to a 20% decrease in fuel consumption
- Large investment potential

Net Cash

PLN million



cash	783.3	813.6	863.9	955.1	803.7
indebtness	762.9	740.1	705.2	624.0	569.3

Financial Indicators

	Q1 2013	Q1 2014
Net debt* / EBITDA	(0.19)x	(1.47)x
ROA	0.0%	1.0%
ROE	0.0%	1.6%
ROCE	0.3%	1.5%

Agenda

Major achievements

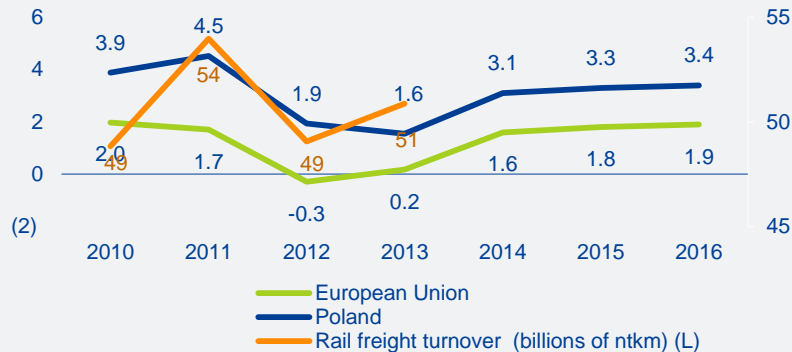
Operating results

Financial results

Summary

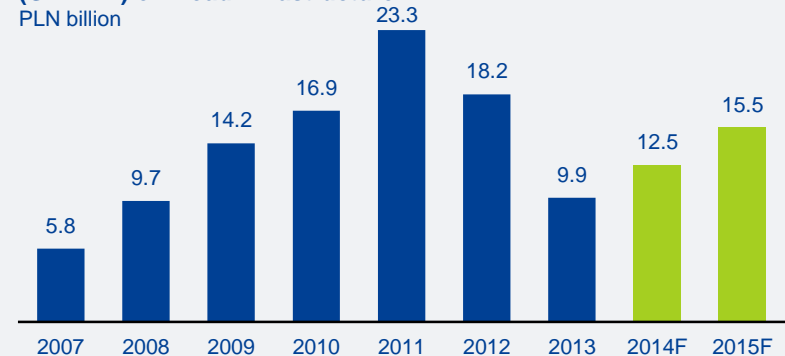
Infrastructure Investments Will Result in Growing Rail Freight Volumes

GDP Dynamics: Poland vs. European Union



Source: IMF; Office of Rail Transportation (UTK)

Expenditure of General Directorate of National Roads and Motorways (GDDKiA) on Road Infrastructure
PLN billion



Source: GDDKiA, investment construction expenditure

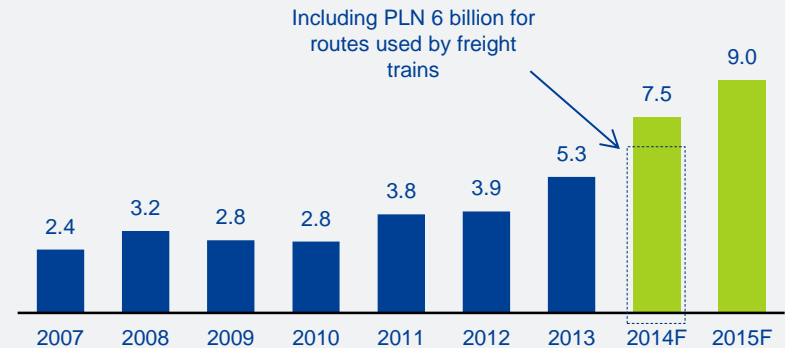
Investment:

- In 2014 – 2020 PLK will modernize 4,000 km of railway infrastructure. Planned expenditure: **PLN 46 billion**, including **PLN 30 billion** in EU subsidies
- Government's „Long-term Railway Investment Program”:
 - implementation of 140 projects
 - expenditure: **PLN 25 billion** by 2015
- EU 2014-2020 perspective: EUR 82.5 billion:
 - approx. EUR 10.5 billion for the road infrastructure
 - approx. EUR 10.5 billion for the railways

Source: Chancellery of Prime Minister

Higher PKP PLK's Infrastructure Investments

PLN billion



Source: PKP PLK



Q&A Session

Appendix

Cargoes Performance

Freight Turnover

	Q1 2014	Q1 2013	Change %	Share in total Q1 2014	Share in total Q1 2013
Solid fuels	2 880	3 282	-12%	44%	52%
<i>of which hard coal</i>	2 525	2 900	-13%	38%	46%
Aggregates and construction materials	1 058	586	81%	16%	9%
Metals and ores	962	855	12%	15%	14%
Chemicals	427	394	9%	7%	6%
Liquid fuels	163	181	-10%	2%	3%
Timber and agro-food articles	509	317	61%	8%	5%
Intermodal	412	467	-12%	6%	7%
Other	156	206	-24%	2%	3%
Total	6 567	6 287	4%	100%	100%

Freight Volume

	Q1 2014	Q1 2013	Change %	Share in total Q1 2014	Share in total Q1 2013
Solid fuels	13 421	14 671	-9%	53%	59%
<i>of which hard coal</i>	12 244	13 293	-8%	48%	53%
Aggregates and construction materials	3 726	2 246	66%	15%	9%
Metals and ores	3 198	3 042	5%	13%	12%
Chemicals	1 513	1 462	4%	6%	6%
Liquid fuels	589	685	-14%	2%	3%
Timber and agro-food articles	1 311	912	44%	5%	4%
Intermodal	1 077	1 211	-11%	4%	5%
Other	463	671	-31%	2%	3%
Total	25 297	24 900	2%	100%	100%

Consolidated Statement of Comprehensive Income

PLN million	Q1 2014	Q1 2013	change %
Sales revenue	1 004.3	1 022.7	
Revenue from sales of goods and materials	12.4	23.9	
Other operating revenue	21.8	4.8	
Total operating revenue	1 038.5	1 051.4	-1%
Depreciation/amortisation and impairment losses	90.8	90.3	1%
Consumption of raw materials and supplies	158.5	166.4	-5%
Fuel	52.5	51.7	2%
Energy	91.9	101.0	-9%
External services	320.1	357.0	-10%
Access to infrastructure	172.8	206.0	-16%
Taxes and charges	10.7	9.3	15%
Employee benefits	363.5	374.6	-3%
Other expenses by kind	9.2	11.6	-22%
Cost of merchandise and raw materials sold	8.6	17.6	-51%
Other operating expenses	8.5	8.5	21%
Total operating activities	970.0	1 035.3	-6%
EBITDA	159.3	106.3	50%
Profit on operating activities	68.5	16.0	327%
Financial revenue	6.1	10.7	-43%
Financial expenses	10.4	18.9	-45%
Share in the profit of equity accounted associates	9.4	0.5	1884%
Profit before tax	73.6	8.3	791%
Income tax expense	16.0	6.8	135%
Net profit	57.5	1.4	3887%
Net profit /(loss) attributable to:			
Shareholders of the parent company	56.9	3.7	1423%
Non-controlling interest	0.7	-2.3	-129%

Consolidated Balance-Sheet

PLN million	As at 31/03/2014	As at 31/12/2013
Property, plant and equipment	3 875.6	3 855.4
Intangible assets	59.3	61.4
Goodwill	2.7	2.7
Investment property	1.4	1.4
Investments accounted for under equity method	47.5	38.2
Other long-term financial assets	6.1	6.1
Other long-term non-financial assets	1.1	1.4
Deferred tax assets	66.8	83.2
Total non-current assets	4 060.6	4 049.9
Inventory	79.1	76
Trade and other receivables	582.4	609.3
Income tax receivables	2.9	2.4
Other short-term financial assets	619.4	691.4
Other short-term non-financial assets	79.7	33.4
Cash and cash equivalents	184.3	263.7
Non-current assets classified as held for sale	17.6	17.6
Total current assets	1 565.4	1 693.70
Total assets	5 626.0	5 743.60

Consolidated Balance-Sheet

PLN million	As at 31/03/2014	As at 31/12/2013
Equity	2 239.3	2 166.9
Share premium	618.8	692.8
Other items of equity	-16.3	-16.4
Retained earnings	660.1	603.2
Equity attributable to the shareholders of the parent company	3 501.9	3 446.5
Equity attributable to non-controlling interest	63.1	62.4
Total equity	3 565.4	3 508.9
Long-term bank loans and credit facilities	105.5	121.6
Long-term finance lease liabilities and leases with purchase option	273.9	313.1
Long-term trade and other liabilities	102.6	113.7
Long-term provisions for employee benefits	592.9	592.9
Other long-term provisions	8.5	22.9
Deffered tax provision	2.5	2.6
Non-current liabilities	1 086.0	1 166.7
Short-term bank loans and credit facilities	64.8	73.2
Short-term finance lease liabilities and leases with purchase option	124.6	115.8
Short-term trade and other liabilities	655.7	675.8
Short-term provisions for employee benefits	105.4	176.5
Income tax liability	0.1	0.2
Other short-term financial liabilities	0.5	0.3
Other short-term provisions	23.8	26.1
Total current liabilities	974.9	1 068.0
Total liabilities	2 060.9	2 234.7
Total equity and liabilities	5 626.00	5 743.6

Consolidated Statement of Cash Flows

PLN million	Q1 2014	Q1 2013
Gross profit/(loss) for the financial year	73.6	8.3
Adjustments:		
Depreciation and amortisation of non-current assets	90.8	92.2
Impairment of assets	0	-1.9
(Gain)/loss on disposal of property, plant and equipment	4.2	5.7
(Profit)/loss on investing activities	0.8	0.9
Exchange (gains)/losses	1.7	6.9
(Gains)/losses on interest, dividend	0.8	1
Share in the (profit)/loss of equity accounted associates	-9.4	-0.5
Other adjustments	0.2	0
Changes in working capital:		
(Increase)/decrease in trade and other receivables	22.3	49
(Increase)/decrease in inventory	-3.0	3.4
(Increase)/decrease in other assets	-46.0	-43.1
Increase/(decrease) in trade and other receivables	-8.8	-0.8
Increase/(decrease) in provisions	-87.7	6.4
Cash flows from operating activities	39.4	127.5
Interest received/(paid)	1.4	1.5
Income taxes received/(paid)	0.3	-0.5
Net cash provided by operating activities	40.4	128.5

Consolidated Statement of Cash Flows

PLN million	Q1 2014	Q1 2013
Acquisition of property, plant and equipment and intangible assets	-139.8	-116.8
Preceeds from sale of property, plant and equipment and intangible assets	0.4	0.4
Interest received	5.6	8.7
Dividend received	0.06	0
Repayment of loans granted	0	0.5
Proceeds from loans granted	-3	0
Other proceeds/(acquisitions) on investing activities	75.2	-1.1
Net cash (used in)/ provided by investing activities	-61.5	-108.3
Payments of liabilities under finance lease	-32.8	-30.7
Payment of interest under lease agreement	-3.3	-4.5
Proceeds from credit facilities /loans received	0	0
Repayments of credit facilities/ loans received	-16.0	-16.1
Repayments of interest on credit facilities/ loans received	-1.7	-3.2
Outflow/ Repayment of bank overdraft	-8.5	-27.9
Grants received	6.1	0
Other inflows /(outflows) from financing activities	-2.2	-2.6
Net cash used in financing activities	-58.3	-85.1
Net increase/(decrease) in cash and cash equivalents	-79.4	-64.9
Opening balance of cash and cash equivalents	263.7	188
Closing balance of cash and cash equivalents	184.3	123.1

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