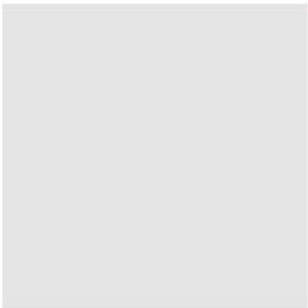
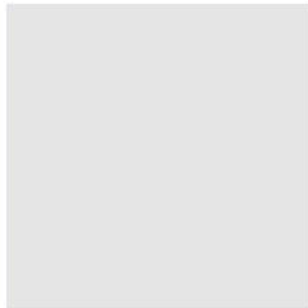


Solid Results on Challenging Market



PKP CARGO GROUP After Q3 2014

13th November 2014



Agenda



Key events

Operating data

Financial data

Summary

Transport: the economy's barometer

– economic conditions determine the freight transport

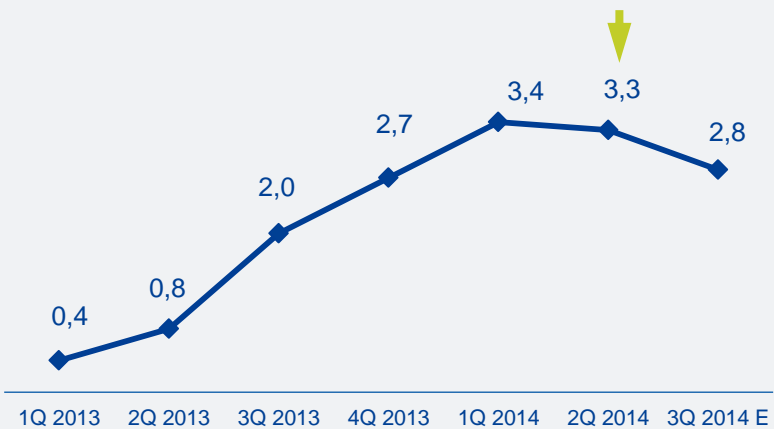


Macroeconomic environment

- Slowing dynamics of GDP growth – subdued economic activity affects carriage
- Downward revision by the EC of its forecast about Poland's GDP to 3.0% in 2014 and 2.8% in 2015
- Impact of the conflict in Ukraine on the economy
- Difficult situation of the Polish coal mining industry
- Reindustrialization in Europe

GDP growth in Poland

Growth in % yoy



Source: Central Statistical Office's data, Ministry of Economy's estimates

Rail freight market in Poland

– factors affecting carriers' operations



Macroeconomic environment

- Railway network modernization:
 - lower speed = short-term rise in carriers' demand for rolling stock and workers
- Exceptional events – e.g. strikes by DB Schenker train drivers
- Strong competition on the rail freight market – 66 market players
- Stable carriage performance (by volume)
- Low containerization level is a chance for rapid growth of the intermodal segment

Commercial speed vs. freight volume

lower speed = greater demand for resources



Source: Freight volume according to the Office of Rail Transportation, commercial speed according to PKP PLK

PKP CARGO

– adaptation to market conditions

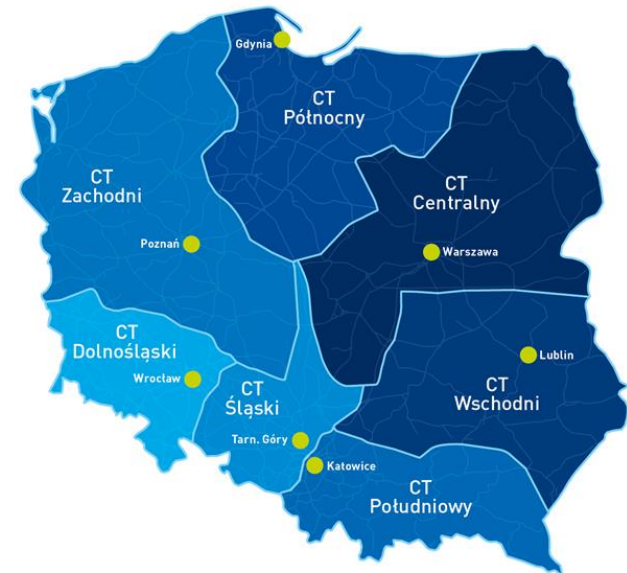


PKP CARGO's activities

- Flexibility, aligned commercial policy, diversified sources of incomes
- Cost discipline
- Merger of Company Divisions (10 into 7)
– better management of the transportation process
- Consolidation of rolling stock maintenance companies – PKP CARGOTABOR
- Additional rolling stock for 2015 - 3,000 coal cars (+15% yoy):
 - Greater flexibility during peak season
 - Mitigation of consequences of low commercial speed
- Successful recruitment of 500 prospective train drivers – long-term investment in staff
- Four acquisition processes underway

New organizational structure of PKP CARGO

more efficient management, better customer service



Solid Results of PKP CARGO



57%

MARKET SHARE

by freight turnover
for 9M 2014

PLN 554 m

EBITDA

+9%
y/y

17.5%
margin

PLN 359 m

OPERATING CASH FLOW

for 9M 2014

9M

REVENUE

PLN 3 169 m

-10% y/y in 9M 2014

OPEX

PLN 2 887 m

-12% y/y in 9M 2014

NET PROFIT

PLN 227 m

+38%

Q3

REVENUE

PLN 1 069 m

-13% y/y in Q3 2014

OPEX

PLN 956 m

-15% y/y in Q3 2014

NET PROFIT

PLN 99 m

+13%

Agenda



Key events

Operating data

Financial data

Summary

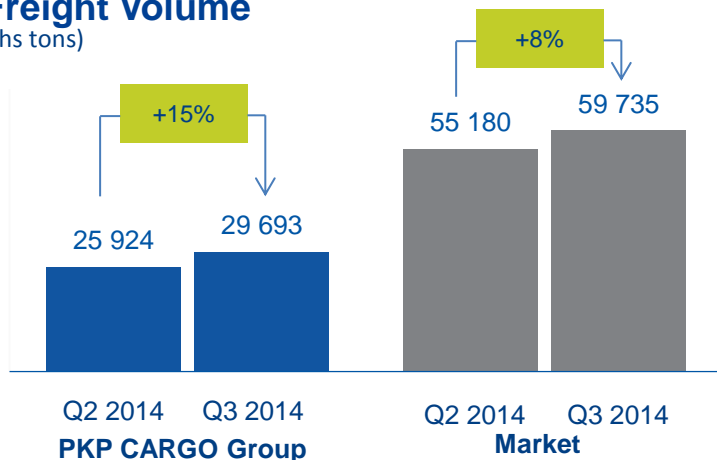
FREIGHT VOLUME and FREIGHT TURNOVER

– PKP CARGO Group will take over the majority of the market growth



Freight Volume

(thousands of tons)



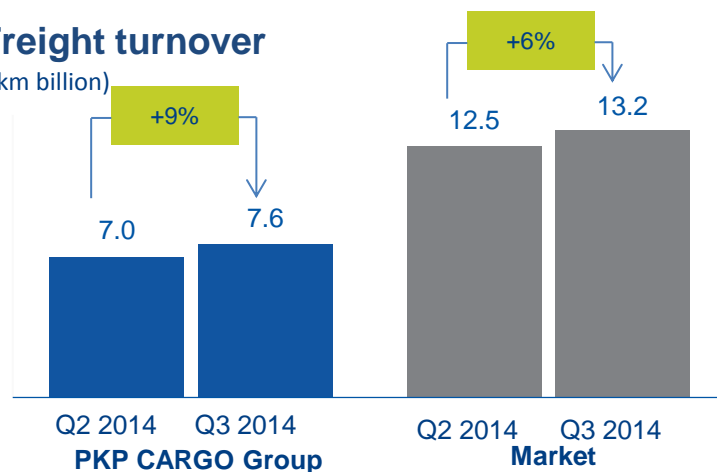
**In Q3 2014 PKP CARGO Group
took over 83% of the market growth**

Market → +4,555 th tons (Q3 vs Q2)

PKP CARGO → +3,769 th tons (Q3 vs Q2)

Freight turnover

(billion tkm)



**In Q3 2014 PKP CARGO Group
took over 79% of the market growth**

Market → +0.8 tkm billion (Q3 vs Q2)

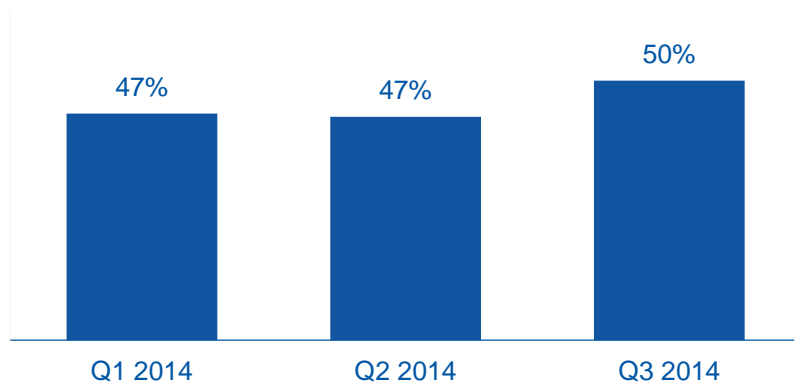
PKP CARGO → +0.6 tkm billion (Q3 vs Q2)

SHARE IN THE FREIGHT MARKET

– definite leader of the railway freight market

PKP CARGO share

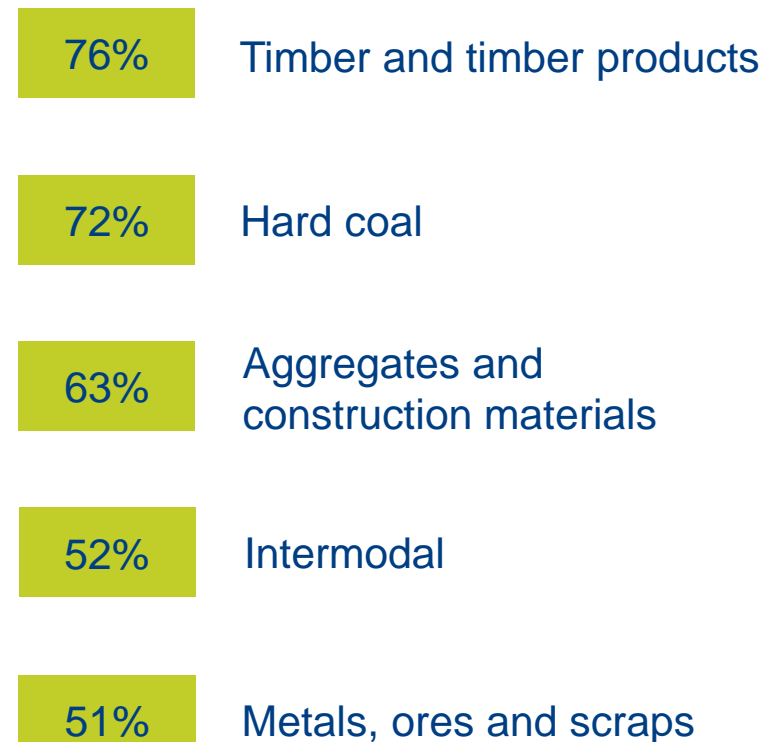
(by freight volume on the railway freight market)



Comment

- **Effectively implemented commercial policy**
- **Flexibility in adapting to the market**
- Taking advantage of good situation in construction → increase in aggregates and construction materials market by 4.2 p.p. (by freight turnover, data for Q2 y/y)
- In 2014, an increase in intermodal market share
- High share in the coal freight, despite difficult situation on the market

PKP CARGO: a leader in the main freight categories*



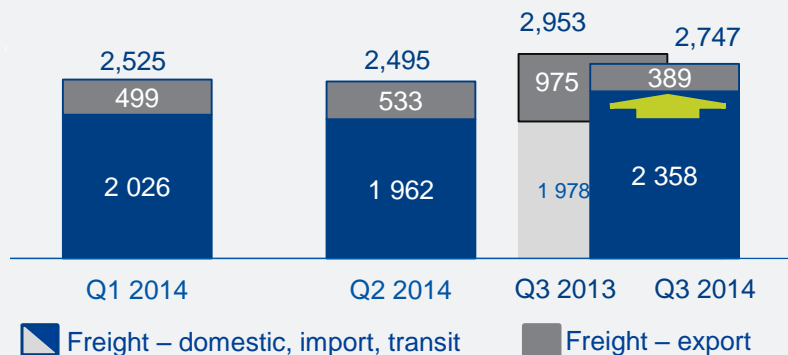
HARD COAL

– growth in domestic and transit freight



PKP CARGO: freight turnover – coal

tkm million

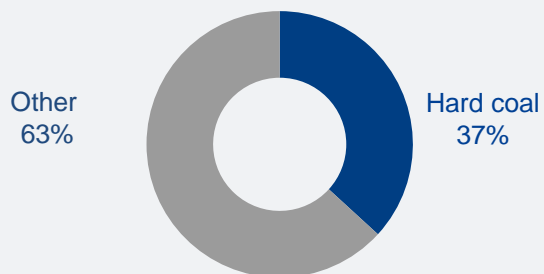


III quarter of 2014

- Domestic freight of coal up by (+10% y/y), coke and brown coal (+52% y.y) (by freight volume)
- Decrease of hard coal export (-42.0% y/y) – low competitiveness of Polish coal
- Growth of transit freight of hard coal (from 5 to over 200 th tons) – freight for US Steel Kosice

PKP CARGO: freight structure

by freight turnover, data for 9M 2014



Perspectives

- Gradual discharge of coal stocks stored in the mines
- Government's plans to revive coal mining in Poland
- Continued cooperation with major producers and recipients of coal on the market

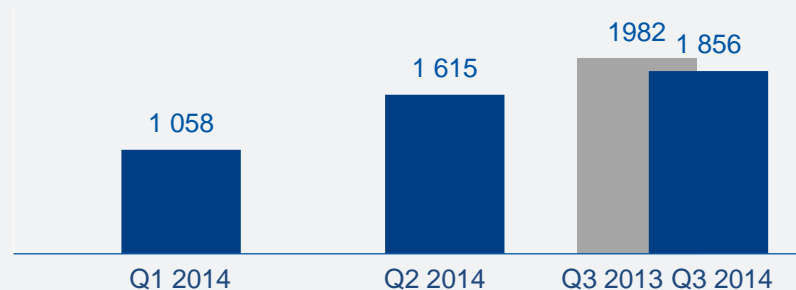
AGGREGATES AND CONSTRUCTION MATERIALS

– major infrastructural investments



PKP CARGO: freight turnover – aggregates and construction materials

tkm million

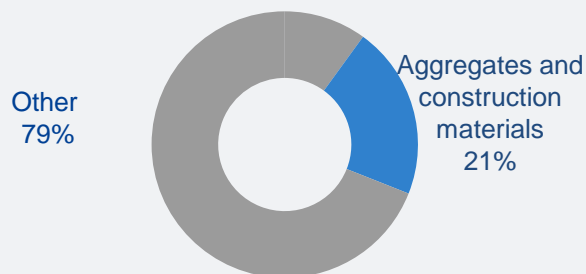


III quarter of 2014

- A new contract to transport cinder and clinker (approx. 2.2 million tons in 3 years)
- A contract to deliver stone to VW factory construction site in Września
- A contract to deliver hydro technical stone for the purposes of revitalising sea shores
- Construction of S69 express road

PKP CARGO: freight structure

by freight turnover, data for 9M 2014



Perspectives

- Record investments of PKP PLK (approx. PLN 10 billion in 2015)
- In 2014-2020 – approx. PLN 350 billion from EU, including approx. PLN 85 billion for the development of transportation infrastructure
 - road infrastructure – approx. PLN 50 billion
 - railway infrastructure – approx. PLN 31 billion
- Construction of a power unit in Opole Power Plant
- Further investments to revitalise sea shores



PKP cargo
LOGISTICS

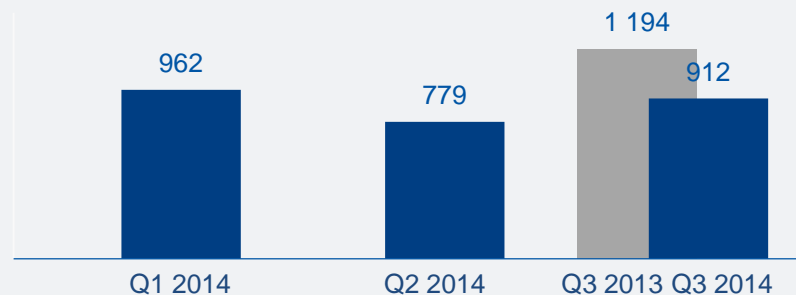
METALS, ORES AND SCRAPS

– expected increased demand for steel products



PKP CARGO: freight turnover – metals, ores and scraps

tkm million

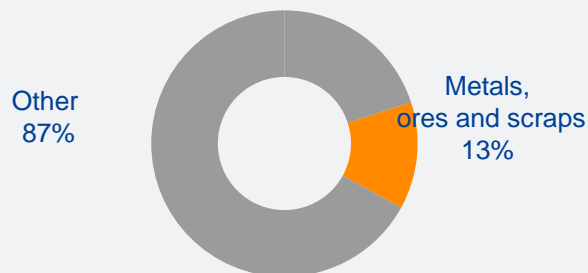


III quarter of 2014

- Increasing import freight to steel works located in southern Poland (metal ores)
- Changes to the freight structure in ores
- Flexible adjustment to key clients' needs

PKP CARGO: freight structure

by freight turnover, data for 9M 2014



Perspectives

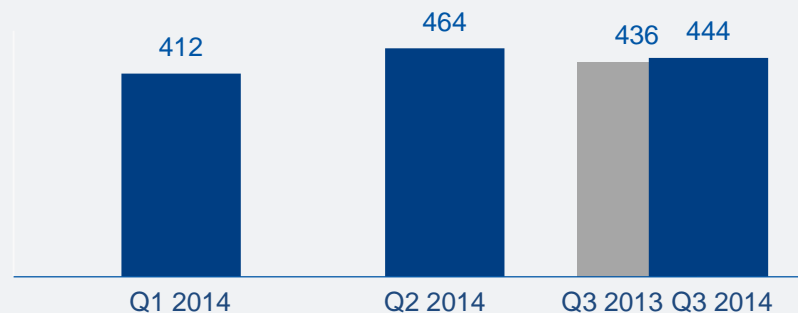
- In 2014, steel consumption in Poland will reach 10.5 million tons compared with 10.3 million tons in 2013, and in 2015 it will increase to approx. 11 million tons (HIPH)
- Large infrastructural investments in the railway industry, construction of power blocks and a LNG terminal in Świnoujście
- Continued cooperation with major market participants in the region

INTERMODAL

– growing share on the dynamically developing market

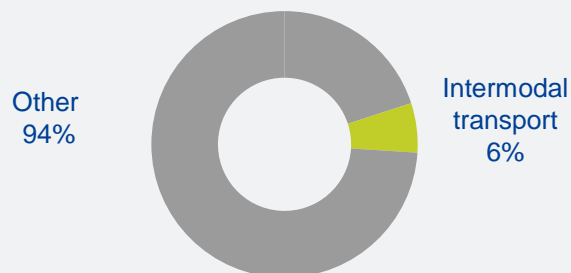


PKP CARGO: freight turnover – intermodal tkm million



PKP CARGO: freight structure

by freight turnover, data for 9M 2014



III quarter of 2014

- Increased share of PKP CARGO in the intermodal freight market to 53.2% (by freight turnover for Q2 2014)
- Increase in intermodal freight in Poland by approx. 12% in Q1 2014 y/y (by freight turnover)
- A contract to transport cars along the route Mlada Boleslav – Swarzędz
- Permanent connection of the harbours in Gdynia and Gdańsk with the Poznań-Franowo terminal

Perspectives

- Expansion of the Gdańsk's terminal that handles container transit
- Permanent connection of the harbours in Gdynia and Gdańsk with the Warsaw terminal and Gliwice
- New connections: Hamburg – Poznań, Warsaw – Gliwice
- Launching new lines, extending contracts for current freights
- Construction of VW factory in Września
- Commencing cooperation with new shipowners

PERSPECTIVES ON THE RAILWAY FREIGHT MARKET

Aggregates and construction materials



2015 Perspectives

- ↑ New road investments financed from the EU budget
- ↑ Increased investments in energy infrastructure
- ↑ Further intensive renovations of railway routes

Estimated growth of the freight market in 2015

↑
Single-digit growth

Metals and ores



- ↑ Anticipated boost of market at the end of 2014 and in 2015
- ↑ Increase in demand for steel products along with the development of infrastructural investments
- ? Uncertain situation in Ukraine

↑
Single-digit growth

Intermodal



- ↑ Low container penetration in Poland
- ↑ Strong correlation with GDP growth
- ↑ EU support for investment in intermodal infrastructure

↑
Double-digit growth

Hard coal



- ↑ Consequent basing the energy mix on coal
- ↑ Record investments in power blocks
- ? Situation of the Polish mining industry

↔
Flat market



Modernization of railway lines

– impact on PKP CARGO's business



Average commercial speed

km/h



Diagnosis

- Unprecedented scale of works
- PLN 7bn in 2014 and PLN 10bn in 2015 to modernize the railway network
- 1.5 thousand kilometres of lines under modernization in 2014

EFFECT

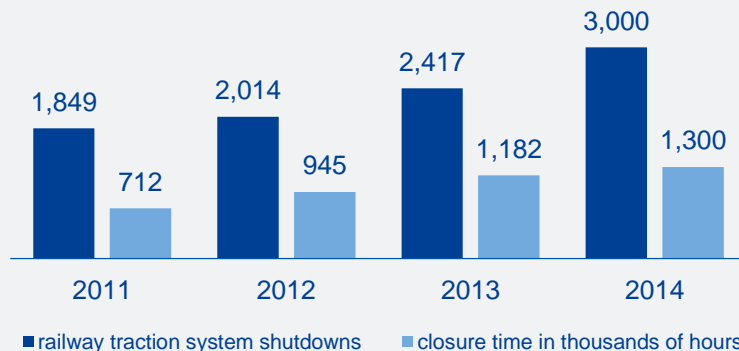


diversions and decreasing average commercial speed

Short-term impact on carriers

- Growing demand for rolling stock and longer working times of train drivers
- Higher network access costs as a result of diversions

Railway network disruptions



Long-term benefits

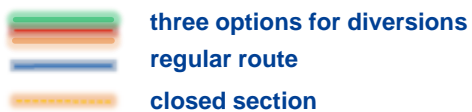
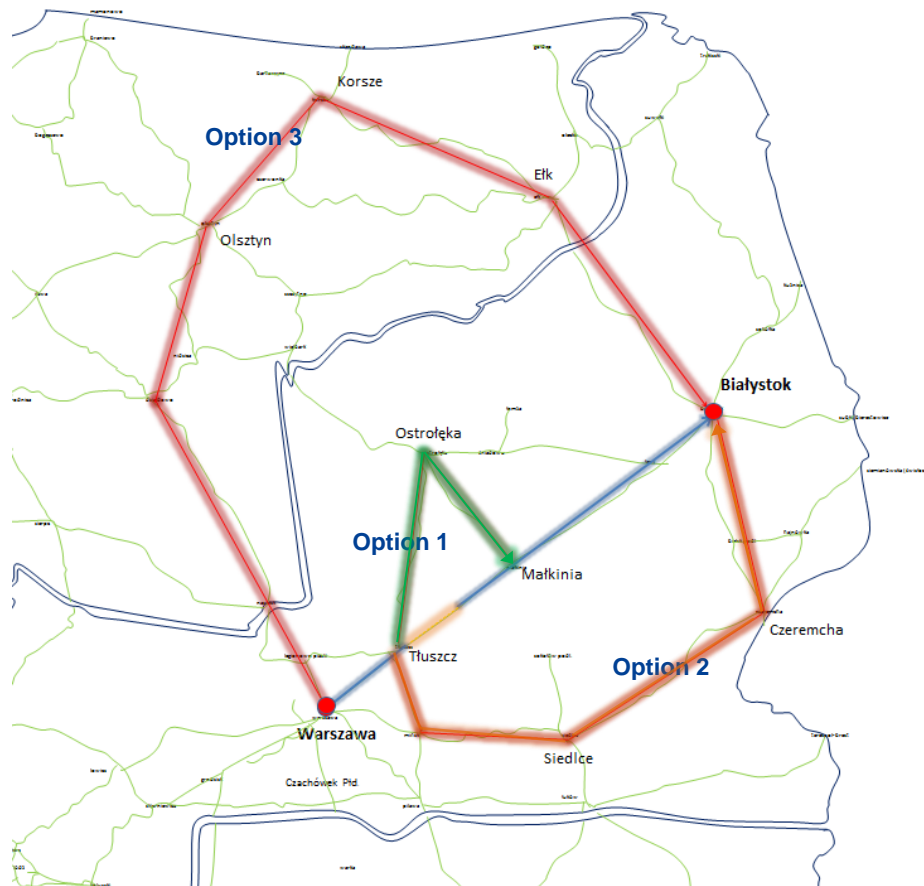
- Significant increase in average speed across the network (50 km/h in 2020)
- Greater competitiveness of rail transport
- Lower demand for investment capital
- Lower operating costs of PKP CARGO

Modernization of railway lines

– impact on PKP CARGO's business



Diversions on line 6

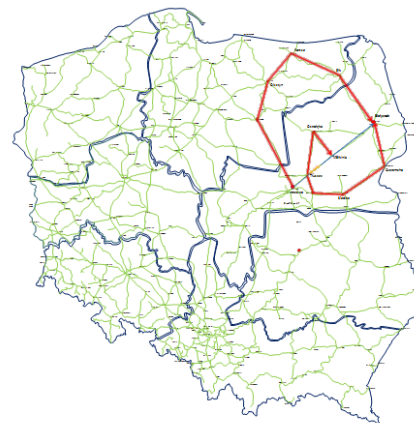


Operations along lines under modernization

- Closures on short sections may cause several kilometres long diversions

Example:

- Line 6: works on Tłuszcz–Łochów section require taking much longer routes
- 3 options for diversions on Warsaw–Białystok line
- The third option used when the first two are unavailable



Agenda



Key events

Operating data

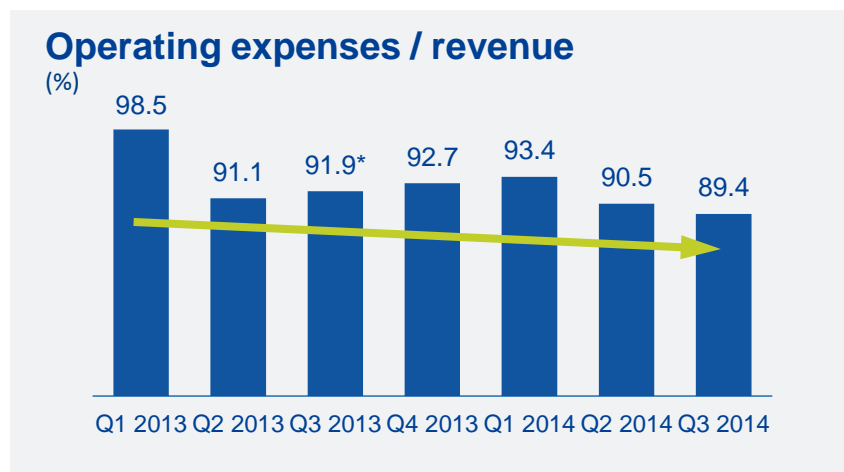
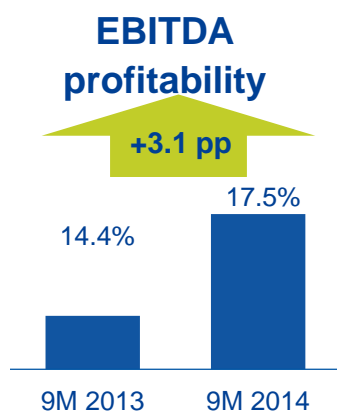
Financial data

Summary

Profitability growth, favourable cost to revenue ratio

Financial results of PKP CARGO Group

in PLN m	9M 2013	9M 2014	%	Q3 2013	Q3 2014	%
Operating revenue	3,518	3,169	-10%	1,227	1,069	-13%
Operating costs	3,292	2,887	-12%	1,127	956	-15%
EBIT	226	282	25%	99	113	14%
EBITDA	506	554	9%	194	203	5%
Net profit	164	227	38%	88	99	13%



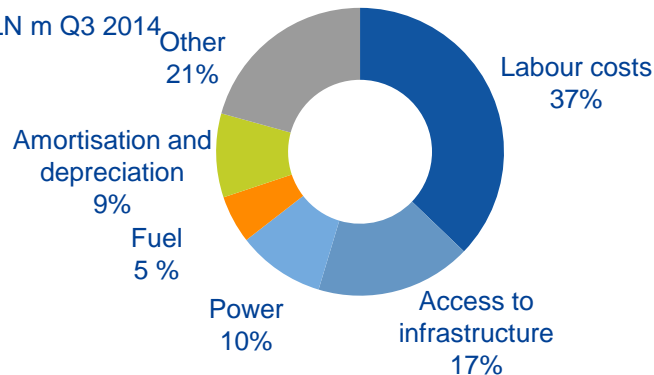
Consistent reduction of costs



Operating costs

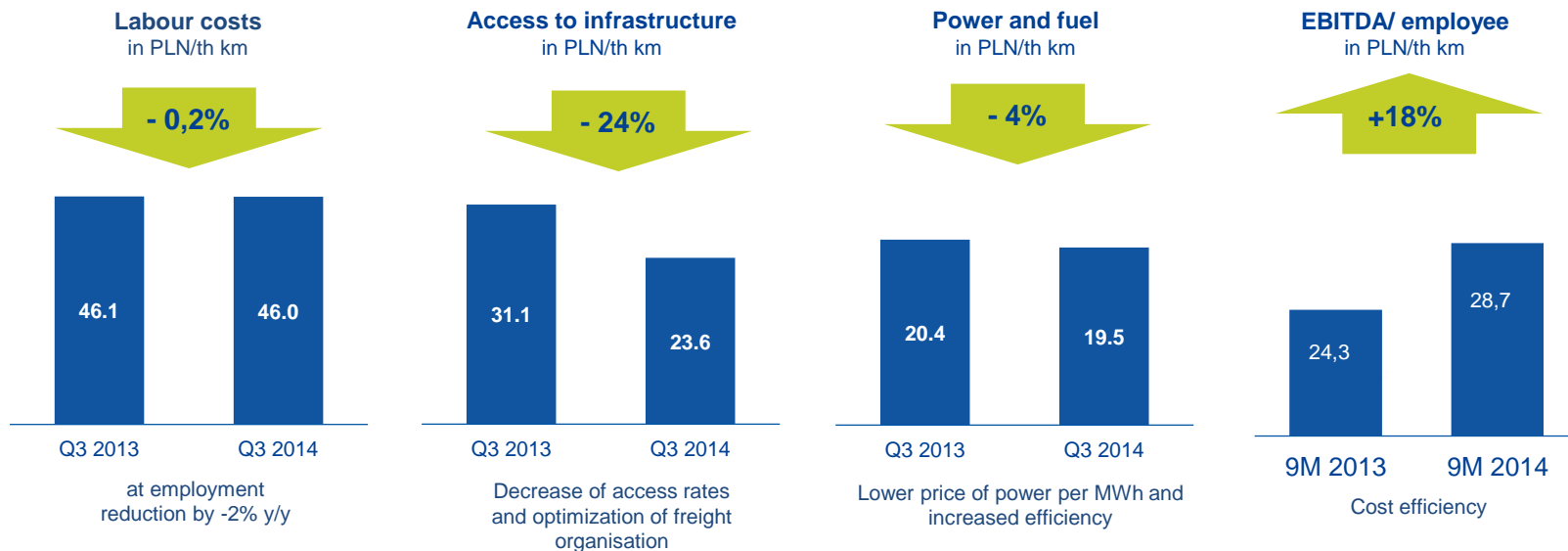
2 887 PLN m w 9M 2014

956 PLN m Q3 2014



Comment

- Further decrease of operating expenses (-12% y/y)
- Improving cost efficiency indicators due to:
 - lower rates for access to infrastructure
 - increased efficiency of fuel and power consumption
 - reduced employment



Strong balance sheet, many options to gain financing

CAPEX

PLN m	9M 2013	9M 2014	%
Maintenance (loco & wagons)	171	301	76%
Modernisation of locomotives	23	48	113%
Purchasing wagons	7	48	602%
Other	54	22	-59%
Total	254	419	65%

Financial results

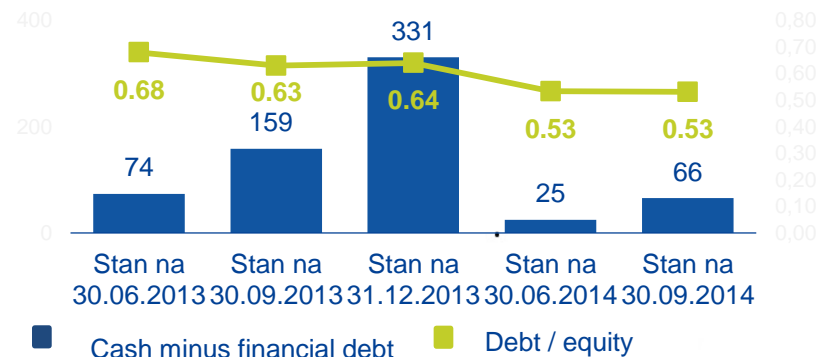
As at the end of the period	30/09/2013	30/09/2014
Net financial debt / EBITDA	-0.31	-0.12
Debt coverage ratio	2.48	5.35
Debt ratio	0.39	0.35

Comment

- + PLN 359 million – cash on operating activity
- PLN 515 million – additional credit line at BGK
 - PLN 115 million – refinancing of Q3 2014 investments
- Low indebtedness indicators allow us to plan to obtain financing for investing in acquisitions

Net cash

in million PLN



Agenda



Key events

Operating data

Financial data

Summary

We deliver on our promises

IPO declarations

Optimizing the Group's operations

Expanding the logistic chain

Strong market player in a region

Cost optimisation

Dividend payment

Performance



New management model



Consolidation of divisions



Consolidation of rolling stock repair companies



New strategies for subsidiaries



Tender offer for purchase of a transshipment port



Acquisition of new freight licenses and contracts



Consolidation of the market through M&A (active processes)



Efficiency improvements, operating expenses -12% y/y



EBITDA margin for 9M 17.5%



Dividend disbursement at PLN 137.5 million

Our key challenges



- Effective utilization of resources in the face of falling commercial speed
- Flexibility in adjusting resources to changing market environment (commercial policy, revenue streams)
- Optimization of employment size and structure (VLP possible)
- New structure of sales department to improve customer service
- Unified Group offer based on the scale of operations
- Opportunistic acquisitions with significant synergy potential



Q&A Session



Transport results



Freight turnover (m tkm)

	9M 2013	9M 2014	Change %	Share 9M 2013	Share 9M 2014
solid fuels	10 007	8 806	-12%	45%	42%
<i>including coal</i>	8 930	7 767	-13%	40%	37%
aggregates and construction materials	3 922	4 530	16%	18%	21%
metals and ores	3 146	2 653	-16%	14%	13%
chemicals	1265	1404	11%	6%	7%
liquid fuels	597	531	-11%	3%	3%
timber and agricultural produce	1192	1299	9%	5%	6%
Intermodal transport	1370	1321	-4%	6%	6%
other	667	549	-18%	3%	3%
Total	22 166	21 092	-5%	100%	100%

Volume (m tonnes)

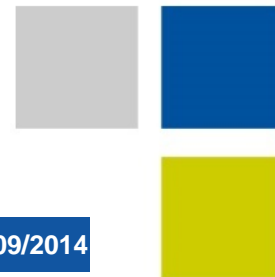
	9M 2013	9M 2014	Change %	Share 9M 2013	Share 9M 2014
solid fuels	43 956	40 769	-7%	53%	50%
<i>including coal</i>	40 219	37 122	-8%	48%	46%
aggregates and construction materials	14 101	15 878	13%	17%	20%
metals and ores	10 141	9 360	-8%	12%	12%
chemicals	4 417	4 470	1%	5%	6%
liquid fuels	2 268	1 933	-15%	3%	2%
timber and agricultural produce	3 107	3 522	13%	4%	4%
intermodal transport	3 607	3 422	-5%	4%	4%
other	2 071	1 559	-25%	2%	2%
Total	83 668	80 914	-3%	100%	100%



Consolidated profit and loss statement

PLN m	9M 2013	9M 2014	change %
Sales revenue	3351,5	3100,4	-7%
Revenue from the sales of goods and materials	140,9	39,6	-72%
Other operating revenue	25,3	28,8	14%
Total operating revenue	3517,8	3168,9	-10%
Depreciation and impairments	280,3	272,1	-3%
Consumption of raw materials and consumables	525,3	468,1	-11%
Fuel	159,8	155,3	-3%
Energy	319,8	284,1	-11%
Third party services	1137,8	966,1	-15%
Infrastructure access costs	700,7	504,9	-28%
Taxes and charges	26,9	30,7	14%
Cost of employee benefits	1327,1	1073,0	-19%
Other costs by category	46,5	29,4	-37%
Value of goods and materials sold	120,1	26,6	-78%
Other operating expenses	36,9	21,2	-42%
Cost of operating activities	3500,9	2887,1	-18%
EBITDA	297,2	553,8	86%
Operating profit	16,9	281,8	1565%
Financial revenue	26,1	28,9	11%
Financial cost	40,8	25,1	-39%
Share in profit of associated entities	0,6	0,0	-105%
Profit before tax	2,8	285,6	10009%
Income tax	7,6	58,2	665%
Net profit	(4,8)	227,4	-4857%
Net profit (loss) attributable to:			
Shareholders of the parent company	(4,6)	225,8	-5010%
Non-controlling interest	-0,2	1,6	-977%

Consolidated statement of financial position



PLN m	As at 31/12/2013	As at 30/09/2014
Tangible fixed assets	3855,4	3986,7
Intangible assets	61,4	55,1
Goodwill	2,7	2,7
Investment property	1,4	1,4
Investments measured using the equity method	38,2	34,3
Other non-current financial assets	6,1	6,1
Other non-current non-financial assets	1,4	1,7
Deferred tax assets	83,2	34,2
Total non-current assets	4049,9	4122,1
Inventory	76,0	83,3
Trade and other receivables	609,3	582,3
Income tax receivables	2,4	0,3
Other current financial assets	691,4	315,8
Other current non-financial assets	33,4	34,0
Cash & cash equivalents	263,7	349,3
Non-current assets held for sale	17,6	17,6
Total current assets	1693,7	1382,6
Total assets	5743,6	5504,7

Consolidated statement of financial position

PLN m	As at 31/12/2013	As at 30/09/2014
Share capital	2 166,9	2 239,3
Supplementary capital	692,8	615,3
Other equity components	-16,4	-17,5
Retained earnings / Uncovered losses	603,2	694,5
Equity attributable to shareholders of the parent company	3 446,5	3 531,7
Equity attributable to non-controlling interest	62,4	63,1
Equity	3 508,9	3 594,8
Long-term bank credit and loans	121,6	176,6
Long-term liabilities from finance leases and lease contracts	313,1	215,1
Long-term trade and other receivables	113,7	79,9
Long-term provisions for employee benefits	592,9	566,9
Other long-term provisions	22,9	8,4
Deferred tax provision	2,6	2,4
Long-term liabilities	1 166,7	1 049,4
Short-term bank credit and loans	73,2	76,3
Short-term liabilities under finance leases and lease contracts	115,8	128,3
Short-term trade and other receivables	675,8	528,8
Short-term provisions for employee benefits	176,5	98,9
Income tax liability	26,1	23,9
Other short-term financial liabilities	0,3	2,9
Other short-term provisions	0,2	1,3
Short-term liabilities	1 068,0	860,5
Liabilities	2 234,7	1 909,9
Total liabilities and equity	5 743,6	5 504,7



Consolidated cash-flow statement

PLN m	9M 2013	9M 2014
Gross profit/(loss) for the financial year	2,8	285,6
Adjustments:		
Depreciation of fixed assets	282,2	272,1
Impairment of fixed assets	(1,9)	-
Profit on the sale of fixed assets and intangible assets	21,2	6,3
Profit (loss) on operating activities	-	3,5
Profit/loss on exchange rate differences	9,8	1,6
Profit/loss on interest, dividend	0,1	5,7
Share in profit of associated entities	(0,6)	0,0
Other adjustments	107,4	(2,4)
Changes in working capital:		
(Increase) / decrease of the balance of trade receivables and other receivables	(27,5)	19,2
(Increase) / decrease in inventory	4,5	0,1
(Increase) / decrease in other assets	(7,4)	(0,8)
(Increase) / decrease in the balance of trade payables and other liabilities	10,1	(108,3)
(Increase) / decrease in other financial liabilities	0,9	-
(Increase) / decrease in provisions	59,1	(120,2)
Cash flow from operating activities	460,8	362,3
Interest (paid) / received	3,7	2,6
Income tax (paid) / received	(4,8)	(5,8)
Net cash flow from operating activities	459,8	359,1

Consolidated cash-flow statement

PLN m	9M 2013	9M 2014
Expenditures in respect of purchase of fixed assets and intangible assets	(300,9)	(495,3)
Proceeds from the sale of fixed assets and intangible assets	2,1	1,0
Proceeds from the sale of other financial assets	0,0	-
Expenses for the acquisition of subsidiaries, associates and joint ventures	-	(0,3)
Interest received	20,9	17,1
Dividends received	1,1	0,4
Expenses for loans	-	(2,8)
Repayment of loans granted	51,6	-
Expenditure in respect of loans granted	-	-
Other inflows / (expenditures) from investing activity	0,7	377,5
Net cash flow (used) / from investing activities	(224,6)	(102,2)
Financial lease expenditure	(86,2)	(89,4)
Lease interest paid	(12,3)	(9,3)
Inflows from credit facilities / loans received	31,7	115,4
Credit facilities / loans repaid	(83,0)	(48,1)
Interest paid on credit facilities / loans	(8,2)	(4,5)
Outflow/repayment of bank overdrafts	-	(9,1)
Subsidies received	-	17,8
Dividends paid to shareholders of the parent company	-	(137,5)
Dividends paid to non-controlling shareholders	(1,1)	-
Other inflows / (outflows) from financial activities	(7,7)	(6,5)
Net cash flow (used) / generated by financial activities	(166,8)	(171,3)
Increase/(decrease) in net balance of cash and cash equivalents	68,4	85,6
Cash & cash equivalents at the beginning of the reporting period	188,0	263,7
Cash & cash equivalents at the end of the reporting period	256,4	349,3



For additional information on PKP CARGO please contact
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