



PKP CARGO GROUP in Q2 2020



**LEADING RAIL FREIGHT
OPERATOR**



01 

Market
environment

02 

Commercial
results

03 

Financial
results

04 

PKP CARGO
Group



Results of the PKP CARGO Group in H1 2020



Financial data H1 2020

1,964.6 million PLN in
revenue on contracts
with customers

206.7 million PLN EBITDA

-182.0 million PLN EBIT



Operational data H1 2020

11.1 billion tkm freight
turnover

43.9 million tons freight
volume

01

Market environment



01

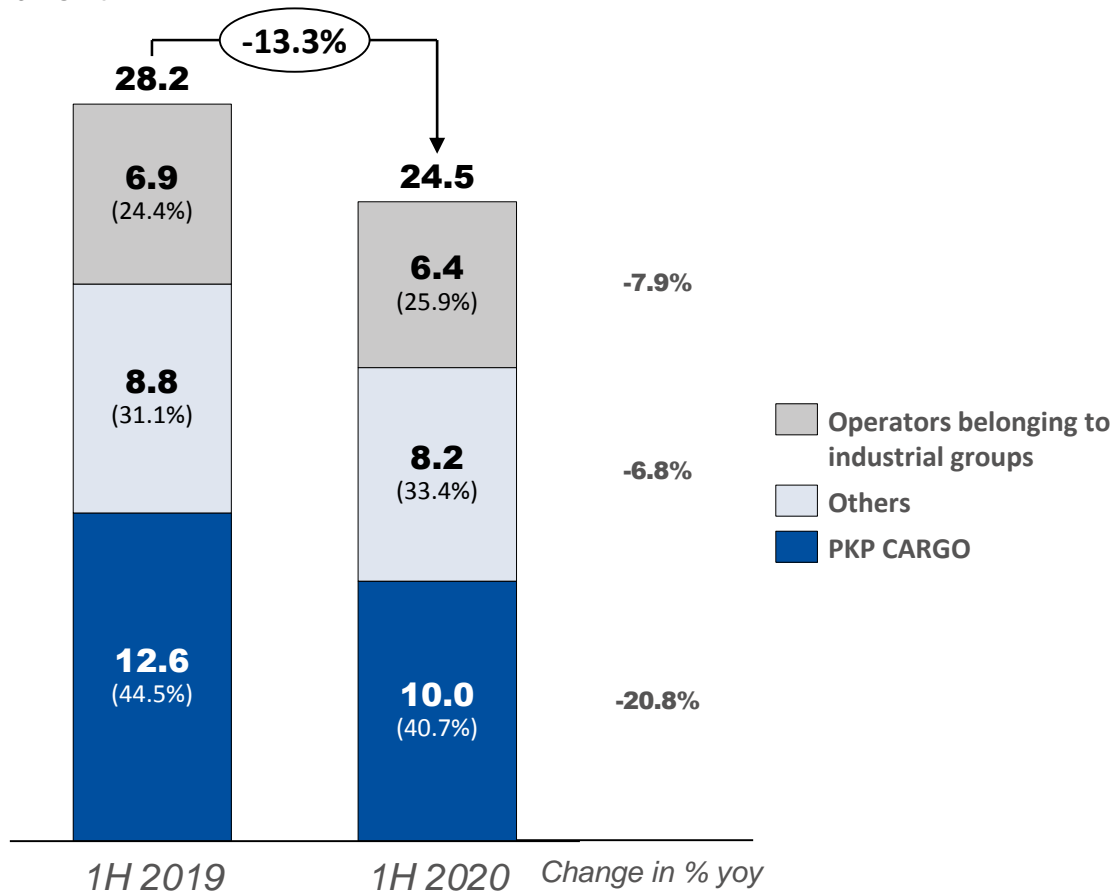


In H1 2020 the overall rail freight market shrank 13.3% on an annual basis

POLISH RAIL FREIGHT MARKET MEASURED BY FREIGHT TURNOVER

H1 2019 and 2020

billion tkm



	Market share measured by freight turnover H1 2019:	Market share measured by freight turnover H1 2020:
Lotos Kolej	9.4%	10.4%
PKP LHS	5.9%	5.0%
Orlen Kol-Trans	3.7%	4.0%
PUK Kolprem	1.7%	2.6%
Pol-Miedź Trans	1.8%	1.5%
Ciech Cargo	0.9%	1.1%
Railpolonia	0.6%	0.8%
JSW Logistics	0.3%	0.5%
DB Cargo Polska	5.6%	4.8%
CTL Logistics	4.1%	4.5%
Freightliner PL	3.0%	3.5%
Inter Cargo	2.4%	2.1%
Captrain Polska	1.9%	1.9%
PCC Intermodal	1.1%	1.7%
CD Cargo Poland	1.8%	1.6%
Rail Polska	1.7%	1.5%
Ecco Rail	0.7%	1.2%
LTE Polska	1.0%	0.9%
Bartex	0.0%	0.9%
Logistics & Transport	0.7%	0.9%
Olavion	0.9%	0.8%
Metrans Polonia	0.4%	0.7%
HSL	0.6%	0.7%
Transchem	0.4%	0.4%
STK	1.1%	0.2%
Others	3.7%	5.0%
PKP CARGO	44.5%	40.7%

01



The major players posted marked decline in their freight transport in H1 2020, with the exception being small intermodal operators and operators belonging to industrial groups

CHANGE IN FREIGHT TURNOVER

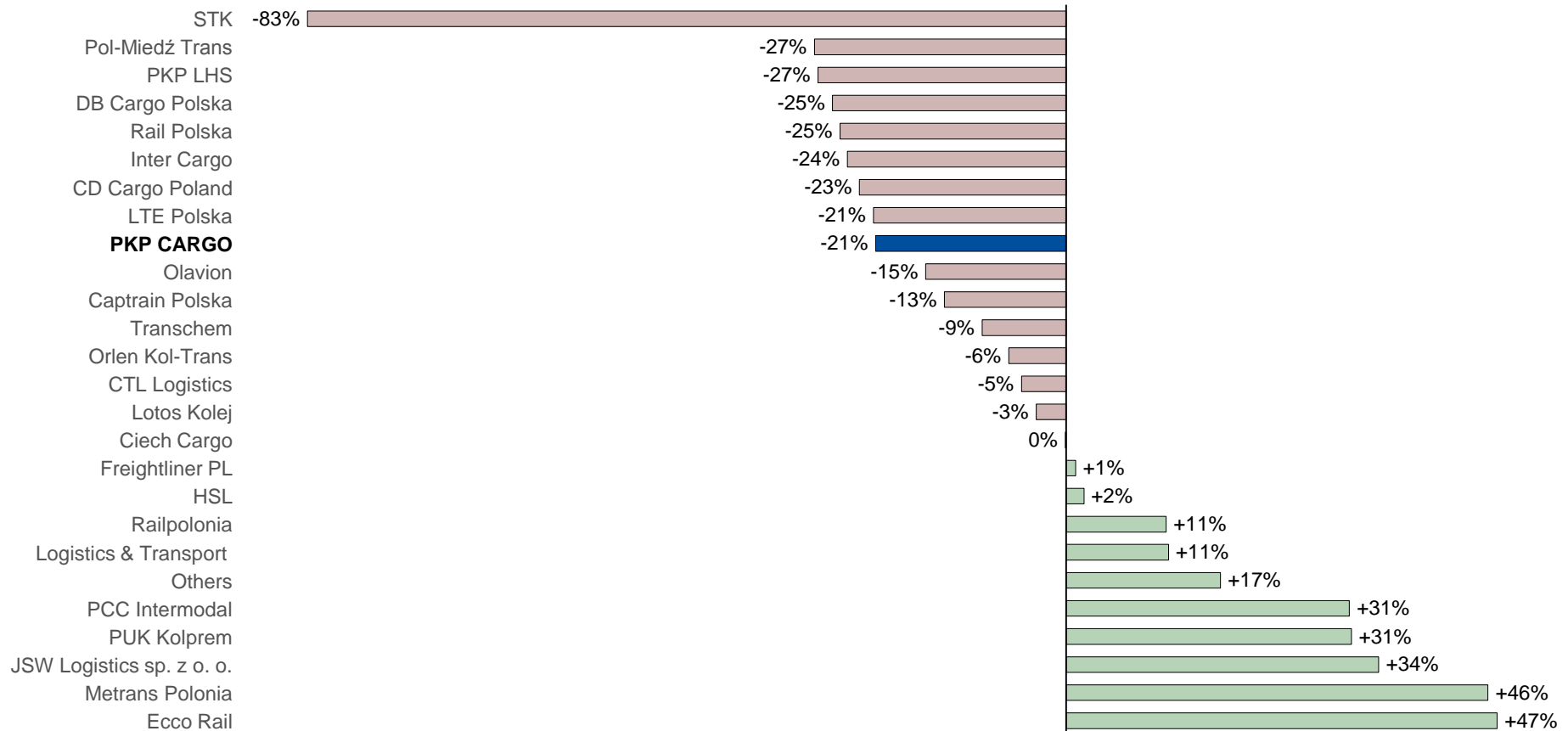
H1 2020

% yoy

Total losses on the market:
-4,633 million tkm

Net market position:
-3,749 million tkm

Total gains on the market:
+884 million tkm

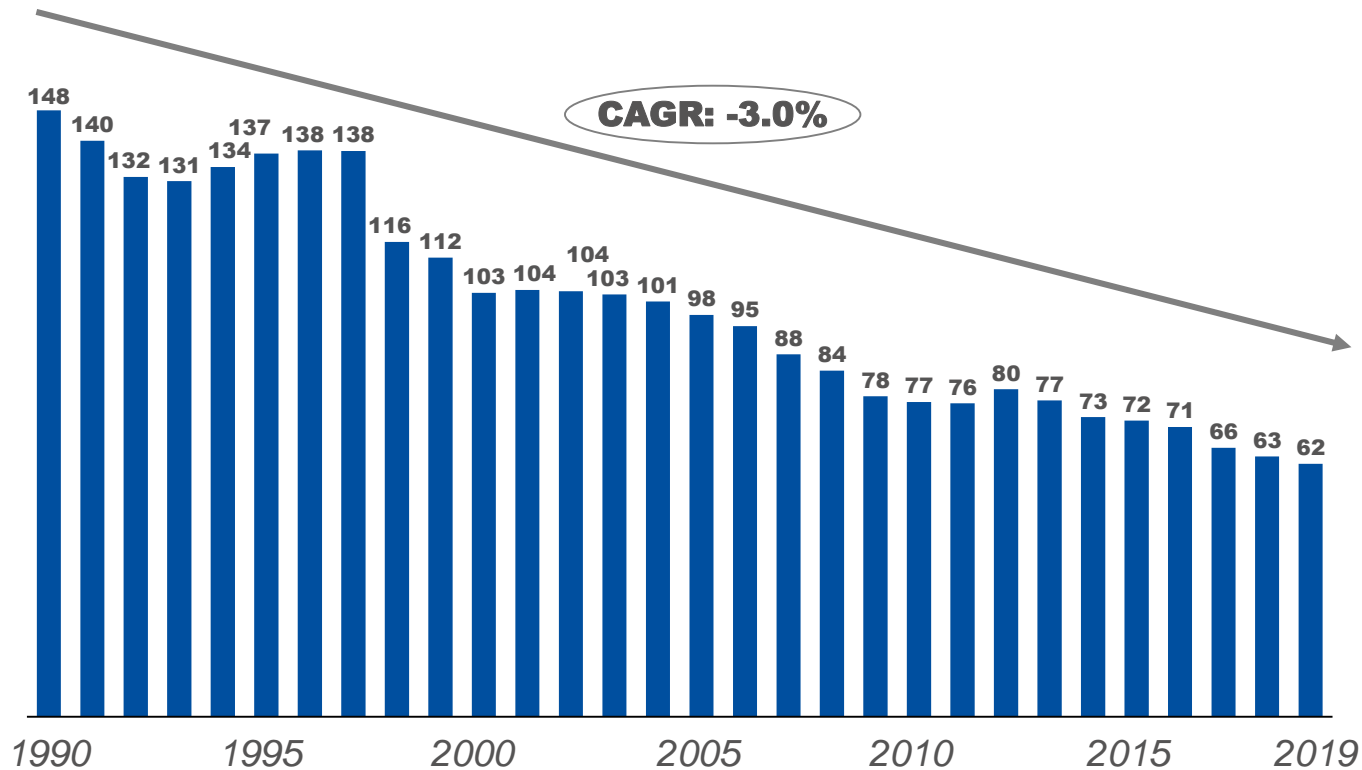


01



The COVID epidemic accelerated the long-term downward trend in domestic hard coal production – production fell 14.1% yoy in H1 2020

EXTRACTION OF HARD COAL IN POLAND IN 1990-2019
million tons



- The coal mining industry is subject to a constant trend of adapting to shrinking demand
- Hard coal production fell 14.1% yoy to 26.5 million tons in the period from January to June 2020.

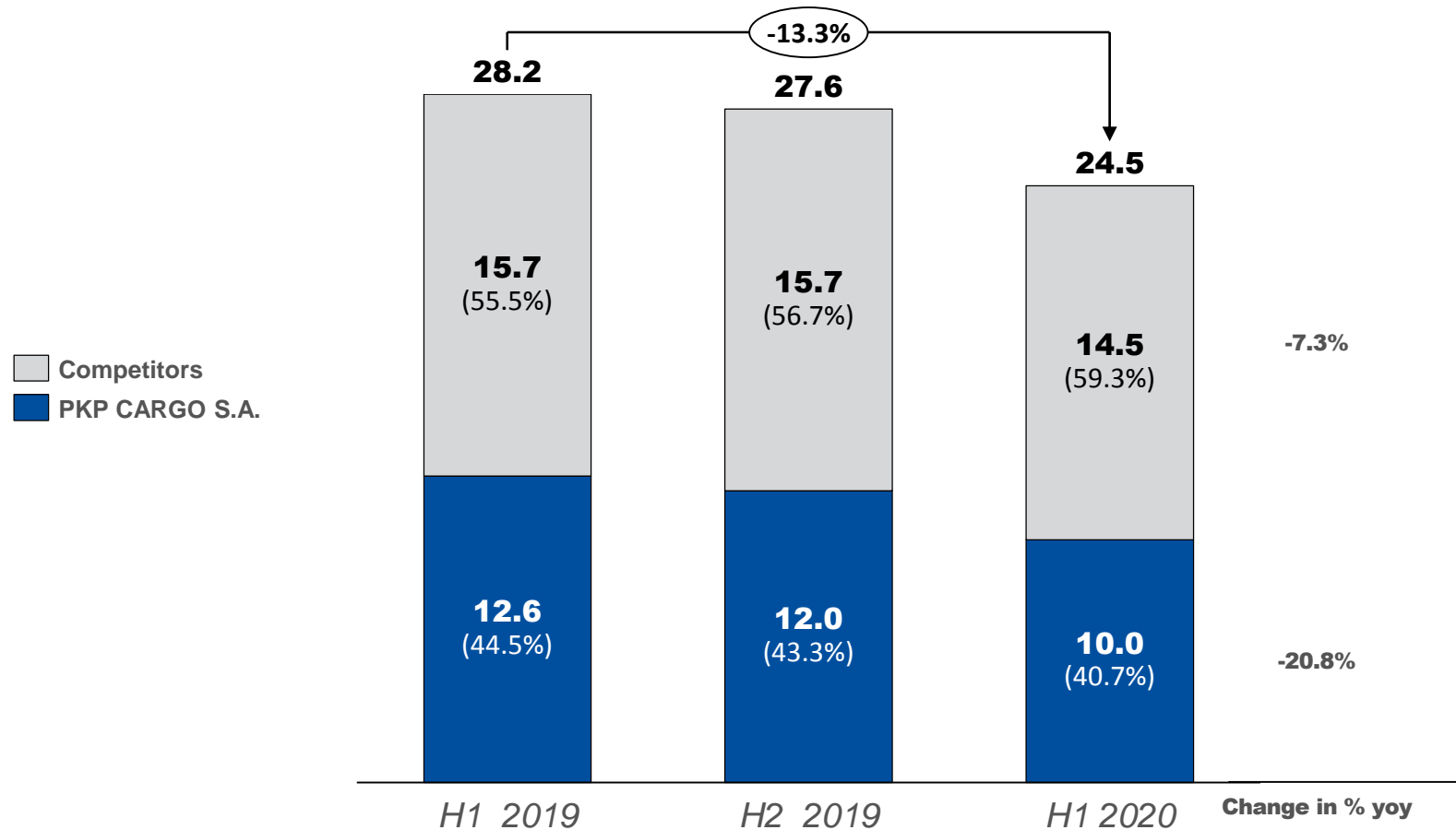
01



The rate at which the size of the market fell in H1 2020 constitutes a clear deviation from the trend to date

FREIGHT TURNOVER ON THE POLISH MARKET

billion tkm



02

Commercial results



02



The COVID-19 epidemic and climate policy are curtailing market demand for freight transport in the most important cargo categories



Solid fuels

- **Power sector's dwindling coal demand**
- Higher **energy imports** from neighboring countries and **high coal inventories in power plants**
- Limited **coking coal demand** in the metallurgical industry



Aggregates and construction materials

- Completion of **investments from 2019** and the **smaller scale** of projects currently under execution
- Deterioration of **liquidity among construction companies**
- **Restrictions on stone extraction**, problems experienced by unloading firms, staff shortages, changes in the organization of construction sites



Intermodal transport

- Since May 2020 **activity on the New Silk Road has gradually revisited** pre-pandemic levels
- **Diminished imports and exports through Baltic ports** and more freight transport in Central Europe
- Greater **competition** in the intermodal segment



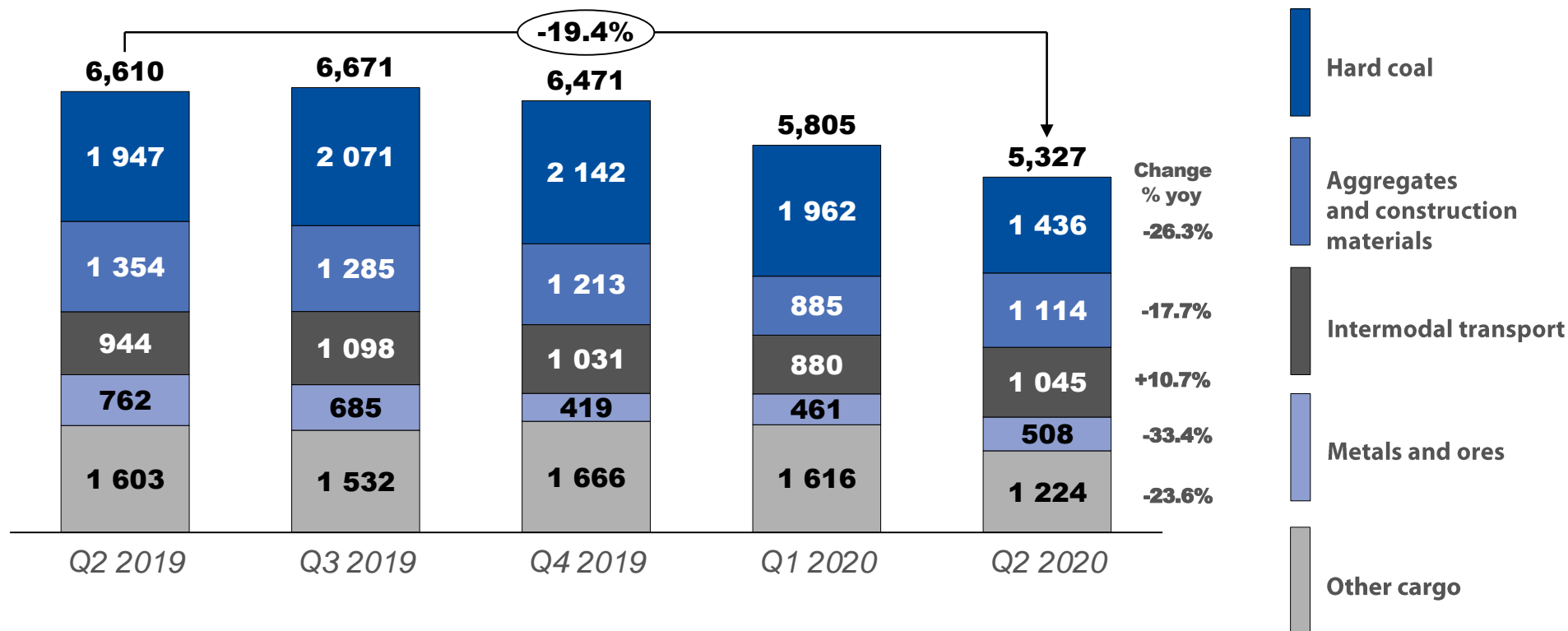
Metals and ores

- **Falling steel demand**, reduced activity of steel mills and coking plants in the region and across Europe
- Reduced orders associated with **suspended manufacturing operations in car factories**
- High **inventories of scrap metal** and competition posed by road transport

02

Despite the COVID-19 epidemic the Group handled more freight transport in Q2 versus Q1 in the intermodal, aggregates and metals segments

PKP CARGO GROUP'S FREIGHT TURNOVER
 Q2 2019 – Q2 2020
 million tkm



02

The Group maintained business stability and continuity of its freight transport processes in the demanding market environment caused by COVID-19

IMPACT OF COVID-19

- Significant **reduction in clients' economic activity**, especially in the power and steel manufacturing industries
- **Limited employee mobility**
- **Single cases of sickness** and quarantine

INTERNAL MEASURES

- **Reorganization of the work** of train crews and employees of the rail operations command center
- **More stringent sanitary norms**
- **Purchase of means of personal protection** and disinfectants
- More extensive **usage of remote work**
- **Agreements with trade union organizations** on shortening working time and reducing salaries on a pro rata basis
- **Expenditures related to prevention and personal protection means totaled 2.4 million PLN** year to date

EXTERNAL SUPPORT

- Support for **PKP CARGO S.A.** from the Guaranteed Employee Benefits Fund totaling **102.4 million PLN (June-August 2020)**
- Support for **PKP CARGO Connect** and **PKP CARGOTABOR** from the Guaranteed Employee Benefits Fund totaling **17.8 million PLN (July-September 2020)**

03

Financial results



03

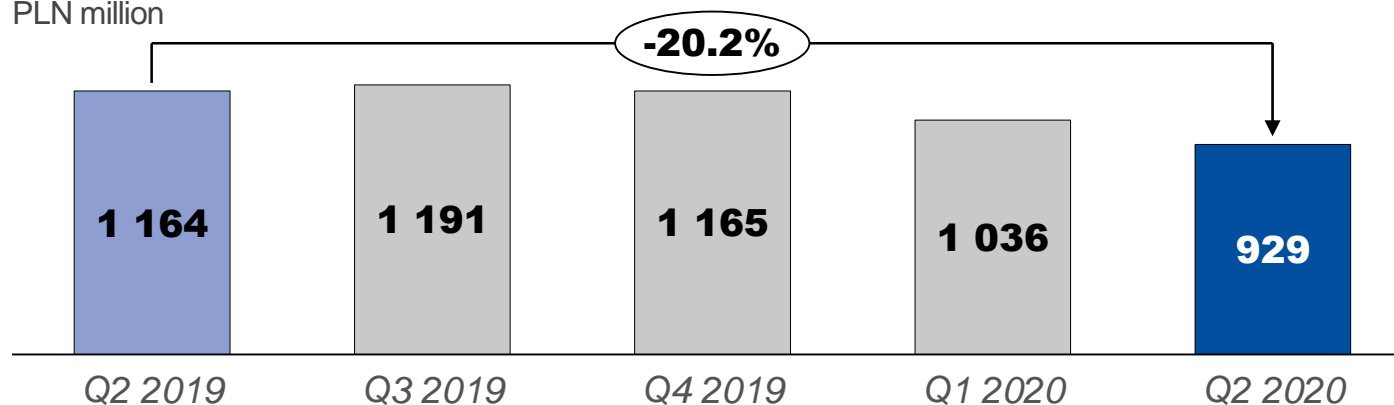


In Q2 the Group's revenue was affected by the weakened rail freight market

PKP CARGO GROUP'S REVENUE ON CONTRACTS WITH CLIENTS

Q2 2019 – Q2 2020

PLN million

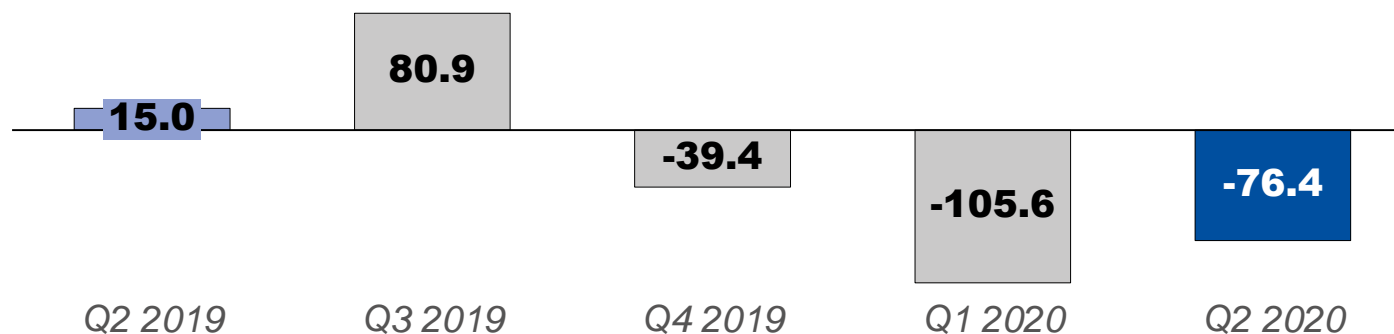


- **Record low transport in April and May** and noticeable improvement in June
- **Slight downward trend of unit rates** compared to previous quarters

PKP CARGO GROUP'S OPERATIONAL RESULT

Q2 2019 – Q2 2020

PLN million



- **Stopping the downward trend** in EBIT
- **Significant savings efforts** in all cost categories

03

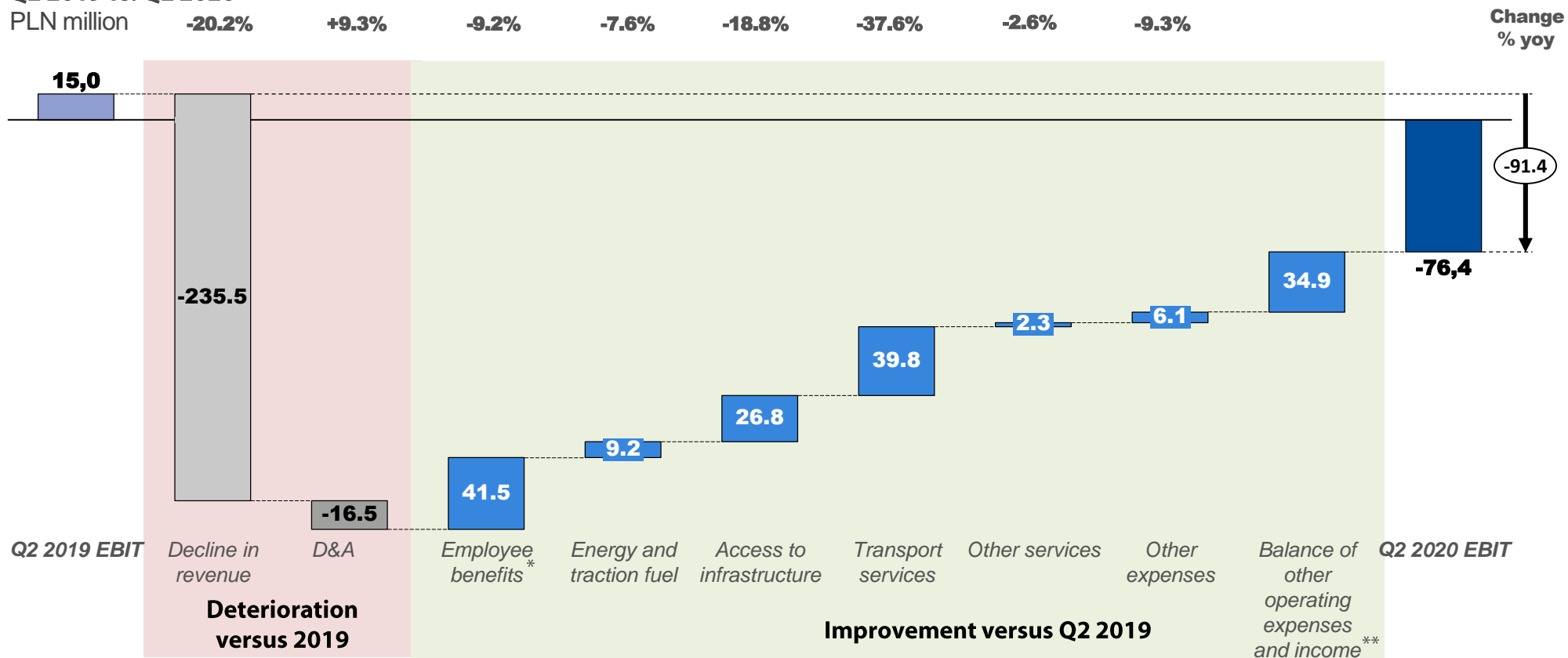


Significant savings in all cost categories made it possible to reduce the operating loss

COMPONENTS OF THE EVOLUTION IN THE PKP CARGO GROUP'S OPERATING PROFIT

Q2 2019 vs. Q2 2020

PLN million



* Includes higher provisions for employee benefits (10.6 million PLN) and unused holiday leave (0.6 million PLN) and reduced working time (9/10) in June 2020 in PKP CARGO S.A.

** Includes the impact exerted by the first tranche of financial support for salaries from the Guaranteed Employee Benefits Fund in June 2020

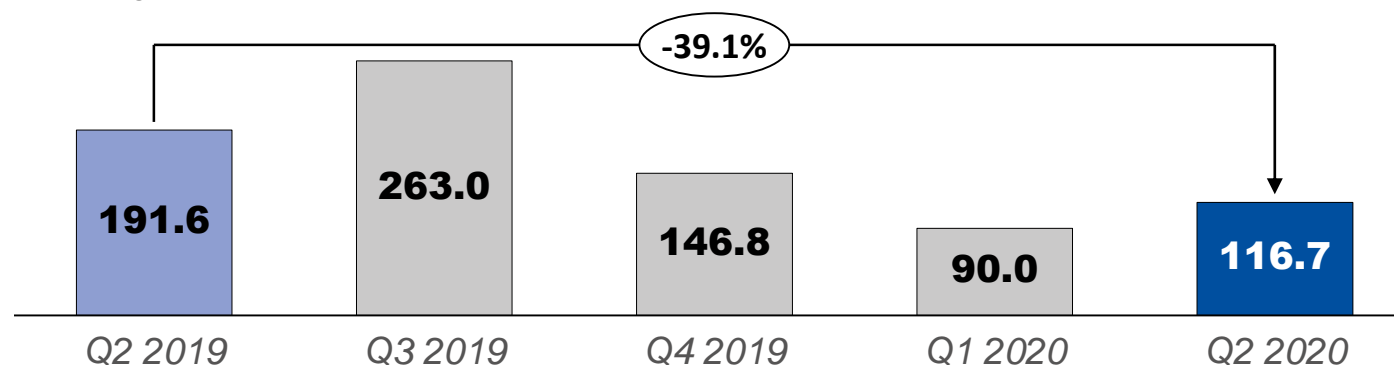
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EBITDA and the net result were better than in the previous period despite the market environment being worse

EBITDA OF THE PKP CARGO GROUP

Q2 2019 – Q2 2020

PLN million

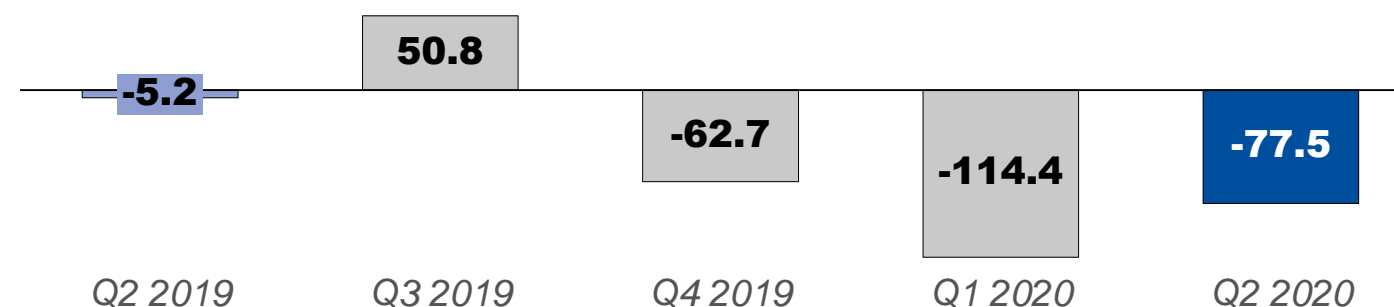


- Decline in EBITDA substantially smaller than in the previous quarter (-65% yoy)

THE PKP CARGO GROUP'S NET RESULT

Q2 2019 – Q2 2020

PLN million



- Decline in financial expenses yoy and qoq

03



The company has a stable balance sheet structure and secured funding sources

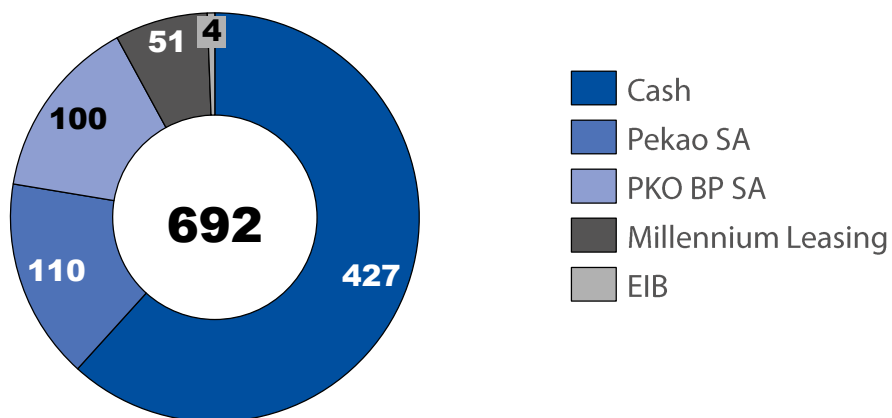
KEY BALANCE SHEET ITEMS		
PLN million	31.12.2019	30.06.2020
Fixed capital	6,539	6,443
Non-current assets	6,504	6,514
Coverage ratio ¹	1.01	0.99
Total debt	2,623	2,717
Total debt ratio	0.57	0.59

FINANCIAL RATIOS		
	6M 2019	6M 2020
ROA ²	1.9%	-2.6%
ROE ³	4.1%	-6.5%
EBITDA margin	18.4%	10.2%

AVAILABLE FUNDING SOURCES

As at 30 June 2020

PLN million



¹ - Calculated as the ratio of total equity and non-current liabilities to non-current assets

² Calculated as the ratio of net profit for the last 12 months to total assets

³ Calculated as the ratio of net profit for the last 12 months to equity

04

PKP CARGO Group



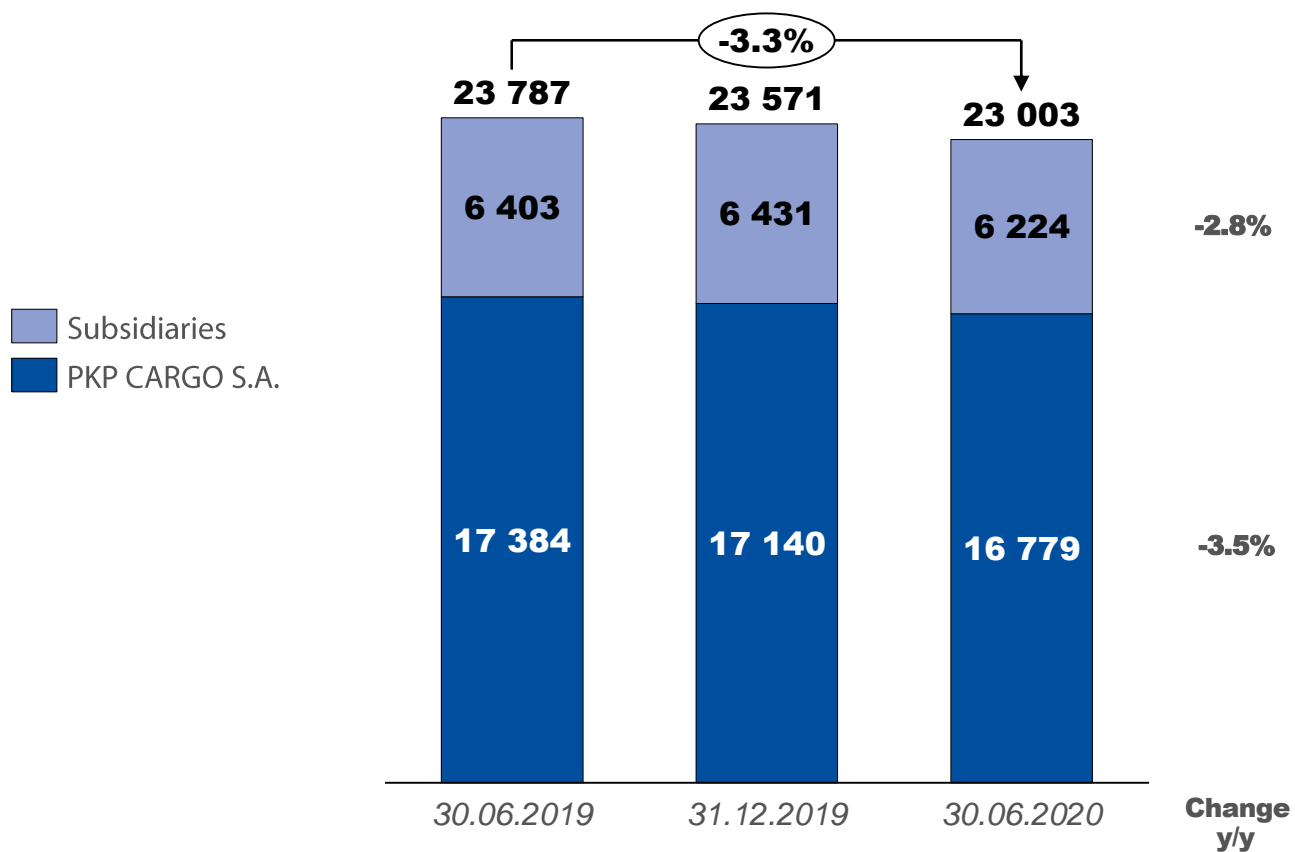
04



PKP CARGO Group adjusts its workforce size to the changing market conditions

PKP CARGO GROUP HEADCOUNT

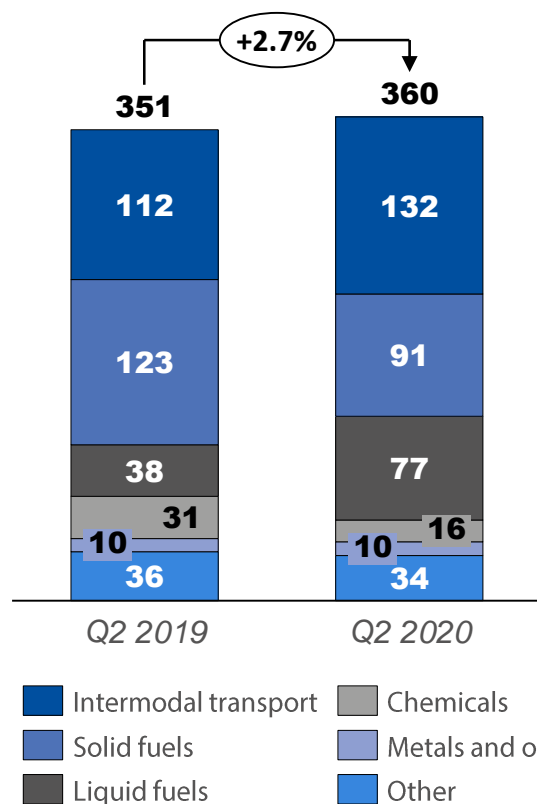
persons



04

PKP CARGO International is continuing its transformation into an international intermodal rail operator that has increased rail freight transport despite the epidemic

PKP CARGO
INTERNATIONAL GROUP'S FREIGHT TURNOVER
 million tkm



Intermodal

- Explicit growth trend delicately dampened on account of the COVID-19 epidemic
- Successive growth in the average distance

Solid fuels

- Lower production of coal mines and lower demand among industrial offtakers
- Decline in the share of freight turnover from 1/3 (6M'19) to 1/4 (6M'20)

Liquid fuels

- PKP CARGO Group's high percentage of joint freight transport between Slovakia and Poland

Chemicals

- Lower demand among clients due to falling industrial production

Metals and ores

- Greater importance of metals transport on longer distances in the North-South corridor

Other

- Low activity in the automotive sector

Attachments





Freight results

Freight turnover [million tkm]	6M 2020	6M 2019	Change	% change	Share – 6M 2020	Share – 6M 2019
<i>Solid fuels, including:</i>	4,125	5,064	-939	-18.5%	37%	37%
<i>Hard coal</i>	3,398	4,289	-890	-20.8%	31%	31%
<i>Aggregates and construction materials</i>	1,998	2,710	-711	-26.2%	18%	20%
<i>Metals and ores</i>	969	1,638	-669	-40.8%	9%	12%
<i>Chemicals</i>	901	1,075	-174	-16.2%	8%	8%
<i>Liquid fuels</i>	417	484	-67	-13.9%	4%	4%
<i>Timber and agricultural produce</i>	511	536	-26	-4.8%	5%	4%
<i>Intermodal transport</i>	1,926	1,931	-5	-0.3%	17%	14%
<i>Other</i>	286	291	-5	-1.8%	3%	2%
Total	11,132	13,728	-2,596	-18.9%	100%	100%
Freight volume [million tons]	6M 2020	6M 2019	Change	% change	Share – 6M 2020	Share – 6M 2019
<i>Solid fuels, including:</i>	22.0	26.8	-4.8	-17.9%	50%	49%
<i>Hard coal</i>	19.7	24.1	-4.5	-18.5%	45%	44%
<i>Aggregates and construction materials</i>	8.1	10.3	-2.1	-20.7%	19%	19%
<i>Metals and ores</i>	3.2	5.4	-2.2	-41.0%	7%	10%
<i>Chemicals</i>	2.7	3.3	-0.6	-19.2%	6%	6%
<i>Liquid fuels</i>	1.2	1.7	-0.5	-27.0%	3%	3%
<i>Timber and agricultural produce</i>	1.4	1.9	-0.5	-27.8%	3%	4%
<i>Intermodal transport</i>	4.3	4.7	-0.3	-7.1%	10%	8%
<i>Other</i>	0.9	1.1	-0.2	-18.4%	2%	2%
Total	43.9	55.2	-11.3	-20.5%	100%	100%



Consolidated statement of comprehensive income

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME [PLN million]			
	H1 2020	H1 2019	Change yoy
Revenues from contracts with customers	1,964.6	2,425.3	-460.7
Consumption of electricity and traction fuel	(234.6)	(279.9)	+45.3
Infrastructure access services	(243.6)	(289.5)	+45.9
Transport services	(160.6)	(203.5)	+42.9
Other services	(176.6)	(181.0)	+4.4
Employee benefits	(853.2)	(881.4)	+28.2
Other expenses	(133.1)	(141.3)	+8.2
Other operating revenue and (expenses)	43.8	1.4	+42.4
Operating profit before depreciation (EBITDA)	206.7	450.1	-243.4
Depreciation and impairment losses	(388.7)	(348.2)	-40.5
Profit / loss on operating activities (EBIT)	(182.0)	101.9	-283.9
Financial income and (expenses)	(49.8)	(34.6)	-15.2
Share in the profit / (loss) of entities accounted for under the equity method	0.8	0.7	+0.1
Profit before tax	(231.0)	68.0	-299.0
Income tax	39.1	(20.1)	+59.2
NET PROFIT / (LOSS)	(191.9)	47.9	-239.8
OTHER COMPREHENSIVE INCOME			
Measurement of hedging instruments	(30.0)	9.1	-39.1
Income tax	5.7	(1.7)	+7.4
FX differences from translation of financial statements	(5.8)	0.3	-6.1
Total other comprehensive income subject to reclassification to profit or loss	(30.1)	7.7	-37.8
Actuarial gains / (losses) on employee benefits	(52.1)	(14.0)	-38.1
Income tax	9.9	2.7	+7.2
Measurement of equity instruments at fair value	(0.7)	0.7	-1.4
Total other comprehensive income not subject to reclassification to profit or loss	(42.9)	(10.6)	-32.3
Total other comprehensive income	(73.0)	(2.9)	-70.1
TOTAL COMPREHENSIVE INCOME	(264.9)	45.0	-309.9



Consolidated statement of financial position

ASSETS [PLN million]
Rolling stock
Other property, plant and equipment
Right-of-use assets
Investments in entities accounted for under the equity method
Trade receivables
Lease receivables
Other assets
Deferred tax assets
Total non-current assets
Inventories
Trade receivables
Lease receivables
Income tax receivables
Other assets
Cash and cash equivalents
Total current assets
Non-current assets classified as held for sale
Total assets

	As at 30 June 2020	As at 31 December 2019
	4,327.2	4,329.6
	884.7	872.4
	1,040.0	1,078.8
	41.4	40.4
	4.1	3.0
	11.3	10.9
	39.0	55.0
	166.3	113.7
	6,514.0	6,503.8
	142.9	161.0
	564.7	591.3
	0.7	0.7
	3.6	51.4
	121.4	132.7
	427.0	550.4
	1,260.3	1,487.5
	4.1	-
	7,778.4	7,991.3



Consolidated statement of financial position

	As at 30 June 2020	As at 31 December 2019
EQUITY AND LIABILITIES [PLN million]		
Share capital	2,239.3	2,239.3
Supplementary capital	781.4	781.4
Other items of equity	(144.9)	(77.7)
FX differences from translation of financial statements of foreign operations	71.7	77.5
Retained earnings	210.9	402.8
Equity	3,158.4	3,423.3
Debt liabilities	2,306.7	2,201.4
Trade payables	3.1	2.7
Investment commitments	169.6	157.0
Provisions for employee benefits	712.1	657.1
Other provisions	5.4	5.4
Deferred tax liability	87.1	92.3
Other liabilities	0.1	-
Non-current liabilities	3,284.1	3,115.9
Debt liabilities	410.0	421.3
Trade payables	355.0	412.2
Investment commitments	144.0	181.5
Provisions for employee benefits	149.3	127.1
Other provisions	38.2	45.6
Other liabilities	239.4	264.4
Current liabilities	1,335.9	1,452.1
Total liabilities	4,620.0	4,568.0
Total equity and liabilities	7,778.4	7,991.3



Consolidated Cash Flow Statement

Cash flow [PLN million]
Cash flow on operating activities
Profit / (loss) before tax
Adjustments
Depreciation and impairment losses
(Profits) / losses on interest, dividends
Interest received / (paid)
Income tax received / (paid)
Movement in working capital
Other adjustments
Net cash on operating activities
Cash flow from investing activities
Expenditures on the acquisition of non-financial non-current assets
Proceeds on the sale of non-financial non-current assets
Proceeds from dividends received
Proceeds / (expenditures) on bank term deposits longer than 3 months
Other proceeds / (expenditures) on investing activities
Net cash on investing activities
Cash flow from financing activities
Expenditures on leases
Proceeds from drawn down loans/borrowings
Repayment of loans/borrowings
Interest paid on leases and loans/borrowings
Subsidies received
Inflow / (outflow) as part of cash pool
Other expenditures concerning financing activities
Net cash from financing activities
Net increase / (decrease) in cash and cash equivalents
Cash and cash equivalents at the beginning of the reporting period
Impact exerted by FX rate movements on the cash balance in foreign currencies
Cash and cash equivalents at the end of the reporting period, including:
restricted cash

H1 2020	H1 2019
(231.0)	68.0
388.7	348.2
30.0	27.9
1.5	0.8
47.0	(23.6)
36.4	(49.6)
(54.6)	(16.2)
218.0	355.5
(379.9)	(522.7)
27.0	12.5
-	0.4
-	200.0
1.9	4.2
(351.0)	(305.6)
(75.3)	(62.8)
285.5	-
(182.1)	(122.8)
(30.6)	(26.6)
14.0	45.5
1.5	-
(3.1)	(3.3)
9.9	(170.0)
(123.1)	(120.1)
550.4	447.3
(0.3)	(0.2)
427.0	327.0
32.3	40.0



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