



# PKP CARGO GROUP 2019



**LEADING FREIGHT CARRIER**



**01** 

Summary of results

**02** 

Commercial results

**03** 

Financial results

**04** 

Strategy

# 01

## Summary of 2019 performance



# 01



## Results of the PKP CARGO Group in 2019



REVENUE	EBITDA	EBIT
on contracts with customers	profitability of 17.7%	profitability of 2.9%
<b>4,781.6</b>	<b>859.9</b>	<b>143.4</b>
<b>m PLN</b>	<b>m PLN</b>	<b>m PLN</b>
-7.7% yoy	-5.2% yoy -20.3% yoy*	-48.3% yoy -56.7% yoy*



# 02

## Commercial results



# 02

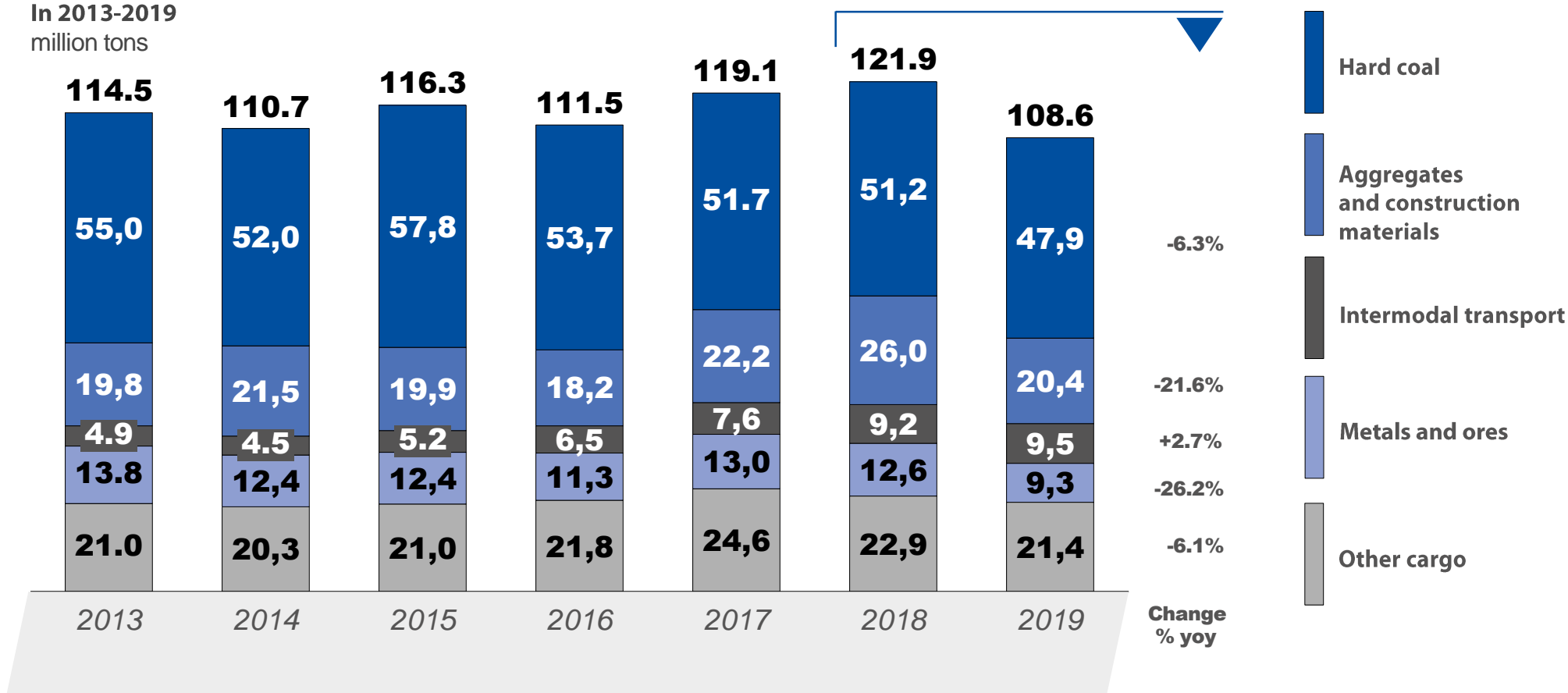
The transported volume is lower than the results in previous years, which is a result of the particularly difficult Q4 2019

## FREIGHT VOLUME CARRIED BY THE PKP CARGO GROUP

In 2013-2019

million tons

**-10.9%**



# 02



## The adverse market environment continues to drive circumstances in the most important groups of commodities in transport



### Solid fuels

- **Renewable energy sources** are continuing to squeeze out solid fuels and **energy imports** from adjacent countries are on the rise
- The **Polish mining industry's low level of competitiveness** faced with falling coal prices on global markets
- **Growing coal inventories** in the commercial power sector
- Dwindling coking coal demand



### Construction materials and aggregates

- **Infrastructural construction market** expected to **rebound** in Poland in the second half of 2020
- Possible **agreement between contractors and their major clients** (General Directorate for National Roads and Motorways - GDDKiA, PKP PLK) on restating the value of contracts to improve liquidity
- **National Rail Program continuation** – completion of 90% to be achieved at the end of 2020 (projects finished and in progress)



### Intermodal transport

- Higher percentage of cargo that **used to be transported in conventional ways** is now transported in containers
- **Deterioration of international trade** due to the COVID-19 epidemic
- Expected **improvement in the competitiveness of rail operators** versus road transport (higher speed, development of terminal networks)



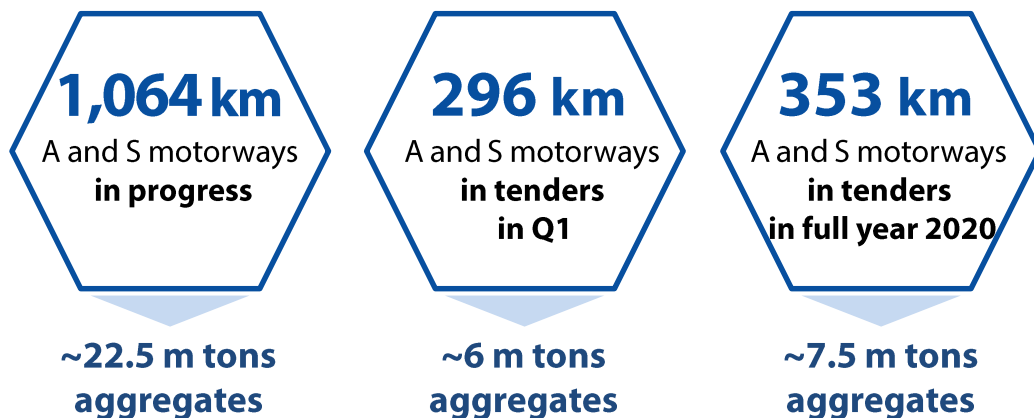
### Metals and ores

- Expected resumption of operation of the **blast furnace at the ArcelorMittal plant in Cracow** after postponing the decision in March
- Further **slowdown in European industry** (automotive, machining industry)
- High level of **imports of steel and steel goods from outside the EU** due to the dwindling price competitiveness of Polish and European producers (among other things, on account of rising prices for energy and CO<sub>2</sub> emission allowances)

# 02

In the next few months PKP CARGO will commence deliveries of aggregates to build two sections of the S5 and S61 roads

## GDDKiA's plan for 2020 (as at 5 March 2020)

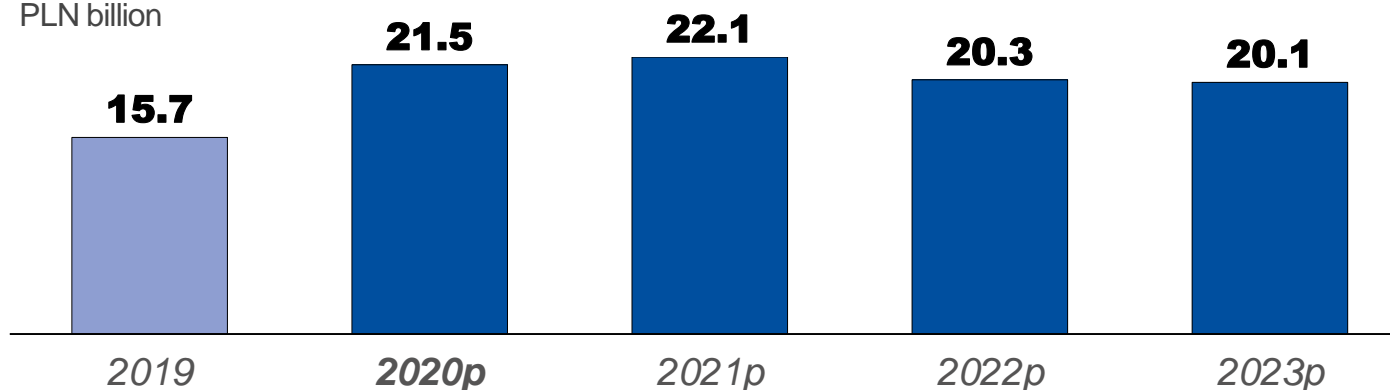


### New construction projects handled by PKP CARGO:

- **S5 Expressway:**
  - Nowe Marzy - Świecie Południe - **23.3 km**
  - Świecie Południe - Bydgoszcz Północ - **22.4 km**
- **S61 Via Baltica Expressway:**
  - Podborze - Śniadowo Section - **19.5 km**

### GDDKiA'S CAPEX TO BUILD NATIONAL ROADS, EXPRESSWAYS AND MOTORWAYS

PLN billion



Construction of a new road consumes the following amount of aggregates per kilometer:

- **National road:** ~12 thousand tons
- **Expressway:** ~21 thousand tons
- **Motorway:** ~25 thousand tons



# 02

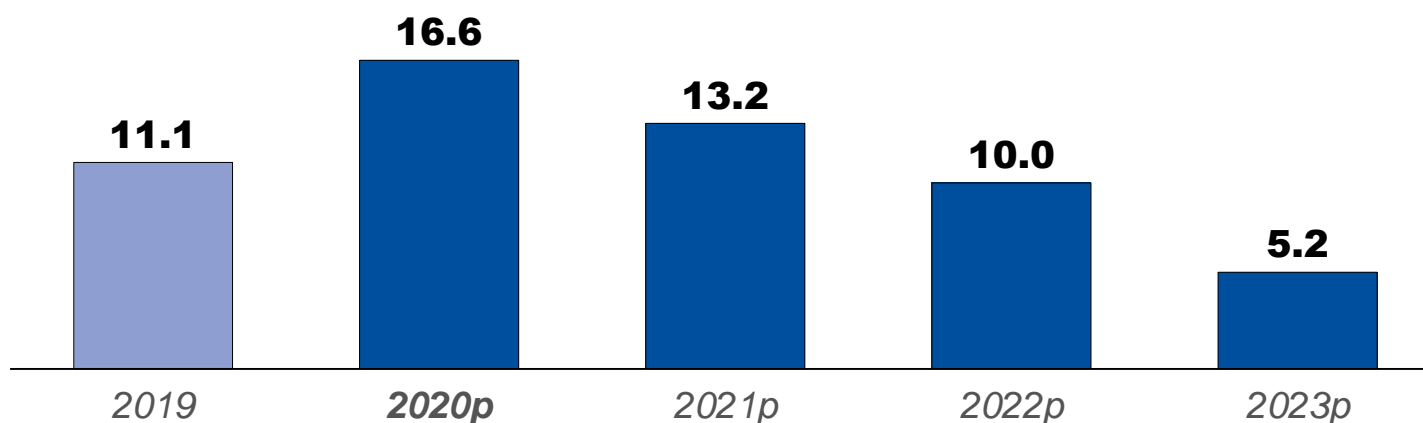
A period of heightened investment activity in the modernization of the rail network will begin in 2020

## PKP PLK S.A.'s plan in the National Railway Program

- investment program worth a total of nearly **PLN 76 billion** over the period of 2016-2023
- **230 investment projects**
- **to date** the modernization of approximately **3,500 km of tracks** has been completed for roughly **PLN 31 billion**
- the modernization of roughly **5,500 km** is planned for completion in **2020-2023** for approximately PLN 45 billion
- the modernization of **5,500 km of tracks** entails a demand for **~14-16 million tons of aggregates**

Building one kilometer of rail track calls for roughly **2.5-3.0 thousand tons of aggregates**

**PKP PLK'S EXPENDITURES in the National Rail Program (KPK)**  
PLN billion



# 03

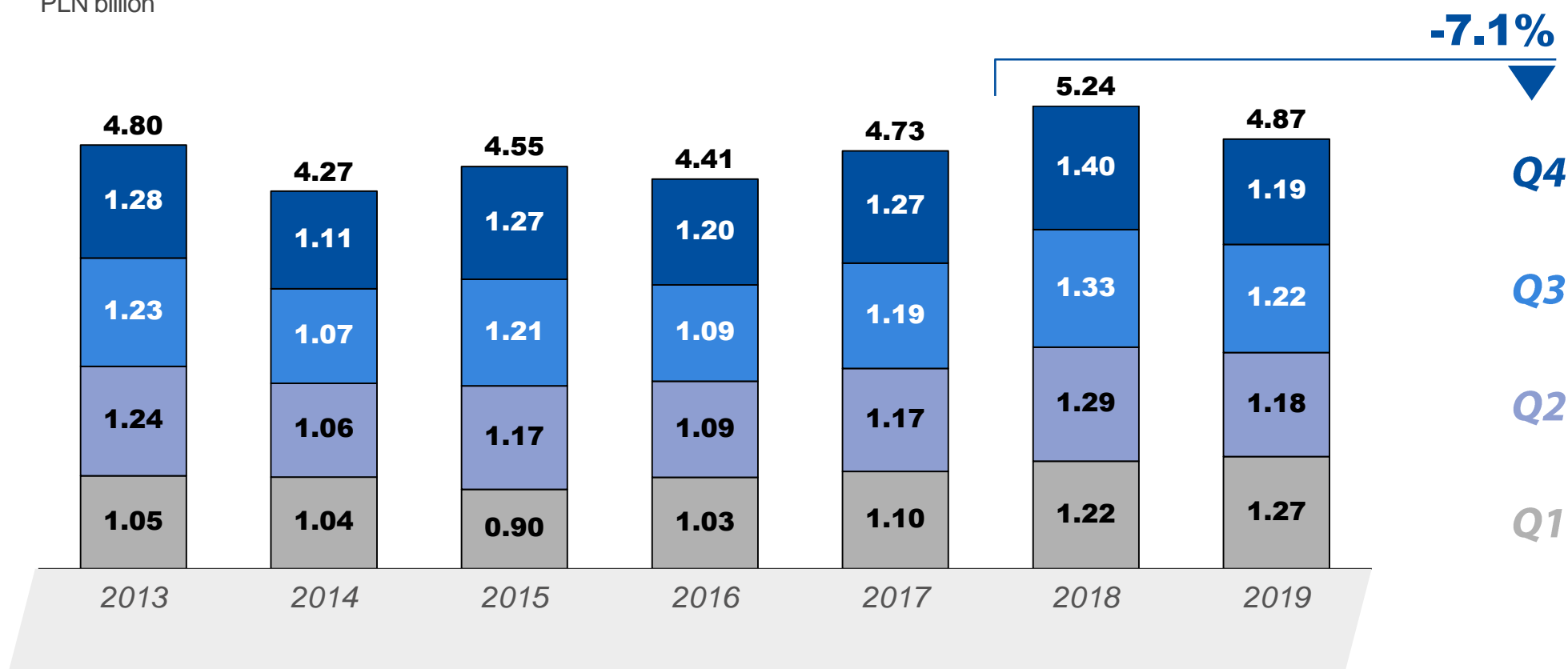
## Financial results



# 03

The transport slump did not exert a symmetrical impact on the revenue generated

**OPERATING REVENUE OF THE PKP CARGO GROUP**  
in 2013-2019  
PLN billion



# 03

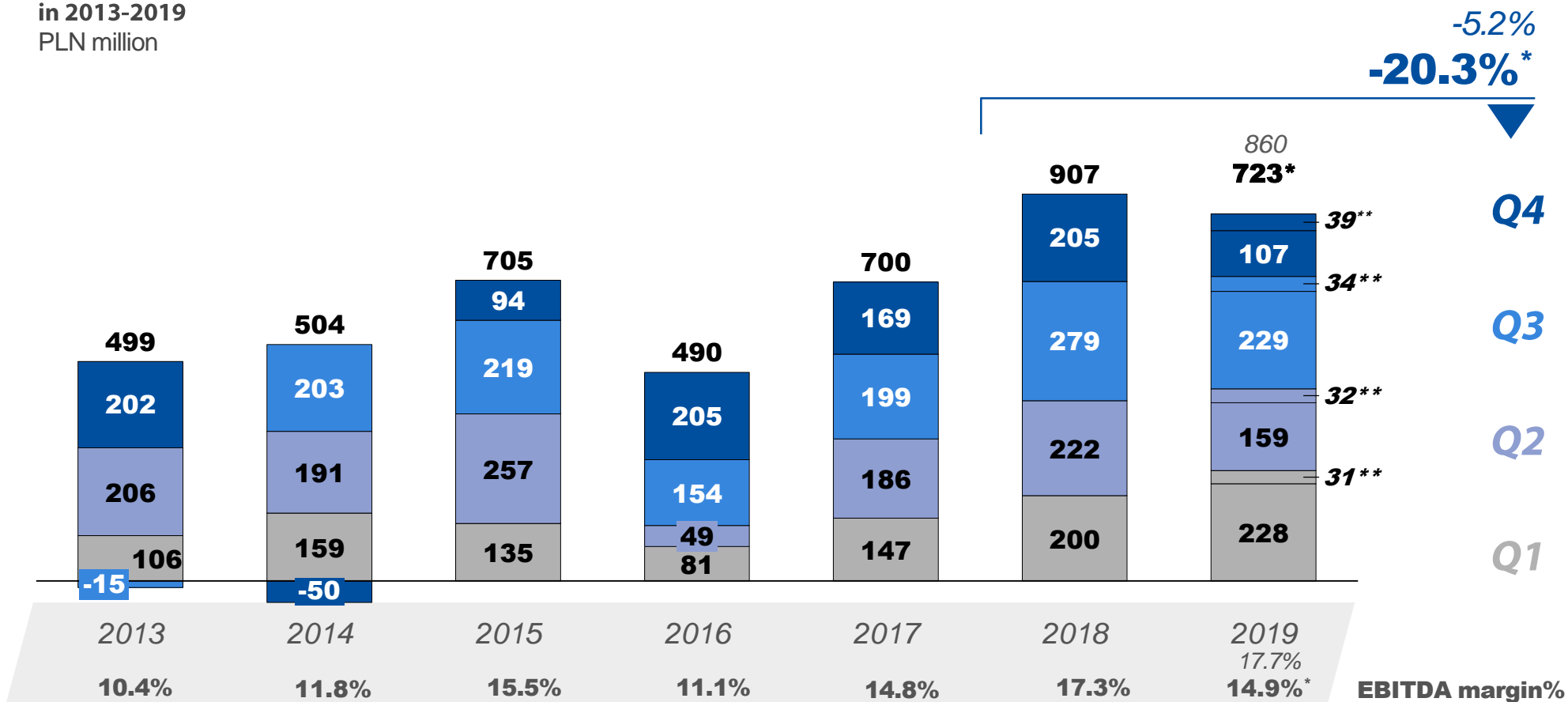


The latter half of the year contributed to the downturn in profitability

## EBITDA OF THE PKP CARGO GROUP

in 2013-2019

PLN million



\* Adjusted for the impact exerted by IFRS 16

\*\* Impact exerted by IFRS 16 on quarterly EBITDA

To facilitate the understanding of this presentation, some figures have been rounded without causing any significant deviations to the data presented herein.

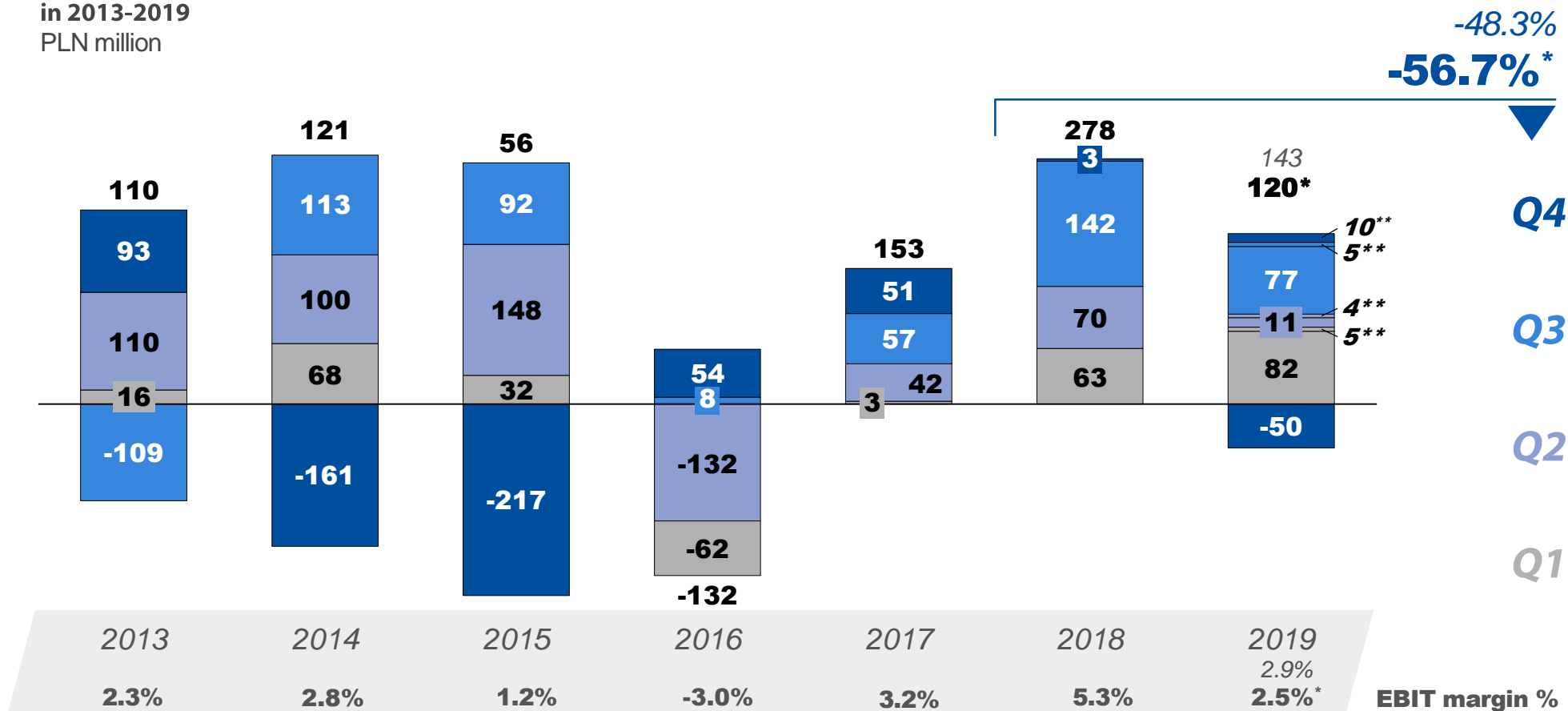


In Q4 2019 the Group posted an operating loss

**EBIT OF THE PKP CARGO GROUP**

in 2013-2019

PLN million



# 03

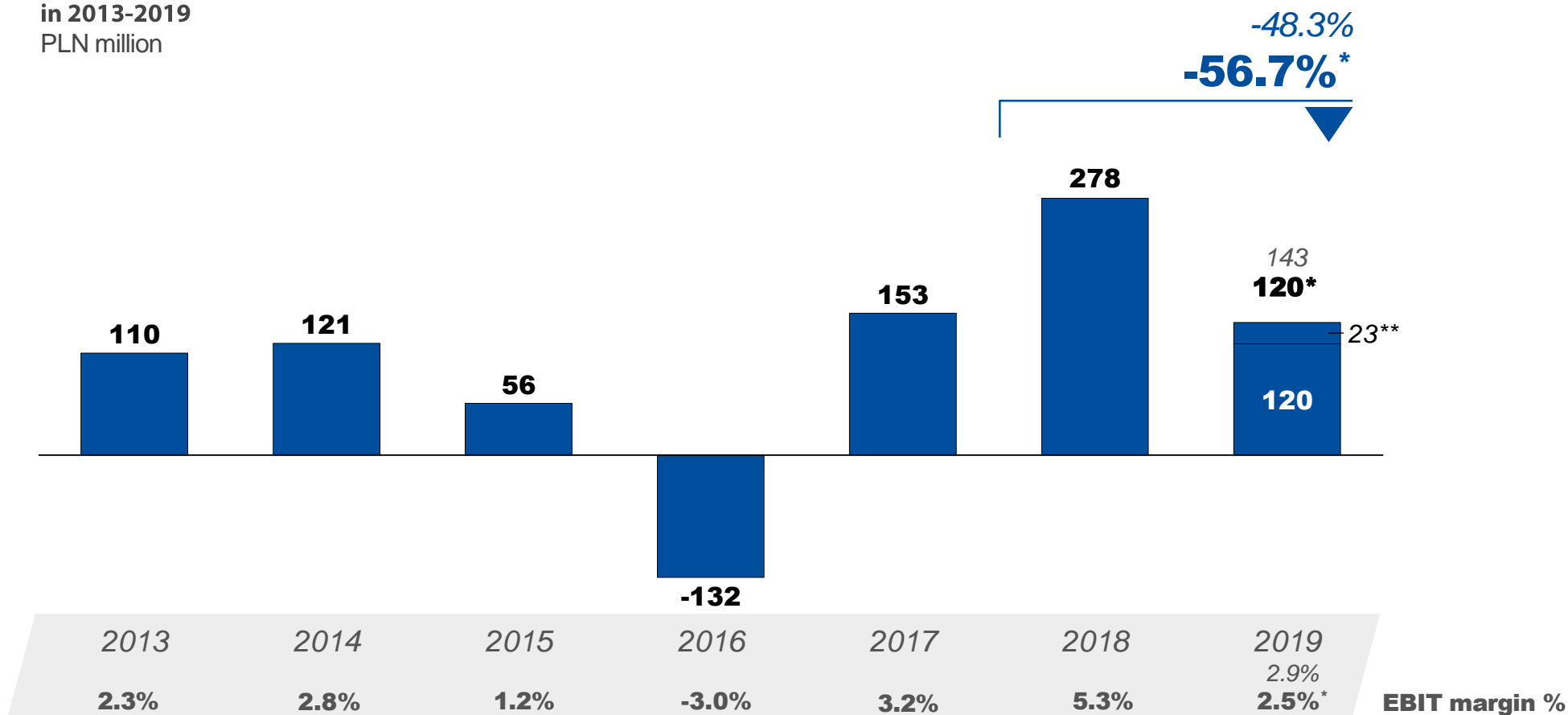


## EBIT in 2019 did not deviate from historical results

### EBIT OF THE PKP CARGO GROUP

in 2013-2019

PLN million



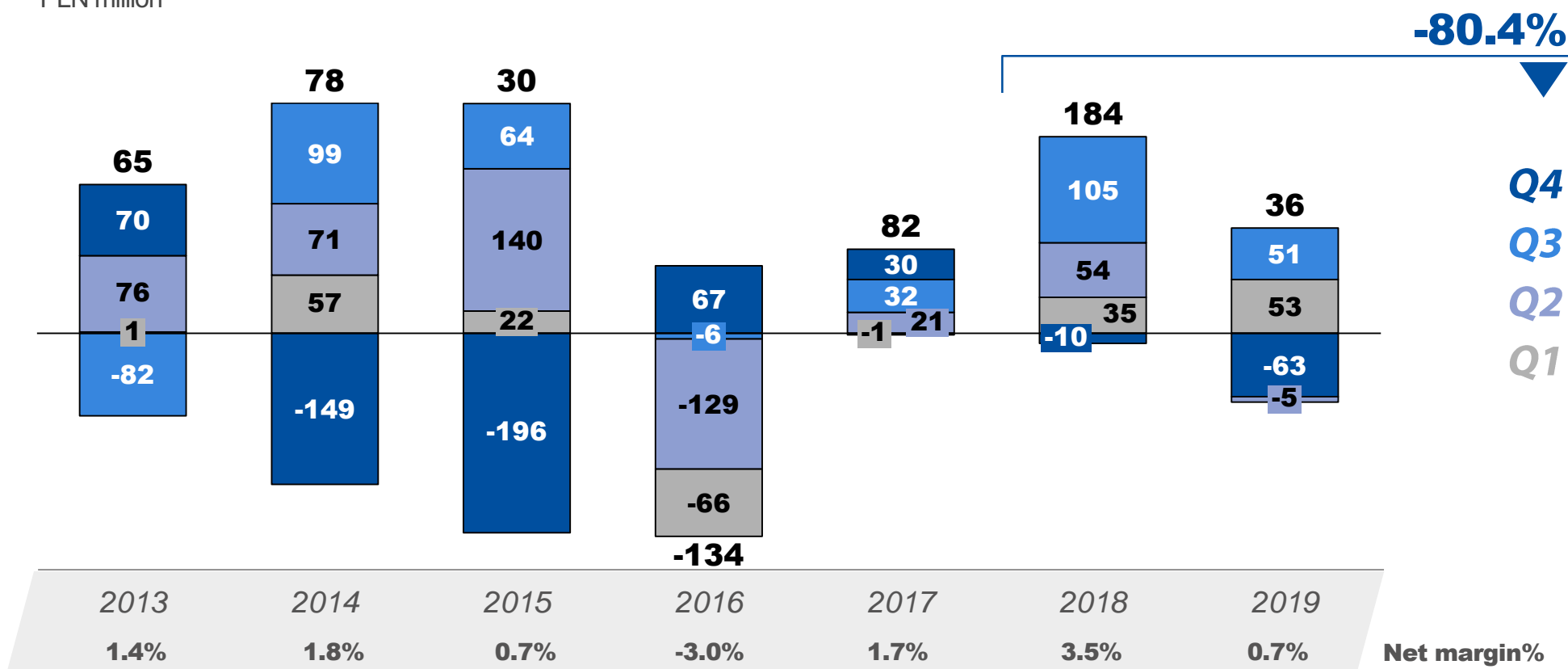


The full year's net result is still in the black

**THE PKP CARGO GROUP'S NET RESULT**

in 2013-2019

PLN million



# 03

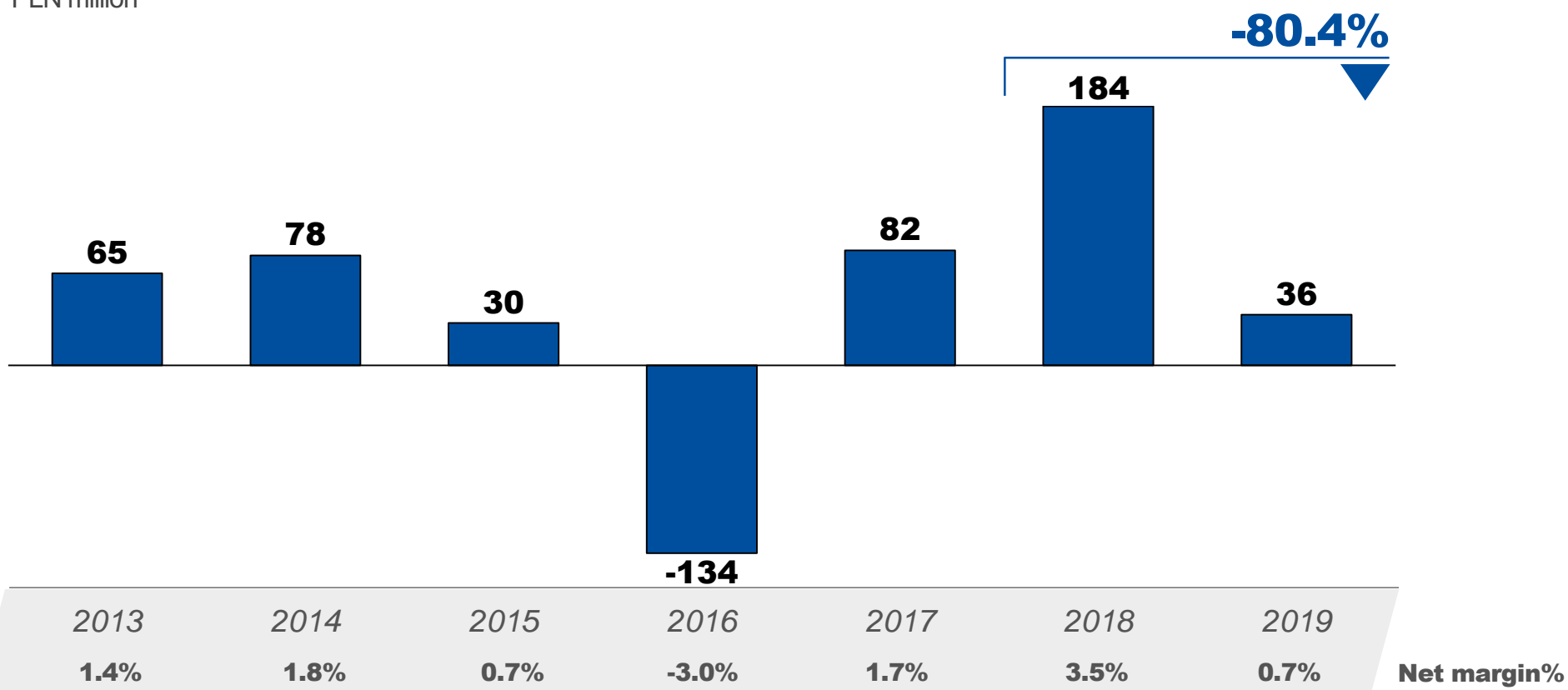


The full year's net result is still in the black

## THE PKP CARGO GROUP'S NET RESULT

in 2013-2019

PLN million



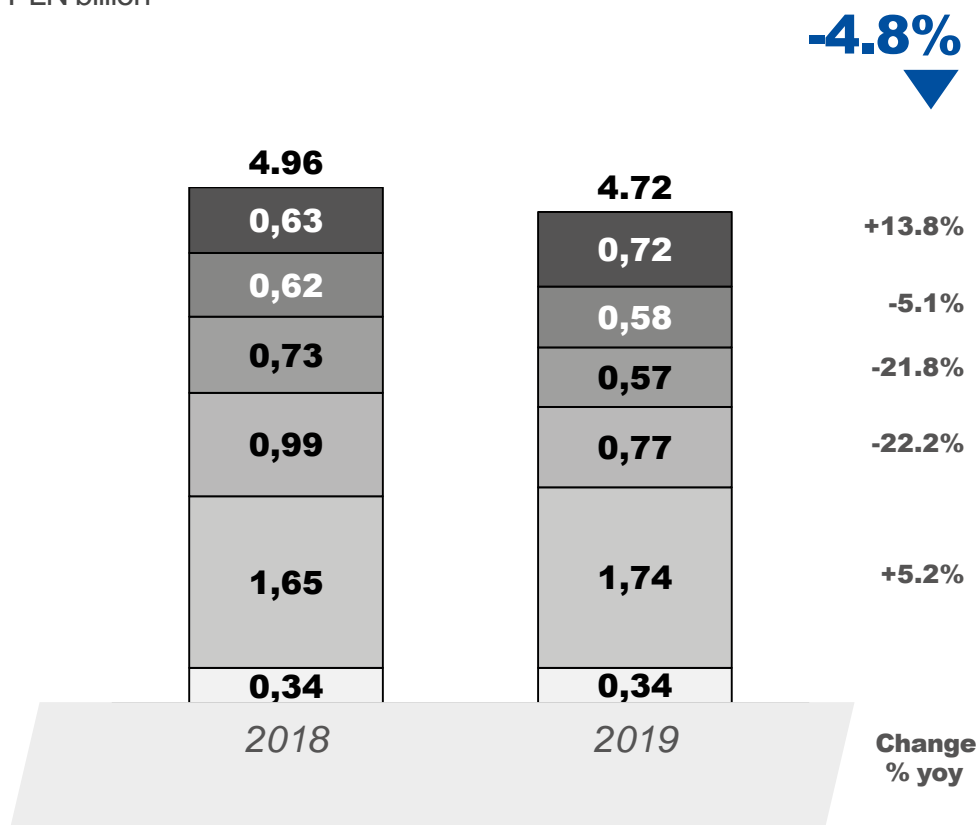


# 03



## Costs were cut predominantly in variable costs and other services

**THE PKP CARGO GROUP'S COSTS**  
in 2018-2019  
PLN billion



### Depreciation and impairment losses

- **Increase chiefly** as a result of implementing IFRS 16
- Without the IFRS 16 application effect, depreciation fell **PLN 26.4 million** – effect of impairment loss for rolling stock

### Consumption of electricity and traction fuel

- Lower energy and fuel costs due to a **decrease in freight turnover**
- The final effect of the settlement of **compensation** for higher electricity prices was PLN 35.5 million

### Infrastructure access services

- **Significant decline** caused by lower transport volumes and the cut in PKP PLK's price list

### Transport services and other services

- Decrease in value mainly due to a greater use of own resources, lower freight turnover

### Employee benefits

- Increase driven mainly by implementing wage hikes from 1 September 2018 and 1 August 2019

### Other expenses and other operating expenses

- Other expenses **at a similar level** to last year

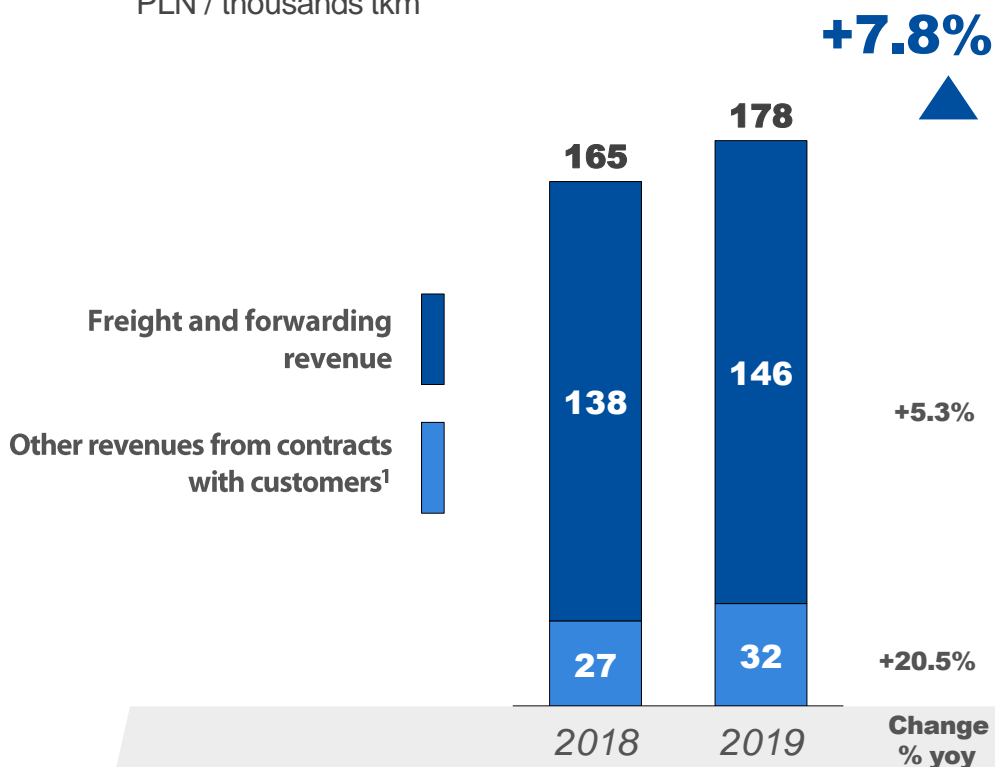
# 03



PKP CARGO Group maintains a high level of unit revenue despite the adverse influence exerted by the market environment

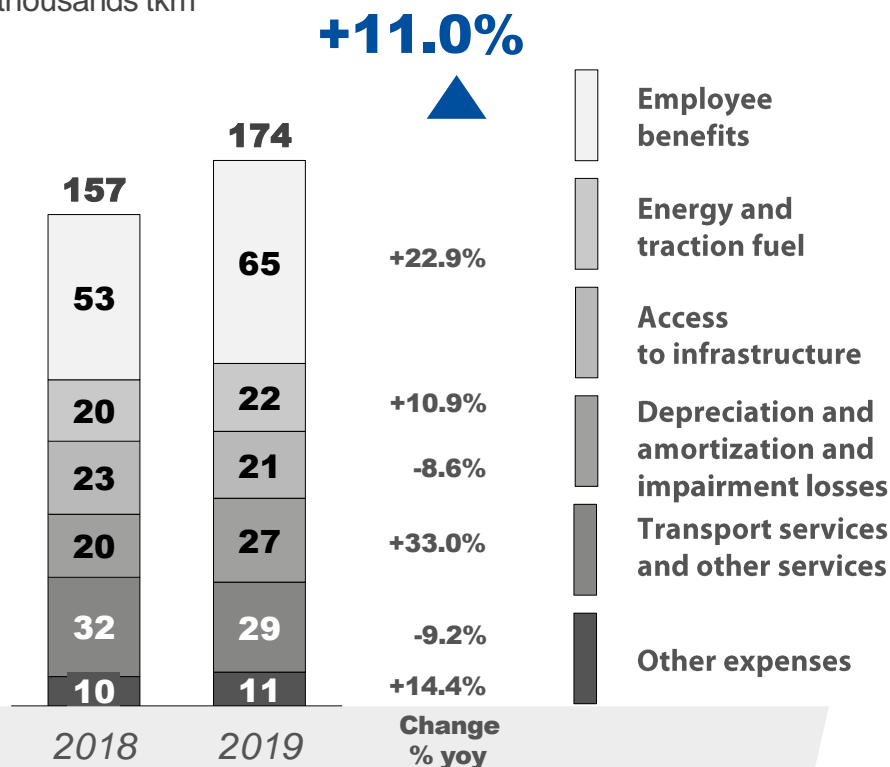
## PKP CARGO GROUP'S UNIT REVENUE

PLN / thousands tkm



## PKP CARGO GROUP'S UNIT COSTS

PLN / thousands tkm



<sup>1</sup> Revenues from contracts with customers, excluding revenues on rail transportation and freight forwarding services

To facilitate the understanding of this presentation, some figures have been rounded without causing any significant deviations to the data presented herein.

## 03



## Safe levels of debt ratios

**CASH FLOW**

PLN million	2018	2019
On operating activity	863.0	806.5
On investing activity	-612.0	-814.8
On financing activity	-322.9	111.4

**FINANCIAL RATIOS**

	2018	2019
NET DEBT / EBITDA	0.9	2.4 <sup>3</sup>
ROA <sup>4</sup>	2.7%	0.5%
ROE <sup>5</sup>	5.2%	1.1%
EBITDA margin	17.3%	17.7%

**KEY BALANCE SHEET ITEMS<sup>1</sup>**

PLN million	31.12.2018	31.12.2019
Fixed capital	5,453	6,539
Non-current assets	5,187	6,504
Coverage ratio <sup>2</sup>	1.05	1.01
Total debt	1 427	2,623
<b>Total debt ratio</b>	<b>0.49</b>	<b>0.57</b>

**AVAILABLE FUNDING SOURCES**

PLN million	31.12.2019
Cash	550
EIB	22
Pekao SA	100
PKO BP	100
Millennium Leasing	51
<b>Available funding sources, total</b>	<b>823</b>

<sup>1</sup> - The changes stem chiefly from implementing IFRS 16

<sup>2</sup> Calculated as the ratio of total equity and non-current liabilities to non-current assets

<sup>3</sup> - The estimated value of the consolidated net debt/EBITDA ratio calculated after eliminating the impact of IFRS 16 was 1.7

<sup>4</sup> Calculated as the ratio of net profit for the last 12 months to total assets

<sup>5</sup> Calculated as the ratio of net profit for the last 12 months to equity

# 04

## Strategy



# 04

2019 was the first full year in which the Strategy was in force and in which many efficiency and growth-related initiatives were undertaken

## Organizational structure and decision-making processes

- Consolidation of terminals
- Integration of the PKP CARGO INTERNATIONAL Group

## Project management

- Development of the Project Management Policy
- Preparation of the PMO unit

## Organizational culture

- Scholarship and internship program
- HR policy
- Cooperation with railway schools

## Optimizing freight transport processes

- Optimization of time
- Creation of cross-area positions
- Reduction of reservation fee by optimizing the schedule

## Digitization and computerization

- Implementation of IT tools in rolling stock management
- Tablets and an app for train drivers



## Inorganic growth plan

- Analysis of potential entities that could supplement the logistics chain
- Monitoring of acquisition targets in Poland and abroad

## Marketing and CSR

- AWT rebranding to PKP CARGO INTERNATIONAL
- Standards developed for visual aspects of communication in the PKP CARGO Group

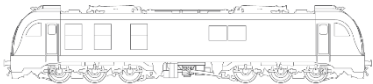
## Developing innovation

- Ongoing market monitoring
- Standard for submission of innovative ideas by employees at the grassroots level
- Collaboration within the Łukasiewicz research network



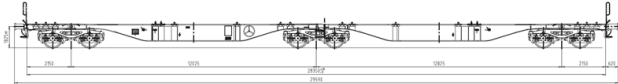
# 04

## The PKP CARGO Group is expanding its potential in the market segment offering the best prospects – intermodal transport

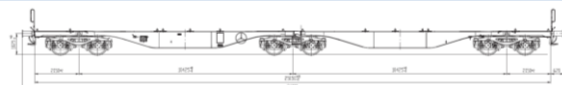
Purchases of locomotives with diesel combustion modules and multiple system locomotives (CZ/SK). Total value: **PLN 518.9 million**

		Delivery deadlines:	2019	2020	2021	2022	TOTAL
Dragon 2			7	-	12	12	31

Project 1: **936 platforms**. Total value: **PLN 366.8 million**, including **PLN 183.4 million in EU funds**

Type		Delivery deadlines:	Dec. 2019	2020	2021	2022	TOTAL
40 feet			-	100	100	124	324
80 feet			50	300	118	-	468
90 feet			-	-	80	64	144
			50	400	298	188	<b>936</b>

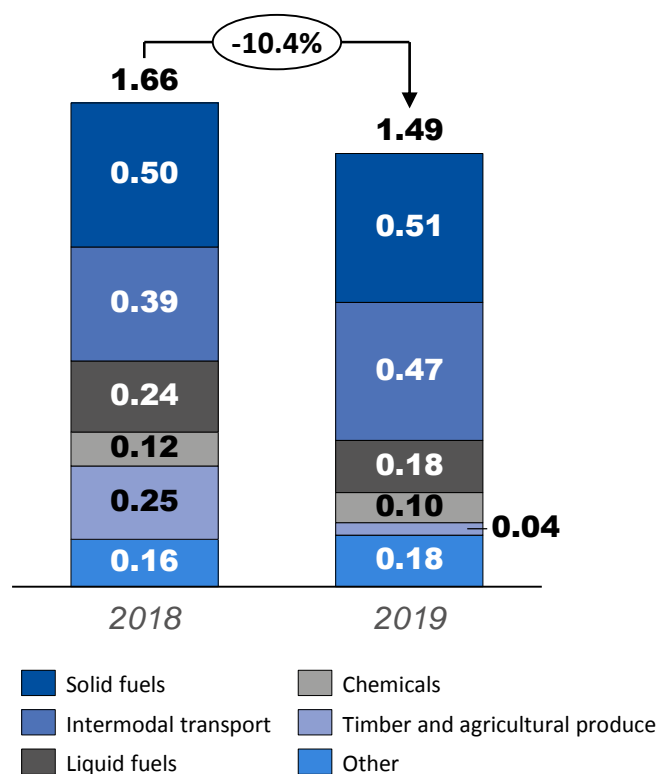
Project 2: **220 platforms and 5 multi-system locomotives**. Value: **PLN 184.8 million**, including **PLN 92.4 million in EU funds**

Type		Delivery deadlines:	2021	2022	TOTAL
80 feet			130	90	<b>220</b>
5 multi-system locomotives	Tender to be announced		-	5	<b>5</b>

# 04

PKP CARGO INTERNATIONAL is effectively diversifying its sources of revenue while simultaneously caring for the profitability of its contracts

**PKP CARGO**  
INTERNATIONAL GROUP'S FREIGHT TURNOVER  
billion tkm



### Solid fuels

- Lower production at OKD and falling demand among industrial offtakers and commercial power sector in the Czech Republic
- New connections in coal transport (Poland – Hungary)

### Intermodal

- Already 1/3 of freight turnover at 1/6 of the freight volume
- More freight transport for logistics operators on the north-south axis and acquiring new clients

### Liquid fuels

- Maintaining volume while simultaneously growing freight transport on shorter distances

### Chemicals

- Lower demand among clients due to falling industrial production

### Timber and agricultural produce

- Discontinuing low margin contracts generating operational difficulties

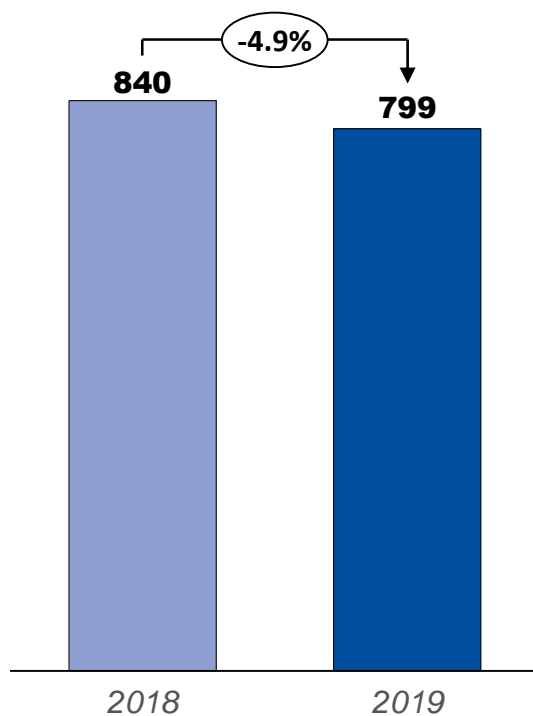
### Other

- Falling demand in the automotive sector accompanied by the simultaneous growth in medium distance transport (Slovakia – Holland)
- Lengthening the distance in the transport of metals and ores

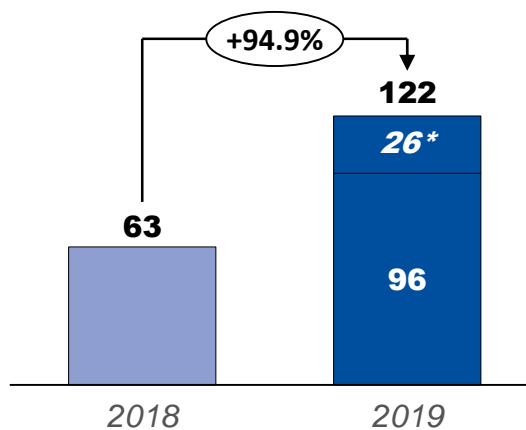
# 04

By optimizing transport the PKP CARGO INTERNATIONAL Group has considerably improved its results in 2019

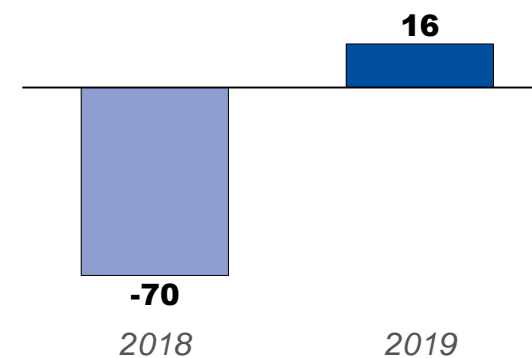
**REVENUES**  
PLN million



**EBITDA**  
PLN million



**NET RESULT\*\***  
PLN million

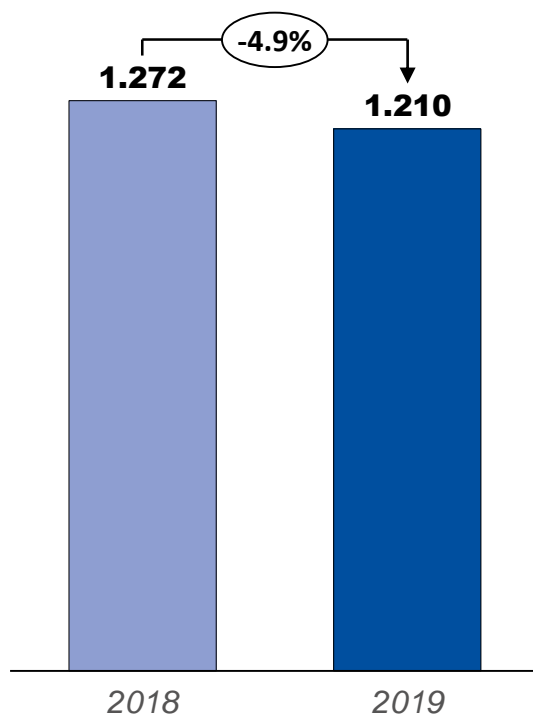




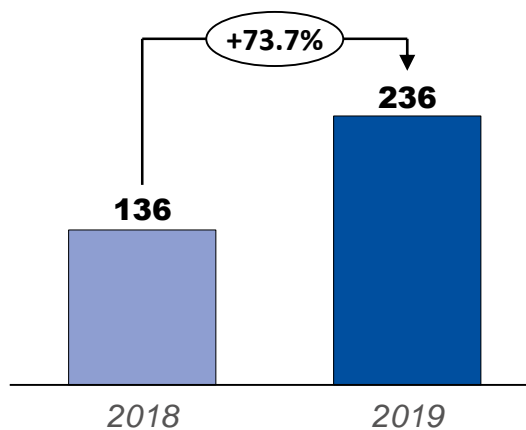
# 04

## Subsidiaries' results materially contribute to the overall Group's results

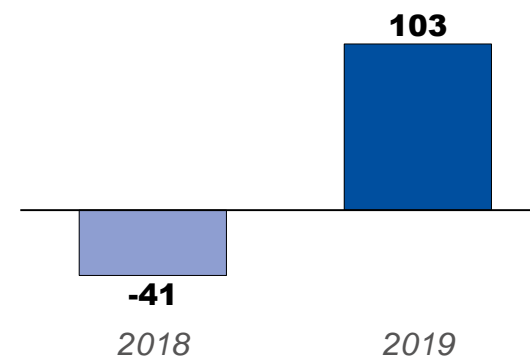
**REVENUES\***  
PLN million



**EBITDA\***  
PLN million



**EBIT\***  
PLN million



# Attachments





## Freight results

### Freight turnover [million tkm]

	2019	2018	Change	% change	Share in 2019	Share in 2018
<i>Solid fuels including:</i>	10,015	10,931	-917	-8.4%	37%	35%
<i>Hard coal</i>	8,502	9,313	-812	-8.7%	32%	30%
<i>Aggregates and construction materials</i>	5,208	7,185	-1,977	-27.5%	19%	23%
<i>Metals and ores</i>	2,742	3,732	-990	-26.5%	10%	12%
<i>Chemicals</i>	2,068	2,204	-136	-6.2%	8%	7%
<i>Liquid fuels</i>	1,071	1,165	-93	-8.0%	4%	4%
<i>Timber and agricultural produce</i>	1,052	1,384	-332	-24.0%	4%	4%
<i>Intermodal transport</i>	4,060	4,072	-12	-0.3%	15%	13%
<i>Other</i>	656	718	-62	-8.7%	2%	2%
<b>Total</b>	<b>26,870</b>	<b>31,390</b>	<b>-4,520</b>	<b>-14.4%</b>	<b>100%</b>	<b>100%</b>

### FREIGHT VOLUME [million tons]

	2019	2018	Change	% change	Share in 2019	Share in 2018
<i>Solid fuels including:</i>	53.3	56.6	-3.3	-5.8%	49%	46%
<i>Hard coal</i>	47.9	51.2	-3.2	-6.3%	44%	42%
<i>Aggregates and construction materials</i>	20.4	26.0	-5.6	-21.6%	19%	21%
<i>Metals and ores</i>	9.3	12.6	-3.3	-26.2%	9%	10%
<i>Chemicals</i>	6.3	6.8	-0.4	-6.6%	6%	6%
<i>Liquid fuels</i>	3.7	3.9	-0.2	-6.1%	3%	3%
<i>Timber and agricultural produce</i>	3.7	4.0	-0.3	-7.8%	3%	3%
<i>Intermodal transport</i>	9.5	9.2	0.3	2.7%	9%	8%
<i>Other</i>	2.3	2.7	-0.4	-14.3%	2%	2%
<b>Total</b>	<b>108.6</b>	<b>121.9</b>	<b>-13.3</b>	<b>-10.9%</b>	<b>100%</b>	<b>100%</b>



## Consolidated statement of comprehensive income

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME [PLN million]

	2019	2018	Change
Revenues from contracts with customers	4,781.6	5,183.0	-401.4
Consumption of electricity and traction fuel	-583.8	-615.1	31.3
Infrastructure access services	-572.6	-732.0	159.4
Transport services	-363.3	-463.1	99.8
Other services	-408.6	-529.6	121.0
Employee benefits	-1,737.3	-1,651.4	-85.9
Other expenses	-292.8	-298.9	6.1
Other operating revenue and (expenses)	36.7	14.1	22.6
<b>Operating profit without depreciation (EBITDA)</b>	<b>859.9</b>	<b>907</b>	<b>-47.1</b>
Depreciation and impairment losses	-716.5	-629.4	-87.1
<b>Profit on operating activities (EBIT)</b>	<b>143.4</b>	<b>277.6</b>	<b>-134.2</b>
Financial income and (expenses)	-71.6	-42.0	-29.6
Share in the profit / (loss) of entities accounted for under the equity method	1.7	3.7	-2.0
Result on the sale of shares in entities accounted for under the equity method	-	4.5	
<b>Profit before tax</b>	<b>73.5</b>	<b>243.8</b>	<b>-170.3</b>
Income tax	-37.5	-59.9	22.4
<b>NET PROFIT</b>	<b>36.0</b>	<b>183.9</b>	<b>-147.9</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Measurement of hedging instruments	9.9	-23.4	33.3
Income tax	-1.9	4.4	-6.3
Exchange differences resulting from conversion of financial statements	1.7	16.5	-14.8
<b>Total other comprehensive income subject to reclassification to profit or loss</b>	<b>9.7</b>	<b>-2.5</b>	<b>12.2</b>
Actuarial profit/(loss) pertaining to employee benefits	-52.2	-13.2	-39
Income tax	10	2.5	7.5
Measurement of equity instruments at fair value	0.7	-	0.7
<b>Total other comprehensive income not subject to reclassification to profit or loss</b>	<b>-41.5</b>	<b>-10.7</b>	<b>-30.8</b>
<b>Total other comprehensive income</b>	<b>-31.8</b>	<b>-13.2</b>	<b>-18.6</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>4.2</b>	<b>170.7</b>	<b>-166.5</b>



## Consolidated statement of financial position

<b>ASSETS [PLN million]</b>	<i>As at 31 December 2019</i>	<i>As at 31 December 2018</i>
<i>Rolling stock</i>	4,329.6	3,997.00
<i>Other property, plant and equipment</i>	872.4	949.9
<i>Right-of-use assets</i>	1,078.8	0
<i>Investments in entities accounted for under the equity method</i>	40.4	47.3
<i>Trade receivables</i>	3.00	0.7
<i>Other lease payments</i>	10.9	0
<i>Other assets</i>	55.0	56.7
<i>Deferred tax assets</i>	113.7	135.6
<b>Total non-current assets</b>	<b>6,503.8</b>	<b>5,187.2</b>
<i>Inventories</i>	161.0	161.7
<i>Trade receivables</i>	591.3	684.6
<i>Lease receivables</i>	0.7	0
<i>Income tax receivables</i>	51.4	3
<i>Deposits above 3 months</i>	0	201.1
<i>Other assets</i>	132.7	124.4
<i>Cash and cash equivalents</i>	550.4	447.3
<b>Total current assets</b>	<b>1,487.50</b>	<b>1,619.10</b>
<b>Total assets</b>	<b>7,991.30</b>	<b>6,806.30</b>



## Consolidated statement of financial position

<b>EQUITY AND LIABILITIES [PLN million]</b>	
Share capital	
Supplementary capital	
Other items of equity	
Exchange differences resulting from conversion of financial statements of foreign operations	
Retained earnings	
<b>Equity</b>	
Debt liabilities	
Trade payables	
Investment commitments	
Provisions for employee benefits	
Other provisions	
Deferred tax liability	
Other liabilities	
<b>Non-current liabilities</b>	
Debt liabilities	
Trade payables	
Investment commitments	
Provisions for employee benefits	
Other provisions	
Other liabilities	
<b>Current liabilities</b>	
<b>Total liabilities</b>	
<b>Total equity and liabilities</b>	

As at 31 December 2019	As at 31 December 2018
2,239.3	2,239.3
781.4	628.2
-77.7	-44.2
77.5	75.8
402.8	584.4
<b>3,423.3</b>	<b>3,483.5</b>
2,201.4	1,156.5
2.7	0.5
157.0	109.8
657.1	591.5
5.4	20.5
92.3	88.5
-	1.8
<b>3,115.9</b>	<b>1,969.1</b>
421.3	270.5
412.2	499.4
181.5	177.6
127.1	115.5
45.6	56.9
264.4	233.8
<b>1,452.1</b>	<b>1,353.70</b>
<b>4,568.0</b>	<b>3,322.80</b>
<b>7,991.3</b>	<b>6,806.30</b>



## Consolidated Cash Flow Statement

Cash flow [PLN million]
<b>Cash flow on operating activities</b>
<b>Profit before tax</b>
<b>Adjustments</b>
Depreciation and impairment losses
(Profits) / losses on interest, dividends
Received / (paid) interest
Received / (paid) income tax
Movement in working capital
Other adjustments
<b>Net cash on operating activities</b>
<b>Cash flow from investing activities</b>
Expenditures on the acquisition of non-financial non-current assets
Proceeds on the sale of non-financial non-current assets
Proceeds on the sale of entities accounted for under the equity method
Proceeds from dividends received
Proceeds / (expenditures) on bank term deposits longer than 3 months
Other proceeds / (expenditures) on investing activities
<b>Net cash on investing activities</b>
<b>Cash flow from financing activities</b>
Expenditures on finance leases
Proceeds from drawn down loans/borrowings
Repayment of loans/borrowings
Interest paid on finance leases and loans/borrowings
Subsidies received
Dividends paid out to owners
Other expenditures concerning financing activities
<b>Net cash from financing activities</b>
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
<b>Cash and cash equivalents at the end of the reporting period, including:</b>
restricted

2019	2018
<b>73.5</b>	<b>243.8</b>
716.5	629.4
53.7	18.3
1.7	4.3
-53.1	-75.8
70.8	78.4
-56.6	-35.4
<b>806.5</b>	<b>863.0</b>
-1,045.8	-719.7
18.3	25.1
0.0	12.2
2.4	2.4
200.0	53.0
10.3	15
<b>-814.8</b>	<b>-612.0</b>
-127.3	-46.7
549.1	0.3
-248.3	-248.6
-53.2	-31.4
63.2	5.1
-67.2	-
-4.9	-1.6
<b>111.4</b>	<b>-322.9</b>
103.1	-71.9
447.3	516.8
-	2.4
<b>550.4</b>	<b>447.3</b>
49.2	39.6



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