Contents

PKP Group introduction

Condition of PKP Group in 2012

PKP Group restructuring after 2012

Key success factors
PKP Group introduction
Current structure

**Infrastructure Management**
38%
PKP POLSKIE LINIE KOLEJOWE S.A.
National railway infrastructure manager
(12 430 miles of railroads)

**Parent Company**
(100% State owned)

**Passenger Transport**
100%
PKP INTERCITY
Passenger carrier

65%
SKM szybka kolej miejska
SKM railway line and regional passenger transport

**Freight Transport**
33%
PKP Cargo
Rail freight operator

100%
LHS
Broad gauge rail freight operator

**Ancillary Services**

100%
PKP INFORMATYKA
IT services

100%
Xcity
Real estate developer

Voting Rights
PKP Group introduction
Railway market in Poland*

**Passenger carriers market**

PKP Intercity is a long distance passenger carrier and PKP SKM is a suburban railway operator. The remaining carriers are primarily regional operators owned and operated by local governments.

**Rail freight market**

PKP CARGO is the market leader in Poland in terms of market share, despite strong competition (66 registered operators). It is also the 2nd largest rail freight operator in the European Union.

**MARKET SHARE BY PASSENGER-DISTANCE**

- PKP Intercity: 44.3%
- Przewozy Regionalne: 39%
- Koleje Mazowieckie: 14%
- PKP SKM: 30%
- Koleje Śląskie: 8%
- Other: 5%

**MARKET SHARE BY PAYLOAD-DISTANCE**

- PKP Cargo: 63.8%
- PKP LHS: 57%
- DB Schenker Rail Polska: 9%
- Lotos Kolej: 7%
- CTL Logistics: 5%
- Freightliner PL: 5%
- Pol-Miedź Trans: 2%
- Other: 2%

*As of 2015
Contents

- PKP Group introduction
- Condition of PKP Group in 2012
- PKP Group restructuring after 2012
- Key success factors
Major problems in 2012

**EURO 2012 TOURNAMENT**
- Insufficient readiness to provide services for increased demand during EURO 2012 football tournament – only USD 45 m spent on railway stations’ modernization in 2000-2011
- Threat of trade unions collective strike during EURO 2012

**DELAYED PROJECTS**
- Inefficient use of EU funding – USD 1.6 b worth of subsidies utilized in 2007 – 2011 for infrastructure (12% of available grants utilized, 50% of the given time passed) from the total budget of USD 8.8 b

**LACK OF SUPERVISION**
- No coordination within the Group: some subsidiaries competed with each other, which led to waste of resources – Group did not have unified procedures and common structures
- Not satisfactory safety level; train crash near Szczekociny (16 people killed, 57 injured) as a tragic example of not implemented safety initiatives

**EXCESS COSTS**
- No Group-wide procurement – missing the benefits of the Group’s bargaining power; costs of ticket discounts for to the Group’s employees (c. USD 25 m per year)
- Debt up from USD 767 m to USD 1.3 b in 2001 – 2011 - no active debt management strategy, despite big cost of servicing and FX risk (USD 820 m denominated in FX)

**LOW COMPETENCIES**
- Internal structure was not tailored to the needs – lack of competencies in the field of finance, strategic management etc. – company was not hiring specialists from the market
- Very low level of IT penetration at PKP SA facilities – old equipment, insufficient number of computers and servers
PKP Group introduction

Condition of PKP Group in 2012

PKP Group restructuring after 2012

Key success factors
New Management Board and adoption of a new strategy

Introduction of 2012/2013 timetable – punctuality improved by 93%

PKP CARGO IPO on Warsaw Stock Exchange (USD 450 m)

Introduction of first high-speed rail service in Central Europe - Pendolino
Establishing real estate developer company within the Group – Xcity Investment

Sale of PKP PKL for USD 70 m to Mid Europa Partners

First time fully utilized granted EU funding for a given year

Privatization of PKP Energetyka (USD 375 m)

Client Touch Points Program kick-off – the first research project on customer satisfaction increase

Increase of 3 m passengers yoy after 8M 2015 – first increase in 4 years

Strategy 2012 – 2015 execution timeline
Strategy 2012 – 2015 achievements: Summary

### BEFORE 2012
- **SPEED:** lowered on 12k km railway lines between 2001 – 2011
- **PASSENGER:** low satisfaction level, low punctuality, no quality standards
- **DEBT:** outstanding net debt equaled to USD 1.05 bln
- **REAL ESTATE:** rate of rented area on major railway stations below 40%, no RE strategy
- **SAFETY:** 829 railway accidents

### 2012 – 2015
- **SPEED:** raised on 4k km railway lines between 2012 – 2014
- **PASSENGER:** 63% passenger satisfied with service vs 42% in 2012
- **DEBT:** positive net cash position as of Q4 2015
- **REAL ESTATE:** rental rate grew to 93%, maximizing commercial potential of RE portfolio – Xcity Investment
- **SAFETY:** 625 railway accidents

#### Net debt (USD b)

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Q1 2015</th>
<th>Q2 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt</td>
<td>1,75</td>
<td>1,5</td>
<td>1,16</td>
<td>1,05</td>
<td>0,46</td>
<td>0,24</td>
<td>0,21</td>
<td>-0,18</td>
<td>0,05</td>
</tr>
</tbody>
</table>

#### EU funds absorption (USD m)

- **+260%**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>164</td>
<td>85</td>
<td>4</td>
<td>86</td>
<td>512</td>
<td>491</td>
<td>843</td>
<td>1656</td>
<td>1773</td>
</tr>
</tbody>
</table>

### USD 9.5 b

**Investment expenditure of PKP Group (2012 – 2015) as compared to USD 8.9 b in 2001 – 2011 (realized & planned)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Infrastructure</th>
<th>Rolling stock</th>
<th>Railway stations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-2014</td>
<td>USD 5.2 b</td>
<td>USD 620 m</td>
<td>USD 205 m</td>
</tr>
<tr>
<td>2015</td>
<td>USD 2.7 b</td>
<td>USD 715 m</td>
<td>USD 110 m</td>
</tr>
</tbody>
</table>
2018 Strategy structure

1. CUSTOMER

2. INVESTMENTS

3. SAFETY

4. VALUE CREATION
Achievements 2012 – 2015: Customer

KEY ACHIEVEMENTS

- THE FIRST PROJECT ON QUALITY MANAGEMENT AND CUSTOMER SATISFACTION TRACKING IN THE HISTORY OF PKP GROUP
- DIVERSIFICATION OF SALES CHANNELS
- NEW APPROACH TO COACHES CLEANING
- QUEUE MANAGEMENT SYSTEM ON STATIONS
- STANDARDIZATION OF INFORMATION DISPLAYS
- CLEANING STANDARDS ON STATIONS
- MONITORING OF CLEANING STANDARDS

**FIRST REGULAR TRAIN SERVICE WITH SPEED OF **120 MPH **IN CEE**

- TRAININGS ON CUSTOMER SERVICE FOR 1700 CONDUCTORS
- USD 12 M MEDIA CAMPAIGN – FIRST TIME IN THE HISTORY OF PKP
- LAUNCHED MOBILE APP FOR TRAVEL PLANNING AND TICKET PURCHASING
- 230 RAILWAY STATIONS UNDER SECURITY (OUT OF 600 OPERATIONAL)

KEY RESULT

**CUSTOMER SATISFACTION SURVEYS – PKP INTERCITY**

- DISSATISFIED
- SATISFIED

APRIL 2013

- 9%

APRIL 2015

- 4%


63%
Achievements 2012 – 2015: Investments

KEY ACHIEVEMENTS

SIGNIFICANT INCREASE IN EU FUNDING UTILIZATION IN PKP GROUP (USD m)

Accumulated EU funding utilization:
- 2% in 2007
- 3% in 2008
- 3% in 2009
- 5% in 2010
- 12% in 2011
- 20% in 2012
- 34% in 2013
- 60% in 2014
- 99% in 2015E

THE LARGEST PROGRAM ON ROLLING STOCK MODERNIZATION (USD m)

The largest program on rolling stock modernization:
- 40 in 2007
- 118 in 2008
- 58 in 2009
- 69 in 2010
- 87 in 2011
- 17 in 2012
- 200 in 2013
- 413 in 2014
- 615 in 2015E

NEW OR MODERNIZED ROLLING STOCK AT THE END OF 2015, INCLUDING 20 PENDOLINO TRAINS, 40 NEW ELECTRICAL MULTIPLE UNITS AND 218 MODERNIZED WAGONS

~70%

SIGNIFICANT INCREASE IN RAILWAY STATIONS INVESTMENTS

railway station investment expenditure (USD m)

Σ = 84

railway station modernization expenditure (USD m)

Σ = 4684

UNPRECEDENTED IMPROVEMENT IN RAILWAY LINES QUALITY – SYSTEMATIC GROWTH OF KM. WITH INCREASED MAX. SPEED*

*Balance – difference between km. of lines with increased and decreased max. speed
Achievements 2012 – 2015: Safety

**USD 12 M**

**EXPENDITURES ON STAFF TRAINING & EDUCATION**

**INCUBATE IN THE NUMBER OF RENOVATED LEVEL CROSSINGS**

**DECREASE IN THE NUMBER OF UNSECURED LEVEL CROSSINGS**

**DYNAMIC GROWTH OF THE REPLACED TRACK TURNOUTS**

**KEY RESULT**

LESS ACCIDENTS
LESS INJURED

CUSTOMER SATISFACTION – SAFETY IN THE TRAIN
Achievements 2012 – 2015: Value creation (1/2)

KEY ACHIEVEMENTS

INCREASE IN REVENUES FROM DIVIDENDS (USD M)

Σ = 64


14 20 30 34 31 57 36

Σ = 158

2013 2014 2015

POLSKIE KOLEJE LINOWE, JSC
▲ USD 70 M
PKP CARGO, JSC
▲ IPO ON WARSAW STOCK EXCHANGE
▲ USD 184 M

TK TELEKOM, LLC
▲ USD 60 M
PKP ENERGETYKA, JSC
▲ USD 375 M

1,78 1,75 1,5 1,16 1,05 0.46 0.24 0.21 0.21 0.18

USD 1.1 b
RAISED FROM PRIVATIZATION BETWEEN 2012-2015

BBB
FITCH FX CREDIT RATING FOR
PKP SA AND PKP INTERCITY

KEY RESULT

TOTAL REDUCTION OF PKP SA HISTORICAL NET DEBT (USD B)

✓ COMPANIES SUPERVISED USING MBO
✓ CENTRALIZED INTERNAL AUDIT LED BY PKP SA. INCREASED USE OF OUTSOURCING TO ENSURE INDEPENDENCE OF AUDITORS
✓ RESEARCH TEAM CREATED TO SUPPORT DECISION PROCESSES
✓ IMPLEMENTATION OF OECD CORPORATE GOVERNANCE PRINCIPLES

BBB
FITCH FX CREDIT RATING FOR
PKP SA AND PKP INTERCITY
Achievements 2012 – 2015: Value creation (2/2)

USD 9.7 b
VALUE OF REAL ESTATE PROJECTS PORTFOLIO IN JULY 2015

KEY ACHIEVEMENTS

1. INTRODUCTION OF BUSINESS PROCESSES MAPPING AND BOOTLENECKS IDENTIFICATION
2. ORGANIZATION OF WORK AREA ACCORDING TO 5S PRINCIPLES
3. DESIGNING COMPETENCE MATRIX TO MANAGE STAFF ALLOCATION
4. COMMITMENT OF THE COMPANY BOARD MEMBERS AS A POSITIVE EXAMPLE FOR THE STAFF (PKP INTERCITY)

INCREASE IN OCCUPANCY OF NLA (PREMIUM RAILWAY STATIONS)

I HALF 2015

- 2011
- 93%
- <40%

KEY RESULT

- SERIVCE TIME
  - NO LEAN: 8h
  - LEAN: 5h
  - -37%

- LOCO STOPPAGE
  - NO LEAN: 5.36h
  - LEAN: 2.30h
  - -57%

+47%
MORE LOCOMOTIVES AVAILABLE IN THE WHOLE SERVICE SCHEME
Achievements 2012 – 2015: Key success factors

**NEW DNA OF THE ENTIRE PKP GROUP**

- **CUSTOMER**
  - Focus on customer satisfaction: NPV and other indicators are not a single criterion of project selection
  - Optimization of marketing channels
  - New quality – Pendolino EIP

- **INVESTMENTS**
  - Implementation of bottom-up and top-down projects with MBO system
  - Use of external experts in key projects, establishing mixed teams in order to spur corporate learning process

- **SAFETY**
  - Modernized level crossings
  - Staff training
  - Social campaign
  - Modernized railway stations

- **VALUE CREATION**
  - New management with an international experience in finance
  - Employment restructuring and asset portfolio optimization
  - Effective social dialogue and ethics policy
  - External credibility through delivered projects and proper communication (EIP - Pendolino)
  - Governments support for restructuring program
  - Automation and digitalization

**PEOPLE**

- Experience + chance for the young

**CHALLENGES**

- Responsibility + ambitions

**COMMON GOAL**

- Motivation for hard work