



PKP GROUP

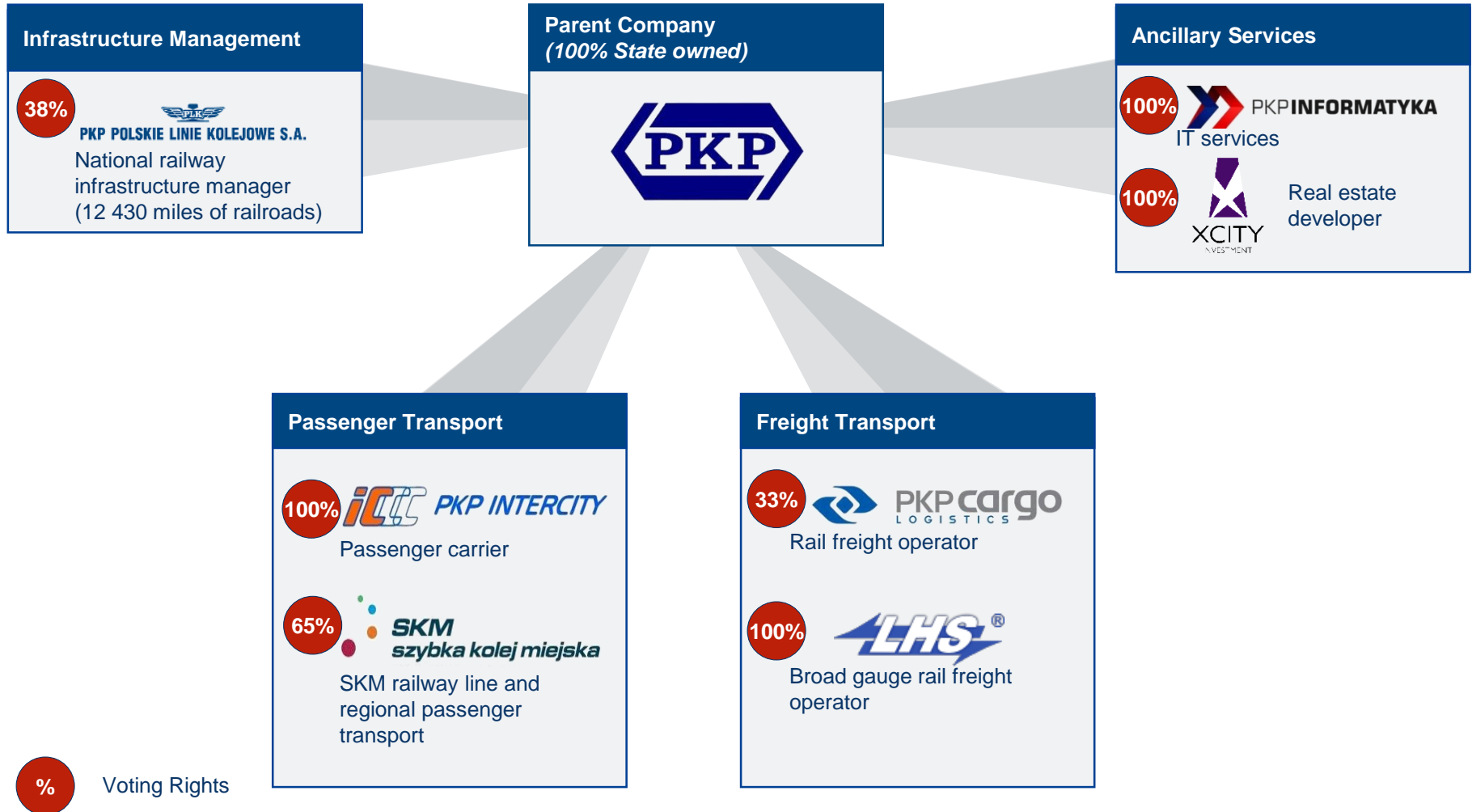
A CASE FOR SUCCESSFUL RESTRUCTURING OF A RAILWAY
COMPANY IN CENTRAL AND EASTERN EUROPE

 PKP Group introduction

 Condition of PKP Group in 2012

 PKP Group restructuring after 2012

 Key success factors



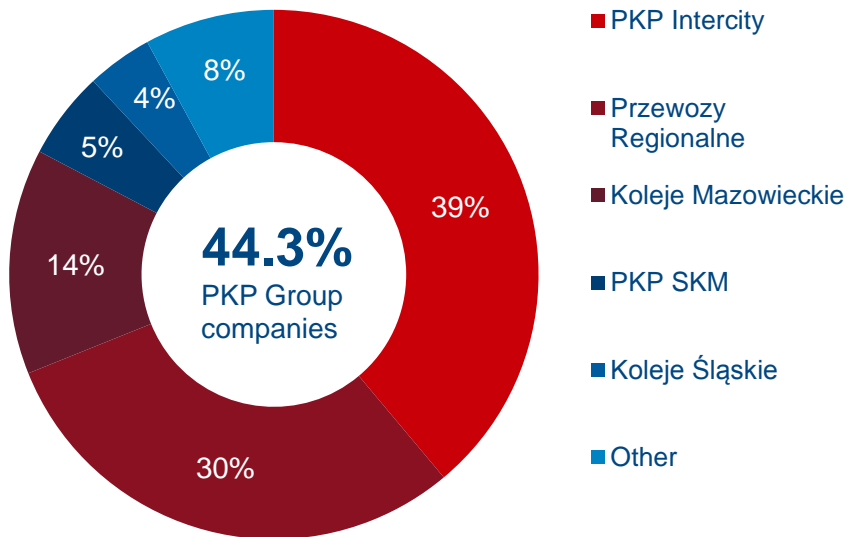
Passenger carriers market

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

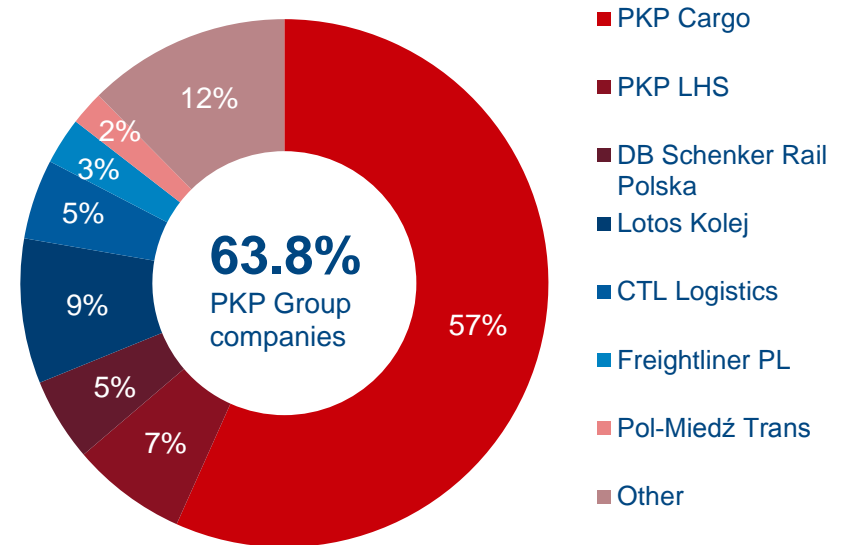
Rail freight market

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



MARKET SHARE BY PAYLOAD-DISTANCE



*As of 2015

▲ PKP Group introduction

▲ Condition of PKP Group in 2012

▲ PKP Group restructuring after 2012

▲ Key success factors

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 secure investment project financing – 22 Financing Agreements with Operational Programme: Infrastructure and Environment in 2007 – 2012

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

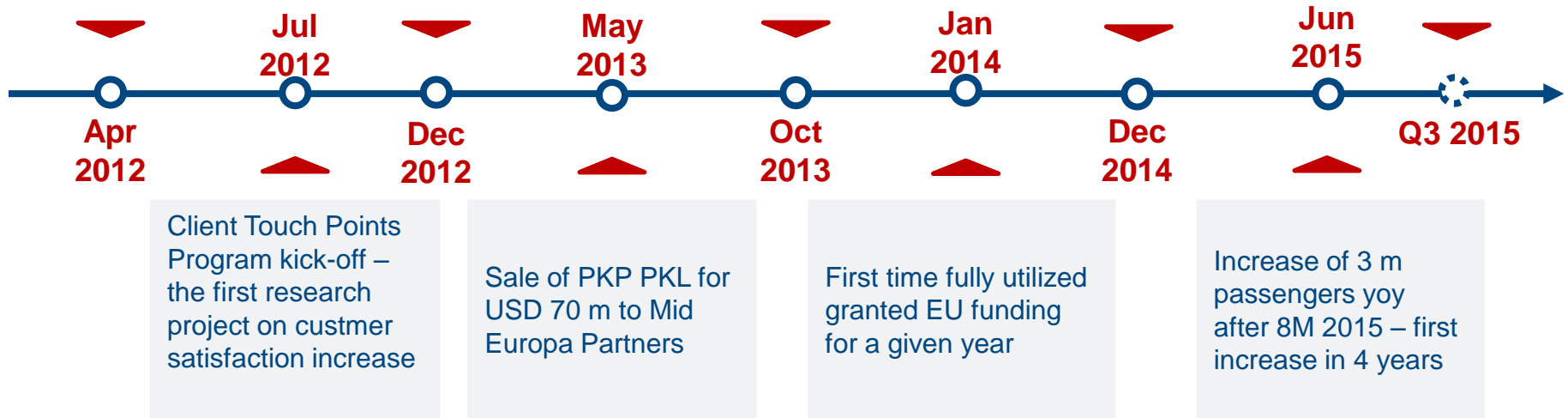
New Management Board and adoption of a new strategy

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

Privatization of PKP Energetyka (USD 375 m)



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

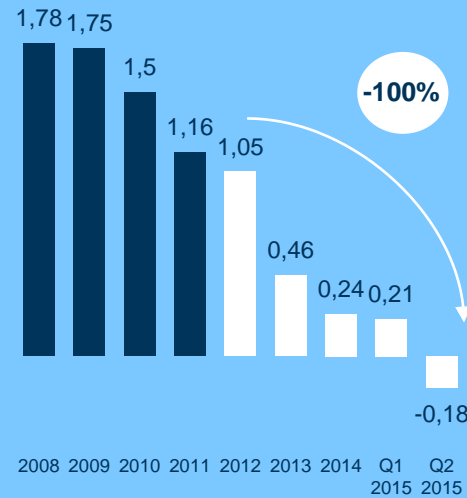
DEBT: positive net cash position as of Q4 2015

REAL ESTATE: rental rate grew to 93%, maximizing commercial potential of RE portfolio – Xcity Investment

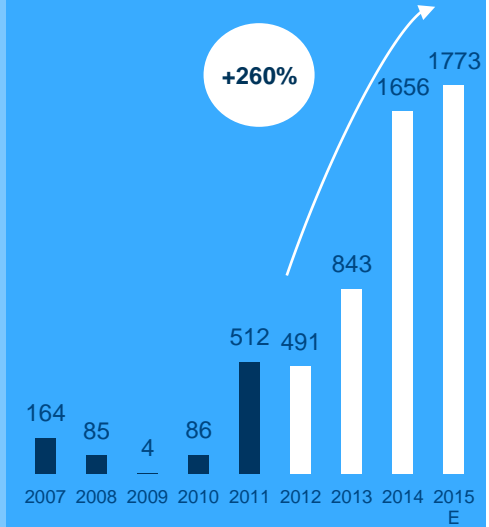
SAFETY: 625 railway accidents



Net debt (USD b)



EU funds absorption (USD m)



USD 9.5 b

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

Infrastructure

2012-2014

USD 5.2 b

2015

USD 2.7 b



Rolling stock

USD 620 m

USD 715 m



Railway stations

USD 205 m

USD 110 m



2011

2015



1. CUSTOMER



2. INVESTMENTS



3. SAFETY



4. VALUE CREATION



KEY ACHIEVEMENTS



OPTIMIZATION OF CUSTOMER TOUCH POINTS

- ▲ 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

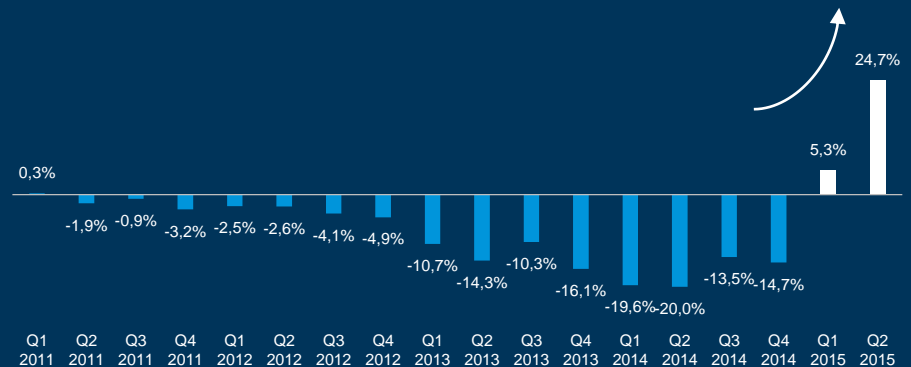


FIRST REGULAR TRAIN SERVICE WITH SPEED OF 120 MPH IN CEE

- ▲ 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)



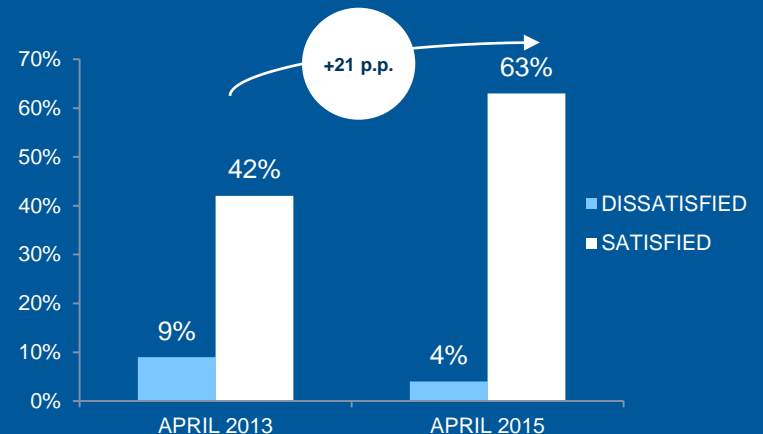
FIRST Y/Y GROWTH OF PASSENGERS SINCE 2011



KEY RESULT



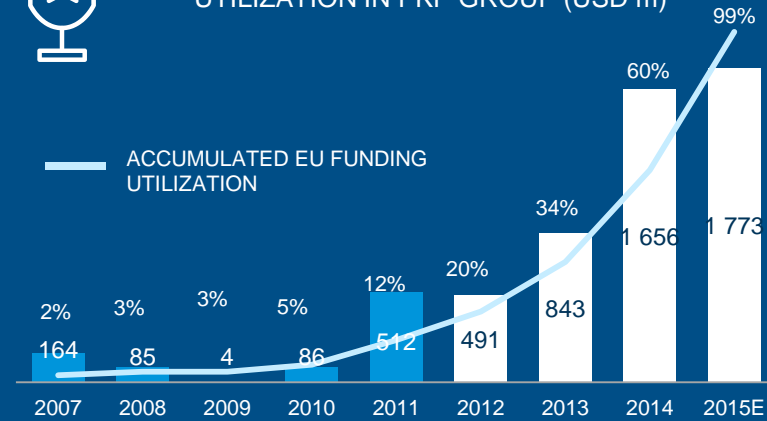
CUSTOMER SATISFACTION SURVEYS – PKP INTERCITY



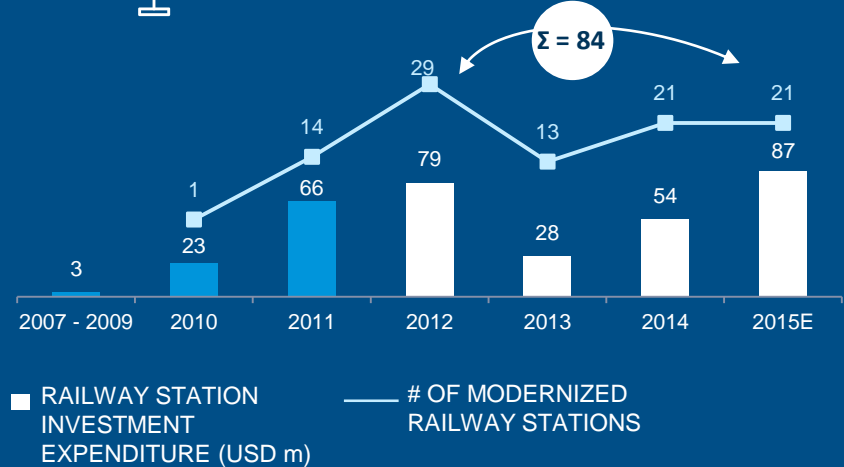
KEY ACHIEVEMENTS



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



SIGNIFICANT INCREASE IN RAILWAY STATIONS INVESTMENTS



THE LARGEST PROGRAM ON ROLLING STOCK MODERNIZATION (USD m)



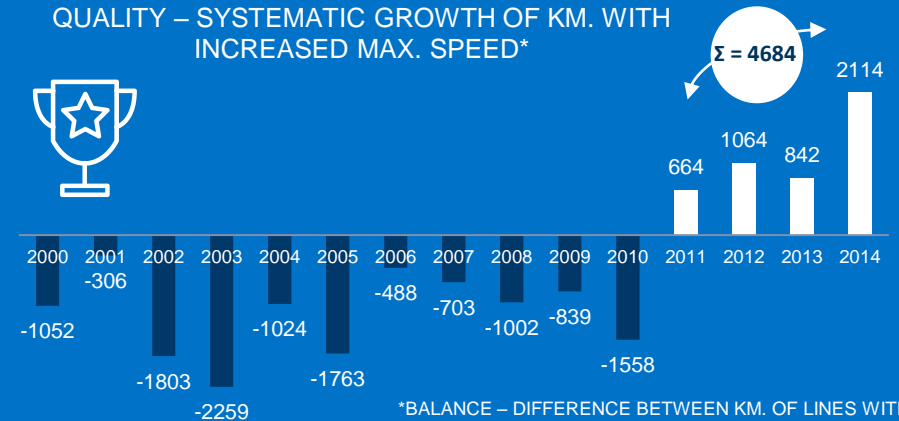
~70%

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



KEY RESULT

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

KEY ACHIEVEMENTS

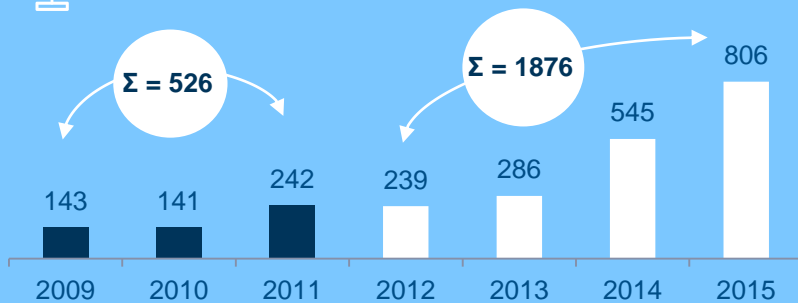


USD 12 M

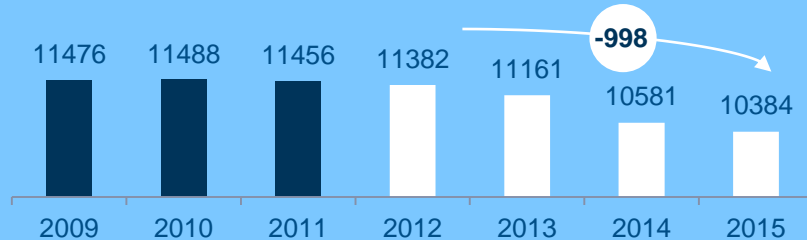
EXPENDITURES ON STAFF TRAINING & EDUCATION



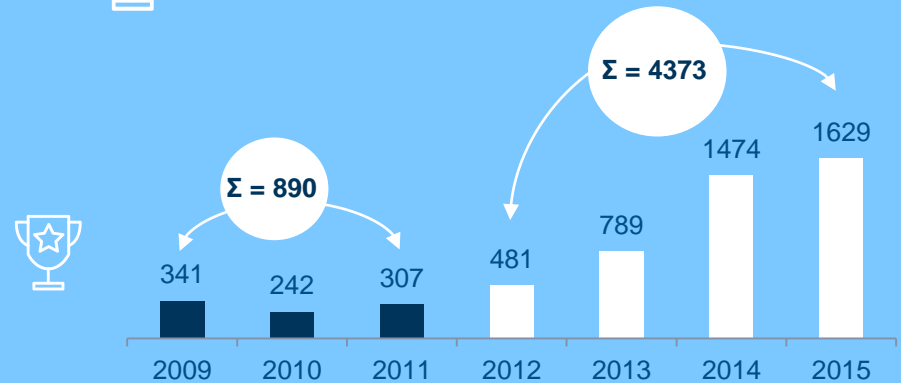
INCREASE IN THE NUMBER OF RENOVATED LEVEL CROSSINGS



DECREASE IN THE NUMBER OF UNSECURED LEVEL CROSSINGS

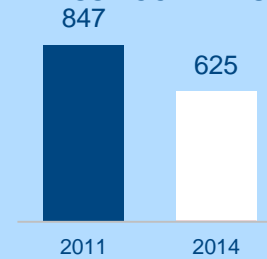


DYNAMIC GROWTH OF THE REPLACED TRACK TURNOUTS

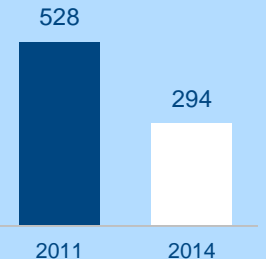


KEY RESULT

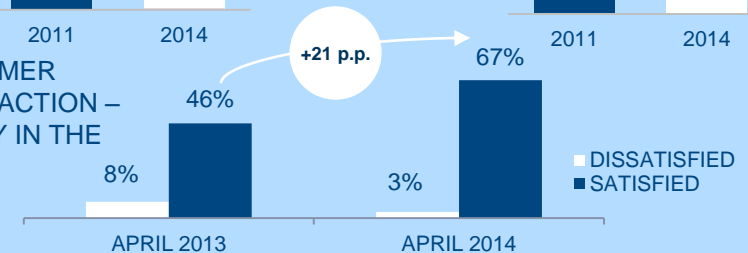
LESS ACCIDENTS



LESS INJURED



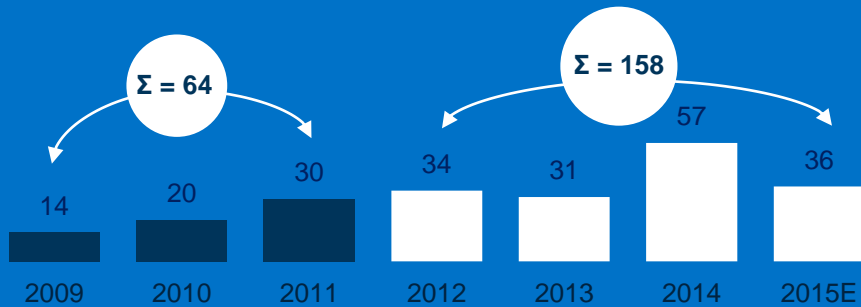
CUSTOMER SATISFACTION – SAFETY IN THE TRAIN



KEY ACHIEVEMENTS



INCREASE IN REVENUES FROM DIVIDENDS (USD M)



POLSKIE KOLEJE LINOWE, JSC

▲ USD 70 M

PKP CARGO, JSC

▲ IPO ON WARSAW STOCK EXCHANGE
▲ USD 450 M

PKP CARGO, JSC

▲ ABB
▲ USD 184 M

TK TELEKOM, LLC

▲ USD 60 M

PKP ENERGETYKA, JSC

▲ USD 375 M



USD 1.1 b

RAISED FROM PRIVATIZATION BETWEEN 2012-2015



BBB

FITCH FX CREDIT RATING FOR PKP SA AND PKP INTERCITY



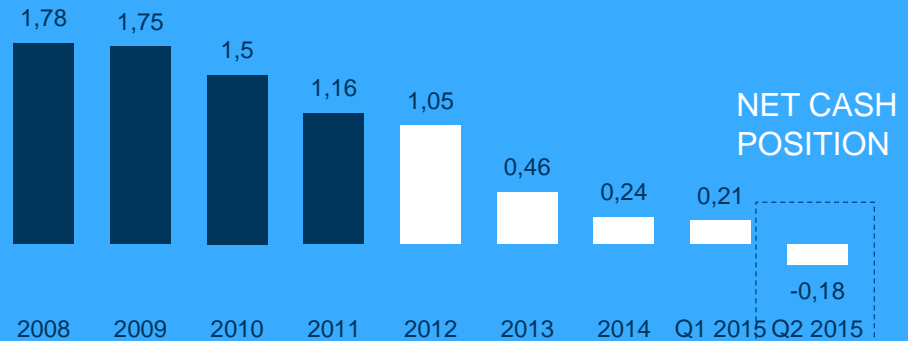
- ▲ COMPANIES SUPERVISED USING MBO
- ▲ CENTRALIZED INTERNAL AUDIT LED BY PKP SA. INCREASED USE OF OUTSOURCING TO ENSURE INDEPENDENCE OF AUDITORS
- ▲ RESEARCH TEAM CREATED TO SUPPORT DECISION PROCESSES
- ▲ IMPLEMENTATION OF OECD CORPORATE GOVERNANCE PRINCIPLES



KEY RESULT



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



KEY ACHIEVEMENTS

USD 9.7 b

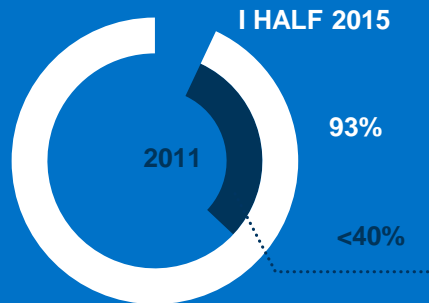
VALUE OF REAL ESTATE
PROJECTS PORTFOLIO
IN JULY 2015



XCITY
INVESTMENT



INCREASE IN
OCCUPANCY OF NLA
(PREMIUM RAILWAY
STATIONS)



IMPLEMENTATION OF LEAN MANAGEMENT PRACTICES



- ▲ INTRODUCTION OF BUSINESS PROCESSES MAPPING AND BOTTLENECKS IDENTIFICATION
- ▲ ORGANIZATION OF WORK AREA ACCORDING TO 5S PRINCIPLES
- ▲ DESIGNING COMPETENCE MATRIX TO MANAGE STAFF ALLOCATION
- ▲ COMMITMENT OF THE COMPANY BOARD MEMBERS AS A POSITIVE EXAMPLE FOR THE STAFF (PKP INTERCITY)



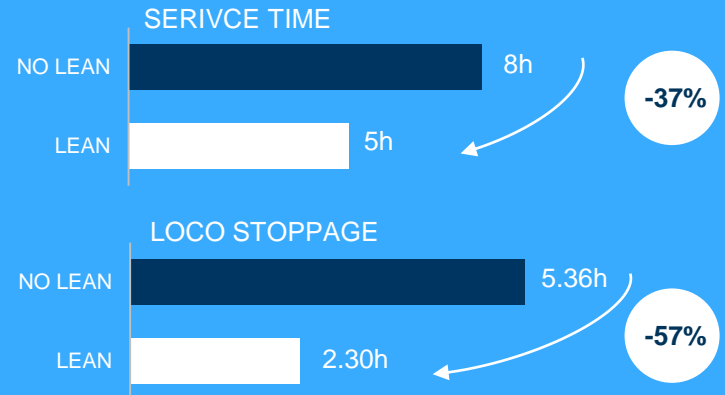
KEY RESULT

+47%



SIGNIFICANT
EFFICIENCY BOOST

MORE LOCOMOTIVES AVAILABLE
IN THE WHOLE SERVICE SCHEME



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

*„NEW DNA OF THE ENTIRE
PKP GROUP”*

▶ **PEOPLE**

EXPERIENCE + CHANCE FOR THE YOUNG

▶ **CHALLENGES**

RESPONSIBILITY + AMBITIONS

▶ **COMMON GOAL**

MOTIVATION FOR HARD WORK



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

GRUPA 
