



TTS
TRANSPORT TRADE SERVICES S.A.
BUCUREȘTI – ROMÂNIA



Nr. Reg. Com.: J40/296/1997
Cod Fiscal: RO 9089452
Capital social subscris și vărsat: 60.000.000 LEI

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Report of the Board of Directors
to TTS (Transport Trade Services) S.A.
on the activity of the TTS Group in the first
quarter of 2022



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Contents

| | |
|--|----|
| Executive Summary | 3 |
| 1. Analysis of financial results | 4 |
| 1.1. Individual financial results of TTS increase compared to Q1 2021..... | 4 |
| 1.2. TTS Group recorded over 22% increase in consolidated sales in Q1 2022, but profitability decreased compared to Q1 2021..... | 4 |
| 2. Operational aspects..... | 6 |
| 2.1. Slightly higher volume of activity compared to Q1 2021, despite the effects of the crisis in Ukraine | 6 |
| 2.2. The volume of transported goods, decreasing by 7.8% compared to Q1 2021..... | 7 |
| 2.3. The volume of goods operated in ports, increasing by 26% compared to Q1 2021 | 8 |
| 3. Investments..... | 9 |
| 3.1. Investments of almost EUR 6 million in the expansion of the Group's transport capacity and in the recertification of ships..... | 9 |
| 3.2. Modernization of the Giurgiu port terminal with European funding..... | 10 |
| 4. About TTS group..... | 12 |



Executive Summary

- I. TTS Group has successfully faced a difficult period, marked by the effects of the war in Ukraine on economic activity. The group recorded significant revenue increases and a profit advance at the individual level. At a consolidated level, there was a decrease in profit, due to the unfavorable conditions generated by the reconfiguration of supply chains and explosive price increases - effects of the war in Ukraine, as well as unfavorable navigation conditions caused by the low level of the Danube.
- II. At the level of individual results, TTS (Transport Trade Services) S.A. registered an increase in turnover by 14.5 million lei (+ 15.6%) compared to Q1 2021 and increases in profitability on the whole line: + 12.8% EBITDA, + 12.7% operating result, + 7.3% net profit,
- III. At the level of consolidated results, the TTS group registered an increase in turnover by RON 29.7 million (+ 22.6%) compared to Q1 2021 but the profitability was decreasing: - 2.9% EBITDA, -17.1 % operating result, -18.9% net profit. The decrease in profitability was generated exclusively by the river transport segment, while the port operation and shipping segments increased.
- IV. From an operational point of view, the first quarter of 2022 was characterized by an increase of 321,000 tons (+ 26%) compared to Q1 2021 of volumes operated in ports, which offset the decrease by 183,000 tons (-7.8%) compared to of Q1 2021 of the volumes transported by river.
- V. In the first quarter of 2022, the TTS Group invested almost EUR 6 million in expanding river transport capacity through the acquisition of ships and the recertification of ships, and completed the preparation phase of a European-funded Giurgiu port terminal modernization project, totaling 23.9 million lei, of which 9.5 million is the TTS contribution.
- VI. The first effects of the logistical reconfiguration caused by the war in Ukraine determined the congestion of the port of Constanța, causing the slowdown of the transport activity, at the same time with the increase of the quantities of raw materials stored in the port. **As the shock of the first reroutings is absorbed, existing stockpiles of goods will be transported from the second quarter, when other effects of the reconfiguration of logistics chains will become visible, including the transport of Ukrainian export goods to the port of Constanța.**

1. Analysis of financial results

1.1. Individual financial results of TTS increase compared to Q1 2021

| TTS – Individual financial results Q1 2022 | | | |
|--|---------|---------|-------------|
| (mln. RON) | T1 2022 | T1 2021 | Δ 2022/2021 |
| Turnover | 108,0 | 93,5 | ↑ 15,6% |
| Operating income | 8,6 | 7,7 | ↑ 12,7% |
| Net profit | 7,5 | 7,0 | ↑ 7,3% |
| EBITDA | 9,7 | 8,6 | ↑ 12,8% |

TTS (Transport Trade Services) S.A. ("TTS") registered in Q1 2022 a turnover higher by 14.5 million lei (+ 15.5%) compared to Q1 2021. This result determined an increase in profitability in all chapters, given that the expenses with the services provided by third parties (representing over 95% of the total operating expenses of TTS) increased by 12.5 million lei (+ 14.9%).

It is worth noting, however, that, from the group's point of view, the majority of TTS's external services expenses represent mostly intra-group expenses, respectively the value of the services provided by the group companies active in the transport and port operation segments, especially the services provided by C.N.F.R. NAVROM S.A. ("NAVROM").

1.2. TTS Group recorded over 22% increase in consolidated sales in Q1 2022, but profitability decreased compared to Q1 2021

| TTS Group - Consolidated financial results Q1 2022 | | | |
|--|---------|---------|-------------|
| (mln. RON) | T1 2022 | T1 2021 | Δ 2022/2021 |
| Turnover | 161,7 | 132,0 | ↑ 22,6% |
| Operating income | 15,6 | 18,8 | ↓ (17,1%) |
| Overall result | 12,2 | 15,0 | ↓ (18,9%) |
| EBITDA | 31,6 | 32,5 | ↓ (2,9%) |

In Q1 2022, the TTS Group registered a consolidated turnover higher by RON 29.7 million (+ 22.6%) compared to Q1 2021, an increase mainly determined by:

- increase of tariffs in Q1 2022
- the effects of the BAF clauses ("Bunker Adjustment Fees", contractual hedging clauses on diesel price fluctuations)
- increase in volumes operated in ports and those transported by rail.



However, consolidated profitability has been declining, solely due to the declining profitability of the river transport segment. This segment felt:

- the effects of the war in Ukraine in February and March - disruption of contracted cargo flows and increased costs caused by explosive price increases,

If under normal conditions the flows of goods carried by TTS on long journeys (Serbia and Hungary) consist of the transport of minerals upstream, coupled with the transport of mainly agricultural goods downstream, this system leads to a low percentage of empty ships in motion, In Q1 2022, the river transport segment faced a shortage of goods available for transport from Hungary and Serbia to Constanța. The lack of goods available for transport from Hungary and Serbia to Constanța was mainly caused by distortions in the cereals market, which resulted in very small quantities of exported cereals, and to a lesser extent by the suspension of scrap export licenses. by Serbia and the fact that unusually large volumes of metallurgical coke transported from Hungary in Q1 2021 were not repeated in Q1 2022.

Under these conditions, the share of empty ships in motion increased from 8.9% in Q1 2021 to 13.9% in Q1 2022, with direct effects on profitability for two reasons:

- the costs of transporting ships from Serbia to Constanța or to loading ports in Romania and Bulgaria were fully borne by NAVROM, without being covered by revenue,
- in the case of the movement of ships without cargo, fluctuations in the price of diesel are not covered by the BAF clauses, in which case NAVROM will have to fully bear the explosive increases in the price of diesel.

The reduction in profitability caused by the disruption of normal transport flows has been amplified by rising prices since the onset of the crisis in Ukraine in Q4 2021, increases that exploded with the outbreak of war. These increases have led to a significant increase in NAVROM's expenditure, mainly on diesel and sheet metal costs required for the maintenance and repair of ships, but also on energy expenditure, tariffs charged by the Danube-Black Sea administration and taxes levied by port administrations.

- the effects of suboptimal navigation conditions determined by the low level of the Danube throughout the quarter.

Unfavorable navigation conditions on the Danube also had effects on the profitability of the river transport segment.

The very good situation in Q1 2021, when the barges in the TTS fleet, regardless of size, could be used 100% of the time at maximum capacity, was not repeated Q1 2022. Due to the low level of the Danube in the Zimnicea area (critical for all flows of goods from / to Germany, Austria, Hungary, Croatia, Serbia, western Romania and Bulgaria), in Q1 2022 large barges could be used at maximum capacity only 35% of the time, and small ones only 70% of time.

This led to a decrease in the average load of the unpowered fleet from 71.3% in Q1 2021 to 68.8% in Q1 2022, as a result of the reduction in volumes loaded per convoy. However, if we take into account the fact that on all other transport relations the effects of the low level of the Danube were negligible, the degree of loading for the convoys that crossed the Zimnicea area was significantly lower.

As this reduction affected long-distance convoys with higher unit rates, the revenues brought by these convoys were lower at the same costs, which is reflected in the decrease in profitability in Q1 2022 compared to Q1 2021.

Under these conditions, although the profitability of the port operating and shipping segments was better compared to Q1 2021, the increases were not sufficient to cover the decrease recorded in the transport segment.

2. Operational aspects

2.1. Slightly higher volume of activity compared to Q1 2021, despite the effects of the crisis in Ukraine

Volumes transported and operated – Q1 2022

| (mln. tons) | T1 2022 | T1 2021 | Δ 2022/2021 |
|-----------------------|-------------|-------------|----------------|
| Agricultural products | 1,07 | 0,91 | ↑ 18,08% |
| Minerals | 1,98 | 2,16 | ↓ (8,19%) |
| Chemical products | 0,56 | 0,43 | ↑ 29,10% |
| Other | 0,12 | 0,09 | ↑ 25,77% |
| Total | 3,74 | 3,60 | ↑ 3,84% |

The volume of goods transported and operated by the TTS Group in the first quarter of 2022 was 3.74 million tons, an increase of almost 4% compared to the level recorded in Q1 2021.

The main contribution was made by the volumes of agricultural and chemical products, which amounted to 1.63 million tons, an increase of 21.6% (+ 290 thousand tons) compared to the level recorded in Q1 2021. This increase fully covered the deficit of 8.19% (- 180 thousand tons) recorded by the total volume of mineral goods transported and operated. The war in Ukraine caused the temporary stop of supplies of raw materials for metallurgy in the port of Izmail, but also the stoppage or disruption of the flow of goods from Russia through Constanta to various destinations in Serbia (especially), Bulgaria and Romania. These disturbances were mitigated / eliminated by the end of March, by resuming deliveries or replacing these products with others of different origins. Also in the second half of March, deliveries resumed through the ports of Izmail and Reni, the effects will be visible starting with April 2022.

On the other hand, the logistical reconfiguration caused by the war in Ukraine led, in the first instance, to the congestion of the port of Constanța starting with the second half of March, which caused delays in loading / unloading operations of barges and a slowdown in carrying out the transport activity. As a result, the volumes transported decreased as the quantities of raw materials stored in the port increased.

As the shock of the first reroutings is absorbed, these stocks will be transported to their destination starting with the second quarter, when other effects of the reconfiguration of logistics chains will become visible, including the transport of Ukrainian export goods to the port of Constanța.

A more detailed picture of the group's activity in the first 3 months of 2022 results by breaking down the volumes by types of operations (transport and operation) and by types of contracts.

2.2. The volume of transported goods, decreasing by 7.8% compared to Q1 2021

Volumes transported by river - Total TTS Group - by types of goods

| (mln. tons) | T1 2022 | T1 2021 | Δ 2022/2021 |
|-----------------------|-------------|-------------|-----------------|
| Agricultural products | 0,43 | 0,41 | ↑ 3,90% |
| Minerals | 1,43 | 1,67 | ↓ (13,93%) |
| Chemical products | 0,20 | 0,19 | ↑ 4,15% |
| Other | 0,10 | 0,08 | ↑ 32,47% |
| Total | 2,16 | 2,35 | ↓ (7,8%) |

The volume of goods transported by river at group level decreased by 190,000 tons, exclusively due to the reduction of the volume of mineral goods transported.

The decrease in the transport of minerals was determined, on the one hand, by the reduction of the volumes of some products, especially bauxite (due to the reduction of alumina production in Tulcea), scrap metal and metallurgical coke from Hungary, with lower volumes than in Q1. 2021 and, on the other hand, unfavorable navigation conditions.

With regard to agricultural commodities, volumes were affected by distortions in the cereals market. The quarter started with low transport volumes - as a result of high prices offered by farmers in the Danube basin, followed by a short period of thawing of the market after the start of the war in Ukraine - as a result of large price increases in international markets, then almost immediately, Hungary (on 06.03.2022) and Serbia (on 10.03.2022) stopped exports (these being resumed, with some restrictions, in April and May 2022, respectively). Therefore, cereals were transported almost exclusively from Bulgaria and Romania to Constanța, the routes being shorter and the fares lower.

Regarding the distribution of volumes transported by type of contract, the main decrease was in the operations contracted by the shipping segment and operated within the group, due to the decrease in mineral volumes, and the reduced volumes of agricultural goods in Hungary and Serbia.

River transport operations - Total TTS Group - by type of contract

| (mln. tons) | T1 2022 | T1 2021 | Δ 2022/2021 |
|---|-------------|-------------|-----------------|
| Contracted by the shipping segment and transported by third parties | 0,12 | 0,04 | ↑ 215,79% |
| Contracted directly by the river transport segment | 0,56 | 0,59 | ↓ (6,40%) |
| Contracted by the shipping segment and transported by the river transport segment | 1,49 | 1,71 | ↓ (13,25%) |
| Total | 2,16 | 2,35 | ↓ (7,8%) |

2.3. The volume of goods operated in ports, increasing by 26% compared to Q1 2021

The volume of goods operated in ports at group level increased by 321,000 tons, the port operations compensating for the decreases registered on the river transport segment.

Volumes operated in ports - Total TTS Group - by types of cargo

| (mln. tons) | T1 2022 | T1 2021 | Δ 2022/2021 |
|-----------------------|-------------|-------------|-----------------|
| Agricultural products | 0,65 | 0,5 | ↑ 29,78% |
| Minerals | 0,55 | 0,5 | ↑ 11,09% |
| Chemical products | 0,36 | 0,24 | ↑ 49,17% |
| Total | 1,55 | 1,23 | ↑ 26,03% |

The breakdown by type of contract shows that the activity carried out by the port operators within the group, increasing by 243,000 tons (+ 27.2%) compared to Q1 2021, supported the increase of the level of port operations at group level.

Port operations - Total TTS Group - by type of contract

| (mil. tone) | T1 2022 | T1 2021 | Δ 2022/2021 |
|---|-------------|-------------|-----------------|
| Contracted by the shipping segment and operated by third parties | 0,42 | 0,34 | ↑ 22,94% |
| Contracted directly by the port operating segment | 0,49 | 0,23 | ↑ 118,67% |
| Contracted by the shipping segment and operated by the port operating segment | 0,64 | 0,67 | ↓ (3,59%) |
| Total | 1,55 | 1,23 | ↑ 26,03% |

This increase, corroborated with the 23% increase in volumes contracted by the shipping segment, but operated by third parties, shows the capacity operation of the port operators within the group.

3. Investments

3.1. Investments of almost EUR 6 million in the expansion of the Group's transport capacity and in the recertification of ships

The overwhelming share of investments at group level in Q1 2022 is held by NAVROM investments:

- EUR 3.1 million in expanding transport capacity through ship purchases and upgrades

The main purchase was a package of EUR 2.4 million consisting of 8 EUROPA 2 barges with a combined capacity of 13,600 tonnes, a floating dock and a pontoon,

following their award in the tender organized by the judicial liquidator SIERRA QUADRANT S.P.R.L, in an insolvency proceeding.

The main feature of the Group's interest in EUROPA 2 barges is that they are covered barges, which allows them to be used in the transport of any type of dry agricultural, mineral or chemical product. This flexibility in operation (which uncovered barges do not have, as they cannot be used for agricultural products and dry chemicals) allows optimizing the movement of convoys, with positive influences on the profitability of TTS Group. In addition, due to their size (66 m opening at the warehouse and 8.5 m width), the EUROPA 2 barges allow the transport of oversized cargo, being at the same time among the most resistant, both in terms of structure and hull. The optimum load is 1,300 tons at a draft of 2.3 m.

The acquisition of EUROPA 2 barges is part of the modernization of the unpowered fleet, with NAVROM owning 201 covered barges following the acquisition.

The floating dock will increase the number of non-propelled ships recertified in the Group's shipyards. This will lead to a reduction in ship repair costs, both by reducing waiting times and by reducing third party costs, which currently have a significant share in the total cost of repairs.

This investment will increase the operational efficiency of the fleet of non-propelled vessels, to be reflected in the consolidated operating results of TTS Group.

- 2 EUR 2.6 million (representing 29.5% of the total amount budgeted by NAVROM for 2022) in **works required for ship recertifications** (31 unpowered ships - of which 8 were completed in Q1 2022, the other 23 being in various stages of construction, 4 powered ships, and 2 technical / auxiliary ships).

3.2. Modernization of the Giurgiu port terminal with European funding

Also in Q1 2022, the preparation phase of a modernization project of Giurgiu port owned by TTS took place, with a total value of 23.9 million lei ("Modernization of infrastructure in Giurgiu port, Ramadan area, berths 1, 2 - port platform, utilities, access routes"), the subject of an application for funding through the POIM, under Call POIM/642/1/3/Increasing the



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use of waterways and ports located on the central TEN-T network/3/Increasing the level of for the use of waterways and ports located on the central TEN-T network, opened under the Large Infrastructure Operational Program 2014-2020, Priority Axis 1, Specific Objective 1.3 "Increasing the volume of goods transited through intermodal terminals and ports".

The TTS investment in the project is 9.5 million lei, the difference being covered by European funding. The project includes the arrangement of 9,980 sqm port platform, 175 ml fire repellent water network, 1 20 / 0.4 kV substation, 700 ml electrical network, 150 ml crane track, 2x250 ml railway and administrative space arrangement, and has an estimated term of completion 24 months.

The funding application is in the final stages of approval.



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4. About TTS group

The Transport Trade Services group of companies ("TTS Group" or "the Group") is one of the largest integrated inland waterway carriers in the Danube Basin and is composed of 16 companies, namely TTS (Transport Trade Services) S.A. ("TTS" or "Company"), 13 companies in which TTS holds, directly or indirectly, more than 50% of the share capital and 2 in which it holds minority positions. Eleven companies in the Group operate in the three main business segments of the Group:

| | |
|-------------------------|---|
| International Shipping: | TTS (Transport Trade Services) S.A. București, TTS (Transport Trade Services) GmbH. Viena, Plimsoll Zrt. Budapesta, Transterminal – S S.R.L.Chișinău |
| River transport: | CNFR NAVROM S.A. Galați, Navrom Bac S.R.L. Galați, Fluvius Kft. Budapesta |
| Port Operation: | Canopus Star S.R.L. Constanța, TTS Operator S.R.L. Constanța, TTS Porturi Fluviale S.R.L. Galați, Port of Fajsz Kft. Fajsz (Ungaria) |

The main goods transported and operated in ports are: mineral products (raw materials for the steel industry and rolling mills), agricultural products (cereals, oilseeds and feed) and chemicals (phosphate rock and finished products of the chemical fertilizer industry).

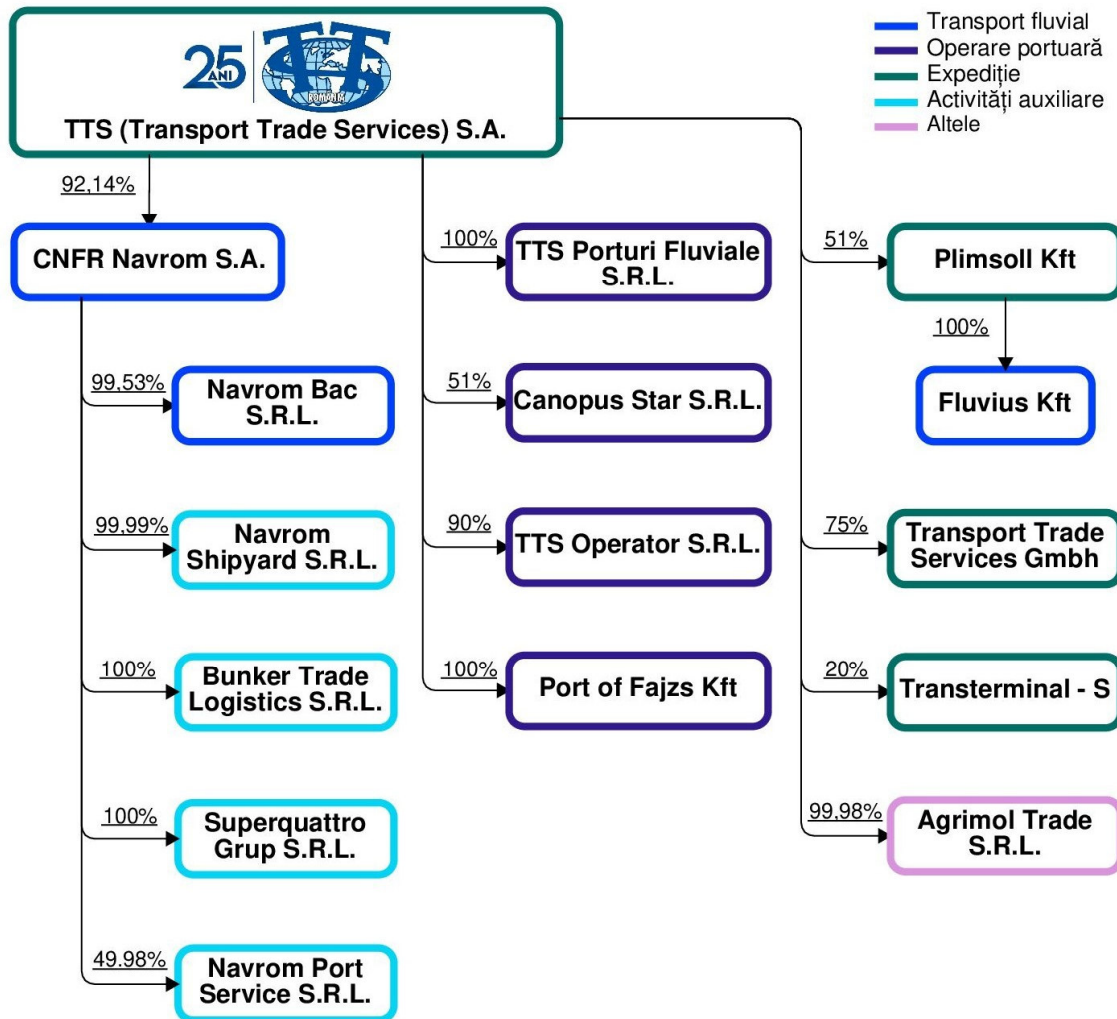
TTS Group has the largest river fleet in the Danube basin, consisting of 481 river units with a capacity of almost 800 thousand tons, 8 floating cranes, as well as port terminals in Constanța and in 7 Danube river ports.

The group offers 3PL (Third Party Logistics) services, respectively integrated transport services (river, railway, road), transshipment (between transport units, from warehouses, silos, etc.), storage (warehouses, silos, river type warehouse units, etc.), agency (production of specific documents) and any other services specific to the management of the supply chain.

The main member companies of the Group are owned by TTS and, with one exception, are integrated into the Group's business model.

STRUCTURA GRUPULUI TTS

(31.12.2021)



The companies with the greatest impact on the group's activity are those that are part of TTS's core business:

- CNFR NAVROM (RIVER TRANSPORT segment);
- TTS OPERATOR, Canopus and TTS PORTURI FLUVIALE, (PORT OPERATION segment);
- The group's external operations are supported by PORT OF FAJSZ (HU), Plimsoll (HU), Fluvius (HU) and Transport Trade Services GmbH (AT).



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The simplified consolidated (interim) consolidated financial statements for the period ended 31.03.2021 are available by accessing the following links:

<https://www.tts-group.ro/financial-reports.html>;

<https://www.bvb.ro/FinancialInstruments/Details/FinancialInstrumentsDetails.aspx?s=TTS>.