

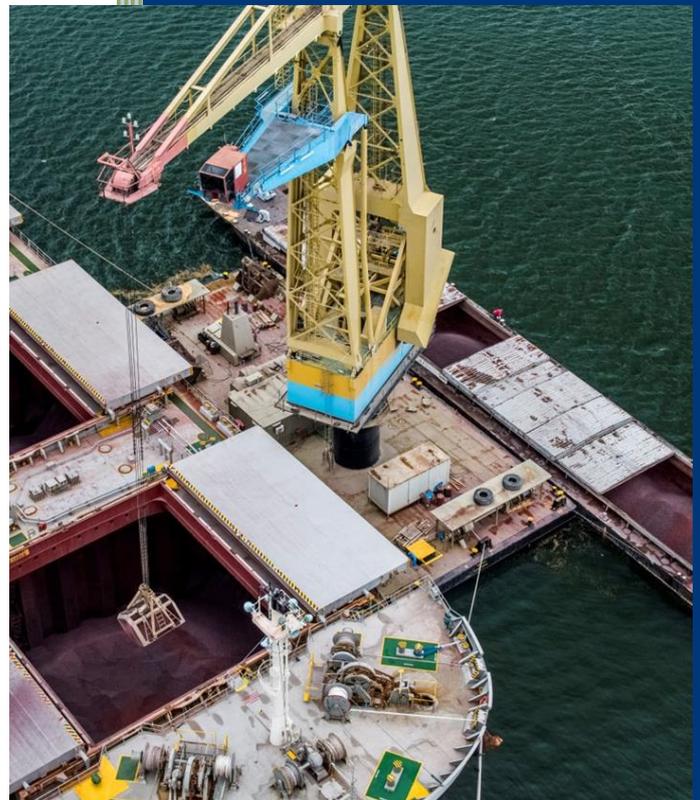


TTS (Transport Trade Services) S.A.

Sustainable Development Strategy

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[BVB: TTS](#)



The Transport Trade Services Group ("TTS Group" or "Group") is one of the largest inland waterway carriers in the Danube Basin and has three main business lines:

1. International expedition
2. River transport
3. Port operation

The main goods transported and operated in ports are:

- mineral products (raw materials for the steel industry and laminates),
- agricultural products (cereals, oilseeds and feed)
- chemicals (phosphate rock and finished products of the chemical fertilizer industry).

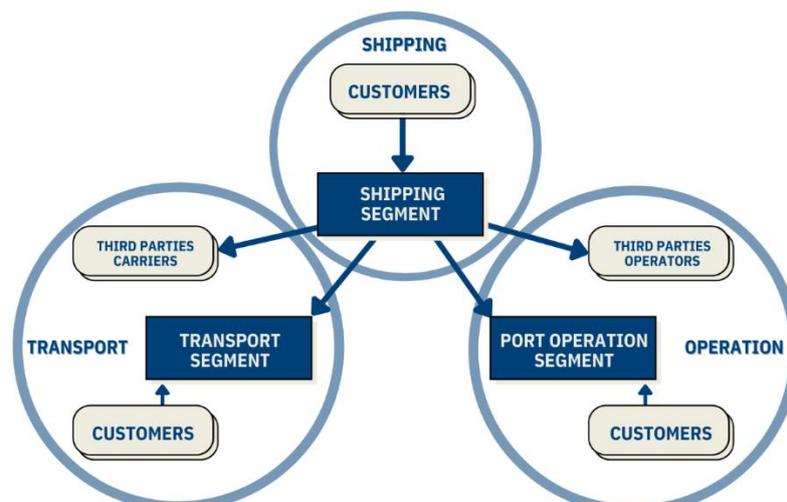
TTS Group has the largest river fleet in the Danube basin, with a capacity of almost 800 thousand tons, 8 floating cranes, as well as port terminals in Constanța and in 7 Danube river ports.

The group offers integrated logistics services consisting of transport (river, rail, road), transshipment (between transport units, warehouses, silos, etc.), storage (warehouses, silos, warehouse type river units, etc.), agency (production of specific documents) and any other services specific to the management of the supply chain.

The Group's business model is centered on TTS, which provides customers with integrated forwarding / river transport / port operations services and coordinates the Group's operations.

The transport and port operation services are further subcontracted mainly with the Group companies, but also with third parties (especially in the port operation segment).

At the same time, the Group companies active in the river transport and port operations segments may contract services directly with their own customers, in addition to the orders received from the Group companies active in the forwarding segment.





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TTS mission

The mission of the TTS Group is to provide its partners with integrated, "door-to-door" logistics solutions, focused on efficiency, productivity and innovation, to ensure their sustainable growth and that of the community.

TTS vision

Bridge Future through Logistics!

Connecting people, partners and communities through logistics, towards a sustainable future. Preserving the market leader position in the river transport segment on the Danube.

TTS values

The values of the TTS Group articulate and animate the way the organization and its people act and communicate with its partners and the world around them.

Customer orientation: we build long-term relationships, sustainable and adjusted to the needs of the value chain of our partners! We strive to offer the best quality on the market.
Transparency and professionalism: we invest in the effort to understand the needs and particularities of our partners' business, being open and transparent in the way we collaborate with them.

Innovation and flexibility: we constantly develop and innovate the means and methods by which we bring value to our partners and the organization!

Stages of strategy

For the roadmap 2022-2030, the R&D strategy of TTS aims to guide the company's efforts and investments to strengthen the organization's ability to cope with difficult market conditions facing the business environment and society and ensure a sustainable growth in the long term. for the company and its stakeholders.

The result objective of the R&D interventions is for the TTS Group to preserve the attributes of a flexible, agile and profitable organization, which carries out its operations in conditions of safety and compliance, for the efficient solution of short and medium term challenges and the increase of value in the long term for the company and its stakeholders. The R&D interventions will be in line with the EDEEC concept ("Efficiency - Digital Everything - Emissions Conformity") and will be carried out while preserving the capacity and capabilities of TTS to make a profit in the current market conditions.



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The arguments of the TTS Group's R&D interventions lie in the company's performance: solid consolidated results, positive cash flow available, very low degree of indebtedness (less than 5%).

Context and Challenges

The European economic and market climate is currently marked by the overlap and convergence of global processes, which exacerbate the side effects of the war in Ukraine.

The combined decisions of the EU, England, USA, Canada, others, to impose economic sanctions on Russia, have numerous geopolitical and economic consequences, which directly affect the markets.

Global climate change and the approaches agreed by the European Union also have an impact on the economic fundamentals of river transport, bringing specific and lasting challenges.

The convergence of these global processes leads to the potential exacerbation of the vulnerabilities of society in general and of economic organizations in particular and requires the evaluation of their impact on the organization's resources as well as the company's adaptability.

The challenges posed by the geopolitical context of the war in Ukraine

The TTS Group's exposure to compliance obligations arising from the decisions of the European Union and the Member States to impose economic sanctions on Russia is low. The TTS Group has no financial or active exposures in Ukraine or Russia.

In the same way, the imposition of economic sanctions on Russia has as a direct result the increase of energy prices, especially the price of fossil fuels, a situation that affects all segments of economic life. Fuel is an important cost element in the total cost of the river transport services of the TTS Group (about 30%).

The volatility of fuel prices can be an operational challenge at the level of the Group (although in its relations with its business partners the TTS Group is protected by adequate contractual provisions).

The European Commission's decision to eliminate the EU's dependence on fossil fuels from Russia (the "REPowerEU" package), as well as the recent embargo decision on the supply of crude oil and derivatives from Russia, will aggravate both the availability of naval fuel and its cost.

Challenges caused by climate damage

Climate change has an impact on the TTS Group's operations, both operationally and strategically, and in terms of compliance obligations.

Drought is a major challenge in the countries of the Danube Basin, national and European studies and reports (e.g. "European State of Climate 2021") documenting that drought episodes are frequent, more intense, no longer associated only with summer months and affect various economic sectors. Changes in the precipitation regime in the Danube Basin have a direct impact on the navigability on the Danube and the transported capacity (loading of barges).

The current approach to drought episodes is of a reactive nature, in the vast majority of cases being managed as a crisis situation. Although in relations with its business partners, TTS Group is protected by contractual provisions, such episodes ("low waters") affect both the operational activity of the company and its results. Managing these exogenous events as a crisis situation does not allow the organization to focus on sustainable solutions that can be implemented at Group level. Moreover, the stress analysis associated with the evaluation and quantification of the severity of the impact of climate change (as a whole) on the activities of river transport companies, respectively of the tolerability threshold for such stressful situations, is absent.

Adoption by the European Parliament of the Directive amending Directive 2013/34 / EU, Directive 2004/109 / EC, Directive 2006/43 / EC and Regulation (EU) no. 537/2014 on establishing the obligation to report the impact of climate change on the sustainability of companies' activities, creates the premises for a paradigm shift in raising awareness of the impact of environmental factors on companies' performance, along with social and governance.

Another dimension of these climatic events is the re-orientation of freight flows to other modes of transport (car and rail), a situation that exacerbates the impact on river transport operations and the company's results (when such episodes occur).

The climate adjustment measures agreed by the European Community (the "Green Deal" pact and the "Fit for 55" legislative package) have an impact on the economic foundations of river transport. The recent amendment by the European Parliament (11.05.2022) of the ETS Directive ("Emissions Trading System" / (EU) 2018/410 /14.03.2018), an amendment by which the carbon dioxide emissions generated by inland waterway transport activities European is included in the ETS scheme, it adds an element of operational stress, both in terms of operating costs and in terms of compliance obligations.

The Navrom fleet complies with the requirements of Stage III (EC Regulation 2016/1628) / Tier III, regarding GHG emissions (although the ETS system refers strictly to the CO₂ footprint



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of a company's activities, respectively to the market mechanisms through which CO₂ emissions follow to be compensated by the acquisition of "green" certificates).

The decarbonisation of European inland waterway transport requires substantial resources to offset the compliance effort associated with this regulation. Otherwise, the industry has no choice but to transfer the increased operating costs to its beneficiaries (customers and shareholders). In this context, the position of the European Barge Union ("EBU") and the "European IWT platform" ("IWT") Foundation should be noted, which draw attention to the fact that this legislative change will reverse, or even nullify, the anticipated effects of the European strategy. Sustainable and Smart Mobility Strategy "and the NAIADES III action plan, instruments through which the European Commission aims to stimulate the migration of freight transport by road to river transport, respectively rail, to achieve the objectives of the Green Deal.

TTS Group's R&D investment proposal

The strategic objective of the TTS Group is to preserve its position as market leader, in order to maintain the sustainable economic growth of the long-term value of the organization, respectively of the Group's investments and to ensure the resources for materializing the dividend policy assumed by the organization.

The result objective of the company's R&D interventions is for the TTS Group to preserve the attributes of a flexible, agile and profitable organization, which carries out its operations in conditions of safety and compliance, for efficiently solving short and medium term challenges and increasing long-term value for the company and its stakeholders. The R&D interventions will be in line with the EDEEC concept ("Efficiency - Digital Everything - Emissions Conformity") and will be carried out while preserving the capacity and capabilities of TTS to make a profit in the current market conditions.

Intervention directions

Recognizing that the impact of investments in the R&D segment is at the level of increasing the long-term value of the organization, the Intervention Directorates are aligned with the desideratum that their implementation is always congruent with preserving the capacity and capabilities of TTS to make profit in current market conditions!

Recognizing also that investments in the R&D segment require significant resources to finance the organization's learning curve, investments appreciated by the Group as having high risks and a long payback period, identifying resources that can be attracted by the Group to finance the learning curve is essential for the implementation of these investments.



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Direction 1: Interventions within the assets owned / operated by TTS Group in order to increase the efficiency of their exploitation degree.

Direction 2: Intervention measures for digitization and automation of business processes within the TTS Group.

Direction 3: Interventions within the physical assets owned / operated by TTS Group in order to comply with the compliance obligations regarding the reduction of the CO2 / GHG footprint associated with the operation of these assets, respectively to reduce the consumption of energy carriers in each TTS Group company.

Direction 1 of Intervention

Context

The business model of the TTS Group belongs to a provider of integrated logistics services of type 3PL ("Third Party Logistics"), vertically integrated, which acts as an integrator of multimodal transport services (river, rail, road), with its own fleet, port operations carried out in its own facilities, with its own means of ensuring the maintenance of the fleet (own shipyards) and its own agency house.

Recognizing the importance of the TTS Group's values and especially the customer orientation, the preservation of the value created for TTS Group's stakeholders is seen by the organization as one of the essential dimensions of its activity in the new market context.

Given the difficult market conditions, generated by exogenous factors, the objective of the R&D interventions is for TTS Group to preserve the attributes of a flexible, agile and profitable organization!

The entrepreneurial culture of TTS Group's business units, essential from the perspective of ensuring the agility of the Group companies to face the market challenges, has led and leads to ad hoc and non-unitary solutions of the ways in which the efficiency of TTS Group assets is targeted, quantified, monitored and reported.

The increased granularity of the group companies' business, respectively the specific objectives set at the level of each company, makes it difficult to translate at the company level the Group's objective of preserving the value created for its stakeholders. Ad hoc and non-unitary solutions unjustifiably diversify the ways in which the efficiency of the Group's assets is objectified and pursued, affecting and relativizing stakeholders' perception of the Company's intrinsic value (the Group's assets understood in their entirety, not only tangible assets!).

Measures

Measure 1 - Study to identify a set of unitary indicators for modeling the key success factors of the value created by the Group for stakeholders, respectively of the Group's profitability and the feasibility of their implementation.

Expected results

The value created by the TTS Group for its stakeholders is not perceived by the Group companies as a unit, which relativizes the actions of the Group companies regarding the achievement of the objective of maximizing the efficiency of the exploitation of the Group's assets (understood in their entirety, not only tangible assets!).

It is expected that the Group's profitability modeling based on the key attributes of the Group's success ("key success factors") will be able to capture how the Group's strategy (to create value for its stakeholders) should be quantified at the level of each company from the Group. to be able to allow the transparency of the process of maximizing the efficiency of the exploitation degree of the Group's assets (understood in their entirety, not only tangible assets!).

Measure 2 - Study to identify the models / tools that could be used by the TTS Group for the unitary evaluation / calculation of the performance of the Group's development and operational modernization investments starting from the "Real Option Value" ("ROV") approach of the investments.

Expected results

To evaluate the results of the investments made by the TTS Group, the organization currently uses ROACE, a purely financial indicator, which ignores the essential attribute of assuming investments in a climate with high uncertainties - the option / decision to do or not do something (a investment), has in itself a value (R.M. Grant).

It is expected that the identification / development of a model or a tool for unitary evaluation / calculation of the Group's investment performances starting from the "Real Option Value" concept, will allow the contextualization of the Group's investments to take into account the economic climate characterized by increased uncertainties and the rigorous discipline of capital employed.

Measure 3 - Study to identify a set of criteria for conducting a "Stress Test" of the organization, taking into account the challenges posed to the activity of TTS Group by economic measures derived from the EC Decision and the "REPowerEU" Package, embargo decision on supply crude oil and derivatives from Russia (assumed by Romania), the global climate change and the climate adjustment measures agreed by the European Community, respectively the

legislative changes generated by the Directive amending Directive 2013/34 / EU, Directive 2004/109 / EC , Directive 2006/43 / EC and Regulation (EU) no. 537/2014, amendment of the ETS Directive (EU) 2018/410 /14.03.2018).

Expected results

The (anticipatory) evaluation of TTS Group's behavior towards economic and social stressors will allow TTS Group's management to identify the Group's vulnerabilities in the context of aggravating current market conditions and adopting measures to reduce the impact of the analyzed stressors.

Direction 2 of Intervention

Context

TS Group operates four distinct business segments:

- (i) expedition - i.e. supply processes to third parties of integrated logistics services of type 3PL;
- (ii) port operation - i.e. processes for the provision (to the internal clients of the TTS Group or third parties) of port operation services in the ports where the TTS Group is present with its own facilities;
- (iii) river transport - i.e. processes for providing (to the internal clients of the TTS Group) ship and river transport services;
- (iv) support activities - i.e. fleet maintenance and repair activities (to the internal clients of TTS Group), hydrotechnical works, others.

The business processes in each of the above segments have a very high granularity, whose quality and attributes differ substantially from one business segment to another.

The degree of use of digital information differs substantially from one business segment to another, or even within the same segment. Currently, digital information is discreetly structured, has variable and low degrees of indexing, being often stored in locations without visibility at Group level, automatic operation not being possible. Exceptions are the financial-accounting activities, which use databases with varying degrees of structuring and indexing, which are not interconnected, which is why the visibility of this information, at Group level, is low.

The degree of ensuring the security and integrity of digital information and digital information processing systems is unknown; TTS Group has not yet developed specific policies and procedures regarding the security of digital information (otherwise, an intangible asset) nor of the means / systems that process digital information. The way in which the portability of digital information is ensured is unknown.

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The greatest need to operate with digital information, structured, indexed and available in real time is in the processes of corporate management, forwarding and port operation, respectively in the fleet operation activities.

Digitization (data collection in digital format or conversion of data from hardcopy to digital format) is ad hoc, is done "as needed" ("cherry picking") and involves human intervention. Existing databases are not interconnected and cannot be used for data mining applications. The organization does not use AI applications, although there are business processes that could benefit from such means of automatic operation. TTS Group has not yet developed policies and a philosophy on digital information!

Being an intangible asset, Corporate knowledge has, in the case of TTS Group, the dimensions of an organizational culture in which information is structured ad hoc and preserved in a traditional format (hardcopy), with different degrees of recognition and valorization. TTS Group has not yet developed policies and a philosophy on Corporate knowledge!

Measures

Measure 1 - Elaboration of the philosophy and policies of the TTS Group regarding digital information and drafting of specific procedures in order to implement and certify the solutions to be implemented.

Measure 2 - Study to (i) identify a software application that would be used within the TTS Group to digitize, in a unitary manner, the financial-accounting and asset inventory business processes in the organization using the "one entry updates all" approach and (ii) estimating the implementation costs and interconnecting, at TTS Group level, of these databases.

Expected results

Recognizing the importance of information in digital format, the directions of intervention that would be analyzed by the solution study for the digitization of business processes within the Group's companies should consider at least:

- (i) digitization, in a unitary manner, of the financial-accounting and asset inventory business processes using the "one entry updates all" approach; the interconnection, at TTS Group level, of these databases, in order to ensure the visibility and automation of the information use processes;
- (ii) digitization of business processes at the customer interface - shipping and port operation activities and automation c / w customization of processes for using this information - customer relationship management (CRM) software applications, competence to relate to applications such as RIS, NTs, eIWT and VTT (DINA and GRENDL⁽³⁾).

- (iii) digitization of the fleet operation business processes and of the bulk goods processing activities operated within the port operations for the implementation of Process Information Management Systems (PIMS) solutions.
- (iv) digitization of fleet maintenance business processes for the implementation of an Enterprise Asset Management & Maintenance (EAMM) software application.

The study will allow the identification of the software application having the structure and complexity appropriate to the digitization objective, in a unitary manner, of the financial-accounting and asset inventory business processes in the organization using the "one entry updates all" approach and estimating implementation and interconnection costs of these databases at Group level.

Measure 3

Implementation of a solution for monitoring and remote transmission of fuel consumption for line pushers - Pilot project.

Measure 4

Implementation of a standard solution for monitoring and remote transmission of information regarding the monitoring of the loading degree of barges Barge Cargo Load Assessment (BCLA) - Pilot project.

Direction 3 of Intervention

Context

The fleet operated by the TTS Group consists of 21 line pushers, 6 maneuvering pushers and 410 barges and shleps; the average age of the TTS fleet assets is 25-30 years. TTS Group's motorized assets are powered by naval engines that use diesel (naval) as fuel, are compliant with Tier III (GHG emissions / EC Regulation 2016/1628) and have CO₂ emissions levels comparable to those of other fleet operators on European inland waters.

The amendment by the European Parliament of the ETS Directive (EU) 2018/410 /14.03.2018), and the inclusion of the transport on European inland waterways in the ETS scheme will create to the TTS Group, on the horizon + 3... + 5 years, an exposure in the costs of operation of the TTS fleet of at least € 3.2 million (CO₂ emissions price @ € 50.0 / ton @ €50,0/tona of CO₂, according to Parliament's decision).

TTS Group is present with port operations through its own facilities in the ports of Constanta, Braila, Galati, Bechet, Oltenita, Giurgiu, Drobeta Turnu Severin and Fajsz (in Hungary). The operation of TTS 'own port facilities translates into an annual electricity consumption of 4.23 GWh (TTS 2020).



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The business segments with the highest exposures to the new legislative changes are represented by river transport (the largest generator of carbon dioxide emissions in the Group), respectively by the operations in the aquatories of the ports where TTS Group operates.

The TTS Group collects annual statistical statements of the indicators that constitute the environmental footprint of the organization, respectively the energy consumption in each business unit of the Group, for the purpose of voluntary / legal reporting.

The decarbonisation of European inland waterway transport requires substantial resources to offset the compliance effort associated with the new regulation. Otherwise, the industry has no choice but to transfer the increased operating costs to its beneficiaries (customers and shareholders). Consistent with the position of the European Barge Union ("EBU") and the European IWT platform ("IWT"), TTS Group endorses the view that this legislative change will affect the European Sustainable and Smart Mobility Strategy and the NAIADES III action plan, through which the European Commission aims to stimulate the migration of freight transport from road to river transport, respectively railway, as a tool to achieve the objectives of the Green Deal.

At this time there is no clear understanding of the interactions between the "Fit for 55" legislative package and the European Taxonomy Regulation (and rules) (EU Regulation 2020/852). Moreover, the IWT Industry does not have, at the time of the analysis, a business case to document the way in which an IWT shipowner / fleet operator can preserve the long-term value for its shareholders in the case of "fleet greening" projects.

Measures

Measure 1 - Amendment of the TTS Group Environmental Strategy to reflect compliance obligations resulting from European legislative amendments (amendment of the ETS Directive, respectively Directives 2013/34 / EU, 2004/109 / EC, 2006/43 / EC and Regulation (EU) No. 537/2014) and to allow the objective and realistic estimation of the compliance efforts of TTS Group on the horizon + 3 years.

Expected results

The amendment of TTS Group's Environmental Strategy will lead to:

- (i) updating and completing the reactive approach in the practice of the Group's organizations with the proactive approach;
- (ii) anchoring the policies and Strategic Environmental Objectives of TTS Group in the political, economic and social context of the new legislative changes; identifying the environmental challenges of the organization in the medium term, at the horizon of the 2030s and establishing the stage objectives.



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- (iii) the development and implementation of business processes at Group level that allow to increase the real-time visibility of the environmental footprint of the Group's operations (including the CO₂ footprint) and of energy consumption and to quantify the organization's progress in relation to the assumed objectives.
- (iv) the implementation of Corporate Governance rules that allow the alignment of business processes (regarding the environment) in the Group's business units to the objectives and policies of the TTS Group, so that the application of these policies is unitary (except in circumstances where such approach would have no economic justification).

Measure 2 - Ordering and aligning the business processes within TTS Group for the unitary and automatic reporting of the elements of quantification of the environmental footprint associated with the business processes in each entity of TTS Group (an intranet application or VPN web platform).

Measure 3 - Evaluation of the feasibility of implementing on the horizon +3 ... +5 years of offset actions to mitigate the impact of costs with CO₂ / GHG emissions associated with the operation of TTS Group's assets.

Measure 4 - Development of the 0.25 MW installed capacity Photovoltaic Park pilot project within the port facilities rented by the TTS Group from APDF Giurgiu in Cernavoda Port, to evaluate the impact of this measure as part of the offset actions envisaged for the Group.