



## **Transcript**

### **Transport Trade Services**

#### **Videokonferență pentru prezentarea rezultatelor financiare pentru Q1 2023**

**19<sup>th</sup> of May 2023, 2 p.m.**

#### **Results highlight by the company**

The shares reached a new historical high, of RON 13.9, after April 18-19 when there was a new historical high, but then it happened following the Decirom announcement. We think that what happens today with the announcement about GMS, is that it has become public that we are preparing for investments of EUR 42 million, including Decirom, and this comes after 2022 which was a year with historical results, so the year 2023 is going to be the year of investments.

In Q1 2023 the results increased substantially compared to Q4 2022, we are not talking about Q1 2022 because Q1 2022 represented a completely different market – other flows, other logistics routes, things changed dramatically from 2022 until today. Therefore, what is extremely important to us and somehow confirms our optimistic expectations is that in Q1 2023 we recorded results substantially higher compared to Q4 2022. The turnover increased by 26% at the individual TTS level, and at the consolidated level, it was a growth of 13.5%, increases that determined important increases in the net profit achieved. Obviously, as we have pointed out on other occasions, the financial position in which we find ourselves forces us to accelerate the pace of investments and here comes the second very important point - the fact that in the first quarter of the year the port operation activity increased by 1,000 tons and was higher at group level than the transport activity. This includes not only the transportation and operation made by us through subsidiaries but also the contracts with third parties. It should be emphasized that for several years we have had the vision of a logistics company rather than a transport. This has been communicated, but at the market level, the public still sees us mainly as a transport company, an expedition with transport on the Danube. The reality is that we have evolved, and we hope that the market understands that we are much more than transport. The operation activity has become more important at least at the level of the quarter, which is right only by 1,000 tons, which seems very little, but it is a thing worth highlighting, especially since what follows will be the investments in operation, not only Decirom as we have specified, but also new investments in floating cranes that will increase our operating capacity in Constanta and the efficiency of operation.

In terms of the market conditions that we saw in Q1, they were still very favorable, but the reality is that if we analyze them in detail, we see that something extraordinary has not happened that explains these robust increases that we had in Q1. What happened, however, is simply given by the movements



that were seen in the market last year, namely, the configurations of the logistics routes have stabilized, so now they are fully operating, and obviously they have had beneficial effects on the results of the group. Although at this time, the volume increases are not spectacular, it is still the first time that the volumes are beginning to increase after we saw in the last two quarters decreases, and this is a sign of stabilization.

One thing rather administrative we would like to point out before answering the questions. Probably many of you have seen already that we have moved to a new quarterly report format, richer in data than past reports. For the first time, we systematically present the evolution of the current quarter in relation to the previous quarter, and of course, we also present the results compared to the corresponding quarter of the previous year. We want to continue this modality and it also depends on how the market will react. We adapt to the requirements of the market, but it is very important to us that today, as we said, we are in a completely different market than last year. Or in this situation, the comparisons with the first quarter of 2022 we made, but as you could see, are not so relevant because all these massive changes in the markets in which we are active have occurred since the second quarter of last year.

That's about it, we can now move on to the question session. We start with the questions received from the shareholders, respectively from Mr. Șâlcov, whom we thank very much also for the questions and for sending them to us by email the day before, which is much more comfortable for us, and we encourage everyone to do so.

So, we start with Mr. Șâlcov's questions, some of them being asked yesterday, the convocation we published in the meantime. Obviously, some of the questions have found their answer, especially in the materials published. The materials are already on the site, they are quite detailed, so they allow for an analysis in our opinion.

## **Questions and answers**

**1. Is the investment project for Giurgiu on schedule? When do you estimate it will become operational?**

*Response:*

It's on schedule. According to our estimates at the end of the year, the beginning of next year will be operational.



**2. In 2021 you were talking about streamlining by loading at vertical quays. Has the necessary infrastructure been put in place? What stage is it in?**

*Response:*

The administration of the Giurgiu River Danube Port is in the design phase now to start a project with European funds for the bio-vertical arrangement and the Giurgiu Port. Normally the investment should start in the summer of this year and will probably span a year and a half at least. So even though we will be ready with the work at the beginning of next year, we do not yet know if we will be able to start operations next year or after the vertical quay is completed.

**3. Given the results of Q1 2023, will you issue a revenue & expenditure budget correction?**

*Response:*

We have already answered, and we have already given published an update of the investment budget because that is what actually happens after the results at Q1 and it is available today.

**4. What synergies do you see in the investments you make at Decirom or plan for this year, have you already have some estimates regarding profitability that would result from these investments, for example, improved margin or ROI, and what is the strategy in the upcoming, how do you see the flows of goods moving for the next period?**

*Response:*

In relation to the investment in Decirom, obviously, there will be synergies, only if we look at the current structure, on the one hand, the Decirom has deep berths, ample storage spaces, and has a very good connection both on the railway that goes up to the crane, to the quay, to the long berths, and on the road transport. On the other hand, we as a group come up with river transport and additional operating capacity. So that's the main point where we see synergies coming up, well beyond the economies of scale that aren't that important if you want, but in this area, we're actually seeing some synergies. Coming back to the other question, we have not evaluated at this moment the impact on profitability for next year, also considering that most certainly after we take over Decirom will accelerate its level of investment. They started to make investments since last year and have made good investments, but we will speed up this process. It is very difficult to make a forecast for the year, what the group will look like with Decirom. But coming to the other question, here we really see synergies because as I said as a structure, we are complementary businesses. Yes, so yes, essentially, it's vertical integration, but we're complementary businesses. Everyone comes with something at the table, including customer bases. We don't know if we have any joint clients, possibly yes, we haven't studied, and we haven't had the full list yet, but even the customer bases will benefit from each other's services. So, in essence, this is where we see the big gain, in addition to the fact that any investment in the port, as you well know, is a 100-year investment, and these opportunities rarely arise. We don't know how many ports have changed owners in the last 20 years, but there are certainly not very many. Regarding how we see the flow, we will be quite succinct, because we have noticed that both our clients and our competitors are very attentive to the reports we send on the stock exchange and also



to these conferences that are registered and posted on our website. So, for freight flows, the fundamental piece is complementarity. TTS as an integrated logistics system both vertically and horizontally, has a number of ports on the Danube, a small one in Hungary that we now have in the redesign and an investment next year there too, and six in Romania which are a component of the ends of the upstream logistics chain, and in Constanta where we do not have any general freight terminals. We have a grain terminal that is going very well and is developing now. But for general merchandise like fertilizers, metals, timber, and so on, we don't have any terminals. We have access to cargo, both for transport and as a logistics company, let's say at the top of the food chain and not having access to a general freight terminal of ours, we can only develop these freight flows with third-party operators. In principle, we have good and very good relations with all the porting operators in Constanta, even if on the one hand they are our competitors, on the other hand, they are our partners. But it's one thing to be able to develop a commodity flow knowing that you're working with your assets and another thing is to be able to develop a commodity flow knowing that you can only work with the assets that allocate them according to long-term, short-term, momentary interests and so on. So that's where we left. The acquisition of a port terminal in the port of Constanta was as important or more important target than the previous port acquisitions along the Danube. At the Danube it was easier because the Danube is long, it is scattered in many small terminals. Here we have acquired in time more, the six that we have now, and in Constanta we have not succeeded so far, with all the insistence and efforts and with the attention we have paid to this subject, than the production on the grain terminal. We had an opportunity, we managed to get it done, we still have a bit more and we cross the final line. After that, the 2nd work will start, which will be at least as hard as the first one because it's an effort to pay a sum of money that for some can be a lot, for some it may be a little, it is a matter of own evaluation. But after that, the work of integration into our operational system of connecting values will follow, we will have to interconnect the values, the equipment, the work philosophy, and the logistics system, and slowly we will be able to do this. So, we're only talking about Decirom in 1 year's time. Until then it will be a construction phase.

**5. If the Competition Council will issue a favorable opinion for the takeover of Decirom, when do you expect that this company will be operationally incorporated into the TTS group?**

*Response:*

What we officially know today is that the council's decision has already been taken. We do not have, it has not been transmitted to us, at least until this hour, but officially the Competition Council confirmed that the decision was taken on Wednesday. Going now towards integration, obviously, the next step will be the transaction itself, which will be completed after the GSM from June 19th, at which point we will enter Decirom. Until June 30th was the maximum term of the transaction, but we're a bit, hopefully not to upset anyone, but we're ahead of schedule. Regarding the operational incorporation, the good news is that we are in businesses, as I said complementary, and in the port and along the chain, so obviously we will make an assessment, we will see exactly how things are concrete after we take control. But now we do not estimate massive movements, because Decirom's



business is the glove of the TTS operational segment business, so even from a technical point of view, in principle at least, they are not different.

**6. Can you describe the concession agreement of Deciom – how long does it have until it expires, and how to renew it – the existing operator has a right of preference?**

**What can be done with Deciom? So apart from these complementary activities, you can expand existing activities, for example, grain traffic, I've seen that it doesn't cover this segment.**

*Response:*

The concession at Deciom, in fact it is not a concession, it is a lease, and it is according to the law. The rental contracts are concluded up to the maximum limit of the concession according to the current legislation, which is the year 2050. So those are the conditions today. After 2050, the concession of the Romanian state to the administration of Constanta port will certainly be extended. The current one is 50 years old, probably everything will go the same. Regarding the 2nd question, Deciom does not work on cereals usually, only accidentally if needed. They worked in 2021 several thousand tons. From a technical point of view, any company that works fertilizers can also work bulk cereals in the same facilities, sure that after proper cleaning of the storage sheds, because fertilizers based on ammonia leave a strong smell. Now the construction of a new warehouse is underway. We have decided that Deciom will continue its object of activity with the goods it now has in its endowment. We do not want to mix cereals in Deciom because it would be a mixture in the same place between fertilizers and cereals. There are also some sanitary norms that provide for some distances between the storage space for fertilizers and the storage space for cereals, in order to avoid the risk of contamination with nitrogenous products. In conclusion, we do not intend to use Deciom in the future for grain storage, but instead for tying transport with high barge or vice versa for agricultural products, this is quite possible, with floating cranes or quay cranes, but not with the transformation of Deciom into a silo.

**7. How does the deepening of the Băstroe Canal affect you?**

*Response:*

A few days ago I was reading in a press release that after the measurements that were made, it was concluded that the depth is 6m-7m, that is, smaller than on the Sulina canal, and if it was larger as it was originally said 9m- 10m, the effect was more or less the same for us because if we go back before the war, freight traffic from Ukraine to Constanta was almost non-existent. The only existing freight traffic was from Ismail to Galați. Because of the war, a large part of the cargo leaving the ports of Reni, Ismail and Chilia comes through Constanta, except in Constanta or directly on the Sulina Canal with sea-going ships to their final destinations. What could have been done through the Băstroe Canal? – It could have taken loaded goods until Chilia or Ismail and instead of going to Sulina where today the



waiting time is 6-7 days compared to 2-3 weeks previously and go to the final destination through the Sulina canal, not Constanta. So, from this perspective, we do not see, nor have we previously seen any consistent impact on the freight traffic between Reni and Ismail and Constanta. It is addressed to sea-going vessels that rarely come from this area to Constanta anyway for purely economic reasons. We did not see a great danger in the initial phase either, and we do not see a great danger even now.

**8. What will happen to Decirom employees, will they be kept strictly for port operation or are there training plans for other types of operations/integration in other operational lines or even physical locations operated by the TTS group?**

*Response:*

Decirom employs 70 people. In recent years they have changed the management and with the involvement of the current shareholders that was an active involvement and with people with experience in the port field, Decirom changed the work strategy and decided to have a core of its own employees, on basic functions from management down to execution, and for the operational activity itself resorts to external companies of unskilled employment. There are several companies that provide unskilled labor in Constanta and qualified - electricians, and workers on various machines. So, most of the people who work in Decirom are employed on such contracts, the company has only 70 employees. We have no intention of changing people, of kicking someone out, of changing functions, and so on, and that's what we have passed on to Decirom employees. Our intention is to continue with the people who are now. We have no intention to lower salaries, on the contrary, to try to better link the personal and general activity office of Decirom employees to the performance they achieve. So, things are going to be stable. Regarding the training and so on, surely any employee can follow training. We do not know the situation there very well in terms of the level of technique. We will evaluate and move forward. There will be a board of directors there, there will be an executive management that will do its job, the same as those in other companies that TTS has in its portfolio do. Is not our practice to move people to other physical locations. We have six ports on the Danube. Extremely rarely an employee from Turnu Severin was sent 1 day / 1h / 1 week to another Danube port, and this is only in case of emergency. Otherwise, we are adept at keeping people at the place where they work for stability, knowledge of working conditions, equipment, and so on. The same thing will happen in Decirom.

**9. Q1 2023 was very good compared with Q4 2022. At this point, with the information available now, how do you estimate to be the evolution of Q2 2023 compared to Q1, in terms of turnover and profitability?**

*Response:*

The annual report was published 2 weeks ago. We have analyzed there and detailed this subject, nothing significant has happened since then.



**10. Given the very good performance for the 1st quarter, are you considering revising the revenue and expenditure budget upwards?**

*Response:*

The budget update is very likely that we will do it because it is already outdated, but we are waiting for the results for semester 1. Because we must give a picture, especially to the funds that are invested in us, they feel the need for information in order to be able to make their forecasts. So probably after we finish semester 1 we will see how we can also do a budget update.

**11. Trying to some extent to evaluate the opportunity cost of the acquisition of Decirom, how many M&A do you know have been achieved in recent years in Constanta port? Is it difficult to acquire a company in the Port, given their limited number?**

*Response:*

If we exclude Romtrans which had a terminal in the port of Constanta, there were 2. One was Convex about 15 years ago and the second was United Shipping Agency, now COFCO, which was bought by Nidera about 10 years ago. We also know some multiples of EBITDA back then, I don't know if it's politically correct to talk about them now because they didn't announce publicly, but they're substantially larger than in our case with Decirom.

**12. What are the prospects for growth with the end of the war and the normalization of commodity flows?**

*Response:*

Very hard to answer. We would like to know the answer to this question, we could also make a long-term operational projection. What is important to point out here is that everything that is happening today is the result of previous substantial work, without knowing that this situation will come with the war in Ukraine, with the pressure of the Ukrainian goods, and with pressure on all sides. We have invested in assets and in some own possibilities of intervention, including in case of damage and we are really satisfied with the fact that without knowing what will come we have correctly anticipated the situation, from a technical and operational point of view. We have written several times, several reports, including in the 1st quarter, that due to the war and the energy crisis, we lost 1.9 million tons of raw materials from the portfolio last year. This loss continues this year and it continues into the second quarter, we have some signs of recovery towards the end of the year, but we still do not know. So, the end of the conflict in Ukraine does not mean that on the 2nd day, someone will press a switch and things will return to 2022. No way. It will be a transition period that no one knows. We do not see Ukrainian goods disappearing from the Danube in any way. Maybe there will be conditions that seem special, as even today the conditions are completely different to last year at this time, there are much lower transport rates.

The closure, the end of the war will probably mean a return to the flows of cargo that we had previously. So, things are much more complex than we can imagine today. And then it's best to start focusing on what we must do, everything we know we can do tomorrow, the day after tomorrow, by



the end of the year, to desire to have all the contracts that we have signed today, valid in 2023, to run according to the agreements. And then, if we have any surprises, we will adapt as we adapted last year.

**13. At the level of TTS employees, is there any information-education campaign regarding the fact that TTS is listed on the stock exchange? For example, they could even become investors if they want and consider it appropriate, and for this, they must have the necessary information.**

*Response:*

We are now starting a campaign, yes, through which we want to connect the staff, not only from TTS but from the territory as well to the topics related to sustainability, because they will become more and more important. We are talking here about an opinion poll, a training that is already close to completion.

**14. Are there any plans to organize an Investor's Day for this year?**

*Response:*

We cannot confirm, but we are seriously considering organizing such an event, no earlier than the last decade of June. We're considering it very seriously. This is not the first time the subject has been considered. There have been other investors who have expressed interest, institutional investors, but we are going to announce concretely and perhaps it could be finally, subject to the concrete announcement, in the last decade of June.

Thank you, as usual, we will post the video recording of the conference and the transcript for those in need!