



## Transport Trade Services Transcript

### Videoconference for the presentation of the financial results for Q1 2024 May 17<sup>th</sup>, 2024, 2:00 PM

#### Introduction – summary of results from the management

During the video conference on the results of TTS Company for the first quarter of 2024, important aspects related to the company's financial and operational performance were discussed. Although turnover decreased by 20%, profitability increased compared to the fourth quarter of 2023. It was also emphasized that the results were lower than those of the first quarter of 2023, a record quarter in TTS history, deviating from the usual pattern, but better than Q1 2022.

The decrease in turnover was correlated with a decline in the volume of services, influenced by both seasonal factors and the resumption of Ukrainian exports through Black Sea ports. This resumption significantly impacted the market, particularly in the port operations segment. River transport remained constant compared to the fourth quarter of 2023. At the group level, profitability decreased compared to the fourth quarter of last year but was significantly higher than the results from 2022.

#### Questions and answers

- 1. How do you see prices this year? Will they stabilize? Will they remain the same? Will they decrease? What is your assessment of the market evolution in 2024?**

##### Answer:

The three groups of goods we work with, minerals, agricultural products, and chemicals, each have specificities. For minerals, the tariffs are mainly set on long-term contracts, valid for at least a year; there, we discuss tariff stability, with fluctuations linked to diesel and water levels when it's warm. For chemical products, we can divide them into two categories - part of them, most of the cargo we transport, is subject to a long-term contract that starts on April 1st and ends in March next year. It's a contract with fixed tariffs, with possible upward or downward adjustments depending on diesel and only upward adjustments depending on water levels. Another part concerns processed chemical products, such as fertilizers; here, we mainly operate on a spot basis. From our perspective, we believe we've already reached a stable level of tariffs. Normal developments could be upward, not much, but they could be upward. Regarding cereals, things are much more complicated than the other two categories of goods because here we have seasonal contracts, which will come into effect on July 1st this year and extend with fixed tariffs until December 31st, with extra-season tariffs being spot. We're currently working on spot tariffs in all directions except Ukraine. Spot tariffs have reached a level that has been bottomed out for a month. We still don't see a downward trend. Regarding the tariffs we've negotiated for the new season, we have finalized several negotiations: we're talking about major grain traders here. Some negotiations are finalized, others are ongoing, but we know where we'll end up. The tariffs will be lower than last year but higher than current spot market prices. Likewise, we're discussing base tariffs without diesel or high-water influence. In terms of volumes, we have goods volumes promised for contracting for the new season at about the same level as last year. Regarding Ukraine, we reported tariffs to the stock market in December, and they are valid until June, and we're executing them. We will have discussions at the beginning of June for July 1st - December 31st, perhaps until next year, because they also have their new crop. We can only say that our client wants



us to continue the activity here. We can tell you that they have published a report on their website; 70% of the goods they exported from Ukraine last year came through Constanța, and we exclusively handled this contract, which we will execute in terms of volumes until June 30th. In terms of tariffs, the opening of Odessa led to a substantial reduction in operating tariffs, which had a snowball effect across the entire Danube transport market and impacted Constanța. Now, 21 ships are operating in the whole Constanța port, three times less than the same date last year.

**2. Given a possible revenue decrease, as observed in Q1, do you intend to reduce general expenses, or will you maintain the current salary expenses around RON 57-58 million?**

Answer:

The group's concern was to bring skilled people back. This was largely achieved in the previous year, leading to an increase in the number of employees and salaries in the latter part of the year. A decrease in the variable component is observed in the first quarter compared to Q4. In the future, we aim to retain these employees within the group.

In the previous video conference, Mr. Stanciu emphasized this topic. Once the market opened for Ukrainian exports on the Danube, we noticed a massive migration of crew members, who moved quickly and easily between employers, as it is an industry where changing jobs is not difficult. We probably had a disadvantage in these circumstances because we strictly adhered to the law and tax legislation. We faced a strong exodus that turned into a return flow in the latter part of last year. With the reduction of flows from Ukraine in the spot market, many people were left without jobs and returned. This led to an increase in the number of employees and salary expenses, even though salary levels were already increasing, as we aim to stabilize this aspect as much as possible. These expenses directly target crew members and operational staff, representing the most significant part of the salary expenses.

**3. In Q1, a loss of approximately RON 500,000 was recorded because of investments in associates. Can you provide details about the negative results of investing in associates?**

Answer:

Investments in associates are investments we do not control; they are included in consolidation by the equity method. We have an adjustment to the net accounting asset, plus a loss in another company, Navrom Portservice. These companies are not under TTS control, but from an accounting perspective, they must be included in our reports.

**4. Financial expenses reached nearly RON 1.5 million in Q1 2024, an increase of 70% compared to Q1 2023. Can you provide details about this result?**

Answer:

In Q1 2023, TTS did not have bank loans contracted, but in Q1 2024, the interest surplus from the TTS loan increased this financial expense. This refers to the loan taken for Deciom and cranes.

**5. What would be the budget for this year under the new conditions? Specifically, the operating profit?**

Answer:



Historically, before COVID-19, the war, and other events emerged, we conducted analyses and noticed that our activity had quarterly seasonality due to the dependence on the grain season. This was reflected in order of importance, most important to least important: Q3, Q4, Q1, Q2. We have signs that we are returning to this seasonality pattern, and given the conditions, we currently see no reason to modify the budget approved at the AGM. However, if necessary, we commit to informing shareholders and analysts about any material elements we will communicate; we will provide this information.

It is also related to seasonality, but just as a macro view of our activity. To give you an idea, we're now coming after four years of wholly disrupted seasonality. There was 2020, which was the year of the COVID-19 pandemic; then 2021, when there was a backlog of goods in warehouses during the COVID-19 pandemic when commercial activity resumed; 2022 - when the war in Ukraine began, which brought significant fluctuations in various types of goods, and 2023, which was an exceptional year. Q1 2023 was a record quarter. The idea is that starting from agricultural goods that give seasonal fluctuations, it's good to think that these quarters and the flows in each quarter think of a vessel filled with water when it's full in Q3, the flow is high, and as it empties in Q4, the flow decreases, but it's still high. In Q1, it begins to stabilize at a very low level; this worked 10-15 years ago because in Q2, everyone wants to see how the harvest will be. For this reason, volumes decrease in Q1, and in Q2, they reach a minimum, after which a decision is made. If the harvest is good, sales resume to empty the silos for the new harvest. If the harvest is not good, everyone waits. That's why historically, if we look back ten years, the order was Q4, Q3, Q1, Q2, and the fluctuation comes from agriculture. Meanwhile, compared to these events that had an impact over a certain period, there has been a behaviour of farmers that we didn't see before, namely that they are extremely attentive to market prices for cereals because they saw the increases in 2022 and everyone wants to sell at the maximum price on the market. This creates an incentive to keep the cereals in storage in Q3 and Q4, or Q1 when otherwise we would see some volumes waiting until the new harvest comes and they exchange it for the one in the silos. It's hard to anticipate, but this is roughly our long-term seasonality.

## **6. How do you explain the operational loss in the port operations segment?**

Answer:

The port operations segment includes TTS Operator, Canopus, Decirom, and TTS River Ports. Activity on the Danube, which is almost exclusively related to cereals and fertilizers in Q1 and Q2 of this year, is very weak due to a lack of cereals, resulting in a loss. There was also a loss at Decirom, but there was a loss with increasing EBITDA because of the revaluation of assets, and the depreciation levels have increased several times. Consequently, Decirom will still be experiencing financial loss for a while, but with increasing EBITDA, that's where the explanation comes from. The other two companies, Canopus, which also had less cargo this year, and TTS Operator, could not offset the loss from these two companies.

## **7. Can you compare the Q1 results with the budget? Are you under or over? Regarding the investment plan, is a downward adjustment possible in 2024? What level of medium-term investments do you consider reasonable?**

Answer:

We don't have a quarterly breakdown budget and haven't conducted such an analysis. Overall, we don't see a need to change the budget. We have ongoing investments; there is no reason to intervene on the investment level as they progress smoothly.



The maintenance part is mandatory, and the part of the new barge is contracted and in progress. It's the Canopus terminal where most of the budgeted funds for this year are allocated. We have two construction permits from the permitting authority that we hope to obtain by the end of May, which would mean having the permit by the end of July and starting construction from July onwards. We allocated 20 million euros for this year; the amount is somewhat optimistic; it will probably be spent less, but the investment is underway, and we have no reason to change anything in the data. We also have an investment not included in the budget at Deciom, where we are also considering the construction of a warehouse and the purchase of equipment, which is 100% linked to a clear commitment from some clients that they will handle cargo at the terminal. Otherwise, we have no other planned investments to adjust this year.

Regarding the last part of the question about a reasonable medium-term investment budget, we cannot answer because medium-term implies more than just this year. During a video conference, we promised to develop a comparative report on investments this summer to include what we proposed in the listing prospectus and what was achieved. This report is in progress, and we hope it will be published this summer.

**8. When you make plans of all kinds—financial, investment, and acquisition—strategically speaking, in which direction do you see the business heading in the long term? What do you consider to be the essential factors you want to benefit from or exploit? As analysts, what should we look at to precisely understand the company's long-term value?**

Answer:

From an investment perspective, our activity has two distinct and entirely different components. On the one hand, there's transportation and the fleet, which consumes around 20 million euros for maintenance at a very good level and is gradually expanding. We currently have approximately eight barges under construction, but it's a prudent and slow investment type. We mainly proceed this way to avoid repeating the mistakes of those who rushed last year to buy barges and self-propelled vessels, which are now left unused. Significant investments in the sector, in the Danube transportation area, in new barges, especially self-propelled ones. They worked well last year but were left without activity when the flow decreased. We have often mentioned that we are not in a hurry on the fleet side. Its steady growth evolves yearly, but re-motorizations also come into play in this area, representing significant investments in size.

On the other hand, we have port operations, where investments arise with the emergence of opportunities.

When an opportunity arises, we invest. These drivers are not like those of a regular business. For example, we don't have a factory where you have a stable market and can plan long-term strategies. In our case, it's more difficult to make such plans because of the specificity of the two markets. In port operations, space is limited, and we invest when an opportunity arises. After you acquire or merge, you start investing to bring the activity of the acquired company to the desired level. However, there's also difficulty here because investments come after a merger. We can bring high-performance equipment for operations, as we did last year, but even these are limited by availability - you acquire them when they are available on the market. It's less predictable; we can't say, for example, that we will purchase a crane in two years. That's our profile. The drivers are dictated by the opportunities we encounter and capitalize on. The key is to be prepared, have a good relationship with the banks, and always be in a strong position to obtain financing if needed.



**9. To develop your business, what strategies do you follow? Do you replace existing competitors? Do you explore new fields of activity? Or do you stay in the current domain, adjusting fees in line with inflation? Where do you anticipate growth will come from?**

Answer:

Let's consider a publicly listed company opening a new market today. Behind that symbolic ribbon-cutting moment is a titanic effort, fragmented into numerous activities we often do not see. We, as observers, often focus on the obvious things. The same happens in our business. Perhaps you are looking for major drivers, but we tell you that these drivers are often fragmented. Sure, we pray for the metallurgical industry, we pray for the European Union to allow the metallurgical industry to remain at least at the level it is today, and we pray for the Danube to be dredged, something that is not happening so that we can have water, to navigate. We pray for there not to be drought and for there to be irrigation in the country to increase agricultural production, we pray for peace because there are cereals in silos today that no one buys, that no one sells due to lack of money, due to instability. We pray for at least one of the five chemical plants in Romania to start and be functional. Some say we have gas; others say we don't, but the plants run on gas are not working. We pray for those who say to make green engines to also come up with green engines that we can purchase and integrate into our fleet. We pray to have people and not to migrate to higher wages in the West. We pray for fair competition, where the best, most efficient, cheapest, and fairest wins, without unjustified advantages, such as fleets based in tax havens or employment practices that avoid paying taxes to the Romanian state. We pray to a lot of angels. We don't have just two angels to pray to simply; it would be very nice to be able to pray to two angels; there are many. We pray for our relationship with the banks, which should be willing to finance our investments with IRR calculations, which sometimes satisfy us, and other times they don't. Still, we know they will show their value strategically over the years.

I mentioned earlier that Decirom is incurring losses, but we have seen an increase in EBITDA. However, Decirom has provided a series of docks that we have integrated and used in our operations. Otherwise, we would have had to pay a significant amount for these operating docks.

We can't tell you all these things because we're going back to the ribbon-cutting company today, which doesn't tell you about all the struggles it had to go through to do what it does today so it can cut a ribbon; we see the ribbon cut. Like us, we have an army of angels to whom we pray.

And I think it's important to mention the following aspect. Let's look at our activity and what we do, which happened similarly even 3000 years ago. Water transportation and port operations. These activities probably took place in Tomis 3000 years ago. We think about expansion possibilities, but these possibilities are limited to some extent. You should know that the fundamental difference between what happened 3000 years ago and now is not great. The only notable difference is that back then, the environment was greener, and concerns about the environment and social responsibility were more pronounced because they didn't rely so much on fossil fuels; they only needed the wind.

Today, we still need diesel. But the essence is that not wanting to engage in another business, in the DNA of this company, diversification for the sake of diversification has not existed, at least not until now. All the development that has taken place has been organic, starting from the core business, and this is something we do extremely well. We aim to remain at the current level. In the case of a strategic reconfiguration from a certain perspective, these decisions will be made public and awaited by everyone. Now, we are very competent in what we do, and there is still room for growth through optimization, without a doubt. We have reached the level of growth that many expect in the market, explored new markets, and diversified our production chain to the maximum extent, covering the entire chain we serve.



In 2022, we had a year where the Danube water level was low during the summer, and clients depending on goods transportation had to rely on other means of transport. When they don't get as much stability, they will turn to other options, especially trucks. Last year was one of the few years when navigation on the Danube was better. It takes time to promote the idea that the Danube can be a viable alternative for transporting goods traditionally transported by other means. For example, a producer of cereals and food may transport only 20% of their goods by water and 80% by trucks.

The main issue hindering them from moving more cargo by water is the lack of reliability of this means of transportation throughout the year. Currently, we are trying to prove that the situation is improving. How? Our efforts involve a greater commitment. When the water level drops and we cannot dredge more or use lighter vessels, we look for alternative transport options for that period. We can bring more cargo forward to have a larger stock. There are methods, but it takes time for this message to be conveyed in the market. It's a medium to long-term mindset.

In situations of deep crisis, such as in 2020, when the economy was practically halted, we recorded a profit. Despite the difficulties, we managed to remain on the plus. So, fluctuations in our case are much more subdued than in other business sectors. This aspect is important to emphasize.

**10. you announced that you would have a new website at a previous conference. When do you estimate this will happen?**

Answer:

The target is June, and we've been delayed a bit, but the TTS website will be something that doesn't exist currently in the market, at least not at the stock exchange level; namely, it will be customer-oriented. We will focus our entire communication activity within the website, including Zoom login. Email communication will be replaced with communication through the website, and questions can be addressed online anytime and will be posted on the blog. Subscribers to TTS can see live answers, like a blog, where they will receive small notifications. All our events will be streamed live, and users can add these events to their calendars and automatically receive alerts as the event approaches. If a user is interested, for example, in our presence at the WOOD conference in London, they will receive alerts. We strive to provide a lot of data, but unlike other websites, the presentation will be oriented toward logged-in and interested users, who will find useful references. Any question a shareholder asks will receive an answer, which will be visible on the blog, and all references and reports, including graphics, will be available on the website to allow a clear evaluation of the response to the question and how we interacted. We aim to transform the website into a service hub, not just a static presentation website. We aim to provide services to investors, analysts, the press, and the public without discrimination. Our only requirement at registration will be to know what category the user belongs to, whether they are an investor or a shareholder. We hope that the website will be functional in June.

**11. Can we expect salary expenses to be relatively similar in the coming quarters to those in the first quarter of 2024?**

Answer:

In Q1, our salary expenses represent less than one-fourth of the approved budget. It is also important to mention that salaries include a variable component directly linked to our activity level and may vary accordingly.



**12. How do cereal volumes in April and May compare to Q1 2024? Are they in the same range, or are they smaller or larger?**

Answer:

We cannot disclose specific data about April and May, as it would be unfair to those not participating in this video conference. However, we will make this information public at the appropriate time.

**13. In Q1, you recorded a dramatic decrease in the operational profit within your main activity of river transport. Was it solely due to decreased spot market prices for Ukrainian grain transportation, or were there other factors?**

Answer:

I believe the questions refer to the fact that at an individual level, we achieved certain results, while at the group level, we achieved different results. We had good results at the individual level, which ensured dividends and growth. The rest depends on internal management.

**14. Can you detail the progress regarding the integration of Decirom?**

Answer:

On Monday, May 20th, Decirom will hold its General Shareholders' Meeting. One of the topics to be discussed will be an analysis of Decirom's current situation and the steps for the future. The integration is progressing well. Like previous acquisitions, we have no intention of changing the current team. Instead, we have sought to strengthen their executive power by bringing in a colleague from Constanța and placing him in a senior executive position, bringing extensive operational experience. The process began with the financial aspect, which is crucial. It appears this is going well, including the technological organization of IT systems. Implementing electronic operational programs aligned with other companies in the group, including TTS, is underway. These programs are organized into modules. Some have already been completed and populated with data, while others are still in progress. By the middle of the T3 quarter, after September-October, we can begin the final testing of all electronic and operational modules, including real-time data exchange with other entities. Thus, in terms of IT, things are progressing positively, as there are prefabricated modules available for use, which the IT team within the TTS group responsible for IT has adapted to Decirom's needs.

The operational aspect with immediate effects was the most critical issue we focused on last year after the takeover. We also initiated the construction of joint operations, which is ongoing, using the docks and looking towards the future.

We abandoned the warehouse project in its initial form, which we also communicated to the stock exchange. Unfortunately, we rushed into it because it was an ongoing construction operation, and we wanted to get things started as quickly as possible. However, upon conducting a more thorough analysis of the construction model, especially the subsequent operational and economic efficiency aspects, we changed our minds and now have a different approach.

We've been searching for a client interested in long-term cooperation for a specific product. Our planners at Decirom and the client discuss developing an operationally efficient concept. We're working on several cargo flows to be directed to Decirom, which are goods they previously handled at a lower level. Changes of this nature occur slowly, and we're looking for specific equipment to handle this type of cargo to improve our portfolio and increase cargo volumes. Even though the effects aren't explosive, things are progressing well.



I mentioned earlier that there's a slight increase in EBITDA, even though they, like others, are affected by this downturn in goods seen in Q1 compared to Q4 last year; it continues into Q2. We hope things will improve from Q3 onwards. Despite experiencing some loss in Q1, EBITDA is increasing.

**15. How does the grain transport line through Odesa compare to pre-war levels?**

Answer:

Ukraine has shifted significant exports through the Black Sea ports, but things aren't as secure. Operations aren't going as smoothly as before the war for other reasons. There are major issues with internal transportation due to energy disruptions. Trains are running very poorly. We don't have a detailed picture, but I believe the situation regarding this rerouting through Odesa remains extremely uncertain.

**16. Regarding the Giurgiu project, have the investments concluded there, or are there still ongoing works? How do you assess the operational benefits nearly five months after announcing the completion of the project?**

Answer:

At Giurgiu, we have completed the investment based on the European model. We need to add some equipment. We have work in progress; we know what to put and will put it there.

At the beginning of this year, in February, the administration of the Danube River Ports in Giurgiu started an investment to rehabilitate the river quay, transforming it into a vertical one along the entire length of our terminal.

This investment is scheduled to be completed by the end of this year. We haven't started working at Giurgiu yet, and we likely won't be able to work until probably Q1 next year. We will issue a special announcement for this event when we start working.

**17. Do you have a target for investments related to ROE? If yes, what is it? And if not, what are the criteria followed for investments?**

Answer:

It's evident that we're making certain calculations, but the investment we're undertaking has two components that determine the investment itself. One is the strategic component, and the other is the economic efficiency component, and here, we're fully engaged in the financial aspect. From our perspective, the strategic outlook has always taken precedence. Even if we obtained an IRR that wasn't satisfactory at the time we calculated it, we didn't halt an investment that we saw as necessary due to a negative 1% IRR.

I used to read a study by an American management thinker who said that often, it costs you more not to have than what you gain after you do. So, based on this principle, we analyze things, especially from an operational and strategic perspective. But we have never made an investment that we saw as not profitable in the future.

If we had discussed the two cranes as an investment in 2021 or January- February 2022, we would have had significant reservations about entering such an investment. However, sometimes you also need luck to find cranes because they are items you don't come across daily.

Razvan and his colleagues have been searching for a crane for months. They've been looking for the crane we need for Decirom, and they haven't found it yet. We were lucky then, and we bought them. Today, we congratulate ourselves on the performance of these two cranes, which we wouldn't have





purchased in 2021 solely for financial reasons based on the IRR. Last year, the IRR didn't meet our expectations. It's a mix; we don't have set rules that we won't bend.

**18. My question referred to the massive decrease in operational profit for river transport from RON 55 million last year to just RON 8 million this year. Please detail the factors that led to this quarterly result and what you can expect this year.**

Answer:

The costs in Q1 of this year remain the same or slightly higher than last year, mainly due to salaries. Revenues were lower primarily because there were fewer goods on the market and, secondly, lower prices. This decrease affected the volume and prices, creating a snowball effect and decreasing current prices, mainly Ukrainian cereals.

**19. Is maritime transport significantly different from river transport? Is this an activity that TTS is considering for the future?**

Answer:

Maritime transport is an activity in which TTS acts as a broker. It's true that we were tempted to buy river-maritime vessels at some point. We concluded that we don't know how to manage a maritime fleet, and the motivation is quite simple. Our main clients are large companies with their chartering departments. Some of them have vessels, so our possibility to participate in their transport is extremely small. On the other hand, buying maritime vessels to enter a free market and simply acting as shipowners as we do on the Danube would be extremely difficult because we only have access to that free market occasionally and only partially. However, we have concluded that when we have interests in this area, we act as a broker on behalf of a client.

**20. Could the port of Giurgiu open to other markets in Bulgaria? What kind of traffic are we talking about at Giurgiu?**

Answer:

We can't go into details, but Bulgaria, in connection with Giurgiu, is part of our approach for the future. We are indeed talking about it now in the present. What will happen next year may be slightly different, but it's a topic on our agenda.