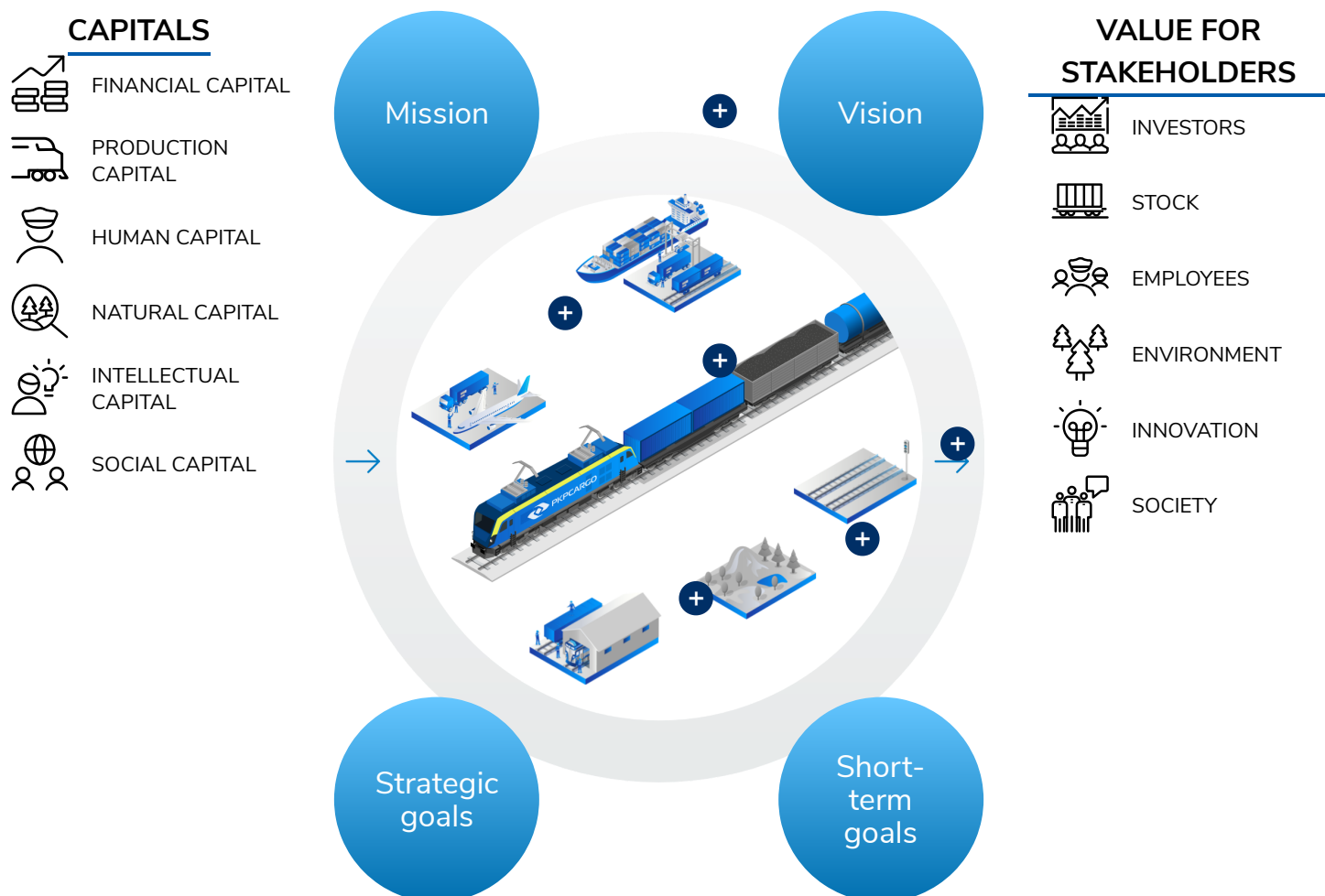


## Value creation model

The Group's activity covers a wide range of services connected with rail freight transport. The Group's revenue from rail transportation and freight forwarding services makes up 84 % of the Group's total operating revenue. The services provided by the Group allow it to participate in the entire logistic value chain, including railway shipping, siding services, freight transport, transshipment and storage services, using the Group's terminals and reclamation services.

### PKP CARGO Group Value creation process



The Group's key customers include steel mills, coking plants, power plants, mines, steel works and shipping companies. The PKP CARGO Group collaborates with the largest Polish and global groups, including the ArcelorMittal Group, the PKN Orlen Group, PGNiG, the Lafarge Group, the Azoty Group, Jastrzębska Spółka Węglowa, Węgłokoks, the Enea Group, the PGE Group, the Tauron Group, Polska Grupa Górnicza and International Paper. The contracts with these business partners are regularly renewed, which confirms the high quality of the transport services provided by the PKP CARGO Group.

The services provided by the Group allow it to participate in the entire logistic value chain, including railway shipping, siding services, freight transport, transshipment and storage services, using the Group's terminals and reclamation services. The above services offer a natural competitive advantage in terms of customer acquisition and service.

The Group's operations are based on relations with key suppliers, in particular contracts for access to rail infrastructure, traction power supply, property leasing, diesel fuel sales and rolling stock repair and modernization.

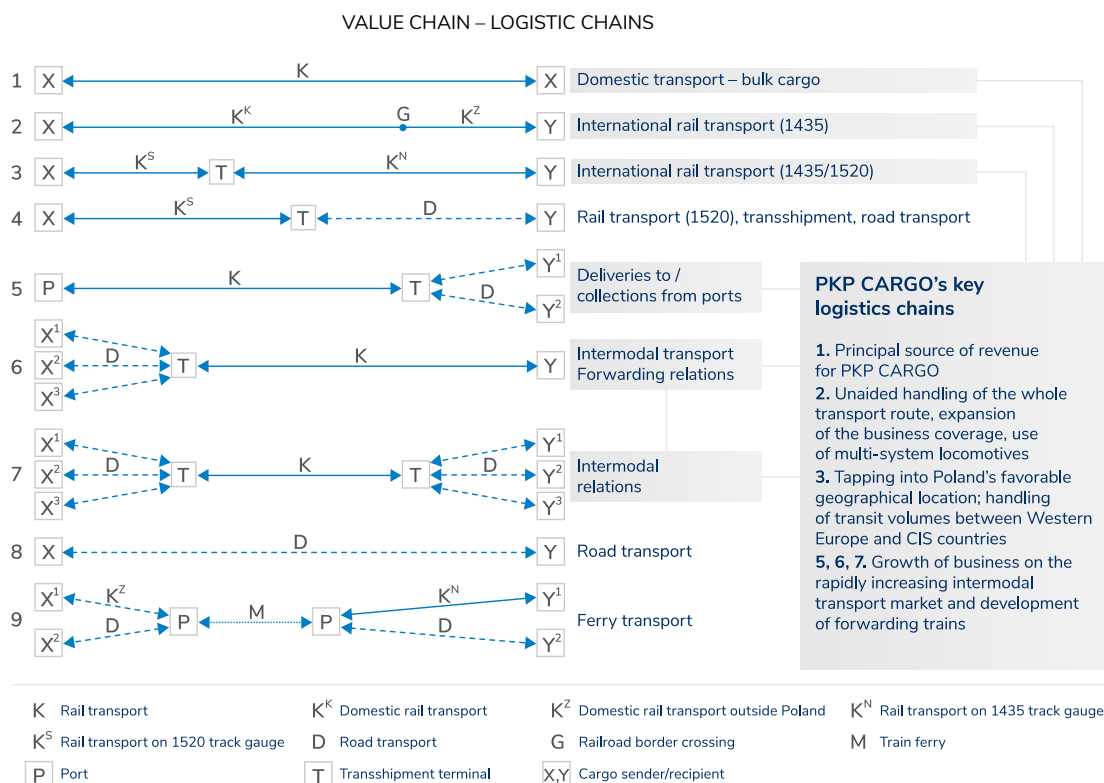
PKP CARGO Group employs competent employees with extensive experience, who ensure the highest quality of services and form the foundation of the Group's operations. As at 31 December 2018, the Group employed over 23 thousand employees.

## Value chain

102-9

### VALUE CHAIN – KEY ACTIVITIES

PKP CARGO's key value-building processes include sales, preparation and execution of transport services. Value chain encompassing subsidiaries serving as suppliers and purchasers of PKP CARGO's services.



The key logistics chains served by members of the Group include domestic rail transport of bulk cargo and transshipment. The Group's development is focused on international rail transport, relations between distinct types of transport, in particular intermodal and forwarding services.

## Description of the organization's supply chain

The PKP CARGO Group's business activity is rooted in relations with its key suppliers, especially on contracts that secure access to rail infrastructure, supply of traction electricity and diesel fuel, on real party lease contracts and on modernization and repairs of rolling stock.

As it operates on the freight transport market, the Group is dependent on PKP PLK as the largest supplier of access services to rail infrastructure in Poland. This company is a domestic supplier that provides access to the prevalent portion of rail infrastructure in Poland in accordance with the price list approved annually by the President of the Office of Rail Transport. Such infrastructure is made available for a fee based on conditions that apply across the board to all carriers providing both freight and passenger rail transport services. The AWT Group also purchases the services provided by PKP PLK for its transport operations performed in Poland. For the AWT Group, key suppliers of rail infrastructure are local suppliers in the Czech Republic where the AWT Group renders the majority of its transport services. These local suppliers include SŽDC s.o., a state-owned company and the owner of the majority of rail lines in the Czech Republic, and ČD a.s., the leader of the Czech passenger and freight rail transport market. PKP PLK's percentage of procurement costs in 2017 (meaning the sum of the costs of external services and of the consumption of raw materials and supplies) was 27.3% in the PKP CARGO Group.

PKP Energetyka S.A. is a monopolist in the provision of traction electricity distribution services in Poland and as such supplies electricity to the PKP CARGO Group for its transport operations carried out using electric traction. PKP PLK's contact system is supplied with electricity from substations operated by PKP Energetyka S.A. In addition to the business of electricity sales and distribution, PKP Energetyka S.A. is also the operator of fuel stations for rail carriers and a supplier of traction fuel to PKP CARGO Group companies, except for the AWT Group which purchases the fuel and traction electricity it needs from domestic suppliers in the Czech Republic. PKP Energetyka S.A.'s total share in procurement costs in 2017 (meaning the sum of the costs of external services and of the consumption of raw materials and supplies) was 17.9% in the PKP CARGO Group.

Procurement in the other key categories, such as traction fuel and rolling stock upgrade and repair services, is performed pursuant to Procurement Bylaws and the Procurement Instructions in place both at PKP CARGO S.A. and in most subsidiaries. The Bylaws, published on the so-called procurement platform of each such company's website, lay down the general rules of procurement and serve as a set of guidelines for both the purchaser and the contractor. The Procurement Instructions are intended for the exclusive use by the purchaser and as such describe in detail all phases of the procurement process from planning and needs analysis to market intelligence, preparation and execution of the purchase procedure, selection of the contractor, signing of the contract and evaluation of the contractor. Procurement procedures executed within the PKP CARGO Group are conducted on an as-needed basis separately by each company or by what is called the Procurement Group as a whole.