MANAGEMENT BOARD REPORT ON THE ACTIVITY OF THE JASTRZĘBSKA SPÓŁKA WĘGLOWA S.A. CAPITAL GROUP

for the financial year ended 31 December 2012

Table of contents

1. KEY INFORMATION ABOUT THE CAPITAL GROUP

1.1. Organization of the Capital Group

As at 31 December 2012, the JastrzębskaSpółkaWęglowa S.A. Capital Group ("Group", "Capital Group") was composed of the parent company, JastrzębskaSpółkaWęglowa S.A. ("Parent Company", "JSW S.A.") and its subsidiaries located in Poland. The companies comprising the Group are classified into the distinct operating segments.

The Parent Company was incorporated on 1 April 1993. On 17 December 2001 JSW S.A. was registered under number KRS 0000072093 in the National Court Register kept by the District Court in Gliwice, 10th Business Division of the National Court Register. The JSW S.A. was assigned the following REGON statistical number: 271747631. The Parent Company has its registered office in Jastrzębie-Zdrój, Aleja Jana Pawła II 4. The duration of JSW S.A. is unlimited. JSW S.A.'s shares are publicly traded.

The Group's core business includes black coal mining, production and processing of coke and generation, transmission and distribution of electricity.

The Group has prepared consolidated financial statements for the financial year ended 31 December 2012.

Entities held by the Parent Company

JSW S.A. is a multi-operation enterprise, operating in 2012 and as at the date of this report in the Republic of Poland. In 2012, the Parent Company's enterprise comprised:

- 5 black coal mines, i.e. Borynia-Zofiówka, Budryk, Jas-Mos, Krupiński, Pniówek,
- Material Logistics Center,
- Management Board Office.

With effect from 1 January 2013, as part of the implementation of the Mine Development Strategy in JSW S.A. for 2010-2030, JSW S.A. merged the Borynia-Zofiówka mine with the Jas-Mos mine into the three-section Borynia-Zofiówka-Jastrzębie mine.

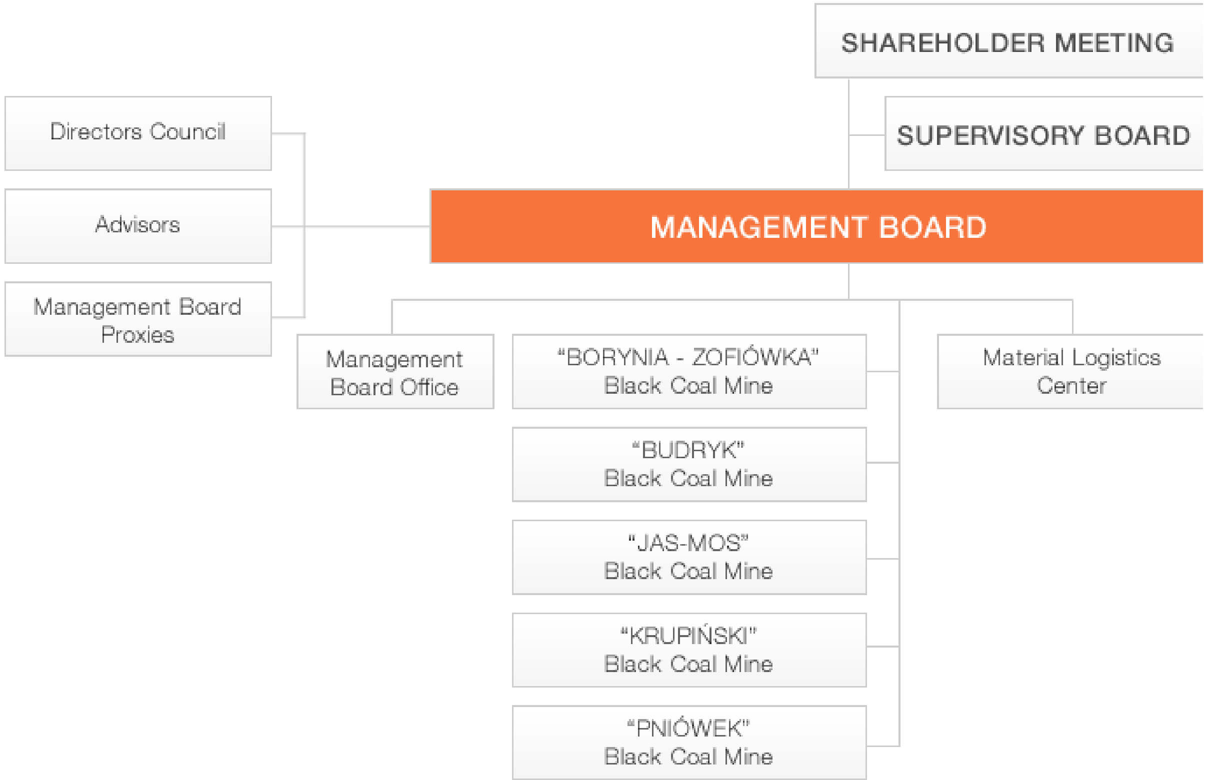
Accordingly, as at the date of this report, the Parent Company's enterprise comprised:

- 4 black coal mines, i.e. Borynia-Zofiówka-Jastrzębie, Budryk, Krupiński, Pniówek,
- Material Logistics Center,
- Management Board Office.

JSW S.A.'s mines conduct operations pursuant to pertinent licenses granted to JSW S.A.

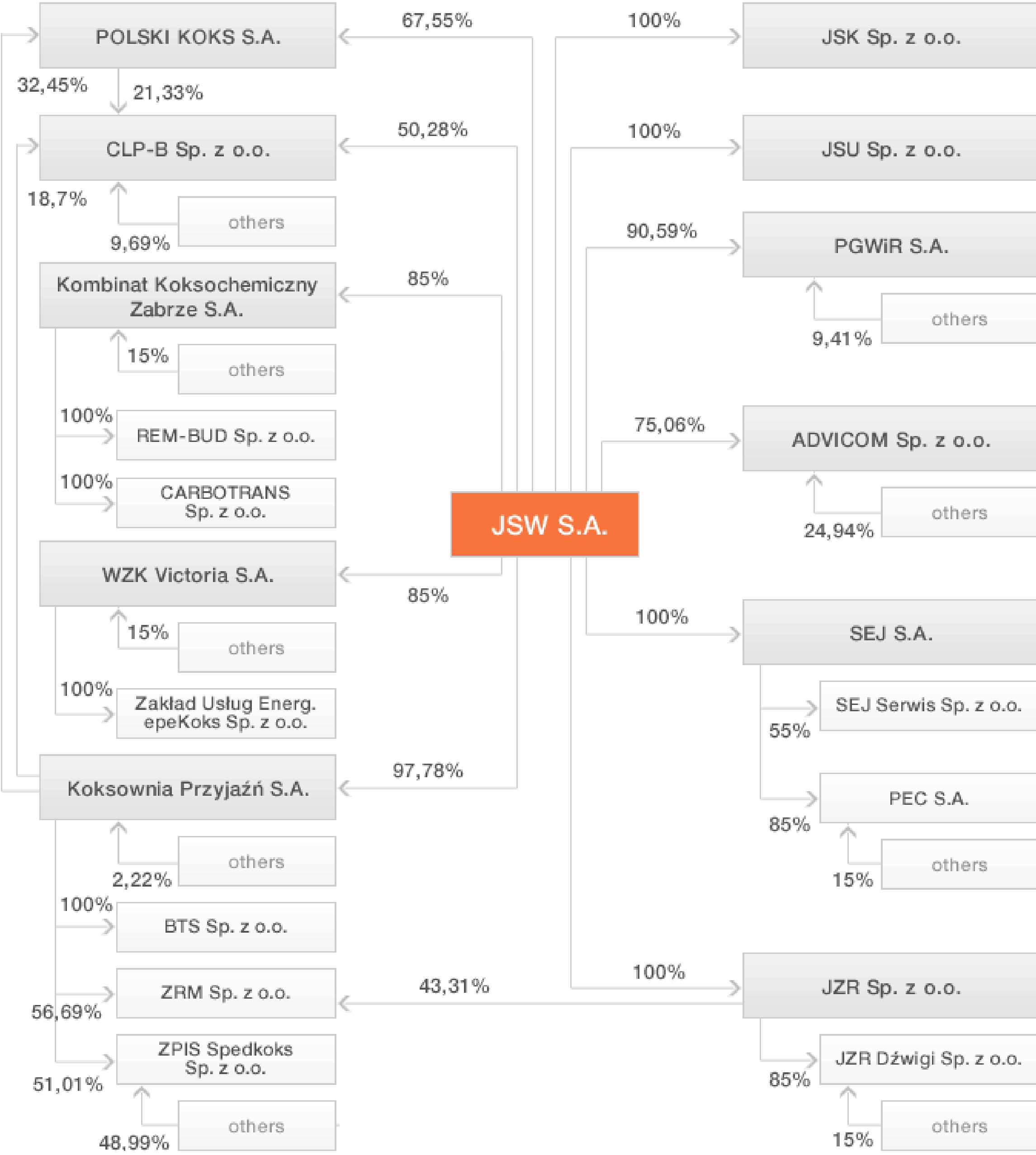
The internal organization of JSW S.A.'s Entities is defined in separate Organizational Bylaws and Organizational Charts adopted by the JSW S.A. Management Board.

JSW S.A.'s organizational structure as at 31 December 2012 is presented in the following chart:



1.1.1. Structure of the Capital Group

The chart below presents the structure of the Capital Group as at the date of this report.



(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

1.1.2. Information about the Capital Group entities subject to consolidation

In the Capital Group, the reports of the following subsidiaries were subject to consolidation as at 31 December 2012 with the Parent Company's financial statements:

		Core business
1.	JastrzębskaSpółkaWęglowa S.A.	Black coal mining, sale of coke and coal derivatives.
2.	KoksowniaPrzyjaźń Sp. z o.o. ("KoksowniaPrzyjaźń")	Production and sale of coke and coal derivatives.
3.	BTS Sp. z o.o.	Provision of transportation and general construction services.
4.	ZRM Sp. z o.o.	Overhauls of machinery, equipment and mechanical tools, electric equipment and control and measurement devices.
5.	ZPiSSpedkoks Sp. z o.o.	Comprehensive operation of the KoksowniaPrzyjaźń railway siding and ensuring flow of goods between the siding and railway station.
6.	KombinatKoksochemiczny Zabrze S.A. ("KK Zabrze")	Production and sale of coke and coal derivatives.
7.	REM-BUD Sp. z o.o.	Construction and renovation services.
8.	CARBOTRANS Sp. z o.o.	Cargo transport by road.
9.	WałbrzyskieZakładyKoksownicze Victoria S.A. ("WZK Victoria")	Production and sale of coke and coal derivatives.
10.	ZakładUsługEnergetycznychepeKoks Sp. z o.o.	Power sector, electricity and control and measurement automatics services, design services for industrial and public utility facilities.
11.	SpółkaEnergetycznaJastrzębie S.A. ("SEJ")	Generation of electricity, heat and compressed air, and related distribution, trade and services.
12.	SEJ Serwis Sp. z o.o.	Laundry and bath operation, cleaning, maintenance, heavy hardware operation services, and operation and maintenance of electric power equipment and power installations.
13.	PrzedsiębiorstwoEnergetykiCieplnej S.A. ("PEC")	Generation, transmission and distribution of heat and trading in heat.
14.	PolskiKoks S.A.	Sale of coal and coke on the local and foreign markets, primarily the Group's products.
15.	PrzedsiębiorstwoGospodarkiWodnej i Rekultywacji S.A. ("PGWiR")	Provision of water and sewerage services for mines through treatment and discharge of salt waters, supply of industrial water for the coal and power sector plants, reclamation activity.
16.	JastrzębskieZakładyRemontowe Sp. z o.o. ("JZR")	Mining work and service activity pertaining to overhaul, maintenance and service of machinery and equipment.
17.	JZR Dźwigi Sp. z o.o.	Services related to production, upgrades, renovation, maintenance, inspection and repairs of internal transportation equipment.
18.	CentralneLaboratoriumPomiarowo - Badawcze Sp. z o.o. ("CLPB")	Technical research services, chemical and physiochemical analyses of minerals, and solid, liquid and gaseous materials and products.
19.	JastrzębskaSpółkaKolejowa Sp. z o.o. ("JSK")	Provision of railway lines, maintenance of railway infrastructure structures and equipment, construction and repair of railway tracks and facilities, provision of shipment services, road transport.
20.	Advicom Sp. z o.o.	Computer hardware consulting, programming and data processing services.
21.	JastrzębskaSpółkaUbezpieczeniowa Sp. z o.o. ("JSU")	Insurance intermediation together with insurance administration pertaining to insurance claims handling, financial, economic and legal consulting, tourist and hotel activity.

1.1.3. Changes in the structure of the Capital Group

In 2012 the following changes took place in the Capital Group's structure:

a) The Group continued the process of incorporation of companies through JSU taking over JastrzębskaAgencjaTurystyczna Sp. z o.o. As a result of the merger of the companies, the share capital of JastrzębskaSpółkaUbezpieczeniowa Sp. z o.o. was increased by PLN 537,500.00 through the issue of 1,075 shares with a par value of PLN 500.00 each, which was registered on 1 March 2012.

b) Increase in the share capital of JZR by PLN 378,500.00, i.e. by 757 new shares with a par value of PLN 500.00 each, which were subscribed for by JSW S.A. The shares were covered with an in-kind contribution in the form of JSW S.A.'s assets of the market value of PLN 378,191.00 and a cash contribution in the amount of PLN 309.00. The above changes in the company's capital were registered on 13 April 2012.

c) Increase in the share capital of SEJ by PLN 3,421,600.00, i.e. by 34,216 new shares with a par value of PLN 100.00 each, which were subscribed for by JSW S.A. The shares were covered with an in-kind contribution in the form of JSW S.A.'s assets of the market value of PLN 3,421,510.00 and an additional cash contribution in the amount of PLN 90.00. The above changes in the company's capital were registered on 13 April 2012.

d) Acquisition of 10 shares in KoksowniaPrzyjaźń by JSW S.A. for PLN 10,321.80 on 26 April 2012. After the transaction the Parent Company holds 1,626,417 shares with 97.78% votes at the Shareholder Meeting of KoksowniaPrzyjaźń.
Following the transformation of KoksowniaPrzyjaźń into a joint stock company, which occurred pursuant to the decision of the District Court in Katowice, 8th Corporate Commercial Division of the National Court Register, on 2 January 2013, JSW S.A. holds 81,320,850 shares in KoksowniaPrzyjaźń representing a 97.78% stake in the company's share capital.

e) Increase of the share capital of Advicom Sp. z o.o. by PLN 10,012,500.00, i.e. by 20,025 new shares with a par value of PLN 500.00 each. The new shares will be allotted to the shareholders in proportion to the stakes currently held. JSW S.A. is entitled to 15,031 new shares worth PLN 7,515,500.00. The stake expressed as a percentage has not changed. This change in the capital of the above company was funded with the reserve capital and was registered on 18 June 2012.

f) On 28 November 2012, PEC acquired 90 shares in SEJ Serwis Sp. z o.o. representing 45% of the company's share capital.

1.2. Organizational or capital ties

JSW S.A. is the Parent Company in the Group. The main line of business is extraction of black coal, which takes place in separate organizational units, i.e. mines. Coke production in the Group is the responsibility of KoksowniaPrzyjaźń, KK Zabrze and WZK Victoria, and distribution of the Group's products is primarily the responsibility of JSW S.A. and PolskiKoks S.A. Production of electricity, heat and cooling for the mines is the responsibility of SEJ

On 14 March 2012, the procedure to transform KoksowniaPrzyjaźń Sp. z o.o. into a joint-stock company was launched. The transformation plan was filed with the District Court for Katowice-East in Katowice, 8th Business Division of the National Court Register, on 28 May 2012 in order to examine its correctness by an auditor appointed by the Court. The transformation plan has been sent to all shareholders for their perusal. On 30 May 2012, the Court issued a decision to appoint auditor Piotr Rojek to examine the plan for its correctness and reliability, and obligated the auditor to issue an opinion in writing within no later than two months. On 11 July 2012, the company received an audit opinion dated 29 June 2012 stating that the transformation plan is correct and reliable and contains all the elements required by the Commercial Company Code ("CCC") and the value of shares for transformation purposes had been determined correctly. On 20 November 2012, the Extraordinary Shareholder Meeting adopted a resolution to transform KoksowniaPrzyjaźń Sp. z o.o. into a joint-stock company. On 2 January 2013, the District Court in Katowice issued a decision to register the transformation of KoksowniaPrzyjaźń Sp. z o.o. into a joint-stock company in the National Court Register.

In addition to the aforementioned entities, JSW S.A. has different subsidiaries which provide support services to the Group. These subsidiaries include: JZR, JSK, CLPB, ADVICOM Sp. z o.o., PGWiR and JSU.

The Parent Company also holds a minority stake in the share capital of other entities; in addition, in the Group there are companies which are the Parent Company's subsidiaries only indirectly. The lines of business of the Capital Group companies are presented in the table in Item 1.1.2 of this report.

1.3. Changes in basic management principles in the JSW S.A. and its Capital Group

Basic management principles in the Parent Company

Pursuant to the Articles of Association of JastrzębskaSpółkaWęglowa S.A., the JSW S.A.'s governing bodies are:

a) the Management Board,
b) the Supervisory Board,
c) the Shareholder Meeting.

The powers of JSW S.A.'s governing bodies follow from the provisions of the Commercial Companies Code and JSW S.A.'s Articles of Association. The powers of JSW S.A.'s individual governing bodies are defined in:

a) of the Management Board, in the Management Board Bylaws,
b) of the Supervisory Board, in the Supervisory Board Bylaws,
c) of the Shareholder Meeting, in the Shareholder Meeting Bylaws.

JSW S.A.'s Management Board consists of three to six members. The number of members in the JSW S.A. Management Board of the 7th term of office (lasting 3 years and ending on the date of the Ordinary Shareholder Meeting approving the financial statements for the financial year 2012) was set in the Shareholder Meeting Resolution of 26 April 2010 at five members. As at 31 December 2012 and as at the date of this report, the Management Board of JSW S.A. is composed of:

a) Jarosław Zagórowski – President of the Management Board,
b) Grzegorz Czornik – Vice-President for Sales,
c) Andrzej Tor – Vice-President for Technical Matters,
d) Robert Kozłowski – Vice-President for Financial Matters,
e) Artur Wojtków – Vice-President for Employment and Social Policy (elected by employees).

CVs of members of the JSW S.A. Management Board are available on JSW S.A.'s website.

The Management Board determines the strategic directions, defines goals and tasks, manages JSW S.A. directly through resolutions and decisions, and indirectly through Entity Directors, Department Directors and Proxies.

The Directors Council, composed of Directors of the JSW S.A.'s Entities and other invited persons, is an opinion-making and advisory body to the JSW S.A. Management Board.

The President exercises supervision over JSW S.A.'s overall operations and makes decisions not reserved for the powers of JSW S.A.'s governing bodies. The President of the Management Board also exercises direct supervision over reporting Departments, Teams and Proxies.

The Vice-Presidents of the Management Board exercise supervision over JSW S.A.'s operations in their areas of authority and make decisions not reserved for the powers of JSW S.A.'s governing bodies. The Vice-Presidents also exercise direct supervision over their reporting Departments. Furthermore, the Vice-President for Financial Matters also exercises supervision over the Management Board Representative for Computerization of JSW S.A. and the Vice-President for Technical Matters also exercises substantive supervision over the Health and Safety at Work Team.

The division of powers between the distinct members of the Management Board ensures effective operation of JSW S.A., and the Organizational Bylaws of JSW S.A., the Organizational Bylaws of the Management Board Office and the Organizational Bylaws of JSW S.A.'s mines adopted by the Management Board ensure the effective performance of tasks assigned by the Management Board.

Pursuant to the Articles of Association of JSW S.A., the Supervisory Board consists of at least 9 members appointed by the Shareholder Meeting. On 27 February 2012, the Shareholder Meeting set the number of Supervisory Board members of the 8th term of office (lasting 3 years) at 12. As at 31 December 2012, the composition of the Supervisory Board was as follows:

a) JózefMyrczek – Chairman,
b) Antoni Malinowski – Deputy Chairman,
c) Eugeniusz Baron – Secretary,
d) Stanisław Kluza – Member,
e) Robert Kudelski – Member,
f) Tomasz Kusio – Member,
g) Alojzy Nowak – Member,
h) Andrzej Palarczyk – Member,
i) Łukasz Rozdeiczer-Kryszkowski – Member,
j) Adam Rybaniec – Member,
k) Adam Wałach – Member.

On 19 February 2013, the Minister of Economy, pursuant to § 15 sec. 12 and 13 of the Articles of Association of JSW S.A., appointed Mr. Andrzej Karbownik to the Supervisory Board of the 8th term of office.

The powers and authority of the Supervisory Board have been described in Item 5.8 of this report.

CVs of members of the JSW S.A. Supervisory Board are available on JSW S.A.'s website.

Changes to the management principles in JSW S.A.

Changes in the organizational structure of the JSW S.A. Management Board Office

To improve management in JSW S.A., in 2012 the Management Board adopted a number of resolutions pertaining to changes in the organizational structure of the JSW S.A. Management Board Office. These changes were aimed at updating the range of performed tasks and improving the efficiency of operations.

The JSW S.A. Management Board made the following decisions pertaining to changes in the organizational structure, as described in Item 1.2 of the Management Board report on the activity of JastrzębskaSpółkaWęglowa S.A. for the financial year ended 31 December 2012, effective in 2012, including:

- establishing the position of the Management Board Representative for Operational Integration of Coking Plants within the JSW Capital Group, and the Management Board Representative for Spatial Planning in Mining Areas,
- establishing the Coke and Coal Derivatives Sales Strategy Department and the Team for Monitoring Investments of the JSW Group's Subsidiaries,
- transferring the subordination of the organizational unit Management Board Representative for Computerization of JSW S.A. previously assigned to the President of the Management Board to the Vice-President for Financial Matters.

In addition, in 2012, the JSW S.A. Management Board made the decisions pertaining to changes in the organizational structure effective as of 1 January 2013:

- establishing the Internal Audit Team and the Audit Team in place of the previously existing Internal Control and Audit Department, and assigning its subordination to the President of the JSW S.A. Management Board,
- dissolving the organizational unit of the Management Board Representative for Spatial Planning in Mining Areas and establishing the organizational units of the Management Board Representative for Cooperation with Local Authorities and the Management Board Representative for Risk Management.

On 22 January 2013, the JSW S.A. Management Board decided to establish the Legal Department.

The above changes in the organizational structure of the JSW S.A. Management Board Office were aimed at improving the efficiency of operation of the Office and adapting to the changing market situation.

Changes in the organizational structure of the JSW S.A. mines

Since 1 January 2013, the JSW S.A.'s Entities have been operating within the framework of a new, uniform organizational structure adopted by Management Board decision of 11 December 2012, on the basis of which detailed Organizational Bylaws and Charts of the JSW S.A.'s Entities were prepared.

Furthermore, the JSW S.A. Management Board made various decisions pertaining to changes in the organizational structure of JSW S.A.'s Entities in 2012, as described in Item 1.2 of the Management Board report on the activity of JastrzębskaSpółkaWęglowa S.A. for the financial year ended 31 December 2012.

On 7 August 2012, the JSW S.A. Management Board made a decision to establish in JSW S.A., as of 1 January 2013, the Borynia-Zofiówka-Jastrzębie mine created as a result of the merger of the Borynia-Zofiówka and the Jas-Months mines.

On 26 February 2013, the Parent Company's Supervisory Board issued a positive opinion on the JSW S.A. Organizational Bylaws adopted by the JSW S.A. Management Board on 22 January 2013.

Basic management principles in the Capital Group and their changes

On 8 May 2012, the JastrzębskaSpółkaWęglowa S.A. Management Board adopted the document entitled "Principles of Corporate Governance in the JastrzębskaSpółkaWęglowa S.A. Capital Group" ("Principles"). The development and implementation of the Principles was based on the provisions of the Capital Group Code providing for, in Article 21, the introduction of uniform procedures and standards of conduct in the JSW S.A. Capital Group. In the Principles, changes in the legal status were taken into account and new solutions were proposed. As a result of the implementation of appropriate regulations in the area of supervision over subsidiaries, standardization was introduced in such areas as the recruitment procedures and the selection of members of the subsidiaries' corporate bodies.

As at 31 December 2012 and as at the date of this report, the Group was composed of:

1. JastrzębskaSpółkaWęglowa S.A. with its registered offices in Jastrzębie-Zdrój,
2. KoksowniaPrzyjaźń Sp. z o.o. with its registered offices in DąbrowaGórnicza,
3. BazaTransportuSamochodowego Sp. z o.o. with its registered offices in DąbrowaGórnicza,
4. ZakładRemontówMechanicznych Sp. z o.o. with its registered offices in DąbrowaGórnicza,
5. ZakładPrzewozów i Spedycji SPEDKOKS Sp. z o.o. with its registered offices in DąbrowaGórnicza,
6. KombinatKoksochemiczny Zabrze S.A. with its registered offices in Zabrze,
7. PrzedsiębiorstwoProdukcyjno-Handlowo-Usługowe REM-BUD Sp. z o.o. with its registered offices in Zabrze,
8. ZakładTransportuSamochodowego, SprzętuBudowlanego i UsługSerwisowych CARBOTRANS Sp. z o.o. with its registered offices in Zabrze,
9. WałbrzyskieZakładyKoksownicze Victoria S.A. with its registered offices in Wałbrzych,
10. ZakładUsługEnergetycznychepeKoks Sp. z o.o. with its registered offices in Wałbrzych,
11. SpółkaEnergetycznaJastrzębie S.A. with its registered offices in Jastrzębie-Zdrój,
12. SEJ-Serwis Sp. z o.o. with its registered offices in Jastrzębie-Zdrój,
13. PrzedsiębiorstwoEnergetykiCieplnej S.A. with its registered offices in Jastrzębie-Zdrój,
14. PolskiKoks S.A. with its registered offices in Katowice,
15. PrzedsiębiorstwoGospodarkiWodnej i Rekultywacji S.A. with its registered offices in Jastrzębie-Zdrój,
16. JastrzębskieZakładyRemontowe Sp. z o.o. with its registered offices in Jastrzębie-Zdrój,
17. JZR Dźwigi Sp. z o.o. with its registered offices in Jastrzębie-Zdrój,
18. CentralneLaboratoriumPomiarowo-Badawcze Sp. z o.o. with its registered offices in Jastrzębie-Zdrój,
19. JastrzębskaSpółkaKolejowa Sp. z o.o. with its registered offices in Jastrzębie-Zdrój,
20. Advicom Sp. z o.o. with its registered offices in Jastrzębie-Zdrój,
21. JastrzębskaSpółkaUbezpieczeniowa Sp. z o.o. with its registered offices in Jastrzębie-Zdrój.

Pursuant to the JSW S.A. Management Board decision of 14 December 2011 regarding the introduction of a personal union in certain subsidiaries of the Group involving joint management, with effect from 1 January 2012 the President of the

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

KoksowniaPrzyjaźń Management Board was also appointed to the position of President of the KK Zabrze Management Board.

KoksowniaPrzyjaźń Sp. z o.o. was transformed into a joint stock company pursuant to the decision of the District Court in Katowice, 8th Corporate Division of the National Court Register, of 2 January 2013 on entering the changes in the National Court Register.

1.4. Information about JSW S.A.'s ownership structure and the shares issued

1.4.1. JSW S.A.'s capital and ownership structure

As at the last date of the reporting period and the date of this report, JSW S.A.'s share capital was PLN 587,057,980.00 and was divided into 117,411,596 ordinary shares with a par value of PLN 5.00 each, as follows:

- 99,524,020 series A shares,
- 9,325,580 series B shares,
- 2,157,886 series C shares,
- 6,404,110 series D shares.

Registered shares which will be dematerialized pursuant to the Act on Trading in Financial Instruments of 29 July 2005 will be transformed into bearer shares upon such dematerialization.

The total number of votes linked to all the shares issued by JSW S.A. is 117,411,596 votes at the JSW S.A. Shareholder Meeting.

As at 31 December 2012 and the date of this report[(1)], the shareholding structure of JSW S.A. was as follows:

	Number of shares	Number of votes at the Shareholder Meeting	Percentage of share capital	Percentage of the total number of votes at the Shareholder Meeting
State Treasury of the Republic of Poland[(2)]	64,775,542	64,775,542	55.16%	55.16%
Other shareholders[(3)]	50,478,168	50,478,168	43.00%	43.00%
Other shareholders[(4)]	2,157,886	2,157,886	1.84%	1.84%
Total	**117,411,596**	**117,411,596**	**100.00%**	**100.00%**

(1) JSW S.A. does not hold an itemized breakdown of the shareholder structure as at 31 December 2012 or the date of this report due to the pending process of JSW S.A.'s eligible employees acquiring shares free of charge from the State Treasury by the power of the Act on Commercialization and Privatization of 30 August 1996. The information included in the foregoing table was transmitted in Current Report no. 40/2012 on 30 November 2012 prepared on the basis of the notification submitted by the State Treasury.

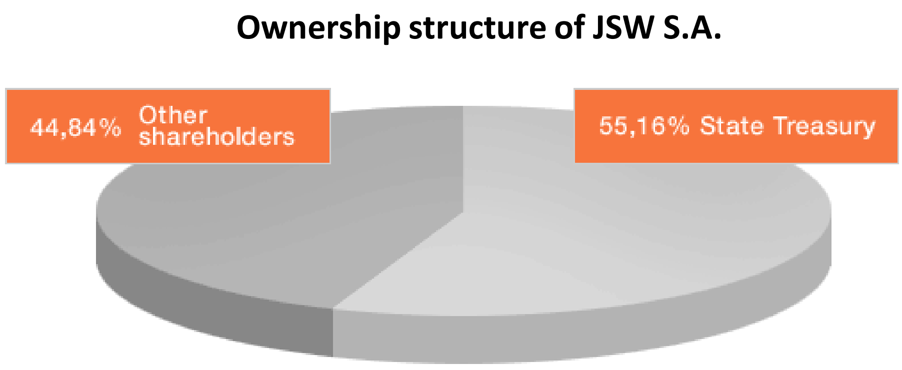
(2) The State Treasury, including Employee Shares. The shares of eligible employees or their successors until their transfer remain the property of the State Treasury. 1. Starting on 10 October 2011, JSW S.A. began to dispose, free of charge, 14,928,603 registered series A shares with a par value of PLN 5.00 each to eligible employees. 2. In connection with the contribution of KK Zabrze shares to JSW S.A., the shares of persons entitled to a gratuitous purchase of KK Zabrze shares allowing them to exercise their right to a gratuitous purchase of JSW S.A. shares instead of KK Zabrze shares. Starting on 23 April 2012, JSW S.A. began to dispose, free of charge, 1,130,137 series D shares with a par value of PLN 5.00 each to eligible employees.

(3) Institutional and individual investors, including employees of JSW S.A., KK Zabrze and their heirs, who have taken advantage of their entitlement to acquire Employee Shares free of charge, pursuant to the Act on Commercialization and Privatization of 30 August 1996.

(4) Series C employee shares offered in a private subscription to an investment company which offered to dispose of the taken-up series C shares to the employees referred to in sec. 5 of Resolution no. 3 of the Company's Shareholder Meeting of 12 May 2011, Rep. A no. 3173/2011. On 17 April 2012, the JSW S.A. Shareholder Meeting adopted a resolution to retire 1,796,324 series C shares (Current Report no. 25/2012). Information about the adjustment of the number of series C shares is presented in Item 1.4.3 of this report.

JSW S.A. has not received any information about exceeding the percentage thresholds of the total number of votes specified in art. 69 sec. 1 of the Act on Public Offerings and the Conditions for Floating Financial Instruments in an Organized Trading System and on Public Companies.

As at the date of this report, according to the notices received from shareholders holding directly or indirectly through subsidiaries at least 5% of the total number of votes at the JSW S.A. Shareholder Meeting (Current Report No. 40/2012 of 30 November 2012), the ownership structure of JSW S.A. was as follows:

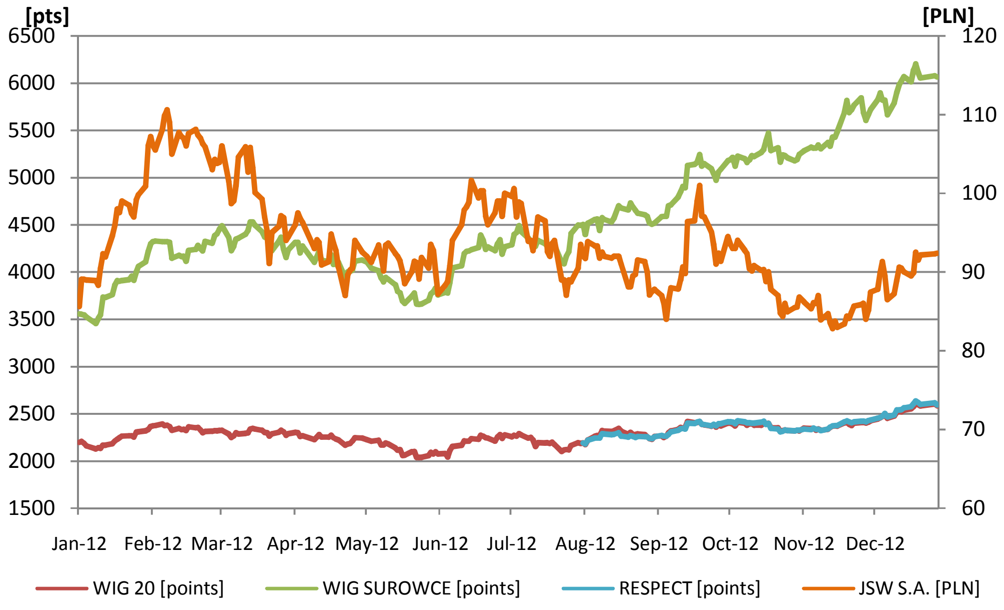


1.4.2. Prices of JSW S.A. shares in the capital market

In 2012, the average annual price per JSW S.A. share was PLN 93.59 and the difference between the listing at the beginning and end of 2012 was +7.94%. By comparison, the WIG20 index increased by 17.72% and the WIG-Surowce (WIG-Raw Materials) index increased by 70.50% in the same period.

In 2012, the lowest closing price per JSW S.A. share was PLN 82.80 and the highest closing price per JSW S.A. share was PLN 110.60. The value of JSW S.A. shares as at the end of 2012 was PLN 92.40. The average daily trading volume in 2012 was 145,235 shares.

The prices of JSW S.A. shares as well as the WIG20 and WIG-Surowce indexes in 2012 and the RESPECT index since the date of inclusion of JSW S.A. in its composition are presented in the following graph:



1.4.3. Reduction of the Parent Company's share capital

On 17 April 2012, the Shareholder Meeting adopted a resolution to retire 1,796,324 series C shares, a resolution to authorize the JSW S.A. Management Board to acquire treasury shares of JSW S.A. free of charge for the purpose of retirement and a resolution to reduce the share capital by PLN 8,981,620, i.e. from PLN 596,039,600 to PLN 587,057,980 and create other reserve capital (Current Report no. 25/2012). On 30 April 2012, JSW S.A. received the decision of the District Court in Gliwice, 10th Business Division of the National Court Register, dated 26 April 2012 on the registration of a share capital decrease in JSW S.A. in connection with the retirement of 1,796,324 series C shares corresponding to 1,796,324 shares in the JSW S.A. Shareholder Meeting (Current Report no. 29/2012).

The consequences of the anticipated decrease in the number of shares granted to the employees (retirements of series C shares) caused a reduction of costs of the employee share ownership program which was captured in the ledgers as at 30 June 2011 in the amount of PLN 243.9 million. The adjustment of costs was carried out in the ledgers in 2011. At the same time, JSW S.A. made proper adjustment of the surplus of the share issue value over their par value on account of the employee share ownership plan by the amount of PLN 234.9 million, and retained profits by the amount of PLN 9.0 million.

The amount of the share capital after registration of the retirement is PLN 596,039,600 and is divided into 119,207,920 shares with a par value of PLN 5.00 each. The total number of votes linked to all the shares issued by JSW S.A. after the registration of the change in the value of share capital (retirement of shares) is 117,411,596 votes at the JSW S.A. Shareholder Meeting. The shares were retired following the voluntary retirement procedure, without any remuneration. The purpose of the share capital decrease is to transfer the amount corresponding to the share capital decrease forming the sum of the par value of the shares being retired to a separate other reserve capital account, which may be used only to cover losses.

1.4.4. Dividends

In accordance with the recommendation presented in the JSW S.A. issue prospectus (p. 59), in 2013 the Parent Company's Management Board will propose to the JSW S.A. Shareholder Meeting the payment of a dividend of at least 30% of the consolidated net profit for 2012. The Company's dividend policy takes into account the Group's development plans, in particular its investment plans aimed at ensuring stable development of the Group and generating profit from ongoing operations, and depends on current activity results, cash flows, financial standing and capital requirements, general economic conditions as well as legal, tax, regulatory and contractual restrictions pertaining to dividend payments and on other factors which the Management Board considers important, and is subject to changes aimed at adapting it to the above factors. JSW S.A.'s dividend payments also depend on the approach of the State Treasury who is the shareholder with the decisive vote.

On 31 May 2012, the Ordinary Shareholder Meeting of JSW S.A. adopted a resolution on the distribution of net profit for the financial year 2011. The net profit earned by JSW S.A. in 2011 in the amount of PLN 2,082,532,648.47, reduced by the obligatory payment from the profit for the period from 1 January 2011 to 31 July 2011 charged from wholly-owned State Treasury companies pursuant to the Act of 1 December 1995 on Profit Distributions by Companies Wholly Owned by the State Treasury (Journal of Laws No. 154 Item 792, as amended) in the amount of PLN 126,978,067.20 million, and therefore the distributable net profit of PLN 1,955,554,581.27 was distributed as follows:

- the amount of PLN 631,674,386.48 was earmarked for dividends. This means that the dividend per share was PLN 5.38. The date of acquisition of the right to the dividend was set at 6 July 2012 and the dividend was paid on 24 July 2012. The dividend received by the State Treasury was PLN 349.6 million,
- the amount of PLN 130,000,000.00 was earmarked for distribution to JSW S.A.'s employees and to cover related charges. The profit bonus for employees was paid out on 22 June 2012,
- the amount of PLN 1,193,880,194.79 was earmarked for additional reserve capital to finance the investment program of JSW S.A.

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

As a result of 2011 profit distributions from the subsidiaries, the Parent Company received dividends in the total amount of PLN 54.1 million. The dividend per share ratio is presented in Note 34 of the "Consolidated financial statements of JastrzębskaSpółkaWęglowa S.A. for the financial year ended 31 December 2012".

1.4.5. The number and nominal value of JSW S.A.'s shares and shares in JSW S.A.'s related parties held by persons discharging executive and supervisory functions

The holding of JSW S.A.'s shares with a par value of PLN 5.00 each by persons discharging executive and supervisory functions in JSW S.A. is as follows:

	Number of shares as at 31 December 2012	Number of shares as at the date of this report
JSW S.A. Management Board		
Jarosław Zagórowski	210	210
Grzegorz Czornik	378	378
Robert Kozłowski	-	-
Andrzej Tor	211	211
Artur Wojtków	367	367
JSW S.A. Supervisory Board		
JózefMyrczek	-	-
Antoni Malinowski	-	-
Eugeniusz Baron	382	382
Andrzej Karbownik*	-	-
Stanisław Kluza	-	-
Robert Kudelski	256	256
Tomasz Kusio	-	-
Alojzy Nowak	-	-
Andrzej Palarczyk	591	591
Łukasz Rozdeiczer-Kryszkowski	-	-
Adam Rybaniec	-	-
Adam Wałach	532	532

* On 19 February 2013, Mr. Andrzej Karbownik was appointed to the JSW S.A. Supervisory Board of the 8th term of office.

The persons discharging executive and supervisory functions in JSW S.A. do not hold any shares in JSW S.A.'s subsidiaries.

1.4.6. Agreements pertaining to potential changes in the shareholding structure

The Parent Company's Management Board does not have information about agreements which may result in the future in changes to the proportions of shares held by the existing shareholders.

1.4.7. Information on employee share plan control system

Series A and C shares

Since JSW S.A. was incorporated as a result of transformation of state-owned enterprises into a joint-stock company, pursuant to the provisions of the Act on Commercialization and Privatization, eligible employees and their heirs are entitled to gratuitous receipt of 15% shares of JSW S.A. from the State Treasury. Starting on 10 October 2011, JSW S.A. began to dispose, free of charge, to eligible employees, series A shares.

At the same time, employees employed as at the date of the first listing of JSW S.A. shares who did not acquire the aforementioned entitlement, acquired the right to receive free of charge additionally issued 3,954,210 series C shares.

The actions taken in 2011 and the process of disposing of the shares to employees eligible and ineligible to receive the (series A and C) shares was described in detail in the annual report for 2011 – the JSW S.A. Management Board activity report for the financial year ended 31 December 2011, Item 1.4.5.

On 27 February 2012, the JSW S.A. Management Board adopted a resolution to determine the number of shares for each group of ineligible employees, divided by period of employment (Current Report no. 14/2012). Pursuant to the above resolution, the number of the JSW S.A.'s series C shares designated to be allocated to employees of the Capital Group eligible to acquire them free of charge was determined to be 2,157,886 series C shares out of 3,954,210 issued shares. Then, in its resolution of 27 February 2012, the JSW S.A. Supervisory Board gave consent to divide series C shares in the manner defined in the resolution of the JSW S.A. Management Board in the matter of determining the number of shares for each group of ineligible employees divided by period of employment.

Considering the above, the JSW S.A. Management Board recommended retirement of the surplus of 1,796,324 series C shares. On 17 April 2012, the Extraordinary Shareholder Meeting adopted a resolution to retire the surplus shares. On 26 April 2012, the reduction of the JSW S.A. share capital associated with the retirement of series C shares was registered. Series C shares have been allocated since 1 March 2012. By 20 April 2012, series A and C shares were allocated in JSW S.A. plants. After this date agreements on gratuitous disposal of series A and C shares are concluded in the branches of the Dom Maklerski PKO BP brokerage house.

Series D shares

In connection with the contribution of KK Zabrze shares to JSW S.A., the State Treasury Minister, acting pursuant to Article 38 d section 1 of the Act on Commercialization and Privatization, issued an offer addressed to entitled to a gratuitous purchase of KK Zabrze shares allowing them to exercise their right to a gratuitous purchase of shares by purchasing JSW S.A. shares instead of KK Zabrze shares. On 23 April 2012, the gratuitous sale of shares commenced, to eligible employees of KK Zabrze who submitted their declarations that their right to a gratuitous purchase of KK Zabrze shares may be exercised by a purchase of 1,130,137 registered series D shares of JSW S.A. with a par value of PLN 5.00 each.

KK Zabrze shares were exchanged into JSW S.A. shares based on the following parity: 1 JSW S.A. share = 0.876 KK Zabrze shares. This parity was determined by an auditor in the opinion on the fair value of the non-cash contribution made by the State Treasury – the State Treasury Minister to JSW S.A. in the form of shares of KK Zabrze, which was commissioned by the Management Board of JSW S.A.

By 31 December 2012, the following shares were sold:

- 14,149,045 shares out of 14,928,603 series A shares earmarked for eligible employees. 779,558 shares were still available.
- 2,120,048 shares out of 2,157,886 series C shares earmarked for ineligible employees. 37,838 shares were not sold.
- 853,944 shares out of 1,130,137 series D shares earmarked for eligible employees. 276,193 shares were not sold.
- The process of gratuitous sale of series A and C shares will continue until 8 October 2012, while series D shares will be sold gratuitously until 21 March 2014.

The shares received may not be sold for a period of 2 years (or 3 years for Management Board members), starting from 7 July 2011, regardless of the date when the eligible persons actually received the shares ("lock-up"). During that period, the shares will be held in custody of the Dom Maklerski PKO BP S.A. brokerage house.

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

1.4.8. Purchase of treasury stock

In 2012, the Parent Company did not purchase any treasury stock.

1.5. Level of remuneration for persons discharging executive and supervisory functions in JSW S.A.

The total amount of the remuneration, understood as the amount of remuneration, bonuses and benefits received in cash, in kind or in any other form, paid out to persons discharging executive and supervisory functions for 2012 and for the comparative period is presented in the following tables. The Parent Company's Management Board forms key management personnel of the Group.

Remuneration of the Management Board in 2012 (PLN)

	Period in office in 2012	Management services*	Annual bonus**	Benefits, income from other sources	Income earned in subsidiaries	Total
Jarosław Zagórowski	1 Jan-31 Dec	960,000.00	480,000.00	-	-	1,440,000.00
Andrzej Tor	1 Jan-31 Dec	840,000.00	420,000.00	-	-	1,260,000.00
Grzegorz Czornik	1 Jan-31 Dec	840,000.00	420,000.00	-	-	1,260,000.00
Marek Wadowski	1 Jan-16 Jan	36,129.03	-	-	-	36,129.03
Artur Wojtków	1 Jan-31 Dec	840,000.00	420,000.00	-	-	1,260,000.00
Robert Kozłowski	1 Apr-31 Dec	630,000.00	315,000.00	-	-	945,000.00
Total		**4,146,129.03**	**2,055,000.00**	**-**	**-**	**6,201,129.03**

* This item includes only remuneration based on management contracts.

** This item includes the annual bonus due for 2012 in the maximum amount permitted by the contract. The bonus is payable at the request of the President of the Management Board, depending on the degree of achievement of KPIs, and is subject to approval by the Supervisory Board.

Remuneration of the Management Board in 2011 (PLN)

	Period in office in 2011	Remuneration, management services*	Annual bonus**	Benefits, income from other sources	Income earned in subsidiaries	Total
Jarosław Zagórowski	1 Jan-31 Dec	308,002.28	302,182.44	81,146.97	41,454.96	732,786.65
Andrzej Tor	1 Jan-31 Dec	286,602.21	269,073.33	117,826.91	41,454.96	714,957.41
Grzegorz Czornik	1 Jan-31 Dec	286,602.21	269,073.33	49,700.25	44,909.54	650,285.33
Marek Wadowski	1 Jan-31 Dec	286,602.21	269,073.33	56,265.88	41,154.52	653,095.94
Artur Wojtków	1 Jan-31 Dec	286,383.36	269,073.33	45,457.34	37,309.44	638,223.47
Total		**1,454,192.27**	**1,378,475.76**	**350,397.35**	**206,283.42**	**3,389,348.80**

* This item includes only remuneration based on employment agreements and management contracts.

** This item includes the annual bonus paid for 2010 and the annual bonus due for 2011.

Remuneration of the Supervisory Board in 2012 (PLN)

	Period in office in 2012	Remuneration	Other income	Total
JózefMyrczek	1 Jan-31 Dec	41,454.96	-	41,454.96

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

	Period in office in 2012	Remuneration	Other income	Total
Eugeniusz Baron	1 Jan-31 Dec	41,454.96	-	41,454.96
Tomasz Kusio	1 Jan-31 Dec	41,454.96	-	41,454.96
Miłosz Karpiński	1 Jan-10 Jul	21,841.86	-	21,841.86
Antoni Malinowski	1 Jan-31 Dec	41,454.96	-	41,454.96
Adam Wałach	1 Jan-31 Dec	41,454.96	-	41,454.96
JanuszTomica	1 Jan-31 May	17,272.90	-	17,272.90
Zbigniew Kamieński	1 Jan-27 Mar	9,917.99	-	9,917.99
Marek Adamusiński	1 Jan-31 May	17,272.90	-	17,272.90
Adam Zbigniew Rybaniec	1 Jan-31 Dec	41,454.96	-	41,454.96
MariuszWarych	1 Jan-31 May	17,272.90	-	17,272.90
Alojzy Zbigniew Nowak	1 Jan-31 Dec	41,454.96	-	41,454.96
Stanisław Kluza	27 Mar-31 Dec	31,648.41	-	31,648.41
Andrzej Palarczyk	31 May-31 Dec	24,293.50	-	24,293.50
Robert Kudelski	31 May-31 Dec	24,293.50	-	24,293.50
Łukasz Rozdeiczer-Kryszkowski	31 May-31 Dec	24,293.50	-	24,293.50
Total		**478,292.18**	**-**	**478,292.18**

Remuneration of the Supervisory Board in 2011 (PLN)

	Period in office in 2011	Remuneration	Other income	Total
JózefMyrczek	1 Jan-31 Dec	41,454.96	-	41,454.96
Eugeniusz Baron	1 Jan-31 Dec	41,454.96	-	41,454.96
Tomasz Kusio	1 Jan-31 Dec	41,454.96	-	41,454.96
Miłosz Karpiński	1 Jan-31 Dec	41,454.96	-	41,454.96
Antoni Malinowski	1 Jan-31 Dec	41,454.96	-	41,454.96
Adam Wałach	1 Jan-31 Dec	41,454.96	-	41,454.96
JanuszTomica	1 Jan-31 Dec	41,454.96	-	41,454.96
Zbigniew Kamieński	1 Jan-31 Dec	41,454.96	-	41,454.96
Marek Adamusiński	1 Jan-31 Dec	41,454.96	-	41,454.96
Adam Zbigniew Rybaniec	1 Jan-31 Dec	41,454.96	-	41,454.96
MariuszWarych	4 Oct-31 Dec	10,029.43	-	10,029.43
Alojzy Zbigniew Nowak	6 Oct-31 Dec	9,806.55	-	9,806.55
Total		**434,385.58**	**-**	**434,385.58**

In 2012, no loans were granted to any members of the JSW S.A. Management or Supervisory Boards.

In 2012, the Nomination and Remuneration Committee was established. Its tasks include supervision over the implementation of the remuneration system for the JSW S.A. Management Board, monitoring and periodic review of the remuneration system for JSW S.A.'s executive personnel and, if necessary, formulation of recommendations for the Supervisory Board. The tasks of the Nomination and Remuneration Committee are described in Item 5.11 of this report.

1.6. Agreements concluded with managers providing for compensation in the event of their resignation or dismissal from the occupied position without an important reason or in the event that their dismissal resulted from a merger with the Issuer through an acquisition.

Still in force in 2012 were the Management Contracts ("Contracts") and Non-Competition Agreements entered into in 2011 with members of the JSW S.A. Management Board pursuant to the decision of the JSW S.A. Supervisory Board of 18 November 2011. On 1 March 2012, the Supervisory Board appointed Mr. Robert Kozłowski to the position of Vice-President of the JSW S.A. Management Board for Financial Matters for the 7th term of office and signed with him a Management Contract and a Non-Competition Agreement under the same terms and conditions as those binding the other Management Board members.

In accordance with the provisions of the Management Contracts, if a Contract is terminated by JSW S.A. for reasons other than a gross breach of the provisions of the Contract by the JSW S.A. Management Board member, expiration of the Contract as a result of expiration and non-renewal of the Management Board member's mandate or termination of the Contract by the Management Board member for reasons attributable to JSW S.A., the Management Board member is entitled to a severance pay in the amount of 3 times the fixed monthly salary. If the dismissal of the Management Board member or the non-appointment of the Management Board member for the next term of office is unrelated to the Benchmark (correlation of the changing JSW S.A. share price with the value of the WIG-20 index) for which in the reasonable opinion of JSW S.A. the relevant Management Board member is responsible or co-responsible with other Management Board members, in the event of termination of the Contract due to expiration and non-renewal of his/her mandate, the Management Board member is entitled to a severance pay in the amount of 3 times the fixed monthly salary.

In addition, pursuant to the Non-Competition Agreement, in the period of 12 months from the termination of the Management Contract, the Manager receives compensation in the total amount constituting the equivalent of 100% of the fixed salary paid to him/her in the period of 12 calendar months preceding the termination of the Management Contract. If the termination or non-extension of the Management Contract takes place in connection with the Benchmark for which in the reasonable opinion of JSW S.A. the Manager is responsible or co-responsible with other Management Board members, the Manager will receive compensation in the total amount constituting the equivalent of 25% of the fixed salary paid to him/her in the period of 12 calendar months preceding the termination of the Management Contract. In both situations, the Manager's entitlement to compensation will be contingent on his/her refraining from the conduct of any business competitive to that of JSW S.A. Such compensation will be paid to the Manager in monthly installments.

In 2012, no compensation was paid under any non-competition agreement.

1.7. Rules for drawing up the consolidated annual financial statements

The consolidated financial statements for the financial year ended 31 December 2012 are prepared in accordance with International Financial Reporting Standards ("IFRS") as approved by the European Union. The consolidated financial statements were prepared according to the principle of historical cost, with the exception of financial derivatives carried at fair value. The adopted accounting principles were employed using the principle of continuity in all of the presented financial years. The accounting (policy) principles applied to prepare the consolidated financial statements were presented in Note 2 to the Consolidated Financial Statements of the Capital Group of JastrzębskaSpółkaWęglowa S.A. for the financial year ended 31 December 2012.

These financial statements are consistent with the requirements of the provisions of law and regulations of capital market institutions pertaining to the scope of activity reports, in particular:

- Regulation issued by the Finance Minister on 19 February 2009 on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent, as amended.
- Accounting Act of 29 September 1994.

- Act of 15 September 2000 entitled the Commercial Companies Code.
- Regulations of GiełdaPapierówWartościowych w Warszawie S.A. (Warsaw Stock Exchange) and the relevant resolutions adopted by the Management Board.

The Management Board's report on the activity of the Capital Group of JastrzębskaSpółkaWęglowa S.A. for the financial year ended 31 December 2012 has been prepared in accordance with the principle of internal consistency of the document and compliance with the Consolidated Financial Statements of the Capital Group of JastrzębskaSpółkaWęglowa S.A. for the financial year ended 31 December 2012, and covers the reporting period from 1 January to 31 December 2012 and the comparative period from 1 January to 31 December 2011.

2. DESCRIPTION OF THE ACTIVITY OF THE CAPITAL GROUP

2.1. Description of the industry and competition

The core business of the Capital Group includes the production and sales of:

- coking coal (hard and semi-soft) and steam coal,
- coke and coal derivatives.

Due to the intended use of the Group's products:

- coking coal – coke production,
- steam coal – production of electricity and heat,
- coke – component of the feed for steel production in steel mills, foundries, the chemical industry, the non-ferrous metal industry, production of insulation materials, etc.,

there is a direct relationship between the Group's activity and supply and demand in the coal, coke, steel and energy markets.

In 2012, the Group was the only domestic producer of type 35 (hard) coking coal and a major producer of type 34 (semi-soft) coal. In Poland, type 34 coking coal is also produced by KompanięWęglową S.A. The Group's share in the total domestic production of coking coal is 80% (66% in type 35 coking coal and 14% in type 34 coal) and approx. 6% in the domestic production of steam coal[1]. For many years, the largest producer and consumer of coal has been China (more than 3.5 billion tons). The world's largest coal producers ranked below China are the United States, India, Australia, Indonesia, Russia and South Africa. In Europe, major producers of coal other than Poland are the Czech Republic, Germany, Ukraine and Russia. The total production of coal does not cover the demand of European customers, hence the need, especially in Western countries, to import the required coal. The deficit of coal in the European Union in 2011 was approximately 180 million tons[2], including approximately 40 million tons of coking coal. This creates an opportunity for the Group to place its coal within a profitable geographic rent area. The main market for the sale of coal produced by the Group is the Polish market.

In the area of production of hard coking coal, thanks to its balance sheet and operating resources and significant capital expenditure commitment, the Group has a strong foundation to maintain its leading position in the European coking coal market. The Group has approximately 0.5 billion tons of operable coal resources, including significant quantities of high-quality coking coal with a low ash and sulfur content and very good coking parameters, enabling the Group to direct its offer to the coking and power industries both at home and abroad.

Another major product of the Group, after hard coking coal, is coke produced by the Group's coking plants from an appropriately composed mix of coking coals. The Group's share in the domestic production of coke is approximately 45%, which puts it in second place in the Polish coke market after ArcelorMittal Poland. In the structure of global consumption of coke, the consumption of coke in the blast furnace process plays the main role, corresponding to 80% of total production. The remaining 20% is used in other sectors than the metallurgical industry (production of ferroalloys, foundries, the chemical industry, heating). A similar structure of coke production exists in the Group, where the markets for blast furnace and foundry coke are of strategic importance. The main market for the sale of coke produced by the Group is the European market (ArcelorMittal, voestalpine, ThyssenKrupp, Moravia Steel, Salzgitter Flachstahl). In light of the recent market conditions (the economic slowdown, a low rate of growth of steel production in Europe, high inventories of coke), the Group's customer base was expanded to include overseas customers. Accordingly, part of the coke produced in the Group's coking plants has been exported to India and Brazil. Coke offered by Poland in overseas markets successfully competes against Russian, Ukrainian, Japanese or Colombian coke.

[1] Based on data for the period from January to September 2012, the Ministry of Economy: Information on the Functioning of the Coal Mining Industry – November 2012.
[2] Coal Information (2012).

The variety of coal and coke products offered by the Group allows it to operate in many markets and flexibly manage its trading policy, adjusting it to the current market conditions.

2.2. Key products, goods and services

The Group's coal mining activity in 2012 was performed by five coal mines. The Borynia-Zofiówka[3]and Pniówek mines produce good quality coking coal mainly for the production of blast furnace coke. The Jas-Mos[3] mine produces coking coal with very low phosphorus content and low volatile matter content, used successfully in the production of foundry coke. The Budryk and Krupiński Mines currently produce primarily steam coal used by power plants to generate electricity. The share of coking coal and steam coal in total net coal production in 2012 was 70.4% and 29.6%, respectively.

The main product of the coke segment is blast furnace coke produced in KoksowniaPrzyjaźń and KoksowniaRadlin forming part of KK Zabrze, accounting for 64% of the total amount of coke produced in 2012. Foundry coke produced in WZK Victoria accounted for 10% of the Group's total coke production. The remaining production of the coke plants consisted of: industrial coke (nut I and II, pea coke, fine coke, broken coke and low-phosphorus coke), metallurgical coke and heating coke, whose share in the Group's total production of coke was 19%, 3% and 4%, respectively.

In addition to coke, the coking plants produce coal derivatives: coking tar, benzene, liquid sulfur, ammonium sulfate and coking gas. Benzene and tar have regular customers in the European market. Cooperation with these customers has been conducted for years under long-term contracts. Sulfur and ammonium sulfate are sold in the domestic market. Surplus coking gas is sold to consumers directly by the coking plants.

The Group's production structure, both with regard to the production of hard and semi-soft coking coals, steam coal and coke, is adapted flexibly to the dynamically changing market needs and in consideration of the supply and demand in the local and foreign markets.

Coal

In 2012, the quality parameters of individual shipments of commercial coal, in particular type 35 (hard) coal from the Borynia-Zofiówka, Pniówek mines and the Jas-Mos mine (with low volatile matter coal – LVM) and type 34 (semi-soft) from the Budryk and Krupiński mines and steam coal produced in the Borynia-Zofiówka, Budryk and Krupiński mines fitted within the limits set forth in the commercial agreements.

The coal production volume in 2012 was at the level of 13.5 million tons, i.e. 0.9 million tons more than in 2011 and 0.2 million tons more than planned for 2012. The total sales of coal produced by the Group, comprising intra-group and external deliveries, were realized at 12.7 million tons, i.e. 0.3 million tons more than in 2011. In 2012, compared to the same period of the previous year, total sales of coking coal increased by 0.5 million tons. However, supplies of steam coal in 2012 decreased by 0.2 million tons compared to 2011. It is noteworthy that the share of internal and external sales of the best quality type 35 (hard) coal that attracts the highest prices in the Group's total deliveries keeps increasing (2010: 55.9%, 2011: 57.8%, 2012: 60.4%).

The table below presents coal production and sales broken down into intra-group sales and external sales.

	2012	**2011**	**Growth**
Production (*in millions of tons*)	13.5	12.6	107.1%
- Coking coal (*in millions of tons*)(1)	9.5	8.8	108.0%
- Steam coal (*in millions of tons*)	4.0	3.8	105.3%

[3] On 1 January 2013, the Parent Company merged the Borynia-Zofiówka mine with the Jas-Mos mine into the three-section Borynia-Zofiówka-Jastrzębie mine.

	2012	**2011**	**Growth**
Total volume of JSW S.A.'s sales (*in millions of tons*)(2)	12.7	12.4	102.4%
- Coking coal (*in millions of tons*)	9.1	8.6	105.8%
- Steam coal (*in millions of tons*)	3.6	3.8	94.7%
Volume of intra-group sales (*in millions of tons*)(2)	4.5	4.0	112.5%
- Coking coal (*in millions of tons*)	4.2	3.7	113.5%
- Steam coal (*in millions of tons*)	0.3	0.3	100.0%
External sales volume (*in millions of tons*)(2)	8.2	8.4	97.6%
- Coking coal (*in millions of tons*)	4.9	4.9	100.0%
- Steam coal (*in millions of tons*)	3.3	3.5	94.3%
Sales revenues (*in PLN millions*)(3)	7,040.9	8,036.3	87.6%
Intrasegmentsales revenues (*in PLN millions*)	2,906.0	3,093.0	94.0%
Revenues on sales to external buyers (*in PLN millions*)	4,134.9	4,943.3	83.6%

(1) The share of hard coal in the total coal production in 2012 and 2011 was 57.5% and 58.2%, respectively.

(2) The volume of sales of coal produced by the Group.

(3) The figure presented includes the Group's revenues on sales of coal produced by other entities in 2012 and 2011 in the amount of PLN 304.2 million and PLN 186.7 million, respectively.

In 2012, sales of steam coal to external customers decreased by 0.2 million tons compared to 2011 and by 0.7 million tons compared to 2010, primarily a result of lower domestic demand from utility companies for coal used in the production of electricity. In the domestic structure of energy production, the share of cheaper lignite increased at the expense of coal.

In external sales of coking coal, type 35 coal produced by the Group accounted for 86.4% (2011: 89.1%). The remaining 13.6% was type 34 coal (2011: 10.9%). By the same token, sales of type 35 coking coal produced by the Group accounted for 80.5% (2011: 75.5%) and sales of type 34 coal – 19.5% of intra-group sales (2011: 24.5%).

In 2012, external coal deliveries to local buyers accounted for 79.9% (by volume) and 75.8% (by revenues). The remainder were deliveries to foreign customers. In 2011, external coal deliveries to local buyers accounted for 83.0% (by volume) and 78.4% (by revenues).

In 2012, revenues on sales of coal to external customers reached PLN 4,134.9 million and were lower by PLN 808.4 million (16.4%) than those generated in the same period of the previous year, which is primarily a consequence of the ongoing economic slowdown and a decrease in the prices of coking coal in the global markets.

Coke

In comparison to 2011, the Group's coke production in 2012 increased by 22.6% and sales volume increased by 26.7%. 2012 is the first full period in which the production and sale of coke covers all coking plants currently owned by the Group. KK Zabrze has been subject to consolidation since 29 June 2011 and WZK Victoria since 9 December 2011. The two annual reporting periods take account of the acquisitions in accordance with their dates. Revenues on sales of coke and coal derivatives in the period under analysis reached PLN 4,307.9 million and were 2.1% higher than in 2011.

The table below presents the actual production and sales of coke and revenues from coke and coal derivatives.

	2012	2011[3]	Growth
Production (*in millions of tons*)[1]	3.8	3.1	122.6%
External sales volume (*in millions of tons*)[2]	3.8	3.0	126.7%
Revenues on sales to external buyers (*in PLN millions*)[3]	4,307.9	4,220.0	102.1%

[1] Coke production from the coking plants belonging to the Group in individual periods.
[2] Volume of sales of the coke produced by the Group.
(3) Sales revenues in the Coke segment comprise revenues generated from sales of coke and coal derivatives both produced by the Group and the revenues from trading in coke and coal derivatives produced by external entities.

Other activity

In 2012, from other activity performed by the Group, including various types of support activity (production and sale of electricity and heat, overhauls and maintenance, logistics, laboratory services) and non-core business (travel and insurance services), the Group generated PLN 378.2 million, i.e. 4.3% of the Group's sales revenues. These revenues were PLN 164.7 million (77.1%) higher than those generated in 2011.

Sales prices

The prices of the Group's basic products in 2012 were significantly lower than in 2011 (coking coal: (-) 22.9%, coke: (-) 19%). It should be noted at the same time that blast furnace coke prices in spot deliveries in the European market in 2012 in relation to 2011 dropped by approximately 35%. The reason for the lower prices of coking coal and coke was the decline in demand for coke due to lower demand for steel. The average price of steam coal remained at a much higher level than in 2011, but kept decreasing steadily from the beginning of 2012 (Q1 2012: PLN 322.47 per ton, Q1-Q2: PLN 320.48 per ton, Q1-Q3: PLN 319.80 per ton).

The following table shows the prices obtained from the sales of products.

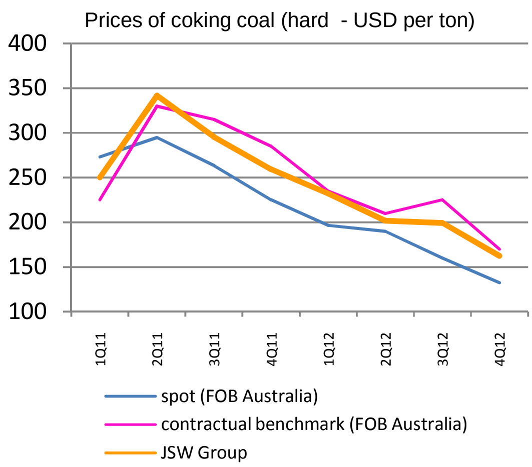
	2012	2011	Growth
Coal segment			
Coking coal (PLN/t)	625.70	811.78	77.1%
Steam coal (PLN/t)	315.27	266.93	118.1%
Total (PLN/t)[1]	500.90	583.26	85.9%
Coke segment			
Total (PLN/t)[2]	970.20	1 197.93	81.0%

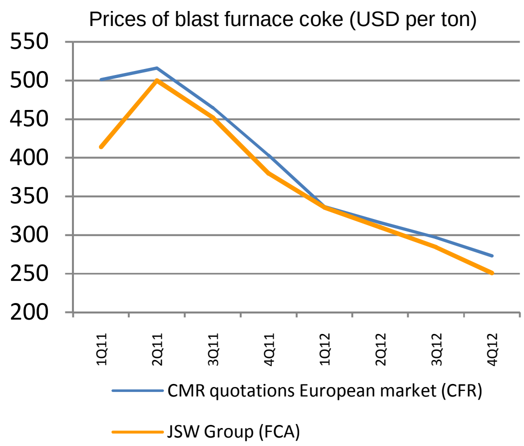
[1] The prices pertain to deliveries of coal produced by the Group and include transportation costs incurred by the Parent Company amounting to, on average, PLN 11.07 per ton in 2012 and PLN 5.61 per ton in 2011.
[2] FCA prices pertain to the Group's coking plants in the relevant periods.

2.3. Sales markets

The domestic and international coal and coke markets are subject to a number of factors remaining beyond the Group's control. In 2012, in particular in the second half of the year, the markets for coal, coke and steel were affected by economic slowdown which resulted in lower production, increased inventories and a reduced capacity utilization rate of coking plants. In the coking coal – coke – steel supply chain, lower demand for steel translated into a decrease in prices and revenues on sales of coke and coking coal. This was particularly noticeable in the European market as crude steel production in the European Union in Q3 2012 was over 10% lower than in Q2 2012, and 2% lower in Q4 2012 than in Q3 2012. In 2012, steel production in the EU (27) countries was 169.4 million tons, i.e. 4.7% less than in the same period of the previous year. With the exception of the crisis year 2009, it was the worst result in the past decade. Apparent consumption of steel in Europe in 2012 compared to 2011 decreased by 8%. Compared to 2007, the decrease was almost 30%. The only region which experienced a significant increase in steel production in 2012 was Asia, including China. The other regions recorded lower output. The world's crude steel production capacity utilization rate kept declining in H2 2012 (July: 79.4%, September: 77.7%, December: 73.2%). In Europe, almost a third of all blast furnaces installed were shut down. The situation in the steel market significantly affected the coke market. The sales of coke in the global markets declined from 21.7 million tons in 2011 to approximately 18 million tons in 2012. In Poland, coke production in 2012 was approximately 8.6 million tons, i.e. 6.1% lower than in 2011. Exports from Polish coking plants decreased by 7% to approximately 5.4 million tons. A significant decrease in demand for coke translated into a deeper-than-expected drop in prices. For instance, in November 2012 the price of blast furnace coke in the European market averaged USD 270 per ton based on CFR Northern Europe and was USD 135 per ton (33%) lower than in November 2011. The economic slowdown in Europe also affected the foundry coke market. The decrease in sales in the automotive industry, which is the main recipient of foundry coke, by 6.2% compared to 2011 resulted in reduced orders and falling prices. In 2012, part of the interest in heating coke shifted toward coal, eco-pea coal, other biofuels and industrial coke, which is also exposed to economic cycle fluctuations. The situation in the coking coal market was similar. In Q4 2012, the benchmark price of coking coal decreased by USD 115 per ton (40%) compared to Q4 2011. A similar situation was observed in the coking coal spot market where the price in November 2012 was USD 102 per ton lower than in November 2011.

The prices of coke and coking coal offered by the Group followed the market trends, as illustrated in the following charts.





At the end of year, the downward trend in spot prices stopped, which favorably affected the mood for 2013 forecasts**.**

In 2012, despite the unfavorable market environment, not only did the Group manage to maintain the volume of deliveries to its existing customers, but also established cooperation with new trading partners. The difficult market situation had a significant impact on the revenues generated from the sale of the Group's products, realized at PLN 8,821.0 million, i.e. PLN 555.8 million less than in 2011.

Revenues on external sales of coal, coke, coal derivatives and other operations of the Group, broken down by geographic area and by buyer, are presented in the table below.

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

Item	2012		2011		Growth
	Value	Share	Value	Share	
Total sales revenues in the Group (*in PLN millions*), including:	**8,821.0**	***100.0%***	**9,376.8**	***100.0%***	**94.1%**
Coal	**4,134.9**	***46.9%***	**4,943.3**	***52.7%***	**83.6%**
- Poland	3,134.1	*35.5%*	3,876.7	*41.3%*	80.8%
- EU countries	785.1	*8.9%*	1,066.6	*11.4%*	73.6%
- Other countries	215.7	*2.5%*	-	-	-
Coke*	**4,307.9**	***48.8%***	**4,220.0**	***45.0%***	**102.1%**
- Poland	883.6	*10.0%*	934.0	*9.9%*	94.6%
- EU countries	2,711.6	*30.7%*	2,885.8	*30.8%*	94.0%
- Other countries	712.7	*8.1%*	400.2	*4.3%*	178.1%
Other operations	**378.2**	***4.3%***	**213.5**	***2.3%***	**177.1%**

* This item includes revenues on sales of coke and coal derivatives.

In 2012, the share of revenues on sales of coal to 5 main external customers was 77.5% of total revenues in this segment. Other buyers, whose unit share did not exceed 10% of revenues, generated the remaining 22.5% of total revenues of the coal segment. In turn, the share of revenues on sales of coke to 5 main customers was 62.3% of total revenues in this segment. Other buyers whose unit share did not exceed 10% of revenues, generated the remaining 37.7% of total revenues of the coke segment.

2.4. Contracts of material importance for the Group's activity

In 2012, annual contracts for delivery of coking coal with all existing buyers were concluded, thus continuing the cooperation from the year before. The contracts define primarily such elements as the volume of deliveries, price, quality, delivery conditions and payment terms, payment security method, and provisions on contractual penalties for failure to perform the contract. Just like the year before, the prices were agreed through negotiations on the basis of the so-called coal benchmark, for quarterly periods. In respect of steam coal, JSW S.A. entered into a new contract with EDF Paliwa Sp. z o.o., thus maintaining the existing cooperation (a detailed description is provided later in this section).

Presented below is information about contracts of material importance for the Group's activity, as disclosed in the current reports, i.e. contracts and revenues where the Parent Company or its subsidiary is a party and whose value is at least 10.0% of the JSW S.A.'s equity. These contracts regulated the sale of products of JSW S.A. or its subsidiaries:

- In Current Report no. 13/2012 of 22 February 2012, the Parent Company's Management Board informed that the total estimate value of the contracts until the end of their term, concluded between the Capital Group companies and the ArcelorMittal Poland S.A. Capital Group in the period from the publication of Current Report no. 28/2011 (i.e. 20 September 2011) to 22 February 2012, reached PLN 2,330 million. The contract with the highest value is the contract signed on 22 February 2012 between JSW S.A. and ArcelorMittal Poland S.A. seated in DąbrowaGórnicza for deliveries of coking coal.

  Material terms and conditions of the Contract: the pricing terms are agreed upon on a quarterly basis. The Contract is valid from 1 January 2012 to 31 December 2012. The settlement currency is PLN. The estimate net value of the Contract till the end of its term is PLN 1,800 million. The contract comprises mutual provisions on sanctions in the event of failure to perform the contractual obligations by any of the parties in the amount of 10.0% of the gross value of goods that have not been delivered/collected. In the event either party suffers a loss in excess of the amount of liquidated damages, it may pursue additional compensation. The other terms of the Contract do not differ from those commonly used in this type of contract.

- In Current Report no. 37/2012 of 10 July 2012, the Parent Company's Management Board announced that the total value of revenues and the estimated value of contracts, for the period ending on their expiration date, entered into by and between the Capital Group companies and the companies of the voestalpine AG Capital Group (voestalpineRohstoffbeschaffungs GmbH with its registered office in Linz, Importkohle GmbH with its registered office in Vienna, voestalpine Stahl Donawitz GmbH & Co KG with its registered office in Leoben-Donawitz and voestalpine Stahl GmbH with its registered office in Linz) during the preceding 12 months had reached the net amount of PLN 3,297 million. The highest-value contract is the contract for the deliveries of blast furnace coke with an estimated net value until the end of its term of PLN 1,287 million signed on 19 January 2006 by and between JastrzębskaSpółkaWęglowa S.A. (appearing in the Contract as the Seller), KK Zabrze with its registered office in Zabrze (appearing in the Contract as the Coke Producer), PolskiKoks S.A. with its registered office in Katowice (appearing in the Contract as the party exercising the rights and fulfilling the obligations of the Seller) – both of which are subsidiaries of JSW S.A. – and voestalpineRohstoffbeschaffungs GmbH with its registered office in Linz and Importkohle GmbH with its registered office in Vienna acting for and on behalf of voestalpine Stahl Donawitz GmbH & Co KG with its registered office in Leoben-Donawitz and voestalpine Stahl GmbH with its registered office in Linz (appearing in the Contract as the Buyers).

  Material terms and conditions of the Contract: the Contract is in force from 1 April 2005 to 31 March 2016. The prices in the Contract are agreed upon on a quarterly basis per metric ton. The prices for the deliveries are agreed upon before the start of each new period of deliveries and are specified in a separate annex based on the Contract.

  The Contract does not contain any provisions regarding liquidated damages except for the customary clauses on the settlement of quality in the form of price reductions used in standard contracts for the deliveries of coke. The other terms of the Contract do not differ from those commonly used in this type of contract.
- In Current Report no. 41/2012 of 27 December 2012, the Parent Company's Management Board announced that the total value of the contract entered into on 27 December 2012 by and between JSW S.A. and EDF Paliwa Sp. z o.o. with its registered office in Kraków and sales revenues during the most recent 12 months reached the total net value of approximately PLN 944.0 million. Of the largest value is the contract for the sale of steam coal signed on 27 December 2012 by and between JastrzębskaSpółkaWęglowa S.A. (referred to in the Contract as the Seller) and EDF Paliwa Sp. z o.o. with its registered office in Kraków (referred to in the Contract as the Buyer). The term of the Contract is from 1 January 2013 to 31 December 2015, but may be extended thereafter. The prices are to be agreed upon separately for each year. The estimated net value of the Contract until the end of its term is approximately PLN 700.0 million.

  The Contract contains mutual provisions on sanctions in the event of failure to perform the contractual obligations by any of the parties in the amount of 20% of the gross value of goods that have not been delivered/collected, calculated according to the most recent contractual prices. If the parties to the Contract suffer a loss exceeding the payable contractual penalty, they can pursue supplementary compensation. The other terms of the Contract do not differ from those commonly used in this type of contract.

2.5. Assessment of the capacity to execute capital expenditure plans

Capital expenditures in 2012 were financed primarily with own funds. In addition, to a small extent the Group used external financing in the form of investment loans, other forms of loans and leases.

During the next 12 months, the financing structure is not expected to change significantly, provided that cash flows are maintained at similar levels. The amount of cash available to the Group allows it to execute its assumed investment projects. However, it is planned to increase the involvement of third party capital in the process of financing of certain investments.

2.5.1. Material investments in the Group in 2012

In 2012, the Group incurred expenditures on non-current assets in the amount of PLN 1,820.2 million (PLN 1,816.7 million after consolidation adjustments), up by 22.2% from the year before. The following table presents the structure of capital expenditures in 2012:

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

	2012	2011	Growth
Coal segment			
Expenditures on property, plant and equipment, investment property and intangible assets	980.4	1,005.5	97.5%
Expenditures on expensable mining pits	487.2	288.6	168.8%
Total	**1,467.6**	**1,294.1**	**113.4%**
Coke segment			
Expenditures on property, plant and equipment and intangible assets	209.6	88.6	236.6%
Total	**209.6**	**88.6**	**236.6%**
Other segments			
Expenditures on property, plant and equipment and intangible assets	143.0	106.7	134.0%
Total	**143.0**	**106.7**	**134.0%**
Total segments			
Expenditures on property, plant and equipment, investment property and intangible assets	1,333.0	1,200.8	111.0%
Expenditures on expensable mining pits	487.2	288.6	168.8%
Total*	**1,820.2**	**1,489.4**	**122.2%**

* The table includes expenditures before consolidation adjustments in the amount of PLN 3.5 million in 2012 and PLN 10.8 million in 2011.

From the total expenditures incurred in 2012 in the amount of PLN 1,820.2 million, PLN 1,790.5 million was incurred for property, plant and equipment, PLN 7.6 million for investment property and PLN 22.1 million for intangible assets.

Investment projects in the Parent Company's mines

In 2012, JastrzębskaSpółkaWęglowa S.A. incurred expenditures on non-current assets in the amount of PLN 1,467.6 million, up by 13.4% from the year before. The following table presents the structure of capital expenditures in 2012 and in the comparative period:

	2012	2011	Growth
Capital expenditure construction activity	487.3	429.2	113.5%
Purchases of finished capital assets	493.1	576.3	85.6%
Expenditures on expensable mining pits	487.2	288.6	168.8%
Total	**1,467.6**	**1,294.1**	**113.4%**

From the total expenditures incurred in 2012 in the amount of PLN 1,467.6 million, PLN 1,455.9 million was incurred for property, plant and equipment, PLN 7.6 million for investment property and PLN 4.1 million for intangible assets. The capital expenditures in 2012 were financed from own funds. In the upcoming years, the Parent Company does not plan to change significantly the structure of capital expenditure financing.

The capital expenditures incurred by the Parent Company on property, plant and equipment in 2012 were earmarked for the following tasks:

- development tasks (for vertical and horizontal expansion of mines),
- to ensure current production capacity.

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

The amounts of expenditures incurred for property, plant and equipment in 2012 and in the comparable period, according to the above breakdown, are as follows:

	2012	2011	Growth
Capital expenditures on development tasks	317.5	277.7	114.3%
Capital expenditures to ensure current production capacity	662.9	727.8	91.1%
Expenditures on expensable mining pits	487.2	288.6	168.8%
Total	**1,467.6**	**1,294.1**	**113.4%**

As for development investments, in 2012 JastrzębskaSpółkaWęglowa S.A. executed the following projects pertaining to vertical expansions of mines and horizontal expansion:

Construction of a new level in the existing Budryk mine

The Parent Company continued construction of the 1290m mining level. This will make it possible to open resources of Type 35 (hard) coking coal in the mine's deposits. The total amount of the operable resources at level 1290m is estimated at 157.8 million tons. The investment project was started in 2007 and will be completed in 2019. The remaining capital expenditures scheduled for project execution associated with construction of level 1290m to 2019 (end of construction) are estimated at PLN 713.9 million.

Development of the Pniówek mine

The Parent Company continued its work on opening and developing the new "Pawłowice 1" deposit started in 2007. The total amount of operable resources in this deposit is estimated at 54.2 million tons up to level 1140m. After their extraction, resources up to the level 1300m are planned to be opened. The deposit contains mainly type 35 (hard) coking coal. The remaining capital expenditures scheduled for project execution associated with opening and development of the "Pawłowice 1" deposit till 2045 are estimated at PLN 2,626.2 million.

In addition, in the Pniówek mine, the Parent Company continued the construction of the 1000m mining level. The total size of the operable resources at level 1000m is estimated at 54.2 million tons. The remaining capital expenditures scheduled for project execution associated with construction of level 1000m and maintenance of extraction at this level to 2016 (end of construction) are estimated at PLN 168.6 million.

Development of the Borynia-Zofiówka mine, Zofiówka Section

The Parent Company continued the opening and utilizing of new resources started in 2005: "Bzie-Dębina 1-Zachód" and "Bzie-Dębina 2-Zachód" from level 1110m. Operable resources planned to be opened from level 1110m amount to 98.6 million tons. After their extraction, resources up to the level 1300m are planned to be opened. The deposits contain mainly type 35 (hard) coking coal. The remaining capital expenditures scheduled for project execution associated with opening and developing "Bzie-Dębina 1-Zachód" and "Bzie-Dębina 2-Zachód" deposits till 2042 are estimated at PLN 3,037.5 million.

In addition, in the Zofiówka Section, the Parent Company continued the development of the 1080m mining level started in 2006. The total size of the operable resources at level 1080m is estimated at 47.0 million tons. The deposits at this level contain mainly type 35 (hard) coking coal. The remaining capital expenditures scheduled for project execution associated with construction of extraction level 1080m to 2020 (end of construction) are estimated at PLN 657.1 million.

Development of the Krupiński mine

In 2010, the Parent Company started to open the "Żory-Suszec" deposit and section "E" and "Zgoń" in the Krupiński mine. The total amount of potential operable resources is estimated at 27.3 million tons of coking coal. The remaining capital expenditures scheduled for project execution associated with opening of the "Żory-Suszec" deposit and section "E" and "Zgoń" till 2018 (end of construction) are estimated at PLN 389.8 million.

Development of the Borynia-Zofiówka mine, Borynia Section

As part of its formal and legal activities (execution of a contract for a fee-based use of geological information and receipt of a decision approving the geological documentation of the "Żory-Warszowice" coal deposit) aimed at the provision and utilization of the "Żory-Warszowice" deposit, in 2012 the Parent Company incurred capital expenditures of PLN 2.9 million. The total amount of potential operable resources is estimated at 31.5 million tons. The capital expenditures scheduled for project execution associated with opening and development of the "Żory-Warszowice" deposit are estimated at PLN 575.0 million.

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

The expenditures incurred in 2012 for property, plant and equipment earmarked for execution of JSW S.A.'s aforementioned key projects are presented in the table below:

	2012	2011	Growth
Vertical development of the mines			
Budryk Mine Construction of level 1290m	62.6	36.2	172.9%
Pniówek Mine Construction of level 1000m	95.7	80.5	118.9%
Borynia-Zofiówka Mine, Zofiówka Section Construction of level 1080m	35.3	25.6	137.9%
Total	**193.6**	**142.3**	**136.1%**
Horizontal development and development of potential new mining areas			
Borynia-Zofiówka Mine, Zofiówka Section Opening and industrial utilization of the "Bzie-Dębina 2-Zachód" and "Bzie-Dębina 1-Zachód" coking coal deposits	61.9	71.9	86.1%
Pniówek Mine Opening and industrial utilization of the new "Pawłowice-1" coking coal deposit	15.8	19.8	79.8%
Krupiński Mine Opening seams in sections "E" and "Zgoń" and reserves of part of the "Żory-Suszec" deposit	43.3	43.7	99.1%
Borynia-Zofiówka Mine, Borynia Section Utilization of the "Żory-Warszowice" deposit	2.9	-	-
Total	**123.9**	**135.4**	**91.5%**
Total capital expenditures on development tasks	**317.5**	**277.7**	**114.3%**

Furthermore, as part of expenditures incurred to ensure the current production capacity, works were performed on the construction of infrastructure for the technical and organizational integration of the Borynia-Zofiówka and Jas-Mos mines.

Major investment projects executed in the Capital Group's subsidiaries

Construction of the Composite Solid Fuels Production Plant in PolskiKoks S.A.

This construction project is a result of the implementation of decisions made under the "Clean Air for Silesia" Research and Development Program carried out by PolskiKoks S.A., JastrzębskaSpółkaWęglowa S.A., the Silesian University of Technology, the Institute for Chemical Processing of Coal and the Boiler Cluster Association. The primary objective of the Program is to combine the scientific and technical potential of the parties to the agreement for the execution of research, development and technological tasks in the field of pro-ecological combustion of products of the JSW Coal and Coke Group. The plant will produce ecological solid fuels intended for public utilities and private consumers. The expected date of completion of the construction project is mid-2013. In 2012, PLN 0.7 million was spent on its execution. The remaining planned capital expenditures under the project are estimated at PLN 18.9 million.

Modernization of coking batteries in KoksowniaPrzyjaźń

The coking plant continues its investment program as a part of which in 2001 modernized battery no. 1 was commissioned for use and further coking batteries are to be modernized. On 15 September 2011, the company signed an agreement with BP Koksoprojekt Sp. z o.o. from Zabrze, selected in a tender procedure, to perform formal, legal and design work for the purpose of modernization of coking batteries no. 3 and 4, and execution designs for modernization of coking battery no. 4. In 2012, expenditures in the amount of PLN 12.1 million were incurred on modernization of battery no. 4 (formal and legal activities and design activities). The remaining planned capital expenditures under the project are estimated at PLN 301.7 million.

Construction of the power unit in KoksowniaPrzyjaźń

As part of continuation of the process of increasing the power efficiency as a result of reduction of electricity consumption and gradual attainment of the Group's power self-sufficiency, on 21 December 2011 KoksowniaPrzyjaźń concluded an agreement with the General Investment Contractor for construction of the power unit increasing the production capacity by 71 MWe. The investment will reduce electricity acquisition costs in the Group through use of coking gas for electricity generation, which will diversify the Group's coking gas sales, which directly translates into revenues from the coal derivative segment. The expected date of completion of the construction project is 2014. In 2012, PLN 40.9 million was spent in connection with its execution. The remaining capital expenditures planned after 2012 under the project are estimated at PLN 184.1 million.

Construction of a system for the removal of ammonia and hydrogen sulfide from coking gas and their environmentally friendly and economically justified utilization in WZK Victoria

WZK Victoria continued its work started in 2007 on modernization of the Coal Derivative Unit in respect of the construction of a new system for the removal of ammonia and hydrogen sulfide from coking gas, together with their environmentally friendly and economically justified utilization. The construction project was completed in mid-2012. The new coking gas purification system replaced the previously operated and technologically outdated system. The project will enable long-term operation of the Coking Plant in compliance with more and more stringent environmental protection requirements. In 2012, expenditures of PLN 17.6 million were incurred in connection with the execution of the construction project. The total value of the project was PLN 163.5 million and expenditures on the construction of the Coal Derivative Unit conducted in 2007-2012 amounted to PLN 210.1 million.

Construction of coking battery no. 6 with infrastructure in WZK Victoria

WZK Victoria continued its work started in 2007 on the construction of coking battery no. 6 together with associated process units and auxiliary facilities. Execution of the project will allow the Coking Plant to increase its production capacity and perform overhauls of the other batteries. At the first stage of the project, capital expenditures were incurred for the construction of ancillary infrastructure for the future battery no. 6, including expenditures on the construction of a biochemical post-process water treatment facility, the construction of a coal yard and other tasks. In 2012, as part of project execution, the construction of a coal yard with a storage capacity of 30 thousand tons was completed and a final decision on the granting of a construction permit for coking battery no. 6 was obtained. The expected date of completion of the construction project is 2016. In 2012, in connection with the execution of the construction project, expenditures of PLN 6.3 million were incurred. The remaining planned capital expenditures under the project are estimated at PLN 152.1 million.

Modernization of the KK Zabrze coking plants

KK Zabrze continues the investment involving modernization of the Radlin Coking Plant and the Jadwiga Coking Plant. As part of the modernization of the Radlin Coking Plant, the coking battery using the tamping system was developed (and commissioned for use in December 2009) together with accompanying machinery and facilities, the feeding-pushing machine no. 2 was being built and currently, the coal mill is being reconstructed. The investment is expected to be completed in 2013. In 2012 expenditures of PLN 50.2 million were incurred for the project. The remaining planned capital expenditures under the project are estimated at PLN 0.6 million.

Modernization of the Jadwiga Coking Plant comprises modernization of the coal processing plant and construction of a coal storage yard and a burdening line, coke sorting unit combined with construction of a coke storage yard, and construction of a new feed-push machine for the coking battery. The expected date of completion of the construction project is 2016. In 2012, PLN 0.7 million was spent on its execution. The remaining planned capital expenditures under the project are estimated at PLN 56.6 million.

Construction of the CFB 70 MWe fluidized bed unit in EC Zofiówka (executed by SEJ)

The project provides a solution supporting gradual withdrawal of the worn out units in EC Zofiówka, which will make it possible to generate heat and electricity starting from 2016 for the next 30 years in full compliance with the requirements of the IED Directive, with higher generation efficiency and fully satisfying the demand of EC Zofiówka's customers for heat and electricity in this period.

The solution will make it possible to generate electricity and heat on the basis of the fluidized bed boiler burning steam coal and low calorific value coal fuels from JSW S.A. mines, and other types of renewable fuels (biomass).

The changing situation in the energy sector and shifts in forecasted energy prices in the long term entail the need for another review of the project with a simultaneous analysis of alternative solutions.

Construction of a gas engine (EC Częstochowa) – executed by SEJ

In 2012, the construction of a gas engine for an electricity generator in the CzęstochowaNowa Coking Plant in Częstochowa was launched. The project involves the construction of a gas engine in the high-efficiency cogeneration system with the electric power of approximately 3MWe using coking gas as the fuel for the gas engine. The gas engine will produce in cogeneration: electricity, process steam and hot water for the coking plant. The project is being executed as part of the acquisition of new sales markets by SEJ and constitutes an innovative solution in Poland in terms of the fuel used for the gas engine. The expected date of completion of the construction project is 2013. In 2012, PLN 10.2 million was spent on its execution. The remaining capital expenditures under the project are estimated at PLN 6.8 million.

2.5.2. Capital investments in 2012

A detailed description of the capital investments made by the Group's companies in the period from January to December 2012 is presented in Item 1.1.3 of this report. The investments were financed from own funds and in return for in-kind contributions.

In addition to the aforementioned capital expenditures, in 2012 JSW S.A. purchased short-term unsecured registered series B bonds issued by the subsidiary SEJ of a value of PLN 10.0 million. The maturity date of the bonds is 27 December 2013. The total value of SEJ series A and series B bonds subscribed for by JSW S.A. is PLN 154.5 million Their maturity date of the series A bonds is the last business day of 2018. The bonds bear interest at a floating interest rate.

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

3. FINANCIAL AND PROPERTY STANDING OF THE CAPITAL GROUP

Summary of basic data of the Capital Group in 2010-2012

	UNIT	2010	2011	2012	GROWTH (%) 2012/2011
Consolidated statement of financial position					
Total assets	PLN m	10,611.3	13,617.0	14,067.1	103,3
Non-current assets	PLN m	7,210.3	8,873.6	9,792.0	110,3
Current assets	PLN m	3,401.0	4,743.4	4,275.1	90,1
Total equity	PLN m	6,102.5	8,443.4	8,573.9	101,5
Liabilities	PLN m	4,508.8	5,173.6	5,493.2	106,2
Consolidated statement of comprehensive income					
Sales revenues	PLN m	7,288.9	9,376.8	8,821.0	94,1
Gross sales profit/(loss)	PLN m	2,562.0	3,409.7	2,435.2	71,4
Operating profit/(loss)	PLN m	1,946.9	2,708.5	1,308.2	48,3
EBITDA	PLN m	2,770.5	3,552.8	2,374.8	66,8
EBITDA margin	%	38.0	37.9	26.9	71,0
Pre-tax profit/(loss)	PLN m	1,866.4	2,675.0	1,276.9	47,7
Net profit/(loss)	PLN m	1,501.9	2,086.0	988.1	47,4
Total comprehensive income	PLN m	1,501.9	2,105.5	798.5	37,9
Consolidated cash flow statement					
Net cash flow on operating activity	PLN m	2,235.9	2,835.3	2,359.4	83,2
Net cash flow on investing activity	PLN m	(797.9)	(1,667.2)	(2,634.3)	158,0
Net cash flow on financing activity	PLN m	(371.2)	(436.9)	(821.5)	188,0
Change in the net balance of cash and cash equivalents	PLN m	1,066.8	731.2	(1,096.4)	(149,9)
Financial ratios					
Dividend per share	PLN/share	1.63	2.16	5.38	249,1
Current liquidity		1.88	2.09	1.97	94,3
Quick liquidity		1.59	1.77	1.60	90,4
Net return on sales	%	20.6	22.2	11.2	50,5
Return on Assets (ROA)	%	14.2	15.3	7.0	45,8
Return on Equity (ROE)	%	24.6	24.7	11.5	46,6
Debt/EBITDA		0.04	0.12	0.11	91,7
Total debt ratio		0.42	0.38	0.39	102,6
Debt to equity ratio		0.74	0.61	0.64	104,9
Fixed capital to non-current assets ratio		1.11	1.20	1.13	94,2
Production data					
Coal production	million tons	13.3	12.6	13.5	107,1
Coking coal production	million tons	9.1	8.8	9.5	108,0
Steam coal production	million tons	4.2	3.8	4.0	105,3
Coal mining cash cost	PLN/ton	297.7	368.84	353.64	95,9
Coke production cash cost	PLN/ton	117.43	138.46	151.77	109,6
Other data					
Stock price at the end of the period	PLN/share	-	84.10	92.40	109,9
Headcount at the end of the period	persons	26,817	29,790	29,718	99,8
Average headcount during the year	persons	26,627	29,565	29,785	100,7
Investments in non-current assets	PLN m	925.0	1,478.6	1,816.7	122,9
Depreciation	PLN m	823.6	844.3	1,066.6	126,3

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

3.1. Discussion of economic and financial figures

The following financial data and ratios were presented on the basis of the Consolidated Financial Statements of the JastrzębskaSpółkaWęglowa S.A. Capital Group for the financial year ended 31 December 2012 prepared in accordance with IFRS.

3.1.1. Assets

	31 Dec 2012	31 Dec 2011	Growth
Assets			
Non-current assets			
Property, plant and equipment	9,230.9	8,458.8	109.1%
Intangible assets	77.3	64.9	119.1%
Investment property	23.1	-	-
Investments in associates	10.8	9.1	118.7%
Deferred income tax assets	184.2	101.6	181.3%
Other long-term assets	265.7	239.2	111.1%
	9,792.0	**8,873.6**	**110.3%**
Current assets			
Inventories	806.1	739.7	109.0%
Trade receivables and other receivables	1,020.4	1,363.2	74.9%
Income tax overpaid	4.2	22.0	19.1%
Financial derivatives	3.9	4.0	97.5%
Other short-term financial assets	948.9	24.6	3,857.3%
Cash and cash equivalents	1,490.7	2,589.0	57.6%
	4,274.2	4,742.5	90.1%
Non-current assets available for sale	0.9	0.9	100.0%
	4,275.1	**4,743.4**	**90.1%**
TOTAL ASSETS	**14,067.1**	**13,617.0**	**103.3%**

Total assets as at 31 December 2012 were PLN 14,067.1 million, up by PLN 450.1 (3.3%) from the end of 2011. The most important movement in assets occurred in the following items: other short-term financial assets (up by PLN 924.3 million), property, plant and equipment (up by PLN 772.1 million), cash and cash equivalents (down by PLN 1,098.3 million).and other receivables (down by PLN 342.8 million).

Non-current assets

As at 31 December 2012 and as at 31 December 2011, the Group's non-current assets amounted to PLN 9,792.0 million and PLN 8,873.6 million, respectively, and accounted for 69.6% and 65.2% of total assets. The value of non-current assets during the year increased by PLN 918.4 million.

The biggest non-current assets line item was property, plant and equipment which, as at the end of 2012, accounted for 94.3% of non-current assets. As at the end of 2012, their value stood at PLN 9,230.9 million, up by 9.1% during the year. The largest expenditures on non-current assets were incurred by the Parent Company. They amounted to PLN 1,467.6 million, while depreciation was PLN 806.0 million. The structure of expenditures incurred is presented in Item 2.5.1 of this report. Additionally, growth in property, plant and equipment was due to the activation of part of KK Zabrze's court-awarded compensation to Zarmen Sp. z o.o. in the amount of PLN 36.7 million. Also activated was the investment project being executed by WZK Victoria in the form of construction of a coking gas purification system. Expenditures incurred on the execution of the project in 2012 amounted to PLN 17.6 million and expenditures on the construction of the Coal Derivative Unit conducted in 2007-2012 amounted to PLN 210.1 million.

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

In 2012, the Group reclassified USD 20.8 million worth of property, plant and equipment to investment property. Part of the investment property is the RóżanyGaj hotel building, currently managed by a commercial operator. Further expenditures incurred in 2012 after the reclassification amounted to PLN 7.6 million. The property was commissioned for use in Q4 2012. The expected useful life of the property is 40 years. Valuation of the property by the Group is performed based on the purchase price model or the production cost model. Information on the methods and significant assumptions made in determining the fair value of investment propertyis described in Note 8 of the Consolidated Financial Statements of the JastrzębskaSpółkaWęglowa S.A. Capital Group for the financial year ended 31 December 2012. The investment propertyis owned by the Parent Company.

Current assets

The Capital Group's current assets as at 31 December 2012 and as at 31 December 2011 amounted to PLN 4,275.1 million and PLN 4,743.4 million, respectively, accounting for 30.4% and 34.8% of total assets, down by PLN 468.3 million, i.e. 9.9%. The decrease in current assets was mainly due to the fall in the balance of trade receivables and other receivables by PLN 342.8 million, i.e. 25.1%. The fall in trade receivables and other receivables is associated with the recorded lower volume of coal sales and the lower realized average selling price of coking coal and coke in 2012. The decrease in cash and cash equivalents by PLN 1,098.3 million (42.4%) is associated with the establishment of deposits with a maturity of 3 to 12 months, as a result of which other short-term financial assets increased significantly at the end of 2012 (up to PLN 948.9 million, i.e. by PLN 924.3 million).

Inventories formed another significant line item of current assets. Their share in current assets in 2012 was 18.9%, reaching PLN 806.1 million, i.e. 9.0% more than at the end of 2011. The biggest share in the inventories were finished products (84.6%), followed by materials (13.1%), merchandise (1.8%) and semi-finished products and production in progress (0.5%).

3.1.2. Financing of assets

In 2012, equity was the primary source of the Group's asset financing, and its value increased by 1.5% compared to 2011. In the period under analysis, the Group used financing in the form of loans the balance of which as at the last day of the reporting period decreased in relation to the comparative period by 38.1%.

	31 Dec 2012	31 Dec 2011	Growth
Equity			
Equity attributable to shareholders of the Parent Company			
Share capital	1,251.9	1,260.9	99.3%
Share premium account	905.0	905.0	100.0%
Retained earnings	6,245.6	6,070.4	102.9%
	8,402.5	**8,236.3**	**102.0%**
Non-controlling interest	**171.4**	**207.1**	**82.8%**
Total equity	**8,573.9**	**8,443.4**	**101.5%**

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

	31 Dec 2012	31 Dec 2011	Growth
Liabilities			
Long-term liabilities			
Loans and advances	189.9	241.2	78.7%
Deferred income tax liabilities	47.4	-	-
Employee benefit liabilities	2,084.7	1,774.3	117.5%
Provisions	502.9	436.6	115.2%
Trade liabilities and other liabilities	211.2	208.0	101.5%
	3,036.1	**2,660.1**	**114.1%**
Short-term liabilities			
Loans and borrowings	75.7	187.6	40.4%
Financial derivatives	0.3	0.1	300.0%
Current income tax liabilities	40.4	3.6	1,122.2%
Employee benefit liabilities	269.7	239.7	112.5%
Provisions	286.7	246.4	116.4%
Trade liabilities and other liabilities	1,784.3	1,836.1	97.2%
	2,457.1	**2,513.5**	**97.8%**
Total liabilities	**5,493.2**	**5,173.6**	**106.2%**
TOTAL EQUITY AND LIABILITIES	**14,067.1**	**13,617.0**	**103.3%**

As at the end of 2012 and 2011, the Group's total equity amounted to PLN 8,573.9 million and PLN 8,443.4 million, respectively, which accounts for 61.0% and 62.0% of total equity and liabilities, respectively. An increase in equity attributable to shareholders of the Parent Company by PLN 166.2 million, i.e. by 2.0%, was associated primarily with an increase in retained earnings by PLN 175.2 million, i.e. 2.9% in relation to 31 December 2011. A decrease was recorded in share capital by PLN 9.0 million, which was related to the Shareholder Meeting's decision to retire the surplus of series C shares. This event is described in Items 1.4.3 and 1.4.7 of this report.

As at the end of 2012, total liabilities constituted 39.0% of total equity and liabilities. The level of long-term liabilities increased during 2012 by PLN 376.0 million, i.e. 14.1%, to PLN 3,036.1 million, primarily due to the increase in employee benefit liabilities by PLN 310.4 million, i.e. 17.5%, the increase in liabilities on account of provisions by PLN 66.3 million, i.e. 15.2%, and the increases in deferred income tax liabilities of PLN 47.4 million and trade liabilities and other liabilities by PLN 3.2 million, i.e. 1.5%. In turn, a decrease was recorded in loans and borrowings by PLN 51.3 million, i.e. 21.3%.

Short-term liabilities in 2012 remained at a level similar to that of 31 December 2011 and amounted to PLN 2,457.1 million, down by only 2.2%. The following deviations occurred within the structure of short-term liabilities: current income tax liabilities increased by 1,022.2%, financial derivatives increased by 200.0%, employee benefit liabilities increased by 12.5% and liabilities on account of provisions increased by 16.4%. In turn, decreases were recorded in loans and advances (by 59.6%) and trade liabilities and other liabilities (by 2.8%).

The decrease in liabilities on account of loans and advances was caused, among other reasons, by a reduction in loan exposure of one of the Group's companies, namely PolskiKoks S.A., in relation to the exposure as at 31 December 2011. This situation was the result of changes in the Group's organization of trade. Since 1 March 2012, JSW S.A. has been gradually taking over the rights and obligations of the seller (in respect of both coal and coke) and PolskiKoks S.A. has been performing commercial contracts for and on behalf of JSW S.A.

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

In the structure of liabilities as at 31 December 2012, the biggest items were employee benefit liabilities (42.9% of the value of liabilities), including mainly liabilities on account of coal allowances for old age and disability pensioners (PLN 1,360.7 million), trade liabilities and other liabilities (36.3% of liabilities), including primarily trade liabilities (PLN 598.5 million), liabilities for social security and other taxes (PLN 440.6 million), investment liabilities (PLN 353.0 million) and liabilities for payroll (PLN 242.4 million).

3.1.3. Description of the structure of assets and liabilities from the standpoint of Capital Group's liquidity

The positive cash flows on operating activity generated by the Group in 2012 covered the vast majority of expenditures on the Group's non-current assets. The Group's asset financing structure is correct. The structure of assets, including the amount of the most liquid assets, i.e. cash and short-term investments, secures the Group's ability to settle its liabilities in a timely manner. The Group maintains a safe level of liquidity.

The following table presents selected data from the consolidated cash flow statement for the financial year ended 31 December 2012 and 31 December 2011.

	2012	2011	Growth
Net cash flow on operating activity	2,359.4	2,835.3	83.2%
Net cash flow on investing activity	(2,634.3)	(1,667.2)	158.0%
Net cash flow on financing activity	(821.5)	(436.9)	188.0%
Change in the net balance of cash and cash equivalents	**(1,096.4)**	**731.2**	**(149.9)%**

The Group's cash flows from the distinct types of activity reflect the high profitability of its business, and the financial surpluses generated are spent on development (investing activity) and repayment of liabilities.

Cash flow on operating activity

The value of cash flow on operating activity amounted to PLN 2,359.4 million in the period from January to December 2012, predominantly as a result of generated pre-tax profit of PLN 1,276.9 million adjusted for such factors such as:

- depreciation,
- change in the balance of trade liabilities and other liabilities, provisions and employee benefit liabilities,
- change in the balance of inventories,
- interest and profit-sharing,
- change in the balance of receivables,
- other adjustments.

The exact impact of changes in the above items is presented in Note 35 of the Consolidated Financial Statements of the JastrzębskaSpółkaWęglowa S.A. Capital Group for the financial year ended 31 December 2012.

Cash flow on investing activity

The value of cash used in investing activity amounted to PLN (2,634.3) million, compared to PLN (1,667.2) million in the previous period. The main components of net cash flow on investing activity were expenditures on the acquisition of property, plant and equipment in connection with the ongoing capital expenditure program (PLN 1,804.8 million) and the acquisition of financial assets (PLN 926.9 million), i.e. time deposits with a maturity of more than 3 months. At the same time, interest income was PLN 115.1 million, income from sales of property, plant and equipment was PLN 6.5 million and dividends received amounted to PLN 0.5 million.

Cash flow on financing activity

In 2012, net cash flow on financing activity amounted to PLN (821.5) million, compared to PLN (436.9) million in 2011, which resulted predominantly from the amount of dividends paid to the Parent Company's shareholders (in 2012: PLN 631.7 million, in 2011: PLN 298.0 million).

As a result of the aforedescribed events, having taken into account foreign exchange differences from the conversion of cash and cash equivalents (PLN 1.9 million), the balance of cash and cash equivalents decreased by PLN 1,098.3 million compared to the 2011 end-of-year balance and as at 31 December 2012 stood at PLN 1,490.7 million, of which PLN 18.8 million is restricted cash, mainly including tender deposits and accrued interest.

Taking into account the amount of other short-term financial assets as at 31 December 2012 (term deposits with a maturity of 3 to 12 months), the level of the Group's available funds is comparable to that of the previous year.

3.1.4. Material off-balance sheet items

Material off-balance sheet items include:

Contingent assets

Until 2008 the Parent Company in its property tax declarations included a tax on underground infrastructure. In 2008-2010 the Parent Company gradually adjusted the declarations filed and submitted applications to assert an overpayment. Since the municipalities rejecting these applications and on account of the dispute pending with the municipalities on this subject, the Parent Company recognizes payments for the underground infrastructure tax as contingent assets. Contingent assets concerning the overpayment of the property tax on underground infrastructure as at 31 December 2012 are PLN 14.6 million and did not change compared to the same period of the previous year.
Furthermore, the disbursed amounts of the disputed property tax on underground mine workings together with interest of PLN 204.8 million (in 2011: PLN 56.6 million, in 2010: PLN 37.8 million, in 2009: PLN 56.5 million, in 2008: PLN 53.9 million), recognized as receivables after the posting of a revaluation charge of PLN 41.0 million, remain at PLN 163.8 million.

Contingent liabilities

Under the agreement of 7 December 2010 between the State Treasury and JSW S.A. on the sale of a 90.59% stake in PGWiR, JSW S.A. undertook to procure, within a period not longer than 5 years from the date of the agreement, the acquisition by PGWiR of property, plant and equipment of a total value as at the date of acquisition of not less than PLN 20.0 million and to make an in-kind contribution of property, plant and equipment remaining in use by PGWiR as at the date of the agreement, under the lease agreements entered into with JSW S.A. acting as the lessor, for an amount of at least PLN 12.0 million.
As at 31 December 2012, PLN 9.9 million was earmarked for the purchase of property, plant and equipment, accounting for 49.5% of the aforementioned total amount of liabilities. As at 31 December 2012, JSW S.A. did not increase PGWiR's share capital by an in-kind contribution of property, plant and equipment. On 22 February 2013, an agreement was signed to transfer the title to real properties, the perpetual usufruct right to land and the title to buildings, equipment and other property, plant and equipment, between JSW S.A. and PGWiR.

On 29 September 2011, the State Treasury Minister signed a share sale agreement for an 85% stake in PEC with SEJ, a Capital Group company. Based on the agreement, SEJ took an unconditional obligation to procure and ensure that, by 31 December 2014, PEC acquires property, plant and equipment components for the overall amount of PLN 71.7 million.

The Management Board of SEJ requested the State Treasury Minister to change the terms and conditions of performance of the investment commitment related to the development of the "Business Plan of the SEJ Group – Power 2016" Investment and Modernization Program aimed at harmonizing the investment plans of SEJ and PEC in order to generate synergies resulting from the operation within the SEJ Capital Group and from the implementation of a modernization and development program based on a coherent vision for the conduct of a common business in the regional market. Eventually, the Parties agreed that the time limit for the performance of their commitments cannot exceed the duration of performance of the guaranteed investments in property, plant and equipment, i.e. 31 December 2014. As at 31 December 2012, investments were realized for an amount of PLN 11.7 million, accounting for 16.3% of the aforementioned total amount of liabilities.

On 5 October 2011, the Parent Company and the State Treasury concluded an agreement on the sale of 399,500 shares constituting 85% of the share capital of WZK Victoria seated in Wałbrzych for PLN 413.9 million. As a result of entering into the above agreement, an investment commitment was established under which the Buyer (JSW S.A.) undertakes to procure that, in the period of 60 months from the Closing (19 December 2011), WZK Victoria will carry out investment projects worth at least PLN 220.0 million. At the same time, in connection with the acquisition of the WZK Victoria shares, JSW S.A. submitted a statement on submission to enforcement for a maximum amount of PLN 300.0 million.
As at 31 December 2012, investments were realized for an amount of PLN 36.8 million, accounting for 16.7% of the aforementioned total amount of liabilities.

As a result of discussions conducted with the social side in the Voivodship Social Dialog Commission pertaining to, among others, guarantee of employment and matters associated with the public offering, on 5 May 2011, the JSW S.A. Management Board signed and the unions operating in JSW S.A. initialed a memorandum of agreement with the Management Board ("Memorandum of Agreement"). In the Memorandum of Agreement, the parties agreed among others that by principle the employment guarantee period for JSW S.A. employees is 10 years from the date JSW S.A. shares are made public. If JSW S.A. does not fulfill its employment guarantee, it will be obligated to pay compensation equal to the product of the average monthly remuneration in JSW S.A. in the year preceding the termination of employment and the number of months remaining until the expiration of the employment guarantee period (in the case of administrative employees – no more than 60 times the average salary in the previous year). The provisions relating to the employment guarantee came into force on the date the shares of JSW S.A. were made public on the Warsaw Stock Exchange.

Moreover, on 18 May 2011, KK Zabrze and the Parent Company concluded a memorandum of agreement with the trade unions operating in KK Zabrze regarding the social guarantee package for KK Zabrze employees; its content with respect to employment guarantees is the same as the content of the Memorandum of Agreement agreed upon in JSW S.A. The Parent Company took the responsibility of a guarantor of KK Zabrze's commitments.

On 6 September 2011, the Parent Company concluded a memorandum of agreement with the trade unions operating in WZK Victoria regarding the social package for WZK Victoria employees, including among others the guarantee of employment in the company for 7 years from the effective date of the WZK Victoria share purchase agreement.

WZK Victoria has a contingent liability resulting from a guarantee bond issued by insurance companies which secures the correct performance of the contract with ThyssenKrupp Metallurgical Products GmbH. As at 31 December 2012, the amount of the guarantee bond issued by insurance companies is EUR 15.0 million. The guarantee is secured on a blank promissory note with an assignment of receivables, an ownership transfer of property, plant and equipment and a registered pledge on coal.

Information about other off-balance sheet items is presented in Note 36 to the Consolidated Financial Statements of the JastrzębskaSpółkaWęglowa S.A. Capital Group for the financial year ended 31 December 2012.

3.1.5. Consolidated statement of comprehensive income

The following table presents the items from the Capital Group's consolidated statement of comprehensive income recorded in 2012. These items and the resulting growth figures are quoted in accordance with the Consolidated Financial Statements of the JastrzębskaSpółkaWęglowa S.A. Capital Group for the financial year ended 31 December 2012.

In 2011, JSW S.A. acquired the following subsidiaries: KK Zabrze, WZK Victoria and PEC. Due to the timing of the acquisition, the data in the consolidated statement of comprehensive income for the financial year ended 31 December 2011 do not include the figures from WZK Victoria or PEC, and KK Zabrze's data are included only for the period from 1 July to 31 December 2011. However, the data for the current reporting period capture costs by type of these entities for the financial year ended 31 December 2012.

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

	2012	2011 (restated data)	Growth
Sales revenues	8,821.0	9,376.8	94.1%
Cost of products, materials and merchandise sold	(6,385.8)	(5,967.1)	107.0%
Gross sales profit	**2,435.2**	**3,409.7**	**71.4%**
Cost of sales	(361.9)	(272.2)	133.0%
Administrative costs	(662.5)	(508.9)	130.2%
Employee share ownership plan	-	(293.0)	-
Other income	53.5	49.4	108.3%
Disputed property tax on underground mine workings	(48.5)	359.7	(13.5)%
Other costs	(111.5)	(48.8)	228.5%
Other net profit	3.9	12.6	31.0%
Operating profit	**1,308.2**	**2,708.5**	**48.3%**
Financial income	119.8	118.1	101.4%
Financial costs	(153.1)	(152.7)	100.3%
Share in profits of affiliates	2.0	1.1	181.8%
Pre-tax profit	**1,276.9**	**2,675.0**	**47.7%**
Income tax	(288.8)	(589.0)	49.0%
Net profit	**988.1**	**2,086.0**	**47.4%**
Other comprehensive income			
Actuarial profit/(loss)	(234.0)	24.1	(971.0)%
Income tax	44.4	(4.6)	(965.2)%
Total other comprehensive income	**(189.6)**	**19.5**	**(972.3)%**
Total comprehensive income	**798.5**	**2,105.5**	**37.9%**
Net profit attributable to:			
- shareholders of the Parent Company	985.1	2,067.1	47.7%
- non-controlling stakes	3.0	18.9	15.9%
Comprehensive income attributable to:			
- shareholders of the Parent Company	795.7	2,086.6	38.1%
- non-controlling stakes	2.8	18.9	14.8%
Earnings per share attributable to shareholders of the Parent Company (in PLN per share)	8.35	18.25	45.8%

In 2012, total sales revenues were PLN 8,821.0 million and were PLN 555.8 million lower than last year's revenues, representing a 5.9% decrease. The decrease in unit prices of coking coal and coke had a significant impact on the above result, as is described in Item 2.2 of this report. The structure of revenues on sales in 2012 was as follows: sales of coal (46.9%), sales of coke and coal derivatives (48.8%), other activity (4.3%).

In 2012, costs of products, materials and merchandise sold increased by PLN 418.7 million, i.e. 7.0%, compared to the previous year. The merger of WZK Victoria and KK Zabrze into the Group had a direct impact on the amount of these costs. In 2012, gross sales profit amounted to PLN 2,435.2 million and was 28.6% lower than in 2011.

In 2012, total cost of sales, comprised mainly of costs of transportation services, was PLN 361.9 million which represents a 33.0% increase compared to 2011. The increase in these costs is directly associated with the increase in the volume of coke sales in 2012.

Administrative costs encompassing costs associated with execution of management and administrative functions were PLN 662.5 million which represents a 30.2% growth as compared to 2011. The increase in these expenses is primarily the result of the Capital Group's expansion in 2011 and merger of new subsidiaries: WZK Victoria and PEC. In addition, these expenses include KK Zabrze's administrative costs for the whole year 2012, whereas administrative costs for 2011 were generated from the moment of entry of KK Zabrze into the Group, i.e. from mid-2011. Furthermore, revaluation charges were created in administrative costs for receivables due from FNsteelOy A and Thermphos International B.V. in the total amount of PLN 13.1 million in connection with the bankruptcy of these companies. Personnel costs form the largest share in administrative costs. Decisions regarding employee compensation, training costs and travel expenses in 2012 significantly affected the amount of these expenses.

The Group's other income in 2012 were PLN 53.5 million and remained at a similar level to that of 2011.

The "Disputed property tax on underground mine workings" item in 2012 amounted to PLN (48.5) million and resulted from recalculation of provisions. In 2011, revenues on the disputed property tax on underground mine workings recorded in the accounting ledgers in the amount of PLN 359.7 million, included receivables from municipalities by virtue of paid disputed property tax on underground mine workings in the amount of PLN 163.9 million and the dissolution of provisions for the disputed property tax on underground mine workings in the amount of PLN 195.8 million.

Other costs in the period under analysis increased by PLN 62.7 million. The increase in other costs results from, among other factors, an increase in interest costs by PLN 37.6 million, i.e. by 120.5%. Moreover, this item includes PLN 31.8 million on account of the judgment of 27 September 2012 concerning the court proceedings conducted in connection with the claim of ZARMEN Sp. z o.o., the leader of the "Concorde-Radlin II" Consortium, unrecognized by KK Zabrze, for payment for the performance of construction works agreement of 17 October 2006, as described in Item 4.9.3.

The effect of operating activity is a positive operating result of PLN 1,308.2, down by PLN 1,400.3 million, i.e. 51.7%, from 2011.

Financial income in 2012 was PLN 119.8 million, remaining at a similar level to that of 2011 (PLN 118.1 million). Its amount reflects interest earned on cash and cash equivalents (in 2012: PLN 115.1 million, in 2011: PLN 116.0 million). Similarly, financial costs in 2012 remained at a similar level to that of 2011, increasing only by 0.3%, i.e. PLN 0.4 million, to PLN 153.1 million. Interest expenses related to settlement of the discount on long-term provisions accounted for 80.5% of financial costs. As a result of the aforedescribed factors, pre-tax profit for 2012 amounted to PLN 1,276.9 million and was 52.3% lower than that generated in 2011.

Finally, after income tax, net profit for 2012 was PLN 988.1 million, down by 52.6% compared to the previous year.

In 2012, the Group decided to apply amendments to IAS 19 from 1 January 2012. In accordance with amendments to IAS 19, the Group recognized actuarial gains/losses on specific employee benefit liabilities (i.e. retirement and disability pension benefits, compensatory disability pensions, charge to the Company Social Benefit Fund for old age and disability pensioners, coal allowances for old age and disability pensioners) resulting from changes in actuarial assumptions in other comprehensive income (permanently outside the profit and loss account). These figures are not reclassified to profit or loss, but are recognized in retained earnings. Actuarial gains/losses are recognized as operating expenses in the statement of comprehensive income only in relation to provisions for jubilee awards. Due to the retrospective application of the amendments, the consolidated statement of comprehensive income for 2011 contains restated data. As a result of the recognition, in 2012, of actuarial losses in the amount of PLN 234.0 million and deferred tax in the amount of PLN 44.4 million, total comprehensive income amounted to PLN 798.5 million, i.e. PLN 1,307.0 million less than in 2011.

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

Costs by type

	2012	2011 (restated data)	Growth rate
Depreciation	1,066.6	844.3	126.3%
Consumption of materials and energy	1,661.4	1,399.2	118.7%
Third party services	1,542.8	1,410.1	109.4%
Employee benefits	3,562.6	3,194.2	111.5%
Employee share ownership plan	-	293.0	-
Taxes and fees	203.9	228.0	89.4%
Other costs by type	65.5	13.0	503.8%
Value of materials and merchandise sold	121.4	203.7	59.6%
Total costs by type	**8,224.2**	**7,585.5**	**108.4%**
Cost of sales	(361.9)	(272.2)	133.0%
Administrative costs	(662.5)	(508.9)	130.2%
Disputed property tax on underground mine workings*	(36.6)	-	-
Employee share ownership plan	-	(293.0)	-
Value of performances and property, plant and equipment created for own needs	(644.3)	(468.4)	137.6%
Movement in products	(133.1)	(75.9)	175.4%
Cost of products, materials and merchandise sold	**6,385.8**	**5,967.1**	**107.0%**

* The difference of PLN 11.9 million between the amount of PLN 48.5 million presented in the consolidated statement of comprehensive income in the line item "Disputed property tax on underground mine workings" and the amount of PLN 36.6 million above results from interest on property tax liabilities calculated on an accrual basis.

The level of costs incurred for production activity is largely determined by the specificity of conditions in which the Group's mines and coking plants operate. In the period from January to December 2012, the Group incurred costs by type of PLN 8,224.2 million compared to PLN 7,585.5 million in 2011, up by 8.4%.

The increase in all comparable cost items was affected by acquisitions conducted in 2011, i.e. incorporation of the following companies into the Group: KK Zabrze in Q3, WZK Victoria and PEC S.A in Q4. Due to the timing of the acquisition, the data in the consolidated statement of comprehensive income for 2011 do not include the figures from WZK Victoria or PEC, and KK Zabrze's data are included only for the period from 1 July to 31 December 2011. However, the data for the current reporting period capture costs by type of these entities. Therefore, the costs for 2012 and 2011 are incomparable. The total amount of costs by type (after consolidation adjustments) of WZK Victoria and PEC for the financial year ended 31 December 2012 and KK Zabrze for the first half of 2012 was PLN 793.6 million, including the costs of consumption of materials and energy of PLN 428.4 million.

Benefits paid to employees constitute the largest share in the structure of costs by type, accounting for 43.3% of such costs. Their amount increased compared to 2011 by 11.5%, reflecting decisions made by the Management Boards of the Group companies regarding the level of employee compensation and headcount in the Group. These costs also include the amount of profit distribution for 2011 paid to JSW S.A.'s employees in the amount of PLN 130.0 million. Other significant items include: costs of consumed materials and merchandise – 20.2%, costs of third party services – 18.8% and depreciation – 13.0%. A decline was also recorded in the costs of taxes and fees, by PLN 24.1 million, in connection with obtaining a positive judgment in the proceedings concerning property tax on coking furnace batteries by KoksowniaPrzyjaźń, as a result of which in 2012 KoksowniaPrzyjaźń dissolved its provisions for property tax in a total amount of PLN 21.2 million, as described in Item 4.9.2 of this report.

After eliminating the effects of the non-recurring events that occurred in 2011 in the form of the employee share ownership plan of PLN 293.0 million and the profit sharing distribution to the Parent Company's staff of PLN 160.0 million, and after eliminating the profit sharing distribution to the Parent Company's staff in 2012 of PLN 130.0 PLN, the level of operating expenses in 2012 amounted to PLN 8,094.2 million, compared to PLN 7,132.5 million in 2011, meaning that operating expenses increased by PLN 961.7 million, i.e. 13.5%.

After adjusting costs by type by cost of sales, administrative costs, disputed property tax on underground mine workings and the value of performances and property, plant and equipment created for own needs and the change in the balance of products, the resulting cost of products, materials and merchandise sold in 2012 was PLN 6,385.8 million, up by 7.0% from 2011.

Statement of comprehensive income without taking into account the employee share ownership plan

In 2011, the Parent Company ordered the execution of valuation of the employee share ownership program to a specialized entity. The consequences of valuation (after taking into account the adjustment resulting from reduction of the quantity of shares granted to the employees) in the amount of PLN 293.0 million were captured in the "Employee share ownership program" item of the statement of comprehensive income. The following table presents the selected figures from the consolidated statement of comprehensive income for the financial year ended 31 December 2011 without taking into account the foregoing cost.
The Group's net return on sales in 2012 was 11.2%, down by 14.2 percentage points from 2011 (without taking into account the effects of valuation which was a non-recurring event with no impact on the Group's cash flow).

	2012	2011 (restated data)	Growth rate
Sales revenues	8,821.0	9,376.8	94.1%
Cost of products and materials sold	(6,385.8)	(5,967.1)	107.0%
Gross sales profit	**2,435.2**	**3,409.7**	**71.4%**
Operating profit	**1,308.2**	**3,001.5**	**43.6%**
Pre-tax profit	**1,276.9**	**2,968.0**	**43.0%**
Income tax	(288.8)	(589.0)	49.0%
Net profit	**988.1**	**2,379.0**	**41.5%**
Total comprehensive income	**798.5**	**2,398.5**	**33.3%**

3.2. Information about the Group's current and expected financial standing

The Group's current financial standing is good. No occurrences having a negative impact on its continued operations were recorded. Anticipated for the next 12 months is the maintenance of a sound financial situation, a safe assets and capital structure and the continued ability to settle the Company's liabilities.

In 2012, the Group developed an action plan for 2013 based on tentative results of the Group companies for 2012 and assumptions for detailed operational plans. The basic assumptions of the plan for 2013 are presented in the following table.

	2013	2012	Growth rate
Production (*in thousands of tons*)	13,525.0	13,462.4	100.5%
Coking coal (*in thousands of tons*)	10,048.0	9,469.2	106.1%
Share of coking coal	74.3%	70.3%	4.0 p.p.
Steam coal (*in thousands of tons*)	3,477.0	3,993.2	87.1%
Production of coke (*in thousands of tons*)	3,772.8	3,849.4	98.0%
Expenditures on non-current assets (*in PLN millions*)	1,823.8	1,816.7	100.4%

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

	2013	2012	Growth rate
Headcount – as at 31 December	29,774	29,718	100.2%

The main objective with respect to production defined in the Plan for 2013 will be the optimal utilization of the mines' resource base and production capacity, and an increase in the share of coking coal production in total production. In 2012, the Group's mines produced 13.5 million tons of coal compared to the planned 13.3 million tons. In 2013, the Group plans to slightly increase the production level (by 62.6 thousand tons). At the same time, it is assumed that the production volume of coking coal will increase by 0.6 million tons as compared to 2012 (an increase by 6.1%). Thus the share of coking coal in total production will increase by 4.0 percentage points to reach the level of 74.3%.

In 2013, the Group plans to incur expenditures on non-current assets in the amount of PLN 1.8 billion, including PLN 1.4 billion for the Parent Company, which will be earmarked for the following groups of activities:

- securing the mines' planned production capacities (mining work, purchase of technical equipment and upgrades of facilities),
- technical and organizational integration of the Borynia-Zofiówka and Jas-Mos mines,
- expansion of the Borynia-Zofiówka-Jastrzębie Mine, Zofiówka Section, by opening and utilization of the new "Bzie-Dębina 2-Zachód" and "Bzie-Dębina 1-Zachód" coking coal deposits,
- construction of the 1080 level in the Borynia-Zofiówka-Jastrzębie Mine, Zofiówka Section,
- expansion of the Pniówek Mine by opening and utilization of the new "Pawłowice 1" coking coal deposit,
- construction of the 1000 level in the Pniówek mine,
- construction of the 1290 level in the Budryk mine,
- opening the seams in the Zgoń section of the Krupiński mine and the reserves of part of the Żory-Suszec deposit,
- execution of necessary tasks related to environmental protection.

Also planned are capital expenditures in the energy and coke areas.

The Group's Plan for 2013 does not assume any significant changes in headcount compared to 31 December 2012. It is estimated that the headcount will increase by 56 persons by the end of 2013.

3.2.1. Financial results by operating segments

The following table presents the Group's results broken down into distinct areas (segments) of activity in 2012 and 2011:

	2012	2011 (restated data)	Growth rate
Black coal mining and sales			
Revenues on sales to external buyers	4,134.9	4,943.3	83.6%
Operating profit of the segment	1,268.6	2,736.3	46.4%
EBITDA	2,074.6	3,422.1	60.6%
Production and sales of coke and coal derivatives			
Revenues on sales to external buyers	4,307.9	4,220.0	102.1%
Operating profit of the segment	(97.8)	171.4	(57.1)%
EBITDA	103.3	297.0	34.8%

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

Other operations	2012	2011 (restated data)	Growth rate
Revenues on sales to external buyers	378.2	213.5	177.1%
Operating profit of the segment	73.7	20.4	361.3%
EBITDA	139.0	57.0	243.9%

Black coal mining and sales

In 2012, revenues on sales of coal to external buyers were PLN 4,134.9 million, down by 16.4% compared to the previous year. This decrease resulted from a change in the classification of coal deliveries from outside sales to intragroup sales (in respect of KK Zabrze and WZK Victoria) and lower prices of coking coal.

EBITDA for the 12-month period ended 31 December 2012 was PLN 2,074.6 million. To compare, the previous year's EBITDA was PLN 3,422.1 million. The decrease in EBITDA in the segment under analysis by 39.4% compared to the previous year resulted primarily from a decrease in the segment's operating profit despite an increase in depreciation by PLN 120.2 million (17.5%) from 2011.

Production and sales of coke and coal derivatives

In 2012, total revenues on sales of coke and coal derivatives to external buyers were PLN 4,307.9 million, up by approx. 2.1% compared to the previous year.

After four quarters of 2012, EBITDA was PLN 103.3 million compared to PLN 297.0 million in the previous year. The decrease in EBITDA in the segment under analysis by 65.2% in 2012 compared to 2011 resulted primarily from a decrease in revenues on sales of coke associated with lower selling prices obtained (down by 19%), which was the result of lower demand for coke.

Other operations

In 2012, revenues on sales to external buyers were PLN 378.2 million, up by 77.1% compared to 2011.

EBITDA for 2012 was PLN 139.0 million compared to the previous year's EBITDA of PLN 57.0 million. The 143.9% increase in EBITDA in the segment under analysis in 2012 compared to the previous year resulted primarily from an increase in sales profit caused by higher revenues on sales, related mainly to the inclusion of PEC into the Group.

3.2.2. Financial resources management

The Group has the ability to pay its contracted liabilities. During the reporting period, no threats to the maintenance of liquidity were identified. In order to efficiently manage its financial resources, the Group prepares short-term and long-term cash flow forecasts with the help of which it controls proceeds and expenditures, including also capital expenditures.

In order to ensure current liquidity, the Group uses current account overdrafts which are repaid from current proceeds, and any generated cash surpluses are invested in bank deposits with different maturities. The Group uses a broad range of banking products through which it effectively manages its cash while minimizing transaction risk.

Credit exposure to banks is mitigated through diversification of invested funds in accordance with the internal procedures, as described in Note 3.1 to the Consolidated Financial Statements of the JastrzębskaSpółkaWęglowa S.A. Capital Group for the financial year ended 31 December 2012.

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

3.2.3. Debt and the Capital Group's financing structure

		2012	2011	Growth rate
Equity ratio	Equity – Intangible assets / Total assets	0.60	0.62	96.8%
Debt/EBITDA ratio	Loans, borrowings, financial lease liabilities / EBITDA	0.11	0.12	91.7%
Total debt ratio	Total liabilities / Total liabilities and equity	0.39	0.38	102.6%
Short-term debt ratio	Short-term liabilities / Total liabilities and equity	0.17	0.18	94.4%
Long-term debt ratio	Long-term liabilities / Total liabilities and equity	0.22	0.20	110.0%
Debt to equity ratio	Total liabilities / Equity	0.64	0.61	104.9%
Fixed capital to non-current assets ratio	Equity + long-term liabilities excluding long-term provisions / Non-current assets	1.13	1.20	94.2%

As at 31 December 2012, the share of liabilities in financing the Group's activity measured with the total debt ratio was 0.39 compared to 0.38 as at the end of 2011. In the period covered by the consolidated financial statements the Group's debt did not constitute a threat to its operations or ability to repay its liabilities in a timely manner. The fixed capital to non-current assets ratio was 1.13, reflecting the Group's ability to maintain long-term financial liquidity.

3.2.4. Liquidity

		2012	2011	Growth rate
Current ratio	Current assets / Short-term liabilities (excluding short-term provisions)	1.97	2.09	94.3%
Quick ratio	Current assets – Inventories / Short-term liabilities (excluding short-term provisions)	1.60	1.77	90.4%

In 2012, the current ratio reached a value of 1.97, indicating the maintenance of financial balance. The correct relationship between the amount of current assets and the amount of liabilities was maintained. The quick ratio decreased by 9.6% to 1.60 as at the end of 2012 as a result of a decrease in current assets (excluding inventories) by 13.4%.

In 2012, the Group had full capability to cover its short-term liabilities with cash and quickly liquefiable current assets.

3.2.5. Profitability

		2012	2011 (restated data)	Growth rate
EBITDA	Operating result + Depreciation	2,374.8	3,552.8	66.8%

		2012	2011 (restated data)	Growth rate
Gross margin	Gross result on sales x 100 / Sales revenues	27.6%	36.4%	75.8%
EBIT margin	Operating result x 100 / Sales revenues	14.8%	28.9%	51.2%
EBITDA margin	EBITDA x 100 / Sales revenues	26.9%	37.9%	71.0%
Net return on sales	Net financial result x 100 / Sales revenues	11.2%	22.2%	50.5%
Return on Assets (ROA)	Net financial result x 100 / Total assets	7.0%	15.3%	45.8%
Return on Equity (ROE)	Net financial result x 100 / Equity	11.5%	24.7%	46.6%

Analysis of profitability ratios indicates a lower efficiency of the Group's performance in 2012 caused by the economic slowdown resulting in a decrease in unit prices of coking coal and coke and lower income from sales of coal and coke.

EBITDA for 2012 was PLN 2,374.8 million compared to PLN 3,552.8 million in 2011, down by 33.2%. EBITDA was generated in 55.1% from the operating profit while 44.9% came from depreciation. In 2011, these shares were 76.2% and 23.8%, respectively. The EBITDA margin for 2012 decreased by 11.0 percentage points from 37.9% in 2011 to 26.9% in 2012. On the other hand, in 2012 the EBIT margin was 14.8% which means that with respect to JSW S.A.'s core business, each PLN 1 million of revenues on sales generated approx. PLN 148 thousand in operating profit. Net sales profitability in 2012 was at the level of 11.2%, down by 11.0 percentage points from 2011. In 2012, the return on assets (ROA) and return on equity (ROE) ratios indicated a decrease, compared to 2011, in the efficiency of the Group's utilization of assets and equity.

3.2.6. Mining cash cost and conversion cost

The table below presents the mining cash cost and cash conversion cost in 2012 and in 2011.

	2012	2011[1] (restated data)	Growth rate
Mining cash cost (*in PLN millions*)*	4,760.8	4,651.1	102.4%
Mining cash cost (*in PLN/ton*)[2]	353.64	368.84	95.9%
Cash conversion cost (*in PLN millions*)	582.3	427.0	136.4%
Cash conversion cost (*in PLN/ton*)[3]	151.77	138.46	109.6%

(1) In connection with the restatement of data in the statement of comprehensive income for 2011, the Group updated its calculation of mining cash cost.
(2) To achieve greater accuracy, the value of mining cash cost per ton of coal was calculated based on values expressed in thousands of PLN and thousands of tons.
(3) Cash conversion cost taking into account KK Zabrze for H2 2011 but without taking into account WKZ Victoria.

The methodology of calculation and presentation of mining cash cost reflects the cost from the point of view of cash consumption regardless of the period in which it was incurred. The Group calculates mining cash cost by subtracting costs not directly associated with the production of coal and costs not permanently affecting the Group's financial flows from all costs incurred in the period.

Mining cash cost in 2012 stood at PLN 4,760.8 million, i.e. was PLN 109.7 million (2.4%) higher than in 2011. The increase in mining cash cost was caused primarily by the following factors:

- increase in personnel costs,
- increase in costs of third party services, including mostly:

- drilling and mining services, among other reasons due to a 1,840 m increase in the length of mined pits requiring additional drilling and mining services and a greater number of reconstructions,
- other services, including coal dumping services, services related to the prevention and elimination of threats, IT services and costs of tests, approvals and measurements,
- overhaul services,

- increase in costs of consumption of materials and energy, mainly due to an increase in heading works, a greater length of reconstructions by 1,634 m and an increase in unit fees for electricity, heat and cooling.

On a stand-alone basis, mining cash cost in 2012 was PLN 353.64 per ton, i.e. 4.1% higher than in 2011 as a result of both a nominal increase in expenditures on coal production by 2.4% and a greater production of coal in 2012 by 7.1%.

Cash conversion cost is a measure calculated as the sum of costs by type net of the cost of coal feedstock (including the cost of transporting the feedstock) and cost of sales net of depreciation attributable to cost of sales. Unit cash conversion cost is calculated as the value of this measure divided by the volume of coke production available for sale. The increase in cash conversion cost was affected primarily by events related to the merger of KK Zabrze and WZK Victoria into the Group. The increase in unit cash conversion cost for 2012 compared to 2011 by 9.6% results from taking into account in the calculation for 2012 of the costs of KK Zabrze and WZK Victoria, whereas in 2011 the value of cash conversion cost captured the results of KK Zabrze only for the period from 1 July 2011 to 30 December 2011.

3.3. Proceeds from securities issues

In 2012, the Parent Company did not issue any securities and thus did not receive any proceeds from securities issues. Furthermore, JSW S.A. did not receive any proceeds from the sale of shares by the State Treasury under the public offering of shares sold in 2011.

During 2012, SEJ (a JSW S.A. subsidiary) issued intra-group bonds for the total amount of PLN 10.0 million. All these bonds were acquired by the Parent Company. Cash obtained from these bonds was used for general corporate purposes in accordance with the issue plan.

3.4. Evaluation of factors and unusual events affecting the Group’s operations and result

The Group's operations and results are influenced by several external factors, including primarily demand for and supply of coal as well as its market prices, FX rates and costs of production (such as costs of employee benefits, consumption of materials and energy and costs of third party services). There also exist other specific factors which in the Group's opinion affected the operating results in the past and which according to the Group's predictions may influence its results in the coming years.

The Group’s results were affected primarily by external factors such as:

- global processes taking place in the global economy,
- downturn in the coal and steel markets,
- decline in demand for the Group’s core products, i.e. coking coal, steam coal and coke,
- decrease in market prices,
- increase in coal and coke inventories,
- foreign exchange rates,
- costs directly affecting the Group’s production, such as consumption of materials and energy, costs of third party services and employee benefits.

In the period under discussion, a significant factor affecting the Group’s result is related to the settlement of two legal disputes of material importance. One of them concerns tax proceedings conducted alternately by the Mayor of DąbrowaGórnicza, the Local Government Board of Appeals in Katowice and the Voivodship Administrative Court in Gliwice in the matter of property tax on coking batteries in which KoksowniaPrzyjaźń received a positive ruling. The tax authority of second instance issued a decision acknowledging correctness of the methodology applied by KoksowniaPrzyjaźń in calculating tax on coking batteries, following which in Q3 2012 the PLN 21.2 million provision for property tax was dissolved. Another factor is related to the delivery of the judgment by the Court of Arbitration at the Polish Chamber of Commerce in Warsaw in the case between KombinatKoksochemiczny Zabrze S.A. and Zarmen regarding construction works, as a result of which the financial result of KombinatKoksochemiczny Zabrze S.A. was burdened with a liability of PLN 31.8 million.

The main determinants affecting the mines' production capacity include the following:

- difficult conditions of conducting mining operations; mining work is performed at large depths frequently exceeding 1,000 meters and the tectonics of the deposits is complex,
- natural hazards which are inherent to such conditions, including in particular hazards related to methane, outbursts, crumps and climate,
- priority of ensuring safe work conditions in JSW S.A.'s mines which is reflected in the application of comprehensive actions and prophylactic work aiming at reducing risks associated with the occurrence of natural threats.

The scale of current and expected difficulties is much greater than it was foreseen 5-10 years ago.

In 2012, the volumes of production in the Group's distinct mines were different, depending on the encountered difficulties associated with natural hazards and mining and geological conditions in the areas of operation and preparation for mining. Production shortages in some of the mines were more than offset by surplus production in the Group's other mines. Furthermore, in October 2012, a 24-hour strike organized by the trade unions was held, reducing the volume of production by 53 thousand tons and generating estimated losses of approximately PLN 17 million.

3.5. Transactions with related entities

In 2012, the Parent Company and its subsidiaries did not enter into any individually or jointly significant transactions with related entities out of compliance with the arm's length principle.

Detailed information on JSW S.A.'s transactions with related entities is presented in Note 37 to the Consolidated Financial Statements of the JastrzębskaSpółkaWęglowa S.A. Capital Group for the financial year ended 31 December 2012.

3.6. Information on executed and terminated loan agreements

In the period covered by this report, the Group entered into the following loan agreements:

- investment loan agreement for PLN 73.6 million maturing on 30 June 2017,
- current account overdraft agreement for PLN 780 million maturing on 24 June 2013.

The interest rate of the above loans is based on the WIBOR 1M/WIBOR 3M reference rate.

The Group's total liabilities on account of loans and advances as at the end of 2012 amount to PLN 265.6 million, including investment liabilities of PLN 260.9 million and working capital liabilities of PLN 4.7 million. Furthermore, according to the signed contracts as at 31 December 2012, the Group had unused overdraft and working capital loan limits in the total amount of PLN 200.2 million (in 2011: PLN 252.5 million).

3.7. Information on granted loans and sureties and received sureties and guarantees

As at the last day of the reporting period, the Group had the following open bank guarantees:

- for the amount of PLN 3.0 million valid until 31 December 2013 for general collateral for tax liabilities which have arisen or may arise on account of excise tax,
- for PLN 2.6 million valid until 30 August 2013 in favor of the Head of the Customs Office in Rybnik, guaranteeing the repayment of liability on account of deferred excise tax,

- guarantees for the total amount of PLN 4.3 million constituting collateral for repayment of loans obtained from the Voivodship Fund for Environmental Protection and Water Management in Katowice,
- for PLN 1.0 million valid until 4 September 2013 for repayment of contractual obligations.

Moreover, as at 31 December 2012, the Group had three open insurance guarantees for the total amount of EUR 15.0 million, granted at the request of a Group company to secure proper performance of contracts, with the term of validity of the longest guarantee expiring on 31 March 2017.

Still open is a surety granted in 1990 by the Krupiński mine for up to PLN 0.3 million to secure a bank loan taken by GórniczaSpółdzielniaMieszkaniowa [Miners' Housing Cooperative], maturing in 2030.

3.8. Description of the structure of key equity investments or key investments made within the Capital Group during the financial year

Changes in the Capital Group's structure which took place during 2012 and capital investments made to that effect are described in Item 1.1.3 of this report. Furthermore, in 2012 one of the Capital Group companies, i.e. SEJ, issued corporate bonds with a total value of PLN 10.0 million which were subscribed for exclusively by the Parent Company.

3.9. Differences between the financial results captured in the annual report and the previously published forecasts of results for the reporting year

In the Management Board report on the activity of the JastrzębskaSpółkaWęglowa S.A. Capital Group for the financial year ended 31 December 2011, Item 3.2 "Information about the Group's current and expected financial standing" presents the main assumptions of the Group's Plan for 2012. The basic assumptions of the Plan for 2012 and their implementation are presented in the following table.

	2012 actuals	**2012 plan**	**Growth rate**
Production of coal (*in thousands of tons*)	13,462.4	13,303.0	101.2%
Coking coal (*in thousands of tons*)	9,469.2	9,675.1	97.9%
Share of coking coal	70.3%	72.7%	- 2.4 p.p.
Steam coal (*in thousands of tons*)	3,993.2	3,627.9	110.1%
Production of coke (*in thousands of tons*)	3,849.4	3,540.0	108.7%
Expenditures on non-current assets (*in PLN millions*)	1,816.7	1,671.1	108.7%
Headcount – as at 31 December	29,718	30,053	98.9%

In 2012, JSW S.A.'s mines produced 13,462.4 thousand tons of coal, including 9,469.2 thousand tons of coking coal, representing 70.3% of total production. In terms of net production of coal, 101.2% of the volume assumed in the Plan was achieved, with a surplus of 159.4 thousand tons. The structure of coal production was adjusted to demand and customer expectations.

The Group produced 3,849.4 thousand tons of coke, up by 309.4 thousand tons in relation to the Plan for 2012. The difference was mainly due to the 2012 Plan's failure to take into account WZK Victoria's production of coke.

In 2012, the Group incurred capital expenditures the amount of PLN 1,816.7 million, i.e. PLN 145.6 million (8.7%) more than had been planned. This large amount of capital expenditures in relation to the Plan for 2012 was the result of inclusion of capital expenditures incurred by WZK Victoria and PEC. Because both these companies were merged into the Group only in Q4 2011, these items were not included in the Plan for 2012. Furthermore, the Parent Company incurred capital expenditures greater than assumed in the Plan – their value amounted to PLN 1,467.6 million.

The scope of capital expenditures in 2012 demonstrated a strong commitment to the execution of the Group's capital expenditures program whose main objectives are:

- opening new resources through the implementation of horizontal and vertical expansion of the mines,
- maintaining the current production capacity of the mines,
- reducing labor intensity and downtime ratios through purchases of modern machinery and equipment,
- improving occupational health and safety conditions,
- improving the quality of coal and adjusting production levels to customer needs through the modernization of key process units in the mines' processing plants,
- modernization of coking batteries,
- execution of environmental protection projects.

As at 31 December 2012, the Group's headcount stood at 29,718 persons, i.e. 335 persons fewer than planned. The assumptions made in the employment policy provided for replenishment of the headcount in numbers sufficient to fill in vacancies resulting from employee attrition due to retirement or disability. The fill-ins included the hiring of graduates of mining schools.

3.10. Financial instruments

Information on financial instruments with respect to eliminating the price changes risk, credit risk, risk of significant cash flow disruptions and risk of loss of financial liquidity

Credit risk is identified mainly with respect to trade receivables associated with the reliability of buyers. Internal changes in the Group's trading policy with respect to the sale of coke, causing shifts in sales from related entities (coking plants and PolskiKoks S.A.) to JSW S.A. remained without a significant impact on the Group's credit risk. The ArcelorMittal Group and companies controlled by the State Treasury continue to be the dominant buyers, their receivables accounting for 36.2% and 12.4%, respectively, of total trade receivables as at 31 December 2012. The risk of overdue receivables is mitigated by: insuring part of trade receivables in insurance companies, collateralizing liabilities with blank promissory notes, providing guarantees granted by entities with an established market position, assigning receivables or letters of credit. In addition, in justified cases, sales are executed after the counterparty makes a prepayment.

On an ongoing basis, the Group monitors risks associated with cash flow disruptions and risk of loss of liquidity. In order to minimize such risks, the Group maintains funds at a safe level enabling it to service its current liabilities. Moreover, the Group has access to credit facilities in the form of current account overdrafts to support its liquidity management needs. The Group invests uncommitted cash in banks with an established market position.

As part of its foreign exchange risk management, in 2012 the Group used foreign exchange forward contracts and multi-currency loans. The purpose of such transactions was to secure the Group's cash flows against foreign exchange risk emerging in the course of commercial activity.

Financial risk management objectives and methods in JSW S.A.

In 2012, each Capital Group company which was exposed to foreign exchange risk conducted its own policy in this area. In December 2012, the Group completed work related to unification of its foreign exchange risk management principles and procedures. The result was the formulation of the JSW Capital Group Foreign Exchange Risk Management Policy which entered into force on 1 January 2013. The objective of the Policy is, among others, to define the rules for foreign exchange risk management, in particular the rules for identification, quantification, monitoring and reporting foreign exchange risk, which in turn should lead to limiting the adverse effect of foreign exchange risk factors on cash flows and the Group's economic result.

In the Group, derivatives are carried at fair value. For record-keeping purposes, the Group uses bank valuations. The Group does not apply hedge accounting.

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

3.11. Pro forma financial information

Presented below is pro forma financial information encompassing the consolidated statement of comprehensive income of the JSW S.A. Capital Group and the KK Zabrze S.A. Capital Group, WZK Victoria and PEC. These data were prepared in accordance with the accounting policy adopted by the Group and described in the Consolidated Financial Statements of the JastrzębskaSpółkaWęglowa S.A. Capital Group for the financial year ended 31 December 2012. The consolidated pro forma statement of comprehensive income was not subject to the obligation of audit and is only attached for the purpose of presenting the Group's hypothetical results if the KK Zabrze S.A. Group, WZK Victoria and PEC were part of the Group as at 1 January 2011.

The pro forma financial information was prepared for illustration purposes only and by definition presents merely a hypothetical situation.

The following table presents the Group's consolidated pro forma statement of comprehensive income for 2011. This statement does not take into account the consequences of valuation of the employee share ownership plan in the amount of PLN 293 million which was a non-recurring event not affecting the Group's cash flows.

	2011 (restated data)					
	Unadjusted financial information	**Pro forma adjustments**				**Pro forma infor-mation**
	Group[(1)]	**KK Zabrze Group[(2)]**	**WZK Victoria[(3)]**	**PEC[(3)]**	**Other adjust-ments[(4)]**	**Group**
Sales revenues	9,376.8	756.3	811.6	160.0	(517.5)	10,587.2
Cost of products, materials and merchandise sold	(5,967.1)	(655.4)	(699.8)	(143.5)	527.4	(6,938.4)
Gross sales profit	**3,409.7**	**100.9**	**111.8**	**16.5**	**9.9**	**3,648.8**
Cost of sales	(272.2)	(16.7)	(11.6)	-	-	(300.5)
Administrative costs	(508.9)	(17.5)	(17.1)	(9.0)	-	(552.5)
Other income	49.4	1.9	0.5	1.3	-	53.1
Revenues on account of disputed property tax on underground mine workings	359.7	-	-	-	-	359.7
Other costs	(48.8)	(1.2)	(0.7)	(1.6)	-	(52.3)
Other net gains/losses	12.6	(0.2)	2.3	0.7	-	15.4
Operating profit	**3,001.5**	**67.2**	**85.2**	**7.9**	**9.9**	**3,171.7**
Financial income	118.1	0.9	0.2	0.6	-	119.8
Financial costs	(152.7)	(5.8)	(4.9)	(0.1)	-	(163.5)
Share in profits of affiliates	1.1	-	-	-		1.1
Pre-tax profit	**2,968.0**	**62.3**	**80.5**	**8.4**	**9.9**	**3,129.1**
Income tax	(589.0)	(11.8)	(15.4)	(2.2)	(1.9)	(620.3)
Net profit	**2,379.0**	**50.5**	**65.1**	**6.2**	**8.0**	**2,508.8**
Other comprehensive income:						
Actuarial profit/(loss)	24.1	-	(0.3)	(0.2)	-	23.6
Deferred tax	(4.6)	-	0.1	-	-	(4.5)
Total other comprehensive income	**19.5**	**-**	**(0.2)**	**(0.2)**	**-**	**19.1**
Total comprehensive income	**2,398.5**	**50.5**	**64.9**	**6.0**	**8.0**	**2,527.9**

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

	2011 (restated data)					
	Unadjusted financial information	**Pro forma adjustments**				**Pro forma information**
	Group[1]	**KK Zabrze Group[2]**	**WZK Victoria[3]**	**PEC[3]**	**Other adjust-ments[4]**	**Group**
Net profit attributable to:						
- shareholders of the Parent Company	2,360.1	-	-	-	-	2,471.6
- non-controlling stakes	18.9	-	-	-	-	37.2
Comprehensive income attributable to:						
- shareholders of the Parent Company	2,379.6	-	-	-	-	2,490.8
- non-controlling stakes	18.9	-	-	-	-	37.1
Basic/diluted profit per share attributable to shareholders of the Parent Company (*in PLN per share*) [4]	20.84	-	-	-	-	21.24
Net return on sales	25.4%	6.7%	8.0%	3.9%	-	23.7%

[1] The Group's financial data are based on the consolidated financial statements without taking into account the effects of valuation of the employee share ownership plan.
[2] The KK Zabrze Group's financial data are based on the Interim Consolidated Financial Statements of KK Zabrze for H1 2011.
[3] The financial data of WZK Victoria and PEC are based on their annual pro forma financial statements.
[4] Other adjustments present elimination of revenues and costs resulting from transactions between the Group and the acquired companies.
- In the period from 1 January to 30 June 2011, the KK Zabrze Group purchased coal worth PLN 299.7 million from the Group. In addition, the costs were adjusted by PLN 10.9 million on account of realization of unrealized profit captured in inventories in the previous period with the relevant adjustment of deferred tax in the amount of PLN 2.1 million.
- In the period from 1 January to 31 December 2011, WZK Victoria purchased coal and fine coke worth PLN 185.8 million from the Group. In addition, the costs were adjusted by PLN 1.0 million on account of elimination of the change of balance of unrealized profit captured in inventories with the relevant adjustment of deferred tax in the amount of PLN 0.2 million.
- In the period from 1 January to 31 December 2011, PEC purchased heat worth PLN 31.7 million from the Group and charged the Group with the amount of PLN 0.3 million, mostly for providing access to the heating grid.

[5] The weighted average number of shares calculated for the purposes of calculation of basic/diluted pro forma profit per share is 116,380,389, including 6,404,110 shares which were issued under the KK Zabrze transaction.

3.12. Important events having material influence on the Capital Group's activity and financial results in the financial year or whose impact is possible in the next years

The Capital Group's operations and financial results are influenced by factors directly related to its core business:

- black coal mining and sale,
- production and sale of coke and coal derivatives,
- generation, transmission and distribution of electricity.

The events having material influence on the Group's activity and financial results which occurred in the financial year are described in detail in Item 3.4 of this report. In addition, the following should be mentioned amongst the events influencing the Group's activity in the next years:

- further decline in demand for coke and coal derivatives,
- large expenditures on modernization of coking batteries and other equipment and machinery of coke plants,
- tightening requirements related to environmental protection, energy law and excise tax,
- reduction of CO_2 emission limits for Poland,
- increase in costs of electricity generation.

4. OTHER INFORMATION

4.1. Risk factors and threats

The Capital Group in exposed to various risks in every area of its activity. Actions taken in the main area of activity, on account of the highly risky and volatile mining and geological conditions (underground conditions for mining deposits), entail extensive risk. The changing legal regulations concerning the mining of deposits and environmental protection, tax regulations and their interpretation constitute a risk of additional financial requirements being implemented on the Parent Company and the Group.

In 2012, the Parent Company took a number of steps to modify and develop the existing Corporate Risk Management System. As a result of the this work, proposals for comprehensive risk management solutions were developed, based on the practice of COSO, FERMA and ISO systems, while taking into account the high requirements of JSW S.A. and the specific nature of its operations. As a result of this work, the Corporate Risk Management Policy and Procedures were approved by the JSW S.A. Management Board in December 2012 and implemented and adopted for use in January 2013. These documents are a comprehensive description of a formal corporate risk management system that meets the highest risk management standards. The purpose of this system is to:

- identify the potential events that may have an adverse effect on the Parent Company,
- keep risk within the specified limits, and
- ensure the achievement of business objectives in a reasonable manner

Risk management is a continuous process. The Group's quickly changing economic environment forces it to revise and update the list of risks continuously.

In 2012, the Management Board established, within the organizational structures of JSW S.A., the position of a Representative for Risk Management, fully dedicated to the coordination of tasks related to the Corporate Risk Management System. Within the scope of his tasks, acting together with risk owners, the Representative manages risks acting on the basis of the mentioned procedures and policy. Among others, he analyzes the existing risk-mitigating control mechanisms, the rules for measuring exposures to respective risks and develops recommendations for the current risk response plans.

Risks have been presented below where if they ever occur they may exert a material and adverse impact on the Group’s operations, its results and financial position, causing a decline in value and share price. Additional risk factors which are unknown at present or which are currently believed to be immaterial may also exert a material and adverse impact on the Group’s operations, its financial position and operating results.

The following risk factors are among the risk factors to which the Capital Group is exposed and to which special attention is drawn:

4.1.1. Factors related to the Group’s business and market environment

Market risk is managed to mitigate the impact of undesirable effect of changes in market risk factors on cash flows and on financial results. The key market risks and risks related to the business operations include:

Global economic situation

Economic growth determines the situation on the markets for coal, coke and steel. Unequal levels of global GDP and a universal economic slowdown, especially in Europe where financial problems of the Euro zone, mainly in Greece, Span and Portugal were an additional hindrance in the crisis fighting process, reduced the production of steel. In 2012, steel production in European Union states declined 4.7% from the preceding year. As a result of that situation, demand for raw materials used to produce steel and coke, i.e. coke and coking coal, respectively, decreased. The year 2012 was very difficult for coke production because of the lower consumption of coke by the blast furnace steel industry. Out of the 74 blast furnaces installed in Europe, 20 were down and only about 75% of the production capacity was utilized.

Excess supply of coal and coke on the European Union market

In the last decade, the growing global coal market and the increasing demand for coal throughout the work drew new investors to the coal industry. Many new mines were created and the existing ones were expanded, thus increasing the global production capacity. The global production of coal grew very dynamically, from 4.6 billion tons in 2000 to 7.8 billion tons in 2011. Moreover, the coal price growth which has taken place from the outset of 2003 has enticed new and existing international coal producers to expand their production capacities.
The excess coal and coke supply on global markets and the domestic market may lead to a considerable decline in coal and coke prices and may exert a material and adverse impact on the Group's operations, performance and financial position.
During the current economic slowdown, where new selling markets are sought, product prices reduced or coal or coke inventories placed in storage sites, the Group was quite significantly affected by this risk in 2012. In 2012, coal inventories rose by 684.0 thousand tons compared to the previous year.
Also, coke sales were affected by the declining steel production in European Union states. The declining demand for coke on the European market was noticeable especially in Q4 2012, where steel production was lower and steel manufacturers suspended their orders, waiting for the market to react to China's expected alignment with World Trade Organization's recommendations on abolishing restrictions in raw materials trading. As a result of this situation, the utilization of production capacity of coking plants dropped and coke inventories increased.

Sales to a relatively small number of major customers from the European Union and a considerable downturn in market conditions in the European economy, decline of coal consumption among the Group's customers in this region or the inability to obtain payment from them

The considerable downturn in market conditions in the European economy, especially in the steel and coke industries may have a material and adverse impact on the Group's operations, its results and financial position. Furthermore, if one or more of the Group's major buyers cuts back on the volume of coal or coke purchased or fails to extend supply contracts, this could have a material and adverse impact on the Group's operations, its results and financial position. Moreover, timely payments hinge upon many factors beyond the Group's control.
Revenues on sales of the Group's products to five of its Coal and Coke segment customers in 2012 expressed as a percentage of total revenues on sales are described in Item 2.3 of this report.

Decline or volatility of coal and coke prices

The major driver of domestic and international coal and coke prices and its consumption are the overall supply and demand for these products. Demand for the Group's key products may be subject to the influences of global economic cycles, political events, force majeure and hinges on the level of demand for coking coal and coke in the metallurgical and coking industry. Price volatility exerts a direct impact on the Group's operating and financial results.
In the past the Group has undergone material volatility of coking coal prices and the Company is convinced that there is a probability that such volatility will also occur in the future.
The global economic slowdown was reflected in a drastic decline in benchmark prices for hard coking coal, where the price declined continuously from 330 USD/t in Q2 2011 to 170 USD/t in Q4 2012 (-160 USD/t; -48.5%). The Group, which is the leading producer of hard coal in Europe, was seriously affected by this drop. As a result, its average external coal selling price in 2012 was 14.1% less than in 2011.

The average FCA-based price of coke in 2012 was 19.0% less than in 2011. The market trends and the extent of the drop of prices earned by JSW S.A. were comparable to the quoted prices of coke on the European market (according to the Coke Market Report).

Operational risks that may contribute to lower output or higher costs of coal production

The Group's coal production volume is subject to operational determinants and events beyond its control, which may disrupt its operations and affect the production volumes in the various mines in different periods. The Group's mining activity is above all subject to the influence exerted by mining determinants, which include among others:

- difficult geological conditions such as disruptions to the continuity of deposits characterized by volatility and irregularity that may curtail the effectiveness of mining longwall parcels to a greater extent than anticipated;
- level of natural hazards higher than forecast which may lessen the ability to mine individual longwalls;
- mine accidents, fires, explosions and methane combustion, coal dust explosions, methane and rock outbursts and rock falls and collapses;
- failures of machinery and equipment used in mining and processing.

Even though the Group has taken a multitude of measures to enhance safety these risks may grow in particular in conjunction with mining at deeper levels in the Group's mines.

Moreover, the events and determinants that may affect production volume and in particular cost growth should include changes to the legal regulations concerning the coal industry.
A new geology and mining law is in force as of 1 January 2012. At present, work is in progress on the executive regulations to this law. The regulations governing coal mining in the face of natural hazards are expected to become more stringent. In truth, the Group undertook advance measures to make it possible to achieve the assumed level of output but it will be difficult to assess their impact on the Group's mines' production capacities and mining costs until the final wording of the regulations is published.

The quantity and quality of coal mined by the Group may be lower than customers expect

Estimates concerning coal resources inevitably entail a certain amount of uncertainty and to some extent depend on the geological criteria used, coal prices, cost assumptions and statistical data, which may ultimately prove to be imprecise. As a result, estimates concerning coal resources are regularly checked on the basis of the development of current production or other new information; as a result, one should expect that they will change. If the Group's actual resources prove to be lower than current estimates, this may adversely affect the Group's operations, operating results and financial position.

The quantity and quality of coke produced by the Group may be lower than customers expect
Production capacities of the coking batteries may be affected by a number of factors remaining outside of the Group's control. These forecasts inevitably contain some level of uncertainty and to this extent they rely on economic and technical assumptions made, which in the end may prove to be imprecise. As a result, estimates concerning coke production are regularly checked on the basis of new information; as a result, one should expect that they may change. If the actual coke production capacity by the Group is lower than the current estimates then this may adversely affect the Group's outlook and value and its operations, performance and financial standing.
Due to the economic slowdown in 2012, the Group used about 75% of the production capacity of its coking plants.

Ability to operate existing resources, acquire them and utilize economically attractive coal resources at a competitive cost

Resources may not be available when they are needed or if they are available their extraction at a competitive cost in a given period may not be plausible. The Group may not be able to assess the geological structure of deposits precisely in forward-looking regions, which may adversely affect its profitability and financial position if this assessment proves to be erroneous. Moreover, the investment, acquisition and exploration projects planned by the Group may not provide additional material resources or the operation of these resources may not be profitable.

Group's inability to execute development projects or delays in their execution

Since the coal resources held by the Group are depleted as they are used, the Group's ability to achieve the planned level of production in the long-term partially depends on its ability to acquire and operate new coal resources fit for extraction from an economic point of view, and its ability to develop new and expand existing extraction activity. The Group's ability to acquire additional resources in the future may be curtailed by a host of factors over which the Group has no control. The Group's inability to complete investment projects according to plan may exert a material and adverse impact on the Group's development, operations, results and financial standing.

Successful integration of newly-acquired companies in the Group

All the acquisitions, joint ventures and investments in minority stakes conducted may involve significant capital investments, a new issue of shares or drawing down considerable obligations. As a consequence, the execution of these projects may lead to an emergence of a number of additional unfavorable circumstances, including problems with effective integration of operations, elevated operating expenses, exposure to unexpected liability and difficulties with attaining the projected levels of efficiency, synergy and cost savings. Each one of the issues discussed above may exert a significant and adverse impact on the Group's results and financial position.

Employee relations may adversely affect Group's operations

In the hard coal sector, trade unions have an important role in shaping the salary policy, often using protests to renegotiate the salary policy.

The strong position of trade unions gives rise to a situation in which there exists a risk of increasing salaries under the negotiated salary agreements, which consequently may adversely affect the financial performance of the Group. The Group's failure to maintain proper employee relations may exert a material and adverse impact on the Group's operational outlook, results and financial position.

As at the date of this report, there were 38 Trade Union Organizations operating in the Parent Company. The total number of trade union members, as employees may belong to several unions, exceeds the number of employees employed with JSW S.A. and as at 31 December 2012 is 27 068, which means that the trade union membership percentage ratio at JSW S.A. is 119.4%.

The Parent Company aims at negotiating with the trade units a Company Collective Bargaining Agreement for JSW S.A. employees and the Labor Rules and Regulations. During the negotiations on the Collective Bargaining Agreement and consultations about the Labor Rules and Regulations, the trade unions did not accept the proposals included in the draft Collective Bargaining Agreement and draft Labor Rules and Regulations presented by the Management Board of JSW S.A. The Parent Company intends to continue the negotiations of the Collective Bargaining Agreement for JSW S.A. employees and the Labor Rules and Regulations.

The Parent Company is considering the implementation of flexible work time to facilitate the achievement of the mines' production targets by extending the work week to six days depending on the needs of the particular mines. This requires acceptance of the trade unions and the hiring of additional employees. During negotiations the trade unions did not consent to the solution proposed by the Management Board of JSW S.A. whereby mines would operate to pursue their production targets six days a week – while employees would have a five day work week.

Collective disputes with employees may disrupt the Group's operations

In the hard coal mining sector trade unions occupy a significant position symbolized among others by the ability to engage in protests, including collective disputes. The position held by trade unions is particularly strong on account of the headcount in the sector and its strategic influence over the functioning of the economy. In addition, trade unions' expectations are based on the terms and conditions obtained by employees of other companies undergoing privatization.

Over the most recent financial year there were two collective disputes in the Parent Company that were described in Item 4.7 of this report.

Despite the agreement signed with the Inter-Union Protest and Strike Committee on a 3.4% basic salary rate increase in 2012 and despite the accepted salary growth plan for Parent Company's employees in 2013-2015, collective disputes may still take place in the future. The possible protests or strikes organized by the trade unions operating in the Parent Company may affect the policies or procedures existing in JSW S.A. which in turn may have a material adverse effect on the Group's prospects, performance and financial standing.

Volatility of PLN and other foreign currencies with respect to the EUR and USD

The Group's main products are usually priced in PLN, EUR, USD and CZK, while its operating expenses, including employee benefits, the consumption of materials, energy and external services are predominantly incurred in PLN. Other costs and expenditures for investment purchases are incurred in PLN, EUR and USD. Having regard for the structure of the Group's sales revenues and expenses, the strengthening of the PLN against the EUR or USD may cause the Group's revenues to fall and as a result may lead to a lower operating result. According to data published by the National Bank of Poland (NBP), the PLN appreciated against the EUR at the end of 2012 compared to the beginning of the year by about 8.4%, and against the USD by 10.0%. As a result, PLN volatility against the EUR or USD may affect the Group's operations, its financial position and operating results.

The Group is exposed to a significant foreign exchange risk associated with the sales of products to domestic and international markets. To eliminate FX risk, in 2012 the Group entered into FX forwards. The Group also buys materials, services and investment goods in foreign currencies. This curtails the FX volatility risk resulting from selling products in a natural way.

The prospective impact exerted by EUR/PLN exchange rate growth and decline has been depicted in Note 3.1 to the consolidated financial statements of the JastrzębskaSpółkaWęglowa S.A. Capital Group for the financial year ended 31 December 2012. Changes in exchange rates of currencies other than EUR do not have a material impact on the Group's net profit.

Cash flow volatility risk caused by changes in interest rates

The Group is exposed to the risk of changing cash flows caused by changing interest rates. The risk results primarily from the fact that the value of certain assets and liabilities may change as a result of changes in market interest rates.
In 2012, the Group invested its available cash in financial assets bearing interest on the basis of floating interest rates, but also used external financing. In the case of loans, the risk of changing interest rates was associated mainly with the volatility of the WIBOR 1M reference rate, on which most of the applicable interest rates are based. At the same time, the Group held bank deposits earning interest at floating and fixed interest rates.
The risk of changing cash flows is therefore related to the volatility of interest rates on cash held and on external financing.
The Group does not use derivatives to hedge against interest rate risk.

Issues related to local communities

The Group's business activity may prompt disputes with local communities concerning the areas where the Group conducts or intends to conduct its operations. These issues may in turn lead to protests in these communities or third party claims. The inability to reach a positive solution to issues related to local communities may exert a material and adverse impact in the future on the Group's operations, financial position and operating results.

4.1.2. Risk factors associated with the legal environment

Difficulty in obtaining or renewing licenses and concluding mining usufruct contracts within the required deadlines

The Group's key business relies on the effective power of its licenses, its compliance with the terms of those licenses and its capacity to obtain new licenses. Granting of a new mining license or extension of a current license requires certain requirements prescribed by the law to be met. The granting or extension of a license may be refused if the intended activity violates environmental requirements, is contrary to purpose of the real property or is a threat to its safety or is a threat to defense and security of the state or its citizens. The Group consults with local government bodies regarding the opening of coal resources in deposits adjacent to the mines. A mining license is granted based on a local zoning plan and if there is no zoning plan – based on the study of zoning conditions and directions. New licenses may be obtained on certain conditions, which include changes to local zoning plans which allow for the possibility of coal mining. Life expectancy of mines may be reduced significantly if new deposits are not opened.

If the Group's licenses are canceled or if new licenses or extensions are not granted to the Group, the Group may be unable to fully utilize its identified mineral deposits, which may have a material adverse effect on the Group's performance and business outlook.

The Group may be subject to a higher excise tax on coal gas and coking gas after 31 October 2013

Pursuant to Directive 2003/96/EC, coal gas and coking gas classified in the combined nomenclature under code CN 2705 are also subject to excise tax. At the same time, this directive gives the power to implement a total or partial exemption or discount on the level of taxation applied to the products under code CN 2705 (including coking gas and coal gas) under the condition that they are used for heating purposes. The excise tax law contemplates an exemption from excise tax for other gaseous fuels for the duration of the natural gas exemption, i.e. until 31 October 2013 or until the time when the percentage of natural gas in energy consumption in Poland reaches 25%. On 30 January 2013, a draft act amending the excise tax act was published. In the coming months, interministerial agreements and consultations will take place in which the final wording of the new regulations governing the taxation of gas with excise tax will be adopted. The proposed wording of the regulations contain numerous exclusions, e.g. use for heating purposes in the electricity generation process and for co-generation of heat and electricity, which applies to the methane drainage gas sold by the Group. In light of the above, the risk of excise tax occurs only if the gas is sold for liquefaction, but the proposed wording shifts this risk to the buyer, raising the prices by the excise tax amount. Nevertheless, until the final wording of the regulations is determined, we cannot rule out that adverse changes are introduced potentially burdening the Group with the excise tax.

The Parent Company may be obligated to remedy mining damages or reclaim mining sites to a greater extent than planned

According to the Geological and Mining Law, the Group is obligated to repair mining damages and it may be obligated to reinstate land to its previous state from before commencing mining activity. Any and all changes to the law that would make these requirements more stringent may lead to higher costs of reclamation and repairing damages.

The Group may be forced to adjust its operations to the EU Climate Policy

One of the priorities of the European Union is to prevent climate change, among others through limiting the consumption of natural energy resources, introducing modern and efficient energy generation technologies, limiting carbon dioxide emissions, reducing energy consumption and increasing the importance of renewable energy generation. In order to achieve these objectives, the European Union has introduced a package under the name of “3x20% by 2020”. As the recent years has shown, the European Commission is very consistent in implementing these goals and it is highly probable that all the future decisions referring to those matters will make the binding standards of consumption, efficiency and quality of energy even more stringent.

Obligations relating to the requirement to increase consumption of energy from renewable sources

SEJ as a power utility producing and trading in electricity and selling electricity to end users is obliged to obtain and present for redemption to the President of the Energy Regulatory Authority (URE) certificates of electricity origin from renewable sources ("green certificates") or pay a substitution fee.

There is also a risk that the cost of obtaining such certificates or the amount of the substitution fee will increase in the years to come. Furthermore, failure to present such certificates for redemption to the President of the Energy Regulatory Authority or pay the substitution fee will result in the imposition of a fine on the company by the President of the Energy Regulatory Authority. This as a result may adversely affect the Group's activity, financial standing and performance.

The Group is a member of the community scheme for greenhouse gas emission allowance trading

KoksowniaPrzyjaźń, KK Zabrze and SEJ are participants of the community scheme for greenhouse gas emission allowance trading in connection with CO2 emissions.

The necessity to purchase the allowances at an auction, if any, or the necessity to execute projects aiming at reduction of emissions may have negative impact on the Group’s financial standing.

The Group will be forced to adapt its activity to the Industrial Emissions Directive

The Industrial Emissions Directive came into force on 6 January 2011. It defines the rules associated with integrated prevention and control of pollution associated with industrial activity and rules associated with reduction of air, water and soil emissions. The implementation deadline of the Industrial Emissions Directive elapses on 7 January 2013, which means that after elapse of this deadline industrial installations will have to satisfy the emission standards defined in the Industrial Emissions Directive.

The Group may be subject to more stringent environmental protection standards and legal regulations

The legal regulations applicable to the environment and the usage of natural resources are subject to constant change and the trend over the most recent years has been toward making the binding standards more stringent, which may exert an adverse impact on the Group's operations. Changes to the environmental protection law may force the Company to adapt to new requirements (e.g. adjusting the technologies used by the Group to curtail atmospheric emissions or changes to how waste is managed or water and sewage management), inclusive of obtaining new permits, or changes to the conditions of the current permits which may drive up the Group's operating expenses.

Introduction of chemical substances into trade by the Group entails the risk of failure to satisfy the legal requirements or change of the regulations pertaining to introduction of such substances in accordance with the REACH Regulation, which may cause financial burden to the Group in the form of additional expenditures, which may then have material negative influence on the Group's operations, financial standing and results.

The Group strives to limit risk by constantly overseeing environmental protection legal requirements and making the necessary investments to meet all environmental requirements. These actions create great opportunities to lower the level of risk and the costs of adaptation in the Group's environmental operations and to new conditions.

The Parent Company may be obligated to remit property tax on underground mine workings or equipment (facilities) located in underground mine workings

On 13 September 2011 the Constitutional Tribunal pronounced a judgment unambiguously precluding underground mine workings (tunnel costs) from property tax and making the tax on plant and facilities located in these underground mine workings dependent on their classification as structures within the meaning of Construction Law. In light of the judgment of the Constitutional Tribunal and the decisions made in all the cases pending before the Voivodship Administrative Court in Gliwice ("WSA Gliwice"), which were favorable to the Group, the only doubts are related to the taxation of property, plant and equipment located at the bottom of the mine (in underground workings) and the possibility that the Group may have a duty of paying liabilities for this. Nevertheless, the rationale for those decisions is challenged by the Local Government Appeal Court in Katowice Local Government Board of Appeals in Bielsko-Biała, which filed cassation complaints with the Supreme Court of Administration against all the judgments which were favorable to the Group.

On account of opinions according to which the infrastructure situated at the bottom of the mine in underground workings, just like underground mine workings (tunnel costs) should not be subject to property tax, the Group has not included this infrastructure in tax declarations since 2009.

In assessing the risk linked to the further court proceeding resulting in the possibility subjecting to taxation some of the property, plant and equipment located in these workings, the Group has revalued the liabilities and provisions recognized in the ledgers for prospective disputes with the Townships. Nevertheless, despite the favorable decisions made by WSA Gliwice and the judgment of the Constitutional Tribunal, the Townships continue the proceedings to enforce the funds under the issued tax decisions.

Implementation of a mineral tax

The Group's financial performance may deteriorate if additional new encumbrances (taxes, fees) are imposed on the extraction of coal.

The factor with significant effect on the Group's financial results is the financial risk described in Item 3.10 of this report.

4.2. Material factors relating to the Group's development

The overriding strategic objective of the JSW S.A. Capital Group is to maximize its value for Shareholders in the long-term by optimally utilizing the existing potential and implementing development projects.

Currently, the work is in progress on updating the Operating Strategy of the Capital Group for 2010-2020 which would involve moving its timeframe to years 2012-2030. The main objectives of the update include:

- setting development directions for the Group in individual areas,
- identifying the possible efficient scenarios for building the value of the Group,
- identifying synergies within business areas.

The Group plans to focus on the most profitable key investment projects, continue to implement cost optimizing activities, benefit from the synergy effects between business areas and improve the opportunities resulting from the economies of scale of our operations.

All the production, development, investment and commercial measures taken by the Group in the coal segment are focused on maintaining its leadership position in coking coal production in the long-term in Central and Eastern Europe. Poland is the only country in this part of Europe that holds significant resources of coking coal. In this context, profitable operations may be carried out for at least 60 years. The fundamental conditions for achieving this objective are as follows:

- procuring the right extraction capacities in mines,
- obtaining competitive costs of production.

The major determinant for these actions is rooted in the difficult conditions of conducting mining activity entailing:

- mining works at a significant depth frequently deeper than 1000 meters,
- complicated tectonics of deposits,
- presence of natural hazards, frequently in tandem, especially methane, rock outburst, coal bump and temperature hazards.

To provide for the Group's ability to function in the longer term it is necessary to continue actions to gain access to resources and to utilize new deposits to the appropriate extent and at the right pace. The Strategy calls for investments to be pursued in the long-term, while their financial outcomes will become visible in the more distant future. On account of the long period of investing in the mining industry, it is very important to commence investments with the appropriate lead time to guarantee timely execution.

In an effort to increase the Capital Group's value, action is taken to integrate the Capital Group's Coke Division. The purpose of this project is, among others, to optimize the trading and investment policies and to achieve synergy.

The activities of the Group in the power, renovation, transport and laboratory areas will focus on development of in-house infrastructure and resources base and satisfying the Group's needs using the aforementioned sources. Currently, the work associated with the development of partial strategies for the individual business areas (power, transport, laboratory and renovation).

In the process of consolidating non-core businesses, the Group completed the incorporation process of its subsidiaries: JSU with JastrzębskaAgencjaTurystyczną Sp. z o.o., as a result of which the Group now operates an insurance company named JastrzębskaSpółkaUbezpieczeniowaSpółka z ograniczonąodpowiedzialnością.

4.2.1. Description of events important for the Group's development

The following events should be mentioned as being of material importance for the Capital Group's development:

Integration Program

Execution of the "Integration Program" in the coking plants to deepen the integration through introduction of a new target coking segment operation model.

Pursuant to the decision adopted by the JSW S.A. Management Board on 14 December 2011 to introduce a personal union in certain Group companies, entailing joint management, as of 1 January 2012, the President of the Management Board of KoksowniaPrzyjaźń was appointed also to the position of the President of the Management Board of KK Zabrze.

Concessions obtained

On 21 June 2012 the Parent Company obtained a concession to mine hard coal and methane as an accompanying mineral in the Pawłowice 1 deposit until 31 December 2051. Coal in the Pawłowice 1 deposit will be mined through the Pniówek mine and will extend the life of the mine at least until 2051.

On 23 April 2012 the Parent Company obtained a concession to explore a hard coal deposit in the Pawłowice-Wschód area. This area is immediately adjacent to the Pawłowice 1 deposit. The testing work associated with surveying a new deposit are part of the actions to obtain new coal resources.

On 21 June 2012 the Parent Company obtained a decision from the Environmental Minister on the transfer of the concession in its favor to explore and survey natural gas and methane deposits from hard coal seams in the Ruptawa area. This area is immediately adjacent to the Bzie-Dębina 2-Zachód deposit.

On 22 January 2013 the Parent Company submitted an application to the Environmental Minister for a concession until 2030 to mine coal and methane through the Krupiński mine. The current concession expires at the end of 2015. After obtaining a new concession the mining area of the Krupiński mine will extend across the Suszec community and the cities of Orzesze and Żory with a surface area of 33.8 km2. It will be larger than the area covered by the current concession and will include land to the north and east of the current mining area.

The memorandum expired as of the end of June 2015. Obtaining a new concession will enable the Krupiński mine to utilize 10 coal seams in which the quantity of recoverable reserves (mineable) is estimated to be 48.8 million tons.

Merging of mines

On 1 January 2013, by the power of a decision made by the JSW S.A. Management Board, the Borynia-Zofiówka-Jastrzębie mine consisting of three integrated mines: Borynia, Zofiówka and Jas-Mos was formed. The mine merger process has been described in Item 1.3 of this report. Organizationally integrating these mines will make it possible to achieve synergies in the following scope:

- enhanced utilization of the deposit,
- enhanced utilization of production assets,
- greater opportunities to unify plant, machinery and materials,
- ability to coordinate employment policy,
- opportunities to share good design solutions as well as technical and organizational experience,
- headcount optimization in integrated organizational cells and gradual modification of the headcount structure as a result of natural attrition among employees working on the surface.

Moreover, integrating the systems for transporting winnings creates an opportunity to control the quantity and composition of the coal winnings funneled into the enrichment process in the various coal wash plants, thereby facilitating the achievement of the desired parameters in the coal offered for sale.

Modern technologies

The purchase of an automated longwall complex for the Pniówek mine will allow the mine to extract coal twice as fast, from walls with similar parameters; it is equipped with a two-line communication system and registers every event occurring in the wall ensuring appropriate reaction of the machinery and devices.

The completion and delivery, at WZK Victoria, of an investment project consisting of the installation of a cooling system and a system for removal of ammonia and hydrogen sulfide from coking gas, involving a comprehensive modernization of the Hydrocarbons Department.

This project resulted in the construction of one of the most modern systems for treatment of coking gas in Europe, producing coal derivatives of the highest quality. The project is co-financed by the European Union with funds of the European Regional Development Fund under the Infrastructure and Environment Program.

Group's Trading Procedure

In March 2012, in accordance with the JSW Group Commercial Procedure adopted by the JSW S.A. Management Board and the structuring of sales in the Group, implementation of the Schedule for Coke and Hydrocarbons Trading Integration in the JSW Group was commenced. In the existing contracts JSW S.A. steps in as the Seller and the Seller's rights and obligations in the contracts will be executed by PolskiKoks S.A. acting for and on behalf of JSW S.A. Accordingly, in 2012 commercial contracts were gradually transferred to JSW S.A. The key development direction in the trading policy is the implementation of a comprehensive management of product distribution within the Group.

Securing the customer chain

On 2 July 2012, a letter of intent was signed between the Group and ArcelorMittal Poland with a view to continue the long-lasting cooperation with respect to deliveries of coking coal, coke and coking gas and other products.

Other events

- Signing of the agreement to pursue shared economic and financial interest in accordance with the Code of the Capital Group, which involves mutual cooperation and joint agreement of the principles of financial settlements between JSW S.A., KoksowniaPrzyjaźń, KK Zabrze, WZK Victoria and PolskiKoks S.A. with respect to the supply of coking coal and coke.
- Implementation of the incentive bonus for employees who exceed their output and preparation work plans – as part of the incentive system.
- Implementation of task bonuses for employees (with the exception of trainees and the employees covered by the Management by Objectives program).
- Extension of the system for development of managerial competence and continuation of the "Young Talents" program.
- Implementation of the Information Security Management System in the Parent Company.

4.3. Description of the policy concerning the directions for the Capital Group's development

The Capital Group's development has been defined in the Operational Strategy for the JSW Capital Group in 2010-2020 as adopted by the JSW S.A. Management Board and as implemented in accordance with the Group's mission statement and vision.

Optimizing the usage of its resources and augmenting the synergies between the mining and coke segments in collaboration with the energy, logistics and laboratory areas will make it possible to expand its own resource and infrastructural base to satisfy the Group's needs while utilizing proprietary sources.

The strategic assumptions concerning the Capital Group's development primarily contemplate internal growth, obtaining the leadership position and diversifying its business model.

4.4. More important achievements in research and development

More important projects executed in the mine segment by the Parent Company

In 2012 the Parent Company conducted a number of projects to enhance its operational effectiveness. Work was conducted inhouse and in collaboration with external entities. The following should be mentioned among the more important projects executed in the mining segment by JSW S.A.:

1. Measures to enhance the effectiveness of methane drainage:

- under engagement from JSW S.A. the Barbara Experimental Mine of the Main Mining Industry Institute is performing an assignment entitled: Developing a concept for pre methane drainage from coal seams and analyzing the possibilities of using drainage roadways for operational methane drainage along with an assessment of the effectiveness of gas removal from a deposit in the conditions present in JSW S.A. Currently, a contract was completed for the Budryk Mine pertaining to the region of the B-10 longwall being designed in seam 401,
- based on the design prepared by the Barbara Experimental Mine of the Main Mining Industry Institute, the Krupiński Mine implemented a new solution in JSW S.A. to drain methane from the region of the longwall in operation, by constructing a drainage roadway for the B-11 longwall in seam 348. At present, the B-11 longwall is in the initial phase of operation and the results obtained to date in methane capture confirm that this method is effective.

2. The Pniówek Mine has employed for the first time in the Polish mining industry an automated longwall shearer to mine seams of small and medium thickness, making it possible to obtain substantially higher production than the results obtained to date in longwalls with similar parameters. This shearer was installed in longwall C-1 in seam 404/1 in the Pniówek Mine. Using this shearer has made it possible to reduce the number of employees in the highest risk area, to automate production, to monitor the number of employees working in the longwall region and to observe the required safety standards in very difficult mining and geological conditions present in the region of operating the C-1 longwall. At present, this shearer is being prepared to be transferred to the C-2 longwall.

3. The Borynia-Zofiówka-Jastrzębie Mine in the Jas-Mos Section is preparing to conduct operational tests on a longwall shearer called MIKRUS developed in the KOPEX Capital Group to extract low seams. This solution is innovative and entirely new to mine thin seams with a thickness of 1.1 m to 1.5 m. This system is outfitted with a GUŁ-500 cutting and loading head with two cutting bodies, which is moved on the RYFAMA S-850N longwall conveyor along the coal side wall using a flexible connector system under sections of the KOPEX-095/17-POz mechanized shield. The entire longwall shearer system is powered and controlled through an integrated system outfitted with a central pulpit placed on the operator's position, which is situated in the conveyor road. Using this longwall shearer system will improve work safety as it eliminates the need for employees to be present on the longwall, while the usage of cutting heads instead of a plough makes it possible to enhance the efficiency and reliability of winning in difficult mining and geological conditions.

4. JSW S.A.'s mines have widely implemented mechanized dusting systems to spread rock dust in the underground mining pits using PK-900 POLKO, DROMADER, SMYK and JAMNIK dusting equipment. Spreading rock dust in underground mining pits is an effective method for combating the risk of coal dust explosion. Implementing mechanical dusting equipment enhances the efficiency of dusting, reduces the number of employees engaged in preparing dusting zones, and simultaneously provides for better coverage of the roofing and side walls of underground mining pits with rock dust, while reducing consumption compared to hand dusting.

5. Technical cooperation has been established with OKD in Ostrava. In the framework of this cooperation working teams have been appointed for the purpose of technical cooperation and sharing experience on specified topics between JSW S.A. and OKD in Ostrava. OKD mines function in similar mining and geological and technical conditions; according to the JSW S.A. and OKD Management Boards this cooperation is justified and expedient. Working teams were appointed to perform the agreements made at meetings in November 2012. Working teams were appointed in five topical areas:
   - methane hazard and methane drainage,
   - bump hazard,
   - selecting shields and maintaining roadway mining pits,
   - monitoring people, machines and equipment,
   - ventilation,
   - explosive works.

6. In 2012 the Parent Company joined a consortium conducting a project within the framework of the Coal and Steel Research Fund under the title: Sophisticated mine shield systems to improve control of the rock mass in conditions of large pressure, including the project: Shield for underground mining pits along the wall at a depth greater than 1000 m. The project coordinator of Sophisticated shield systems (…) is the Main Mining Sector Institute in Katowice, while the international partners are DMT of Germany, Gecontrol of Spain, Armines of France, OKD of the Czech Republic, University of Nottingham and UK COAL of the United Kingdom.

7. Continuing the process of unifying selected machinery, plant and equipment used in the company's mines, in 2012 the Parent Company:
   - established cooperation and signed the pertinent agreement with the Main Mining Industry Institute in Katowice to prepare the technical documentation of rails for suspended trains to meet the needs of JSW S.A.'s mines. Having this documentation (which will take place at the turn of 2013/2014) will facilitate outfitting the Parent Company's mines with uniform rail routes, will simplify and accelerate tender procedures and will as a result enhance work productivity,
   - acquired the technical documentation for series of types of double timbers for wall rise galleries (initial slicing) and on its basis it purchases these double timbers,
   - acquired the technical documentation for two-yoke shackles and pipe sprags, and on their basis it purchases these accessories for the roadway shield,
   - continued on the basis of proprietary technical documentation for container cars the production of these cars in the Group. This is one of the elements of the program for modernizing the underground transportation system in the Parent Company's mines.

More important projects carried out by Group companies

1. The following tasks were performed in SEJ:
   - technical and economic concepts were devised for the future operation of EC Moszczenica to adjust this facility to meet environmental protection requirements after 2016 and to generate a positive economic result,
   - the central heating grid in the city of Jastrzębie-Zdrój was optimized,
   - talks were held to establish a joint scientific and industrial consortium with the University of Nature in Lublin to execute the project entitled "Processes and technologies to curtail and eliminate the emissions of CO2 originating from processes entailing the combustion of mineral fuels,
   - talks were held to establish a joint scientific and industrial consortium with the Euro-Center Scientific and Technologic Park – preparations to implement a heat recovery project from mine water,
   - concept of commissioning a pilot photovoltaic 1MW capacity power plant.

2. The following tasks were performed in JZR:
   - in the framework of designing the construction of mechanized shields construction documentation has been prepared for modernizing the sub-assemblies of the GLINIK 10/25-POz shield to the form of a JZR-11/25-POz shield, line sections and JZR-11/25-POz/S outer edge sections, a proprietary construction solution was prepared for the top head elevating the scope of work of the FAZOS 17/37-POz1 shield by 600mm, and a modification of the transfer system was prepared for cooperation of a section with the TAGOR-2/850 longwall conveyor and a possibility was introduced to build elements to correct the conveyor route,
   - in the framework of designing and producing mine container cars in July 2012 modified technical documentation was sold to the Parent Company for JZR 2014 material container cars. In October 2012 design work was begun for a new container car to transport the roadway arch shield and to transport long materials.

3. JSK cooperates with the Silesian Polytechnical University, the Rail Institute and PrvniSignalni of the Czech Republic signed an agreement to provide an experimental field for computer controlled rail traffic called MODEST-GEMINI. The purpose of this work is to create a Local Control Center in subsequent years.

4. In WZK Victoria completed work to implement modern technology to treat coking gas to remove sulfur and ammoniac through absorption and catalytic combustion in a Claus installation.

5. In 2012 PGWiR expanded its telemetric system to visualize the technological processes for pumping saline water, and to control remotely pumping processes.
6. Through PolskiKoks S.A. an investment is being conducted under the name Building a Production Plant for Composite Solid Fuels at PolskiKoks S.A., which is the result of implementing the clauses of the research and development program entitled "Clean Air for Silesia", whose participants are the following: PolskiKoks S.A., JastrzębskaSpółkaWęglowa S.A., Silesian Polytechnical University, Institute of Chemical Coal Processing and the KlasterKotlarski Association. The program's overriding objective is to combine the scientific and technical potential of the parties to the agreement to conduct research and development and technological assignments to fire environmentally the products of the JSW Coal and Coke Group.

4.5. Issues related to the natural environment

In 2012 the Group continued integrated environmental protection measures giving consideration to the needs of local stakeholders and the local community. All these measures were taken while respecting the environmental conditions prescribed by law and the principle of sustainable development. The Group's priorities are to act responsibly on the basis of the highest standards concerning the environment, safety and product quality and to be consistent in undertaking environmental tasks.

The Group treats care for the natural environment as its Corporate Social Responsibility for the local community and not just as a matter of fulfilling the duties following from the application of the law. Environmental awareness is one of the major values by which the Group is guided. In 2012 the Parent Company's Interdisciplinary CSR Task Force crafted the Corporate Social Responsibility Strategy in JSW S.A. for 2013-2015, where one of its major objectives is to act with awareness and responsibility in the area of environmental protection.

The Group's responsibility for the natural environment is reflected by measures taken to minimize the adverse impact exerted by its operations on the environment, and to meet the environmental protection requirements stemming from the best available techniques (BAT), where executing them makes it possible to achieve a high overall level of environmental protection on the whole. By following best practices in this area the Group is taking action focused on constant oversight and monitoring while showing care for having the lowest possible volume of pollutants emitted into the environment, and taking all steps possible to utilize space and natural resources in an optimum manner.

Raising its responsibility for the natural environment and social environment, thereby giving evidence of its conviction concerning the importance of consciously managing according to the principles of sustainable development, in 2012 the Group carried out designated environmental protection tasks in the following area:

- protecting surface water against salination and pollution with other sewage,
- rationally managing waste, primarily mine waste,
- curtailing the emission of pollutants (including greenhouse gases: methane and carbon dioxide) into the air,
- minimizing the impact of mining operations on the land surface,
- conducting environmental education.

Protecting surface water against salination and pollution with other sewage,

JSW S.A. took actions to reduce the quantity and load of salinated underground mine water released into surface sewage through segregation of water from draining mines and to use it to the greatest extent: for the mines' technological purposes (e.g. in the coal preparation plants) and in underground mining pits for fire prevention and to liquidate unnecessary mining pits.

The unused water from draining the Borynia-Zofiówka, Jas-Mos, Krupiński and Pniówek mines were dosed into the Odra River using a hydroengineering method of water protection, i.e. the Olza retention and dosage system operated by PGWiR in Jastrzębie-Zdrój.

The unused water from draining the Budryk mine was desalinated in the Dębieńsko Desalination Plant whereby there was no environmental impact.

PGWiR steadfastly perfected the Olza retention and dosage system. The measures taken were to continue modernization and refurbishment work and to obtain the indispensable retention capacity of the settlement tanks to align the system to the needs resulting from opening and operating the resources of new deposits.

Rational waste management

In conjunction with the necessity of adjusting the operations of mining companies to the standards of the mining waste act, all the Group's mines, prior to 1 May 2012, obtained the required decisions and customized their mine waste management system to meet the requirements of this law.

The Group took action to reduce the quantity of mine waste produced and to utilize it to the greatest extent in underground mining pits and to use it to produce and sell crushed rock, as well as to use mine waste on the surface in a way that is safe for the environment in accordance with the assumptions of the Strategy approved in July 2008 for managing post-production mine waste in JastrzębskaSpółkaWęglowa S.A. Intensifying action to produce crushed rock in the mines' coal preparation plants and to sell it will provide for the optimum utilization of the mine waste produced in highway and road construction, in civil engineering and hydro engineering projects.

All of the Parent Company's mine waste management facilities are covered by technical and biological reclamation based on traditional and soil-free greening methods using FRISOL, to guarantee the rapid and sustainable achievement of the intended environmental effects.

Taking these measures will lead to higher Group revenues as a result of selling waste and crushed rock used as a construction material and to lower unit costs associated with the utilization of mine waste, while also substantially curtailing the unfavorable impact exerted by mine waste on the natural environment through the optimum utilization of space and natural resources with special emphasis placed on reclaiming and revitalizing terrain and land degraded through mining operations.

Curtailing emissions of pollutants

Curtailing greenhouse gas emissions in the Parent Company was accomplished by making the maximum energy utilization of gas through methane drainage in mines. In 2012, the utilization ratio of methane from methane drainage in mines for electricity and heat production increased from 71% to 87% and the methane emissions decreased by approx. 24.1 million m3 as compared to 2011

Since SEJ, KoksowniaPrzyjaźń, KK Zabrze and WZK Victoria participate in the scheme for greenhouse gas emission allowance trading with respect to carbon dioxide, steps were taken to fully secure the emission needs of the coking installations and the co-generation plant To obtain the missing allowances SEJ undertook to execute joint implementation projects. In 2012, approval lists were issued for the projects involving the utilization of the methane drainage gas from the mines.

Minimizing the impact of mining operations on the surface

In curtailing and eliminating the impact exerted by mining activity on the earth surface, preventive activities were continued and the scale of mining damage repairs increased. In 2012, within the boundaries of the mining area of JSW S.A.'s mines with a surface area of 214.94 km², 850 structures were repaired at an expense of PLN 87.2 million. All the planned activities have been consulted on an ongoing basis with local self-government units and with the interested individuals and monitored and adjusted to ensure the maximum efficiency.

Environmental education

In 2012 JSW S.A. continued to promote an environmental lifestyle among its employees and business partners, by conducting pro-ecology educational campaigns encouraging them to participate actively in the protection of the natural environment. To enhance environmental awareness among employees and the external environment, the Group has developed and made available an environmental leaflet providing information on actions to protect the natural environment.

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

Key environmental protection accomplishments of the Capital Group companies in 2012

The Group's following environmental protection accomplishments in 2012 deserve special mention:

- The Krupiński Mine obtained a decision on the environmental conditions necessary to be met to obtain a new concession to mine the Krupiński deposit within the boundaries of the Suszec III mining area extended to include the new documented area.
- In the Borynia-Zofiówka mine an environmental impact report was prepared for a project for the purpose of obtaining a decision on the environmental conditions necessary to be met to apply for altering the concession for the Borynia deposit and work was begun on devising the pertinent environmental report for the Bzie-Dębina 1-Zachód deposit.
- The Parent Company commenced activities and cooperation with experienced partners with the necessary technical and economic resources to build facilities to recover coal and crushed stone in the facilities for managing mine waste from the Krupiński and Budryk Mines. The decision to build and operate this installation will be made after conducting tests, preparing a feasibility study and conducting economic and financial return analyses.
- In Q2 2012 WZK Victoria commissioned one of the most modern coking gas treatment installations in Europe to remove hydrogen sulfide and ammoniac and to utilize them in an environmentally and economically justified manner. Thanks to this technology the coke plant will attain better environmental protection standards than in the EU or Polish standards.
- PGWiR received a water rights permit to release salinated water into the Odra River through the Olza retention and dosage system originating from draining water from the mines of JSW S.A. and KompaniaWęglowa S.A. with a term of validity until 31 December 2020.
- SEJ EC Zofiówka conducted activities to prepare for the construction of a new co-generation power unit using electricity and heat on the basis of a CFB fluid boiler or an alternative solution. The new installation will meet the environmental protection requirements in the IED directive, slated to be more stringent as of 2016.

4.6. Headcount

The Group's headcount and average headcount in 2012 and 2011 are depicted in the table below.

	Headcount as at		Average headcount during the year	
	31 Dec 2012	**31 Dec 2011**	**2012**	**2011**
Blue-collar employees	23,075	23,349	23,231	23,302
White collar employees	6,643	6,441	6,554	6,263
Total	**29,718**	**29,790**	**29,785**	**29,565**

As at 31 December 2011, the Group had 29,718 employees. During the 2012, headcount decreased by persons. The highest headcount is in the Parent Company: 22,678 persons as at 31 December 2012. In the period from January to December 2012, 1,228 employees left the Parent Company, of which 1,143 persons left on account of natural causes (including 1,018 persons who retired), while 975 persons were hired. Out of this group, 801 work underground and 174 on the surface.

The data above take into account the headcount as at 31 December 2011 and average headcount in 2011 in the companies that were taken over by the Group during 2011.

4.7. Relations with trade unions

Parent company

There are 38 active Trade Union Organizations operating in the Parent Company. In the period from March to November 2012, the relations between the JSW S.A. Management Board and the trade unions were dominated by talks related to two collective disputes that the Joint Representation of the Trade Unions commenced with the JSW S.A. Management Board on 29 February 2012. One collective dispute concerned the immediate withdrawal by the employer from the decision to introduce new employment contracts for newly-hired employees. The other dispute concerned a raise of the base salary rates by 7%, which would procure real payroll growth in 2012. Negotiations on those disputes ended with the parties drawing up discrepancy reports.

On 13 June 2012, the Joint Representation of Trade Unions at JSW S.A. appointed the Inter-Union Protest and Strike Committee ("MKP-S") at JSW S.A. which on 20 and 21 June 2012 held a referendum concerning the collective disputes in JSW S.A. mines and in the Material Logistics Center. 14,144 employees, i.e. 61.75% of the total headcount at JSW S.A. took part in the referendum (in 2011, 78.5% of the total headcount at JSW S.A. took part in the referendum).

The result of the referendum authorized MKP-S JSW S.A. to carry out strikes at JSW S.A. according to the Act on Resolving Collective Disputes. On 6 July 2012, a 2-hour warning strike was held in organizational units of JSW S.A. in all shifts.

The talks on the collective disputes were renewed and conducted in working teams, but they failed to bring the Parties together. As a result, on 19 October 2012, the MKP-S held a 24-hour strike in all the organizational units of JSW S.A. in all shifts. 5,465 employees, i.e. 24% of the workforce, participated in the strike.

On 24 October 2012, representatives of the Trade Unions met with members of the JSW S.A. Supervisory Board. Another meeting was held on 8 October 2012, at the initiative of the JSW S.A. Management Board. At that meeting the JSW S.A. Management Board and the trade unions signed the agreements that ended the collective disputes raised on 29 February 2012.

According to the agreement on the 7% increase of basic salary rates to ensure salary increases in 2012, as of 1 November 2012 basic salary rates increased by 3.4% and a one-off bonus was paid out. Additionally, the agreement adopted a method of shaping salary increases for employees of JSW S.A. in the years 2013-2015, by the inflation rate assumed for the budget legislation in the given year, possibly reconciled to the actual inflation by negotiation between the JSW S.A. Management Board and the trade unions.

In performance of the Agreement on the immediate withdrawal by the employer from the decision to introduce new employment contracts for newly-hired employees, the JSW S.A. Management Board modified the provisions of employment contracts with the employees hired by JSW S.A. after 15 February 2012. The changes pertained to both the term of the employment contracts and the method used to calculate seniority-related allowance *(dodatekstażowy)* and the requirements for eligibility for the annual bonus on Miner's Day and the "14th salary".

In 2012, the social dialog in JSW S.A. which was dominated by the two collective disputes was a significant disruption in the work on the Collective Bargaining Agreement for JSW S.A. employees and on the consultations on the Labor Rules and Regulations. 17 meetings on that subject were held in the period from January to June 2012. No provision of the Collective Bargaining Agreement or the Labor Rules and Regulations was agreed upon during those meetings. Moreover at the meeting on 6 September 2012, the JSW S.A. Management Board conducted talks with the trade union organizations to work out an appropriate arrangement that would finally regulate the standardization of jobs and the payment of a standardization allowance. The parties however did not reach a common stance in this matter.

Group companies

SpółkaEnergetycznaJastrzębie S.A.

There are two Trade Unions operating in the company. In the period covered by this report, one collective dispute took place in SEJ. The subject matter of the dispute was to determine the average salary increase in SEJ in 2012 at 7.5% per year, determine the rate of charge to the Company Social Benefit Fund per employee at 60% of the average remuneration in the country and reinstate "prophylactic meals" for employees in the form of food stamps.

In the final agreement signed by the parties to the dispute, they agreed to set the average salary increase in 2013 at 2.7%, separate a Key Management payroll fund from the general payroll fund, credit the Company Social Benefit Fund with a one-off amount of PLN 420 thousand, guarantee jobs to SEJ employees and to update the Company Collective Bargaining Agreement for SEJ employees by 31 December 2013.

PrzedsiębiorstwoEnergetykiCieplnej S.A.

There are two trade unions operating in the company. The principal topic of meetings between the Company's Management Board and the trade unions was to allocate shares to eligible employees. On 8 February 2013 the trade unions accepted the share allocation proposal presented by the Company's Management Board. A wage agreement incorporating the clauses of the Social Guarantee Pact was signed by representatives of the trade unions functioning in PEC and the Management Board of SpółkaEnergetycznaJastrzębie S.A.

JastrzębskieZakładyRemontowe Sp. z o.o.

On 31 December 2012 JZR Sp. z o.o had five trade unions in operation with the company's unionized membership equaling 58%. On 20 February 2012 the company signed a wage agreement with the trade unions according to which as of 1 March 2012 the prevention allowance was raised from PLN 12.00 to PLN 14.00, the cash equivalent for 1 ton of the free coal allowance was raised and new base salary rates with a 3% payraise for employees hired in laborer and non-laborer positions were introduced as of 1 March 2012. On 28 September 2012 a new wage agreement was concluded between the Employer and the trade unions concerning the pursuit of compensation policy in 2012. According to this Agreement, the payment of a single bonus was agreed and an analysis of the current wage rates by rank was conducted while paying special attention to the ranking of employees with the lowest wages. According to the concluded agreement the parties declared their willingness to continue talks to construct a motivational compensation system.

KoksowniaPrzyjaźń S.A.

In Q1 2012, as a result of negotiations with the Inter-Company Trade Unions, the "hot" bonus for employees providing work on certain positions of the Coke Production Division – on "hot" positions, was paid out for the previous year. Additionally, negotiations were conducted with the trade unions with regard to payment of a profit-sharing bonus for 2011. In April 2012, the Rules and Regulations in this matter were signed and the performance was paid out on 31 May 2012. In Q2 2012, the trade unions operating in the company addressed the Management Board in writing with postulates to increase the salary of each employee PLN 500, effective from 1 September 2012, and pay out financial performances in the form of quarterly bonuses of PLN 2,000 for each employee for Q3 and Q4 2012. As a result of the negotiations held during the meetings with the trade unions, on 16 October 2012 the Parties signed an internal agreement, by the power of which eligible employees were paid bonuses for the effective time of work. Moreover, the trade union organizations demanded talks to, among others, determine the compensation policy for 2013, which would include an increase of a charge to the Company Social Benefit Fund in 2013, setting the date and amount of salary raises in 2013. After negotiations, the Parties reached an agreement to increase the charge to the Company Social Benefit Fund by a gross amount of PLN 5,000 for each employee of the company working as at 1 January 2013. In Q4 2012, the trade unions signed the internal agreement specifying the positions on which employees will receive meals and beverages.

ZakładPrzewozów i Spedycji SPEDKOKS Sp. z o.o.

There are 6 trade union organizations operating in the company. In 2012 two collective disputes arose in the company. The first dispute was initiated on 29 March 2012 and was related to the setting of the terms and conditions for the transfer of employees of ZakładPrzewozów i Spedycji SPEDKOKS Sp. z o.o. to the new employer, JSK. The dispute ended with signing a memorandum of understanding on 24 April 2012. The other dispute was initiated on 12 October 2012 and was related to a demand of a basic salary raise of PLN 500 for every employee, effective from 1 October 2012, and payment of quarterly awards for Q3 and Q4 2012, in the amount of PLN 2,000 each. The dispute ended with signing a memorandum of understanding on 30 October 2012.

WałbrzyskieZakładyKoksownicze Victoria S.A.

There are 6 trade union organizations operating in the company. In 2012, as part of the cooperation between the company's management board and the trade union organizations, an agreement was signed on 29 May 2012 on the increase of the average monthly salary in the company by 4% as compared to the actual numbers for 2011. On 9 November 2012, another agreement was signed which stipulated that the average monthly salary growth in 2013 will be 2.7% compared to the actual numbers from 2012. Nevertheless, the agreed salary growth will depend on the company's economic and financial standing. The Management Board also accepted an obligation that it would recommend to the owner to keep the principle of including employees in the distribution of the 2012 profit and to increase the charge to the Company Social Benefit Fund to the level comparable to the Group's other coking plants.

PrzedsiębiorstwoGospodarkiWodnej i Rekultywacji S.A.

There are two trade unions operating in PGWiR. In 2012, pursuant to the existing Collective Bargaining Agreement concluded on 1 July 1998 as amended by additional Protocols, the Management Board of PGWiR and the trade unions agreed an increase in personal remuneration rates from 1 July 2012. The rates were increased by the same amount of PLN 0.42 / hour for laborers and PLN 70 / month for non-laborers. This change in rates resulted in a salary increase by an average of about 2.5% as compared to the period before the change.

There were no collective disputes in other companies of the JSW S.A. Capital Group in 2012 and no material events were recorded in relations with the trade unions.

4.8. Information about the audit firm auditing the financial statements

On 10 November 2011 the Parent Company executed an agreement with PricewaterhouseCoopers Sp. z o.o. to audit:

- the financial statements of JSW S.A. for 2011-2012,
- the consolidated financial statements for 2011-2012

prepared in compliance with IFRS, and for the statutory auditor to issue a written opinion on these audits along with a long-form report. This agreement also entails conducting a review of the financial statements and consolidated financial statements for H1 2012 and H1 2013 and for the statutory auditor to issue reports on these reviews. This agreement was executed for a period making it possible to perform the object of the agreement. The total amount for the performance of this work was defined in the agreement at the level of PLN 560.0 thousand. The audit firm was selected in accordance with the binding regulations and professional standards.

PricewaterhouseCoopers Sp. z o.o. audited JSW S.A.'s financial statements for 2006, 2009, 2010 and 2011, the Capital Group's consolidated financial statements for 2006, 2009, 2010 and 2011, and it also reviewed the condensed interim separate and consolidated financial statements for H1 2011 and H1 2012. Moreover, JSW S.A. used the services of PricewaterhouseCoopers Sp. z o.o. to do the work related to the prospectus prepared for JSW S.A.'s initial public offering and to apply for admitting and introducing these shares to be traded on the regulated market of the Warsaw Stock Exchange and advisory services.

The table below depicts the statutory auditor's fees for services provided to the Parent Company (in thousands of PLN).

	2012	2011	Growth
Compulsory audit	200.0	200.0	100.0%
Review of financial statements	80.0	140.0	57.1%
IPO-related audit services	-	2,453.9	-
Other services	40.7	15.9	256.0%
Total	**320.7**	**2,809.8**	**11.4%**

In addition, all Capital Group subsidiaries concluded with the aforementioned company agreements on audit of the financial statements for 2011-2012.

4.9. Disputes – material administrative, court and arbitration proceedings

This section presents a description of material proceedings in which Capital Group companies are involved. Group companies are participating in court, administrative and arbitration proceedings related to their operations. Below are described some of the proceedings pending at present or concluded in the period from 1 January 2012 to the date of this report that may materially affect the position and financial results of Group companies. This description has overlooked proceedings, which in the opinion of the Group will not have a material and adverse impact on its operating activity, financial position and profitability of the Group and whose total estimated value according to the Issuer's knowledge will not reach 10% of the Issuer's equity. According to the JSW S.A. Management Board, according to its best knowledge, the Group companies are not at risk of proceedings that could materially affect its financial position and profitability other than prospective tax proceedings mentioned in the description below.

4.9.1. Court Proceedings

Court Proceedings to which the Company is a party

Apart from the taxation-related litigations the Parent Company is also a party to several legal proceedings concerning its activity. Typical disputes in which the Parent Company participates include disputes related to demands to rectify mining damages, disputes concerning damages for accidents in the workplace and disputes concerning contractual liabilities. The litigations above are typical and repetitive in character. None of them has so far influenced the Group's financial standing and performance.

Court Proceedings in which subsidiaries are a party

Polimex-Mostostal S.A. and others v KoksowniaPrzyjaźń

On 8 July 2009, a consortium comprising Polimex-Mostostal S.A., BiuroProjektówKoksoprojekt S.A., Naftoremont sp. z o.o. and PrzedsiębiorstwoRealizacji i DostawBudownictwaPiecexport sp. z o.o. submitted a claim demanding that the compensation due in connection with performance of the agreement to fulfill the investment task to modernize the Hydrocarbons Department by constructing a complete facility on a turn-key basis, of 22 November 2005, between KoksowniaPrzyjaźń and the consortium, be increased by PLN 62.5 million (ref. no. XIV GC 159/09/10). The Regional Court in Katowice, in the ruling of 7 August 2009, decided to secure the claim by establishing a compulsory mortgage on the right of perpetual usufruct of the property vesting with KoksowniaPrzyjaźń. After receiving an interlocutory appeal against the ruling, the Katowice Court of Appeals amended the ruling of the Regional Court on 28 September 2009, dismissing the Consortium's motion to secure the claim. KoksowniaPrzyjaźń responded to the statement of claim. In the course of the proceedings, a court expert issued an opinion to which the parties submitted their comments and objections and at the hearing held on 18 August 2011, witnesses were heard.
On 17 October 2011, the Regional Court in Katowice, 14th Commercial Division closed the hearing and announced the verdict on 31 October 2011, dismissing the claim in its entirety.

On 10 January 2012, the plaintiffs' appeal was delivered to the company. On 24 January 2012, the company submitted a reply to that appeal. On 13 February 2012, the company received the plaintiffs' pleading. In the meantime, the claim amount was adjusted to PLN 58.1 million.

At the last hearing the appeal was dismissed. The case was closed with a legally valid court judgment of 22 May 2012, but the Consortium has filed a cassation complaint against this judgment. As at the date of this report, the complaint has not yet been considered. Accordingly, KoksowniaPrzyjaźń kept this contingent liability in its accounting ledgers.

KoksowniaPrzyjaźń v PolskieKolejePaństwowe S.A.

In pleadings of 18 March 2010 to the Regional Court in Katowice, PKP S.A. filed for enforcement under the judgments listed below in the total amount of PLN 9.6 million. In the course of the proceedings the Court Executive Officer at the Regional Court in Legionowo seized part of the disputed receivable in the amount of PLN 2.0 million. On 19 July 2010 KoksowniaPrzyjaźń filed a lawsuit against PolskieKolejePaństwowe in the Warszawa-Praga Regional Court demanding the full forfeiture of enforceability of enforcement orders comprising judgments by default by the Regional Court in Katowice, 14th Commercial Division with enforcement clauses appended as per the ruling of 30 December 2009 issued by the Regional Court in Katowice, 14th Commercial Division, and a temporary injunction by suspending the execution of the principal amount of PLN 9.6 million by a court execution officer.

The claims above are a result of the cooperation by ZakładyKoksownicze "Przyjaźń", of which KoksowniaPrzyjaźń is the legal successor, and the legal predecessor of PolskieKolejePaństwowe S.A. ZakładyKoksownicze "Przyjaźń" lost liquidity in 2000 and the legal predecessor of PolskieKolejePaństwowe S.A. obtained several judgments and orders for payment against ZakładyKoksownicze "Przyjaźń". As specified in the statement of claim, all claims that PolskieKolejePaństwowe S.A. had against ZakładyKoksownicze "Przyjaźń" were settled in the course of, among others, debt collection by "CADAC" sp. z o.o. The defendant, in reply to the lawsuit on 7 October 2010, made a motion to strike and dismiss the lawsuit in full and to award legal costs against the plaintiff.

During the court proceedings, (file ref. no. III C 968/10) pleadings were exchanged. At the last hearing on 28 January 2013, the Court fully forfeited enforceability of enforcement orders comprising judgments by default by the Regional Court in Katowice, 14th Commercial Division, file ref. nos.: XIV GCo 246/09/16, XIV GCo 222/09/12, XIV GCo 245/09/16. As at the date of this information, the judgment has not become legally effective. It is highly probable that the defendant will file an appeal in this case. Therefore, the provision of PLN 7.7 million established in 2010, equal to the difference between the value of the dispute and the amount seized by the court executive officer, is kept.

KoksowniaPrzyjaźń v former business partner, regarding delivery frauds in 2006

In 2007-2008 Katowice Regional Court issued five orders of payment in proceedings by writ of payment brought by KoksowniaPrzyjaźń, ordering a former business partner of KoksowniaPrzyjaźń, who is a legal person running business activity to pay a total of PLN 10.9 million plus statutory interest and legal costs due to the business partner's failure to pay for coke delivered to him in 2006. As at 31 December 2012, none of the orders has been executed and debt enforcement is being carried out by a court execution officer for Warszawa-Mokotów District Court. By the date of this report, the enforcement was ineffective.

ThyssenKrupp MinEnergy GmbH (currently ThyssenKrupp Metallurgical Products GmbH) v PolskiKoks S.A.

Since 2004 PolskiKoks S.A. has been engaged in a litigation with ThyssenKrupp MinEnergy GmbH, which has been attempting to secure an order of payment against PolskiKoks S.A. in the amount of EUR 4.1 million with statutory interests from 22 September 2004 as compensation for failure to fulfill a coke sale agreement of 29/30 December 2003, as per Article 76 of the United Nations Convention on Contracts for the International Sale of Goods adopted in Vienna on 11 April 1980. In a judgment of 15 June 2005, the Regional Court dismissed the claim of ThyssenKrupp MinEnergy GmbH. The judgment was appealed against in full and the appeal was dismissed by the Court of Appeals in a judgment of 18 May 2006, deeming the appeal groundless. The judgment was appealed in cassation in its entirety. The Supreme Court canceled the judgment of the Court of Appeals in a judgment of 28 February 2007 and remitted the case to judicial review.

After a judicial review by the Court of Appeals in Katowice, the Katowice Regional Court judgment of 15 June 2005 was amended in a judgment by the Court of Appeals in Katowice from 17 October 2007 (ref. no. V ACa 460/07) to require PolskiKoks S.A. to pay compensation to ThyssenKrupp MinEnergy GmbH in the amount of EUR 4.0 million with statutory interest from 22 September 2004, as well as to pay legal costs in the amount of PLN 0.3 million for the costs of proceedings. The judgment was appealed in cassation by PolskiKoks S.A., claiming violation of both procedural rules and the substantive law provisions. The Supreme Court canceled the judgment of the Court of Appeals in a judgment of 9 October 2008 and remitted the case to judicial review and allocation of costs for the cassation proceedings.

After a third judicial review the Court of Appeals in Katowice dismissed the appeal of ThyssenKrupp MinEnergy GmbH in the judgment of 22 October 2010 (ref. no. V ACa 19/09) and, on the basis of a motion of restitution, ordered the plaintiff to return to PolskiKoks S.A. EUR 5.6 million, i.e. the original liability amount plus interest paid as per the Court of Appeals judgment of 17 October 2007, as well as the amount of PLN 0.4 million for the costs of proceedings. The court, however, dismissed the claims included in the motion of restitution to pay interest from the EUR 5.6 million from 19 October 2008 to the day of returning the amount. On 1 February 2011, PolskiKoks S.A. appealed to the Supreme Court against the dismissal of the motion of restitution demanding the payment of interests in the judgment of 22 October 2010. On 7 February, ThyssenKrupp MinEnergy GmbH also filed a cassation appeal against the judgment in full, moving to cancel the judgment and remit the case to the Court of Appeals for judicial review again and to strike and dismiss the motion of restitution or to cancel this part of the judgment. On 25 November 2011, the Supreme Court accepted both cassation complaints and set the date of the cassation session for 8 February 2012. In the verdict of 8 February 2012, file ref. V CSK 91/11, the Supreme Court waived the verdict of the Court of Appeals in Katowice of 17 October 2007, file ref. no. V ACa 460/07 and returned the case for reexamination to the Court of Appeals in Katowice.

In a decision of 22 October 2012, the Court admitted evidence in the form of an opinion of a ferrous metallurgy expert, JózefLis Eng., determining the coke price in Q2 2004 and the predictability of global coke price changes in Q2 2004. The opinion has not been submitted to the parties yet. The court has not set any date for another hearing. Therefore, it is justified to keep the provision for the liability in the amount equal to the value of the dispute.

4.9.2. Administrative proceedings

Besides the tax proceedings described below, the Group companies are not participating in administrative proceedings that could have a material and adverse impact on the Group's operating activity, financial position and profitability.

Tax proceedings

Proceedings concerning the property tax on underground mine workings

The Parent Company is a party to administrative court and tax proceedings regarding property tax. The subject of dispute is the classification of underground mine workings and the structures and plant situated in them for the purposes of possibly charging property tax. The dispute concerns the years 2003-2009 and the underground mine workings in the following townships: Jastrzębie-Zdrój, Ornontowice, Gierałtowice, Pawłowice, Mszana, Suszec and Świerklany. The proceedings are pending in connection with the decisions issued by tax authorities specifying the tax liabilities as well as in connection with the Parent Company’s requests to declare an overpayment.

After a beneficial judgment of the Constitutional Tribunal issued on 13 September 2011 (case file no. P 33/09) in which the Tribunal unambiguously precluded underground mine workings (tunnel costs) from property tax and making the tax on plant and facilities located in these underground mine workings dependent on their classification as structures within the meaning of Construction Law, the tax proceedings remain pending.

In all the cases, the Voivodship Court of Administration in Gliwice issued decisions which were favorable to the Parent Company with respect to the taxation of underground workings and their equipment and the Court generally rescinded tax decisions issued in this respect. However, the rationale for those decisions was challenged by the Local Government Appeal Court in Katowice and also the Local Government Board of Appeals in Bielsko-Biała, which filed cassation complaints with the Supreme Court of Administration against all the judgments which were favorable to JSW S.A. By submitting its answers to the cassation claims, JSW S.A. requested that they be dismissed. Additionally, the Parent Company also submitted a request to the Supreme Court of Administration to examine the cassation complaint pertaining to the Ornontownice Township for 2003 out of order of receipt and stating the reference numbers of the remaining cases in the request. In July and September 2012, the Supreme Administrative Court issued two positive decisions for the mining industry, resolving the issue of underground mine workings following the judgment of the Constitutional Tribunal. The

Supreme Administrative Court, quoting in its justification the judgment of the Constitutional Tribunal, shared the view expressed in the judgment mine workings are not subject to property tax, while accepting that facilities and equipment located in the workings may be subject to taxation. The Court emphasized that the tax base cannot take into account the value of the mine working calculated based on excavation costs.

In several JSW S.A. cases, the Local Government Board of Appeals in Katowice has rescinded decisions of the Townships and referred the cases for reexamination. In the proceedings conducted by the townships, it is argued that facilities and equipment located in the workings may be subject to taxation, but at the same time the townships qualify the entire workings (excavation costs) with their infrastructure as taxable objects. As a result of the proceedings conducted by the Townships, the Parent Company received decisions determining its liability in the same amount as in the original decisions revoked by the Board of Appeals. The Parent Company has filed appeals against those tax decisions with the Local Government Board of Appeals in Katowice. The position taken by the townships is identical for all the tax proceedings initiated throughout the years. In their decisions, the townships qualify the entire workings (excavation costs) with their infrastructure as taxable objects. In the case of those tax decisions, JSW S.A. has also filed appeals with the Local Government Board of Appeals in Katowice.

The total contested amount in the proceedings pending before public administrative authorities is PLN 169.2 million. In connection with the favorable ruling of the Constitutional Tribunal and the judgments of the Voivodship Court of Administration, as at 31 December 2011 the amount of provisions and liabilities was PLN 65.2 million. As at 31 December 2012 the total provisions and liabilities are PLN 147.6 million, including a provision of PLN 83.4 million and liabilities of PLN 64.2 million.

Proceedings concerning the property tax on rail infrastructure

The Parent Company is a party to tax proceedings and an administrative court proceeding on charging property tax on land and structures related to rail infrastructure for the years 2007-2009. The subject of the dispute is the scope of the subject matter-related property tax exemption for this type of land and structures in the legal state in force since 1 January 2007. The Parent Company submitted requests for the tax authorities to declare an overpayment in the Ornontowice and Gierałtowice Townships (the Parent Company received a declaration of overpayment from the Czerwionka-Leszczyny Township). The total remaining disputed amount is PLN 1.1 million.

The same dispute in tax and administrative court proceedings pertaining to the legal status prevailing before 1 January 2007 is waged by JSK with regard to 2003-2006. JSK applied in these cases to Municipalities for acknowledgment of overpayment of the property tax. The total amount disputed in the aforementioned proceedings is PLN 1.6 million. In addition, the Mayor of Jastrzębie-Zdrój instigated, ex officio, a proceeding to issue a decision determining the mount of the tax liability for 2006. The estimated amount of the dispute is approx. PLN 0.5 million.

Proceedings pertaining to property tax on coking furnace batteries.

KoksowniaPrzyjaźń was a party to tax and administrative court proceedings to determine the aggregated amount of the property tax liability for the years 2003-2009. The dispute with the Mayor of DąbrowaGórnicza acting as the tax authority of the first instance concerned the scope of taxation on coking furnace batteries. The tax authority presented a view that the coking furnace batteries constitute structures as a whole and their full initial value should be the basis for calculation of the tax on structures. The Company claimed that the basis for calculation of the tax on structures is the value of the structural parts of the coking furnace batteries, i.e. approx. 10% of the initial value. The other elements, especially the ceramic mass, constitute technical and technological parts.

The tax proceedings and the administrative and court proceedings were conducted alternately or concurrently by the following institutions: the Mayor of DąbrowaGórnicza, the Local Government Board of Appeals in Katowice ("SKO") and the Voivodship Administrative Court in Gliwice.

In Q3 2012, all pending proceedings (for the years 2006-2009, because proceedings for 2003-2005 were completed in earlier periods) resulted in decisions of the Local Government Board of Appeals in which the tax authority of the second instance decided that the methodology applied by KoksowniaPrzyjaźń of dividing the coking furnace batteries into structural and non-structural parts was correct, thus revoking the earlier decisions of the Mayor of DąbrowaGórnicza which were unfavorable to the Company. At the same time – and this is not common practice – in its decisions the Local Government Board of Appeals specified the amount of tax liability in property tax for the years covered by the proceedings (2006-2009). Thus, the Company's several-year long dispute against the tax authority of the first instance ended favorably for the Company.

Accordingly, in 2012, the property tax provision in the total amount of PLN 21.2 million was dissolved. Furthermore, in September 2012, the District Court in DąbrowaGórnicza deleted from the Company's land and mortgage registers the compulsory mortgage established in favor of DąbrowaGórnicza Township in the amount of PLN 0.5 million in order to secure the disputed property tax liability for 2006.

Property tax proceeding on newly-built buildings and structures during the second stage of modernizing the Radlin Coking Plant

The mayor of Radlin, in his letter of 29 May 2012 summoned KK Zabrze to present a correction of its property tax declaration for 2010 incorporating newly-built buildings and structures during the second stage of modernizing the Radlin Coking Plant, by taking the position that the time when the tax obligation arises is the completion of construction confirmed by a notification to the competent authority on completion of construction, which at KK Zabrze took place in November 2009 (this position was also presented by the Mayor in an individual tax ruling dated 12 August 2010). Accordingly, the tax declaration for 2010 should include the newly-built buildings and structures. However, KK Zabrze failed to include them in its 2010 declaration taking the position that the time when the tax obligation arises is the date when the Decision made by the State Inspector of Construction Oversight became legally binding, i.e. January 2010.

In connection with these divergent positions, KK Zabrze established a provision and additionally procured an analysis to research the factual state of affairs in terms of property tax in connection with the modernization of the Radlin Coking Plant. The authors of this analysis do not see much hope for defending the position taken by KK Zabrze.

Accordingly, in June 2012 KK Zabrze filed a correction to its declaration and remitted the overdue tax (PLN 3.9 million) plus interest (PLN 1.0 million), which led to the utilization of the provision.

Proceedings on treating payments to employees as tax deductible expenses

The Parent Company was a party to an administrative court proceeding related to the negative individual tax ruling on corporate income tax. The subject of the dispute was the ability to treat as tax deductible expenses the gross disbursements awarded when distributing the net financial result on the date of making them or making the funds available to an employee along with the part of the social insurance contributions financed by the payer of these contributions. The Parent Company received a partially unfavorable individual tax ruling subsequently amended ex officio by the Finance Minister whereby it became totally unfavorable. The Parent Company submitted a complaint against the amended ruling with the Voivodship Administrative Court in Warsaw, which in its judgment of 6 December 2010 (case file III SA/Wa 160/10) deemed the Finance Minister's position to be correct. On 5 January 2011 the Parent Company submitted a cassation complaint with the Supreme Administrative Court. On 3 October 2012, the Supreme Administrative Court in Warsaw issued a judgment dismissing the cassation complaint filed by JSW S.A.

Also, on 15 June 2012, the Parent Company submitted a request for an individual tax ruling in this respect, presenting the new factual status (recording accounting events and preparing financial statements in accordance with IFRS). On 18 September 2012, the Parent Company received a negative individual tax interpretation, which on 4 December 2012 it challenged before the Voivodship Court of Administration in Gliwice.

If the dispute is resolved in its favor, the Parent Company will be able to classify the higher costs as tax-deductible expenses; as a result the effective tax rate will decrease.

In the identical legal situation, on 5 November 2012, a Group company received a positive interpretation of the Finance Minister, ref. no. IBPBI/2/423-958/12/AP (regarding profit distribution) after a re-examination in connection with the judgment of the Supreme Court of Administration in Warsaw issued on 29 May 2012, file ref no. II FSK 2275/10 dismissing the cassation complaint filed by the Tax Authority.

4.9.3. Arbitration proceedings

Arbitration proceeding Zarmen Sp. z o.o. and others vs KK Zabrze

KK Zabrze was a party to the court proceeding conducted in connection with the unrecognized claim for payment for the performance of a construction contract of 17 October 2006 raised by the leader of the "Concorde-Radlin II" – ZARMEN Sp. z o.o. (GRI) Consortium.

In its judgment of 27 September 2012, the Court of Arbitration at the Polish Chamber of Commerce in Warsaw settled the dispute between KK Zabrze and GRI in respect of that agreement, ruling as follows:

1. Awarding from KK Zabrze to GRI the amount of PLN 30.9 million with statutory interest in payment of remuneration for the performance of the subject matter of the agreement.
2. Awarding from KK Zabrze to GRI the amount of PLN 8.7 million with statutory interest from 21 March 2009 to the date of payment in reimbursement of expenses incurred by GRI for the preparation of the missing technical documentation.
3. Awarding from KK Zabrze to GRI the amount of PLN 7.0 million with statutory interest from 6 August 2009 to the date of payment in liquidated damages for the delay in the delivery of the missing documentation to GRI.
4. Dismissing the remainder of GRI's claim, i.e. for the amount of PLN 34.5 million with statutory interest.
5. Awarding from GRI to KK Zabrze the amount of PLN 0.5 million with statutory interest from 23 July 2010 to the date of payment for the costs of performance of the replacement work.
6. Dismissing the remainder of KK Zabrze's claim according to the value of non-interest liabilities described in the Justification in the amount of PLN 63.4 million.

Moreover, as a result of a pleading filed by Zarmen Sp. z o.o. to append an enforcement clause to the above judgment and the possible motions requesting security, KK Zabrze paid PLN 23.5 million to the Court's deposit account as security.

On 26 October 2012, KK Zabrze filed a complaint with the Regional Court in Gliwice to set aside the Court of Arbitration's Award and then a supplement to the complaint was filed on 3 January 2013. As at 31 December 2012, the amount of the claim is PLN 46.6 million. The proceeding is pending with the file ref no. X GC 328/12.

The analysis of the Ruling and the Justification for the Award of the Court of Arbitration conducted to date allows for applying the following accounting treatment:

- out of the amount of PLN 30.9 million, PLN 28.0 million was posted to property, plant and equipment , while the remaining PLN 2.9 million was posted to other costs (this amount, at the time of the event, i.e. in the previous reporting periods, had the nature of other income),
- PLN 8.7 million was posted to property, plant and equipment,
- PLN 7.0 million in liquidated damages was posted to other costs,
- the awarded statutory interest accrued as at 31 December 2012 in the total amount of PLN 21.9 million was posted to other costs.

Regarding the tax consequences of the award, KK Zabrze recognized a deferred income tax asset of PLN 6.0 million, updated the deferred income tax provision for the valuation of property, plant and equipment by PLN 2.2 million and established a provision for the possible property tax effects, covering the principal amount and interest, which was PLN 0.9 million as at 31 December 2012.

As at 31 December 2012, a court proceeding was completed before the Corporate Court in Dnepropetrovsk for PrivatBank for the payment of the guarantee amount securing the performance of the construction contract of 17 October 2006 no. DN/NR/RI-35 In the Court's judgment, the claim was rejected on the grounds that the signature of the authorized person appearing on the guarantee was not affixed by that person and the stamp of the bank did not match the original. Based on the Court's judgment, KK Zabrze filed a notification of a criminal offense with the Regional Prosecutor's Office in Zabrze. In the letter of 7 November 2012, the Prosecutor's Office stated that the investigation in the matter of a criminal offense from Article 270 § 1 of the Criminal Code has been launched.

The remaining Group entities do not participate in any arbitration proceedings.

Criminal proceedings

No criminal proceedings are pending that could have a material and adverse impact on the Group's operations, financial position and profitability.

4.10. Events materially affecting the Group's operations

Other events affecting the Group's operations which occurred during the financial year

In the course of 2012 the following material events affecting the Group's operations occurred:

- Changes to the composition of the Management Board and the Supervisory Board of the Parent Company have been described in Item 5.11 of this report.
- On 17 January 2012, the Management Board of JSW S.A., acting pursuant to § 12 sec. 4 item 2 of the Articles of Association of JSW S.A. adopted a resolution to award powers of a joint general proxy to Mr. Krzysztof Sędzikowski authorizing him to submit statements of will and sign documents on behalf of JSW S.A. jointly with a Management Board member, effective as of 17 January 2012. The general proxy was revoked by a JSW S.A. Management Board decision as of 24 July 2012.
- The JSW S.A. Management Board, with reference to Current Report no. 27/2011 of 13 September 2011, on the basis of the Constitutional Tribunal ruling announced on 13 September 2011 in the matter of the Local Tax and Fee Act of 12 January 1991, informed in Reports no. 3/2012 and no. 8/2012 that on 10 January 2012) it made a decision to release most of the reserves for disputable property tax on underground workings and recognize the amounts paid by JSW S.A. as receivables from townships, after making a revaluation charge. Pertinent postings were made in December 2011, and detailed information was presented in the financial statements for 2011.
- On 18 January 2012, the JSW S.A. Management Board (Current Report no. 7/2012) published the dates of publication of periodic reports in the financial year 2012 and a representation on the intention of regular provision of consolidated quarterly reports.
- On 24 January 2012 (Current Report no. 10/2012), in connection with final settlement of the costs associated with the completed offering, the JSW S.A. Management Board supplement information regarding the IPO of JSW S.A.'s shares presented in Current Report no. 17/2011 of 15 July 2011. The total amount of the costs incurred in connection with the offering amounts to PLN 13,774,727.70. The above costs constitute the costs of the period and are charged to the financial result of the period. The cost of IPO per share amounted to PLN 0.35. The above amount does not take into account the costs incurred by the State Treasury.
- On 11 April 2012, in the Current Report no. 23/2012, the Management Board submitted a recommendation regarding the distribution of the JSW S.A. net profit for the financial year ended 31 December 2011. The final decision regarding the distribution of the net profit for the financial year 2011 was made by the Ordinary Shareholder Meeting of JSW S.A. on 31 May 2012 which was described in Item 1.4.4.
- On 31 May 2012, the Ordinary Shareholder Meeting of JSW S.A. adopted resolutions to approve the financial statements and the Management Board report on the activity of JSW S.A. and the consolidated financial statements and Management Board report on the activity of the Group and to grant a discharge to JSW S.A. Management Board and Supervisory Board members on the performance of their duties in the financial year 2011, changes to other reserve capital and reserve capital of JSW S.A., reduction of the revaluation capital and increase of the JSW S.A. reserve capital, appointment of members to the JSW S.A. Supervisory Board for the new term and adoption of the consolidated text of the JSW S.A. Articles of Association.
- On 20 June 2012, the JSW S.A. Management Board announced a change in the date of publication of the consolidated report for H1 2012 and a decision to publish the report on 17 August 2012 (Current Report No. 35/2012). Originally, according to information presented in Current Report No. 7/2012 of 18 January 2012, the date of publication of the report was set at 31 August 2012.
- On 31 July 2012, the Management Board of JSW S.A. adopted a resolution to increase the share capital of PGWiR by PLN 8.3 million by way of JSW S.A. subscribing to 831,729 new series C shares in the increased share capital of PGWiR with a par value of PLN 10.00 at the price of PLN 32.62 per share, where the share premium account of PLN

22.62 per share and the total amount of PLN 18.8 million is to be credited to the reserve capital of PGWiR. On 29 August 2012, the JSW S.A. Supervisory Board approved the subscription by JSW S.A., in exchange for provided in-kind contribution, of 831,729 new series C shares in the increased share capital of PGWiR. All the shares in the increased share capital were acquired by JSW S.A. in a private subscription procedure. The increased share capital was covered by an in-kind contribution of JSW's assets with a market value of PLN 27.1 million and a cash contribution of PLN 3.98. On 22 February 2013, JSW S.A. and PGWiR signed an agreement transferring the ownership title to property, perpetual usufruct right to land and the ownership title to buildings and equipment and other property, plant and equipment. On 25 February 2013, an agreement was signed under which JSW S.A. subscribed to 831,729 series C shares of PGWiR with a par value of PLN 10.00 each.

- On 24 August 2012, the JSW S.A. Management Board announced a change in the date of publication of the consolidated report for Q3 2012 and a decision to publish the report on 8 November 2012 (Current Report No. 38/2012). Originally, according to information presented in Current Report No. 7/2012 of 18 January 2012, the date of publication of the report was set at 14 November 2012.
- On 18 December 2012, the Management Board of JSW S.A. adopted a resolution to increase the share capital of SpółkaEnergetycznaJastrzębie S.A. by PLN 2.6 million by way of JSW S.A. subscribing to 25,986 new shares in the increased share capital of SEJ with a par value of PLN 100.00 each. The increased capital will be covered by an in-kind contribution of JSW S.A.'s assets with the market value of PLN 2.6 million and a cash contribution of PLN 83.00 to equalize the difference between the par value of the subscribed shares and the value of the contribution-in-kind. The share capital will be increased on the condition that the Supervisory Board of JSW S.A. specifies the manner in which JSW S.A. exercises its voting right derived from the shares at the Shareholder Meeting of SEJ.
- Business combinations – detailed information concerning the Group's equity investments made in the financial year has been included in Item 1.1.3.
- The Parent Company is a partner of the educational campaign entitled "Citizen Shareholders. Invest Knowingly" aimed at building public confidence in the capital market and increasing the involvement of individual investors in the Warsaw Stock Exchange.
- The Parent Company was recognized in prestigious rankings: the Financial Times placed JSW S.A. in the top 500 most expensive European companies and the Rzeczpospolita daily placed JSW S.A. higher in its ranking of the 500 largest companies in Central and Eastern Europe.

Events taking place after the final day of the reporting period

After the end of the reporting period until the date of preparing these financial statements, the following material events affecting the Group's operations occurred:

- In 2012, JSW S.A. met the restrictive criteria and was admitted to the prestigious community of companies included in the RESPECT Index and it remains in the index as at the date of this report. This confirms the highest standards of information governance provided by JSW S.A. This prestigious index includes companies managed in a sustainable and socially responsible manner and very attractive as an investment.
- In January 2013, the JSW S.A. Management Board adopted the Corporate Social Responsibility Strategy for 2013-2015, which is aligned with the Company's business strategy. The document was developed by the interdisciplinary CSR Team appointed in JSW S.A. by the President of the Management Board.
- On 22 January 2013, the Management Board of the Parent Company gave its consent to launch actions aimed at admitting JSW S.A. employee shares into public trading on the regulated market. The date 7 July 2013 marks the end of the statutory ban on the trading of JSW S.A. employee shares. Pursuant to Article 7 of the Act of 29 July 2005 on Public Offering and Conditions for Introducing Financial Instruments to an Organized Trading System and on Public Companies, admission of those shares in the public trading system requires JSW S.A. to prepare a new prospectus.

- On 26 February 2013, the JSW S.A. Supervisory Board adopted resolutions on: the organization of elections of a JSW S.A. Management Board member by employees for the 8th term and a qualification procedure for the positions of the President and Vice-Presidents of the JSW S.A. Management Board for the 8th term of office.

According to our best knowledge, after the date ending the reporting period, apart from the events listed in this report and the events described in the consolidated financial statements of the JastrzębskaSpółkaWęglowa S.A. Capital Group for the financial year ended 31 December 2012, there were no other material events which could have material impact on the evaluation of the material and the financial standing, financial result and its changes and would be important for the evaluation of the Company's staffing situation and its capacity to perform its obligations.

5. REPRESENTATION ON THE APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

Pursuant to § 91 section 5 sub-section 4) of the Finance Minister's Regulation of 19 February 2009 *in the matter of current and periodic information provided by issuers of securities and conditions for considering the information required by laws of a non-member state as equivalent to EU regulations* ("Regulation") and § 29 sec. 5 *of the Stock Exchange Regulations* and Resolution 1013/2007 adopted by the Management Board of WSE on 11 December 2007, the Management Board of JSW S.A. ("Issuer", "Company", "Parent Company") hereby presents its *Representation on the Application of Corporate Governance Rules in 2012.*

5.1. Identification of the set of corporate governance rules being applied

Since 4 July 2012, i.e. from the time when JSW S.A.'s shares were admitted to public trading, the Company has been subject to the corporate governance rules described in the document entitled Best Practices of Companies Listed on WSE (Corporate Governance Rules, DPSN) adopted by Resolution no. 12/1170/2007 of the Stock Exchange's Supervisory Board on 4 July 2007. The Corporate Governance Rules were amended by WSE Supervisory Board Resolutions no. 15/1282/2011 of 31 August 2011 and 20/1287/2011 of 19 October 2011 (effective from 1 January 2012) and WSE Supervisory Board Resolution no. 19/1307/2012 of 21 November 2012 (effective from 1 January 2013).

The text of the Best Practices of Companies Listed on WSE has been published on the website of Warsaw Stock Exchange S.A. at the following address: http://www.corp-gov.gpw.pl

5.2. Identification of corporate governance rules not applied

JSW S.A. does its utmost to apply the corporate governance rules prescribed by the document entitled Best Practices of Companies Listed on WSE. In 2012, JSW S.A. did not apply the following rules:

I. Recommendations for Best Practices

Rule no. I.1:

"A company should pursue a transparent and effective information policy using both traditional methods and modern technologies and latest communication tools ensuring fast, secure and effective access to information. Using such methods to the broadest extent possible, a company should in particular:

- maintain a company website whose scope and method of presentation should be based on the model investor relations service available at http://naszmodel.gpw.pl/;
- ensure adequate communication with investors and analysts, and use to this purpose also modern methods of Internet communication;
- enable on-line broadcasts of General Meetings over the Internet, record General Meetings, and publish the recordings on the company website."

Explanation:

In an EBI (Electronic Information Database) report of 5 July 2011, JSW S.A. announced that it will not apply the foregoing rule in the part concerning the broadcasting of shareholder meetings using the Internet, recording of the meetings and publishing them on its website, since the Company's shareholders are very dispersed and the Company cannot be protected against the possible shareholders' claims who might not wish to have their image or statements published.

Rule no. I.5:

"A company should have a remuneration policy and rules of defining the policy. The remuneration policy should in particular determine the form, structure, and level of remuneration of members of supervisory and management bodies. Commission Recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and Commission Recommendation of 30 April 2009 complementing that Recommendation

(2009/385/EC) should apply in defining the remuneration policy for members of supervisory and management bodies of the company."

Explanation:

On 18 November 2011 the JSW S.A. Supervisory Board adopted a resolution on executing management contracts with the Members of the JSW S.A. Management Board. This resolution was adopted in the interest of, and in response to the explicit suggestion made by shareholders of JSW S.A. who expected a system to incentivize senior management to care for the interests of the owners. Therefore the Supervisory Board acted in compliance with the Commission Recommendation of 14 December 2004 according to which the "form, structure and level of directors' compensation are powers of companies and their shareholders". In turn, the JSW S.A. Shareholder Meeting sets the compensation for the Supervisory Board members.

IV. Best Practices of Shareholders

<u>Rule no. IV.10:</u>

"A company should enable its shareholders to participate in a General Meeting using electronic communication means through:

1) real-life broadcast of General Meetings;
2) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting;
3) exercise their right to vote during a General Meeting either in person or through a plenipotentiary."

Explanation:

In an EBI report of 5 July 2011, JSW S.A. announced that it will not apply the rule IV.10 for technical reasons associated with the implementation of a data transmission system. The JSW S.A. Management Board will strive to apply it eventually. If this rule is implemented, JSW S.A. will immediately announce information about this fact publicly.
An amendment of the Best Practice for WSE Listed Companies dated 31 August 2011 made by the power of a resolution of the WSE Supervisory Board, the obligation to apply the rule IV.10 was postponed. According to the amendment, the change should be applied no later than 1 January 2013. Until that time, listed companies were not obligated to follow this rule. This change did not result in an obligation to publish the EBI report.
In 2012, by Resolution no. 19/1307/2012 adopted by the WSE Supervisory Board on 21 November 2012, the rule IV.10 was amended again by transferring item 3 to the rule I.12 of the recommended Best Practice for Listed Companies. From the standpoint of JSW S.A., the explanation about the application of the rule IV.10, which was included in the published EBI report of 5 July 2011, remains true with respect to the wording of rules I.12 and IV 10 of the Best Practice applicable from 1 January 2013.
In 2012 and as at the date of this report, JSW S.A. applied the remaining corporate governance rules set forth in the Best Practice for Listed Companies document.

5.3. Description of the primary attributes of the internal control and risk management systems in reference to preparing financial statements and consolidated financial statements

JastrzębskaSpółkaWęglowa S.A. prepares standalone and consolidated financial statements based on the generally binding regulations of law and internal regulations.

For the purpose of procuring that the financial statements are true and fair and comply with the binding regulations of law and of generating high quality financial data, the Parent Company employs elements of internal control and risk management systems. The JSW S.A. Management Board is responsible for the internal control system and its effectiveness in the process of preparing the financial statements and the periodic reports prepared and published in accordance with the principles of the Regulation.

Under the internal control and risk management system in the process of preparing financial statements, JSW S.A. applies a number of procedures and internal rules and regulations whose purpose is to procure effective and efficient control, identification and elimination of prospective risks. The solutions in force in JSW S.A. governing the process of preparing financial statements are based on the following:

- JSW S.A. Organizational Bylaws
- Documentation concerning the accepted accounting principles (policies),
- Corporate Risk Management Policy and Procedures,
- Rules and Regulations and procedures concerning the performance of the reporting duties in the laws governing the trading of JSW S.A.'s securities on the regulated market and the executive acts to these statutes prescribing the scope of reporting as well as the rules and regulations and split of duties for preparing financial statements,
- Instructions concerning documentary workflow,
- Scopes of employee rights and duties.

The Chief Financial Officer oversees the preparation of financial statements with the financial and accounting teams reporting to him as they perform tasks relating to recording and verifying economic events in the accounting ledgers and generating the data required to prepare the financial statements. The Management Boards of the consolidated companies are responsible for preparing the reporting packages for the Capital Group's consolidated financial statements.

The Parent Company continuously employs cohesive IFRS-compliant accounting rules to present financial data in the financial statements, periodic reports and other reports conveyed to shareholders. The same rules are in force in the companies belonging to the Capital Group for which JSW S.A. is the parent company.

The scope of disclosures stems from the reporting duties prescribed by IFRS. Amendments to IFRS are monitored on an ongoing basis to update the scope of disclosures in the financial statements. The data disclosed in the published periodic reports come from JSW S.A.'s accounting records and additional information transmitted by the various organizational cells of JSW S.A. However, the Capital Group companies transfer the required data in the form of reporting packages to prepare consolidated financial statements.

The documentation concerning the IFRS accounting rules (policies) adopted by JSW S.A. is binding on Group entities primarily with respect to the scope of preparing consolidation packages for the purposes of preparing consolidated financial statements. Group companies prepare IFRS-compliant standalone financial statements.

The data from the accounting ledgers provide for the accuracy of the financial statements as they contain evidence entered on the basis of the appropriate source documentation, while using the most modern IT technology to record, process and present economic and financial data. The system's modular structure provides for a transparent split of areas and competencies, the coherence of the records of operations in the accounting ledgers and control between the ledgers. Access to data in different cross-sections and layouts is achievable through an expanded reporting system. On an ongoing basis JSW S.A. updates its IT system to the changing rules of accounting and other legal standards, which is supported by the high degree of flexibility in the functionalities of the system's various modules. Consolidated financial statements are prepared using specialized IT tools. The IT solutions used by JSW S.A. secure control of access to the finance and accounting system and provide for the appropriate protection and archiving of accounting ledgers. The security of operating the IT system is afforded by the relevant structure of authorization. Control of access is exercised at every stage of preparing the financial statements, starting from entering source data, through data processing to generating output information.

The Supervisory Board evaluates the standalone and consolidated financial statements and appoints an Audit Committee, which is an advisory and opinion-giving body acting collectively within the structure of the Supervisory Board. The Audit Committee operates on the basis of the Bylaws of the Audit Committee of the Supervisory Board of JastrzębskaSpółkaWęglowa S.A. A description of how the Audit Committee operates has been presented in Item 5.11 of this representation. The primary objective of the Audit Committee's operation is to support the Supervisory Board in exercising financial supervision and delivering to the Supervisory Board accurate information and opinions making it

possible to make the right decisions on financial reporting, internal control and risk management, as well as to procure independence and objectivity of the audit firm auditing the financial statements.
Moreover, by the power of art. 4a of the Accountancy Act of 29 September 1994, the duties of the Management Board and the Supervisory Board include ensuring that the financial statements and the activity report meet the requirements prescribed by law.

According to the binding regulations JSW S.A. submits its financial statements to a review and an audit by an independent statutory auditor. The JSW S.A. Supervisory Board selects the statutory auditor from among reputable audit firms based on the Audit Committee's recommendations. Within the framework of its audit work the statutory auditor makes an independent evaluation of the accuracy and correctness of the standalone and consolidated financial statements and confirms the effectiveness of the internal control and risk management system.

The fundamental element of risk management in the process of preparing financial statements is to audit the control mechanisms and the occurrence of risks in JSW S.A.'s operations. In performing these duties internal audit will assist the Audit Committee by conducting the relevant work to check the effectiveness of control and the efficiency of processes. In 2012 the cooperation between internal audit and the Audit Committee was continued. Internal audit operates on the basis of the Bylaws of Internal Control and Audit at JSW S.A. as approved by the Management Board of JSW S.A.

The internal control system in operation in JSW S.A. covers all the processes in JSW S.A., including areas having a direct or indirect impact on the correctness of preparing financial statements.

In 2012, the Issuer took a number of steps to modify and develop the Corporate Risk Management System in place in JSW S.A. As a result, the Corporate Risk Management Policy and Procedures was developed based on comprehensive ERM (enterprise risk management) solutions were developed based on the practice of COSO, FERMA and ISO systems. Moreover, a Representative for Corporate Risk Management was appointed in the organizational structure of JSW S.A. to analyze the current risk-mitigation control mechanisms and submits recommendations on risk responses. The purpose of corporate risk management is to:

- identify the potential events that may have an adverse effect on JSW S.A.,
- keep risk within the specified limits, and
- ensure the achievement of business objectives in a reasonable manner

Risk management is accomplished by identifying and assessing the areas of risk while simultaneously defining and taking measures to minimize them or eliminate them entirely, in the following areas:

- Organization and management;
- Strategy and its implementation;
- Operating activity;
- Support functions;
- Environment.

The assessment of effectiveness conducted in this area among others concerning the credibility and coherence of financial data supports the process of preparing financial statements required by the regulations of law and management accounts. Moreover, JSW S.A. maintains an obligation of self-control of employees and functional control exercised by all levels of management.

The adopted rules of procedure regarding the preparation of financial statements are supposed to procure compliance with the requirements of the law and the facts as well as to allow for early identification and elimination of prospective risks so that they do not affect the accuracy and correctness of the presented financial data.

The Capital Group's subsidiaries record, process and present their economic and financial data based on their own procedures for identifying, recording and controlling economic operations. The entities run their accounting ledgers in integrated IT systems and the underlying documentation is subject to periodic reviews and updates. The companies implement their own organizational solutions that are to ensure the correct operation and protection and systems and security of access to data, by developing internal policies and rules and regulations for granting access, awarding rights and control. With respect to operational risk control and assessment systems, the companies adopt their own internal procedures depending on their scale of operation and Management Board's needs. Control activities directly or indirectly affect the correctness of financial statements.

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

Capital Group companies have Management Boards and Supervisory Boards which according to the Accountancy Act are responsible for ensuring compliance of the financial statements and company activity reports with the law.

5.4. Shareholders holding significant blocks of shares

The shares of JSW S.A. are listed on the Warsaw Stock Exchange, where they are listed on the main floor in the continuous quotation system. The shares of JSW S.A. are included in the WIG20 large cap index, the WIG index and the WIG-Surowce sector index. As of 1 August 2012, the shares of JSW S.A. were included in the index of socially responsible companies, i.e. RESPECT and as at the date of this report they remain part of the index.

The table below depicts the shareholders who as at 31 December 2012[(1)] and as at the date of this report, according to the knowledge of the Company's Management Board, directly or indirectly hold significant blocks of the Company's shares.

	Number of shares	Number of votes at the Shareholder Meeting	% of the share capital	Percentage of total votes at Shareholder Meeting
State Treasury of the Republic of Poland[(2)]	64,775,542	64,775,542	55.16%	55.16%

[(1)] JSW S.A. does not have a detailed shareholding structure breakdown as at 31 December 2012 or the date of this report, due to the on-going process of acquisition of JSW S.A.'s shares from the State Treasury, free of charge, by eligible employees, pursuant to the Commercialization and Privatization Act of 30 August 1996. The information included in the foregoing table was transmitted in the Current Report no. 40/2012 of 30 November 2012 prepared on the basis of the notification from the State Treasury.

[(2)] The State Treasury, including Employee Shares. Shares of the eligible employees or their heirs will remain the property of the State Treasury until they are disposed in their favor. 1. Starting on 10 October 2011, JSW S.A. began to dispose, free of charge, 14,928,603 series A registered shares of JSW S.A. with a par value of PLN 5.00 each to eligible employees of JSW S.A.. 2. In connection with the contribution of KK Zabrze shares to JSW S.A., shares of the persons entitled to a gratuitous purchase of KK Zabrze allow them to exercise the right to a gratuitous purchase of JSW S.A. shares instead of KK Zabrze shares. On 23 April 2012, the gratuitous disposal commenced of 1,130,137 series D registered shares of JSW S.A. with a par value of PLN 5.00 each, to eligible employees of KK Zabrze.

The Parent Company has not received any information about exceeding the percentage thresholds of the total number of votes specified in art. 69 sec. 1 of the Act on Public Offerings and the Conditions for Floating Financial Instruments in an Organized Trading System and on Public Companies.

5.5. Holders of securities giving special rights of control

The Parent Company has not issued securities that would give special rights of control over JSW S.A..

5.6. Restrictions regarding the exercise of voting rights

Restrictions regarding the exercise of voting rights are described in detail in § 9 of the JSW S.A. Articles of Association. The restrictions set forth in the JSW S.A. Articles of Association are formulated as follows:

1. Voting rights of the shareholders holding above 10% of all the votes in the Company are restricted in such a manner that no such shareholder may exercise more than 10% of all the votes at the Company's Shareholder Meeting.
2. The restriction of the voting rights referred to in section 1 above does not apply to the State Treasury and the State Treasury subsidiaries in the period in which the State Treasury, together with the State Treasury subsidiaries, holds a number of the Company's shares authorizing it to exercise at least 34% plus one vote in all the votes in the Company.
3. The votes held by shareholders linked by a controlling or subsidiary relationship (Shareholder Group) shall be cumulative; if the cumulative number of votes exceeds 10% of all the votes in the Company, it shall be reduced. Vote accumulation and reduction principles are defined in sections 6 and 7 below.

4. Within the meaning of § 9 item 4 of the JSW S.A. Articles of Association, a shareholder is any person, including its parent company and subsidiary, which holds a direct or indirect voting right at the Shareholder Meeting under any legal title; this also applies to a person holding no shares in the Company, in particular a user, lien holder, beneficiary under a depositary receipt within the meaning of the Act of 29 July 2005 on Trading Financial Instruments, and a person authorized to take part in the Shareholder Meeting despite selling the shares after the date when the right to participate in the Shareholder Meeting was determined.
5. The parent company and the subsidiary shall mean, respectively, a person:
    1) remaining in a controlling or subsidiary relationship within the meaning of the Commercial Company Code,
    2) having the status of a controlling company, subsidiary company or a simultaneously controlling company and subsidiary company, within the meaning of the Act on Competition and Consumer Protection of 16 February 2007; or
    3) having the status of a controlling entity, controlling entity of a higher level, subsidiary entity, subsidiary entity of a lower level, or having simultaneously the status of a controlling entity (including controlling entity of a higher level) entity and subsidiary entity (including subsidiary of a lower level and co-subsidiary) within the meaning of the Accountancy Act of 29 September 1994; or
    4) who exerts (controlling entity) or is subject to (subsidiary entity) decisive influence within the meaning of the Act of 22 September 2006 on Transparency of Financial Relations between Public Authorities and Public Enterprises and Financial Transparency of Certain Enterprises; or
    5) whose votes following from the Company's shares, held directly or indirectly, are cumulative with the votes of another person or other persons on the principles set forth in the Act of 29 July 2005 on Public Offerings and the Terms and Conditions for Introducing Financial Instruments to an Organized Trading System and on Public Companies, in connection with holding, selling or acquiring significant stakes of the Company's shares.
6. Vote accumulation involves adding up the number of votes held by individual shareholders from a Shareholder Group.
7. Reduction of votes involves reduction of the total number of votes in the Company at the Shareholder Meeting vested in the shareholders from a Shareholder Group, to the level of 10% of total votes in the Company. Reduction of votes is effected according to the following principles:
    1) the number of votes of the shareholder holding the biggest number of votes in the Company from among all shareholders from the Shareholder Group is reduced by the number of votes equal to the surplus above 10% of all the votes in the Company vested jointly in all shareholders from the Shareholder Group.
    2) if despite the reduction referred to in item 1) above the total number of votes at the Shareholder Meeting vested in the shareholders from a Shareholder Group exceeds 10% of total votes in the Company, further reduction of votes held by other shareholders from the Shareholder Group shall be carried out. Further reduction of votes of individual shareholders shall take place in the order determined on the basis of the number of votes held by individual shareholders from the Shareholder Group (from the biggest to the smallest). Further reduction is carried out until the total number of votes held by shareholders from the Shareholder Group does not exceed 10% of total number of votes in the Company,
    3) in each case a shareholder whose voting right has been reduced, retains the right to exercise at least one vote,
    4) the reduction of the voting rights pertains also to shareholders who are not present at the Shareholder Meeting.

5.7. Restrictions on the transfer of ownership title to securities

Restrictions regarding the transfer of the ownership title to JSW S.A.'s shares are specified in § 8 of the Articles of Association of JSW S.A., according to which: “Disposal of 50% + 1 shares by the State Treasury may be effected only with the consent of the Council of Ministers. Disposal of shares without such consent shall be invalid.”
Moreover, there are time restrictions for transferring the ownership title to JSW S.A. securities acquired gratuitously by Capital Group employees. The shares received may not be sold for a period of 2 years (or 3 years for Management Board members), starting from 7 July 2011, regardless of the date when the eligible persons actually received the shares (“lock-up”). During that time, the shares will be held in custody by the Dom Maklerski PKO BP S.A. brokerage house.

5.8. Principles of appointment and dismissal of management and supervisory team and their powers

Composition of the JSW S.A. Management Board and principles of appointment and dismissal of Management Board Members

Composition of the Management Board and the procedure of its operation is defined in the Management Board Bylaws and in the Articles of Association of JSW S.A. The Bylaws are adopted by the Management Board and approved by a Supervisory Board resolution. The Management Board Bylaws and the Articles of Association of JSW S.A. are available at www.jsw.pl.

According to the Articles of Association of JSW S.A. the Management Board consists of three to six members. On 26 April 2010, the Shareholder Meeting set the number of JSW S.A. Management Board Members of the 7th term of office at five members.

The current seventh term of office of the JSW S.A. Management Board expires on the date of the Ordinary Shareholder Meeting approving the financial statements for the financial year 2012.

Management Board members are appointed for a joint term of 3 years. The mandate of a Management Board member appointed before the end of the term of office of the Management Board expires simultaneously with the expiry of the mandates of the remaining Management Board members.

If the average annual headcount in the Company exceeds 500 employees one Management Board member shall be elected by the Company employees, in accordance with the election bylaws adopted by the Supervisory Board. Result of the election is binding for the body empowered to appoint the Management Board, i.e. the Supervisory Board. Lack of election of a Company employee representative to the Management Board shall not hinder the Management Board from adopt binding resolutions. Upon request of at least 15% of all the Company employees, a ballot shall be held to dismiss the Management Board member elected by employees. Such dismissal, death or other important reasons that decrease the number of Management Board members by the member elected by employees shall require supplementary elections.

Detailed regulation of this matter is included in the JSW S.A. Articles of Association available on the JSW S.A. corporate website.

Management Board Members are appointed and dismissed by the Supervisory Board. A Management Board member shall submit a resignation in writing to the Supervisory Board at the address of the registered office of JSW S.A.

Management Board's powers

The Management Board manages the matters of JSW S.A. and represents it in and out of courts of law. The following issues that exceed ordinary management shall require a Management Board resolution:

- determining the organizational bylaws defining the organization of JSW S.A.,
- appointing general proxies,
- purchasing and selling real estate,
- matters in which the Management Board turns to the Shareholder Meeting and Supervisory Board.

Members of the JSW S.A. Management Board have no powers to make decisions on share issues or buyouts. According to the Articles of Association of JSW S.A., these powers are held by the Shareholder Meeting of JSW S.A.

Two Management Board members acting jointly or a Management Board member acting with a proxy are authorized to make statements of will and affix signatures on behalf of JSW S.A.

In contracts between JSW S.A. and a Management Board member, as well as in disputes with a Management Board member, JSW S.A. is represented by the Supervisory Board.

Composition of the JSW S.A. Supervisory Board and principles of appointment and dismissal of Supervisory Board Members

Composition of the JSW S.A. Supervisory Board and the procedures of its operation are defined in the Supervisory Board Bylaws and in the Articles of Association of JSW S.A. which are available at www.jsw.pl. Supervisory Board Bylaws are adopted by the Supervisory Board.

According to the Articles of Association of JSW S.A., the Supervisory Board consists of at least nine members. On 27 February 2012, the Shareholder Meeting set the number of Supervisory Board members of the 8th term of office at twelve members. The Supervisory Board elects the Chairman, the Deputy Chairman and the Secretary of the Supervisory Board from among its members. The Supervisory Board may dismiss in a secret ballot the Chairman, the Deputy Chairman or the Secretary of the Supervisory Board.

Supervisory Board members are appointed for a joint three-year term of office. If Supervisory Board members are elected by way of separate group voting, the number of Supervisory Board members is set by the Shareholder Meeting in gremio, however in such a situation the Supervisory Board may consist of no less than five members. The mandate of a Supervisory Board member appointed before the end of the term of office of the Supervisory Board shall expire simultaneously with the expiration of the mandates of the remaining Supervisory Board members.

After the State Treasury sells any shares in JSW S.A., JSW S.A. employees have the right to elect to the Supervisory Board: two members in a Supervisory Board composed of up to 6 members, three members in a Supervisory Board composed of between 7 and 10 members and four members in a Supervisory Board composed of 11 or more members. Result of the election is binding for the body empowered to appoint the Supervisory Board, i.e. the Shareholder Meeting. Upon a written request of at least 15% of all JSW S.A. employees, a vote is held in the matter of dismissing a Supervisory Board member elected by the employees. Such a dismissal, death or any other important reason that decreases the number of Supervisory Board members elected by Employees shall require supplementary elections.

The Shareholder Meeting appoints and dismisses Supervisory Board members. A Supervisory Board member shall submit a resignation in writing to the Management Board at the address of JSW S.A. registered office.

From the date of introduction of JSW S.A. shares into trading on a regulated market, in the period during which the State Treasury, including subsidiaries of the State Treasury, holds JSW S.A. shares carrying voting rights of at least 34% of the total number of votes in JSW S.A. plus one vote, the State Treasury shall be entitled to appoint and shall be entitled to dismiss Supervisory Board members of a number equal to half the total number of Supervisory Board members set by the Shareholder Meeting (in the event this number is fractional, it shall be rounded down to a whole number) plus 1, with the reservation that the State Treasury shall be excluded from the vote in the Shareholder Meeting on appointing or dismissing the remaining Supervisory Board members; however, the State Treasury shall retain the voting right in the event of electing Supervisory Board members by voting in separate groups and in the event of the votes referred to in Article 385 § 6 of the Commercial Companies Code as well as in the event of votes on appointing or dismissing the Supervisory Board members elected by employees and in the event the Supervisory Board is unable to act because the number of its members is smaller than that required by the Articles of Association and the shareholders present at the Shareholder Meeting, other than the State Treasury, fail to supplement the composition of the Supervisory Board in the part which is subject to election by the Shareholder Meeting. Supervisory Board members are appointed and dismissed by the State Treasury by way of a statement delivered to JSW S.A.

At least one member of a Supervisory Board consisting of up to 12 members or at least two members of a Supervisory Board consisting of 13 or more members should satisfy the requirements of independence for a Supervisory Board member within the meaning of the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC), in consideration of additional requirements arising out of the Code of Best Practice for Warsaw Stock Exchange Listed Companies.

A candidate for an independent member of the Supervisory Board shall submit to JSW S.A., before his or her appointment to the Supervisory Board, a written representation on satisfying the prerequisites for independence. If a situation arises causing failure to satisfy the prerequisites for independence, the relevant Supervisory Board member shall promptly inform JSW S.A. about this fact. Information about the then current number of Independent Supervisory Board Members shall be made public by JSW S.A.

In a situation when no Supervisory Board member meets the independence requirement, the JSW S.A. Management Board is obligated to convene a Shareholder Meeting immediately and place an item concerning changes in the composition of the Supervisory Board in the agenda of that Shareholder Meeting. Until the moment of making changes to the Supervisory

Board composition, aiming at adjusting the number of independent members of the Supervisory Board to the requirements prescribed in the articles of association, the Supervisory Board shall act in the previous composition.

Supervisory Board's powers

Powers of the Supervisory Board are set forth in the Articles of Association of JSW S.A. The Supervisory Board exercises permanent supervision over the activity of JSW S.A. The powers of the Supervisory Board include in particular:

1. approving the JSW S.A. Management Board Bylaws and issuing an opinion on the organizational bylaws specifying the organization of JSW S.A.'s enterprise,
2. appointing and dismissing the JSW S.A. Management Board members, without prejudice to §11 section 5 and §34 item 2 of the Articles of Association of JSW S.A.,
3. suspending, for important reasons and in a secret ballot, any specific or all Management Board members in their duties,
4. delegating any Supervisory Board member or members to temporarily perform the duties of those Management Board members who are unable discharge their functions,
5. signing, terminating and amending agreements with Management Board members, establishing the rules for hiring and remunerating them and setting their remuneration, without prejudice to §33 item 4 and §34 item 1 of the Articles of Association of JSW S.A.,
6. selecting an entity authorized to audit financial statements to audit the financial statements of JSW S.A.,
7. evaluating the financial statements whether they are consistent with the ledgers and documents as well as the factual status;
8. evaluating reports on the activity of JSW S.A. and the Management Board's motions on the distribution of profit or the coverage of loss,
9. submitting written reports on the results of the activities referred to in items 7 and 8 above to the Shareholder Meeting,
10. submitting annual brief assessments of JSW S.A.'s standing in consideration of evaluation of the internal control system and the risk management system as well as annual reports on the activities of the Supervisory Board to the Shareholder Meeting, without prejudice to §35 of the Articles of Association of JSW S.A.,
11. giving an opinion on the matters submitted to the Shareholder Meeting,
12. approving the operating strategy of JSW S.A., without prejudice to §33 item 2 of the Articles of Association of JSW S.A.,
13. opining JSW S.A.'s annual plans.

In addition, the Supervisory Board's powers shall include giving consent to the Management Board for:

1. establishment of another company, subscription for, purchase or sale of shares in other companies, without prejudice to §34 item 3 of the Articles of Association of JSW S.A., with the reservation that the Supervisory Board's request referred to in this item 1 is not required for the following:
   - taking up and acquiring shares in another company in the amount lower than 1/10 of the share capital of such company,
   - sale of shares in another company in which JSW S.A. holds less than a 1/10 share in the share capital,
   - taking up or acquiring shares in another company in return for JSW S.A.'s receivables as part of composition or settlement proceedings,
   - selling shares acquired or taken up by JSW S.A. in return for JSW S.A.'s receivables as part of composition or settlement proceedings,
   - subscription for, purchase or sale of shares in another company whose shares are listed on a regulated market,

   unless the value of such shares exceeds 1/20 of JSW S.A.'s share capital,
2. establishment of foreign branches,
3. purchase or sale or fixed assets the value of which exceeds 1/20 of JSW S.A.'s share capital,
4. contracting of contingent liabilities, including the granting by JSW S.A. of financial guarantees and sureties the value of which exceeds 1/20 of JSW S.A.'s share capital,

5. disbursement of interim dividends,
6. issuance of promissory notes the value of which exceeds 1/20 of JSW S.A.'s share capital,
7. purchase or sale of a real property or a right of perpetual usufruct or of a share in a real property or in a right of perpetual usufruct the value of which exceeds 1/20 of JSW S.A.'s share capital,
8. granting of consent for JSW S.A. to enter with a related entity into a material agreement within the meaning of the regulations on current and periodic information transmitted by issuers of securities admitted to trading on a regulated market, excluding typical agreements executed by JSW S.A. on an arm's length basis within the framework of its operating activity, without prejudice to §35 of the Articles of Association of JSW S.A.;
9. the voting instructions for the Shareholder Meetings of companies in which JSW S.A. holds at least 50% of all shares, in the following matters:
   - sale or lease of the company's enterprise or an organized part thereof or establishment of a limited right in rem thereon,
   - dissolution or liquidation of the company,
   - introduction of amendments to the company's articles of association or articles of partnership,
   - merger, split-up or transformation of the company,
   - increase or decrease of the company's share capital.

At the request of the Management Board, the Supervisory Board shall permit a Management Board member to hold positions in the corporate authorities of companies in which JSW S.A. has an ownership interest and to collect remuneration for such work.

5.9. Description of the rules for amending the Articles of Association of JSW S.A.

The Articles of Association of JSW S.A. are amended by way of a resolution adopted by the Shareholder Meeting where a subsequent decision of a relevant court must be issued to enter the amendment in the register of entrepreneurs.

An amendment to the Articles of Association materially changing the line of business of JSW S.A. (Article 416 § 1 of the Commercial Company Code) shall not require a buyout of the shares held by shareholders objecting to such an amendment if the relevant resolution of the Shareholder Meeting is adopted by a majority of two thirds of the votes in the presence of shareholders representing at least one half of the share capital.

Amendments to the Articles of Association of JSW S.A. made in 2012:

1. On 27 February 2012 the Shareholder Meeting of JSW S.A. introduced changes in JSW S.A.'s line of business by adding the following item 55 to § 4 of the Articles of Association: "Accounting and bookkeeping activity, tax advisory services (69.20.Z)".

2. On 17 April 2012, the Shareholder Meeting of JSW S.A. made changes relating to: the reduction of JSW S.A.'s share capital, rectification of spelling errors and limitation of the Shareholder Meeting's powers in relation to the subscription, purchase or disposal of shares of a company for which JSW S.A. is a parent company within the meaning of Article 4 § 1 of the Commercial Company Code, unless the value of such shares exceeds 1/20 of JSW S.A.'s share capital.

3. On 23 April 2012, JSW S.A. received a decision of the District Court in Gliwice refusing to register the entry of the line of business specified in § 4 item 55 of the Articles of Association, i.e. "Accounting and bookkeeping activity, tax advisory services (69.20.Z)" as stated in the Shareholder Meeting Resolution adopted on 27 February 2012. At the same time, the District Court in Gliwice registered a change of this item, which is now worded as follows: "Accounting activity (69.20.Z)".

   Accordingly, the Shareholder Meeting adopted the consolidated text of JSW S.A.'s Articles of Association including these amendments on 31 May 2012.

5.10. Manner of operation of the Shareholder Meeting, its basic powers and a description of shareholder's rights and how they are exercised

The manner of operation of the JSW S.A. Shareholder Meeting and its powers are defined in the JSW S.A. Articles of Association and in the JSW S.A. Shareholder Meeting Bylaws (adopted by the Shareholder Meeting) available at the www.jsw.pl website.

A Shareholder Meeting is convened in accordance with the procedure and rules set forth in the provisions of law. Shareholder Meetings are held in Warsaw, in Katowice or at the registered office of JSW S.A.

A Shareholder Meeting is convened by way of an announcement published on JSW S.A.'s website and in the form of a current report. The announcement is posted on JSW S.A.'s website and the current report is sent no less than 26 days before the date of the Shareholder Meeting. The persons or the body other than the Management Board that individually convenes the Shareholder Meeting shall promptly notify JSW S.A.'s Management Board about this fact and deliver in writing or electronically a relevant resolution or statement on convening the Shareholder Meeting, the agenda, draft resolutions and justifications. If the Shareholder Meeting is convened by Shareholders then they shall also deliver documents confirming the mandate the convene the Shareholder Meeting. The Management Board performs all the activities defined by the law in order to hold an effective Shareholder Meeting.

The Shareholder Meeting shall be opened by the Supervisory Board Chairman or, in his/her absence, the following persons shall be authorized to open the Shareholder Meeting in the following order: a person named by the Supervisory Board Chairman, the Supervisory Board Deputy Chairman, the President of the Management Board, a person appointed by the Management Board or the shareholder who has registered shares at the Shareholder Meeting entitling him/her to exercise the largest number of votes. Subsequently, the Chairman of the Shareholder Meeting shall be elected from among the persons authorized to participate in the Shareholder Meeting.

Resolutions of the Shareholder Meeting are adopted by an absolute majority of votes, unless the Articles of Association or the Commercial Company Code set forth other conditions for adopting a particular resolution.

A Shareholder Meeting may be held if at least 50% of the share capital is represented at the Shareholder Meeting. Any adjournments in the meeting that go beyond a "short technical break" are ordered by the Shareholder Meeting by way of adopting a resolution by a majority of two thirds of the votes. The total duration of the breaks may not exceed 30 days.

Each shareholder who intends to take part in the Shareholder Meeting, directly or by proxy, is obligated to notify the Management Board or the Shareholder Meeting Chairman that he/she holds directly or indirectly more than 10% of total votes in JSW S.A.

Powers of the Shareholder Meeting

Without prejudice to §33 item 2, §34 item 1 and §34 item 3 of the Articles of Association of JSW S.A., the following matters shall require a resolution of the Shareholder Meeting:

1. examining and approving the Management Board report on the activity of JSW S.A. and the financial statements for the previous financial year and discharging the members of JSW S.A.'s governing bodies on the performance of their duties,
2. distributing profits or covering losses,
3. changing JSW S.A.'s line of business,
4. amending the Articles of Association of JSW S.A.,
5. increasing or decreasing the share capital,
6. authorizing the Management Board to purchase JSW S.A.'s treasury stock for retirement and specifying the manner and conditions for retiring stock,
7. merging, splitting up or transforming JSW S.A.,
8. dissolving or liquidating JSW S.A.,
9. appointing or dismissing Supervisory Board members,

10. setting remuneration for Supervisory Board members,
11. allowing JSW S.A. to enter into a loan agreement, a surety agreement or another similar agreement with a Management Board member, a Supervisory Board member, a general proxy or a liquidator or in favor of any such person,
12. allowing a subsidiary to enter into a loan agreement, a surety agreement or another similar agreement with a Management Board member, a Supervisory Board member, a general proxy or a liquidator or in favor of any such person,
13. issuing bonds,
14. selling or leasing an enterprise or an organized part thereof and establishing a limited right in rem thereon,
15. making decisions on claims to remedy damages incurred during the establishment of JSW S.A. or in its management or oversight,
16. establishing or dissolving JSW S.A.'s capitals and funds.

The purchase or sale of a real property or a right of perpetual usufruct or of a share in a real property or in a right of perpetual usufruct shall not require consent of the Shareholder Meeting.

Rights of Shareholders

The rights of JSW S.A. shareholders are set forth in the Articles of Association of JSW S.A.
An Extraordinary Shareholder Meeting may be convened by:

- The Management Board - at its own initiative or at the request of the Shareholders representing at least one-twentieth of the share capital;
- The Supervisory Board - if it considers it necessary to convene it;
- Shareholders representing at least one-half of the share capital or at least one-half of all the votes in JSW S.A.;
- The Shareholder Meeting - following the procedure set forth in Art. 404 §2 of the Commercial Companies Code.

The request to convene a Shareholder Meeting, place an item in the agenda of a Shareholder Meeting, draft resolutions concerning the items included in the agenda of the closest Shareholder Meeting or the items which will be included in the agenda should be submitted to the Management Board in writing or in the electronic form. Authorization documents of the persons authorized to take action should be attached to the request.

A Shareholder or Shareholders representing at least one-twentieth of the share capital may request that the specified items be placed in the agenda of the closest Shareholder Meeting. The request should be submitted to the Management Board no later than twenty one days before the set date of a Shareholder Meeting. The request should contain a justification or draft resolution pertaining to the proposed item on the agenda. The Management Board is obligated to announce changes to the agenda made upon request of the Shareholders immediately, but no later than eighteen days before the set date of a Shareholder Meeting. Announcement is done following the same procedure as for convening a Shareholder Meeting.

A Shareholder or Shareholders representing at least one-twentieth of the share capital may submit to JSW S.A. - before the date of a Shareholder Meeting - the draft resolutions concerning the items included in the agenda of a Shareholder Meeting or the items which will be included in the agenda. JSW S.A. will immediately post the draft resolutions on the website.

Every Shareholder may, during a Shareholder Meeting, submit draft resolutions on matters included in the agenda. Draft resolutions and motions submitted during a Shareholder Meeting should be prepared in writing.

A Shareholder has the right to request copies of motions concerning items included in the agenda within one week prior to the date of holding a Shareholder Meeting.

Persons who are JSW S.A.'s Shareholders sixteen days before the date of a Shareholder Meeting (date of registration of participation in a Shareholder Meeting – "record date") and who satisfy the following conditions have the right to participate in the Shareholder Meeting:

- in case of persons authorized on the basis of dematerialized bearer shares – they have submitted to the entity keeping the securities account, no earlier than after the announcement on convening the Shareholder Meeting and no later than on the first business day after “record date”, the request to issue a name-specific certificate on the right to participate in a Shareholder Meeting.

- in case of persons authorized on the basis of bearer shares in the form of a certificate – they submitted the share certificates to JSW S.A. no later than on the “record date” and did not collect them before closing of that day. Certificates attesting that shares have been deposited with a notary, a bank or an investment firm having its place of business or branch on the territory of the European Union or the state which is a party to the European Economic Area agreement specified in the notice on convening a Shareholder Meeting, may be deposited in lieu of shares. Such certificate should specify the numbers of share certificates and contain a statement that the share certificates will not be released before closing of the “record date".
- in case of persons authorized on the basis of registered shares and interim certificates as well as pledgees and users who have the right to vote – will be entered in the share book on “record date”.

Shareholders may familiarize themselves with the list of the authorized persons which will be displayed in the Management Board's offices for three business days preceding the date of the Shareholder Meeting and may demand a copy of the list against the cost of preparing such a list. Moreover, each Shareholder may request the list of authorized shareholders to be sent to it free of charge by e-mail, specifying the address to which the list should be sent.

Each participant of a Shareholder Meeting may submit one candidate to become the Shareholder Meeting Chairperson. Election is carried out with participation of the candidates who expressed their consent for being candidates.

The Shareholder Meeting may appoint the Election Committee consisting of up to 3 persons. Voting at a Shareholder Meeting is conducted taking into account the limitations in exercise of voting right resulting from §9 of the Articles of Association of JSW S.A. Voting on the given item is conducted after holding the discussion. The formulated statements should be specific and they should unequivocally refer to the item which is currently being examined. A Shareholder may vote in a different way from each of the shares held by it. Votes are cast in an open ballot. Secret balloting is ordered for elections, dismissals, in personal matters and on the motions to charge the members of governing bodies or liquidators with accountability. Secret balloting should be also ordered at the request of at least one Shareholder in attendance.

5.11. Composition of management and supervisory bodies, changes in composition and description of operation of the bodies and their committees

Management Board

The number of members in the JSW S.A. Management Board of the 7th term of office (which lasts 3 years and ends on the date of the Ordinary Shareholder Meeting approving the financial statements for the financial year 2012) was set forth in the Shareholder Meeting Resolution of 26 April 2010 at five members.

The current 3-year term of office for all the Management Board members began on 28 June 2010. Mandates of all the Management Board members expire no later than on the date of the Shareholder Meeting approving the financial statements for the 2012 financial year.

<u>Changes in the composition of JSW S.A.’s Management Board in 2012:</u>

- On 10 January 2012, Mr. Marek Wadowski tendered his resignation from the position of the Vice-President for Financial Matters, effective as of 16 January 2012, for important personal reasons.
- On 6 February 2012 the JSW S.A. Supervisory Board adopted a resolution to commence an executive search proceeding for the position of a member of the JSW S.A. Management Board responsible for finance and to act in the capacity of the Chief Financial Officer. On 1 March 2012, the Company's Supervisory Board, in result of the contest carried out, adopted a resolution to appoint Mr. Robert Kozłowski as of 1 April 2012 to the position of the Vice-President of the JSW S.A. Management Board for Financial Matters of the 7th term of office

As at 31 December 2012 and as at the date of this report, the composition of the JSW S.A. Management Board and the allocation of powers between JSW S.A. Management Board members was as follows:

- **Jarosław Zagórowski** – President of the Management Board.

Manages the work of the Management Board and supervises the overall operation of JSW S.A. Manages the matters of JSW S.A. and in particular exercises direct oversight over the operation of the following Management Board Office Divisions: Organization and Management, HR Management, Strategic Development, Organization and Investor Relations, Legal (from 1 February 2013) and the Internal Control Team; Internal Audit Team, Management Board Representative for Innovative Implementations, Management Board Representative for Operational Integration of Coking Plants in JSW Capital Group, Management Board Representative for Cooperation with Local Government Authorities, Management Board Representative for Risk Management, Management Board Representative for the Integrated Management System and the Spokesman. Moreover, he oversees the activity of the Management Board Representative for the Protection of Classified Information and Defense-Related Matters.

- **Grzegorz Czornik** – Vice-President of the Management Board for Sales.
  Manages the matters of JSW S.A. and in particular exercises direct oversight over the operation of the following Management Board Office Divisions: Coal Sales, Selling Strategy Office for Coke and Hydrocarbons, Mechanical Processing and Coal Quality.
- **Robert Kozłowski** – Vice-President of the Management Board for Financial Matters.
  Manages the matters of JSW S.A. and in particular exercises direct oversight over the operation of the following Management Board Office Divisions: Controlling, Finance, Chief Accountant and the Management Board Representative for Computerization of JSW S.A.
- **Andrzej Tor** – Vice-President of the Management Board for Technical Matters.
  Manages the matters of JSW S.A. and in particular exercises direct oversight over the operation of the following Management Board Office Divisions: Production, Investment and Mine Development and oversees the activity of the Occupational Health and Safety Team.
- **Artur Wojtków** – Vice-President of the Management Board for Employment and Social Policy.
  Manages the matters of JSW S.A. and in particular exercises direct oversight over the operation of the Employment, Payroll and Social Policy Office.

Moreover, the Management Board of JSW S.A. oversees the operations of the Purchasing Office and JSW S.A. Mines.

The Management Board of JSW S.A. operates pursuant to the Commercial Company Code Act of 15 September 2000 and other generally applicable provisions of law, the Articles of Association of JSW S.A. and provisions of JSW S.A.'s Management Board Bylaws. When fulfilling their duties, Management Board members are guided by the principles included in the code of Best Practice for Warsaw Stock Exchange Listed Companies, Management Board Bylaws and the Articles of Association of JSW S.A. available at the www.jsw.pl website. Other information about the operations of the Management Board are presented in Items 1.3 and 5.8 of this report.

The Management Board manages the matters of JSW S.A. and represents JSW S.A. The Management Board makes decisions on all the matters which are not reserved for other corporate bodies. Two Management Board members acting jointly or a Management Board member acting with a proxy are authorized to make statements of will and affix signatures on behalf of JSW S.A. The matters that exceed ordinary management require a Management Board resolution. Management Board resolutions are adopted by an absolute majority of votes, where at least three Management Board members attend the meeting. Management Board resolutions are minuted.

The President of the Management Board manages the work of the Management Board and supervises the overall operation of JSW S.A. and names the Vice-President to perform these duties in his absence. The President of the Management Board convenes Management Board meetings and presides over them. Management Board meetings are convened by the President of the Management Board on his own initiative or upon request of one of the remaining Management Board members at any time, also upon request of the Supervisory Board Chairperson. In absence of the President of the Management Board, meetings are convened by the Vice-President named by the President.

Supervisory Board

According to the Articles of Association of JSW S.A., the Supervisory Board consists of at least nine members. On 27 February 2012, the Shareholder Meeting set the number of Supervisory Board members of the 8th term of office at twelve members.

The Supervisory Board of the 8th term of office consisted of the following persons:

- Józef Myrczek – Chairman,
- Antoni Malinowski – Deputy Chairman,
- Eugeniusz Baron – Secretary,
- Miłosz Karpiński – Member,
- Stanisław Kluza – Member,
- Robert Kudelski – Member,
- Tomasz Kusio – Member,
- Alojzy Nowak – Member,
- Andrzej Palarczyk – Member,
- Łukasz Rozdeiczer-Kryszkowski – Member,
- Adam Rybaniec – Member,
- Adam Wałach – Member.

<u>Changes in the composition of the Supervisory Board in 2012</u>

1. 7th term of office until 31 May 2012:

- On 27 March 2012, pursuant to § 15 sec. 12 and 13 of the JSW S.A. Articles of Association, the Minister of Economy dismissed Mr. Zbigniew Kamieński from the JSW S.A. Supervisory Board of the 8th term.
- On 27 March 2012, pursuant to § 15 sec. 12 and 13 of the JSW S.A. Articles of Association, the Minister of Economy appointed Mr. Stanisław Kluza to the JSW S.A. Supervisory Board of the 8th term.

2. 8th term of office from 31 May 2012:

- On 31 May 2012, pursuant to § 15 sec. 12 and 13 of the JSW S.A. Articles of Association, the Minister of Economy appointed the following persons to the Supervisory Board of the 8th term:
  - Miłosz Karpiński,
  - Stanisław Kluza,
  - Tomasz Kusio,
  - Antoni Malinowski,
  - JózefMyrczek,
  - Alojzy Nowak,
  - Adam Rybaniec.
- On 31 May 2012, the Shareholder Meeting of JSW S.A. appointed the following Supervisory Board members elected by JSW S.A. employees to the Supervisory Board of the 8th term of office.
  - Eugeniusz Baron,
  - Andrzej Palarczyk,
  - Adam Wałach,
  - Robert Kudelski.
- On 31 May 2012, the Shareholder Meeting of JSW S.A. appointed Mr. Łukasz Rozdeiczer-Kryszkowski to the Supervisory Board of the 8th term of office.
- On 10 July 2012, Mr. Miłosz Kamiński tendered a resignation from his position as a member in the JSW S.A. Supervisory Board, as he took up further professional challenges that prevented him from discharging that function.
- Additionally, on 19 February 2013, pursuant to § 15 sec. 12 and 13 of the JSW S.A. Articles of Association, the Minister of Economy appointed Mr. Andrzej Karbownik to the Company's Supervisory Board of the 8th term.

As at 31 December 2012, the composition of the Supervisory Board of the 8th term of office was as follows:

- Józef Myrczek – Chairman.

Working in Supervisory Board Committees: the Nomination and Compensation Committee.

- Antoni Malinowski – Deputy Chairman.
  Working in Supervisory Board Committees: the Audit Committee.
- Eugeniusz Baron – Secretary.
  Working in Supervisory Board Committees: the Corporate Governance Committee.
- Stanisław Kluza – Member.
  Working in Supervisory Board Committees: the Corporate Governance Committee.
- Robert Kudelski – Member.
- Tomasz Kusio – Member.
  Working in Supervisory Board Committees: the Audit Committee.
- Alojzy Nowak – Member.
  Working in Supervisory Board Committees: the Audit Committee and the Nomination and Compensation Committee.
- Andrzej Palarczyk – Member.
- Łukasz Rozdeiczer-Kryszkowski – Member.
  Working in Supervisory Board Committees: the Corporate Governance Committee.
- Adam Rybaniec – Member.
  Working in Supervisory Board Committees: the Nomination and Compensation Committee.
- Adam Wałach – Member.

As at the date of this report, the composition of the Supervisory Board of the 8th term of office was as follows:

- Józef Myrczek – Chairman
  Working in Supervisory Board Committees: the Nomination and Compensation Committee,
- Antoni Malinowski – Deputy Chairman
  Working in Supervisory Board Committees: the Audit Committee,
- Eugeniusz Baron – Secretary
  Working in Supervisory Board Committees: the Audit Committee and the Nomination and Compensation Committee,
- Stanisław Kluza – Member
  Working in Supervisory Board Committees: the Audit Committee and the Corporate Governance Committee,
- Robert Kudelski – Member
- Tomasz Kusio – Member
  Working in Supervisory Board Committees: the Audit Committee,
- Alojzy Nowak – Member
  Working in Supervisory Board Committees: the Audit Committee and the Nomination and Compensation Committee,
- Andrzej Palarczyk – Member,
- Łukasz Rozdeiczer-Kryszkowski – Member,
  Working in Supervisory Board Committees: the Audit Committee and the Nomination and Compensation Committee,
- Adam Rybaniec – Member,
  Working in Supervisory Board Committees: the Nomination and Compensation Committee,
- Adam Wałach – Member,
- Andrzej Karbownik – Member.

As at the date of this report, in the JSW S.A. Supervisory Board of the 8th term of office, five Supervisory Board members meet the criteria of independence from JSW S.A. and from entities materially connected to JSW S.A.

In 2012, the JSW S.A. Supervisory Board of the 7th term of office was active, which held 6 meetings, adopted 66 resolutions and the Supervisory Board of the 7th term of office, which held 5 meetings and adopted 25 resolutions.

The Supervisory Board of JSW S.A. operates pursuant to the Commercial Company Code Act of 15 September 2000 and other generally applicable provisions of law, the Company's Articles of Association and provisions of the JSW S.A. Supervisory Board Bylaws. The Supervisory Board Bylaws and the Articles of Association of JSW S.A. are available at the www.jsw.pl website. Other information about the operations of the Supervisory Board are presented in Items 1.3 and 5.8 of this report.

The Supervisory Board conducts constant oversight over the operations of JSW S.A. in all areas of its activity. The Supervisory Board performs its duties as a collective body, however it may delegate its members to carry out specific supervisory and controlling activities individually. Supervisory Board members exercise their rights and perform their duties in person.

Supervisory Board meetings shall be convened and chaired by the Supervisory Board Chairman, and if the Chairman is unable to convene a meeting, it shall be convened by the Deputy Chairman or by the person named by the Chairman. The first meeting of a newly elected Supervisory Board shall be convened and opened by the President of the Management Board. The Supervisory Board may elect to and dismiss from among themselves, in a secret ballot, a Supervisory Board member delegated to continuous individual supervision. The Supervisory Board holds its meetings no less frequently than once per two months. The Supervisory Board Chairman is obligated to convene a Supervisory Board meeting at the written request of a Supervisory Board member or JSW S.A.'s Management Board. The meeting should be held within two weeks after the submission of the request. In order for Supervisory Board resolutions to be valid, all the Supervisory Board members must be invited to the meeting. The Supervisory Board adopts resolutions by an absolute majority of votes present at the meeting, in the presence of at least half the number of the Supervisory Board members. An absolute majority of votes means more than one half of the votes cast. In the event of a tie vote the Supervisory Board Chairman's vote shall prevail. Supervisory Board members may participate in adopting Supervisory Board resolutions by casting their vote in writing through another Supervisory Board member. Voting in writing cannot apply to matters introduced to the agenda at a Supervisory Board meeting. Supervisory Board members may adopt resolutions by following a written procedure or via remote means of direct communication. A resolution shall be valid if all Supervisory Board members have been notified of the content of the draft resolution and no Supervisory Board member has requested that the resolution be adopted at the next meeting of the Supervisory Board.

The adoption of resolutions by voting in writing through another Supervisory Board member or using the means of direct remote communication shall not apply to the election of the Chairman, the Deputy Chairman or the Secretary of the Supervisory Board, the dismissal of the Chairman, the Deputy Chairman or the Secretary of the Supervisory Board, the appointment or dismissal of Management Board members or the suspension, for important reasons, of any specific or all Management Board members in their duties.
Votes shall be cast in an open ballot. Secret ballots are ordered in personnel matters or upon request of at least one of the persons eligible to vote. Resolutions adopted by the Supervisory Board are minuted.

Supervisory Board Committees

The following committees operate within the framework of the JSW S.A. Supervisory Board

- Audit Committee,
- Nomination and Compensation Committee,
- Corporate Governance Committee.

Audit Committee

The Audit Committee was appointed by the Supervisory Board on 10 August 2011. The main purpose of the Audit Committee is to support the Supervisory Board in exercising financial supervision and to provide the Board with reliable information and opinions that allow it to efficiently make correct decisions in the area of financial reporting, internal control and risk management.

The rules of its operation and the tasks of the Audit Committee have been determined by the Bylaws of the Audit Committee in the JSW S.A. Supervisory Board as adopted by the Supervisory Board.

The main tasks of the Audit Committee include in particular the following:

- monitoring the financial reporting process,
- monitoring the effective operation of internal control, internal audit and risk management systems,
- monitoring the performance of financial audit activities,
- monitoring the independence of the auditor and the entity authorized to audit financial statements,
- recommending an entity authorized to audit financial statements and to conduct financial audit activities in JSW S.A. to the Supervisory Board.

The Audit Committee is authorized to audit financial statements and to conduct financial audit activities, in particular with respect to any significant irregularities of JSW S.A.'s internal control system relating to the financial reporting process.

In 2012, the Audit Committee was comprised of:

- Miłosz Karpiński – Chairman (till 10 July 2012),
- Tomasz Kusio – Chairman (from 29 August 2012),
- Antoni Malinowski – Deputy Chairman (from 29 August 2012),
- MariuszWarych – Member (till 10 January 2012),
- Alojzy Nowak – Member (from 10 January 2012).

As at the date of this report, the Audit Committee was comprised of:

- Tomasz Kusio – Chairman,
- Antoni Malinowski – Deputy Chairman,
- Stanisław Kluza – Member,
- Alojzy Nowak – Member.

Changes in the composition of the Audit Committee in 2012 and until the date of this report:

- In connection with the resignation tendered by Mr. MariuszWarych from the position of an Audit Committee member, on 10 January 2012, the Supervisory Board appointed Mr. Alojzy Nowak to the committee,
- In connection with the resignation tendered by Mr. Miłosz Karpiński from the position of a JSW S.A. Supervisory Board member and also an Audit Committee member, on 29 August 2012, the Supervisory Board appointed Mr. Antoni Malinowski to the committee,
- In connection with the Supervisory Board's decision to increase the number of Audit Committee members, on 11 January 2013, the Supervisory Board appointed Mr. Stanisław Kluza to the committee,

Nomination and Compensation Committee

The Nomination and Compensation Committee was formed by the Supervisory Board on 24 October 2012. The Nomination and Compensation Committee is an advisory and opinion-giving body in respect of the Supervisory Board and has been formed for the purpose of presenting opinions and proposals to the Supervisory Board on how to shape the governance structure of JSW S.A., including issues related to organizational solutions, the compensation system, the level of compensation and the selection of managers with the qualifications needed to build the success of the Capital Group.

The rules of its operation and the tasks of the Nomination and Compensation Committee have been determined by the Bylaws of the Nomination and Compensation Committee in the JSW S.A. Supervisory Board as adopted by the Supervisory Board.

The scope of the Committee's operation covers giving opinions and conducting analyses to support the Supervisory Board in the performance of its duties defined by the Articles of Association in respect of the overall compensation policy for Management Board members and upper level management at JSW S.A. and to articulate recommendations on appointing Management Board members.

The following tasks in particular fall among the powers and duties of the Nomination and Compensation Committee:

- recruiting and hiring Management Board members by drafting and preparing draft versions of documents and processes to be submitted to the Supervisory Board for approval,

- preparing draft versions of contracts and other model documents in connection with employing Management Board members and overseeing the performance of the contractual obligations taken by the parties,
- overseeing the implementation of the Management Board's compensation system, in particular preparing settlement documents concerning variable and bonus elements of compensation for the purpose of submitting recommendations to the Supervisory Board,
- monitoring and periodically analyzing the compensation system for the management of JSW S.A. and if necessary articulating recommendations for the Supervisory Board,
- overseeing the proper implementation of perks for the Management Board stemming from their employment contracts such as: insurance, cars, apartments and others.

In 2012, the Nomination and Compensation Committee was comprised of:

- Józef Myrczek – Chairman,
- Alojzy Nowak – Member,
- Adam Rybaniec – Member.

As at the date of this report, the Nomination and Compensation Committee was comprised of:

- Józef Myrczek – Chairman,
- Eugeniusz Baron – Member,
- Alojzy Nowak – Member,
- Łukasz Rozdeiczer-Kryszkowski – Member,
- Adam Rybaniec – Member.

Changes in the composition in 2012 and until the date of this report:

- In connection with the Supervisory Board's decision to increase the number of members of the Nomination and Compensation Committee, on 11 January 2013, the Supervisory Board appointed Mr. Eugeniusz Baron and Mr. Łukasz Rozdeiczer-Kryszkowski to the committee.

Corporate Governance Committee

The Corporate Governance Committee was established by the Supervisory Board 29 August 2012. The Corporate Governance Committee is an advisory and opinion-giving body for the Supervisory Board and has been established to enhance the effectiveness of the supervisory activities performed by the Supervisory Board in respect of applying corporate governance principles in the Capital Group and compliance between these principles and the principles laid down by the Warsaw Stock Exchange in the Best Practices of Companies Listed on the WSE.

The operational principles and tasks of the Corporate Governance Committee were defined by the Supervisory Board in the Bylaws of the Corporate Governance Committee of the Supervisory Board of JastrzębskaSpółkaWęglowa S.A.
The scope of the Committee's operation covers opinion-giving and analytical activities to support the Supervisory Board in the performance of its control and supervisory duties defined by the articles of association in conjunction with the corporate governance principles applied by the Capital Group.
The Committee's powers and obligations include the following in particular:

- evaluating the implementation of the corporate governance principles in the Capital Group,
- submitting recommendations to the Supervisory Board on implementing corporate governance principles in the Capital Group,
- giving opinions on normative documents pertaining to the corporate governance principles implemented in the Capital Group,
- evaluating reports pertaining to the observance of corporate governance principles prepared for WSE.

In 2012, the Corporate Governance Committee was comprised of:

- Stanisław Kluza – Chairman,
- Eugeniusz Baron – Member,
- Łukasz Rozdeiczer-Kryszkowski – Member.

There were no changes in the composition of the Committee until the date of this report.

5.12. JSW S.A. information policy and communication with the capital market

JSW S.A. takes a number of actions to enhance communication with its stakeholders and environment. In 2012 the investor relations activities undertaken by JSW S.A., above all with shareholders and bondholders aimed at the following among others:

- forming bonds based on efficient and precise communication between JSW S.A. and capital market participants, involving among others, the provision of accurate information to stakeholders whose scope is customized to meet the expectations of capital market participants while simultaneously falling within the legal regulations,
- shaping the desirable image for the company among the circle of JSW S.A.'s stakeholders,
- raising the level of interest in JSW S.A. among its stakeholders.

To accomplish these tasks JSW S.A. holds and transmits results conferences with simultaneous translation into English, it uses mailing lists, it participates in shareholder conferences and meetings with investors and analysts, both domestically and internationally, it participates in conference calls, one-on-one and group meetings as well as roadshows, Management Board members and other representatives of JSW S.A. give interviews.

JSW S.A.'s activities in respect of conferences and meetings with capital market participants:

- holding four results conferences for analysts and journalists in Warsaw (March, May, August and November 2012) and participating in investor conferences: March 2012: 13th Annual Emerging Europe Conference in New York, April 2012: Annual Zürs Investor Conference in Zürs, May 2012: Credit Suisse Poland CE3 Conference in London, June 2012: 16th “WallStreet” conference in Zakopane, July 2012: RESPECTIndex conference, September 2012: investor's day: mining sector in Katowice, October 2012: The Polish Equities Conference in New York, November 2012: Woods Winter in Prague Emerging Europe Conference in Prague, January 2013: PGE Power Conference in Warsaw,
- organizing and participating in investor meetings: Warsaw with Ipopema and UniCredit, London with SocieteGenerale, Frankfurt with Deutsche Bank and stock analysts too.

To provide for reaching the broadest possible circle of stakeholders, JSW S.A. maintains a bilingual corporate website (Polish and English) at www.jsw.pl including a special dedicated Investor Relations section at http://www.jsw.pl/relacje-inwestorskie/. The service contains current accurate information on the Company and modern interactive tools.

The service includes the following materials among others:

- interactive graphs and tables to portray the quotations of JSW S.A.'s shares,
- interactive data depicting the consolidated financial data to make rapid comparisons of financial results in the form of graphs and tables,
- results presentations accompanied by recordings of the results conferences,
- current and periodic reports;
- corporate event calendar containing information on shareholder meetings, publication of periodic reports, conferences in which JSW S.A. will participate,
- information on organizing shareholder meetings and their course.

The fact that JSW S.A. employs the highest standards of information governance is confirmed by its presence in the RESPECT Index.

(All amounts in the tables are stated in millions of Polish zloty unless indicated otherwise)

Capital market entities may contact the issuer in the following manner:

- Izabela Tokarz, Director of the Department for Organization and Investor Relations in Warsaw, phone no. +48 22 222 17 50, e-mail: itokarz@jsw.pl, relacje@jsw.pl,
- Investors Relation Team – Manager Paweł Warzecha, phone: +48 32 756 44 25, e-mail: pwarzecha@jsw.pl, relacje@jsw.pl.

Jastrzębie-Zdrój, 12 March 2013

SIGNATURES OF THE MANAGEMENT BOARD MEMBERS

Jarosław Zagórowski	President of the Management Board	……………………………………
Grzegorz Czornik	Vice-President	……………………………………
Robert Kozłowski	Vice-President	……………………………………
Andrzej Tor	Vice-President	……………………………………
Artur Wojtków	Vice-President	……………………………………