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

## for the financial year ended 31 December 2012

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# 1. KEY INFORMATION ABOUT JASTRZĘBSKA SPÓŁKA WĘGLOWA S.A.

## 1.1. Organization of the Company

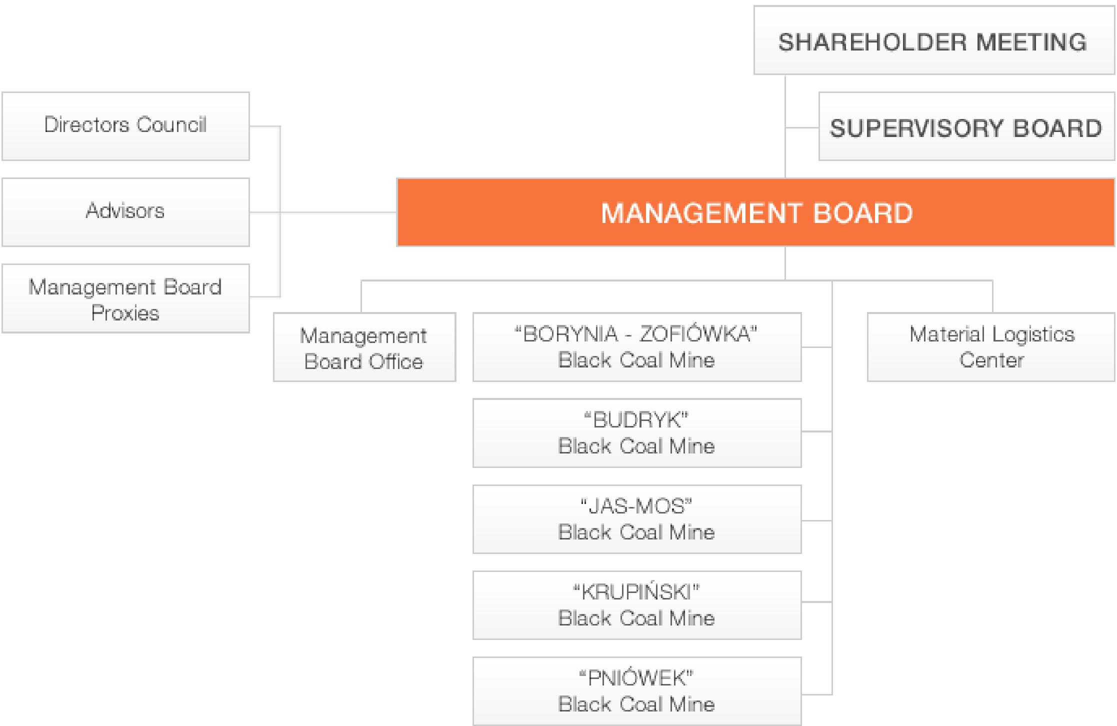
JastrzębskaSpółkaWęglowa S.A. ("Company"; "JSW S.A.") was incorporated on 1 April 1993. On 17 December 2001 JSW S.A. was registered under number KRS 0000072093 in the National Court Register kept by the District Court in Gliwice, 10th Corporate Division of the National Court Register. The Company was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

The Company's core line of business is black coal mining and the sale of coke and coal derivatives. The Company's detailed line of business is presented in § 4 of the Company's Articles of Association available at www.jsw.pl. According to the Warsaw Stock Exchange classification, JSW S.A. has been categorized into the raw materials sector.

The Company is the parent company in the JSW S.A. Capital Group ("Group", "Capital Group") consisting of JSW S.A. and its subsidiaries located in Poland. The companies comprising the Group are classified into the distinct operating segments. The Group prepares consolidated financial statements for the financial year ended 31 December 2012.

**The Company's organizational structure**

JSW S.A.'s organizational structure as at 31 December 2012 is presented in the chart constituting an attachment to JSW S.A.'s Organizational Bylaws:



The Company is a multi-operation enterprise, operating in 2012 and as at the date of this report in the Republic of Poland. In 2012 the 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, the Company 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 Company's enterprise comprises:

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

The Company's mines conduct operations pursuant to pertinent licenses granted to the Company.

The Company's Management Board, continuing its efforts aimed at harmonizing the organizational structures of the Company's mines, with a view to ensuring their compliance with existing geological and mining regulations, adopted the standardized Bylaws and Organizational Charts of JSW S.A.'s Mines and made appropriate changes in the Company's mines. These changes came into force as of 1 January 2013.

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

The organizational structure of the Company's Entities and the Management Board Office supports efficient operation of the Company and its Entities, and the changes introduced are aimed at the constant improvement of the Company and its performance.

## 1.2. Changes in basic management principles in the Company and its Capital Group

**Basic management principles in the Company**

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

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

The powers of the Company's governing bodies follow from the provisions of the Commercial Company Code and the Articles of Association of JSW S.A. The powers of the Company'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.

The Company'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 JSW S.A. Management Board 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 the Company's website.

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

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

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

Vice-Presidents exercise supervision over the Company's operations in their respective areas of activity and make decisions not reserved for the powers of the Company's governing bodies. The Vice-Presidents of the Management Board exercise direct supervision over 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 the Company, and the Organizational Bylaws of JSW S.A., the Organizational Bylaws of the Management Board Office and the Organizational Bylaws of the Company'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 Company's Articles of Association, 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 the Company's website.

**Changes to the management principles in the Company**

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

To improve management in the Company, in 2012 the Management Board adopted a number of resolutions pertaining to changes in the organizational structure of the Company's 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, effective in 2012:

- 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,
- adding provisions regarding the Risk Management System,
- transferring the subordination of the Investor Relations Team from the Strategic Development Department to the Controlling Department,
- transferring the subordination of the Organization and Investor Relations Team (in Warsaw) under the President of the JSW S.A. Management Board,
- changing the current position of Department Director, Chief Accountant of JSW S.A. into Chief Accountant of JSW S.A.,
- establishing, in place of the Organization and Investor Relations Team (in Warsaw), the Organization and Investor Relations Department (in Warsaw),
- 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 Company'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 Company's Entities were prepared.

In addition, the JSW S.A. Management Board made the following decisions pertaining to changes in the organizational structure of the Company's Entities in 2012:

On 27 December 2011, the JSW S.A. Management Board made a decision to change the structure of the Borynia-Zofiówka and the Pniówek mines, effective as of 1 January 2012, involving, among others:

- in the Borynia-Zofiówka mine, Borynia Section, establishing a Drilling Unit and the Drilling Senior Foreman position,
- in the Pniówek mine, establishing the Shaft Mining Work Unit.

The above changes in the organizational structure of the Pniówek mine and Borynia-Zofiówka mine, Borynia Section, were aimed at improving the operations of the mines.

On 22 May 2012, the JSW S.A. Management Board made a decision to change the structure of the Pniówek mine, involving, among others:

- dissolving the Division of Mining Works Related to Reinforcements, Liquidations and Underground Transportation,

- establishing the Division Mining Works Related to Reinforcements and Liquidations and the Underground Transportation Division.

On 12 June 2012, the JSW S.A. Management Board made a decision to adopt the draft Organizational Bylaws and the Organizational Chart of JSW S.A.'s merging mines, i.e. the Borynia-Zofiówka and the Jas-Mos mines, and the adoption of the name "Borynia-Zofiówka-Jastrzębie mine".

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 12 September 2012, the JSW S.A. Management Board made a decision to change the structure of the Jas-Mos mine, involving, among others:

- dissolving the Division of Mining Works Related to Reinforcements, Liquidations and Underground Transportation,
- establishing the Division Mining Works Related to Reinforcements and Liquidations and the Underground Transportation Division.

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

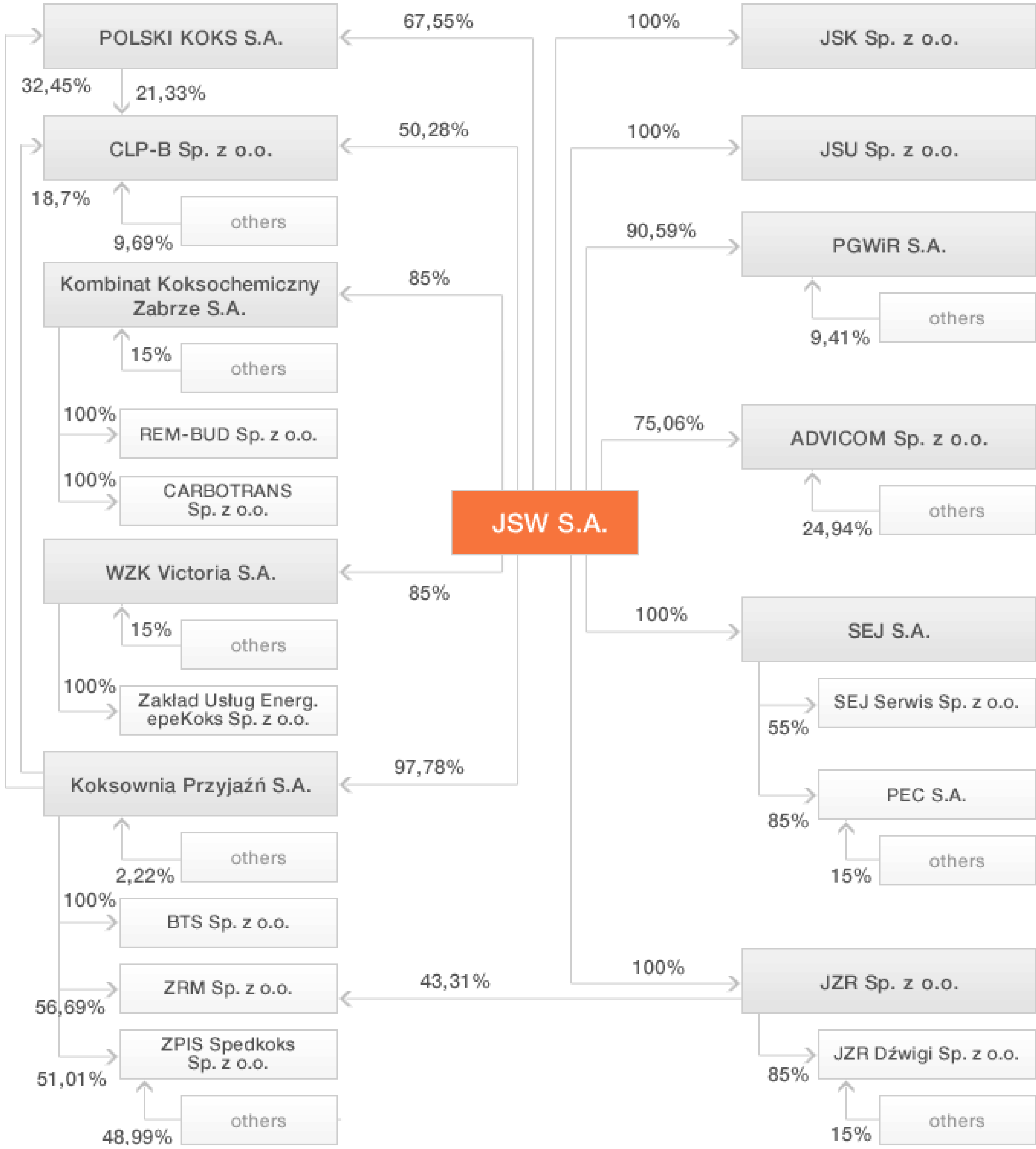
1. JastrzębskaSpółkaWęglowa S.A. with its registered offices in Jastrzębie-Zdrój,
2. KoksowniaPrzyjaźń Sp. z o.o. ("KoksowniaPrzyjaźń") with its registered offices in DąbrowaGórnicza,
3. BazaTransportuSamochodowego Sp. z o.o. with its registered offices in DąbrowaGórnicza,
4. ZakładRemontówMechanicznych 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. ("KK Zabrze") 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. ("WZK Victoria") with its registered offices in Wałbrzych,
10. ZakładUsługEnergetycznychepeKoks Sp. z o.o. with its registered offices in Wałbrzych,
11. SpółkaEnergetycznaJastrzębie S.A. ("SEJ") 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. ("PEC") with its registered offices in Jastrzębie-Zdrój,
14. PolskiKoks S.A. with its registered offices in Katowice,
15. PrzedsiębiorstwoGospodarkiWodnej i Rekultywacji S.A. ("PGWiR") with its registered offices in Jastrzębie-Zdrój,
16. JastrzębskieZakładyRemontowe Sp. z o.o. ("JZR") 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 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.

### 1.3. Organizational or capital ties

As at the date of this report, JSW S.A. held, directly or indirectly, shares in the following subsidiaries:



**Key investments pertaining to acquisition of shares**

In 2012, the following changes occurred in the Group's structure:

a) The Group continued the process of incorporation of companies through JastrzębskaSpółkaUbezpieczeniowa Sp. z o.o. 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.

## 1.4. Information about the Company's ownership structure and the shares issued

### 1.4.1. The Company's capital and ownership structure

As at the last date of the reporting period and at the date of this report, the Company'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.

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

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

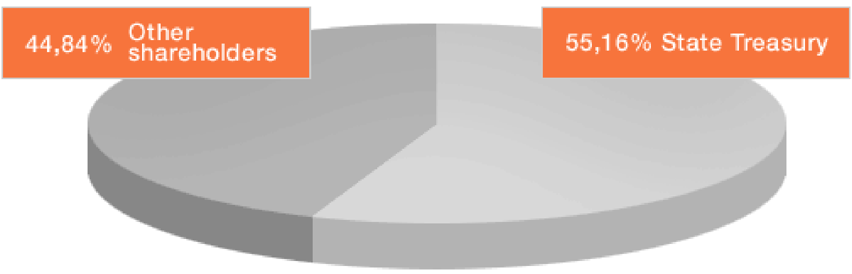
| | Number of shares | Number of votes at the Shareholder Meeting | Percentage of share capital | Percentage of the total number of votes at the Shareholder Meeting |
|---|---|---|---|---|
| State Treasury of the Republic of Poland[2] | 64,775,542 | 64,775,542 | 55.16% | 55.16% |
| Other shareholders[3] | 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) The Company does not hold an itemized breakdown of the shareholder structure as at 31 December 2012 or at the date of this reportdue to the pending process of the Company'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.

The Company has not received any information about the percentage thresholds of the total number of votes being exceeded as prescribed by art. 69 section 1 of the Act on Public Offerings and the Conditions for Admitting Financial Instruments to an Organized Trading System and on Public Companies.

As at the date of submission 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:

**Ownership structure of JSW S.A.**

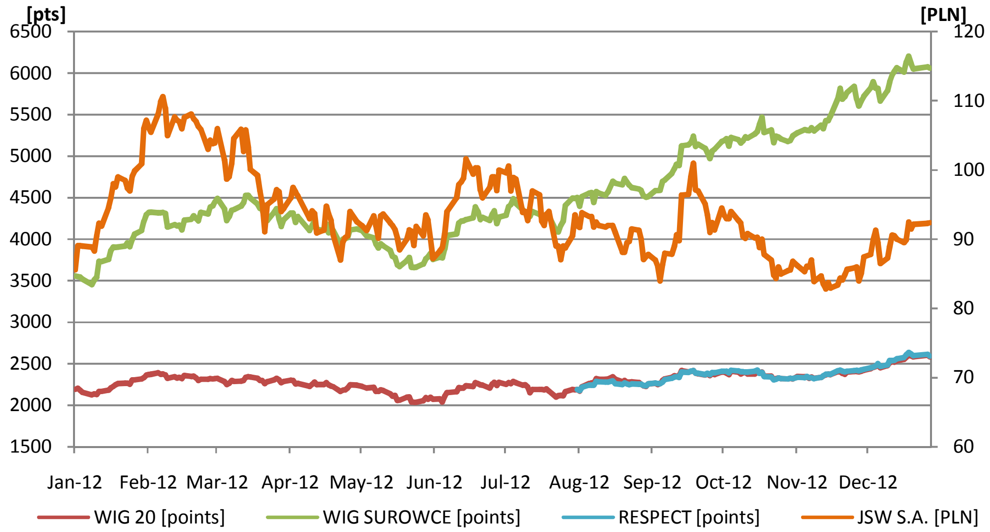



### 1.4.2. Prices of JSW S.A. shares in the capital market

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 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 the Company 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 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. The Company's dividend payments also depend on the approach of the State Treasury who is the shareholder with the decisive vote.

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

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.

As a result of 2011 profit distributions from subsidiaries, the Company received dividends in the total amount of PLN 54.1 million.
The dividend per share ratio is presented in Note 32 of the "Financial statements of JastrzębskaSpółkaWęglowa S.A. for the financial year ended 31 December 2012".

### 1.4.5. The number and nominal value of the Company's shares and shares in the Company's related parties held by persons discharging executive and supervisory functions

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

| | Number of shares as at 31 December 2012 | Number of shares as at the date of submission of this report |
|---|---|---|
| **Management Board** | | |
| Jarosław Zagórowski | 210 | 210 |
| Grzegorz Czornik | 378 | 378 |
| Robert Kozłowski | - | - |
| Andrzej Tor | 211 | 211 |
| Artur Wojtków | 367 | 367 |
| **Supervisory Board** | | |
| JózefMyrczek | - | - |
| Antoni Malinowski | - | - |
| Eugeniusz Baron | 382 | 382 |
| Andrzej Karbownik* | - | - |
| Stanisław Kluza | - | - |
| Robert Kudelski | 256 | 256 |
| Tomasz Kusio | - | - |

| | Number of shares as at 31 December 2012 | Number of shares as at the date of submission of this report |
|---|---|---|
| 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 the Company do not hold any shares in JSW S.A.'s subsidiaries.

### 1.4.6. Agreements pertaining to potential changes in the shareholding structure

The 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

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

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.

### 1.4.8. Purchase of treasury stock

In 2012, JastrzębskaSpółkaWęglowa S.A. 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 JSW S.A. Management Board forms key management personnel.

**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.

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

**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 |
| 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 |

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

| | Period in office in 2011 | Remuneration | Other income | Total |
|---|---|---|---|---|
| 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 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 Company 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. Principles of preparation of the annual financial statements the Management Board's activity report

The 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 financial statements are 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 financial statements were presented in Note 2 to the Financial Statements of JastrzębskaSpółkaWęglowa S.A. for the financial year ended 31 December 2012.

The 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 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 Financial Statements 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 JASTRZĘBSKA SPÓŁKA WĘGLOWA S.A.

### 2.1. Description of the industry and competition

JSW S.A.'s core line of business comprises:

- production and sale of coking coal (hard and semi-soft) and steam coal,
- sale of coke and coal derivatives produced by the Capital Group's coking plants.

In 2012, the Company 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 KompaniaWęglowa S.A. The share of JSW S.A. in the domestic production of type 35 coking coal and type 34 coal is 66% and 14%, respectively[1]. The Company's share in the domestic production of steam coal is approximately 6%[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 JSW S.A. to place its coal within a profitable geographic rent area.

In the area of production of hard coking coal, thanks to its balance sheet and operating resources and significant capital expenditure commitment, the Company has a strong foundation to maintain its leading position in the European coking coal market. The Company has approximately 0.5 billion tons of operable coal resources, including significant quantities of high-

[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).

quality coking coal with a low ash and sulfur content and very good coking parameters, enabling the Company to direct its offer to the coking and power industries both at home and abroad.

Another major product of JSW S.A., 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. The main market for the sale of coke produced by the Group is the European market. However, in light of the recent market conditions (the economic slowdown, a low rate of growth of steel production in Europe, high inventories of coke and a reduced coke production capacity utilization rate), the Company'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.

The diversity of coal and coking products offered by JSW S.A. enables the Company to sell its merchandise to a number of industries (coke production, metallurgy, electricity and heat production, insulation materials, etc.). This allows the Company to operate at many levels and flexibly manage its trading policy, adjusting it to the current market conditions.

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

## 2.2. Key products, goods and services

JSW S.A.'s coal mining activity is 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. However, it should be emphasized that the production structure of the commercial coal in the mines, both with regard to hard and semi-soft coking coals and steam coal, is adapted flexibly to the dynamically changing market needs and in consideration of the supply and demand in the local and foreign markets.

In order to enable comprehensive management of the distribution of coke and coal derivatives produced by the Group's coking plants (KoksowniaPrzyjaźń, KK Zabrze and WZK Victoria), in 2012 the sale of these products was commenced by PolskiKoks S.A. (a subsidiary of the Group) acting for and on behalf of JSW S.A. The product structure of KoksowniaPrzyjaźń and KK Zabrze is dominated by blast furnace coke and WZK Victoria specializes in the production of foundry coke. The takeover by JSW S.A. of the coke and coal derivatives sales process allows the Company to organize its product sales and enables it to conduct an optimal policy of pricing its coal and coking products.

**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 table below presents the main characteristics of the coal produced by JSW S.A.'s mines in 2012.

| | **Coking coal** | | | **Steam coal** |
|---|---|---|---|---|
| | *type 35 (hard)* | *type 35 (LVM) (hard)* | *type 34 (semi-soft)* | |
| Mine | Borynia-Zofiówka Pniówek | Jas-Mos | Budryk Krupiński | Borynia-Zofiówka Budryk Krupiński |
| Purpose | coke production | coke production | coke production | electricity and heat production |
| Ash content $A^d$ / $A^r$ (%) | 6.6 – 7.2 | 5.9– 6.7 | 5.4 – 7.8 | 17.8 – 27.8 |
| Humidity $W_t^r$ (%) | 8.3 – 9.8 | 8.6– 8.9 | 5.7 – 7.5 | 8.2 – 14.6 |
| Sulfur content $S_t^d$ / $S_t^r$ (%) | 0.45 – 0.68 | 0.39– 0.48 | 0.63 – 0.84 | 0.43 – 0.98 |
| Volatile matter content $V^{daf}$ (%) | 22.2 – 26.9 | 19.7– 20.5 | 33.0 – 38.5 | – |
| Calorific value $Q_i^r$ (MJ/kg) | 29.1 – 29.7 | 29.9– 30.2 | 28.7 – 30.5 | 19.9 – 23.3 |
| Coke strength after reaction CSR (%) | 51.2 – 68.8 | 29.6– 48.3 | 21.6 – 39.4 | – |
| $CO_2$ coke reactivity index CRI (%) | 21.2 – 38.7 | 45.3– 54.9 | 40.3 – 55.8 | – |

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 JSW S.A., 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, 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 sales of the best quality type 35 (hard) coal that attracts the highest prices in the Company's total deliveries keeps increasing (2010:

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

55.9%, 2011: 57.8%, 2012: 60.4%). In the sales of coking coal, type 35 coal accounted for 83.6% (2011: 83.2%). The remaining 16.4% of the sales was type 34 (semi-soft) coal.

The following table presents the actual coal production and sales figures, including intra-group sales.

| | **2012** | **2011** | **Growth rate** |
|---|---|---|---|
| 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% |
| 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% |
| Revenues on sales of coal (*in PLN millions*)[3] | 6,736.7 | 7,849.6 | 85.8% |

(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 JSW S.A. which does not include the coal produced by other entities in the amount of 64.4 thousand tons in 2012 and 66.7 thousand tons in 2011.

(3) The figure presented does not include the Company's revenues on sales of coal produced by other entities in 2012 and 2011 in the amount of PLN 26.6 million and PLN 29.6 million, respectively.

In 2012, revenues on sales of coal produced by JSW S.A. reached PLN 6,736.7 million and were lower by PLN 1,112.9 million (14.2%) than those generated in the same period of the previous year, which is a consequence of the ongoing economic slowdown and a decrease in the prices of coking coal in the markets. The table below presents the prices obtained for the sale of coal produced by JSW S.A.

| | **2012** | **2011** | **Growth rate** |
|---|---|---|---|
| Coking coal (PLN/t) | 615.45 | 791.19 | 77.8% |
| Steam coal (PLN/t) | 313.90 | 265.86 | 118.1% |
| Total (PLN/t)[1] | 531.58 | 631.03 | 84.2% |

(1) The prices pertain to deliveries of coal produced by JSW S.A. and include transportation costs amounting to, on average, PLN 11.07 per ton in 2012 and PLN 5.61 per ton in 2011.

**Coke**

In the coke production area in 2012, the sale of coke and coal derivatives under a new trading procedure was launched. In accordance with the provisions of the new procedure, JSW S.A. sold 1.8 million tons of coke. Revenues on sales of coke and coal derivatives during the period under analysis reached PLN 1,873.6 million. The average obtained selling price of coke was PLN 938.00 per ton (FCA basis). The table below presents the actual volume of sales, the average selling price of coke and revenues on sales of coke and coal derivatives.

| | **2012** | **2011**[3] | **Growth rate** |
|---|---|---|---|
| External sales volume (*in millions of tons*)[1] | 1.8 | - | - |
| Revenues on sales to external buyers (*in PLN millions*)[2] | 1,873.6 | - | - |
| Average selling price *(PLN/t)*[4] | 938.00 | - | - |

[1] Volume of sales of the coke produced by the Group.
[2] Revenues on sales of coke and coal derivatives produced by the Group and sold by JSW S.A.
[3] JSW S.A. did not participate in sales of coke.
[4] FCA price.

## 2.3. Sales markets

2012 was a year of economic slowdown which had a significant impact on the coal, coke and steel markets. This slowdown once again demonstrated the existing risk of market cyclicality affecting the Company. Recent years have proved increasingly shorter periods of the duration of market cycles. The most recent serious global economic crisis occurred in 2009 with a different duration and intensity in various regions of the world. The domestic and international coal and coke markets are subject to a number of factors remaining beyond the Company's control. In 2012, and in particular in the second half of the year, the international metallurgical market was very difficult. 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 H2 2012, the world's crude steel production capacity utilization rate kept declining (July: 79.4%, September: 77.7%, December: 73.2%). In Europe, almost a third of all blast furnaces installed were shut down. Coke prices in the European market kept declining steadily. 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 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. At the end of year, the downward trend in spot prices stopped, which favorably affected the mood for 2013 forecasts.

Despite this unfavorable market environment, the Company achieved its sales objectives in terms of volume, having realized 99.6% of the planned sales of coal. In 2012, not only did JSW S.A. manage to maintain the volume of deliveries to its existing customers, but also established cooperation with new trading partners.

The following table presents a comparison of the volume of coal supplies broken down by geographical area and type of end user:

| | 2012 | 2011 | Growth rate |
|---|---|---|---|
| Total coal sales (*in millions of tons*), including: | 12.7 | 12.4 | 102.4% |
| Coking coal (*in millions of tons*) | 9.1 | 8.6 | 105.8% |
| - Poland | 7.7 | 7.4 | 104.1% |
| - European Union | 1.1 | 1.2 | 91.7% |
| - Other countries | 0.3 | - | - |
| Steam coal (*in millions of tons*)(1) | 3.6 | 3.8 | 94.7% |
| - Poland | 3.4 | 3.6 | 94.4% |
| - European Union | 0.2 | 0.2 | 100.0% |

(1) The volume of sales of coal does not include the coal produced by other entities in the amount of 64.4 thousand tons in 2012 and 66.7 thousand tons in 2011.

The Company's major customers include JSW S.A.'s affiliate KoksowniaPrzyjaźń and ArcelorMittal Group entities for which revenues on sales of coal accounted for 27.8% and 32.1% (2011: 33.3% and 30.2%) of JSW S.A.'s total revenues on sales of coal, respectively. Other customers, whose individual shares did not exceed 10.0% of JSW S.A.'s revenues, generated the remaining 40.1% (2011: 36.5%) of the Company's total revenues on sales of coal.

In 2012, JSW S.A.'s coke sales structure broken down by geographic area was as follows(1):

| | Volume of coke (*in millions of tons*) | Share | Revenues(2) (*PLN million*) | Share |
|---|---|---|---|---|
| Total coke sales (*in millions of tons*), including: | 1.8 | 100.0% | 1,873.6 | 100.0% |
| - Poland | 0.4 | 22.2% | 375.7 | 20.1% |
| - European Union | 1.3 | 72.2% | 1,442.7 | 77.0% |
| - Others | 0.1 | 5.6% | 55.2 | 2.9% |

(1) No reference to 2011 – the Company's trading activity was based on a different organizational chart.

(2) Revenues on sales of coke and coal derivatives produced by the Group's coking plants and sold by JSW S.A.

The share of revenues on sales of coke to 5 main customers was 68.1% of total revenues in this segment. Other buyers whose unit share did not exceed 10.0% of revenues, generated the remaining 31.9% of total revenues of the coke segment.

## 2.4. Material contracts

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 Company's activity, as disclosed in the current reports, i.e. contracts and revenues where the Company or its subsidiary is a party and whose value is at least 10.0% of the Company'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 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 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 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.

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

## 2.5. Assessment of the capacity to execute capital expenditure plans

### 2.5.1. Capital expenditures in 2012

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 rate |
|---|---|---|---|
| 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 Company does not plan to change significantly the structure of capital expenditure financing.

The capital expenditures incurred by the 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.

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 rate |
|---|---|---|---|
| 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 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**

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

The 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 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 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 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 Company started to open the "Żory-Suszec" deposit and sections "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 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.

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 rate** |
|---|---|---|---|
| **Vertical development of the mines** | | | |
| Budryk Mine<br>Construction of level 1290m | 62.6 | 36.2 | 172.9% |
| Pniówek Mine<br>Construction of level 1000m | 95.7 | 80.5 | 118.9% |
| Borynia-Zofiówka Mine, Zofiówka Section<br>Construction of level 1080m | 35.3 | 25.6 | 137.9% |
| **Total** | **193.6** | **142.3** | **136.1%** |

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

| | 2012 | 2011 | Growth rate |
|---|---|---|---|
| **Horizontal development and development of potential new mining areas** | | | |
| Borynia-Zofiówka Mine, Zofiówka Section<br>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<br>Opening and industrial utilization of the new "Pawłowice-1" coking coal deposit | 15.8 | 19.8 | 79.8% |
| Krupiński Mine<br>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<br>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.

### 2.5.2. Capital investments in 2012

The value of JSW S.A.'s capital investments (acquisition and take-up of shares) in 2012 amounted to PLN 3.8 million. Capital expenditures in 2012 were financed from own funds or in return for in-kind contributions. A detailed description of the capital investments made in the period from January to December 2012 is presented in Item 1.3 of this report and Note 9 to the Financial Statements of JastrzębskaSpółkaWęglowa S.A. for the financial year ended 31 December 2012.

In addition to the aforementioned capital expenditures, in 2012 JSW S.A. purchased short-term unsecured registered series B bonds issued by the subsidiary SpółkaEnergetycznaJastrzębie S.A. 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.

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

## 3. FINANCIAL AND PROPERTY STANDING OF JASTRZĘBSKA SPÓŁKA WĘGLOWA S.A.

**Summary of basic JSW S.A. data in 2010-2012**

| | UNIT | 2010 | 2011 | 2012 | GROWTH (%) 2012/2011 |
|---|---|---|---|---|---|
| Statement of financial position | | | | | |
| Total assets | PLN m | 9,106.1 | 11,656.4 | 12,413.0 | 106.5 |
| Non-current assets | PLN m | 6,449.7 | 7,951.3 | 8,735.3 | 109.9 |
| Current assets | PLN m | 2,656.4 | 3,705.1 | 3,677.7 | 99.3 |
| Equity | PLN m | 5,210.8 | 7,596.4 | 7,774.6 | 102.3 |
| Liabilities | PLN m | 3,895.3 | 4,060.0 | 4,638.4 | 114.2 |
| Statement of comprehensive income | | | | | |
| Sales revenues | PLN m | 6,172.4 | 7,962.9 | 8,737.1 | 109.7 |
| Gross sales profit/(loss) | PLN m | 1,927.4 | 3,147.3 | 2,048.5 | 65.1 |
| Operating profit/(loss) | PLN m | 1,525.3 | 2,673.4 | 1,281.8 | 47.9 |
| EBITDA | PLN m | 2,221.2 | 3,359.2 | 2,087.8 | 62.2 |
| EBITDA margin | % | 36.0 | 42.2 | 23.9 | 56.6 |
| Pre-tax profit/(loss) | PLN m | 1,444.0 | 2,644.5 | 1,271.0 | 48.1 |
| Net profit/(loss) | PLN m | 1,158.9 | 2,063.0 | 995.9 | 48.3 |
| Total comprehensive income | PLN m | 1,158.9 | 2,082.5 | 809.9 | 38.9 |
| Cash flow statement | | | | | |
| Net cash flow on operating activity | PLN m | 1,874.3 | 2,678.9 | 1,885.3 | 70.4 |
| Net cash flow on investing activity | PLN m | (683.8) | (1,764.5) | (2,351.3) | 133.3 |
| Net cash flow on financing activity | PLN m | (147.1) | (311.8) | (647.2) | 207.6 |
| Change in the net balance of cash and cash equivalents | PLN m | 1,043.4 | 602.6 | (1,113.2) | (184.7) |
| Financial ratios | | | | | |
| Dividend per share | PLN/share | 1.63 | 2.16 | 5.38 | 294.1 |
| Current liquidity | | 1.90 | 2.16 | 1.94 | 89.8 |
| Quick liquidity | | 1.75 | 1.99 | 1.69 | 84.9 |
| Net return on sales | % | 18.8 | 25.9 | 11.4 | 44.0 |
| Return on Assets (ROA) | % | 12.7 | 17.7 | 8.0 | 45.2 |
| Return on Equity (ROE) | % | 22.2 | 27.2 | 12.8 | 47.1 |
| Debt/EBITDA | | 0.00 | 0.00 | 0.00 | - |
| Total debt ratio | | 0.43 | 0.35 | 0.38 | 108.6 |
| Debt to equity ratio | | 0.75 | 0.53 | 0.60 | 113.2 |
| Fixed capital to non-current assets ratio | | 1.09 | 1.18 | 1.12 | 94.9 |
| 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 m | 3,959.9 | 4,651.1 | 4,760.8 | 102.4 |
| Coal mining cash cost | PLN/ton | 297.74 | 368.84 | 353.64 | 95.9 |
| 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 | 22,637 | 22,931 | 22,678 | 98.9 |
| Average headcount during the year | persons | 22,477 | 22,705 | 22,825 | 100.5 |
| Investments in non-current assets | PLN m | 810.4 | 1,294.1 | 1,467.6 | 113.4 |
| Depreciation | PLN m | 695.9 | 685.8 | 806.0 | 117.5 |

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

## 3.1. Discussion of economic and financial figures

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

### 3.1.1. Assets

| | 31 Dec 2012 | 31 Dec 2011 | Growth rate |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5,892.5 | 5,185.4 | 113.6% |
| Intangible assets | 19.6 | 17.9 | 109.5% |
| Investment property | 23.1 | - | - |
| Investments in subsidiaries, co-subsidiaries and associates | 2,249.0 | 2,245.2 | 100.2% |
| Deferred income tax assets | 142.9 | 123.5 | 115.7% |
| Other long-term assets | 408.2 | 379.3 | 107.6% |
| | **8,735.3** | **7,951.3** | **109.9%** |
| **Current assets** | | | |
| Inventories | 475.6 | 297.1 | 160.1% |
| Trade receivables and other receivables | 1,005.2 | 1,020.5 | 98.5% |
| Income tax overpaid | - | 14.8 | - |
| Financial derivatives | 3.9 | 3.2 | 121.9% |
| Other short-term financial assets | 947.4 | 10.6 | 8,937.7% |
| Cash and cash equivalents | 1,245.6 | 2,358.9 | 52.8% |
| | **3,677.7** | **3,705.1** | **99.3%** |
| **TOTAL ASSETS** | **12,413.0** | **11,656.4** | **106.5%** |

Total assets as at 31 December 2012 were PLN 12,413.0 million, up by PLN 756.6 (6,5%) from the end of 2011. The most important movement in assets occurred in the following items: property, plant and equipment (up by PLN 707.1 million), other short-term financial assets (up by PLN 936.8 million), inventories (up by PLN 178.5 million), cash and cash equivalents (down by PLN 1,113.3 million).

**Non-current assets**

As at 31 December 2012 and as at 31 December 2011, JSW S.A.'s non-current assets amounted to PLN 8,735.3 million and PLN 7,951.3 million, respectively, and accounted for 70,4% and 68,2% of total assets. The biggest non-current assets line item was property, plant and equipment which, as at the end of 2012, accounted for 67.5% of non-current assets. Its value increased during the year by PLN 707.1 million, mainly as a result of execution of the capex program. In 2012, the Company incurred expenditures on non-current assets (property, plant and equipment, intangible assets, investment property) in the amount of PLN 1,467.6 million, with depreciation of PLN 806.0 million. The structure of expenditures incurred is presented in Item 2.5.1 of this report.

The second largest non-current assets line item, with a share of 25.7%, were investments in subsidiaries, co-subsidiaries and associates. In comparison with the 2011 end-of-year balance, this line item increased slightly (by PLN 3.8 million), which was affected by a greater exposure to SEJ, JZR and KoksowniaPrzyjaźń.

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

In 2012, JSW S.A. 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 Company is performed based on the purchase price model or the production cost model. Information on the methods and significant assumptions made by JSW S.A. in determining the fair value of investment propertyis described in Note 8 of the Financial Statements of JastrzębskaSpółkaWęglowa S.A. for the financial year ended 31 December 2012. The Company's investment propertyis owned by the Company.

**Current assets**

JSW S.A.'s current assets as at 31 December 2012 amounted to PLN 3,677.7 million, down by PLN 27.4 million from the end of 2011. Cash and cash equivalents were the biggest item in the current assets (33.9%). Cash and cash equivalents at the end of 2012 were lower by PLN 1,113.3 million (47,2%) than at the end of 2011. This change was due to the establishment of deposits with a maturity of 3 to 12 months, as a result of which at the end of 2012 other short-term financial assets increased significantly in relation to their value at the end of 2011 (up by PLN 936.8 million), and a decrease in cash flows from the core business.

Also inventories, whose share in the total current assets amounts to 12.9%, is an important item in current assets. They were at a level of PLN 475.6 million, i.e. 60.1% more than at the end of 2011. Finished products accounted for the biggest share in the value of inventories (90,2%). Their value during the year increased by PLN 171.6 million, which was the result of an increase in the volume of coal inventories by 772.8 thousand tons. The remaining part of inventories are materials (PLN 38.5 million) and goods (PLN 8.1 million).

The increase in current assets was also recorded in the financial derivatives line item – PLN 0.7 million, i.e. 21.9%. In turn, a decrease by PLN 14.8 million was recorded in the value of income tax overpaid and by PLN 15.3 million in trade receivables and other receivables, which remained close to the value recorded at the end of 2011.

### 3.1.2. Financing of assets

In 2012, equity was the primary source of asset financing, and its value increased by 2.3% compared to 2011. In the period under analysis, the Company did not use any financing in the form of bank loans or other funding by financial institutions.

| | 31 Dec 2012 | 31 Dec 2011 | Growth rate |
|---|---|---|---|
| **Equity** | | | |
| Share capital | 1,251.9 | 1,260.9 | 99.3% |
| Share premium account | 905.0 | 905.0 | 100.0% |
| Retained earnings | 5,617.7 | 5,430.5 | 103.4% |
| **Total equity** | **7,774.6** | **7,596.4** | **102.3%** |
| **Liabilities** | | | |
| **Long-term liabilities** | | | |
| Employee benefit liabilities | 1,943.0 | 1,663.9 | 116.8% |
| Provisions | 501.1 | 434.9 | 115.2% |
| Trade liabilities and other liabilities | 99.4 | 102.9 | 96.6% |
| | **2,543.5** | **2,201.7** | **115.5%** |
| **Short-term liabilities** | | | |
| Financial derivatives | 0.1 | - | - |
| Current income tax liabilities | 39.7 | - | - |
| Employee benefit liabilities | 247.4 | 219.7 | 112.6% |

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

| | 31 Dec 2012 | 31 Dec 2011 | Growth rate |
|---|---|---|---|
| Provisions | 203.9 | 141.9 | 143.7% |
| Trade liabilities and other liabilities | 1,603.8 | 1,496.7 | 107.2% |
| | **2,094.9** | **1,858.3** | **112.7%** |
| **Total liabilities** | **4,638.4** | **4,060.0** | **114.2%** |
| **TOTAL EQUITY AND LIABILITIES** | **12,413.0** | **11,656.4** | **106.5%** |

As at the end of 2012 and 2011, the Company's total equity amounted to PLN 7,774.6 million and PLN 7,596.4 million, respectively, which accounts for 62.6% and 65.2% of total equity and liabilities, respectively. An increase of total equity by PLN 178.2 million, i.e. by 2,3%, was associated with an increase in retained earnings by PLN 187.2 million, i.e. 3,4% 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, liabilities constituted 37.4% of total equity and liabilities, compared to 34.8% as at the end of 2011. The level of long-term liabilities increased during the year by PLN 341.8 million, i.e. 15.5%, including in employee benefit liabilities by PLN 279.1 million, i.e. 16.8%, and in provisions by PLN 66.2 million, i.e. 15.2%. Within long-term liabilities, 76.4% are employee benefit liabilities. Short-term liabilities increased from PLN 1,858.3 million as at 31 December 2011 to PLN 2,094.9 million as at 31 December 2012, i.e. by 12.7%. Increases were recorded in all short-term liabilities items, of which the largest increase occurred in trade liabilities and other liabilities amounting to PLN 107.1 million, mainly due to the increase in the value of trade liabilities (by 37.8%).

In the structure of liabilities as at 31 December 2012, the biggest items were employee benefit liabilities (47.2% of the value of liabilities), including mainly liabilities on account of coal allowances for old age and disability pensioners (PLN 1,358.8 million), trade liabilities and other liabilities (36.7% of liabilities), including primarily trade liabilities (PLN 748.1 million), liabilities for social security and other taxes (PLN 369.9 million), investment liabilities (PLN 220.3 million) and liabilities for payroll (PLN 207.6 million).

### 3.1.3. Description of the structure of assets and liabilities from the standpoint of JSW S.A.'s liquidity

The positive cash flows on operating activity generated in 2012 covered the vast majority of expenditures on the Company's non-current assets and expenditures of a financial nature (mainly on the dividend paid). Given the amount of funds invested in banks for a period longer than 3 months (investments in financial assets), the balance of available cash and cash equivalents together with investments as at the end of 2012 did not change significantly compared to the previous year.

The Company'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 Company's ability to settle its liabilities in a timely manner. JSW S.A. maintains a safe level of liquidity.

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

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

| | 2012 | 2011 | Growth rate |
|---|---|---|---|
| Net cash flow on operating activity | 1,885.3 | 2,678.9 | 70.4% |
| Net cash flow on investing activity | (2,351.3) | (1,764.5) | 133.3% |
| Net cash flow on financing activity | (647.2) | (311.8) | 207.6% |
| **Change in the net balance of cash and cash equivalents** | **(1,113.2)** | **602.6** | **(184.7)%** |

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

**Cash flow on operating activity**

The value of cash flow on operating activity amounted to PLN 1,885.3 million in the period from January to December 2012, predominantly as a result of generated pre-tax profit of PLN 1,271.0 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.

The exact impact of changes in the above items is presented in Note 33 of the Financial Statements of JastrzębskaSpółkaWęglowa S.A. for the financial year ended 31 December 2012.

**Cash flow on investing activity**

The value of cash used in investing activity amounted to PLN 2,351.3 million, compared to PLN 1,764.5 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 1,577.1 million) and the acquisition of financial assets (PLN 941.8 million), mainly related to the establishment of time deposits with a maturity of more than 3 months and the purchase of bonds issued by the subsidiary SEJ in the amount of PLN 10 million. At the same time, interest income was PLN 113.7 million and dividends received amounted to PLN 54.2 million.

**Cash flow on financing activity**

In 2012, net cash flow on financing activity amounted to PLN (647.2) million, compared to PLN (311.8) million in 2011, which resulted predominantly from the amount of dividends paid to the 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 0.1 million), the balance of cash and cash equivalents decreased by PLN 1,113.3 million compared to the 2011 end-of-year balance and as at 31 December 2012 stood at PLN 1,245.6 million.

### 3.1.4. Material off-balance sheet items

Material off-balance sheet items include:

**Contingent assets**

Until 2008 the Company in its property tax declarations included a tax on underground infrastructure. In 2008-2010 the Company gradually adjusted the declarations filed and submitted applications to assert an overpayment. In connection with the municipalities rejecting these applications and on account of the dispute pending with the municipalities on this subject, the 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. Furthermore, 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. However, 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 fixed assets, 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. Under 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 total amount of PLN 71.7 million and redeems PEC shares from the company's employees for PLN 17.8 million. Under a corporate guarantees agreement, JSW S.A. committed to provide SEJ with funds to cover expenditures arising from the acquisition of PEC. 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, JSW S.A. 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 Company's Management Board signed and the unions operating in the Company 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 Company employees is 10 years from the date the Company's shares are made public. If the Company does not fulfill its employment guarantee it will be obligated to pay compensation equal to the product of the average monthly remuneration in the Company 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 Company's shares were made public on the Warsaw Stock Exchange.

Moreover, on 18 May 2011, KK Zabrze and the 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 the Company. The Company took the responsibility of a guarantor of KK Zabrze's commitments.

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

On 6 September 2011 the 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.

Information about other off-balance sheet items is presented in Note 34 to the Financial Statements of JastrzębskaSpółkaWęglowa S.A. for the financial year ended 31 December 2012.

### 3.1.5. Statement of comprehensive income

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

| | **2012** | **2011** (restated data) | **Growth rate** |
|---|---|---|---|
| Sales revenues | 8,737.1 | 7,962.9 | 109.7% |
| Cost of products, materials and merchandise sold | (6,688.6) | (4,815.6) | 138.9% |
| **Gross sales profit** | **2,048.5** | **3,147.3** | **65.1%** |
| Cost of sales | (259.7) | (127.0) | 204.5% |
| Administrative costs | (509.1) | (433.0) | 117.6% |
| Employee share ownership plan | - | (293.0) | - |
| Other income | 97.4 | 50.5 | 192.9% |
| Disputed property tax on underground mine workings | (48.5) | 359.7 | (13.5)% |
| Other costs | (66.1) | (36.5) | 181.1% |
| Other net profit | 19.3 | 5.4 | 357.4% |
| **Operating profit** | **1,281.8** | **2,673.4** | **47.9%** |
| Financial income | 106.0 | 104.3 | 101.6% |
| Financial costs | (116.8) | (133.2) | 87.7% |
| **Pre-tax profit** | **1,271.0** | **2,644.5** | **48.1%** |
| Income tax | (275.1) | (581.5) | 47.3% |
| **Net profit** | **995.9** | **2,063.0** | **48.3%** |
| **Other comprehensive income:** | | | |
| Actuarial profit/(loss) | (229.6) | 24.1 | (952.7)% |
| Income tax | 43.6 | (4.6) | (947.8)% |
| **Total other comprehensive income** | **(186.0)** | **19.5** | **953.8%** |
| **Total comprehensive income** | **809.9** | **2,082.5** | **38.9%** |

In 2012, total sales revenues were PLN 8,737.1 million and were PLN 774.2 million higher than last year's revenues, representing a 9.7% growth. In 2012, revenues on sales of coal produced by JSW S.A. which constitute 77.1% of total revenues were PLN 6,736.7 million, i.e. 14.2% lower than in 2011, which was caused mostly by a decrease in unit prices of coking coal. In 2012, cost of products, materials and merchandise sold increased by PLN 1,873.0 million (38.9%), of which PLN 1,795.7 million was attributable to the cost of purchased coke and coal derivatives. In 2012, gross sales profit amounted to PLN 2,048.5 million and was 34.9% lower than in 2011.

In 2012, the total cost of sales was PLN 259.7 million, up by PLN 132.7 million from the previous year, representing a 104.5% increase. The increase in the cost of sales was mainly due to the implementation of the Trading Policy resulting in the emergence of the cost of sales of coke and coal derivatives, which in 2012 amounted to PLN 66.5 million. Furthermore, the volume of coal sales increased by 39.7% (+1,622.8 thousand tons), generating transportation costs for the Company with an offsetting effect of higher selling prices.

Administrative costs encompassing costs associated with execution of management and administrative functions were PLN 509.1 million which represents a 17.6% growth as compared to 2011. Due to the fact that personnel costs have the largest share in the structure of those costs, the decisions concerning salaries made in 2012 significantly influenced their level. The main reasons for an increase in these costs result from:

- the launch, in 2012, of an incentive-based bonus system (task and incentive bonuses),
- payment of bonuses for H2 2011 to the beneficiaries of the Management by Objectives program,
- an increase in the average headcount by 57 persons in the statistical groups charged to administrative costs.

Other income in 2012 were PLN 97.4 million which represents 92.9% growth as compared to the amount of PLN 50.5 million recorded in 2011. Growth of other income resulted from, among other things, higher dividends obtained than in the previous year.

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 29.6 million, partly as a result of higher interest expenses. In Q4 2012, charges were made for investment property (the RóżanyGaj hotel in Gdynia) in the amount of PLN 5.0 million and property, plant and equipment in the amount of PLN 4.3 million. In 2012, other net profit was PLN 19.3 million, up by PLN 13.9 million from that generated in 2011, mainly due to foreign exchange gains.

In 2012, operating profit amounted to PLN 1,281.8 million and was PLN 1,391.6 million (52.1%) lower than in the previous year.

Financial income in 2012 was PLN 106.0 million, compared to PLN 104.3 million in 2011, at a comparable level of interest income on cash and cash equivalents, including term deposits for up to 3 months. Financial costs were PLN 116.8 million, i.e. PLN 16.4 million lower than in 2011, mainly due to lower interest expenses related to the settlement of the discount on long-term provisions (a decrease of PLN 15.1 million).

As a result of aforedescribed factors, pre-tax profit for 2012 amounted to PLN 1,271.0 million compared to 2011 and was lower by PLN 1,373.5 million (51.9%). After the charge on account of income tax in the amount of PLN 275.1 million, net profit for 2012 was PLN 995.9 million, down by 51.7% compared to the previous year.

In 2012, JastrzębskaSpółkaWęglowa S.A. decided to apply amendments to IAS 19 from 1 January 2012. In accordance with amendments to IAS 19, the Company 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 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 229.6 million and deferred tax in the amount of PLN 43.6 million, total comprehensive income amounted to PLN 809.9 million, i.e. PLN 1,272.6 million less than in 2011.

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

**Costs by type**

| | 2012 | 2011 (restated data) | Growth rate |
|---|---|---|---|
| Depreciation | 806.0 | 685.8 | 117.5% |
| Consumption of materials and energy | 1,020.7 | 958.8 | 106.5% |
| Third party services | 1,383.5 | 1,215.6 | 113.8% |
| Employee benefits | 2,978.4 | 2,789.0 | 106.8% |
| Employee share ownership plan | - | 293.0 | - |
| Taxes and fees | 145.0 | 141.5 | 102.5% |
| Other costs by type | 42.5 | 17.8 | 238.8% |
| Value of materials and merchandise sold | 1,854.5 | 51.6 | 3,594.0% |
| *– including: value of coke and coal derivatives sold* | *1,795.7* | - | - |
| **Total costs by type** | **8,230.6** | **6,153.1** | **133.8%** |
| Cost of sales | (259.7) | (127.0) | 204.5% |
| Administrative costs | (509.1) | (433.0) | 117.6% |
| 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 | (565.0) | (413.4) | 136.7% |
| Movement in products | (171.6) | (71.1) | 241.4% |
| **Cost of products, materials and merchandise sold** | **6,688.6** | **4,815.6** | **138.9%** |

* The difference of 11.9 between the amount of 48.5 presented in the statement of comprehensive income and the amount of 36.6 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 Company's mines operate.

Total expenditures incurred by the Company in 2012 on production activity amounted to PLN 8,230.6 million, compared to PLN 6,153.1 million incurred in 2011, up by PLN 2,077.5 million, i.e. 33.8%. This increase was caused predominantly by the following:

- an increase in the value of materials and merchandise sold by PLN 1,802.9 million,
- an increase in the value of benefits paid to employees by PLN 189.4 million,
- and an increase in the value of third party services by PLN 167.9 million.

Benefits paid to employees constitute the largest share in the structure of costs by type, accounting for 36.2% of such costs, which in 2012 also included 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: value of materials and merchandise sold – 22.5%, costs of third party services – 16.8% and costs of consumed materials and merchandise – 12.4%. As compared to the previous year, the cost structure changed mostly with regard to the value of materials and merchandise sold whose share in total costs in 2012 increased by 21.7 percentage points. This change was associated with launching the sale of coke and coal derivatives under a new trading procedure. In accordance with the provisions of this new procedure, JSW S.A. sells coke and coal derivatives in place of the coking plants.

In 2012, the costs of benefits provided to the employees without payment of profit distribution to the staff (in 2012: PLN 130.0 million, in 2011: PLN 160.0 million) amounted to PLN 2,848.4 million, i.e. 8.3% more than in 2011. JSW S.A.'s employee compensation policy in 2012 was based on the implemented incentive compensation systems (an incentive bonus from March and a task-based bonus from April). The incentive bonus system was applied to the personnel of the excavation, preparation and reinforcement and liquidation units, the task-based bonus system was applied to all employees of JSW S.A. Furthermore, on 8 November 2012, an arrangement was made between the JastrzębskaSpółkaWęglowa S.A. Management Board and the JSW S.A. Trade Unions Protest and Strike Committee on the collective dispute regarding an increase in base wages by 7%, which resulted in wage increases in 2012. The arrangement provided for an increase in base wages by with effect from 1 November 2012 by 3.4% compared to the previous level of base wages and payment of a non-recurring bonus in November. Moreover, the arrangement established the method of calculation of wage increases for JSW S.A. employees in 2013-2015 in line with the inflation rate assumed for the state budget act for the relevant year, to be adjusted for the actual inflation rate through negotiations between the JSW S.A. Management Board and the Social Party. The employee compensation growth rate in 2012 was 5.4%.

A significant item of costs by type is the value of materials and merchandise sold, which increased by PLN 1,802.9 million, i.e. 3,494.0%, compared to 2011 as a result of the implementation of the aforementioned Trading Policy in JSW S.A.

In 2012, costs of third party services were PLN 167.9 million higher than in 2011, up by 13.8%. The following higher costs of third party services were the main contributors to this increase:

- transportation services (+) PLN 134.7 million – an increase by 88.3% caused by a change in JSW S.A.'s Trading Policy consisting of the realization of sales of coke and coal derivatives through PolskiKoks S.A. and JSW S.A.'s taking over, starting in Q3 2012, of commercial contracts for the sale of coke from KK Zabrze and WZK Victoria, which sale is performed for and on behalf of JSW by PolskiKoks S.A.,
- drilling and mining services (+) PLN 79.7 million – an increase by 37.5% caused primarily from an increase in the number of meters of performed drilling and mining work (by 1,840 m), an increase in the length of reconstructions of mining workings performed by external companies (by 1,072 m) and the taking over of maintenance and expansion of the scope of work related to the operation of conveyor belts,
- overhaul services (+) PLN 17.5 million – an increase of costs by 8.3% caused primarily by additional overhauls of longwall shearers and increased costs of maintenance of roadheaders. An increase in the costs incurred for the renovation of roof supports also had a significant impact on the increase in the cost of overhauls,
- leases of mining machines (+) PLN 5.5 million – an increase by 6.9% caused by, among other factors, a change in the form of acquisition of shearers and roadheaders and an increase in rents for roadheaders,
- methane removal services (+) PLN 2.6 million – an increase by 2.6% caused primarily by the conduct of mining operations in deposits with a higher methane content than in 2011,
- other services (+) PLN 31.6 million – an increase by 21.7%, caused by, among other factors, the entry into force of a new agreement on the cost of certificates, measurements and legalization of equipment in underground workings and an increase in fees for IT services related to the implementation of the Hyperion Planning controlling platform and the sharing of the Digital Maps system,
- other services related to coal production (+) PLN 10.0 million – an increase by 7.3% caused primarily by a greater quantity of stored rock due to growth in production and the performance, starting from 1 January, of all analyses of samples of dust, coal, air and waters by CentralneLaboratoriumPomiarowo-Badawcze Sp. z o.o. rather than by the mines as was the case previously.

In 2012, consumption of materials and energy was PLN 61.9 million higher than in 2011, up by 6.5%. The higher level of costs resulted from the increased scope of heading work (by 5,883 m) and reconstructions (by 1,634 m). The increase in the costs of energy was also attributed to higher than in 2011 unit fees for electricity, heat and cooling.

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 JSW S.A. staff of PLN 160.0 million, and after eliminating the profit sharing distribution to the JSW S.A. staff in 2012 of PLN 130.0 PLN, the level of operating expenses in 2012 amounted to PLN 8,100.6 million, compared to PLN 5,700.1 million in 2011, meaning that operating expenses increased by PLN 2,400.5 million, i.e. 42,1%. This increase was largely due to an increase in the value of materials and merchandise sold in connection with the implementation of JSW S.A.'s Trading Policy.

**Statement of comprehensive income without taking into account the employee share ownership plan in 2011**

In 2011, the Company ordered the execution of valuation of the employee share ownership plan 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 plan" item of the statement of comprehensive income. The following table presents selected figures from the statement of comprehensive income for the financial year ended 31 December 2012 and the financial year ended 31 December 2011 without taking this cost into account.

The net return on sales in 2012 was 11,4%, down by 18.2 percentage points from 2011 (without taking into account the effects of valuation of the employee share ownership plan which was a non-recurring event with no impact on the Company's cash flow).

| | 2012 | 2011 (restated data) | Growth rate |
|---|---|---|---|
| Sales revenues | 8,737.1 | 7,962.9 | 109.7% |
| Cost of products, materials and merchandise sold | (6,688.6) | (4,815.6) | 138.9% |
| **Gross sales profit** | **2,048.5** | **3,147.3** | **65.1%** |
| **Operating profit** | **1,281.8** | **2,966.4** | **43.2%** |
| **Pre-tax profit** | **1,271.0** | **2,937.5** | **43.3%** |
| Income tax | (275.1) | (581.5) | 47.3% |
| **Net profit** | **995.9** | **2,356.0** | **42.3%** |
| **Total other comprehensive income** | **(186.0)** | **19.5** | **(953.8)%** |
| **Total comprehensive income** | **809.9** | **2,375.5** | **34.1%** |

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

JSW S.A.'s current financial standing is good. In 2012, no occurrences having a negative impact on the Company's continued operations were recorded. The JSW S.A. Management Board anticipates 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 Company developed an action plan for 2013 based on tentative results 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% |
| Expenditures on non-current assets (*in PLN millions*) | 1,355.8 | 1,467.6 | 92.4% |
| Debt/EBITDA | 0.00 | 0.00 | - |
| Headcount – as at 31 December | 22,430 | 22,678 | 98.9% |

The main objective with respect to production defined in the Technical and Economic Plan for 2013 will be the optimal utilization of the mines' resource base and production capacity, and increase of share of coking coal production in total production. In 2012, JSW S.A.'s mines produced 13.5 million tons of coal compared to the planned 13.3 million tons. In 2013, the Company plans to slightly increase the production level (by 62.6 thousand tons). The basic condition for achieving this objective will be to ensure the mining capability of the mines and proper preparation of the mining front for 2013 and the next year through performance of the quantity of heading work assumed in the plan. 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%.

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

In 2013, the Company plans to incur expenditures on non-current assets in the amount of PLN 1.4 billion 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 "Pawłowice1" 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.

The Company's plan for 2013 aims to reduce the headcount by 248 persons compared to 31 December 2012. However, in the event of special circumstances threatening the execution of production tasks, this headcount may change.

### 3.2.1. Financial resources management

Excess cash generated by JSW S.A. is invested in fixed or variable interest-bearing bank deposits. The selection of a particular instrument depends on its safety and return on investment. In order to reduce its bank credit risk, the Company diversifies its cash deposits and sets limits on the concentration for individual banking institutions in accordance with the policy of investing available funds described in Item 3.9 of this report.

In 2012, JSW S.A. subscribed for series B bonds issued by SpółkaEnergetycznaJastrzębie S.A. in the amount of PLN 10.0 million. JSW S.A.'s revenues generated in 2012 from series A bonds with a value of PLN 144.5 million issued by SpółkaEnergetycznaJastrzębie S.A. in 2011 amounted to PLN 9.4 million.

The structure of cash and cash equivalents is presented in the following table.

| | 31 Dec 2012 | 31 Dec 2011 | Growth rate |
|---|---|---|---|
| Cash on hand and in bank accounts | 161.0 | 251.1 | 64.1% |
| Other cash assets, including: | | | |
| - cash assets payable up to 3 months | 1,081.5 | 2,098.9 | 51.5% |
| - interest on financial assets payable up to 3 months | 3.1 | 8.9 | 34.8% |
| **Total** | **1,245.6** | **2,358.9** | **52.8%** |

The table below presents income on cash investments and financial investments.

| | 2012 | 2011 | Growth rate |
|---|---|---|---|
| Cash on hand | 11.6 | 14.0 | 82.9% |
| Securities and participation units | 9.4 | 0.4 | 2,350.0% |
| Term deposits | 91.2 | 88.9 | 102.6% |
| Loans | 0.1 | - | - |
| **Total** | **112.3** | **103.3** | **108.7%** |

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

### 3.2.2. Debt and the Company's financing structure

| | | 2012 | 2011 | Growth rate |
|---|---|---|---|---|
| Equity ratio | Equity – Intangible assets / Total assets | 0.62 | 0.65 | 95.4% |
| Debt/EBITDA ratio | Loans, borrowings, financial lease liabilities / EBITDA | 0.00 | 0.00 | - |
| Total debt ratio | Total liabilities / Total liabilities and equity | 0.38 | 0.35 | 108.6% |
| Short-term debt ratio | Short-term liabilities / Total liabilities and equity | 0.17 | 0.16 | 106.3% |
| Long-term debt ratio | Long-term liabilities / Total liabilities and equity | 0.20 | 0.19 | 105.3% |
| Debt to equity ratio | Total liabilities / Equity | 0.60 | 0.53 | 113.2% |
| Fixed capital to non-current assets ratio | Equity + long-term liabilities excluding long-term provisions / Non-current assets | 1.12 | 1.18 | 94.9% |

As at 31 December 2012, the share of liabilities in financing the Company's activity measured with the total debt ratio was 0.35 compared to 0.38 as at the end of 2011. In the period covered by the financial statements the Company's debt did not constitute a threat to its operations and ability to repay its liabilities on time. At the end of 2012, JSW S.A. did not have any loans, borrowings or financial lease liabilities. The fixed capital to non-current assets ratio as at the end of 2012 was 1.12 reflecting the Company's correct asset financing structure.

### 3.2.3. Liquidity

| | | 2012 | 2011 | Growth rate |
|---|---|---|---|---|
| Current ratio | Current assets / Short-term liabilities (excluding short-term provisions) | 1.94 | 2.16 | 89.8% |
| Quick ratio | Current assets – Inventories / Short-term liabilities (excluding short-term provisions) | 1.69 | 1.99 | 84.9% |

In 2012, the current ratio reached a value of 1.94 and decreased in relation to 2011 by 0.22, i.e. by 10.2%, as a result of a decrease in current assets by 0.7% with a concurrent increase in short-term liabilities (excluding short-term provisions) by 10.2%. The quick ratio decreased by 15.1% as a result of a decrease in current assets (excluding inventories) by 6.0%.

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

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

### 3.2.4. Profitability

| | | 2012 | 2011 (restated data) | Growth rate |
|---|---|---|---|---|
| EBITDA | Operating result + Depreciation | 2,087.8 | 3,359.2 | 62.2% |
| Gross margin | Gross result on sales x 100 / Sales revenues | 23.4% | 39.5% | 59.2% |
| EBIT margin | Operating result x 100 / Sales revenues | 14.7% | 33.6% | 43.8% |
| EBITDA margin | EBITDA x 100 / Sales revenues | 23.9% | 42.2% | 56.6% |
| Net return on sales | Net financial result x 100 / Sales revenues | 11.4% | 25.9% | 44.0% |
| Return on Assets (ROA) | Net financial result x 100 / Total assets | 8.0% | 17.7% | 45.2% |
| Return on Equity (ROE) | Net financial result x 100 / Equity | 12.8% | 27.2% | 47.1% |

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

The EBITDA indicator for 2012 was PLN 2,087.8 million compared to PLN 3,359.2 million in 2011, down by 37.8%. EBITDA was generated in 61.4% from the operating profit while 38.6% came from depreciation. In 2011, these shares were 79.6% and 20.4%, respectively. The EBITDA margin for 2012 decreased by 18.3 percentage points from 42.2% in 2011 to 23.9% in 2012. On the other hand, in 2012 the EBIT margin was 14.7% which means that with respect to JSW S.A.'s core business, each PLN 1 million of sales revenues generated approx. PLN 147 thousand in operating profit. Net sales profitability in 2012 was at the level of 11.4%, down by 14.5 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 Company's utilization of assets and equity.

### 3.2.5. Inventories

| | 31 Dec 2012 | 31 Dec 2011 | Growth rate |
|---|---|---|---|
| Materials | 38.5 | 39.7 | 97.0% |
| Finished products | 429.0 | 257.4 | 166.7% |
| Merchandise | 8.1 | - | - |
| **Total** | **475.6** | **297.1** | **160.1%** |

The balance of inventories held by the Company as at 31 December 2011 was PLN 475.6 million, up by PLN 178.5 million, i.e. 60.1%, from the level as at 31 December 2011. The increase of the value of inventories was caused primarily by an increase of inventories of finished products by PLN 171.6 million, mainly as a result of lower demand for coal due to the economic slowdown. In 2012, the Company had inventories of merchandise in connection with the change of JSW S.A.'s Trading Policy and the taking over of the sale of coke.

### 3.2.6. Mining cash cost

The table below presents the mining cash cost and its calculation methodology in 2012 and in 2011.

| | 2012 | 2011[(1)] (restated data) | Growth rate |
|---|---|---|---|
| **Total costs by type** | **8,230.6** | **6,153.1** | **133.8%** |
| Cost of sales | (259.7) | (127.0) | 204.5% |
| Capitalization of pits | (487.2) | (288.6) | 168.8% |
| Employee share ownership plan | - | (293.0) | |
| Depreciation | (806.0) | (685.8) | 117.5% |
| Value of materials and merchandise sold | (1,854.5) | (51.6) | 3,594.0% |
| Other costs of the period not applicable to coal production | (62.4) | (56.0) | 111.4% |
| **Mining cash cost (*in PLN millions*)** | **4,760.8** | **4,651.1** | **102.4%** |
| Coal extraction (*in millions of tons*) | 13.5 | 12.6 | 107.1% |
| **Mining cash cost (*in PLN/ton*)**[(2)] | **353.64** | **368.84** | **95.9%** |

(1) In connection with the restatement of data in the statement of comprehensive income for 2011, the Company 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.

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 Company calculates mining cash cost by subtracting costs not directly associated with the production of coal and costs not permanently affecting the Company'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 whose main reasons are described in Item 3.1.5,
- 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%.

## 3.3. Proceeds from securities issues

During the reporting period, JastrzębskaSpółkaWęglowa S.A. did not issue any securities. Furthermore, the Company did not receive any proceeds from the sale of shares by the State Treasury under the public offering of shares sold in 2011.

## 3.4. Evaluation of factors and unusual events affecting the result

The Company'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 Company's opinion affected the operating results in the past and which according to the Company's predictions may influence its results in the coming years. These primarily include demand for and supply of raw materials, economic crisis and its consequences, costs of production, acquisitions, executed investments and FX rates.

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 Company'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 Company'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 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 35 to the Financial Statements of JastrzębskaSpółkaWęglowa S.A. for the financial year ended 31 December 2012.

### 3.6. Information on executed and terminated loan agreements

In 2012, the Company had an active overdraft facility for PLN 40.0 million in ING Bank Śląski S.A. The loan interest rate is based on the WIBOR O/N reference rate. As at the end of 2012, JSW S.A. did not have any loan debt.

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

In 2012, JSW S.A. granted its subsidiary ADVICOM Sp. z o.o. a loan in the amount of PLN 3.5 million (as at 31 December 2012, the value of the loan was PLN 3.2 million). The loan funds were used to partially finance an investment project executed for the Group. The loan is repayable in 24 installments, the final repayment date is 31 October 2014. The interest rate on the loan is set at the market level based on a variable WIBOR 3M rate plus a fixed margin.

Furthermore, in 2012 JSW S.A. assigned its receivables under a commercial agreement to secure KoksowniaPrzyjaźń's liabilities arising from a loan granted by the Voivodship Fund for Environmental Protection and Water Management in Katowice. The assignment of receivables was effected in connection with the entry into force of the JSW Capital Group's new Trading Procedure. The value of the loan liability as at the end of 2012 was PLN 10.0 million. The final loan repayment date is 31 July 2014.

In November 2012, the Company's Management Board and Supervisory Board approved the granting of a guarantee by JSW S.A. for the repayment of the loan obtained by PolskiKoks S.A. from the Voivodship Fund for Environmental Protection and Water Management in Katowice. The amount of JSW S.A.'s guarantee commitment was set at PLN 9.8 million. Because, as at the date of the report, the loan was not granted yet, the guarantee agreement was not signed either.

Still in force remain two guarantees for the liabilities contracted by SpółkaEnergetycznaJastrzębie S.A. by virtue of loans obtained from the Voivodship Fund for Environmental Protection and Water Management in Katowice for the total amount of

PLN 10.0 million and a guarantee granted by the Krupiński mine to secure a loan granted by PKO BP S.A. up to the amount of PLN 0.3 million to cover the liabilities of GórniczaSpółdzielniaMieszkaniowa [Miners' Housing Cooperative] maturing in 2030.

### 3.8. Differences between the financial results captured in the annual report and the previously published forecasts of results for 2012

In the Management Board report on the activity of JastrzębskaSpółkaWęglowa S.A. for the financial year ended 31 December 2011, Item 3.2 "Information about the Company's current and expected financial standing" presents the main assumptions of JSW S.A.'s Technical and Economic Plan for 2012 which was adopted by the Company's Management Board and which received a positive opinion from the JSW S.A. Supervisory Board. The basic assumptions of the Plan for 2012 and their implementation are presented in the following table.

| | 2012 actuals | 2012 plan | Growth rate |
|---|---|---|---|
| Production (*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% |
| Expenditures for purchases and construction of property, plant and equipment (*in PLN millions*) | 1,455.9 | 1,255.3 | 116.0% |
| Debt/EBITDA | 0.00 | 0.00 | - |
| Headcount – as at 31 December | 22,678 | 23,082 | 98.2% |

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 Technical and Economic Plan was achieved, with a surplus of 159.4 thousand tons. The structure of coal production was adjusted to demand and customer expectations.

In 2012, the Company incurred capital expenditures the amount of PLN 1,455.9 million, i.e. PLN 200.6 million (16.0%) more than had been planned. The scope of capital expenditures in 2012 demonstrated a strong commitment to the execution of the Company'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,
- execution of environmental protection projects.

As at 31 December 2012, JSW S.A.'s headcount stood at 22,678 persons, i.e. 404 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.

## 3.9. 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 associated with the reliability of customers is mitigated by insuring part of trade receivables in insurance companies, collateralizing liabilities with blank promissory notes and providing guarantees granted by entities with an established market position. In addition, in justified cases the Company executes the sale after the counterparty makes a prepayment.

In order to minimize the risk associated with investing its financial resources, the Company reduced the number of financial institutions with which it cooperates solely to banks with an established market position. Furthermore, the Company diversifies its investment exposure in accordance with the concentration limits set for the individual banks.

As part of its foreign exchange risk management, in 2012 the Company used foreign exchange forward contracts. The purpose of those transactions was to secure the Company from the FX risk emerging in the course of commercial activity.

The Company monitors the risks associated with cash flow disruptions and risk of loss of liquidity on an ongoing basis. In order to minimize those risks, the Company maintains funds at a safe level and keeps a renewable credit facility in the form of a current account overdraft.

**Financial risk management objectives and methods**

JSW S.A. adopted a foreign exchange risk management policy accepted by the Management Board and the Supervisory Board which defines, among others, the objectives and principles for managing foreign exchange risk. The purpose of the foreign exchange risk management 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 Company's economic result. Since 1 January 2013, JSW S.A.'s foreign exchange risk management policy has been replaced with the JSW Capital Group's foreign exchange risk management policy aimed at centralizing the foreign exchange risk management process in JSW S.A.

In JSW S.A., derivatives are carried at fair value. For record-keeping purposes, the Company uses bank valuations.

The Company does not apply hedge accounting.

In 2012, JSW S.A. implemented a policy for investing surplus cash. The policy ensures a more efficient execution of tasks related to investing surplus cash while providing the safety of repayment of invested funds and accrued interest, maximizing profitability and enabling effective management of banking relationships.

The policy also specifies the rules for managing JSW S.A.'s surplus cash, sets out the principles for investing surplus cash, including in particular the principles of identification, quantification, monitoring and allocation of responsibilities to enable adequate control over treasury activities, and defines acceptable tools for the investment of funds.

# 4. OTHER INFORMATION

## 4.1. Risk factors and threats

JastrzębskaSpółkaWęglowa S.A. 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 JSW S.A. and the Group.

In 2012, JastrzębskaSpółkaWęglowa S.A. took a number of steps to modify and develop the existing Corporate Risk Management System in the Company. 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 the Company and the specific nature of its operations as a mining enterprise. 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 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 Company'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 Risk Management Officer, 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 Officer 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 Company'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 Company's operations, its financial position and operating results.

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

### 4.1.1. Factors related to the Company'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 coinciding excess supply of coal and coke on global markets and on the domestic market may lead to a considerable decline in coal and coke prices and may exert a material and adverse impact on the Company'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, JSW S.A. was quite significantly affected by this risk in 2012. Coal inventories in 2012 rose by 772.8 thousand tons compared to the previous year, despite a 2% increase in coal sales from 2011.
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 Company'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 Company's operations, its results and financial position. Furthermore, if one or more of the Company'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 Company's operations, results and financial position. Moreover, timely payments hinge upon many factors beyond the Company's control.
In 2012, the top five buyers accounted for 88.7% of the coking coal sales revenues (89.4% in 2011) and 82.1% of the steam coal sales revenues (80.6% in 2011) produced by the Company.
The top five buyers accounted for 68.1% of the total revenues on sales of coke and hydrocarbons.

**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 coking coal and coke may be subject to the influences of global economic cycles, political events, force majeure and hinges on the level of demand in the metallurgical and coking industry. Price volatility exerts a direct impact on the Company's operating and financial results.

In the past the Company has undergone material volatility of coking coal or coke 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 Company, which produces predominantly hard coal, was seriously affected by this drop. As a result, its average coal selling price in 2012 was 15.8% less than in 2011.

The average FCA-based price of coke in 2012 was 19.7% 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**

The Company'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 Company'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 Company has taken a multitude of measures to enhance safety these risks may grow in particular in conjunction with mining at deeper levels in the Company'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 Company 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 Company'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 Company 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 Company's actual resources prove to be lower than current estimates, this may adversely affect the Company's operations, operating results and financial position.

**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 Company 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 Company may not provide additional material resources or the operation of these resources may not be profitable.

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

Since the coal resources held by the Company are depleted as they are used, the Company'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

Company's ability to acquire additional resources in the future may be curtailed by a host of factors over which the Company exercises no control. The Company's inability to complete investment projects according to plan may exert a material and adverse impact on the Company'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 results and financial position.

**Employee relations may adversely affect JSW S.A.'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 Company. The Company's failure to maintain proper employee relations may exert a material and adverse impact on the Company's operational outlook, results and financial position.

As at the date of this report, there were 38 Trade Union Organizations operating in the 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 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. The Company intends to continue the negotiations of the Collective Bargaining Agreement for JSW S.A. employees and consultations on the Labor Rules and Regulations.

The 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 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 Company'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 Company that were described in Item 4.6 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 JSW S.A.'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 Company may affect the policies or procedures existing in JSW S.A. which in turn may have a material adverse effect on JSW S.A.'s prospects, performance and financial standing.

**Ability to retain and acquire experienced and qualified management**

The Company's ability to conduct its operations effectively may deteriorate if the Company loses the current members of the management team and fails to acquire new ones. The Company's retention of its competitive position and the implementation of its business strategy hinge upon its ability to retain and source experienced and qualified managers. The Company's managers on average have 10 to 20 years of professional experience in the coal industry. If the Company's competitors offer more favorable terms and conditions of employment, the Company may lose some managers. If the Company is unable to source, train and retain qualified managers, it may not be able to manage its growth effectively and compete effectively in the European coal industry, which may exert an adverse impact on its operations, results and financial position.

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

JSW S.A.'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 JSW S.A.'s sales revenues and expenses, the strengthening of the PLN against the EUR or USD may cause the Company'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 Company's operations, its financial position and operating results. The overriding objective of the Company's FX risk management policy is to curtail the FX risk resulting from the Company's FX exposure to a minimum as resulting from the threat to future cash flow and financial results as a consequence of movement in the price of the underlying instrument.

The Company is exposed to significant FX volatility risk related to the sale of products on domestic and international markets. To eliminate FX risk, in 2012 JSW S.A. entered into FX forwards. The Company also makes small purchases of materials, services or investment assets in foreign currencies. The Company also makes purchases indexed 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 financial statements of JastrzębskaSpółkaWęglowa S.A. for the financial year ended 31 December 2012. Changes of other foreign exchange rates besides the EUR do not materially affect the Company's net earnings.

**Cash flow volatility risk caused by changes in interest rates**

The Company is exposed to the risk of changing cash flows caused by changing interest rates. This risk is associated mainly with a possible decline in income on bank deposits and loans granted, for which interest is calculated at floating interest rates, and an increase in the interest rate on the loan if the available credit facility is used. In 2012, JSW S.A. did not use any external funding, but it had free cash invested in financial assets bearing interest at floating and fixed interest rates. Accordingly, the risk of changing cash flows is related to the change of interest rates on cash held.

The Company does not use derivatives to hedge against interest rate risk. However in 2012, in order to minimize the adverse effect of the declining interest rates on the Company's performance, action was taken to maintain income on term deposits, i.e. before the announced interest rate decrease, term deposits maturing in over 3 months were concluded which may be terminated without waiving any interest.

**Issues related to local communities**

The Company's business activity may prompt disputes with local communities concerning the areas where the Company 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 Company'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 Company'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 Company 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 Company's licenses are canceled or if new licenses or extensions are not granted to the Company, JSW S.A. may be unable to fully utilize its identified mineral deposits, which may have a material adverse effect on the Company's performance and business outlook.

**The Company may be subject to a higher excise tax on coal gas after 31 October 2013**

Pursuant to Directive 2003/96/EC, coal gas classified in the combined nomenclature under code CN 2705 is 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 JSW S.A. 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 Company with the excise tax.

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

In its operations the Company gives consideration to the consequences of its operations' environmental impact. The Company's operations are conducted in compliance with the binding environmental protection regulations. The Company holds the required environmental permits and meets all the conditions they specify; it monitors the compliance between these actions and the terms and conditions of the permits. These permits concern emissions and noise pollution, water and sewage management as well as waste management, including extraction waste.

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 Company'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 Company 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 held by the Company's mines which may drive up the Company's operating expenses.

The Company 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 Company's environmental operations and to new conditions.

**The Company 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.

**JSW S.A. 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 JSW S.A., 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 JSW S.A. 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 JSW S.A.
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 Company 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, JSW S.A. 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 financial performance of JSW S.A. may deteriorate if additional new encumbrances (taxes, fees) are imposed on the extraction of coal.

The factor with significant effect on the Company's financial results is the financial risk described in Item 3.9 of this report.

## 4.2. Material factors relating to the Company's development

The overriding strategic objective of JSW S.A. as a public company listed on the Warsaw Stock Exchange is to maximize its value for shareholders in the long-term by optimally utilizing the existing potential and implementing development projects.

JastrzębskaSpółkaWęglowa S.A. is implementing the goals and clauses in the document entitled Mine Development Strategy in JastrzębskaSpółkaWęglowa S.A. in 2010-2030 ("Strategy") which is being updated on the date of this report. This document defines the strategic objectives whose achievement is crucial to attaining the overriding objective, as follows:

- strengthening its current leadership position on the European market for high quality hard coking coal,
- extracting semi-soft coking coal primarily for the Group's internal needs to produce coke,
- maintaining its current position on the steam coal market,

- maximizing operating efficiency by optimizing the usage of resources,
- enhancing occupational health and safety,
- building its image as a credible business partner,
- enhancing corporate social responsibility, human capital development and care for the natural environment.

All the production, development, investment and commercial measures taken by JSW S.A. as presented in the Strategy 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, JSW S.A. may conduct profitable operations 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.

The extent of current and anticipated difficulties is significantly greater than anticipated 5-10 years ago.

One of the fundamental conditions for obtaining robust production results while operating in difficult mining conditions and having in mind the priority treatment of preserving the required level of occupational safety is to have modern equipment with a high level of engineering.

JSW S.A.'s mines have earmarked PLN 3 billion over the most recent eight years to procure modern machinery, plant and installations thereby achieving a high technical level of equipment. In subsequent years these efforts will be consistently continued to elevate the engineering level of the mines steadily. The priority is to modernize and develop underground transportation systems based on a suspension internal combustion rail transport system. Equally important projects involve the widespread implementation of automation systems and systems to monitor the operation of machinery and plant and to identify the movements of staff in particularly dangerous places. The positive assessment of the plough installation used for the first time in the Zofiówka mine, in a highly-advanced technology version, provides a justification for expanding the extent of remotely controlling technology processes.

The key element of the optimization of the Company's activity is the necessity to use technical assets more effectively, including among others more effective usage of employee work time.

The technical and organizational integration of the Borynia, Jas-Mos and Zofiówka mines is a project whose full implementation will accrue benefits in the Management Board's opinion. As of 1 January 2013, in performance of the Mine Development Strategy in JSW S.A. mining plants for 2010-2030, the Company merged the Borynia-Zofiówka mine with the Jas-Mos mine into a three-section mine Borynia-Zofiówka-Jastrzębie. The anticipated results of integration are as follows:

- limiting production costs by adapting the technological capabilities of the various elements of the production process to the projected extraction capacities,
- improving the effectiveness of utilizing coal resources,
- optimizing the usage of human and technical resources,
- simplifying the organizational structure of mines.

The steady depletion of resources in the areas being mined means that the current life of mines in JSW S.A. is determined by the need to explore immediately ways of expanding the current resource base of orthocoking coal and to utilize optimally resources in the concession deposits of active mines.

To provide for the Company'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.

An important assumption in JSW S.A.'s Strategy is for the Company to create conditions to enhance the competitiveness of Polish coal by implementing investment projects, inclusive of long-term developmental projects. They include the following investment projects:

- opening up and preparing for the mining of resources at greater depths:
  - building the 1290 level in the Budryk mine,
  - building the 1080 level in Zofiówka section of the Borynia-Zofiówka-Jastrzębie mine,
  - building the 1000 level in the Pniówek mine,
- utilizing new coal deposits:
  - Bzie-Dębina 2 - Zachód and Bzie-Dębina 1 - Zachód,
  - Pawłowice 1 deposit.

Work is also pending to open parcels E and Zgoń and part of the Żory-Suszec deposit next to the Krupiński mine.

There is also a realistic chance to open and develop the Żory-Warszowice deposit located next to the Borynia Section of the Borynia-Zofiówka-Jastrzębie mine. The final scope of this undertaking will depend on the arrangements made with local self-government units.

These measures over the period until 2030 will provide for a stable level of profitability and financial liquidity, which will guarantee the Company's development and a high ranking market position. Forecasting financial needs in later years will depend on the situation on the coking coal market, the level of coal prices and the earnings generated.

The high degree of progress in the work to implement the adopted strategic initiatives and the operating results achieved by the Company in 2012 form the grounds for positively assessing the Strategy.

Moreover, JSW S.A. is a parent company in the JSW Capital Group. 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.

### 4.2.1. Description of events significant for the Company's development

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

**Concessions obtained**

On 21 June 2012 JSW S.A. 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 JSW S.A. 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 JSW S.A. obtained a decision from the Environmental Minister on the transfer of the concession in favor of JSW S.A. 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 JastrzębskaSpółkaWęglowa S.A. 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 $km^2$. 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 Management Board of JastrzębskaSpółkaWęglowa S.A., 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 1.2 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 preparation 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.

**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.

**Integrated Management System at JSW S.A.**

JastrzębskaSpółkaWęglowa S.A. holds a certificate issued by an independent accredited certification declaring that the Company has introduced and applies the following management systems: quality (consistent with the requirements of the PN-EN ISO 9001:2009 standard), environment (consistent with the requirements of the PN-EN ISO 14001:2005 i 14001:2009 standard) and occupational health and safety (consistent with the requirements of the PN-N 18001:2004 standard) in the area of: extraction, preparation and sale of coal. All of the JSW S.A.s plants hold the relevant sub-certificates.

In an effort to effectively mitigate business risk, under the Mine Development Strategy in JastrzębskaSpółkaWęglowa S.A. adopted by the Management Board and in order to ensure the fulfillment of the policy and goals of the Integrated Management System, the Information Security Management System was implemented in 2012. As one of the operational systems of the Integrated Management System, it incorporates, Information Classification, Risk Analysis and Evaluation and Risk Response Plan - in the area of information security, whose full documentation and archiving is done in DGA BPM (ISO-JSW) software. The system was implemented to apply the protection mechanisms corresponding to the business needs, to define the rules of proceeding with various information, estimate risk on the basis of the existing threats and to define acceptable risk levels. A certificate awarded in this system includes all the JSW S.A. mines and accordingly JSW S.A. is the only company in the Polish mining sector which has fully implemented the requirements of the international PN-ISO/IEC 27001:2007 standard.

**Implementation of the Competence Development System**

On 31 January 2012, the Management Board of JastrzębskaSpółkaWęglowa S.A. made a decision to implement the Competence Development System in JSW S.A. and cover the management staff with this system. As a result of this decision, in H1 2012, competence evaluation covered 176 persons from the Mine Management and the Management Board Office. In H2 2012, the Competence Development System covered another 779 people, i.e. other Section Managers, Senior Foremen, Branch Managers and Branch Foremen. Implementation of the Competence Development System entailed development of a competence model with definitions and training of all the persons subject to competence assessment under the System. The competence assessment process was carried out for the first group in the period from April to June 2012 r, and for the second group from September to November 2012. The outcome of the competence assessment process for employees covered by the system was taken into account when developing and implementing training workshop plans for management competence training for management staff.

In 2012, JSW S.A. continued development activities for the management staff initiated in the past years. As part of these activities, soft and management competence training has been organized and carried out for selected employee groups (branch foremen, senior foremen, managers, young talent). In total, 260 persons attended competence enhancement workshops organized by the Human Resources Management Office. The assumption has been made for 2013 that this training and enhancement workshops program for the management will be continued.

**Continued implementation of the management by objectives system**

In 2012, the Company continued the implementation of the Management By Objectives system implemented in 2011, as a method to improve the Company's performance by aligning activities of selected employees with the strategic objectives of JSW S.A. Management By Objectives has encompasses the JSW S.A. management staff, from the Mine Director level to Key Section Managers and Office Directors and Team Managers at the Management Board Office, that is 186 persons. Compared to the previous year, the scope of positions covered by the Management by Objectives program was extended to include Mining work Managers, Chief Mechanical Engineers and Chief Electricians. Starting from 2012, it was decided that the reference period of the Management by Objectives program was a year.

## 4.3. More important achievements in research and development

In 2012 JSW S.A. 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 the Company:

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 JSW S.A. 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 JSW S.A.:

- 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 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 Company's mines.

## 4.4. Issues related to the natural environment

In 2012, JSW S.A. continued environmental protection measures, while complying with the environmental conditions specified by the law and giving consideration to the needs of local stakeholders and the local community. JSW S.A. 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. This was reflected in the JSW S.A. Corporate Social Responsibility Strategy for the years 2013-2015 ("CSR") developed in 2012, where environmental awareness is one of the main values by which the Company is guided.

Commitment to the protection of the natural environment, which is the main element of the company's sustainable development strategy, is regulated by the strict principles set forth in the JSW S.A. environmental strategy and by the principles of the Environmental Management System implemented in 2005 according to the ISO 14001 standard.

The Company'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 Company 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.

In 2012, JSW S.A. continued to observe in its operations the principles adopted in the environmental strategy, thus 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. This purpose was served by the performance of the specified environmental protection tasks in the following area:

- protecting water against salination,
- rationally managing waste,
- curtailing greenhouse gas emissions into the air,
- minimizing the impact of mining operations on the land surface,
- conducting environmental education among employees.

In 2012, 362.1 thousand m3 of water from dewatering mines was used

**Protection of water against salination**

The key actions aimed at protecting surface water against salination included:

- reducing the quantity and load of salinated underground mine water released into surface sewage through segregation of water from draining mines and to using it to the greatest extent:
  - for the mines' technological purposes (e.g. in the preparation plants),

  - preparing mixtures (with post-flotation waste and power plant waste) used in abandoned workings for fire prevention and to liquidate unnecessary mining pits. In 2012, 362.1 thousand m3 of water from dewatering mines was used,
- dosing unused water from draining the Borynia-Zofiówka, Jas-Mos, Krupiński and Pniówek mines into the Odra River using a hydroengineering method of water protection, i.e. the Olza retention and dosage system operated by PGWiR. In 2012, 6,104.3 thousand m3 of water from dewatering mines was used,
- improving the Olza retention and dozing system by continuing modernization and renovation work and achieving the necessary retention capacity of the settlement tanks,
- desalinating water from draining the Budryk mine in the Dębieńsko Desalinating Plant whereby there was no environmental impact.

**Rational waste management**

The overriding objective of the rational waste management is preventing the production of waste and limiting its detrimental effect on the human environment, life and health, using the best available techniques.

In 2012, the Company continued to fulfill the assumptions of the Strategy for managing post-production mine waste in JastrzębskaSpółkaWęglowa S.A. approved in July 2008. Its main objective is limiting and minimizing the negative impact of mining waste on the natural environment and increasing revenues through their rational management. The main strategic directions of the Company's activities in this respect include:

- limiting the quantity of waste produced,
- increasing the amount of utilized waste in the underground pits,
- producing and selling crushed rock produced from waste,
- selling unprocessed waste,
- recovering coal from waste,
- managing waste in the facilities for managing mine waste on the surface.

In 2012 JSW S.A.'s mines produced a total of 10 567.9 thousand Mg of extraction waste, classified as non-hazardous and non-inert waste.

An increase in the amount of utilized waste in the underground pits was carried out through a systematic upgrade and development of waste injection installations. In 2012, about 165.8 thousand Mg mining waste was used along with power plant waste and salinated water to fill and seal abandoned workings of caving longwalls in order to prevent fire and methane dangers and liquidate unnecessary workings. In the summer months, there is insufficient supply of power plant waste to cover the possibilities and needs of the mines. Therefore, action has been taken to use, in addition to power plant waste and post-flotation waste, also crushed rock from the coal preparation plant. Intensifying action to produce crushed rock in the mines' wash plants and to sell it provided for the optimum utilization of mining waste in highway and road construction, in civil engineering and hydro engineering projects. Crushed rock was produced in accordance with the technical approval given by the Road and Bridge Research Institute in Warsaw for a construction product called JSW Mining Rock Aggregate. Waste was subjected to a recycling process in installations of the Coal Preparation Plants in individual mines based on the decisions held by the mines. In 2012 about 160.1 thousand Mg of crushed rock was sold.

In 2012, JSW S.A. 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 mine and the Budryk mine. 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 all the facilities for managing extraction waste, work was conducted to protect the environment against the negative effects of the accumulated extraction waste and to develop the areas affected by the mining operations to revitalize them and to reinstate their natural and scenic values that will serve local communities in the future, as maintained green areas and forests and sport and leisure facilities.

All the 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. In 2012 some 5.5 hectares of surface area were planted with greenery, trees and bushes.

In conjunction with the necessity of adjusting the operations of mining companies to the standards of the mining waste act, all JSW S.A.'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 other waste produced in JSW S.A.'s mines is segregated and stored selectively in a way making it impossible for it to have an adverse impact on the environment and human health in accordance with the permits held in this area. Waste, which cannot be recovered or neutralized on site because of technological, ecological or economic reasons was steadily conveyed to the closest sites where it could be recovered or neutralized.

**Curtailing greenhouse gas emissions**

Curtailing greenhouse gas emissions in JSW S.A. 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 $m^3$ as compared to 2011

**Minimizing the impact of mining operations on the surface**

In 2012 JSW S.A. achieved all of its extraction winnings by operating a longwall coal caving and retreat system determined by the geological structure of the deposits, their depth and economic considerations. In the mining areas of JSW S.A.'s mines, repairs of buildings, surface infrastructure and underground infrastructure when repairing the consequences of mining activity were conducted by doing the following:

- repairing damaged facilities and developed utility grids, based on the settlements reached with their administrators on their own or by the mines,
- refunding the costs of safeguards for newly-constructed buildings and construction prevention work in which the mines have built safeguards for facilities to increase their resistance to the impact exerted by mining activity,
- rectifying buildings with excess tilting in agreement with the injured parties,
- repairing damages to farmland and permanent green land and forest land by paying indemnification for losses in yields.

In 2012, 850 structures were repaired at an expense of PLN 87.2 million within the boundaries of the mining area of JSW S.A.'s mines which has a surface area of 214.94 $km^2$. The amounts incurred to remedy damages depend on the number of tasks implemented in response to the applications received from the injured parties. These tasks may include: securing buildings, repairing underground infrastructure and surface infrastructure, liquidation of flooding and regulation of watercourses. In curtailing and eliminating the impact exerted by mining activity on the earth surface, JSW S.A. will continue to conduct preventive activities and will repair mining damages, which will be agreed upon on an ongoing basis with the local governments and interested private persons.

**Environmental usage fees and sanctions**

The total environmental usage fees remitted by JSW S.A.'s mines were as follows in the period:

- from January to December 2011: PLN 1,001,656.88,
- from January to December 2012: PLN 1,061,506.37.

The growth rate of the fees in 2012 compared to 2011 was 106.0%. The increase in the fees resulted from the legislative increase of unit rates and increased production of coal. Broken down by environmental impact, in 2012 JSW S.A.'s mines incurred fees for dust and gaseous emissions of PLN 798,228.00, representing 75.2% of the total fees, and fees for water usage, waste and rainfall removal of PLN 263,278.37, representing 24.8% of all the fees. The fees for releasing salinated water into surface water are paid by PGWiR as the owner of the Olza collector, through which salinated water is released from the Borynia-Zofiówka, Jas-Mos, Krupiński and Pniówek mines, and for these mines they represent costs of services provided by external companies and in 2012 they were PLN 4,954.6 thousand.

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

In the Budryk mine, all the underground saline water is directed to the Dębieńsko Desalination Plant, and therefore the mine does not incur fees for their offload.

In 2012, JSW S.A. mines had no legally effective and due and payable decision on any fine for non-compliance with environmental regulations. In 2012, JSW S.A. mines had no legally effective and due and payable decision on any fine for non-compliance with environmental regulations. In September 2012, the Silesian Voivodship Environment Protection Inspectorate in Katowice set the amount of the fine for the Zofiówka section of the Borynia-Zofiówka mine, at PLN 341.28 per day, as the noise levels emitted from the area of the Zofiówka section of the Borynia-Zofiówka mine exceeded the levels set in the decision on permitted noise levels. The fine will aggregate in the period starting on 28 June 2012, i.e. the date on which the violation was found. Since the mine filed an appeal within the required deadline, the decision setting the fine amount has not become final and therefore it is not legally effective and payable.

**Environmental education**

In 2012 the Company 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, JSW S.A. has developed and made available an environmental leaflet providing information on actions taken by the Company to protect the natural environment.

## 4.5. Headcount and compensation

**Headcount**

The Company's headcount and average headcount 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 | 18,067 | 18,461 | 18,267 | 18,291 |
| White collar employees | 4,611 | 4,470 | 4,558 | 4,414 |
| **Total** | **22,678** | **22,931** | **22,825** | **22,705** |

As at 31 December 2012 JSW S.A. employed 22 678 persons. During the 2012, the headcount decreased by 253 persons. In the period from January to December 2012, 1,228 employees left the 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 average headcount was 22 825 persons, which signifies a growth of 120 persons compared to 2011. The structure of headcount with the split between underground and surface functions was maintained at a ratio of 80% - 20%.

**Compensation**

| | **2012** | **2011** | **Growth** |
|---|---|---|---|
| Total average monthly pay in JSW S.A. in PLN (net of profit sharing bonus) | 7,914.36 | 7,505.39 | 105.4% |
| **Total** | **7,914.36** | **7,505.39** | **105.4%** |

The rules of compensation for the Company's employees are defined in the company's collective bargaining agreements or compensation rules and regulations and in the new employment contracts applied to all the employees hired after 15 February 2012. The Company's collective bargaining agreements were terminated on 1 September 2009. Until a new consolidated collective bargaining agreement is worked out for the Company's employees, the hitherto collective bargaining agreements which are no longer effective are still being applied. The rules and regulations for compensating employees employed in the Management Board Office of JSW S.A. is applied in the Company's Management Board Office.

According to the clauses being applied from the terminated collective bargaining agreements, the Company's employees have the right to receive compensation consisting of a base salary rate, a bonus or a piecework surplus, the Miner's Charter (seniority-related allowance), a functional allowance (e.g. a wall-face allowance), an allowance for work in burdensome dangerous and hazardous conditions. The level of an employee's base salary depends on the category of the employee's rank, the nature or the specifics of the work performed and the position held by an employee. Hiring employees for the appropriate jobs and awarding a category of rank are done on the basis of the Job Valuator. Notwithstanding these components of compensation, employees have the right to the following perks:

- annual bonus on Miner's Day,
- Miner's festival equivalent,
- additional annual bonus referred to as the 14th salary,
- free coal allowance,
- jubilee awards
- retirement and disability severance pay,
- cash equivalent for refunding the costs of vacation travel (referred to as the Ticket under the Miner's Charter),
- equivalent to purchase scholastic aids.

Under the new employment contracts, employees are entitled to compensation comprised of basic salary and years-of-service allowance. The level of compensation depends on the type of work performed and the working time. Notwithstanding these components of compensation, employees with the new contracts have the right to the following perks:

- annual bonus on Miner's Day,
- additional annual bonus referred to as the 14th salary,
- free coal allowance,
- retirement and disability severance pay.

An employee may be awarded a bonus for improving the occupational health and safety situation, an incentive bonus and a task bonus. The Company's employees may also have the right to a profit sharing bonus. The rules concerning the rights to this bonus and its allocation have been laid down in the rules and regulations for allocating the profit sharing bonus. In 2012 the gross average monthly bonus in the Company was PLN 7,914.36 and it was 5.4% higher than the average salary in 2011 (PLN 7,505.39). The following factors contributed to the actual payroll growth in 2012:

- implementation of the incentive bonus, effective from 1 March 2012,
- implementation of the task bonus, effective from 1 April 2012,
- additional payments resulting from the motion of the National Labor Inspection,
- fulfillment of the agreement concluded on 8 November 2012 between the Management Board of JSW S.A. and the Inter-Union Protest and Strike Committee at JSW S.A., by the power of which a one-time bonus was paid to Company employees and new basic salary rate tables were introduced as of 1 November 2012, which were 3.4% higher than the previous ones.

In 2009 the law changed as a result of which starting from 2010 there is no need to agree with the trade unions the average payroll growth ratio (see Journal of Laws of 2009, No. 219, Item 1707).

### 4.6. Relations with trade unions

There are 38 active Trade Union Organizations operating in the 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.

### 4.7. Information about the audit firm auditing the financial statements

On 10 November 2011 JSW S.A. executed an agreement with PricewaterhouseCoopers Sp. z o.o. to audit:

- the Company's financial statements 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 Company (000s 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%** |

## 4.8. Disputes – material court, administrative and arbitration proceedings

Below we present a description of the material proceedings in which the Company is participating. JSW S.A. is participating in court and administrative proceedings related to its 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 its position and financial results. This description overlooks proceedings which, in the opinion of the Management Board, will not have material adverse impact on the Company's operating activity, financial position and profitability and whose total estimated value according to the Issuer's knowledge does not reach 10% of the Issuer's equity. According to the Management Board, according to its best knowledge, the Company is not at risk of proceedings that could materially affect its financial position and profitability other than prospective tax proceedings mentioned in the description below.

### 4.8.1. Court Proceedings

Besides the court tax disputes described below, JSW S.A. is also a party to a number of court proceedings concerning its operations. Typical disputes in which it 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. No single case to date has had material importance for the Company's financial position and financial results.

### 4.8.2. Administrative proceedings

Besides the tax proceedings described below, the Company is not participating in administrative proceedings that could have a material and adverse impact on its operating activity, financial position and profitability.

**Tax proceedings**

***Proceedings concerning the property tax on underground mine workings***
JSW S.A. 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 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 JSW S.A. 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 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, JSW S.A. received decisions determining its liability in the same amount as in the original decisions revoked by the Board of Appeals. JSW S.A. 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***

JSW S.A. 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 Company submitted requests for the tax authorities to declare an overpayment in the Ornontowice and Gierałtowice Townships (the Company received a declaration of overpayment from the Czerwionka-Leszczyny Township). The total remaining disputed amount is PLN 1.1 million.

***Proceedings on treating payments to employees as tax deductible expenses***

The 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 Company received a partially unfavorable individual tax ruling subsequently amended ex officio by the Finance Minister whereby it became totally unfavorable. JSW S.A. 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 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 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, JSW S.A. 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 favor of the Company, it 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.

### 4.8.3. Arbitration proceedings

The Company is not participating in any arbitration proceedings.

*Criminal proceedings*

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

## 4.9. Other events materially affecting the Company's operations

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

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

- Changes to the composition of the Management Board and the Supervisory Board of JSW S.A. have been described in Clause 5.11 of these financial statements.
- On 17 January 2012, the Management Board of JSW S.A. acting pursuant to § 12 sec. 4 item 2 of the Company's Articles of Association 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 report 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 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 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 Company's Articles of Association.
- 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 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 fixed assets. 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 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 Company's equity investments made in the financial year has been included in Item 1.3.

- JSW S.A. 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.
- JSW S.A. 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 Company'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 the Company. this prestigious index includes companies managed in a balanced and socially responsible matter 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 JSW S.A. 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 financial statements of JastrzębskaSpółkaWęglowa S.A. 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") 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:

"The Company should conduct a transparent and effective information policy using traditional methods and modern technology and the most modern means of communication to procure speed, safety and effective information access. By utilizing these methods to the greatest possible extent the Company should in particular:

- keep its website with the scope and method of presentation modeled after the model investor relations service available at http://naszmodel.gpw.pl/;
- provide for the appropriate communication with investors and analysts by utilizing modern methods of web-based communication for this purpose;
- facilitate the transmission of shareholder meetings in the Internet, record the flow of the meeting and publish it on its 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:

"The Company should have a compensation policy and rules for defining it. The policy compensation should in particular specify the form, structure and level of compensation of the members (directors and officers) of the supervisory and management boards. 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**

Rule no. IV.10:

"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 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, the Company 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 the Company governing the process of preparing financial statements are based on the following:

- Company's 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 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 the Company'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 the Company 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 the Company 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 the Company submits its financial statements to a review and an audit by an independent statutory auditor. The Company's 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 Rules and Regulations of Internal Control and Audit at JSW S.A. as approved by the Company's Management Board.

The internal control system in operation in the Company covers all the processes in the Company, 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 Corporate Risk Management Officer 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 the Company,
- 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, the Company 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.

### 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-

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

Surowcesector 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] The Company 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 the Company'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 S.A.

The Company has not received any information about the percentage thresholds of the total number of votes being exceeded as prescribed by art. 69 section 1 of the Act on Public Offerings and the Conditions for Admitting Financial Instruments to an Organized Trading System and on Public Companies.

## 5.5. Holders of securities giving special rights of control

The Company has not issued securities that would give special rights of control over the Company.

## 5.6. Restrictions regarding the exercise of voting rights

Restrictions regarding the exercise of voting rights are described in detail in § 9 of the Company's Articles of Association. The restrictions set forth in the Company's 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 the Company's shares are specified in § 8 of the Company's Articles of Association, 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 the Company's 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 Company's Articles of Association. The Bylaws are adopted by the Management Board and approved by a

Supervisory Board resolution. The Management Board Bylaws and the Company's Articles of Association are available at www.jsw.pl.

According to the Company's Articles of Association, the Management Board consists of three to six members. On 26 April 2010, the Shareholder Meeting set the number of members in the Company's Management Board 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. 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 Company's registered office.

**Management Board's powers**

The Management Board shall manage the Company's matters and represent 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 Company's organization,
- 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 the company.

In agreements between the Company and a Management Board member, as well as in disputes with a Management Board member, the Company shall be 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 Company's Supervisory Board and the procedures of its operation are defined in the Supervisory Board Bylaws and in the Company's Articles of Association which are available at www.jsw.pl. Supervisory Board Bylaws are adopted by the Supervisory Board.

According to the Company's Articles of Association, 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 the Company, the Company's employees shall 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 Company 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 Company's address.

From the date of introduction of the Company's shares to trade on a regulated market, in the period during which the State Treasury, including subsidiaries of the State Treasury, holds the Company's shares carrying voting rights of at least 34% of the total number of votes in the Company 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 the Company.

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 the Company, 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 the Company about this fact. Information about the then current number of independent Supervisory Board members shall be made public by the Company.

In a situation when no Supervisory Board member meets the independence requirement, the Company's 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 Company's Articles of Association. The Supervisory Board exercises permanent supervision over the Company's activity. The powers of the Supervisory Board include in particular:

1. approving the Management Board Bylaws and issuing an opinion on the Organizational Bylaws defining the organization of the Company's enterprise,

2. appointing and dismissing the Company's Management Board members, without prejudice to §11 section 5 and §34 item 2 of the Company's Articles of Association,
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 Company's Articles of Association,
6. selecting an entity authorized to audit financial statements to audit the Company's financial statements,
7. evaluate of the financial statements for their consistence both with the ledgers and documents and with the factual status,
8. evaluating reports on the Company's activity 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 the Company'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 Company's Articles of Association,
11. giving an opinion on the matters submitted to the Shareholder Meeting,
12. approving the Company's operating strategy, without prejudice to §33 item 2 of the Company's Articles of Association,
13. opining the Company'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 Company's Articles of Association, 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 the Company holds less than a 1/10 share in the share capital,
   - taking up or acquiring shares in another company in return for the Company's receivables as part of composition or settlement proceedings,
   - selling shares acquired or taken up by the Company in return for the Company'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 the Company's share capital,
2. establishment of foreign branches,
3. purchase or sale or fixed assets the value of which exceeds 1/20 of the Company's share capital,
4. contracting of contingent liabilities, including the granting by the Company of financial guarantees and sureties the value of which exceeds 1/20 of the Company's share capital,
5. disbursement of interim dividends,
6. issuance of promissory notes the value of which exceeds 1/20 of the Company'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 the Company's share capital,
8. granting of consent for the Company 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 the Company on an arm's length basis within the framework of its operating activity, without prejudice to §35 of the Company's Articles of Association;

9. the voting instructions for the Shareholder Meetings of companies in which the Company 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 the Company has an ownership interest and to collect remuneration for such work.

## 5.9. Description of the rules for amending the Company's Articles of Association

The Company's Articles of Association 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 Company's line of business (Article 416 § 1 of the Commercial Companies 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 the Company'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 the Company'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 the Company's share capital.

3. On 23 April 2012, the Company 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 the Company'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 Company's Articles of Association and in the JSW S.A. Shareholder Meeting Bylaws (adopted by the Shareholder Meeting) available at www.jsw.pl.

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 Company's seat.

A Shareholder Meeting is convened by way of an announcement published on the Company's website and in the form of a current report. The announcement is posted on the Company'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 the Company'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 the Company.

**Powers of the Shareholder Meeting**

Without prejudice to §33 item 2, §34 item 1 and §34 item 3 of the Company's Articles of Association, the following matters shall require a resolution of the Shareholder Meeting:

1. examination and approval of the Company's Management Board activity report and the financial statements for the previous financial year and discharging members of the Company's corporate bodies on the performance of their duties,
2. distributing profits or covering losses,
3. changing the Company's line of business,
4. amending the Company's Articles of Association,
5. increasing or decreasing the share capital,
6. authorizing the Management Board to purchase the Company's treasury stock for retirement and specifying the manner and conditions for retiring stock,
7. merging, splitting up or transforming the Company,
8. dissolving or liquidating the Company,
9. appointing or dismissing Supervisory Board members,
10. setting remuneration for Supervisory Board members,
11. allowing the Company 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 the Company or in its management or oversight,
16. establishing or dissolving the Company'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 Company's Articles of Association.
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 the Company;
- 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 the Company - 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. The Company 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 Company'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 the Company 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 Company's Articles of Association. 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 the Company 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 the Company and in particular exercises direct oversight over the operation of the following Management Board Office Divisions: Coal Sales, Coke and Hydrocarbon Sales Strategy, Coal Preparation and Quality.
- **Robert Kozłowski** – Vice-President of the Management Board for Financial Matters;
  Manages the Company's matters 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 on IT Development of JSW S.A.
- **Andrzej Tor** – Vice-President of the Management Board for Technical Matters;
  Manages the Company's matters and in particular exercises direct oversight over the operation of the following Management Board Office Divisions: Production, Investment Projects 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 Company's matters 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 Company's Purchasing Office and the Company's Mines.

The Company's Management Board 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 Company'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 Company's Articles of Association available at the www.jsw.pl website. Moreover, other information about the operations of the Management Board are presented in Items 1.2 and 5.8 of this report.

The Management Board runs the Company's affairs and represents the Company. 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 the company. 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 the Company 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 Company's Articles of Association, 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 Company's Articles of Association, the Minister of Economy dismissed Mr. Zbigniew Kamieński from the Company's Supervisory Board of the 8th term.
- On 27 March 2012, pursuant to § 15 sec. 12 and 13 of the Company's Articles of Association, the Minister of Economy appointed Mr. Stanisław Kluza to the Company's 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 Company's 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 Company's Shareholder Meeting 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 Company's Shareholder Meeting 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 Company's 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 Company's 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 the Company and from entities materially connected to the Company.

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 Company's Supervisory Board 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 Supervisory Board Bylaws. The Supervisory Board Bylaws and the Company's Articles of Association are available at the www.jsw.pl website. Other information about the operations of the Supervisory Board are presented in Items 1.2 and 5.8 of this report.

The Supervisory Board conducts constant oversight over the Company's operations 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 shall be obligated to convene a Supervisory Board meeting at the written request of a Supervisory Board member or at the written request of the Company'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 the Company 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 the Company's internal control system relating to the financial reporting process.

In 2012, the Audit Committee was composed 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 the 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 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 the Company, 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 Company's 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 the Company 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 the Company 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 Company's 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. 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 the Company 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 the Company 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 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 the Company 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.

(Allamounts in the tablesarestated in millions of Polish zloty unlessindicatedotherwise)

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 | …………………………………… |