



MANAGEMENT BOARD REPORT ON THE ACTIVITY

OF THE JASTRZĘBSKA SPÓŁKA WĘGLOWA S.A. GROUP

for the financial year ended 31 december 2017

TABLE OF CONTENTS

1. GENERAL INFORMATION ABOUT THE JASTRZĘBSKA SPÓŁKA WĘGLOWA S.A. GROUP	4
1.1. ORGANIZATION OF THE GROUP	4
1.2. PRINCIPLES OF MANAGEMENT IN JSW AND ITS GROUP	6
1.3. ORGANIZATIONAL OR CAPITAL TIES AND COMPLETED EQUITY INVESTMENTS.....	8
2. STRATEGY AND DEVELOPMENT PLANS OF THE GROUP	11
3. CORPORATE SOCIAL RESPONSIBILITY	16
4. INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT AND EQUITY INVESTMENTS	17
5. RISK FACTORS AND THREATS	22
6. ACTIVITY OF THE GROUP AND ITS CONDITIONS	28
6.1. CALENDAR OF THE MORE IMPORTANT EVENTS WITH A SIGNIFICANT IMPACT ON BUSINESS AND FINANCIAL RESULTS IN THE FINANCIAL YEAR OR WHOSE IMPACT IS POSSIBLE IN SUBSEQUENT YEARS	28
6.2. DESCRIPTION OF THE INDUSTRY AND COMPETITION	31
6.3. MARKET DETERMINANTS	33
6.4. KEY PRODUCTS, GOODS AND SERVICES.....	36
6.5. SALES MARKETS	41
6.6. FINANCIAL RESULTS BY OPERATING SEGMENTS	43
6.7. SOURCES OF SUPPLIES	45
6.8. SIGNIFICANT CONTRACTS.....	45
6.9. DISPUTES	48
7. FINANCIAL AND ECONOMIC POSITION	51
7.1. CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	52
7.2. DESCRIPTION OF THE STRUCTURE OF ASSETS AND LIABILITIES FROM THE PERSPECTIVE OF COMPANY LIQUIDITY.....	55
7.3. FINANCIAL RESOURCES MANAGEMENT	56
7.4. MATERIAL OFF-BALANCE SHEET ITEMS	59
7.5. CONSOLIDATED REPORT ON FINANCIAL RESULT AND OTHER COMPREHENSIVE INCOME.....	60
7.6. EXTRAORDINARY FACTORS AND EVENTS AFFECTING THE RESULT.....	63
7.7. DIFFERENCES BETWEEN THE FINANCIAL RESULTS DISCLOSED IN THE ANNUAL REPORT AND THE 2017 RESULT PROJECTIONS PUBLISHED EARLIER	66
7.8. SELECTED FINANCIAL RATIOS.....	66
7.9. PROCEEDS FROM SECURITIES ISSUES.....	71
7.10. RELATED PARTY TRANSACTIONS	71
7.11. INFORMATION ON LOANS AND BORROWINGS CONTRACTED AND TERMINATED	71
7.12. INFORMATION ON LOANS AND SURETIES GRANTED AND SURETIES AND GUARANTEES RECEIVED.....	71
7.13. FINANCIAL INSTRUMENTS	72
7.14. GROUP'S CURRENT AND ANTICIPATED FINANCIAL STANDING.....	76
7.15. PRINCIPLES GOVERNING PREPARATION OF THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT BOARD ACTIVITY REPORT.....	76
7.16. INFORMATION ABOUT THE AUDIT FIRM AUDITING THE FINANCIAL STATEMENTS	77
8. JASTRZĘBSKA SPÓŁKA WĘGLOWA S.A. ON THE CAPITAL MARKET	78
9. REPRESENTATION ON NON-FINANCIAL INFORMATION FOR 2017	82
9.1. BUSINESS MODEL.....	82
9.2. NON-FINANCIAL RISK MANAGEMENT	83
9.3. POLICIES AND THE STRATEGY OF SUSTAINABLE DEVELOPMENT	83
9.4. SOCIAL ISSUES	85
9.5. EMPLOYEE ISSUES.....	89
9.6. RESPECT OF HUMAN RIGHTS	98
9.7. COUNTERACTING CORRUPTION AND BRIBERY	105

9.8.	DIVERSITY POLICY	107
9.9.	ENVIRONMENTAL ISSUES.....	107
10.	REPRESENTATION ON THE APPLICATION OF CORPORATE GOVERNANCE.....	114
10.1.	IDENTIFICATION OF CORPORATE GOVERNANCE RULES BEING APPLIED.....	114
10.2.	IDENTIFICATION OF CORPORATE GOVERNANCE RULES NOT APPLIED	114
10.3.	PRIMARY ATTRIBUTES OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN REFERENCE TO THE PREPARATION OF FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS	115
10.4.	SHAREHOLDERS WITH MAJOR BLOCKS OF SHARES	116
10.5.	HOLDERS OF SECURITIES WITH SPECIAL RIGHTS OF CONTROL	117
10.6.	RESTRICTIONS REGARDING THE EXERCISE OF VOTING RIGHTS	117
10.7.	RESTRICTIONS ON THE TRANSFER OF OWNERSHIP TITLE TO SECURITIES.....	118
10.8.	PRINCIPLES OF APPOINTMENT AND DISMISSAL OF MANAGEMENT AND SUPERVISORY TEAM AND THEIR POWERS	118
10.9.	RULES FOR AMENDING THE COMPANY'S ARTICLES OF ASSOCIATION	122
10.10.	OPERATION OF THE SHAREHOLDER MEETING, ITS PRINCIPAL POWERS AND DESCRIPTION OF SHAREHOLDERS' RIGHTS AND HOW THEY ARE EXERCISED	123
10.11.	COMPOSITION OF MANAGEMENT AND SUPERVISORY BODIES, CHANGES IN COMPOSITION, DESCRIPTION OF ACTIVITIES OF THE BODIES AND THEIR COMMITTEES	126
10.12.	DIVERSITY POLICY	134
10.13.	REMUNERATION OF PERSONS DISCHARGING EXECUTIVE AND SUPERVISORY FUNCTIONS IN JSW	134
10.14.	INFORMATION ON SPONSORING POLICY, CHARITABLE ACTIVITY OR OTHER SIMILAR ACTIVITY	140
10.15.	JSW's CAPITAL AND OWNERSHIP STRUCTURE.....	141
10.16.	INFORMATION ON THE CONTROL SYSTEM FOR EMPLOYEE STOCK OWNERSHIP PLANS.....	142
11.	REPORT ON ACTIVITY OF THE JSW MANAGEMENT BOARD AS THE COMPANY'S CORPORATE BODY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017	144
12.	APPROVAL OF MANAGEMENT BOARD ACTIVITY REPORT	145

1. GENERAL INFORMATION ABOUT THE JASTRZĘBSKA SPÓŁKA WĘGLOWA S.A. GROUP

The Jastrzębska Spółka Węglowa S.A. Group ("Group") is the largest producer of hard coking coal and a significant producer of coke in the European Union. For years, the Group has held a crucial position on the Polish and European market for coking coal and coke, due to the high quality coal it produces and due to its location in proximity to its main customers. The Group also mines steam coal.

1.1. ORGANIZATION OF THE GROUP

As at 31 December 2017, the Jastrzębska Spółka Węglowa S.A. Group consisted of the Parent Company and its subsidiaries located in the territory of Poland. Group member companies are classified into distinct operating segments, i.e. the Coal Segment, the Coke Segment and Other Support Areas.

The Parent Company in the Group is Jastrzębska Spółka Węglowa S.A. ("Company", "JSW", "Issuer"), which was established on 1 April 1993. On 17 December 2001, JSW was entered in the National Court Register kept by the District Court in Gliwice, 10th Commercial Division of the National Court Register, under file number KRS 0000072093. The Company has received the following statistical number: REGON 271747631. The Company's registered office is located at Al. Jana Pawła II 4 in Jastrzębie-Zdrój. According to the Articles of Association, the Company may operate in the territory of the Republic of Poland and abroad. The Company's duration is unspecified.

JSW's core line of business is the mining, enrichment and sale of hard coal and the sale of coke and hydrocarbons.

The Company's shares have been traded publicly since 6 July 2011. The Company is the holding company in the JSW Group.

LAWS GOVERNING THE GROUP'S BUSINESS

The Group conducts its business in a sector subjected to a number of special regulations. Above all, the Group's business has to comply with the laws and regulations governing mining operations – the Act of 9 June 2011 entitled the Geological and Mining Law and the executive regulations issued to this Act. In addition to this Act, the following provisions of law in particular govern the business activity of the Group's companies:

- Act entitled the Commercial Companies Code of 15 September 2000 ("Commercial Companies Code").
- Act of 7 September 2007 on the Functioning of the Hard Coal Mining Industry.
- Act of 16 December 2016 on Rules for Managing State Property.
- Act of 10 April 1997 entitled the Energy Law.
- Act of 27 April 2001 entitled the Environmental Protection Law.
- Act of 29 January 2004 entitled the Public Procurement Law.

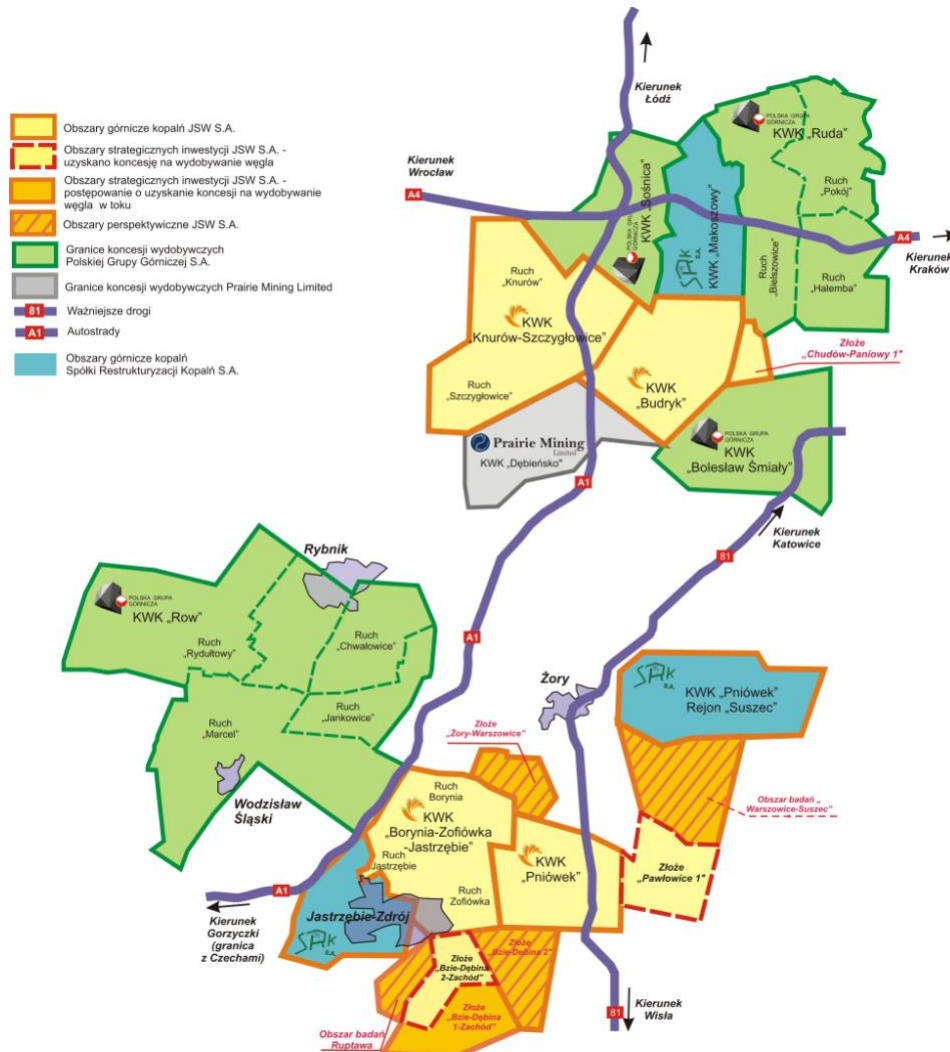
Furthermore, the Group's companies operate on the basis of Corporate Governance Standards in Companies with the State Treasury's Participation, in which the Minister of Energy exercises the rights attached to the shares, the Code of Best Practice for WSE Listed Companies and internal regulations such as the articles of association, strategies, instructions, bylaws, procedures, directives, etc., among others.

LOCATION OF THE MINING AREAS

The mining area is located in the Upper Silesian Coal Basin. The mines ("KWK") have a total of approx. 6.119 billion tons of coal resources, including approx. 0.977 billion tons of recoverable coal reserves (according to the Polish resource classification system based on mine resource appraisal reports as at 31 December 2017).

The Group's mines exploit hard coal deposits in the areas of townships of Jastrzębie-Zdrój and Żory, the rural districts (*gmina*) of Świerklany, Mszana, Pawłowice, Gierałtowiec, Ornontowice, Pilchowice as well as the towns of Mikołów, Czerwionka-Leszczyny, Gliwice, Knurów. The JSW mining areas with hard coal deposits have the total surface area of 197.2 km².

Chart 1. JSW's mining areas



COKING BUSINESS

The Group's coking activity is presently conducted in Dąbrowa Górnicza, Zabrze, Radlin and Czerwonka-Leszczyna. In principle, more than 40% of the coking coal produced by the Group is processed by the Group's coking plants into coke which, next to iron ore, is the key raw material used in steel production in steel mills. Furthermore, coke is used in foundries, in the non-ferrous metal industry, in the chemical industry and in the production of insulation materials.

1.2. PRINCIPLES OF MANAGEMENT IN JSW AND ITS GROUP

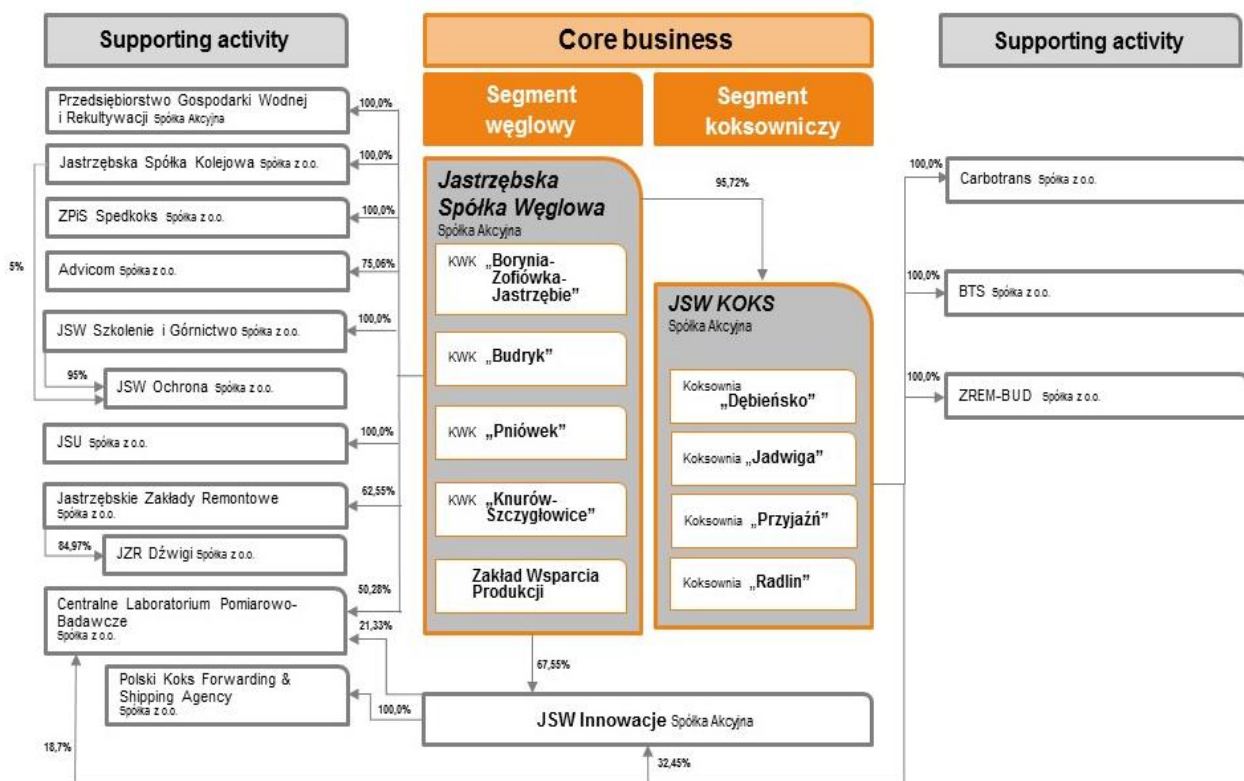
BASIC MANAGEMENT PRINCIPLES IN THE GROUP

The JSW Group ("Group") consists of JSW and its subsidiaries located in Poland. Group member companies are classified into distinct operating segments, i.e. the coal segment, the coke segment and other support areas.

The main line of business of JSW is extraction of black coal, which takes place in separate organizational units, i.e. mines. JSW KOKS is responsible for coke production in the Group. The concentration of operations in coal mining and coke production and the correlation of the two kinds of activity within the value chain boost the generation of a significant part of the Group's added value and enables further development of the Group's integrated business model.

Above all, JSW deals with the distribution of the Group's products directly through its specialized teams and with the support of POLSKI KOKS FORWARDING & SHIPPING AGENCY Sp. z o.o. (since 16 January 2018 operating under the name JSW SHIPPING Sp. z o.o.). JSW KOKS also generates electricity which it uses for its own needs. Surpluses are sold on the electricity market. JSW has also other subsidiaries, which provide support services to the Group and minority interest in the share capital of other entities and there are other companies in the Group which are indirect subsidiaries of JSW.

Chart 2. Subsidiaries in which the Group holds a direct or indirect stake as at 31 December 2017

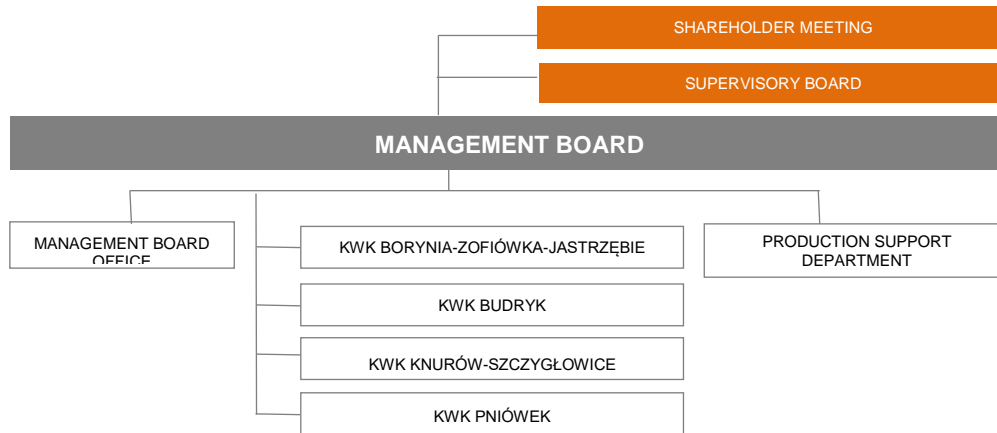


The business model of the JSW Group assumes integration of the conducted activity within the Group's value chain (more in Section 9.1. of these statements).

BASIC MANAGEMENT PRINCIPLES IN THE PARENT COMPANY AND THEIR CHANGES

JSW is a multi-operation enterprise. As at the date of this report, JSW's enterprise consisted of four coal mines organized into separate Plants, in which coking coal and steam coal is mined, as well as the Production Support Department and the Management Board office. The internal organization of the Company's Plants is defined in separate Organizational Bylaws and Organizational Charts.

Chart 3. JSW's organizational structure

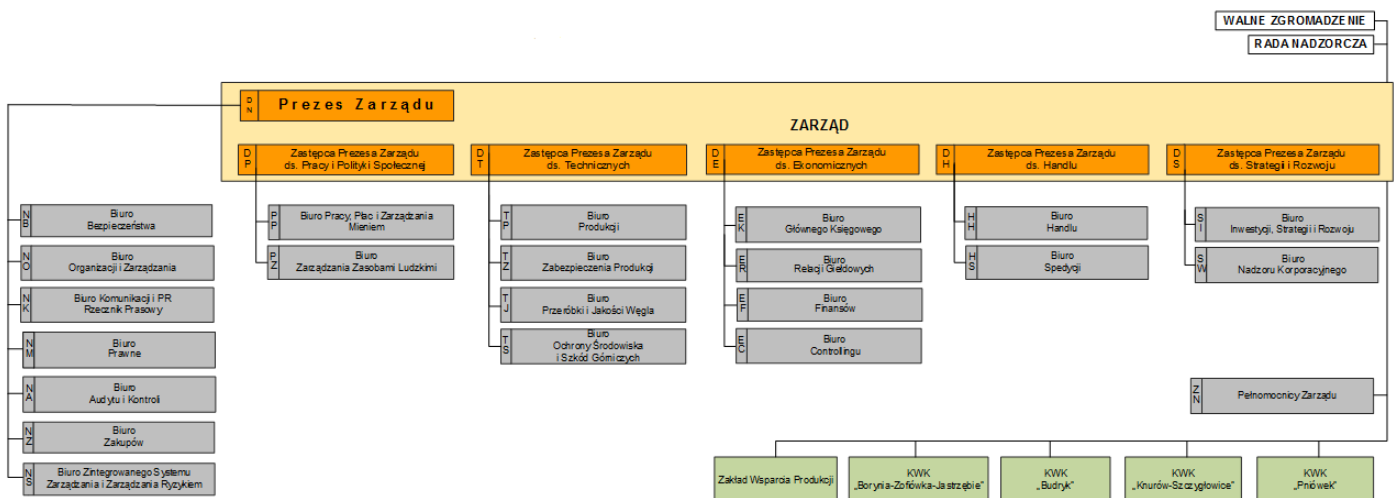


In accordance with the Articles of Association of JSW, the Company's governing bodies are the Management Board, the Supervisory Board and the Shareholder Meeting. The powers of JSW's governing bodies stem from the provisions of the Commercial Companies Code and the Articles of Association of JSW. The powers of the Company's individual governing bodies are defined in:

- Management Board – Management Board Bylaws,
- Supervisory Board – Supervisory Board Bylaws,
- Shareholder Meeting – Shareholder Meeting Bylaws.

The composition and matters within the powers of the Management Board and the Supervisory Board are described in detail in Section 10.11. The manner of proceeding of the Shareholder Meeting and its powers are presented in Section 10.10 of these statements.

Chart 4. Division of responsibility between the JSW Management Board Members as at 31 December 2017



1.3. ORGANIZATIONAL OR CAPITAL TIES AND COMPLETED EQUITY INVESTMENTS

Jastrzębska Spółka Węglowa S.A. is the Parent Company in the Group. As at 31 December 2017, JSW held, directly or indirectly, shares in 18 related companies, including 16 subsidiaries (direct and indirect) and in 2 associates (Jastrzębska Strefa Aktywności Gospodarczej Sp. z o.o. in liquidation and Remkoks Sp. z o.o.), located in Poland. Subsidiaries are consolidated by the full method, while investments in associates are measured by the equity method in the consolidated financial statements.

Table 1. List of consolidated companies*

COMPANY NAME	LINE OF BUSINESS
JASTRZĘBSKA SPÓŁKA WĘGLOWA S.A. WITH ITS REGISTERED OFFICE IN JASTRZĘBIE-ZDRÓJ	Hard coal mining and sales, sales of coke and hydrocarbons.
JSW KOKS S.A. ("JSW KOKS") WITH ITS REGISTERED OFFICE IN ZABRZE	Production of coke and hydrocarbons.
* BTS SP. Z O.O. ("BTS") WITH ITS REGISTERED OFFICE IN DĄBROWA GÓRNICZA	Transportation and general construction services.
* CARBOTRANS SP. Z O.O. ("CARBOTRANS") WITH ITS REGISTERED OFFICE IN ZABRZE	Road transport of merchandise, mainly hydrocarbons and raw materials for their production.
* ZREM-BUD SP. Z O.O. ("ZREM-BUD") WITH ITS REGISTERED OFFICE IN DĄBROWA GÓRNICZA	Manufacture of spare parts, assemblies and devices, steel structures, technical equipment, tools and instruments; mechanic and electric repairs and maintenance of automation technology. Provision of renovation and construction services.
JSW INNOWACJE S.A. ("JSW INNOWACJE") WITH ITS REGISTERED OFFICE IN KATOWICE	The Group's research and development activity, feasibility studies and oversight over execution of projects and implementations.
* POLSKI KOKS FORWARDING & SHIPPING AGENCY SP. Z O.O. WITH ITS REGISTERED OFFICE IN GDYNIA (SINCE 16 JANUARY 2018 AS JSW SHIPPING SP. Z O.O.)	Marine freight forwarding and marine transport agency services.
PRZEDSIĘBIORSTWO GOSPODARKI WODNEJ I REKULTYWACJI S.A. ("PGWIR") WITH ITS REGISTERED OFFICE IN JASTRZĘBIE-ZDRÓJ	Provision of water and sewage-related services and discharge of salt water, supply of industrial water, reclamation activity and production of salt.
JASTRZĘBSKIE ZAKŁADY REMONTOWE SP. Z O.O. ("JZR") WITH ITS REGISTERED OFFICE IN JASTRZĘBIE-ZDRÓJ	Service activity pertaining to renovation of machinery and equipment, maintenance services.
* JZR DŹWIGI SP. Z O.O. ("JZR DŹWIGI") WITH ITS REGISTERED OFFICE IN JASTRZĘBIE- ZDRÓJ	Services related to production, upgrade, renovation, maintenance, inspection and repairs of internal transport equipment.
CENTRALNE LABORATORIUM POMIAROWO-BADAWCZE SP. Z O.O. ("CLPB") WITH ITS REGISTERED OFFICE IN JASTRZĘBIE-ZDRÓJ	Technical research services, chemical and physicochemical analyses of minerals, and solid, liquid and gaseous materials and products.
JSW SZKOLENIE I GÓRNICTWO SP. Z O.O. ("JSW SIG") WITH ITS REGISTERED OFFICE IN JASTRZĘBIE-ZDRÓJ	Mining support activity.
* JSW OCHRONA SP. Z O.O. WITH ITS REGISTERED OFFICE IN JASTRZĘBIE- ZDRÓJ IN ORGANIZATION ("JSW OCHRONA")	Security services, auxiliary services related to maintaining order in buildings, service activity supporting mining and extraction.
ZAKŁAD PRZEWOZÓW I SPEDYCJI SPEDKOKS SP. Z O.O. ("SPEDKOKS") WITH ITS REGISTERED OFFICE IN DĄBROWA GÓRNICZA	Operation of a railway siding owned by JSW KOKS and ensuring flow of goods between the coking plant's siding and railway station.
JASTRZĘBSKA SPÓŁKA KOLEJOWA SP. Z O.O. ("JSK") WITH ITS REGISTERED OFFICE IN JASTRZĘBIE-ZDRÓJ	Provision of railway lines, maintenance of railway infrastructure structures and equipment, construction and repair of railway tracks and facilities.

COMPANY NAME	LINE OF BUSINESS
ADVICOM SP. Z O.O. ("ADVICOM") WITH ITS REGISTERED OFFICE IN JASTRZĘBIE-ZDRÓJ	Computer hardware consulting, programming and data processing services.
JSU SP. Z O.O. ("JSU") WITH ITS REGISTERED OFFICE IN JASTRZĘBIE-ZDRÓJ	Insurance intermediation and insurance administration pertaining to insurance claims handling, tourist and hotel activity.

* indirect subsidiaries. The entities holding a stake in these companies and their stakes are presented in Chart 2.

CHANGES IN CAPITAL AFFILIATIONS

In 2017 and after the end of the reporting period, the following changes in capital affiliations within the Group and the following increases in the share capital of related companies were effected:

Table 2. Events concerning capital affiliations

EVENTS	DESCRIPTION
DISSOLUTION OF GRAFIT	<p>On 31 May 2016, the Extraordinary Shareholder Meeting of Grafit adopted a resolution to dissolve the company. On 29 May 2017, the Extraordinary Shareholder Meeting of Grafit approved the liquidation report and consented for the company's liquidator to submit an application to delete Grafit Sp. z o.o. in liquidation from the National Court Register (KRS). JSW holds 35 shares in Grafit Sp. z o.o. in liquidation, representing 35% of the company's share capital. After the date ending the reporting period, i.e. 16 February 2018, Grafit Sp. z o.o. was deleted from KRS.</p>
JZR'S SHARE CAPITAL INCREASE	<p>On 30 September 2016, an agreement was executed to transfer the ownership of JSW's assets to JZR, by having JSW subscribing from 367,988 new JZR shares with a nominal value and issue price of PLN 500.00 each, in exchange for making a contribution-in-kind of JSW's assets with a total market value equal to PLN 184.0 million. The subscription to JZR shares has no economic effect and therefore, JSW used the net book value of the transferred property of PLN 175.5 million as the purchase price of the shares. The share capital increase was registered on 23 February 2017.</p> <p>On 30 September 2016 an agreement was executed by and between the State Treasury and JZR to extend support that is not public aid. The total amount of support will be up to PLN 290.0 million in the form of contributing cash in exchange for shares in JZR's increased share capital and subscribed for by the State Treasury. This support will be designated to modernize the coal preparation plants of KWK Budryk and KWK Knurów-Szczygłowice. This agreement will be performed in three tranches. Carrying out the clauses in this agreement, on 30 September 2016, JZR's Extraordinary Shareholder Meeting adopted a resolution to increase JZR's share capital to PLN 400.5 million by contributing cash totaling PLN 150.0 million (first tranche) by issuing 300,000 new shares with a par value and issue price of PLN 500.00 each. The share capital increase was covered in full with a cash contribution by the State Treasury on 4 November 2016. The capital increase was registered on 16 March 2017. After the increase, JSW's stake was reduced to 62.55%, while the State Treasury's stake is 37.45%. Because the deadlines in the project were moved, JZR submitted a request to ARP to change the date on which the State Treasury was to make the second tranche of cash contribution. On 27 September 2017, annex no. 1 to the support agreement was signed. The annex did not specify any specific dates of transfer of the second and third tranches of the support, because ARP had not received the grant for performance of the State Treasury's obligations under the agreement. After the final date of the reporting period. Furthermore, after the date ending the reporting period, i.e. 13 February 2018, JZR's Extraordinary Shareholder Meeting was held, where a decision was taken to increase the share capital by PLN 244,500.0 thousand by subscribing for 249,000 shares by JSW and 240,000 shares by the State Treasury, with a par value of PLN 500 each.</p> <p>On the basis of the acceptance report concerning the representation on the subscription for the shares, JSW subscribed for 249,000 shares that were covered with a cash contribution. The amount</p>

EVENTS	DESCRIPTION
	of 124,500.0 thousand was paid on 21 February 2018. On the other hand, on 26 February 2018, an Agreement to subscribe for new shares in the increased share capital of JZR was concluded by and between the Minister of Energy representing the State Treasury, Agencja Rozwoju Przemysłu S.A. representing the State Treasury and JZR. The cash to cover these shares is planned to be provided in March of 2018.
CHANGE OF THE ARTICLES OF ASSOCIATION AND THE COMPANY NAME OF POLSKI KOKS	On 5 May 2017, the Extraordinary Shareholder Meeting of Polski Koks S.A. adopted a resolution to amend this company's Articles of Association. This amendment was registered on 18 May 2017. As of that date, the company's name was changed from Polski Koks S.A. to JSW Innowacje S.A. and its business profile was changed to research and development activity.
LIQUIDATION OF JSAG	On 1 July 2014, the Extraordinary Shareholder Meeting of JSAG with its registered office in Jastrzębie-Zdrój adopted a resolution to dissolve the company and open its liquidation procedure. JSW holds 4,938 shares in Jastrzębska Strefa Aktywności Gospodarczej Sp. z o.o., representing 50% of its share capital. Because of the division of the company's receivables among the partners, the liquidation has not been completed yet.
CHANGE OF THE COMPANY NAME OF BAZA TRANSPORTU SAMOCHODOWEGO SP. Z O.O.	On 26 October 2017 the Katowice-Wschód District Court in Katowice, 8th Commercial Division of the National Court Register registered the change to the company's name from Baza Transportu Samochodowego Sp. z o.o. to BTS Sp. z o.o.
ACQUISITION OF INTERESTS OF CLP - B	On 29 November 2017, the JSW S.A. Supervisory Board adopted a resolution to give consent for JSW to purchase from JSW Innowacje 1,510 interests of CLP-B, forming 21.33% of the company's share capital, for the amount of 6,825,819.10. One interest is worth PLN 4,520.41. On 4 January 2018, the Extraordinary General Meeting of CLP-B's Partners granted consent for JSW Innowacje to sell all the interest held by it. The purchase agreement was executed after the date ending the reporting period, i.e. 20 February 2018.
ESTABLISHMENT OF JSW OCHRONA	JSW Ochrona Sp. z o.o. was established on 20 December 2017. Its share capital of PLN 500,000.00 consists of 1,000 shares, each with a nominal value of PLN 500.00. JSW SiG subscribed for these shares (950 shares with a total nominal value of 475,000.00, representing 95% of the share capital) as did JSK (50 shares with a nominal value of PLN 25,000.00, representing 25% of the share capital of JSW Ochrona). The company was registered in the National Court Register on 11 January 2018.
JSK'S SHARE CAPITAL INCREASE	On 29 December 2017, JSK's Extraordinary Shareholder Meeting adopted a resolution to increase the share capital by PLN 20,355,000.00 to the amount of PLN 108,672,500.00 through contribution in kind of JSW's assets with a total market value of PLN 20,354,638.00 and a cash payment of PLN 362.00 by issuing 40,710 new shares with a par value of PLN 500.00 each. The share subscription statement was filed on 29 December 2017. On the same date, an agreement was signed on transferring the rights to the contributed assets. The capital increase has not yet been registered in KRS.
ACQUISITION OF SHARES IN POLSKI KOKS FORWARDING & SHIPPING AGENCY SP. Z O.O. AND CHANGE OF THE BUSINESS NAME TO JSW SHIPPING SP. Z O.O.	On 10 January 2018, JSW S.A. signed an agreement with JSW Innowacje S.A. to purchase 26 shares in POLSKI KOKS FORWARDING & SHIPPING AGENCY Sp. z o.o., with its registered office in Gdynia, representing 100% of the company's share capital for the total price of PLN 1,932,892.00, i.e. PLN 74,342.00 per share. On 16 January 2018, the Company's modified founding deed was registered with the National Court Register, which led, among others, to the change of the business name to JSW SHIPPING Sp. z o.o.

After the date ending the reporting period, i.e. on 30 January 2018, JSW submitted a conditional binding proposal for the acquisition of 4,430,476 shares representing a 95.01% stake in the share capital of Przedsiębiorstwo Budowy Szybów S.A. with its registered office in Tarnowskie Góry ("PBSz"). PBSz's line of business is the provision of specialized mining services: [vertical] mine workings, horizontal [mine workings] and tunnels, construction services, architectural services, engineering services, rental of machinery and equipment without operators, installation services, repairs and maintenance of machinery for the mining, quarrying and construction industries. The execution of the Agreement is contingent on the fulfillment of a number of conditions precedent, including the obtaining of corporate approvals, the consent of JSW's bondholders, the consent of UOKiK and the fulfillment of other business conditions.

2. STRATEGY AND DEVELOPMENT PLANS OF THE GROUP

Because of the improvement of situation in the coking coal and coke markets and, consequently the improvement of JSW's financial standing, measures were taken to prepare and implement a new *Strategy of Jastrzębska Spółka Węglowa S.A., including Subsidiaries of the JSW Group for 2018-2030* ("Strategy"), focusing on building a company with competitive power, resilient to fluctuations of the economic situation. The strategy was adopted by the Supervisory Board on 19 December 2017.

JSW Group's MISSION is to strengthen the position as the leading producer and supplier of coking coal and coke for Europe in a manner that ensures an increase of the JSW's value, taking into account the Shareholders' expectations.

JSW Group's VISION is to strengthen the position as a leading, innovative producer of coking coal and a prominent supplier of coke in the European market, setting the directions of development for the whole industry through the highest operating standards in the area of: product quality, innovation, automation and computerization of the production process, occupational safety, environmental protection.

STRATEGIC OBJECTIVES

Our main strategic objective is to increase the value of the Group. One should mention the following among the partial objectives:



Zabezpieczenie dostępu do zasobów węgla koksowego poprzez **rozwojowe inwestycje** związane z udostępnieniem nowych złóż oraz nowych poziomów wydobywczych.



Wdrażanie **innowacyjnych rozwiązań techniczno-technologicznych** mających wpływ na efektywność poszczególnych procesów.



Zwiększenie wydobycia i sprzedaży węgla do poziomu **powyżej 18 mln ton netto** w 2030 r. oraz stabilizacja produkcji i sprzedaży koksu na poziomie **powyżej 3,4 mln ton** w latach 2018-2030.



Wzrost wartości dodanej poprzez efektywne wykorzystanie węglopochodnych i dążenie do samowystarczalności energetycznej – **optymalizacja energochłonności**.



Zwiększenie udziału produkcji węgla koksowego w produkcji ogółem do poziomu **powyżej 85%** od 2020 r. – Program JAKOŚĆ.



Rozwój **kapitału ludzkiego**, dalsze podnoszenie wysokich standardów bezpieczeństwa oraz dbałość o środowisko.



Optymalizacja struktury i poziomu kosztów z wykorzystaniem innowacyjnych rozwiązań – Program EFEKTYWNOŚĆ.

DESCRIPTION OF THE GROUP'S DEVELOPMENT POLICY

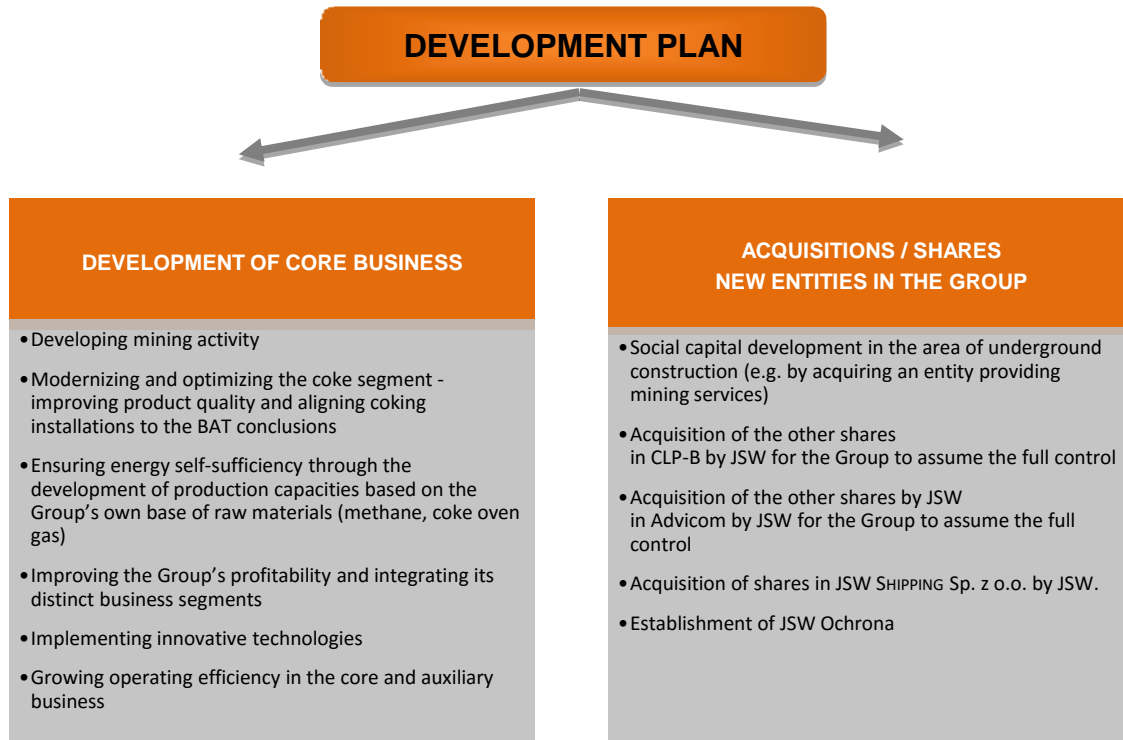
The Development Plan defines primary assumptions for the Group's long-term development. The plan calls for executing developmental processes chiefly based on the development of core business, without precluding development through acquisitions of attractive assets and entities.

The Group's investment program assumes the execution of investment projects in 2018-2030 with a total value of roughly PLN 18.9 billion, assigning the highest priority to the following projects:

- developing mining activity,
- modernizing and optimizing the operation of the coke segment,
- ensuring energy self-sufficiency through the development of production capacities based on its own base of raw materials - byproducts of coal mining (methane) and producing coke (coke oven gas),
- improving the Group's profitability and integrating its distinct business segments,
- implementing innovative technologies,
- growing operating efficiency in the core and auxiliary business.

Endorsement has been given to the highest priority having investment projects offering the highest profitability and strategic projects in core business that are crucial to build the Group's competitive edge and lead to optimizing operating expenses.

Chart 5. Development Plan of JSW and the Group



IMPLEMENTATION OF KEY PROJECTS AS PART OF STRATEGIC OBJECTIVES

The Group's Investment Plan for 2018-2030 assumes incurring capital expenditures of approx. PLN 18.9 billion. The main initiatives supporting particular strategic objectives defined in the Strategy include:

Coal segment

- Building a 1120 level in the Borynia Section of KWK Borynia-Zofiówka-Jastrzębie mine.
- Building a 1080 level in the Zofiówka Section of the KWK Borynia-Zofiówka-Jastrzębie mine.
- Opening and industrial utilization of coal resources within the area of "Bzie-Dębina 2-Zachód" and "Bzie-Dębina 1-Zachód" deposits (the Zofiówka Section of the KWK Borynia-Zofiówka-Jastrzębie mine).
- Building a 1290 level in the KWK Budryk mine.
- Opening resources of seam 405/1 and 405/2 in the KWK Budryk mine.
- Building a 1050 level in the Knurów Section of the KWK Knurów-Szczygłowice mine.
- Building a 1050 level in the Szczygłowice Section of the KWK Knurów-Szczygłowice mine.
- Building a 1140 level in the KWK Pniówek mine.
- Opening and industrial development of resources in the Pawłowice 1 deposit in the KWK Pniówek mine.
- Expansion of level 1000 and deepening of shafts IV and III in the KWK Pniówek mine.

Coke segment

- Upgrade of coke oven batteries 3 and 4 at the Przyjaźń Coking Plant.
- Modernization of the Radlin Coking Plant – stage III.
- Upgrade of the BTX plant with associated hydrocarbons facilities at the Radlin Coking Plant.
- Coke oven gas desulfurization installation at the Jadwiga Coking Plant.
- Construction of a power unit at the Radlin Coking Plant.

Other segments

- Modernization of mining machinery and equipment and modernization of the Coal Preparation Plants in KWK Budryk and KWK Knurów-Szczygłowice mines.

FINANCIAL STRATEGY

In periods of favorable economic conditions in the coal market, the Group generates high positive cash flows, while in a period of economic downturn, the Group needs financing for high negative cash flows at the FCF level, therefore responsible management of the capital structure becomes a major challenge. The major objectives of the strategy for financing the Group's activity include:

- ensuring a stable financing structure, by achieving and maintaining at least 50% of the share in equity in the structure of liabilities, and covering the value of non-current assets with fixed capitals,
- attempting to match the average maturities of financing with the times of obtaining returns on the financed assets,
- taking actions to ensure the amount of financing which allows for maintaining continuity of processes of operating and investing activity at the assumed levels,
- seeking the most effective forms of financing at a given time, while ensuring the most appropriate maturities for the financing,
- aiming to maintain in the Group a cash buffer to ensure that the key liabilities may be covered, including in particular liabilities for salaries, with the buffer to be used in periods of dramatic decreases in sales revenues,
- maintaining a stabilization fund in the assets at a level of PLN 1.5 billion, in periods of favorable economic situation in the coal market so as to ensure an appropriate level of financial liquidity at the beginning of a possible downturn period in the coal market,
- effective financial risk management in the Group.

Stabilization Fund

In periods of upswing on the coal markets, the Company intends to transfer a portion of generated cash surpluses to a specially established stabilization fund. Such cash saved during market upswings will help ensure financial liquidity in a period when downturn begins and negative cash flows are generated at the FCF level. It is also assumed that cash from the stabilization fund will be used to finance, among others, investment projects as well as innovative development projects.

The key assumptions about the stabilization fund:

- JSW will have full control over the funds transferred to the fund,
- the fund's assets will be invested mainly in liquid assets with a high degree of safety (debt financial instruments),
- there will be specific rules for withdrawing cash from the fund,
- the fund management will be entrusted to an entity which will ensure safety of investments and full transparency of the fund's operations,
- efficient legal and tax structure.

Bond issue program

The Parent Company uses debt financing in the form of bond issues. Such a form of financing remains the major source of third party capital in a long-term perspective. The final JSW's bond redemption date falls in 2025 but the obligation, defined in the documentation of the issue program, to make additional redemptions in specific situations, after fulfilling all the assumed conditions, cause the redemption to be accelerated and the financing term shortened, i.e. it is assumed that the bonds will be finally redeemed by the end of 2019.

The accelerated bond redemption schedule as compared to the schedule defined in the financial records may make it necessary to take out both long-term and current financing. To optimize and diversify financing sources, the Group also assumes the possibility of long-term financing in the form of bank loans and credit.

Physical Cash Pooling ("PCP")

In order to achieve more effective management of current liquidity, the Group has in place a cash management system known as PCP. This is also an intra-Group financing mechanism. The Group's financial strategy assumes an active access to the intra-Group financing for each company belonging to the structure.

In a strategic perspective, the Group takes into consideration the possibility of implementing other forms of current liquidity management in the Group, also by launching an internal bond issue program and intra-Group loans.

MATERIAL FACTORS RELATING TO THE GROUP'S DEVELOPMENT

The Group's operations and its results materially hinge on demand and the evolution of coal and coke prices. They always exert an impact on the Group's financial standing due to price volatility (the coal and coke markets are cyclical and are subject to numerous factors beyond the Group's control). At the same time, FX volatility affects the evolution of coal and coke sales prices. Movements in prices and exchange rates are factors that exert the greatest influence on the Group's financial standing. Their movement is noticeable in a very short period.

Moreover, extraordinary events stemming from the natural hazards present in underground mines may exacerbate the events and conditions that may affect performance (by diminishing output and elevating operating expenses).

Table 3. *External and internal factors affecting the Group's operation*

EXTERNAL FACTORS	INTERNAL FACTORS
<ul style="list-style-type: none"> • economic trends in local and global economy, • cyclicity in coal and coke consuming industries, • volatility of demand and prices for the Group's products, • situation in the steel market, • level of imports of the products traded by the Group (coal and coke) to the EU and Poland • prices of sea freight facilitating the allocation of raw materials in the global market, • unplanned shutdowns of steel production capacity, • investments (or their absence) in new steel production capacities, • level of global structural excess supply of steel production capacities, • development of new technologies for steel production, • investments in PCI installations reducing coke consumption in the steel production process, • the policy pursued by large steel-making concerns to meet their raw material needs on their own, • high quality requirements of steel producers in respect of commodities used in their production, • investments (or their absence) in new production capacities, • dependence of merchant cokers on the shortfall in meeting the demand for coke in steel mills integrated with coking plants, • export potential of other producers and exporters of coking coal and coke in the world and in the EU, • increased share of spot transactions in the pattern of trade, • differences in mining costs of coking coal and coke production between the world's largest producers, • volatility of PLN and other foreign currencies with respect to the EUR and USD, • changes to monetary, fiscal and tax policy; the level and volatility of interest rates, the rate of inflation, the availability of short and long-term debt financing and equity, credit risk, • rules on the protection of the environment, • changes to government policy in reference to the mining, coking and steel sector, 	<ul style="list-style-type: none"> • cost of coal and coke production in the Group affecting their sale profitability, • quantity and quality of the coal mined and the coke produced by the Group, • investments resulting in increased efficiency and effectiveness of coal and coke production, • safety level in the production processes, • the intensity of occurrence of natural hazards and tectonics of the exploited seams, • extraordinary events which may disturb the production process, • failure rate of the mining machinery and equipment used in the production process, • relations with the social party and the possibility of a collective dispute.

MEASURES TO SUPPORT THE STRATEGY

EFFICIENCY PROGRAM

The "Efficiency Program" includes, among others, an analysis of opportunities to improve JSW's operating efficiency by introducing organizational and technical changes in the production process. The program assumes supporting measures in the areas of: work organization, deposit management (with regard to planning and scheduling production), mining production management (including among others improved efficiency of the use of machinery), management of production assets, management of the coal preparation process,

The Strategy assumes four stages of the program implementation:

- Collecting data and preparing organization of the initiative.
- Determining potential.
- Developing a list of optimization initiatives.
- Implementing the approved initiatives.

QUALITY PROGRAM

The main goal of the Program is to ensure ongoing monitoring and oversight over the quality of Group's products at each stage of production. As a result, the production potential should increase and the coal quality should stabilize.

The "Quality Program" will involve:

- Seam cross-cut planning in the mines' deposits for optimum deposit management.
- Forecasting the quality of coal for sale.
- Cooperation of geological and mining service providers in the mines and quality control and technical and technological inspections in the Group's Coking Plants.
- Ongoing cooperation between technical services with business partners in the area of quality control to ensure high product quality.

An increase in the yield of coking coal will be also effected through investments w Coal Preparation Plants in particular mines.

INNOVATION

The main objective of the Innovation Strategy is to support the Group's business units in response to greater market challenges by increasing the use of new technologies and innovative solutions. To achieve the objective, the JSW Group will have to take the following measures:

- To increase the supply of initiatives in the R+D+I area by strengthening cooperation with partner scientists and innovative companies from the sector and to build an innovation culture.
- To select and implement innovative projects effectively with full coordination of actions.
- To assume a long-term approach to the performance of innovative tasks to ensure that availability of funds for the activity in this area is not dependent on the current situation in the Group's markets and to accept the risk of failure with respect to particular projects.
- To implement an external financing strategy for projects and market commercialization of the developed innovations.

The innovations will be implemented in the four main substantive areas: Efficiency, Quality, Safety and Social and Environmental Responsibility.

It will be possible to implement the Innovation Strategy due to four major categories of measures:

- Performing research and development projects in cooperation with external partners.
- Coordinating pre-implementation works necessary to introduce new technologies to the Group's business activity.
- Commercializing the effects of performed innovative projects with a high market potential.
- Initiating and supporting actions which contribute to building an innovation culture.

To maximize the effectiveness and quality of introduced research and development projects, these measures will be taken in cooperation with external partners such as scientists, researchers, laboratories, scientific institutes, higher education institutions as well as innovative companies from the mining sector and related sectors.

The Innovation Strategy assumes implementation of a number of tools and actions aiming to encourage and activate employees at different levels and with different specializations to participate in the innovation development process in the enterprise.

IT

The main objective of the IT Development Strategy in the Group is to define a new role of IT, taking into consideration changing requirements and expectations about the strategic directions of the Group's development. Because of the nature of the core business, the strategy, apart from the traditionally conceived IT, concerns also industrial information technology supporting coal mining and preparation ("OT"). The changed approach results from the business needs described in the present Strategy, which clearly emphasize the role of IT and OT in increasing the efficiency of coal mining and preparation as well as the remaining business processes.

3. CORPORATE SOCIAL RESPONSIBILITY

The directions of the Group's business development are focused on a number of issues that are closely related to the concepts of sustainable development and corporate business responsibility. The "JSW Group's Sustainable Development Strategy for 2017-2020" adopted by the JSW Management Board bolsters the synergy between business objectives, sustainable development targets and the practical implementation of the responsible governance concept. The Sustainable Development Strategy for 2017-2020 has been designed to support and complement the business objectives defined in the JSW Strategy including subsidiaries of the JSW Group for 2018-2030, while taking into consideration key areas of social and environmental responsibility from the JSW Group's point of view.

Being a European leader present on the global market presents an enormous ethical obligation. The Group feels obligated not only to take into consideration, in the process of taking business decisions, their social and environmental consequences but also to seek and disseminate completely new and innovative solutions which will make it possible to care better for the interests of its environment. Therefore, in the near future, great emphasis will be placed on innovative investments in research and development (R+D).

Research and development activities are directed to efficiency and are also aimed at achieving the optimum effectiveness regarding the environment. This is because the Group wants to use obtained but finite and non-renewable natural resources in the best way possible. The Group would also like to put in focus innovation in social terms, therefore those which will translate, for instance, into occupational safety and contribute to limiting the risk of accidents underground. Such thinking is coherent with the Vision, which assumes strengthening of the Group's position not only as a leading producer of coking coal and a prominent supplier of coke in the European market, but also as an enterprise which sets the directions of development for the whole industry.

The new approach to sustainable development, as defined in the *JSW Group's Sustainable Development Strategy for 2017-2020*, assumes in particular:

- Making CSR an element supporting the optimization of processes.
- Changing and extending the definition of CSR from socially beneficial/charitable activities to comprehensive management of social and environmental relationships.
- Departure from treating CSR as a "cost that we are expected to incur" for image-related and PR reasons and embracing a managerial approach and comprehensive benefits stemming from:
 - ✓ persistently building the JSW brand value and building a healthy organizational culture,
 - ✓ demythologizing the social image of coal and coal mining,
 - ✓ managing business risk (among others treating CSR activities as part of risk management efforts),
 - ✓ building a competitive advantage and stabilizing the supply chain,
 - ✓ reducing the cost of raising capital on the capital market,
 - ✓ adopting an open approach to dialog and public reporting of performance.

FIRST CSR REPORT

The Group publishes for the first time the first CSR Report, which applies international GRI standards ("GRI Standards"). Because JSW did not publish previously reports based on guidelines of the Global Reporting Initiative ("GRI") in compliance with GRI's recommendations, it decided to publish its first report already in accordance with the new standards ("GRI Standards") rather than guidelines (GRI G4). The document has been prepared using the core option. The report will cover the 2017 calendar year, indicating also, in accordance with principles of reporting, material events that occurred after the balance sheet date. At the same time, as an opening report, wherever substantively justified and possible important for understanding the Group's situation, the report refers to earlier events, i.e. those from before 1 January 2017.

4. INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT AND EQUITY INVESTMENTS

INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT

Table 4. Structure of expenditures on investments in property, plant and equipment

ITEM	2017	2016	2015	2014	2013	GROWTH RATE 2016=100
Coal segment						
Expenditures on property, plant and equipment (without expensable mining pits), investment property and intangible assets	394.9	311,0*	412.1	889.4	874.7	127.0
Expenditures on expensable mining pits	459.1	380.2	385.0	445.9	503.8	120.8
Total	854.0	691.2	797.1	1,335.3	1,378.5	123.6
Coke segment						
Expenditures on property, plant and equipment and intangible assets	45.3	71.4	49.8	147.0	232.4	63.4
Total	45.3	71.4	49.8	147.0	232.4	63.4
Other segments						
Expenditures on property, plant and equipment and intangible assets	123.4	250,6*	209.6	206.1	151.1	49.2
Total	123.4	250.6	209.6	206.1	151.1	49.2
Total segments						
Expenditures on property, plant and equipment (without expensable mining pits), investment property and intangible assets	563.6	633.0	671.5	1,242.5	1,258.2	89.0
Expenditures on expensable mining pits	459.1	380.2	385.0	445.9	503.8	120.8
Total***	1,022.7	1,013.2	1,056.5	1,688.4	1,762.0	100.9
Total (after consolidation adjustments)	1,013.7	911.3	1,056.6	1,685.5	1,757.8	111.2

* JSW's capital expenditures for 2016 in the amount of PLN 78.9 million are related to investment projects executed by JZR for JSW. In 2016, fixed assets were sold to JZR with a total initial value of PLN 74.5 million, the source of which were the above capital expenditures incurred in 2016.

** The value of expenditures before consolidation adjustments (in 2017: PLN (-)9 million, in 2016: (-)101.9 million, in 2015: PLN 0.1 million, in 2014: (-)2.9 million, in 2013: (-)4.2 million, in 2012: PLN (-)3.5 million).

Out of total expenditures of PLN 1,022.7 million incurred in 2017, PLN 1,017.8 million was incurred on property, plant and equipment, while PLN 4.9 million was incurred on intangible assets.

Graph 1. Structure of expenditures incurred by the Parent Company

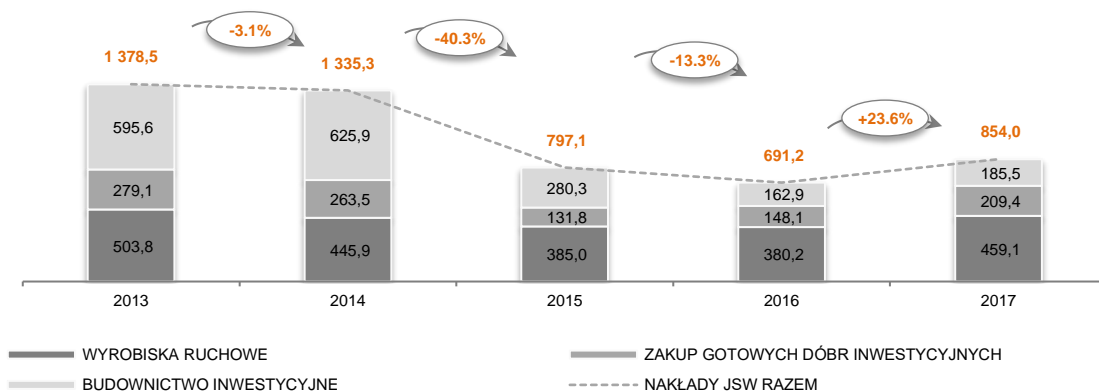


Table 5 Key investment projects performed by JSW in 2017

ITEM	DESCRIPTION
DEVELOPMENT OF THE BORYNIA-ZOFIÓWKA-JASTRZĘBIE MINE – ZOFIÓWKA SECTION	<p>In 2017, JSW continued the opening and utilizing of new resources started in 2005: “Bzie-Dębina 2-Zachód” and “Bzie-Dębina 1-Zachód” from level 1,110m. Recoverable reserves planned to be opened from level 1,110m are estimated at 146.5 million tons, down to the level of 1,180 m. The deposits contain mainly type 35 (hard) coking coal. In 2017, in connection with the execution of the project, expenditures of PLN 4.2 million were incurred. In 2017, works were performed to prepare for exploitation the deposit “Bzie-Dębina 2 Zachód” in area N of seam 505/1. It is planned to commence exploiting resources in area N in 2018. It is planned to initiate exploitation of resources in area A of the “Bzie-Dębina 2-Zachód” in 2022. In Q2 2017, the works associated with vertical development of the “Bzie-Dębina 2-Zachód” deposit were completed with regard to sinking of shaft 1 in Bzie.</p> <p>In addition, in 2017, JSW renewed the performance of the project of building the 1,080 level in Zofiówka Section to provide an access to and exploit resources of the “Zofiówka” deposit below the 900 level. The estimated amount of recoverable reserves down to a depth of 1,080 m is 47.3 million tons. In 2017, works were continued on deepening of the IIz shaft to the 1,080 level. In 2017, in connection with the execution of the project, expenditures of PLN 12.6 million were incurred.</p>
CONSTRUCTION OF A NEW LEVEL IN THE BUDRYK MINE	<p>JSW continued the development of the 1290 m mining level started in 2007. The total amount of recoverable reserves available from level 1290m is estimated at 166.1 million tons to a depth of 1400m. In 2017, in connection with the execution of the project, expenditures of PLN 26.8 million were incurred. The construction of the new 1290 level together with modernization of the Coal Enrichment Plant (“ZPMW”) will make it possible to start production of type 35 (hard) coal from 2019, increase the production of coking coal in the total production structure to approx. 60% and increase total coal production. The completion of key elements of the capital expenditure project determining the achievement of the assumed results is planned in 2019. Performance of part of the capital expenditure tasks, i.e. those related to the modernization of the coal enrichment plant (ZPMW) in 2016-2019 is being run by JZR with the participation of external financing.</p>
CONSTRUCTION OF LEVEL 1050 IN KWK KNURÓW-SZCZYGLÓWICE – KNURÓW SECTION	<p>JSW conducted works aimed at tapping into the resources available on level 850-1050 in the Knurów Section. The project is executed with a view to gaining access to the deposits of high quality type 34 coking coal. The total quantum of documented recoverable reserves available on level 850-1050 in the Knurów Section is 102 million tons. In 2017, in connection with the execution of the project, expenditures of PLN 2.0 million were incurred.</p>
DEVELOPMENT OF THE PNIÓWEK MINE	<p>JSW continued the mining work on opening and developing the new “Pawłowice 1” deposit started in 2007. The total amount of recoverable reserves in this deposit is estimated at 54.0 mt down to the level of 1,140m. The deposit contains mainly type 35 (hard) coking coal. In 2017, no capital expenditures were incurred in connection with the project performance. In December 2016, mining work began on the western part of the Pawłowice 1 deposit, adjacent to the mine's original area.</p> <p>Furthermore, in Q1 2017, JSW started to perform a new investment project in the Pniówek mine to develop the mining level of 1,000 m together with deepening shafts IV and III. The project is performed to secure effective exploitation and an access to reserves of type 35 coal in the south-west part of the Pniówek deposit which are planned to be exploited after 2022. The total quantum of recoverable reserves available from the level of 1,000m in the KWK Pniówek mine is estimated to be approximately 64.6 million tons. In 2017, capital expenditures of PLN 34.6 million were incurred in connection with executing this investment.</p>

Table 6. Capital expenditures on the key investment projects described above and performed by JSW

ITEM	2017	2016	2015	2014	2013	GROWTH RATE 2016=100
<ul style="list-style-type: none"> KWK Borynia-Zofiówka-Jastrzębie mine, Zofiówka Section Opening and industrial utilization of resources within the area of the Bzie-Dębina 2-Zachód and Bzie-Dębina 1-Zachód deposits 	4.2	23.0	61.0	82.0	116.8	18.3

ITEM	2017	2016	2015	2014	2013	GROWTH RATE 2016=100
<ul style="list-style-type: none"> ▪ KWK Borynia-Zofiówka-Jastrzębie mine, Zofiówka Section <i>Construction of the level of 1,080m</i> 	12.6	1.8	8.2	56.1	50.5	700.0
<ul style="list-style-type: none"> ▪ KWK Budryk <i>Construction of level 1290m</i> 	26.8	17.2	23.8	110.9	98.7	155.8
<ul style="list-style-type: none"> ▪ KWK Knurów-Szczygłowiec, Knurów Section <i>Construction of level 1050m</i> 	2.0	1.5	2.5	-	-	133.3
<ul style="list-style-type: none"> ▪ KWK Pniówek <i>Expansion of level 1,000 m with deepening shaft IV</i> 	34.6	6.9	-	-	1.2	501.4
<ul style="list-style-type: none"> ▪ KWK Pniówek <i>Opening and industrial development of resources in the Pawłowice 1 deposit</i> 	-	0.9	2.7	23.2	28.7	-
TOTAL	80.2	51.3	98.2	272.2	295.9	156.3

Modernization of the Coal Enrichment Plants to increase coking coal production and launch production of type 35 (hard) coking coal as well as other investment activities to increase net coal production in the Knurów-Szczygłowiec mine

The Group performs a capital expenditure project to modernize the coal preparation plants and other capital expenditure activities to launch production of type 35 (hard) coal, increase the share of coking coal in total output and increase the net coal production level. The project will make it possible to increase the share of the coking coal (type 34 and 35) to the target level of 80% in the mine's production structure, start the production of type 35 (hard) coking coal in 2019 and increase the total production level. The performance of part of the capital expenditure tasks, i.e. those related to the modernization of Coal Enrichment Plants in 2016–2019 and other tasks aimed at increasing the net coal production level, is conducted by JZR.

OTHER CAPITAL EXPENDITURES OF THE GROUP

Capital expenditures in other Group companies in 2017 amounted to PLN 168.7 million and were 47.6% lower than in 2016 (resulting, among others, from the sale of SEJ, PEC and WZK Victoria in 2016). Capital expenditures in the coke segment and other segments in 2017 accounted for 16.5% of the Group's total expenditures. The expenditures on non-current assets incurred by the companies were allocated for execution of key projects and tasks securing their on-going operating activities.

Table 7. Key investment projects carried out by other Group companies in 2017

ITEM	DESCRIPTION
MODERNIZATION OF COKE OVEN BATTERIES IN PRZYJAŻŃ COKING PLANT	The Przyjaźń Coking Plant (JSW KOKS) is performing its investment program as a part of which in 2011 modernized battery no. 1 was commissioned for use and further coke oven batteries are to be modernized. On 15 September 2011, the company signed an agreement with BP Koksoprojekt Sp. z o.o. from Zabrze, selected in a tender procedure, to perform formal, legal and design work for the purpose of modernization of coke oven batteries no. 3 and 4, and execution designs for modernization of coking battery no. 4. Completed in 2014 was the stage of preparation of working designs for modernization of battery no. 4. In 2017, no capital expenditures were incurred for modernization of battery no. 4 (the execution of the physical scope of the project was postponed).
CONSTRUCTION OF A POWER UNIT AT THE RADLIN COKING PLANT	This project, performed by JSW KOKS, aims to use coke oven gas to generate electricity and heat for own needs and for sale. Planned as part of the project is the construction of a power unit fired with own coke oven gas, of a thermal power 104 MW, with an extraction and condensing turbine of a capacity of 28 MWe and a heat-generating segment of a capacity of 37 MWt which will ensure the supply of electricity, steam and heat to the Radlin coking plant as well as heat to the nearby KWK Marcel and the inhabitants of the town of Radlin. In 2017, expenditures of PLN 0.02 million were incurred in connection with the execution of this capital expenditure project.

ITEM	DESCRIPTION
	On 22 December 2015, JSW KOKS and Agencja Rozwoju Przemysłu S.A. signed an “Agreement defining the key terms and conditions of execution of the planned joint venture involving construction and operation of the Radlin CHP Plant, including the conditions of entering into the investment agreement” (Term Sheet). In 2016, the Investment Manager and General Contractor selection procedure was conducted in the procedure to award a public procurement contract, conducted pursuant to the provisions of the Public Procurement Law in the form of a limited tender which was announced on 14 January 2016. On 19 December 2016, JSW KOKS cancelled, in accordance with Article 93 Section 1 Item 4 of the Public Procurement Law, the procedure in a limited tender to execute the project. Due to the amount resulting from the tender procedure, ARP S.A. withdrew from the provision of financing for the project.
<p>MODERNIZATION OF THE BTX PLANT WITH NEIGHBORING FACILITIES IN THE RADLIN COKING PLANT</p>	Modernization of the BTX plant with neighboring facilities in the Radlin Coking Plant will enable an increase in the BTX recovery efficiency with a concurrent adaptation of the quality of purified coke oven gas to the requirements of the future power unit in the (gas-fired) Radlin Coking Plant and will enable a reduction in the negative impact of the coking plant on the environment and a decrease in overhaul costs incurred. According to plan, the project will be executed in the years 2015-2017 as part of capital expenditures totaling PLN 72.0 million, using financing in the form of a PLN 45.0 million preferential loan granted by the National Environment Protection and Water Management Fund in Warsaw. In 2017, capital expenditures of PLN 27.4 million were incurred in connection with the execution of the project. The project was completed, with the final acceptance report signed on 31 October 2017.

EQUITY INVESTMENTS

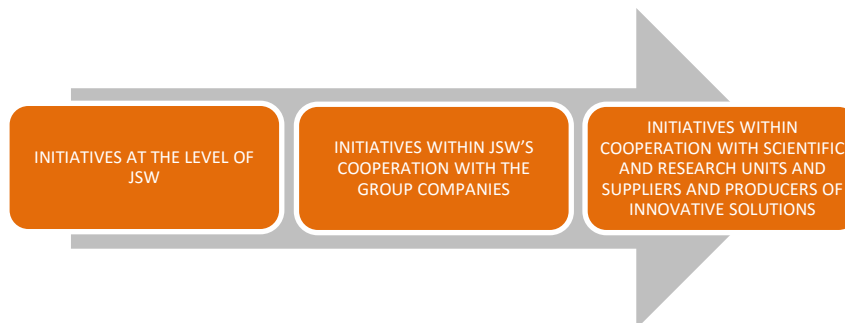
A detailed description of the equity investments made from 1 January to 31 December 2017 is presented in Section 1.3 of this report and in Note 1.2. Consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2017.

SIGNIFICANT ACHIEVEMENTS IN RESEARCH AND DEVELOPMENT

In the area of research and development, at the end of Q4 2017, the Group adopted *the JSW Group’s Strategy of developing innovation*. The major recommendations of the above Strategy include defining objectives to improve efficiency, quality, safety and environmental impact of JSW’s core business, covering the following areas: deposit exploitation, work organization, communication systems, production processes, ventilation in the mines, safety, waste and the environment, land reclamation and diversification.

In 2017, the process of gradual implementation of the Strategy’s major assumptions was commenced. At the same time, within the framework of the launched project portfolio, the Group prepared a number of research and development and innovation initiatives to be performed.

Chart 6. *Types of initiatives within the project portfolio*



In 2017, the Group began performing several key projects in research and development. The table presents the most important research and development projects that are on the agenda, developed on an ongoing basis, of the Group’s innovative activity.

Table 8. Key projects in research and development

ITEM	DESCRIPTION
DEPOSIT MODEL AND PRODUCTION PLANNING	The IT system for managing deposit data, based on modern geostatistical algorithms and spatial visualizations, used to improve the quality of production planning, including strategic planning over a longer time span. The system allows both for the modelling of the geological structure and designing mining construction facilities with various purposes, with reference to the strategic assumptions concerning, among others: efficiency, coal quality, available equipment and human resources, etc. The target implementation assumes a change in the method of production planning not only in a strategic perspective but also on a short-term basis.
TESTS OF INNOVATIVE DRIVES	A project performed to test cutting-edge drive technology in JSW's mines in cooperation with leading suppliers of mining machinery and equipment. The project is intended to introduce to the production cycle the most recent technologies aimed at reducing breakdowns, increasing the flexibility of drive operation and control and lowering energy consumption. An example of this is the planned testing in KWK Pniówek of high-torque Caterpillar drives controlled by an assembly of voltage converters. This is one of the main innovation paths in this area of development of the mining industry.
INDEPENDENT ROCKBOLT SUPPORT	The project is being executed in cooperation with leading mining machinery manufacturers and scientific research units. The purpose of the project is to test currently available rockbolt support technologies in order to analyze the possibility of applying such systems to active roof control in the conditions of JSW's mines. Leading global coal producers using underground mining technologies successfully apply rockbolt supports, thereby proving that the development of this technology currently enables its application also in demanding geological and mining conditions typical of JSW's mines. An argument in support of the application of this type of support in the Polish mining industry is undoubtedly a much higher operating performance resulting from the higher efficiency of excavation work and much lower costs. A pilot application of the rockbolt support system has been planned in KWK Budryk.
REVITALIZATION OF THE KRUPIŃSKI MINE	The project is being executed in cooperation with leading scientific research units at the feasibility study level for specific sub-projects, including innovative ones such as: construction of a pumped-storage power plant using the infrastructure of an underground mine, storage of energy generated by solar farms located on an accessible portion of a waste rock heap, capture of methane, construction of JZR's repair facilities and an office building fitted with installations using renewable energy sources, a technology park and an interactive science center.

To contribute to an acceleration of activities connected with seeking and implementing innovative solutions which bring both economic and environmental benefits, research competences were concentrated in one unit, which led to setting up the company named **JSW Innowacje**. According to assumptions, JSW Innowacje is intended to become a comprehensive research and development center for the whole Group. JSW Innowacje is to cover all the phases of the Group's research and development activities: from research to projects, environmental impact assessments, feasibility studies and execution oversight.

The company has submitted applications for co-funding of the following projects:

- Applications to the Coal and Steel Research Fund, including: CIRCINE (innovative water management in mines), CERCOLAND (remediation of post-industrial areas created as a result of black coal/brown coal mining operations), CAESMINE (use of energy from compressed air in underground mining pits devoid of operational use), SUMAD (stock-taking of spoil tips), ARTEMISA (advanced remote detection methods for environmental risk management on the surface caused by mining and post-mining operations).
- Applications to the Smart Development Operational Program, including: EKomPell (development of a technology for the production of organic pellets), Technology for the production of a compacted blend component for a coke oven chamber filling system using fine coal fractions, AutoInvent (automatic spatial data acquisition and analysis system to automate to process of stock-taking, modeling and calculation of coal storage volumes in quasi-real time).
- Preparation and submission of an application to the Śląskie Voivodship Regional Operational Program (construction of hardware infrastructure for the needs of a center for the development of technologies and innovative professions).

Currently, JSW Innowacje is in the process of preparing a document entitled *Strategic Research Agenda at JSW Innowacje S.A.*

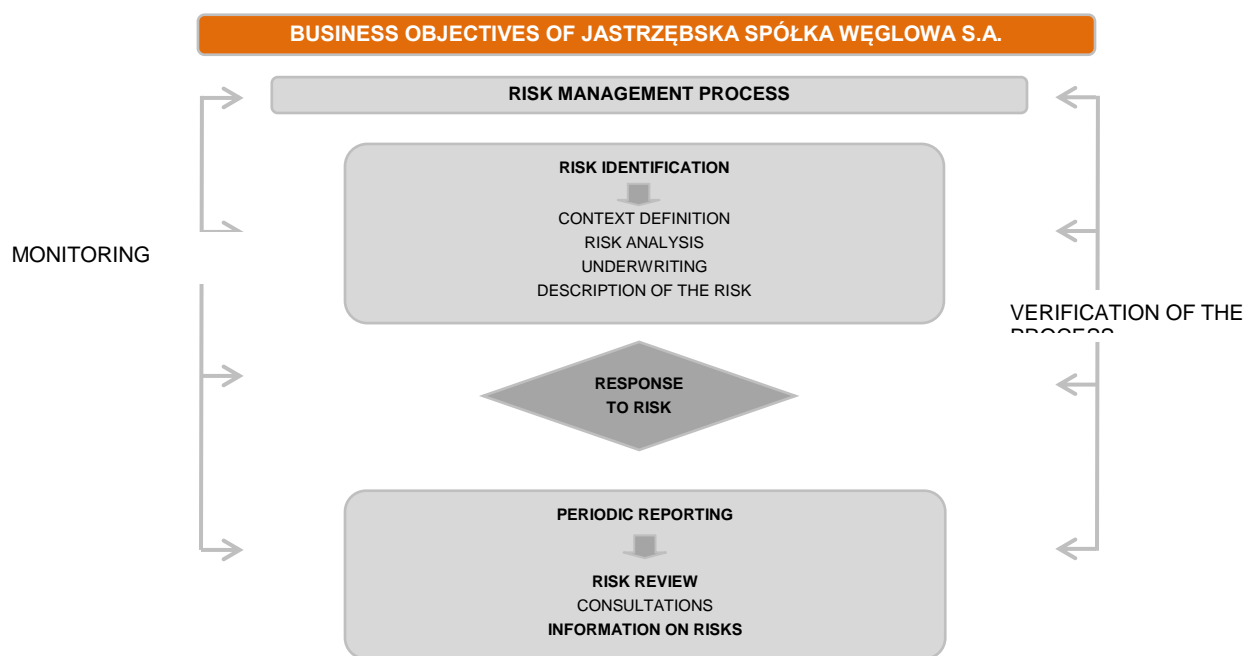
5. RISK FACTORS AND THREATS

Recognizing the importance of risk management in attainment of strategic objectives, in 2017 the Group continued to apply a formalized ERM risk management system. The main purpose of the system adopted and implemented by the Group is to identify potential risk factors and events that may have an adverse impact on the Group.

RISK MANAGEMENT PROCESS

The Group has in place a comprehensive enterprise risk management system which comprises the Enterprise Risk Management Policy and Procedure (updated in 2017). The amended documents cover risk management issues throughout the Group. Work is currently underway to identify strategic risks arising from the operations conducted by the Group members. The Enterprise Risk Management Policy and Procedure in place describe a systemic approach to risks which covers the key risks occurring in the Group's business and satisfies the highest ERM standards, thereby contributing to strengthening the Group's reputation on the market.

Chart 7. Enterprise risk management process



Mindful management of existing threats and opportunities enables the Group to protect its attained value and improve its ability to add extra value. Enterprise risk management is a continuous process and is subject to modifications driven by the changing business environment, the Group's operations and changes in the impact of specific risks on the Group's business objectives. Risk management occurs in all links of the organizational structure and in all areas of operations, including: operational, strategic, financial, commercial, and legal and regulatory.

The information prepared about potential and changing threats in the Group is reported regularly to members of the Management Board, Audit Committee and Supervisory Board and to stakeholders. At a later stage, control works are carried out, involving verification and assessment of the consequences of the actions taken and introduction of adjustments to the risk management process, in order to improve its efficiency.

A planned and regular approach to risk management results in the identification of key risks. Below the report presents the risks that have a high potential impact on the Group's operations, its performance and financial standing and may simultaneously cause its value and share price to fall. Consequently there is a strong need for monitoring and periodic verification of the effectiveness of the existing control mechanisms and response to the risks.

The risks described below are the only factors to which the Group is exposed. Additional risk factors, which are currently unknown, or which are currently believed to be immaterial may also have a material and adverse effect on the Group's operations, its financial performance and financial standing.

SELECTED RISKS AFFECTING THE GROUP'S BUSINESS

Table 9. Risk factors and threats

Level of risk: low – ●○○, medium – ●●○, high – ●●●

Change in the level of risk compared to 2016: decrease ↘, unchanged →, increase ↗

RISKS RELATED TO SOCIAL, ECONOMIC AND MARKET ENVIRONMENT	
<p>RISK ASSOCIATED WITH THE GLOBAL ECONOMIC CIRCUMSTANCES</p> <p>medium ●●○ decrease ↘</p>	<p>A downturn in global economies, in particular in the steel and power industry or events causing a significant decline in demand for coal and coke, may have an adverse impact on the Group's activity, results and financial standing. In 2017 we witnessed continuation of an upward trend toward higher prices for steel goods, higher margins in steel producers and improvement in their financial condition. The European Union's implementation of anti-dumping and anti-subsidized customs duties diminished the strength wielded by imported cheap steel from third countries, chiefly from China. According to the World Steel Association, in 2017 global steel production climbed 5.5% compared to 2016 (+87.5 million tons). Production trended up in most regions in the world: +5.7% in Asia, +15.9% in Africa, +4.1% in the European Union and +13.1% in non-EU European countries. China, the largest steel producer in the world, produced nearly 787 million tons in 2017. Compared to 2016 it posted 5.7% growth in steel production (+44.8 million tons).</p>
<p>RISK OF FLUCTUATIONS IN DEMAND AND SUPPLY ON KEY PRODUCT MARKETS</p> <p>medium ●●○ decrease ↘</p>	<p>The oversupply of coal and coke in global markets may cause a significant decrease of prices, which may have significant adverse impact on the Group's activity, results and financial standing. Due to the interconnections of these industries, a downtrend (lack of demand) in the coke and steel market, has direct influence on the results generated by the coal market. The expansion of local and global competition may also pose a threat through the higher volume of coal and coke produced at lower costs and the influx of cheap coal and coke from imports.</p> <p>The Group's coal production volume in 2017 reached 14.8 million tons, i.e. 2.0 million tons less than in 2016. Coal sales to external buyers were slightly below output: 10.1 million tons, i.e. 1.6 million tons below 2016.</p>
<p>RISK OF REDUCTION IN BLAST FURNACE PIG IRON PRODUCTION CAPACITY IN EUROPE</p> <p>medium ●●○ decrease ↘</p>	<p>We continue to grapple with a structural glut of steel production capacities on the European and global markets. The extensive consolidation and M&A processes in steelworks in progress on the market may lead to relocation of steel production within large metallurgy concerns.</p> <p>In Europe, at the end of 2017, from among 75 installed blast furnaces, 12 still remained shut down. Demand for coke and coking coal is also affected by planned overhauls of blast furnaces as well as sudden and unplanned downtime resulting from failures or accidents.</p>
<p>RISK OF COAL AND COKE PRICE VOLATILITY</p> <p>high ●●● unchanged →</p>	<p>In the past, the Group has experienced periods of significant volatility in coal and coke prices and there is a probability that such volatility may occur in the future. The situation on the coking coal market is linked to the coke and steel market; business cycles entail variation in prices in those sectors. The prices of coking coal depend heavily on demand in the global metallurgical and steel markets. In 2017, a major change occurred in terms of market benchmarks shaping the pricing policies of coal producers. Market participants no longer negotiate previously set benchmarks for each quarter. Instead, transactions are executed on the basis of underlying indices. The departure from the benchmark set prior to or at the beginning of the delivery quarter opens up the possibility of using different calculation periods for reference prices, depending on contractual arrangements. Also possible is the application of various spot quotations. The market has a number of indices to choose from (Platts, TSI, Argus). Market participants apply them independently or use them as the basis for constructing index baskets shaping their pricing strategies. Such indexes differ from each other most notably by the methodology, qualitative parameters (chiefly CSR, VM and ash) and the source of origin of the commodity. The changes in coking coal prices in 2017 were affected to a large extent by the following non-recurring events: supply disruptions caused by adverse weather phenomena (cyclone Debbie in Australia), geological problems (Australia, USA) and logistical challenges (bottlenecks in coal terminals in Australia and the United States, rail transportation problems). Each of these events caused a rapid price increase followed by a price drop when the event came to an end. In the future, such events may re-emerge and trigger new changes in the prices. To reduce the impact of the risk, the Group conducts on-going monitoring and analyses price trends in the coal, coke and steel markets. The terms and conditions of long-term contracts allow for periodic price negotiations.</p>
<p>INDUSTRY COMPETITION RISK</p> <p>high ●●● unchanged →</p>	<p>The competition in the coal and coke industry is influenced, among other things, by the price, production capacity, quality and physicochemical properties of coal and coke, logistics, costs and occurrence of new competitive producers. The Group may not be able to compete effectively with the repercussions of this risk due to the possible occurrence of worse mining and geological conditions in coal mining and changes in the production split of appropriate coal grades. In order to maintain the competitiveness of its products, the Group pursues a flexible pricing policy; otherwise, the Group would be exposed to customer churn and deterioration in its performance.</p>

**CHANGES IN FISCAL
AND MONETARY
POLICY**

high ●●●
unchanged →

In January 2014, amendments to the value added tax took force. The legal regulations introduced amendments to the determination of the tax liability, the moment of tax deduction and taxable income. Tax authorities may intensify their efforts aimed at increasing tax receipts. The Value-Added Tax Act continues to be amended, just like other tax laws. Moreover, VAT sanctions were implemented as of January 2017 along with making the penalties more stringent in the Criminal Tax Code and the Criminal Code. Actions taken in the area of risk minimization include: development of tax procedures, organization of training events, issue of tax instructions, ongoing monitoring of changes in legal regulations.

RISKS IN CONDUCTED BUSINESS ACTIVITY

**OPERATIONAL RISKS
THAT MAY
CONTRIBUTE TO
LOWER OUTPUT OR
HIGHER COSTS**

high ●●●
unchanged →

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

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

Even though the Group has taken a multitude of measures to enhance safety these risks may grow in particular in conjunction with mining at deeper levels in the Group's mines. Moreover, the events and determinants that may affect production volume and in particular cost growth should include changes to the legal regulations concerning the coal industry.

**RISK THAT THE
VOLUME AND
QUALITY OF
ESTIMATED
RECOVERABLE COAL
RESERVES MAY BE
LOWER THAN THOSE
EXPECTED BY
OFFTAKERS**

high ●●●
unchanged →

The Group's key business relies on the effective power of its concessions, its compliance with the terms of those concessions and its capacity to obtain new concessions. Granting of a new mining concession or extension of a current concession requires certain requirements prescribed by the law to be met. The granting or extension of a concession may be refused if the intended activity violates environmental requirements, is contrary to purpose of the real property or is a threat to its safety or is a threat to defense and security of the state or its citizens. The Group consults with local government bodies regarding the opening of coal resources in deposits adjacent to the mines. A mining concession is granted following a reconciliation with a local zoning plan and if there is no zoning plan – based on the study of zoning conditions and directions. New concessions may be obtained on certain conditions, which include among others the introduction of provisions to local zoning plans which allow for the possibility of coal mining, in particular the removal of all provisions that may indicate non-compliance of the intended mining operations with the designation or manner of land use specified in the previous planning documents or obtaining a decision from the Regional Director for Environmental Protection with a favorable approach to the intended investment project. Life expectancy of mines may be reduced significantly if new deposits are not opened. If JSW's concessions are canceled or if new concessions or extensions are not granted to JSW, the Group may be unable to fully utilize its mineral resources and identified mineral deposits, which may have a material adverse effect on the Group's performance and business outlook. The deposit sampling system adopted by the Group, the production quality control system, the monitoring of the latest technological solutions and the execution of major projects ensure that the Group is able to react to changes in a flexible manner, albeit within the boundaries of available financial resources. The quality of coal in a deposit and at all stages of production and sales is controlled, monitored and evaluated in compliance with the applicable standards, implemented procedures, executed contracts and applicable laws.

**PRODUCTION
CONTINUITY**

high ●●●
unchanged →

The coal mining technologies applied by the Group involve the use of highly specialized machinery and equipment manufactured by only a handful companies in the world. The implementation of the investment plans may involve the need to acquire new specialized mining machinery. Due to the global concentration of manufacturers of such machinery and equipment, there is a risk of unforeseen price increases or the unavailability of the required machinery or equipment, which might entail an increase in costs or cause delays in the implementation of the development strategy. Inspections, maintenance and modernization work also call for substantial financial expenditures. Such work may involve delays or an inability to complete it as a result of unforeseen factors beyond the Group's control.

Actions taken in the area of risk minimization include: monitoring and analysis of output indicators for the purposes of continuous updating of production plans; implementation of production plans in line with investment plans; adoption of schedules for the performance of mining works; regular analysis of geological and mining conditions existing in the areas where work is underway; continuous improvement of management's competence and staff's professional qualifications; review and adaptation of internal regulations and procedures to generally applicable legal and regulatory solutions.

**LACK OF
PRODUCTION
FLEXIBILITY IN THE
SUPPLY CHAIN**

The factors determining this risk are above all: limited technical and organizational capabilities, the application of inappropriate production technologies, improper specification of the timing of supplies of materials, plant and spare parts, unexpected changes in coal and steel market conditions, poor allocation of human resources, failure to stick to the deadlines for purchase orders under the prevailing legal and regulatory limitations. Considering the above, it is necessary to align the production level to changes in demand in the supply chain by doing the following: regularly verifying market changes and needs, forecasting market demand, monitoring and analyzing production metrics, monitoring warehouse levels and

<p>high ●●● increase ↗</p>	<p>monitoring the dates of supplies of plant and machinery, optimizing preparatory and mining work to check headcount when determining the ongoing production needs, analyzing and constantly enhancing management skills, enhancing staff skills, running production plans based on investment plans to select the right plant and machinery depending on the conditions present in a given deposit.</p>
<p>SALES TO A RELATIVELY SMALL NUMBER OF CUSTOMERS</p> <p>medium ●●○ decrease ↘</p>	<p>This risk is about the business and financial strategy being based on cooperation with a relatively low number of customers and the inability of enforcing payments from them.</p> <p>The considerable downturn in the economy, especially in the steel and coke industries, may have a material and adverse impact on the Group's operations, its results and financial position. Furthermore, if one or more of the Group's major buyers cuts back on the volume of coal or coke purchased or fails to extend supply contracts, this could have a material and adverse impact on the Group's operations, results and financial position. Moreover, timely payments hinge upon many factors beyond the Group's control. The Group, among other actions taken, monitors the performance of coal sales agreements, performs reporting of payments for deliveries (debt collection), applies contractual provisions about contract performance security, reviews and assesses its customers' financial statements within the JSW Group's Procedure to Secure Payment and Collect Receivables and its Sales Procedure.</p>
<p>RISK THAT THE QUANTITY AND QUALITY OF COKE PRODUCED BY THE GROUP MAY BE LOWER THAN CUSTOMERS EXPECT</p> <p>medium ●●○ unchanged →</p>	<p>Production capacities of the coke oven batteries may be affected by a number of factors remaining outside of the Group's control. These forecasts inevitably contain some level of uncertainty and to this extent they rely on economic and technical assumptions made, which in the end may prove to be imprecise. As a result, estimates concerning coke production are regularly checked on the basis of new information; as a result, one should expect that they may change. If the actual utilization of coke production capacity by the Group is lower than the current estimates, then this may adversely affect the Group's outlook and value as well as its performance and financial standing.</p> <p>The capacity utilization ratio of global crude steel producers in 2017 ranged between 74.3% and 69.5%. In December 2017, it was 69.5%, i.e. 1.9% more compared to December of the previous year.</p>
<p>PRODUCTION ASSET INVESTMENT PROGRAM</p> <p>high ●●● unchanged →</p>	<p>Due to the insufficient allocation of financial resources resulting from the competition between the priorities adopted by the Group, it is possible that certain strategic investments may fail.</p> <p>Risks are prevented from materializing through constant supervision over the implementation of investment schedules, with particular focus on cash flows from investment activity and optimization of the investment project portfolio. It is a matter of significance to work out and implement new methods of funding the execution of investment projects (external funding of investment projects, establishment of a Closed-End Investment Fund and acquisition of long-term debt financing).</p>
<p>COOPERATION WITH EXTERNAL FORWARDING AND TRANSPORT COMPANIES</p> <p>high ●●● unchanged →</p>	<p>Some of the contracts entered into by the Group for the sale of coal and coke provide for product delivery service to a specific venue. In transport and forwarding, the Group cooperates with external companies, which generates the following risks: unavailability of rolling stock that may result in limited ability to deliver products and contractual penalties; limited throughput capacity of rail lines connected to renovations of infrastructure curtailing the ability to deliver products on a timely basis; failures and constraints in logistics processes that may generate additional costs. In order to mitigate this risk, the Group cooperates with many carriers, constantly monitors logistics companies and actively seeks the most efficient logistics solutions in consultation with its customers.</p>
<p>QUALITY AND COMPONENTS OF LOADING INFRASTRUCTURE</p> <p>high ●●● unchanged →</p>	<p>The mines operate their own loading equipment sufficient to effect shipments of their output. However, their storage capacities are limited albeit predictable, which entails the need to lease external storage yards on a temporary basis. Moreover, they are exposed to a risk of limited availability of proper types of railway wagons and limited ship loading capacities in seaports.</p> <p>The development of railway transport and transshipment infrastructure faces the following barriers: traditionally low storage yard parameters – limited loading and unloading capacities, shortages of transshipment equipment, high costs of access to railway infrastructure.</p> <p>Actions taken to minimize these risks include continuous monitoring of coal storage capacities in mine storage yards. Long-term agreements have been signed to ensure access to storage yards and quays in seaports.</p>
<p>RISK ASSOCIATED WITH RELATIONS WITH TRADE UNIONS AND COLLECTIVE LABOR DISPUTES</p> <p>high ●●● increase ↗</p>	<p>In the bituminous coal sector, trade unions play an important role in shaping the remuneration policy. 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. JSW's failure to maintain proper employee relations may exert a material and adverse impact on the operational outlook, performance and financial position.</p> <p>There are 122 trade union organizations operating in the Group. The total number of trade union members, since an employee may be affiliated with several unions, exceeds the number of the Group's employees and as at 31 December 2017 it was 31,780, which means that the union membership ratio is 120.1%.</p>

ENVIRONMENTAL RISKS

RISKS CONCERNING ENVIRONMENTAL PROTECTION REGULATIONS

high ●●●
increase ↗

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. Consequently, the Group may be unable to comply with and act in compliance with provisions of law as amended in the future or such amendments may have an adverse effect on the Group's business activity. Additionally, changes to the environmental protection law may force the Group to adapt to new requirements (e.g. adjusting the technologies used by the Group to curtail atmospheric emissions or changes to how waste is managed or water and sewage management), inclusive of obtaining new permits, or changes to the conditions of the current permits held by the Group. Such an obligation may require the Group to incur specific additional capital expenditures and may, by the same token, affect the its financial standing by increasing the costs of its activity. The Group strives to limit risk by constantly overseeing environmental protection legal requirements and making the necessary investments to meet all environmental requirements. The Group's priorities are to act with awareness and responsibly based on the highest environmental standards and to be consistent in undertaking environmental tasks.

Actions aimed at minimizing these risks include: constant oversight of environmental protection legal requirements and execution of necessary investment projects to meet all environmental requirements.

THREATS ARISING FROM THE OCCURRENCE OF MINING DAMAGE ON THE SURFACE

high ●●●
unchanged →

The risk is connected with that fact that the Group, because of coal reserves being located under forest and intensely urbanized areas, will have to incur high costs to carry out land rehabilitation in advance and repair mining damage. According to the Geological and Mining Law, the Group is obligated to repair mining damage in facilities and structures and it may be obligated to reinstate land to its state from before the mining activity commenced. Any and all changes to the law that would make these requirements more stringent may lead to higher costs of reclamation and repairing damages.

RISK ASSOCIATED WITH ADAPTATION OF THE GROUP'S ACTIVITY TO THE EU CLIMATE POLICY

medium ●●○
unchanged →

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 through 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". In addition, the European Commission is currently working on what is referred to as the "winter package" constituting a series of legislative solutions striving to attain the objectives specified above within the EU of its current energy and climate policy for 2030. The active climate policy pursued by the European Union adversely affects the steel industry due to the elevated operating expenses. As a consequence, the poor standing of the metallurgical industry sector may lead to the Group having diminished revenues.

Activities related to risk minimization include: continuous analysis and evaluation of the situation in the area of changes to the EU Climate Policy and resulting changes in national legislation, execution of projects by the Group intended to reduce greenhouse gas emissions by making maximum use of the methane captured in the coal production process for the purposes of electricity, heat and cool air production.

RISKS OF FINANCIAL NATURE

FOREIGN EXCHANGE RISK RELATED TO EUR/PLN AND USD/PLN EXCHANGE RATE FLUCTUATIONS

high ●●●
unchanged →

The Group is exposed to significant foreign exchange risk due to its foreign currency exposure which may affect the amounts of future cash flows and the financial result. Foreign exchange risk in the Group originates from the sale of its products: sales denominated in EUR and USD and sales indexed to EUR and USD.

In connection with the signed Bond Issue Program of July 2014, as amended, the Parent Company also issued bonds denominated in USD. This curtails the FX volatility risk resulting from selling products in a natural way.

The Group has been actively managing its FX risk. The overriding objective of the Group's policy is to mitigate the exchange risk arising from its exposure to foreign currencies. The Group has been measuring its FX risk on an ongoing basis and takes actions to mitigate the effect it has on its financial standing. FX risk is managed in the Group in accordance with the Foreign Exchange Risk Management Policy at the JSW Group. In the Parent Company, there is a Foreign Exchange Risk Committee at the JSW Group, responsible for making key FX risk management decisions, in particular for hedging contracted and planned cash flows.

In an attempt to eliminate FX risk, in 2017, the Parent Company executed FX forward transactions (external), in accordance with the hedge ratios adopted by the Management Board and the Foreign Exchange Risk Committee at the JSW Group. JSW also executed hedging transactions with its subsidiaries (internal). The maturity of the transactions did not exceed 12 months. The Parent Company also makes minor purchases of materials, services or investment assets in foreign currencies. This naturally mitigates some foreign exchange risk resulting from product sales transactions. The Group employs cash flow hedge accounting. Derivative transactions to hedge the denominated exposure with maturities exceeding six months are designated for hedge accounting.

INTEREST RATE RISK

medium ●●○
unchanged →

The Group's exposure to interest rate risk concerns primarily potential changes in cash flows caused by shifts in market interest rates. The Group finances its operating and investing activities also with external funds bearing interest at floating interest rates and invests free cash in financial assets which also in most cases bear interest at floating interest rates. In connection with the current debt level, the Group is mostly exposed to the risk of changes in interest rates in respect to its liabilities under debt securities issued; to a lesser extent the Group is exposed to changes in interest rates in respect to deposits, cash and financial lease liabilities and loans.

**LIQUIDITY AND
WORKING CAPITAL
MANAGEMENT RISK**

high ●●●
unchanged →

The current market conditions enable generation of positive cash flows, resulting in a high level of available cash. Within the framework of its strategic activities, the Group intends to maintain the Stabilization Fund, the role of which will be to provide a safety cushion in times of economic downturn when it will be necessary to incur expenditures not fully covered by cash inflows. The Group also intends to maintain the proper financing structure by keeping an appropriate level of long-term financing sources. The Group's process of liquidity risk management calls for effective monitoring and reporting of the liquidity position, among others, to take preventive measures in the event of a threat to liquidity and maintaining an appropriate (minimum) level of cash available for service of current payments.

Additionally, in order to achieve more effective management of current liquidity, the JSW Group has in place a cash management system named Physical Cash Pooling (PCP). As part of the PCP service, the Parent Company acts as an Agent (coordinator), i.e. it represents the Group in its relations with the bank, coordinates the conditions for providing the services to Group companies. At the same time, JSW also acts as Member of the PCP system and has access to additional, short-term sources of funding for its day-to-day business.

RISKS RELATED TO LEGAL ENVIRONMENT

**RISK RELATED TO
REAL ESTATE TAX**

high ●●●
unchanged →

The settlements of property tax made by the Group with respect to mine workings and plants (facilities) located on them are challenged by tax authorities, which is described in Section 6.9 of this report. Unfavorable results of proceedings pending before tax authorities as well as tax proceedings possibly initiated with respect to future periods may obligate the Group to pay overdue tax liabilities with default interest.

In its judgments, the Supreme Court of Administration upheld JSW's stance that mine workings are not building structures, and therefore the value of a mine working thus defined (excavation costs) may not be included in the taxable base for real estate tax purposes. It is possible to impose a tax on facilities located in mine workings if they may be classified as building structures as defined in the Taxes and Local Charges Act, with relevant references to the construction law. In the course of pending proceedings, JSW, as a matter of principle, challenges the taxation of mining supports classified by the townships as structures and the value of facilities located in the workings determined on the basis of market valuations, despite the fact that JSW submitted the value of such facilities based on allocation of the original value of such workings.

6. ACTIVITY OF THE GROUP AND ITS CONDITIONS

JSW's core line of business is the mining, enrichment and sale of hard coal and the sale of coke and hydrocarbons. The Parent Company is the largest producer of high quality hard coking coal. All the production, development, investment and commercial measures taken by JSW are focused on maintaining its leadership position in coking coal production in the long-term in Central and Eastern Europe.

The variety of coal and coke products offered makes it possible to sell them to many branches of industry, thereby enabling the Group to operate on many planes and optimally manage its commercial policy, adjusting it to current market conditions.

Facing the ever more stringent requirements that are rising across the globe when it comes to the quality of coke produced, JSW's position on the European coking coal market has been improving systemically for several years. The Group has regular customers, a well-established market position and a recognizable brand.

The Group companies operate in a complex socio-economic environment and its mining operations face demanding geological and mining conditions. In recent years, JSW and the Group went through a host of organizational transformations whose fundamental purpose was to optimize operating expenses and enhance the overall efficiency of managing the company.

6.1. CALENDAR OF THE MORE IMPORTANT EVENTS WITH A SIGNIFICANT IMPACT ON BUSINESS AND FINANCIAL RESULTS IN THE FINANCIAL YEAR OR WHOSE IMPACT IS POSSIBLE IN SUBSEQUENT YEARS

Table 10. Calendar of events in 2017

Q1	Execution of an agreement on the free-of-charge transfer of the Krupiński mine to Spółka Restrukturyzacji Kopalń S.A.	On 31 March 2017, an agreement was signed by and between JSW and Spółka Restrukturyzacji Kopalń S.A. in Bytom ("SRK") pertaining to the free-of-charge transfer of an organized part of JSW's business in the form of the Krupiński mine to SRK. These measures are being taken under the Group's restructuring process while following the procedure contemplated by the Act of 7 September 2007 on the Functioning of the Hard Coal Mining Industry. As a consequence of the agreement signed, 1.1 thousand JSW employees moved to SRK under the procedure contemplated by Article 23 ¹ of the Labor Code. In 2007-2016 the Krupiński mine generated in total PLN 1.03 billion of cash loss, i.e. on average PLN 102.7 million per annum. Consequently, this transaction will contribute to cutting JSW's operating expenses. At the same time, a new section called the Suszec Section in the Pniówek mine was opened, using the assets (property, plant and equipment) forming part of the Krupiński mine but which were not transferred to SRK, to realize the tasks associated with recovering and transferring the spinoff assets of the Krupiński mine contemplated to be utilized in JSW's units.
	JSW relisted on the WIG 20 index	After the session on 17 March 2017, JSW was relisted on WIG 20, the index of the biggest and the most liquid companies on the WSE. For international and domestic investors the WIG 20 index, which generates large part of the trade on the WSE, is a point of reference for their investments, and for the company an incentive to continue to build shareholder value.
	Research program for the development of state-of-the-art mining	On 13 March in Katowice, JSW and the Central Mining Institute signed a letter of intent on a joint research program for the development of state-of-the-art coal mining technologies and revitalization of post-mining areas. The purpose of this research program is to maintain the competitiveness and security of the Polish fuel and power sector through the transfer of top knowledge and the implementation of innovative solutions and technologies.
	Extending cooperation between JSW and PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A., PGNiG TERMIKA S.A. and Jastrzębska Spółka Węglowa S.A. will cooperate on projects in the area of energy, mine development and better utilization of the resources. Joint efforts will improve the efficiency of the companies and contribute to growth of competitiveness and security of the domestic mining and power sector. The letter of intent in this matter was signed on 22 March 2017 in Warsaw. Its signatories declared deepening cooperation in five areas: hard coal, methane, coke oven gas, energy assets and supply of energy carriers. The companies will also execute joint research and development and innovation projects.
	World's leading technological solutions at JSW	JSW, the Central Mining Institute and Joy Global (Poland) signed a trilateral memorandum of agreement regarding the use of independent bolting supports in JSW mines. They are the basic element ensuring safety of maintenance of headings. Implementation of efficient mining technologies

	<p>in American and Australian mines is expected to contribute to real reduction of coal mining costs. The signatories will conduct research works and develop specialist documentation regarding the possibility of safe application of this technology in JSW mines.</p>
<p>Q2</p>	<p>Agreement between the township of Gierałtowiec and JSW</p> <p>JSW signed with the Gierałtowiec Township a memorandum of agreement in which JSW's Budryk mine undertook to supply the township with 10 cubic meters of methane per minute. Gierałtowiec wants to use the methane of production of electricity and heat. However before the township starts generation of electricity and heat The memorandum allows the township to apply for subsidies for construction of a pipeline and a co-generation system. Methane will be transported to Gierałtowiec from the methane removal station, which was built two years ago by shaft VI in Chudów. One year ago, a 2x4 MW co-generation system was commissioned by the methane removal system. The system generates electricity and heat. The production of electricity in this system will be 5,000 MWh per month, which is 30 percent of the current demand for electricity of the Budryk mine.</p> <hr/> <p>Jobs and internships at JSW</p> <p>An agreement was signed on 19 April 2017 in Jastrzębie-Zdrój on the possibility of participating in blue-collar and student internships. Students of the Silesian University of Technology and the AGH University of Science and Technology will be able to participate in internships in JSW's units. On the very same day, Jastrzębska Spółka Węglowa S.A. signed an agreement to cooperate with Gliwice County (Powiat) to organize practical vocational training and give a guarantee of employment in JSW's units to the graduates of Vocational School Complex no. 2 in Knurów. This agreement pertains to pupils commencing their scholastic efforts in the 2016/2017 school year.</p> <hr/> <p>Agreement concluded by JSW with the Minerals Economy Research Institute at the Polish Academy of Sciences</p> <p>JSW signed an agreement to collaborate with the Minerals Economy Research Institute at the Polish Academy of Sciences on 9 May 2017. The cooperation will involve the use of modern tools and scientific knowledge in relation to coal mining and processing and the reclamation of post-mining areas.</p> <hr/> <p>Implementing key investments</p> <p>The first investments started in the coal preparation plants at JSW's mines. They will enable JSW to produce more high quality coking coal. To accomplish this objective investments are indispensable, above all in the coal preparation plants at the Budryk mine and in both sections of the Knurów-Szczygłowice mine. The bulk of these investment tasks are at the stage of tendering and preparing technical documentation, while the initial work has been kicked off in the Knurów Section.</p> <hr/> <p>Modern drones in JSW</p> <p>The first test flights of airborne unmanned systems were held in mid May 2017 on the premises of the Pniówek mine. Drones outfitted with special equipment (cameras, sensors, software) deliver comprehensive solutions to companies. The initial tests highlight their enormous potential. They deliver knowledge about the status of surface infrastructure, the contours of the terrain, information for geodetic work, monitoring and environmental protection.</p> <hr/> <p>JSW as host of the International Mining Forum</p> <p>The International Mining Forum of 2017 was held on 28-30 June 2017. JSW hosted this conference attended by more than two hundred experts and practitioners from across the globe. The leading motive of this year's International Mining Forum was innovation in the mining industry. The forum was a prime opportunity to establish direct business contacts, do some research into sales markets and investment conditions and entrench robust relations.</p>
<p>Q3</p>	<p>Compulsory redemption of bonds</p> <p>On 4 September 2017, JSW carried out an early redemption of bonds issued under the bond issue program established by the issue program agreement of 30 July 2014, as amended ("Issue Program"). The total value of the bonds redeemed on that date by JSW is PLN 127,230,000 and USD 22,740,000. In connection with the redemption, the bondholders gave their consent for the release of some of the collateral related to the bond issue.</p> <hr/> <p>Entry into force of the Act on Compensation Benefit due to the Loss of the Right to Free Coal Allowance</p> <p>In connection with the entry into force of the Act of 12 October 2017 on Compensation Benefit due to the Loss of the Right to Free Coal Allowance, JSW will disburse, on behalf of the State Treasury, compensation benefits to eligible old-age and disability pensioners who apply for such benefits. The compensation benefits are financed from a special-purpose grant awarded by the minister responsible for the area of managing mineral deposits, pursuant to an executed agreement. According to the</p>

		<p>justification accompanying the Act, the awarded grant for disbursing the compensation benefits is not public aid.</p>
<p>Q4</p>	<p>Execution of an agreement with trade union organizations</p>	<p>On 5 December 2017, the JSW Management Board and the representative trade union organizations operating in JSW entered into an agreement on withdrawing from certain provisions of the agreement of 16 September 2015 suspending the payment of certain benefits, and on reinstating their payment on the rules from before the execution of the agreement. The agreement of September 2015 provided for the possibility of shortening the suspension of payment of certain remuneration components should JSW's economic standing change. JSW's Management Board, having carried out negotiations with the trade unions and having analyzed the bondholder agreement of 29 August 2016, signed an agreement on 5 December 2017 under which JSW will pay out the reinstated benefits in 2018 and 2019.</p>
	<p>Stabilization fund</p>	<p>On 21 December 2017, JSW signed a cooperation agreement with PGE Towarzystwo Funduszy Inwestycyjnych S.A. and ALTUS Towarzystwo Funduszy Inwestycyjnych S.A. acting jointly as a Consortium ("TFI") for the establishment and management of a Closed-End Investment Fund ("FIZ") created by JSW. FIZ will strive to stabilize JSW's current liquidity and curtail the impact of the risk of volatility of coal and coke prices on maintaining the continuity of the JSW Group's operations and investments.</p>
	<p>Reversal of the provision for free coal allowance</p>	<p>Pursuant to the provisions of the Act of 12 October 2017 on the Compensation Benefit Payable Due to the Loss of the Right to Free Coal, JSW disbursed the compensation benefits. Accordingly, JSW reversed a portion of the provision for potential litigations related to the payment of free coal allowance to JSW's old-age and disability pensioners established by JSW in 2015. Out of the current provision of PLN 1.9 billion, approx. PLN 1.3 billion was reversed. The reversal of the provision had a favorable impact on JSW's operating result in 2017 but did not trigger any cash inflows to JSW's bank account.</p>
	<p>Approval of the JSW Group's Strategy for 2018-2030</p>	<p>On 19 December 2017, the JSW Supervisory Board approved the Strategy for JSW and the Subsidiaries of the JSW Group for 2018-2030 ("Strategy"). The Strategy's focus is on long-term, stable and sustainable development ensuring JSW's value growth, taking into consideration the expectations of its shareholders. This objective will be pursued through increases in the volume of coal mined and sold.</p>

6.2. DESCRIPTION OF THE INDUSTRY AND COMPETITION

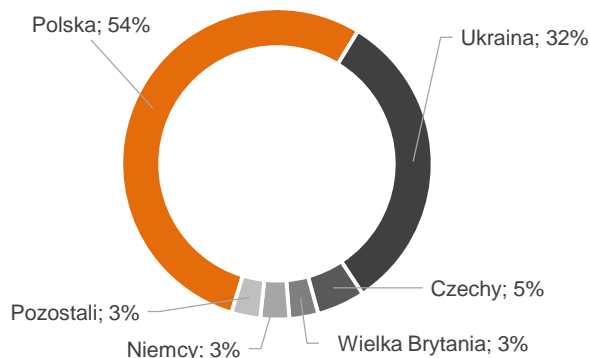
Key measures of the Group as regards the pursuit of strategic objectives are taken in the coal and coke segments. The mining activity brings mainly high quality coking coal and the Group is a major supplier of this coal in the local and European market.

Chart 8. Location of key customers



On a global scale, the Group's share in coal production is insignificant, representing 0.2% of global coal output. The global annual production of coal is over 7 billion tons (in 2016: 7.3 billion tons), of which approx. 1.1 billion tons is coking coal mined for the needs of the coking industry and the remaining coal output is used predominantly for energy generation purposes. For many years, the largest producer and consumer of coal has been China (a 44.5% share in global output). The world's largest coal producers ranked below China are the United States, India, Australia, Indonesia, Russia and South Africa. Global consumption of coking coal is approx. 1.0-1.1 billion tons, of which China consumes roughly 70% (0.7 billion tons).

Graph 2. Share of European countries in total hard coal production



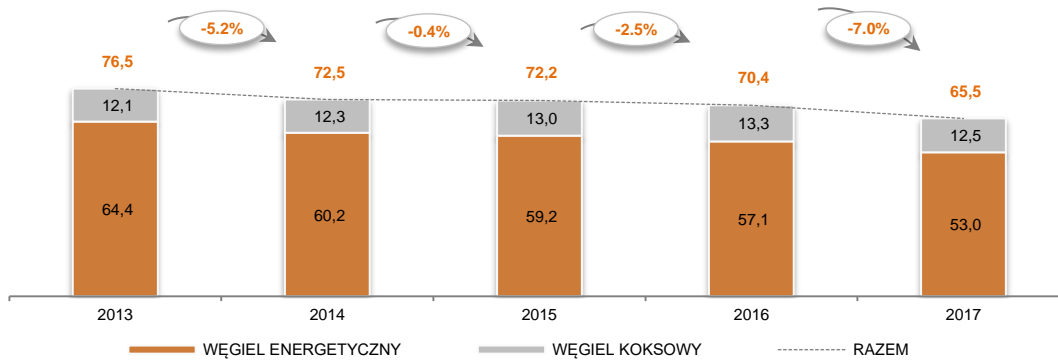
Source: Data for 2016 – Euracoal.

In Europe, the major producing countries of hard coal are: Poland, the Czech Republic, Germany, Ukraine and Russia (the European part). Coal production of the Group's competitors from Poland's neighboring countries, i.e. the Czech Republic, Germany and Ukraine is 6.8 million tons, 4.1 million tons and 40.9 million tons, respectively (data for 2016). The total European production of coal does not

cover the demand of the customers, hence the need, especially in Western countries, to import the required coal. Annual hard coal imports into the European Union are estimated to be approximately 167 million tons (2016), including coking coal of more than 32 million tons (net of PCI).

In the European Union, coking coal production is roughly 17 million tons, of which nearly 70% is the coal produced by the JSW Group's mines (data for 2016).

Graph 3. Production of hard coal in Poland in 2013-2017 (million tons)



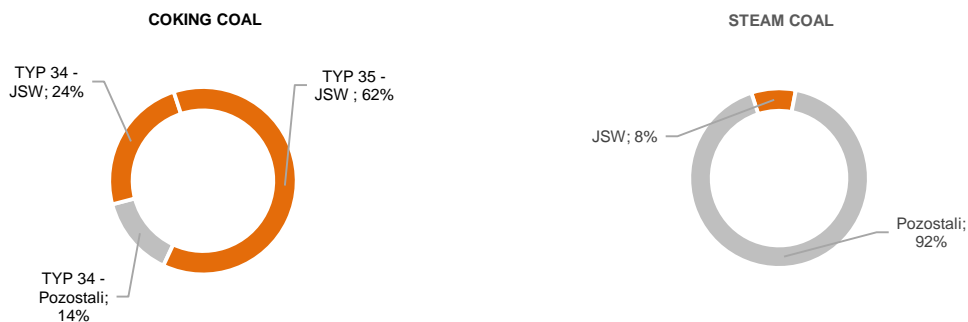
Source: Agencja Rozwoju Przemysłu S.A.

In 2017, hard coal production in Poland was 65.5 million tons (4.9 million tons less than in 2016). Steam coal production was 53.0 million tons (4.1 million tons less than in 2016), while coking coal production was 12.5 million tons (0.8 million tons less than in 2016).

In 2017, the volume of hard coal sales to the domestic market was 60.0 million tons, down 4.2 million from 2016. Sales to the industrial energy sector increased 31.8%, while sales to non-professional and professional thermal plants decreased (by 9.8%) along with sales to coking plants (by 11%), to the commercial energy sector (by 2.5%), to other domestic off-takers (by 15.9%) and to other industrial off-takers (by 6.7%).

In 2017, total coking coal sales were to 12.2 million tons, down 9.3% compared to 2016. Sales to the domestic market represented 78.7% of total sales and stood at 9.6 million tons.

Graph 4. JSW's market share in domestic coal production



Source: Agencja Rozwoju Przemysłu S.A., own calculations.

In Poland, the vast majority of coal companies produce coal for the generation of electricity and heat. Besides JSW, the largest domestic coal companies are Polska Grupa Górnicza Sp. z o.o. („PGG”) and Lubelski Węgiel “Bogdanka” S.A. JSW is the only domestic producer of hard coking coal and a significant producer of semi-soft coking coal. The other domestic producers are mostly producers of steam coal; coking coal represents a small percentage of their total production volume.

The Group also sells coke, which is produced by the Group's coking plants. Key role here is played by the sale of blast furnace coke. The share of blast furnace coke in the Group's total coke sales in 2017 was 70%. The remaining 30% was industrial, metallurgical, heating and foundry coke.

In 2017, coke production in Poland was to 9.1 million tons, down 3.6% compared to 2016. With 3.5 million tons of production volume, the JSW Group accounted for 38% of domestic coke production in this period. In Europe, coke is produced chiefly by coking plants integrated with steelworks, while the JSW Group remains the largest non-integrated producer of this commodity in the region. Almost 64% of coke produced in Poland in 2017 was sold on foreign markets.

In the coking process, certain hydrocarbons are also obtained. Their production is closely correlated with the volume of coke produced. The hydrocarbons of the largest sales value, besides coke oven gas, are tar and benzene. Other hydrocarbons include ammonium sulfate and liquid sulfur. On the global scale, the Group's share in the sale of hydrocarbons is minor.

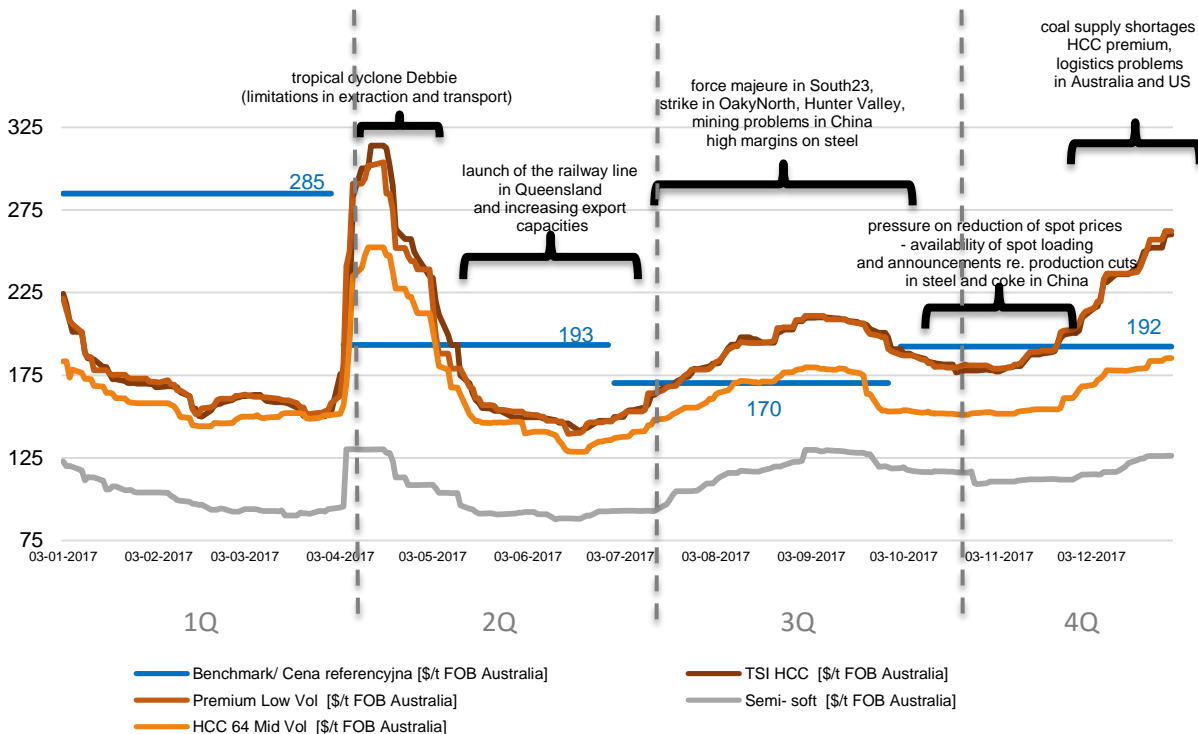
The variety of coal and coke products offered by the Group allows it to operate in many markets and flexibly manage its trading policy, adjusting it to the current market conditions.

6.3. MARKET DETERMINANTS

The Group as an active participant in the supply chain: coking coal – coke – steel, is forced to operate in a volatile market environment, determined by the situation in the steel market and strong competition in the coking coal and coke supplier market.

2017 was a breakthrough year that exerted a significant impact on the functioning of the coking coal market. Strong influence exerted by unforeseen non-recurring events significantly affecting coking coal prices was observed over the year. The impact of these events is depicted in the following graph.

Graph 5. Spot price development of coking coal grades in 2017 [USD/t FOB]



Source: Platts, JSW data

STEEL MARKET

In 2017, global steel production grew 5.5% to 1.7 billion tons. All regions of the world recorded greater output, yet this global growth was driven predominantly by the performance of Asian countries, which account for 70% of total global production. In 2017, steel production in Asia hiked 5.7%, including 5.7% in China. Countries of the European Union also recorded growth: by 4.1% to 168.7 million tons.

The higher crude steel output across the world and in the European Union in particular was accompanied by an increase in the steel production capacity utilization indicator. In 2016, it stood at 70% on average globally, which was way below the 85% mark guaranteeing an efficient operation of the metallurgical sector. The global production capacity utilization indicator in 2017 was higher and stood above 72% on average. Despite the higher steel output, the world continued to cope with structural production overcapacity.

Despite the intensification of measures taken by the European Union with a view to limiting imports of cheap steel products from third countries in the form of anti-dumping customs duties, imports of steel to the European Union grew during the first three quarters of 2017 by 3%, with imports of flat products higher by 6% and imports of long products lower by 11%. As regards the main sources of imports, in 2017 India, Turkey and China remained by far the largest exporters of steel to the European Union. Other exporters of large volumes of steel products to the European market were also South Korea, Russia and Ukraine.

European steel producers posted very good financial results in 2017, in many cases the best since 2008. Demand for steel products was robust and stable, and producers benefited from tall orders and growth of business in the steel consuming sectors.

COKE MARKET

Poland is the main exporter of coke within the EU market, for instance to the German and Austrian markets where Poland is the leading source of coke imports. Because the coke market is globalized, coke from Poland competes with supplies of this commodity not only from Europe but also from all other parts of the world, including China, Russia, Japan and Colombia. In 2017, the prices of blast furnace coke on the European market stood at USD 303 per ton on average on a CIF ARA basis, representing an increase by 55% compared to USD 195 per ton on a CIF ARA basis in 2016.

The second half of 2017 brought improvement in the ratio of prices for blast furnace coke on the European market to contract prices for hard premium coking coal. Despite this, the average value of this ratio in 2017 was 1.4 compared to 1.7 in 2016. The minimum level of this ratio enabling a profitable operation of a coking plant is in the range of 1.3-1.4. Normally, in circumstances of a balanced market in terms of prices, this ratio hovers at 1.7-1.9.

In 2017, exports of Chinese coke slumped significantly, namely by 20% to 8 million tons (10 million tons in 2016) due to its high prices and reduced exports to Japan and India.

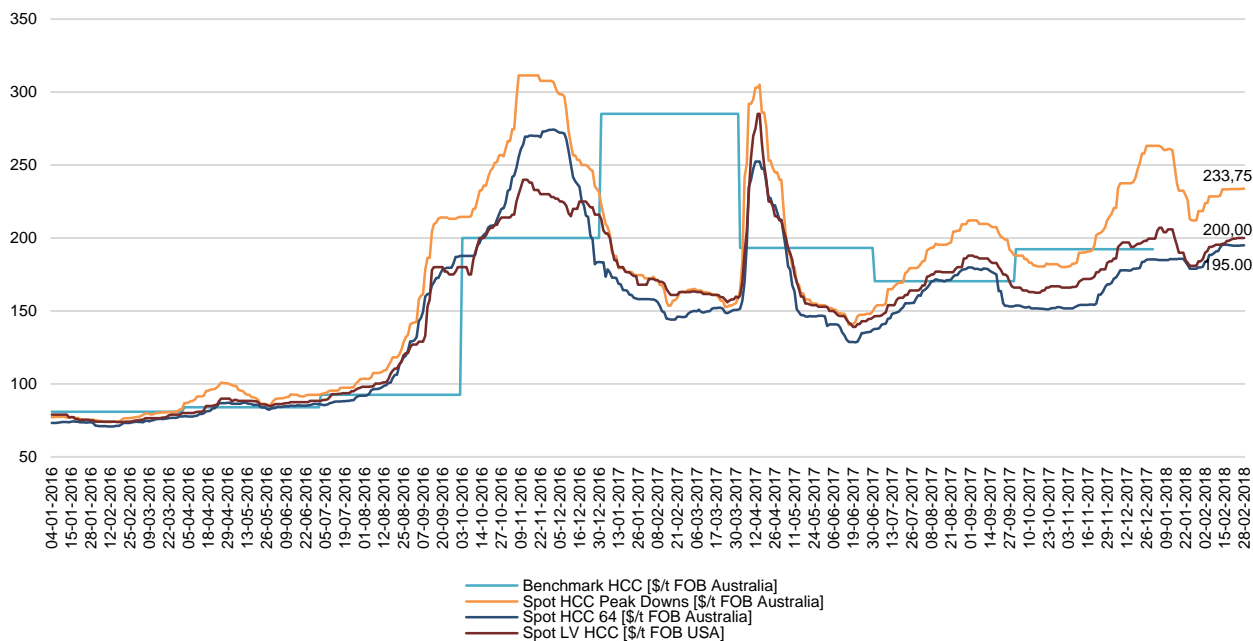
FACTORS AFFECTING COAL PRICES

In 2017, a major change occurred in terms of market benchmarks shaping the pricing policies of coal producers. In the second half of the year, market participants no longer negotiate previously set benchmarks for each quarter. Instead, transactions are executed on the basis of underlying indices. The departure from the benchmark set prior to or at the beginning of the delivery quarter opens up the possibility of using different calculation periods for reference prices, depending on contractual arrangements. Also possible is the application of various spot quotations.

The market has a number of indices to choose from (Platts, TSI, Argus). Market participants apply them independently or use them as the basis for constructing index baskets shaping their pricing strategies. These indices differ from each other mainly in the methodology, the quality parameters (primarily CSR, VM and ash) and the origin of the raw material. Platts, the most popular industry (coal) publisher, publishes indices for Australian and American hard coking coals of various quality parameters, which are standardized for a specific index. In addition to the indices published by Platts, namely HCC Peak Downs Region, Premium Low Vol and HCC 64 Mid Vol, of greater significance currently is The Steel Index (TSI), which, owing to the fact that it includes a basket of coal grades, may be used increasingly more often.

The increases in coking coal prices in 2017 were affected to a large extent by supply disruptions caused by adverse weather phenomena (cyclone Debbie in Australia), geological problems (Australia, USA) and logistical challenges (bottlenecks in coal terminals in Australia and the United States, rail transportation problems).

Graph 6. Benchmark and spot coking coal prices (USD/t FOB)



PRICE LEVELS ACHIEVED IN 2017

The average contract price of hard premium coking coal grades in 2017 (in Q1 a benchmark, in Q2-Q4 a reference price calculated as the average value of the Nippon Steel & Sumitomo Metal Corp indices) was USD 210 per ton FOB Australia, which was 84% higher than in 2016 (USD 114 per ton FOB Australia). The increase in the average annual spot prices of various coal grades according to Platts quotations in 2017 as compared to 2016 was much less impressive. The highest increase was recorded for the highest quality coal grades (HCC Peak Downs up 30%), whereas the average prices of lower quality coal grades increased to a lesser degree (HCC 64 Mid Vol up 26%).

The average steam coal price (CIF Northern Europe) on the European market in 2017 was USD 84 per ton, up 40% from its level in 2016 (USD 60 per ton).

The average value of the Polish Steam Coal Market Index 1 (MSCMI 1) in sales to the commercial and industrial energy sectors in 2017 was PLN 205.69 per ton, up 5.3% from its previous year's level.

In 2017, the prices of blast furnace coke on the European market stood at USD 303 per ton on average on a CIF ARA basis, representing an increase by 55% compared to USD 195 per ton on a CIF ARA basis in 2016.

All market price levels in the interconnected markets contributed significantly to an increase in the sales revenues of the Group's products in 2017, which were realized on the level of PLN 8,877.2 million, i.e. up PLN 2,145.9 million from 2016.

In order to maintain the competitiveness of the products sold by JSW, in 2017, as it was also done in previous years, it was necessary to implement a flexible pricing policy, tailoring the quality of the Group's products to the customers' expectations. The product structure, both with regard to the production of hard and semi-soft coking coals, steam coal and coke, is adapted flexibly to the dynamically changing market needs and in consideration of the supply and demand in the local and foreign markets.

6.4. KEY PRODUCTS, GOODS AND SERVICES

The Group's coal mining operations are performed by its four coal mines. All these mines do their business within the geographical boundaries of their concession areas for which the concession expiry date, the surface area and the depth are specified.

COAL RESOURCES BY THE GROUP'S MINES

Chart 9. Resources of the Group's mines

	GROUP'S MINES				
	BUDRYK	PNIÓWEK	BORYNIA-ZOFIÓWKA-JASTRZĘBIE*	KNURÓW-SZCZYGLÓWICE	TOTAL **
RESOURCES (m tons)	1,370.3	889.9	2,120.3	1,738.4	6,118.9
RECOVERABLE RESERVES (m tons)	247.9	185.9	218.8	324.2	976.8
FORECAST OF THE MINES' LIFE OF MINE	2077	2051	Borynia Section – 2042 Zofiówka Section – 2051 Jastrzębie Section – 2025	Szczyglówiec Section – 2078 Knurów Section – 2072	-

* On 1 October 2016 an agreement was signed by and between JSW and Spółka Restrukturyzacji Kopalń S.A. in Bytom pertaining to the free-of-charge transfer of an organized part of a business in the form of a designated portion of the Jas-Mos Section of KWK Borynia-Zofiówka-Jastrzębie Mine to SRK. The part of the Jas-Mos Section not subject to transfer to SRK and thus remaining in JSW's structures has been named the Jastrzębie Section.

** On 31 March 2017, an agreement was signed by and between JSW and Spółka Restrukturyzacji Kopalń S.A. in Bytom pertaining to the free-of-charge transfer of an organized part of JSW's business in the form of KWK Krupiński, utilizing the procedure contemplated in Article 8a of the Act of 7 September 2007 on the Functioning of the Hard Coal Mining Industry (consolidated text: Journal of Laws of 2016 Item 704, as amended). Accordingly, the numbers presented do not include KWK Krupiński.

The foregoing forecast of the life of mine has posited the implementation of future investments related to the construction of new mining levels or opening and developing of new deposits. If, due to market conditions, it will not be financially plausible to carry out the investments needed to develop the documented resources fully, the life of mine in the various mines may be truncated.

CONCESSIONS HELD

The Group's mines conduct their operations pursuant to pertinent concessions and permits. The development of the resource base within the concession deposits is provided for in all the mines.

Table 11. JSW's concessions

DEPOSIT SUBJECT TO CONCESSION <i>(concessions for extraction of hard coal and methane as an accompanying mineral)</i>	CONCESS ION NO.	DATE OF GRANTING THE CONCESSION	DATE OF EXPIRY OF THE CONCESSION
"Borynia" Deposit, "Szeroka I" Mining Area	7/2009	27.10.2009	31.12.2025
"Jastrzębie" Deposit, "Jastrzębie I" Mining Area	23/94	21.03.1994	20.03.2019

(All amounts in tables expressed in millions of Polish zloty unless stated otherwise)

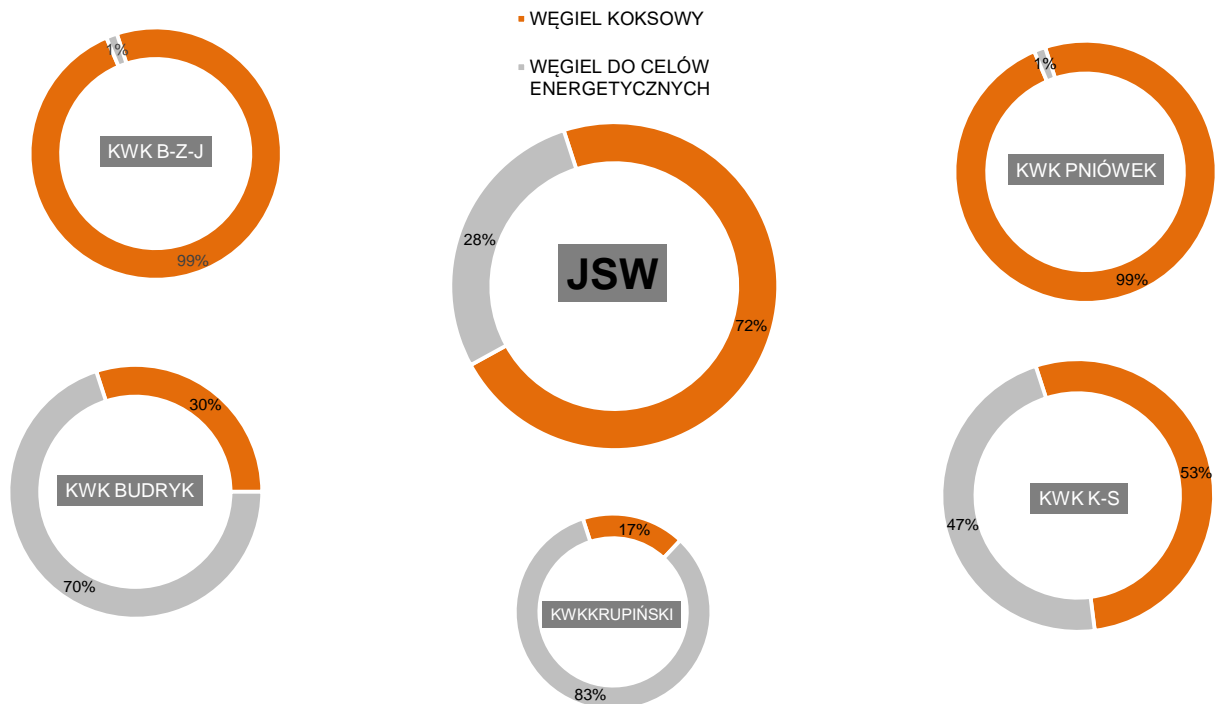
DEPOSIT SUBJECT TO CONCESSION <i>(concessions for extraction of hard coal and methane as an accompanying mineral)</i>		CONCESSION NO.	DATE OF GRANTING THE CONCESSION	DATE OF EXPIRY OF THE CONCESSION
KWK BORYNIA-ZOFIÓWKA-JASTRZĘBIE	"Zofiówka" Deposit, "Jastrzębie Górne I" Mining Area	5/2010	14.05.2010	31.12.2042
	"Bzie - Dębina 2 - Zachód" Deposit „Bzie - Dębina 2 - Zachód” Mining Area	15/2008	01.12.2008	31.12.2042
KWK BUDRYK	"Budryk" Deposit, "Ornontowice I" Mining Area	13/94	21.03.1994	31.01.2019
	"Chudów - Paniowy 1" Deposit "Ornontowice II" Mining Area	3/2005	18.04.2005	31.12.2044
KWK KNURÓW-SZCZYGLÓWICE	"Szczyglówice" Deposit "Szczyglówice" Mining Area	29/94	08.04.1994	31.03.2020
	"Knurów" Deposit "Knurów" Mining Area	60/94	21.04.1994	15.04.2020
KWK PNIÓWEK	"Pniówek" Deposit, "Krzyżowice III" Mining Area	158/1994	26.08.1994	13.08.2020
	"Pawłowice 1" Deposit, "Pawłowice 1" Mining Area	3/2012	21.06.2012	31.12.2051

AREA COVERED BY THE CONCESSION <i>(exploration concessions)</i>		CONCESSION NO.	DATE OF GRANTING THE CONCESSION	DATE OF EXPIRY OF THE CONCESSION
"Warszowice-Suszec" Area		1/2018/p	15.01.2018	15.01.2023
"Pniówek" Area		9/2015/p	04.11.2015	04.11.2018

COAL PRODUCTION STRUCTURE IN THE GROUP

The structure of the Group's coal production is adapted on an ongoing basis to the rapidly changing market needs, taking into account the supply and demand of the domestic and foreign markets. The share of coking coal and steam coal in total net coal production in 2017 was 72.3% and 27.7%, respectively.

Graph 7. Coal production mix in 2017



PRODUCTION AND SALES OF COAL

The Group's coal production volume in 2017 reached 14.8 million tons, i.e. 2.0 million tons less than in 2016, which was partly due to the transfer of the Jastrzębie Section in 2016 and KWK Krupiński in 2017 to SRK.

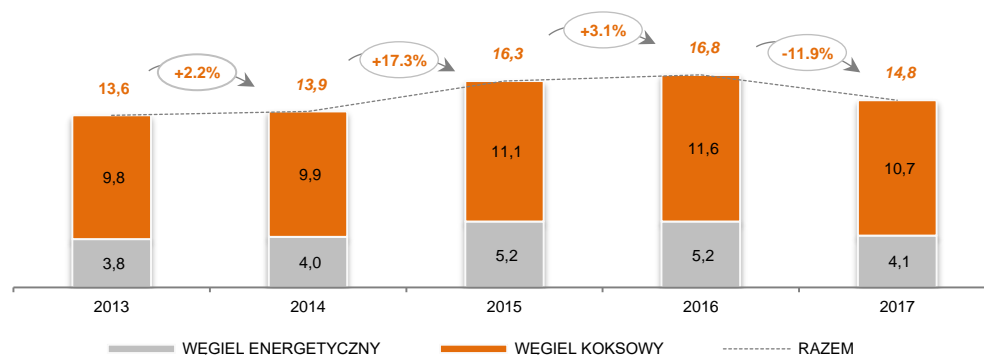
In 2017, a total of 14.6 million tons of coal was sold (10.1 million tons to buyers from outside the Group), of which, on account of the intended use of coal, the share of coking coal sales in the Group's total deliveries was 71.4% with the remaining 28.6% made up of steam coal with a calorific value consistent with the customers' requirements.

The Borynia-Zofiówka-Jastrzębie and Pniówek mines offered mainly coking coal characterized by a low content of ash, sulfur and volatile matter. The coal from the Budryk and Knurów-Szczygłowice mines is coking gas coal with a low content of ash and sulfur but a higher content of volatile matter, which is typical for this type of coal.

Table 12. Key quality parameters of coal produced by the Group in 2017 (mean values)

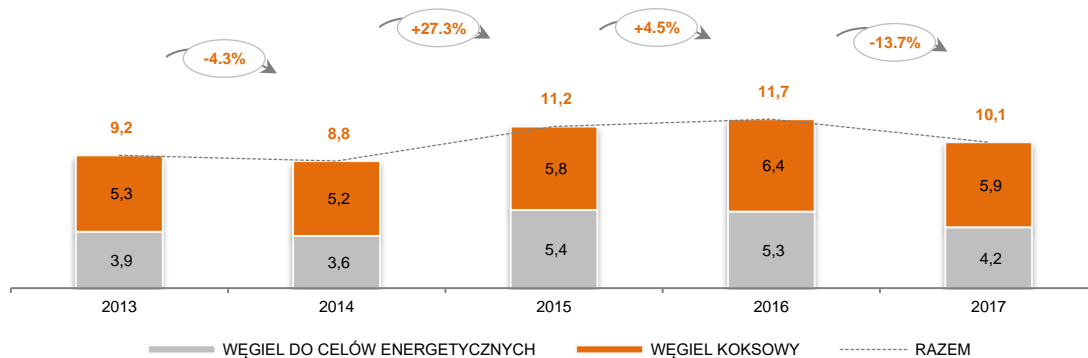
CATEGORY	KWK BORYNIA-ZOFIÓWKA-JASTRZĘBIE			KWK PNIÓWEK	KWK KNURÓW-SZCZYGLÓWICE		KWK BUDRYK	KWK KRUPIŃSKI
	Section Borynia	Section Jastrzębie	Section Zofiówka		Section Knurów	Section Szczygłowice		
COKING COAL								
Ash content A ^d (%)	7.0	5.8	7.2	6.7	7.1	6.6	6.5	8.0
Humidity W ^f (%)	10.5	8.9	10.0	8.5	6.7	7.7	6.7	7.1
Sulfur content S ^d (%)	0.57	0.46	0.49	0.55	0.59	0.44	0.68	0.67
Volatile matter content (V ^{daf} %)	24.0	21.0	20.9	26.0	32.9	29.4	30.7	36.9
Sinterability (RI)	79	66	72	83	78	80	83	69
Coke strength after reaction (CSR %)	59.4	47.7	46.4	60.7	42.3	43.6	44.8	26.2
CO ₂ coke reactivity index (CRI %)	30.6	41.2	41.4	27.2	39.7	39.0	40.3	46.0
STEAM COAL								
Ash content A ^f (%)	-	-	19.0	12.9	24.5	19.2	25.2	16.6
Humidity W ^f (%)	-	-	7.8	3.2	9.3	11.0	9.3	11.3
Sulfur content S ^f (%)	-	-	0.44	0.56	0.66	0.48	0.66	0.67
Calorific value (Q _i ^f MJ/kg)	-	-	24.9	28.9	21.8	23.3	21.8	23.7

Graph 8. Coal production in 2013-2017 (million tons)



The total sales of coal produced by the Group's mines, comprising intra-group and external deliveries, were 14.6 mt, i.e. 2.6 million tons less than in 2016 (coking coal sales declined by 1.4 mt, while steam coal deliveries edged down by 1.2 mt). The drop in the volume resulted from lower production level.

Graph 9. Total coal production in 2013-2017 (mt)



In 2017, compared to the corresponding period of the previous year, external sales of coking coal dropped by 0.5 mt (7.8%) and internal sales decreased by 0.9 mt (16.7%). The decline in internal sales was caused to a large extent by the sale of Wałbrzyskie Zakłady Koksownicze "Victoria" S.A. (at present classified to external sales).

In the period in question, the volume of sales of steam coal to external buyers dropped by 1.1 mt, compared to the previous year, which resulted from the decrease in the production of this product range.

External coal deliveries to domestic customers were 79.3% (by volume) and 71.3% (by revenues) and 20.7% and 28.7%, respectively, to international customers. For comparison, in 2016 these percentages were as follows: local buyers 73.2% (volume) and 71.4% (revenues); foreign buyers 26.8% (volume) and 28.6% (revenues).

In 2017, revenues on sales to external buyers in the coal segment hit PLN 4,925.9 million and were up PLN 1,374.3 million (by +38.7%) than recorded in the corresponding period of 2016, which is attributable to the change of the coal sales structure and significantly higher prices, reflecting the trend in the global market.

Table 13. Production and sales of coal, including intra-Group sales

ITEM	2017	2016	2015	2014 ⁽¹⁾	2013	GROWTH RATE 2016=100
Production (million tons)	14.8	16.8	16.3	13.9	13.6	88.1
▪ Coking coal (million tons)	10.7	11.6	11.1	9.9	9.8	92.2
▪ Steam coal (million tons)	4.1	5.2	5.2	4.0	3.8	78.8
Total volume of JSW's sales (million tons)⁽²⁾	14.6	17.2	16.6	13.7	14.4	84.9
▪ Coking coal (million tons)	10.4	11.8	11.1	9.9	10.3	88.1
▪ Steam coal (million tons)	4.2	5.4	5.5	3.8	4.1	77.8
Intra-group sales (million tons)⁽²⁾	4.5	5.5	5.4	4.9	5.2	81.8
▪ Coking coal (million tons)	4.5	5.4	5.3	4.7	5.0	83.3
▪ Steam coal (million tons)	-	0.1	0.1	0.2	0.2	-
External sales volume (million tons)⁽²⁾	10.1	11.7	11.2	8.8	9.2	86.3
▪ Coking coal (million tons)	5.9	6.4	5.8	5.2	5.3	92.2
▪ Steam coal (million tons)	4.2	5.3	5.4	3.6	3.9	79.2
Revenues on sales of coal (PLN million)⁽³⁾	7,929.2	5,846.2	5,724.3	5,166.7	5,970.3	135.6
Inter-segment coal sales revenues (PLN million)	3,003.3	2,294.6	2,274.9	2,194.4	2,411.3	130.9

ITEM	2017	2016	2015	2014 ⁽¹⁾	2013	GROWTH RATE 2016=100
Coal sales revenues from external buyers (PLN million)	4,925.9	3,551.6	3,449.4	2,972.3	3,559.0	138.7

⁽¹⁾ including KWK Knurów-Szczygłowice in JSW's structures from 1 August 2014,

⁽²⁾ sales volume of coal produced by the Group,

⁽³⁾ this value takes into account the Group's additional revenues in 2017, 2016, 2015, 2014 and 2013 of PLN 245.0 million, PLN 99.0 million, PLN 302.9 million, PLN 159.5 million and PLN 70.7 million, respectively, from the sale of coal produced outside the Group.

SALES OF COKE

In comparison to 2016, coke production fell by 14.6%. The decline in the production and sales of coke follows from the sale of WZK Victoria to an external investor in Q3 2016 and downsizing the coke production in the beginning of the year because of unfavorable relations of coke prices to coking coal prices. Revenues on sales of coke and hydrocarbons in the period under analysis reached PLN 3,688.1 million and were 30.7% higher than in 2016.

Table 14. Coke production and sales and sales revenues on coke and hydrocarbons

ITEM	2017	2016	2015	2014	2013	GROWTH RATE 2016=100
Production (million tons) ⁽¹⁾	3.5	4.1	4.2	4.0	3.9	85.4
Coke sales volume (million tons)	3.5	4.1	4.0	4.2	3.9	85.4
Sales revenues (PLN million) ⁽²⁾	3,688.1	2,822.7	3,051.8	3,489.2	3,704.3	130.7

⁽¹⁾ coke production from the Group's coking plants,

⁽²⁾ revenues on the sales of coke and hydrocarbons.

SALES PRICES OF COAL AND COKE

In 2017, the average coal sales price (PLN 471.10 / ton) was 56.0% higher than in 2016. Coking coal prices jumped up 65.3%, while steam coal prices were higher by 10.3%. On the other hand, the average coke sales price obtained was PLN 936.01 per ton (FCA basis), which is an increase by 60.4% compared to 2016.

Table 15. Average sales prices of coal produced by the Group and average sales prices of coke

ITEM	2017	2016	2015	2014	2013	GROWTH RATE 2016=100
Average sales prices of coal produced by JSW						
Coking coal (PLN/ton)	656.70	397.35	377.29	410.36	473.34	165.3
Steam coal (PLN/ton)	206.71	187.44	213.26	234.39	267.58	110.3
Total (PLN/ton) ⁽¹⁾	471.10	302.07	298.35	338.95	386.77	156.0
Average coke sales prices						
Coke (PLN/t) ⁽²⁾	936.01	583.53	648.49	668.18	758.50	160.4

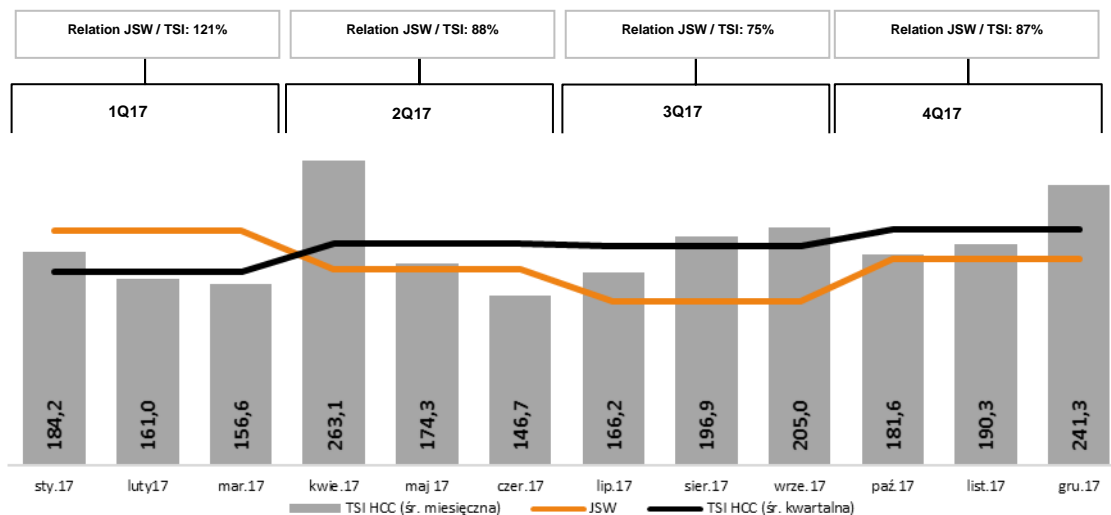
⁽¹⁾ the prices pertain to external deliveries of coal produced in the Group and include transportation costs amounting to, on average in JSW S.A., PLN 6.34 per ton in 2017, PLN 6.81 per ton in 2016, PLN 7.29 per ton in 2015, PLN 7.31 per ton in 2014 and PLN 10.19 per ton in 2013.

⁽²⁾ FCA price pertaining to the Group's coking plants in the relevant periods.

The lack of a uniform benchmark for coking coal, the possibility of using different reference prices associated with available spot quotations in arrangements with customers, the determination of reference prices on the basis of different spot quotation periods – as

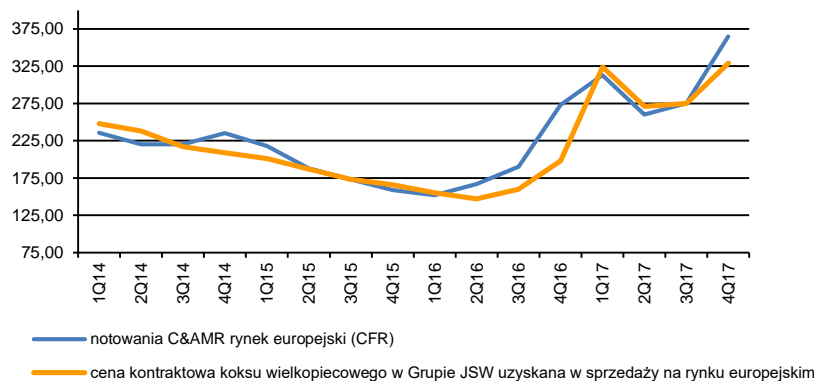
a result of all these factors, in the case of dynamic changes in spot quotations, there may be fluctuations in relations of prices obtained by the Group to current spot quotations, which even out over a longer term. The graph below presents monthly spot quotations of the TSI HCC index (bar chart) and the relation of the average quarterly figures for this index to prices obtained by the Group (line graphs).

Graph 10. Relations of JSW's coking coal prices to the TSI index [USD/t]



Source: Platts Coal Trader International, own calculations.

Graph 11. Blast furnace coke prices on the European market (USD/t)



Source: C&AMR, own calculations.

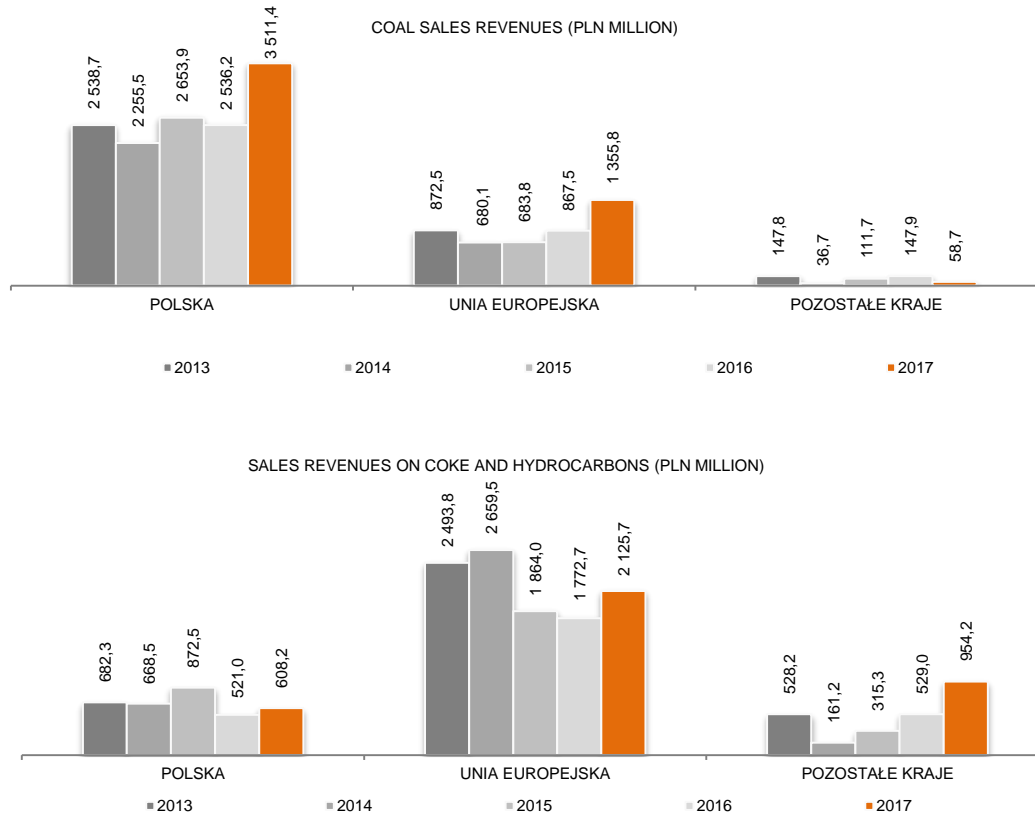
6.5. SALES MARKETS

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

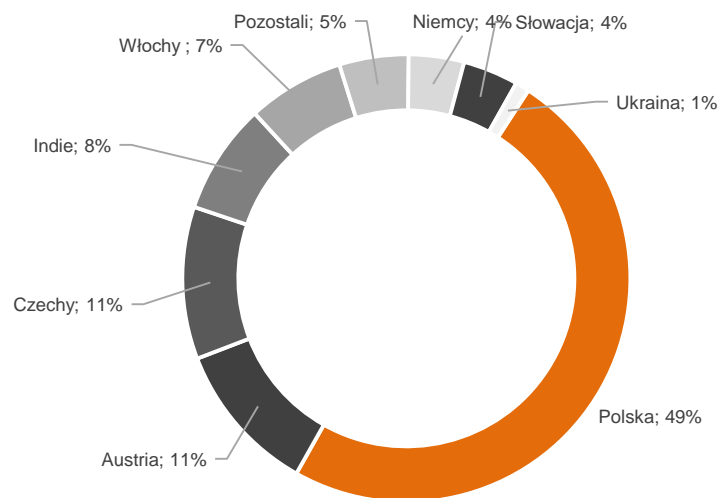
The main market for the sale of coke produced by the Group is the European market. Because of the market conditions and market diversification, a significant outlet for coke was in overseas locations, mainly in the Indian market. Coke offered by Poland in overseas markets successfully competes against Chinese, Russian, Ukrainian or Colombian coke.

Hydrocarbons have regular customers in the European market. Surplus coke oven gas is sold to consumers directly by the coking plants.

Graph 12. Revenues from sales of coal, coke and hydrocarbons broken down by geographical area of end customers



Graph 13. Group's revenue mix by country of destination as at 31 December 2017

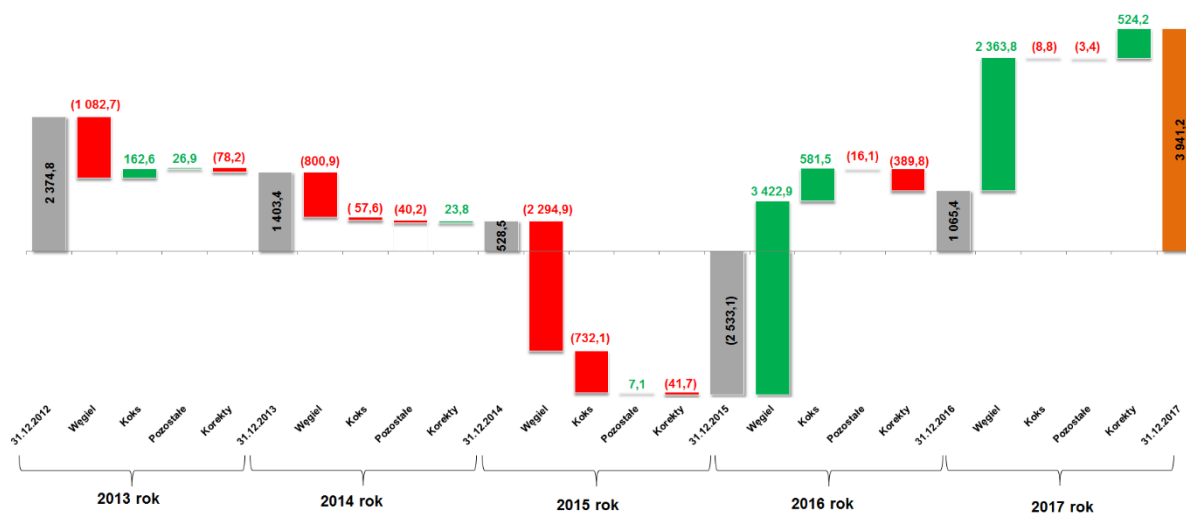


6.6. FINANCIAL RESULTS BY OPERATING SEGMENTS

The Group is organized and managed in segments by type of products offered and type of production activity. The Group presents information on operating segments in accordance with IFRS 8 “Operating Segments”. The Management Board of the Parent Company has identified operating segments based on the financial reporting of the companies comprising the Group. The Group’s operations are conducted by the following operating segments:

- **Coal Segment** – which includes extraction and sales of hard coal;
- **Coke Segment** – which includes production and sales of coke and hydrocarbons;
- **Other Segments** – include activities performed by the Group’s entities other than those covered by the Coal and Coke Segments.

Graph 14. Impact of operating segments on EBITDA (PLN million)



COAL SEGMENT – HARD COAL MINING AND SALES

Table 16. Operating results of the coal segment*

ITEM	2017	2016	GROWTH RATE 2016=100
Sales revenues from external customers	4,925.9	3,551.6	138.7
Operating profit/(loss)	3,001.9	663.4	452.5
Depreciation and amortization	680.9	655.6	103.9
EBITDA	3,682.8	1,319.0	279.2
Adjusted EBITDA*	3,192.7	1,390.1	229.7

* EBITDA after excluding the impairment charge made as a result of the impairment tests carried out on the non-current assets of JSW’s units in 2017: PLN 759.1 million and in 2016: PLN 71.1 million, respectively, and dissolution of the provision for disputes concerning free coal allowance for old-age and disability pensioners in 2017: PLN 1,249.2 million.

In 2017, revenues on sales to external buyers were PLN 4,925.9 million, up by 38.7% compared to 2016. This increase results primarily from the significant increase in the average coal sales price by 56.0% (including coking coal by 65.3%).

In 2017, the share of revenues on sales of coal to five main external customers was 74.2% of total revenues in this segment (2016: 66.3%). Other buyers, whose individual share did not exceed 10% of the revenues, generated the remaining 25.8% of total revenues of the coal segment.

The Coal Segment's EBITDA in 2017 was PLN 3,682.8 million. In the corresponding period of the previous year, EBITDA was PLN 1,319.1 million. The increase of this ratio results mainly from the operating result being PLN 2,338.5 million higher, driven by the 38.7% increase in sales revenues as well as the dissolution of the provision for disputes concerning free coal allowance for old-age and disability pensioners in the amount of PLN 1,249.2 million. After adjustments by impairment charges and the dissolution of the provision for disputes concerning free coal allowance for old-age and disability pensioners, EBITDA was PLN 3,192.7 million.

COKE SEGMENT – PRODUCTION AND SALE OF COKE AND HYDROCARBONS

Table 17. Operating results of the coke segment

ITEM	2017	2016	GROWTH RATE 2016=100
Sales revenues from external customers	3,688.1	2,822.7	130.7
Operating loss	(47.9)	(67.5)	71.0
Depreciation and amortization	96.8	125.2	77.3
EBITDA	48.9	57.7	84.7

In 2017, revenues on sales to external buyers were PLN 3,688.1 million, up by 30.7% compared to 2016. The increase in revenues from sales in the coke segment was driven directly by a 60.4% higher average coke sales price.

The share of revenues on the sales in the coke segment to five top customers represented 65.9% (2016: 60.5%). Other buyers, whose individual share did not exceed 10% of revenues, generated the remaining 34.1% of total revenues of the coke segment.

The Coke Segment's EBITDA in 2017 was PLN 48.9 million. The PLN 8.8 million decline in EBITDA in the analyzed segment compared to 2016, in spite of the financial result better by PLN 19.6 million, resulted mainly from a PLN 28.4 million drop in depreciation and amortization, which is associated with the fact that the data for the 9 months ended 30 September 2016 still included the results of WZK Victoria.

OTHER SEGMENTS – OTHER OPERATIONS

Table 18. Operating results of other segments

ITEM	2017	2016	GROWTH RATE 2016=100
Sales revenues from external customers	263.2	357.0	73.7
Operating profit	57.1	52.2	109.4
Depreciation and amortization	56.2	64.5	87.1
EBITDA	113.3	116.7	97.1
Adjusted EBITDA*	113.3	124.1	91.3

* EBITDA after excluding the impairment charge made as a result of the impairment tests carried out in 2016: PLN 7.4 million.

In 2017, revenues on sales to external buyers were PLN 263.2 million, down by 26.2% compared to the same period in 2016. This decrease is associated shaving down the Group's composition removing companies from the segment during 2016 (i.e. SEJ, PEC, SEJ Serwis and epeKoks). EBITDA in the analyzed segment was PLN 113.3 million, down by PLN 2.9 million compared to 2016, mainly as a result of a PLN 8.3 million drop in depreciation and amortization.

6.7. SOURCES OF SUPPLIES

Course of procurement procedures

The Group is obligated to comply with provisions of the Act of 29 January 2004 entitled the Public Procurement Law. As at the balance sheet date, the Group was obligated to hold public tenders for procurements with a value in excess of EUR 418 thousand. Since 1 January 2018, the threshold value is EUR 443 thousand.

The most commonly applied procedure is an open tender procedure. Bids may be submitted by all potential suppliers satisfying the awarding party's requirements as to the conduct of the tender procedure. The prices set during such a procedure remain valid for the duration of the contract. In the event of a decrease in the market prices of relevant materials during the year, the awarding party will conduct additional price negotiations with the suppliers. For procurements with a value of less than the threshold for application of the Public Procurement Law, the Group selects suppliers under an owner's tender procedure based on its internal bylaws.

Suppliers in the coal segment

The biggest suppliers in the coal segment in 2017 were the following firms: Huta Łabędy S.A., Arcelor Mittal Poland S.A., BECKER-WARKOP S.A., P.W.DREMEX Sp. z o.o., FTT Wolbrom S.A., MINOVA EKOCHEM S.A., MAS Sp. z o.o., DSI SCHAUM CHEMIE Sp. z o.o., FAMUR S.A.

Suppliers in the coke segment

The Group's biggest suppliers in the coking business are as follows: XCOAL ENERGY & RESOURCES, TECK COAL LIMITED, Biuro Projektów KOKSOPROJEKT Sp. z o.o., Elektrociepłownia MARCEL Sp. z o.o., TAURON Sprzedaż Sp. z o.o., HARGREAVES RAW MATERIAL SERVICES GmbH, CRL Sp. z o.o., Przedsiębiorstwo Usług Wodociągowych HKW Sp. z o.o., PCC ROKITA S.A. and PKP CARGO S.A.

In the Management Board's opinion, its relations with suppliers do not make the Group dependent on any supplier in a way which could impact the Group's activity.

6.8. SIGNIFICANT CONTRACTS

Table 19. Information on significant contracts executed in 2017 and after the final day of the reporting period

<p>EXECUTION OF AN AGREEMENT ON THE FREE-OF-CHARGE TRANSFER OF THE KWK KRUPIŃSKI MINE TO SPÓŁKA RESTRUKTURYZACJI KOPALŃ S.A.</p>	<p>On 31 March 2017, an agreement was signed by and between the Parent Company and Spółka Restrukturyzacji Kopalń S.A. in Bytom ("SRK") pertaining to the free-of-charge transfer of an organized part of JSW's business in the form of the KWK Krupiński mine to SRK. These measures are being taken under JSW Group's restructuring process while following the procedure contemplated by the Act of 7 September 2007 on the Functioning of the Hard Coal Mining Industry. As a consequence of the agreement signed, 1.1 thousand JSW employees have moved to SRK under the procedure contemplated by art. 23¹ of the Labor Code. In 2007-2016, the KWK Krupiński mine generated in total PLN 1.03 billion of cash loss, i.e. on average PLN 102.7 million per annum. Consequently, this transaction will contribute to cutting the Parent Company's operating expenses.</p>
<p>EXECUTION OF AN AGREEMENT FOR COKE SUPPLIES WITH VOESTALPINE ROHSTOFFBESCHAFFUNG GmbH and IMPORTKOHLE GmbH</p>	<p>On 8 November 2017, an agreement was entered into by and between Parent Company acting in the agreement as the seller and voestalpine Rohstoffbeschaffungs GmbH and Importkohle GmbH with registered offices in Linz, Austria for the sale of blast furnace coke and coke breeze. The estimate value of the agreement over its term is PLN 2.63 billion. The agreement was entered into for a period of 10 years from 1 April 2018 to 31 March 2028. The detailed pricing conditions will be agreed upon quarterly. The settlement currency of the Agreement is the euro.</p>
<p>EXECUTION OF AN AGREEMENT FOR COAL SUPPLIES WITH VOESTALPINE ROHSTOFFBESCHAFFUNG GmbH and IMPORTKOHLE GmbH</p>	<p>On 15 December 2017, an agreement was entered into by and between Parent Company acting in the agreement as the seller and voestalpine Rohstoffbeschaffungs GmbH and Importkohle GmbH with registered offices in Linz, Austria for the sale of coking coal. The estimate value of the agreement over its term is PLN 1.35 billion. The agreement was entered into for a period of 5 years from 1 April 2018 to 31 March 2023. The detailed pricing conditions will be agreed upon quarterly. The settlement currency of the Agreement is the euro.</p>

**EXECUTION OF AN ANNEX
TO AN AGREEMENT FOR
COKE SUPPLIES WITH
BALTA GMBH**

After the date ending the reporting period, i.e. on 29 January 2018, the Parent Company entered into an annex to the agreement for coke supplies of 14 April 2016 with Balta GmbH with its registered office in Pöcking, Germany. The coke supplies are slated for the Indian market. According to the executed Annex, the term of validity of the Agreement was extended to 31 December 2030. The estimate value of the Agreement updated. From the beginning of its performance, throughout the term of the Agreement, it may amount to PLN 9.0 billion.

EXECUTION OF AN AGREEMENT ON THE FREE-OF-CHARGE TRANSFER OF THE KWK KRUPIŃSKI MINE TO SRK

On 26 October 2016, the JSW Management Board, adopted a resolution to initiate the procedure of handing over, free of charge, KWK Krupiński to the SRK, considering in particular minimization of project operating costs and allocation of workers and using safety net mechanisms and employment restructuring measures as provided for in the Coal Mining Industry Operation Act. This decision was made as a result of the Parent Company's analysis, which demonstrated that KWK Krupiński is in a state of permanent unprofitability, while the scenarios analyzed do not offer any chances to recover profitability in the future. The JSW Extraordinary Shareholder Meeting, by resolution of 1 December 2016, consented to the free-of-charge transfer of an organized part of a business in the form of KWK Krupiński to SRK, utilizing the procedure contemplated by the Act of 7 September 2007 on the Functioning of the Hard Coal Mining Industry, also taking into account the provisions of the Bondholder Agreement of 29 August 2016.

On 31 March 2017, an agreement was signed by and between JSW and SRK pertaining to the free-of-charge transfer of an organized part of a business in the form of the Krupiński mine to SRK. As a consequence of the agreement signed, 1.1 thousand JSW employees have moved to SRK under the procedure contemplated by art. 23¹ of the Labor Code. The transfer of KWK Krupiński to SRK is one of the conditions in the Agreement between JSW and the Bondholders signed on 29 August 2016.

The allocation of the Krupiński mine's personnel was effected based on an agreement reached by the parties whereby all employees of KWK Krupiński who have been transferred to the Group's other mines are covered by the employment guarantees arising from the agreement signed with the trade unions before JSW's IPO in 2011. In total, new jobs in JSW's mines were found by 1.8 thousand staff of KWK Krupiński.

On the date of signing of the agreement for the free-of-charge transfer of KWK Krupiński between JSW and SRK, out of the assets which formed part of KWK Krupiński but were not transferred to SRK, a new organizational structure, called the Suszec Section, was created within KWK Pniówek. On 1 April 2017, JSW employees seconded to work at KWK Pniówek's Suszec Section commenced the process of recovering machinery and equipment and transferring it to other JSW mines. The use of this machinery and equipment in other JSW mines will enhance the productive potential of these fixed assets while reducing the cost of purchasing new assets, in line with the curtailed capital expenditure policy.

Due to the recognition of impairment charges for property, plant and equipment and intangible assets of KWK Krupiński, in cases of a transfer of assets of the Suszec Section to mines whose production is largely based on the extraction of coking coal and where no impairment charges have been made, such a transfer is preceded by the reversal of the impairment charge in accordance with the provisions of IAS 36.

Table 20. *Achieved revenues and expenses related to the free-of-charge transfer of KWK Krupiński to SRK*

ITEM	2017	2016
REVENUES	225.8	-
Reversal of a provision for losses on account of unrealized agreements pertaining to KWK Krupiński	14.2	-
Reversal of the provision for the mine closure fund	97.1	-
Reversal of the provision for employee benefits for employees transferred to SRK	50.1	-
- adjustment disability benefits	21.8	-
- jubilee awards	9.7	-
- retirement and disability severance pays	12.7	-
- holiday leaves	4.9	-
- death benefits	1.0	-
Reversal of the impairment charge on property, plant and equipment of the Krupiński Mine transferred from the Suszec Section to other units	51.2	-

ITEM	2017	2016
Settlement of property, plant and equipment received free of charge	5.9	-
Reversal of the provision for mining damage	4.9	-
Settlement of subsidies related to the transfer of the mine to SRK	2.4	-
COSTS	(125.7)	(90.1)
Establishment of an impairment loss on property, plant and equipment and intangible assets of KWK Krupiński on account of their impairment in connection with the free of charge handover to SRK	-	(71.1)
Recognition of a provision for losses on account of unrealized agreements pertaining to KWK Krupiński	-	(19.0)
Net value of liquidated assets and expensable mining pits transferred to SRK	(57.7)	-
Other costs associated with the maintenance of the Suszec Section	(68.0)	-
TOTAL – TRANSFER OF KWK KRUPIŃSKI	100.1	(90.1)

GOVERNMENT GRANT AGREEMENT – DISBURSEMENT OF COMPENSATION BENEFITS

In connection with the entry into force of the Act on Compensation Benefit due to the Loss of the Right to Free Coal Allowance of 12 October 2017, JSW disbursed, on behalf of the State Treasury, compensation to entitled old-age and disability pensioners who applied for disbursement of compensation benefit. The compensation benefits are financed from a special-purpose grant awarded by the minister responsible for the area of managing mineral deposits, pursuant to an executed agreement. From among all the people who filed relevant applications in JSW establishments, nearly 4.5 thousand did not fulfill the conditions specified in the act and were refused the compensation benefit. JSW expects that a low number of applications submitted in other work establishments than the Company's will be still received. As soon as the applications are received by JSW, they will be immediately verified. The persons who received a written refusal to be granted the compensation benefit have the right, pursuant to Article 5 Section 10 of the Act, to file an appeal to a court of labor and social insurance within 14 days of the refusal receipt. JSW made a settlement of the awarded grant (a list of received grant amounts and settlement of amounts disbursed from the grant). Pursuant to the justification to the act, the awarded grant for disbursing the compensation benefits is not public aid.

6.9. DISPUTES

In 2017, in the Group, there were no pending proceedings in court or arbitration authority or a public administration body concerning accounts payable or accounts receivable with individual or aggregated value exceeding 10% of JSW's equity. Group companies took part in court and administrative proceedings related to their activities. According to the best knowledge of the Management Board, the Group is not at risk of proceedings that could materially affect its financial position and profitability other than the proceedings mentioned in the description below.

Proceedings concerning the property tax on underground mine workings

The Parent Company is a party to administrative court and tax proceedings regarding property tax. The subject of dispute is the classification of underground mine workings and the structures and plant situated in them for the purposes of possibly charging property tax. The dispute concerns the years 2003-2016 and the underground mine workings.

In December 2012, the Supreme Court of Administration issued a resolution according to which, after the expiration of the statute of limitations, it is not permitted to conduct tax proceedings and rule on the amount of a tax liability which expired upon payment. This resolution does not apply directly to the Group, but it does apply to disputes between the Parent Company and the Townships. On 29 September 2014, the full panel of the Supreme Court of Administration confirmed that the resolution was legal. The Voivodship Administrative Court in Gliwice, the Local Government Boards of Appeals and the Mining Townships invoking the resolution adopted by the full panel of the Supreme Court of Administration, issued decisions in which they discontinued some of the pending proceedings due to the expiration of the statute of limitations. After the decisions defining the liability were eliminated from legal circulation, the monies paid on their basis now constitute an overpayment to be refunded to JSW. Out of the disputed property tax on underground mining pits in the amount of PLN 213.5 million paid by the end of 2014, the Parent Company recovered tax refunds in the amount of PLN 88.9 million (2014: PLN 52.9 million, 2015: PLN 29.9 million, 2016: PLN 6.1 million) in cash, and PLN 124.6 million (2014: PLN 19.4 million, 2015: PLN 79.2 million, 2016: PLN 26.0 million) as set-offs with current tax liabilities, newly-issued decisions and operational fee. Additionally, in subsequent proceedings, the Parent Company filed complaints regarding the interest on the overpaid amounts, which, according to JSW, accrued from the date of payment of the disputed tax. The contested issue under the pending proceedings is the subject of taxation, i.e. roof supports are classified by the Townships and by Local Government Boards of Appeals as a retaining structure subject to taxation and the taxable base, i.e. the Townships assume that tax applies to structures located in mining pits in amounts determined based on market valuation, despite the fact that the Parent Company submitted its own findings concerning the initial value of mining pits and the values of individual structures located in the pits.

The total contested amount in the proceedings pending before public administrative authorities is PLN 84.3 million. In view of the positive ruling handed down by the Constitutional Tribunal and the judgments handed down by the Voivodship Court of Administration and the Supreme Court of Administration, starting in December 2014, the Parent Company declared its underground infrastructure for taxation for the past years, revising the estimated liability amount. The Mining Townships, auditing the returns submitted by JSW, conduct fiscal proceedings. The Local Government Boards of Appeals, in principle, upheld the Townships' measurement decisions, and the Parent Company challenges the actions of the tax authorities, filing complaints with the Voivodship Administrative Court and cassation complaints with the Supreme Court of Administration. The first hearing in the Supreme Court of Administration based on JSW's cassation complaint against the judgment of the Voivodship Administrative Court in Gliwice was held in 2016. The Supreme Court of Administration repealed the challenged judgment of the Voivodship Administrative Court, remanding the case for re-examination. At a hearing held in March 2017, the Voivodship Administrative Court in Gliwice repealed the challenged decision issued by the Local Government Board of Appeals.

The Parent Company filed a cassation appeal against the above judgment of the Voivodship Administrative Court in Gliwice, challenging the taxation of roof supports and pleading to discontinue the proceedings due to the expiry of the statute of limitations. In subsequent judgments issued for JSW, the Voivodship Administrative Court accepted as justified the objection that the townships' decisions on the tax due cannot be based on defective valuations of valuation experts. The court, however, did not share JSW's allegations that mining roof supports cannot be subject to taxation. At the end of 2017, at the Supreme Court of Administration, two further hearings took place from cassation complaints by JSW (the first continuing the cassation from 2016). The Court shared the position of tax authorities regarding taxation of roof supports. In these cases, no written justifications of decisions have been issued to date.

By the end of 2017, the Parent Company submitted adjustments to tax returns to most of the Townships for the years not covered by the pending tax proceedings, regarding the taxation of mine roof supports based on its own determination of the value of the roof supports located in underground mine workings by reference to their initial value.

The total amount of estimated claims of mining Townships related to disputed property tax on mining pits as at 31 December 2017 was PLN 21.2 million and was reflected in the issued tax decisions (liabilities) in the amount of PLN 10.6 million and provisions established for that purpose in the amount of PLN 10.6 million.

Lawsuit filed by Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A. against JSW

On 27 December 2012, Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A. filed a lawsuit against JSW before the Regional Court in Gliwice, 10th Commercial Division for payment of the amount of PLN 9,507,208 as indemnity for the loss in property resulting from endogenous fire that occurred underground in the Zofiówka Section of KWK Borynia-Zofiówka-Jastrzębie owned by JSW. The Regional Court in Gliwice handed down a non-binding judgment on 8 June 2017:

- in item 1, it discontinued the proceedings in respect of the demand to award PLN 720,000 with statutory interest for the period from 29 March 2013,
- in item 2, it awarded the plaintiff, i.e. Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A., the amount of PLN 4,898,736.77 from the defendant JSW with statutory interest until 31 December 2015 and with statutory interest for delay from 1 January 2016; however, the interest on the amount of PLN 4,591,529.00 is awarded from 7 June 2011 until the payment date and on the amount of PLN 307,207.77 from 20 April 2010 until the payment date,
- in item 3, it awarded the plaintiff, i.e. Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A. statutory interest from the defendant, i.e. JSW on the amount of PLN 720,000 for the period from 7 June 2011 until 28 March 2013,
- in item 4, it dismissed the remaining part of the claim,
- in item 5, it awarded the plaintiff the amount of PLN 71,973.11 from the defendant as reimbursement of the costs of proceedings.

JSW filed an appeal with the court against the above judgment on 19 July 2017.

Proceedings regarding free coal allowance for old-age and disability pensioners

In connection with the non-payment of the free coal allowance for old-age and disability pensioners in 2015, JSW is involved in a number of legal disputes with its former employees regarding their lifetime right to receive the free coal allowance. In connection with the coming into force of the Act of 12 October 2017 on Compensation Benefit due to the Loss of the Right to Free Coal Allowance and the payment, by 31 December 2017, of compensation benefits to 35,382 persons, it became necessary to revalue the provision for potential litigation related to the free coal allowance for old-age and disability pensioners. Based on the actuarial valuation as at 31 December 2017, the Company reversed the provision for PLN 1,249.2 million. The remaining amount of the provision of PLN 653.5 million will serve as JSW's security against possible claims of persons not entitled to compensation benefits pursuant to the Act and eligible persons who decided not to file applications for compensation benefits, upholding their position that depriving them of coal allowance (determined according to the original rules) is completely illegal, as well as future pensioners (present employees) because of there being no regulations in the act about the right to coal allowance or compensation benefit for this group. JSW anticipates to revalue (reverse) the provision amount after the pertinent judicial practice is developed in a new legal situation for cases concerning free coal allowance for old-age and disability pensioners.

JSW KOKS S.A. v ENERGOINSTAL S.A.

Since ENERGOINSTAL S.A. as the General Contractor of the Investment (hereinafter: GC) failed to keep the deadline for commissioning the Complete Facility under Agreement of 21 December 2011 (as amended) to execute the investment project named Construction of a Power Unit as a turn-key project, in August 2015, JSW KOKS issued a debit note in the amount of PLN 8,235 thousand for 74 days of delay. This note was not accepted by the General Contractor, so an impairment charge was recognized in the accounting books for the full amount of the debit note. On 30 November 2015, the Company filed a lawsuit against the GC for payment of contractual penalties for missing the commissioning deadline of the Complete Facility. The case is in dispute and a petition had to be made to admit evidence based on an opinion of a science and research institute. In its ruling of 9 March 2016, the Regional Court referred the case to mediation and set a 2-month period for the mediation process. Two mediation meetings were held on 22 June 2016 and 29 August 2016, which did not bring about a settlement. Following the ineffective completion of mediation proceedings without a settlement, the Court is obligated to set the date of a hearing. The company is ready to present its written stance as a rejoinder to the reply specified above given by Energoinstal S.A. The Court called on the company to respond to Energoinstal S.A.'s reply to the statement of claim within 14 days. On 14 September 2016, the company provided a written response to the assertions, conclusions and allegations included in the reply to the statement of claim and submitted additional motions for evidence to support its position in the case. In a preparatory pleading of 4 January 2017, Energoinstal S.A. presented its position on the company's assertions, upholding its previous position. The first hearing was held on 23 March 2017. The Regional Court delivered a counterclaim from

Energoinstal S.A. The company's reply to the counterclaim was sent to the Court on 21 April 2017 and contains a pleading to dismiss Energoinstal S.A.'s counterclaim in its entirety as unjustified and groundless and a motion to admit evidence based on documents, witness statements and the opinion of a court expert (a team of expert witnesses). The second hearing, during which witnesses were heard, was held on 13 June 2017. Another hearing was held on 26 September 2017 during which other witnesses were heard. The court set the date of the next hearing for 11 January 2018. In the counterclaim, Energoinstal S.A. is suing the company for PLN 9,521 thousand on account of contractual penalties. The case is disputable and complex and accordingly the Management Board of the Company made a decision to recognize a provision for a claim of PLN 9,521 thousand. The case is pending.

In addition to the disputes described above, the Group is also a party to a number of court proceedings relating to its operations. Typical disputes in which it participates include disputes related to demands to rectify mining damage, disputes concerning damages for accidents in the workplace and disputes concerning contractual liabilities. These disputes are typical and recurring. None of them has influenced the Group's financial standing and performance so far.

The Group is not a party to any arbitration proceedings and no criminal proceedings are pending that could have material adverse impact on the Group's operations, financial position and profitability.

7. FINANCIAL AND ECONOMIC POSITION

Table 21. Summary of key Group data in 2013-2017

Item	Unit	2017	2016	2015	2014 ⁽¹⁾	2013	GROWTH RATE 2016=100
STATEMENT OF FINANCIAL POSITION							
Total assets	PLN million	12,090.2	11,519.6	11,812.2	15,369.3	13,862.0	105.0
Non-current assets	PLN million	8,118.2	9,097.3	10,324.7	13,085.9	10,300.0	89.2
Current assets	PLN million	3,972.0	2,422.3	1,487.5	2,283.4	3,562.0	164.0
Equity	PLN million	6,621.5	4,069.6	3,934.2	7,267.5	8,351.6	162.7
Liabilities	PLN million	5,468.7	7,450.0	7,878.0	8,101.8	5,510.4	73.4
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME							
Sales revenues	PLN million	8,877.2	6,731.3	6,934.9	6,814.9	7,632.2	131.9
Gross profit (loss) on sales	PLN million	3,238.9	1,229.7	(50.2)	(4.7)	1,152.7	263.4
Operating profit/(loss)	PLN million	3,116.5	226.6	(3,896.0)	(774.8)	201.9	1,375.3
EBITDA	PLN million	3,941.2	1,065.4	(2,533.1)	528.5	1,403.4	369.9
EBITDA margin	%	44.4	15.8	(36.5)	7.8	18.4	281.0
Pre-tax profit/(loss)	PLN million	3,123.6	19.6	(4,045.3)	(882.2)	109.7	15,936.7
Net profit/(loss)	PLN million	2,543.3	4.4	(3,285.2)	(657.1)	82.2	57,802.3
Total comprehensive income	PLN million	2,552.0	16.2	(3,301.1)	(1,079.2)	84.4	15,753.1
CONSOLIDATED CASH FLOW STATEMENT							
Net cash flow on operating activity	PLN million	2,870.7	896.5	725.1	644.3	1,630.1	320.2
Net cash flow on investing activity	PLN million	(2,170.3)	(354.4)	(1,015.3)	(3,040.4)	(804.2)	612.3
Net cash flow on financing activity	PLN million	(699.8)	277.7	(80.0)	1,077.4	(280.5)	-
Net change in cash and cash equivalents	PLN million	0.6	819.8	(370.2)	(1,318.7)	545.4	0.1
FINANCIAL RATIOS⁽²⁾							
Dividend per share	PLN/share	-	-	-	-	2.52	-
Current liquidity		1.67	1.14	0.39	0.58	1.59	146.5
Quick liquidity		1.46	0.98	0.26	0.45	1.35	149.0
Net return on sales	%	28.6	0.1	(47.4)	(9.6)	1.1	28,600.0
Return on Assets (ROA)	%	21.0	0.0	(27.8)	(4.3)	0.6	-
Return on Equity (ROE)	%	38.4	0.1	(83.5)	(9.0)	1.0	38,400.0
Total debt ratio		0.45	0.65	0.67	0.53	0.40	69.2
Debt to equity ratio		0.83	1.83	2.00	1.11	0.66	45.4
Fixed capital to non-current assets ratio		1.0	0.70	0.49	0.81	1.06	142.9
PRODUCTION DATA							
Coal production	m tons	14.8	16.8	16.3	13.9	13.6	88.1
Coking coal production	m tons	10.7	11.6	11.1	9.9	9.8	92.2
Steam coal production	m tons	4.1	5.2	5.2	4.0	3.8	78.8
Coke production	m tons	3.5	4.1	4.2	4.0	3.9	85.4
Mining cash cost ⁽³⁾	PLN/ton	312.54	251.38	307.10	353.22	334.25	124.3
Cash conversion cost ⁽³⁾	PLN/ton	149.82	133.52	144.66	151.85	148.01	112.2
OTHER DATA							
Stock price at the end of the period	PLN/share	96.27	66.90	10.65	16.25	53.13	143.9
Headcount at the end of the period	persons	26,465	27,366	32,168	34,120	29,167	96.7
Average headcount during the year	persons	26,563	30,765	33,116	31,280	29,420	86.3
Investments in non-current assets	PLN million	1,013.7	911.3	1,056.6	1,685.5	1,757.8	111.2
Depreciation and amortization	PLN million	824.7	838.8	1,362.9	1,303.3	1,201.5	98.3

⁽¹⁾ KWK Knurów-Szczygłowice, as of 1 August 2014.

⁽²⁾ The methodology for calculating indicators is presented in Section 7.8. of this report.

7.1. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Graph 15. Structure of non-current and current assets in total balance sheet assets

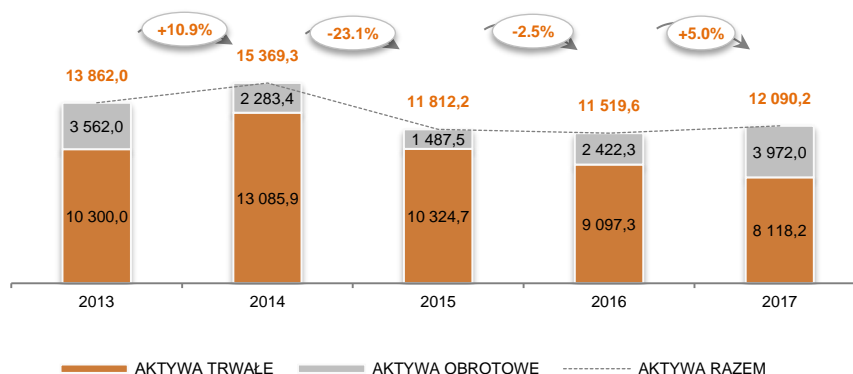


Table 22. Economic position

ITEM	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013	GROWTH RATE 2016=100
ASSETS						
NON-CURRENT ASSETS						
Property, plant and equipment	6,835.9	7,483.2	8,624.5	12,153.6	9,726.0	91.3
Intangible assets	116.3	125.4	145.8	156.2	77.9	92.7
Investment property	21.7	22.4	23.0	23.6	22.5	96.9
Investments in associates	1.1	1.2	1.4	1.7	12.9	91.7
Deferred tax assets	814.3	1,161.4	1,219.2	436.9	173.5	70.1
Other long-term assets	328.9	303.7	310.8	313.9	287.2	108.3
TOTAL NON-CURRENT ASSETS	8,118.2	9,097.3	10,324.7	13,085.9	10,300.0	89.2
CURRENT ASSETS						
Inventories	499.4	342.5	491.9	538.2	540.9	145.8
Trade and other receivables	2,256.7	897.9	634.6	1,008.2	937.8	251.3
Income tax overpaid	32.5	5.7	4.7	2.5	32.4	570.2
Financial derivatives	13.8	5.8	2.8	2.9	3.2	237.9
Investments in associates	-	-	-	10.9	-	-
Other short-term financial assets	0.1	0.1	3.1	0.2	10.8	100.0
Cash and cash equivalents	1,169.5	1,170.3	350.4	720.5	2,036.9	99.9
TOTAL CURRENT ASSETS	3,972.0	2,422.3	1,487.5	2,283.4	3,562.0	163.9
TOTAL ASSETS	12,090.2	11,519.6	11,812.2	15,369.3	13,862.0	105.0

Factors of non-current assets change (decrease by 979.1 million)

The biggest non-current assets line item as at 31 December 2017 was property, plant and equipment (84.2%). Their value in 2017 decreased by PLN 647.3 million, or 8.7%, primarily as a result of the 2017 recognition of write-downs for impairment of property, plant and equipment (made as a result of impairment tests) in the coal segment in the amount of PLN 758.7 million.

- *Write-downs for impairment of non-current assets of coal segment sites*

In the current reporting period, the Group analyzed prevailing circumstances to verify whether any further impairment of assets or a reversal of any previously recognized write-downs may have occurred. The analysis revealed the existence of external and internal circumstances for conducting an impairment test for individual JSW units (i.e. KWK Budryk and KWK Knurów-Szczygłowice).

Moreover, the JSW Management Board took the position that no circumstances currently exist to reverse the write-down for impairment made in previous years. The analysis of circumstances and the detailed assumptions made for impairment test calculations are presented in section 7.6 of this report and in Note 7.3 of the consolidated financial statements of Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2017.

At the same time, in 2017 the Group incurred expenditures on property, plant and equipment in the amount of PLN 1,017.8 million (with depreciation on the level of PLN 812.4 million), 1.1% higher than in 2016. In addition, due to the transfer of KWK Krupiński to SRK in 2017, the Group's property, plant and equipment were reduced by PLN 54.8 million.

In the analyzed period, the Group also noted a decrease of deferred tax assets by PLN 347.1 million compared to 2016, related partially to reversal of some of the provisions for potential court litigation concerning free coal allowance granted to old-age and disability pensioners, for which a deferred tax asset was created (about PLN 237 million), as well as a tax loss assets from previous years in the amount of PLN 88.2 million.

Factors of current assets change (increase by PLN 1,549.7 million)

In current assets, the largest share (56.8%) is held by trade and other receivables. Their amount increased by PLN 1,358.8 million, i.e. 151.3%, mostly as a result of recognizing receivables resulting from purchase of investment certificates worth PLN 1,450.0 million. On 29 December 2017, JSW made a payment in the amount of PLN 1,450.0 million to subscribe for A series investment certificates of the JSW Stabilizacyjny closed-end investment fund ("Fund"). The issue of certificates is effected once A series investment certificates of the JSW Stabilizacyjny closed-end investment Fund worth PLN 1,500.0 million in total have been subscribed for. As at 31 December 2017, the payment for investment certificates was recognized under "other receivables" in JSW's statement of financial position. The rest of the payment was made on 18 January 2018. With this event taken out of the picture, the level of trade and other receivables decreased by PLN 91.2 million, mostly as regards other liabilities (decrease by PLN 47.7 million). The main contributors were receivables due from communes on account of the disputed real estate tax on underground mine workings, which did not exist as at 31 December 2017 (and amounted to PLN 35.4 million as at 31 December 2016).

A significant share is also held by cash and cash equivalents, whose level remained similar compared to 31 December 2016, at PLN 1,169.5 million.

In current assets, inventories account for 12.6%. Their balance as at the final date of the reporting period was PLN 499.4 million, down by PLN 156.9 million compared to 31 December 2016. Inventories of finished products as at 31 December 2017 include among others 645.2 thousand tons of coal produced by the Group with a value of PLN 235.8 million (as at 31 December 2016 inventories of finished products included 492.7 thousand tons of coal with a value of PLN 135.6 million).

Graph 16. Structure of equity and liabilities in the balance sheet value

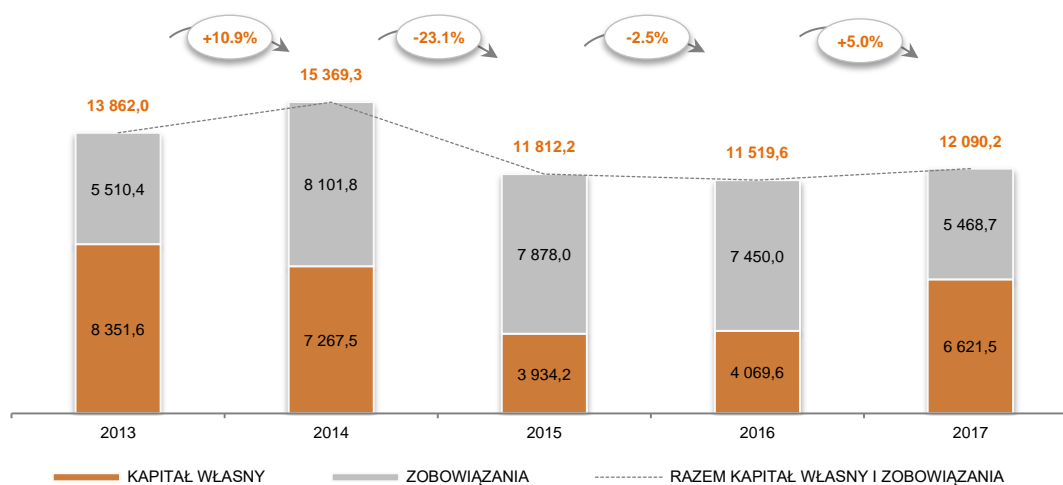


Table 23. Sources of covering the assets

ITEM	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013	GROWTH RATE 2016=100
EQUITY						
EQUITY ATTRIBUTABLE TO THE PARENT COMPANY'S SHAREHOLDERS						
Share capital	1,251.9	1,251.9	1,251.9	1,251.9	1,251.9	100.0
Share premium account	905.0	905.0	905.0	905.0	905.0	100.0
Capital on revaluation of financial instruments	(66.7)	(82.8)	(86.7)	(56.8)	-	80.6
Retained earnings	4,298.9	1,928.4	1,764.9	5,012.2	6,028.1	222.9
	6,389.1	4,002.5	3,835.1	7,112.3	8,185.0	159.6
NON-CONTROLLING INTEREST	232.4	67.1	99.1	155.2	166.6	346.3
TOTAL EQUITY	6,621.5	4,069.6	3,934.2	7,267.5	8,351.6	162.7
LIABILITIES						
NON-CURRENT LIABILITIES						
Loans and borrowings	70.6	59.7	81.9	105.3	184.8	118.3
Liabilities under debt securities issued	792.6	1,529.3	102.6	36.9	-	51.8
Financial derivatives	-	-	0.9	0.3	-	-
Deferred tax liabilities	12.4	11.4	42.1	42.1	47.2	108.8
Employee benefit liabilities	558.6	580.3	695.9	2,803.9	2,078.8	96.3
Provisions	1,363.0	2,755.1	2,659.2	700.2	488.7	49.5
Trade and other liabilities	135.7	148.8	251.9	298.6	223.1	91.2
TOTAL NON-CURRENT LIABILITIES	2,932.9	5,084.6	3,834.5	3,987.3	3,022.6	57.7
CURRENT LIABILITIES						
Loans and borrowings	51.6	27.3	95.3	100.5	81.0	189.0
Liabilities under debt securities issued	63.4	67.1	1,339.3	1,272.2	51.3	94.5
Financial derivatives	-	6.7	1.9	15.0	-	-
Current income tax liabilities	2.2	2.3	4.2	1.7	3.5	95.7
Employee benefit liabilities	118.6	119.0	178.4	306.6	288.3	99.7
Provisions	159.9	233.6	206.7	208.4	251.1	68.5
Trade and other liabilities	2,140.1	1,909.4	2,217.7	2,210.1	1,812.6	112.1
TOTAL CURRENT LIABILITIES	2,535.8	2,365.4	4,043.5	4,114.5	2,487.8	107.2
TOTAL LIABILITIES	5,468.7	7,450.0	7,878.0	8,101.8	5,510.4	73.4
TOTAL EQUITY AND LIABILITIES	12,090.2	11,519.6	11,812.2	15,369.3	13,862.0	105.0

Factors of equity change (increase by PLN 2,551.9 million)

An increase of equity by 62.7% in total as at the final date of the reporting period is associated primarily with an increase of retained earnings by PLN 2,370.5 million as compared to 31 December 2016, which resulted directly from the net profit achieved in that period in the amount of PLN 2,543.3 million. In addition, as at 31 December 2017, the Group recognized in the consolidated statement of financial position the capital on revaluation of financial instruments in the amount of PLN (66.7) million, constituting a cumulative part of profits and losses resulting from changes in the fair value of hedging instruments (as at 31 December 2016: PLN (82.8) million).

Factors of liabilities change (decrease by PLN 1,981.3 million)

As at the final date of the reporting period, liabilities constituted 45.2% of total capitals and liabilities, compared to 64.7% at the end of 2016.

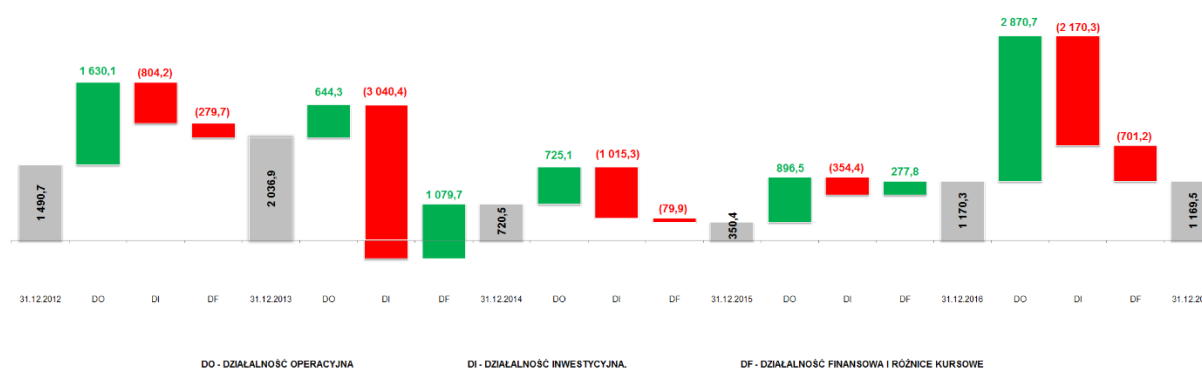
In the analyzed period, the largest decrease occurred in the provision line item (by PLN 1,465.8 million), resulting mainly from reversal of the provision for potential litigation related to free coal allowance granted to old-age and disability pensioners Based on actuarial

valuation as at 31 December 2017, the Group reversed the above provision in the amount of PLN 1,249.2 million, as more fully described in Section 6.8. Additionally, the level of liabilities under the debt securities issued item decreased significantly as well (by PLN 740.4 million). In 2017, the Parent Company redeemed debt securities for a total value of PLN 653.8 million (including PLN 419.5 million and USD 64.0 million). Interest of PLN 45.5 million paid in the reporting period in relation to the issue of bonds is presented in the financing activity part of the cash flow statement.

7.2. DESCRIPTION OF THE STRUCTURE OF ASSETS AND LIABILITIES FROM THE PERSPECTIVE OF COMPANY LIQUIDITY

The major factor shaping the Group's financial position is the market price of coal and coke, which directly affects sales revenues. Apart from market factors, social and technological factors also have an impact on the Group's activity. The uptrend market situation in 2017 was directly reflected in the level of achieved financial result and generated cash. In effect, the property and capital structure as at the final date of the reporting period was considerably improved in comparison with the previous year. The Group retains the proper structure of assets and liabilities and a safe level of liquidity.

Graph 17. Cash flows (in millions of PLN)*



* Balance of cash and cash equivalents as at the final date of each reporting period.

Table 24. Net cash flows in 2013-2017

ITEM	2017	2016	2015	2014	2013	GROWTH RATE 2016=100
Net cash flow on operating activity	2,870.7	896.5	725.1	644.3	1,630.1	320.2
Net cash flow on investing activity, including:	(2,170.3)	(354.4)	(1,015.3)	(3,040.4)	(804.2)	612.4
- including acquisition of KWK Knurów-Szczygłowice	-	-	-	(1,490.0)	-	-
- including proceeds from the sale of PEC, SE, WZK Victoria	-	612.2	-	-	-	-
- payment for the acquisition of investment certificates	(1,450.0)	-	-	-	-	-
Net cash flow on financing activity, including:	(699.8)	277.7	(80.0)	1,077.4	(280.5)	-
- including issue of debt securities	-	340.8	116.7	1,249.2	51.0	-
- including redemption of debt securities	(653.8)	(39.1)	(46.9)	(61.2)	-	1,672.1
NET CHANGE IN CASH AND CASH EQUIVALENTS	0.6	819.8	(370.2)	(1,318.7)	545.4	0.1

Cash flow on operating activity

The net cash flows on operating activity generated by the Group in 2017 amounted to PLN 2,870.7 million, and were achieved thanks to the positive cash flows on operating activity in the amount of PLN 3,160.1 million (in particular resulting from the pre-tax profit of PLN 3,123.6 million; the other factors influencing the cash flows on operating activity are presented in Note 8.1 of the Consolidated financial statements of Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2017). The generated cash enabled the Group to, *inter alia*, make payments for investment certificates in the amount of PLN 1,450.0 million, redeem debt securities in 2017 in the amount of PLN 653.8 million; and to cover capital expenditures to buy property, plant and equipment in the amount of PLN 734.9 million.

Cash flow on investing activity

In 2017, cash used in investing activity amounted to PLN 2,170.3 million, compared to PLN 354.4 million used in investing activity in 2016. This is due to the fact that in 2017 the Parent Company made a payment of PLN 1,450.0 million to buy investment certificates; in 2016, the Group recorded net income of PLN 612.2 million from the sale of the SEJ and WZK Victoria companies.

Cash flow on financing activity

In 2017, net cash flow on financing activity amounted to PLN (699.8) million, compared to PLN 277.7 million of cash flows in 2016. In 2017, the Group redeemed debt securities of the total value of PLN 653.8 million (including PLN 419.5 million and USD 64.0 million). The interest paid over the reporting period on the issue of bonds, in the amount of PLN 45.5 million, is presented in the statement on cash flow on financing activity. In addition, in 2016 the Group generated PLN 340.8 million of cash from an issue of debt securities.

As a result, the cash and cash equivalents as at 31 December 2017 amounted to PLN 1,169.5 million. Net change in cash and cash equivalents was PLN 0.6 million.

7.3. FINANCIAL RESOURCES MANAGEMENT

The Group manages its financial resources both at the level of individual companies and at the consolidated level. The management process is formalized in the *Liquidity Management policy of the JSW Group*, including a procedure whose main objective is to monitor effectively and report the liquidity position, thus allowing the Group to take measures if a threat to liquidity arises. Group companies have been regularly projecting and monitoring their liquidity based on expected cash flows.

The main tool of financial resources management is the implemented Investment Policy for free financial resources in the JSW and the PCP service operated by the Group. Those tools ensure effective financial resources management while protecting the return on capital, including the interest due, maximizing the interest income earned on financial surpluses, and reducing the cost of cash management.

The Group's financial resources are held mainly in interest-bearing bank accounts; a small amount is invested in bank term deposits. In view of the need to ensure efficient operating procedures for on-going payments, cash is held primarily in a Cash Pooling structure accounts.

The Physical Cash Pooling ("PCP") service is an important support element of effective financial resources management. The legal basis for cash transfers between companies within the Group is the institution of debt conversion as a result of which the rights of the satisfied creditor are assumed (pursuant to Article 518 § 1 item 3 of the Polish Civil Code). The objective of the service is first of all improvement of financial liquidity of the Group companies and optimization of their financial income and expenses. Interest earned on financial surpluses under PCP is based on the variable WIBOR 1M rate.

What follows is a presentation of the other liquidity management tools used by the Group.

BONDS ISSUE PROGRAM

On 6 August 2014, JSW issued bonds under the Bond Issue Program established by the bond issue program agreement dated 30 July 2014 (as amended), concluded between JSW and PKO Bank Polski S.A. ("PKO BP"), ING Bank Śląski ("ING"), Bank Gospodarstwa Krajowego („BGK”) and PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 1 [PZU Private Equity Closed-end Investment Fund BIS 1] („PZU FIZAN”). The issue comprised 70,000 registered bonds denominated in PLN with a par value of PLN 10,000.00 each, with a total par value of PLN 700,000,000 and 16,375 registered bonds denominated in USD with a par value of USD 10,000.00 each, with a total par value of USD 163,750,000. The funds raised from the bond issue were used to finance

the acquisition of an organized part of a business in the form of the Knurów-Szczygłowice Coal Mine. The bonds were issued pursuant to Article 9 Section 3 of the Bonds Act and were not offered in a public offering within the meaning of the Act on Public Offerings, nor were they traded on an organized market within the meaning of the Act on Trading in Financial Instruments.

On 31 May 2016 JSW signed an agreement with BGK, PKO BP, Powszechny Zakład Ubezpieczeń S.A. („PZU”) and Powszechny Zakład Ubezpieczeń na Życie S.A. („PZU Życie”) for JSW to acquire bonds for the purpose of their retirement and to make additional amendments to the Terms and Conditions of Issuing the Bonds issued by JSW under the issuance program established by the Bond Issue Program Agreement of 30 July 2014. Pursuant to the agreement, ING and PZU FIZAN as the sellers and PKO Bank Polski, BGK, PZU and PZU Życie signed the relevant annexes to the Further Cooperation Agreement, Collateral Agreement and the Bond Issue Program Agreement, pursuant to which ING and PZU FIZAN ceased to be parties to the aforementioned agreements while PZU and PZU Życie became parties thereto.

Execution of the Bondholder Agreement

On 29 August 2016 JSW and the Bondholders executed an Agreement governing the terms and conditions of issuing the bonds and the process of JSW’s financial, operational and asset restructuring. The contractual clauses above all call for implementing a new bond redemption to reduce the originally agreement bond redemption amount in the initial period and to extend the redemption period by 5 years (i.e. until 2025) and to modify the conditions governing the Bondholders’ ability to exercise the early redemption option.

Early redemption option

According to the Agreement, the Bondholders will give up their rights arising from the put option, understood as the right to obtain early redemption of bonds issued under the Issue Program if JSW fails to issue bonds on international capital markets. The Agreement provides for expansion of the catalog of events resulting in mandatory early bond redemption and imposition of several more obligations on JSW.

Bond issue in 2016

On 29 December 2016, JSW issued additional 30,000 bonds under the bond issue program, of the par value PLN 10,000 each; all the bonds were acquired by Towarzystwo Finansowe Silesia Sp. z o.o. (“TFS”). At the same time, the total par value of the issue increased up to PLN 1,000.00 million and USD 163.8 million.

Redemption date

The final bond redemption date is 31 March 2025. The clauses of the Agreement of 29 August 2016 also impose on JSW the obligation of early bond redemption starting in 2017 in the cases defined in detail in the Terms and Conditions of the Bond Issue.

Collateral

The following represent the collateral for the bonds:

1. Registered pledges up to the highest collateral amount of PLN 1,500,000,000 and USD 245,625,000 established in favor of PKO BP as the pledge administrator on the following:
 - personal property assets of ZORG Borynia, ZORG Budryk, ZORG Knurów-Szczygłowice, ZORG Pniówek, ZORG Zofiówka,
 - stakes held by JSW in Polski Koks (currently JSW Innowacje) and JSW KOKS,
 - JSW’s bank accounts,
 - rights under contracts.
2. The combined contractual mortgages for PKO BP as the mortgage administrator up to the amount of PLN 1,500,000,000 and up to the amount of USD 245,625,000 on real estate owned or in perpetual usufruct by JSW, included in the organized parts of the JSW enterprise, in the form of the companies: ZORG Borynia, ZORG Budryk, ZORG Knurów-Szczygłowice, ZORG Pniówek, ZORG Zofiówka.
3. Sureties granted to Bondholders by JSW KOKS under the Surety Agreement with JSW KOKS (up to the equivalent of 100% of equity), where the value of the surety is PLN 2,218.5 million.
4. Assignment of trade receivables or receivables under insurance contracts effected on the basis of the following assignment contracts governed by Polish law:
 - rights assignment agreement of 28 October 2015 (as amended) to secure receivables, entered into by and between JSW as the assignor and PKO BP as the assignee,
 - rights assignment agreement of 11 August 2016 (as amended) to secure receivables, entered into by and between JSW as the assignor and PKO BP as the assignee.

Bond redemption w 2017

In 2017, JSW redeemed debt securities for a total value of PLN 653.8 million (including PLN 419.5 million and USD 64.0 million). The interest paid in the reporting period on the bond issue, in the amount of PLN 45.5 million, is presented in the statement on the cash flow from financing activities.

As at 31 December 2017, there were 51,746 outstanding bonds with a par value of PLN 10,000 each and 9,370 bonds with a par value of USD 10,000 each. The total liabilities under debt securities issued, valued at amortized cost and disclosed in the statement of financial position as at 31 December 2017, is PLN 856.0 million (relative to PLN 1,596.4 million as at 31 December 2016).

Monitoring of ratios

In accordance with the provisions of the Bond Issue Program, JSW is obligated to monitor the following ratios: net financial debt/EBITDA and net financial debt/equity, calculated at the Group level, according to the rules set forth in the Terms and Conditions of the Bond Issue, i.e. adjusted for, among others, the impact of non-recurring events specified in the Terms and Conditions of the Bond Issue. JSW intends to maintain the net financial debt/equity ratio at a level no higher than 0.6 and to limit the net financial debt/EBITDA ratio so as it is not higher than 2.5x as from 30 June 2017. If any of the ratios exceeds the permissible level, the Bondholders are entitled to exercise the early redemption option on their bonds. The certificates of compliance submitted by JSW by the dates specified in the Terms and Conditions of the Bond Issue confirm the fulfillment of contractual ratios. According to the Terms and Conditions of the Bond Issue, JSW is required to present appropriate calculations of the ratios as at 30 June and 31 December and, in the case of the net financial debt/EBITDA ratio, also as at 31 March and 30 September of each year. Furthermore, according to the Terms and Conditions of the Bond Issue, JSW is required to comply with the obligations which have been defined in detail in the Bond Issue Program documentation.

According to the Group's estimates, as at the approval date of this report the aforementioned ratios for 2017 will be achieved.

STABILIZATION FUND

One of the important actions taken by the Parent Company in 2017 to prevent potential risks of liquidity deterioration is establishment of the Closed-End Investment Fund (Fundusz Inwestycyjny Zamknięty, FIZ), with the value of PLN 1.5 billion. To this end, on 21 December 2017 JSW signed a cooperation agreement on the organization and management of the Closed-End Investment Fund ("FIZ") with PGE Towarzystwo Funduszy Inwestycyjnych S.A. and ALTUS Towarzystwo Funduszy Inwestycyjnych S.A., acting as the Consortium („TFI”).

On 18 January 2018 the Extraordinary Shareholder Meeting of JSW granted consent to the purchase by JSW of series A investment certificates, i.e. the entire issue of those certificates, from the issuer – JSW Closed-End Stabilization Fund, for the amount of PLN 1.5 billion. The sole activity of the Fund will be to invest cash collected in the course of a non-public placement of Investment Certificates into securities, Money Market Instruments and other property rights defined in the Articles of Incorporation. The Fund will be created for a finite term – until 30 December 2024. The Fund's duration may be extended by a maximum of three years. The Fund has been entered into the register pursuant to a decision dated 26 January 2018. On 6 February 2018, the Fund started its investment operations, whereby the Investment Committee of PGE TFI adopted the first Investment Decision regarding the allocation of the Fund's assets.

The purpose of FIZ is to provide stabilization support of on-going liquidity and to reduce the impact of coal and coke price change risk on the continuity of the operating and investment activities of the Group.

In the upturn periods on the coal market, the Parent Company intends to transfer a part of the generated financial surpluses and invest them in the FIZ. The funds of FIZ will then be used in market downturns and/or in times when the Group will generate negative cash flows. At the same time, the funds will provide financial support for the planned long-term and medium-term expenditures related to investment projects of strategic importance for JSW and the Group, such as expansion of mining capacities, increasing access to deposits, coal processing and coke production.

The tasks, the implementation of which will be financed by the funds, received as a result of the redemption of FIZ investment certificates, include: stabilization support of on-going liquidity in the periods of cash shortages; and financial support for necessary expenditure on strategic investment projects.

TFI will apply a conservative investment policy in managing the portfolio of the newly created fund. The fund's cash will be invested in very secure liquid assets, including primarily State Treasury bonds, other treasury debt instruments and other instruments for which the applicable exposure limit has been strictly defined in the fund's investment policy.

7.4. MATERIAL OFF-BALANCE SHEET ITEMS

Contingent items are presented in Note 10.1. Consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2017. The most important of the above items are presented below:

Collateral for outstanding bonds

The bonds collateral that JSW has undertaken to establish pursuant to the Bond Issue Program Agreement, of 30 July 2014, as amended; the Agreement of 29 August 2016; the Further Cooperation Agreement of 24 September 2015, as amended; and the Collateral Agreement of 15 October 2015, as amended; as at 31 December 2017, are presented in Section 7.3.

Adjustment of the sale price of WZK Victoria

On 30 September 2016, JSW concluded an agreement on the sale of 92.84% shares in WZK Victoria with the Industrial Development Agency (Agencja Rozwoju Przemysłu S.A.) and Towarzystwo Finansowe „Silesia” Sp. z o.o., for the total sale price of PLN 350.0 million. The whole amount for the sale of shares of WZK Victoria was paid. The sales price is subject to reduction because of price adjustment based on the value of accumulated EBITDA of WZK Victoria for 2016-2019. The payment of a possible price adjustment will take place as a bullet payment within 3 months after the Shareholder Meeting of WZK VICTORIA approves the audited financial statements for 2019. EBITDA will be calculated by a renowned independent financial advisor and the calculations will be based on approved financial statements of WZK Victoria for 2016-2019, audited by a renowned independent auditor of the company. The calculation prepared in the above manner will be a binding arrangement for the parties and the basis for defining a price adjustment. If a price adjustment is not defined as provided for above, regardless of the reason, by 31 December 2020, the amount of price adjustment will be defined by a court.

Joint and several and subsidiary liability

Pursuant to the agreement concluded on 31 July 2014, regarding the purchase from Kompania Węglowa S.A. (“KW S.A.”) of an organized part of an enterprise in the form of the mining company KWK „Knurów-Szczygłowice” (“ZORG”), JSW has joint and several and subsidiary liability for the liabilities of Kompania Węglowa S.A. resulting from, or related to, the operation of ZORG which arose to (and inclusive of) the date of purchase:

- to business partners supplying and providing services to KWK Knurów-Szczygłowice. The value of these liabilities on 31 December 2017 was PLN 2.3 million (as at the ZORG acquisition date, they were PLN 184.2 million and PLN 2.1 million as at 31 December 2016),
- on account of a property tax on underground mine workings, limited to the amounts specified in certificates of the seller’s overdue liabilities. These liabilities amount to PLN 108.6 million.

In relation to the purchase of the Knurów-Szczygłowice mine from KW S.A., there were also theoretical premises of JSW’s potential subsidiary liability for KW S.A.’s debts disclosed in the attestation on the seller’s outstanding liabilities to the Social Insurance Institution (ZUS). As at the date of this report, the tax dues have been fully paid, which has been confirmed by the Spółka Restrukturyzacji Kopalń S.A. (Mine Restructuring Company) as the legal successor of the former KW S.A.

7.5. CONSOLIDATED REPORT ON FINANCIAL RESULT AND OTHER COMPREHENSIVE INCOME

In view of the divestment process carried out in 2016, the financial data contained in the 2017 consolidated statement of profit or loss and other comprehensive income does not include the results of the following companies: PEC, SEJ, SEJ Serwis, WZK Victoria and epeKoks. The results of these companies are included in the Group's results for 2016 (until their respective dates of divestment).

Table 25. Statement of profit or loss and other comprehensive income

ITEM	2017	2016	2015	2014	2013	GROWTH RATE 2016=100
Sales revenues	8,877.2	6,731.3	6,934.9	6,814.9	7,632.2	131.9
Cost of products, materials and merchandise sold	(5,638.3)	(5,501.6)	(6,985.1)	(6,819.6)	(6,479.5)	102.5
GROSS PROFIT/(LOSS) ON SALES	3,238.9	1,229.7	(50.2)	(4.7)	1,152.7	263.4
Selling and distribution expenses	(282.4)	(342.4)	(350.1)	(362.4)	(398.6)	82.5
Administrative expenses	(480.8)	(480.6)	(535.5)	(610.8)	(598.1)	100.1
Other revenues	1,569.4	226.7	2,175.2	160.3	134.6	692.3
Bargain purchase gain (including: KWK Knurów-Szczygłowice)	-	-	-	306.2	-	-
Revenue on reversal of the provision for the Company Social Benefit Fund for old-age and disability pensioners	-	-	207.9	-	-	-
Other costs	(972.1)	(253.5)	(5,329.8)	(262.4)	(100.7)	383.5
Other net profit/(loss)	43.5	(153.3)	(13.5)	(1.0)	12.0	-
OPERATING PROFIT/(LOSS)	3,116.5	226.6	(3,896.0)	(774.8)	201.9	1,375.3
Financial income	132.9	6.9	34.3	49.2	41.5	1,926.1
Financial expenses	(125.9)	(213.8)	(183.7)	(157.0)	(136.4)	58.9
Share in profits of associated entities	0.1	(0.1)	0.1	0.4	2.7	-
PROFIT/(LOSS) BEFORE TAX	3,123.6	19.6	(4,045.3)	(882.2)	109.7	15,936.7
Income tax	(580.3)	(15.2)	760.1	225.1	(27.5)	3,817.8
NET PROFIT/(LOSS)	2,543.3	4.4	(3,285.2)	(657.1)	82.2	57,802.3
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO NET RESULT	16.1	3.9	(29.9)	(56.8)	-	412.8
Change in the value of hedges	19.9	4.8	(36.9)	(70.1)	-	414.6
Income tax	(3.8)	(0.9)	7.0	13.3	-	422.2
OTHER COMPREHENSIVE INCOME NOT TO BE RECLASSIFIED TO PROFIT OR LOSS	(7.5)	7.9	14.0	(365.3)	2.2	-
Actuarial profit/(loss)	(9.2)	9.8	17.3	(451.0)	2.7	-
Income tax	1.8	(1.9)	(3.3)	85.7	(0.5)	-
TOTAL OTHER COMPREHENSIVE INCOME	8.7	11.8	(15.9)	(422.1)	2.2	73.7
TOTAL COMPREHENSIVE INCOME	2,552.0	16.2	(3,301.1)	(1,079.2)	84.4	15,753.1
Net profit/(loss) attributable to:						
- shareholders of the Parent Company	2,538.9	6.7	(3,265.5)	(659.1)	77.3	37,894.0
- non-controlling interest	4.4	(2.3)	(19.7)	2.0	4.9	-
Total comprehensive income attributable to:						
- shareholders of the Parent Company	2,547.8	18.5	(3,281.4)	(1,080.9)	79.3	13,771.9
- non-controlling interest	4.2	(2.3)	(19.7)	1.7	5.1	-
Basic and diluted earnings/(loss) per share attributable to shareholders of the Parent Company (in PLN per share)	21.62	0.06	(27.81)	(5.61)	0.66	36,033.3

In 2017, **sales revenues** amounted to PLN 8,877.2 million and were PLN 2,145.9 million higher than the sales revenues achieved in 2016 r. The higher revenues result primarily from coal sales revenues – higher by PLN 1,374.3 million, and from coke and hydrocarbons sales – higher by PLN 865.4 million. The higher coal sales revenues resulted primarily from a higher average selling price of coal – and increase by PLN 169.03 per ton, i.e. 56.0% (including of coking coal by PLN 259.35 per ton, i.e. by 65.3%). The average selling price of coke increased by PLN 352.48 per ton, i.e. by 60.4%. The influence of market conditions and factors that had a significant impact on the prices of the Group's products is discussed in Section 6.3.

At the same time, lower revenue from other activities was recorded – by PLN 93.8 million. This was mainly due to the sale in 2016 of the companies PEC and SEJ, whose revenue was recorded as “other”.

The cost of products, materials and merchandise sold incurred in 2017 increased relative to 2016 by PLN 136.7 million, due to, *inter alia*, higher coal production costs. As a result, **gross profit on sales** in 2017 was PLN 3,238.9 million and was higher by PLN 2,009.2 (i.e. by 163.4%) than the profit generated in 2016.

Selling and distribution expenses, which include primarily the cost of shipping the Group's main products, amounted to PLN 282.4 million in the reporting periods, which is by PLN 60.0 million lower (i.e. by 17.5%) than the costs incurred in 2016; this is mainly due to the lower volume of coal and coke sales – by 1.6 million and 0.6 million tons respectively. **Administrative costs**, including overheads, amounted to PLN 480.8 million. Despite the smaller number of companies in the Group, the costs remained relatively constant in comparison to 2016. This is due, *inter alia*, to the higher costs, primarily in the area of employee benefits under the agreements with the Social Partner as regards additional benefits for staff in the Parent Company in 2017.

Other revenues in 2017 amounted to PLN 1,569.4 million, and were PLN 1,342.7 million higher than the amount of PLN 226.7 million generated in 2016. The increase is attributable primarily to the reversal in 2017 of a provision of PLN 1,249.2 million for potential court cases regarding the free coal allowance for old-age and disability pensioners. Furthermore, in relation to the transfer in 2017 of KWK Krupiński to SRK, the Group's revenues over the reporting period include the revenues from this transaction, in the amount of PLN 225.8 million (a detailed breakdown of this amount is given in Section 6.8).

Other costs in 2017 amounted to PLN 972.1 million, compared to PLN 253.5 million in 2016, which is an increase by PLN 718.6 million. It is mainly due to the impairment loss in 2017 on the Parent Company's non-current assets. The tests carried out justified the disclosure – as at 31 December 2017 – of: an impairment loss of property, plant and equipment and intangible assets of KWK Budryk, in the amount of PLN 444.9 million; and an impairment loss of property, plant and equipment and intangible assets of KWK Knurów-Szczygłowice, in the amount of PLN 314.2 million. The impairment test carried out in 2017 resulted in a total impairment loss charge on non-current assets of JSW recorded in 2017, in the amount of PLN 759.1 million (including PLN 758.7 million on property, plant and equipment, and PLN 0.4 million – on intangible assets). This charge is related to the Coal segment and has been recognized in other costs in the statement of profit or loss and other comprehensive income. Furthermore, other costs include the costs related to the transfer of KWK Krupiński to SRK, in the amount of PLN 125.7 million. A detailed breakdown of these amounts is given in Section 6.8.

Other net profit in 2017 amounted to PLN 43.5 million, compared to the other net loss generated in 2016, of PLN 153.3 million, which represents an improvement by PLN 196.8 million. It was mainly due to the inclusion in 2016 of a consolidated result (loss) on sales of companies, in the amount of PLN 146.2 million; as well as to the inclusion in 2017 of the higher result on financial derivative instruments, which improved by PLN 73.7 million. The higher profit on financial derivative instruments achieved in 2017 relative to 2016 is primarily due to the change in market conditions and transaction volumes. The foreign exchange market is continuously volatile. In keeping with the Foreign Exchange Risk Management Policy of the Group, transactions are made within a time horizon of maximum twelve months. Hedging transaction concluded at weak PLN generates a profit on financial derivative instruments as PLN strengthens. These circumstances materialized in 2017. Over the year, PLN was consistently strengthening relative to the main currencies. As a result, the transactions concluded at higher exchange rates generated profit at execution relative to the current exchange rate.

Financial income in 2017 amounted to PLN 132.9 million, which is by PLN 126.0 higher than in 2016. This is mainly due to the inclusion in 2017 of foreign exchange gains from the exchange rate differences in bond valuation, in the amount of PLN 95.3; and of higher interests on cash and cash equivalents – by PLN 26.5 million.

Financial costs were PLN 125.9 million, which was lower than the costs in 2016 (PLN 213.8 million) by PLN 87.9 million. This was mainly due to the lower interest costs – by PLN 48 million - related to the discount on long-term reserves; as well as the inclusion in 2016 of the exchange rate difference in bond valuation, in the amount of PLN 44.0 million.

As a result of the above mentioned factors, the **pre-tax profit** for 2017 is PLN 3,123.6 million, which is an increase by PLN 3,104.0 million relative to 2016. Noteworthy, the 2017 pre-tax profit includes the amount of PLN 1,249.2 million, i.e. the reversed provision to cover court cases related to the free coal allowance for old-age and disability pensioners; as well as the amount of PLN 759.1 million

of the impairment loss charges on non-current assets of the Group. **Net profit** in 2017 amounted to PLN 2,543.3 million, and is higher by PLN 2,538.9 than the 2016 result.

In 2016, other comprehensive income included the valuation of hedging instruments, of PLN 19.9 million including the income tax of PLN (3.8) million; and actuarial losses in the amount of PLN (9.2) million including the income tax of PLN 1.8 million. As a result, the total comprehensive income amounted to PLN 2,552.0 million.

Basic i diluted profit per one share was PLN 21.62 (PLN 0.06 per share in 2016).

COSTS BY NATURE

Table 26. Costs by nature

ITEM	2017	2016	2015	2014	2013	GROWTH RATE 2016=100
Depreciation and amortization	824.7	838.8	1,362.9	1,303.3	1,201.5	98.3
Consumption of materials and energy	1,243.0	1,157.0	1,443.2	1,464.4	1,321.2	107.4
External services	1,457.7	1,441.2	1,561.7	1,622.0	1,546.2	101.1
Employee benefits	3,213.8	2,880.9	3,517.5	3,643.4	3,459.1	111.6
Taxes and fees	188.8	222.0	224.3	211.7	205.0	85.0
Other costs by nature	31.0	8.3	40.4	38.3	53.3	373.5
Cost of materials and merchandise sold	166.5	80.8	154.9	67.2	77.7	206.1
TOTAL COSTS BY NATURE	7,125.5	6,629.0	8,304.9	8,350.3	7,864.0	107.5
Selling and distribution expenses	(282.4)	(342.4)	(350.1)	(362.4)	(398.6)	82.5
Administrative expenses	(480.8)	(480.6)	(535.5)	(610.8)	(598.1)	100.0
Cost of performances and property, plant and equipment produced for own use and expensable mining pits	(603.6)	(505.5)	(466.0)	(533.6)	(633.3)	119.4
Change in products	(120.4)	201.1	31.8	(23.9)	245.5	-
COST OF PRODUCTS, MATERIALS AND MERCHANDISE SOLD	5,638.3	5,501.6	6,985.1	6,819.6	6,479.5	102.5

The operating activity expenditures incurred by the Group in 2017 amounted to PLN 7,125.5 million, compared to PLN 6,629.0 million incurred in 2016 (an increase by PLN 496.5 million, i.e. 7.5%). The changes in the individual cost items were due to the disinvestment by the Group of the following companies in 2016: PEC, SEJ and WZK Victoria. Furthermore, the higher operating activity expenditures of the Group were due primarily to:

- growth in **employee benefits** by PLN 332.9 million, i.e. by 11.6% relative to 2016. In 2017, the average headcount in the Group decreased from 30,765 people to 26,563 people, i.e. was lower by 4,202 people. Despite the lower headcount, the higher payroll fund was due to the pay-out of additional benefits to employees of the Parent Company, including primarily: the non-recurring bonus of PLN 157.8 million paid out on 4 September 2017; inclusion of the 14th salary, in the amount of PLN 206.4 million; and higher Barbórka fund – about PLN 68.2 million;
- Higher – by PLN 86.0 million - costs of **material and energy consumption**, including higher consumption of materials by PLN 64.1 million (in relation to, *inter alia*, higher price of coal used for coke production); and higher consumption of energy by PLN 21.9 million (due to, *inter alia*, disinvestment in 2016 of the company SEJ, responsible for supplying energy to some of the Group companies);
- higher **cost of materials and merchandise sold** in 2017, by PLN 85.7, i.e. 106.1%, more than in 2016; mainly due to the higher value of non-Group coal sales by PLN 110.8 million.

After an adjustment of costs by nature by: selling costs; administrative costs; costs of performances and property, plant and equipment produced for own use and expensable mining pits; and change in product inventory, the cost of products, materials and merchandise sold in 2017 was PLN 5,638.3 million, and was higher by PLN 136.7 million relative to 2016.

7.6. EXTRAORDINARY FACTORS AND EVENTS AFFECTING THE RESULT

In the period under analysis, certain events occurred in the Group whose nature and scope had a significant impact on its financial results. In the following table, the amounts affecting the achieved results due to non-recurring events have been excluded.

Table 27. *Impact of non-recurring events on EBITDA*

ITEM	2017	2016
EBITDA	3,941.2	1,065.4
Impact of non-recurring events, including:	(432.4)	104.8
▪ <i>transfer of KWK Krupiński to SRK:</i>		
– <i>Reversal of provision to cover losses on non-performed agreements relating to KWK Krupiński</i>	(14.2)	-
– <i>reversal of the provision for the mine closure fund</i>	(97.1)	-
– <i>reversal of the provision for employee benefits transferred to SRK</i>	(50.1)	-
– <i>settlement of property, plant and equipment received free of charge</i>	(5.9)	-
– <i>reversal of the provision for mining damage</i>	(4.9)	-
– <i>settlement of subsidies related to the transfer of the mine to SRK</i>	(2.4)	-
– <i>net value of liquidated assets and expensable mining pits transferred to SRK</i>	57.7	-
– <i>Reversal of the impairment loss charge on property, plant and equipment of KWK Krupiński transferred from the Suszec Section to other JSW facilities</i>	(51.2)	-
– <i>other costs associated with the maintenance of the Suszec Section</i>	68.0	-
▪ <i>non-recurring bonus</i>	157.8	-
▪ <i>Reversal of a part of the provision for potential court cases regarding free coal allowance for old-age and disability pensioners</i>	(1,249.2)	-
▪ <i>impairment charge for property, plant and equipment and intangible assets of JSW units made as a result of the conducted impairment tests</i>	759.1	71.1
▪ <i>Transfer of Section Jas-Mos do SRK:</i>		
– <i>reversal of the provision for employee benefits (transfer of employees to SRK)</i>	-	(86.8)
– <i>reversal of the provision for the mine closure fund</i>	-	(36.3)
– <i>net value of liquidated assets and expensable mining pits transferred to SRK</i>	-	6.2
– <i>reversal of the provision for mining damage</i>	-	(7.5)
– <i>reversal of the provision for disputes relating to the free coal allowance for old-age and disability pensioners</i>	-	(35.5)
▪ <i>recognition of provisions for losses on account of unrealized agreements</i>	-	52.7
▪ <i>adjustment to profit distributions for 2010-2012</i>	-	5.0
▪ <i>indemnification for a fire at SEJ S.A.</i>	-	(10.3)
▪ <i>result on the sale of PEC, SEJ and WZK Victoria</i>	-	146.2
EBITDA (net of non-recurring events)	3,508.8	1,170.2

TRANSFER OF JSW'S ASSETS TO SRK

With the view to restructuring, in 2016 the Parent Company started a procedure of free-of-charge transfer of KWK Krupiński to SRK, with a special view to minimizing the cost of investment and allocation of staff, and with the application of mechanisms of safety net and employment restructuring provided for by the Act on the Functioning of the Hard Coal Mining Industry, dated 7 September 2007. This decision was made as a result of JSW's analysis which demonstrated that KWK Krupiński is in a state of permanent unprofitability, while the scenarios analyzed do not offer any chances to recover profitability in the future.

On 1 December 2016, the JSW Extraordinary Shareholder Meeting consented to the free-of-charge transfer of an organized part of a business of JSW in the form of KWK Krupiński to SRK, utilizing the procedure contemplated by the Act of 7 September 2007 on the Functioning of the Hard Coal Mining Industry, taking into account the provisions of the Bondholder Agreement of 29 August 2016.

On 31 March 2017, the Parent Company performed a free-of-charge transfer of a part of the Krupiński mine's production assets to SRK. Under an agreement, 1,100 of JSW's employees were transferred to SRK under a procedure provided for by Art. 231 of the Labor Code. The allocation of the Krupiński mine's personnel was effected based on an agreement reached by the parties whereby all employees of KWK Krupiński who have been transferred to other JSW mines are covered by the employment guarantees arising from the agreement signed with the trade unions before JSW's IPO in 2011. In total, new jobs in JSW's mines were found by 1.8 thousand staff of KWK Krupiński.

On the date of signing of the agreement for the free-of-charge transfer of KWK Krupiński between JSW and SRK, out of the assets which formed part of KWK Krupiński but were not transferred to SRK, a new organizational structure, called the Suszec Section, was created within KWK Pniówek.

As from 1 April 2017, the employees of JSW delegated to KWK Pniówek, the Suszec Section, started work on the recovery of machinery and equipment, and transfer thereof to the other JSW mines. The use of this machinery and equipment in other JSW mines will enhance the productive potential of these fixed assets while reducing the cost of purchasing new assets, in line with the curtailed capital expenditure policy.

Due to the recognition of impairment charges for property, plant and equipment and intangible assets of the Krupiński mine, in cases of a transfer of assets of the Suszec Section to mines whose production is largely based on the extraction of coking coal and where no impairment charges have been made, such a transfer will be preceded by the reversal of the impairment charge in accordance with the provisions IAS 36.

The revenue generated and costs incurred in relation to the free-of-charge transfer of KWK Krupiński to SRK are presented in Section 6.8 of this report. The result achieved on the transfer of KWK Krupiński to SRK is PLN 100.1 million.

BONUS PAYOUT FOR JSW EMPLOYEES

On 28 June 2017, the JSW Management Board and the representative trade union organizations in JSW signed an agreement which stipulated that on 4 September 2017 a cash bonus of PLN 4,300 net would be paid out to all the staff of the Parent Company being in employment as of 31 August 2017 (the total effect of the bonus was PLN 157.8 million).

REVERSAL OF THE PROVISION FOR POTENTIAL COURT CASES RELATED TO THE FREE COAL ALLOWANCE FOR OLD-AGE AND DISABILITY PENSIONERS

In connection with the non-payment of the free coal allowance for old-age and disability pensioners in 2015, JSW is involved in a number of legal disputes with its former employees regarding their lifetime right to receive the free coal allowance. As a result of the Act on an Allowance to Compensate for the Loss of the Right to Free-of-Charge Coal, dated 12 October 2017, and the payout of compensations completed by 31 December 2017, the provision for potential court cases related to the free coal allowance for old-age and disability pensioners had to be revalued. Based on an actuarial valuation as of 31 December 2017, the Group reversed the provision of PLN 1,249.2 million. The remainder of the provision, i.e. PLN 653.5 million, will cover potential claims of persons who are not entitled to the compensation under the law, and of persons who are entitled, but have intentionally failed to apply for the compensation, continuing to claim that the withdrawal of their right to the allowance (set according to the original principles) is unlawful; as well as future pensioners (today's employees) – given that the Act fails to regulate their right to the free coal allowance or a compensation therefor. The Group expects that the provision will be revalued (reversed) after a relevant court practice asserts itself in the new legal order regarding free coal allowance for old-age and disability pensioners.

IMPAIRMENT LOSS CHARGE ON PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS OF THE GROUP'S MINES

Considering the changing macroeconomic environment, the Group performs a periodical verification of the premises which may point to an impairment of the recoverable value of assets in the individual mines. Impairment of non-current assets is analyzed by estimating the recoverable amounts of cash-generating units. Such analysis is based on a number of significant assumptions, some of which are beyond the Group's control. Significant changes in these assumptions affect the results of impairment tests and, as a consequence, may lead to significant changes in the Group's financial standing and financial performance. In the reporting period under review, the Group performed an analysis of the premises in order to verify whether a further impairment of the value of assets has occurred, or whether the earlier charges should be reversed.

During 2017, several main factors were identified which could significantly contribute to movement in the values of assets:

- Reduction in the access to mining and drilling services, resulting in a rapid price increase – over the crisis period in the coal market, all companies reduced their investment expenditure on mining and drilling work to an absolute minimum, seeking to maintain their financial liquidity. As a result, many companies specializing in the mining and drilling services were liquidated, while the remaining ones reduced their headcount drastically. Better coal prices brought a new incentive for coal companies to restart investment projects designed to access new deposits and maintain their production capacity. However, the mining services market was not ready for such a spike in the sector's demand. This shortage of production capacity on the part of service companies, coupled with the higher demand for mining and drilling services, translated into a rapid price increase, reflected in the tendering procedures conducted in 2017.
- The observed increase in the prices of steel products used in deep-shaft mining will be reflected in the higher operating cost and capital expenditures.
- Investment expenditures will have to be increased in order to maintain long-term production capacity. The Restructuring Program, implemented in the period of low coal prices, was designed to maintain financial liquidity and meet the bond issue obligations. The liquidity was to be maintained by the way of halting all key investment projects. A side effect of this austerity program was a reduction of long-term production capacities, which translates into a lower mining production by about 1.5 million tons after 2022. In order to maintain production capacity, it is necessary to restart and accelerate the key investment projects aimed at accessing new deposits in the period 2018-2022, taking into account the higher service prices described above.
- The need to increase employment relative to earlier plans, as a result of the observed fall of the mining capacities of the individual mines. The reduction of employment costs by the way of a headcount reduction results in smaller production volume over a longer period of time. Therefore, the Strategy for 2018-2030 recognizes the need of increasing the headcount (including transfers of staff within the Group) relative to the earlier plans, for KWK Budryk by about 430 persons until 2021, and for KWK Knurów Szczygłowie by about 570 persons until 2021.
- The expiry of the payroll agreement dated 23 February 2015, and the earlier rescission from some of the agreement's provisions, which resulted in higher payroll costs in 2017 and 2018.

In view of the above, as well as of the disproportionate increase in the prices of thermal and coking coal, it was decided that an impairment test should be performed for the mines that produce not only coking coal, but significant amounts of thermal coal as well, i.e. KWK Budryk i KWK Knurów-Szczygłowie.

The impairment tests were carried out for the assets generating cash ("CGU") through determining their recoverable value. Determining the fair value for very big asset groups for which there is no active market and there are very few comparable transactions is in practice unfeasible/very difficult. In the case of entire mines for which the value in the local market needs to be determined, there are no observable fair values. Consequently, the recoverable value of the analyzed assets has been determined on the basis of an estimation of their value in use with the method of net discounted cash flows and on the basis of the financial projections prepared for 2018–2022 and contained in the document *JSW S.A. Strategy for 2018-2030, including the subsidiary companies*, approved by JSW Supervisory Board.

The intended economic useful lifetime of those mines goes beyond 2022, therefore the residual value for the remaining period of operation was determined. Adoption of five-year financial projections is justified due to the fact that in the current economic situation there are no reliable data for the next reporting periods due to significant volatility of different types of factors, such as: prices, inflation rates, exchange rates and interest rates.

Assumptions made

What follows are the assumptions adopted for the calculations in the impairment test as of 31 December 2017:

- the following CGUs have been identified for the test
 - Zakład Górniczy KWK Budryk,
 - KWK Knurów-Szczygłowie: Knurów Section, Szczygłowie Section – given the technological and economic links between those facilities,
- viability for the individual JSW mines
 - Zakład Górniczy KWK "Budryk" – until 31 December 2077,
 - KWK Knurów-Szczygłowie Mining Plant – until 31 December 2078;

- coal prices projections in the period 2018-2022, based on the *JSW S.A. Strategy for 2018-2030, including the subsidiary companies*, and the CRU report.
- as regards the investment activities in 2018-2022, projects have been taken into account which envisage external financing,
- stabilization of capital expenditures including expensable mining pits in 2018-2022 in the part financed by JSW – at over PLN 300 million for KWK Knurów-Szczygłowice and about PLN 200 million for KWK Budryk,
- the impairment analysis was based on the newest economic data taken in real terms and at the after-tax weighted average capital cost (WACC) of 7.79% over the projection period,
- financing of expenditures for decommissioning mines from the Mine Closure Fund (FLZG),
- taking account of the existing provisions for employee benefits and other provisions assigned to a given mine for the purposes of the asset impairment test,
- the impairment losses of PLN 821.9 million for property, plant and equipment and intangible assets at the Budryk Coal Mine and of PLN 1,270.6 million for the Knurów-Szczygłowice Coal Mine taken on 31 December 2015 have been included.

The tests have shown the expediency of recognizing as at 31 December 2017:

- an impairment loss charge for the property, plant and equipment and intangible assets of KWK Budryk in the amount of PLN 444.9 million,
- an impairment loss charge for the property, plant and equipment and intangible assets of KWK Knurów-Szczygłowice in the amount of PLN 314.2 million.

EXTERNAL FACTORS

The Group's results were under a strong influence of the situation on the relevant international markets of steel, coke, and coal. Detailed discussion of the factors influencing the prices of the basic products of the Group is given in Section 6.3 of this report.

7.7. DIFFERENCES BETWEEN THE FINANCIAL RESULTS DISCLOSED IN THE ANNUAL REPORT AND THE 2017 RESULT PROJECTIONS PUBLISHED EARLIER

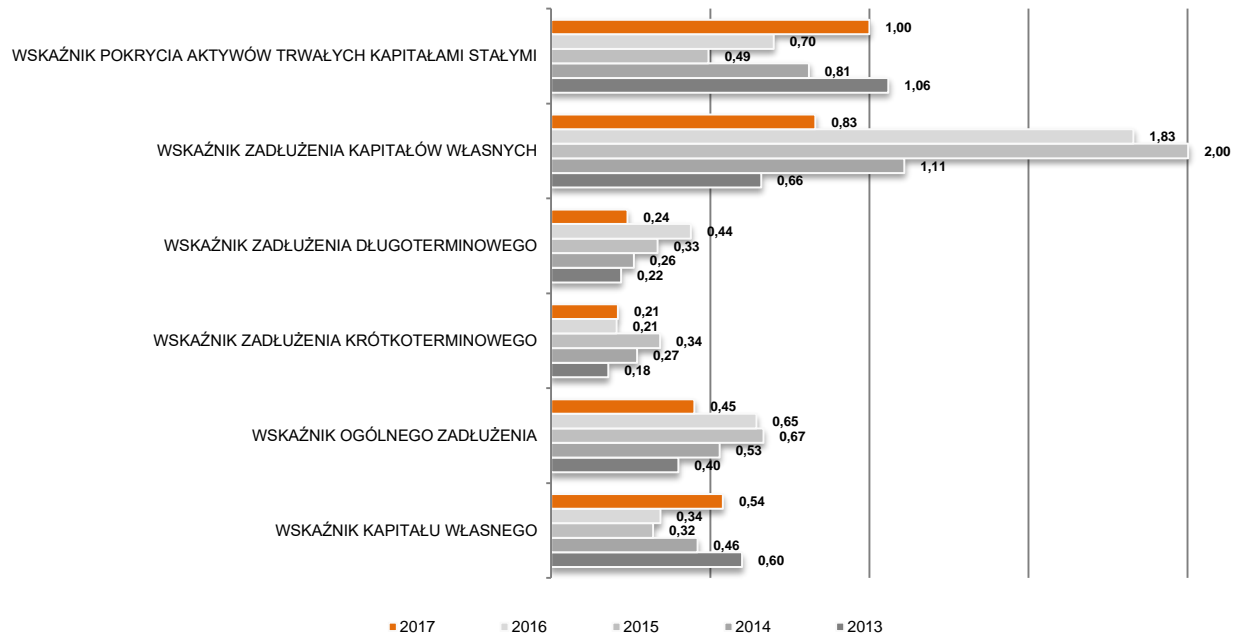
The Group did not publish financial results projections for 2017.

7.8. SELECTED FINANCIAL RATIOS

DEBT AND FUNDING MIX

As at the end of the reporting period, the share of liabilities in the Group's financing, measured by the general debt ratio, was 0.45, compared to 0.65 as at the end of 2016. As at the end of 2017, the Group held liabilities on the account of the debt securities issue in the amount of PLN 856.0 million; on the account of financial leasing in the amount of PLN 66.8; and on the account of loans and credits in the amount of PLN 122.2 million. The long-term debt ratio decreased from 0.44 as of the end of 2016 to 0.24 as of the end of 2017, as a result of reduction of non-current liabilities by PLN 2,151.7 million, i.e. by 42.3%, including mainly due to the reversal of the provision for potential court cases regarding free coal allowance for old-age and disability pensioners, in the amount of PLN 1,249.2 million, and due to the reduction of liabilities under debt securities issued by PLN 736.7 million.

Graph 18. Group debt and financing ratios



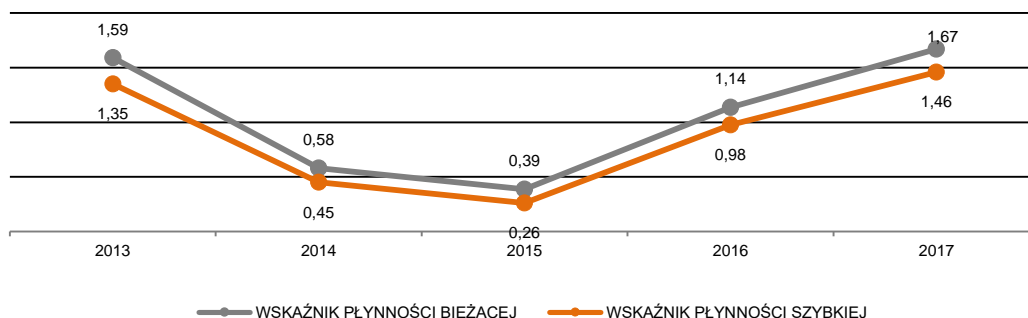
Debt and financing ratio calculation methodology:

Non-current capital to non-current assets ratio:	$(Equity + Non-current liabilities net of long-term provisions) / Non-current assets.$
Equity debt ratio:	$Total liabilities / Equity.$
Long-term debt ratio:	$Non-current liabilities / Total liabilities and equity.$
Short-term debt ratio:	$Current liabilities / Total liabilities and equity.$
Total debt ratio:	$Total liabilities / Total liabilities and equity.$
Equity ratio:	$(Equity - intangible assets) / Total assets.$

LIQUIDITY

The current liquidity ratio for 2017 was 1.67, representing growth by 46.5% relative to 2016 (1.14); the quick liquidity ratio increased by 49.0%, from 0.98 as at the end of 2016 to 1.46 as at the end of 2017. The strongest factor influencing the current liquidity ratio was the increase in current assets by PLN 1,549.7 million, i.e. by 64.0%, mainly due to the growth of trade and other receivables by PLN 1,358.8 million (including receivables from the purchase of investment certificates, i.e. PLN 1,450.0 million) and increased inventories, which amounted to PLN 499.4 million at the end of 2017 and were higher by PLN 156.9 million (a growth by 45.8%) than at the end of 2016, mainly in finished products – growth by PLN 118.5 million. Current liabilities (net of short-term provisions) increased by PLN 244.1 million, i.e. 11.5%.

Graph 19. Liquidity ratios



Liquidity ratios calculation methodology:

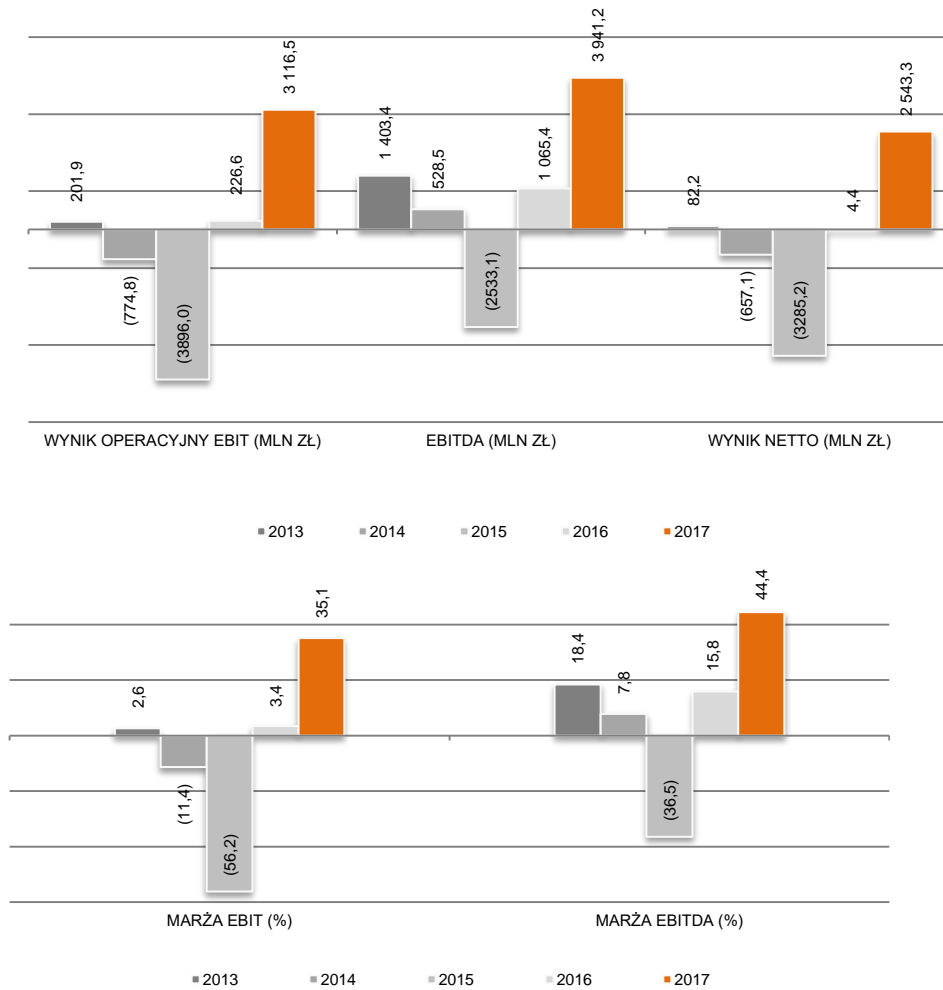
Current liquidity ratio: $\text{Current assets} / \text{Current liabilities net of short-term provisions.}$

Quick liquidity ratio: $(\text{Current assets} - \text{inventories}) / \text{Current liabilities net of short-term provisions.}$

PROFITABILITY

An analysis of the profitability ratios shows a clear improvement in the efficiency of the Group's operations in 2017, compared to 2016. It results primarily from the increase by PLN 1,374.3 million in coal sales revenues, from PLN 3,551.6 million in 2016 to PLN 4,925.9 million in 2017, i.e. by 38.7%. The increase is mainly attributable to the higher selling price of coking coal, which was PLN 397.35 per ton in 2016, and grew to PLN 656.70 per ton in 2017, i.e. by PLN 259.35 per ton (up 65.3%)

Graph 20. Profitability ratios



Profitability ratios calculation methodology (part I):

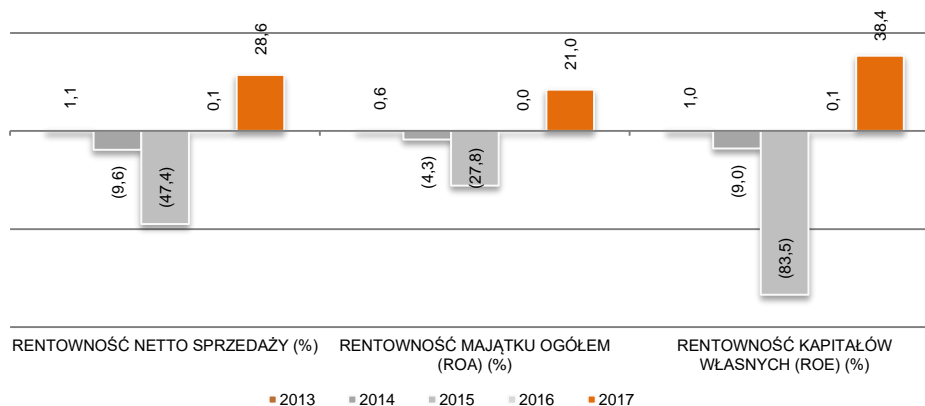
EBIT Margin: $\text{Operating result} \times 100 / \text{Sales revenues}$

EBITDA: $\text{Operating result} + \text{depreciation and amortization.}$

EBITDA Margin: $\text{EBITDA margin: EBITDA} \times 100 / \text{Sales revenues.}$

In 2017, the return on total assets (ROA) and on equity (ROE) showed improved efficiency in the utilization of the Group's assets and equity.

Graph 21. Profitability ratios



Profitability ratios calculation methodology (part II):

Net sales profitability:	$\text{Net financial result} \times 100 / \text{Sales revenues.}$
Return on assets (ROA):	$\text{Net financial result} \times 100 / \text{Total assets.}$
Return on equity (ROA):	$\text{Net financial result} \times 100 / \text{Equity.}$

MINING CASH COST

Mining cash cost ("MCC") is a ratio used by the Group for management purposes. The methodology of calculation and presentation of coal mining cash cost reflects the cost from the point of view of cash consumption regardless of the period in which it was incurred.

Table 28. Mining Cash Cost

ITEM	2017	2016	2015	2014	2013	GROWTH RATE 2016=100
Consumption of materials and energy	846.5	880.3	980.2	1,064.7	987.2	96.2
External services	1,275.9	1,158.3	1,292.6	1,610.6	1,520.5	110.2
Employee benefits	2,370.3	2,064.6	2,583.8	3,046.9	2,895.9	114.8
Taxes and fees	104.6	131.0	129.4	118.5	117.8	79.8
Other costs by nature	18.3	(2.2)	23.7	25.4	37.3	-
Other costs of the period not applicable to coal production	-	-	-	(939.8)	(1,003.9)	-
Mining cash cost (PLN million)	4,615.6	4,232.0	5,009.7	4,926.3	4,554.8	109.1
Coal extraction (millions of tons)	14.8	16.8	16.3	13.9	13.6	88.1
Mining cash cost (PLN/ton)(1)	312.54	251.38	307.10	353.22	334.25	124.3

(1) To achieve greater accuracy, the value of mining cash cost per ton of coal was calculated based on values expressed in PLN thousands and thousands of tons.

In 2017, the mining cash cost was PLN 4,615.6 million, i.e. PLN 383.6 million higher (9.1%) than in 2016. In terms of unit cost, the mining cash cost was PLN 312.54 per ton in 2017, i.e. 24.3% higher than in 2016, accompanied by a lower net coal production by 11.9%.

The increase in mining cash cost was caused primarily by the following factors:

- higher cost of employee benefits, by PLN 305.7 million (+14.8%), which result mainly from the agreements with the Social Partner regarding the award of additional benefits to employees in 2017. At the same time, compared to 2016, the cost of

employee benefits was lower as a result of a lower average headcount by 2,204 FTPs (-9.6%), attributable mainly to the transfer of SRK Section Jas-Mos and KWK Krupiński, and to natural attrition,

- higher cost of external services by PLN 117.6 million (+10.2), which is due primarily to the higher incurred cost of drilling and mining services, by PLN 100.5 million (+67.5%), as a result of more extensive, by 2,584 running m, of pit section work. Furthermore, 2017 saw the effect of additional outsourcing for the operation of the main permanent facilities and the underground mining infrastructure, which so far was performed in-house. Repair services increased by PLN 47.8 million (+20.7%), as a result of the launching of repairs designed to open the longwalls, the mining of which will allow to maintain the required level of output and to safeguard an efficient mining of deposits until the intended production capacity is reached.

Net of additional employee benefits, the MCC for 2017 is PLN 4,107.7 million, and is lower compared to 2016 by PLN 124.3 million; in terms of unit cost, MCC amounted to PLN 278.14 per ton and – due to a lower level of production in 2017 – is higher by PLN 26.76 per ton relative to the previous year.

CASH CONVERSION COST OF COKE

Table 29. Coke mining cash cost

ITEM	2017	2016	2015	2014	2013	GROWTH RATE 2016=100
Consumption of materials net of coal feedstock	50.6	53.0	47.7	53.6	59.4	95.5
Energy consumption	48.4	48.3	59.5	43.2	50.3	100.2
External services net of transport costs of coal feedstock	169.6	196.3	211.2	214.5	213.5	86.4
Taxes and fees	54.7	51.5	52.1	47.1	43.2	106.2
Personnel costs	220.6	235.4	271.2	285.3	275.6	93.7
Other costs by nature	3.2	4.5	5.4	3.8	(2.2)	71.1
Selling and distribution expenses less depreciation and amortization attributable to selling and distribution expenses	(30.1)	(35.7)	(37.4)	(38.2)	(56.9)	84.3
Cash conversion cost (PLN million)	517.0	553.3	609.7	609.3	582.9	93.4
Coke production for sale (millions of tons)	3.5	4.1	4.2	4.0	3.9	85.4
Cash conversion cost (PLN/ton)	149.82	133.52	144.66	151.85	148.01	112.2

In 2017, the cash conversion cost amounted to PLN 517.0 million and was lower by PLN 36.3 million, i.e. 6.6%, compared to 2016. The decrease was caused primarily by the disinvestment of WZK Victoria in Q3 of 2016; as a result, the figures for 2017 do not include the costs of this coking plant.

The fall in the mining cash cost of coke in 2017, relative to 2016, is primarily due to:

- a decrease in external services, excluding the transport cost of coal feedstock, by PLN 26.7 million, i.e. 13.6%, which is a result of the disinvestment of WZK Victoria (a decrease of PLN 24 million),
- lower personnel costs by PLN 14.8 million, i.e. 6.3%, which is a result of the disinvestment of WZK Victoria. The deduction of personnel costs attributable to WZK Victoria resulted in an increase of personnel costs in JSW KOKS, due to higher actuarial provisions in 2017 and lower additional write-down for the company's social benefit fund (ZFŚS) in 2016 (a part of this cost was provided for in 2015).

As a result of the above mentioned factors, the unit Cash Conversion Cost in 2017 was PLN 149.82, and was higher by 12.2% relative to 2016, at a lower production volume of coke for sale by 14.6%.

7.9. PROCEEDS FROM SECURITIES ISSUES

In 2017 the Group companies did not issue securities. On 29 December 2016, the Parent Company issued, as part of the bonds issue program, additional 30,000 bonds with par value of PLN 10,000, all of which were subscribed for by Towarzystwo Finansowe Silesia Sp. z o.o. The acquired funds were earmarked to general corporate purposes.

More information about the bond issue carried out by the Parent Company is presented in Section 7.3. thereof.

7.10. RELATED PARTY TRANSACTIONS

Detailed information on related party transactions is presented in Note 10.4. of the Consolidated Financial Statements of the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2017.

7.11. INFORMATION ON LOANS AND BORROWINGS CONTRACTED AND TERMINATED

In the reporting period, the companies in the Group concluded amending agreements and annexes to loan agreements, pursuant to which:

- PKO Bank Polski S.A. has extended the term of the multi-purpose credit limit until 28 August 2018. As at 31 December 2017, the Group had only utilized the amount of PLN 26.8 million under the credit limit.
- Bank Pekao S.A. has extended the term of the current account overdraft for PLN 100.0 thousand until 30 April 2018. As at the end of 2017, the limit was not utilized.
- Getin Noble Bank S.A. has decreased the amount of the available current account overdraft from PLN 1 million to PLN 0.8 million, and extended the term thereof until 21 June 2018. As at the end of 2017, the limit was not utilized.

In May 2017, the loan extended by the Voivodship Fund for Environmental Protection and Water Management in Katowice was drawn down, in the amount of PLN 10 million, based on an agreement signed on 23 March 2017. The loan is being repaid on a quarterly basis, in the amount of PLN 500,000, as from September 2017. The loan is at a floating interest rate. It is a secured loan. As at 31 December 2017, the liability under this loan amounts to PLN 9 million.

In 2017, the successive tranches of the loan extended by the National Fund for Environmental Protection and Water Management in Warsaw were drawn down, in the amount of PLN 45 million, thus increasing the debt from PLN 16.3 million as at the end of 2016, to PLN 45 million at the end of 2017.

As at the end of 2017, the Group's total liabilities on the account of contracted loans and borrowings amounted to PLN 122.2 million (2016: PLN 87.0 million).

Furthermore, pursuant to the agreements in force as at 31 December 2017, the Group held available and unutilized overdraft limit in current account and working capital loans in the total amount of PLN 0.9 million (as at the end of 2016: PLN 26.1 million).

7.12. INFORMATION ON LOANS AND SURETIES GRANTED AND SURETIES AND GUARANTEES RECEIVED

In the reporting period ended 31 December 2017, the Group companies did not grant any loans and sureties. As at the end of the reporting period, the following sureties are still in effect:

- JSW KOKS for the liabilities of the Parent Company under the bond issue, up to the total amount of PLN 2,218.5 million, with the expiry date of 31 March 2026,
- the surety granted by KWK Krupiński to secure the loan extended by PKO BP S.A. up to the amount of PLN 0.3 million, for the liabilities of Górnicza Spółdzielnia Mieszkaniowa, with the expiry date in 2030,
- the surety for the liabilities of the Voivodship Specialist Hospital No. 2 in Jastrzębie-Zdrój, for the loan taken out from Bank Ochrony Środowiska S.A., in the amount of PLN 0.3 million, with the expiry date of 31 December 2020.

As at 31 December 2017, the Group held the following active guarantees:

- the bank guarantee of PLN 1.8 million to secure repayment of the loan extended by the Voivodship Fund for Environmental Protection and Water Management in Katowice.

In 2017, the Group companies did not receive any other sureties or guarantees.

7.13. FINANCIAL INSTRUMENTS

APPLICATION OF FINANCIAL INSTRUMENTS TO HEDGE PRICE CHANGES, CREDIT RISK, RISK OF SIGNIFICANT CASH FLOW DISRUPTIONS AND LOSS OF LIQUIDITY

Price risk

The situation on the coking coal and coke market is related to the market for steel and metallurgical products; market trend cycles display price fluctuations in these sectors. Coking coal prices depend strongly on demand on the global coke, metallurgy and steel market, while steam coal prices depend also on the actions of other domestic producers. Despite the fact that the Group has long-standing customers, every event of cheap coal imports or production increase by other Polish producers creates a potential risk of downward price pressure.

If market prices change, the following actions are taken to mitigate their impact on the Group's financial standing:

- increase production and sales volumes,
- change the production structure to increase efficiency of product sales (increase production of goods commanding better prices and finding demand in the period – optimization of the sales structure),
- optimize the selling directions of the Group's products.

In order to react to changing prices at the right moment, the Group constantly monitors markets, analyzes them and tracks on an ongoing basis price trends on the coal, coke, steel and electricity markets. Long-term contracts allow for periodical price re-negotiations. In its risk management activities, the Group follows the rules set out in the Trading Procedure at the JSW Group and the rules set by the Foreign Exchange Risk Committee of the JSW Group which monitors the foreign exchange impact of coal, coke and hydrocarbon deliveries. Coal imports and the prices of coal produced by Polish mines as well as coke and steam coal prices in ARA ports, are monitored periodically.

The Group has no material investments in capital securities classified in the statement of financial position as available for sale or carried at fair value through profit or loss and therefore is not exposed to price risk related to changes in the prices of such investments.

Credit risk

Credit risk in the Group is concentrated in the following areas:

- trade receivables,
- cash on bank accounts and bank deposits,
- derivatives.

Credit risk identified in trade receivables is related to their concentration and timely service. Sales are made to a limited number of buyers and therefore there is a concentration of risk associated with trade receivables. The trading policy implemented in the JSW Group as regards the sales of coke enforced a diversification of coke customers, which lowers the credit risk associated with trade receivables.

In 2017, the ArcelorMittal Group continues to be the dominant customer, as well as companies with interests held by the State Treasury, whose receivables amount to 34.9% and 17.2%, respectively, of the trade receivables recorded as at 31 December 2017. The share of the ArcelorMittal Group in trade receivables is comparable to 2016, when it was 35.1%, while the share of companies with interests held by the State Treasury increased: it was 16.3% of the total liabilities in 2016.

To curtail the risk of not collecting receivables, financial security interests are taken from clients in the form of blank promissory notes or letters of credit. As for new clients, as well as clients in precarious financial condition, the Group requires an advance payment before the sale is effected. In the case of some buyers using trade credit, their trade receivables are insured by insurance companies.

As regards strategic buyers and clients with solid financial standing, the Group does not require any financial security considering the long-term cooperation with those clients and the possibility to examine their financial accounts.

Taking into account the above security interest and the history of cooperation with the customers, the risk of uncollectible receivables is deemed to be very low.

The credit risk pertaining to cash and cash equivalents is limited because the Group invests its cash in banks with an established market position. The selection of financial institutions in which cash is deposited is also driven by the conditions ensuing from the signed Bond Issue Program.

In connection with the conservative selection of banks with which Group entities cooperate, the current level of risk may be estimated as low.

The Group selects cooperating banks for concluding forward transactions following similar principles as in the case of time deposits of available cash. In accordance with the Foreign Exchange Risk Management Policy in the JSW Group, the Group hedges FX risk, among others by benefiting from natural hedges and entering into hedging transactions with banks and subsidiaries. To minimize the risk associated with execution of hedging transactions, the Group cooperates exclusively with highly credible banks. To diversify the risk associated with the execution of hedging transactions, the Foreign Exchange Risk Committee at the JSW Group defines the maximum concentration level for derivative transactions (the maximum nominal amount of transactions open at a single bank). The process of hedging exchange risk is monitored on an ongoing basis. As at 31 December 2017, the highest concentration of exposure to a single bank is 25% of the allowed limit.

According to the Group's assessment, the maximum exposure to credit risk on the final day of the reporting period is the full book value of trade receivables without the fair value of security accepted, cash and cash equivalents and financial assets in the form of bank term deposits.

Loss of liquidity risk

Considering the high level of capital expenditure and large exposure of its cash flows to coal and coke price fluctuations, the Group is exposed to the loss of liquidity risk. Furthermore, the potential callability of the total or part of the liabilities under the bonds issued by the Parent Company may generate a risk that the Group will not be able to pay its dues. At present, as a result of a much improved financial standing of the Group, including better liquidity, as well as repayment of a part of the bond liabilities, this risk has been curtailed.

Current market conditions allow the Group to generate positive cash flows on operating activities, which in turn cover the capital and financial expenditures. As a result, the balance of available funds ensures strong operating viability. Furthermore, as a part of its strategy, the Parent Company intends to maintain the Stabilization Fund, to serve as a safety buffer in the times of economic downturn, when on-going expenditures may not be fully covered by the generated cash flows. To this end, on 21 December 2017, a Cooperation Agreement was concluded with PGE Towarzystwo Funduszy Inwestycyjnych S.A. and Altus Towarzystwo Funduszy Inwestycyjnych S.A., which led to the establishment of JSW Closed-End Investment Fund (JSW Stabilizacyjny FIZ).

The Group also intends to maintain the correct structure of financing, by securing an adequate share of long-term financing sources.

The loss of liquidity risk management process in the Group, includes, *inter alia*, effective monitoring and reporting on the liquidity position, which will allow the Group to take preventive actions whenever there is a risk of liquidity being compromised, and to maintain an adequate (minimum) level of funds available for on-going payments.

Additionally, in order to achieve more effective management of current liquidity, the JSW Group has in place a cash management system named Physical Cash Pooling (PCP).

Furthermore, pursuant to the agreements in force as at 31 December 2017, the Group held available and unutilized overdraft limit in current account and working capital loans in the total amount of PLN 0.9 million (as at the end of 2016: PLN 26.1 million).

Risk of changing cash flows due to interest rate changes

The Group's exposure to interest rate risk concerns primarily potential changes in cash flows caused by shifts in market interest rates. The Group finances its operating and investing activities partly with external funds bearing interest at floating interest rates and invests free cash in financial assets which also in most cases bear interest at floating interest rates. In connection to the current debt level, the Group is exposed to the risk of changes in interest rates in respect to its liabilities under debt securities issuance and credit products, including leasing. To a smaller extent, the Group is also exposed to the risk of interest rate changes applicable to cash and deposits.

The interest rate risk arises from the fluctuations in the following reference rates: WIBOR O/N, WIBOR 1M, WIBOR 3M, LIBOR 1M for EUR, EURIBOR 1M, LIBOR 1M for USD, LIBOR 3M for USD.

The Group is exposed to interest rate risk primarily in PLN and USD. With respect to EURLIBOR rates, their volatility is low and foreign currencies are only a small fraction of the overall cash exposed to the risk of interest rate changes; therefore, their effect on the Group's financial results is insignificant.

Foreign exchange risk

The Group is exposed to significant foreign exchange volatility risk due to its foreign currency exposure which may affect the amounts of future cash flows and the financial result. Foreign exchange risk in the Group originates from the sale of its products:

- sales denominated in EUR and USD,
- sales indexed to EUR and USD.

Pursuant to the Bond Issue Program concluded in July 2014, as amended, the Parent Company has also issued bonds denominated in USD. This fact naturally mitigates foreign exchange risk linked to product sales.

The Group has been actively managing its FX risk. The overriding objective of the Group's policy is to mitigate the exchange risk arising from its exposure to foreign currencies. The Group has been measuring its FX risk on an ongoing basis and takes actions to mitigate the effect it has on its financial standing. FX risk is managed in the Group in accordance with the Foreign Exchange Risk Management Policy at the JSW Group.

In the Group, there is a Foreign Exchange Risk Committee at the JSW Group, responsible for making key FX risk management decisions, in particular for hedging contracted and planned cash flows.

With the view to eliminating foreign exchange risk, in 2017 the Group entered Fx Forward (external), transactions, in keeping with the hedging ratios adopted by the Management Board and the Foreign Exchange Risk Committee at the JSW Group. Intra-group hedging transactions have also been concluded. The maturity of the transactions did not exceed 12 months. The Group also made small purchases of materials, services or investment assets in foreign currencies. This naturally mitigates some foreign exchange risk resulting from product sales transactions.

The Group employs cash flow hedge accounting. In principle, derivative transactions to hedge the denominated exposure with maturities exceeding six months are designated for hedge accounting. At the inception of the hedge JSW formally designates and documents the hedging relationship. Effectiveness of the hedge instruments used by the Parent Company is monitored on an ongoing basis and is subject to continuous evaluation.

In 2017, the Group designated for hedge accounting transactions Fx Forward of the nominal value of USD 7.0 million and EUR 67.0 million. As at 31 December 2017, the Group holds active Fx Forward derivative positions of the total nominal value of EUR 103.0 million and USD 25.7 million, out of which EUR 55.0 million and USD 7.0 million are hedging transactions in the meaning of hedge accounting. Derivative transactions are meant to hedge the cash inflows from sales of products and goods which the Group expects to receive until October 2018. The effective part of the change in fair value of the derivative hedging transactions in the amount of PLN 46.2 million has been allocated to other comprehensive income. The ineffective part, and the movement in the fair value of derivative instruments not designated for hedge accounting, have been included in the financial result of the period. In the period from January to December 2017, an amount of PLN 26.3 million has been reposted to financial result as a result of the execution of the position hedged both in EUR and in USD.

In the course of 2017, the group decided to discontinue the hedge accounting for derivative Fx Forward transactions of the nominal value of USD 3 million. The effective part of the hedge in the amount of PLN (0.1) million has been reposted to financial result after the hedged item was realized.

OBJECTIVES AND METHODS OF FINANCIAL RISK MANAGEMENT

The Group has in place Management Board-approved policies setting out financial risk management principles and objectives.

The Foreign Exchange Risk Policy at the JSW Group, designed to centralize the FX risk management in JSW, by the way of, *inter alia*, setting out foreign exchange management principles, and in particular the rules for identification, monitoring and reporting of FX risk, which is aimed at the mitigation of adverse FX risk impact on cash flows and the economic result of the Group.

The Interest Rate Risk Policy at the JSW Group, designed to manage the interest rate risk, by the way of, *inter alia*, setting out the rules of interest rate risk management, and in particular the rules of identification, measurement, monitoring and reporting of interest rate risk, which is aimed at the mitigation of adverse interest rate risk impact on cash flows and the economic result of the Group.

The Group operates **the Foreign Exchange Risk Committee at the JSW Group** functions in the JSW Group. It is responsible, among other things, for making key FX risk management decisions, in particular for hedging contracted and planned cash flows. The net exposure ensuing from planned, contracted or invoiced sales is hedged in accordance with the hedging ratios adopted by JSW using forwards maturing over the upcoming 12 months.

To hedge FX risk the Group uses not only its natural hedge but FX Forward derivative transactions. Derivatives are carried at fair value. For recording purposes, the Company uses its own valuations (EXANTE system).

The Group uses **cash flow hedge accounting**, which allows for reposting of the effective part of the hedge to equity, which balances the impact of the valuation of derivative hedge instruments and the execution of the hedging position on the financial result. The Group applies hedge accounting with respect to foreign exchange risk and interest rate risk. In principle, derivative transactions with maturities exceeding six months are designated for hedge accounting.

On 1 January 2018, the IFRS 9 comes into force which regulates, *inter alia*, the application of hedge accounting. The IAS Council has not completed its work on the regulations regarding macro-hedging. Therefore, until this work is completed, for all its relationships the Group may choose from the following options:

- continue to use the hedge accounting according to IAS 39, or
- adopt the new solutions in keeping with IFRS 9.

In the period starting as from 1 January 2018, the Group will apply IAS 39 to hedge accounting.

As at 31 December 2017, the Group holds active FX derivative positions of the total nominal value of EUR 103.0 million and USD 25.7 million, out of which EUR 55.0 million and USD 7.0 million have been designated for hedge accounting. The derivative transactions hedge cash inflows from the sales of products denominated in EUR and USD that the company expects to receive until October 2018. The fair value of open derivative positions as at the end of the reporting period was PLN 13.8 million.

As at 31 December 2017, as a result of hedge transactions revaluation, the future cash flows were reposted into other comprehensive income, in the amount of PLN 16.1 million, out of which:

- PLN 46.2 million is the positive valuation resulting from the change in fair value of hedge instruments, the effective part,
- PLN (37.7) million is the value posted to the period's profit or loss if the hedged position is realized (FX Forward),
- PLN 11.4 million is the value posted to the period's profit or loss if the hedged position is realized (bonds),
- PLN (3.8) million is the effect on the deferred tax on the above mentioned positions.

In 2017, the Group did not hedge interest rate risk.

The Parent Company operates the **Policy of Investing Free Financial Resources at JSW**. The policy defines the objectives, principles and duties as regards the investment of free financial resources and constitutes a framework for free cash on hand management. In particular, the procedure regulates the identification, quantification, and monitoring, as well as the division of duties in the area of effective treasury control; it also identifies the allowed tools for the investment of funds and defines the rules of cooperation with banks. The Group also operates the **Liquidity Management Policy and procedure at the JSW Group**. The main objective is to monitor effectively and report the liquidity position, allowing the Group to take measures if a threat to liquidity arises.

7.14. GROUP'S CURRENT AND ANTICIPATED FINANCIAL STANDING

The Group does not publish forecasts of financial results due to high market volatility and the significant number of variables influencing market predictability.

On 19 December 2017, the JSW Supervisory Board approved the *Strategy of JSW and the Group's Subsidiaries for the Years 2018-2030* ("Strategy"). The strategy is geared towards long-term, stable and sustainable development, ensuring growth in JSW's value in line with shareholders' expectations. This objective will be achieved by the way of higher coal production and sales.

The Group's operational assumptions for 2018-2030:

- The Group's EBITDA margin of 30% on average in 2018-2030.
- Total capital and investment expenditure of the Group at the level of about PLN 18.9 billion over the term of the Strategy.
- Stable coal production at 15.6 MT in 2018 to 18.2 MT in 2030, with the level of costs ensuring EBITDA profitability.
- Coal sales at the level close to coal production.
- Balanced production and sales of coke, at the level above 3.4 MT.
- Improved productivity achieved through investment and introduction of new technologies.
- Introduction of innovative technical and technological solutions.
- Pursuit of the sustainable development principle to achieve harmonious cooperation with stakeholders, including the local community, with due regards to economic, social and pro-environmental assumptions.
- Financial stability to reach the objectives of the investment program – through the establishment of a stabilizing closed-end mutual fund.

7.15. PRINCIPLES GOVERNING PREPARATION OF THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT BOARD ACTIVITY REPORT

The Consolidated Financial Statements of the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2017 has been prepared in keeping with the International Standards of Financial Reporting (IFRS), approved by the European Union (EU).

The adopted accounting principles were employed using the principle of continuity in all of the presented financial years. The accounting principles (policy) applied to prepare the financial report have been presented in the individual Notes to the Consolidated Financial Statements of the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2017

This report is consistent with the requirements of the provisions of law and regulations of capital market institutions pertaining to the scope of activity reports. This report has been prepared following the principle of the internal cohesion of the document and consistency with the Consolidated Financial Statements of the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2017.

7.16. INFORMATION ABOUT THE AUDIT FIRM AUDITING THE FINANCIAL STATEMENTS

The entity authorized to audit the Consolidated Financial Statements of Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2017 is Deloitte POLAND Company z ograniczoną odpowiedzialnością Sp. k. The agreement between JSW and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. was entered into on 3 April 2015 and pertains to audit of JSW's financial statements for 2015 and 2016, JSW Group's consolidated financial statements for 2015 and 2016, review of JSW's interim financial statements for H1 2015 and H1 2016 and also JSW Group's interim consolidated financial statements for H1 2015 and H1 2016.

On 15 December 2016, the Company's Supervisory Board adopted a resolution to extend the previous agreement with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. for performance of the audit of JSW's financial statements for 2015 and 2016. The annex to the agreement covers an audit of the financial statements of JSW and the Group for 2017, including drawing up an interim financial report for the first half of 2017.

Information on the remuneration of the auditor is presented in Note 10.5. Consolidated Financial Statements of Jastrzębska Spółka Węglowa S.A. Group for the year ended 31 December 2017.

Furthermore, on 29 November 2017, the Company's Supervisory Board appointed PricewaterhouseCoopers Sp. z o.o., headquartered in Warsaw, at Al. Armii Ludowej 14, 00-638 Warsaw, as the entity authorized to perform the audit of the annual financial statements of JSW for the years 2018-2020, the audit of the consolidated financial statement of the JSW Group for the years 2018-2020, including an audit of the key companies in the Group, i.e. JSW KOKS and JZR.

8. JASTRZĘBSKA SPÓŁKA WĘGLOWA S.A. ON THE CAPITAL MARKET

SHARE PRICES OF THE PARENT COMPANY

Table 30. Summary of JSW share listings

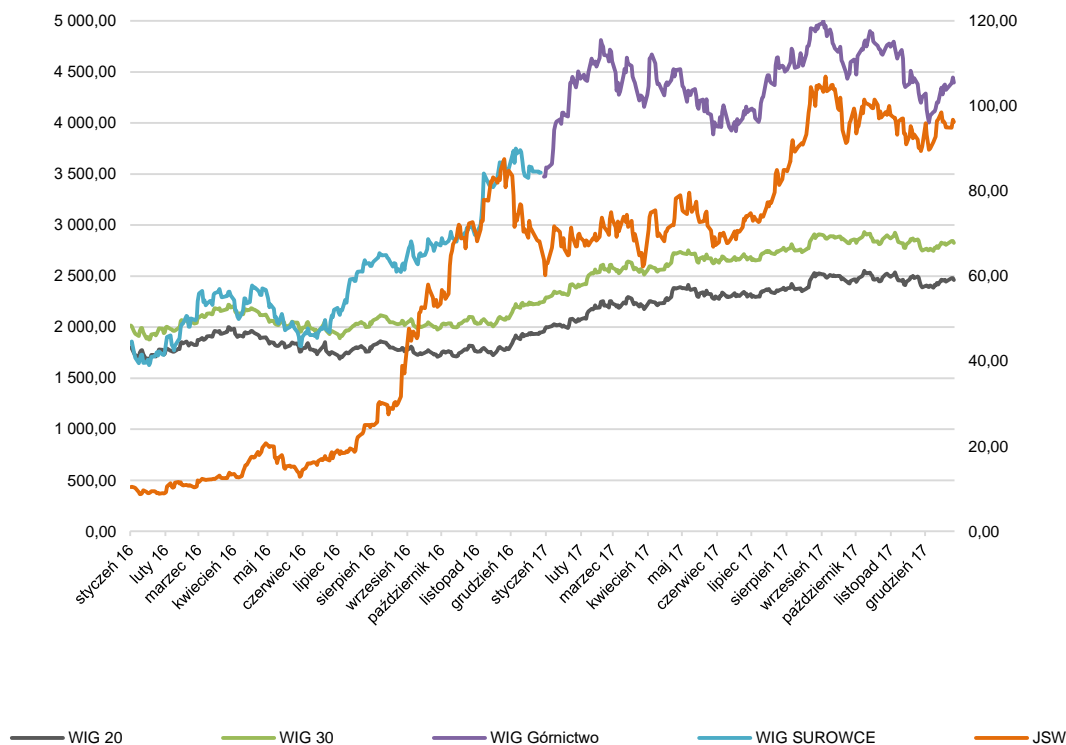
SHARE DATA	2017	2016	2015	2014	2013	2012
Number of shares at year end (units)	117,411,596	117,411,596	117,411,596	117,411,596	117,411,596	117,411,596
The lowest closing price (PLN)	60.21	8.77	10.00	16.25	53.13	82.20
The highest closing price (PLN)	106.95	87.50	25.96	54.05	97.60	110.60
Closing price on the last day of quotation (PLN)	96.27	66.90	10.65	16.25	53.13	92.40
Capitalization at the end of the year (PLN million)	11,303.2	7,854.8	1,250.4	1,907.9	6,238.1	10,848.8

In 2017, JSW shares were included in the following indices:

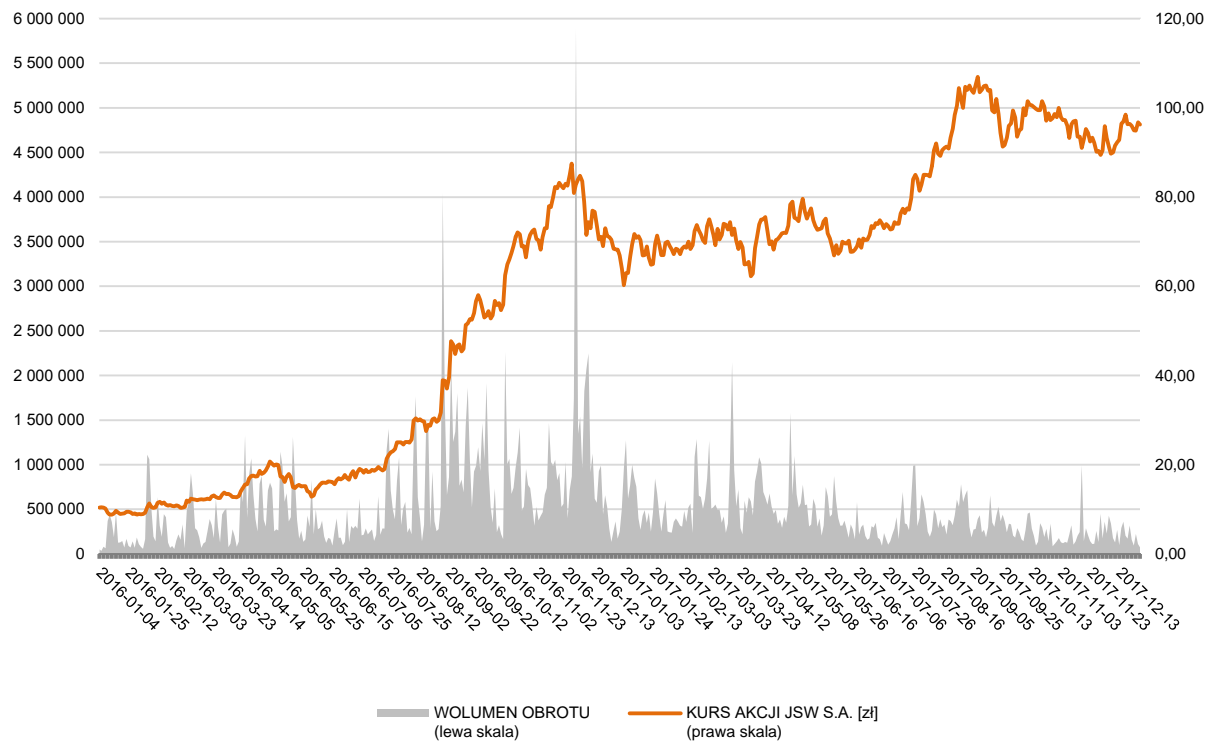
- price indices: WIG Index, WIG30 Index, mWIG40 Index (until 17 March 2017), WIG20 Index (after closing of the session on 17 March 2017), RESPECT Index (from 18 December 2017),
- earnings indices: WIG-Poland Index, WIG-górnictwo (WIG-Mining) Index.

Moreover, JSW is included in the MSCI Poland index.

Graph 22. Listings of JSW shares and the WIG20, WIG30 and WIG Górnictwo Indices



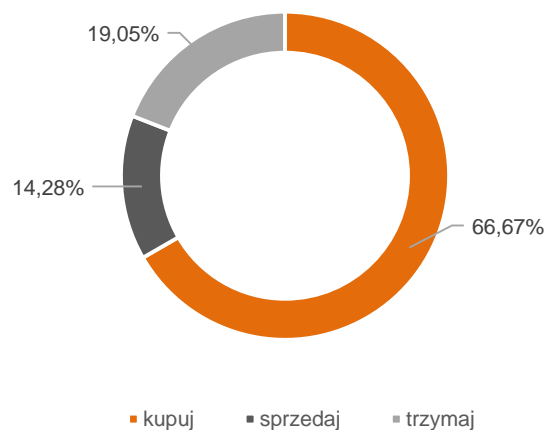
Graph 23. JSW share price and volume in 2017



RECOMMENDATIONS FOR JSW'S SHARES

As far as JSW is aware, there were 21 broker recommendations issued for JSW in 2017. Fourteen brokerage houses recommended buying the shares of JSW, four issued the neutral recommendation "keep", and three recommended selling the shares.

Graph 24. Recommendation structure for JSW shares



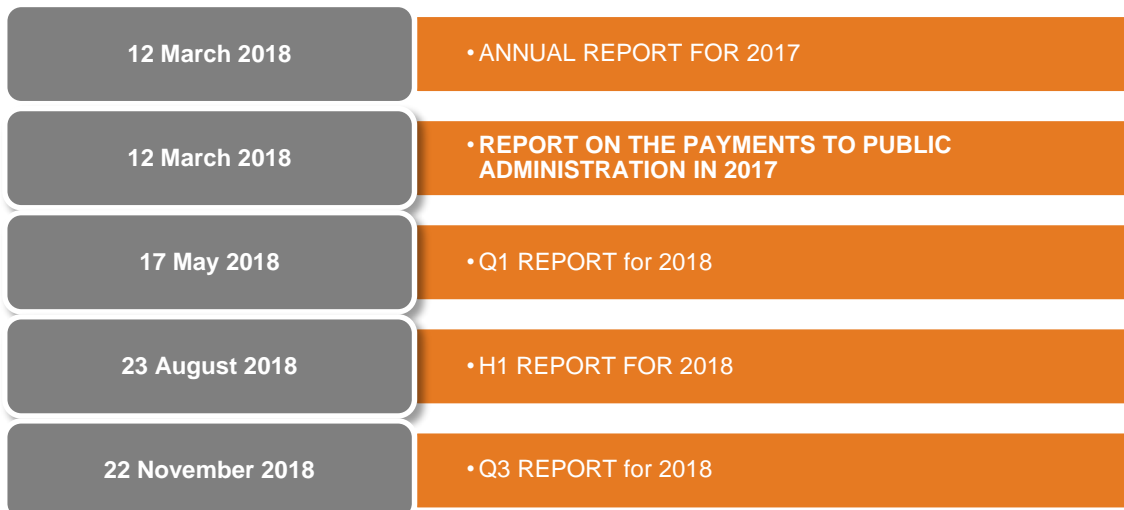
INVESTOR RELATIONS

To maintain the desired image among JSW's stakeholders, as well as positive standards of communication with capital market participants, JSW continued its previous efforts through providing credible information according to the highest standards in that area. Communication with capital market participants took place through:

- participation in meetings with company shareholders, potential investors and stock exchange analysts, both from the sell and buy sides,
- publication of current reports and periodic reports, and organizing the conferences to present the results, with broadcasts of those conferences via the Internet with the possibility of asking questions to the JSW Management Board via e-mail:
 - after publication of results for 2016,
 - after publication of results for the first quarter of 2017,
 - after publication of results for the first half of 2017,
 - after publication of results for the third quarter of 2017,
- interviews with Management Board members and other JSW representatives,
- publication of press releases concerning JSW's current standing,
- on-going updates to the Company's website (the "Investor Relations" tab), including publication of a range of financial and operating data in editable format, which allows for a quick comparison with historical data.

Capital market operators may contact the Issuer at the e-mail: relacje@jsw.pl

Chart 10. Reports calendar for 2018



DIVIDEND POLICY

In accordance with the dividend policy set forth in the JSW prospectus of 2011 (page 59), it is the intention of the JSW Management Board to recommend to the Shareholder Meeting to pay a dividend in the amount of at least 30% of the consolidated net profit for the financial year. The dividend policy 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 will be subject to changes aimed at adapting it to the above factors.

Pursuant to the provisions of the Agreement entered into with the Bondholders, the JSW Management Board covenanted that until the complete repayment of liabilities on account of bonds issued under the Issue Program it will be able to recommend a dividend payment to the JSW Shareholder Meeting if consent for such payment is obtained from the Bondholder Meeting or if Debt Service Coverage Ratio (DSCR) (current and forecast) reaches a certain level. Otherwise, the payment of a dividend by JSW will constitute a breach of the Agreement.

In its resolution adopted on 23 June 2017, the JSW Ordinary Shareholder Meeting decided to designate the 2016 net profit of Jastrzębska Spółka Węglowa S.A. of PLN 371,991,348.49 as follows:

- PLN 124,500,000.00 to additional reserve capital to finance the investment program,
- PLN 247,491,348.49 to supplementary capital.

In view of JSW Management Board decision on not recommending dividend distribution in 2017, the Management Board will propose to allocate the entire net profit achieved by the Parent Company in 2017, in the amount of PLN 2,422.1 million, to supplementary capital

Table 31. *Dividend distribution history*

YEAR	DATE OF ACQUISITION OF DIVIDEND RIGHTS	DIVIDEND PAYOUT DATE	DIVIDEND (PLN)	DIVIDEND (PLN/SHARE)
2011	20.06.2011	20.07.2011	256,978,067,20*	2.16
2012	06.07.2012	24.07.2012	631,674,386.48	5.38
2013	31.07.2013	20.08.2013	295,877,221.92	2.52
2014	-	-	-	-
2015	-	-	-	-
2016	-	-	-	-
2017	-	-	-	-

* The dividend in the amount of PLN 257.0 million recognized in the Financial Statements for the financial year ended 31 December 2011 includes mandatory payments to the State Treasury treated as an advance payment in the amount of PLN 127.0 million – Act of 1 December 1995 on dividend payments by wholly-owned State Treasury companies (Journal of Laws No. 154, item 792, as amended) and the dividend paid to the State Treasury in July 2011 in the amount of PLN 130.0 million from profit earned in 2010.

9. REPRESENTATION ON NON-FINANCIAL INFORMATION FOR 2017

Pursuant to the Accounting Law, which obligates entities of public interest to disclose non-financial information starting from 2017, the Group prepared the required information in the form of a Representation. When drawing up this Representation, the Group applied best global standards of non-financial reporting, including:

- PN-ISO 26000 standard,
- GRI G4 guidelines / GRI Standards,
- Sector supplements GRI G4 as applicable to mining.

At the same time, however, the Representation cannot be considered as prepared in accordance with GRI G4 or GRI Standards.

9.1. BUSINESS MODEL

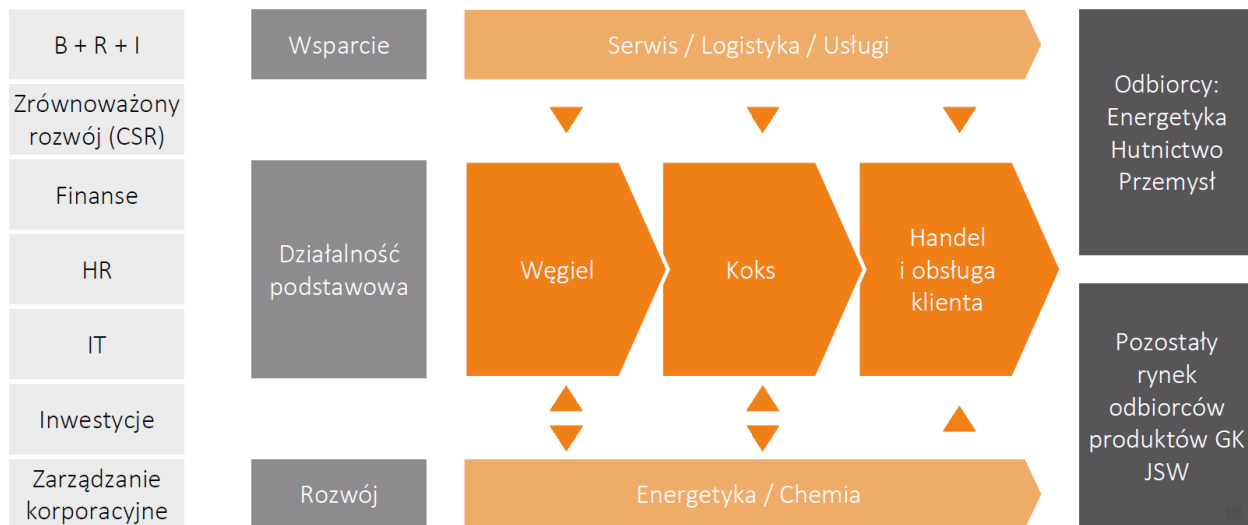
The Group is the largest producer of hard coking coal. For years, it has held the key position on the Polish and European markets for coking coal, due to the high quality of coal it produces and due to its location in the proximity to its main customers. The Group's primary operation also includes mining and sales of steam coal. Furthermore, JSW is a sales hub for all coal-based products, i.e. coke and other hydrocarbons produced by the Group's coking plants.

The main area of operation of Jastrzębska Spółka Węglowa S.A., the Parent Company of the Group, is hard coal mining taking place in separate organizational units, i.e. coal mines. JSW KOKS is responsible for coke production in the Group. Coal mining and coke production are the core operating activities of the Group. The Group also includes other auxiliary companies, whose scope of operations is presented in Section 1.3.

The Group companies operate in a complex social and economic environment, and the mining operations are carried out in difficult geological and mining conditions. In recent years, JSW and the Group have undergone a number of organizational transformations, designed primarily to optimize costs and increase the overall efficiency of company management.

The Group is an active participant of the coking coal-coke-steel supply chain, concentrating on coal mining and processing, as well as sales of the JSW Group's products: coal, coke and other hydrocarbons. As such, it is the key element of the recommended operational model for the JSW Group. The model is based on a full integration of the value chain by increasing the scope of long-term cooperation with clients, in order to ensure an adequate level of production in the long-term. The model concentrates on four main segments: coal, coke, steam coal and support functions.

Chart 11. Business model of the Group



Besides the Parent Company, this Representation on Non-Financial Information for 2017 also presents data concerning the other member companies of the Group; however, the focus has been on the largest companies, which also have the most important impact on their environment. The Representation includes other smaller entities included in the consolidation, presenting a succinct description of the solutions they apply wherever their impact is insignificant. This approach is designed to present the non-financial aspects of operations to the extent which is necessary to evaluate the development, results and the situation of the Group, as well as its impact on the environment.

9.2. NON-FINANCIAL RISK MANAGEMENT

On 15 November 2017, the JSW Management Board adopted the *Policy of Enterprise Risk Management at the JSW Group* and the *Procedures of Enterprise Risk Management at the JSW Group*. By the same token, those solutions are also binding for JSW.

The adoption of uniform risk management standards in the Group, including JSW, is aimed at maintaining the level of risk within pre-defined limits and ensuring that the Group meets its business objectives while safeguarding its overall security. The enterprise risk management process is based on best practices, i.e. ISO31000, COSO II, FERMA, and also reflects the specificity of the Group itself. The uniform system of risk management includes the identification and grading of risk, development and implementation of risk response plans, as well as monitoring and reporting on the risk management effectiveness.

In the context of risk, this policy invokes social responsibility, which is of fundamental value from the viewpoint of the Groups operation. The policy requires that the process of taking business decisions within the Group must reflect its responsibility for the internal and external environment. This approach, incorporating non-financial consequences of decisions, has been adopted in enterprise risk management (ERM). As a result, non-financial risks are subject to general ERM principles in the Group.

To ensure the proper oversight over the risk management process, an ERM Representative has been appointed, responsible for the coordination of the ERM management process. The Representative also works together with the Audit Committee of the Supervisory Board, presenting reports on the Group's risk profile and the results of enterprise risk management. The Representative also cooperates with the Audit and Control Office and the individual risk owners, in order to both consult the results of analyses and risk assessment, as well as to develop methodologies used in the ERM system. If a Company/Group Risk Committee is set up, the Representative cooperates by the way of providing information about the risk management situation.

9.3. POLICIES AND THE STRATEGY OF SUSTAINABLE DEVELOPMENT

From the formal point of view, the Group has not adopted generic policies in the area of social and employee issues, human rights and counteracting corruption, that would be applicable to all the member companies in the Group (understood as separate documents relevant for the individual areas).

The management-based approach to social, employee, environmental protection, human rights and counteracting corruption has been included in the *Strategy for Sustainable Development for 2017-2020* ("Strategy"). JSW believes that the Strategy not only replaces the above mentioned policies, but also offers a broader scope, because it defines objectives and targets which serve as measures of the development of the Group companies in the important areas of operation.

The Group believes that the Strategy not only replaces the above mentioned policies, but also offers a broader scope, because it defines objectives and targets which serve as measures of the development of the Group companies in the important areas of operation. An exception in this respect, however, is a document preceding the Strategy, i.e. *The Policy of Promotional and Charitable Activities at the Jastrzębska Spółka Węglowa S.A. Group*, designed to systematize the pro-social activities.

A special feature of the Strategy, setting it aside typical policy documents, is how it has been created. The Strategy was developed based on the approach presented in the PN-ISO 26000 standard. In the first step, an internal workshop for managers and coordinators of various business areas and functions related to sustainable development and responsible management, produced the following definitions:

- key responsibility areas,
- key stakeholder groups.

The second step was in-depth interviews with persons responsible for the individual areas. In this way specific measures were developed for the objectives defined earlier, followed by the adoption of targets.

Based on the preliminary assumptions of the strategy, a brochure was developed and distributed among all the participants of the International Mining Forum “Mining of the Future – New Problems and Solutions”, hosted by JSW, which took place on 28-30 June 2017. The forum brought together representatives of practically all stakeholder groups, including central and local administration, suppliers, including the world’s largest suppliers of mining equipment and technology, key buyers, science and the competitors. The forum also included a session entitled “Sustainable development – MINING IS OK. Stakeholder Relations as a Pillar of Corporate Social Responsibility”, devoted to a discussion of the assumptions of the Strategy for Sustainable Development for 2017-2020 and the broader context of the planned CSR activities by the JSW Group and other mining companies and mining-support industries (including the “Mining is OK” initiative).

The key word of reference, for both the entire *Strategy for Sustainable Development at JSW for 2017-2020*, and the general motive of sustainable development and responsible management is **RESPECT**:

Chart 12. *Management areas in CRS*



In this Representation, the discussion of the individual areas of impact invokes the specific corresponding objectives of the Strategy.

9.4. SOCIAL ISSUES

MANAGERIAL APPROACH AND KEY ACTIVITIES

The Group is of the view that respect for the society it is part of is of key importance for its future success. Our approach to social issues has been defined and described in the Strategy for Sustainable Development for 2017-2020¹. Its primary objective is to conduct production in a way least onerous for local communities (i.e. limitation of mining damage, land restoration and revitalization of the areas transformed by mining operations, noise reduction).

GOAL 5

• WE RESPECT THE NATURAL ENVIRONMENT AND THE IMMEDIATE NATURAL AND SOCIAL SURROUNDINGS IN THE AREAS WHERE JSW OPERATES

As regards negative impact of mining operations that can be mitigated, but cannot be fully eliminated, the Group tries to repair and compensate (both through direct indemnification of persons, whose property was damaged as a result of mining, as well as through support of pro-social actions in the regions where the Group's companies operate).

The Strategy also envisages meetings of JSW Management Board with representatives of local governments² in the areas of the Group's operation, including (depending on the topic of individual meetings) with other stakeholders (e.g. representatives of the State Mining Authority, vocational schools and universities, the Voivodship Inspectorate for Environmental Protection). Those meetings are designed to present JSW's plan for the nearest future, in the context of, *inter alia*:

- **employment** (planned recruitment, employee profile, cooperation with vocational schools and universities in the region),
- **underground works planned in a given year**, including the areas of planned extraction, where surface deformation and mining damage may be expected),
- **planned surface works**, including management of extractive waste, landscape development/re-cultivation of areas degraded by mining damage, and extractive waste management facilities and their potential use.
- **mining damage analysis**, preventive works, repairs and compensations.

This approach, based on an open and honest dialog and joint work towards solutions, was initiated in June 2017 during the International Mining Forum "Mining of the Future – New Problems and Solutions". The discussion panel: "Sustainable development – MINING IS OK. Stakeholder Relations as a Pillar of Corporate Social responsibility", which also introduced and consulted the assumptions for the *Strategy for Sustainable development for 2017-2020*, was attended, *inter alia*, by representatives of all local governments where JSW Group conducts its operations. 2017 also saw individual meetings of the members of the Management Board with representatives of local governments. Another noteworthy initiative is the Program JZR ROZWÓJ (JZR DEVELOPMENT), designed to expand the plant's production and repair operations for the delivery to JSW of finished products made in the former Krupiński mine. The launch of new production in the Suszec community will undoubtedly contribute to job creation within the Group, as well as in the companies of sub-suppliers and subcontractors. The purpose of the Program is to develop the areas of the former Krupiński mine, which will have a positive impact on local communities and the environment, achieved through re-cultivation of post-industrial areas.

Being aware that it is not possible to eliminate or radically reduce various types of burden and hazards resulting from mining operations so that they are unnoticeable to local communities, the Group tries to compensate those downsides by socially-addressed activity in the region. It engages in the life of local communities in the areas of its operations. The Group also offers help in solving problems which are important for those communities, e.g. by the way of helping health care establishments; supporting children and young people; supporting interesting, innovative and effective solutions in such areas as education, health, ecology and culture. The Group is an important patron of sports in the region.

Another path of social involvement – and an important one from the viewpoint of future supply of qualified workforce – is the program of cooperation – started last year - with secondary schools and universities educating future employees of mining-related occupations. The program envisages, *inter alia*, cooperation in the area of: trainee and apprenticeship placements for school and university students,

¹ All companies in the Group adopted the *Policy of Promotional and Charitable Activities at the Jastrzębska Spółka Węgłowa Group*, which refers to one of the social aspects as well.

² JSW appointed the Management Board Representative for Liaison with Local Governments.

support of schools and universities in the development of education and learning programs, further training for teachers in the Group's companies, support for talented pupils and students and innovative pupil or student projects related to hard coal mining or economic use of coal.

In terms of operational management, social issues have been unequivocally defined as critical for the functioning of the Group's companies and contained in the *Policy of Integrated Management System at Jastrzębska Spółka Węglowa S.A.* The policy envisages, *inter alia*, development of the Company's long-term success and value with reference to the principles of corporate social responsibility; it also identifies the key areas of responsibility (including consistent approach to social issues) and underscores the importance of a dialog with the Company's stakeholders.

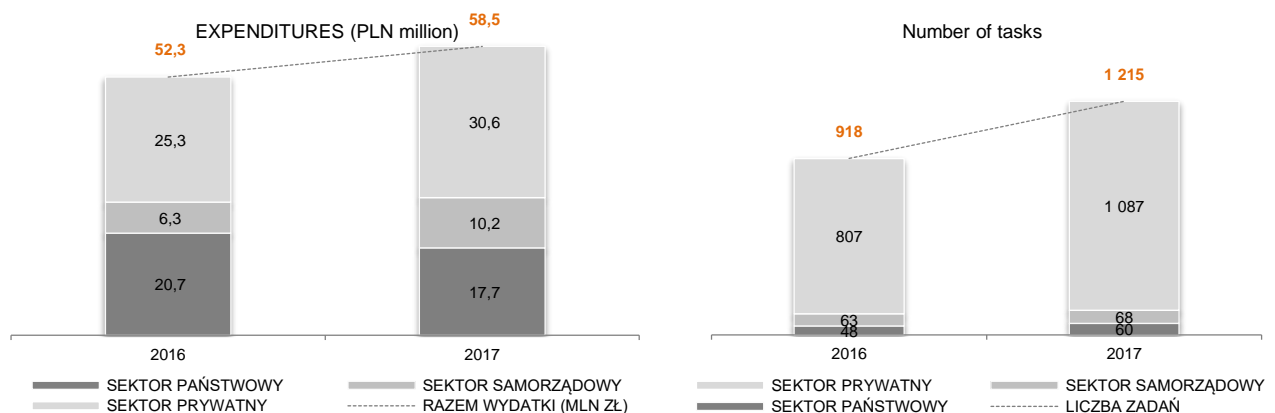
IMPACT OF MINING OPERATIONS, INCLUDING MINING DAMAGE

In view of the unique character of the Group's mining activities impact on the environment, the procedures which are significant for the environment are often also of key importance for the local community and operational risks (e.g. mining damage). There are noteworthy procedures of the integrated management system, compliant with PN-ISO 14001, which ensure the highest level of care in the area: "Identification, Assessment and Monitoring of Environmental Aspects" (PZŚ-5.01), "Operational Control and Monitoring of Environmental Elements" (PZŚ-7.01), "Removal of Mining Damage" (PZŚ-7.03), "Identification of Risks and Prescribed Actions in Case of Environmental Emergency" (PZŚ-7.04). Other procedures, such as the "Actions to be Taken in JSW S.A. During a Mass Accident or Industrial Disaster" (PZB-8.02), refer to occupational health and safety, and is compliant with PN-N-18001.

Mining damage undoubtedly has the greatest importance for the local community. In order to limit mining damage risks, appropriate control mechanisms are applied as regards the materialization of risk; they include activities such as:

- coordination of activities related to the preparation of: geological survey program, geological, hydro-geological, and geological-engineering works, deposit management program and mine operational plan, planning for locations at risk of mining damage
- planning for locations at risk of mining damage (*inter alia* based on the deposit exploitation schedule),
- supervision over execution of license conditions and environmental decisions, land survey and construction
- monitoring of the removal of mining damage, in terms of quantity and costs,
- monitoring of the balance of the provision created for removal of mining damage,
- cooperation with local government bodies in agreement teams,
- exclusion of an area from construction planning, or deposit decommissioning,
- preventive actions designed to retain the gravitational flow of surface waters,
- application of preventive construction solutions as regards proper safeguarding of existing buildings and buildings under construction located in mining areas.

Graph 25. *The scale of activities related to mining damage*



Internal regulations linked to the removal of mining damage are of key importance. Individual repair projects for public facilities, property of local authorities and privately owned property are prepared for implementation in accordance with the procedure defined in the Directive of President of the Management Board of JSW of 20 December 2017 Attachment No. 2 *Regulations of proceeding in damage repair* and Attachment No. 3 *Regulations of the Commission for the Assessment of Damage Removal Projects*.

In 2018 the Group secured financial means for damage repair in the amount of PLN 72.4 million.

PRO-SOCIAL ACTIVITIES

In the analyzed period the Group conducted promotional and pro-social activity in the region, not only compensating possible inconveniences of mining activity but also consolidating the friendly attitudes of the community towards the Group. In an effort to be a good neighbor to the communities to which the Group has for years been inseparably linked, it is precisely on those communities that the Group focuses its pro-social activity. In 2017 cooperation continued with professional sports clubs: KS Jastrzębski Węgiel and Jastrzębie Hockey Club GKS Jastrzębie as well as numerous amateur clubs in various sports, including football, volleyball, hockey, table tennis, chess, box. The cooperation also covered associations, municipal culture centers, as well as the Association of Mining Traditions in the Mining and Geology Department of the Silesian University of Technology – particularly important in terms of cultivating the memory of the past.

At the same time the Parent Company made donations to 18 health care units and it supported purchase of coal for and organization of care for the poorest inhabitants. It supported local catholic parishes and the evangelic parish, which among other thanks to the aid from JSW is able to organize annual organ music concerts. Donations were also received by other organizations, including commonly known ones such as: Polish Red Cross, Polish Association of the Blind, Polish Association of Pensioners, Caritas Poland, Abstinent Clubs, Aid for Special Care Children Foundation, a hospice and many other. The list of beneficiaries also included smaller local clubs and non-governmental organizations, including student sports clubs, popular sports clubs, volunteer fire brigades, Polish Fishing Association and other organizations working with children and youth. Throughout the year JSW also assists St. Dominic Savio Children's Home in Jastrzębie-Zdrój. Apart from financial aid to organize Christmas Eve supper or Easter breakfast and co-funding of day-care activities for children during holidays, before Christmas JSW employees organize a collection of gifts, including toys, school supplies, sweets, for the most needy children. Every year JSW employees also support the Noble Package action – nationwide initiative uniting Poles in the gesture of helping others.

JSW and IPA Branch in Jastrzębie-Zdrój support the program "Safe road to school" and "Safe road home"- several thousand fluorescent bands were produced for that purpose. For a few years now JSW has also conducted the action "Chess for Kindergarten Children", thanks to which several hundred school chess sets were given to schools. JSW also participated in a supraregional event organized by the Chancellery of the Prime Minister on the occasion of the Children's Day in Warsaw, providing for that purpose gadgets promoting safety of children, e.g. fluorescent T-shirts reading "Can you see me?", fluorescent bands, etc.

For the first time in JSW almost a thousand children of mine personnel attended St. Nicolas Day events organized by the company in all JSW plants. At the end of each meeting there was a lottery with the main prize in the form of family holiday in the JSK center (JSW Group) Jastrzębia Turnia in Zakopane.

Each company, due to different specific characteristics of its operations also has its individual way of community impact and thereby individual approach to its management:

- In **JSW KOKS** formalized approach aims not only at meeting the needs of the immediate community and environment. It takes into account also the procedure in the event of reports and complaints from representatives of local communities concerning impact on the life and natural environment of persons living in the vicinity of production plants. At the same time, it should be remembered that the key responsibility towards broadly understood society is the delivery by JSW KOKS of products with appropriate quality parameters, which in turn translates into e.g. obtaining of steel with determined parameters by coke consumers, that is steelworks. The Integrated Management Systems include the functioning Environment Management Systems, whose primary goal is to mitigate adverse effects on the environment caused by identified aspects. These actions directly influence local communities, since they enable informed decisions concerning the environment, resulting directly from production processes and enable lasting and correct relations with stakeholders, among whom local community plays a major role. Moreover, an important aspect of JSW KOKS operations is the production and sale of electrical energy, which allows efficient use and consumption of energy resources and ensures energy security in the processes of JSW KOKS as well as increases own energy resources in the JSW Group.

Pro-social activity of JSW KOKS in 2017 focused on helping the poorest – the company supported financially actions organized by parishes and foundations which prepared food parcels for those in need. JSW KOKS was also involved in actions aimed to help in the treatment of people and in purchasing medical equipment, the company also supported hospice activity. In 2017 the company co-organized family picnics on the occasion of Children's Day and St. Nicolas Day meetings for children. The company also participated in charitable events (e.g. organized by associations for people with disabilities and socially excluded). In 2017 the company also supported sport among children and youth (Górnik Zabrze Football Academy), as well as among adults who practice sport professionally (Jastrzębski Węgiel) or as a hobby.

- **PGWiR** manages on its own social risks specific to the company's activity – it holds talks with the local population concerning the presence of infrastructure on their land, or compensation for possible failures and minor leakages from the pipeline. In the event of intense rainfall PGWiR is responsible for safe pumping away of water from mining areas, which also translates into rain water removal from flooded roads and supporting water removal from households.
- For **JZR** it is of key importance in terms of public interest to ensure the highest diligence and the highest quality of performed works to safeguard user safety. The company supports a series of pro-social activities, supporting sports, cultural and pro-health activity, with particular focus on promotion and support for sport as an important domain of social life. In 2017 pro-social activities of JZR comprised donations strictly to organizations from the immediate environment and local community.
- **CLP-B** conducted over ten editions of training on collecting and examining furnace ash for City and Municipal Guards and for local government representatives from 103 communities throughout Poland. Together with Wodzisławski county and Piastów Śląskich Technical School in Wodzisław Śląski the company conducts the project „Young employees are our future”, co-funded by the European Union under the European Social Fund. As a result, with the use of external funding, that contributes to social investments in future human resources. The company also organizes meetings for students and pupils. CLPB supported financially organizations important for community in Jastrzębie, incl. associations and sports clubs.
- **JSK** adopted *Rules of conducting promotional and charitable activity in Jastrzębska Spółka Kolejowa Sp. z o.o.*, which focus above all on activities mitigating social risks related to the company's core activity. Hence such actions as „Safe conduct on railway crossings”, contest „Safe Tracks”, participation in social campaign „Safe crossing”, or agreement with PKP PLK S.A. concerning participation in social campaign „Safe crossing – block the risk”. Cooperation was established with Jan III Sobieski School Complex No. 6 aimed at the development by the school of an innovative IT tool supporting the system of safety management in railway transport.
- **Advicom** helps secondary school and university students to gain knowledge and improve their practical skills by organizing for them internships for students and graduates on the rules described in internal regulations. When possible, the company supports cultural and social events. In January 2017 the company supported financially School Sports Club Pionier in Jastrzębie Zdrój, which helped in the organization of a chess tournament, and supported financially the organization of the 40th anniversary of „Nautilus” sports club in Jastrzębie-Zdrój.
- **JSW Innowacje** has huge potential to develop solutions relevant in social and environmental terms, including projects conducted jointly with academia and business. The company sponsored among others KS Jastrzębski Węgiel, and was strategic partner to International Mining Forum (IMF).

DESCRIPTION OF RELATED RISK ASPECTS

Table 32. Risk factors

RISKS RELATED TO SOCIETY	
RISK ASSOCIATED WITH CORPORATE SOCIAL RESPONSIBILITY	Risk that JSW is negatively perceived by the public due to inappropriate care about social interests (incl. business activity of the JSW Group, including JSW, may lead to disputable situations linked to local communities around the areas where the Group conducts or intends to conduct business).
INVESTOR RISK	Risk that the Company is not perceived by investors as transparent and trustworthy.
RISK RELATED TO CORRECT BRAND, MARKETING AND REPUTATION MANAGEMENT,	Risk of weakening of JSW corporate image and brand as well as of the company's market perception by the stakeholders.

KEY RATIOS/INDICATORS

Table 33. Mining damage repair

SPECIFICATION	2017	2016	GROWTH RATE 2016=100
Number of completed repair tasks (number)	1,215	918	132.4
Amount spent on mining damage repair (million)	58.5	52.3	111.9

Table 34. Donations and outflows on sponsoring

SPECIFICATION	2017	2016	GROWTH RATE 2016=100
Value of donations (financial and in kind) (thousand PLN)	1,029.1	122.5	840.1

9.5. EMPLOYEE ISSUES

MANAGEMENT APPROACH AND KEY ACTIONS

Strategy of JSW including subsidiaries in the JSW Group 2018-2030 plays the most important role in defining the approach to human resources management. Approach employee issues was also defined and is included in the Strategy of sustainable development 2017-2020.

Issues of occupational health and safety are of key importance due to the specific characteristics of industrial activity.

GOAL 2:

• WE RESPECT LIFE AND HEALTH AND WE DO NOT COMPROMISE ON SAFETY ISSUES

In the area of OHS the Strategy aims to:

- maintain certified management systems PN-N-18001 in: coal mining, processing and sale,
- engage the employees in the improvement of the OHS management system, including development of solutions oriented at specific characteristics of individual jobs,
- Maintain high quality of OHS training, with particular focus on the training topics being up-to-date and practical (zone of mine foreman and not only).

There are plans to implement technological solutions to enable mechanization and automation of work underground. In particular it concerns withdrawal of people from areas at risk or reduction of human involvement in works with particularly high accident risk. This will result in a reduction and possibly even elimination of specific OHS risk categories. Another factor contributing to improved safety will be the planned introduction of technical solutions for monitoring the work of machines and location of workers underground. In accordance with the Integrated Management System Policy, the management undertake to ensure the necessary means and resources to create safe attitudes of employees and to monitor risks and mitigate their impact on work environment. There is also focus on employee development. Key OHS procedures include: "Identification of risks and assessment of occupational hazard" (PZB-7.01), "Accidents at work, occupational diseases and events potentially resulting in accidents" (PZB-7.02), "Monitoring of occupational health and safety" (PZB-8.01), "Procedure in JSW S.A. during a mass accident or industrial disaster" (PZB-8.02). Other procedures defining rules of operational management from the perspective of employee matters: "Human resources management" (PSZ-6.01) and "Internal and external communication" (PSZ-5.02).

In the Integrated Management System Policy the authorities of JSW undertook to ensure necessary means and resources to create safe attitudes of employees and to monitor risks and mitigate their impact on work environment. This allows the company to improve activities in these areas, in particular to take action to ensure the use of safe technological processes, aim to prevent accidents, occupational diseases and events potentially resulting in accidents. Occupational Health and Safety Management System in particular consists in consistent implementation of determined actions such as: developing OHS policy and goals and announcing them to the team as a reflection of the engagement of top management, defining responsibilities and rights of individual employees with regard to OHS activities, ensuring appropriate training and motivating employees to work safely, organizing an efficient system of communication on OHS, assessing occupational hazard, developing rules of reacting to accidents at work and implementing corrective and preventive measures related to occupational health and safety, monitoring and auditing the OHS management system.

In 2017, in the analyzed area the focus was on:

- use of effective prevention in the area of OHS adequate to risks,
- high level of training and increasing the awareness of safety issues,
- limiting the impact of human factor on accident rate.

In view of specific conditions of work in JSW mines, with regard to employee preventive health care an extended scope of preventive medical examinations in labor medicine was in place. The extended scope of examinations comprises obligatory, additional tests to prevent cardiovascular diseases in for employees of the company and of firms providing services in JSW mine operations.

To ensure high level of OHS knowledge and appropriate professional qualifications of the employees, all JSW plants implemented the plan of OHS training and of training and courses to improve professional qualifications. Strict connection between professional qualifications of the employees, headcount and work safety required that JSW plants continue to conduct specialist training and courses and to improve professional qualifications of the employees. All employee groups were trained, in particular persons employed in conditions of natural hazards.

JSW implemented the repeatedly award-winning online training and information platform “Zone of mine foreman and not only” aimed to provide employees with various tools and information to improve knowledge and professional qualifications.

The requirements to have undergone OHS training and appropriate preventive medical examinations, and to have the relevant authorizations and qualifications are the basis of operations in order to ensure safety and the desired quality of works, including those performed by third parties in the mining plant.

Fulfilment of the requirements was subject to constant inspection by mine personnel responsible for compliance with the rules of safe work in mines. Moreover, there was periodical assessment of quality and safety of work performance by third parties performing services in JSW mines. The scope of requirements set to service providers in the operations of mines was verified on an on-going basis in terms of safety and quality of provided services.

In coal mines, in connection with the specific characteristics of mining conditions, miners are exposed to noxious and onerous for health agents occurring in work environment. The most frequently diagnosed occupational disease in employees and former employees of JSW mines is pneumoconiosis. Other diseases such as: occupational damage of hearing, chronic diseases of locomotor system, vibration syndrome have been eliminated or limited to rare cases.

In 2017, occupational damage of hearing was diagnosed in 9 former employees, there was one case of occupational disease related to chronic diseases of locomotor system and once case of occupational disease – exogenous allergic hypersensitivity pneumonitis. 49 cases of pneumoconiosis were recorded, including 42 cases in former employees. To reduce the exposure of employees of JSW mines to factors causing occupational diseases, in cooperation with the Institute of Labor Medicine and Environmental Health in Sosnowiec, with the participation of the OHS personnel in mines and doctors providing labor medicine care, programs for prevention of occupational damage of hearing and pneumoconiosis function in the mines.

OHS activities in the other companies of the Group:

- In **JSW KOKS** Occupational Health and Safety Management System according to PN-N-18001 standard has functioned since 2002 as part of the Integrated Management System. IMS Policies also cover training activity. Moreover, a series of regulations and procedures have been developed to supervise OHS in the form of an order on occupational health and safety with instructions and procedures of risk identification and assessment of occupational hazards (RISC SCORE methodology), reporting events potentially resulting in accidents.
- **JZR** implemented, as part of the Integrated Management System, occupational health and safety management system according to PN-N-18001:2004 standard, ensuring maintenance of the highest diligence in this respect. There are also non-obligatory preventive actions. It is worth mentioning the OHS contest which builds the awareness of safety among employees.

In other companies employee related matters, including related to OHS, followed the applicable legal regulations and individually adopted regulations and internal procedures.

OTHER ASPECTS OF PEOPLE MANAGEMENT

Other employee policies, part of which are in the process of being sorted out or preparation, are described further on in the statement and they are also reflected in the *Sustainable Development Strategy 2017-2020*.

GOAL 3:

• WE RESPECT EACH AND EVERY HUMAN BEING AND OUR COMMUNITY, SHARING THE RESPONSIBILITY FOR JSW AND ITS PROPERTY

In the employee-related area, in aspects unrelated to the OHS that is essential for mining, building of appropriate corporate culture based on mutual respect is of huge importance. For that purpose it is necessary to:

- create consistent policy concerning objective assessment of employees, promotions, training and development planning, and protection from discrimination,
- diagnose the current situation.

That is why one of the first planned steps in the implementation of the *Sustainable Development Strategy 2017-2020* is the implementation of cyclical surveys of corporate culture and employee satisfaction. Based on survey results it will be possible to shape human resources management policy which would respond in the optimal way to employee expectations. Although according to the strategy assumptions the first survey of the organization's corporate culture was to take place in 2018, it was possible to conduct it still in 2017. The Management Board invited the employees to complete a short questionnaire on 18 December 2017. The questionnaires, collected in boxes, were confidential and the survey results, especially those critical, became a valuable source of knowledge about areas requiring improvement and repair.

One of the commitments of the management towards the employees is to provide monitoring to ensure non-discriminatory remuneration system and non-discriminatory system of promotion and development. First of all this would apply to units in which both women and men are employed and the aim would be to identify and then eliminate potential discrimination against women. At the same time, the aspect related to discrimination on the grounds of gender would be included in employee surveys so that those interested have a chance to give their opinion on whether at all and to what extent they feel treated worse and not only in terms of remuneration, but more broadly, e.g. in the context of human relations.

It is also planned to design and implement, based on the best market practices, an internal system of annual employee assessments and thereto related system for training and development planning.

The precondition of building a healthy corporate culture is also effective and open internal communications. Eventually it should also become a tool of sensitizing the employees to ethical issues, including counteracting unethical behavior.

In 2017, as part of reorganization of JSW and companies of its Group, a lot of attention was paid to sorting out the HR structures, i.e. incl. analysis and consolidation of HR related areas that previously functioned in different divisions of JSW. At the end of Q1 2017, the JSW Management Board passed a resolution by force of which the HR area in JSW Board Office was consolidated in the Division of Deputy President of the Management Board for Labor and Social Policy, to whom also Labor Director Divisions in JSW mines report. Assigning those areas to a single office enable uniform HR management and creation of uniform employment and remuneration policy.

In 2017 *Recruitment Procedure of Jastrzębska Spółka Węglowa S.A.* was implemented above all in order to improve and bring into uniformity the process of recruiting the best candidates with competences which were sufficiently obtained by way of internal recruitment. Last year the „Candidate” application was implemented to enable electronic registration of persons interested to work in the company. Candidates complete the form available at the website with information on among others their education, qualifications, professional experience. Thanks to the implementation of the application JSW has a growing data base of job candidates.

In connection with the need to ensure the inflow of new employees, the JSW Management Board is increasingly open to cooperation with local governments in towns and municipalities on the areas where the Company operates with regard to education in mining jobs by schools run by those local governments. The cooperation serves to improve the quality of education of young employees, among others, by allowing them internships and supporting various educational projects. In 2017 the Company concluded two cooperation agreements with local governments in charge of schools educating for mining jobs. In accordance with the commitments made on the basis of the agreements, depending on its own needs for personnel, JSW may employ school graduates who pass an examination confirming their professional qualifications. JSW also signed agreements with universities: AGH University of Science and Technology, and the Silesian University of Technology on organizing internships and grants for students of those universities. During holidays students get internships and practical experience opportunities in JSW. As on the last day of the reporting period there were the following agreements with universities:

- AGH University of Science and Technology (letter of intent on the organization of mining practices for AGH students concluded between AGH and JSW S.A. on 9 December 2016, cooperation agreement concluded between AGH Mining and Geoengineering Department and JSW on 19 April 2017 specifying the scope of cooperation referred to in the letter of intent, cooperation agreement concluded between AGH Geology, Geophysics and Environment Protection Department and JSW on 23 June 2017 specifying the scope of cooperation referred to in the letter of intent),
- Silesian University of Technology (letter of intent on the organization of mining practices for students of the Silesian University of Technology concluded between the Silesian University of Technology and JSW on 20 December 2016, cooperation agreement concluded between the Silesian University of Technology Mining and Geology Department and JSW on 19 April 2017 specifying the scope of cooperation referred to in the letter of intent, cooperation agreement concluded between the Silesian University of Technology Mining and Geology Department (Mining Geodesy) and JSW on 14 July 2017 specifying the scope of cooperation referred to in the letter of intent),

- Polish Academy of Science (agreement concluded on 9 May 2017 between the Minerals Management Institute of the Polish Academy of Science and JSW – internships for the employees of the Polish Academy of Science).

In 2017 work was initiated on implementing a procedure aimed to regulate the rules of professional qualifications improvement by employees. It took the form of the *Procedure on the rules of professional qualifications improvement by JSW employees* and became effective on 1 January 2018. It assumes among others joint budgetary planning, more efficient use of financial means, centralization of training organization, motivational role of training, transparent criteria for employee development opportunities.

Selected other activities related to employees in other companies of the Group:

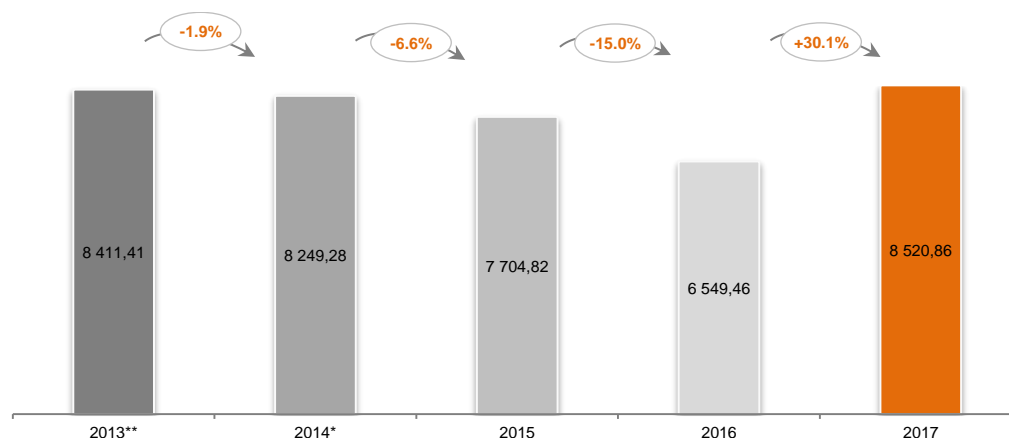
- In the area of training activity **JSW KOKS** has procedures on professional qualifications improvement by employees in the form of regulations enabling training at each stage of career. Training requirements are prepared annually and reviewed as part of ZSZ Reviews by JSW KOKS Management. The company conducts extensive training on labor law, which provide education thematically related to prevention of discrimination, based on the adopted rules the company is also subject to institutional internal audit and acts with due diligence with regard to social oversight on employee related matters by conducting a structured social dialogue. There is Social Dialogue Office functioning in the company to coordinate employee related matters in cooperation with Employee Council and 10 trade union organizations. Moreover, there is OHS Commission and Company Social Labor Inspection.
- In **PGWiR** it is worth noting the *Personnel management* procedure. It comprises all employees from the moment of specification of the competences of the personnel performing determined work through recruitment, training, skills improvement, relocation to other jobs. In 2017 the company activities focused on recruitment of new manual workers, incl.: electricians, mechanics, operators of machines for salt removal, production and packaging.
- **JZR** introduced Competence Development System thanks to which it is possible to offer individual approach to each employee in terms of development needs aligned with company expectations.

In other companies employee related activities, including those related to OHS, were conducted in accordance with applicable legal regulations and individually adopted internal regulations and procedures.

PAYROLL

Companies within the Group have in place separate rules of employee remuneration. Remuneration levels in individual entities of the Group in 2017 ranged from PLN 3,346.20 to PLN 8,811.07.

Graph 26. Average monthly salary in the Parent Company – without payment of bonus from profit (PLN)



* Average monthly pay in 2014 of PLN 8,249.28 also encompasses the remuneration of employees at KWK Knurów-Szczygłowie they receive for their time of work at JSW.

** According to the Agreement signed on 20 May 2013 by and between the JSW Management Board and the Company-level Trade Union Organizations operating in JSW, a cash bonus of PLN 73,765,890 was paid to JSW employees in 2013 for the performance achieved in the 2012 financial year. The average monthly salary in 2013 was PLN 8,136.87 without giving consideration in the salary fund to the above cash bonus, which was paid instead of the profit bonus.

Remuneration of most JSW employees is based on Company-Level Collective Bargaining Agreements (“CCBA”) terminated with effect from 1 January 2010 and Bylaws of Remuneration of Board Office Employees. Employees who started their employment after 15 February 2012 are paid according to the principles defined in new employment contracts. Remuneration is paid in KWK Knurów-Szczygłowice on the basis of the Agreement of 20 December 2004 as amended.

In accordance with the internal regulations, employees in the Parent Company are entitled to remuneration for their work consisting of the base salary rate, bonus or piecework surplus, Miner’s Card (tenure allowance), function allowance (e.g. mine forehead allowance), allowance for work in onerous, harmful and dangerous 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. Regardless of the above salary components, JSW employees are entitled to such additional benefits as: annual Miners’ Day bonus (“Barbórka”), additional annual bonus – the so-called 14th salary, free coal allowance, jubilee allowance, and old-age and disability pension severance award, pecuniary equivalent as reimbursement of holiday travel costs (so-called ticket under the Miner’s Card), equivalent for purchase of school supplies. Additionally employees may be subject to an incentive bonus.

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. Regardless of the above salary components, employees employed on the basis of the new contracts, are entitled to such additional benefits as: annual Miners’ Day bonus (“Barbórka”), additional annual bonus – the so-called 14th salary, free coal allowance and old-age and disability pension severance award.

Some of the aforementioned benefits have been suspended.

The level of average monthly remuneration in 2017 was affected by the agreements concluded with the social partners in 2015 and 2016, as well as other agreements concluded with the social partners and Management Board decisions:

1. the Agreement entered into on 23 February 2015 between the JSW Management Board and the Trade Union Organizations, which enabled the implementation of the following wage setting solutions in JSW:
 - maintaining the base salary rates on the 2014 level,
 - suspension of payment of the equivalent to purchase scholastic aids,
 - suspension of payments on account of the Miner’s Card tickets,
 - remuneration for sick leaves and sick allowance will be accrued on the basis of the Labor Code and the Act on Social Benefits from Social Insurance in Case of Illness or Maternity,
 - remuneration for holiday leaves will be accrued on the basis of the Labor Code and the Regulation of the Minister of Labor and Social Policy of 8 January 1997 on the detailed rules for granting holiday leaves, setting and paying remuneration for holidays leaves and cash equivalent for holiday leaves,
 - cancellation of the OHS and task-based bonuses,
 - reduction of the free coal allowance to 7.16 tons.
2. The Agreement signed on 16 September 2015 between the JSW Management Board and the Trade Union Organizations, based on which some of JSW autonomous labor law regulations were suspended for a period of three years (2016-2018) and at the same time the following solutions, among others, were implemented with regard to remuneration in JSW for the period of suspension:
 - suspension of payment of the 14th salary,
 - suspension of payment of the Miner’s Festival equivalent,
 - change of the rules for calculation of the Miners’ Day bonus,
 - suspension of the right to the free coal allowance,
 - changes of the rules for payment of the retirement severance pay.
3. In 2017 remuneration of Mine Directors, ZLM and Office Directors in Board Office continued to be reduced by 20% (in 2016: by 20%, in 2015: by 10%).

4. The process of salary regulation in KWK Knurów-Szczygłowice continued (in accordance with the provisions of the Agreement entered into on 27 January 2016).
5. The Agreement of 9 February 2017 concluded between the JSW Management Board and the Representative Trade Union Organizations, based on which bonus was paid to JSW employees on 6 March 2017. Moreover, starting from 1 March 2017 job ranks were revaluated for 10% employees.
6. The Agreement signed between the JSW Management Board and the Representative Trade Union Organizations on 28 June 2017, based on which it was agreed that the value of prevention meal effective as from 1 July 2017 would amount to PLN 19 and that bonus of PLN 4,300.00 net would be paid on 4 September 2017 to all JSW employees having the status of employees on 31 August 2017.
7. The Agreement signed on 18 October 2017 between the JSW Management Board and the Representative Trade Union Organizations, which waived the provisions of § 3 of the Agreement of 16 September 2015 on the rules for calculation of the Miners' Day bonus. Therefore, all rights and constraints to becoming eligible for the bonus, rules for calculation and dates of payment were identical as those for the Miners' Day bonus for 2017.

Moreover, on 18 October 2017 the Agreement was signed on the rules for compensation for work on Saturdays, Sundays and holidays (on 8 November 2017 a new Agreement was signed modifying the aforementioned rules).

8. The Agreement signed on 5 December 2017 between the JSW Management Board and the Representative Trade Union Organizations, which waived the provisions of § 3, § 3.3 of the Agreement of 16 September 2015 on the rules for calculation of the annual bonus, so-called "14th salary" and free coal allowance. Payment of said benefits will be made on the rules applied prior to conclusion of the Agreement in 2015.

Details of the agreements concluded in 2016 are presented further in the report.

DESCRIPTION OF RELATED RISK ASPECTS

Table 35. Risk factors

RISKS RELATED TO EMPLOYEES	
	<p>Explosives (risk for human life and health, property and environment as a result of explosion of thee explosives stored, transported or used in mining works).</p> <p>Unforeseen geological disturbances (risk that unforeseen geological disturbances will result in loss of life or health, or threat for safety of persons, damage or destruction of assets of the Company or of a third party, or interruption or even discontinuation of operations).</p> <p>Occupational diseases (risk that in connection with the nature of performed work the employees may in the future be diagnosed with occupational diseases such as pneumoconiosis, permanent damage of hearing, vibration syndrome, eye diseases, diseases of muscular skeletal system, etc.).</p> <p>Accidents at work and other hazards (risk of occurrence of an accident at work posing threat for the life or health of employees, causing property damage, environmental pollution or other adverse consequences).</p> <p>Methane risk (risk that as a result of methane concentration in the excavation area or its part an explosion occurs, methane burns or oxygen is pushed out from the mine air resulting in loss of life or health, threat for the safety of persons, as well as damage and destruction of Company's property and interruption or even discontinuation of operations).</p> <p>Rockburst risk (risk that a dynamic phenomenon caused by rock mass tremor results in a rockburst and consequently in loss of life or health, threat for the safety of persons. The excavation area or its section as well as the machines there, i.e. the Company's property, may be damaged or destroyed. The event may cause total or partial loss of the excavation functionality).</p> <p>Water risk (risk that as a result of irruption or inflow of water or mixtures with loose material into the excavation exceeding the capacity for water removal Company's property is destroyed, or life or health are threatened, or there is a threat for the safety of persons in the risk areas, and the operations are limited, interrupted or even discontinued).</p>
RISK IN OCCUPATIONAL HEALTH AND SAFETY	

Underground fires (risk that in the event of exogenous or endogenous fire and exceeding of the admissible concentration of carbon monoxide in the mine air there is loss of life or health, the safety of persons is threatened, or Company's property is destroyed, and its operations are interrupted or even discontinued).

Risk of coal dust explosion (risk that dust accumulates in underground excavation areas or in other facilities of the mine. As a result of this accumulation, an explosive mixture with air may form and, consequently, with appropriate trigger an explosion may occur. That may cause: loss of life or health, threat for the safety of persons, as well as damage and destruction of Company's property and interruption or even discontinuation of operations).

Risk of gas and rock breakouts (risk that mining works conducted in an area of geological disturbances will result in a gas-geodynamic phenomenon (methane and rock breakout) or a sudden outflow of methane from the rock mass into the excavation, leading to: loss of life or health, threat for the safety of persons due to the formation of atmosphere unfit for breathing, damage of casing and machines, development of breakout cavern or explosive condensation of methane).

Climate risk (risk of reduction of personnel work time in the event of climate risk in mining excavations or impossibility to perform mining works in temperature as measured with a dry thermometer exceeding 33 °C).

Radiation risk of natural radioactive substances (risk that as a result of possible exposure to natural radioactive isotopes and products of its radioactive decay resulting from the conducted mining works lead to loss of life or health, threat for the safety of employees or general population, or contamination of natural environment).

Availability of personnel, allocation and development of human resources and availability of subcontractors (risk of limited recruitment possibilities, inappropriate selection of personnel, inappropriate allocation and development of human resources, personnel leaving the company and lack of possibility to use the services of subcontractors).

Performance measurement system and motivation system (risk that unrealistic, misunderstood, subjective or impossible to apply performance indicators may cause managers and other employees to act in a manner inconsistent with the Company's goals, strategy and ethical standards or good business practices).

**RISK RELATED TO
HUMAN RESOURCES
MANAGEMENT**

Division of competence and efficiency of delegating responsibility (risk that unclear division of competence and limitations in delegating duties and responsibilities will cause employees to take risks unacceptable from the perspective of Company's interests, or that excessive limitations will decrease the efficiency of decision making process).

Succession and filling of key positions (risk that the lack of an efficient system of human resources planning and succession for key personnel may pose a risk to the accomplishment of the business model and attainment of Company's key goals).

Labor law (risk that the regulations, processes, training system and workflow functioning in the Company are inappropriate to ensure compliance with labor law and regulations concerning occupational health and safety).

KEY RATIOS/INDICATORS

Table 36. Headcount in the Group by: type of employment, job and age, by gender (persons)

SPECIFICATION	2017			2016		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
EMPLOYMENT STRUCTURE BY CONTRACT TYPE						
Employment agreement for an unspecified period	2,695	22,533	25,228	2,941	23,153	26,094
Employment agreement for a specified period	158	504	662	95	1,123	1,218
Employment agreement for a trial period	37	538	575	7	47	54
Civil law contract	62	166	228	38	88	126
Employed in service providing firms (outsourcing)	4,297	8,902	13,199	905	12,502	13,407
EMPLOYMENT STRUCTURE BY JOB						
Non-worker jobs underground	34	2,657	2,691	27	2,760	2,787
Worker jobs underground	-	14,658	14,658	-	15,142	15,142
Non-worker jobs overground	1,874	1,504	3,378	1,907	1,565	3,472
Worker jobs overground	982	4,756	5,738	1,109	4,856	5,965
EMPLOYMENT STRUCTURE BY AGE						
Aged up to 30	241	4,520	4,761	198	4,861	5,059
Aged 31 to 40	520	10,117	10,637	495	9,771	10,266
Aged 41 to 50	998	5,704	6,702	1,058	6,243	7,301
Aged over 50	1,131	3,234	4,365	1,292	3,448	4,740
TOTAL	2,890	23,575	26,465	3,043	24,323	27,366

Table 37. Structure of employees leaving work by age and gender

SPECIFICATION	2017			2016		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
Aged up to 30	34	714	748	16	160	176
Aged 31 to 40	60	656	716	44	161	205
Aged 41 to 50	55	1,478	1,533	53	2,142	2,195
Aged over 50	341	665	1,006	484	932	1,416
TOTAL	490	3,513	4,003	597	3,395	3,992

Table 38. Key OHS statistics

SPECIFICATION	2017	2016	GROWTH RATE
			2016=100
Expenses (outflows) on OHS (in thousand PLN)	667,055.7	653,677.9	102.0
Number of accidents at work – total number of accidents	377	390	96.7
• Number of fatalities at work	1	3	33.3
• Number of accidents at work – heavy accidents	5	1	500.0
• Number of accidents at work – light accidents	371	386	96.1

Table 39. LTIFR ratio by JSW plant*

SPECIFICATION	2017	2016	GROWTH RATE 2016=100
KWK Borynia-Zofiówka-Jastrzębie	5.69	5.01	113.6
KWK Budryk	11.20	11.22	99.8
Knurów-Szczygłowice	6.07	7.10	85.5
KWK Krupiński	5.97	5.63	106.0
KWK Pniówek	9.05	8.83	102.5
ZWP	2.63	2.57	102.3
Management Board Office	1.60	-	-
TOTAL JSW	7.28	6.94	104.9

* number of accidents involving employees of JSW and third party service provider firms (excluding fatal accidents) per million man-hours.

9.6. RESPECT OF HUMAN RIGHTS

MANAGEMENT APPROACH AND KEY ACTIVITIES

Issues concerning respect of human rights in JSW can be divided into two categories:

- respect of rights, including in particular personal freedoms of persons working for the Group,
- respect of freedom of association and right to participate in and organize peaceful manifestations.

Personal rights and freedoms

Aspects related to safeguarding due respect of inalienable rights and freedoms of each person became the foundation of the activities planned in the *Sustainable Development Strategy 2017-2020* in the area of employees with regard to building sound, non-discriminatory organizational culture. It consists above all in ensuring previously non-existent formal mechanisms that support elimination of unethical behaviors in interpersonal relations (incl.: mobbing, discrimination on grounds of gender or nepotism), whose risk of occurrence is linked to the functioning of any organization. No tolerance for this type of phenomena results directly from legal regulations, including Labor Law, the compliance with which underpins all internal regulations.

GOAL 3:

• WE RESPECT EACH AND EVERY HUMAN BEING AND OUR
COMMUNITY, SHARING THE RESPONSIBILITY FOR JSW AND ITS
PROPERTY

The tool which supports shaping desirable behaviors and enforcement of possible infringements of the adopted ethical standards in JSW is the *JSW Group's Code of Ethics* adopted in 2017. It constitutes simultaneously the ethics, antidiscrimination and partially anticorruption policy of JSW. It establishes procedures concerning reports of infringements and irregularities, non-compliance with legal obligations, threats for occupational health and safety, health of clients and third parties, safety of natural environment, unfair competition practices and attempts to cover up any of the above. It provides all employees, regardless of their position, with the possibility to report problems at a high level and with the protection from possible reprisals on the part of superiors. The Code also helps to resolve conflicts of interest which inevitably occur in the functioning of any organization. The purpose of introduction of the aforementioned document was to safeguard mechanisms mitigating the risk of unethical behaviors in the Group.

GOAL 7:

• WE RESPECT TRANSPARENCY AND HONESTY IN MANAGEMENT

Additionally, at the end of 2017 the Management Board adopted the standard ethics clause to be applied in agreements with contractors. This allows JSW to extend the effect of ethics regulations one the JSW supply chain.

Freedom of association

As of 31 December 2017 there were 122 trade union organizations operating in the Group. As one employee may be a member of several trade unions, the total trade union membership exceeds the number of employees in the Group and as of 31 December 2017 it was 31,780, which means a trade union membership rate of 120.1%.

In the Parent Company the basis for cooperation with trade unions is regulated by the *Rules of mutual cooperation between the JSW Management Board and the company trade union organizations operating in JSW* concluded on 9 May 2015.

Work on Company-Level Collective Bargaining Agreement in JSW

In spite of the termination effective from 1 January 2010 of the Company-Level Collective Bargaining Agreements (“CCBA”), due to the provisions of individual employment agreements and the JSW agreements of 5 May 2011, JSW still applies the provisions of 6 Company-Level Collective Bargaining Agreements (CCBA KWK Borynia, CCBA KWK Budryk, CCBA KWK Jas-Mos, CCBA KWK Pniówek, CCBA KWK Zofiówka, CCBA ZLM) and of the Bylaws of Remuneration for Employees of JSW Board Office. Moreover, due to the takeover of employees of KWK Knurów-Szczygłowice under art. 23¹ of Labor Code, JSW applies with regard to those employees the provisions resulting from individual employment agreements and Agreement of 20 December 2004 concluded between the Management Board of Kompania Węglowa and Trade Union Organizations.

Work on agreeing and implementing a new CCBA for JSW employees have continued since JSW was established, i.e. 1 April 1993. The work intensified from 2009. The employer presented to social partners proposals of CCBA for JSW employees, however, due to differences of opinion between the Management Board and the trade unions on essential matters a CCBA has not been developed until now.

In February 2016 negotiations concerning CCBA were resumed again. Trade union organizations “Jedność” at a meeting in March 2016 questioned the representativeness of trade union organizations i.e. ZOK NSZZ “Solidarność” JSW, Federacja ZZG JSW, ZZ Kadra Pracowników JSW and ZOK ZZ “Kontra”, moving for suspension of the negotiations of CCBA until the court issues a ruling on the representativeness of the aforementioned organizations.

The work on the CCBA was not discontinued and on 7 April 2016, further negotiations were held. At the meeting ZOK NSZZ “Solidarność” JSW, Federacja ZZG JSW, ZZ Kadra Pracowników JSW and ZOK ZZ “Kontra” moved to suspend the negotiations on the grounds that:

- the aforementioned trade union organizations applied to the court for ascertaining their representativeness in connection with the letter sent by company trade union organizations ZZ “Jedność” to ZOK NSZZ “Solidarność” JSW, Federacji ZZG JSW, ZZ Kadra Pracowników JSW and ZOK ZZ “Kontra” on ascertaining representativeness in conformity with the Labor Code,
- some trade union organizations made public the information on contents of the conducted negotiations, which breaches art. 241³ § 1 of the Labor Code, which reads that “Each party is obliged to conduct negotiations in good faith and in respect of legitimate interests of the other party..”

Bearing in mind the proper course of the negotiations on the CCBA, the Employer agreed to the aforementioned request and suspended the negotiations until the time the court declares that these trade union organizations satisfy the representativeness criterion.

After presentation by ZOK NSZZ “Solidarność” JSW, ZZ “Kadra” Pracowników JSW and Federacja ZZG JSW of the rulings of the District Court in Jastrzębie-Zdrój ascertaining representativeness of those organizations, the JSW Management Board in a letter of 14 June 2017 informed the Trade Unions of this fact, proposing to resume the interrupted negotiations from the month of July 2017.

On 31 July 2017, a meeting was held to resume the adjourned negotiations and work out a general framework and rules applicable to the development of the CCBA. The JSW Management Board suggested that by 14 August 2017 the trade unions submit to the employer a written notice on the composition of the team selected to represent the social side in the negotiations. Not all the trade unions responded to the suggestion of the JSW Management Board. Those that did submit their written remarks on the arrangements of 31 July 2017 expressed their willingness to actively participate in the negotiations on the CCBA. Another meeting to discuss the issue of negotiations was held on 31 August 2017. However, during the meeting the trade unions stated that the meeting was not legally valid due to the absence of at least one of the representative trade union organizations, which is necessary in accordance with art. 241²⁵ § 3 of the Labor Code.

At the initiative of the representative trade union organizations in JSW, negotiations on the CCBA were held on 22 and 28 August 2017 and 4, 11 and 14 September 2017, during which issues related to the construction of a wage scale were discussed. The employer was represented by the team appointed for the conduct of negotiations on the CCBA for JSW employees in accordance with a decision adopted by the JSW Management Board on 9 May 2017. On the trade union side the following organizations participated in the negotiations: ZOK NSZZ "Solidarność" JSW SA, ZZ "Kadra" Pracowników JSW and Federacja ZZG JSW.

In a letter of 12 September 2017 the JSW Management Board was informed about the appointment of the JSW Common Representation of Trade Unions ("JSW WRZZ") to negotiate the CCBA, consisting of Trade Unions "Jedność", ZZ "Wsparcie", ZZRG in Poland, ZOK ZZG in Poland and ZZ "Kadra" Budryk. At the same time, the JSW Management Board and the representative trade union organizations were invited by WRZZ JSW to cooperate in the crafting of the CCBA.

The following meeting was held on 22 September 2017. The employer invited all trade union organizations operating in JSW to the meeting, however the trade unions attending it did not enter into the discussions but submitted to the JSW Management Board their position in which they demanded joint negotiations in the presence of the representative trade union organizations.

By letter of 6 October 2017, the JSW Management Board again invited all trade union organizations operating in JSW to attend the meeting to be held on 16 October 2017 to negotiate the CCBA. The trade union organizations present at the meeting again did not engage in talks on CCBA and again explained this fact by the absence of representative organizations. The meeting was attended by attorney at law Anna Gwiazda from the Law Firm Kocharński, Zięba i Partnerzy Sp. z o.o. with its registered office in Warsaw, who tried to clarify the doubts of the trade unions present at the meeting with regard to legal issues, however, the trade union organizations were not interested.

In connection with the impossibility to address the matters raised in the letter of the trade union organizations of 22 September 2017 and at the meeting on 16 October 2017, the JSW Management Board on 20 October 2017 sent a letter to the trade unions, where it presented its position upholding the will to continue the negotiations on concluding the CCBA, simultaneously declaring its willingness to engage in dialogue with all representatives of trade union organizations who join the negotiations.

On 3 November 2017 the Warsaw law firm Kocharński, Zięba i Partnerzy Sp. z o.o. emailed a draft CCBA for JSW employees.

In the letter of 8 November 2017 the JSW Common Representation of Trade Unions sent to the employer a draft CCBA, and in the letter of 21 November 2017 informed the JSW Management Board that from 14 to 20 November 2017 a referendum was held among the employees in individual mines of the Company concerning support for the draft CCBA developed by the Common Representation of Trade Unions at JSW SA, in which over 50 % of JSW SA employees participated, of which 98.93% supported the draft CCBA. Therefore, the Common Representation of Trade Unions demands commencement of negotiations on the presented draft.

Renegotiation of the Agreement entered into pursuant to Articles 9¹ and 23^{1a} of the Labor Code on 16 September 2015

In connection with the letter of the representative trade union organizations in JSW dated 5 December 2016 regarding renegotiation of the Agreement entered into pursuant to Articles 9¹ and 23^{1a} of the Labor Code on 16 September 2015 in the part pertaining to: the rules for calculation and payment of the Miner's Day bonus, suspension of payment of the 14th salary and suspension of the entitlement to the free coal allowance, on 8 and 19 December 2016 meetings were held with delegates of the representative trade union organizations in JSW during which the JSW Management Board presented to the trade unions its analysis of JSW's current financial standing and the assumptions for the Technical and Economic Plan for 2017. The parties met again on 4, 18 and 24 January and 3 February 2017. Finally, on 9 February 2017 an agreement was signed between the JSW Management Board and representative trade union organizations in JSW, based on which on 6 March 2017 the JSW employees were paid the so-called "One-off bonus". Moreover, starting from 1 March 2017 the Employer undertook to revalue job ranks for up to 10% employees of individual JSW Plants.

On 18 October 2017 the JSW Management Board and representative trade union organizations in JSW signed an Agreement in which they waived the provisions of §3 of the Agreement dated 16 September 2015 regarding the rules for calculation of Miners' Day bonus. Therefore, all rights and constraints to becoming eligible for the bonus, rules for calculation and dates of payment were identical as those for the Miners' Day bonus for 2014. At the same time, on 18 October 2017 the Agreement was signed between the JSW Management Board and representative trade union organizations in JSW on the rules for compensation for work on Saturdays, Sundays and holidays. On 8 November 2017 the parties signed a new Agreement modifying the aforementioned rules.

In a letter of 2 November 2017 the Representative Trade Union Organizations JSW requested the JSW Management Board to waive the provisions of §3 of the Agreement dated 16 September 2015 regarding payment of the 14th salary and free coal allowance. On 23 November 2017 the Representative Trade Union Organizations in JSW demanded the JSW Management Board (in accordance with art. 7 of the Act of 23 May 1991 on resolution of collective disputes) to pay to the Company employees the 14th salary and free coal allowance for 2017 and the following years on the date and rules valid in 2014. At the same time, in a letter of 23 November 2017 the Representative Trade Union Organizations in JSW requested the Minister of Energy Krzysztof Tchórzewski to appoint urgently a meeting on said matter. In a letter of 24 November 2017, the JSW Management Board invited representatives of the Representative Trade Union Organizations in JSW to a meeting regarding the demand of 23 November 2017 held on 1 December 2017. On 5 December 2017, the JSW Management Board and the Representative Trade Union Organizations in JSW signed an Agreement in which they waived the provisions of §3.1 and §3.3 of the Agreement dated 16 September 2015 regarding payment of the 14th salary and free coal allowance. Therefore, said benefits will be paid on the rules applied before the Agreement was concluded. Moreover, on 6 December 2017, the JSW Management Board and the Representative Trade Union Organizations in JSW signed another Agreement regulating the issue of names of the benefits and other non-periodical payments.

In connection with the performance of the Agreement of 5 December 2017 on reinstatement of the free coal allowance, on 27 December 2017 an Agreement was signed between the JSW Management Board and the Representative Trade Union Organizations in JSW concerning uniform rules of provision of the free coal allowance for all JSW employees.

Moreover, as a result of the Agreement of 5 December 2017 regarding payment of the 14th salary for 2017, on 27 December 2017 another Agreement was signed between the JSW Management Board and the Representative Trade Union Organizations in JSW, under which all JSW employees employed in 2017 without a break, immediately after termination of employment at JSW SIG (i.e. employees who terminated their employment at JSW SIG in order to start work at JSW) are entitled to the 14th salary for 2017 in proportion to the time of their work at JSW.

Work on standardization of pays for the employees of KWK Knurów-Szczygłowice

On 9 January 2017, an annex was signed to the Rules and Regulations for Granting Bonuses to Employees of KWK Knurów-Szczygłowice agreed on between the JSW Management Board and the trade unions. The annex came into force on 1 January 2017 and constitutes the implementation of the provisions of the Agreement executed on 27 January 2016. In accordance with previous arrangements, on 25 August 2017 a meeting was held to discuss the following phase of wage adjustment in KWK Knurów-Szczygłowice, based on the agreement entered into on 27 January 2016.

Collective dispute initiated by KWK Krupiński's trade unions

On 19 January 2017, a meeting was held related to a collective dispute initiated by the trade unions operating in KWK Krupiński in respect of the claims articulated in the letter dated 12 January 2017 concerning:

1. Immediate inclusion of appropriate provisions into the terms of the employment contracts of those members of staff who signed their employment contracts after the date of JSW's IPO. The said terms were agreed on in the collective bargaining agreement entered into under Article 9 § 1 of the Labor Code on 5 May 2011 between JSW and the Trade Union Organizations (in §1 item 2). To date, JSW has failed to fulfill the provisions of the agreement, which constitutes a serious breach of the working conditions of its employees.
2. Immediate commencement of disbursement of the "standardization benefit" resulting from the so-called payroll standardization effected in 2010. This is the fulfillment of the general principle of equal pay conditions for JSW staff in respect of members of rescue teams performing preventive works in various mines. It is unacceptable that some rescue teams receive both bonuses while other rescue teams receive only that which is higher in value. This is an obvious breach of the principle of equal treatment in respect of the conditions of work and pay. The employer may not treat the same professional group differently. That is the case of discrimination against a certain professional group resulting from the work (plant) where work is performed.
3. Immediate withdrawal from the system of granting bonuses to senior maintenance supervisors involving depriving them of the "incentive bonus" in cases of performing work entrusted by the superior (on behalf of the employer) on the surface without obtaining remuneration for underground work. This kind of work results from the scope of responsibility of senior underground maintenance supervisors and clearly breaches the conditions of pay (introduces wage discrimination) for employees. According to other occupational safety regulations, senior underground maintenance supervisors are required to perform assignments associated with the creation of documentation, manuals, technologies and ongoing monitoring of their use.

During the meeting, the trade unions clarified and explained in greater detail their demands while maintaining their position. The JSW Management Board took the stance that the subject matter of the dispute concerns all JSW employees, which means that the party to discuss this issue with the employer should be trade unions representing all staff.

On 7 February 2017, another meeting took place, during which the trade unions presented their final position to be recorded in the minutes of the meeting held on 19 January 2017. The parties to the dispute met again on 16 and 24 February 2017. The 24 February 2017 meeting ended with the signing of a discrepancy report. On 1 March 2017, the trade unions proposed Dariusz Trzcionka and Jerzy Krynicki to discharge the function of the mediator. The JSW Management Board refused to accept the proposal submitted by the trade unions and, on 8 March 2017, decided to send a request to the Ministry of Family, Labor and Social Policy to select a mediator from the Ministry's list of mediators. On 9 March 2017, the said request to select a mediator was sent to the Ministry of Family, Labor and Social Policy. At the same time, by letter of 9 March 2017, the Employer informed the trade union organizations operating in KWK Krupiński of the Management Board's decision regarding the mediator.

By letter of 21 March 2017, the Ministry of Family, Labor and Social Policy appointed Mr. Jerzy Nowak as the mediator in the collective dispute. By letter of 27 March 2017, the trade union organizations operating in KWK Krupiński informed the Employer of the termination of the collective dispute initiated on 12 January 2017. The trade union organizations stated in the above mentioned letter that in connection with handing over KWK Krupiński to SRK as of 1 April 2017 "after that date the dispute becomes irrelevant and in that case the trade union organizations cease the dispute.

Agreement on the implementation of the Company Social Benefit Fund in 2017 in connection with the Free-of-charge transfer of KWK Krupiński to SRK

On 1 June 2017 there was a meeting of the JSW Management Board and representatives of representative trade union organizations. During the meeting an Agreement was signed on the realization of the Company Social Benefit Fund in 2017 in connection with handing over KWK Krupiński to SRK. The decision was made for JSW's other organizational units to utilize the resources in the Krupiński mine's Company Social Benefit Fund.

Agreement between the JSW Management Board and representative trade union organizations in JSW

On 28 June 2017, the JSW Management Board and representative trade union organizations in JSW signed an agreement under which the following was agreed value of the prevention meal effective as of 1 July 2017 will be PLN 19 and that a net cash bonus of PLN 4,300 will be paid on 4 September 2017 to all JSW employees holding employment status on 31 August 2017.

Public assemblies in the Pawłowice Township organized by ZZ „Jedność” Pracowników JSW in KWK Pniówek

On 29 June 2017 ZZ „Jedność” Pracowników JSW in KWK Pniówek organized a public assembly in the Pawłowice Township. Approximately 60 persons took part in this assembly. In their letter of 29 June 2017 the representatives of this public assembly sent a petition to the Minister of Energy on behalf of the JSW employees, mining families and retired miners participating in the assembly to demand:

- Suspension of the regulations pertaining to the introduction of a replacement temperature for the climate and reinstatement of the previous labor rules in elevated temperatures.
- Payment of the illegally-suspended 14th salary to all employees employed in JSW.
- Payment of overtime to all JSW employees at the employer's disposal underground in connection with the illegal extension of working time in the period from February 2015 to September 2015.
- Retraction of the JSW Management Board's resolution illegally suspending the payment of the free coal allowance to all retired miners and former JSW employees.
- Reinstatement of the free coal allowance for all employees hired by JSW.
- Reinstatement of wages for JSW employees for working on Saturdays and Sundays according to the pre-2015 rules.
- Cessation of violating labor law in JSW taking the form of dividing the Saint Barbara Miner's Festival bonus into tranches.

Meeting with representatives of ZOK ZZRG in Poland on the matter of equal pay for members of rescue crews

On 5 June 2017 there was a meeting with representatives of ZOK ZZRG in Poland in order to define and clarify issues concerning equal remuneration of members of rescue crews for the term of their secondment to OSRG and for participation in a rescue action regardless of whether they are remunerated according to CCBA rules or under the so-called „new employment agreements”. At the meeting on 5 July 2017 representatives of ZOK ZZRG in Poland stated that the lack in the new employment agreements of a rescue

allowance, allowance participation in a rescue action, allowance for exercises in the working machine and for work in the machine during a rescue action discouraged people from working as rescuers.

The employer explained that the employer on its own was unable to adjust the rules of paying to the rescue crews, since agreement with trade unions was needed. It is possible to unify the rules of paying members of rescue crews under the work on the CCBA for JSW employees or if the work on the CCBA becomes protracted through an agreement with the trade union party to unify the rules for paying rescuers.

As a consequence, the representatives of ZOK ZZRG in Poland will prepare their own proposal on the basis of the Attachment to the CCBA to be presented to the Employer during the next meeting. It will be a proposal for talks during the work on the CCBA for JSW employees.

Agreement dated 23 August 2017

On 23 August 2017, the JSW Management Board signed an agreement with the representative trade union organizations in JSW on the need to ensure the inflow of young staff to the Parent Company's mines in order to avoid the 'generation gap'. Under pertinent agreements which will be signed with the local authorities of various cities, towns and townships, JSW will, to the extent possible, provide vocational training in the form of practical courses for students attending vocational schools preparing them for mining professions and, depending on its own needs for labor force, may employ graduates who will successfully pass examinations confirming their professional qualifications.

Table 40. *Material collective disputes in other companies of the Group*

MATERIAL DISPUTES INITIATED BY THE SOCIAL SIDE AND RELATIONS WITH THE SOCIAL SIDE

<p>JSW KOKS</p>	<p>There are 10 trade union organizations operating in the company. In 2017 the Management Board of JSW KOKS held talks with trade unions on remuneration policy for 2017 and talks and consultation on changes of the organizational chart in connection with the establishing of branches in JSW KOKS, as well as on concluding Company-Level Collective Bargaining Agreements for employees of: JSW KOKS with its registered office in Zabrze, the so-called Headquarters of the Company Spółki, JSW KOKS KKZ with its registered office in Radlin, JSW KOKS Przyjaźń with its registered office in Dąbrowa Górnicza.</p> <p>As regards the establishment and validity of Company-Level Collective Bargaining Agreements, the discussions were conducted in compliance with the applicable procedures arising from the applicable provisions of law and from internal sources of labor law. On 28 March 2017, a joint letter from the President of the JSW KOKS Management Board and the Director of the Przyjaźń Branch was sent to the trade unions regarding negotiations on the Company-Level Collective Bargaining Agreements and the presentation of drafts of Labor and Remuneration Bylaws for employees of JSW KOKS with its registered office in Zabrze, employees of JSW KOKS Przyjaźń Branch with its registered office in Dąbrowa Górnicza and employees of JSW KOKS KKS Branch with its registered office in Radlin.</p> <p>The company's Management Board provided the social partners on an ongoing basis with written information pertaining to employment and remuneration and information pertaining to the company's current economic standing. During the meetings, which were held on a regular basis, the trade union organizations were kept informed of the company's financial, social and commercial standing. Moreover, the company's Management Board and the social partners made arrangements to execute the following documents: agreement on not preparing vacation plans for 2017, agreement on not indexing allowances for shift work and allowances for work under a shift-based or equivalent system, agreement on determination of certain elements of remuneration policy for 2017, agreement on the rules for awarding and issuing food coupons.</p> <p>At the same time, Labor and Remuneration Bylaws for employees of JSW KOKS S.A. in Zabrze, Labor and Remuneration Bylaws for employees of JSW KOKS S.A. Przyjaźń Branch in Dąbrowa Górnicza, and Labor and Remuneration Bylaws for employees of JSW KOKS S.A. KKZ Branch in Radlin were determined and communicated to the employees.</p>
<p>JZR</p>	<p>There are 5 trade union organizations operating in the company. The Joint Trade Union Representation formed on 24 April 2017 entered into a dispute with the Employer on 11 May 2017. This dispute entailed the following demands: raising the average salary by 3% in vocational groups compared to 2016, net of the funds for the quarterly bonus that was suspended in 2016 and unsuspended in 2017 and the 14th salary paid this year in a monthly settlement, adjusting the classification of 10% of the employees, payment of a gross non-recurring bonus of PLN 1,500 per employee. The employer entered into negotiations to solve the dispute through an agreement. During these negotiations the trade unions verified their original postulate and proposed a 2.5% hike in the personal classification rates while simultaneously withdrawing from the non-recurring bonus.</p> <p>On 19 May 2017 wage agreement was signed putting an end to the collective dispute. It was agreed: to increase the base wage tables by 2.5% effective as of 1 June 2017, assuming that the rates would be rounded mathematically to full zlotys at general rules, reclassification effective as of 1 June 2017 for 13% employees employed for undetermined period, especially in the groups with the lowest wages and with the required occupational qualifications, and to continue the hitherto possibility of reclassification upon concluding of successive agreements (applicable to employees employed under term agreements), it was decided not to pay the one-off bonus and at the same time it was agreed to resume talks on the matter after closing of Q3 2017. In addition, it was agreed with effect as of 1 January 2017 that the number of persons eligible to receive a quarterly bonus linked to work productivity paid in the amount of PLN 200</p>

MATERIAL DISPUTES INITIATED BY THE SOCIAL SIDE AND RELATIONS WITH THE SOCIAL SIDE

	to every eligible employee is to be extended to include persons who utilize the two days off work as provided for by the Labor Code to care for a healthy child, both in terms of taking some hours off as well as taking an entire day off.
JSK	As at 31 December 2017, 12 JSK employees were members of the of Inter-Company Organization NSZZ „Solidarność” of Koksownia Przyjaźń in Dąbrowa Górnicza and 2 employees are members of the Trade Union of Continuous Traffic Workers at Wałbrzyskie Zakłady Koksownicze Victoria S.A. In 2017 there were two meetings with trade unions. During the first meeting on 16 January 2017 the following were discussed and agreed: the Bylaws of the Company Social Benefit Fund (reduction of expenses for co-funding of cultural and educational meetings and of sports and recreational events to the amount of PLN 25,000.00 and an increase in co-funding to the self-organized holidays by of the amount of PLN 150.00) and preliminary plan of expenses for 2017. Moreover, employees were paid a discretionary bonus of PLN 150.00 net in January 2017. At the second meeting on 7 September 2017 the discussion concerned payment of the performance bonus in JSW and an increase in the amount allocated to the Company Social Benefit Fund of 2017.
PGWiR	There are 4 trade unions operating in the company. On 16 March 2017, a meeting was held between the Management Board and representatives of the trade union organizations during which the trade unions requested an increase in personal classification rates for employees in the lowest category and an increase in all classification categories. The Management Board presented to the trade unions draft proposals for an increase in personal classification rates by 1.5%. On 14 April 2017 the company's management board received a letter from the Employee Trade Union on a proposal to raise rates by 2%. On 23 June 2017 a letter was delivered to the trade union organizations informing them of the employer's willingness to increase personal classification rates by 2%. This growth will not cause the planned level of salary costs to be overrun in 2017. On 19 June 2017 the company's management board received a letter from NSZZ „Solidarność” demanding that rates be raised by at least 6% along with a threat of launching a collective dispute.
ZREM-BUD	There are 6 trade union organizations operating in the company. In 2017 the Management Board and trade union organizations continued to negotiate and work on a new Company-Level Collective Bargaining Agreement. In addition, the Bylaws of the Company Social Benefit Fund was approved in 2017.
SPEDKOKS	There are 8 trade union organizations operating in the company. On 8 February 2017, a Company-Level Collective Bargaining Agreement was executed for SPEDKOKS employees. It came into effect on 1 April 2017 and was entered in the register of Company-Level Collective Bargaining Agreements. On the same date, the previous Company-Level Collective Bargaining Agreement, dated 15 July 2005, was terminated and information on its termination was entered in the register of Company-Level Collective Bargaining Agreements.
BTS	There are 7 trade union organizations operating in the company. On 20 July 2017, all trade union organizations entered into a collective dispute with the employer. The trade unions presented the following demands: guaranteeing an increase in the charge for the Company Social Benefit Fund in 2017 by PLN 2,500.00 per eligible employee, agreeing on the amount of the Easter allowance at PLN 500.00 (in accordance with the provisions of the CCBA), setting the amount of the Transport Worker Day bonus at PLN 1,000.00 per eligible employee and setting the amount of an additional allowance, the so-called Christmas Eve allowance, at PLN 1,000.00 per eligible employee (in accordance with the provisions of the CCBA). The parties to the dispute decided, in accordance with Article 10 of the Act on Resolving Collective Disputes, to conduct further negotiations with the participation of a mediator selected from the Ministry's list of mediators. The collective dispute was put to an end to an agreement 8 December 2017. It was agreed that the additional amount allocated to the Company Social Benefit Fund as a liability of 2017 would be increased by the amount of PLN 1000 per each eligible employee with payment in December 2017 and an additional payment was agreed in the amount of PLN 2000 per each eligible employee with payment by the end of Q1 2018 as satisfaction of the other claims concerning 2017.
JSW SiG	There are 2 trade union organizations operating in the company. On 18 August 2017 the Company's Management Board signed with representatives of the trade union organizations operating in the company Annex no. 1/2017 to the Bylaws of the Company Social Benefit Fund introducing new regulations concerning amount ranges for the purposes of determining the amount of benefits granted to employees of JSW SiG. In 2017 as a result of the ended dispute the daily rate for regeneration meals was increased to the amount of PLN 19.

DESCRIPTION OF RELATED RISK ASPECTS

Table 41. Risk factors

RISKS CONNECTED WITH HUMAN RIGHTS	
RISK OF VIOLATING ETHICAL STANDARDS	The risk that the Company's employees take actions inconsistent with corporate ethical standards or that defining, implementing and enforcing these standards is not effective and coherent with the Company's aims.
RISK CONNECTED WITH RELATIONS WITH TRADE UNIONS AND THE RISK OF POSSIBLE COLLECTIVE DISPUTES	The risk that actions or decisions taken by the managerial staff or representatives of trade union organizations will lead to deterioration of mutual relations, which may result in a conflict and, consequently a threat to the continuity of the Company's operations or achievement of its strategy.

KEY RATIOS

Table 42. Discrimination, workplace harassment

ITEM	2017	2016	GROWTH RATE 2016=100
Number of reported cases of workplace harassment	-	1	-
Number of reported cases of discrimination of employees	-	-	-

Table 43. Relations with trade unions

ITEM	2017	2016	GROWTH RATE 2016=100
Unionization rate (%)	120.1	127.6	(7.5) p.p.
Number of operating trade unions	122	127	96.1
Number of members	31,780	34,908	91.0

9.7. COUNTERACTING CORRUPTION AND BRIBERY

MANAGERIAL APPROACH AND KEY ACTIVITIES

The JSW Group's Code of Ethics, adopted in the Group in 2017 and still in force, clearly condemns offering or accepting gifts or other additional benefits, favors and hospitality acts, excluding those of symbolic value whose refusal could be interpreted as an offense and breach of the prevailing cultural norms. It is forbidden to accept or give gifts in the form of cash, regardless of the amount. It is ordered to avoid any behavior that could be interpreted as expecting or demanding bribes or other benefits.

A particular emphasis is placed on the issue of relations with suppliers, which is a an area of increased risk with regard to the threat of corruption. The employees who are responsible for contacts with suppliers are obligated, among other things, to select suppliers based on objective assessment criteria and take care that their proposals are compared and considered in a fair and unbiased manner and that the entire procedure is recorded appropriately and transparently. At the same time, these employees must disclose any information held by them that could have an impact on the cooperation with the supplier, also with regard to possible unethical behavior of the supplier.

At the same time, in 2017, works were initiated on *Anti-corruption Policy*, which would be coherent with the *JSW Group's Code of Ethics*, developing it and making it more detailed in issues connected with counteracting corruption. Until the date of preparing these statements, the work on drafting the policy and having it approved were underway.

In the Group, an internal control system is in place; one of its elements is internal audit supervised by the Supervisory Board's Audit Committee.

The introduced *JSW Group's Code of Ethics* is in force in all the companies belonging to the Group. Simultaneously, in each company, there are procedures in place connected with monitoring business processes in order to minimize the risk of irregularities, including those of corruptive nature:

- At **JSW KOKS**, in 2017, while performing the control plan, such areas were inspected as, among others, ordering and purchasing materials, machinery and equipment. As a result of the performed control measures, an official post-control instruction was issued by the JSW KOKS Management Board to prevent possible corruptive practices between the company's employees and third party entities. It was ordered, among others, to specify in detail the procurement procedure included in the company's relevant regulation in order to maintain clarity and transparency of the procurement procedures conducted by the Procurement Department; it was forbidden to conduct business transactions with specific business partners; it was required to verify the rules of human traffic on the company's grounds to specify the procedures for movement of external stakeholders and eliminate possible meetings which could have corruptive features.
- At **JZR**, particular focus was given to formalization of procurement procedures to increase the transparency of the performed actions and develop an internal control system, which as a modern management element is one of the key systems and covers the entire area of activity. These measures are aimed to improve the effectiveness of control mechanisms in areas exposed to the actualization of risks, including those concerning corruption and frauds.
- **Advicom** joined the Nationwide Intervention Center, whose tasks include the possibility of reporting anonymously issues connected with such offenses as theft, corruption, embezzlement or illegal payments and breaches of internal financial and control procedures.

DESCRIPTION OF RELATED ASPECTS OF THE RISK

Table 44. *Risk factors*

RISK CONNECTED WITH THE AREA OF CORRUPTION AND BRIBERY	
RISK OF VIOLATING ETHICAL STANDARDS	The risk that the employees take actions inconsistent with corporate ethical standards or that defining, implementing and enforcing these standards is not effective and coherent with the Company's aims.
RISK OF EMBEZZLEMENT AND OTHER FRAUDS	The risk that employees, not complying with ethical standards, will commit a crime or offense involving acting with direct or possible intention leading to misappropriating some else's property or entrusted assets, using entrusted cash, materials or equipment contrary to their purpose and/or to achieve an inappropriate goal, most often to receive personal financial gains or non-financial benefits).
ACTIONS TAKEN BY EMPLOYEES THAT CAUSE THE COMPANY TO BREACH LAW	The risk that as a result of actions taken by employees/subcontractors on behalf of the Company or its subsidiary, law is breached.

KEY INDICATORS

Table 45. *Number of detected cases of corruption*

ITEM	2017	2016	GROWTH RATE 2016=100
Number of detected cases of corruption reported to law enforcement authorities	-	-	-

9.8. DIVERSITY POLICY

The diversity policy in place in the Group is not collected in a single document. In respect to corporate authorities of the Group companies and its key managers, the selection process includes elements such as: education, professional experience and competence and it does not disqualify the candidates in any way by any of the diversity policy elements specified in this principle.

At the same time, the issues connected with respecting diversity and protection against discrimination, have been regulated in the *JSW Group's Code of Ethics*, which constitutes, among other things, the anti-discrimination policy of the JSW Group.

The Code of Ethics clearly condemns any behavior that may infringe the rights of an individual in terms of unequal treatment of employees for such reasons as, e.g., sex, age, disability, race, religion, nationality, political convictions, union membership, ethnical origin, denomination, sexual orientation, etc. The aim is to counteract discrimination, both direct and indirect. Treatment of employees without discrimination is, in the assessment of the Group and JSW, the best guarantee of equal treatment and diversity, while maintaining the optimum allocation of human resources from the business point of view.

Such a solution is, in the Group's opinion, sufficient and effective, but it is not excluded that additional formal solutions will be introduced to provide employees with protection in the future if the present measures turn out to be insufficient.

KEY INDICATORS

Table 46. *Diversity in Management Boards and Supervisory Boards of the Group companies*

ITEM	2017	2016	GROWTH RATE 2016=100
MANAGEMENT BOARDS	30	25	120.0
• Female	5	6	83.3
• Male	25	19	131.6
SUPERVISORY BOARDS	59	61	96.7
• Female	12	13	92.3
• Male	47	48	97.9

9.9. ENVIRONMENTAL ISSUES

MANAGERIAL APPROACH AND KEY ACTIVITIES

The basic directions of managerial activity connected with environmental protection have been specified in detail in the *Sustainable Development Strategy for 2017-2020*. These activities fall under two categories as follows:

- maximizing the effective economic use of raw materials extracted from nature (both deposits of coal and other raw materials accompanying its extraction)

GOAL 4:

• WE RESPECT NON-RENEWABLE RESOURCES BY USING THEM EFFECTIVELY

- limiting the adverse impact on the natural surroundings and ensuring environmental safety on an ongoing basis

GOAL 5:

• WE RESPECT THE NATURAL ENVIRONMENT AND THE IMMEDIATE NATURAL AND SOCIAL SURROUNDINGS IN THE AREAS WHERE JSW OPERATES

The Group assumes that the best measure of responsibility for the environment is the effectiveness of actions. Any imperfections of technologies or deficiencies in management should be eliminated. This opens space for a great number of research projects and for seeking innovative solutions to help us act in an effective and profitable manner, at the same time protecting the natural surroundings. This is an inexhaustible area for research centers to do research involving the industry. This is a stimulus for seeking innovative, efficient and cost-effective technologies. What is most important is effective use of exploited and profitable to extract coal deposits but also effective economic use of methane co-occurring with coal deposits, coke oven gas, and optimizing energy consumption and fuel use. What should be also noticed are actions aiming to search for innovative and economically justified methods of using waste rock or extract salt from mine waters.

Another key area from the perspective of research and development are any projects connected with the so called clean coal technologies. To contribute to an acceleration of activities connected with seeking and implementing innovative solutions which bring both economic and environmental benefits, research competences were concentrated in one unit, which led to setting up the company named JSW Innowacje.

GOAL 1:

• WE RESPECT SCIENCE AND MAKE USE OF INNOVATIONS IN ORDER TO DEVELOP OUR BUSINESS IN A MORE SUSTAINABLE MANNER

JSW Innowacje is to be at the same time a platform allowing for cooperation in the area of research and development with business partners (B2B) and academic and scientific centers (B2U), using a broad range of external financing sources (the National Fund for the Protection of the Environment and Water Management, the National Center for Research and Development). It is of key importance to see research and innovative projects from the angle of effectiveness, including profitability, of the projects, which in principle should have a practical significance for the Group and the industry.

Apart from long-term strategic goals, there are also objectives connected with strategic operational management. These are to ensure environmental safety today – both to nature and to inhabitants of the local community. Therefore, they focus to a large extent on compliance with specific norms or procedures, monitoring current environmental parameters, reacting to detected departures and taking repair and corrective measures when irregularities are found. Similarly to other business areas (e.g. occupational health and safety), what is critically important for the operation of JSW in this area is that it has an environmental management system based on the PN-EN ISO 14001 standard – aiming to improve an organization continuously and constituting a guarantee of exercising due care. The condition for such a system's operation is to have an appropriate environmental policy.

At the level of JSW, the environmental policy is described in the document entitled *Policies of the Integrated Management System of Jastrzębska Spółka Węglowa S.A.* This is to ensure, on the one hand, compliance with legal requirements and, on the other, ongoing limitation of adverse influence on the natural environment in the entire process of extracting, processing and selling coal.

In 2017, the Group continued to implement the principles adopted in its environmental strategy. This purpose was served by the performance of the specified environmental protection tasks.

Chart 13. *Environmental tasks executed in 2017*



Water protection

The key directions of activity aimed at protecting surface water against salination were connected with:

- limitation of the quantity and load of underground salinated water through their maximum utilization for production purposes and in the mines for fire prevention and liquidation of redundant workings,
- dosing unused water from draining the Borynia-Zofiówka-Jastrzębie 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 2017, 4.4 million m³ of water from dewatering the Group's mines was drained using the Olza system,
- improving the Olza retention and dosing system by continuing modernization and renovation work,
- desalination of unused water from draining the Budryk mine by PGWiR in the Dębiesko plant,
- controlled release of unused water from draining the Knurów-Szczygłowice Mine into surface water in compliance with the conditions specified in prevailing regulations.

Waste management

With regard to waste management, land reclamation and management of areas transformed by mining activity, in 2017, the Group continued to use the production methods and service forms, and raw materials and other materials that made it possible to prevent generation of waste or keep their level as low as possible. All actions associated with waste management were taken in accordance with the waste management hierarchy, minimizing their negative impact on human life and health and natural environment through optimum management of space and natural resources, with special focus on reclamation and revitalization of sites and land transformed by mining activity. In extraction and processing of coal, in 2017 THE Group generated 11.1 million tons of mining waste. To minimize the negative impact of the mining waste on the natural environment and to increase revenues through rational waste management, the Group followed the strategic directions of activity, including: limiting the quantity of waste produced, increasing the amount of utilized waste in the underground pits, selling unprocessed waste, producing and selling crushed rock produced from waste, managing waste in the facilities for managing mine waste on the surface.

Activities were continued associated with utilization of mining waste and power plant waste and salinated water for filling and sealing excavations of caving longwalls in order to combat fire and methane hazards, limit emission of methane and land subsidence, improve ventilation conditions and fill liquidated and redundant dammed mining pits. An increase in the amount of utilized waste in the underground mining pits was carried out through a systematic extension and upgrade of sealing mixture injection installations.

Intensifying action to produce crushed rock in the mines' coal preparation 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 "Kruszywo skalne górnictwa JSW" ['JSW Mining Rock Aggregate'] and the Institute for Technology and Nature in Falenty for the product named "Kruszywo hydrotechniczne z łupka powęglowego JSW" ['JSW Hydrotechnical Aggregate from Coal Shale']. Waste was subjected to a recycling process based on the decisions held by the mines. In 2017, about 0.1 million tons of crushed rock and mine waste were sold.

Mining waste management in the mining waste management plants on the surface was compliant with the local zoning plans, waste management plans and currently prevailing waste management regulations according to the directions agreed with local government units.

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.

The mine waste management facilities were covered by technical and biological reclamation based on traditional and soil-free greening methods guaranteeing a rapid and sustainable achievement of the intended environmental effects.

Greenhouse gas emission reductions

Curtailling greenhouse gas emissions in the Group was accomplished by making the maximum energy utilization of gas through methane drainage in the mines. As a result of utilization of captured methane for production of electricity and heat in high-efficiency co-generation systems, in 2017 the emission of methane into the atmosphere was reduced by approx. 91.6 million m³. In 2016, the Budryk mine commissioned a cogeneration system – 2 engines of ca. 4.0 MWel each in the area of the VI Chudów shaft, which made it possible to reduce methane atmospheric emissions by approx. 8.0 million m³. It is planned that starting from 2018, procedures will be initiated to construct another engines running on gas from methane drainage in the Budryk and Knurów-Szczygłowice mines.

In 2017, the Group initiated implementation of comprehensive solutions in the area of advanced assessment of “carbon footprint” of the entire organization and each of the key production processes. The works are accompanied by detailed inventory-taking and analysis of emission sources as well as putting in order the system for managing emission data. Considering the absolute necessity to preserve coherence of messages communicated to the public, the Group decided to suspend the publication of information about emissions until the work on the new model for calculating the data is completed, and then to announce the information publicly from one period to another in a manner guaranteeing their comprehensiveness and comparability. At the same time, JSW’s position is that communicating to the public data collected in a different model today and then to continuing the reporting based on another methodology could mislead investors by the failure to observe the principle of comparability.

Elimination or limitation of excessive noise

The strategy regarding liquidation of excessive noise emitted into the environment assumes taking actions leading to reduction of noise emissions from the most onerous sources to a permissible level. In 2017 the Group continued performing the tasks associated with muffling the facilities in the main plant of the Pniówek mine.

The concept which is under consideration is the Energy Cluster Green Jastrzębie with the construction of a pumped-storage power plant in the area of the former KWK Krupiński mine. The upper reservoir in the form of a water reservoir valuable for the landscape and offering recreational use would be placed above the lower reservoir with an elevator shaft as a water discharge corridor. An important advantage of such a power plant, which allows for storing energy when there are its surpluses and it is inexpensive, in order to use it when it is in the greatest demand, is the possibility of starting the plant very quickly in case of emergency; the plant achieves full power in a few minutes. The construction of a pumped-storage power plant is at the same time one of the actions included in the operation of the Energy Cluster Green Jastrzębie and the Green JSW strategy, describing the opportunities for joint actions of local self-government units and JSW to achieve such aims as, among others, rational use of natural resources, increased use of energy from RES, increased energy efficiency and improving the air quality on the area of neighboring townships.

Another aspect, which makes up a separate category of environmental risk, involves the use of hazardous substances. In that area, the Group constantly monitors the laws and regulations defining qualification criteria, categories and quantities of hazardous substances which, if found in a work establishment, cause it to be classified as a unit of higher risk or a high risk of occurrence of a serious industrial failure.

In 2017, expenditures connected with broadly conceived environmental protection in the Group exceeded PLN 100.0 million.

Other activities of the Group companies in the area of environmental protection are as follows:

- **JSW KOKS**, as the first company in the coking industry and one of the few in Poland, holds five certificates compliant with requirements of the standards: ISO 9001:2008, ISO 14001:2004, ISO/IEC 27001:2013, ISO 50001:2011(E) and PN-N-18001:2004 for the production and sales of coke, crude tar, crude BTX, coke oven gas, sulfur, ammonium sulfate as well as electricity and steam. The company actively participates in the programs of the System for Monitoring Greenhouse Gas Emissions (SMEGC), performing supervision with the use of recorded procedures in this area. The function of significant environmental aspects has been defined for four thematic areas: emission of gases and dust into air, waste management, discharge of pollutants to a reservoir and use of surface water for technological purposes.
- At **PGWiR**, environmental issues are included in the *Policy of the Integrated Management System* and the management system itself, which complies with ISO 14001:2004 and EMAS. Every year, the company prepares and publishes environmental declarations in compliance with requirements of EMAS. It should be noted, however, that the solutions are not in force yet, but are at the implementation stage in the plant in Czerwionka-Leszczyny. In the middle of 2017, a new water rights permit was obtained for the desalination system, which realized the actual impact of the company on the environment; from the perspective of risk management and financial results, this reduced the potential threat of penalty for violating the conditions for discharging waste to water. At the same time, PGWiR performed regular inspections of the main units of the desalination system. The company expanded the most threatened rainwater pumping stations, namely H-2, P-10 and Gagarin's pumping stations. The plan for 2017 assumed completion of the first actions to limit the risk of H-2 pumping station, i.e. reduction of the catchment area needed to draining by the pumping station by restoring the natural run-off in its part. It was also planned to purchase new pumps to improve safety of draining areas without flow.
- Special features of CLP-B make its operation contribute directly to environmental protection rather than degradation. In the conducted activity, however, emphasis is placed on making the operation less energy-intensive and more environmentally friendly. To minimize the environmental impact, the company takes actions to limit emissions of pollution to the environment, including in particular optimizing the use of chemical agents, materials and utilities as well as minimizing the production of waste or emissions of harmful substances. Gradually, to minimize emissions of chemical substances to the atmosphere, modern instrumental methods are introduced to replace obsolete analytical technologies. At the same time, produced waste other than hazardous waste is stored selectively in safe conditions and handed over to authorized companies holding permits in the area of waste management. CLP-B also monitors the quantity and composition of discharged industrial sewage. The monitoring is carried out to maintain the parameters at an appropriate level. The company also examines industrial (process) sewage discharged from the drainage system and performs periodical inspections and cleaning of the installed sewage neutralizer.

In the case of the other companies, their contribution to environmental protection amounts to compliance with legal regulations, including received administrative decisions. The extent of the impact is best shown by the fact that the estimated amount of emissions from each of the companies is within the limits of 0.1% of emissions of the biggest companies from the JSW Group.

DESCRIPTION OF RELATED ASPECTS OF THE RISK

Table 47. Risk factors

RISK CONNECTED WITH THE AREA OF ENVIRONMENTAL PROTECTION	
RISKS OF ENVIRONMENTAL PROTECTION REGULATIONS	The risk resulting from there being no possibility of adjusting the organization to new legal solutions and other ecological requirements in connection with imposing stricter environmental standards and legal regulations on the Group companies.
RISK OF THE REQUIREMENT TO ADJUST OPERATIONS TO THE EU CLIMATE POLICY	The risk that as a result of restrictive climate policy of the European Union, the Group will be required to reduce the production of fossil fuels.
THREATS TO ACOUSTIC CLIMATE	The risk that as a result of operation of machinery and equipment the permissible noise level is exceeded.

RISK CONNECTED WITH THE AREA OF ENVIRONMENTAL PROTECTION

THREAT TO AMBIENT AIR	The risk that as a result of the conducted activity the permissible level of emissions of gases and dust to the atmosphere is exceeded.
THREAT TO AQUATIC ENVIRONMENT	The risk that as a result of the conducted activity, the Group will fail to fulfill the conditions for discharging salinated underground waters defined in law and decisions.
RISK OF IMPROPER HANDLING OF HAZARDOUS SUBSTANCES AND MATERIALS	The risk that because of improper handling of hazardous substances and materials, there is a threat to the environment, human life and health, property or the risk of other losses.
THREATS ARISING FROM THE OCCURRENCE OF MINING DAMAGE ON THE SURFACE	The risk connected with the requirement imposed on the Group to cover the costs of repairs of mining damage occurring on the surface of the area as a result of performed mining works.
RISK OF MANAGING WASTE AND BYPRODUCTS	The risk that the volume and flexibility of production is limited by the possibilities of managing mining waste.

KEY INDICATORS

Table 48. Expenditures for environmental protection (JSW) (PLN million)

ITEM	2017	2016	GROWTH RATE 2016=100
Dosing salinated water with the "Olza" system	8.7	12.0	72.5
Water desalination in the plant in Dębiesko	15.0	15.0	100.0
Repairing mining damage	58.5	52.3	111.9
Land-reclamation work	0.4	0.2	200.0
Environmental usage fees	3.7	3.7	100.0
Investments for environmental protection	3.5	18.5	18.9
Total	89.8	101.7	88.3

Table 49. Salinated underground waters (JSW) (million of m³)

ITEM	2017	2016	GROWTH RATE 2016=100
Managed	0.9	1.1	81.8
Discharged to the environment	2.8	2.9	96.6
Discharged to the Desalination Plant	2.4	2.2	109.1
Discharged to the Olza channel	4.8	5.7	84.2
Total	10.9	11.9	91.6

Table 50. Waste volume (JSW) (million tons)

ITEM	2017	2016	GROWTH RATE 2016=100
Mining waste	11.1	13.9	79.9
Hazardous waste	0.0002	0.0003	66.7
Non-hazardous waste, except for mining waste	0.17	0.16	106.3
Total	11.3	14.1	80.1

Table 51. Waste management (JSW) (million tons)

ITEM	2017	2016	GROWTH RATE 2016=100
Generation of mining waste, including:	11.1	13.9	79.9
- Shaft stone (01 01 02)	0.1	0.1	100.0
Coal Enrichment Plant stone (01 04 12)	10.2	12.7	80.3
- Flotation tailings (01 04 81)	0.8	1.1	72.7
Managing mining waste and aggregates on the surface	11.0	13.8	79.7
Managing mining waste underground	0.1	0.2	50.0
Managing power station waste underground	0.3	0.3	100.0

Table 52. Energy consumption (Group)

ITEM	2017	2016	GROWTH RATE 2016=100
Electricity [MWh]	1,390,484	1,537,701	90.4
Heat (steam or hot water) (GJ)	3,863,711	3,729,725	103.6

Table 53. Use of selected fuels (Group)

ITEM	2017	2016	GROWTH RATE 2016=100
Motor gasoline (t)	100.0	93.6	106.8
Diesel fuel (ON) (t)	6,693.5	5,247.7	127.6
LPG (t)	25.6	37.6	68.1
Methane removal gas (dam ³)	36,619.1	30,891.9	118.5
Coke oven gas (dam ³)	1,287,644.3	1,406,787.4	91.5
Heating oil (t)	64.0	91.7	69.8
Hard (steam) coal (t)	16,544.9	18,276.0	90.5
Waste gas fuel (excess gas) (GJ)	124,045	85,910	144.4

10. REPRESENTATION ON THE APPLICATION OF CORPORATE GOVERNANCE

Pursuant to § 91 section 5 item 4 of the 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 ("Regulation"), the Management Board of JSW hereby presents its Representation on the Application of Corporate Governance Rules in 2017.

10.1. IDENTIFICATION OF CORPORATE GOVERNANCE RULES BEING APPLIED

In 2017, JSW applied the corporate governance rules set forth in the document entitled *Code of Best Practice for WSE Listed Companies 2016* adopted by Resolution no. 26/1413/2015 of the Warsaw Stock Exchange Supervisory Board on 13 October 2015. The text of the Code of Best Practice for WSE Listed Companies 2016 ("Code of Best Practice") is published on the website of Warsaw Stock Exchange S.A. at the following address: www.gpw.pl/dobre-praktyki.

In addition, information on the status of the JSW's observance of recommendations and rules included in the Code of Best Practices is available on the JSW corporate website at <http://www.jsw.pl/relacje-inwestorskie/lad-korporacyjny/dobre-praktyki/>.

10.2. IDENTIFICATION OF CORPORATE GOVERNANCE RULES NOT APPLIED

JSW does its utmost to apply the corporate governance rules prescribed by the document entitled Code of Best Practice for WSE Listed Companies 2016. In 2017, JSW applied the Code of Best Practice except for the following rules:

IV. Shareholder meeting and investor relations

Recommendation IV.R.2.

If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a shareholder meeting using such means, in particular through:

- 1) real-time broadcast of the shareholder meeting,
- 2) real-time bilateral communication where shareholders may take the floor during the shareholder meeting from a location other than the shareholder meeting,
- 3) exercise of the right to vote during the shareholder meeting either in person or through a plenipotentiary.

Explanation:

The Company is refraining from using that rule because of legal as well as organizational and technical risks which may threaten the correct course of the shareholder meeting if shareholders are provided with a possibility of participating in the meeting via remote channels. The rules for participating in shareholder meetings, which currently prevail in the Company, allow the shareholders to effectively exercise all their rights attached to shares and secure the interests of all shareholders.

V. Conflict of interest and transactions with related parties

Rule V.Z.6.

In its internal regulations, the Company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.

Explanation:

The Company is refraining from using that rule until proper changes are made to corporate documents prevailing in the Company.

Moreover, the Company does not use rules I.Z.1.10., III.Z.6., VI.Z.2. and recommendation IV.R.3 because they do not apply to the Company.

10.3. PRIMARY ATTRIBUTES OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN REFERENCE TO THE PREPARATION OF FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

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 Group has in place internal control and risk management systems. The Parent Company's 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 Group applies a number of procedures and internal bylaws whose purpose is to procure effective and efficient control as well as identification and elimination of prospective risks. The system is implemented mostly on the basis of:

- JSW's Articles of Association;
- Group Code,
- JSW Organizational Bylaws,
- Documentation concerning the accepted accounting principles (policies),
- Corporate Risk Management Policy and Procedures,
- Bylaws governing the operation of the JSW Internal Control System,
- Internal Audit Bylaws,
- Instructions concerning documentary workflow,
- Scopes of employee rights and duties,
- Tax procedure.

The process is also implemented through the Group companies using unified models of financial statements, audit and revision of the financial statements of the key Group companies by the same auditor, and through the process of authorizing and opining the financial statements prior to their publication.

The preparation of financial statements is supervised by the Vice-President of the Management Board for Financial Matters. The Chief Accountant Department is responsible for preparing the standalone and consolidated financial statements, and the Management Boards of the consolidated companies are responsible for preparing the reporting packages for the Group's consolidated financial statements.

In order to ensure the application of uniform accounting principles, JSW adopted the IFRS-based Documentation of Accepted Accounting Policies, which is binding on JSW and Group companies (principally with respect to the preparation of consolidation packages for the purposes of the consolidated financial statements). The Group companies prepare IFRS-compliant financial statements. Amendments to IFRS are monitored on an ongoing basis, in order to update the Documentation of Accepted Accounting Policies and the scope of disclosures in the financial statements.

The Parent Company continuously employs cohesive IFRS-compliant accounting rules to present financial data in the financial statements, periodic reports and other reports conveyed to shareholders. The same rules are in force in the Group's member companies in which JSW is the Parent Company. The scope of financial data disclosed in the financial statements results from the reporting duties contemplated in the IFRS, and the method of their presentation should ensure comprehensibility and clarity of information as well as suitability and comparability of data contained in the financial statements.

The data disclosed in the financial statements come from JSW's accounting records and additional information transmitted by JSW's various organizational cells. However, the Group companies transfer the required data in the form of reporting packages to prepare consolidated financial statements.

The data from the accounting ledgers ensure 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. The system's modular structure provides for a transparent split of areas and competencies, the coherence of the records of operations in the accounting ledgers and control between the ledgers. Access to data in different cross-sections and layouts is achievable through an expanded reporting system. On an ongoing basis, JSW 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 Group secure control of access to the finance and accounting system and provide for the appropriate protection and archiving of the 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 Group uses the security systems on the hardware and system levels.

The Supervisory Board evaluates the standalone and consolidated financial statements and has appointed an Audit Committee, which is an advisory and opinion-giving body. 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, enabling the making of the right decisions on financial reporting, internal control and risk management, as well as to monitor independence of the audit firm auditing the financial statements.

According to the binding regulations, JSW submits its financial statements to an audit (annual statements) and a review (interim semi-annual statements) by an independent statutory auditor. The JSW 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 operations. In performing these duties, the internal audit division assists the Audit Committee by conducting the relevant work to check the effectiveness of control and the efficiency of processes. The Internal Audit division performs audit tasks of an assurance and consulting nature and ad hoc audits.

The internal control system covers all the JSW operations contemplated in the Articles of Association and all the levels of organizational structure, and thereby all the processes in JSW, including areas having a direct or indirect impact on the correctness of preparing the financial statements. The Internal Control System ("ICS") encompasses the system of financial and IT solutions related to control as well as relevant regulations, procedures and organizational structures. Activities of ICS serve the purpose of ensuring the organization's effective and efficient operations, credibility of financial reporting and compliance of the operations with laws and internal regulations. The Parent Company checks the functioning of the ICS and its control mechanisms on a regular basis and indicates potential risks in the processes. This function is exercised by the Internal Audit division, which conducts analyses, makes assessments and presents recommendations to streamline existing procedures and mechanisms in the internal control system and evaluates breaches of rules and procedures. As a result of audit and control tasks conducted every year, recommendations and instructions are issued to streamline the control mechanisms and mitigate the risks.

10.4. SHAREHOLDERS WITH MAJOR BLOCKS OF SHARES

The Parent Company does not have a detailed breakdown of the shareholding structure as at the final day of the reporting period or as at the preparation date or as at the delivery date of this report. In the last financial year, JSW did not receive any information about exceeding the percentage thresholds of the total number of votes specified in Article 69 Section 1 of the Act on Public Offerings and the Conditions for Floating Financial Instruments in an Organized Trading System and on Public Companies. The only shareholder of JSW which held a number of shares constituting 5% of the share capital and giving it the right to the same amount of votes at the Shareholder Meeting, as at 31 December 2017 and as at the date of preparation and publication of this report was the State Treasury.

Table 54. *Shareholders holding at least 5% of the share capital as at 31 December 2017 and as at the date of preparation of this report**

SHAREHOLDER	NUMBER OF SHARES	NUMBER OF VOTES AT THE SHAREHOLDER MEETING	PERCENTAGE OF SHARE CAPITAL	% OF TOTAL VOTES AT THE SHAREHOLDER MEETING
State Treasury	64,775,542	64,775,542	55.16%	55.16%

* According to Current Report No. 3/2018 of 18 January 2018, the shareholder with at least 5% of votes at the Extraordinary Shareholder Meeting held on 18 January 2018 was the State Treasury with 64,389,722 votes, constituting 54.84% of the total number of votes.

10.5. HOLDERS OF SECURITIES WITH SPECIAL RIGHTS OF CONTROL

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

10.6. RESTRICTIONS REGARDING THE EXERCISE OF VOTING RIGHTS

Restrictions regarding the exercise of voting rights are described in detail in § 9 of Parent Company's Articles of Association, available at www.jsw.pl. The restrictions set forth in JSW's Articles of Association have been worded 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.
4. Within the meaning of § 9 item 4 of JSW's 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, pledgee, 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 Group of Shareholders, 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 in the Group of Shareholders (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.

10.7. RESTRICTIONS ON THE TRANSFER OF OWNERSHIP TITLE TO SECURITIES

Restrictions on the transfer of ownership title to securities in the Parent Company follow from the laws in force, including the Act on Rules for Managing State Property. Until the date of registering amendments to the JSW Articles of Association, i.e. 26 October 2017, § 8 of the Articles of Association had stated that 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.

In accordance with the present regulations in § 8 of the JSW Articles of Association, shares held by the State Treasury may not be disposed of or donated to any local government entities or any union of local government entities.

10.8. PRINCIPLES OF APPOINTMENT AND DISMISSAL OF MANAGEMENT AND SUPERVISORY TEAM AND THEIR POWERS

MANAGEMENT BOARD

Rules for appointing and dismissing Management Board members

According to JSW's Articles of Association, the Management Board consists of three to seven members. 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. Management Board Members are appointed following a qualification procedure and dismissed by the Supervisory Board (except for the Management Board member appointed by JSW's employees).

Rules for appointing and dismissing Management Board Members are defined by the Articles of Association, the Act on Rules for Managing State Property and the Regulation issued by the Council of Ministers in the matter of conducting a qualification procedure for the position of a Management Board Member in certain commercial companies.

The Supervisory Board conducts a recruitment procedure in the event of occurrence of circumstances justifying appointment of a Management Board member. By initiating a recruitment procedure for the position of a Management Board Member, the Supervisory Board defines, by way of a resolution, the detailed rules and the method followed during the procedure, including in particular:

- the position subject to the procedure,
- the date and place where recruitment submissions are received, the date and place where interviews are held,
- the range of subjects discussed during the interview,
- the requirements and the method of evaluating the candidate.

An announcement about a recruitment procedure is published on the JSW's website and in the Public Information Bulletin of the Ministry of Energy, while the time limit for accepting recruitment applications may not be shorter than 14 days after publication of the announcement of the recruitment procedure. The Supervisory Board shall inform the shareholders about the outcome of the recruitment procedure at the nearest Shareholder Meeting and make the recruitment procedure report available to them.

In accordance with the Articles of Association, a candidate for the position of the JSW's Management Board Member:

- 1) may be a person who fulfills the following conditions:
 - a) he/she holds a university degree or a university degree received abroad and ratified in the Republic of Poland on the basis of separate regulations,
 - b) has at least 5-year employment period based on an employment agreement, appointment, selection, nomination, cooperative employment agreement or provision of services on the basis of another contract or conducting business activity on one's own account,
 - c) has at least 3 years of experience on managerial or independent positions or arising from conducting business activity on one's own account,
 - d) he/she meets any requirements set forth in separate regulations other than those mentioned in items a-c, and in particular he/she is not in violation of the provisions that restrict or prohibit a person from holding a position on an executive body in commercial companies,

- 2) cannot be a person who:
- acts as a social collaborator or is employed in an MP's office, senator's office or MP's-senator's office or office of a member of the European Parliament under an employment agreement or provides work on the basis of a mandate agreement or other agreement of a similar nature,
 - is a member of a political party's body representing the political party outside and authorized to incur liabilities,
 - is employed by a political party under an employment agreement or provides work on the basis of a mandate agreement or other agreement of a similar nature,
 - is an elected official in a company trade union organization or in a company trade union organization of any company from the group,
 - his/her public or business activity raises conflict of interest with the Company's business.

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. Results of the election are binding for the body authorized to appoint the Management Board, i.e. the Supervisory Board. A failure to elect a Company employee representative to the Management Board shall not hinder the Management Board from adopting 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 JSW's Articles of Association. A Management Board member shall submit a resignation in writing to the Supervisory Board at the Company's registered office.

Powers of the Management Board

The Management Board operates in compliance with the applicable provisions of law, the Articles of Association and the Bylaws of the Management Board, adopted by the the Management Board and approved by a resolution of the Supervisory Board. The Management Board manages the Company's matters, represents it in and out of court and makes decisions on all the matters which are not reserved for other corporate bodies of the Company and oversees the operation of the individual units of the Company through Directors of the mines, the Production Support Unit and Management Board Representatives. Management Board resolutions are adopted by an absolute majority of votes, where at least three Management Board members attend the meeting and are recorded in minutes. Issues exceeding ordinary management shall require a Management Board resolution, in particular:

- determining the organizational bylaws defining the Company's organization,
- appointing general proxies,
- buying and selling real property,
- matters in which the Management Board addresses the Shareholder Meeting and the Supervisory Board,
- issuing promissory notes,
- determining the bylaws governing the operation of the internal control system.

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.

SUPERVISORY BOARD

Rules for appointing and dismissing Supervisory Board members

According to JSW's Articles of Association, the Supervisory Board consists of at least six Members. On 2 June 2015, the Shareholder Meeting set the number of Supervisory Board members at 12 persons. The Supervisory Board selects (from among its members) and dismisses in a secret ballot the Chairman, the Deputy Chairman or the Secretary of the Supervisory Board.

Supervisory Board members exercise their rights and perform their duties in person. They are appointed for a joint three-year term. 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 at least 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.

Since the date of introduction of JSW's shares to trade on a regulated market, in the period during which the State Treasury, including subsidiaries of the State Treasury, holds JSW's shares carrying voting rights of at least 34% of the total number of votes in the Company plus one vote, the State Treasury has been entitled to appoint and 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 one, with the reservation that the State Treasury is excluded from the vote in the Shareholder Meeting on appointing or dismissing the remaining Supervisory Board Members; however, the State Treasury retains 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.

The Shareholder Meeting appoints and dismisses Supervisory Board members, with the exception of the situations described in the Articles of Association. A Supervisory Board member shall submit a resignation in writing to the Management Board at the Company's address. Requirements for candidates for the Company's Supervisory Board Members are described in the Act on Rules for Managing State Property.

At least one member of a Supervisory Board consisting of up to twelve members or at least two members of a Supervisory Board consisting of thirteen 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 WSE Listed Companies.

According to the Articles of Association, JSW employees have the right to elect to the Supervisory Board: two members in a Supervisory Board composed of up to 6 members, three members in a Supervisory Board composed of between 7 and 10 members and four members in a Supervisory Board composed of 11 or more members.

Upon a written request of at least 15% of all JSW 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.

A candidate to be an independent Supervisory Board member 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.

The Supervisory Board elects the Audit Committee from amongst its members. It may also elect other committees. A Supervisory Board Member may participate in more than one committee.

Powers of the Supervisory Board

Powers of the Supervisory Board are set forth in JSW's Articles of Association. The Supervisory Board exercises permanent supervision over the Company's activity and Supervisory Board members, in performance of their duties are guided by the rules included in the Code of Best Practice for WSE Listed Companies. The powers of the Supervisory Board include in particular:

1. approving the JSW 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 of the Articles of Association,
3. suspending a Management Board member or the entire Management Board from performing its duties for important reasons by secret ballot,
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 the powers of the Company's Shareholder Meeting arising from the mandatory provisions of law,
6. selecting an entity authorized to audit financial statements to audit the Company's financial statements,
7. evaluating 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 to the Shareholder Meeting the annual concise evaluation of the Company's standing, taking into account the evaluation of the internal audit system and the risk management system, as well as the annual report on Supervisory Board's work;
11. giving an opinion on matters submitted to the Shareholder Meeting,
12. approving the Company's operational strategy,
13. opining the Company's annual plans,
14. approving the Bylaws governing the operation of the internal control system,
15. issuing opinions on reports prepared by the Management Board on entertainment expenditures, expenditures for legal services, marketing services, public relations and social communication services and management consulting services,
16. issuing opinions on the amendments to the rules governing the disposal of non-current assets set forth in §29¹ of the Articles of Association,
17. approving the compensation policy for the group,
18. issuing opinions on the rules for sponsorship activity conducted by the Company and evaluating efficiency of such sponsorship activity.

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

1. setting up another company, subscribing for, purchasing or selling shares in other companies, without prejudice to §26 section 3 items 3 and 4 of the Articles of Association, with a reservation that the Supervisory Board's request referred to in this item 1 is not required for the following:
 - subscription for or acquisition of shares in another company in an 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,
 - subscribing for or acquiring shares in another company in return for the Company's accounts receivable as part of proceedings ended with a composition or settlement with creditors,
 - selling shares acquired or subscribed for by the Company in return for the Company's accounts receivable as part of proceedings ended with a composition or settlement with creditors,
 - subscription for, acquisition or sale of shares in another company whose shares are listed on a regulated market, unless the value of such shares exceeds PLN 20 million,
2. establishment of foreign branches,
3. purchase and sale of fixed assets whose value exceeds PLN 20 million, subject to § 26 section 3 items 1 and 2 of the Articles of Association,
4. contracting contingent liabilities, including the Company's granting financial guarantees and sureties whose value exceeds PLN 20 million,
5. disbursement of interim dividends,
6. issuance of promissory notes with the value exceeding PLN 20 million,
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 PLN 20 million,
8. conclusion by the Company with an entity related to the Company of a material agreement within the meaning of the provisions regarding current and periodic information submitted by issuers of securities approved for trading on a regulated market, excluding typical agreements concluded by the Company on market terms as part of its operational activity,
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:
 - the company setting up another company,
 - amending the company's articles of association or articles of partnership and the company's line of business,
 - merger, transformation, demerger, dissolution or liquidation of the company,
 - increase or decrease of the company's share capital.

- sale or lease of the company's business or an organized part thereof or establishment of a limited right in rem thereon,
 - purchase and sale of real property or right of perpetual usufruct or interest in real property or in a right of perpetual usufruct, their encumbrance, lease and release for use against payment or free of charge, if their value exceeds 1/10 of that company's share capital,
 - purchase, sale, encumbrance, lease and release for use against payment or free of charge of non-current assets other than those listed in the previous sub-item, if their value exceeds 1/10 of that company's share capital, excluding companies in which the share capital is lower than PLN 5 million,
 - the company entering into a credit facility, loan agreement, guarantee agreement or some other similar agreement, if their value exceeds 1/10 of the company's share capital but no less than PLN 5 million,
 - issue of any type of bonds,
 - purchase of treasury shares in the situation set forth in Article 362 § 1 item 2 of the Act entitled Commercial Company Code and purchase of shares in the situation defined in Article 200 § 1 of the Act entitled Commercial Company Code,
 - compulsory redemption of shares pursuant to Article 418 of the Act entitled Commercial Company Code,
 - retirement of shares,
 - decisions on claims to remedy damages incurred when setting up a company or in its management or oversight,
 - contribution of non-current assets by the company as contribution in a company or a cooperative if their value exceeds 1/10 of that company's share capital,
 - setting the compensation of members of Management Boards and Supervisory Boards,
 - in the matters mentioned in Article 17 Section 1 of the Act on Rules for Managing State Property of 16 December 2016 (Journal of Laws of 2016 Item 2259), subject to § 30 Section 6 (whose provisions contain an obligation to ensure that the wording of articles of associations or articles of partnership be consistent with the provisions of that act),
10. executing an agreement to provide legal, marketing, public relations and public communication services or management consulting services if the total net fee to be paid for such services is greater than PLN 500,000.00 annually,
 11. amending an agreement to provide legal, marketing, public relations and public communication services or management consulting services by increasing the said fee above and beyond the amount referred to in item 10 above,
 12. executing agreements to provide legal, marketing, public relations and public communication services and management consulting services which do not specify the maximum amount of the fee,
 13. executing a donation or other agreement having a similar effect, the value of which exceeds PLN 20,000.00 or 0.1% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements,
 14. release of a debt or other agreement having a similar effect, the value of which exceeds PLN 50,000.00 or 0.1% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements.

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

In addition to the matters set forth by the provisions of law and the Articles of Association, the rights, powers and duties of the Supervisory Board also include preparation of annual reports submitted by the Ordinary Shareholder Meeting in accordance with the Code of Best Practice for WSE Listed Companies.

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

10.9. RULES FOR AMENDING THE COMPANY'S ARTICLES OF ASSOCIATION

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

10.10. OPERATION OF THE SHAREHOLDER MEETING, ITS PRINCIPAL POWERS AND DESCRIPTION OF SHAREHOLDERS' RIGHTS AND HOW THEY ARE EXERCISED

Operation of the Shareholder Meeting

The manner of operation of the JSW Shareholder Meeting and its powers are defined in the Articles of Association and in the JSW Shareholder Meeting Bylaws.

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

A Shareholder Meeting is convened by way of an announcement published on JSW's website and in the form of a current report. The announcement is posted on JSW's website and the current report is sent no less than 26 days before the date of the Shareholder Meeting. The persons or the body other than the Management Board that individually convenes the Shareholder Meeting shall promptly notify JSW's 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 to convene the Shareholder Meeting. The Management Board performs all the activities defined by the law in order to hold an effective Shareholder Meeting.

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

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

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

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

A decision on the holding of a Shareholder Meeting with the use of means of electronic communication shall be made by the Supervisory Board. The course of the Shareholder Meeting is registered in an audiovisual system and broadcast online and its electronic recording is published on JSW's website.

Powers of the Shareholder Meeting

The following matters require a resolution of the Shareholder Meeting:

1. examining and approving the Company's Management Board activity report and the financial statements for the previous financial year and discharging the members of the Company's governing authorities 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 commercial 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 commercial 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 do not require consent of the Shareholder Meeting, except for the following matters for which consent of the Shareholder Meeting is required:

- 1) disposal of the non-current assets within the meaning of the Accounting Act of 29 September 1994, included in intangible assets, property, plant and equipment or long-term investments, including contribution made to a company or cooperative, if the market value of such assets exceeds 5% of the total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements, and delivery of such assets for use to another entity, for a period longer than 180 days in the calendar year, on the basis of a legal transaction, if the market value of the subject matter of the legal transaction exceeds 5% of total assets, with delivery for use in the case of:
 - a) lease, rental and other agreements to hand over an asset for use to other entities against payment, the market value of the subject matter of a legal act is defined as the value of benefits for:
 - one year – if the provision of the asset was effected under an agreement entered into for an indefinite term,
 - the entire term of the agreement – in the case of agreements entered into for a definite term,
 - b) lending for use agreements and other agreements to hand over an asset to other entities for gratuitous use, the market value of the subject matter of a legal act is defined as the value of benefits that would be due if a lease or rental agreement was executed instead, for:
 - one year – if the delivery of the asset takes place on the basis of an agreement entered into for an indefinite term,
 - the entire term of the agreement – in the case of agreements entered into for a definite term,
- 2) purchase of non-current assets within the meaning of the Accounting Act of 29 September 1994, with the value exceeding:
 - a) PLN 100,000,000.00 or
 - b) 5% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements,
- 3) subscription or purchase of shares of another company with the value exceeding:
 - a) PLN 100,000,000.00 or
 - b) 10% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements,
- 4) disposal of shares of another company with the value exceeding:
 - a) PLN 100,000,000.00 or
 - b) 10% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements,

Shareholder rights

The rights of JSW shareholders are laid down in the Articles of Association and the Bylaws of the Shareholder Meeting. Shareholders representing at least half of the share capital or at least half of all the votes in JSW may have the right, among others, to file a request to convene an Extraordinary Shareholder Meeting. The Management Board convenes the Shareholder Meeting also upon request from Shareholders representing at least one-twentieth of the share capital.

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

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

Shareholders immediately, but no later than eighteen days before the set date of a Shareholder Meeting. Announcement is done following the same procedure as for convening a Shareholder Meeting.

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

Shareholders may familiarize themselves with the list of the persons authorized to participate in the Shareholder Meeting 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.

The Shareholder Meeting may appoint the Election Committee consisting of up to three persons.

Upon request of Shareholders representing at least one-tenth of the share capital represented at a Shareholder Meeting, the Attendance List should be checked by a committee elected for this purpose and composed of at least three people. The persons filing such motion will have the right to elect one member of that committee.

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 gave their consent for being candidates.

The shareholder has the right to vote in a different manner under each share held. 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.

A shareholder may vote as a proxy when adopting resolutions concerning him/her, as mentioned in Article 413 §1 of the Commercial Company Code.

10.11. COMPOSITION OF MANAGEMENT AND SUPERVISORY BODIES, CHANGES IN COMPOSITION, DESCRIPTION OF ACTIVITIES OF THE BODIES AND THEIR COMMITTEES

COMPOSITION OF AND CHANGES TO THE JSW MANAGEMENT BOARD

Table 55. *Composition of the Management Board in 2017*

FIRST AND LAST NAME	POSITION	TERM IN POSITION
Composition of the JSW Management Board of the 9th term of office		
	President of the Management Board	30.11.2017 - 31.12.2017
Daniel Ozon	Supervisory Board Member seconded to temporarily perform the duties of the President of the Management Board	09.09.2017 - 29.11.2017 08.06.2017 - 07.09.2017 06.03.2017 - 06.06.2017
Tomasz Gawlik	President of the Management Board	01.01.2017 - 06.03.2017
Józef Pawlinów	Vice-President of the Management Board for Technical Matters	01.01.2017 - 03.03.2017
Robert Ostrowski	Vice-President of the Management Board for Financial Matters	01.01.2017 - 31.12.2017
Jolanta Gruszka	Vice-President of the Management Board for Sales	01.01.2017 - 31.12.2017
Artur Dyczko	Vice-President of the Management Board for Strategy and Development	09.08.2017 - 31.12.2017
Tomasz Śledź	Vice-President of the Management Board for Technical Matters	06.10.2017 - 31.12.2017
Artur Wojtków (elected by employees)	Vice-President for Employment and Social Policy	01.01.2017 - 31.12.2017

Changes to the JSW Management Board in 2017

- JSW received a resignation as of 3 March 2017 submitted by Mr. Józef Pawlinów from the function of Management Board Member for Technical Matters.
- The Supervisory Board dismissed Mr. Tomasz Gawlik acting in the capacity of President of the Management Board from the JSW Management Board as of 6 March 2017.
- The Supervisory Board seconded Mr. Daniel Ozon to act temporarily in the capacity of President of the JSW Management Board as of 6 March 2017, but no longer than until 6 June 2017.
- The Supervisory Board seconded Mr. Daniel Ozon to act temporarily in the capacity of President of the JSW Management Board from 8 June 2017 to 7 September 2017, inclusively, though no longer than until the date of appointing the President of the Management Board.
- The Supervisory Board appointed Mr. Artur Dyczko as of 9 August 2017 to the JSW Management Board and entrusted him with the position of Vice-President for Strategy and Development.
- The Supervisory Board seconded Mr. Daniel Ozon to act temporarily in the capacity of President of the JSW Management Board from 9 September 2017 to 8 December 2017, inclusively, though no longer than until the date of appointing the President of the Management Board.
- The Supervisory Board appointed Mr. Tomasz Śledź as of 6 October 2017 to the JSW Management Board and entrusted him with the position of Vice-President for Technical Matters.
- The Supervisory Board appointed Mr. Daniel Ozon as of 30 November 2017 to the position of President of the Management Board.

Table 56. *Composition of the JSW Management Board at the time of preparing this report*

MEMBERS OF THE JSW MANAGEMENT BOARD



Daniel Ozon

President of the
Management Board

dn@jsw.pl

Mr. Daniel Ozon is a graduate of the Warsaw School of Economics and of the Faculty of Law of the University of Warsaw. He specializes in corporate consulting, banking (investment and corporate), mergers, acquisitions, restructuring, finance, management, value growth management.

From 2014, he worked with EDF Trading in London advising on the acquisition of energy and gas trading on the Polish and CEE markets. From 2011, he was a partner in the Carlson Private Equity Ltd. Fund. From 2010, he was a co-owner of the Ventus Asset Management SA brokerage house holding a full license from KNF (Polish Financial Supervision Authority).

From 2008 to 2011, he worked with Experior Partner and from 2006 to 2008 he was associated with JSW where he acted in the capacity of the Vice-President of the Management Board, Director of the Corporate Governance and Capital Strategy Office. Among others, he coordinated the merger of the Budryk mine with JSW headed the work on JSW's development strategy. From 2004 to 2006 he worked for BBK Polska as a director. From 1999 to 2004 he was employed at Bank Handlowy Citibank where he headed the Restructuring Department and the Trade Finance Department.

Area of management:

He heads the work of the Management Board, convenes Management Board meetings and chairs them. He oversees all of JSW's operations, including in particular: Organization and Management, Security, Communications and PR, Audit and Control, Procurement, Integrated Management System and Risk Management.



Robert Ostrowski

Vice-President of the
Management Board for
Financial Matters

de@jsw.pl

He graduated from the national economy faculty of the Wrocław University of Economics and a post-graduate investment course in respect to capital expenditures and development projects at Warsaw School of Commerce, a post-graduate course on International Financial Reporting Standards by the Warsaw School of Commerce/Ernst&Young. He also took the course of investment advisors and for candidates for supervisory boards and management boards of State Treasury companies.

He has many years of experience in management positions, mainly in finance, among others in the steel and mining industry, in companies owned by the State Treasury as well as in private companies. He was, among others: CFO at Huta Katowice S.A., Polskie Huty Stali S.A. and at Mittal Steel Poland S.A., Vice-President of the Management Board for Economic and Financial Matters at Jastrzębska Spółka Węglowa S.A., CEO of Minerals Mining Group S.A., Management Board Member for Financial Matters at Polskie Koleje Linowe S.A. He also accumulated professional experience in companies such as the KGHM Group and Ernst&Young.

Area of management:

He oversees all of JSW's operations, including in particular: Controlling, Finance, Accounting and Trading and Stock Exchange Relations.



Artur Dyczko

Vice-President of the
Management Board for
Strategy and Development

ds@jsw.pl

Mr. Artur Dyczko graduated from the Mining Faculty of the AGH University of Science and Technology in Kraków majoring in Underground Deposit Mining Technique and Management and Marketing. He also completed a post-graduate course in Human Resource Management at the Jagiellonian University and Mining Geology at the Faculty of Geology, Geophysics and Environmental Protection at the AGH University of Science and Technology in Kraków. He is an author and co-author of numerous research studies, expert reports, opinions, implementation projects and scientific publications on mining. Since July 2016, he has been employed by JSW, most recently in the position of the Management Board Representative for Technical Matters. He has experience as a consultant on the subjects of mining, management of mineral resources and use of IT tools in managing the economics of deposits, for large international corporations, such as: Deloitte, KPMG, PwC, McKinsey, IBM, HP, Microsoft, Bentley, Dassault Systèmes (Gemcom), SAP, Deswik and ABB. He also has experience in managing large project teams, having participated in several dozen implementation projects in the mining industry, including ones for LW Bogdanka S.A., KGHM Polska Miedz S.A., KHW S.A., Tauron Wydobycie S.A., Polska Grupa Górnicza Sp. z o.o. and JSW S.A. He is a co-author of the operating strategy of LW Bogdanka S.A. until 2020, the main mining consultant for Polska Grupa Górnicza's new business model and a co-author of JSW's anti-crisis strategy.

Area of management:

He oversees all of JSW's operations, including in particular: investment, strategy, innovation, development, corporate social responsibility and corporate governance.

MEMBERS OF THE JSW MANAGEMENT BOARD



Jolanta Gruszka

Vice-President of the
Management Board for
Sales

dh@jsw.pl

Ms. Jolanta Gruszka graduated from the faculty of philology at the University of Silesia in Katowice and completed numerous training courses in the field of sales strategy and management. She is a certified translator of English. She has many years of professional experience in trade and management.

She started her career in 1990 in "Centrozap" Trade and Industry Company, where she worked as a sales trainee and sales specialist.

In 1996 she was employed Polski Koks where she held positions ranging from a marketing and trade specialist to the Vice-President of the Management Board. In October 2016 she was appointed to the position of a Management Board Representative at JSW, and since December 2016 she has served as Vice-President of the Management Board for Sales. She has been associated with trade, marketing and freight forwarding since the beginning of his professional career.

She has completed a number of large projects related to the implementation of trading policy and sales strategy, restructuring and cost reduction.

Area of management:

She oversees all of JSW's operations, including in particular Trading and Freight Forwarding.



Tomasz Śledź

Vice-President for Technical
Matters

dt@jsw.pl

Mr. Tomasz Śledź graduated from the Silesian University of Technology in Gliwice with his major in the Mining of Deposits and Waste Management. In 2011, he completed postgraduate studies at the Department of Organization and Management at the Silesian University of Technology in Corporate Project Management.

From the outset of his career he has been active in the mining industry. He began to work in 1988 as a miner, then foreman, then supervisor until he became the chief mining engineer - head of the mining department. From September 2015 to January 2017 he served as the Production Director at JSW's Knurów-Szczygłowie hard coal mine, and subsequently he served as the Production Director of the Szczygłowie Section of the Knurów-Szczygłowie hard coal mine.

In 2010 he took part in the work to merge the Knurów mine with the Szczygłowie mine, and then in 2014 he participated in the incorporation of the Knurów-Szczygłowie Mine into JSW.

During his career he focused on enhancing and improving occupational safety and health standards.

He has co-authored numerous articles and publications regarding initiatives and new ideas in the mining industry.

Area of management:

He oversees all of JSW's operations, including in particular: Coal Production, Preparation and Quality, Environmental Protection and Mining Damage.



Artur Wojtków

Vice-President of the
Management Board for
Employment and Social
Policy

dp@jsw.pl

A lawyer by education, graduate of the University of Silesia in Katowice. He also completed post-graduate studies in social labor dialog at the University of Economics in Katowice and in management of industrial occupational health and safety at the Silesian University of Technology in Gliwice. He has been associated with Jastrzębska Spółka Węglowa S.A. almost since its establishment, i.e. since 1995. From May 1995 to August 1999 he served as Head of the Organizational and Legal Department and then from 1999 to 2009 as Director for Labor at the Borynia Coal Mine.

Area of management:

He oversees all of JSW's operations, including in particular: Labor, Payroll, Property Management and HR Management.

The Parent Company's Management Board operates pursuant to the Commercial Company Code and other generally applicable provisions of law, JSW's Articles of Association and provisions of the JSW'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 JSW's Articles of Association available at www.jsw.pl. The Management Board makes

decisions on all the matters which are not reserved for other corporate bodies. Management Board resolutions are adopted by an absolute majority of votes, where at least three Management Board members attend the meeting and may be adopted if all the Management Board members have been correctly notified of the Management Board meeting. Management Board members may also participate in a meeting via teleconference or videoconference. Management Board resolutions are minuted.

The President of the Management Board supervises the overall operation of JSW, manages the work of the Management Board and names the Vice-President to perform these duties in his or her absence. The President of the Management Board convenes the Management Board meetings and chairs them. The scope of responsibilities of the President of the Management Board includes the exercise of direct supervision over the work of reporting organizational units belonging to the Division of the President of the Management Board. The President of the Management Board convenes Management Board meetings 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. During the absence of the President of the Management Board, meetings are convened by the Management Board member named by the President and if no Vice-President is named then the meetings are convened by the Vice-President of the Management Board for Sales.

Vice-Presidents of the Management Board oversee the overall activity of JSW, in particular they oversee the operation of the reporting organizational cells, which belong to their divisions.

Pursuant to § 20 sec. 2 item 5 of JSW's Articles of Association, the Supervisory Board's rights include executing, terminating and amending agreements with Management Board Members, and setting the rules for employing and remunerating Management Board Members, without prejudice to the powers of JSW's Shareholder Meeting arising from the mandatory provisions of law.

COMPOSITION OF AND CHANGES TO THE JSW SUPERVISORY BOARD

Table 57. *Composition of the JSW Supervisory Board in 2017*

FIRST AND LAST NAME	POSITION	TERM IN POSITION
Composition of the JSW Supervisory Board of the 9th term of office		
	Chairman	01.01.2017 - 06.03.2017
	Seconded to temporarily perform the duties of the President of the Management Board	06.03.2017 - 06.06.2017
Daniel Ozon	Member	07.06.2017 - 07.06.2017
	Seconded to temporarily perform the duties of the President of the Management Board	08.06.2017 - 07.09.2017
	Member	08.09.2017 - 08.09.2017
	Seconded to temporarily perform the duties of the President of the Management Board	09.09.2017 - 29.11.2017
Halina Buk	Member	01.01.2017 - 09.02.2017
	Deputy Chairperson	09.02.2017 - 31.12.2017
Krzysztof Kwaśniewski	Member	01.01.2017 - 31.12.2017
Tomasz Lis	Member	01.01.2017 - 31.12.2017
Antoni Malinowski	Member	01.01.2017 - 31.12.2017
Alojzy Nowak	Member	01.01.2017 - 31.12.2017
Adam Pawlicki	Member	01.01.2017 - 31.12.2017
Supervisory Board Members elected by employees:		
Eugeniusz Baron	Secretary	01.01.2017 – 31.12.2017
Robert Kudelski	Member	01.01.2017 – 31.12.2017
Andrzej Palarczyk	Member	01.01.2017 – 31.12.2017
Jan Przywara	Member	01.01.2017 – 02.10.2017

Changes in the JSW Supervisory Board in 2017

- On 9 February 2017, the Supervisory Board elected Ms. Halina Buk to be Deputy Chairperson of the JSW Supervisory Board of the 9th term of office.
- The Supervisory Board seconded Mr. Daniel Ozon to act temporarily in the capacity of President of the JSW Management Board as of 6 March 2017, but no longer than until 6 June 2017.
- The Supervisory Board seconded Mr. Daniel Ozon to act temporarily in the capacity of President of the JSW Management Board from 8 June 2017 to 7 September 2017, inclusively, though no longer than until the date of appointing the President of the Management Board.
- The Supervisory Board seconded Mr. Daniel Ozon to act temporarily in the capacity of President of the JSW Management Board from 9 September 2017 to 8 December 2017, inclusively, though no longer than until the date of appointing the President of the Management Board.
- Mr. Jan Przywara tendered his resignation from the function of Supervisory Board Member at JSW as of 2 October 2017.
- Mr. Daniel Ozon tendered his resignation from the function of Supervisory Board Member at JSW as of 29 November 2017.

Changes to the JSW Supervisory Board after the end date of the reporting period

- On 18 January 2018, the Shareholder Meeting adopted a resolution to appoint Mr. Arkadiusz Wypych, elected by JSW's employees, to JSW's Supervisory Board.

Table 58. *Composition of the Supervisory Board of the 9th term of office at the time of preparing this report*

FIRST AND LAST NAME	BIOGRAPHICAL NOTE
<p>HALINA BUK</p> <p>Function: Deputy Chairwoman of the Supervisory Board</p> <p>Represents: State Treasury</p>	<p>She is an economics professor at the University of Economics in Katowice. Specialist, scientist and practitioner in the fields of corporate accounting and finance. She authored or co-authored numerous published monographs, scientific articles and academic handbooks, more than 70 scientific, research and commissioned papers on economics, and corporate organization, restructuring programs and financial planning. She is an academic lecturer in graduate, post-graduate and doctoral courses, on subjects such as financial accounting, management accounting, financial analysis, financial reporting, consolidated reporting, controlling.</p> <p>Prof. Halina Buk was an economic consultant in several dozen projects implemented in various companies, including: Agencja Rynku Energii S.A., Kompania Węglowa S.A., Koncern Energetyczny "Energia" S.A., Huta Łabędy S.A. and KGHM Polska Miedź S.A. She has received numerous distinctions, including: the Golden Cross of Merit, the Silver Cross of Merit twice, Medal of the National Education Commission and the Commander's Cross of the Order of Polonia Restituta.</p>
<p>EUGENIUSZ BARON</p> <p>Position: Supervisory Board Secretary</p> <p>Represents: JSW employees</p>	<p>In 1982, he graduated from the Silesian University of Technology in Gliwice with an M.Eng. degree in mechanical engineering in the field of heavy construction machinery. He participated in numerous training courses in the following areas: manager in a changing economic environment, management, duties and rules of operation of the Supervisory Board audit committee, Public Procurement Law, cost estimation, geological and mining law, new Labor Code, risk management, controlling, conduct of insurance activity and how to be an effective manager.</p> <p>Since 1982, he has worked at the KWK Pniówek mine, currently as the chief energy and mechanical engineer. Since 2009, she has been the Secretary of the JSW Supervisory Board. Previously (2000-2007), he was a member of the JSW Supervisory Board and then Deputy Chairman of the JSW Supervisory Board (2007-2009).</p>
<p>ANTONI MALINOWSKI</p> <p>Position: Supervisory Board Member</p> <p>Represents: State Treasury</p>	<p>In 1973, he graduated from the AGH University of Science and Technology in Kraków with a mining engineer degree. In 1973-1974, he worked at the lignite mine KWB "Konin" in Konin. In 1974-1976, he was the plant manager at Warszawskie Zakłady Eksploatacji Kruszywa in Warsaw. In 1976-1983, he worked at the Central Research and Development Unit (COBR) of PKP (Polish Railway Company) in Warsaw as the manager of the mining laboratory. In 1983-1986, he was employed at MB and PMB in Warsaw. In addition, in 1989-1993, he worked at PPH "Marbetex" sp. z o.o. in Warsaw as a Management Board member. In 1986-1990, he worked at Przedsiębiorstwo Produkcji i Organizacji Dostaw in Warsaw. Since 1993, he has been a civil servant at the ministries in charge of the coal mining industry. In the past, he was a member of the Supervisory Boards of CZW "Węglobył" (until 1996), Katowicki Holding Węglowy S.A. (until 2008) and Kompania Węglowa S.A. (until 2009). Until 2000, he was also the Chairman of the Supervisory Board of the mine "Jan Kanty" S.A.</p>

FIRST AND LAST NAME	BIOGRAPHICAL NOTE
<p>ALOJZY NOWAK</p> <p>Position: Supervisory Board Member Represents: State Treasury</p>	<p>In 2002, he gained the title of Professor of Economics. He was Vice Rector for Scientific Research and Cooperation at the University of Warsaw. Currently, he is Dean of the Management Department of the University of Warsaw and heads the National Economy Faculty and the Institute for International Economic Relations at the Department of Management of the University of Warsaw and the Faculty of Finance at the Kozminski University in Warsaw. Chairman of the Scientific Board of the European Center at the University of Warsaw. He is a member of the Supreme Development Council and Vice-President of BSURN. He completed studies in banking and finance at the University of Exeter in the United Kingdom and economics at the University of Illinois at Urbana Champaign in the United States and the Free University of Berlin in Germany. Member of the Scientific Research Committee of the National Bank of Poland and member of the NewConnect advisory committee to the Management Board of the Warsaw Stock Exchange. His academic interests are focused on banking, international economic relations and risk management in financial markets. His Ph.D. dissertation concerned monetary policy issues and his habilitation dissertation concerned finance and banking issues. The author of more than 250 scientific publications on the processes of regional integration and monetary unions, foreign investments, business cycles, banking and international economic relations published by Polish and foreign publishers and scientific journals.</p> <p>Member of program councils and editorial boards of a number of Polish and foreign scientific journals, including Gazeta Bankowa, Journal of Interdisciplinary Economics, Cross-Cultural Management, Yearbook on Polish European Studies, Problemy Zarządzania, etc. Lecturer of subjects such as banking, commercial bank, money and money markets, economic analysis of the European Union, European Union's finances on Polish and foreign universities in the United States, United Kingdom, France, Germany and Russia. Recipient of many awards for academic achievements, including, among other things, the Award of the Minister of National Education for the book "Banks and households – rate of development" and the book "European Union – an opportunity for Poland" Head of projects funded by the European Union, NATO and the State Committee for Scientific Research (KBN).</p>
<p>ROBERT KUDELSKI</p> <p>Position: Supervisory Board Member Represents: JSW employees</p>	<p>In 2000, he graduated from the Catholic University of Lublin with an M.A. degree in management and marketing. In 2007, he also completed postgraduate studies in public procurement law at the Silesian University of Technology in Gliwice.</p> <p>In the years 1999-2002, he was a Supervisory Board member of Centralne Zakłady Automatyki Hutnictwa S.A. in Katowice. In the years 2009-2012, he was a Supervisory Board member of Towarzystwo Budownictwa Społecznego "DASZEK" Sp. z o.o. in Jastrzębie-Zdrój. Since 1993, he has worked at JSW. Since 2012, a Supervisory Board Member at JSW.</p>
<p>ANDRZEJ PALARCZYK</p> <p>Position: Supervisory Board Member Represents: JSW employees</p>	<p>In 1985, he graduated from the AGH University of Science and Technology in Kraków with the degree of M.A. Eng., majoring in mining geodesy. In 2004, he completed postgraduate studies at the Silesian University of Technology in environmental protection management. He earned a mining surveyor's license and an independent surveyor's license. He attended numerous courses in management, public procurement law, risk management, controlling and mining and geological law.</p> <p>From 1985 to 1 April 2017, he worked at the Krupiński mine as the chief engineer for the preparation of production, investments and development of the mine. Currently, he is employed by KWK Pniówek as the supervisor of production preparation. In 1996-2006, he worked as the chief surveying and geological engineer of the mine.</p>
<p>KRZYSZTOF KWAŚNIEWSKI</p> <p>Position: Supervisory Board Member Represents: State Treasury</p>	<p>Krzysztof Kwaśniewski: graduate, doctor of technical sciences, since 1975 employee of the AGH University of Science and Technology in Kraków. Specialist in the area of strategic management, restructuring, corporate finance and innovation management, he delivers lectures and seminars for undergraduate, postgraduate and MBA students at the AGH University of Science and Technology and the Kraków University of Economics.</p> <p>Author of articles and handbooks covering the topics of evaluation of growth strategies and economic efficiency of the use of energy commodities. During his long career, he has been combining the functions of an academic teacher, a consultant working on behalf of companies, banks and government institutions, and a manager.</p> <p>Since 2009, a member of the Supervisory Board of the INNOAGH Center for Innovative Technologies, a company established to commercialize innovative projects based on the know-how and intellectual property of AGH employees. In 2010-2015, a coordinator of the research project entitled "Comprehensive evaluation and selection of strategic directions for coal gasification" executed within the framework of the research task called "Development of a coal gasification technology for highly efficient production of fuels and electricity" carried out as part of the strategic research and development program of the National Center for Research and Development. Earlier in the 1990s, AGH's coordinator of the program for the restructuring of the metallurgical sector in Poland executed by AGH and Beddows&Co.</p>

FIRST AND LAST NAME	BIOGRAPHICAL NOTE
	For a number of years, as a consultant to industrial enterprises, he has managed and participated in the execution of more than 140 research projects performed on their behalf. His clients included: Agencja Rozwoju Przemysłu S.A., Polskie Huty Stali S.A., KGHM Polska Miedź S.A., PGNiG S.A., Jastrzębska Spółka Węglowa S.A., Bank Przemysłowo Handlowy S.A., ArcelorMittal Poland S.A. PAK S.A. and many others.
<p>ADAM PAWLICKI</p> <p>Position: Supervisory Board Member Represents: State Treasury</p>	<p>He is a graduate of the University of Economics in Katowice. Specialist in Strategic and Operational Management, Financial Management, Restructuring of Companies, Controlling. Since 2016 he has served as a Management Board Member of Track Tec Construction Sp. o.o. and since 2011 the President of Wizard Sp. o.o.</p> <p>From 2014 to 2016 he was the Chief Financial Officer at Chopin Airport Development Sp. z o.o. From 2008 to 2011 he was the Chief Financial Officer at PEC Katowice (currently Tauron Ciepło Sp. z o.o.). From 1996 to 2008 he worked for the CTL Logistics Group in Warsaw as Management Board Member, Deputy Director General for Finance and Director of the Internal Logistics Division.</p>
<p>TOMASZ LIS</p> <p>Position: Supervisory Board Member Represents: State Treasury</p>	<p>Mr. Tomasz Lis is a Doctor of Economic Sciences of the University of Economics in Katowice. In his professional life he combined the work of a university teacher, scientist and practitioner. He is a lecturer at university and postgraduate studies. He lectures on accounting in the context of national and international standards, management accounting, financial reporting, tax issues, financial audit, cost accounting, consolidated reporting, management of resources and assets. Tomasz Lis is the author of many publications and research projects in Poland and abroad.</p> <p>Member of organizations such as the Polish Economic Society and the Association of Accountants in Poland, acts also as an expert at the Economic Congresses. He has professional qualifications granted by the Minister of Finance for bookkeeping services. With his team, he carried out and provided academic oversight over several projects for the Prime Minister's Office and the Ministry of Finance on the testing of the public spending efficiency. He carried out individually, in a team or as an economic expert dozens of projects for enterprises, including Energa S.A., Kompania Węglowa S.A., PGE Polish Energy Group, PKN Orlen, PKP S.A., Orange S.A. He implemented reporting systems in the areas of energy, water and sewage. For his service, he was awarded the Medal of the National Education Commission and the Medal for Long Service.</p>
<p>ARKADIUSZ WYPYCH</p> <p>Position: Supervisory Board Member Represents: JSW employees</p>	<p>Mr. Arkadiusz Wypych graduated in 2002 from the Silesian University of Technology in Gliwice with a bachelor's degree in civil engineering. In 2013, also at the Silesian University of Technology in Gliwice, he obtained a master's degree in mechanical engineering majoring in mining and drilling machinery and equipment.</p> <p>Mr. Wypych started his professional career in 1995 and since then has worked in various commercial undertakings, including in the following positions: surveyor, sales and marketing manager, construction inspector, trade manager, technical and commercial advisor.</p> <p>In 2007, he joined JSW's Material Logistics Center in the position of procurement inspector, then in 2008 he joined KWK Borynia-Zofiówka-Jastrzębie, Zofiówka Section, as a specialist and currently a shift foreman in the shaft and elevator equipment division.</p>

Four members of the Supervisory Board satisfy the independence criteria: Ms. Halina Buk, Mr. Krzysztof Kwaśniewski, Mr. Adam Pawlicki and Mr. Tomasz Lis.

The Supervisory Board conducts constant oversight over the operations of JSW in all areas of its activity. It 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.

The Supervisory Board Chairman convenes Supervisory Board meetings and presides over them, and if the Chairman is unable to convene a meeting, his/her Deputy Chairman or the person named by the Chairman shall do so. 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 will hold its meetings no less frequently than once per two months. The Supervisory Board Chairman is required to convene a Supervisory Board meeting at the written request of a JSW Supervisory Board member or a JSW Management Board member. 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. A resolution is 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. Supervisory Board members may also participate in the meeting via teleconference or videoconference on the rules prescribed in the Supervisory Board Bylaws. Votes are 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.

Pursuant to § 26 of JSW's Articles of Association, a Shareholder Meeting resolution is required to determine the Supervisory Board's compensations.

SUPERVISORY BOARD COMMITTEES

In 2017, the following Committees operated in the Supervisory Board of Jastrzębska Spółka Węglowa S.A.:

- Audit Committee,
- Nomination and Compensation Committee,
- Restructuring and Strategy Committee,

Audit Committee

It is appointed to support the Supervisory Board in exercising financial oversight 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 main tasks of the Audit Committee include in particular the following:

- monitoring of:
 - financial reporting process,
 - effectiveness of internal control systems, risk management systems and internal audit, including in the area of financial reporting,
 - performance of financial audit activities, in particular audits conducted by the audit firm, taking into account all conclusions and findings of the Audit Supervision Commission resulting from inspections performed in the audit firm,
- inspection and monitoring of the independence of the statutory auditor and the audit firm, in particular in cases where the audit firm renders other services in favor of JSW than the audit services,
- provision of information to the JSW Supervisory Board or supervisory or control body about the outcome of the audit and explanation of how the audit contributed to the integrity of financial reporting in the Company and what the role of the audit committee was in that process,
- assessment of the independence of the statutory auditor and expressing consent to the auditor's provision of permitted non-audit services (at JSW's justified request),
- preparation of a policy governing the selection of an audit firm to perform the audit,
- preparation of a policy governing the provision of permitted non-audit services by the audit firm performing the audit, by its related parties and by a member of the audit firm's chain,
- development of the procedure for selecting an audit firm by JSW,
- presentation to the Supervisory Board or another supervisory or control body or the body referred to in Article 66 Section 4 of the Accounting Act of 29 September 1994 of recommendations on the appointment of statutory auditors or audit firms, in accordance with the said policies,
- submission of recommendations intended to ensure the reliability of the financial reporting process at JSW.

Nomination and Compensation Committee

It has been formed for the purpose of presenting opinions and proposals to the Supervisory Board on how to shape the governance structure of JSW, 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 Group.

The Nomination and Compensation Committee has in particular the following tasks:

- recruiting and hiring Management Board members by drafting and preparing draft versions of documents and processes to be submitted to the Supervisory Board for approval;
- preparing draft versions of contracts and other model documents in connection with employing Management Board members and overseeing the performance of the contractual obligations taken by the parties,

- overseeing the implementation of the Management Board's compensation system, in particular preparing settlement documents concerning variable and bonus elements of compensation for the purpose of submitting recommendations to the Supervisory Board,
- monitoring and periodically analyzing the compensation system for the management of JSW and if necessary articulating recommendations for the Supervisory Board,
- overseeing the proper implementation of perquisites for the Management Board stemming from their employment contracts such as: insurance, cars, apartments and others

Restructuring and Strategy Committee

It is formed with the purpose of presenting opinions and requests on JSW's restructuring and strategy to the Supervisory Board.

The Audit Committee's basic tasks include in particular the following:

- evaluation of the Group's Corporate Strategy and presentation of the evaluation results to the Supervisory Board,
- recommendation of the scope and dates for the JSW Management Board to submit strategic annual and long-term plans to the Supervisory Board,
- evaluation of the impact of strategic investments, planned and undertaken, on JSW's assets,
- monitoring of the fulfillment of strategic investment tasks,
- evaluation of actions related to the management of JSW's material assets,
- issuing opinions on strategic documents submitted to the Supervisory Board by the JSW Management Board.

10.12. DIVERSITY POLICY

The diversity policy in place in the Parent Company is not collected in a single document. In respect to JSW's authorities and its key managers, the selection process includes elements such as: education, professional experience and competence and it does not disqualify the candidates in any way by any of the diversity policy elements specified in this principle.

10.13. REMUNERATION OF PERSONS DISCHARGING EXECUTIVE AND SUPERVISORY FUNCTIONS IN JSW

REMUNERATION OF MANAGEMENT BOARD MEMBERS

The rules governing the determination of remunerations of the Parent Company's Management Board members have been adopted by way of decisions made by the JSW Extraordinary Shareholder Meeting and the JSW Supervisory Board in compliance with the regulations laid down in the Act on the Rules for Shaping the Compensation of Persons Managing Certain Companies.

Management service contracts with Management Board members have been signed for a definite term and will remain in force until the end of the current term of the Management Board, i.e. until the date of the Ordinary Shareholder Meeting approving the financial statements for 2018. These contracts provide for the obligation to render the services personally even if the Manager is acting within the framework of his/her own business activity.

The amount of the monthly **Fixed Compensation** of Management Board Members has been set by the Supervisory Board, subject to the following provisions adopted by the Shareholder Meeting:

- The Fixed Compensation of the President of the Management Board has been set within the range of between 7 and 15 times of the average compensation in the corporate sector without profit-sharing, in the fourth quarter of the previous year, as announced by the President of the Central Statistical Office.
- The Fixed Compensation of the other Management Board Members has been set within the range of between 7 and 12 times of the average compensation in the corporate sector without profit-sharing, in the fourth quarter of the previous year, as announced by the President of the Central Statistical Office.

In accordance with the decision made by the Supervisory Board, for rendering management services and discharging other obligations ensuing from the contract, the Manager is entitled to the **Total Compensation** consisting of the following:

- a) Monthly (per calendar month) lump-sum base compensation (**Fixed Compensation**):
 - for the President of the Management Board: gross amount of PLN 60,000,
 - for each of the other Management Board Members: gross amount of PLN 50,000.

The Fixed Compensation also includes compensation for the transfer of copyright and for the performance of other obligations arising from the contract.

- b) Supplementary compensation for the relevant financial year (**Variable Compensation**) contingent on the degree of achievement of the management objectives, which may not exceed 100% of the annual Fixed Compensation (for the term of validity of the Agreement of 16 September 2015 entered into by and between the JSW Management Board and representative trade union organizations operating at JSW, the Variable Compensation payable to JSW Management Board Members was decreased by 20% of the originally calculated amount).

The Fixed Compensation and the Variable Compensation are payable after the deduction, by the Parent Company as the payer, of the applicable public-law levies subject to payment to the pertinent authorities in respect of the Manager. If the applicable provisions of law require that, despite the fact that the Manager does not run his/her own business activity, the Fixed Compensation, the Variable Compensation or benefits payable by virtue of severance pay or non-competition clauses are subject to VAT at the applicable rate, such VAT will be added on top the amount in question. If it becomes mandatory for the Manager to pay VAT for any past periods, the Parent Company undertakes to pay to the Manager the amount equivalent to such tax arrears with interest.

The Fixed Compensation is payable within 7 days of the date of delivery of a properly issued bill to JSW. In the contract is in force for a shorter period than a full calendar month or if the Manager is unable to render his/her services in an uninterrupted manner, as provided for in the contract, the Fixed Compensation will be calculated on a pro rata basis.

The Manager will also be entitled to the Variable Compensation if he/she performs the contract for a period of less than one full financial year but at least for 3 months in the relevant financial year, in which case the Variable Compensation will be calculated on a pro rata basis. The pro rata calculation will depend on the number of days of the Manager's provision of the services in the relevant financial year. The determination of the maximum Variable Compensation for a given financial year, the Management Objectives for a given financial year and the method of evaluation of their achievement will be defined (to the extent consistent with the compensation-related decisions of the Shareholder Meeting) by the Supervisory Board. The general set of Management Objectives has been outlined by a resolution adopted by the Shareholder Meeting, and the Supervisory Board has been authorized by the Shareholder Meeting to define them precisely, assign weights to such objectives and to define objective and measurable criteria of their achievement and settlement.

The Variable Compensation will be paid out provided that the Manager fulfills his/her Management Objectives, after the JSW Management Board Activity Report and the financial statements for the preceding financial year have been approved and the Manager has been granted a discharge on the performance of his/her duties as a Management Board Member by the Shareholder Meeting in accordance with the provisions of the contract. The Variable Compensation, provided that it is due, will be paid within 7 days from the date of delivery to the Parent Company of a correctly issued bill by transfer to a bank account indicated by the Manager. In accordance with the decision of the Shareholder Meeting, payment of a portion of the Variable Compensation may be deferred for a period not to exceed 36 months, depending on the fulfillment of conditions by the specified deadline according to the designated Management Objectives, in which case that portion of the Variable Compensation may be paid out in full or partially at the end of the settlement period.

The Parent Company will be entitled to put forward a claim for reimbursement (in full or in the appropriate part) of the disbursed Variable Compensation if, following such disbursement, it becomes apparent that the Variable Compensation (in whole or in the appropriate part, as the case may be) was granted to the Manager on the basis of data that subsequently turned out to be untrue.

Table 59. Management Board remunerations for 2017 (PLN)

FIRST AND LAST NAME	PERIOD	REMUNERATION	MANAGEMENT SERVICES*	ANNUAL BONUS FOR 2017**	BENEFITS, INCOME FROM OTHER SOURCES***	INCOME EARNED IN SUBSIDIARIES	TOTAL
Tomasz Gawlik	01.01.-06.03.2017	-	180,000.00	-	360,000.00	-	540,000.00
Daniel Ozon	30.11.-31.12.2017	-	62,000.00	-	-	-	62,000.00
Artur Wojtków	01.01.-31.12.2017	-	600,000.00	-	-	-	600,000.00
Józef Pawlinów	01.01.-03.03.2017	-	150,000.00	-	150,000.00	-	300,000.00
Robert Ostrowski	01.01.-31.12.2017	-	600,000.00	-	-	-	600,000.00
Artur Dyczko	09.08.-31.12.2017	-	238,333.33	-	-	-	238,333.33
Jolanta Gruszka	01.01.-31.12.2017	-	600,000.00	-	-	-	600,000.00
Tomasz Śledź	06.10.-31.12.2017	-	143,333.33	-	-	-	143,333.33

(All amounts in tables expressed in millions of Polish zloty unless stated otherwise)

Krzysztof Mysiak****	23.06-06.10.2016	-	-	-	50,000.00	-	50,000.00
Total		-	2,573,666.66	-	560,000.00	-	3,133,666.66

* This item includes only the cost of remuneration based on management contracts.

** This item includes the annual bonus for 2017 depending on the attainment of management objectives.

*** This item includes benefits payable after the expiration of the management contract (compensation for the notice period for management services, severance pay, compensation for refraining from competitive activity).

**** The value of benefits paid to Management Board Members in 2017 in respect of their work in this capacity in previous years after the expiration of the management contract (compensation for the notice period for management services, severance pay, compensation for refraining from competitive activity).

Table 60. Remuneration of the Supervisory Board Member seconded to temporarily perform the duties of the President of the Management Board in 2017 (PLN)

FIRST AND LAST NAME	PERIOD	REMUNERATION*	MANAGEMENT SERVICES	ANNUAL BONUS	BENEFITS, INCOME FROM OTHER SOURCES	INCOME EARNED IN SUBSIDIARIES	TOTAL
	06.03.-06.06.2017						
Daniel Ozon	08.06.-07.09.2017	524,322.58	-	-	-	-	524,322.58
	09.09.-30.11.2017						
Total		524,322.58	-	-	-	-	524,322.58

* Pursuant to the Articles of Association, the remuneration was set by the Supervisory Board.

Table 61. Management Board remuneration due for 2016 (PLN)

FIRST AND LAST NAME	PERIOD	MANAGEMENT SERVICES*	ANNUAL BONUS FOR 2016**	BENEFITS, INCOME FROM OTHER SOURCES***	INCOME EARNED IN SUBSIDIARIES	TOTAL
Tomasz Gawlik	01.01.-31.12.2016	743,066.67	-	-	-	743,066.67
Artur Wojtków	01.01.-31.12.2016	634,600.00	-	-	-	634,600.00
Józef Pawlinów	23.06.-31.12.2016	313,333.33	-	-	-	313,333.33
Robert Ostrowski	23.06.-31.12.2016	313,333.33	-	-	-	313,333.33
Krzysztof Mysiak	23.06.-06.10.2016	213,333.33	-	100,000.00	-	313,333.33
Edward Szłek	01.01.-30.04.2016	-	-	320,000.00	-	320,000.00
Aleksander Wardas	01.01.-08.02.2016	112,000.00	-	168,000.00	-	280,000.00
Michał Kończak	01.01.-29.01.2016	56,000.00	-	57,867.00	-	113,867.00
Jolanta Gruszka	01.12.-31.12.2016	50,000.00	-	-	-	50,000.00
Total		2,435,666.66	-	645,867.00	-	3,081,533.66

* This item includes only the cost of remuneration based on management contracts.

** There was no annual bonus in 2016. On 30 September 2016, the Supervisory Board adopted a resolution to abandon the determination and settlement of KPI cards of the Management Board Members for 2016.

*** This item includes benefits payable after the expiration of the management contract / compensation for the notice period for management services, severance pay, compensation for refraining from competitive activity.

Table 62. Remuneration for the Acting President of the Management Board in 2016 (PLN)

FIRST AND LAST NAME	PERIOD	REMUNERATION*	ANNUAL BONUS	BENEFITS, INCOME FROM OTHER SOURCES	INCOME EARNED IN SUBSIDIARIES	TOTAL
Robert Ostrowski	09.02.-08.05.2016	114,505.91	-	-	-	114,505.91
	10.05.-23.06.2016					
Krzysztof Mysiak	09.02.-08.05.2016	114,505.91	-	-	-	114,505.91
	10.05.-23.06.2016					
Total		229,011.82	-	-	-	229,011.82

* Remuneration paid out under the Act of 3 March 2000 on Remunerating Persons Managing Certain Legal Entities (Journal of Laws 2099 of 2015) and § 20 section 2 item 4 and 21 sec. 3 of the Company's Articles of Association.

AGREEMENTS ENTERED INTO 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

With the Management Board Members, no separate agreements were signed that would provide for compensation in the event of their resignation or dismissal from the occupied position. The issues are regulated in the management contracts executed with the Management Board Members. Pursuant to provisions of the above contracts:

- 1) Both Parties have the right to terminate the contract with immediate effect in the event of material breach of the contract provisions by the other Party, including when the Manager fails to comply with the duty to obtain the JSW Supervisory Board's consent to assume, as planned, the function in corporate bodies of another commercial company, to acquire shares or interests in another commercial company, to perform work or provide services for other entities pursuant to an employment contract, mandate agreement or another legal relationship – at least 14 days in advance before the occurrence of the event – and also in particular when:
 - a) the Manager committed a crime, as stated in a legally valid and final court decision, preventing him from complying with the duties following from the contract,
 - b) through a deliberate action or omission or negligence of his duties, as shown in documents, the Manager exposes JSW to the risk of losses,
 - c) the Manager lost the capacity to discharge functions in commercial law companies as a result of events defined in commonly prevailing provisions of law, in particular the Commercial Company Code and the Act on Rules for Managing State Property,
 - d) JSW, without a justified reason, is overdue with the payment of compensation due for a period longer than 2 months.
- 2) Each of the Parties has the right to terminate the contract for other reasons than the ones specified above with:
 - a) 1-month notice period if the Manager discharges the function for a period shorter than 12 months, with effect at the end of the calendar month,
 - b) 3-month notice period if the Manager discharges the function for a period of at least 12 months, with the reservation that if an event resulting in contract termination as a result of the person ceasing to serve in his capacity, then the contract is terminated with immediate effect.

If the contract is dissolved or terminated by JSW for reasons defined in sec. 1 above, the Manager is eligible to a severance pay in the amount of 3 times the Fixed Compensation, provided that the Manager has discharged the function for at least 12 months before the agreement is terminated.

The severance pay shall not be due if:

- a) contract termination, dissolution or amendment as a result of change of the function discharged by the Manager in the Management Board,
- b) contract termination, dissolution or amendment as a result of appointing the Manager for another term of office of the Management Board,
- c) the Manager is appointed a management board member in a Group company,
- d) the Manager resigns from his function.

The severance pay shall be disbursed within 7 days of the date JSW receives a correctly issued bill, to the bank account specified by the Manager.

If the function discharged by the Manager in the Management Board changes in the term of the contract, the Parties undertake to sign an annex to adjust the content of the contract to the Manager's new function.

NO COMPETITION CLAUSE

The no competition clause during the contract term has been defined in the management contract and the Manager is not entitled to any additional compensation for refraining from competitive activity.

The management contracts signed with the Management Board Members also include provisions prohibiting competition after the contract termination.

The Manager additionally undertakes, after the contract is terminated, if he has discharged the function at least for a period of 6 months from the date of the Manager's appointment to the JSW Management Board, not to conduct any competitive activity as defined in the contract.

The Manager is entitled to compensation for complying with the no-competition clause after the function ends, in the total amount equal to 0.5 times the monthly Fixed Compensation x 6. This compensation will be payable in 6 monthly installments, each by the 10th day of the following month. The compensation payment is conditional upon a written representation of the Manager confirming compliance with the no-competition clause after the function ended, delivered to JSW in writing by the 5th day of the month following the month for which the compensation is due.

The no-competition clause after the function ends does not apply if, before the end of the term of the clause, the Manager undertakes to perform a function in JSW or JSW's subsidiary belonging to the Group. In such a case, the entitlement to compensation expires on the day the manager takes up the function.

A management contract may be terminated in the part concerning the no-competition clause at any time by virtue of an agreement of the parties or by JSW with a 1-month notice period. The agreement and the termination notice must be made in writing; otherwise, they are null and void. The contract ceases to be in force if JSW fails to comply with its duty to pay the compensation, on the date that the payment term for this compensation installment to which JSW's delay refers elapses. The contract in the part concerning the no-competition clause may be also terminated with immediate effect at any time upon a written notice submitted by JSW in the event of a gross violation of the no-competition clause by the Manager after his function ends. If the no-competition clause ends in the event of contract termination, the compensation is due and payable in the appropriate proportion.

If the no-competition clause is violated while it is still in force but after the function ends, the clause ceases to be in force and JSW has the right to demand payment of contractual penalty from the Manager in the amount of 100% of the compensation within 14 days of receipt of JSW's summons by the Manager.

The payment of contractual penalty shall not preclude JSW's right to pursue damages in excess of the contractual penalty on general terms.

REMUNERATION OF SUPERVISORY BOARD MEMBERS

The rules governing the determination of remunerations of the Supervisory Board Members have been adopted by way of a decision made by the JSW Extraordinary Shareholder Meeting, in compliance with the regulations laid down in the Act on the Rules for Shaping the Compensation of Persons Managing Certain Companies.

The monthly compensation of Supervisory Board Members is set as the product of the average monthly salary in the corporate sector net of profit-sharing in the fourth quarter of the previous year, as announced by the President of the Central Statistical Office [GUS] and the following multiplier:

- 1.2 – for the Supervisory Board Chairperson,
- 1 – for the other Supervisory Board members

Supervisory Board Members are entitled to receive remuneration regardless of the number of meetings convened. Supervisory Board Members are not entitled to any remuneration for the month in which they did not attend any of the correctly convened meetings and their absence was not excused. The Supervisory Board decides by way of a resolution whether the absence of a Supervisory Board Member at a meeting was justified or not. Supervisory Board Members shall be entitled to reimbursement of expenses incurred in connection with the participation in the works of the Supervisory Board.

Table 63. *Remuneration for the Supervisory Board in 2017 (PLN)*

FIRST AND LAST NAME	PERIOD IN OFFICE	REMUNERATION	OTHER INCOME	TOTAL
Daniel Ozon*	08.09-08.09.2017 07.06-07.06.2017 01.01-06.03.2017	-	-	-
Eugeniusz Baron	01.01.-31.12.2017	52,845.36	0.00	52,845.36
Halina Buk	01.01.-31.12.2017	52,845.36	0.00	52,845.36
Robert Kudelski	01.01.-31.12.2017	52,845.36	0.00	52,845.36
Krzysztof Kwaśniewski	01.01.-31.12.2017	52,845.36	0.00	52,845.36
Tomasz Lis	01.01.-31.12.2017	52,845.36	0.00	52,845.36

FIRST AND LAST NAME	PERIOD IN OFFICE	REMUNERATION	OTHER INCOME	TOTAL
Antoni Malinowski	01.01.-31.12.2017	52,845.36	0.00	52,845.36
Alojzy Zbigniew Nowak	01.01.-31.12.2017	52,845.36	0.00	52,845.36
Andrzej Palarczyk	01.01.-31.12.2017	52,845.36	0.00	52,845.36
Adam Pawlicki	01.01.-31.12.2017	52,845.36	0.00	52,845.36
Jan Przywara	01.01.-02.10.2017	39,918.13	0.00	39,918.13
Total		515,526.37	0.00	515,526.37

* Mr. Daniel Ozon, on the basis of the representation of 8 August 2016, renounced his right to collect remuneration for discharging the function of JSW Supervisory Board Member and the right to collect any amounts due on account of domestic and foreign business trip as of the date of his appointment to the position of Supervisory Board Member.

Table 64. Remuneration for the Supervisory Board in 2016 (PLN)

FIRST AND LAST NAME	PERIOD IN OFFICE	REMUNERATION	OTHER INCOME	TOTAL
Józef Myrczek	01.01.-03.08.2016	30,376.96	-	30,376.96
Eugeniusz Baron	01.01.-31.12.2016	51,364.68	-	51,364.68
Antoni Malinowski	01.01.-31.12.2016	51,364.68	-	51,364.68
Alojzy Nowak	01.01.-31.12.2016	51,364.68	-	51,364.68
Stanisław Kluzza	01.01.-05.02.2016	5,018.39	-	5,018.39
Andrzej Palarczyk	01.01.-31.12.2016	51,364.68	-	51,364.68
Robert Kudelski	01.01.-31.12.2016	51,364.68	-	51,364.68
Agnieszka Trzaskalska	01.01.-17.08.2016	32,310.04	-	32,310.04
Izabela Felczak-Poturnicka	01.01.-05.08.2016	30,653.12	-	30,653.12
Przemysław Cieszyński	01.01.-06.10.2016	39,351.97	-	39,351.97
Jan Przywara	01.01.-31.12.2016	51,364.68	-	51,364.68
Krzysztof Dresler	01.01.-05.02.2016	5,018.39	-	5,018.39
Daniel Ozon*	04.08.-31.12.2016	-	-	-
Robert Ostrowski	05.02.-08.02.2016 09.05.2016	728.48	-	728.48
Krzysztof Mysiak	05.02.-08.02.2016 09.05.2016	728.48	-	728.48
Halina Buk	05.08.-31.12.2016	20,849.64	-	20,849.64
Adam Pawlicki	05.08.-31.12.2016	20,849.64	-	20,849.64
Krzysztof Kwaśniewski	05.08.-31.12.2016	20,849.64	-	20,849.64
Tomasz Lis	30.12.-31.12.2016	276.15	-	276.15
Total		515,198.98	-	515,198.98

* Mr. Daniel Ozon, on the basis of the representation of 8 August 2016, renounced his right to collect remuneration for discharging the function of JSW Supervisory Board Member and the right to collect any amounts due on account of domestic and foreign business trip as of the date of his appointment to the position of Supervisory Board Member.

Table 65. Remuneration for the Supervisory Board in 2015 (PLN)

FIRST AND LAST NAME	PERIOD IN OFFICE	REMUNERATION	OTHER INCOME	TOTAL
Józef Myrczek	01.01.-17.08.2015 03.11.-31.12.2015	32,640.21	-	32,640.21
Eugeniusz Baron	01.01.-31.12.2015	41,454.96	-	41,454.96
Tomasz Kusio	01.01.-02.06.2015	17,503.21	-	17,503.21

FIRST AND LAST NAME	PERIOD IN OFFICE	REMUNERATION	OTHER INCOME	TOTAL
Antoni Malinowski	01.01.-31.12.2015	41,454.96	-	41,454.96
Andrzej Karbownik	01.01.-14.09.2015	29,248.78	-	29,248.78
Marek Granieczny	01.01.-02.06.2015	17,503.21	-	17,503.21
Adam Zbigniew Rybaniec	01.01.-31.03.2015	10,363.74	-	10,363.74
Alojzy Zbigniew Nowak	01.01.-31.12.2015	41,454.96	-	41,454.96
Stanisław Kluza	01.01.-31.12.2015	41,454.96	-	41,454.96
Andrzej Palarczyk	01.01.-31.12.2015	41,454.96	-	41,454.96
Robert Kudelski	01.01.-31.12.2015	41,454.96	-	41,454.96
Łukasz Rozdeiczcer-Kryszkowski	01.01.-02.06.2015	17,503.21	-	17,503.21
Agnieszka Trzaskalska	31.03.-31.12.2015	31,202.66	-	31,202.66
Izabela Felczak-Poturnicka	02.06.-31.12.2015	24,066.91	-	24,066.91
Przemysław Cieszyński	02.06.-31.12.2015	24,066.91	-	24,066.91
Jan Przywara	02.06.-31.12.2015	24,066.91	-	24,066.91
Krzysztof Dresler	06.10.-31.12.2015	23,509.72	-	23,509.72
Total		500,405.23	-	500,405.23

INFORMATION ABOUT THE REMUNERATION POLICY

The Parent Company's rules for remunerating managers and supervisors are consistent with the legal regulations, adapted to the scale of JSW's operations, the value of its assets, achievable revenues and headcount. In particular, the adopted remuneration system is in compliance with the regulations laid down in the Act on the Rules for Shaping the Compensation of Persons Managing Certain Companies. The general remuneration rules have been established in the resolution of the JSW Shareholder Meeting on the rules for shaping the compensation of Management Board members and defined in more detail by a Supervisory Board resolution on the rules for shaping the compensation of Management Board Members.

Non-financial remuneration components to which the Manager is entitled are associated with providing to the Manager, at JSW's expense, the technical equipment associated with performance of the duties under the agreement. The Manager also has the possibility of using other benefits provided by JSW, provided for the JSW executive staff in pertinent internal regulations of resolutions adopted by JSW governing bodies. In the aforementioned regulation the Supervisory Board gave consent to grant to each management board member of the Parent Company the right to be covered by liability insurance for the discharged function, corresponding to the insurance provided by JSW for the executive staff for discharging a managerial function.

The changes to the remuneration policy for Management Board Members resulted from entry into force of the Act on the Rules for Shaping the Compensation of Persons Managing Certain Companies and pertain to regulation of the general rules for remunerating Management Board and Supervisory Board Members in Shareholder Meeting resolutions and changes to the contents of the management contracts.

This provides effective support for JSW's business activity and helps retain the management staff that meets the criteria required to run JSW in a way that takes into account interests of the shareholders.

10.14. INFORMATION ON SPONSORING POLICY, CHARITABLE ACTIVITY OR OTHER SIMILAR ACTIVITY

In 2017, promotional and charitable activity was conducted by on the basis of the *Rules for Conducting Promotional and Charitable Activity in Jastrzębska Spółka Węglowa S.A.*, approved by the JSW Management Board on 9 October 2012, and supported by the positive opinion of the Supervisory Board dated 24 October 2012 and on the basis of the *JSW 2017 promotion and donation budget*, approved on 14 December 2016 by the Management Board of the Parent Company.

Charitable activity was aimed mainly to support health care, education, culture, sport, religious communities, and charitable organizations. Promotion plays an important role in building relations with the local communities, supporting the development of the

region and building positive associations with the corporate brand and increasing the level of identification of the employees with the organization. Last year, JSW signed 20 promotion agreements with sports clubs, which accounted for 89% of total promotional activity. Other promotion expenditures are associated with cooperation in preparation of the Miners' Day celebrations, establishing good relations with centers of culture and education, and participation in local and international conferences, e.g. the International Mining Forum.

The Group, as the pillar of the coal and coke industry, known and appreciated in Poland and abroad, is carefully building the image of a company managed in a modern way, and socially friendly and responsible. The Group treats sport as a very important field of social life, therefore it supports top-class sports competitions, as well as amateur sports. The support benefits 20 sports clubs active in Jastrzębie-Zdrój, Pawłowice, Ormontowice, Rybnik and Pszczyna. The supported sports disciplines include: volleyball (KS Jastrzębski Węgiel), ice hockey (Jastrzębski Klub Hokejowy GKS Jastrzębie), boxing (Boksyerski Klub Sportowy Jastrzębie) and football (GKS Pniówek-74, GKS Jastrzębie1962, KS ROW 1964 Rybnik, LKS Granica Ruptawa, KS Gwarek Ormontowice, GKS Krupiński Suszec).

10.15. JSW's CAPITAL AND OWNERSHIP STRUCTURE

As at the last day of the reporting period, and as at the preparation and publication date hereof, the Parent Company's share capital amounted to PLN 587,057,980.00 and was divided into 117,411,596 ordinary shares with a nominal value of PLN 5.00 each, comprising: 99,524,020 series A shares, 9,325,580 series B shares, 2,157,886 series C shares and 6,404,110 series D shares. The total number of votes attached to all the shares issued by JSW corresponds to 117,411,596 votes at the JSW Shareholder Meeting.

The Parent Company does not have a detailed breakdown of the shareholding structure as at the last day of the reporting period and as at the date of preparation and publication hereof. In the reporting period, JSW did not receive any information about exceeding the percentage thresholds of the total number of votes specified in Article 69 Section 1 of the Act on Public Offerings and the Conditions for Floating Financial Instruments in an Organized Trading System and on Public Companies. According to the most recent statutory notice from 2012, received from a shareholder holding directly or indirectly through subsidiaries at least 5% of the total number of votes at the JSW Shareholder Meeting (Current Report No. 40/2012 of 30 November 2012), JSW's ownership structure is as follows:

Table 66. Shareholder structure*

SHAREHOLDER	NUMBER OF SHARES	NUMBER OF VOTES AT THE SHAREHOLDER MEETING	PERCENTAGE OF SHARE CAPITAL	PERCENTAGE OF TOTAL VOTES AT THE SHAREHOLDER MEETING
State Treasury	64,775,542	64,775,542	55.16%	55.16%
Other shareholders	52,636,054	52,636,054	44.84%	44.84%
Total	117,411,596	117,411,596	100.00%	100.00%

* According to Current Report No. 3/2018 of 18 January 2018, the shareholder with at least 5% of votes at the Extraordinary Shareholder Meeting held on 18 January 2018 was the State Treasury with 64,389,722 votes, constituting 54.84% of the total number of votes.

AGREEMENTS PERTAINING TO POTENTIAL CHANGES IN THE SHAREHOLDING STRUCTURE

As at the date of this report, the JSW Management Board does not have information about any agreements which may result in future changes to the proportions of shares held by the existing shareholders.

PURCHASE OF TREASURY STOCK

In 2017, the Parent Company did not engage in purchasing any treasury stock.

SHARES HELD BY EXECUTIVE AND SUPERVISORY PERSONNEL

Table 67. Holdings of JSW's shares with a par value of PLN 5.00 each by persons discharging management and supervisory functions

FIRST AND LAST NAME	NUMBER OF SHARES ON THE DELIVERY DATE OF THE REPORT FOR 3 QUARTERS OF 2017	NUMBER OF SHARES AS AT 31 DECEMBER 2017	NUMBER OF SHARES ON THE DELIVERY DATE OF THESE FINANCIAL STATEMENTS
JSW Management Board			
Daniel Ozon	-	-	-
Artur Dyczko ⁽¹⁾	-	-	-
Jolanta Gruszka	200	200	200
Robert Ostrowski	2,464	2,464	2,464
Tomasz Śledź ⁽²⁾	-	-	-
Artur Wojtków	-	-	-
JSW Supervisory Board			
Halina Buk	-	-	-
Eugeniusz Baron	382	382	382
Robert Kudelski	-	-	-
Krzysztof Kwaśniewski	-	-	-
Tomasz Lis	-	-	-
Antoni Malinowski	-	-	-
Alojzy Nowak	-	-	-
Andrzej Palarczyk	-	-	-
Adam Pawlicki	-	-	-
Arkadiusz Wypych ⁽³⁾	-	-	60

⁽¹⁾ Mr. Artur Dyczko has been discharging the function of Vice-President for Strategy since 9 August 2017.

⁽²⁾ Mr. Tomasz Śledź has been discharging the function of Vice-President for Technical Matters since 6 October 2017.

⁽³⁾ Mr. Arkadiusz Wypych has been discharging the function of Supervisory Board Member since 18 January 2018.

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

10.16. INFORMATION ON THE CONTROL SYSTEM FOR EMPLOYEE STOCK OWNERSHIP PLANS

Since the Parent Company 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 acquire gratuitously 15% of JSW's shares from the State Treasury. On 6 July 2011, the State Treasury introduced JSW's shares into trading on a regulated market, consequently as of 10 October 2011 JSW started to hand over **14,928,603 series A shares** with a nominal value of PLN 5.00 each to eligible employees. Employees employed as at the date of the first listing of JSW's shares who did not acquire the entitlement to acquire shares free of charge, acquired the right to receive free of charge additionally issued **2,157,886 series C shares** in connection with the contribution of shares in Kombinat Koksochemiczny Zabrze S.A. (KK Zabrze) shares to JSW, 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 gratuitous purchase of shares by purchasing JSW shares instead of KK Zabrze shares. On 23 April 2012, the gratuitous disposal of shares commenced, to eligible employees of KK Zabrze who submitted their declarations that their right to a gratuitous acquisition of KK Zabrze shares may be exercised by a purchase of **1,130,137 registered series D shares** of JSW with a par value of PLN 5.00 each.

By 31 December 2017, the following shares were transferred:

- 14,423,633 of 14,928,594 series A shares earmarked for eligible employees (9 shares were not allocated to eligible employees and remain the State Treasury's property). 504,961 shares remain to be distributed.

- 2,127,663 out of 2,157,886 series C shares earmarked for ineligible employees. 30,223 shares are still available.
- 895,747 out of 930,830 series D shares earmarked for eligible employees (199,307 shares were not allocated to eligible employees and remain property of the State Treasury). 35,083 shares remain to be distributed.

The process of gratuitous disposal of series A and C shares was concluded on 8 October 2013. For series D shares, the gratuitous disposal process continued until 21 March 2014. This deadline is extended for heirs of the eligible employees, by the period specified in the Act on Commercialization and Privatization, if the conditions specified in the act are met (Article 38c section 5 of the Act). On 8 July 2013, JSW's employee shares were listed for the first time.

Table 68. *Status of employee shares*

SERIES OF SHARES	NUMBER OF JSW SHARES AVAILABLE FOR GRATUITOUS ACQUISITION BY GROUP EMPLOYEES	NUMBER OF JSW EMPLOYEE SHARES INTRODUCED INTO STOCK MARKET TRADING ON 8 JULY 2013	NUMBER OF SHARES INTRODUCED INTO STOCK MARKET TRADING AFTER 8 JULY 2013	NUMBER OF SHARES REMAINING TO BE ADMITTED TO WSE'S REGULATED MARKET
Series A shares	14,928,603	14,091,006	327,277	510,320
Series C shares	2,157,886	2,157,886	-	-
Series D shares	1,130,137	855,699	38,417	236,021
TOTAL	18,216,626	17,104,591	365,694	746,341

11. REPORT ON ACTIVITY OF THE JSW MANAGEMENT BOARD AS THE COMPANY'S CORPORATE BODY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

1. Information about the term of office, date of appointment and personnel composition of the Management Board of the current term of office

The information was presented in Section 10.11. of this report.

2. Changes to the Management Board's composition during the financial year

The information was presented in Section 10.11. of this report.

3. Information about internal division of duties and functions discharged by Management Board Members

The information was presented in Section 10.11. of this report.

4. Information about granted and revoked commercial proxies

In 2017 the JSW Management Board:

- on 29 August 2017 it revoked, as of 31 August 2017, the commercial proxy granted to Mr. Dariusz Biernacki.
- on 13 September 2017, granted, as of 15 September 2017, the commercial proxy to Mr. Adam Mańka.

5. Information about Management Board meetings held and resolutions adopted

In 2017, the JSW Management Board held 73 meetings and adopted 755 resolutions.

6. Information about execution of Shareholder Meeting resolutions in the 2017 financial year and Energy Minister's recommendations addressed to JSW

Shareholder Meeting resolutions and Energy Minister's recommendations addressed to JSW are executed on an ongoing basis.

7. Information about key actions and decisions made by the Management Board, affecting JSW's economic and financial standing

A description of key actions and decisions made by the Management Board, affecting JSW's economic and financial standing is presented in the individual chapters of the Management Board report on Jastrzębska Spółka Węglowa S.A.'s activity in the financial year ended 31 December 2017.

12. APPROVAL OF MANAGEMENT BOARD ACTIVITY REPORT

This Management Board Report on the Activity of the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2017 was approved for publication and signed by the Management Board of JSW on 12 March 2018.

Jastrzębie-Zdrój, 12 March 2018

SIGNATURES OF JSW MANAGEMENT BOARD MEMBERS

Daniel Ozon	President of the Management Board
Robert Ostrowski	Vice-President of the Management Board
Artur Dyczko	Vice-President of the Management Board
Jolanta Gruszka	Vice-President of the Management Board
Tomasz Śledź	Vice-President of the Management Board
Artur Wojtków	Vice-President of the Management Board

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LIST OF TABLES

Table 1. List of consolidated companies*	8
Table 2. Events concerning capital affiliations	9
Table 3. External and internal factors affecting the Group's operation	14
Table 4. Structure of expenditures on investments in property, plant and equipment	17
Table 5. Key investment projects performed by JSW in 2017	18
Table 6. Capital expenditures on the key investment projects described above and performed by JSW	18
Table 7. Key investment projects carried out by other Group companies in 2017	19
Table 8. Key projects in research and development	21
Table 9. Risk factors and threats	23
Table 10. Calendar of events in 2017	28
Table 11. JSW's concessions	36
Table 12. Key quality parameters of coal produced by the Group in 2017 (mean values)	38
Table 13. Production and sales of coal, including intra-Group sales	39
Table 14. Coke production and sales and sales revenues on coke and hydrocarbons	40
Table 15. Average sales prices of coal produced by the Group and average sales prices of coke	40
Table 16. Operating results of the coal segment*	43
Table 17. Operating results of the coke segment	44
Table 18. Operating results of other segments	44
Table 19. Information on significant contracts executed in 2017 and after the final day of the reporting period	45
Table 20. Achieved revenues and expenses related to the free-of-charge transfer of KWK Krupiński to SRK	46
Table 21. Summary of key Group data in 2013-2017	51
Table 22. Economic position	52
Table 23. Sources of covering the assets	54
Table 24. Net cash flows in 2013-2017	55
Table 25. Statement of profit or loss and other comprehensive income	60
Table 26. Costs by nature	62
Table 27. Impact of non-recurring events on EBITDA	63
Table 28. Mining Cash Cost	69
Table 29. Coke mining cash cost	70
Table 30. Summary of JSW share listings	78
Table 31. Dividend distribution history	81
Table 32. Risk factors	89
Table 33. Mining damage repair	89
Table 34. Donations and outflows on sponsoring	89
Table 35. Risk factors	95
Table 36. Headcount in the Group by: type of employment, job and age, by gender (persons)	97
Table 37. Structure of employees leaving work by age and gender	97
Table 38. Key OHS statistics	97
Table 39. LTIFR ratio by JSW plant*	98
Table 40. Material collective disputes in other companies of the Group	103
Table 41. Risk factors	105
Table 42. Discrimination, workplace harassment	105
Table 43. Relations with trade unions	105
Table 44. Risk factors	106
Table 45. Number of detected cases of corruption	107
Table 46. Diversity in Management Boards and Supervisory Boards of the Group companies	107
Table 47. Risk factors	111
Table 48. Expenditures for environmental protection (JSW) (PLN million)	112
Table 49. Salinated underground waters (JSW) (million of m ³)	112
Table 50. Waste volume (JSW) (million tons)	113
Table 51. Waste management (JSW) (million tons)	113
Table 52. Energy consumption (Group)	113
Table 53. Use of selected fuels (Group)	113
Table 54. Shareholders holding at least 5% of the share capital as at 31 December 2017 and as at the date of preparation of this report*	116
Table 55. Composition of the Management Board in 2017	126
Table 56. Composition of the JSW Management Board at the time of preparing this report	127
Table 57. Composition of the JSW Supervisory Board in 2017	129
Table 58. Composition of the Supervisory Board of the 9th term of office at the time of preparing this report	130
Table 59. Management Board remunerations for 2017 (PLN)	135
Table 60. Remuneration of the Supervisory Board Member seconded to temporarily perform the duties of the President of the Management Board in 2017 (PLN)	136
Table 61. Management Board remuneration due for 2016 (PLN)	136
Table 62. Remuneration for the Acting President of the Management Board in 2016 (PLN)	136
Table 63. Remuneration for the Supervisory Board in 2017 (PLN)	138
Table 64. Remuneration for the Supervisory Board in 2016 (PLN)	139
Table 65. Remuneration for the Supervisory Board in 2015 (PLN)	139
Table 66. Shareholder structure*	141

Table 67. Holdings of JSW's shares with a par value of PLN 5.00 each by persons discharging management and supervisory functions	142
Table 68. Status of employee shares	143

LIST OF CHARTS

Chart 1. JSW's mining areas	5
Chart 2. Subsidiaries in which the Group holds a direct or indirect stake as at 31 December 2017	6
Chart 3. JSW's organizational structure	7
Chart 4. Division of responsibility between the JSW Management Board Members as at 31 December 2017	7
Chart 5. Development Plan of JSW and the Group	12
Chart 6. Types of initiatives within the project portfolio	20
Chart 7. Enterprise risk management process	22
Chart 8. Location of key customers	31
Chart 9. Resources of the Group's mines	36
Chart 10. Reports calendar for 2018	80
Chart 11. Business model of the Group	82
Chart 12. Management areas in CRS	84
Chart 13. Environmental tasks executed in 2017	109

LIST OF GRAPHS

Graph 1. Structure of expenditures incurred by the Parent Company	17
Graph 2. Share of European countries in total hard coal production	31
Graph 3. Production of hard coal in Poland in 2013-2017 (million tons)	32
Graph 4. JSW's market share in domestic coal production	32
Graph 5. Spot price development of coking coal grades in 2017 [USD/t FOB]	33
Graph 6. Benchmark and spot coking coal prices (USD/t FOB)	35
Graph 7. Coal production mix in 2017	37
Graph 8. Coal production in 2013-2017 (million tons)	38
Graph 9. Total coal production in 2013-2017 (mt)	39
Graph 10. Relations of JSW's coking coal prices to the TSI index [USD/t]	41
Graph 11. Blast furnace coke prices on the European market (USD/t)	41
Graph 12. Revenues from sales of coal, coke and hydrocarbons broken down by geographical area of end customers	42
Graph 13. Group's revenue mix by country of destination as at 31 December 2017	42
Graph 14. Impact of operating segments on EBITDA (PLN million)	43
Graph 15. Structure of non-current and current assets in total balance sheet assets	52
Graph 16. Structure of equity and liabilities in the balance sheet value	53
Graph 17. Cash flows (in millions of PLN)*	55
Graph 18. Group debt and financing ratios	67
Graph 19. Liquidity ratios	67
Graph 20. Profitability ratios	68
Graph 21. Profitability ratios	69
Graph 22. Listings of JSW shares and the WIG20, WIG30 and WIG Górnictwo Indices	78
Graph 23. JSW share price and volume in 2017	79
Graph 24. Recommendation structure for JSW shares	79
Graph 25. The scale of activities related to mining damage	86
Graph 26. Average monthly salary in the Parent Company – without payment of bonus from profit (PLN)	93