2018

Consolidated Financial Statements

of the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 december 2018

TABLE OF CONTENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME ... 4
CONSOLIDATED STATEMENT OF FINANCIAL POSITION ... 5
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED) ... 6
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY ... 7
CONSOLIDATED CASH FLOW STATEMENT ... 8
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ... 9
1. BACKGROUND ... 9
1.1. NAME, REGISTERED OFFICE AND LINE OF BUSINESS ... 9
1.2. COMPOSITION OF THE GROUP ... 9
2. ACCOUNTING POLICIES ... 14
2.1. GROUNDS FOR PREPARATION OF THE FINANCIAL STATEMENTS ... 14
2.2. GOING CONCERN ASSUMPTION ... 14
2.3. ACCOUNTING POLICY AND SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS ... 14
2.4. PRINCIPLES OF CONSOLIDATION AND RECOGNITION OF INVESTMENTS IN ASSOCIATES ... 15
2.5. NEW STANDARDS, INTERPRETATIONS AND THEIR AMENDMENTS ... 15
2.6. IMPACT OF FIRST APPLICATION OF STANDARDS ON CONSOLIDATED FINANCIAL STATEMENTS ... 17
2.6.1. IMPACT EXERTED BY IFRS 15 ON THE CONSOLIDATED FINANCIAL STATEMENTS ... 17
2.6.2. IMPACT EXERTED BY IFRS 9 ON THE CONSOLIDATED FINANCIAL STATEMENTS ... 17
2.7. IMPACT EXERTED BY NEW REGULATIONS ON THE CONSOLIDATED FINANCIAL STATEMENTS ... 21
2.7.1. FIRST APPLICATION INFORMATION ... 21
2.7.2. DETAILED DESCRIPTION OF ADJUSTMENTS RESULTING FROM APPLICATION OF IFRS 16 AND SUPPLEMENTARY DATA ... 22
2.8. IMPACT ON CONSOLIDATED FINANCIAL STATEMENTS ... 23
3. NOTES TO THE OPERATING SEGMENTS ... 25
3.1. OPERATING SEGMENTS ... 25
4. NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME ... 29
4.1. SALES REVENUES ... 30
4.2. COSTS BY NATURE ... 30
4.3. OTHER REVENUES ... 31
4.4. OTHER COSTS ... 31
4.5. REVENUES / (COSTS) CONNECTED WITH HANDING OVER UNITS TO SRK ... 32
4.6. OTHER NET GAINS/(LOSSES) ... 32
4.7. FINANCIAL INCOME AND COSTS ... 33
4.8. EARNINGS/(LOSS) PER SHARE ... 33
5. EXPLANATORY NOTES PERTAINING TO TAX ... 34
5.1. INCOME TAX ... 34
5.2. DEFERRED TAX ... 35
6. EXPLANATORY NOTES PERTAINING TO DEBT ... 36
6.1. LOANS AND BORROWINGS ... 37
6.2. LIABILITIES UNDER DEBT SECURITIES ISSUED ... 39
6.3. FINANCE LEASE LIABILITIES ... 40
6.4. RECONCILIATION OF DEBT ... 41
7. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION ... 42
7.1. PROPERTY, PLANT AND EQUIPMENT ... 42
7.2. INTANGIBLE ASSETS ... 45
7.3. IMPAIRMENT OF NON-FINANCIAL NON-CURRENT ASSETS ... 47
7.4. INVESTMENT PROPERTY ... 51
7.5. INVESTMENTS IN THE FIZ ASSET PORTFOLIO ... 52
7.6. OTHER NON-CURRENT FINANCIAL ASSETS ... 54
7.7. INVENTORIES ... 55
7.8. TRADE AND OTHER RECEIVABLES ... 56
7.9. CASH AND CASH EQUIVALENTS ... 59
7.10. EQUITY ... 60

7.10.1. SHARE CAPITAL 60
7.10.2. CAPITAL ON REVALUATION OF FINANCIAL INSTRUMENTS 61
7.10.3. RETAINED EARNINGS 61
7.10.4. DIVIDENDS PAID AND PROPOSED 61
7.11. EMPLOYEE BENEFIT LIABILITIES 62
7.12. PROVISIONS 66
7.13. TRADE AND OTHER LIABILITIES 71

8. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS 73

8.1. NET CASH FROM OPERATING ACTIVITY 73

9. NOTES TO THE FINANCIAL INSTRUMENTS 75

9.1. CATEGORIES AND CLASSES OF FINANCIAL INSTRUMENTS according to IFRS 9 76
9.2. FAIR VALUE HIERARCHY 77
9.3. INCOME, COST, PROFIT AND LOSS ITEMS RECOGNIZED IN THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME, BY CATEGORIES OF FINANCIAL INSTRUMENTS 78
9.4. DERIVATIVES 80
9.5. FINANCIAL RISK MANAGEMENT 81
9.5.1. FINANCIAL RISK FACTORS 81
9.5.2. CAPITAL RISK MANAGEMENT 87

10. OTHER EXPLANATORY NOTES 89

10.1. CONTINGENT ITEMS 89
10.2. FUTURE CONTRACTUAL LIABILITIES AND OPERATING LEASE LIABILITIES 91
10.3. BUSINESS COMBINATIONS AND ACQUISITION (SUBSCRIPTION) AND SALE OF SHARES 91
10.4. RELATED PARTY TRANSACTIONS 92
10.5. AUDITOR'S FEE 94
10.6. SUBSEQUENT EVENTS 95

11. MANAGEMENT BOARD'S REPRESENTATIONS 97

12. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS 98

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	For the financial year ended 31 December 2018	For the financial year ended 31 December 2017
Sales revenues	4.1	9,809.5	8,877.2
Cost of products, materials and goods sold	4.2	(6,938.4)	(5,638.3)
GROSS PROFIT ON SALES		**2,871.1**	**3,238.9**
Selling and distribution expenses	4.2	(298.8)	(282.4)
Administrative expenses	4.2	(623.8)	(480.8)
Other revenues	4.3	1,616.5	1,569.4
Other costs	4.4	(1,296.9)	(972.1)
Other net gains/(losses)	4.6	(14.0)	43.5
OPERATING PROFIT		**2,254.1**	**3,116.5**
Financial income	4.7	40.1	132.9
Financial costs	4.7	(101.8)	(125.9)
Share in profits/(losses) of associates		0.1	0.1
PROFIT BEFORE TAX		**2,192.5**	**3,123.6**
Income tax	5.1	(431.7)	(580.3)
NET PROFIT		**1,760.8**	**2,543.3**
Other comprehensive income to be reclassified to net result:		**14.6**	**16.1**
Change in the value of hedges	7.10.2	18.0	19.9
Income tax	5.1	(3.4)	(3.8)
Other comprehensive income not to be reclassified to net result:		**(57.0)**	**(7.4)**
Actuarial profit/(loss)	7.11	(70.4)	(9.2)
Income tax	5.1	13.4	1.8
TOTAL OTHER COMPREHENSIVE INCOME		**(42.4)**	**8.7**
TOTAL COMPREHENSIVE INCOME		**1,718.4**	**2,552.0**
Net profit attributable to:			
- shareholders of the Parent Company		1,737.1	2,538.9
- non-controlling interest		23.7	4.4
Total comprehensive income attributable to:			
- shareholders of the Parent Company		1,695.2	2,547.8
- non-controlling interest		23.2	4.2
Basic and diluted earnings per share attributable to shareholders of the Parent Company (in PLN per share)	4.8	14.80	21.62

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31.12.2018	31.12.2017
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	7.1	7,303.0	6,835.9
Intangible assets	7.2	130.8	116.3
Investment property	7.4	21.1	21.7
Investments in associates		1.1	1.1
Deferred tax assets	5.2	669.5	814.3
Investments in the FIZ asset portfolio	7.5	1,826.1	-
Other non-current financial assets	7.6	349.1	328.9
TOTAL NON-CURRENT ASSETS		**10,300.7**	**8,118.2**
CURRENT ASSETS			
Inventories	7.7	656.5	499.4
Trade and other receivables	7.8	1,146.7	2,256.7
Income tax backpayment		0.7	32.5
Derivatives	9.4	7.2	13.8
Other current financial assets		-	0.1
Cash and cash equivalents	7.9	1,650.8	1,169.5
TOTAL CURRENT ASSETS		**3,461.9**	**3,972.0**
TOTAL ASSETS		**13,762.6**	**12,090.2**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	31.12.2018	31.12.2017
EQUITY			
Share capital	7.10.1	1,251.9	1,251.9
Share premium account		905.0	905.0
Capital on revaluation of financial instruments	7.10.2	(52.1)	(66.7)
Retained earnings	7.10.3	5,976.6	4,298.9
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY		**8,081.4**	**6,389.1**
NON-CONTROLLING INTEREST		**364.0**	**232.4**
TOTAL EQUITY		**8,445.4**	**6,621.5**
LIABILITIES			
NON-CURRENT LIABILITIES			
Loans and borrowings	6.1	36.5	70.6
Liabilities under debt securities issued	6.2	-	792.6
Deferred tax liabilities	5.2	15.6	12.4
Employee benefit liabilities	7.11	731.7	558.6
Provisions	7.12	788.0	1,363.0
Trade and other liabilities	7.13	119.9	135.7
TOTAL NON-CURRENT LIABILITIES		**1,691.7**	**2,932.9**
CURRENT LIABILITIES			
Loans and borrowings	6.1	33.5	51.6
Liabilities under debt securities issued	6.2	121.0	63.4
Derivatives	9.4	6.0	-
Current income tax liabilities		203.6	2.2
Employee benefit liabilities	7.11	150.8	118.6
Provisions	7.12	273.1	159.9
Trade and other liabilities	7.13	2,837.5	2,140.1
TOTAL CURRENT LIABILITIES		**3,625.5**	**2,535.8**
TOTAL LIABILITIES		**5,317.2**	**5,468.7**
TOTAL EQUITY AND LIABILITIES		**13,762.6**	**12,090.2**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to shareholders of the Parent Company					Non-controlling interest	Total equity
		Share capital	Share premium account	Capital on revaluation of financial instruments	Retained earnings	Total		
AS AT 1 JANUARY 2018 (approved data)		**1,251.9**	**905.0**	**(66.7)**	**4,298.9**	**6,389.1**	**232.4**	**6,621.5**
Impact of implementing IFRS 9 as at 1 January 2018		-	-	-	(1.5)	(1.5)	-	(1.5)
AS AT 1 JANUARY 2018 (restated data)		**1,251.9**	**905.0**	**(66.7)**	**4,297.4**	**6,387.6**	**232.4**	**6,620.0**
Total comprehensive income:		-	-	14.6	1,680.6	1,695.2	23.2	1,718.4
- net profit		-	-	-	1,737.1	1,737.1	23.7	1,760.8
- other comprehensive income		-	-	14.6	(56.5)	(41.9)	(0.5)	(42.4)
Transactions with shareholders		-	-	-	(1.4)	(1.4)	108.4	107.0
Dividends		-	-	-	-	-	-	-
Transactions with non-controlling interest	10.3	-	-	-	(1.4)	(1.4)	108.4	107.0
BALANCE AS AT 31 DECEMBER 2018		**1,251.9**	**905.0**	**(52.1)**	**5,976.6**	**8,081.4**	**364.0**	**8,445.4**
AS AT 1 JANUARY 2017		**1,251.9**	**905.0**	**(82.8)**	**1,928.4**	**4,002.5**	**67.1**	**4,069.6**
Total comprehensive income:		-	-	16.1	2,531.7	2,547.8	4.2	2,552.0
- net profit/(loss)		-	-	-	2,538.9	2,538.9	4.4	2,543.3
- other comprehensive income		-	-	16.1	(7.2)	8.9	(0.2)	8.7
Transactions with shareholders		-	-	-	(161.2)	(161.2)	161.1	(0.1)
Dividends		-	-	-	-	-	(0.1)	(0.1)
Transactions with non-controlling interest	10.3	-	-	-	(161.2)	(161.2)	161.2	-
AS AT 31 DECEMBER 2017		**1,251.9**	**905.0**	**(66.7)**	**4,298.9**	**6,389.1**	**232.4**	**6,621.5**

CONSOLIDATED CASH FLOW STATEMENT

	Note	For the financial year ended 31 December 2018	For the financial year ended 31 December 2017
CASH FLOW ON OPERATING ACTIVITY			
Cash flow from operating activity	8.1	2,856.1	3,160.1
Interest paid		(10.1)	(13.2)
Change in derivatives	9.4	12.6	(14.7)
Income tax (paid)/refunds received		(40.2)	(261.5)
NET CASH FLOW ON OPERATING ACTIVITY		**2,818.4**	**2,870.7**
CASH FLOW ON INVESTING ACTIVITY			
Acquisition of property, plant and equipment		(1,246.2)	(734.9)
Acquisition of intangible assets		(12.8)	(4.2)
Acquisition of financial assets		(12.4)	(19.6)
Payment to purchase FIZ assets	7.5	(350.0)	(1,450.0)
Proceeds on the sale of property, plant and equipment		10.7	2.6
Dividends received		0.1	0.3
Interest received		28.9	35.5
NET CASH FLOW ON INVESTING ACTIVITY		**(1,581.7)**	**(2,170.3)**
CASH FLOW ON FINANCING ACTIVITY			
Loans and borrowings received	6.4	-	63.7
Repayment of loans and borrowings	6.4	(52.2)	(28.5)
Net proceeds from issuing shares and additional capital contributions (transaction with non-controlling interest)	10.3	120.0	-
Redemption of debt securities	6.4	(737.3)	(653.8)
Dividends paid to non-controlling interest		-	(0.1)
Transactions with non-controlling interest	10.3	(13.0)	-
Payments related to finance lease		(31.8)	(34.6)
Interest paid in financing activity		(37.5)	(45.5)
Other net cash flow on financing activity		(4.0)	(1.0)
NET CASH FLOW ON FINANCING ACTIVITY		**(755.8)**	**(699.8)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**480.9**	**0.6**
Cash and cash equivalents at the beginning of the period		1,169.5	1,170.3
Exchange differences on translation of cash and cash equivalents		0.6	(1.4)
Impairment losses pertaining to cash and cash equivalents ensuing from the implementation of IFRS 9 as at 1 January 2018		(0.2)	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	7.9	**1,650.8**	**1,169.5**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BACKGROUND

1.1. NAME, REGISTERED OFFICE AND LINE OF BUSINESS

The Jastrzębska Spółka Węglowa S.A. Group ("Group") is comprised of Jastrzębska Spółka Węglowa S.A. and its Poland-based subsidiaries.

Key information about the Parent Company

NAME	Jastrzębska Spółka Węglowa S.A.
REGISTERED OFFICE	Aleja Jana Pawła II 4, 44-330 Jastrzębie-Zdrój
KRS	0000072093
REGON	271747631
NIP	633,000 51 10
LINE OF BUSINESS	Mining, enrichment and sale of hard coal and sale of coke and hydrocarbons

According to the Articles of Association, the Parent Company may operate in the territory of the Republic of Poland and abroad. The duration of JSW is unspecified. The Parent Company's shares have been traded publicly since 6 July 2011.

The Jastrzębska Spółka Węglowa S.A. Group is the largest producer of hard coking coal and a significant producer of coke in the European Union. For years, it has held the key 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.

1.2. COMPOSITION OF THE GROUP

As at 31 December 2018, the Group consisted of: JSW S.A. as the Parent Company and its direct and indirect subsidiaries located in the territory of Poland. Subsidiaries are consolidated by the full method.

As at 31 December 2018, JSW held, directly or indirectly, shares in 19 related companies, including:

- 17 subsidiaries (direct or indirect),
- 2 associates.

JSW Stabilizacyjny Fundusz Inwestycyjny Zamknięty Closed-End Fund was also consolidated.

In the consolidated financial statements, shares in associates (Jastrzębska Strefa Aktywności Gospodarczej Sp. z o.o. in liquidation, Remkoks Sp. z o.o.) are measured by the equity method.

Information on companies comprising the Group and consolidated by the full method is provided below:

Item	Company name	Headquarters	Line of business	Percentage of share capital held by Group companies	
				31.12.2018	31.12.2017
	Parent company				
1.	Jastrzębska Spółka Węglowa S.A. ("JSW")	Jastrzębie-Zdrój	Black coal mining and sales, sales of coke and hydrocarbons.	not applicable	
	Direct subsidiaries				
2.	JSW KOKS S.A. ("JSW KOKS")	Zabrze	Production of coke and hydrocarbons	96.28%	95.72%

Item	Company name	Headquarters	Line of business	Percentage of share capital held by Group companies	
				31.12.2018	31.12.2017
3.	JSW Innowacje S.A. („JSW Innowacje”)	Katowice	The Group’s research and development activity, feasibility studies and oversight over execution of projects and implementations.	100.00%	100.00%
4.	Przedsiębiorstwo Gospodarki Wodnej i Rekultywacji S.A. ("PGWiR")	Jastrzębie-Zdrój	Provision of water and sewage-related services and discharge of salt water, supply of industrial water, reclamation activity and production of salt.	100.00%	100.00%
5.	Jastrzębskie Zakłady Remontowe Sp. z o.o. (“JZR”)	Jastrzębie-Zdrój	Service activity pertaining to renovation of machinery and equipment	58.61%	62.55%
6.	Centralne Laboratorium Pomiarowo – Badawcze Sp. z o.o. (“CLP-B”)	Jastrzębie-Zdrój	Technical research services, chemical and physiochemical analyses of minerals, and solid, liquid and gaseous materials and products	99.92%	90.31%
7.	Jastrzębska Spółka Kolejowa Sp. z o.o. (“JSK”)	Jastrzębie-Zdrój	Provision of railway lines, maintenance of railway infrastructure structures and equipment, construction and repair of railway tracks and facilities	100.00%	100.00%
8.	Advicom Sp. z o.o. (“Advicom”)	Jastrzębie-Zdrój	Consulting with respect to computer hardware; activities related to software and data processing	100.00%	75.06%
9.	JSU Sp. z o.o. (“JSU”)	Jastrzębie-Zdrój	Insurance intermediation and insurance administration pertaining to insurance claims handling, tourist and hotel activity	100.00%	100.00%
10.	JSW Logistics Sp. z o.o. (“JSW Logistics”)	Dąbrowa Górnicza	Rail siding services, transportation of coal and coke, organizing the carriage of cargo and technical maintenance and repair of rail vehicles	100.00%	100.00%
11.	JSW Szkolenie i Górnictwo Sp. z o.o. (“JSW SiG”)	Jastrzębie-Zdrój	Mining support activity	100.00%	100.00%
12.	JSW Shipping Sp. z o. o. (“JSW Shipping”)	Gdynia	Marine freight forwarding and marine transport agency services	100.00%	100.00%
	Indirect subsidiaries				
13.	BTS Sp. z o.o. (“BTS”)	Dąbrowa Górnicza	Transportation and general construction services	100.00%	100.00%
14.	ZREM-BUD Sp. z o.o. (“ZREM-BUD”)	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	100.00%	100.00%
15.	CARBOTRANS Sp. z o.o. (“Carbotrans”)	Zabrze	Road transport of goods, mainly hydrocarbons and raw materials for their production	100.00%	100.00%
16.	JZR Dźwigi Sp. z o.o. (“JZR Dźwigi”)	Jastrzębie-Zdrój	Services related to production, upgrade, renovation, upkeep, inspection and repairs of material handling equipment.	84.97%	84.97%
17.	JSW Ochrona Sp. z o.o. (“JSW Ochrona”)	Jastrzębie-Zdrój	Mining support activity, security activity	100.00%	100.00%
18.	Hawk-e Sp. z o.o. (“Hawk-e”)	Jastrzębie-Zdrój	Provision of services using drones for commercial purposes	100.00%	-
	Other entities				
19.	JSW Stabilizacyjny Fundusz Inwestycyjny Zamknięty (“JSW Stabilization FIZ”)*	Warsaw	The Fund’s only line of business is investment of cash raised through private proposals to purchase Investment Certificates, in the securities, Money Market Instruments and other property rights as specified in the Articles of Association.	100.00%	-

** Percentage share determined based on the percentage exposure of the Parent Company to the Fund’s investment certificates*

CHANGES IN EQUITY RELATIONS IN 2018

- *Capital increase in JZR*

For the purpose of strengthening the capital base of JZR, on 30 September 2016 an agreement was executed by and between the State Treasury and JZR to extend support that is not public aid (“Support Agreement”). 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 has been designated to modernize the coal preparation plants of KWK Budryk and KWK Knurów-Szczygłowice. The agreement is 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 was 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. An annex to the Support Agreement was executed on 27 September 2017. The annex did not identify any specific deadlines for the transfer of subsequent tranches of funds (second and third tranches), because ARP had not received the special-purpose subsidy for the performance of the State Treasury's obligations under the agreement.

On 13 February 2018 JZR's Shareholder Meeting adopted a resolution to increase JZR's share capital to PLN 645.0 million, i.e. by PLN 244.5 million by having JSW and the State Treasury subscribe for 489,000 new shares with a par value and issue price of PLN 500.00 each. JSW subscribed for 249,000 new shares in JZR that were covered with a cash contribution totaling PLN 124.5 million while the State Treasury subscribed for 240,000 new shares covered with a cash contribution totaling PLN 120.0 million (2nd tranche). JSW signed the declaration on the subscription for new shares on 13 February 2018, while the State Treasury signed the agreement to subscribe for the shares on 26 February 2018. After the increase, JSW's stake has been reduced to 58.14%, while the State Treasury's stake was 41.86%. The capital increase was registered in the National Court Register on 13 April 2018.
This transaction with non-controlling interest resulted in cash proceeds of PLN 120.0 million presented in the consolidated statement of cash flows in the line item "net payment under the release of shares and capital contributions".

On 28 May 2018 JZR's Shareholder Meeting adopted a resolution to increase JZR's share capital to PLN 652.3 million by having JSW subscribe for 14,561 new shares with a par value of PLN 500.00 per share, while excluding the State Treasury's right of first refusal to the shares. The JZR's increased share capital was covered by an in-kind contribution of JSW's assets with a market value of PLN 7.3 million. After the increase, JSW's stake increased to 58.61%, while the State Treasury's stake is 41.39%. The share capital increase was registered in the National Court Register on 22 August 2018.

The impact of these transactions on the consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group is discussed in Note 10.3.

On 19 June 2018, the JZR Management Board submitted a request to the JSW Management Board to approve a request to ARP for early settlement of the agreement of 30 September 2016 between JZR and the State Treasury. ARP transferred to JZR two tranches of support funds in the total amount of PLN 270.0 million. On 29 June 2018, the JSW Management Board gave its consent to begin the procedure of obtaining all corporate approvals and conduct legal, tax and financial analyses to carry out the process described above. The JZR Management Board also petitioned to the Minister of Energy in a letter of 14 August 2018 to take a stance in respect to the early repayment of the support funds. In response, the Minister of Energy issued a positive opinion on the matter of early repayment of the support funds, identifying ARP as the entity appropriate for coordinating the repayment process of the support funds.

As at the moment of preparation of these statements, the Group is not obligated to redeem shares of the State Treasury. The work is conducted to determine the permissibility of refunding the support funds received by JZR from the State Treasury and the possible terms on which it could be effected. At the present moment, the terms, the manner and the exact time of settlement of the agreement are not known.

- *Acquisition of shares in JSW Shipping*

On 10 January 2018, JSW S.A. executed an agreement with JSW Innowacje 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 1.9 million. Presently, JSW is the sole shareholder of this company. On 16 January 2018 the company's modified founding deed was registered with the National Court Register, which led to a change, among others, in the business name to JSW Shipping Sp. z o.o. The transaction has no effect on the consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group.

- *Acquisition of shares in CLP-B*

On 20 February 2018, JSW S.A. executed an agreement with JSW Innowacje to purchase 1,510 shares in Centralne Laboratorium Pomiarowo-Badawcze Sp. z o.o. representing 21.33% of CLP-B's share capital for the total price of PLN 6.8 million. The transaction has no effect on the consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group.

On 7 June 2018, the Ordinary Shareholder Meeting of CLP-B adopted a resolution on the acquisition by CLP-B of 681 shares representing 9.62% of all the company's shares from 25 minority shareholders, i.e. natural persons, for the total amount of PLN 3.1 million for retirement. The 681 shares were transferred to CLP-B and then retired on the date of signing share purchase agreements with the foregoing minority shareholders, i.e. on 7 June 2018. As a result of these processes, JSW now holds 79.23% of shares in CLP-B. This transaction with non-controlling interest

resulted in a cash expenditure of PLN 3.1 million presented in the consolidated statement of cash flows in the "transactions with non-controlling interest" line item (purchase of shares from non-controlling interest), which was presented in detail in Note 10.3.

- *Capital increase in JSW Ochrona*

On 11 January 2018, the company JSW Ochrona Sp. z o.o. was registered in the KRS. JSW Ochrona was established on 20 December 2017. The shares were taken up by JSW SiG (95%) and JSK (5%).

On 8 May 2018, the Shareholder Meeting of JSW Ochrona adopted a resolution to increase the company's share capital to PLN 0.9 million by creating 800 new shares with a par value of PLN 500.00 each. The increase of JSW Ochrona's share capital was covered with a cash contribution – JSW SiG subscribed for 760 shares for the total amount of PLN 380,000.00, while JSK subscribed for 40 shares in the total amount of PLN 20,000.00. The increase of the JSW Ochrona share capital was registered in the National Court Register on 1 August 2018.

On 10 September 2018, the Shareholder Meeting of JSW Ochrona adopted a resolution to increase the company's share capital to PLN 1.4 million by creating 900 new shares with a par value of PLN 500.00 each. The increase of JSW Ochrona's share capital was covered by a cash contribution – JSW SiG subscribed for 855 shares for the total amount of PLN 427,500.00 while JSK subscribed for 45 shares in the total amount of PLN 22,500.00. The share capital increase was registered in the National Court Register on 19 October 2018.

- *Subscription for shares in JSK in exchange for a contribution-in-kind*

On 29 December 2017, the Extraordinary Shareholder Meeting of JSK adopted a resolution to increase JSK's share capital by PLN 20.4 million by issuing 40,710 new shares with a par value of PLN 500.00 each, through an in-kind contribution of JSW S.A.'s assets in the total market amount of PLN 20.4 million. The share subscription statement was filed on 29 December 2017. JSW subscribed for all the new shares. On the same date, an agreement was signed on transferring the rights to the assets forming the contribution-in-kind; however, the rights were transferred on 1 January 2018. The share capital increase was registered in the National Court Register on 6 April 2018.

- *Subscription for shares in SPEDKOKS in exchange for a contribution-in-kind and change of the company's name*

On 26 February 2018, the Extraordinary Shareholder Meeting of Zakład Przewozów i Spedycji SPEDKOKS Sp. z o.o. adopted a resolution to increase the company's share capital by PLN 760,000.00 through JSW's subscription for 1,520 new shares with a par value of PLN 500.00 each. The increased share capital was covered by a contribution-in-kind of JSW's assets (KWK Budryk and the Production Support Unit). The declaration of subscribing for shares was submitted on 26 February 2018. The capital increase was registered in the National Court Register on 29 March 2018.

On 30 April 2018 a change of name was registered in the National Court Register for the company from Zakład Przewozów i Spedycji Spedkoks Sp. z o.o. to JSW Logistics Sp. z o.o. The company's address and registered office were also changed to Katowice, ul. Paderewskiego 41.

- *Establishment of Hawk-e*

On 10 April 2018 the Extraordinary Shareholder Meeting of JSW Innowacje adopted a resolution to consent to the establishment of Hawk-e Sp. z o.o. and at the same time to the subscription for 40,000 shares with a nominal value of PLN 50.00 each, with a total value of PLN 2.0 million constituting 100% of the share capital of the company being established. This company is to become the largest service provider in Poland in the usage of drones for commercial purposes. The shares subscribed for were covered by a cash contribution. The company was registered by the National Court Register on 26 April 2018.

- *Acquisition of shares in Advicom*

Advicom Sp. z o.o. signed a share purchase agreement with COIG S.A to purchase 5,105 shares in Advicom held by COIG S.A., which represented 24.94% of all the shares, for the total amount of PLN 9.9 million for retirement. The shares were transferred and retired at the moment the funds were booked on COIG S.A.'s bank account, i.e. on 2 July 2018. After this transaction was finalized, JSW S.A. now holds 100% of Advicom's shares. This transaction with non-controlling interest resulted in a cash expenditure of PLN 9.9 million presented in the consolidated statement of cash flows as transactions with non-controlling interest (purchase of shares from non-controlling interest). A detailed description of the transaction is included in Note 10.3.

On 3 August 2018 Advicom's Extraordinary Shareholder Meeting adopted a resolution to increase share capital to PLN 15.2 million, i.e. by PLN 5.0 million by creating 10,000 new shares with a par value of PLN 500.00 each. The shares were fully covered by cash and taken up in their entirety by JSW for the amount of PLN 20.0 million. The share premium account of PLN 15.0 million was allocated to Advicom's supplementary capital. The share capital increase was registered in the National Court Register on 23 October 2018. The transaction has no effect on the consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group.

On 31 October 2018, the Shareholder Meeting of Advicom adopted a resolution to change its name to JSW IT Systems Sp. z o.o. and a resolution to change the nominal value of shares from PLN 500.00 to PLN 1,000.00 per share. These changes were registered in the National Court Register on 2 January 2019.

- *Acquisition of shares in JSW KOKS*

On 19 June 2018 JSW signed a share purchase agreement with JSW KOKS S.A. to purchase 548,461 shares of JSW KOKS (treasury shares) representing 0.5517% of the company's capital, for the total amount of PLN 7.8 million, i.e. PLN 14.29 per share. According to the terms and conditions of the agreement, the title to the shares purchased from JSW KOKS was transferred to JSW on the date the sales price was credited to JSW KOKS' bank account, i.e. on 19 July 2018. After the finalization date of this transaction, JSW S.A. now holds 96.28% of JSW KOKS' shares. The impact of these transactions on the consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group is discussed in Note 10.3.

The structure of the Group (chart) including companies consolidated as at 31 December 2018 is presented in Section 2.1. Management Board Report on the activity of Jastrzębska Spółka Węglowa S.A. and the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2018.

INFORMATION ON SUBSIDIARIES WITH NON-CONTROLLING INTEREST

The table below presents details on the Group's subsidiaries with non-controlling interest:

Company name	Headquarters	Percentage stake held by the Group		Profit/(loss) allocated to non-controlling interest for the year		Accumulated value of non-controlling interest	
		31.12.2018	**31.12.2017**	**2018**	**2017**	**31.12.2018**	**31.12.2017**
JZR	Jastrzębie-Zdrój	58.61%	62.55%	11.5	6.1	299.4	166.3
JSW KOKS	Zabrze	96.28%	95.72%	10.8	(3.1)	63.2	52.8
Other subsidiaries with non-controlling interest	-	Note 1.2.	Note 1.2.	1.4	1.4	1.4	13.3
TOTAL	**-**	**-**	**-**	**23.7**	**4.4**	**364.0**	**232.4**

The table below contains selected financial data of the Group's key entities holding non-controlling interest

Item	JZR		JSW KOKS	
	2018	**2017**	**2018**	**2017**
STATEMENT OF FINANCIAL POSITION				
Assets	857.1	544.8	2,500.2	2,283.7
Equity	723.3	444.0	1,698.8	1,405.3
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME				
Sales revenues	213.6	158.9	4,346.1	3,651.3
Net profit	28.5	18.8	288.0	(83.1)

2. ACCOUNTING POLICIES

2.1. GROUNDS FOR PREPARATION OF THE FINANCIAL STATEMENTS

These consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2018 were prepared in accordance with the International Financial Reporting Standards ("IFRS") approved by the European Union ("EU").

The consolidated financial statements have been drawn up in accordance with the historical cost principle, except for financial derivatives, FIZ assets and interests in other entities that are measured at fair value.

2.2. GOING CONCERN ASSUMPTION

These consolidated financial statements have been prepared based on the assumption that the Group would continue as a going concern for at least 12 months of the final date of the reporting period. The Management Board of the parent company, as at the date of approval of these consolidated financial statements, has found no facts and circumstances that would indicate a threat to the Group's continuation as a going concern in the foreseeable future.

2.3. ACCOUNTING POLICY AND SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

Material accounting principles and material figures based on judgments and estimates have been presented as an element of the various explanatory notes to the consolidated financial statements. The accounting policies adopted by the Group are consistent with the policies applied in the previous financial year, except for the adoption of new and amended standards as described in Note 2.5.

In order to prepare the consolidated financial statements according to IFRS, one must adopt certain assumptions, make estimates and judgments, which affect the accepted accounting principles and the amounts shown in the financial statements. The assumptions and estimates result from past experiences and other factors, including anticipated future events that seem reasonable in the current situation. By definition, the resulting accounting estimations will rarely match the actual performance. Accounting estimations and judgments are subject to regular evaluation.

Items in the consolidated financial statements involving material risk of having to make a significant adjustment to the carrying amount of assets and liabilities during the subsequent financial year have been presented below.

Item in the Consolidated Statement of Financial Position	Value of the item to which an estimate in the consolidated financial statements pertains		Description of the accounting policy and material estimates
	31.12.2018	31.12.2017	
Property, plant and equipment	7,303.0	6,835.9	Note 7.1, Note 7.3
Intangible assets	130.8	116.3	Note 7.2, Note 7.3
Deferred tax assets	669.5	814.3	Note 5.2
Inventories	656.5	499.4	Note 7.7
Trade and other receivables	1,146.7	2,256.7	Note 7.8
Employee benefit liabilities	882.5	677.2	Note 7.11
Provision for mine closures	547.0	445.4	Note 7.12
Provision for potential litigation related to the free coal allowance for old-age and disability pensioners	-	653.5	Note 7.12
Provision for mining damage	362.2	277.7	Note 7.12
Provision for contested property tax on mine workings	20.1	29.8	Note 7.12
Trade and other liabilities	2,957.4	2,275.8	Note 7.13

2.4. PRINCIPLES OF CONSOLIDATION AND RECOGNITION OF INVESTMENTS IN ASSOCIATES

These consolidated financial statements have been prepared on the basis of the Parent Company's financial statements and the financial statements of its subsidiaries and associates. The financial statements of the consolidated entities are drawn up for the very same reporting period based on uniform accounting principles.

All intragroup transactions, settlements, revenues, costs and unrealized profits from transactions between Group companies are eliminated in full. Unrealized losses are ignored, unless they constitute a proof of impairment.

Subsidiaries are consolidated by the full method as of the date of acquisition, meaning when control is taken over them until the date of losing that control. Control exists when the Parent Company, because of its exposure to such an entity, is subject to exposure to varying returns, or if it holds rights to them and can also influence those returns by exercising control over the entity.

Associated companies are all the entities on which the Parent Company directly or through subsidiaries exerts significant influence but does not control them; this usually coincides with holding from 20% to 50% of the total number of votes in their decision-making bodies. Investments in associates are recognized using the equity method.

2.5. NEW STANDARDS, INTERPRETATIONS AND THEIR AMENDMENTS

a) Standards and interpretations applied for the first time in 2018

In these consolidated financial statements, the Group applied for the first time the following standards, amendments to the existing standards published by the International Accounting Standards Board ("IASB") and endorsed in the European Union, which came into force in 2018 and have effect on the Group's consolidated financial statements:

Standard	Brief description of changes	Impact on the statements
IFRS 9 "Financial Instruments"	IFRS 9 supersedes IAS 39. This standard implements a single model contemplating only two categories for the classification of financial assets: fair value measurement and amortized cost measurement. The assets are classified upon the initial recognition and depend on the financial instruments management model adopted by the entity and the characteristics of contractual cash flows from these instruments. IFRS 9 introduces a new model for determining impairment losses – a model of expected credit losses. Most of the IAS 39 requirements relating to classification and measurement of financial liabilities were transferred to IFRS 9 without any modification. The crucial change is the requirement imposed on entities to present in other comprehensive income the effects of changes in their own credit risk on account of financial liabilities subject selected for measurement at fair value through profit or loss. These changes in hedge accounting aimed to align hedge accounting to risk management more closely. The standard has retrospective application, while the restatement of data is not required for the periods preceding the period of initial application. Data transformation is permitted only if it is possible without utilizing current knowledge, while the restated financial statements reflect all the requirements of IFRS 9.	The application of IFRS 9 resulted in a change of the approach to estimating the impairment of financial assets measured at amortized cost and a change in classification and measurement of the Group's financial assets. The impact of the standard on the consolidated financial statements is described in detail in Note 2.6.2.
IFRS 15 "Revenue from Contracts with Customers"	IFRS 15 "Revenue from Contracts with Customers" supersedes IAS 18 and IAS 11 and the relevant interpretations. The rules put prescribed by IFRS 15 concern all agreements that generate revenues. The fundamental rule in the new standard is to recognize revenue in the amount of the transaction price at the time when control over the goods or services are transferred to the client. All the goods or services sold in bundles that can be distinguished within the bundle should be recognized separately. In addition, all discounts and rebates pertaining to the transaction price should in principle be allocated to the various elements of the bundle. In the event that the amount of revenue is floating, according to the new standard the floating amounts are classified as revenue insofar as there is a large probability that in the future no reversal of revenue recognition will transpire as a result of revaluation. Moreover, according to IFRS 15 the costs incurred to acquire and secure a contract with a client should be capitalized and settled over time over the period of consuming the benefits from that contract.	The Group applies the IFRS 15 rules while incorporating the 5 steps model in reference to the analysis concerning the recognition of revenues from contracts with clients, which was described in detail in Note 2.6.1. The impact of the standard on the consolidated financial statements is described in detail in Note 2.6.1.

Standard	Brief description of changes	Impact on the statements
Explanations to IFRS 15 "Revenue from Contracts with Customers"	Explanations to IFRS 15 "Revenue from Contracts with Customers" provide additional information and explanations concerning the main assumptions adopted in IFRS 15, among others on the identification of separate duties, determination whether the entity acts as an intermediary (agent) or as the main supplier of goods and services (principal) and how royalty revenues arising from licenses are registered. In addition to the explanations, transition relief and simplifications were introduced for the entities applying the new standard for the first time.	Application of the standard will have no material effect on the amounts presented in the consolidated financial statements

The changes listed below, which are in effect from 1 January 2018, are not related to the Group's business or have no material effect on the Group's consolidated financial statements:

- Amendments to IFRS 2 "Share-Based Payments" – Classification and measurement of share-based payment transactions.
- Amendments to IFRS 4 "Insurance Contracts" – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts,
- Amendments to various standards "Annual Improvements to IFRSs (2014-2016 cycle)"
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" explains the accounting principles applicable to the transactions, in which an entity receives or gives advances in a foreign currency.
- Amendments to IAS 40 "Investment Property" detail the requirements related to the reclassification of properties to investment property and from investment property.

b) Standards and interpretations already published and endorsed in the EU, but not yet effective

When approving these consolidated financial statements, the Group did not elect for early application of the standards enumerated below, amendments to standards and interpretations that were published and endorsed in the EU but have not as yet become effective.

The standards designated below will exert an impact on the consolidated financial statements. The impact exerted by these standards on the Group's consolidated financial statements has been depicted in Note 2.7.

Standard	Brief description of changes	Effective date *
IFRS 16 "Leases"	This new standard establishes the rules for recognizing, measuring, presenting and making disclosures concerning lease contracts. Under every lease transaction, a lessee obtains the right to use an asset and an obligation to make lease payments. Thus IFRS 16 abolishes the classification of an operating lease and finance lease according to IAS 17 and introduces a single model for accounting registration of leases by a lessee. A lessee will be obligated to recognize: (a) assets and liabilities for all lease transactions concluded for a period above 12 months, except for the situations where an assets is a low-value asset; and (b) depreciation of the leased asset separately from interest on the lease liability in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.	1 January 2019

* *Annual periods beginning on or after the respective date, with an option of earlier application*

The endorsed changes listed below to the standards that have not yet taken effect are not applicable to the Group's operations or will not exert an influence on the consolidated financial statements:

- Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation,
- IFRIC 23 "Uncertainty over Income Tax Treatments",
- Amendments to IAS 28 "Investments in Associates and Joint Ventures".

c) Standards and interpretations adopted by IASB but not yet endorsed in the EU

IFRS as approved by the EU do not currently differ materially from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, amendments to standards and interpretations, which as at the date of these consolidated financial statements have not yet been adopted for application.

The standards and interpretations listed below (yet to be endorsed) do not pertain to the Group's operations or will not exert a material impact on the consolidated financial statements.

Standard	Effective date *
IFRS 14 "Regulatory Deferral Accounts"	By the decision of EU, IFRS 14 will not be endorsed.
Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – sale or contributions of assets between an investor and its associate or joint venture.	Endorsement of this amendment has been deferred by the EU.
IFRS 3 "Business Combinations"	1 January 2020
Amendment to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"	1 January 2020
Amendments to IAS 19 "Employee Benefits" – Defined-Benefit Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to references to the IFRS Framework	1 January 2020
Amendments to various standards "Annual Improvements to IFRS (2015-2017 cycle)"	1 January 2019
IFRS 17 "Insurance Contracts"	1 January 2021

* *Annual periods beginning on or after the respective date, as specified by the International Accounting Standards Board (IASB), are subject to change after their approval by the EU.*

The Group intends to apply the above standards that are applicable to its operations from the time they take force.

2.6. IMPACT OF FIRST APPLICATION OF STANDARDS ON CONSOLIDATED FINANCIAL STATEMENTS

As of 1 January 2018 the Group has made changes to the accounting rules applied in connection with the entry into force of new accounting standards: IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers".

2.6.1. IMPACT EXERTED BY IFRS 15 ON THE CONSOLIDATED FINANCIAL STATEMENTS

The Group has decided to implement the standard using the retrospective method with respect to all the contracts, whose performance was not completed as at 1 January 2018, without restating the comparative data. The first application of the standard did not result in an adjustment of retained earnings as at 1 January 2018 (no adjustments that would require an adjustment of retained earnings in the opening balance). Considering the types of transactions concluded by the Group, the application of this standard has no material effect on the previously-applied accounting principles.

The Group mainly fills contracts pertaining to deliveries of coal, coke and hydrocarbons, which account for approx. 97% of total sales revenues. In these contracts, international trade rules, the so-called INCOTERMS (FCA, DAP, FOB) are used to define the delivery terms. The moment of passing control over the promised goods and services to the customer is shown precisely in each delivery rule. Based on the terms of deliveries applicable to most contract, the Group concluded that the moment of passing control to the customer takes place upon delivery of the goods and completion of the transportation service. In such cases, pursuant to IFRS 15, all goods and services (transport services) promised in the contract should be treated as a single performance obligation and the revenue should be recognized once at a specified time. The same approach was used previously under IAS 18.

The Group applies the IFRS 15 rules while incorporating the 5 steps model in reference to the analysis concerning the recognition of revenues from contracts with clients, which was described in detail in Note 4.1.

2.6.2. IMPACT EXERTED BY IFRS 9 ON THE CONSOLIDATED FINANCIAL STATEMENTS

The Group made the decision to implement this standard as of 1 January 2018 without restatement of comparative data, which means that the data for 2017 and 2018 are not comparable, since they were prepared using different accounting principles. The adjustments associated with the adaptation to IFRS 9 were introduced as of 1 January 2018 with regard to the impact on equity.

The Group published detailed information on the impact of the application of IFRS 9 for the first time in the consolidated financial statements for the financial year ended 31 December 2017. There are no material differences in the presented impact between the most recent annual consolidated financial statements and the statements for the current year, in which IFRS 9 was applied for the first time.

Pursuant to the provisions of IFRS 9, the Group made a decision constituting an element of the accounting policy on continuation of application of the hedge accounting requirements pursuant to IAS 39, thus not implementing the hedge accounting requirements following from IFRS 9, until IASB completes the work on the hedge project regarding macro hedging.

The table below presents the impact exerted by implementing IFRS 9 on the change to the classification and measurement of the Group's financial assets as at 1 January 2018:

Financial instrument classes	Classification according to IAS 39	Classification according to IFRS 9
Interests in other entities	Financial assets available for sale	Financial assets at fair value through profit or loss
Trade receivables	Loans and receivables	Financial assets measured at amortized cost.
Receivables by virtue of the acquisition of investment certificates	Loans and receivables	Financial assets at fair value through profit or loss
Investment certificates	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss
Derivatives	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss
Hedge derivatives	Hedging instruments	Hedging instruments
Bank term deposits	Loans and receivables	Financial assets measured at amortized cost.
Cash and cash equivalents	Loans and receivables	Financial assets measured at amortized cost.

Further on, Note 2.6.2 presents a comparison of assets and liabilities according to IAS 39 and IFRS 9, summary of the impact of implementation of IFRS 9 on the Group's equity, and presents explanations of individual adjustments and additional supplementary information.

Comparison of financial assets and liabilities according to IAS 39 and IFRS 9

FINANCIAL ASSETS:

As at 1 January 2018	IAS 39				IFRS 9			Impact exerted by the change
						Fair value settled by:		
	Amortized cost	Financial assets at fair value through profit or loss	Financial assets available for sale	Hedging instruments	Amortized cost	profit or loss	other comprehensive income	Increase / (decrease)
Interests in other entities	-	-	0.1	-	-	0.1	-	-
Trade receivables	688.1	-	-	-	686.5	-	-	(1.6)
gross value	*768.4*	-	-	-	*768.4*	-	-	-
impairment losses	*(80.3)*	-	-	-	*(81.9)*	-	-	*(1.6)*
Receivables by virtue of the acquisition of investment certificates	-	1,450.0	-	-	-	1,450.0	-	-
Bank term deposits	10.4	-	-	-	10.4	-	-	-
gross value	*10.4*	-	-	-	*10.4*	-	-	-
impairment losses	-	-	-	-	-	-	-	-
Cash and cash equivalents	1,480.4	-	-	-	1,480.1	-	-	(0.3)
gross value	*1,480.4*	-	-	-	*1,480.4*	-	-	-
impairment losses	-	-	-	-	*(0.3)*	-	-	*(0.3)*
Derivatives	-	5.5	-	8.3	-	5.5	8.3	-

As at 1 January 2018	IAS 39				IFRS 9			Impact exerted by the change
						Fair value settled by:		
	Amortized cost	Financial assets at fair value through profit or loss	Financial assets available for sale	Hedging instruments	Amortized cost	profit or loss	other comprehensive income	Increase / (decrease)
FINANCIAL ASSETS	**2,178.9**	**1,455.5**	**0.1**	**8.3**	**2,177.0**	**1,455.6**	**8.3**	**(1.9)**

FINANCIAL LIABILITIES:

As at 1 January 2018	IAS 39		IFRS 9	Impact exerted by the change
	Amortized cost	Financial assets excluded from IAS 39	Amortized cost	Increase / (decrease)
Loans and borrowings	122.2	-	122.2	-
Liabilities under debt securities issued	856.0	-	856.0	-
Finance lease liabilities*	-	66.8	66.8	-
Trade liabilities and other financial liabilities	1,409.6	-	1,409.6	-
FINANCIAL LIABILITIES	**2,387.8**	**66.8**	**2,454.6**	**-**

** Finance lease liabilities are excluded from the scope of IFRS 9. In the table above, they are presented solely for comparability.*

Impact exerted by IFRS 9 on equity

As at 1 January 2018	Cumulative other comprehensive income	Retained earnings	Total equity
Reclassification of the item from measured at amortized cost or cost to be measured at fair value for:			-
- interests in other entities	-	-	
Adjustment of impairment losses for assets measured at amortized cost:			(1.9)
- trade receivables	-	(1.6)	
- bank term deposits	-	-	
- cash and cash equivalents	-	(0.3)	
Income tax adjustments		0.4	0.4
TOTAL	**-**	**(1.5)**	**(1.5)**

Detailed description of the adjustments and supplementary data

a) Adjustments linked to the classification of financial assets and fair value measurement

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 Stabilization Closed-End Investment Fund ("Fund"). As at 31 December 2017, the payment for the investment certificates was presented as other receivables in the consolidated statement of financial position. The rest of the payment was made in January of 2018. The Fund commenced investment activity on 6 February 2018. Receivables by virtue of the acquisition of investment certificates (just like the granted investment certificates in 2018) were included in assets carried at fair value through profit or loss, because they will be settled by the purchase of certificates.

b) Fair value measurement – classification by measurement hierarchy

The table below contains information on the items measured at fair value according to the hierarchy contemplated by IFRS:

	Fair value measurement (hierarchy)		
	Level 2	Level 3	Total
Interests in other entities	-	0.1	**0.1**
Receivables by virtue of the acquisition of investment certificates	1,450.0	-	**1,450.0**
Derivatives	13.8	-	**13.8**
	1,463.8	**0.1**	**1,463.9**

The measurement of receivables by virtue of the acquisition of investment certificates has been determined at the level of the payment made by virtue of subscribing for investment certificates in the JSW Stabilization Closed-End Investment Fund.

c) Determination of impairment losses using the method of expected losses and the adjustment by virtue thereof

The existing rules for recognizing impairment losses required that the entity assess whether there were objective grounds for impairment and (if they are identified) estimate the impairment loss on the basis of planned cash flows. IFRS 9 requires estimation of the expected loss, regardless of whether there were or there were not grounds to recognize such a loss. The standard provides for a 3-stage classification of financial assets from the standpoint of their impairment:

- Stage 1 – the balances for which there was no significant increase of credit risk from the moment of their initial recognition and for which the expected loss is calculated on the basis of probability of default over 12 months;
- Stage 2 – the balances for which there was a significant increase of credit risk from the moment of their initial recognition and for which the expected loss is calculated on the basis of probability of default over the whole financing term;
- Stage 3 – balance with identified impairment.

With regard to trade receivables which do not comprise any material financing element, the standard requires application of a simplified approach and valuation of the loss on the basis of expected credit losses for the entire life of the instrument. The Group has classified its trade receivables to Stage 2, except for receivables for which an impairment has been identified – these receivables have been classified to Stage 3. The Group classified cash and cash equivalents and bank term deposits as belonging to Stage 1.

Classification to individual Stages and calculation of the losses and their comparison to the losses consistent with IAS 39 is presented in the table below:

As at 1 January 2018	Measurement at amortized cost (classification in terms of impairment)			
	Stage 1	Stage 2	Stage 3	Total
Gross value	**1,490.8**	**688.1**	**80.3**	**2,259.2**
Trade receivables	-	688.1	80.3	768.4
Bank term deposits	10.4	-	-	10.4
Cash and cash equivalents	1,480.4	-	-	1,480.4
Impairment losses (IFRS 9)	**(0.3)**	**(1.6)**	**(80.3)**	**(82.2)**
Trade receivables	-	(1.6)	(80.3)	(81.9)
Bank term deposits	-	-	-	-
Cash and cash equivalents	(0.3)	-	-	(0.3)
Carrying amount (IFRS 9)	**1,490.5**	**686.5**	**-**	**2,177.0**
Comparison of the sizes of impairment losses according to IFRS 9 and IAS 39				
According to IAS 39 (only trade receivables)	-	-	80.3	80.3
Increase / (decrease) – for trade receivables	-	1.6	-	1.6
Increase / (decrease) – for bank term deposits	-	-	-	-
Increase/(decrease) – for cash and cash equivalents	0.3	-	-	0.3

As at 1 January 2018	Measurement at amortized cost (classification in terms of impairment)			
	Stage 1	Stage 2	Stage 3	Total
TOTAL according to IFRS 9	0.3	1.6	80.3	82.2

- **Impairment losses recognized for trade receivables**

The analysis of trade receivables was carried out for separate three groups of receivables i.e. coal and coke trade receivables from business partners who have a share in revenues for the reporting period above 2.5%, for coal and coke receivables from business partners with a share in revenues below 2.5%, and for other receivables.

For other receivables (except for those analyzed individually as not serviced), a portfolio analysis has been carried out and a simplified impairment loss matrix has been applied in individual age brackets on the basis of expected credit losses throughout the life of the receivable based on the default ratio determined on the basis of historical data for 2015-2016. The analysis of the coal and coke trade receivables from business partners with a share in revenues above 2.5%, has been carried out individually for each business partner on the basis of the probability of insolvency determined on the basis of external ratings and publically available rating agency information on the probability of default and the expected loss has been calculated on the basis of these probabilities, average maturity for the receivables portfolio and on the basis of the expected recovery rate. The analysis of coal and coke trade receivables from business partners with a share in revenues below 2.5%, in turn, has been carried out on the basis of the calculated weighted average of probability of insolvency for the portfolio and the expected loss has been calculated for this portfolio on the basis of these probabilities, average maturity and on the basis of the expected recovery rate.

Trade receivables are secured – as at 31 December 2017, 8.3% of the Group's trade receivables was insured; additionally, 12.2% has been secured by a blank promissory note and 8.5% of the receivables in the form of a letter of credit.

The total impairment loss for trade receivables has been calculated at PLN 1.6 million. As regards non-serviced receivables analyzed individually, the impairment loss in the amount of 100% of the value was kept on the unchanged level of PLN 80.3 million.

- **Impairment loss for cash and cash equivalents and bank deposits**

The Group estimated the impairment losses for cash and cash equivalents and bank term deposits on the basis of the probability of insolvency calculated on the basis of external ratings of the banks in which the cash is kept and publically available rating agency information pertaining to probability of insolvency and the expected loss was calculated on the basis of these probabilities, the time horizon of the exposure to credit risk and on the basis of the expected recovery rate. The impairment loss has been determined individually for each balance pertaining to the given financial institution. The total impairment loss for cash and cash equivalents and bank deposits was PLN 0.3 million.

d) Impact of the corrections described in items (a) – (c) on deferred tax

The deferred tax on the corrections described above will be recognized in retained earnings.

2.7. IMPACT EXERTED BY NEW REGULATIONS ON THE CONSOLIDATED FINANCIAL STATEMENTS

As at the preparation date of these consolidated financial statements, the Group completed its work on analyzing IFRS 16 as at its initial application, i.e. as at 1 January 2019.

2.7.1. FIRST APPLICATION INFORMATION

IFRS 16 “Leases” was issued by the International Accounting Standards Board on 13 January 2016 and endorsed by the European Union on 31 October 2017. It is applicable to annual periods beginning on or after 1 January 2019. The Group has not elected the early application of the standard.

The Group has decided to implement the IFRS 16 standard as of 1 January 2019 retrospectively (so-called modified retrospective approach, Schedule C par. C5 IFRS 16). In effect, the comparative data for 2018 will not be restated.

This new standard establishes the rules for recognizing, measuring, presenting and making disclosures concerning lease contracts. Under IFRS 16, A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under every lease transaction, a lessee obtains the right to use an asset and an obligation to make lease payments. Thus IFRS 16 abolishes the classification of an operating lease and finance lease according to IAS 17 and introduces a single model for accounting registration of leases by a lessee.

In 2018, the Group conducted work related to the implementation of the new IFRS 16 “Leases” standard. The work included the following steps:

1. Analysis of active contracts irrespective of their current classification, in order to identify those, under which the Group uses assets owned by vendors and then evaluate each such contract for the satisfaction of criteria of recognition as a lease under IFRS 16. The analysis also included perpetual usufruct right to land.
2. The contracts indicated in the first step were then assessed in terms of whether the agreement is a lease or contains a lease (paragraph 9 of IFRS 16) and analyzed in terms of possible exemptions.
3. The next step involved development of a concept for the implementation of IFRS 16. At the beginning of 2019, the Parent Company implemented an IT tool for ongoing handling of transactions resulting from concluded lease agreements and identified new lease agreements.

The subject of the analyses were finance lease, operating lease, property lease, tenancy agreements, as well as perpetual usufruct of land. Agreements concerning the purchased services were also analyzed to identify the possible situations in which identified assets were used.

As a result of the analysis carried out in the first stage, the right of use was found to apply to the following groups of assets owned by suppliers: technical equipment, mainly longwall shearers and roadheaders and mining machines, means of transport, computer and multimedia equipment, as well as real property and the right of perpetual usufruct of land. Accordingly, the Group estimates that under IFRS 16 the scope of agreements meeting the criteria for recognition as containing leases will be broader than before.

As a result of the work carried out, an appropriate procedure has been developed and implemented along with a tool (software) for ongoing handling of lease components and the provisions of the accounting policies were updated.

Other stages of work include further updates in the accounting instructions, adaptation of the accounting systems to the new requirements, as well as preparation of disclosures in the financial statements.

2.7.2. DETAILED DESCRIPTION OF ADJUSTMENTS RESULTING FROM APPLICATION OF IFRS 16 AND SUPPLEMENTARY DATA

(a) Recognition of right-of-use assets

On the first application date, the Group recognizes a right-of-use asset for leases previously classified as operating leases under IAS 17, by measuring the right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepayments or accrued lease payments relating to the lease, recognized in the consolidated statement of financial position immediately before the first application date.

According to the new standard, after the transition date, i.e. after 1 January 2019, right-of-use assets are measured at cost. The cost of a right-of-use asset consists of:

- the amount of initial measurement of the lease liability,
- any lease payments made on or before the commencement date, less any lease incentives received,
- initial direct costs incurred by the lessee in connection with the execution of a lease agreement,
- estimation of the costs to be incurred by the lessee in respect of an obligation to disassemble and remove the underlying asset or to refurbish the site on which it was located or to refurbish the underlying asset to the condition required by the terms of the lease, unless those costs are incurred to produce inventories.

The right to use an asset is treated in the same way as other non-financial assets and depreciated accordingly.

The Group intends to present its rights to the use of assets in a separate line item of the consolidated statement of financial position. This line item will also present assets used under the currently active finance lease agreements under IAS 17.

(b) Recognition of lease liabilities

Upon adoption of IFRS 16, on the first application date, the Group will recognize a lease liability for leases previously classified as operating leases under IAS 17, measured at the present value of outstanding lease payments. For the purpose of disclosures relating to the impact of the application of IFRS 16, discounting was applied at the marginal interest rate as at 31 December 2018. At the initial recognition date, the lease payments included in the measurement of the lease liability will include the following types of payments for the right to use the underlying asset over the term of the lease:

- fixed lease payments less any lease incentives due,
- variable lease payments based on market indices,
- amounts expected to be paid as part of the guaranteed residual value of the leased item,
- exercise price of the purchase option, if it can be assumed with reasonable certainty that it will be exercised,
- payment of contractual penalties for termination of a lease if the term of the lease reflects the lessee's exercise of the lease termination option.

(c) Weighed average marginal interest rate

In order to calculate discount rates for the purposes of IFRS 16, the Group has assumed that the discount rate should reflect the cost of financing that would be incurred to purchase the leased item. In order to estimate the discount rate, the Group took into account the following parameters of the agreement: type, duration, currency and potential margin that it would have to pay to financial institutions in order to obtain financing. As at 31 December 2018, the discount rates calculated by the Parent Company ranged (depending on the term of the contract) from 1.64% to 5.86% for contracts in PLN.

(d) Use of estimates

The application of IFRS 16 requires certain estimates and calculations to be made, which affect the measurement of finance lease liabilities and right-of-use assets. These include, among others:

- identification of agreements covered by IFRS 16,
- determination of the term of the agreements (also for agreements with an indefinite term or with a renewal option),
- determination of the interest rate used to discount future cash flows,
- determination of the purchase value,
- determination of the depreciation rate.

(e) Application of practical solutions

When applying IFRS 16 for the first time, the Group plans to use the following practical solutions / simplifications allowed by the standard:

- a single discount rate will be applied to a portfolio of leases with relatively similar characteristics,
- operating lease agreements with less than 12 months remaining in the term of the lease from the first application date, i.e. 1 January 2019, will be treated as short-term leases,
- right-of-use assets and lease liabilities will not be recognized for agreements concerning assets with a low unit initial value of a new asset (below PLN 20 thousand),
- the lease and non-lease components will not be separated in lease agreements relating to all classes of the underlying asset; they will be captured as a single lease component,
- initial direct costs will be excluded to the extent they refer to the measurement of right-of-use assets on the first application date, and
- a time horizon (post-factum knowledge) will be used to determine the term of a lease if the lease agreement contains an option to extend or terminate the lease.

2.8. IMPACT ON CONSOLIDATED FINANCIAL STATEMENTS

(a) Impact on Consolidated statement of financial position

The impact of the application of IFRS 16 entailing the recognition of additional financial liabilities and corresponding right-of-use assets was estimated on the basis of agreements in effect as at 1 January 2019. Based on the analysis carried out, following the application of IFRS 16, as at 1 January 2019 assets will increase by PLN 316.2 million and liabilities will increase by PLN 316.2 million. Finance lease components were also reclassified from property, plant and equipment and intangible assets (perpetual usufruct of land) to the Right-of-use assets (the amount recognized as an intangible asset adjusted the value of the right to use land subject to perpetual usufruct).

The estimated impact of recognition of additional financial liabilities and related right-of-use assets:

Impact on the statement of financial position	31.12.2018	Reclassification as at 1 January 2019	Impact of IFRS 16	01.01.2019
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	7,303.0	(51.8)		7,251.2
Intangible assets	130.8	(75.1)		55.7
Right-of-use asset	-	126.9	316.2	443.1
LIABILITIES				
NON-CURRENT LIABILITIES				
Leasing liabilities	19.0		256.9	275.9

Impact on the statement of financial position	31.12.2018	Reclassification as at 1 January 2019	Impact of IFRS 16	01.01.2019
CURRENT LIABILITIES				
Leasing liabilities	21.3		59.3	80.6

(b) Impact on the consolidated statement of profit or loss and other comprehensive income

Application of IFRS 16 will affect the structure of costs presented in the consolidated statement of profit or loss and other comprehensive income. A portion of the costs previously presented as manufacturing cost of products, materials and goods sold will now be presented as financial costs (interest part), which will contribute to a higher operating profit and EBITDA; there will also be differences in the presented values, mainly as a result of a different time distribution of depreciation as compared to the actual payments of lease fees. In the longer term, the fluctuations in the structure and amount of depreciation and interest will equalize.

(c) Explanation of difference between the amount of future fees under IAS 17 and lease liabilities recognized as a result of applying IFRS 16

The main difference between the future fees under IAS 17 presented as at 31 December 2018 in Note 10.2 and the lease liabilities recognized upon the first application of IFRS 16 resulted from the application of a discount and exclusion of short-term agreements from the valuation of lease liabilities under IFRS 16.

3. NOTES TO THE OPERATING SEGMENTS

3.1. OPERATING SEGMENTS

SELECTED ACCOUNTING POLICIES

The Group presents information on operating segments in accordance with IFRS 8 "Operating Segments". The Group is organized and managed in segments by type of products offered and type of production activity.

After analyses of the aggregation criteria and quantitative thresholds, the following operating segments were established in the Group's consolidated financial statements:

- *Segment 1 – Coal – includes extraction and sales of black coal;*
- *Segment 2 – Coke – includes production and sales of coke and hydrocarbons;*
- *Other segments – include activities performed by the Group's entities other than those covered by Segments 1 or 2, such as, without limitation, repair services, research and development activity, IT services, transportation services, etc.*

The Management Board of the Parent Company has identified operating segments based on the financial reporting of the companies comprising the Group. Information originating from the reports is used for strategic decision-making in the Group.

The JSW Management Board is the corporate body that makes the key decisions in the Group. The measure of the financial results generated by the Group's distinct operating segments analyzed by the Management Board of the Parent Company is the segment's operating profit/loss determined according to IAS/IFRS. Revenues from transactions with external entities are measured in a manner consistent with the method applied for consolidated financial result.

Revenues from transactions between segments are eliminated in the consolidation process. Sales between segments are conducted on an arm's length basis. According to the principles applied by the Management Board of the Parent Company to evaluate operating results of the respective segments, revenues and margins are recognized in segmental results at the moment a sale is made outside of the segment. Financial income and costs are not included in the financial result of the various segments.

SEGMENT-SPECIFIC INFORMATION FOR REPORTING PURPOSES:

	Coal	Coke	Other segments *	Consolidation adjustments **	Total
FOR THE PERIOD ENDED 31 DECEMBER 2018					
Total segment sales revenues	**8,296.6**	**4,451.5**	**1,003.3**	**(3,941.9)**	**9,809.5**
- Revenues on inter-segment sales	3,212.0	-	729.9	(3,941.9)	-
- Sales revenues from external customers	5,084.6	4,451.5	273.4	-	9,809.5
Gross profit on sales of the segment	**2,146.1**	**677.3**	**143.4**	**(95.7)**	**2,871.1**
Segment's operating profit/(loss)	**1,753.1**	**416.4**	**84.9**	**(0.3)**	**2,254.1**
Depreciation and amortization	(612.1)	(100.2)	(64.4)	10.7	(766.0)
OTHER SIGNIFICANT NON-CASH ITEMS:					
- Recognition of impairment losses on property, plant and equipment and intangible assets	(1,214.0)	-	-	-	(1,214.0)
- Reversal of impairment losses for property, plant and equipment and intangible assets	719.3	-	-	-	719.3
- Reversal of the impairment loss on property, plant and equipment of the Krupiński Mine transferred from the Suszec Section to other units	15.5	-	-	-	15.5
- Reversal of the provision for potential litigation related to the free coal allowance for old-age and disability pensioners	653.5	-	-	-	653.5
TOTAL SEGMENT ASSETS, INCLUDING:	**7,947.2**	**2,288.7**	**1,516.3**	**(843.3)**	**10,908.9**
Increases in non-current assets (other than financial instruments and deferred tax assets)	1,471.9	50.1	241.3	(48.8)	1,714.5

* *No operations classified in "Other segments" meet the aggregation criteria and quantitative thresholds defined by IFRS 8 Operating Segments, to be accounted for as a separate operating segment*

** *The "Consolidation adjustments" column eliminates the effects of intra-segment transactions within the Group*

	Coal	Coke	Other segments *	Consolidation adjustments **	Total
FOR THE PERIOD ENDED 31 DECEMBER 2017					
Total segment sales revenues	**7,929.2**	**3,688.1**	**839.2**	**(3,579.3)**	**8,877.2**
- Revenues on inter-segment sales	3,003.3	-	576.0	(3,579.3)	-
- Sales revenues from external customers	4,925.9	3,688.1	263.2	-	8,877.2
Segment's gross profit/(loss) on sales	**2,987.3**	**120.4**	**111.3**	**19.9**	**3,238.9**
Segment's operating profit/(loss)	**3,001.9**	**(47.9)**	**57.1**	**105.4**	**3,116.5**
Depreciation and amortization	(680.9)	(96.8)	(56.2)	9.2	(824.7)
OTHER SIGNIFICANT NON-CASH ITEMS:					
- Recognition of impairment losses on property, plant and equipment and intangible assets	(759.1)	-	(0.5)	-	(759.6)
- Reversal of the provision for employee benefits for KWK Krupiński employees transferred to SRK	50.1	-	-	-	50.1
- Reversal of provisions in connection with the transfer of KWK Krupiński to SRK	116.2	-	-	-	116.2
- Reversal of the impairment loss on property, plant and equipment of the Krupiński Mine transferred from the Suszec Section to other units	51.2	-	-	-	51.2
- Reversal of the provision for potential litigation related to the free coal allowance for old-age and disability pensioners	1,249.2	-	-	-	1,249.2
TOTAL SEGMENT ASSETS, INCLUDING:	**8,598.7**	**2,008.7**	**1,115.0**	**(822.9)**	**10,899.5**
Increases in non-current assets (other than financial instruments and deferred tax assets)	852.3	81.2	123.5	(9.1)	1,047.9

* *No operations classified in "Other segments" meet the aggregation criteria and quantitative thresholds defined by IFRS 8 Operating Segments, to be accounted for as a separate operating segment*

** *The "Consolidation adjustments" column eliminates the effects of intra-segment transactions within the Group*

Presented below is reconciliation of the results (operating profit) generated by the segments with profit before tax.

	2018	2017
OPERATING PROFIT	**2,254.1**	**3,116.5**
Financial income	40.1	132.9
Financial costs	(101.8)	(125.9)
Share in profits/(losses) of associates	0.1	0.1
PROFIT BEFORE TAX	**2,192.5**	**3,123.6**

SEGMENT ASSETS

The amounts of total assets are measured in a manner consistent with the method applied in the consolidated statement of financial position. These assets are allocated by segment's business and by physical location of the asset component.

Group assets are located in Poland.

The reconciliation of segment assets with the Group's total assets is presented below:

	31.12.2018	31.12.2017
SEGMENT ASSETS	**10,908.9**	**10,899.5**
Investments in associates	1.1	1.1
Deferred tax assets	669.5	814.3
Other long-term assets	2,175.2	328.9
Income tax backpayment	0.7	32.5
Derivatives	7.2	13.8
Other current financial assets	-	0.1
TOTAL ASSETS ACCORDING TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION	**13,762.6**	**12,090.2**

INFORMATION RELATING TO GEOGRAPHICAL AREAS

The geographic breakdown of revenues on sales is depicted by the buyer's country of origin:

	Note	2018	2017
Sales in Poland, of which:			
Coal		3,712.3	3,672.8
Coke		648.3	608.2
Other segments		271.8	262.3
TOTAL SALES IN POLAND		**4,632.4**	**4,543.3**
Sales abroad, including:			
EU member states, of which:		4,809.5	4,184.4
Coal		1,372.3	1,253.1
Coke		3,436.0	2,930.5
Other segments		1.2	0.8
Non-EU Europe, of which:		367.6	104.1
Coke		367.2	104.1
Other segments		0.4	-
Other states, of which:		-	45.4
Coke		-	45.3
Other segments		-	0.1
Total sales abroad, including:		**5,177.1**	**4,333.9**
Coal		1,372.3	1,253.1
Coke		3,803.2	3,079.9
Other segments		1.6	0.9
TOTAL SALES REVENUES	4.1	**9,809.5**	**8,877.2**

Revenues on sales – geographic breakdown by the country of origin of the counterparty making the purchase:

	2018	2017
Poland	4,634.0	4,544.1
Germany	1,996.1	1,664.4
Austria	1,098.3	1,166.6
Czech Republic	940.1	930.1
Slovakia	283.4	303.1
Switzerland	216.2	-
Spain	152.0	70.1
Belgium	145.8	37.4
Norway	126.8	104.1
Luxembourg	120.8	-
Sweden	49.1	-
Brazil	-	45.3
Other countries	46.9	12.0
TOTAL SALES REVENUES	**9,809.5**	**8,877.2**

INFORMATION ON KEY CUSTOMERS

For the period from 1 January to 31 December 2018, revenues on sales to two clients, to each one of them individually, were roughly 10% of the Group's revenues on sales. Revenues on sales to one of them were PLN 2,589.8 million and to the other PLN 979.9 million. Revenues on sales to those clients were included in the Coal segment and in the Coke segment.

For the period from 1 January to 31 December 2017, revenues on sales to two clients, to each one of them individually, exceeded 10% of the Group's revenues on sales. Revenues on sales to one of them were PLN 2,536.4 million and to the other PLN 1001.4 million. Revenues on sales to those clients were recognized in the Coal segment, in the Coke segment and in the segment entitled Other segments.

4. NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

SELECTED ACCOUNTING POLICIES

REVENUES

As of 1 January 2018, the Group applies the IFRS 15 rules while incorporating the 5 steps model in reference to the analysis concerning the recognition of revenues from contracts with clients.

Requirements for identifying a contract with a customer

A contract with a client fulfills its definition when all of the following criteria are satisfied: the parties to the agreement have entered into the contract and are obligated to discharge their duties; the Group is capable of identifying the rights of each of the parties concerning the goods or services to be transferred; the Group is capable of identifying the terms of payment for the goods or services that are to be transferred; the contract has economic content and it is probable that the Group will receive the consideration that will be due to it in consideration for the goods or services that will be transferred to the client.

Identification of performance obligations

At the time of executing the contract the Group assesses the goods or services promised in the contract with the client and identifies every promise of making a transfer to a client as a performance obligation: the transfer of a good or service (or a packet of goods or services), which are distinguished or groups of individual goods or services that are basically identical and with respect to which the transfer to a client is of the same nature and occurs over time.

Determination of the transaction price

To determine the transaction price, the Group takes into account the conditions of the contract and the customary trade practices applied by the company. The transaction price is the amount of consideration that – according to the Group's expectation – will be due to it in consideration for the transfer of the goods or services promised to a client, net of the amounts collected on behalf of third parties (for example, some sales taxes). The consideration specified in the contract with a client may include fixed amounts, variable amounts or both types of amounts.

Some contracts with the Group's counterparties comprise provisions on qualitative adjustments constituting the basis for calculating the final sales price, or certain forms of rewarding the customer. If it is highly unlikely that a large part of the cumulative revenues are reversed in the future then, in such cases, under IFRS 15, the amount of the variable compensation is taken into account in the transaction price. A follow-up assessment of variable compensation should be performed at the end of each reporting period.

Allocation of the transaction price to the various performance obligations

The Group assigns a transaction price to every performance obligation (or to an individual good or an individual service) in an amount that reflects the amount of consideration that – according to the Group's expectation – is due to it in consideration for the transfer of the goods or services promised to a client.

Recognition of revenue at the time of fulfilling the performance obligations

The Group recognizes revenue at the time of fulfillment (or in the course of fulfillment) of the performance obligation through the transfer of the good or service (i.e. the asset) promised to the client (the client obtains control over this asset). The revenues are recognized as amounts equal to the transaction price assigned to a given performance obligation.

In addition to the above accounting policies concerning the recognition of revenues, the main contracts concerning the sale of coal and coke (which represent 97% of total sales revenues) the Group also uses international trade rules, i.e. INCOTERMS (FCA, DAP, FOB). The moment of passing control over the promised goods and services to the customer is shown precisely in each delivery rule.

Based on the terms of deliveries applicable to most contract, the Group concluded that the moment of passing control to the customer takes place when the goods are delivered to the client or handed over to the carrier and completion of the transportation service, if any. In such a case, the asset is generally physically delivered or its title is transferred to the recipient or significant risks and rewards associated with the asset sold are handed over to the recipient. In such cases, pursuant to IFRS 15, all goods and services (transport services) promised in the contract should be treated as a single performance obligation and the revenue should be recognized once at a specified time.

In the comparative period, the Group recognized revenues on sales at fair value of the payment received or receivable on account of sale of products, goods, materials or services in the ordinary course of the Company's business, taking into account the rebates granted and other sales price reductions.

COSTS

Costs are recognized in the consolidated statement of profit or loss and other comprehensive income, on the basis of the direct relation between the costs incurred and the specific income earned, i.e. using the commensurability principle, through the account of prepaid and accrued expenses. The Group keeps full records of costs, i.e. the costs are captured by type and by business segments. The Group presents a division of costs captured in the financial result by function of expenditure.

4.1. SALES REVENUES

	2018	2017
Sales of coal	5,084.6	4,925.9
Sales of coke	4,033.2	3,367.2
Sales of hydrocarbons	418.3	320.9
Other business	273.4	263.2
TOTAL SALES REVENUES	**9,809.5**	**8,877.2**

The Group has concluded long-term master agreements containing basic quantitative arrangements per annum and options. Each time before the year begins they are made specific and divided into quarters and the terms for exercising the options are defined. Operationally, the arrangements for specific quarters are made through quarterly negotiations. Therefore, the Group benefits from the exclusion prescribed by IFRS 15 and does not disclose the transaction price attached to the obligations to make performances not fulfilled under these agreements.

4.2. COSTS BY NATURE

	2018	2017
Depreciation and amortization	766.0	824.7
Consumption of materials and energy, of which:	1,612.0	1,243.0
- consumption of materials	*1,215.9*	*881.1*
- energy consumption	*396.1*	*361.9*
External services	1,793.3	1,457.7
Employee benefits	4,086.4	3,213.8
Taxes and fees	207.4	188.8
Other costs by nature	65.2	31.0
Cost of materials and merchandise sold	71.3	166.5
TOTAL COSTS BY NATURE	**8,601.6**	**7,125.5**
Selling and distribution expenses	(298.8)	(282.4)
Administrative expenses	(623.8)	(480.8)
Cost of performances and property, plant and equipment produced for own use and expensable mining pits	(648.0)	(603.6)
Change in products	(92.6)	(120.4)
COST OF PRODUCTS, MATERIALS AND GOODS SOLD	**6,938.4**	**5,638.3**

4.3. OTHER REVENUES

	Note	2018	2017
Reversal of the provision for potential litigation related to the free coal allowance for old-age and disability pensioners	7.12	653.5	1,249.2
Reversal of the impairment loss on property, plant and equipment and intangible assets	7.3	719.3	-
Revenues connected with handing over units to SRK pertaining to the following:	4.5	15.5	225.8
- reversal of the provision for employee benefits		-	*50.1*
- reversal of other provisions		-	*116.2*
- reversal of the impairment loss on property, plant and equipment of the Krupiński Mine transferred from the Suszec Section to other units		*15.5*	*51.2*
- settlement of property, plant and equipment received free of charge		-	*5.9*
- settlement of subsidies related to the transfer of a mine		-	*2.4*
Interest		11.1	22.3
Damages and penalties received		67.7	12.9
Subsidies (written off according to their amortization)		3.6	4.2
Reversal of impairment losses on receivables on account of the disputed property tax		4.3	4.7
Rental income from investment properties	7.4	1.7	1.2
Expired liabilities		6.7	14.6
Reversal of the provision and the impairment loss on account of the failure to perform the contract		22.0	6.5
Reversal of the provision for costs of maintaining land and liquidation work		18.7	-
Disclosure of fixed assets		37.9	11.4
Disclosure of goods		10.6	-
Other		43.9	16.6
TOTAL OTHER INCOME		**1,616.5**	**1,569.4**

4.4. OTHER COSTS

	Note	2018	2017
Impairment losses on property, plant and equipment and intangible assets	7.3	1,214.0	759.6
Interest		32.9	28.3
– including mortgage interest on liabilities calculated pursuant to Article 5 of the Polish Act on Payment Terms in Commercial Transactions		*29.0*	*22.8*
Costs connected with handing over units to SRK pertaining to the following:	4.5	8.2	125.7
– net value of liquidated assets and expensable mining pits of mines transferred to SRK		*2.1*	*57.7*
– other costs associated with the maintenance of the Suszec Section		*6.1*	*68.0*
Impairment losses on receivables on account of the disputed property tax		-	30.8
Donations		3.9	1.0
Enforcement fees and penalties		2.4	3.9
Investment property costs	7.4	1.0	1.0
Environmental protection provision recognized		25.1	-
ZUS prolongation fee		-	3.4
Recognition of provision for the Energoinstal litigation		-	9.5
Other		9.4	8.9
TOTAL OTHER COSTS		**1,296.9**	**972.1**

4.5. REVENUES / (COSTS) CONNECTED WITH HANDING OVER UNITS TO SRK

Transfer of KWK Krupiński to SRK in 2017

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 (an entity controlled by the State Treasury). As a consequence of the agreement signed, 1.1 thousand JSW employees have moved to SRK under the procedure contemplated by Article 23[1] 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 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.

The table below presents the recorded revenues and expenses related to the free-of-charge transfer of the KWK Krupiński Mine:

	2018	2017
KWK KRUPIŃSKI		
REVENUES	**15.5**	**225.8**
Reversal of a provision for losses on account of unrealized agreements pertaining to KWK Krupiński	-	14.2
Reversal of the mine decommissioning provision	-	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 losses on property, plant and equipment of the Krupiński Mine transferred from the Suszec Section to other units	15.5	51.2
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	**(8.2)**	**(125.7)**
Net value of liquidated assets and expensable mining pits transferred to SRK	(2.1)	(57.7)
Other costs associated with the maintenance of the Suszec Section	(6.1)	(68.0)
TOTAL – TRANSFER OF KWK KRUPIŃSKI	**7.3**	**100.1**

4.6. OTHER NET GAINS/(LOSSES)

	Note	2018	2017
Profit/(loss) on the disposal of property, plant and equipment		(25.2)	(11.5)
FX gains and losses		14.3	(17.6)
Profit / (loss) on financial derivatives		(29.2)	72.9
Valuation of the FIZ asset portfolio		(1.8)	-
Interest income of the FIZ asset portfolio	9.3	27.9	-
Other		-	(0.3)
TOTAL OTHER NET GAINS/(LOSSES)		**(14.0)**	**43.5**

4.7. FINANCIAL INCOME AND COSTS

	2018	2017
Interest income on cash and cash equivalents	28.8	32.0
Revaluation of interest on liabilities for disputed property tax	-	5.6
Exchange differences on measurement of bonds	-	95.3
FX gains and losses on cash and Fx Forward transactions	9.9	-
Exchange differences – other	1.4	-
TOTAL FINANCIAL INCOME	**40.1**	**132.9**
Interest cost:	65.7	97.0
– unwinding of the discount on account of long-term provisions	*34.3*	*39.4*
- interest on bonds	*28.2*	*54.2*
– bank loans	*3.2*	*3.4*
Exchange differences on measurement of bonds	11.6	-
FX gains and losses on bonds from realization of the hedged position	21.3	11.4
FX gains and losses on cash and Fx Forward transactions	-	14.6
Interest on finance lease	2.8	2.8
Other	0.4	0.1
TOTAL FINANCIAL COSTS	**101.8**	**125.9**
NET FINANCIAL REVENUES / (COSTS)	**(61.7)**	**7.0**

4.8. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share

Basic earnings/(loss) per share are calculated as the quotient of earnings/(loss) attributable to shareholders of the Parent Company and the weighted average number of ordinary shares during the year.

Diluted earnings/(loss) per share

Diluted earnings/(loss) per share are calculated by adjusting the weighted average number of common shares in a manner allowing for a potential complete conversion into common shares causing dilution. The Parent Company has no instruments that would cause dilution of the potential common shares. Accordingly, diluted earnings/(loss) per share are equal to the basic earnings/(loss) per share of the Parent Company.

	2018	2017
Net profit attributable to shareholders of the Parent Company	1,737.1	2,538.9
Weighted average number of common shares	117,411,596	117,411,596
BASIC AND DILUTED EARNINGS PER SHARE (IN PLN PER SHARE)	**14.80**	**21.62**

5. EXPLANATORY NOTES PERTAINING TO TAX

SELECTED ACCOUNTING POLICIES

CURRENT AND DEFERRED TAX

Income tax for the reporting period comprises current tax and deferred tax. The tax is recognized in the financial result, excluding the extent to which it applies directly to items recognized in other comprehensive income or equity. In this case the tax is also recognized respectively in other comprehensive income or equity. The current income tax liability is calculated on the basis of the applicable tax regulations.

The deferred tax liability and assets resulting from temporary differences between the tax base of assets and liabilities and their carrying amount in the consolidated financial statements – is recognized in the full amount, using the balance sheet method; also, deferred tax assets are recognized on unused tax losses. Deferred tax liabilities are not recognized to the extent they arise from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit no taxable profit (tax loss). Deferred tax is determined using tax rates (and regulations) enacted or substantially enacted as at the final day of the reporting period which, pursuant to expectations, will prevail at the time of realization of pertinent deferred tax assets or settlement of the deferred tax liability.

Deferred tax assets are recognized if it is probable that in the future taxable income will be generated which will make it possible to use the temporary differences.

A deferred tax liability resulting from temporary differences resulting from investments in subsidiaries and associates is recognized unless the timing of the reversal of temporary differences is controlled by the Group and it is probable that in the foreseeable future these differences will not be reversed.

Deferred tax assets and liabilities are subject to offsetting if there is an enforceable legal title to set off current income tax assets against the current income tax liabilities.

5.1. INCOME TAX

Income tax captured in net profit:

	2018	2017
Current tax:	273.3	234.2
– current tax liability	273.7	234.6
– adjustments posted in the current period relating to tax from the previous years	(0.4)	(0.4)
Deferred tax	158.4	346.1
TOTAL INCOME TAX CAPTURED IN NET PROFIT	**431.7**	**580.3**

Income tax captured in other comprehensive income

	2018	2017
Deferred tax:		
– actuarial gains/(losses)	(13.4)	(1.8)
– change in the value of hedges	3.4	3.8
TOTAL INCOME TAX CAPTURED IN OTHER COMPREHENSIVE INCOME	**(10.0)**	**2.0**

Reconciliation of theoretical tax calculated on profit before tax and the statutory tax rate to the income tax liability shown in net profit is as follows:

	2018	2017
Profit before tax	2,192.5	3,123.6
Tax calculated at the rate of 19%	416.6	593.5
Tax effect of income not classified as income according to tax regulations	2.3	(18.8)
Tax effect of costs which are not tax-deductible expenses according to tax regulations	13.2	6.0
Adjustments posted in the current period relating to tax from the previous years	(0.4)	(0.4)
INCOME TAX CHARGES TO NET PROFIT	**431.7**	**580.3**

Effective tax rate	Key factors affecting the effective tax rate
2018	
19.7%	▪ the equivalent of depreciation charges financed with subsidies and grants in the amount of PLN 1.1 million, which is not taxable income, but is recognized as revenue, ▪ recognition of taxable revenue from purchased shares in the amount of PLN 17.1 million, which was not classified as accounting revenues, ▪ recognition in expenses of: a PFRON charge in the amount of PLN 25.5 million, donations granted in the amount of PLN 3.3 million and expenditures towards costs of representation in the amount of PLN 3.9 million, costs not associated with revenues of PLN 3.2 million, penalties, fines and interests on liabilities to the state budget in the amount of PLN 1.1 million, provisions of PLN 1.6 million, which are not taxable expenses. The above differences between the pre-tax profit and the taxable base constitute “permanent differences” which affect the level of the effective tax rate.
2017	
18.6%	▪ reversed provisions and losses for interest receivables on property tax of PLN 4.7 million, posted interest for the real estate tax receivables of PLN 6.5 million, which are not taxable income, ▪ recognition of the PFRON charge of PLN 23.8 million in expenses by JSW, ▪ an impairment loss and a provision for interest and enforcement costs are recognized in the amount of PLN 9.8 million but are not taxable expenses. The above differences between the pre-tax profit and the taxable base constitute “permanent differences” which affect the level of the effective tax rate.

5.2. DEFERRED TAX

Deferred tax assets and liabilities are offset at the level of financial statements of individual Group companies and therefore the following amounts are shown in the consolidated financial statements:

	31.12.2018	31.12.2017
Deferred tax assets		
– to be realized after the period of 12 months	672.2	751.9
– to be realized within the period of 12 months	214.3	270.6
TOTAL	**886.5**	**1,022.5**
Deferred tax liabilities		
– to be realized after the period of 12 months	224.7	214.4
– to be realized within the period of 12 months	7.9	6.2
TOTAL	**232.6**	**220.6**
DEFERRED TAX ASSETS	**669.5**	**814.3**
DEFERRED TAX LIABILITIES	**15.6**	**12.4**

Change in deferred tax is as follows:

	2018	2017
Surplus of deferred tax assets over deferred tax liabilities – AS AT 1 JANUARY	**801.9**	**1,150.0**
Impact of implementing IFRS 9 as of 1 January 2018	0.4	-
Recognized / (charged) to net profit	(158.4)	(346.1)
Increase/(decrease) of other comprehensive income	10.0	(2.0)
Surplus of deferred tax assets over deferred tax liabilities - AS AT 31 DECEMBER	**653.9**	**801.9**
Deferred tax assets	669.5	814.3

	2018	2017
Deferred tax liabilities	15.6	12.4

Change in deferred tax asset and liabilities before offsetting

DEFERRED TAX ASSETS	Employee benefit liabilities	Provisions	Unpaid salaries and other benefits	Tax loss	Valuation of property, plant and equipment	Other	Total
BALANCE AS AT 1 JANUARY 2017	**169.5**	**496.9**	**36.6**	**140.8**	**436.7**	**128.4**	**1,408.9**
(Charged)/credited to net profit	(33.4)	(261.3)	(17.0)	(88.2)	11.4	4.1	(384.4)
Increase/(decrease) of other comprehensive income	1.8	-	-	-	-	(3.8)	(2.0)
BALANCE AS AT 31 DECEMBER 2017	**137.9**	**235.6**	**19.6**	**52.6**	**448.1**	**128.7**	**1,022.5**
Impact of implementing IFRS 9 as of 1 January 2018	-	-	-	-	-	0.4	0.4
(Charged)/credited to net profit	22.7	(87.7)	3.3	(49.8)	(11.2)	(23.7)	(146.4)
Increase/(decrease) of other comprehensive income	13.4	-	-	-	-	(3.4)	10.0
BALANCE AS AT 31 DECEMBER 2018	**174.0**	**147.9**	**22.9**	**2.8**	**436.9**	**102.0**	**886.5**

DEFERRED TAX LIABILITIES	Value of expensable mining pits	Valuation of other property, plant and equipment	Other	Total
BALANCE AS AT 1 JANUARY 2017	**146.4**	**14.9**	**97.6**	**258.9**
Charged/(credited) to net profit	19.7	4.8	(62.8)	(38.3)
BALANCE AS AT 31 DECEMBER 2017	**166.1**	**19.7**	**34.8**	**220.6**
Charged/(credited) to net profit	(1.1)	1.9	11.2	12.0
BALANCE AS AT 31 DECEMBER 2018	**165.0**	**21.6**	**46.0**	**232.6**

Ability to recover deferred tax assets

The table below presents the final periods in which deferred tax assets on tax loss may be settled in accordance with the Corporate Income Tax Act.

	Settlement period					Total
	2019	2020	2021	2022	2023	
Deferred tax assets on tax loss	2.0	0.2	0.2	0.2	0.2	**2.8**

6. EXPLANATORY NOTES PERTAINING TO DEBT

SELECTED ACCOUNTING POLICIES

Debt-related liabilities involve the following: bank loans, loans, liabilities under debt securities issued and finance lease liabilities.

Loans and borrowings and debt securities are recognized initially at fair value minus the transaction costs incurred. On initial recognition, interest-bearing loans, borrowings and debt securities are then measured at their amortized cost using the effective interest rate method.

Finance lease agreements, which transfer to the Group substantially all of the risks and rewards of ownership of the leased item, are recognized as at the lease commencement date, at the lower of two figures: fair value of the leased item, or the present value of minimum leasing fees. The present value of the minimum leasing fees is recorded as liabilities on account of finance lease, divided into a short-term part (payable within 1 year) and a long-term part (payable in over 1 year). When calculating the present value of the minimum leasing fees, the discount rate used is the lease interest rate, provided it can be determined. Otherwise, the lessee's marginal interest rate is used. The minimum leasing fees are divided between financial costs and reduction of the liability on account of leases. Financial costs are settled over the individual periods covered by the term of the lease, to obtain a fixed interest rate for the outstanding balance of liabilities.

LIABILITIES RELATED TO DEBT

	Note	31.12.2018	31.12.2017
Loans and borrowings	6.1	70.0	122.2
Liabilities under debt securities issued	6.2	121.0	856.0
Finance lease liabilities	6.3	40.3	66.8
TOTAL		**231.3**	**1,045.0**
including:			
long-term		55.5	896.6
short-term		175.8	148.4

6.1. LOANS AND BORROWINGS

	31.12.2018	31.12.2017
LONG-TERM:	**36.5**	**70.6**
Bank loans	-	21.3
Borrowings	36.5	49.3
SHORT-TERM:	**33.5**	**51.6**
Bank loans	21.3	44.7
Borrowings	12.2	6.9
TOTAL	**70.0**	**122.2**

The fair value of loans and borrowings is not significantly different from their carrying amount.

Loans and borrowings taken as at 31 December 2018 by maturity:

Currency of the loan/borrowing	Value of the loan/borrowing at the end of the reporting period	of which, repayable:				
		short-term	long-term			
			up to 1 year to 2 years	from 2 years up to 3 years	from 3 years to 5 years	above 5 years
loans						
PLN	21.3	21.3	-	-	-	-

borrowings						
PLN	48.7	12.2	11.0	11.0	14.5	-
TOTAL	**70.0**	**33.5**	**11.0**	**11.0**	**14.5**	**-**

Loans and borrowings taken as at 31 December 2017 by maturity:

Currency of the loan/borrowing	Value of the loan/borrowing at the end of the reporting period	of which, repayable:				
		short-term	long-term			
			up to 1 year to 2 years	from 2 years up to 3 years	from 3 years to 5 years	above 5 years
loans						
PLN	66.0	44.7	21.3	-	-	-
borrowings						
PLN	56.2	6.9	12.8	20.0	16.5	-
TOTAL	**122.2**	**51.6**	**34.1**	**20.0**	**16.5**	**-**

The Group has at its disposal the following unused credit facilities:

	31.12.2018	31.12.2017
Unused credit facilities	0.8	0.9

Average interest rate on loans and borrowings:

	31.12.2018	31.12.2017
PLN	3.05%	3.32%

Loans and borrowings bear interest at a floating interest rate.

As at 31 December 2018, loans and borrowings were secured as follows:

- mortgage on real properties of PLN 206.3 million,
- registered pledges on movable assets of PLN 56.3 million,
- assignments of receivables under bank agreements/accounts,
- bank guarantees of PLN 1.8 million,
- assignment of receivables from the term deposit account in the amount of PLN 10.1 million.

If the loans and borrowings are secured with non-current assets then additional security is provided in the form of an assignment of rights under insurance agreements for these assets. Blank promissory notes are another form of security used to secure liabilities under contracted loans and borrowings.

6.2. LIABILITIES UNDER DEBT SECURITIES ISSUED

Liabilities under debt securities issued captured in the consolidated statement of financial position:

	31.12.2018	31.12.2017
Liabilities under bonds issued	121.0	856.0
TOTAL	**121.0**	**856.0**
including:		
long-term	-	792.6
short-term	121.0	63.4

Liabilities under debt securities issued by currency (after conversion to PLN):

	31.12.2018	31.12.2017
– PLN	71.5	523.3
– USD	49.5	332.7
TOTAL	**121.0**	**856.0**

An analysis of sensitivity to the risk associated with changes of exchange rates and interest rates is presented in Note 9.5.1.

BOND ISSUE PROGRAM

In 2018, JSW redeemed debt securities for a total value of PLN 737.3 million (including PLN 446.0 million and USD 80.5 million). Interest and commission of PLN 37.5 million paid in the reporting period in relation to the issue of bonds is presented in the financing activity part of the consolidated cash flow statement.

After the final date of the reporting period, i.e. 18 January 2019, JSW carried out a full early redemption of debt securities for a total value of PLN 121.0 million (including PLN 71.5 million and USD 13.2 million).

As at 31 December 2018, there were 7,151 outstanding bonds with a par value of PLN 10,000 each and 1,317 bonds with a par value of USD 10,000 each. In total, the liabilities under debt securities issued, measured at amortized cost, carried in the consolidated statement of financial position as at 31 December 2018 were PLN 121.0 million (as at 31 December 2017: PLN 856.0 million).

REDEMPTION DATE

As at 31 December 2018, the final bond redemption date was 30 December 2019. On 16 January 2019, the Management Board of JSW S.A. adopted a resolution on the full redemption of bonds for a total nominal amount of PLN 71.5 million and USD 13.2 million. The redemption of bonds was carried out on 18 January 2019, which resulted in ending the Bond Issue Program. The redemption of the bonds was consistent with the Terms and Conditions of Issue.

COLLATERAL FOR THE BONDS

According to the annex of 23 April 2018 to the Bond Issue Program Agreement, the Bondholders agreed to release some security interests, including contractual mortgages and registered pledges established on the movable assets of ZORG Borynia and ZORG Budryk.

As at 31 December 2018, the bonds were secured with:

1) Registered pledges up to the highest collateral amount of PLN 1,500.0 million and USD 245.6 million established in favor of PKO BP as the pledge administrator on the following:
   - personal property assets of ZORG Knurów-Szczygłowice, ZORG Pniówek, ZORG Zofiówka,
   - shares held by JSW in JSW Innowacje (formerly Polski Koks) and JSW KOKS,
   - JSW's bank accounts,
   - rights under contracts.
2) Joint contractual mortgages established in favor of PKO BP as the mortgage administrator up to PLN 1,500.0 million and up to USD 245.6 million on real properties owned or in perpetual usufruct by JSW, comprising organized parts of JSW's enterprise in the form of ZORG Knurów-Szczygłowice, ZORG Pniówek, ZORG Zofiówka.

3) Sureties extended to Bondholders by 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.

6.3. FINANCE LEASE LIABILITIES

As at 31 December 2018 and 31 December 2017, the Group as a lessee had concluded finance lease agreements.

As at 31 December 2018, the main finance lease items are liabilities associated with the lease of machinery and technical equipment.

Finance lease liabilities captured in the consolidated statement of financial position:

	31.12.2018		31.12.2017	
	Minimum leasing fees	**Present value of minimum lease payments**	**Minimum leasing fees**	**Present value of minimum lease payments**
Up to 1 year	23.2	21.3	36.0	33.4
Between 1 and 5 years	21.1	19.0	36.2	33.4
TOTAL	**44.3**	**40.3**	**72.2**	**66.8**
Future financial costs for finance leases	**(4.0)**	**-**	**(5.4)**	**-**
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	**40.3**	**40.3**	**66.8**	**66.8**
including:				
long-term	-	19.0	-	33.4
short-term	-	21.3	-	33.4

The currency structure of the Group's liabilities on account of finance leases, after conversion to PLN, is as follows:

	31.12.2018	31.12.2017
PLN	35.0	62.9
EUR	5.3	3.9
TOTAL	**40.3**	**66.8**

Net carrying amount per each group of assets in finance leases:

	31.12.2018	31.12.2017
Intangible assets	0.2	0.3
Property, plant and equipment:	41.6	61.7
Technical equipment and machinery	31.6	54.1
Other property, plant and equipment	10.0	7.6
TOTAL	**41.8**	**62.0**

6.4. RECONCILIATION OF DEBT

The table below depicts the movement in debt as at 31 December 2018:

	Loans and borrowings	Liabilities under debt securities issued	Finance lease liabilities	TOTAL
AS AT 1 JANUARY 2018	**122.2**	**856.0**	**66.8**	**1,045.0**
Proceeds from drawing down debt:	-	-	7.8	7.8
- received financing	*-*	*-*	*7.8*	*7.8*
Accrued interest	3.2	28.2	2.8	34.2
Debt-related payments:	(55.4)	(774.8)	(34.9)	(865.1)
- repayment of debt (principal)	*(52.2)*	*-*	*(31.8)*	*(84.0)*
- bond redemption	*-*	*(737.3)*	*-*	*(737.3)*
- interest paid	*(3.2)*	*(37.5)*	*(3.1)*	*(43.8)*
FX gains and losses	-	11.6	-	11.6
Other increases / (decreases)	-	-	(2.2)	(2.2)
BALANCE AS AT 31 DECEMBER 2018	**70.0**	**121.0**	**40.3**	**231.3**

The table below depicts the movement in debt as at 31 December 2017:

	Loans and borrowings	Liabilities under debt securities issued	Finance lease liabilities	TOTAL
BALANCE AS AT 1 JANUARY 2017	**87.0**	**1,596.4**	**72.1**	**1,755.5**
Proceeds from drawing down debt:	63.7	-	27.5	91.2
- received financing	*63.7*	*-*	*27.5*	*91.2*
Accrued interest	4.0	54.2	2.8	61.0
Debt-related payments:	(32.5)	(699.3)	(37.1)	(768.9)
- repayment of debt (principal)	*(28.5)*	*-*	*(34.6)*	*(63.1)*
- bond redemption	*-*	*(653.8)*	*-*	*(653.8)*
- interest paid	*(4.0)*	*(45.5)*	*(2.5)*	*(52.0)*
FX gains and losses	-	(95.3)	(0.2)	(95.5)
Other increases / (decreases)	-	-	1.7	1.7
BALANCE AS AT 31 DECEMBER 2017	**122.2**	**856.0**	**66.8**	**1,045.0**

7. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

7.1. PROPERTY, PLANT AND EQUIPMENT

SELECTED ACCOUNTING POLICIES

PROPERTY, PLANT AND EQUIPMENT

As at the initial recording date, property, plant and equipment is measured at the purchase price or manufacturing cost. On the balance sheet date, property, plant and equipment items are measured at initial value less accumulated depreciation and accumulated impairment charges.

The initial value of property, plant and equipment includes the discounted liquidation cost of property, plant and equipment used in underground mining activity which, according to the applicable Geological and Mining Law Act, must be liquidated after the operations are discontinued.

The mine liquidation costs included in the initial value of property, plant and equipment are depreciated with the depreciation method used for depreciation of the property, plant and equipment to which they are related, starting from the moment the given property, plant and equipment item is commissioned for use, throughout the period set in the liquidation plan of facility groups being part of the anticipated mine liquidation schedule.

The subsequent expenditures are recognized in the carrying amount of the property, plant and equipment item or captured as a separate property, plant and equipment item (where applicable) only when it is probable that the Group will obtain economic benefits from this item and the cost of this item may be measured reliably. All other expenditures towards repairs and upkeep are posted in the financial result of the financial period in which they are incurred.

The subject matter of a finance lease is recognized in assets on the lease commencement date, at the lower of the two amounts: the fair value of the leased item or the present value of the minimum leasing fees. All of the lessee's initial direct costs are added to the amount recognized as an asset component.

Depreciation of property, plant and equipment is calculated using the linear method to distribute their initial values, minus their final values, over their useful life periods, which are as follows for respective groups of property, plant and equipment:

- *Buildings and structures (including capital pits) 1-64 years;*
- *Technical equipment and machinery 1-64 years;*
- *Means of transportation 1-35 years;*
- *Other property, plant and equipment 1-22 years,*
- *Land is not subject to depreciation*

These periods may not be longer than the useful life of the respective mines, if they are to be used in other plants (sections) of JSW.

Depreciable assets acquired under finance leases are depreciated over the useful lives of the assets if the agreement envisages transfer of the ownership title to the leased item to the lessee. If the agreement does not envisage ultimate transfer of the leased item to the lessee the asset is amortized over the term of the lease.

Profits and losses on the sale of property, plant and equipment are determined by comparing proceeds on the sale with their carrying amount and recognized in the financial result as other net profits/losses item.

The property, plant and equipment that is being built or installed is measured at purchase price or manufacturing cost minus any impairment losses and are not depreciated until the building process is completed.

EXPENSABLE MINING PITS

Upon initial recognition, mine workings that are used to access operational mining pits, i.e. expensable mining pits, are measured at the accumulated cost incurred to build them, minus the value of coal mined during their construction measured at the normative production cost of the mined coal. Capitalized cost of expensable mining pits (which are classified as prepaid expenses) are presented in the financial statements as a separate item of property, plant and equipment. The expenditures for expensable mining pits are settled pro rata to the production of coal in respective wall areas. This is presented as depreciation in the financial result.

In the second half of each year, the Parent Company analyzes the amounts of capitalized costs of expensable mining pits in terms of their connection with revenues to be earned in subsequent financial periods.

MATERIAL ESTIMATES

Useful life periods of property plant and equipment

The Group sets the estimated useful lives and consequently the depreciation rates for particular property, plant and equipment. This estimate is based on the anticipated period of economic usefulness of those assets. The correct application of depreciation periods and rates and the final value of property, plant and equipment are subject to annual reviews in the fourth quarter of the year in order to make appropriate adjustments to depreciation charges starting from the next financial year. The review of depreciation rates for property, plant and equipment resulted in a PLN 10.7 million decrease in depreciation in 2018 vs. the previous year.

Settlement of expensable mining pits

Expensable mining pits are settled pro rata to the coal volume production in individual wall areas. The length of the settlement period of an expensable mining pit depends on the estimated quantity of coal in a given stratum, which has gained access through the mining pit.

PROPERTY, PLANT AND EQUIPMENT

	Note	Land	Buildings and structures	Expensable mining pits *	Technical equipment and machinery	Other property, plant and equipment	Property, plant and equipment under construction **	Total
AS AT 1 JANUARY 2018								
Gross value		41.3	7,375.9	688.2	6,918.9	460.7	921.2	16,406.2
Accumulated depreciation ***		-	(3,964.8)	-	(5,094.9)	(359.3)	(151.3)	(9,570.3)
NET CARRYING AMOUNT		**41.3**	**3,411.1**	**688.2**	**1,824.0**	**101.4**	**769.9**	**6,835.9**
Increases		-	50.3	541.4	2.1	0.1	1,079.1	1,673.0
Change in the provision for mine closure costs	7.12	-	87.9	-	-	-	-	87.9
Transfers from property, plant and equipment under construction		1.9	140.5	-	390.8	54.8	(588.0)	-
Transfer of KWK Krupiński to SRK	4.5	-	-	-	(2.1)	-	-	(2.1)
Decreases		(0.2)	(18.8)	(26.9)	(9.3)	(0.7)	(1.8)	(57.7)
Depreciation		-	(162.5)	(264.9)	(294.5)	(33.7)	-	(755.6)
Impairment loss - recognition	7.3		(595.8)	(166.9)	(246.9)	(14.2)	(189.3)	(1,213.1)
Impairment loss - reversal	7.3	-	480.5	97.1	120.0	2.4	34.7	734.7
NET CARRYING AMOUNT		**43.0**	**3,393.2**	**868.0**	**1,784.1**	**110.1**	**1,104.6**	**7,303.0**
BALANCE AS AT 31 DECEMBER 2018								
Gross value		43.0	7,603.2	868.0	7,160.6	494.0	1,352.7	17,521.5
Accumulated depreciation ***		-	(4,210.0)	-	(5,376.5)	(383.9)	(248.1)	(10,218.5)
NET CARRYING AMOUNT		**43.0**	**3,393.2**	**868.0**	**1,784.1**	**110.1**	**1,104.6**	**7,303.0**

* *Capitalized costs of expensable mining pits are recognized in accordance with the coal production volumes from respective wall areas. Upon settlement, an expensable mining pit is actually liquidated; therefore, the table does not contain any accumulated depreciation numbers*

** *The capital expenditures incurred by the Group (except for expenditures for expensable mining pits) are accumulated in the "Property, plant and equipment under construction" item and in the month they are commissioned for use they are transferred to the appropriate type group of property, plant and equipment.*

*** *This item includes accumulated depreciation and impairment losses on property, plant and equipment*

	Note	Land	Buildings and structures	Expensable mining pits *	Technical equipment and machinery	Other property, plant and equipment	Property, plant and equipment under construction **	Total
BALANCE AS AT 1 JANUARY 2017								
Gross value		57.1	7,735.7	746.6	7,021.0	461.7	970.8	16,992.9
Accumulated depreciation ***		(9.1)	(3,900.6)	-	(5,044.8)	(359.2)	(196.0)	(9,509.7)
NET CARRYING AMOUNT		**48.0**	**3,835.1**	**746.6**	**1,976.2**	**102.5**	**774.8**	**7,483.2**
Increases		-	50.2	459.1	0.2	-	549.9	1,059.4
Change in the provision for mine closure costs	7.12	-	(71.5)	-	-	-	-	(71.5)
Transfers from property, plant and equipment under construction		0.6	199.5	-	230.9	28.9	(459.9)	-
Transfer of KWK Krupiński to SRK	4.5	(7.3)	(14.1)	(16.8)	(6.9)	(0.4)	(9.3)	(54.8)
Decreases		-	(41.3)	(3.1)	(9.5)	(0.2)	(8.2)	(62.3)
Depreciation		-	(171.8)	(311.8)	(304.6)	(24.2)	-	(812.4)
Impairment loss - recognition	7.3	-	(376.7)	(185.8)	(113.3)	(6.0)	(77.4)	(759.2)
Impairment loss - reversal	7.3	-	1.7	-	51.0	0.8	-	53.5
NET CARRYING AMOUNT		**41.3**	**3,411.1**	**688.2**	**1,824.0**	**101.4**	**769.9**	**6,835.9**
BALANCE AS AT 31 DECEMBER 2017								
Gross value		41.3	7,375.9	688.2	6,918.9	460.7	921.2	16,406.2
Accumulated depreciation ***		-	(3,964.8)	-	(5,094.9)	(359.3)	(151.3)	(9,570.3)
NET CARRYING AMOUNT		**41.3**	**3,411.1**	**688.2**	**1,824.0**	**101.4**	**769.9**	**6,835.9**

* *Capitalized costs of expensable mining pits are recognized in accordance with the coal production volumes from respective wall areas. Upon settlement, an expensable mining pit is actually liquidated; therefore, the table does not contain any accumulated depreciation numbers*

** *The capital expenditures incurred by the Group (except for expenditures for expensable mining pits) are accumulated in the "Property, plant and equipment under construction" item and in the month they are commissioned for use they are transferred to the appropriate type group of property, plant and equipment.*

*** *This item includes accumulated depreciation and impairment losses on property, plant and equipment*

DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

The items, which include depreciation of property, plant and equipment and the settlement of expensable mining pits, are listed below:

	31.12.2018	31.12.2017
Cost of products, materials and goods sold	709.0	772.9
Selling and distribution expenses	34.2	25.9
Administrative expenses	11.6	12.9
Cost of performances and property, plant and equipment produced for own use	0.6	0.5
Other costs	0.2	0.2
TOTAL DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT AND THE SETTLEMENT OF EXPENSABLE MINING PITS	**755.6**	**812.4**

OTHER INFORMATION ON PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2018, the net value of property, plant and equipment items securing the repayment of liabilities is PLN 2,389.9 million (as at 31 December 2017: PLN 4,317.4 million) and this is mainly security for the repayment of liabilities under the Bond Issue Program of 30 July 2014 as amended. The security interest for these bonds is described in Note 6.2. The property, plant and equipment securing the loan and borrowing liabilities is presented in Note 6.1.

In 2018, there were no capitalized costs of external financing of property, plant and equipment in the Group. In 2017, the capitalized costs of external financing of property, plant and equipment were PLN 0.6 million.

7.2. INTANGIBLE ASSETS

SELECTED ACCOUNTING POLICIES

INTANGIBLE ASSETS

(a) Geologic information

The right to use geological information is capitalized at the amount of expenses incurred to purchase it. The capitalized expenses are written off throughout the estimated useful life of information. The estimated useful life of geological information is from 2 to 61 years.

b) Perpetual usufruct right

The Group recognizes the perpetual usufruct rights acquired against payment as intangible assets and amortizes them throughout the period for which such right had been granted. Perpetual usufruct rights acquired gratuitously are recorded in off-balance sheet records, at the value specified in the administrative decision about the perpetual usufruct fee.

c) Software

Purchased software licenses are capitalized at the amount of expenses incurred for the purchase and preparation for use of specific computer software. The capitalized costs are written off throughout the estimated useful life of the software, which is 2 to 10 years.

(d) Certificates of origin

The energy law imposes an obligation for industrial offtakers and power companies to buy and produce for retirement property rights following from certificates of origin of energy, or for them to remit the substitution fee. The property rights following from certificates of origin are created when certificates of origin are entered in the registry of certificates of origin and expire at the time of their retirement. The deadline for the obligation to redeem the certificates of origin or to pay the substitution fees for the year is 31 March of the following year.

Certificates of origin are measured initially at their purchase price, while certificates of origin from the Group's own production are measured at market prices (of the last day of the month in which the energy, to which the certificates pertain, was produced) in proportion to other operating revenues. If their fair value cannot be determined then the certificates of origin are measured at the unit substitution fee for the year as announced by the President of ERO.

MATERIAL ESTIMATES

Periods of useful life for intangible assets

The Group sets the estimated useful lives and consequently the depreciation rates for particular intangible assets. This estimate is based on the anticipated period of economic usefulness of those assets. The correct application of amortization periods and rates and the final value of intangible assets are subject to annual reviews in the fourth quarter of the year in order to make appropriate adjustments to amortization charges starting from the next financial year.

The revision of amortization rates for intangible assets did not cause material differences in amortization in 2018 vs. the previous year.

INTANGIBLE ASSETS

		Geologic information	Perpetual usufruct right to land	Other intangible assets	Total
AS AT 1 JANUARY 2018					
Gross value		26.8	91.4	95.7	213.9
Accumulated amortization		(15.5)	(15.2)	(66.9)	(97.6)
NET CARRYING AMOUNT		**11.3**	**76.2**	**28.8**	**116.3**
Increases		4.7	0.7	27.2	32.6
Decreases		-	(0.6)	(6.9)	(7.5)
Amortization		(1.7)	(1.2)	(6.9)	(9.8)
Impairment loss - recognition	7.3	(0.4)	-	(0.5)	(0.9)
Impairment loss - reversal	7.3	0.1	-	-	0.1
NET CARRYING AMOUNT		**14.0**	**75.1**	**41.7**	**130.8**
BALANCE AS AT 31 DECEMBER 2018					
Gross value		31.0	92.5	110.9	234.4
Accumulated amortization		(17.0)	(17.4)	(69.2)	(103.6)
NET CARRYING AMOUNT		**14.0**	**75.1**	**41.7**	**130.8**

	Note	Geologic information	Perpetual usufruct right to land	Other intangible assets	Total
BALANCE AS AT 1 JANUARY 2017					
Gross value		29.0	90.3	99.8	219.1
Accumulated amortization		(16.8)	(13.4)	(63.5)	(93.7)
NET CARRYING AMOUNT		**12.2**	**76.9**	**36.3**	**125.4**
Increases		1.2	3.1	9.3	13.6
Decreases				(8.1)	(8.1)
Transfer of KWK Krupiński to SRK		(0.1)	(2.8)	-	(2.9)
Amortization		(1.6)	(1.3)	(8.7)	(11.6)
Impairment loss - recognition	7.3	(0.4)	-	-	(0.4)
Impairment loss - reversal	7.3	-	0.3	-	0.3
NET CARRYING AMOUNT		**11.3**	**76.2**	**28.8**	**116.3**
BALANCE AS AT 31 DECEMBER 2017					
Gross value		26.8	91.4	95.7	213.9
Accumulated amortization		(15.5)	(15.2)	(66.9)	(97.6)
NET CARRYING AMOUNT		**11.3**	**76.2**	**28.8**	**116.3**

AMORTIZATION OF INTANGIBLE ASSETS

The items, which include amortization of intangible assets, are listed below:

	31.12.2018	31.12.2017
Cost of products, materials and goods sold	7.0	7.7
Selling and distribution expenses	0.6	0.5
Administrative expenses	2.2	3.4
TOTAL AMORTIZATION OF INTANGIBLE ASSETS	**9.8**	**11.6**

PERPETUAL USUFRUCT RIGHT TO LAND

The Group holds the following perpetual usufruct rights which are not recorded in the consolidated financial statements:

	31.12.2018	31.12.2017
Space (thousands of m^2)	9,449	9,705
Value (PLN million)	72.1	72.4

The future fees for the perpetual usufruct right to land are presented in Note 10.2.

OTHER INFORMATION CONCERNING INTANGIBLE ASSETS

As at 31 December 2018, the net value of intangible assets securing the repayment of liabilities is PLN 59.6 million (as at 31 December 2017: PLN 69.4 million) and this is mainly security for the repayment of liabilities under the Bond Issue Program of 30 July 2014 as amended. The security interest for these bonds is described in Note 6.2.

In 2018 and in 2017, there were no capitalized costs of external financing of intangible assets in the Group.

CERTIFICATES OF ORIGIN

In intangible assets, the Parent Company recognizes certificates of origin of energy purchased to fulfill the obligation to redeem them as required by the Energy Law regulations. Due to their special character, expenditures for the purchase of certificates of origin of energy were included in the consolidated cash flow statement, as cash flows on operating activity.

The change in the value of certificates of origin is presented below:

CERTIFICATES OF ORIGIN	31.12.2018	31.12.2017
Net carrying amount at the beginning of the period	4.5	6.5
Increases	14.1	6.1
Reduction/redemption of certificates of origin	(6.8)	(8.1)
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**11.8**	**4.5**

7.3. IMPAIRMENT OF NON-FINANCIAL NON-CURRENT ASSETS

MATERIAL ESTIMATES

Impairment of non-financial assets

The assets that are subject to depreciation and amortization are analyzed for impairment any time any events or changes in circumstances indicate that their carrying amount may not be realized. If the carrying amount of a given property, plant and equipment item exceeds its estimated recoverable value then its carrying amount is subject to an impairment loss down to the amount of its recoverable value. Recoverable value is the higher of: fair value of the assets minus the selling and distribution expenses, or value in use.

For the purpose of the impairment analysis, assets are grouped at the lowest level where there are identifiable separate cash flows (cash flow centers). Impairment tests of non-current assets are conducted based on the principle that a mine or another subsidiary company constitutes the smallest group of assets.

If an impairment test shows that the recoverable value of an asset is lower than its carrying amount then an impairment loss is made at the amount of the difference between the recoverable value and the carrying amount of the asset. After an impairment loss is recognized the depreciation charges for a given asset are adjusted. Non-financial assets whose impairment has been found earlier are evaluated at every end date of the reporting period for the occurrence of premises indicating that the impairment loss may be reversed.

Recognition and reversal of impairment losses on property, plant and equipment and intangible assets is presented in the consolidated statement of profit or loss and other comprehensive income in the "other income/cost" item.

IMPAIRMENT LOSSES

Because of the volatile macroeconomic environment, the Group regularly reviews the indications that may suggest a decline in the recoverable amount of the assets in the individual mines. Impairment of non-current assets is analyzed by estimating the recoverable amounts of cash-generating units (CGUs). 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 current reporting period, the Group analyzed the indications to verify whether any further impairment of assets may have occurred or a reversal of any of the losses recognized previously.

The table below depicts movements in impairment losses for non-current assets:

	2018			2017		
	Property, plant and equipment	Intangible assets	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
AS AT 1 JANUARY	**3,646.6**	**6.2**	**3,652.8**	**3,380.6**	**6.9**	**3,387.5**
Impairment loss recognized	1,213.1	0.9	1,214.0	759.2	0.4	759.6
Impairment loss used	(89.9)	(0.1)	(90.0)	(439.7)	(0.8)	(440.5)
Impairment loss reversed	(734.7)	(0.1)	(734.8)	(53.5)	(0.3)	(53.8)
Reclassification of the impairment loss for assets to accumulated depreciation	(105.7)	(0.6)	(106.3)	-	-	-
AS AT 31 DECEMBER	**3,929.4**	**6.3**	**3,935.7**	**3,646.6**	**6.2**	**3,652.8**

Grounds leading to impairment

Property, plant and equipment is the biggest item of the Group's assets. Several main factors have been identified which could significantly affect the asset levels:

- Curtailment of access to mining and drilling services followed by a sharp increase in prices – during the crisis on the coal market all companies suppressed their capital expenditures in the mining and drilling area to the necessary minimum in order to preserve financial liquidity. A consequence of this was that a number of companies specializing in mining and drilling services were shut down and others resorted to dramatic job cuts. As the coal prices began to improve, mining companies, with a view to maintaining their production capacity, resumed their investment projects aimed at accessing new deposits, but the mining services market was not ready to meet the growth in demand from the sector. The shortage of production capacity in service companies coupled with the higher demand for drilling and mining services translated rapidly into sharp price hikes, as was reflected in the tender procedures conducted in 2017.

  In 2018, we observed a considerable surplus of supply of mining work, including capital, over the capacity of external companies. Nearly every material tender exceeded the planned value. The companies remaining on the market started taking advantage of the situation, demanding very high prices, which resulted in a considerable increase in expenditures towards drilling and mining services and capital expenditures. Some measures taken by the Parent Company, such as shorter payment terms for external companies selected through tenders, or increasing competition by ensuring that JZR Sp. z o.o. participates in consortia as a member, increasing the number of meters drilled by in-house teams, should lead to higher competitiveness and lower price increases in the future. The market of external service providers has relatively high inertia, so we still have not observed any reduction in prices for services; however the sudden increases have stopped. The average cost of drilling 1 meter of headings commissioned under UWG has been analyzed. The analysis shows that unit price increased significantly as compared to 2017 (fewer meters of headings were executed, at higher unit prices).
- The rise of prices of steel products used in the deep mining sector continued in 2018, which will translate into higher operating expenses and capital expenditures. The year on year increase was about 8% based on a basket of 370 steel products.
- The need to amplify capital expenditures results from the desire to maintain production capacity in the long run – the Restructuring Program, which was executed in a period of low coal prices, was intended to ensure financial liquidity to enable the payment of liabilities resulting from the bond issue. The maintenance of liquidity was planned to be achieved by suspending all key investment projects. The savings program brought about a side effect in the form of the lowering of JSW's production capacity in the long run, which translated into a plunge in expected output after 2022 by approx. 1.5 million tons. In order to maintain production capacity, it is necessary to resume and accelerate key investment projects in the years 2018-2022 intended to access new deposits, while taking into account the aforedescribed price hikes. An analysis of increases in capital expenditures shows significant growth in 2018 vs. 2017, which indicates that the impairment charge in 2017 was justified. It was caused by the larger material scope (rebuilding infrastructure, IT, OHS, environmental protection and rebuilding the machinery after the crisis on the coal and steel market, relaunch of most strategic capital expenditures) but also higher prices of machinery equipment as well as capital headings (higher prices, higher margins of external companies). This indication has not subsided; to the contrary, in some CGUs it required additional charges.
- The need to increase headcount compared to the previously assumed numbers resulting from the observed decreasing output potential of the mines. Reducing personnel costs through job cuts entails a slump in output volumes in the long run. For this reason, the Strategy for 2018-2030, as compared with earlier plans, takes into account the need to increase headcount (partly through job shifts within the Group): for KWK Budryk by approx. 430 staff by 2021 and for KWK Knurów-Szczygłowice by approx. 570 staff by 2021. For the needs of the impairment test, the Financial Model assumed higher employment as compared to the headcount assumed in the December 2017 strategy, in connection with:
  - reconstruction of the employment base after the crisis, to the extent required to ensure correct operation of the Mine,
  - larger extent of drilling work planned to be completed, including much larger extent to be executed in-house,
  - reduced scope of subcontracted services.
- Expiration of the salary agreement dated 23 February 2015 and an early withdrawal from certain provisions resulting from this agreement, which resulted in higher payroll expenses in 2017 and 2018 and signing of the salary agreement of 11 June 2018, which will result in an increase in wages in the coming years.

Considering the above, it was found necessary to carry out an impairment test for the following CGUs:

- KWK Borynia-Zofiówka-Jastrzębie, Borynia Section
- KWK Borynia-Zofiówka-Jastrzębie, Zofiówka Section
- KWK Budryk
- KWK Pniówek
- KWK Knurów-Szczygłowice.

The impairment tests were carried out for cash-generating unit 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 subject to an estimation error. 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 estimation of their value in use using the method of net discounted cash flows on the basis of the financial projections prepared for 2019-2023 for the purposes of the impairment test.

For these mines, the assumed economic useful life goes beyond 2023, hence the residual value has been determined on the basis of the remaining period of use. 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

Below are presented the assumptions that have been made for the impairment test as at 31 December 2018:

- the following CGUs have been separated out for test purposes:
  - KWK Budryk Mine,
  - KWK Knurów-Szczygłowice Mine: Knurów Section, Szczygłowice Section – due to technological and economic links between these two sections,
  - KWK Pniówek Mine,
  - KWK Borynia-Zofiówka-Jastrzębie Mine, Zofiówka Section,
  - KWK Borynia-Zofiówka-Jastrzębie Mine, Borynia Section,
- life of individual JSW plants:
  - KWK Budryk Mine – until 31 December 2077,
  - KWK Knurów-Szczygłowice Mine – until 31 December 2078,
  - KWK Pniówek Mine – until 31 December 2051,
  - KWK Borynia-Zofiówka-Jastrzębie Mine, Zofiówka Section – until 31 December 2051,
  - KWK Borynia-Zofiówka-Jastrzębie Mine, Borynia Section – until 31 December 2042,
- coal price forecasts for the years 2019-2023 based on the CRU report,
- as regards investment activity in 2019-2023, they include projects whose execution with the use of external financing is planned,
- the impairment analysis was determined on the basis of the latest economic data prepared in real terms and using the average weighted average cost of capital (discount rate) in the projection period at a level of 8.09% (9.99% before tax),
- financing of expenditures for decommissioning mines from the Mine Closure Fund (FLZG),
- inclusion of the existing provisions for employee benefits and other provisions ascribed to the given mine to determine the value of the tested assets,
- the impairment losses of PLN 1,266.8 million for property, plant and equipment and intangible assets at the Budryk Mine and of PLN 1,584.8 million for the Knurów-Szczygłowice Coal Mine recognized by 31 December 2017 have been included.
- takes into account the scientific and research analyses conducted in 2017 and 2018 by AGH University of Science and Technology in Krakow concerning the quality of coal samples acquired from the works opening new deposits at the Budryk Coal Mine included in the report entitled "Development an effective production structure model, including the share of coking coal at the JSW S.A. Budryk Coal Mine in 2021-2030",
- The "Financial Model for 2019-2023 prepared for the purposes of the asset impairment test" takes into account the Management Board's decision to shut down in the long term the mining of parcel H at the Zofiówka Coal Mine resulting from a non-recurring event (high-energy shock wave). The decision made by the Management Board was preceded by an opinion of the State Mining Authority on the possibility of recommencing mining operations and the risk of such operations in the vicinity of the shock area.
- included development of a new unit, "KWK Bzie-Dębina under construction" as development capital expenditures not included in the Zofiówka Section CGU, to achieve its full production capacity after the projection period, i.e. after 2023 and for which no asset impairment test has been carried out.

Determining the recoverable value of individual mines

As a result of the calculations, as at 31 December 2018, the following recoverable value constituting the value in use of the cash generating centers for individual mine units were determined at the following level:

CGU (Mine Units)	Recoverable value	Impairment loss amount recognized/reversed
KWK Budryk	976.0	719.1
KWK Knurów-Szczygłowice	258.8	(303.1)
KWK Pniówek	1,229.1	-

KWK Borynia-Zofiówka-Jastrzębie, Zofiówka Section	(2,442.4)	(910.9)
KWK Borynia-Zofiówka-Jastrzębie, Borynia Section	397.9	-
TOTAL		**(494.9)**

The tests performed have shown the expediency of recognizing impairment losses of PLN 303.1 million for property, plant and equipment and intangible assets at the Knurów-Szczygłowice Coal Mine and of PLN 910.9 million at the Zofiówka Section of the Borynia-Zofiówka-Jastrzębie Coal Mine as at 31 December 2018.

By taking into account the scientific and research analyses conducted in 2017 and 2018 by AGH University of Science and Technology in Krakow concerning the quality of coal samples acquired from the works opening new deposits at the Budryk Coal Mine included in the report entitled "Development an effective production structure model, including the share of coking coal at the JSW S.A. Budryk Coal Mine in 2021-2030", the impairment loss for property, plant and equipment and intangible assets of the Budryk Coal Mine in the amount of PLN 719.1 million has been reversed.

The total impairment loss made as a result of the impairment tests carried out on the non-current assets of JSW's units in 2018 recognized in 2018 amounts to PLN 1,214.0 million (PLN 1,213.1 million of that figure pertains to property, plant and equipment while PLN 0.9 million pertains to intangible assets). The charge is related to the Coal segment and has been recognized in other costs in the consolidated statement of profit or loss and other comprehensive income.

The total impairment loss reversed as a result of the impairment tests carried out in 2018 on the non-current assets of the Budryk Coal Mine amounts to PLN 719.1 million (PLN 719.0 million of that figure pertains to property, plant and equipment while PLN 0.1 million pertains to intangible assets) was recognized as other revenue in the consolidated statement of profit or loss and other comprehensive income in the Coal segment.

Sensitivity analysis

The results of the sensitivity analysis carried out for individual cash generating units have shown that the biggest impact on the value in use of the tested assets was caused primarily by changes in coal prices, changes in the average weighted cost of capital and changes in the production level.

Presented below are estimated changes in the impairment loss of non-current assets as at 31 December 2018 as a result of the most important changes for the units generating positive cash flows during the forecast period:

KWK Budryk

Parameter	Change	Impact on the impairment loss (in PLN million)	
		Increase of the impairment loss reversal	Decrease of the impairment loss reversal
Change of coal price for the entire forecast period	1%	119.9	-
	- 1%	-	120.3
Discount rate	0.5 p.p.	-	81.1
	0.5 p.p.	90.6	-
Change of production level for the entire forecast period	1%	83.7	-
	- 1%	-	86.3

KWK Knurów-Szczygłowice

Parameter	Change	Impact on the impairment loss (in PLN million)	
		Increase of the impairment loss reversal	Decrease of the impairment loss reversal
Change of coal price for the entire forecast period	1%	-	168.2
	- 1%	168.2	-
Discount rate	0.5 p.p.	64.2	-
	0.5 p.p.	-	72.1
Change of production level for the entire forecast period	1%	-	112.0
	- 1%	112.0	-

7.4. INVESTMENT PROPERTY

SELECTED ACCOUNTING POLICIES

Investment property *includes property that is held to earn rent or for value appreciation or both and property that is being constructed or developed for future use as investment property.*

Investment property is initially measured at purchase cost or manufacturing cost, including the costs of transaction and external financing.

After initial recognition, the Group measures all investment property according to the cost model, i.e. purchase price or manufacturing cost, less accumulated depreciation and accumulated impairment losses.

Investment properties are depreciated using the straight-line method over their useful life. The estimated useful life of investment property is 42 years.

Investment properties are removed from the ledgers when sold or withdrawn from use permanently, provided that no benefits from its disposal are expected in the future.

INVESTMENT PROPERTY

	2018	2017
AS AT 1 JANUARY		
Net carrying amount at the beginning of the period	21.7	22.4
Depreciation and amortization	(0.6)	(0.7)
NET CARRYING AMOUNT	**21.1**	**21.7**
AS AT 31 DECEMBER		
Gross value	31.0	31.0
Accumulated amortization *	(9.9)	(9.3)
NET CARRYING AMOUNT	**21.1**	**21.7**

* *This item includes accumulated depreciation and an impairment loss on investment property*

Rental income from and cost associated with investment property:

	Note	2018	2017
Rental income from investment properties	4.3	1.7	1.2
Direct operating expenses generating rental income in the period	4.4	(1.0)	(1.0)

7.5. INVESTMENTS IN THE FIZ ASSET PORTFOLIO

SELECTED ACCOUNTING POLICIES

Financial assets held in the FIZ investment portfolio are classified as:

- financial assets measured at fair value through profit or loss,

- financial assets measured at amortized cost.

Financial assets measured at amortized cost include those assets that meet the SPPI test and are held for the purpose of collecting the principal and interest; these include mainly: cash and bank deposits.
In the FIZ portfolio, the Group does not hold debt instruments measured at fair value through other comprehensive income (i.e. assets meeting the SPPI test and held for the purpose of collecting the principal and interest and for sale).
All other assets in the FIZ portfolio are classified as "measured at fair value through profit or loss".

In respect of financial assets measured at amortized cost, impairment losses are calculated using the model of expected credit losses The group applies a three-stage impairment model:

- *Stage 1 – balance positions for which credit risk has not increased significantly since initial recognition. Moreover, Stage 1 also includes financial assets with high credit quality (investment grade). Expected credit losses are calculated based on the probability of default within 12 months (i.e. total expected credit loss is multiplied by the probability that such loss occurs within the next 12 months);*
- *Stage 2 – balance positions for which has increased significantly since initial recognition, but there is no objective evidence of impairment; expected credit losses are determined based on the probability of default for the entire lifetime of the asset;*
- *Stage 3 – balance positions with an objective indication of impairment.*

For financial assets measured at amortized cost, interest income is calculated using the effective interest rate method and recognized in the "other net gains/losses" line item.

A gain or loss on the fair value measurement of investments is recognized in the financial result and presented in the "other net gains/losses" line item in the period in which it occurred.

All the investments held in the FIZ portfolio were classified as long-term assets, because the Parent Company does not intend to use these assets in the short term and these assets are not used to ensure current liquidity, but rather constitute a long-term deposit.

One of the important actions that the Parent Company took to prevent potential threats related to the deterioration of liquidity, was the establishment of the Closed-End Investment Fund ("FIZ"). As at the balance sheet date, JSW holds 100% of FIZ certificates and consolidates the FIZ by the full method. The Fund has been established for a specific term until 30 December 2024 with an option of extending its term of operation by no more than three years. In periods of upswing on the coal markets, JSW intends to transfer a portion of its cash surpluses to FIZ to have them invested. The Company will be able to use the funds accumulated in FIZ in periods of market downturn and/or in periods of negative cash flows generated by JSW. In parallel, these funds will offer financial support for long-term and medium-term expense planning associated with the execution of investment projects of strategic importance for JSW and the Group aimed at, among other objectives, the expansion of mining capacity, improved access to deposits, coal preparation and coke production.

On 18 January 2018, the JSW Extraordinary Shareholder Meeting gave consent for JSW to acquire series A investment certificates, constituting the entire issue of those certificates, from the issuer, i.e. JSW Stabilization Closed-End Investment Fund for PLN 1.5 billion. The Fund subscribes to a conservative investment policy. Its only business is investment of funds accumulated through private offerings of Investment Certificates in very secure liquid assets specified in the Articles of Association, including primarily State Treasury bonds and other treasury and banking debt instruments for which the applicable exposure limit has been strictly defined in the Fund's investment policy. The Fund has been entered in the register pursuant to the decision of 26 January 2018. The fund is managed by Towarzystwo Funduszy Inwestycyjnych Energia S.A. On 6 February 2018, the Fund commenced its investment operations by way of the Investment Committee of TFI Energia making the first investment decision on the allocation of the Fund's assets.

On 7 December 2018, the JSW Extraordinary Shareholder Meeting gave consent for JSW to acquire series B investment certificates and investment certificates of further series issued by JSW Stabilization FIZ. On 17 December 2018, the issue of Series B Investment Certificates for the amount of PLN 300.0 million was completed. The funds were added to the investment sub-portfolio and are earmarked to secure cash designated for as equity in the financing structure for the capital expenditures planned in the long-term and medium-term associated with the execution of investment projects of strategic importance for JSW and the Group.

The carrying amount of investments in the FIZ asset portfolio as at 31 December 2018 was PLN 1,826.1 million.

The Group has been investing in a portfolio of financial assets through the Fund in which the Parent Company holds 100% outstanding investment certificates. All the investments held in FIZ were classified as long-term assets, because the Parent Company does not intend to use these assets in the short term and these assets are not used to ensure current liquidity, but rather constitute a long-term deposit.

The Fund may invest its assets in:

- debt securities,
- money market instruments,
- currencies,
- derivatives, including non-standardized derivatives, provided that they are negotiable,
- deposits in banks.

The basic criterion for selecting the investments is the possibility of earning as high as possible rate of return, while minimizing the risk associated with the issuer's insolvency, interest rate volatility and limited liquidity risk.

Rules for diversifying investments:

1. Money market securities or instruments issued by a single entity, accounts receivable from that entity and participations in that entity cannot constitute a total of more than 20% (twenty percent) of the Fund's asset value. The limitation does not apply to securities issued, guaranteed or secured by the State Treasury, the National Bank of Poland, OECD member states or any international financial institutions of which the Republic of Poland is a member or at least one of the OECD member states.
2. Bonds guaranteed or secured by the State Treasury may represent up to 100% of the Fund's asset value.
3. Deposits in a single domestic bank, foreign bank or credit institution must not account for more than 20% of the Fund's Asset value.
4. Currency exposure – construed as the total value of investments in foreign currencies and other types of investment denominated in foreign currencies, must not exceed 10% of the Fund's net asset value.
5. Corporate bonds or local government bonds will jointly account for no more than 10% of the Fund's net asset value, while bonds issued by a single entity must not represent more than 1% of the Fund's net asset value.
6. Debt securities and money market instruments issued by banks will jointly account for no more than 25% of the Fund's net asset value, it being understood that, for the purposes of application of this limit, debt securities and money market instruments issued by Bank Gospodarstwa Krajowego will not be classified as debt securities or money market instruments issued by banks. The share of a single issuer must not exceed 5% of the net asset value (while for covered bonds the share of a single issuer must not exceed 10% of the net asset value).
7. Debt securities and money market instruments issued by Bank Gospodarstwa Krajowego, save for securities guaranteed or secured by the State Treasury of the Republic of Poland, will account for no more than 10% of the net asset value.

The following table presents the structure of the Fund's assets at the end of the reporting period.

	31.12.2018	31.12.2017
Financial assets at fair value through profit or loss	**827.4**	**-**
Covered bonds (not quoted on an active market)	183.4	-
Debt securities, of which:	644.0	-
- bonds	*619.0*	-
- other (certificate of deposit)	*25.0*	-
Financial liabilities	**(6.5)**	**-**
Derivative instruments (non-standardized derivatives – interest rate swap (IRS) in PLN)	(6.5)	-
Financial assets measured at amortized cost	**1,005.2**	**-**
Deposits	701.0	-
Cash and cash equivalents	304.2	-
TOTAL	**1,826.1**	**-**

For financial assets measured at fair value through profit or loss (debt securities, covered bonds), there is no active market and in their case the Group also cannot apply the valuation techniques resulting in reliable values. Accordingly, the value received from the Fund's manager based on information received from the custodian is deemed to be its fair value.

Credit risk

In the case of financial assets measured at amortized cost (i.e. deposits and cash and cash equivalents), the Group classifies them as Stage 1 in terms of impairment because of the high rating of their credit quality and the potential impairment allowance is not significant and it was not recognized.

Credit risk	31.12.2018
Amounts reflecting the maximum exposure to credit risk:	**1,832.6**
- Cash in bank	304.2
- Investment components quoted on an active market (State Treasury bonds)	280.3
- Investment components not quoted on an active market	1,248.1

The table does not include the Fund's liabilities resulting from the valuation of derivatives; therefore it does not reconcile with the table presenting the structure of the Fund's assets at the end of the reporting period.

Significant concentration of credit risk is 10% of the issuer's share in total assets.

Credit risk	31.12.2018
Instances of significant concentration of credit risk in individual investment categories, by balance sheet categories	**1,396.0**
SANTANDER BANK POLSKA SA	346.2
Cash	*346.2*
MBANK S.A.	278.3
Bank deposits	*278.3*
PKO BANK HIPOTECZNY S.A.	191.6
Covered bonds	*191.6*
POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI S.A.	298.2
Bank deposits	*298.2*
STATE TREASURY OF THE REPUBLIC OF POLAND	281.7
Bonds quoted on an active market	*280.3*
Bonds not quoted on an active market	*1.4*

7.6. OTHER NON-CURRENT FINANCIAL ASSETS

SELECTED ACCOUNTING POLICIES

According to the provisions of the Geological and Mining Law Act and the Minister of Economy's Regulation on the principles of establishing and managing a mine closure fund, the Parent Company is obligated to accumulate funds on a separate bank account of the Mine Closure Fund (Fundusz Likwidacji Zakładów Górniczych – FLZG), which may be expended solely and exclusively to finance a total or partial closure of a mine Cash and cash equivalents of the Mine Closure Fund, due to restrictions on their disposal, are presented in the consolidated statement of financial position as long-term financial assets, regardless of their maturity. The Group measures these assets using the effective interest rate method, taking impairment losses into account. The impairment model is based on a calculation of expected losses.

OTHER NON-CURRENT FINANCIAL ASSETS

	Note	31.12.2018 (IFRS 9)	01.01.2018 (IFRS 9)	31.12.2017 (IAS 39)
Long-term financial assets - cash and cash equivalents of the Mine Closure Fund		329.1	310.7	310.9
gross value		*329.3*	*310.9*	*310.9*
impairment loss	*9.1*	*(0.2)*	*(0.2)*	-
Bank term deposits		10.6	10.3	10.3
gross value		*10.6*	*10.3*	*10.3*
impairment loss		-	-	-
Ownership interest and shares in other entities		0.1	0.1	0.1
Other non-financial receivables		9.3	7.6	7.6
TOTAL		**349.1**	**328.7**	**328.9**

All the long-term financial assets are denominated in Polish zloty.

The fair value of long-term financial assets is not significantly different from their carrying amount.

Information on the degrees of assessment of credit risk for cash based on external agency ratings is presented in Note 9.5.1.

7.7. INVENTORIES

SELECTED ACCOUNTING POLICIES

Inventories are stated at purchase price or production cost which, however, is not higher than their net sales prices. The net sales price is the estimate sales price in ordinary course of business, less pertinent variable selling and distribution expenses. The cost of finished products and production in progress comprises direct labor, auxiliary materials, other direct costs and pertinent general production costs (based on normal production capacity).

The value of consumption of materials and goods is determined using the "first in first out" (FIFO) method. The consumption of finished products is determined using the weighted average method.

MATERIAL ESTIMATES

Impairment loss for inventories

The Group recognized impairment losses on inventories of finished products if they are measured at net sales price, which is lower than their manufacturing cost. The manufacturing cost at the end of a reporting period is the average manufacturing cost, calculated from the beginning of the year to the relevant reporting month. The net selling price is assumed to be equal to realistically achievable market prices.

Impairment losses on inventories of finished products, both recognition and reversal, is captured as cost of the period when the charge took place.

If any events occur that causes material inventories to lose their 'value in use', the Group makes a relevant impairment loss, making sure however that the carrying amount of inventories never exceeds their recoverable amount. Impairment losses on inventories of materials are made no less frequently than at end of each quarter and captured as cost of the period in the "Cost of products, materials and goods sold" item.

INVENTORIES

	31.12.2018	31.12.2017
Materials	197.1	134.0
Production in progress	4.9	6.0
Finished products	439.3	345.5
Goods	15.2	13.9
TOTAL	**656.5**	**499.4**

The inventories of finished products as at 31 December 2018 included, among others, inventories of 791.6 thousand tons of coal produced by the Group with a value of PLN 275.9 million and inventories of 225.3 thousand tons of coke produced by the Group with a value of PLN 149.4 million (as at 31 December 2017: 645.2 thousand tons of coal with a value of PLN 235.8 million and 194.1 thousand tons of coke with a value of PLN 101.8 million).

IMPAIRMENT LOSSES FOR INVENTORIES

The table below depicts impairment losses for inventories:

	2018	2017
AS AT 1 JANUARY	**26.1**	**16.5**
Impairment loss recognized	31.8	65.3
Impairment loss used	(14.7)	(49.7)
Reversal of charge	(18.2)	(6.0)
AS AT 31 DECEMBER	**25.0**	**26.1**

Recognition and reversal of impairment loss amounts for inventories were recognized as costs in the current reporting period.

Impairment losses for inventories recognized in 2018 refer to finished products and materials and merchandise.

7.8. TRADE AND OTHER RECEIVABLES

SELECTED ACCOUNTING POLICIES

Financial receivables are initially recognized at fair value, with the fair value of trade receivables upon initial recognition being the nominal value resulting from issued sale invoices. After initial recognition, trade and other financial receivables are evaluated at amortized cost using the effective interest rate method (all trade receivables meet the SPPI test and are held in order to collect contractual cash flows), taking into account the impairment losses. Trade receivables with a date of maturity shorter than 12 months from the date of their origin (i.e. not containing a financing element) are not subject to discounting and are measured at their nominal value. Other receivables, which are not financial assets, are measured at the end of the reporting period at the due payment amount.

In the comparative period, trade receivables were classified as loans and receivables and measured at amortized cost using the effective interest rate method, taking into account impairment losses estimated based on losses incurred.

MATERIAL ESTIMATES

Impairment losses for receivables

Starting from 1 January 2018, the Group as at the date ending the reporting period, estimates the expected credit loss on financial assets measured at amortized cost. The impairment model is based on a calculation of expected losses.

With regard to trade receivables which do not comprise any material financing element, a simplified approach and valuation of the loss was used on the basis of expected credit losses for the entire life of the instrument. The Group has classified its trade receivables to Stage 2 of the financial asset impairment classification envisaged in IFRS 9, except for receivables for which an impairment has been identified – these receivables have been classified to Stage 3 of that classification. The Company assumes that the moment of impairment is the moment the receivables are forwarded for collection, but no later than on the 90th day past due.

Trade receivables are the most important line item of financial assets in the Group's consolidated financial statements and it is subject to the new rules for the calculation of expected credit losses.

To determine the impairment losses the Group has distinguished the following groups of trade receivables, determined on the basis of probability of the credit risk characteristics:

- *coal and coke trade receivables from the main business partners, i.e. business partners whose percentage of sales revenues is above 2.5% in a given reporting period,*
- *coal and coke trade receivables from other business partners whose percentage of sales revenues is below 2.5% in a given reporting period,*
- *other trade receivables.*

The analysis of the coal and coke trade receivables from the main business partners has been carried out individually for each business partner on the basis of the probability of insolvency determined on the basis of external ratings and publicly available rating agency information on the probability of default and the expected loss has been calculated on the basis of these probabilities, average maturity for the receivables portfolio and on the basis of the expected recovery rate.

MATERIAL ESTIMATES

The analysis of coal and coke trade receivables from other business partners has been carried out on the basis of the calculated weighted average of probability of insolvency for the portfolio and the expected loss has been calculated for this portfolio on the basis of these probabilities, average maturity and on the basis of the expected recovery rate.

For other trade receivables (except for those analyzed individually as not serviced), a portfolio has been carried out and a simplified impairment loss matrix has been applied in individual age brackets on the basis of expected credit losses throughout the life of the receivable based on the default ratio determined on the basis of historical data (for the last three years). The insolvency indicator has not been adjusted for the influence of future factors.

The expected credit loss is estimated and revalued on every subsequent day ending a reporting period.

TRADE AND OTHER RECEIVABLES

	31.12.2018 (IFRS 9)	01.01.2018 (IFRS 9)	31.12.2017 (IAS 39)
Gross trade receivables	1,056.5	768.4	768.4
Impairment loss	(79.6)	(81.9)	(80.3)
Net trade receivables	976.9	686.5	688.1
Prepaid expenses	10.5	8.5	8.5
Prepayments	4.9	3.2	3.2
Receivables related to taxes and social security	130.9	91.4	91.4
Receivables by virtue of the acquisition of investment certificates *	-	1,450.0	1,450.0
Other receivables	23.5	15.5	15.5
TOTAL TRADE AND OTHER RECEIVABLES	**1,146.7**	**2,255.1**	**2,256.7**

* 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 Stabilization Closed-end Investment Fund ("JSW Stabilization FIZ"). As at 31 December 2017, the payment for the investment certificates was recognized as other receivables in the consolidated statement of financial position. On 18 January 2018, after the remainder of the payment for the investment certificates was made, i.e. PLN 50 million, the issue of Series A Investment Certificates totaling PLN 1,500.0 million was completed. Investment certificates are measured at fair value.

Fair value of trade and other receivables is not significantly different from their carrying amount.

The currency structure of the Group's trade receivables after conversion to PLN is as follows:

	31.12.2018	31.12.2017
Trade receivables [PLN]	519.1	379.5
Trade receivables [EUR]	327.7	249.6
Trade receivables [USD]	130.1	59.0
TOTAL TRADE RECEIVABLES	**976.9**	**688.1**

IMPAIRMENT LOSSES FOR RECEIVABLES

The table below depicts the changes in the impairment loss for trade receivables:

	2018	2017
AS AT 1 JANUARY according to IAS 39	**80.3**	**80.0**
Impairment losses pertaining to trade receivables ensuing from the implementation of IFRS 9 as at 1 January 2018	1.6	-
AS AT 1 JANUARY according to IFRS 9	**81.9**	**80.0**
Impairment loss recognized	10.3	5.7
Utilization of the impairment loss for uncollectible receivables	(1.1)	(7.6)
Reversal of unused amounts	(11.5)	(2.5)
Charge transferred	-	4.7
AS AT 31 DECEMBER	**79.6**	**80.3**

The table below presents the age structure of trade receivables as at 31 December 2018:

	Regular	Past due					Total
		up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	above 12 months	
Gross trade receivables	943.5	30.9	5.3	0.6	1.0	* 75.2	**1,056.5**
Impairment loss	(2.7)	(0.1)	(0.3)	(0.4)	(0.9)	(75.2)	**(79.6)**
NET TRADE RECEIVABLES	**940.8**	**30.8**	**5.0**	**0.2**	**0.1**	**0.0**	**976.9**

* *These items concern trade receivables covered for the most part by bankruptcy proceedings and trade receivables after court judgments. These receivables have been covered in full by an impairment loss.*

As at 31 December 2018, PLN 113.0 million of trade receivables was past due. That figure included PLN 36.1 million of receivables that were not found impaired and an impairment loss of PLN 1.1 million was recognized for them in 2018, while PLN 76.8 million were found impaired and an impairment loss of PLN 3.4 million in respect of them was reversed in 2018.

The PLN 1,056.5 million of trade receivables included trade receivables of PLN 762.9 million from coal and coke counterparties with more than 2.5% share in revenues and PLN 173.9 million from coal and coke counterparties with a share in revenues below 2.5%.

The table below presents the age structure of trade receivables as at 31 December 2017:

	Regular	Past due					Total
		up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	above 12 months	
Gross trade receivables	632.8	54.6	1.1	1.6	3.6	* 74.7	**768.4**
Impairment loss	(0.3)	-	(0.3)	(1.5)	(3.5)	(74.7)	**(80.3)**
NET TRADE RECEIVABLES	**632.5**	**54.6**	**0.8**	**0.1**	**0.1**	**-**	**688.1**

* *These items concern trade receivables covered for the most part by bankruptcy proceedings and trade receivables after court judgments. These receivables have been covered in full by an impairment loss.*

The changes in gross values did not materially affect the value of impairment losses.

7.9. CASH AND CASH EQUIVALENTS

SELECTED ACCOUNTING POLICIES

Cash and cash equivalents include cash on hand, bank deposits payable on demand, other short-term investments with high liquidity and with original maturity date of up to three months. Current account overdraft is presented in the consolidated cash flow statement as a component of the financial cash flows. The Group classifies cash and cash equivalents as financial assets measured at amortized cost, while taking into account, from 1 January 2018, impairment losses calculated in accordance with the expected loss model.

MATERIAL ESTIMATES

Impairment losses for cash and cash equivalents

As of 1 January 2018, the Group estimates impairment losses for cash and cash equivalents on the basis of the probability of insolvency calculated on the basis of external ratings of the banks in which the cash is kept and publicly available rating agency information pertaining to probability of insolvency and the expected loss is calculated on the basis of these probabilities, the time horizon of the exposure to credit risk and on the basis of the expected recovery rate.

In connection with the low associated credit risk, cash and cash equivalents are assigned a 3-month horizon for credit risk exposures.

Analysis of the levels of credit risk assessment for cash based on external agency ratings is presented in Note 9.5.1.

	31.12.2018 (IFRS 9)	01.01.2018 (IFRS 9)	31.12.2017 (IAS 39)
Cash at bank and in hand	1,109.6	825.1	825.2
Short-term bank deposits	541.2	344.3	344.3
TOTAL	**1,650.8**	**1,169.4**	**1,169.5**
including restricted cash	165.8	150.7	150.7

As at 31 September 2018, restricted cash amounted to PLN 165.8 million (PLN 150.7 million on 31 December 2017) and included mainly cash received by JZR under an agreement with the State Treasury Minister to provide support which does not constitute public aid, designated for specific investment projects in the amount of PLN 126.5 million and funds accumulated on the VAT account (as part of the split payment mechanism) as well as bid deposits and good performance bonds. In the course of its business, the Group makes payments on the above accounts on an ongoing basis.

The currency structure of the Group's cash and cash equivalents, after conversion to PLN, is as follows:

	31.12.2018	31.12.2017
PLN		
Cash at bank and in hand	1,082.4	793.3
Short-term bank deposits	401.2	303.2
TOTAL	**1,483.6**	**1,096.5**
EUR		
Cash at bank and in hand	27.1	8.3
Short-term bank deposits	-	-
TOTAL	**27.1**	**8.3**
USD		
Cash at bank and in hand	0.1	23.6
Short-term bank deposits	140.0	41.1
TOTAL	**140.1**	**64.7**
TOTAL	**1,650.8**	**1,169.5**

Cash and cash equivalents are identical in the consolidated cash flow statement and in the consolidated statement of financial position.

7.10. EQUITY

7.10.1. SHARE CAPITAL

SELECTED ACCOUNTING POLICIES

Common shares are classified as share capital. The share capital is recognized in the amount specified in the articles of association and registered in the court register of the Parent Company, taking into account an adjustment for hyperinflation of the part of the share capital which comes from before 31 December 1996.

The costs incurred directly in connection with the issue of new shares and options are presented in the equity as decrease, after tax, of proceeds from the issue.

	Number of shares (thousand)	Common shares par value	Hyperinflation adjustment	Total
As at 31 December 2017	117,412	587.0	664.9	1,251.9
As at 31 December 2018	117,412	587.0	664.9	1,251.9

As at 31 December 2018, the share capital of JSW was PLN 587,057,980.00 and was divided into 117,411,596 common shares with no voting preference, fully paid up, with a par value of PLN 5.00 each. All the shares were issued and registered as at the end date of the reporting period. The total number of votes linked to all the shares issued by JSW is 117,411,596 votes at the Shareholder Meeting of JSW.

The Parent Company's share capital as at 31 December 2018 consists of the following share series:

Series	Number of shares
A	99,524,020
B	9,325,580
C	2,157,886
D	6,404,110
TOTAL	117,411,596

As at 31 December 2018 and as at the date of these consolidated financial statements, the JSW's shareholder structure was as follows: *

Shareholder	Number of shares	Number of votes at the Shareholder Meeting	% of the share capital	% 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. 38/2018 of 7 December 2018, the only shareholder with at least 5% of votes at the Extraordinary Shareholder Meeting held on 7 December 2018 was the State Treasury with 64,388,780 votes or a 54.84% share in all votes.*

JSW does not have a detailed list of the shareholder structure as at 31 December 2018 or as at the date of these consolidated financial statements. 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. 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 2018 and as at the date of preparation and publication of this report was the State Treasury.

7.10.2. CAPITAL ON REVALUATION OF FINANCIAL INSTRUMENTS

Change in capital on revaluation of financial instruments

	31.12.2018	31.12.2017
OPENING BALANCE	**(66.7)**	**(82.8)**
Change in valuation of hedging instruments	(9.1)	46.2
Change in valuation of hedging instruments posted to profit or loss of the period if the hedged item is realized	27.1	(26.3)
Deferred tax	(3.4)	(3.8)
CLOSING BALANCE	**(52.1)**	**(66.7)**

The capital on revaluation of financial instruments includes the valuation of hedging instruments, which meet the hedge accounting criteria.

In the current reporting period, as a result of the measurement of transactions to hedge future cash flow, the amount of PLN 14.6 million was recognized in other comprehensive income, of which:

- PLN 5.8 million is the positive valuation driven by the change in fair value of the effective part of hedging instruments,
- PLN (14.9) million is the negative valuation driven by the change in fair value of the effective part of hedging instruments,
- PLN 5.8 million is the value posted to the period's profit or loss if the hedged position is realized (FX Forward),
- PLN 21.3 million is the value posted to the period's profit or loss if the hedged position is realized (bonds),
- PLN (3.4) million is the tax effect of the above positions (deferred tax).

7.10.3. RETAINED EARNINGS

As at 31 December 2018, retained earnings of the Jastrzębska Spółka Węglowa S.A. Group amounted to PLN 5,976.6 million (PLN 4,298.9 million as at 31 December 2017). This item includes, among others, the Parent Company's supplementary capital.
Supplementary capital was created from allowances from profit generated by JSW in previous reporting periods. Also, pursuant to the requirements of the Commercial Company Code, joint stock companies are required to create supplementary capital to cover losses. At least 8% of the profit generated in any financial year, as disclosed in the standalone financial statements of the Parent Company, is transferred to this category of capital until it reaches at least one-third of the entity's share capital. The use of the supplementary capital is decided by the Shareholder Meeting, however, the portion of the supplementary capital representing one-third of the share capital may only be used to cover a loss posted in the financial statements and cannot be allocated to other purposes.

7.10.4. DIVIDENDS PAID AND PROPOSED

The per share dividend ratio is calculated as the quotient of the dividend payable to shareholders of the Parent Company and the number of ordinary shares outstanding as at the dividend date.

	2018	2017
Dividends	-	-
Number of common shares as at the dividend date	117,411,596	117,411,596
DIVIDEND PER SHARE (IN PLN PER SHARE)	**-**	**-**

2017 profit distribution

In connection with the clauses of the Bond Issue Program, the JSW Management Board made the decision not to recommend a dividend distribution for 2017.

In its resolution of 28 June 2018, JSW's Ordinary Shareholder Meeting decided to designate JSW's entire 2017 net profit in the amount of PLN 2,422.1 million for supplementary capital.

2018 profit distribution proposal

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.

Considering the above, in 2019 the Company's Management Board will propose to the JSW Shareholder Meeting to distribute dividend of about PLN 200.8 million, i.e. PLN 1.71 per share. The JSW Management Board will propose to designate the remainder of the 2018 financial result in the amount of PLN 1,162.9 million (after obligatorily covering the net loss incurred in Other comprehensive income on the measurement of the defined employee benefits programs for after the employment period in the amount of PLN 53.4 million and after covering the net loss incurred on the first application date of IFRS 9 in the amount of PLN 1.5 million) to reserve capital for the purpose of financing JSW's investment program.

7.11. EMPLOYEE BENEFIT LIABILITIES

SELECTED ACCOUNTING POLICIES

*In accordance with the provisions of labor law, the Group pays **employee benefits** on account of the following:*

- *post-employment benefits: retirement or disability severance pays, equalization disability benefits, write-offs for the Company Social Benefit Fund for old-age and disability pensioners, death benefits,*
- *other long-term employee benefits: jubilee awards,*
- *other employee benefits: unused holiday leaves.*

Since 2015, the JSW Management Board has not taken an allowance for the Company Social Benefits Fund for old-age and disability pensioners and it terminated the payment of free coal allowance for old-age and disability pensioners.

In its statement of financial position, JSW recognizes the commitment to pay the above benefits in the amount equal to the present value of the liability as at the end of the reporting period, taking into account actuarial gains and losses.

The amount of the post-employment benefit liability in the form of defined benefit plans and other long-term employee benefits is calculated by an independent actuarial advisory company using the projected unit benefit method, until the expiration of this liability.

*The **provision for death benefits** is calculated on the basis of historical data, amounts of death benefits paid over the 5 years preceding the balance sheet date, using the discount rate recommended by the actuary and the expected inflation rate and statistical number of years remaining to be worked by Group employees, constituting the difference between the average retirement age of the Group's employees and the average age of the employees as at the final day of the reporting period.*

Employee benefit liabilities are calculated using an individual method, for each employee separately. The liability for an employee is calculated based on the anticipated amount of the respective benefit that the Group undertakes to pay out on the basis of internal regulations and pertinent provisions of law. The amount calculated is subject to actuarial discounting as at the final day of the reporting period and then decreased by actuarially discounted amounts of annual provision charges, as at the same day, which the Group makes to increase the provision of the respective employee. The actuarial discount means the product of the financial discount and probability of survival of the respective employee as a Group employee until the time of receipt of the benefit.

Defined benefit plans expose the Group to actuarial risk, which includes:

- *interest rate risk – a decrease of interest on bonds will increase liabilities of the plan,*
- *longevity risk – the present value of liabilities of the defined benefit plan is calculated by reference to the best mortality estimates for plan members, both during and after the employment period. An increase in the expected life span of plan members will result in an increase of the value of liabilities,*
- *payroll risk – the present value of liabilities of the defined benefit plan is calculated by reference to the future remuneration of plan members. Accordingly, an increase in salaries of plan members will also increase the amount of liabilities.*

The cost components of the post-employment defined benefits are classified as follows:

- *costs of current employment – as operating expenses,*
- *net interest on the net liability derived from a changing value of provisions due to the passage of time – as financial costs,*
- *actuarial gains/losses resulting from changes in actuarial assumptions – as other comprehensive income.*

On the other hand, with respect to other long-term employee benefits, current employment costs and actuarial gains/losses are recognized as operating expenses, while net interest as financial costs.

SELECTED ACCOUNTING POLICIES

*Provisions for **unused holiday leaves** are calculated at the end of each quarter of the financial year. The provision is calculated as follows: number of days of unused holiday leave at the end of the previous financial year and previous years plus the number of holiday leave days to which employees are entitled on the end date of the reporting period, less the number of days of holiday leave used from 1 January to the end of the reporting period, multiplied by the daily holiday rate with obligatory charges. The calculated amount of the provision for unused holiday leave is recognized after analysis, in the amount approved by the Management Board.*

MATERIAL ESTIMATES AND ASSUMPTIONS

The balance sheet liability on account of future employee benefits is equal to the present value of the defined benefits liability. The present value of employee benefit liabilities depends on a number of factors that are determined using actuarial methods, with several assumptions. Any changes in these assumptions affect the carrying amount of employee benefit liabilities.

One of the primary assumptions for determining the amount of the liability is the interest rate. As at the end date of the reporting period, based on the opinion issued by an independent actuary, the proper discount rate is applied, which reflects the interest rate of T-bonds denominated in the currency of the future disbursement of benefits, with maturities close to the dates of payment of the pertinent liabilities. Assumptions regarding future mortality rates and probability of the employee becoming a disability benefit recipient were estimated based on the statistical data from Polish survival tables for men and women published by the Central Statistical Office, as at the measurement date. The main assumptions adopted for the valuation as at 31 December 2018 and the sensitivity of liabilities on account of future employee benefits to changes in such assumptions are disclosed in the following Note.

EMPLOYEE BENEFIT LIABILITIES

	31.12.2018	31.12.2017
EMPLOYEE BENEFIT LIABILITIES CAPTURED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION ON ACCOUNT OF:		
– retirement and disability severance pays	203.1	152.5
– jubilee awards	461.0	338.4
– adjustment disability benefits	120.2	103.4
– write-offs for the Company Social Benefit Fund for old-age and disability pensioners	10.2	9.9
– other employee benefits	88.0	73.0
TOTAL	**882.5**	**677.2**
including:		
– long-term	731.7	558.6
– short-term	150.8	118.6

The amounts of employee benefit liabilities on account of retirement and disability severance pays, jubilee awards, equalization disability benefits and write-offs for the Company Social Benefit Fund for old-age and disability pensioners are recognized in the consolidated financial statements based on the actuarial valuation calculated by an independent actuarial consulting firm.

Change in employee benefit liabilities

	Note	2018			2017		
		Post-employment benefits	Other benefits	TOTAL	Post-employment benefits	Other benefits	TOTAL
AS AT 1 JANUARY		**183.1**	**494.1**	**677.2**	**192.7**	**506.6**	**699.3**
Current headcount cost		10.8	56.8	67.6	9.5	49.2	58.7
Other revenues (transfer of units to SRK)	4.5	-	-	-	(13.8)	(36.3)	(50.1)
Interest cost		5.6	13.9	19.5	5.5	13.4	18.9
Past employment costs		(1.0)	0.2	(0.8)	(0.8)	(2.0)	(2.8)
Actuarial losses/(gains) captured in pre-tax profit/loss		-	119.6	119.6	-	17.5	17.5

	Note	2018			2017		
		Post-employment benefits	Other benefits	TOTAL	Post-employment benefits	Other benefits	TOTAL
Actuarial losses/(gains) captured in other comprehensive income:		48.5	21.9	70.4	9.6	(0.4)	9.2
*- arising from changes in financial assumptions **		*19.5*	*17.5*	*37.0*	*1.5*	*(4.6)*	*(3.1)*
*- arising from changes in demographic assumptions **		*(1.2)*	*(0.1)*	*(1.3)*	*(0.6)*	*1.0*	*0.4*
*- arising from other changes in assumptions and ex post adjustments of actuarial assumptions **		*30.2*	*4.5*	*34.7*	*8.7*	*3.2*	*11.9*
TOTAL RECOGNIZED IN COMPREHENSIVE INCOME		**63.9**	**212.4**	**276.3**	**10.0**	**41.4**	**51.4**
Benefits paid out		(12.7)	(58.3)	(71.0)	(19.6)	(53.9)	(73.5)
AS AT 31 DECEMBER		**234.3**	**648.2**	**882.5**	**183.1**	**494.1**	**677.2**

* *Effects of changes in economic assumptions include discounting changes and projected increases in benefit bases. Effects of changes in demographic assumptions include changes in the assumed employee turnover, mortality rates and the number of employees leaving the company to collect disability benefits. Other changes include not only changes in other assumptions but also all updates of valuation data.*

EMPLOYEE BENEFIT COSTS CAPTURED IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2018	2017
EMPLOYEE BENEFIT COSTS CAPTURED IN PRE-TAX PROFIT ON ACCOUNT OF THE FOLLOWING:		
– retirement and disability severance pays	13.5	0.7
– jubilee awards	170.6	54.4
– adjustment disability benefits	3.4	(18.2)
– other employee benefits	18.4	5.3
TOTAL	**205.9**	**42.2**

	2018	2017
EMPLOYEE BENEFIT COSTS CAPTURED IN OTHER COMPREHENSIVE INCOME ON ACCOUNT OF:		
– retirement and disability severance pays	48.1	8.9
– adjustment disability benefits	22.1	(0.3)
– write-offs for the Company Social Benefit Fund for old-age and disability pensioners	0.2	0.4
– other employee benefits	-	0.2
TOTAL	**70.4**	**9.2**

Total amount of employee benefit costs captured in the consolidated statement of profit or loss and other comprehensive income:

	2018	2017
Cost of products, materials and goods sold	173.4	68.3
Selling and distribution expenses	0.7	0.5
Administrative expenses	12.3	4.6
Financial costs	19.5	18.9
Other revenues	-	(50.1)
TOTAL COSTS CAPTURED IN PRE-TAX PROFIT	**205.9**	**42.2**

	2018	2017
Amount captured in other comprehensive income	70.4	9.2
TOTAL RECOGNIZED IN COMPREHENSIVE INCOME	276.3	51.4

KEY ACTUARIAL ASSUMPTIONS

Key actuarial assumptions adopted for days ending the reporting periods*:

	2018	2017
Discount rate *	3.09%	3.30%
Assumed average annual increase in the basis for calculating the provision for retirement and disability severance awards, jubilee awards and equalization disability benefits *	2.50%	0.15%
Weighted average employee mobility ratio *	2.65%	2.20%

* *As at 31 December 2018, the Group had 28,268 employees (of which 21,616, or 76.5%, were JSW employees) and therefore the actuarial assumptions used to measure employee benefit liabilities of the Parent Company had the greatest impact on the level of employee benefit liabilities.*

SENSITIVITY ANALYSIS

A sensitivity analysis was carried out as at 31 December 2018 and 31 December 2017 to determine how the results of actuarial valuation are affected by changes in the discount rate assumed for measurement and how the levels of employee benefit liabilities are affected by the planned changes in the benefit measurement base within the range of -/+0.5 p.p.

Sensitivity analysis as at 31 December 2018:

Employee benefit liabilities on account of:	Carrying amount of the provision	Discount rate		Planned changes in bases	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
– retirement and disability severance pays	203.1	212.7	194.3	194.6	212.2
– jubilee awards	461.0	476.7	446.2	443.8	479.1
– adjustment disability benefits	120.2	128.0	113.2	112.7	128.5
– write-offs for the Company Social Benefit Fund for old-age and disability pensioners	10.2	10.9	9.5	10.2	10.2
TOTAL	**794.5**	**828.3**	**763.2**	**761.3**	**830.0**
CHANGE VS. CARRYING AMOUNT		33.8	(31.3)	(33.2)	35.5

Sensitivity analysis as at 31 December 2017:

Employee benefit liabilities on account of:	Carrying amount of the provision	Discount rate		Planned changes in bases	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
– retirement and disability severance pays	152.5	159.8	145.8	148.1	159.2
– jubilee awards	338.4	349.9	327.5	330.4	351.5
– adjustment disability benefits	103.4	109.6	97.8	99.5	110.1
– write-offs for the Company Social Benefit Fund for old-age and disability pensioners	9.9	10.7	9.3	9.9	10.0
TOTAL	**604.2**	**630.0**	**580.4**	**587.9**	**630.8**
CHANGE VS. CARRYING AMOUNT		25.8	(23.8)	(16.3)	26.6

In these analyses, the present value of the defined benefit liability was calculated using the forecast unit benefits method, which is the same method that was used to calculate the employee benefit liability in the consolidated statement of financial position.

MATURITY OF EMPLOYEE BENEFIT LIABILITIES

Results of actuarial valuation of employee benefit liabilities as at 31 December 2018, by maturities:

	Period of payment				
Employee benefit liabilities on account of:	**2019**	**2020**	**2021**	**2022**	**2023**
– retirement and disability severance pays *	17.0	7.0	10.8	11.6	12.3
– jubilee awards	50.7	45.1	41.2	39.5	35.1
– adjustment disability benefits	7.2	6.9	6.5	6.3	6.0
– write-offs for the Company Social Benefit Fund for old-age and disability pensioners	0.5	0.5	0.5	0.5	0.4
TOTAL	**75.4**	**59.5**	**59.0**	**57.9**	**53.8**

* *Taking into consideration the new regulations governing the acquisition of pension rights: Act of 16 November 2016 amending the Act on Pensions and Disability Benefits from the Social Insurance Fund and Certain Other Acts (Journal of Laws 2017 poz.38)*

Results of actuarial valuation of employee benefit liabilities as at 31 December 2017, by maturities:

	Period of payment				
Employee benefit liabilities on account of:	**2018**	**2019**	**2020**	**2021**	**2022**
– retirement and disability severance pays *	11.8	6.0	5.7	8.9	9.7
– jubilee awards	38.2	33.1	31.8	27.9	26.7
– adjustment disability benefits	7.1	6.7	6.2	5.8	5.6
– write-offs for the Company Social Benefit Fund for old-age and disability pensioners	0.5	0.5	0.4	0.4	0.4
TOTAL	**57.6**	**46.3**	**44.1**	**43.0**	**42.4**

* *Taking into consideration the new regulations governing the acquisition of pension rights: Act of 16 November 2016 amending the Act on Pensions and Disability Benefits from the Social Insurance Fund and Certain Other Acts (Journal of Laws 2017 poz.38)*

7.12. PROVISIONS

SELECTED ACCOUNTING POLICIES

The Group recognizes provisions, in particular for:

(a) closure of a mine

The provision for future costs associated with decommissioning of a mine is established, inter alia, on the basis of the obligations following from the Geological and Mining Law imposing on mining enterprises an obligation to decommission mines upon completion of operation, in the amount of anticipated costs associated with:

- *securing or decommissioning of mining workings and facilities and mine unit equipment;*
- *securing the unused part of the mineral deposit;*
- *securing the neighboring mineral deposits;*
- *securing the workings of neighboring mines;*
- *undertaking necessary measures to protect the environment and reclaim the land and develop the sites left after mining operations.*

The provision amounts are presented in the present value of the expenditures which are expected to be required to fulfill the obligation. The interest rate before tax is then used, which reflects the current assessment of the market regarding the value of money over time and the risk associated specifically with the given liability. The initial estimation of the mine closure provision increases the value of property, plant and equipment. Increase of the provisions associated with elapse of time is recognized as interest expenses. Changes in the amount of the provisions associated with updating the estimates pertaining to them (discount rate, inflation rate, expected nominal value of liquidation expenditures) are recognized as an adjustment correction of the value of non-current assets subject to the liquidation obligation.

(b) mining damage

The Group recognizes provisions for mining damage only for reported mining losses caused by the activity of the mines owned by the Group, in the amount resulting from documented claims for the same title or at the amount of expenditures to protect the area against the effects of mining activity. Since there is no reliable estimation methodology, the provision for mining damage does not include those damages that will arise in the future. The Group discloses these liabilities as contingent liabilities.

The provision for removing mining damage is calculated based on a reliable estimation of cost of repairing the facilities, structures and compensation being the effect of the mining operations or protective measures taken by the Group against the effects of mining operations on the areas covered by the concessions. The starting point for recognition of the provision are the impacts of mining operations, resulting from execution of mine operation plans, identified on the surface. The provision is presented as the present value of expenditures required to fulfill this obligation.

SELECTED ACCOUNTING POLICIES

(c) other provisions

The provision for environment reclamation, property tax, legal claims, warranty repairs et al. is recognized when the Group has the legal or customary obligation resulting from past events and it is probable that fulfillment of the obligation will cause the necessity to pay out funds, and its size has been reliably estimated. Provisions are not created for future operating losses.

MATERIAL ESTIMATES

The balance of provisions is verified as at each final day of the reporting period and is adjusted to reflect the current, most appropriate estimate. The estimates and assumptions adopted to calculate the provisions are disclosed in the subsequent part of the Note.

PROVISIONS

	Property tax	Mining damage	Decommissioning of a mine	Environmental fee and environmental protection	Potential litigation related to the free coal allowance for old-age and disability pensioners	Other provisions	Total
AS AT 1 JANUARY 2018							
Long-term	-	223.0	445.4	36.8	653.5	4.3	1,363.0
Short-term	29.8	54.7	-	2.4	-	73.0	159.9
TOTAL	**29.8**	**277.7**	**445.4**	**39.2**	**653.5**	**77.3**	**1,522.9**
Recognition of additional provisions	4.0	175.3	110.7	50.0	-	21.1	361.1
Provision recognized - interest expense	-	-	13.8	1.1	-	1.6	16.5
Reversal of unused provisions	(3.9)	(15.0)	(21.1)	(18.8)	(653.5)	(31.0)	(743.3)
Provisions used	(9.8)	(75.8)	(1.8)	(2.6)	-	(6.1)	(96.1)
	-						
BALANCE AS AT 31 DECEMBER 2018	**20.1**	**362.2**	**547.0**	**68.9**	**-**	**62.9**	**1,061.1**
Long-term	-	217.5	547.0	19.9	-	3.6	788.0
Short-term	20.1	144.7	-	49.0	-	59.3	273.1

	Note	Property tax	Mining damage	Decommissioning of a mine	Environmental fee and environmental protection	Potential litigation related to the free coal allowance for old-age and disability pensioners	Other provisions	Total
BALANCE AS AT 1 JANUARY 2017								
Long-term		-	199.2	615.3	37.1	1,902.7	0.8	2,755.1
Short-term		62.8	66.9	-	3.0	-	100.9	233.6
TOTAL		**62.8**	**266.1**	**615.3**	**40.1**	**1,902.7**	**101.7**	**2,988.7**
Recognition of additional provisions		15.9	77.1	-	0.5	-	33.5	127.0
Provision recognized - interest expense		-	-	17.8	1.1	-	-	18.9
Reversal of unused provisions		(24.7)	(5.9)	(82.5)	(0.3)	(1,249.2)	(35.8)	(1,398.4)
Reversal of the provision in connection with the transfer of KWK Krupiński to SRK	4.5	-	(4.9)	(97.1)	-	-	(14.2)	(116.2)
Provisions used		(24.2)	(54.7)	(8.1)	(2.2)	-	(7.9)	(97.1)
BALANCE AS AT 31 DECEMBER 2017		**29.8**	**277.7**	**445.4**	**39.2**	**653.5**	**77.3**	**1,522.9**
Long-term		-	223.0	445.4	36.8	653.5	4.3	1,363.0
Short-term		29.8	54.7	-	2.4	-	73.0	159.9

DECOMMISSIONING OF A MINE

Estimating the provision for mine closure costs

The main assumptions made when determining the cost of mine closure include the assumptions with regards to the life of a mine, anticipated inflation and long-term discounting rates and the expected nominal cost of decommissioning the respective mines, which are determined by the Company. Any changes to these assumptions affect the carrying amount of the provision.

a) Assumptions for the life of a mine:

Based on the concessions held for the mining of black coal and methane as a concomitant mineral, the size of the documented resource base of the mines according to an official evaluation of the resources and forecasts of the mining capacity of the mines, the following periods for conducting production activities by particular mining facilities within the organizational structure of JSW are anticipated:

Mines	According to the status	
	as at 31 December 2018	as at 31 December 2017
KWK Borynia-Zofiówka-Jastrzębie Mine		
– Borynia Section	to 31.12.2042	to 31.12.2042
– Zofiówka Section	to 31.12.2051	to 31.12.2051
– Jastrzębie Section	to 31.12.2025	to 31.12.2025
KWK Budryk Mine	to 31.12.2077	to 31.12.2077
KWK Pniówek Mine	to 31.12.2051	to 31.12.2051
KWK Knurów-Szczygłowice Mine		
– Knurów Section	to 31.12.2072	to 31.12.2072
– Szczygłowice Section	to 31.12.2078	to 31.12.2078

The above forecasts of mine lives have been prepared under an assumption that the coal resources in active JSW mines have been fully exhausted, regardless of business performance. This assumption includes 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 is financially impossible to carry out the capital expenditures needed to fully develop the documented resources, the lives of mines may be reduced or extraction of some resources may prove to be unprofitable.

b) Other significant assumptions relating to the calculation of the mine closure costs:

	2018	2017
Inflation rate	2.3%	2.3%
Nominal discount rate	3.1%	3.3%

If the discount rates used were 0.5% points lower than the JSW Management Board's estimates then the carrying amount of the provision for mine closure costs would be PLN 113.3 million more and if the discount rates used were 0.5% points higher then the carrying amount of the provision would be PLN 90.3 million less.

Estimations of coal resources

Coal resources are the estimated volumes of coal which may be extracted legally and in an economically-justified manner from the mining areas where the Parent Company operates. JSW estimates the size of the resources based on information prepared by properly qualified persons pertaining to the geological data about the size, depth and shape of the resources. Interpretation of this information requires complex judgments to be applied. Estimation of coal resources that are suitable for extraction is based on factors such as coal prices, future investment requirements, cost of production and assumptions and judgments regarding the deposit's geological parameters. Any changes in coal resource estimations may affect the anticipated life of mines and thus, indirectly, also the carrying amount of property, plant and equipment, provisions for mine closure costs, deferred tax assets and depreciation expenses.

JSW's mines have a total of approx. 6.739 billion tons of resources of coal, including approx. 1.056 billion tons of recoverable coal reserves (based on mine resource appraisal reports as at 31 December 2018).

Recoverable coal reserves in respective mines:

Mines	31.12.2018	31.12.2017
	m tons	
KWK Borynia-Zofiówka-Jastrzębie Mine:	**301.2**	**218.8**
– Borynia Section	88.3	33.0
– Zofiówka Section	199.6	172.0
– Jastrzębie Section *	13.3	13.8
KWK Budryk Mine	**251.6**	**247.9**
KWK Pniówek Mine	**181.5**	**185.9**
KWK Knurów-Szczygłowice Mine:	**321.6**	**324.2**
– Knurów Section	153.5	155.3
– Szczygłowice Section	168.1	168.9

As at the end of the reporting period, JSW revaluated the provision by applying the discount rate used in the restatement model for employee benefit liabilities (Note 7.11), which is close to the long-term bond yield and by applying the forecast inflation rate and restated expected closure costs of the individual mines. The revaluation of the mine closure provision as at 31 December 2018 entailed an increase in the provision by PLN 87.9 million, which was recognized in property, plant and equipment, in line with IFRIC 1 (Note 7.1).

MINING DAMAGE

Due to the need to remove mining damage resulting from the operations of mines, the Parent Company has established a provision for mining damage. The value of work necessary to remove mining damage as at 31 December 2018 was PLN 362.2 million and was calculated as the estimated cost of repairs of facilities and structures and of compensations resulting from the consequences of mining operations.

The starting point for recognition of the provision are the impacts of mining operations, resulting from execution of mine operation plans, identified on the surface. The provision is presented as the present value of expenditures required to fulfill this obligation and estimated based on the knowledge of the mine's technical function.

The Group expects that PLN 144.7 million of the mining damage provision will be used in 2019. The remaining amount of this provision will be used in the period from 2020 to 2026. The JSW mines classify the tasks based on their knowledge of the dates of repair of the individual damage (individual evaluation of tasks) or the agreed compensation payment dates. The tasks included in the non-current provision are systemically reclassified to the current part based on the accepted technical and economic plan in the 4th quarter of a year, i.e. when particular entities in the Group acquire knowledge about the dates (in subsequent quarters of the following year) when the mining damages, for which the provision has been established, will be removed.

ENVIRONMENTAL FEE AND ENVIRONMENTAL PROTECTION

As at 31 December 2018, the Parent Company recognized a provision for environmental protection associated with biological reclamation of land in the total amount of PLN 48.6 million. Based on the administrative decisions received, current zoning plans and the applicable act on the protection of arable land, JSW is legally obligated to reclaim the storage yards after it discontinues its industrial activity.

The Group's coking plants recognize a provision for the costs of remediation of contaminated sites in accordance with the law regulating the issues of soil, earth and groundwater pollution. The owner of the land where contamination of the earth's surface occurs is obliged to carry out remediation steps. As a result of the conducted tests, the existence of pollution with risk-causing substances was found in the areas of the Jadwiga, Przyjaźń and Radlin coking plant and in the areas of the former coking plants Dębieńsko and Makoszowy.

Pursuant to Article 217d of the Environmental Protection Law, installations holding an integrated permit have the option to postpone remediation until the end of the installation's operation if the operator demonstrates that it does not pose a significant threat to human health or the condition of the environment. The provision applies to installations currently in operation. Since no installations are in operation in the areas of the closed coking plants, JSW KOKS will have to carry out remediation and will not be able to postpone the process. At present, work is underway to prepare reports on the contamination status of the soil, earth and groundwater in these areas.The provisions were estimated by taking into account primarily the costs of works related to the construction of sheet piling and reactive barriers, as well as the use of soil mixing and soil washing processes. The calculation also includes the necessary preparatory, documentation and acceptance works. Based on market data, an average cost estimate was prepared for the above-mentioned works per 1 hectare. The projected remediation costs of the hydrocarbons installations area in the former Makoszowy Coking Plant were estimated at PLN 9.0 million and of the hydrocarbons installations area in the Dębieńsko Coking Plant at PLN 10.9 million (the total value of the provision as at 31 December 2018 is PLN 19.9 million).

PROPERTY TAX

After a positive ruling of the Constitutional Tribunal and the judgments of the Voivodship Court of Administration and the Supreme Court of Administration, JSW estimates the risk of further administrative proceedings in courts, as a result of which the property, plant and equipment components located in mine workings may be taxed and revalues the provisions for potential disputes with townships. Starting in December 2014, the Parent Company started declaring underground infrastructure for tax purposes and it submitted corrections to JSW's tax returns for previous years and submitted corrections to tax returns for the taxation of roof supports, using provisions recognized for this purpose. As at 31 December 2018, the provision for property tax on elements of capitalized mine workings recognized in the books is PLN 1.5 million (PLN 10.6 million as at 31 December 2017).

An assessment or risk conducted by the Group's coke plants, associated with the classification of fixed assets for property tax purposes, based on the updated risk calculation and assessment in this respect resulted in reducing the provision amount to PLN 18.6 million as at 31 December 2018 (PLN 19.2 million as at 31 December 2017).

POTENTIAL LITIGATION RELATED TO THE FREE COAL ALLOWANCE FOR OLD-AGE AND DISABILITY PENSIONERS

In Q4 2018, the JSW Management Board made a decision to reverse the provision for potential litigation related to the free coal allowance for old-age and disability pensioners in the amount of PLN 653.5 million.

This amount of this provision served 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 (Act on compensation benefits by virtue of the loss of the right to receive free coal of 12 October 2017), upholding their hitherto position that depriving them of the free 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 governing their right to the free coal allowance or compensation benefits. The amount of this provision was estimated by an independent actuarial firm using actuarial methods.

The decision to reverse the provision in 2018 was preceded by a systematic analysis of pending court cases and judgments in this respect, in accordance with the "Procedure for verification of claims on account of the free coal allowance right or refusal to pay compensation benefit" ("Procedure") that had been put in place. The analysis covered the following groups of persons raising claims against JSW:

- former employees who retired before 31 December 2014, did not apply for a compensation benefit and sue JSW for the payment of the free coal allowance for pensioners,
- former employees who retired before 31 December 2014, did apply for a compensation benefit but did not receive the compensation benefit payment,
- former employees who retired after 31 December 2014, did apply for a compensation benefit but received a negative decision,
- former employees who retired after 31 December 2014 and sued JSW for the payment of the free coal allowance for pensioners,
- claims of third parties (widows, orphaned children) and other.

The decision to release the entire amount of the provision was made in connection with the fact that JSW had obtained final positive decisions that exceeded the threshold assumed in the Procedure resulting in the ratio of such positive decisions to all claims filed for the free coal allowance right for old-age and disability pensioners or refusal to pay compensation, and after the analysis of justifications for the court judgments. The fact of exceeding this threshold indicates that a line of court decisions has formed that are positive for JSW, which justifies the reversal of the provision.

The reversal has a positive effect on the Group's operating result in the amount of PLN 653.5 million in Q4 2018 (as at 31 December 2017 the provision amounted to PLN 653.5 million).

OTHER PROVISIONS

Other provisions include mainly:

- provisions established for anticipated losses on account of unrealized agreements totaling PLN 2.8 million,
- provision for the litigation against JSW filed by Towarzystwo Ubezpieczeń Ergo Hestia S.A. for payment of compensation for the loss in property resulting from endogenous fire that occurred underground in the Zofiówka Section of KWK Borynia-Zofiówka-Jastrzębie. The total provision is PLN 8.4 million,
- provision for compensation liabilities on account of non-contractual use of a real property (land located within a former protection zone) affected by installations owned by one of the companies. According to the Civil Code, the damages period is 10 years. Accordingly, the company recognizes a provision for liabilities on account of damages. In 2018, the legal standing of this land was subject to repeated analysis. Since this is mainly a forested, uninhabited area that is not used for agricultural production, it is estimated that the probability of claims being raised is low. As at 31 December 2018, the provision amounts to PLN 1.8 million (PLN 15.3 million as at 31 December 2017).
- provision for penalties due to non-performance of an agreement

7.13. TRADE AND OTHER LIABILITIES

SELECTED ACCOUNTING POLICIES

TRADE LIABILITIES AND OTHER LIABILITIES

Current liabilities comprise trade and other liabilities maturing within 12 months of the final day of the reporting period. Initially liabilities are recognized at fair value, but this measurement corresponds to the required payment amount or the amount of the liability and, in later periods, financial liabilities are shown at amortized cost, using the effective interest rate method (for trade liabilities this corresponds to the required payment amount), while other non-financial liabilities at the required payment amount.

Non-current liabilities are initially recognized at fair value minus the transaction costs incurred, and in the next periods are shown at amortized cost, using the effective interest rate method.

The increase in liabilities due to lapse of time is recorded as financial costs.

GRANTS

Subsidies are not recognized until obtaining reasonable certainty that the Group will satisfy the required conditions and receives such subsidies.

Subsidies which involve a principal condition that the Group acquires or develops non-current assets, are recognized in the consolidated statement of financial position in the deferred income line item and charged to the financial result systematically throughout the anticipate useful life of such assets.

Other subsidies are systematically recognized in revenues, over a period required to compensate the costs which such subsidies were intended to compensate. Subsidies due as compensation of costs or losses already incurred or as a form of direct financial support for the Group without incurring future costs, are recognized in the financial result over the period in which they are due.

MATERIAL ESTIMATES

Estimation of interest on liabilities

Pursuant to Article 5 of the Polish Act on Payment Terms in Commercial Transactions of 8 March 2013, the Group calculates, not less frequently than as at the end of each quarter, hypothetical interest on liabilities for which the contractually defined payment term is longer than 30 days. The amount of calculated interest is then adjusted to the level of forecast amounts owed by the Parent Company to counterparties on account of the rights due to them. JSW charges 50% of the maximum amount of interest due to hypothetical counterparties to its financial result; this amount corresponds to the current level of the risk of counterparties

raising a claim to pay interest for the term of payment extended over and above the one prescribed in the Act on payment terms in commercial transactions. Hypothetical interest on liabilities accruing for 2018 amounted to PLN 29.0 million (in 2017: PLN 22.8 million).

The remaining part of the expected risk of the Group being charged any hypothetical late interest is recognized as contingent liabilities.

TRADE AND OTHER LIABILITIES

	Note	31.12.2018	31.12.2017
FINANCIAL LIABILITIES			
Trade liabilities		1,236.9	1,046.5
Finance lease liabilities	6.3	40.3	66.8
Accruals and deferred income		15.5	8.7
Other liabilities of a financial nature, including:		719.2	354.4
– investment liabilities		703.9	336.8
– other liabilities		15.3	17.6
TOTAL		**2,011.9**	**1,476.4**
NON-FINANCIAL LIABILITIES			
Deferred income		95.2	97.9
Other liabilities of a non-financial nature, including:		850.3	701.5
– liabilities for social security contributions and other taxes		476.5	402.6
– trade advances		2.6	5.8
– payroll		300.7	245.6
– other		70.5	47.5
TOTAL		**945.5**	**799.4**
TOTAL TRADE AND OTHER LIABILITIES		**2,957.4**	**2,275.8**
including:			
long-term		119.9	135.7
short-term		2,837.5	2,140.1

The Group has received subsidies under which it is obligated to use the funds received solely and exclusively for the performance of tasks specified in the relevant subsidy agreements and to meet the conditions set forth in the agreements. In 2018 and 2017, those conditions were satisfied. The subsidy amount recognized in profit or loss is specified in Note 4.3.

8. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

SELECTED ACCOUNTING POLICIES

The consolidated cash flow statement is prepared using the indirect method.

Interest paid on the issued debt securities are recognized in cash flows on financing activities.

Interest paid under loans, borrowings, finance leases and other interest paid is recognized in cash flows on operating activities.

8.1. NET CASH FROM OPERATING ACTIVITY

	Note	2018	2017
Profit before tax		**2,192.5**	**3,123.6**
Depreciation and amortization	4.2	766.0	824.7
(Profit) / loss on the sale of property, plant and equipment	4.6	25.2	11.5
Interest and profit-sharing		(23.9)	27.4
Change in employee benefit liabilities		134.9	18.8
Change in provisions		(549.7)	(1,277.9)
Change in inventories		(157.1)	(148.9)
Change in trade and other receivables		(341.4)	91.2
Change in trade and other liabilities		342.2	(18.4)
Impairment losses on property, plant and equipment and intangible assets	7.3	494.7	759.6
Transfer of units to SRK		(13.4)	(168.1)
Exchange differences on measurement of bonds	4.7	11.6	(95.3)
Other cash flows		(25.5)	11.9
CASH FLOW FROM OPERATING ACTIVITY		**2,856.1**	**3,160.1**

Reconciliation of changes in employee benefit liabilities in the consolidated cash flow statement:

	Note	2018	2017
Change in employee benefit liabilities from the consolidated statement of financial position	7.11	205.3	(22.1)
Actuarial gains/(losses) captured in other comprehensive income	7.11	(70.4)	(9.2)
Transfer of units to SRK	4.5	-	50.1
CHANGE IN EMPLOYEE BENEFIT LIABILITIES IN THE CONSOLIDATED CASH FLOW STATEMENT		**134.9**	**18.8**

Reconciliation of the change in provisions in the consolidated cash flow statement:

	Note	2018	2017
Change in provisions in the consolidated statement of financial position	7.12	(461.8)	(1,465.8)
Change in the mine closure provision	7.1	(87.9)	71.5
Transfer of units to SRK	4.5	-	116.2
Other		-	0.2
CHANGE IN PROVISIONS IN THE CONSOLIDATED CASH FLOW STATEMENT		**(549.7)**	**(1,277.9)**

Reconciliation of the change in inventories in the consolidated cash flow statement:

	Note	2018	2017
Change in inventories in the consolidated statement of financial position	7.7	(157.1)	(156.9)
Other		-	8.0
CHANGE IN INVENTORIES IN THE CONSOLIDATED CASH FLOW STATEMENT		**(157.1)**	**(148.9)**

Reconciliation of the change in trade and other receivables in the cash flow statement:

	Note	2018	2017
Change in trade and other receivables from the consolidated statement of financial position	7.8	1,110.0	(1,358.8)
The payment for investment certificates recognized as at 31 December 2017 as other receivables presented in cash flow on investing activity		(1,450.0)	1,450.0
Receivables under prepayments for purchase of fixed assets		0.2	
Impairment losses for trade receivables ensuing from the implementation of IFRS 9 as at 1 January 2018		(1.6)	-
CHANGE IN TRADE AND OTHER RECEIVABLES IN THE CONSOLIDATED CASH FLOW STATEMENT		**(341.4)**	**91.2**

9. NOTES TO THE FINANCIAL INSTRUMENTS

SELECTED ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS

The Management Board defines the classification of the Group's financial assets. The classification of financial assets depends on the business model employed to manage the financial assets and the characteristics of the contractual cash flow (SPPI test) of a given component of financial assets. The classification of financial assets is accomplished at the time of initial recognition and may only be altered when the business model for managing financial assets is altered.

As of 1 January 2018, according to the new standard, the Group applies the following categories of financial instruments:

(a) Financial assets and liabilities measured at amortized cost

An asset is classified as belonging to this category if both of the following conditions are satisfied:

- *the Group's intention is to maintain these financial assets to receive the contracted cash flow, and*
- *for which the contractual clauses trigger cash flows at specified dates that are solely payments of the unpaid principal and the interest on that amount.*

The Group classifies chiefly trade receivables, bank term deposits and cash and cash equivalents as assets measured at amortized cost.

The financial assets in this category after their initial recognition are measured at amortized cost while using the effective interest rate, after subtracting any possible impairment losses. In turn, trade receivables with a date of maturity shorter than 12 months from the date of their origin (i.e. not containing a financing element) are not subject to discounting and are measured at their nominal value.

The Group classifies trade and other liabilities of a financial nature, loans and borrowings, liabilities under debt securities issued, liabilities under financial leasing as financial commitments measured at amortized cost.

(b) Financial assets and liabilities measured at fair value through profit or loss

The Group classifies derivatives not designated for the purposes of hedge accounting as well as participations in other entities as assets measured at fair value through profit or loss.

A gain or loss on the measurement of a financial asset classified as being measured at fair value through profit or loss is recognized in the financial result in the period in which it occurs.

The Group classifies liabilities for derivatives not designated for the purposes of hedge accounting as measured at fair value through profit or loss.

(c) Financial assets measured at fair value through other comprehensive income

A gain or loss on a financial asset constituting an equity instrument for which the option of fair value measurement has been applied through other comprehensive income is recognized in other comprehensive income.

(d) Hedging instruments

This category includes assets and liabilities hedging various specific types of risk under hedge accounting. In this line item, the Group recognizes derivatives to which it applies hedge accounting principles. The applied hedge accounting principles are described in Note 9.4.
Pursuant to the provisions of IFRS 9, the Group made a decision constituting an element of the accounting policy on continuation of application of the hedge accounting requirements pursuant to IAS 39, thus not implementing the hedge accounting requirements following from IFRS 9, until IASB completes the work on the hedge project regarding macro hedging.

Until 31 December 2017, the entire classification was based on the purpose of acquiring the financial assets. The Group held the following categories of financial instruments: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, financial liabilities measured at amortized cost, financial assets available for sale, hedge instruments.

9.1. CATEGORIES AND CLASSES OF FINANCIAL INSTRUMENTS according to IFRS 9

The comparison of financial assets and liabilities as at the date of first application of IFRS 9, i.e. as at 1 January 2018 is presented in Note 2.6.

The following tables present information on categories and classes of financial instruments.

FINANCIAL ASSETS according to IFRS 9:

Financial instrument classes	Note	Financial instrument categories			Total
		Amortized cost	Fair value settled through the financial result	Hedging instruments	
AS AT 31 DECEMBER 2018					
Interests in other entities		-	0.1	-	**0.1**
Trade receivables	7.8	976.9	-	-	**976.9**
gross value		1,056.5	-	-	***1,056.5***
impairment losses		(79.6)	-	-	***(79.6)***
Bank term deposits	7.6, 7.9	10.6	-	-	**10.6**
gross value		*10.6*	-	-	***10.6***
Covered bonds	7.5	-	183.4	-	**183.4**
gross value		-	*183.4*		***183.4***
Debt securities	7.5	-	644.0	-	**644.0**
gross value		-	*644.0*		***644.0***
Deposits	7.5	701.0	-	-	**701.0**
gross value		*701.0*	-		***701.0***
Cash and cash equivalents in FIZ	7.5	304.2	-	-	**304.2**
gross value		*304.2*	-	-	***304.2***
Cash and cash equivalents *	7.6, 7.9	1,979.9	-	-	**1,979.9**
gross value		*1,980.2*	-	-	***1,980.2***
impairment losses		*(0.3)*	-	-	***(0.3)***
Derivatives	9.4	-	1.9	5.3	**7.2**
TOTAL		**3,972.6**	**829.4**	**5.3**	**4,807.3**

* *This item also includes funds accumulated to finance the decommissioning of a mine (Cash and cash equivalents of the Mine Closure Fund) – Note 7.6.*

None of the significant financial assets that were not overdue were renegotiated during the last year.

FINANCIAL ASSETS according to IAS 39:

Financial instrument classes	Note	Financial instrument categories				Total
		Financial assets at fair value through profit or loss	Financial assets available for sale	Loans and receivables	Hedging instruments	
AS AT 31 DECEMBER 2017						
Ownership interest and shares not listed on a stock exchange		-	0.1	-	-	0.1
Trade receivables	7.8	-	-	688.1	-	688.1
Receivables by virtue of the acquisition of investment certificates	7.8	1,450.0	-	-	-	1,450.0
Bank term deposits		-	-	10.4	-	10.4
Cash and cash equivalents *	7.9, 7.6	-	-	1,480.4	-	1,480.4
Derivatives	9.4	5.5	-	-	8.3	13.8
TOTAL		**1,455.5**	**0.1**	**2,178.9**	**8.3**	**3,642.8**

* *This item also includes funds accumulated to finance the decommissioning of a mine (Cash and cash equivalents of the Mine Closure Fund) – Note 7.6.*

FINANCIAL LIABILITIES according to IFRS 9:

Financial instrument classes	Note	Financial instrument categories			Total
		Amortized cost	Financial liabilities measured at fair value through profit or loss	Hedging instruments	
AS AT 31 DECEMBER 2018					
Derivatives		-	5.6	0.4	**6.0**
FIZ derivatives – interest rate swap (IRS) in PLN)	7.5	6.5	-	-	**6.5**
Loans and borrowings	6.1	70.0	-	-	**70.0**
Liabilities under debt securities issued	6.2	121.0	-	-	**121.0**
Finance lease liabilities		40.3	-	-	**40.3**
Trade liabilities and other financial liabilities	7.13	1,971.5	-	-	**1,971.5**
TOTAL		**2,209.3**	**5.6**	**0.4**	**2,215.3**

FINANCIAL LIABILITIES according to IAS 39:

Financial instrument classes	Note	Financial instrument categories				Total
		Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Hedging instruments	Financial liabilities excluded from IAS 39	
AS AT 31 DECEMBER 2017						
Loans and borrowings	6.1	-	122.2	-	-	**122.2**
Liabilities under debt securities issued	6.2	-	856.0	-	-	**856.0**
Finance lease liabilities	6.3	-	-	-	66.8	**66.8**
Trade liabilities and other financial liabilities	7.13	-	1,409.6	-	-	**1,409.6**
TOTAL		**-**	**2,387.8**	**-**	**66.8**	**2,454.6**

As at 31 December 2018 and as at 31 December 2017, the fair value of financial assets and liabilities measured at amortized cost did not differ significantly from their carrying amounts.

9.2. FAIR VALUE HIERARCHY

Financial instruments carried at fair value in the consolidated statement of financial position are analyzed for valuation procedures. The hierarchy of valuation procedures has been defined as follows:

- Listed (unadjusted) prices from active markets for identical assets or liabilities (Level 1).
- Input data other than the listings covered by this level which may be determined or observed for an asset or liability item directly (i.e. in the form of price) or indirectly (i.e. through calculations based on prices) (level 2).
- Input data for the valuation of assets or liabilities, which are not based on the observable market data (i.e. data which cannot be observed) (level 3).

The table below depicts financial assets and liabilities that are measured at fair value. These items include derivatives in the form of FX forward transactions for which the maturity date falls after the end date of the reporting period and receivables by virtue of the acquisition of investment certificates. With respect to valuation procedures, they are classified as level 2 in the above hierarchy.

Group's financial assets and liabilities carried at fair value:

	31.12.2018 Level 2	31.12.2017 Level 2
FINANCIAL ASSETS:		
Receivables by virtue of the acquisition of investment certificates	-	1,450.0
Investments in the FIZ asset portfolio	1,826.1	-
Financial derivatives, including:	7.2	13.8
financial assets – FX hedges	5.3	8.3
FINANCIAL LIABILITIES		
Financial derivatives, including:	6.0	-
financial liabilities – FX hedges	0.4	-

The fair value of financial instruments which are not traded on active markets exists is measured by using adequate valuation techniques. Such valuation techniques optimize the use of observable market data where they are available and rely to the smallest possible extent on the entity-specific estimations. Where all the significant data used for measurement at fair value are observable, the financial instrument is classified as level 2. This group includes financial derivatives.

9.3. INCOME, COST, PROFIT AND LOSS ITEMS RECOGNIZED IN THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME, BY CATEGORIES OF FINANCIAL INSTRUMENTS

	Note	Financial assets/liabilities at fair value through profit or loss	Financial assets/liabilities at fair value through other comprehensive income	Financial assets/liabilities measured at amortized cost	Hedging instruments	Total
FOR THE PERIOD ENDED 31 DECEMBER 2018						
Interest income/(cost) recognized in:		**28.2**	**-**	**(27.5)**	**-**	**0.7**
other income		-	-	11.1	-	11.1
other expenses		-	-	(32.9)	-	(32.9)
financial income	4.7	0.3	-	28.5	-	28.8
financial costs		-	-	(34.2)	-	(34.2)
other net gains/(losses)		27.9	-	-	-	27.9
Foreign currency gains/(losses) recognized in:		**0.1**	**-**	**13.6**	**-**	**13.7**
other net gains/(losses)	4.6	-	-	14.3	-	14.3
financial income	4.7	0.1	-	11.2	-	11.3
financial costs	4.7	-	-	(11.9)	-	(11.9)
Income/(costs) on measurement and exercise of derivatives, recognized in:		**(23.4)**	**-**	**(21.3)**	**(14.9)**	**(59.6)**
other net gains/(losses)	4.6	(23.4)	-	-	(5.8)	(29.2)
financial costs	4.7	-	-	(21.3)	-	(21.3)
other comprehensive income		-	-	-	(9.1)	(9.1)
Impairment losses for trade receivables reversed/(recognized) in:		**0.3**	**-**	**(0.6)**	**-**	**(0.3)**
cost by nature		-	-	0.8	-	0.8
other income		0.1	-	0.2	-	0.3
other expenses		0.2	-	(1.6)	-	(1.4)
Gains/(losses) on changes in fair value recognized in:		**(1.8)**	**-**	**-**	**-**	**(1.8)**
other net gains/(losses)		(1.8)	-	-	-	(1.8)

	Note	Financial assets/liabilities at fair value through profit or loss	Financial assets/liabilities at fair value through other comprehensive income	Financial assets/liabilities measured at amortized cost	Hedging instruments	Total
TOTAL		3.4	-	(35.8)	(14.9)	(47.3)

	Note	Financial assets/liabilities at fair value through profit or loss	Financial assets available for sale	Loans and receivables	Financial liabilities measured at amortized cost	Hedging instruments	Financial liabilities excluded from IAS 39	Total
FOR THE PERIOD ENDED 31 DECEMBER 2017								
Interest income/(cost) recognized in:		**-**	**-**	**37.1**	**(69.6)**	**-**	**(2.8)**	**(35.3)**
other income		-	-	5.1	15.0	-	-	20.1
other expenses		-	-	-	(26.9)	-	-	(26.9)
financial income	4.7	-	-	32.0	-	-	-	32.0
financial costs		-	-	-	(57.7)	-	(2.8)	(60.5)
Foreign currency gains/(losses) recognized in:		**-**	**-**	**(28.0)**	**90.9**	**-**	**0.2**	**63.1**
other net gains/(losses)		-	-	(18.6)	0.8	-	0.2	(17.6)
financial income		-	-	-	95.3	-	-	95.3
financial costs	4.7	-	-	(9.4)	(5.2)	-	-	(14.6)
Income/(costs) on measurement and exercise of derivatives, recognized in:		**35.0**	**-**	**-**	**(11.4)**	**46.5**	**-**	**70.1**
other net gains/(losses)	4.6	35.0	-	-	-	37.9	-	72.9
financial costs		-	-	-	(11.4)	-	-	(11.4)
other comprehensive income		-	-	-	-	8.6	-	8.6
Impairment losses for trade receivables reversed/(recognized) in:		**-**	**-**	**(0.6)**	**-**	**-**	**-**	**(0.6)**
cost by nature		-	-	(0.1)	-	-	-	(0.1)
other income		-	-	0.2	-	-	-	0.2
other expenses		-	-	(0.7)	-	-	-	(0.7)
Gains/ (losses) on valuation of non-current liabilities, recognized in:		-	**0.2**	-	-	-	-	**0.2**
financial costs		-	0.2	-	-	-	-	0.2
TOTAL		35.0	0.2	8.5	9.9	46.5	(2.6)	97.5

9.4. DERIVATIVES

SELECTED ACCOUNTING POLICIES

DERIVATIVES

Derivatives are carried at fair value as at the date of concluding the contract and then revalued to fair value as at each final day of the reporting period. Derivatives are shown as assets when their value is positive and as liabilities when their value is negative, and the profit or loss from their valuation is shown immediately in the financial result.

A derivative financial instrument is classified as a short-term financial instrument if the settlement date of that instrument of its part is within one year from the final day of the reporting period. If the settlement date of the financial instrument is over one year from the final day of the reporting period then such an instrument or part thereof is classified as a long-term financial instrument.

HEDGE ACCOUNTING

For accounting purposes, hedging involves proportionate offsetting of results obtained through changes in fair value or changes in cash flows from the hedging instrument and hedged position.

The Group applies hedge accounting to secure cash flows. Applying cash flow hedge accounting makes it possible to post the effective part of the hedge to other comprehensive income, which in effect is accumulated in capital, which leads to matching the impact on the financial result of hedge instruments measurement and the pursuit of the hedged position.

The Group applies hedge accounting with respect to foreign exchange risk.

Cash flow hedging is a hedge against the threat of volatility of cash flows which can be attributed to a specific risk type associated with the respective asset or liability or with a highly probable contemplated transaction and which could influence profit or loss.

Gains or losses on the changing fair value of the cash flow hedge instrument are recognized in other comprehensive income in the part constituting effective hedge, while any ineffective portion of the hedge is recognized in the profit or loss of the current period.

The effective part captured in other comprehensive income is posted to profit or loss in the same period in which the hedged position affects profit or loss.

The Group ceases to apply cash flow hedge accounting if the hedging instrument expires, is sold, reversed or realized or when the Group withdraws its designation of the instrument as a hedge or if the hedge no longer meets the hedge accounting criteria and realization of the planned transaction is no longer expected.

Financial assets after conversion to PLN:

	31.12.2018			31.12.2017		
	Hedge derivatives	Derivatives carried at fair value through profit or loss	Total	Hedge derivatives	Derivatives carried at fair value through profit or loss	Total
FX forward:						
– EUR	4.7	0.3	5.0	7.0	3.7	10.7
– USD	0.6	0.3	0.9	1.3	1.8	3.1
Commodity options	-	0.8	0.8	-	-	-
Commodity swaps	-	0.5	0.5	-	-	-
TOTAL, OF WHICH	**5.3**	**1.9**	**7.2**	**8.3**	**5.5**	**13.8**
- short-term	5.3	1.9	7.2	8.3	5.5	13.8

Financial liabilities after conversion to PLN:

	31.12.2018			31.12.2017		
	Hedge derivatives	Derivatives carried at fair value through profit or loss	Total	Hedge derivatives	Derivatives carried at fair value through profit or loss	Total
FX forward:						
– EUR	-	0.6	0.6	-	-	-
– USD	0.4	2.6	3.0	-	-	-
Commodity swaps	-	2.4	2.4	-	-	-
TOTAL, OF WHICH	**0.4**	**5.6**	**6.0**	**-**	**-**	**-**
- long-term	-	-	-	-	-	-
- short-term	0.4	5.6	6.0	-	-	-

The nominal values of contracts expressed in their respective currencies are presented in the table below:

Contract		Currency	31.12.2018		31.12.2017	
			Hedge derivatives	Derivatives carried at fair value through profit or loss	Hedge derivatives	Derivatives carried at fair value through profit or loss
FX FORWARD		**EUR**	**98.0**	**81.1**	**55.0**	**48.0**
	sale		98.0	81.1	55.0	48.0
FX FORWARD		**USD**	**23.0**	**43.7**	**7.0**	**18.7**
	sale		23.0	43.7	7.0	18.7

The nominal values of commodity contracts hedging the price risk expressed in tons are presented in the table below:

Contract		31.12.2018		31.12.2017	
		Hedge derivatives	Derivatives carried at fair value through profit or loss	Hedge derivatives	Derivatives carried at fair value through profit or loss
COMMODITY SWAP		**-**	**0.1**	**-**	**-**
	sale	-	0.1	-	-
ASIAN PUT OPTION		**-**	**0.1**	**-**	**-**
	purchase	-	0.1	-	-

9.5. FINANCIAL RISK MANAGEMENT

9.5.1. FINANCIAL RISK FACTORS

The business conducted by the Group exposes it to the following financial risks: market risk (including: price risk, foreign exchange risk and cash flow risk related to changes in interest rates), credit risk and liquidity risk.

Financial risk management is performed at the Management Board level. There are separate organizational units which monitor exposures to the individual financial risks.

(a) PRICE RISK

Product 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 metallurgy and steel market, while steam coal prices additionally depend also on other domestic producers. Even though JSW has regular offtakers, the Parent Company must compete with local and overseas suppliers (chiefly coke and coking coal). Growth in the significance of price indices and the disappearance of the traditional benchmark for coking coal agreed upon prior to the period of deliveries open up possibilities for employing various settlement periods and reference prices. This may lead to greater price volatility and periodic price differences than in the case of having negotiations rely on a single quarterly benchmark. The ownership change processes in the European steel industry force greater market activity, resulting in an increased diversification of sales. In case of changes in market prices and in order to ensure stable allocation of volumes on the market, the Group mitigates their impact on its financial standing by taking the following actions:

- optimize production volume,
- optimize 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 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 and rail and marine cargo transport. Also, an analysis is conducted to monitor the opportunities and the terms for the offtakers to obtain coal or coke from alternative sources on the domestic market or from foreign, mainly overseas markets. The terms and conditions of long-term contracts allow for periodic price negotiations (annually for steam coal and quarterly for coking coal and quarterly, semi-annually or annually for coke). To achieve the risk management goals, the Group observes the rules described in the Sales Procedure of the Jastrzębska Spółka Węglowa S.A. Group and the rules of the Foreign Exchange Risk Committee at the JSW Group, which monitors the inflow of currencies from deliveries of coal, coke and hydrocarbons.

In July 2018, the JSW Management Board appointed the Financial Risk Committee and approved the *JSW S.A. Policy and Procedure for Managing Coking Coal Price Risk.*

The overriding objective of the principles for managing the risk of coking coal prices adopted by the Group is to reduce the impact of fluctuations in coking coal prices on the Group's cash flows to an acceptable level. The Group assumes that the application of the coking coal price risk management principles described in the Coking Coal Price Risk Management Policy will increase the probability of achieving planned cash flows and the stability of its planned growth in the long term.

The coking coal price risk management process is carried out with while keeping the separation of roles and duties related to executive functions (related to the conclusion of derivatives) from control, supervisory or management functions.

The Group has a Financial Risk Committee, which advises the Management Board on the management of the coking coal price risk. Within the limit awarded by the Management Board, the Financial Risk Committee may decide on the implementation of hedging strategies or, where such limit is or could be overrun, recommend their implementation to the Management Board.

In Q3 2018, the Group implemented transactions hedging the risk of changes in coking coal prices for the total nominal volume of 135 thousand tons and maturities from October 2018 to December 2019. Under the hedge, a commodity swap was concluded and a PUT option was purchased. As at 31 December 2018, JSW held transactions hedging the risk of changes in coal prices in the total nominal volume of 132 thousand tons. As at 31 December 2018, the fair value of the derivatives was PLN (1.2) million.

Price risk - other

The Group has no material investments in capital securities classified in the statement of financial position as current financial assets and therefore is not exposed to price risk related to changes in the prices of such investments.

(b) 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.

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 FX Risk Management Policy at the Jastrzębska Spółka Węglowa S.A. Group.

The Group has allocated the executive, decision-making, supervisory, control and analytical functions to individual organizational units (the "division of tasks" principle).

In the Group, there is a Financial Risk Committee, 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 2018, the Group concluded FX forward transactions (external), in accordance with the hedge ratios adopted by the Management Board and the Financial Risk Committee. Intra-group hedging transactions have also been concluded in the Group. 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 2018, the Group designated FX Forward transactions with a nominal amount of USD 62.5 million and EUR 187.5 million for hedge accounting. As at 31 December 2018, the Group had outstanding FX Forward derivatives with a total notional amount of EUR 179.1 million and USD 66.7 million, of which EUR 98.0 million and USD 23.0 million were hedge transactions for hedge accounting purposes. Derivative transactions hedge proceeds from the sales of products and merchandise which the Group expects to receive by October 2019. The effective part of the change in the fair value of hedge derivatives in the amount of PLN (9.1) million was recognized in other comprehensive income. The ineffective part and the change in the fair value of derivatives not designated for hedge accounting has been recognized in the period's profit or loss. As a result of realization of the hedged item in both EUR and USD, the amount of PLN (27.1) million was recognized in the financial result in the period from January to December 2018.

The tables below provide details of these derivative transactions:

Open FX transactions as at 31 December 2018 are as follows:

Transaction type	Transaction settlement date				
	up to 1 month	2 to 3 months	4 to 6 months	7 to 12 months	Total
TRANSACTIONS AT FAIR VALUE THROUGH PROFIT OR LOSS					
FX Forward	(2.6)	(0.3)	0.3	-	**(2.6)**
FX Forward	-	2.8	1.3	0.8	**4.9**
TOTAL	**(2.6)**	**2.5**	**1.6**	**0.8**	**2.3**

Open FX transactions as at 31 December 2017 are as follows:

Transaction type	Transaction settlement date				
	up to 1 month	2 to 3 months	4 to 6 months	7 to 12 months	Total
TRANSACTIONS AT FAIR VALUE THROUGH PROFIT OR LOSS					
FX Forward	4.3	1.2	-	-	**5.5**
HEDGE TRANSACTIONS					
FX Forward	-	3.1	4.1	1.1	**8.3**
TOTAL	**4.3**	**4.3**	**4.1**	**1.1**	**13.8**

The carrying amounts of selected items denominated in foreign currencies, following a conversion into PLN, are as follows:

	31.12.2018		31.12.2017	
SELECTED BALANCE SHEET ITEMS	**EUR**	**USD**	**EUR**	**USD**
Cash and cash equivalents	27.1	140.1	8.3	64.7
Trade receivables	327.7	130.1	249.6	59.0
Financial derivatives measured through profit or loss (assets)	0.3	1.7	3.7	1.8
Hedges (assets)	4.7	0.6	7.0	1.3
Trade liabilities	(11.7)	(0.3)	(9.3)	(1.0)
Liabilities under debt securities issued	-	(49.5)	-	(332.7)
Financial derivatives measured through profit or loss (liabilities)	(0.6)	(5.0)	-	-
Hedges (liabilities)	-	(0.4)	-	-
NET EXPOSURE	**347.5**	**217.3**	**259.3**	**(206.9)**

The Group's sensitivity to appreciation and depreciation of the EUR/PLN and USD/PLN exchange rates is presented in the table below. Sensitivity analysis includes only the items denominated in foreign currencies which remain open at the end of the reporting period and presents the potential change in the value of financial assets and liabilities as a result of a change in the exchange rate. The sensitivity analysis is calculated on the basis of the implied volatility published by the Reuters service as at 31 December 2018.

Analysis of sensitivity to changes of exchange rates:

	EUR/PLN rate				USD/PLN rate			
	31.12.2018		31.12.2017		31.12.2018		31.12.2017	
	net profit	other comprehensive income	net profit	other comprehensive income	net profit	other comprehensive income	net profit	other comprehensive income
% change	6.0%		6.3%		10.0%		10.3%	
Change in the value of financial assets	21.3	-	16.2	-	27.2	-	12.8	-
Change in the value of financial liabilities	(21.6)	(25.3)	(13.2)	(14.4)	(21.7)	(8.7)	(40.6)	(2.5)
Effect on profit before tax or other comprehensive income	(0.3)	(25.3)	3.0	(14.4)	5.5	(8.7)	(27.8)	(2.5)
Tax effect	0.1	4.8	(0.6)	2.7	(1.0)	1.7	5.3	0.5
IMPACT ON NET PROFIT	**(0.2)**	**-**	**2.4**		**4.5**	**-**	**(22.5)**	
IMPACT ON OTHER COMPREHENSIVE INCOME	**-**	**(20.5)**		**(11.7)**	**-**	**(7.0)**		**(2.0)**

When the exchange rates drop (change by -%), the sensitivity analysis produces values identical to those in the table above but with an opposite sign.

(c) RISK OF CASH FLOW VOLATILITY CAUSED BY CHANGES IN INTEREST RATES

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. The Group is exposed mainly to the risk of changes in interest rates in respect of the assets associated with the acquisition of investment certificates as well as deposits and cash. To a lesser extent, the Group is exposed to the risk of changes in interest rates in respect of its liabilities under debt securities issued, finance lease liabilities and loans and

borrowings. Interest rate risk arises from the volatility of 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 items of the consolidated statement of financial position, which are exposed to changes in interest rates, are presented in the following table:

	31.12.2018	31.12.2017
Long-term financial assets:		
Bank term deposits	10.6	10.3
Cash and cash equivalents of the Mine Closure Fund	329.1	310.9
Investments in the FIZ asset portfolio	1,826.1	-
Trade and other receivables:		
Receivables by virtue of the acquisition of investment certificates	-	1,450.0
Current financial assets:		
Bank term deposits	-	0.1
Cash and cash equivalents	1,650.8	1,169.5
Long-term financial liabilities		
Loans and borrowings	36.5	70.6
Liabilities under debt securities issued	-	792.6
Finance lease liabilities	19.0	33.4
Current financial liabilities		
Loans and borrowings	33.5	51.6
Liabilities under debt securities issued	121.0	63.4
Finance lease liabilities	21.3	33.4

The tables below present the potential impact of a change in interest rates on net profit and other comprehensive income. The analysis only covers these positions in financial instruments, which are exposed to interest rate risk as at the last day of the reporting period. The level of changes in interest rates accepted until 31 December 2018 reflects the hypothetical change in the level of the PLN reference rate.

Analysis of sensitivity to interest rate changes:

	PLN interest rate		USD interest rate	
	31.12.2018 net profit / loss	31.12.2017 net profit / loss	31.12.2018 net profit / loss	31.12.2017 net profit / loss
Volatility in basis points	+ 50pb			
Change in the value of financial assets	18.1	14.3	0.7	0.3
Change in the value of financial liabilities	(0.9)	(3.5)	(0.2)	(1.6)
Impact on profit/loss before tax or other comprehensive income	17.2	10.8	0.5	(1.3)
Tax effect	(3.3)	(2.1)	(0.1)	0.2
IMPACT ON NET PROFIT	**13.9**	**8.7**	**0.4**	**(1.1)**

If the interest rates change by -50 basis points, the sensitivity analysis produces values identical to those in the table above but with an opposite sign.

The Group is exposed to interest rate risk primarily in PLN and USD. With respect to EURIBOR 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.

(d) CREDIT RISK

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

- trade receivables,
- cash and bank term deposits,
- derivatives.

Credit risk identified in trade receivables is related to their concentration and timely service and credibility of buyers. Sales are made to a limited number of buyers and therefore there is a concentration of risk associated with trade receivables.

In 2018, the ArcelorMittal Group and companies with the State Treasury in the shareholding structure still remain the principal buyers, responsible for respectively 33.4% and 16.1% of all trade receivables as at 31 December 2018. Both the ArcelorMittal Group and companies with the State Treasury as a shareholder decreased their share in trade receivables in 2018, as compared to the previous year. In 2017, the share held by the ArcelorMittal Group in trade receivables was 34.9% while the share of receivables from companies with the State Treasury as a shareholder represented 17.2% of all trade receivables in that period.

The Group operates on a volatile market and is exposed to the risk of uncollectible receivables. This risk is mitigated by the fact that most of the Group's clients are large steel conglomerates with solid market position, or local commercial power plants. The Group does not require any security interest from buyers with a strong market position, considering the strategic nature of the cooperation and the ability to assess their financial documents. Other offtakers must put forward security, such as an irrevocable letter of credit or a blank promissory note. The clients who are unable to submit the security satisfactory to the Group can make a purchase against prepayment or have their amounts due insured by insurance companies.

As at 31 December 2018, 11.5% of the Group's trade receivables was insured, 6.5% was secured by blank promissory notes and 13.3% was secured by letters of credit (as at 31 December 2017: 8.3% of the Group's trade receivables was insured, 12.2% was secured by blank promissory notes and 8.5% was secured by letters of credit).

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.

Concentration of financial resources in banks:

Bank	Rating	Rating agency	31.12.2018	31.12.2017
A	A2	Moody's	81.9%	78.2%
B	BBB+	Fitch	10.0%	-
C	A-	Fitch	7.3%	-
Other	-	-	0.8%	21.8%
			100.0%	**100.0%**

This information covers the cash presented in Note 7.6 and Note 7.9.

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 FX Risk Management Policy in the 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 Financial Risk Committee at the Jastrzębska Spółka Węglowa S.A. 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. The highest concentration level in one bank as at 31 December 2018 was 67% of the permissible limit.

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

(e) LIQUIDITY RISK

In connection with the high capital expenditures incurred and the strong dependence of cash flows on coal and coke sale prices, in periods of bad economic conditions the Group is exposed to liquidity risk. Currently, owing to a significant improvement in the Group's financial position, including an improvement in liquidity, as well as the repayment of a portion of liabilities on account of the bond issue, this risk has been curtailed.

The current market conditions enable generation of positive cash flows at the operational level, resulting in a high level of available cash. Moreover, within the framework of its strategic activities, the Parent Company will 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. With this in mind, a Cooperation Agreement was signed with TFI Energia S.A. (formerly PGE Towarzystwo Funduszy Inwestycyjnych S.A.), under which JSW established the JSW Stabilization Closed-End Investment Fund (JSW Stabilization FIZ). On 18 January 2018 an issue of Series A Investment Certificates totaling PLN 1.5 billion was completed. Additionally, on 17 December 2018, the issue of Series B Investment Certificates for the amount of PLN 300.0 million was completed.

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 Group has in place a cash management system named Physical Cash Pooling (PCP).

According to the signed agreements as at 31 December 2018, the Group had available and unused overdraft and working capital loan limits totaling PLN 0.8 million (as at 31 December 2017: PLN 0.9 million).

The table below contains an analysis of the Group's financial liabilities by age group, distributed according to time to contractual maturity on the last day of the reporting period. The amounts presented in the table represent undiscounted contractual cash flows. The balances of trade liabilities and other financial liabilities maturing within 12 months are recognized at their carrying amounts, since the impact of discounting is not significant in terms of value.

	Under 1 year	From 1 to 2 years	From 2 to 5 years	Above 5 years	Total
BALANCE AS AT 31 DECEMBER 2018					
Loans and borrowings	35.1	12.0	26.4	-	73.5
Trade liabilities and other financial liabilities	1,983.9	12.6	10.4	7.5	2,014.4
Liabilities under debt securities issued	121.3	-	-	-	121.3
Derivatives (gross-settled)	1,021.1	-	-	-	1,021.1
TOTAL	**3,161.4**	**24.6**	**36.8**	**7.5**	**3,230.3**
BALANCE AS AT 31 DECEMBER 2017					
Loans and borrowings	54.6	36.1	35.8	5.1	131.6
Trade liabilities and other financial liabilities	1,434.8	22.3	14.4	6.8	1,478.3
Liabilities under debt securities issued	100.3	255.6	603.0	-	958.9
Derivatives (gross-settled)	518.9	-	-	-	518.9
TOTAL	**2,108.6**	**314.0**	**653.2**	**11.9**	**3,087.7**

9.5.2. CAPITAL RISK MANAGEMENT

The key objective of the Group's capital risk management is to safeguard the Company's ability to continue as a going concern and carry out the planned investment projects, while increasing the shareholder value of individual companies.

Capital risk management involves, among others, the monitoring of net financial debt/EBITDA and net financial debt/equity ratios calculated on the Group level, based on the regulations and definitions included in the Terms and Conditions of the Bond Issue, i.e. adjusted among others for

the impact exerted by non-recurring events as defined in the Terms and Conditions of the Bond Issue. According to the Terms and Conditions of the Bond Issue, equity means the consolidated level of equity at the end of the given period stemming from the Group's consolidated financial statements. In accordance with WEO requirements, the Group as a matter of priority strives to maintain its net financial debt/equity ratio at a level not higher than 0.6 and to suppress its net financial debt/EBITDA ratio to the love equal or lower than 2.5. According to the Terms and Conditions of the Bond Issue, JSW was 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. As at 31 December 2017, the net financial debt/EBITDA ratio was -0.04 and the net financial debt/equity ratio was

-0.02. In each of the analyzed periods in 2018, both the net financial debt/equity ratio and the net financial debt/EBITDA ratio were negative, which resulted from a the fact that there was a surplus of cash over financial liabilities.

The Group is exposed to various risks in each area of its activity. In order to achieve its strategic objectives, the Group actively manages the risks arising in its operations, striving to mitigate or eliminate their potential negative effect on the financial result. In addition to the financial risks discussed in these consolidated financial statements, the Group is exposed to non-financial risks, which include risks arising from its social and economic and market settings, with its business activity, environmental risks and risks related to its legal environment. The non-financial risks are discussed in detail in Section 3.7. Management Board Report on the activity of Jastrzębska Spółka Węglowa S.A. and the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2018.

10. OTHER EXPLANATORY NOTES

10.1. CONTINGENT ITEMS

CONTINGENT ASSETS

Due to judgments handed down by administrative courts regarding the possibility of taxing roof supports of underground mine workings, JSW submitted correction tax returns to townships for the years not covered by the tax proceedings. In this situation, in H2 2017 JSW ceased to activate in its receivables subsequent taxes paid to the townships by virtue of taxed mining roof supports as specified in the surveying decisions and started to recognize them as contingent receivables. The amount of the real estate tax paid but possibly recoverable is PLN 6.0 million.

CONTINGENT LIABILITIES

(a) mining damage

Under its provisioning policy, the Group recognizes provisions for mining damages in the financial statements which are the result of operating the black coal mines owned by the Group in the current value of expenditures necessary to satisfy the liability. The Group is not aware of a method for measuring future mining damage arising from past mining activity, which would allow for a reliable estimation of future rectification costs of such damages.

(b) guarantee of employment

As a result of discussions conducted with the social side in the Voivodship Social Dialog Commission pertaining to, among others, guarantee of employment and matters associated with the public offering, on 5 May 2011, the JSW Management Board signed and the trade unions operating in the Parent Company initialed a memorandum of agreement with the Management Board ("Memorandum of Agreement"). In the Memorandum of Understanding, the parties agreed among others that by principle the employment guarantee period for JSW employees is 10 years from the date the JSW's shares are made public. If JSW fails to observe the employment guarantee the Parent Company will be obligated to pay a compensation in the amount corresponding to the product of the average monthly salary in JSW in the year preceding the termination of the employment contract and the number of months remaining till the elapse of the employment guarantee (in the case of administration employees, no more than 60 times the average salary in the preceding year). The provisions relating to the employment guarantee came into force on the date the shares of JSW were made public on the Warsaw Stock Exchange.

Moreover, on 18 May 2011, KK Zabrze and JSW concluded a memorandum of understanding with the trade unions operating in KK Zabrze regarding the social guarantee package for KK Zabrze employees; its content with respect to employment guarantees is the same as the content of the Memorandum of Understanding agreed upon in JSW. The Parent Company appeared in the capacity of guarantor of the liabilities of KK Zabrze.

(c) adjustment of the sale price of WZK Victoria

On 30 September 2016, JSW entered into a dispositive agreement with Agencja Rozwoju Przemysłu S.A. and Towarzystwo Finansowe “Silesia” Sp. z o.o. regarding the sale of 92.84% of shares of WZK Victoria for the total sale price of PLN 350.0 million. The whole amount for the sale of shares in WZK Victoria was paid in Q3 2016. 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.

(d) sureties extended

As at 31 December 2018, the following sureties remained active in the Group:

- surety extended by JSW for the liabilities of Wojewódzki Szpital Specjalistyczny Nr 2 in Jastrzębie-Zdrój for the loan contracted from Bank Ochrony Środowiska S.A. up to PLN 0.3 million, valid till 31 December 2020.

As at 31 December 2018, there were the following active bank guarantees in the Group:

- bank guarantees for the total amount of PLN 1.8 million as security of repayment of loans granted.

(e) joint and several and subsidiary liability in connection with the acquisition of KWK Knurów-Szczygłowice

In connection with the signing of the agreement of 31 July 2014 to purchase an organized part of a business in the form of the KWK Knurów-Szczygłowice mine ("ZORG") from Kompania Węglowa S.A. ("KW S.A."), JSW has joint and several and subsidiary liability for the liabilities of Kompania Węglowa S.A. arising from or connected with running ZORG up to the acquisition date (inclusive):

- to business partners supplying and providing services to KWK Knurów-Szczygłowice. The value of these liabilities on 31 December 2018 was PLN 1.2 million (as at the ZORG acquisition date, they were PLN 184.2 million and PLN 2.3 million as at 31 December 2017),
- 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.

(f) Hypothetical interest on liabilities

Pursuant to Article 5 of the Polish Act on Payment Terms in Commercial Transactions of 8 March 2013, the Group calculates, not less frequently than as at the end of each quarter, hypothetical interest on liabilities for which the contractually defined payment term is longer than 30 days. The amount of calculated interest is then adjusted to the level of forecast amounts owed by the Group to counterparties on account of the rights due to them. The Group charges 50% of the maximum amount of interest due to hypothetical counterparties to its financial result; this amount corresponds to the current level of the risk of counterparties raising a claim to pay interest for the term of payment extended over and above the one prescribed in the Act on payment terms in commercial transactions. Hypothetical interest on liabilities for 2018 was PLN 29.0 million. The remaining part of the expected risk of the Group being charged any hypothetical late interest is recognized as contingent liabilities. Interest exceed their statute of limitations after 3 years of the date of payment of the invoice, for which interest was due. In 2018, JSW received interest notes for past due payments (for years 2015-2018) in the total amount of PLN 6.9 million. The total amount of the contingent liability at the end of 2018 pertaining to the years 2016, 2017 and 2018 stood at PLN 57.5 million.

(g) other contingent liabilities

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 (mainly shafts and prospecting shafts), horizontal mine workings and tunnels, construction services, architectural services, engineering services, rental of machinery and equipment without operators, installation services, repairs and upkeep of machinery for the mining, quarrying and construction industries. The acquisition, if consummated, will fit into the objectives of the Group's Strategy. The execution of the Agreement is contingent on the fulfillment of a number of conditions precedent.

On 21 December 2018, representatives of JSW ("the Buyer") and representatives of PBSZ 1 Sp. z o.o. in Katowice and PRIMETECH S.A. in Katowice ("Sellers") signed a conditional agreement obligating them to sell the above shares in PBSz.

As a result of negotiations held between the parties to the agreement, the ultimate transaction settlement price has been set at PLN 204.0 million, of which PLN 199.0 million will be paid on the closing date of the transaction and PLN 5.0 million will be retained to guarantee the Seller's warranties and will be settled no later than three months after the closing date. The full price will be used to repay loan liabilities in order to release collateral on PBSz's shares and assets.

The conditional agreement takes into account the basic boundary conditions set forth in the term sheet of the purchase transaction ("Term Sheet"). Also, whether or not the final purchase agreement is executed at the closing of the transaction will depend on the Buyer's obtaining the prior consent of the Office for Competition and Consumer Protection (UOKiK) to carry out the purchase of a stake in PBSz, obtaining a favorable decision of JSW's Supervisory Board and Shareholder Meeting, reaching an agreement by the parties, acting in good faith, on certain technical conditions for the settlement of the transaction and obtaining statements issued by third parties with substantially agreed wording.
After the last day of the reporting period, i.e. on 15 January 2019, the decision of 14 January 2019 of the President of the Office of Competition and Consumer Protection ("UOKiK") was received, in which, after having conducted an antitrust proceeding commenced in response to JSW's application, the President of UOKiK gave concentration consent for JSW to acquire control over PBSz.

INFORMATION ON MATERIAL COURT, ADMINISTRATIVE AND ARBITRATION PROCEEDINGS

In 2018, neither the Parent Company nor other Group companies were parties to pending proceedings before a 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. The Group takes part in court and administrative proceedings related to its ordinary business.

The court proceedings that may exert a material impact on the Group's financial standing are presented in Section 4.7. Management Board Report on the activity of Jastrzębska Spółka Węglowa S.A. and the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2018.

10.2. FUTURE CONTRACTUAL LIABILITIES AND OPERATING LEASE LIABILITIES

Future contractual liabilities

Future contractual liabilities incurred on the dates ending the reporting periods that are not included in the consolidated statement of financial position include:

	31.12.2018	31.12.2017
Contractual liabilities incurred to purchase property, plant and equipment and intangible assets	694.4	490.2
Other	33.4	9.2
TOTAL	**727.8**	**499.4**

Operating lease liabilities – Group as lessee (user)

The Group as a lessee has concluded non-cancellable operating lease agreements as at 31 December 2018 and 31 December 2017. The Group uses property, plant and equipment, including, without limitation: longwall shearers, heading machines and mining machines, under operating lease agreements (lease, hire).

As at 31 December 2018, the cost of leasing fees under operating leases (lease or hire agreements) is PLN 137.3 million (PLN 110.6 million as at 31 December 2017).

The total amounts of future leasing fees under operating lease agreements are:

	31.12.2018	31.12.2017
Up to 1 year	80.9	132.6
Between 1 and 5 years	141.1	159.7
Over 5 years	19.7	34.2

The Group also classifies perpetual usufruct right to land acquired gratuitously as an operating lease. The fees for perpetual usufruct right to land captured in the consolidated result as at 31 December 2018 are PLN 6.2 million (PLN 6.6 million as at 31 December 2017).

Future fees for the perpetual usufruct right to land:

	31.12.2018	31.12.2017
Up to 1 year	7.5	5.8
Between 1 and 5 years	23.3	22.7
Over 5 years	316.3	306.7

The liabilities arising from the right of perpetual usufruct right to land are estimated on the basis of annual rates arising from the most recent administrative decisions and the useful life of the land covered by that right.

10.3. BUSINESS COMBINATIONS AND ACQUISITION (SUBSCRIPTION) AND SALE OF SHARES

CHANGES IN NON-CONTROLLING INTEREST IN 2018

On 13 February 2018 JZR's Shareholder Meeting adopted a resolution to increase JZR's share capital to PLN 645.0 million, i.e. by PLN 244.5 million by having JSW and the State Treasury subscribe for 489,000 new shares with a par value and issue price of PLN 500.00 each. JSW subscribed for 249,000 new shares in JZR that were covered with a cash contribution totaling PLN 124.5 million while the State Treasury subscribed for 240,000 new shares covered with a cash contribution totaling PLN 120.0 million.

Additionally, on 28 May 2018 JZR's Shareholder Meeting adopted a resolution to increase JZR's share capital to PLN 652.3 million by having JSW subscribe for 14,561 new shares with a par value of PLN 500.00 per share, while excluding the State Treasury's right of first refusal to the shares. The JZR's increased share capital was covered by an in-kind contribution of JSW's assets. After the capital increase, JSW's stake increased to 58.61%, while the State Treasury's stake is 41.39%. Detailed information about this share capital increase is provided in Note 1.2 to these financial statements. As at 31 December 2018 the Group's consolidated financial statements recognized the movement in the non-controlling interest of JZR, which the table below presents.

On 19 June 2018 JSW signed a share purchase agreement with JSW KOKS S.A. to purchase 548,461 shares of JSW KOKS (treasury shares) for the total amount of PLN 7.8 million. After the finalization date of this transaction, JSW S.A. now holds 96.28% of JSW KOKS' shares.

On 7 June 2018, the Ordinary Shareholder Meeting of CLP-B adopted a resolution on the acquisition by CLP-B of 681 shares representing 9.62% of all the company's shares from 25 minority shareholders, i.e. natural persons, for the total amount of PLN 3.1 million for retirement. As a result of these processes, JSW now holds 79.23% of shares in CLP-B.

Advicom Sp. z o.o. signed a share purchase agreement with COIG S.A to purchase 5,105 shares in Advicom held by COIG S.A., which represented 24.94% of all the shares, for the total amount of PLN 9.9 million for retirement. After this transaction was finalized, JSW S.A. now holds 100% of Advicom's shares.

Change in non-controlling interest as at 31 December 2018:

	JZR* (subscription for shares by the State Treasury)	Advicom	JSW KOKS**	CLPB	Total
Non-controlling interest before the transaction	161.2	8.0	56.8	2.9	228.9
Consideration	120.0	(9.9)	-	(3.1)	107.0
Change in the balance of non-controlling interest	(122.1)	9.8	0.4	3.5	(108.4)
Difference amount captured in retained earnings	(2.1)	(0.1)	0.4	0.4	(1.4)

**Presented together with its JZR Dźwigi subsidiary*
** Presented together with JSW KOKS' direct subsidiaries*

CHANGES IN NON-CONTROLLING INTEREST IN 2017

On 16 March 2017, JZR's share capital increase ensuing from the resolution adopted by JZR's Extraordinary Shareholder Meeting on 30 September 2016 was registered. The share capital increase was covered in full with a cash contribution of PLN 150.0 million by the State Treasury on 4 November 2016. Detailed information about this share capital increase is provided in Note 1.2 to these financial statements. After the increase, JSW's stake was reduced to 62.55%, while the State Treasury's stake was 37.45%. As at 31 December 2017 the Group's consolidated financial statements recognized the movement in the non-controlling interest of JZR, which the table below presents.

Non-controlling interest as at 31 December 2017

	JZR (subscription for shares by the State Treasury)	JZR Dźwigi	Total
Non-controlling interest before the transaction	-	0.4	**0.4**
Consideration	-		**-**
Change in the balance of non-controlling interest	160.3	0.9	**161.2**
Difference amount captured in retained earnings	(160.3)	(0.9)	**(161.2)**

10.4. RELATED PARTY TRANSACTIONS

As at 31 December 2018, the State Treasury was the majority shareholder of the Group.

INFORMATION ON TRANSACTIONS WITH RELATED ENTITIES

In 2018, the State Treasury was the direct top-level parent. Accordingly, all companies owned by the State Treasury (directly or indirectly) are the Group's related parties. In these consolidated financial statements, the Management Board of the Parent Company has disclosed transactions with significant related parties identified as such according to the best knowledge of the Management Board.

Individually material transactions

In 2018 and **in 2017**, all the transactions between the Group and its related parties were executed on an arm's length basis, were typical and concluded in the normal course of business.

The following individual transactions executed between JSW and the State Treasury or parties related to the State Treasury were identified as significant due to their non-standard scope and/or amount:

- in 2017: free of charge transfer of KWK Krupiński to SRK (Note 4.5),

Other transactions

Other transactions from 1 January to 31 December 2018 and from 1 January to 31 December 2017 concluded by the Group with the subsidiaries of the State Treasury, which are significant in aggregate, are related to purchases of materials and services for current operations (coal, electricity, forwarding and cargo transportation services). In 2018, the Group's most important, State Treasury-controlled suppliers included: PKP S.A. Group, Tauron S.A. Group, Węglokoks S.A. Group, PGNiG S.A. Group, Polska Grupa Górnicza S.A. In turn, the most important State Treasury-controlled clients in 2018 included: PGE S.A. Group, WZK Victoria, PGNiG Group and the ENEA S.A. Group.

The table below presents transactions concluded with associates:

	2018	2017
Transactions with associates		
Purchases in the period	9.9	8.4
Balance of liabilities at the end of the period *	2.3	2.0
TOTAL PURCHASES	**9.9**	**8.4**
TOTAL BALANCE OF LIABILITIES	**2.3**	**2.0**

* *including VAT*

INFORMATION ON TRANSACTIONS WITH MEMBERS OF THE JSW MANAGEMENT BOARD

The Management Board of JSW is the Group's key management personnel.

Compensation of Parent Company's Management Board members

	2018 (PLN 000s)	2017 (PLN 000s)
Short-term employee benefits:		
- remuneration, management services*	3,720.0	3,098.0
- annual bonus **	-	-
- benefits, income from other sources ***	-	560.0
TOTAL	**3,720.0**	**3,658.0**

* *This item includes only compensation paid out under management contracts.*
In 2017, this item also included the compensation paid to Mr. Daniel Ozon, seconded to perform temporarily the duties of the President of the JSW Management Board – compensation specified by the Supervisory Board resolutions.

** *This item includes the annual bonus depending on the attainment of management objectives. By the date of preparation of these statements, the Supervisory Board has not adopted a resolution on the degree of fulfillment of management objectives and the amount of the 2017 annual bonus contingent on them.*

*** *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.*

Details of the agreements concluded with the managers are provided in Section 7.16. Management Board Report on the activity of Jastrzębska Spółka Węglowa S.A. and the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2018.

INFORMATION ON TRANSACTIONS WITH MEMBERS OF THE JSW SUPERVISORY BOARD

Compensation of the JSW Supervisory Board:

	2018 (PLN 000s)	2017 (PLN 000s)
Short-term benefits	530.9	515.5
TOTAL	530.9	515.5

Additional information on remuneration of JSW Management Board and Supervisory Board members are provided in the Management Board Report on the activity of Jastrzębska Spółka Węglowa S.A. and the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2018 (Section 7.16).

In 2018, no loans were granted to any members of the Management or Supervisory Board of JSW.

INFORMATION ON TRANSACTIONS WITH MANAGEMENT BOARD AND SUPERVISORY BOARD MEMBERRS IN SUBSIDIARIES

Information on transactions with Management Board members of Subsidiaries

	2018	2017
Short-term employee benefits	9.8	9.9
Termination benefits (severance pay)	0.3	0.4
Post-employment benefits	0.2	0.3
Jubilee awards	0.1	-
Other	0.1	0.1
TOTAL	10.5	10.7

Information on transactions with Supervisory Board members of Subsidiaries

	2018	2017
Short-term benefits	1.8	1.5
TOTAL	1.8	1.5

In 2018, no loans were granted to any members of the Management or Supervisory Boards of the subsidiaries.

10.5. AUDITOR'S FEE

The audit firm authorized to audit the consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2018 is PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. The audit firm was selected on 29 November 2017 by the JSW Supervisory Board.

The agreement between JSW and PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp. k. was signed on 13 March 2018 and pertains to the audit of JSW's financial statements for 2018-2020, the consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group 2018-2020, review of JSW's interim financial statements for H1 2018, 2019 and 2020 and the interim consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group for H1 2018, 2019 and 2020.

Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.) was the entity authorized to audit the financial statements of JSW and the consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group for 2017.

The table below presents the statutory auditor's fees.

	2018 (PLN 000s)	2017 (PLN 000s)
Statutory Auditor's fee in respect of the Parent Company	**302.3**	**443.6**
Compulsory audit	226.3	179.0
Review of the interim financial statements	76.0	75.0
Other services	-	189.6
Statutory Auditor's fee in respect of the subsidiaries	**158.0**	**396.0**
Compulsory audit	158.0	382.0
Other services	-	14.0
TOTAL	**460.3**	**839.6**

10.6. SUBSEQUENT EVENTS

According to our knowledge, there were no material events after 31 December 2018, i.e. after the end of the reporting period, other than those described below, that could have a significant effect on the evaluation of economic position, financial position and performance but had not been recognized in the consolidated financial statements for the financial year ended 31 December 2018.

- On 7 January 2019 the representatives of JSW, as the Borrower, and PKO BP S.A., Bank Polska Kasa Opieki S.A., Bank Gospodarstwa Krajowego and ICBC (Europe) S.A. Branch in Poland, and Agencja Rozwoju Przemysłu S.A., acting jointly as Lenders, signed the term sheet for the financing earmarked for the Group ("Term Sheet"). The financing will be granted in the form of a term loan, renewable loan and acquisition loan, subject to obtaining the required corporate consents both on the part of the Lenders and on the part of JSW, executing acceptable financing documentation and establishing pertinent securities for the Lenders. The Term Sheet provides for the Lenders' total commitment in the amount of PLN 460.0 million and the PLN equivalent of the amount of approx. USD 81.0 million. The planned financing will be earmarked for refinancing the Group's existing debt, financing the Group's capital expenditures and financing other general corporate needs. The acquisition loan will be slated to finance the purchase by JSW of shares of Przedsiębiorstwo Budowy Szybów S.A. The financing is planned for a maximum term of 7 years, however the financing in the form of the renewable loan has been set for 5 years with the possibility of extending it by up to 2 years.

- On 15 January 2019 the Parent Company's attorney-in-fact received the decision of 14 January 2019 of the President of the Office of Competition and Consumer Protection ("UOKiK"), in which, after having conducted an antitrust proceeding commenced in response to JSW's application, the President of UOKiK gave concentration consent for JSW to acquire control over Przedsiębiorstwo Budowy Szybów S.A. in Tarnowskie Góry ("PBSz"). This decision is the consequence of JSW entering into a conditional agreement on 21 December 2018 as the Buyer with PBSZ 1 Sp. z o.o. with its registered office in Katowice and PRIMETECH S.A. with its registered office in Katowice as the Sellers obligating them to sell 4,430,476 shares in PBSz representing 95.01% of the share capital of PBSz, as JSW reported in Current Report No. 40/2018. JSW obtaining the UOKiK's concentration consent is one of the major conditions on which the execution of the final agreement to close the deal hinges. On 15 February 2019, the JSW S.A. Supervisory Board issued a positive opinion on the motion submitted by the JSW S.A. Management Board to the JSW S.A. Shareholder Meeting requesting consent for JSW to carry out the purchase of PBSz's shares. The Extraordinary Shareholder Meeting of JSW was convened for 21 March 2019.

- On 16 January 2019, the Management Board of JSW S.A. adopted a resolution on the full redemption of bonds for a total nominal amount of PLN 71.5 million and USD 13.2 million issued under the Bond Issue Program established by JSW on 30 July 2014, as later amended. The bonds were redeemed on 18 January 2019, which ended the Bond Issue Program. The redemption of the bonds is consistent with the provisions of the Terms and Conditions of the Bond Issue.

- The Management Board of Jastrzębska Spółka Węglowa made a decision to separate a new mine from the Borynia-Zofiówka-Jastrzębie Integrated Mine, named Bzie-Dębina from the name of the coal deposit. The decision made by the Management Board was approved at the end of January by the Company's Supervisory Board. The decision of the Management Board, which had been expected for several months, should help intensify the mining works in this area and contribute to a faster launch of mining of coking

coal. The recoverable coal reserves of the new mine are estimated at over 180 million tons of coal in the Bzie-Dębina 1-Zachód deposit (nearly 71.5 million tons of reserves; JSW intends to obtain a concession for this deposit by the year-end) and Bzie-Dębina 2-Zachód (113.8 million tons, JSW already holds the license). Roughly 95% of reserves in the Bzie-Dębina deposits consist of type 35 hard coking coal. At present, the research works carried out in the Bzie field involve expansion of the network of holes used to explore the deposit better (5 holes). Also, heading works are conducted in order to open seams of coal. In order to improve process, the personnel and materials transport shaft must also be furnished with all necessary equipment. On the other hand, in order to improve ventilation, a ventilation shaft should be built along with all the necessary mine infrastructure, except for a coal preparation plant, since the output from Bzie will be processed by the modernized Preparation Plant at the Zofiówka Section.

- On 20 February 2019, PGWiR established a limited liability company under the name JSW Zwałowanie i Rekultywacja spółka z ograniczoną odpowiedzialnością. The share capital of the new company is PLN 50,000.00 and consists of 1000 shares with a par value of PLN 50.00 each. PGWiR subscribed to all the shares in JSW Zwałowanie i Rekultywacja. The contributions made in exchange for the shares were paid in cash. The purpose of the new company is to provide services including disposal of post-mining waste and reclamation of waste landfills. The duration of the company is unlimited.

- On 7 March 2019, the Extraordinary Shareholder Meeting of PGWiR was held to increase the company's share capital by the amount of PLN 1.1 million through the issue of series F shares. The increased share capital will be covered by an in-kind contribution of JSW's assets (KWK Knurów-Szczygłowice Mine). The agreement under which JSW will subscribe to the shares is slated to be signed by the end of March 2019.

11. MANAGEMENT BOARD'S REPRESENTATIONS

On the accuracy of the preparation process of the consolidated financial statements

The JSW Management Board hereby represents that, according to its best knowledge, these annual consolidated financial statements and the comparative data have been prepared in compliance with the applicable accounting principles and they are a true, accurate and clear presentation of the economic position, financial position and the performance of the Jastrzębska Spółka Węglowa S.A. Group.

The Management Board report on the activity of Jastrzębska Spółka Węglowa S.A. and the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2018 contains a true presentation of developments, achievements and the position of the Jastrzębska Spółka Węglowa S.A. Group, including a description of key threats and risks.

12. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements for the financial year ended 31 December 2018 were approved for publication and signed by the Management Board of JSW on 13 March 2019.

Jastrzębie-Zdrój, 13 March 2019

Signature of the person responsible for the preparation of the consolidated financial statements:

Adam Mańka – Department Director, Chief Accountant

SIGNATURES OF JSW MANAGEMENT BOARD MEMBERS

Daniel Ozon	President of the Management Board	
Tomasz Śledź	Vice-President of the Management Board	
Robert Małlek	acting Vice-President of the Management Board	
Artur Wojtków	Vice-President of the Management Board	