2018

Management board 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

JSW SA

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1. JSW GROUP IN 2018

1.1. KEY OPERATING AND FINANCIAL INDICATORS

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

1.2. OPERATING SEGMENTS

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

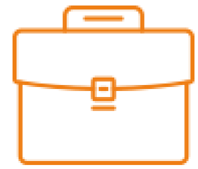
COAL SEGMENT

hard coal mining and sales

COKE SEGMENT

production and sale of coke and hydrocarbons

OTHER SEGMENTS



activity of other Group entities, among others activities in the areas of innovation, IT, logistics, repair and upkeep services, laboratory and insurance services

In 2018, the Group focused on developing and increasing production efficiency in all the segments of its business.

SEGMENT RESULTS

ITEM	COAL SEGMENT		COKE SEGMENT		OTHER SEGMENTS	
	2018	2017	2018	2017	2018	2017
Sales revenues from external customers	5,084.6	4,925.9	4,451.5	3,688.1	273.4	263.2
Operating profit/(loss)	1,753.1	3,001.9	416.4	(47.9)	84.9	57.1
Depreciation and amortization	612.1	680.9	100.2	96.8	64.4	56.2
EBITDA	**2,365.2**	**3,682.8**	**516.6**	**48.9**	**149.3**	**113.3**
*Adjusted EBITDA**	*2,206.4*	*3,192.7*	-	-	-	-

** EBITDA after excluding the impairment charge made as a result of the impairment tests carried out on the non-current assets of JSW's units in 2018: PLN 494.7 million and in 2017: PLN 759.1 million, respectively, and reversal of the provision for disputes concerning free coal allowance for old-age and disability pensioners in 2018: PLN 653.5 million and in 2017: PLN 1,249.2 million.*

In 2018, revenues on sales of coal to external buyers were PLN 5,084.6 million, up 3.2% from 2017. This upward movement resulted primarily from the increase in the average coal sales price by 3.2% (of which coking coal by 20.7%). In the reporting period, revenues on sales of coke amounted to PLN 4,451.5 million, up by 20.7% compared to 2017. The increase in revenues from sales in the coke segment was driven directly by a 17.0% higher average coke sales price.

In the analyzed reporting period the share of revenues from 5 top external buyers in the Coal segment accounted for 72.9% of revenues in this segment (74.2% in the corresponding period of 2017). Other buyers whose unit share did not exceed 10.0% of revenues, generated the remaining 27.1% of total revenues of the coal segment.

The share of revenues from top five buyers in the coke segment accounted for 59.0% of revenues in this segment (65.9% in the period from 1 January to 31 December 2018). Other buyers whose unit share did not exceed 10.0% of revenues, generated the remaining 41.0% of total revenues of the coke segment.

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

1.3. KEY EVENTS AND ACCOMPLISHMENTS IN 2018

CALENDAR OF EVENTS IN 2018

Q1	*Cooperation of JSW, PGNiG, PGG and Tauron in extracting methane from coal seams*	On 11 January 2018, a letter of intent was signed that would allow for the development of the Geo-Methane program. The cooperation will help increase domestic extraction of natural gas, reduce the cost of coal extraction and improve safety of miners underground.
	EXECUTION OF AN ANNEX TO AN AGREEMENT FOR COKE SUPPLIES WITH BALTA GMBH	On 29 January 2018, JSW entered into an annex to the agreement for coke supplies of 14 April 2016 with Balta GmbH with its registered office in Pöcking, Germany. According to the annex, the term of validity of the Agreement was extended to 31 December 2030 and the estimated value of the agreement as updated.
	Presentation of development strategy for 2018-2030	On 9 February 2018 at the Warsaw Stock Exchange JSW presented a long-term development strategy for 2018-2030. The new strategy assumes a gradual increase of coal production from 14.9 million tons in 2017 to 8.2 million tons in 2030 and coke production and sales at over 3.4 million tons. Details are presented in item 3.
	Establishment of Hawk-e	In 2018, a special-purpose vehicle was established to operate unmanned systems. The Group will co-create the design of a drone airspace organization project in accordance with the U-Space concept, which will help in monitoring, among others, mining damages, coal resources, strategic equipment and facilities.
	Conclusion of a confidentiality agreement to launch possible cooperation between Prairie Mining and JSW	On 28 March 2018, Prairie Mining Limited and JSW signed a confidentiality agreement after Prairie contacted JSW concerning the potential cooperation in respect to Prairie's coal projects in Poland. Prairie will provide information about the coking coal production project under the Dębieńsko-1 concession granted in 2008 in order to allow JSW to conduct a study of feasibility and economic terms of this project. On 10 October 2018, JSW decided to continue its talks with Prairie regarding potential cooperation or transactions involving Prairie's coal projects in Poland. Prospecting studies on the Jan Karski project have confirmed that part of the Lublin deposit contains semi-soft (type 34) coking gas coal which may potentially be extracted by JSW. The prospecting studies have also confirmed the technical accessibility of and potential synergies associated with the type 35 orthocoking coal seams forming part of the Dębieńsko deposit using the infrastructure of the Knurów-Szczygłowice Mine. At this stage however it is uncertain whether or not the talks will end in the signing of any contract(s), and the eventual transaction(s), if any, may depend on satisfying a number of standard conditions. After the end of the reporting period, i.e. on 25 February 2019, JSW and Prairie amended the confidentiality agreement in such a manner that the term of validity of this Agreement has been extended for 6 months until 28 September 2019, for the purpose of conducting further talks.
	Publication of the first Sustainable Development Report for 2017	On 30 March 2018, the JSW Group published its first Sustainable Development Report for the year 2017 based on GRI Standards, which presents the character and scale of impact of the Group companies on their surroundings.

Q2	*25th anniversary of Jastrzębska Spółka Węglowa S.A.*	In 2018 JSW will celebrate its 25th anniversary. On this occasion, the JSW Anniversary Gala was held on 19 April 2018 in the Concert Hall of the National Polish Radio Symphony Orchestra in Katowice.
	Appointment of consortium to develop independent bolting supports	On 19 April 2018, JSW, JSW Innowacje, Central Mining Institute and Joy Global (Poland) established a consortium, whose goal is to implement the independent bolting support mining technology in JSW's mines. Bolting supports are successfully used in coal mines worldwide. Application of bolting supports allow for an increased production of coal and reduce the expenditures to prepare the extraction area by up to 30%.
	Signing a cooperation agreement with reputable German science and research institutes	On 19 April 2018, in Katowice, JSW and JSW Innowacje signed a cooperation agreement with reputable German science and research institutes regarding advanced materials and coal mining processes and the use of Smart Coal Mine 4.0 techniques in the coal mining process. The partners also intend to work on development of a technology to increase the safety of miners' work and application of lightweight structures in mining.

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

	Signing a cooperation agreement with Famur	On 19 April 2018 in Katowice, JSW and Famur signed a cooperation agreement. The Companies, with active support of JSW Innowacje and JZR, intend to develop commercial projects to provide solutions and services on international markets related to the extraction of coal in underground and strip mines.
	Signing an annex to the Bond Issue Program Agreement	On 23 April 2018, the Annex to the Bond Issue Program Agreement ("BIP") under which the Bondholder Agreement (Restructuring Agreement) was terminated effective as of 23 April 2018, with a reservation that certain provisions of the Agreement will be included in the bond issue terms and conditions (including the provisions pertaining to the payment of dividends by JSW), and the following was agreed: change of the redemption date of the bonds issued as part of the BIP (redemption by 30 December 2019), changes in the scope of obligations to carry out additional bond redemptions, including in connection with payments to JSW employees, subject to the terms and conditions set forth in the BIP, removal of certain provisions that restrict expenditures for investment and operating activity in the Group, and some of the collateral was released.
	Tremor in the Zofiówka Section of the Borynia-Zofiówka-Jastrzębie Mine	On 5 May 2018, a tremor occurred at the Zofiówka Section of the Borynia-Zofiówka-Jastrzębie Coal Mine as a result of a shock wave with the energy rating of E = 2 x 10^9J. It led to a group accident, as a result of which five miners died. The incident occurred in area H of seam 409/4, near the division of the H-4 and H-2 longwalls It was the most difficult rescue campaign in JSW's history. The costs incurred in connection with the rescue campaign and removing the effects of the tremor amounted to PLN 8.8 million as at 31 December 2018. According to the production forecast used as the basis for the Technical and Economic Plan for 2018, the H-4 longwall was to be launched in August 2018 and in that year bear about 380 thousand net tons of coal. The JSW Management Board decided to exclude area H from mining operations for a long term. 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.
	Signing of a Salary Agreement with the JSW trade unions	On 11 June 2018, the JSW Management Board signed a Salary Agreement with the representative trade union organizations operating in JSW to end the collective dispute commenced on 16 April 2018 concerning a 15% raise in the wage rates and backpayment of the benefits lost, according to the demand lodged by the representative trade union organizations and based on the clauses of the Collective Agreement of 16 September 2015. Pursuant to the Salary Agreement: the salary fund will increase by 7% from June 2018 through an increase in the basic salary rates as of 1 June 2018 for all JSW employees and equalization of the rules and entitlement to receive the seniority allowance, i.e. the Miner's Charter. Moreover, the JSW employees hired in 2016 who remained employed as at the date of signing the Agreement received a backpayment pursuant to § 9 of the Collective Bargaining Agreement of 16 September 2015 concluded following the procedure of Articles 9^1 and 23^{1a} of the Labor Code, of the Annual Bonus (the so-called 14th salary) for 2016 and a free coal allowance for 2016. The signing of the foregoing Memorandum satisfies all the payroll-related claims in 2018.
	Establishing an investment sub-portfolio in the JSW Stabilization Fund	On 11 June 2018, the JSW Management Board made a decision to undertake legal and formal actions to establish a third sub-portfolio designated for investment purposes in the JSW Closed-end Investment Fund. The funds amassed in the sub-portfolio will be earmarked 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. On 17 December 2018, PLN 300.0 million worth of Series B Investment Certificates was issued. The Closed-End Investment Fund was consolidated in the JSW Group's Consolidated Financial Statements for 2018.
	Hydrogen project undertaken by JSW and PKP Cargo	On 14 June 2018, during the IMPACT'18 conference in Krakow, the representatives of JSW and PKP Cargo signed a letter of intent for joint innovative investment projects related to the commercial use of hydrogen fuel.
	JSW Innowacje's success at the trade fair in the Czech Republic	During the Invent Arena 2018 fair held on 20-22 June 2018 in Třinec in the Czech Republic, JSW Innowacje received 3 awards for the automated spatial data collection system using unmanned aircraft, i.e. the AutoInvent system. The JSW Innowacje's solution was awarded the Gold Medal of the Invent Arena Fair, the special award of the CEO of the Třinec Steel Mill and topped the Computer Engineering, Telecommunication, Automation and IT category.
	JSW changes the image of coking coal	On 27 June 2018 in Brussels, a conference devised by JSW was held to promote coking coal as a strategic material, pointing to its important role in the global economy. JSW has been steadfastly introducing innovative technologies thereby becoming an environmentally-minded leader in the global industry producing coking coal and coke. The European Commission has reintroduced coking coal in the list of 27 Critical Raw Materials for the EU, meaning that it is of eminent significance to the Community and hard to replace.

Q3	*Purchase of a modern roadheader with a 12CM30 Miner Bolter*	JSW Innowacje purchased a modern roadheader from Joy. It will take almost a year to build the roadheader. When ready, the new machine will be put into operation in the Budryk mine in the "Bw – 1N Exploratory" tunnel of a 1,950-meter panel length. The JSW Management Board's decision to purchase the whole roadheader

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		system was made in connection with the adopted strategy aimed at reducing mining costs and accelerating preparatory work in JSW's mines. The purchase is a practical element of the implementation of the Company's EFFICIENCY program. The modern roadheader has been developed by a consortium of cooperating entities: JSW Innowacje as the consortium leader, JSW, the Central Mining Institute and Joy Global (Poland).
	Preliminary concept for managing the land of KWK Krupiński	On 19 July 2018, at a conference in Warsaw, JSW presented a concept of eight key projects that would ensure revitalization of the site of the liquidated Krupiński mine in Suszec. The total amount of capital expenditures required to implement these projects is more than PLN 1.5 billion. All the projects would make it possible to employ up to 2,000 people on the site of the former mine. The whole revitalization process would be overseen by a special-purpose vehicle established by JSW Innowacje, the Mine Restructuring Company (which owns most of the 70 ha of land of the former Krupiński mine) and the Special Economic Zone in Katowice. The revitalization program matches the Government's strategy for responsible development.
	Polish-Australian cooperation in the R&D area	During the Polish-Australian Energy Forum held in Sydney, letters of intent were signed with Australian partners in the field of research and development activities. JSW and JSW Innowacje have established relationships with the following new partners: the Australian government agency CSIRO (Commonwealth Scientific and Industrial Research Organization), Palaris and the Australian company ADS.
	Distinction in the "Modernization of the Year 2017" competition	On 24 August 2018, finalists of the "Modernization of the Year" competition received awards and distinctions during a ceremony held in the Royal Castle in Warsaw. JSW received a distinction in the industrial and engineering facilities category for building a CHP system with 2 x 4 MWe generators fueled with methane drained from the Budryk mine.
	JSW supports the Polish State Forests climate initiative	On 27 August 2018 in Warsaw, Andrzej Konieczny, Director General of the Polish State Forests, and JSW VPs signed a letter of intent on cooperation in implementing the Forest Carbon Farms project. The Forest Carbon Farms (FCF) is a project unique at this scale, carried out by the Polish State Forests, the purpose of which is to increase the amounts of carbon dioxide absorbed by forest ecosystems and at the same time reduce CO2 emissions from marshlands.
	Americans recognize Polish technologies	JSW Innowacje and HAWK-e signed a letter of intent with the Nevada Institute for Autonomous Systems (NIAS), a global leader in the BSP sector. The American research institute is interested in cooperation in the area of unmanned aerial systems. The arrangement pertains to cooperation in creating a Center of Excellence and implementing innovative solutions for the national airspace management system. Another area of cooperation should include testing of independent systems, exchange of experience in technology projects and solutions. Other important elements of cooperation will be the implementation of the FAA "Technology Integration Program" and the inter-departmental program entitled "Żwirko i Wigura". The partners will cooperate in the performance of any "Space Mining" projects.
	Discontinuation of operation by the Dębieńsko Coking Plant	On 30 August 2018, the Dębieńsko Coking Plant ended its operations, thereby ceasing permanently the production of coke. The staff of the Dębieńsko Coking Plant have been offered jobs in other JSW KOKS coking plants and in the Group's mines located in the vicinity.
	JSW takes another step towards modern mining	On 28 September 2018 in Katowice, during the EXPO New Industry Congress, JSW and Joy Global (Poland) signed a letter of intent to conduct comprehensive research and analyses of the possibilities of using modern autonomous longwall systems in JSW's mines.

Q4	*Environmental investment in the Przyjaźń Coking Plant*	On 17 October 2018 in the Voivodship Office in Katowice, JSW KOKS and the National Fund for Environmental Protection and Water Management signed an agreement under the E-KUMULATOR Ecological Accumulator for Industry Program. The purpose of the agreement is to underwrite the investment task entitled "Modernization of coke oven battery no. 4 in the Przyjaźń Coking Plant" in the form of a preferential loan of PLN 200 million. The investment is intended to improve the production process to curtail the coking plant's impact on the natural environment, especially when it comes to gas and dust emissions. Additionally, modernization will enhance its flexibility in respect of the raw materials used to compose the charge and reduce the costs of producing coke.
	JSW receives "The Best Annual Report 2017" award	JSW took the third place in "The Best Annual Report 2017" contest organized by the Institute of Accounting and Taxes. The purpose of the competition is to promote companies, which prepare the best consolidated annual reports in accordance with IFRS/IAS.
	Additional research boreholes	The drilling of new research boreholes from the surface has commenced in the "Bzie-Dębina 2-Zachód" mining area in order to gain precise data concerning the thickness of its coal seams and the coal quality. The results will help interpret the structure of the deposit and facilitate the verification of the directions currently defined for future mining operations.

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Implementation of carbon nanostructure production technologies	On 7 November 2018, JSW Innowacje SA and AGT Management & Engineering AG in Switzerland signed a cooperation agreement for the development and implementation of the production technology for carbon nanostructures. This innovative project assumes the production of carbon nanostructures, including carbon nanotubes (or graphene rolled up into cylinders) using a technology involving low temperature conversion and chemical vapour deposition in the presence of properly prepared catalysts. Nanotubes will be produced with the use of coal mine methane, natural gas, refuse-derived fuel and plastic.
Closely watched machinery	JSW and Advicom together with Elmodis signed a letter of intent concerning modern machinery diagnostics and measurement, among others in JSW's coal preparation plants. The solution supplied by Elmodis is a complete system that monitors the status of machinery on a 24/7 basis. It helps prevents unplanned downtime and reduces the costs of operation of machinery.
JSW is the main partner of the 2018 Raw Materials Congress	The Raw Materials Congress was held in Rytro from 20 to 23 November. The conference was organized by the Mineral and Energy Economy Research Institute at the Polish Academy of Sciences and the Polish Geological Institute in Rytro. The congress is a summary of the broad consultation process for the proposed State Raw Materials Policy, which will define effective tools and activities aimed at securing the supply of raw materials necessary for the development of Poland's economy.
Technological alliance	On 12 December 2018 in Katowice a memorandum of agreement on establishing a strategic alliance was signed between JSW and Thyssenkrupp Industrial Solutions AG. Thanks to the agreement, JSW will be the first to have access to the latest technological solutions offered by TK. The German partner guarantees delivery of technology solutions for coking plants and provides engineering, procurement, construction and related services for coking plants. The alliance is about improvement of environmental standards, optimization of costs and increase of production performance.
NFOŚ loan for JSW Koks	On 19 December 2018, JSW KOKS signed an agreement with the National Fund for Environmental Protection and Water Management to co-finance the project entitled "Improvement of Energy Efficiency at JSW KOKS S.A.". The PLN 134 million agreement is a loan on preferential terms from the Operational Programme Infrastructure and Environment designated for the construction of a power unit at the Radlin Coking Plant. The goal of the investment project is to improve the state of the environment by increasing energy efficiency by using the surplus coke oven gas as a fuel in cogeneration.
JSW to be the first official partner of COP 24	JSW, upon agreement with the Minister of the Environment, has become the first official partner of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 24), which was held from 2 to 14 December in Katowice. During COP 24, JSW presented the company's environmental efforts. It presented solutions guaranteeing reduction of emissions and allowing for efficient use of the natural resources and by-products of the production process.
JSW's charitable activity	JSW has formally established the governing bodies of the JSW Foundation to collaborate with local governments and support local initiatives. The JSW Management Board has elected to create this organization to strengthen the Group's image as a company espousing the principles of corporate social responsibility and demonstrating its charitable commitment.
Revolution in management	During the conference organized by IPMA Poland (International Project Management Association) in Warsaw, JSW received the Polish Project Excellence Award 2018 in the Organizational Projects category. JSW has developed its own Program and Project Management Methodology which is tailored to the specific nature and needs of the Group.
New partner of the hydrogen project	Fabryka Pojazdów Szynowych "H. Cegielski" in Poznań signed an agreement with JSW and PKP Cargo in the matter of a commercial use of hydrogen in rail transport. The agreement provides for the joint development of innovative solutions that are to foster lower energy consumption and atmospheric emissions related to the operation of rolling stock. JSW intends to get involved in the 'hydrogen project' and become its leading domestic provider. Hydrogen is to be acquired from coke oven gas, which is a byproduct of the coal coking process taking place in the regular course of business in the Group's coking plants.

1.4. MATERIAL AGREEMENTS AND TRANSACTIONS

COKING COAL SALES AGREEMENT WITH ARCELORMITTAL POLAND S.A.

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

On 19 March 2018, a coking coal sales agreement was entered into by and between JSW and ArcelorMittal Poland S.A. with its registered office in Dąbrowa Górnicza and ArcelorMittal Ostrava A.S. with its registered office in Ostrava. The Agreement was entered into for a period of 3 years, from 1 January 2018 to 31 December 2020, with an automatic renewal option beyond 2020, every year by one year, from 2018 up to 2027. The Agreement will be subject to renewal for another year upon agreeing on the quality and quantity structure, unless one of the parties terminates it. In the three-year term of the Agreement, its estimate value will total PLN 4.5 billion. After 2020 the estimate annual value of the Agreement may amount to approx. PLN 1.5 billion. Based on the agreement, annual agreements will be concluded. Their detailed pricing conditions will be agreed upon quarterly.

SIGNING AN ANNEX TO THE COKE SUPPLY AGREEMENT WITH BALTA GMBH

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

GOVERNMENT GRANT AGREEMENT – DISBURSEMENT OF COMPENSATION BENEFITS

In connection with the entry into force of the Act of 12 October 2017 on compensation benefit due to the loss of the right to free coal allowance, JSW disbursed, on behalf of the State Treasury, compensation to entitled old-age and disability pensioners who applied for disbursement of compensation benefit. The compensation benefits are financed from a special-purpose grant awarded by the minister responsible for the area of managing mineral deposits, pursuant to an executed agreement. JSW made a settlement of the awarded grant (a list of received grant amounts and settlement of amounts disbursed from the grant). According to the justification accompanying the Act, the awarded grant for disbursing the compensation benefits is not public aid.

After the end of the reporting period, i.e. on 22 January 2019, the act on the payment of compensation benefits for loss of right to free coal allowances came into effect. Over the period of 90 following days, individuals entitled to the compensation benefit were able to submit applications at the specified locations. Payment of the compensation benefits will begin on 1 June 2019. The act prepared by the Ministry of Energy provides for a one-off payment of compensation benefits in the amount of PLN 10 thousand by the relevant company. The compensation benefit will be available to the individuals to whom mining companies no longer issue free coal in kind or in cash equivalent. The benefit will also be available to the individuals who were not covered by the previous Act of 12 October 2017 on compensation benefit due to the loss of the right to free coal allowance, i.e. widows and orphans of miners who died at work or died as active mine employees, as well as persons receiving pre-retirement benefits. The solutions contained in the Act are also available to the people who were late with applications submitted last year and those whose applications were not reviewed before the end of the payment period under the previous Act.

COKE SUPPLY AGREEMENTS WITH VOESTALPINE ROHSTOFFBESCHAFFUNG GMBH AND IMPORTKOHLE GMBH

After the end of the reporting period, the JSW Management Board announced that on 15 February 2019 agreements were entered into by and between JSW (acting in the Agreement as the “Seller”) and Voestalpine Rohstoffbeschaffungs GmbH and Importkohle Gesellschaft mbH in Linz, Austria (acting in the Agreements as the “Buyer”) for the sale of coke. The coke supplies are designated for the Austrian market. The term of the Agreements is from 1 April 2019 to 31 March 2024. The estimated value of the Agreements over their term is PLN 2.1 billion. The criteria for recognizing the Agreements as significant for JSW included: the projected value of the Agreements, extension or significant increase in the scale of cooperation with a strategic coke offtaker. The remaining terms and conditions of the Agreements, including financial terms, do not deviate from the terms and conditions generally applied in contracts of this type. Voestalpine AG is in its area of operation the world leader in production and processing of steel, flat and long products. It offers advanced technologies, products and system solutions utilizing steel and other metals and markets them to the most advanced and demanding clients on the market.

TERM SHEET FOR FINANCING THE GROUP

After the end of the reporting period, 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.

2. ORGANIZATION OF THE GROUP

As at 31 December 2018, the Jastrzębska Spółka Węglowa S.A. Group consisted of the Parent Company and its subsidiaries located in the territory of Poland. Group member companies are classified into distinct operating segments, i.e. the Coal Segment, the Coke Segment and Other Support Areas. The Parent Company in the Group is Jastrzębska Spółka Węglowa S.A. ("Company", "JSW", "Issuer"), which was established on 1 April 1993. The Company's duration is unspecified. The Company's shares have been traded publicly since 6 July 2011. The Company is the holding company in the JSW Group.

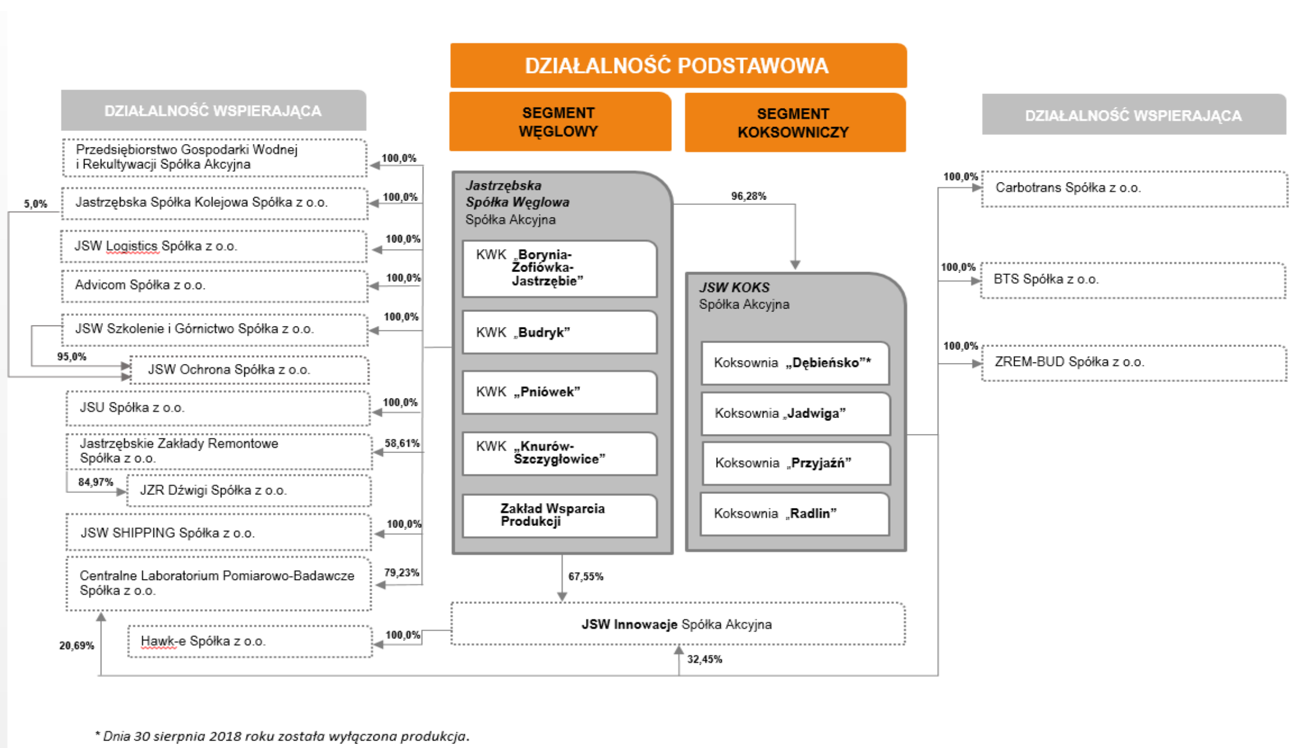
KEY INFORMATION ABOUT THE PARENT COMPANY

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

2.1. STRUCTURE OF THE GROUP AND LINE OF BUSINESS OF GROUP ENTITIES

As at 31 December 2018, JSW held, directly or indirectly, shares in 19 related companies, including 17 subsidiaries (direct and indirect) and in 2 associates (Jastrzębska Strefa Aktywności Gospodarczej Sp. z o.o. in liquidation ("JSAG") and Remkoks Sp. z o.o. ("Remkoks")) located in Poland. Subsidiaries are consolidated by the full method. Investments in associates are measured by the equity method in the consolidated financial statements. JSW Stabilizacyjny Fundusz Inwestycyjny Zamknięty Closed-End Investment Fund was also consolidated.

SUBSIDIARIES IN WHICH THE GROUP HOLDS A DIRECT OR INDIRECT STAKE AS AT 31 DECEMBER 2018



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After the end of the reporting period, the Management Board made a decision to separate a new mine, named "Bzie-Dębina under development", from the Borynia-Zofiówka-Jastrzębie Integrated Mine.

LINE OF BUSINESS OF GROUP ENTITIES

The main line of business of JSW is extraction of black coal, which takes place in separate organizational units, i.e. mines. JSW KOKS is responsible for coke production in the Group. The concentration of operations in coal mining and coke production and the correlation of the two kinds of activity within the value chain boost the generation of a significant part of the Group's added value and enables further development of the Group's integrated business model. Above all, JSW deals with the distribution of the Group's products directly through its specialized teams and with the support of JSW SHIPPING Sp. z o.o. JSW KOKS also generates electricity which it uses for its own needs. Surpluses are sold on the electricity market. JSW has also other subsidiaries, which provide support services to the Group and minority interest in the share capital of other entities and there are other companies in the Group which are indirect subsidiaries of JSW. The table below presents information on companies comprising the Group and consolidated by the full method.

COMPANY NAME	LINE OF BUSINESS
JASTRZĘBSKA SPÓŁKA WĘGLOWA S.A. WITH ITS REGISTERED OFFICE IN JASTRZĘBIE-ZDRÓJ	Hard coal mining and sales, sales of coke and hydrocarbons.
JSW KOKS S.A. ("JSW KOKS") WITH ITS REGISTERED OFFICE IN ZABRZE	Production of coke and hydrocarbons.
** BTS SP. Z O.O. ("BTS") WITH ITS REGISTERED OFFICE IN DĄBROWA GÓRNICZA*	*Transportation and general construction services*
** CARBOTRANS SP. Z O.O. ("CARBOTRANS") WITH ITS REGISTERED OFFICE IN ZABRZE*	*Road transport of merchandise, mainly hydrocarbons and raw materials for their production.*
** ZREM-BUD SP. Z O.O. ("ZREM-BUD") WITH ITS REGISTERED OFFICE IN DĄBROWA GÓRNICZA*	*Manufacture of spare parts, assemblies and devices, steel structures, technical equipment, tools and instruments; mechanic and electric repairs and maintenance of automation technology. Provision of renovation and construction services.*
JSW INNOWACJE S.A. ("JSW INNOWACJE") WITH ITS REGISTERED OFFICE IN KATOWICE	The Group's research and development activity, feasibility studies and oversight over execution of projects and implementations.
** HAWK-E SP. Z O.O. ("HAWK-E") WITH ITS REGISTERED OFFICE IN KATOWICE*	*Provision of services using drones for commercial purposes.*
JSW SHIPPING SP. Z O.O. WITH ITS REGISTERED OFFICE IN GDYNIA	Marine freight forwarding and marine transport agency services
PRZEDSIĘBIORSTWO GOSPODARKI WODNEJ I REKULTYWACJI S.A. ("PGWIR") WITH ITS REGISTERED OFFICE IN JASTRZĘBIE-ZDRÓJ	Provision of water and sewage-related services and discharge of salt water, supply of industrial water, reclamation activity and production of salt.
JASTRZĘBSKIE ZAKŁADY REMONTOWE SP. Z O.O. ("JZR") WITH ITS REGISTERED OFFICE IN JASTRZĘBIE-ZDRÓJ	Service activity pertaining to renovation, maintenance and upkeep of machinery and equipment for JSW mines.
** JZR DŹWIGI SP. Z O.O. ("JZR DŹWIGI") WITH ITS REGISTERED OFFICE IN JASTRZĘBIE-ZDRÓJ*	*Services related to production, upgrade, renovation, upkeep, inspection and repairs of internal transport equipment.*
CENTRALNE LABORATORIUM POMIAROWO-BADAWCZE SP. Z O.O. ("CLPB") WITH ITS REGISTERED OFFICE IN JASTRZĘBIE-ZDRÓJ	Technical research services, chemical and physiochemical analyses of minerals, and solid, liquid and gaseous materials and products.
JSW SZKOLENIE I GÓRNICTWO SP. Z O.O. ("JSW SIG") WITH ITS REGISTERED OFFICE IN JASTRZĘBIE-ZDRÓJ	Mining support activity.
** JSW OCHRONA SP. Z O.O. ("JSW OCHRONA") WITH ITS REGISTERED OFFICE IN JASTRZĘBIE-ZDRÓJ*	*Mining support activity, security activity.*
JSW LOGISTICS SP. Z O.O. (FORMERLY ZAKŁAD PRZEWOZÓW I SPEDYCJI SPEDKOKS SP. Z O.O. ("SPEDKOKS")) WITH ITS REGISTERED OFFICE IN KATOWICE	Rendering services concerning rail siding services, coal and coke transportation, organizing the carriage of cargo under instructions and technical maintenance and repair of rail cars.
JASTRZĘBSKA SPÓŁKA KOLEJOWA SP. Z O.O. ("JSK") WITH ITS REGISTERED OFFICE IN JASTRZĘBIE-ZDRÓJ	Provision of railway lines, maintenance of railway infrastructure structures and equipment, construction and repair of railway tracks and facilities.

COMPANY NAME	LINE OF BUSINESS
JSW IT SYSTEMS SP. Z O.O. (“JSW IT SYSTEMS”) WITH ITS REGISTERED OFFICE IN JASTRZĘBIE-ZDRÓJ	Computer hardware consulting, programming and data processing services.
JSU SP. Z O.O. (“JSU”) WITH ITS REGISTERED OFFICE IN JASTRZĘBIE-ZDRÓJ	Insurance intermediation and insurance administration pertaining to insurance claims handling, financial, economic and legal consulting, tourist and hotel activity.
JSW Stabilizacyjny Fundusz Inwestycyjny Zamknięty (“JSW Stabilization FIZ”)*	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.

* The Parent Company has 100% exposure to the Fund’s investment certificates.

2.2. LOCATION OF THE MINING AREAS

The mining area is located in the Upper Silesian Coal Basin. The mines (“KWK”) have a total of approx. 6.739 billion tons of coal resources, including approx. 1.056 billion tons of recoverable coal reserves (according to the Polish resource classification system based on mine resource appraisal reports as at 31 December 2018).

The Group’s mines exploit hard coal deposits in the areas of townships of Jastrzębie-Zdrój and Żory, the rural townships (*gmina*) of Świerklany, Mszana, Pawłowice, Gierałtowice, Ornontowice, Pilchowice as well as the towns of Mikołów, Czerwionka-Leszczyny, Gliwice, Knurów.

JSW’S MINING AREAS

COAL RESOURCES BY THE GROUP'S MINES

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

GROUP'S MINES

	BUDRYK	PNIÓWEK	BORYNIA-ZOFIÓWKA-JASTRZĘBIE	KNURÓW-SZCZYGŁOWICE	TOTAL
RESOURCES (m tons)	1,368.1	1,513.8	2,124.0	1,733.2	6,739.1
RECOVERABLE RESERVES (m tons)	251.6	181.5	301.2	321.6	1,055.9
FORECAST OF THE MINES' LIFE OF MINE	2077	2051	Borynia Section – 2042 Zofiówka Section – 2051 Jastrzębie Section – 2025	Szczygłowice Section – 2078 Knurów Section – 2072	-

If, due to market conditions, it will not be financially plausible to carry out the investments needed to develop the documented resources fully, the life of mine in the various mines may be truncated.

After the end of the reporting period, the Management Board made a decision to separate a new mine, named "Bzie-Dębina under development", from the Borynia-Zofiówka-Jastrzębie Integrated Mine.

INFORMATION ON CONCESSIONS HELD

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

DEPOSIT SUBJECT TO CONCESSION *(concessions for extraction of hard coal and methane as an accompanying mineral)*		CONCESSION NO.	DATE OF GRANTING THE CONCESSION	DATE OF EXPIRY OF THE CONCESSION
KWK BORYNIA-ZOFIÓWKA-JASTRZĘBIE	"Borynia" Deposit, "Szeroka I" Mining Area	7/2009	27.10.2009	31.12.2025
	"Jastrzębie" Deposit, "Jastrzębie I" Mining Area	23/94	21.03.1994	20.03.2019
	"Zofiówka" Deposit, "Jastrzębie Górne I" Mining Area	5/2010	14.05.2010	31.12.2042
	"Bzie - Dębina 2 - Zachód" Deposit „Bzie - Dębina 2 - Zachód" Mining Area	15/2008	01.12.2008	31.12.2042
KWK BUDRYK	"Budryk" Deposit, "Ornontowice I" Mining Area	13/94	21.03.1994	31.12.2043
	"Chudów - Paniowy 1" Deposit "Ornontowice II" Mining Area	3/2005	18.04.2005	31.12.2044
KWK KNURÓW-SZCZYGŁOWICE	"Szczygłowice" Deposit "Szczygłowice" Mining Area	29/94	08.04.1994	31.03.2020
	"Knurów" Deposit "Knurów" Mining Area	60/94	21.04.1994	15.04.2020
KWK PNIÓWEK	"Pniówek" Deposit, "Krzyżowice III" Mining Area	158/1994	26.08.1994	13.08.2020
	"Pawłowice 1" Deposit, "Pawłowice 1" Mining Area	3/2012	21.06.2012	31.12.2051

AREA COVERED BY THE CONCESSION *(exploration concessions)*	CONCESSION NO.	DATE OF GRANTING THE CONCESSION	DATE OF EXPIRY OF THE CONCESSION
"Warszowice-Suszec" Area	1/2018/p	15.01.2018	15.01.2023

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

After the end of the reporting period, the Group obtained the following concessions:

- Concession no. 1/2019 of 5 February 2019 for mining of hard coal and extraction of methane as an accompanying mineral: **KWK "Borynia-Zofiówka-Jastrzębie"** – "Jas-Mos" Deposit, "Jastrzębie III" Mining Area. The concession is valid until 31 December 2025.
- Exploration concession for hard coal deposit: *"Ruptawa" Area – Concession No. 2/2019/p of 6 February 2019.*

2.3. MANAGEMENT PRINCIPLES FOR JSW AND JSW GROUP AND CHANGES IN KEY MANAGEMENT PRINCIPLES

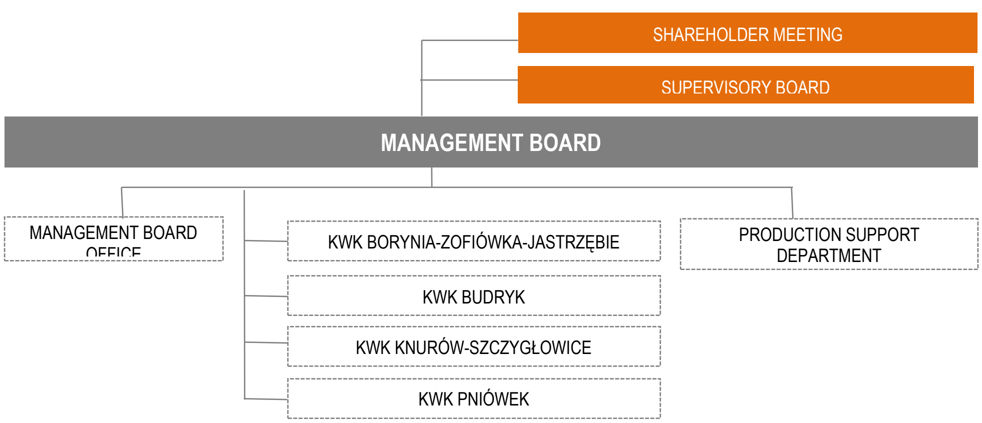
KEY GROUP MANAGEMENT PRINCIPLES AND THEIR CHANGES

The Group has in place internal documents that regulate mutual relations between Group entities and define the key corporate governance principles. They are: the JSW Group Code and the Corporate Governance Principles at the JSW Group. They constitute a set of principles for shaping and complying with corporate governance, implementing an effective management model and, as a consequence, maximizing the value of the Group. At present, the work is underway to implement the new governance principles for the Group's companies based on three complementary pillars, working together, but without establishing any hierarchical structure.

BASIC MANAGEMENT PRINCIPLES IN THE PARENT COMPANY AND THEIR CHANGES

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

Organizational Chart as at 31 December 2018.



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

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

The composition and matters within the powers of the Management Board and the Supervisory Board are described in detail in Section 7.10 and 7.13. The manner of proceeding of the Shareholder Meeting and its powers are presented in Section 7.12 of these statements.

The most important changes in the Company's organization in 2018 were introduced pursuant to resolutions adopted by the Management Board and concerned:

- the directional decision to establish the JSW "Bzie-Dębina under development" Mine,
- the update of Framework Mine Organization Charts and the Rules and Regulations and Organization Chart of the Management Board Office and the Production Support Unit, to the extent necessary to adapt them to the changing legal regulations and market conditions.

Moreover, after the end of the reporting period, the Management Board made a decision to introduce an amendment to the JSW's Rules and Regulations and Organization Chart involving, among others, establishment of the "Bzie-Dębina under development" Coal Mine. The Supervisory Board has issued a positive opinion on the Rules and Regulations and the JSW Chart incorporating these changes.

2.4. ORGANIZATIONAL OR CAPITAL TIES AND COMPLETED EQUITY INVESTMENTS

EVENTS CONCERNING CAPITAL AFFILIATIONS

EVENTS	DESCRIPTION
DISSOLUTION OF GRAFIT	On 31 May 2016, the Extraordinary Shareholder Meeting of Grafit adopted a resolution to dissolve the company. On 29 May 2017, the Extraordinary Shareholder Meeting of Grafit approved the liquidation report and consented for the company's liquidator to submit an application to delete Grafit Sp. z o.o. in liquidation from the National Court Register (KRS), which occurred on 16 February 2018.
CHANGES IN THE CAPITAL STRUCTURE OF JZR IN CONNECTION WITH EXECUTION OF THE INVESTMENT PROJECT INVOLVING MODERNIZATION OF COAL PREPARATION PLANTS OF KWK BUDRYK AND KWK KNURÓW-SZCZYGŁOWICE	On 30 September 2016, an agreement was concluded between the State Treasury and JSW to provide support not constituting state aid, effected in three tranches, in the total amount of up to PLN 290.0 million in the form of a cash contribution in exchange for shares in JZR's increased share capital and subscribed for by the State Treasury. Proceeds from the support were designated for modernization of the coal preparation plants of KWK Budryk and KWK Knurów-Szczygłowice. 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 capital increase was registered on 16 March 2017. After the increase, JSW's stake was reduced to 62.55%, while the State Treasury's stake is 37.45%. On 13 February 2018, JZR's Extraordinary Shareholder Meeting was held, where a decision was made to increase the share capital to PLN 645.0 million, that is by PLN 244.5 million, with JSW and the State Treasury subscribing for 249,000 and 240,000 shares, respectively, with a par value of PLN 500 each. On the basis of a protocol of accepting a declaration on the subscription for shares, JSW subscribed to 249,000 shares covered by a cash contribution of PLN 124.5 million made on 21 February 2018 and the declaration on the subscription for new shares by JSW was signed on 13 February 2018. The State Treasury subscribed for 240,000 new shares (2nd tranche) covered by a cash contribution of PLN 120.0 million. On 26 February 2018, an Agreement to subscribe for new shares in the increased share capital of JZR was concluded. After the increase, JSW's stake has been reduced to 58.14%, while the State Treasury's stake is 41.86%. The capital increase was registered in the National Court Register on 13 April 2018. On 28 May 2018, JZR's Shareholder Meeting adopted a resolution to increase its share capital to PLN 652.3 million by way of JSW subscribing 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 the JSW Production Support Unit's assets with a market value of PLN 7.3 million. The share capital increase was registered in the National Court Register on 22 August 2018. After the share capital increase, JSW's stake increased to 58.61% and the State Treasury's stake decreased to 41.39%. 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, 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

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

EVENTS	DESCRIPTION
	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.
LIQUIDATION OF JSAG	On 1 July 2014, the Extraordinary Shareholder Meeting of JSAG with its registered office in Jastrzębie-Zdrój adopted a resolution to dissolve the company and open its liquidation procedure. JSW holds 4,938 shares in Jastrzębska Strefa Aktywności Gospodarczej Sp. z o.o., representing 50% of its share capital. On 26 October 2018, the liquidation process ended and on 17 December 2018, the Ordinary Shareholder Meeting approved the final statements for 2018. On 2 January 2019, an application was filed to deregister the company from the National Court Register.
ACQUISITION OF CLP-B SHARES	On 20 February 2018, JSW signed a share purchase agreement with JSW Innowacje to purchase 1,510 shares in CLP-B representing 21.33% of CLP-B's capital, for the total price of PLN 6.8 million, i.e. PLN 4,520.41 per share. On 7 June 2018, the Ordinary Shareholder Meeting of CLP-B adopted a resolution on the acquisition by the company 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 7 June 2018. At present JSW holds 79.23% shares of CLP-B, while 20.69% shares are held by JSW KOKS.
JSW OCHRONA'S SHARE CAPITAL INCREASE	On 20 December 2017, the company JSW Ochrona Sp. z o.o. was registered in the KRS. The shares were taken up by JSW SiG (95%) and JSK (5%). The company was registered in the National Court Register on 11 January 2018. On 8 May 2018, the Shareholder Meeting of JSW Ochrona adopted a resolution to increase the company's share capital to PLN 900,000.00 by creating 800 new shares with a par value of PLN 500.00 each. The share capital increase was covered by a contribution of cash. The share capital increase 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 1,350,000.00 by creating 900 new shares with a par value of PLN 500.00 each. The capital increase was registered in the National Court Register on 19 October 2018.
JSK'S SHARE CAPITAL INCREASE	On 29 December 2017, Extraordinary Shareholder Meeting of JSK adopted a resolution to increase the share capital by PLN 20.4 million by issuing 40,710 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. JSW subscribed for all the new shares. The share capital increase was registered in the National Court Register on 6 April 2018.
SHARE CAPITAL INCREASE AND CHANGE OF NAME AND REGISTERED OFFICE OF JSW LOGISTICS SP. Z O.O. (FORMERLY SPEDKOKS)	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 thousand 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 capital increase was registered in the National Court Register on 29 March 2018. On 30 April 2018, the change of the SPEDKOKS' business name to JSW Logistics Sp. z o.o. was registered in the National Court Register.
ACQUISITION OF SHARES IN POLSKI KOKS FORWARDING & SHIPPING AGENCY SP. Z O.O. AND CHANGE OF THE BUSINESS NAME TO JSW SHIPPING SP. Z O.O.	On 10 January 2018, JSW S.A. signed an agreement with JSW Innowacje S.A. to purchase 26 shares in POLSKI KOKS FORWARDING & SHIPPING AGENCY Sp. z o.o., with its registered office in Gdynia, representing 100% of the company's share capital for the total price of PLN 1.9 million. On 16 January 2018, the Company's modified founding deed was registered with the National Court Register, which led, among others, to the change of the business name to JSW SHIPPING Sp. z o.o.
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 2,000,000.00, constituting 100% of the share capital of the company being established. The shares subscribed for were covered by a cash contribution. The company was registered in the National Court Register on 26 April 2018.
PURCHASE OF JSW KOKS' SHARES	On 19 June 2018, a share purchase agreement was signed under which JSW purchased 548,461 shares of JSW KOKS from JSW KOKS (treasury stock) 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 transaction completion date, JSW S.A. now holds 96.28% of JSW KOKS' shares.

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

EVENTS	DESCRIPTION
PURCHASE OF SHARES IN ADVICOM AND CHANGE OF BUSINESS NAME TO JSW IT SYSTEMS	On 19 June 2018, Advicom Sp. z o.o. signed a share purchase agreement with COIG S.A (minority shareholder) to purchase 5,105 shares in Advicom held by COIG S.A., which represented 24.94% of all Advicom's shares, for the total amount of PLN 10.0 million for retirement. The 5,105 shares were transferred and retired on 2 July 2018. At present JSW holds 100% shares of Advicom. On 3 August 2018 Advicom's Extraordinary Shareholder Meeting adopted a resolution to increase share capital to PLN 15.2 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 20,000,000.00. The PLN 15,000,000.00 surplus over the par value of the shares was transferred to supplementary capital. The capital increase was registered in the National Court Register on 23 October 2018. On 31 October 2018, the Advicom's Shareholder Meeting decided to change its name to JSW IT Systems Sp. z o.o. and 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.
ESTABLISHMENT OF JSW ZWAŁOWANIE I REKULTYWACJA SP. Z O.O.	After the end of the reporting period, 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 storage yard. The duration of the company is unlimited.
INCREASE OF THE SHARE CAPITAL IN PGWIR	After the end of the reporting period, 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.

AGREEMENT OF THE TERM SHEET FOR ACQUISITION OF AN EQUITY STAKE IN PRZEDSIĘBIORSTWO BUDOWY SZYBÓW S.A.

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 and 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.

On 17 July 2018 the representatives of JSW, PRIMETECH S.A. (formerly Kopex S.A.) and PBSz1 Sp. z o.o. signed a document containing the key terms and conditions for the sale ("Term Sheet") of a 95.01% equity stake in PBSz S.A. The purpose of the transaction is to acquire these PBSz shares for a total price of PLN 205.3 million that will be subject to possible adjustments ensuing from the settlement mechanism and the safeguards for JSW whose specifics will be laid down in the share purchase agreement. In connection with the need to extend the deadline for the activities leading to the closure of the negotiations, two annexes to the Term Sheet were signed.

On 21 December 2018, the Parties concluded a conditional agreement obligating them to purchase/sell 4,430,476 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 million, of which PLN 199.0 million will be paid on the closing date of the transaction and PLN 5.0 million is retained to guarantee PRIMETECH's warranties and will be settled after the closing date, but no later than three months after that date. 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 was made depend on the Buyer's obtaining the prior consent of the Office for Competition and Consumer Protection (UOKiK), obtaining a favorable decision of Company'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 the President of UOKiK gave concentration consent for JSW to acquire control over PBSz. 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 shares in Przedsiębiorstwo Budowy Szybów S.A. representing 95.01% of PBSz's share capital. The Extraordinary Shareholder Meeting of JSW was convened for 21 March 2019.

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

In connection with the transaction having been executed on a locked box basis, after obtaining a favorable decision by the Company's Supervisory Board on the execution of the transaction, a person designated by JSW will be appointed to the PBSz supervisory board to exercise individual supervision at PBSz.

3. GROUP'S STRATEGY AND DEVELOPMENT PLANS

3.1. JSW GROUP'S MISSION, VISION AND STRATEGIC OBJECTIVES

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

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

JSW Group's VISION is to strengthen the Group's position as the leading and innovative producer of coking coal and a prominent supplier of coke on the European market that sets the directions of development for the entire industry by maintaining the highest standards in: the quality of the products offered, innovation, automation and computerization of the production process, occupational safety and environmental protection.

OVERRIDING STRATEGIC OBJECTIVES

The Group's Strategy rests on four pillars:

DEVELOP THE RESOURCE BASE	IMPROVE EFFICIENCY	INNOVATION	SUPPORT THE REGION
• Securing new concessions • Exploring new deposits • Optimizing the mining of thin coal seams	• Investing in new technologies • Modernizing infrastructure • Optimizing processes and organizing production • Optimizing the decision-making system framework in the process of preparing a deposit for mining	• Initiating, preparing and running R&D&I projects for the Group • Raising project financing from EU funds	• Developing the Group's employees • Making medium- and long-term investments in new technologies • Supporting the local community

PARTIAL OBJECTIVES

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

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

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

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

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

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

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

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

3.2. DEVELOPMENT POLICY OF THE COMPANY AND THE GROUP

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

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

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

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

3.3. STRATEGIC ACTIVITIES IN 2018

The Group is consistent in carrying out the assumed strategic activities that are needed to achieve the accepted financial objectives and to maximize the Group's value for shareholders.

MAIN INITIATIVES SUPPORTING PARTICULAR STRATEGIC OBJECTIVES DEFINED IN THE STRATEGY INCLUDE:

COAL SEGMENT	• Building a 1120 level in the Borynia Section of KWK Borynia-Zofiówka-Jastrzębie mine. • Building a 1080 level in the Zofiówka Section of the KWK Borynia-Zofiówka-Jastrzębie mine. • Opening and industrial utilization of coal resources within the area of "Bzie-Dębina 2-Zachód" and "Bzie-Dębina 1-Zachód" deposits (the Zofiówka Section of the KWK Borynia-Zofiówka-Jastrzębie mine). • Building a 1290 level in the KWK Budryk mine. • Building a 1050 level in the Knurów Section of the KWK Knurów-Szczygłowice mine. • Building a 1050 level in the Szczygłowice Section of the KWK Knurów-Szczygłowice mine. • Deepening of shaft II and extension of the shaft lift in the Szczygłowice Section of KWK Knurów-Szczygłowice. • Expansion of level 1000 and deepening of shafts IV and III in the KWK Pniówek mine.
COKE SEGMENT	• Modernization of coke oven battery no. 4 at the Przyjaźń Coking Plant • Building of a coke oven gas desulfurization installation at the Jadwiga Coking Plant. • Construction of a power unit at the Radlin Coking Plant.
OTHER SEGMENTS	• Modernization of the Coal Preparation Plants in KWK Budryk and KWK Knurów-Szczygłowice mines, Knurów and Szczygłowice Sections. • Commercial utilization of methane at KWK Budryk and KWK Knurów-Szczygłowice mines, Knurów and Szczygłowice Sections.

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

3.4. FINANCIAL STRATEGY

The Group's activity is highly sensitive to business conditions, capital intensive and has a long investment payback period. In periods of favorable economic conditions in the coal market, the Group generates high positive cash flows, while in a period of economic downturn, the Group needs financing for high negative cash flows at the FCF level. A very important element that adds to the challenges of managing the capital structure in strongly-cyclical conditions is the fact that financial institutions perceive the coal sector as a high-risk industry, which makes it more difficult to access stable short-term and long-term debt financing.

Due to the high cyclicality of financial results, the Company strives to maintain diversified financing sources also in periods when cash surpluses are generated. The Group is aware of the fact that its cautious approach to the financing structure may increase its overall cost of financing, however it believes that its main goal is to strive to ensure a safe financing structure in order to maintain continuity of operating and investment processes also during the periods of economic downturn, which, in the strategic context, will contribute positively to the Group's value growth.

The optimum capital structure in the company is affected among others by the selection of:

- Appropriate proportions between own and external financing,
- Appropriate maturity of liabilities,
- External financing, appropriate forms of financing.

Equity is the main source of financing for the Group's assets.

The major objectives of the strategy for financing the Group's activity include:

- ensuring stable financing structure,
- attempting to match the average maturities of financing with the payback periods on the financed assets,
- taking actions to ensure the amount of financing which allows for maintaining continuity of processes of operating and investing activity at the assumed levels,
- seeking the most effective forms of financing at a given time,
- aiming to maintain in the Group a cash buffer to ensure that the key liabilities may be covered, including in particular liabilities for salaries,
- maintaining a stabilization fund in the assets at a level of PLN 1.8 billion, in periods of favorable economic situation in the coal market so as to ensure an appropriate level of financial liquidity at the beginning of a possible downturn period in the coal market,
- effective financial risk management in the Group.

INVESTMENTS IN THE FIZ ASSET PORTFOLIO

In 2018 the JSW Stabilization Closed-end Investment Fund was formed and PLN 1.5 billion was injected into it. At the end of 2018, the fund received additional PLN 300 million. At present, the net asset value of FIZ is more than PLN 1.8 billion. The main goal for establishing the JSW Stabilization Closed-End Investment Fund is to limit the impact of product pricing risks on the continuity of the operating and investing activity, by ensuring financial liquidity in the periods of bad market conditions on the coking coal market. In accordance with the Articles of Association of FIZ, the funds accumulated in the fund may only be used to:

- support and stabilize JSW's current liquidity in the periods of shortage of cash caused by unfavorable prices of coal and coke.
- provide financial support for JSW's necessary capital expenditures, including expansion of production capacity, increase of access to deposits, preparation of coal and coke.

Bond issue program

In the past years, the Parent Company used debt financing in the form of bond issues. The bonds were ultimately redeemed after the end of the reporting period, i.e. on 18 January 2019. The accelerated bond redemption schedule as compared to the schedule defined in the financial records may make it necessary to take out both long-term and current financing. To optimize and diversity financing sources, the Group also assumes the possibility of long-term financing in the form of bank loans and credit.

Physical Cash Pooling ("PCP")

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

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

Creation of a new coal mine "Bzie-Dębina under development"

The Management Board of Jastrzębska Spółka Węglowa S.A. 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. At the end of January, the Management Board's decision was approved by the JSW 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.

3.5. MATERIAL FACTORS RELATING TO THE GROUP'S DEVELOPMENT

The Group's operations and its results materially hinge on demand and the evolution of coal and coke prices. They always exert an impact on the Group's financial standing due to price volatility (the coal and coke markets are cyclical and are subject to numerous factors beyond the Group's control). At the same time, FX volatility affects the evolution of coal and coke sales prices.

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

INTERNAL AND EXTERNAL FACTORS AFFECTING THE GROUP'S OPERATION

EXTERNAL FACTORS

- economic trends in local and global economy,
- cyclicality in coal and coke consuming industries,
- volatility of demand and prices for the Group's products,
- situation in the steel market,
- level of imports of the products traded by the Group (coal and coke) to the EU and Poland
- prices of sea freight facilitating the allocation of raw materials in the global market,
- unplanned shutdowns of steel production capacity,
- investments (or their absence) in new steel production capacities,
- level of global structural excess supply of steel production capacities,
- development of new technologies for steel production,
- investments in PCI installations reducing coke consumption in the steel production process,
- the policy pursued by large steel-making concerns to meet their raw material needs on their own,
- high quality requirements of steel producers in respect of commodities used in their production,
- investments (or their absence) in new production capacities,
- dependence of merchant cokers on the shortfall in meeting the demand for coke in steel mills integrated with coking plants,
- export potential of other producers and exporters of coking coal and coke in the world and in the EU,
- increased share of spot transactions in the pattern of trade,
- differences in mining costs of coking coal and coke production between the world's largest producers,
- volatility of PLN and other foreign currencies with respect to the EUR and USD,

INTERNAL FACTORS

- cost of coal and coke production in the Group affecting their sale profitability,
- quantity and quality of the coal mined and the coke produced by the Group,
- investments resulting in increased efficiency and effectiveness of coal and coke production,
- safety level in the production processes,
- the intensity of occurrence of natural hazards and tectonics of the exploited seams,
- extraordinary events which may disturb the production process,
- failure rate of the mining machinery and equipment used in the production process,
- relations with the social party and the possibility of a collective dispute.

EXTERNAL FACTORS	INTERNAL FACTORS
• changes to monetary, fiscal and tax policy; the level and volatility of interest rates, the rate of inflation, the availability of short and long-term debt financing and equity, credit risk, • rules on the protection of the environment, • changes to government policy in reference to the mining, coking and steel sector, • possible disruptions in rail transports and possible limitations in transloading and logistical processes.	

3.6. ACTIVITIES SUPPORTING STRATEGIC OBJECTIVES

The activities supporting strategic objectives include:

- innovation activities,
- research and development,
- optimization measures.

Research and development activities are focused on efficiency. The Group wants to use the finite and non-renewable natural resources in the best way possible. The Group would also likes to place emphasis on innovation that would be positive in the social context, i.e. projects that will have positive impact on occupational safety and lower the risk of accidents underground. This thinking is consistent with the Vision, which assumes strengthening of the Group's position not only as a leading producer of coking coal and a prominent supplier of coke in the European market, but also as an enterprise which sets the directions of development for the whole industry by applying the highest standards of operation.

The year 2018 was one of dynamic development of research areas, the effects of which will play a key role in modernizing the mining and coking operations and increasing occupational safety. The strategic research areas include: operation of deposits, modern management models, heterogeneous telecommunications systems in mine workings, ICT, mine ventilation and air conditioning, OHS, environmental protection, revitalization of post-mining sites and breakthrough technologies. The R&D activity of JSW Innowacje will focus on the Group's needs and its existence will allow JSW to use a tax break under the law supporting the development of R&D activities in companies.

Moreover, the Group implements or analyzes technical and organizational solutions that would increase efficiency of its operations. The most important of them include:

- Purchase of equipment to improve the efficiency of preparatory works in order to increase the progress of roadway excavations, reduce work intensity and achieve savings in material costs.
- Execution of a research project aimed at disseminating the technology of mechanical lining and bolting in mine workings, in order to increase the spacing of the roof supports and increase the progress of longwall workings by ensuring appropriate dimensions of the gate roads.
- Pilot implementation of the technology of an independent rockbolt support system by a Bolter Miner type shearer. The purpose of the project is to significantly increase the progress of roadway excavation, improve work safety and speed up the opening of key extraction plots. The project is implemented as a research project.
- Implementation of further projects aimed at improving the efficiency of underground transport to extend the effective working time of people at the coalface by increasing the transport capacity of people and materials and reducing costs through unification and application of modern solutions.
- Implementation of a central server of technological data, which is to provide consistent and clear information on the performance of individual key cells of production systems.
- Implementation of a project involving the monitoring of machinery and equipment parameters in order to improve availability and upkeep of key machinery required for production processes.

3.7. RISKS AND HAZARDS

KEY RISKS RELATED TO THE OPERATION OF JSW GROUP

Level of risk: low – ●○○, medium – ●●○, high – ●●●
Change in the level of risk compared to 2017: decrease↘, unchanged→,↗ increase

RISKS RELATED TO SOCIAL, ECONOMIC AND MARKET ENVIRONMENT	
RISK OF RECESSION IN GLOBAL ECONOMY medium ●●○ unchanged →	A downturn in global economies, in particular in the steel and power industry or events causing a significant decline in demand for coal and coke, may have an adverse impact on the Group's activity, results and financial standing. In 2018, the EU steel market grew relatively quickly, supported by the good operating results of industry sectors using steel. Among the EU states that are important for the Group's sales, the largest decline was recorded in Austria (-1.25 million tons, -15.4%, as a result of an overhaul of a blast furnace at Voestalpine), in Germany (-0.86 million tons, -2.0%), Sweden (-0.27 million tons, -5.5%) and in Poland (-0.17 million tons, -1.6%, as a result of an overhaul of a blast furnace at Dąbrowa Górnicza). An increase in production occurred in the Czech Republic (+0.4 million tons, +9.1%), Italy (+0.4 million tons, +1.7%) and Slovakia (+0.3 million tons, +5.0%). According to the World Steel Association, in 2018 global steel production climbed 4.6% up to 1,808.6 million tons (up by 78.8 million tons). The largest increase in production was in Asia (+67.9 million tons, +5.6%), including China (+57.4 million tons, +6.6%).
RISK OF FLUCTUATIONS IN DEMAND AND SUPPLY ON KEY PRODUCT MARKETS medium ●●○ unchanged →	The oversupply of coal and coke in global markets may cause a significant decrease of prices, which may have significant adverse impact on the Group's activity, results and financial standing. Due to the interconnections of these industries, a downtrend (lack of demand) in the coke and steel market, has direct influence on the results generated by coal producers. The expansion of local and global competition may also pose a threat through the higher volume of coal and coke produced at lower costs and the influx of cheap coal and coke from imports. The Group's coal production volume in 2018 reached 15.0 million tons, i.e. 0.2 million tons more than in the corresponding period of 2017. Total sales of coal to external and internal offtakers were slightly below production levels: 14.8 million tons, i.e. 0.2 million tons more than 2017.
RISK OF REDUCTION IN BLAST FURNACE PIG IRON PRODUCTION CAPACITY IN EUROPE medium ●●○ unchanged →	We continue to grapple with a structural glut of steel production capacities on the European and global markets. The extensive consolidation and M&A processes in steelworks in progress on the market may lead to relocation of steel production within large metallurgy concerns. 75 blast furnaces are installed in Europe. Demand for coke and coking coal is also affected by planned overhauls of blast furnaces as well as sudden and unplanned downtime resulting from breakdowns or accidents. Production activity in the EU's steel-consuming sectors increased rapidly in the first half of 2018, with an increase of 0.7 percentage points after the first quarter. In the second half of 2018, we can see a more moderate growth rate and a similar trend is expected to continue in 2019.
RISK OF COAL AND COKE PRICE VOLATILITY high ●●● unchanged →	In the past, the Group has experienced periods of significant volatility in coal and coke prices and there is a probability that such volatility may occur in the future. The situation on the coking coal market is linked to the coke and steel market; business cycles entail variation in prices in those sectors. The prices of the Group's coking coal depend heavily on demand in the global metallurgical and steel markets. On the other hand steam coal prices depend on other domestic producers and the prices of other fuels. In 2017, a major change occurred in terms of market benchmarks shaping the pricing policies of coal producers. Market participants no longer negotiate previously set benchmarks for each quarter. Instead, transactions are executed on the basis of underlying indices. The departure from the benchmark set prior to or at the beginning of the delivery quarter opens up the possibility of using different calculation periods for reference prices, depending on contractual arrangements. Also possible is the application of various spot quotations. The market has a number of indices to choose from (Platts, TSI, Argus). Market participants apply them independently or use them as the basis for constructing index baskets shaping their pricing strategies. These indices differ from each other mainly in the methodology, the quality parameters (primarily CSR, VM and ash) and the origin of the raw material. The changes in coking coal prices in 2018 were affected to a large extent by non-recurring events: a bottleneck in an port in Australia (ships waiting more than 3 weeks for loading), supply problems in Australia), rebuilding of coking coal inventories after the monsoon season in India, a fire and announcement of a force majeure event at the North Goonyella mine in Australia. Each of these events caused a rapid price increase followed by a price drop when the event came to an end. In the future, such events may re-emerge and trigger new changes in the prices. To reduce the impact of the risk, the Group conducts on-going monitoring and analyses price trends in the coal, coke and steel markets. The terms and conditions of long-term contracts allow for periodic price negotiations.
INDUSTRY COMPETITION RISK high ●●● unchanged →	The competition in the coal and coke industry is influenced, among other things, by the price, production capacity, quality and physiochemical properties of coal and coke, logistics, costs and occurrence of new competitive producers. The Group may not be able to compete effectively with the repercussions of this risk due to the possible occurrence of worse mining and geological conditions in coal mining and changes in the production split of appropriate coal grades. Actions taken to minimize these risks include the flexible pricing policy adopted by the Group.

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

CHANGES IN FISCAL AND MONETARY POLICY high ●●● unchanged →	Tax authorities may intensify their efforts aimed at increasing tax receipts. The Value-Added Tax Act continues to be amended and Corporate Income Tax regulations have also changed significantly. Moreover, VAT sanctions were implemented as of January 2017 along with making the penalties more stringent in the Criminal Tax Code and the Criminal Code. <u>Actions taken to minimize these risks include:</u> ongoing monitoring of the control mechanisms implemented in order to revise them as needed, and regular update of the internal document entitled "JSW S.A. Tax Procedure" to comply with the changing regulations.

RISKS IN CONDUCTED BUSINESS ACTIVITY

OPERATIONAL RISKS THAT MAY CONTRIBUTE TO LOWER OUTPUT OR HIGHER COSTS high ●●● unchanged →	The volume of coal production by the Group's mines is subject to operational determinants and events beyond its control, which may disrupt its operations and affect the production volumes in the various mines in different periods. The mining activity is subject to mining and geologic and market conditions, which include, among others: ▪ difficult geological conditions such as disruptions to the continuity of deposits characterized by volatility and irregularity that may curtail the effectiveness of mining longwall parcels to a greater extent than anticipated; ▪ level of natural hazards higher than forecast which may lessen the ability to mine individual longwalls or increase the probability of random events, i.e. fire, explosion and ignition of methane, coal dust explosion, methane and rock outbursts, rock bumps, falls and collapses; ▪ breakdowns of machinery and equipment used in mining and processing; ▪ limited technical and organizational capacities; ▪ inability to mine coal from available resources at a competitive cost at a given time; ▪ incorrect specification of delivery times for materials, equipment and spare parts; ▪ planning process conducted based on the most likely scenarios (no stress tests); ▪ unexpected changes in the market conditions; ▪ changes to legal regulations governing the coal industry. Even though the Group has taken a multitude of measures to enhance safety these risks may grow in particular in conjunction with mining at deeper levels in the Group's mines. <u>Actions taken to minimize these risks include:</u> production planning based on monitoring and analysis of production indicators and forecasts concerning market conditions, current updating of production planning in connection with a systematic analysis of conditions existing in the areas where work is conducted, optimization of preparatory and mining operations, conducting production plans based on investment plans, adaptation of internal regulations and procedures to generally applicable legal and regulatory solutions.
RISK OF ABSENCE OF COAL MINING CONCESSION high ●●● unchanged →	The Group's key business relies on the effective power of its concessions, its compliance with the terms of those concessions and its capacity to obtain new concessions. The granting or extension of a concession may be refused if the intended activity violates environmental requirements, is contrary to purpose of the real property or is a threat to its safety or is a threat to defense and security of the state or its citizens. The Group consults with local government bodies regarding the opening of coal resources in deposits adjacent to the mines. A mining concession is granted following a reconciliation with a local zoning plan and if there is no zoning plan – based on the study of zoning conditions and directions. New concessions may be obtained on certain conditions, which include among others the introduction of provisions to local zoning plans which allow for the possibility of coal mining, in particular the removal of all provisions that may indicate non-compliance of the intended mining operations with the designation or manner of land use specified in the previous planning documents or obtaining a decision from the Regional Director for Environmental Protection with a favorable approach to the intended investment project. Life expectancy of mines may be reduced significantly if new deposits are not opened. <u>Actions taken to minimize these risks include:</u> development of a technical and economic design based on the deposit resources and development of the environmental impact documentation for the project; active participation in the formal process; constant cooperation with local government units and contact with the local community in the process of applying for the concession.
BUSINESS CONTINUITY AND INCIDENT MANAGEMENT high ●●● unchanged →	The coal mining technologies applied by the Group involve the use of highly specialized machinery and equipment manufactured by only a handful companies in the world. The implementation of the investment plans may involve the need to acquire new specialized mining machinery. Due to the global concentration of manufacturers of such machinery and equipment, there is a risk of unforeseen price increases or the unavailability of the required machinery or equipment, which might entail an increase in costs or cause delays in the implementation of the development strategy. Inspections, maintenance and modernization work also call for substantial financial expenditures. Such work may involve delays or an inability to complete it as a result of unforeseen factors beyond the Group's control. <u>Actions taken to minimize these risks include, among others</u>: monitoring and analysis of output indicators for the purposes of continuous updating of production plans; implementation of production plans in line with investment plans; adoption of schedules for the performance of mining works; regular analysis of geological and mining conditions existing in the areas where work is underway; continuous improvement of management's competence and staff's professional qualifications; review and adaptation of internal regulations and procedures to generally applicable legal and regulatory solutions in the context of planning of capital expenditure works, removal, limitation and neutralization of hazards, breakdowns, damages, defects, etc.

LACK OF PRODUCTION FLEXIBILITY IN THE SUPPLY CHAIN high ●●● unchanged →	The factors determining this risk are above all: limited technical and organizational capabilities, the application of inappropriate production technologies, improper specification of the timing of supplies of materials, plant and spare parts, unexpected changes in coal and steel market conditions, poor allocation of human resources, failure to stick to the deadlines for purchase orders under the prevailing legal and regulatory limitations. <u>Actions taken to minimize these risks include:</u> alignment of the production level to changes in demand in the supply chain by doing the following: regularly verifying market changes and needs, forecasting market demand, monitoring and analyzing production metrics, monitoring warehouse levels and monitoring the dates of supplies of plant and machinery, optimizing preparatory and mining work to check headcount when determining the ongoing production needs, analyzing and constantly enhancing management skills, enhancing staff skills, running production plans based on investment plans to select the right plant and machinery depending on the conditions present in a given deposit.
SALES TO A RELATIVELY SMALL NUMBER OF CUSTOMERS medium ●●○ unchanged →	This risk is about the business and financial strategy being based on cooperation with a relatively low number of customers and the inability of enforcing payments from them. The considerable downturn in the economy, especially in the steel and coke industries, may have a material and adverse impact on the Group's operations, its results and financial position. Furthermore, if one or more of the Group's major buyers cuts back on the volume of coal or coke purchased or fails to extend supply contracts, this could have a material and adverse impact on the Group's operations, results and financial position. Moreover, timely payments hinge upon many factors beyond the Group's control. Actions taken to minimize these risks include, among others: monitoring of the performance of coal sales agreements, reporting of payments for deliveries (debt collection), application of contractual provisions about contract performance security. The customer's financial statements are reviewed and assessed within the JSW Group's Procedure to Secure Payment and Collect Receivables and its Sales Procedure.
RISK THAT THE QUANTITY AND QUALITY OF COKE PRODUCED BY THE GROUP MAY BE LOWER THAN CUSTOMERS EXPECT medium ●●○ unchanged →	Production capacities of the coke oven batteries may be affected by a number of factors remaining outside of the Group's control. These forecasts inevitably contain some level of uncertainty and to this extent they rely on economic and technical assumptions made, which in the end may prove to be imprecise. As a result, estimates concerning coke production are regularly checked on the basis of new information; as a result, one should expect that they may change. If the actual utilization of coke production capacity by the Group is lower than the current estimates, then this may adversely affect the Group's outlook and value as well as its performance and financial standing. Since steel production growth was higher than forecast, in 2018 the global consumption of imported coke was approximately 26-28 million tons. Europe has approx. 30-40% share in global trade by volume. The advantage of the JSW Group over other coke producers is based on the availability of the raw material: the coking plants rely on coking coal supplies from the Group's own mines. <u>Actions taken to minimize these risks include</u>: compliance with the provisions of the Group's Sales Procedure, weekly commercial reports submitted for information to the Management Board and information on coke inventories in the Group.
PRODUCTION ASSET INVESTMENT PROGRAM high ●●● unchanged →	There is a probability of failure in pursuing strategic investments precipitated by the insufficient allocation of financial resources, e.g. as a consequence of the periodic downturn in market conditions on the coal and steel market, or changes in the forecast macroeconomic factors. The materialization of risk is prevented through: development of periodic investment execution reports, continuous analysis of material, financial and scheduling deviations in key project, in-depth scrutiny of justification for projects related to current production, investment activity based on project management mechanisms, analysis of the investment project portfolio, setting of investment priorities, specification of value thresholds of capital expenditures (scenario analysis), implementation of key projects by Project Teams in accordance with a developed and implemented methodology, strict oversight over the execution of projects from Steering Committees, securing of funding that enables the financing of strategic projects in the period of adverse conditions on the coal and coke market. One of the high-risk strategic investment projects is the modernization of the coal preparation plants at the Budryk and Knurów-Szczygłowice Coal Mines, to support the increase in production of coking coal, in particular the type 35 hard coking coal, carried out by JZR. Completion of this investment project should increase the coking coal output as compared to the mine's net production and allow the Szczygłowice Section and the Budryk Mine to selectively enrich coal types 34 and 35. However a delay in the execution of the project may postpone the planned increases of coking coal output, which could result in lower coking coal production and lower sales revenues. If this risk materializes, it will have consequences of financial, operational and strategic nature.
COOPERATION WITH EXTERNAL FORWARDING AND TRANSPORT COMPANIES high ●●● unchanged →	Some of the contracts entered into by the Group for the sale of coal and coke provide for product delivery service to a specific venue. In transport and forwarding, the Group cooperates with external companies, which generates the following risks: unavailability of rolling stock that may result in limited ability to deliver products and contractual penalties; limited throughput capacity of rail lines connected to renovations of infrastructure curtailing the ability to deliver products on a timely basis; breakdowns and constraints in logistics processes that may generate additional costs. Actions taken to minimize these risks include: cooperation with many carriers, constant monitoring of logistics companies and active search for the most efficient logistics solutions in consultation with its customers.

QUALITY AND COMPONENTS OF LOADING INFRASTRUCTURE

high ●●●
unchanged →

The Group has its own loading equipment sufficient to effect shipments of their output. However, its storage capacities is limited albeit predictable, which entails the need to lease external storage yards on a temporary basis. Moreover, they are exposed to a risk of limited availability of proper types of railway wagons and limited ship loading capacities in seaports.
The development of railway transport and transshipment infrastructure faces the following barriers: traditionally low storage yard parameters – limited loading and unloading capacities, shortages of transshipment equipment, repairs of railway infrastructure, high costs of access to railway infrastructure.
Actions taken to minimize these risks include continuous monitoring of coal storage capacities in mine storage yards. Long-term agreements have been signed to ensure access to storage yards and quays in seaports.

RISK ASSOCIATED WITH RELATIONS WITH TRADE UNIONS AND COLLECTIVE LABOR DISPUTES

high ●●●
unchanged →

In the bituminous coal sector, trade unions play an important role in shaping the payroll policy. The position held by trade unions is particularly strong on account of the headcount in the sector and its strategic influence over the functioning of the economy. The Group's failure to maintain proper employee relations may exert a material and adverse impact on the operational outlook, results and financial position and consequently on its perception by its economic partners. There are 125 trade union organizations operating in the Group. The total number of trade union members, since an employee may be affiliated with several unions, exceeds the number of the Group's employees and as at 31 December 2018 it was 35,242, which means that the union membership ratio was 124.7%.

<u>The control mechanisms applied in connection with risk include</u>: meetings of the Management Board with trade unions to report on the Group's economic and financial standing. Information pertaining to relations with trade unions and the collective disputes pending H1 2018 is presented in Section 8.6.4 of this report.

BUMP HAZARD

high ●●●
unchanged →

Risk that a dynamic movement caused by caused by a shock wave in the rock mass, stress relief in an underground working or its part or a bump in an underground working may cause danger to the safety of persons, loss of health or life, damage or destruction of the working or its part and installed equipment, i.e. JSW's assets. Such an event may cause total or partial loss of a mine working.

The control mechanisms applied in connection with the risk include: continuous seismic and seismoacoustic observation by mining geophysics stations, ongoing seismic registration and analysis of the rock mass, analysis using a comprehensive bump hazard assessment bump hazard, analytical methods, geophysical surveys and electric resistivity measurements. Analysis and assessment of the state of emergency at monthly meetings of the Tremor Hazard and Caving Hazard Management Team or, in the case of emergencies, at *ad hoc* meetings of these teams, in justified cases extended with specialists or experts.

ENVIRONMENTAL RISKS

RISKS CONCERNING ENVIRONMENTAL PROTECTION REGULATIONS

high ●●●
unchanged →

The legal regulations applicable to the environment and the usage of natural resources are subject to constant change and the trend over the most recent years has been toward making the binding standards more stringent. Consequently, the Group may be unable to comply with and act in compliance with provisions of law as amended in the future or such amendments may have an adverse effect on the Group's business activity. Additionally, changes to the environmental protection law may force the Group to adapt to new requirements (e.g. adjusting the technologies used by the Group to curtail atmospheric emissions or changes to how waste is managed or water and sewage management), inclusive of obtaining new permits, or changes to the conditions of the current permits held by the Group. Such an obligation may require the Group to incur specific additional capital expenditures and may, by the same token, affect the its financial standing by increasing the costs of its activity. The Group strives to limit risk by constantly overseeing environmental protection legal requirements and making the necessary investments to meet all environmental requirements. Awareness and responsibility in acting on the basis of the highest environmental standards and consistency in fulfilling environmental tasks are among the Group's priorities.

Actions aimed at minimizing these risks include: constant oversight of environmental protection legal requirements and execution of necessary investment projects to meet all environmental requirements. In connection with the entry into force on 1 January 2018 of the new Water Law Act of 20 July 2017, in Q4 2018 activities were continued order to adapt the operations of the Group's units to the new water and sewage management conditions and to comply with all legal requirements. Because the amendments to waste management regulations introduced in the current year and planned to be introduced were significant, an analysis of the amended legal regulations was carried out and the actions were identified that were necessary to adapt the operations of the Group's units to the new waste management requirements within the time limits set in the regulations.

HAZARDS ARISING FROM THE OCCURRENCE OF MINING DAMAGE ON THE SURFACE

high ●●●
unchanged →

The risk is connected with that fact that the Group, because of coal reserves being located under forest and intensely urbanized areas, will have to incur high costs to carry out land rehabilitation in advance and repair mining damage. According to the Geological and Mining Law, the Group is obligated to repair mining damage in facilities and structures and it may be obligated to reinstate land to its state from before the mining activity commenced.

Actions taken to minimize these risks include: coordination of activities associated with the preparation of the geological works program, geological and hydrological documentation, deposit development plan and operations plan, planning of locations endangered with mining damage, oversight over compliance with provisions of concessions and environmental decisions, monitoring the performance of repairs of mining damage, monitoring of a provision recognized for this purpose, cooperation with local government units, exclusion of land from development or a deposit from mining, mining damage prevention at the construction stage and actions to make sure that gravitational flow of water is preserved.

RISK ASSOCIATED WITH ADAPTATION OF THE GROUP'S ACTIVITY TO THE EU CLIMATE POLICY medium ●●○ unchanged →	One of the priorities of the European Union is to prevent climate change, among others through limiting the consumption of natural energy resources, introducing modern and efficient energy generation technologies, limiting carbon dioxide emissions, reducing energy consumption and increasing the importance of renewable energy generation.In order to achieve these objectives, the European Union has introduced a package under the name of "3x20% by 2020". In addition, the European Commission is currently working on what is referred to as the "winter package" constituting a series of legislative solutions striving to attain the objectives specified above within the EU of its current energy and climate policy for 2030. The active climate policy pursued by the European Union adversely affects the steel industry due to the elevated operating expenses. As a consequence, the poor standing of the metallurgical industry sector may cause a decline in revenues. Activities related to risk minimization include: continuous analysis and evaluation of the situation in the area of changes to the EU Climate Policy and resulting changes in national legislation, execution of projects by the Group intended to reduce greenhouse gas emissions by making maximum use of the methane captured in the coal production process for the purposes of electricity, heat and cool air production.

RISKS OF FINANCIAL NATURE

FOREIGN EXCHANGE RISK RELATED TO EUR/PLN AND USD/PLN EXCHANGE RATE FLUCTUATIONS high ●●● unchanged →	The Group is exposed to significant foreign exchange risk due to its foreign currency exposure which may affect the amounts of future cash flows and the financial result. Sales are the main source of FX risk in the Group: sales denominated in EUR and USD and sales indexed to EUR and USD. Actions taken to minimize the risk: - 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 JSW Group. In the Parent Company, there is a Foreign Exchange Risk Committee at the JSW Group, responsible for making key FX risk management decisions, in particular for hedging contracted and planned cash flows. In an attempt to eliminate FX risk, in 2018, the Parent Company executed FX forward transactions (external), in accordance with the hedge ratios adopted by the Management Board and the Foreign Exchange Risk Committee at the JSW Group. JSW also executed hedging transactions with its subsidiaries (internal). The maturity of the transactions did not exceed 12 months. The Group also makes 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. Derivative transactions to hedge the denominated exposure with maturities exceeding six months are designated for hedge accounting.
INTEREST RATE RISK medium ●●○ unchanged →	The Group's exposure to interest rate risk concerns primarily potential changes in cash flows caused by shifts in market interest rates. The Group finances its operating and investing activities also with external funds bearing interest at floating interest rates and invests free cash in financial assets which also in most cases bear interest at floating interest rates. 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. 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.
LIQUIDITY AND WORKING CAPITAL MANAGEMENT RISK medium ●●● unchanged →	The current market conditions enable generation of positive cash flows, resulting in a high level of available cash. Actions taken to minimize the risk: Within the framework of its strategic activities, the Group intends to maintain the Closed-End Investment Fund, the role of which will be to provide a safety cushion in times of economic downturn when it will be necessary to incur expenditures not fully covered by cash inflows. The Group also intends to maintain the proper financing structure by keeping an appropriate level of long-term financing sources. The Group's process of liquidity risk management calls for effective monitoring and reporting of the liquidity position, among others, to take preventive measures in the event of a threat to liquidity and maintaining an appropriate (minimum) level of cash available for service of current payments. Additionally, in order to achieve more effective management of current liquidity, the JSW Group has in place a cash management system named Physical Cash Pooling (PCP).

RISKS RELATED TO LEGAL ENVIRONMENT

RISK ASSOCIATED WITH TAXES high ●●● unchanged →	The Group is exposed to the risk of non-compliance with the provisions of the tax law in relation to Corporate Income Tax or incorrect interpretation of the law. Since provisions of the tax act are unclear, the interpretations and judgments issued in respect to corporate income tax is often inconsistent. This causes difficulties with the tax qualification of economic events. Current control activities include updates of the internal tax procedures to address the changing regulations and training of employees handling CIT, and ongoing monitoring of controls implemented to revise them as needed. Analysis of changes in income tax regulations in 2019 and in terms of reporting on MDR tax-planning schemes. The Group is also exposed to the risk of fines associated with incorrect calculation of VAT due to employee errors or system errors or due to differences in the interpretation of tax regulations, as well as due to a failure to comply with the requirements of the VAT regulations. As of January 2017, sanctions for improper VAT settlements (20%, 30%, 100%) were reinstated, as well as stricter fines

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

	were introduced under the Criminal Fiscal Code and the Criminal Code for issuing or using inaccurate invoices. In 2018, the Group also started handling invoice payments to business partners under the Split Payment system. Current controls include updates of tax procedures to address changing regulations, training of employees, ongoing monitoring of implemented controls, monitoring of changes due to the planned transition from the PKWiU system to the CN combined nomenclature system and the related revision of VAT rates.
COMPLIANCE RISK Medium ●●○ New risk	The risk is related to potential consequences of the Group's failure to comply with legal regulations or its internal regulations and standards of conduct. It also means internal inconsistencies in regulations and procedures, which opens the possibility of applying them inconsistently. Due to the complexity of the legal and regulatory environment, as well as an extensive organizational structure, it is likely that inconsistencies in internal regulations will occur or from time to time they will not be compliant with the existing requirements. Actions taken to mitigate the risk include: procedure of oversight over legal and other requirements and oversight over documentation and provisions, Code of Ethics, JSW Group Code, Rules and Regulations for adopting internal regulations at JSW, Rules and Regulations for appointing teams, commissions and committees, Group's Corporate Governance Principles.

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

3.8. RISK MANAGEMENT PROCESS

The Group has in place a comprehensive enterprise risk management system which comprises the Enterprise Risk Management Policy and Procedure. Adopting uniform risk management standards in the Group is meant to maintain risk within predetermined limits and ensure the achievement of business objectives while guaranteeing safety for the Group.

To properly supervise the risk management process, an ERM Officer has been appointed to coordinate the corporate risk management process.The ERM Officer also collaborates with the Supervisory Board Audit Committee by submitting reports on the Group's risk profile and corporate risk management progress.

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

4. ACTIVITY OF THE JSW GROUP AND ITS CONDITIONS

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. The scope of the Group's business and the products it offers leads to the Group's exposure to a number of related markets. In the recent decade, major swings in supply, demand and prices have transpired on the global coal, coke and steel milling markets. The outcome of the increases and decreases in demand generated by customers and the accompanying price volatility are the ever shorter duration of business cycles in these interconnected markets.
The Group operates on the basis of its two core lines of business: mining, consisting of the extraction of coal (mainly coking coal), and coking, including the production of a full range of coke products. The Group also consists of companies supporting the major lines of business.

In principle, about 43% of the coking coal produced by the Group is processed by the Group's coking plants into coke which, next to iron ore, is the key raw material used in the production of steel in blast furnaces in steel mills. Coke is also used in foundries, in the non-ferrous metal industry, in the chemical industry and in the production of insulation materials.

Thermal coal is mainly used for generation of power and heat. It is sold to power companies, industrial and retail customers, however nearly 95% is sold to power plants and co-generation plants.

The Group is one of the largest employers in Poland. Overall, the Group employs more than 28 thousand people, of which more than 21 thousand are employed by the Parent Company.

4.1. INDUSTRY AND GROUP'S MARKET POSITION

COKING COAL – CRITICAL RAW MATERIAL

Both the coking coal market and the coal market are global. Demand for coking coal and coke, the Group's main products, results mainly from the state of the steel industry, which consumes these raw materials in blast furnaces in the pig iron production process (more than 70% of steel is produced using the blast furnace technology). Two main raw materials for the steel industry are coking coal and iron ore. Coking coal is processed into coke in the coking plants owned by steel companies. In the PCI (Pulverized Coal Injection) technology, coal dust with appropriate parameters is blown into the blast furnace, which reduces consumption of coke and production costs. In many papers, different coking coals and PCI are referred to as metallurgical coal.

For the European steel industry, it is important to ensure stable supply of its key raw materials on competitive terms. Since there are no sufficient sources of supply within the European Union, the EU is virtually fully dependent on the imports of both iron ore and coking coal. In 2017, the European Commission confirmed the coking coal status as a critical raw material on the list of 27 raw materials for which supply shortages and their effects have greater impact on the economy than shortages of other materials. The high risk of shortage or lack of supply is due to a limited number of its sources. Global production of coking coal is concentrated in few countries; the market share of just China and Australia adds up to over 70%. China is the largest producer in the world. Virtually all the output is used on the domestic market, while almost 100% of Australian coal is exported.

For users that are dependent on coal imports, it is important that the raw material is available for trade on the international market, which supplies roughly 30% of global demand for coking coal. The number of supply players on this market is limited to few main exporters, including Australia, the USA, Canada and Russia, which combined account for 85% of the supply of coal on the international market.

At present, only a few EU countries continue to produce coking coal: Poland, Czech Republic and small amounts in Germany, which soon intends to terminate the mining of coal altogether. The coking coal deficit on the EU market is addressed by imports chiefly from Australia, the US, Canada and Russia and, in recent years, from Mozambique. Demand for imported coal will increase in connection with the planned phasing-out of Czech OKD mines. Jastrzębska Spółka Węglowa SA is the largest producer of coking coal in Poland. It is the only producer of hard coking coal in Poland, while semi-soft coal is also produced by several PGG SA mines.

Iron and steel metallurgy is the main and key buyers of coke, which is used mainly for the production of pig iron in the blast furnace process, while smaller grades are used for producing agglomerates from iron ore and ferro-alloys. This group of clients includes also foundries, which purchase high quality foundry coke.

Other types of coke are used in the smelting of non-ferrous metals (zinc, lead and copper), in the lime industry, chemical industry (mainly in the production of carbide), sodium industry (in the production of glass), food sector (sugar factories, drying plants) and in the municipal sector (heating coke).

Most coking plants are integrated with steel mills and produce coke for the proprietary needs of steel companies. Only a small portion of global coke production, approximately 4%, is exported. In the European Union, the majority of coking plants is integrated with steel mills, while in Poland coking plants are independent merchant cokers, except for the coking plant in Krakow, which is part of the ArcelorMittal Group. Several independent coking plants are also located in other countries: in Hungary, Czech Republic and Bosnia. The advantage of JSW Group's coking plants over other coke producers is based on the availability of the raw material: the coking plants rely on coking coal supplies from the Group's own mines, supplemented by overseas hard premium coal used to stabilize coke's quality parameters.

Global coke consumption structure has been stable for years. The metallurgy industry uses about 80% of all coke, so the level of demand for coke and thus for coking coal is determined by factors such as: the production volume of crude steel in the blast furnace process and the ratio of unit coke consumption in the production of pig iron.

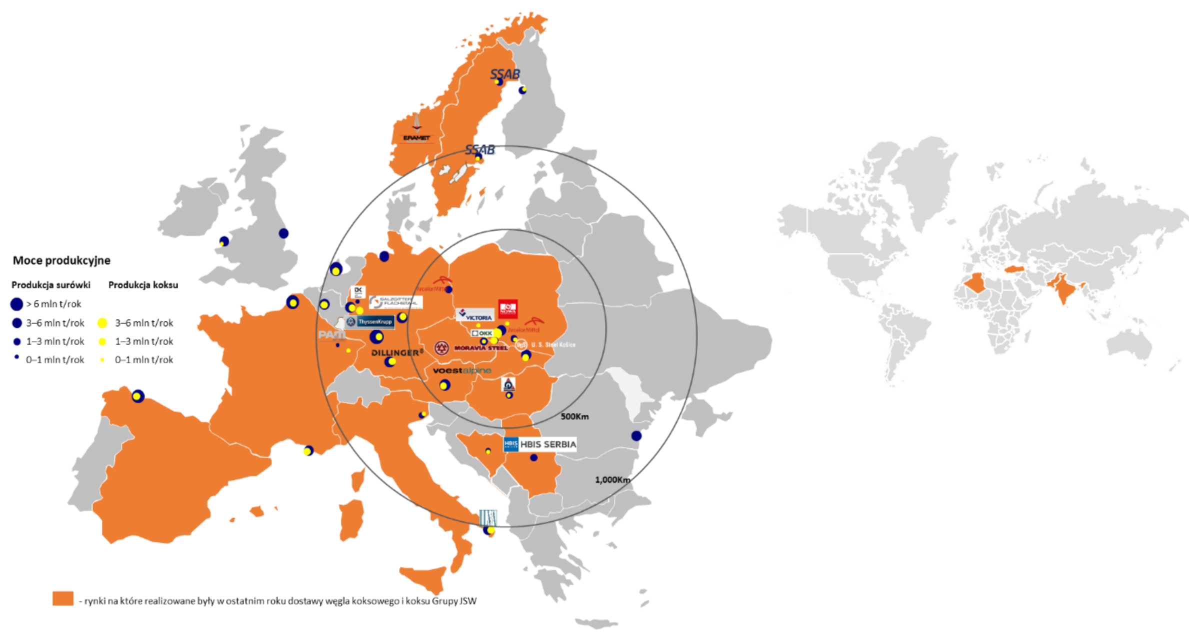
The JSW Group is dependent on external coke markets, which means that it has to compete both in terms of quality and price with suppliers not only from Europe, but also from China, Russia and Colombia.

Since the supply side of coking coal is heavily concentrated and is limited to a few key suppliers, the market is very sensitive to events that may limit the availability of coal and reacts with sharp price increases. In recent years, the market has been heavily influenced by weather factors in Australia and administrative decisions in China. Since coking coal is the main component of coke production costs, coke prices usually follow the changes in coking coal prices. Sometimes, if coking coal prices change suddenly, the effect on coke prices may be delayed.

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

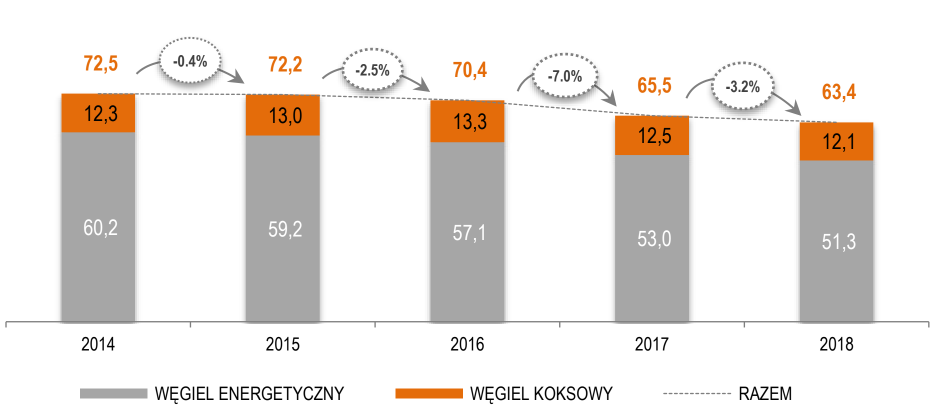
GROUP'S MARKET POSITION

The Group is an important supplier of high quality coking coal in the local and European market. The remaining type of coal is steam coal. The Group has its own coking plants and may capture synergies by supplying its clients with coking coal and coke. The Group's strong position results from the resources it holds and its advantageous location in the vicinity of key European steel manufacturers, which are the main offtakers of the Group's coking coal and coke.



On a global scale, the Group's share in coal production is insignificant, representing 0.2% of global coal output. The global annual production of coal is over 7 billion tons of which approx. 1.15 billion tons is metallurgical coal mined for the needs of the coking and steel industry and the remaining coal output is used predominantly for energy generation purposes. JSW's market share in global production of metallurgical coal is about 0.9%, while in the EU states JSW is the largest producer of coking coal and moreover the leading producer of hard coking coal.

Production of hard coal in Poland in 2014-2018 (million tons)



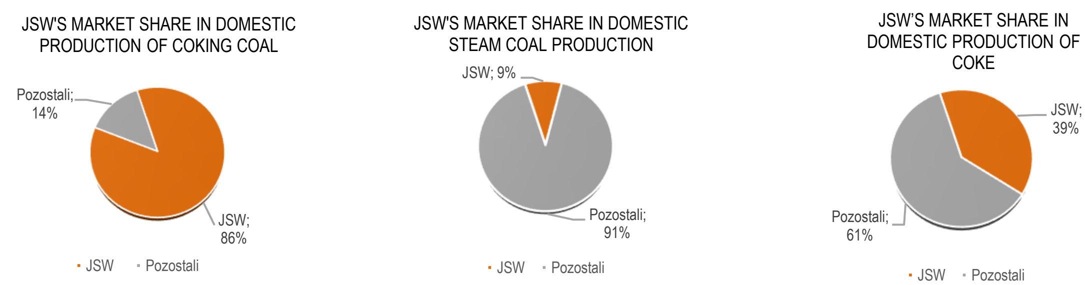
Source: Agencja Rozwoju Przemysłu S.A.

In 2018, coal production in Poland was 63.4 million tons (2.1 million tons less than in 2017). Steam coal production was 51.3 million tons (1.7 million tons less than in 2017), while coking coal production was 12.1 million tons (0.4 million tons less than in 2017). Total coal sales in 2018 amounted to 62.5 million tons, down by 3.8 million tons from 2017, of which steam coal represented 50.4 million tons (down 3.7 million tons vs. 2017) and coking coal 12.1 million tons (0.05 million tons less than in 2017). Total coal sales on the domestic market reached 58.6 million tons, down by 1.4 million tons from 2017, of which steam coal represented 49.2 million tons (down 1.2 million tons compared to 2017) and coking coal 9.4 million tons.

The Group also sells coke, which is produced by the Group's coking plants. Key role here is played by the sale of blast furnace coke. The share of blast furnace coke in the Group's total coke sales in 2018 was 73%. The remaining 27% was industrial, metallurgical, heating and foundry coke.

In 2018, coke production in Poland was 9.2 million tons, down 1.2% compared to 2017. With 3.6 million tons of production volume, the JSW Group accounted for 39% of domestic coke production in this period. In Europe, coke is produced chiefly by coking plants integrated with steelworks, while the JSW Group remains the largest non-integrated producer of this commodity in the region. The Group's share in global coke exports is about 11%.

JSW's market share in domestic coal and coke production



Source: Agencja Rozwoju Przemysłu S.A., proprietary study.

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

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

4.2. MARKET DETERMINANTS

The Group as an active participant in the supply chain: coking coal – coke – steel, is forced to operate in a volatile market environment, determined by the situation in the steel market and strong competition in the coking coal and coke supplier market. The situation on interconnected international markets of steel, coke and coal weighs heavily on the Company's results.

STEEL MARKET

In 2018 global steel production rose 4.6% up to 1,808.6 million tons (up by 78.8 million tons). The largest increase in production was recorded in Asia (+67.9 million tons, 5.6%), of which in China up to 928.3 million tons (+57.4 million tons, 6.6%). Production of steel in Europe did not change materially, reaching 311.8 million tons (+0.1 million tons). Steel production in European Union countries dropped slightly to 168.1 million tons (by -0.4 million tons, or 0.3%). Among the EU states that are important for the JSW Group's sales, the largest decline was recorded in Austria (-1.25 million tons or 15.4%, as a result of an overhaul of a blast furnace at Voestalpine), in Germany (-0.86 million tons or 2.0%, due to a significant reduction of production at ThyssenKrupp Steel Europe due to low water levels on the Rhine), Sweden (-0.27 million tons or 5.5% - stoppage of a blast furnace at SSAB due to high temperatures) and in Poland (-0.17 million tons or 1.6%, as a result of an overhaul of a blast furnace at Dąbrowa Górnicza). An increase in production occurred in the Czech Republic (+0.4 million tons, 9.1%), Italy (+0.4 million tons, 1.7%) and Slovakia (+0.3 million tons, 5.0%). In 2018, 106.5 million tons were produced in India (+5.0 million tons, i.e. 4.9% more than in the previous year).

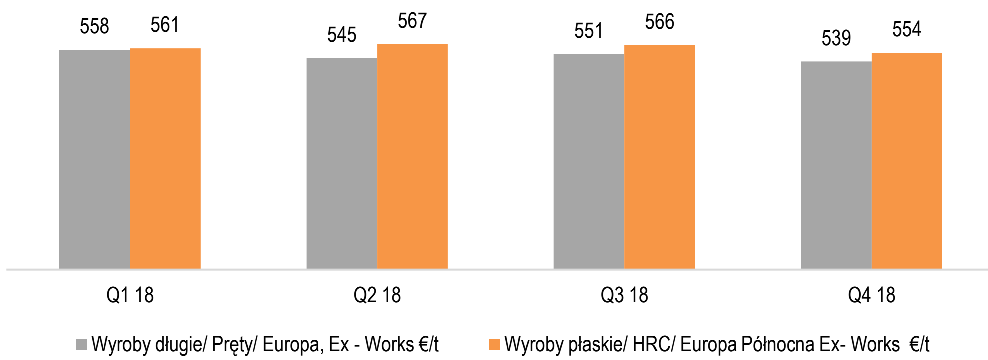
According to preliminary estimates, domestic steel consumption in 2018 was approximately 15 million tons. The demand for steel is generated mainly by investments: in construction (this sector accounts for almost half of the domestic steel consumption), road construction, energy sector and railways, as well as the construction and machinery industry, shipbuilding, household appliances industry and the automotive industry.

Domestic steel consumption has been growing steadily for many years, in line with economic growth. More than 13.5 million tons of steel products were consumed in the domestic economy in 2017, 13.1 million tons in 2016, over 12.5 million tons in 2015 and 12.3 million tons in 2014. Last year's consumption of steel was the highest since 1989.

Eurofer estimates that steel consumption in the European Union in 2018 increased by 2.2% compared to 2017, while imports of steel into the EU grew faster than the supply of steel mills located within the European Union.

Prices of basic steel products on the European market were stable and supported by good operational performance of the steel-using sectors. European steel producers, thanks to the high level of orders and increasing business in steel-using sectors, recorded good financial performance in 2018.

Prices of flat products (HRC) and long products (rods) in Europe



Source: SBB

COKING COAL MARKET

Being a leading producer of coking coal in the European Union, JSW enjoys the so-called geographic rent, but is subject to overall global market trends. In the second quarter of 2017, the publication of quarterly coking coal benchmarks being the determining factors for global coking coal prices, was discontinued. As a result, price negotiations are now negotiated based on daily quotations of Australian or American coal. Index-based policy for selling coking coal opens the possibility of using different calculation periods and reference prices, chiefly:

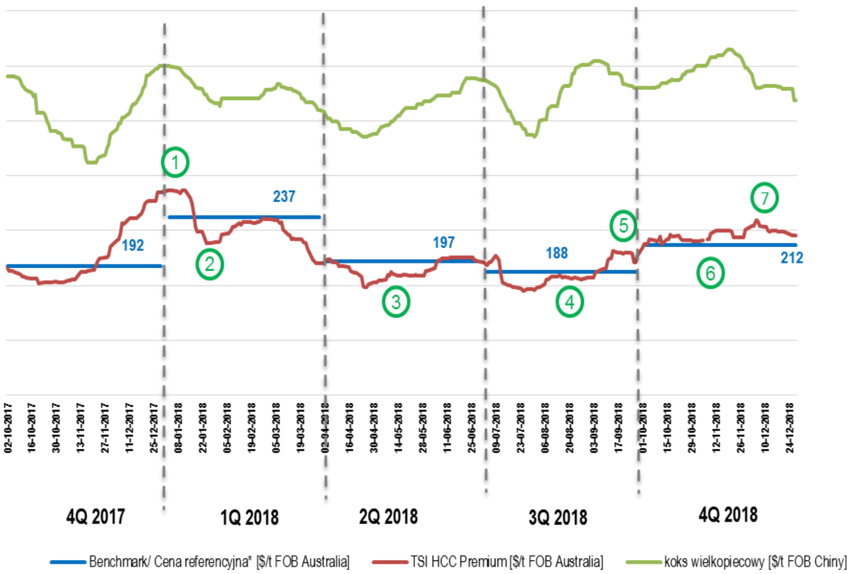
- The Steel Index (TSI): reference price for premium HCC coking coal used to set forward contracts
- Nippon Steel: quarterly price - average of two months in a given quarter and the preceding month for two indices: S&P Global Platts Premium Low Vol FOB Australia and TSI Premium Hard FOB Australia.

In Q4 2018, the hard coal price set using the Nippon Steel method based on the average index basket from the September-November period was USD 212.1, increasing by about 13% from the price set for the previous period. The average daily quotation of the TSI Premium Hard index in Q4 2018 was USD 220.8, increasing by about 18% from the Q3 2018 average.

The average daily quotation of the semi-soft coal index in Q4 2018 was USD 121.9, dropping by about 3% from the Q3 2018 average. The average daily quotation of semi-soft coals in 2018 was USD 123.8, or 15% more than in 2017.

In 2018, the average daily quotation of the TSI Premium HCC index was USD 206.5, or 10% more than in 2017. The fluctuations in 2018 ranged from USD 262 to USD 170, while in 2017 from USD 314 to USD 141. As in the previous year, price fluctuations were affected by unforeseen one-off events. The impact of these events is depicted in the following graph.

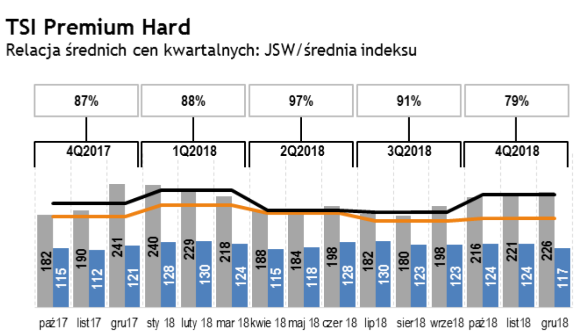
Changes in spot prices of coking coal and Chinese blast furnace coke in 2018 [USD/t FOB]

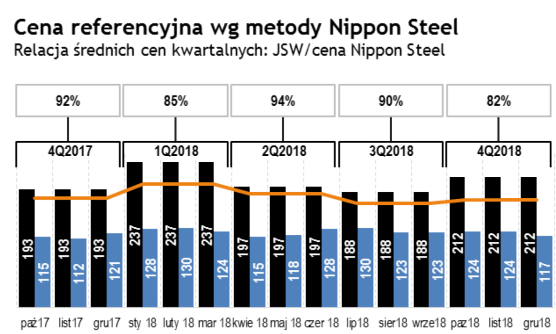


1. Zator w australijskim porcie, statki oczekują na załadunek ponad 3 tygodnie w porównaniu do przeciętnych 10 dni, problemy podażowe producentów w Australii.
2. Udrożnienie australijskiego portu, wzrost podaży węgla, spadkowy trend na rynku stalowym i koksowym.
3. Spór dot. australijskich kolei Aurizon, rynek stali w Chinach wykazuje trend wzrostowy.
4. Odbudowa zapasów węgla koksowego po sezonie monsunowym w Indiach oraz uzupełnienie zapasów przed zimą w Chinach.
5. Pożar i ogłoszenie siły wyższej w kopalni North Goonyella w Australii.
6. Peabody poinformowało, że oczekuje wznowienia produkcji węgla koksowego w swojej australijskiej kopalni North Goonyella w II kwartale 2019 roku.
7. Obawy przed cyklonem Owen w regionie Queensland wpływają na wzmożone zakupy węgla koksowego w celu zabezpieczenia wolumenu przed uderzeniem cyklonu.

Source: Platts, JSW data

The relationship between the average coking coal price sold by JSW to external customers, translated to USD at the average NBP rate for the quarter, compared to the TSI index and the benchmark price calculated using the Nippon Steel method, is presented in the following graphs.





Hard coal reference price - Nippon Steel model
Monthly average spot prices for the TSI Premium Hard index
Average semi-soft coal spot prices
Quarterly average spot price for the TSI Premium Hard index
JSW's average quarterly price (converted into USD at the National Bank of Poland's average exchange rate in a given quarter)

COKE MARKET

Poland is the main exporter of coke within the EU market, for instance to the German and Austrian markets where Poland is the leading source of coke imports. Since the coke market is globalized, coke from Poland competes with supplies of this commodity not only from Europe but also from all other parts of the world, including China, Russia and Colombia. In 2018, the prices of blast furnace coke on the European market stood at USD 394 per ton on average on a CIF ARA basis, representing an increase by 30% compared to USD 303 per ton on a CIF ARA basis in 2017.

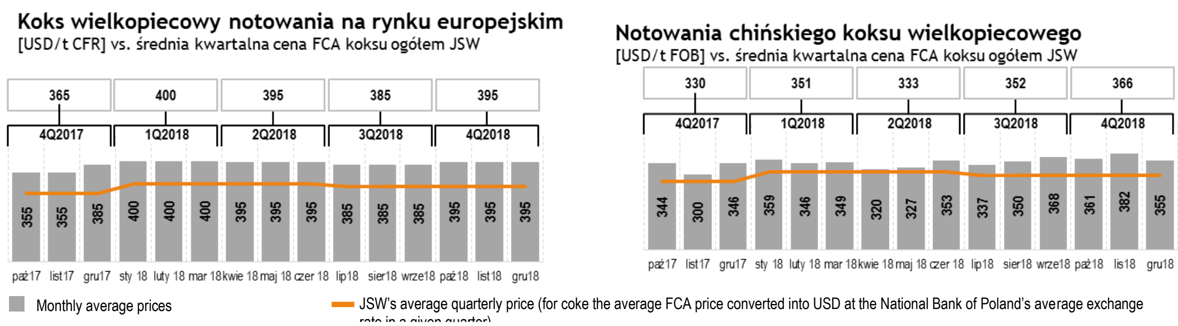
In 2018, the ratio of blast furnace coke prices on the European market to contract prices for hard premium coking coal remained at the top limits of the range deemed to present balanced terms, which allowed coking plants to continue stable operations.

Coke production in China last year was 438 million tons, which constitutes 68% of the global coke production. In 2018, China posted production growth of 1-2% compared to the previous year. While the stricter laws and regulations reduced production in the first quarter, it increased in the further part of the year. Until 2018, stricter regulations caused coke production to decline by 2% annually.

In 2018, exports of coke from China were 9.8 million tons, up by 22% compared to the previous year. The increase in Chinese coke exports was observed mainly on the Asian market, while its exports to European countries fell to 0.4 million tons, compared to 0.5 million tons in 2017 and 0.9 million tons in 2016.

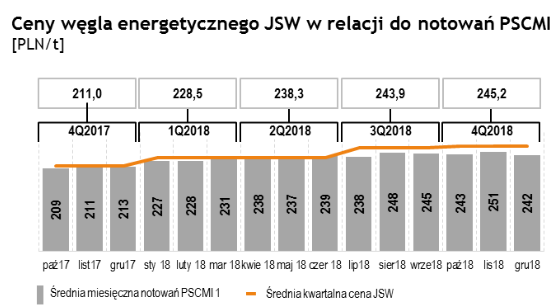
It is estimated that coke trading in Europe in 2018 amounted to PLN 9.0 million tons, slightly less than PLN 9.1 million tons in the previous year Germany, United Kingdom and Austria remain the largest importers.

The relationship between the average quarterly FCA prices of coke overall converted into USD at the NBP's average exchange rate in a given quarter to the quotations of blast furnace coke on the European market and Chinese coke is presented in the graphs below.



STEAM COAL MARKET

The index presenting the price of steam coal imported by sea to Western and Northern European countries through the ARA ports during 2018 was USD 91.7, or 9.4% more than in 2017. The increase was also noted on the domestic steam coal market. The PSCMI1 index in sales to the commercial and industrial energy sector in 2018 was PLN 239.51 per ton, up 16.4% compared to the corresponding period of 2017. In Q4 2018, the PSCMI1 index reached PLN 245.2 per ton, increasing by about 1% from the previous quarter. The relationship between the average quarterly prices of steam coal sold by JSW to the PSCMI1 index is presented in the graph below.



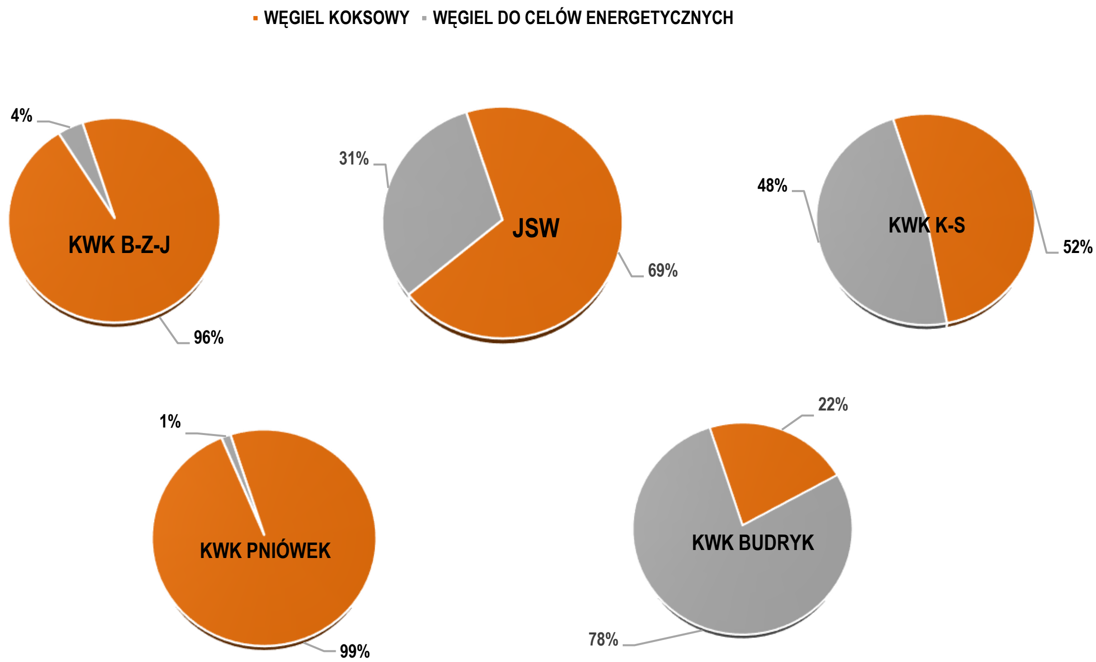
The market price levels in the interconnected markets contributed to an increase in the sales revenues of the Group's products in 2018, which reached PLN 9,809.5 million, up by PLN 932.3 million from 2017.

In order to maintain the competitiveness of the products sold by JSW, in 2018, as it was also done in previous years, it was necessary to implement a flexible pricing policy, tailoring the quality of the Group's products to the customers' expectations. The product structure, both with regard to the production of hard and semi-soft coking coals, steam coal and coke, is adapted flexibly to the dynamically changing market needs and in consideration of the supply and demand in the local and foreign markets.

4.3. KEY PRODUCTS, GOODS AND SERVICES

GROUP'S COAL PRODUCTION MIX IN 2018

The structure of the Group's coal production is adapted on an ongoing basis to the rapidly changing market needs, taking into account the supply and demand of the domestic and foreign markets. The share of coking coal and steam coal in total net coal production in 2018 was 68.9% and 31.1%, respectively.



PRODUCTION AND SALES OF COAL

The coal production volume in 2018 was 15.0 million tons, i.e. 0.2 million tons more than in 2017. In 2018, a total of 14.8 million tons of coal was sold (10.4 million tons to buyers from outside the Group), of which, on account of the intended use of coal, the share of coking coal sales in the Group's total deliveries was 70.6% with the remaining 29.4% made up of steam coal with a calorific value consistent with the customers' requirements.

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

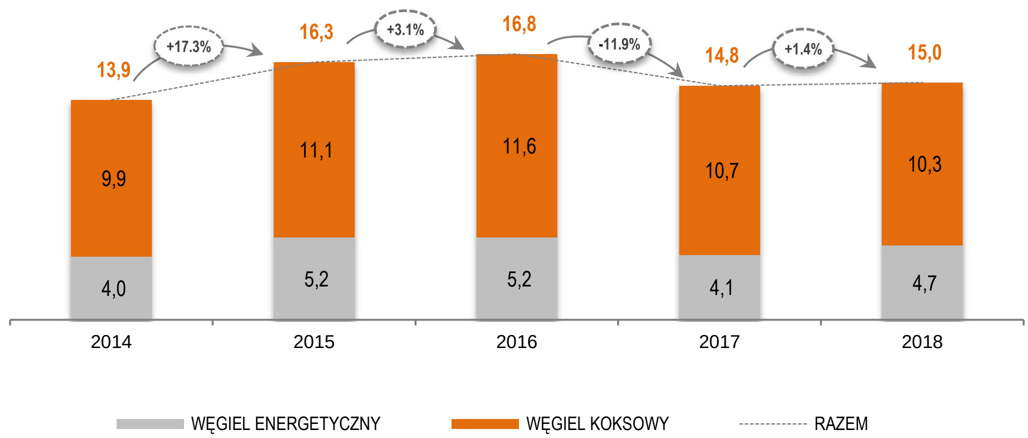
Key quality parameters of coal produced by the Group in 2018 (mean values)

CATEGORY	KWK BORYNIA-ZOFIÓWKA-JASTRZĘBIE		KWK PNIÓWEK	KWK KNURÓW-SZCZYGŁOWICE		KWK BUDRYK
	Section Borynia	*Section Zofiówka*		*Section Knurów*	*Section Szczygłowice*	
COKING COAL						
Ash content A^d (%)	6.7	6.9	6.5	6.7	7.3	6.9
Humidity W_t^r (%)	10.8	10.2	9.1	7.8	8.2	6.3
Sulfur content S_t^d (%)	0.51	0.46	0.57	0.70	0.57	0.62
Volatile matter content (V^{daf} %)	23.1	21.6	26.2	31.4	31.2	31.0
Sinterability (RI)	76	74	80	75	74	81

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

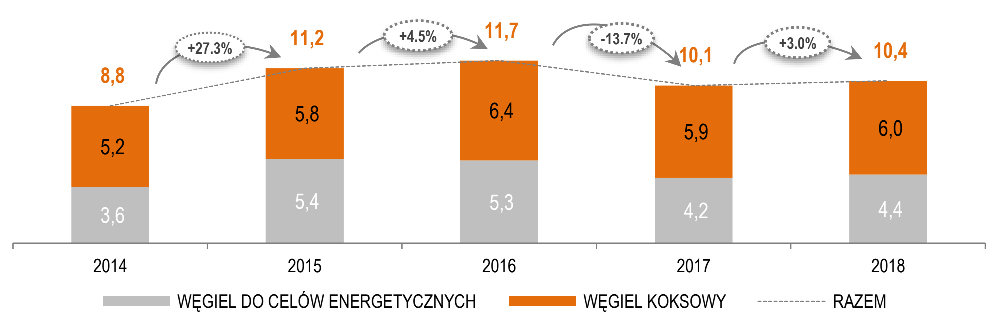
CATEGORY	KWK BORYNIA-ZOFIÓWKA-JASTRZĘBIE		KWK PNIÓWEK	KWK KNURÓW-SZCZYGŁOWICE		KWK BUDRYK
	Section Borynia	*Section Zofiówka*		*Section Knurów*	*Section Szczygłowice*	
Coke strength after reaction (CSR %)	62.0	45.8	61.0	35.7	43.2	44.7
CO_2 coke reactivity index (CRI %)	28.4	42.0	24.6	46.5	38.6	41.5
STEAM COAL						
Ash content A^r (%)	-	18.4	15.6	22.0	24.2	27.1
Humidity W_t^r (%)	-	12.2	3.1	9.2	11.2	8.9
Sulfur content S_t^r (%)	-	0.41	0.59	0.72	0.59	0.58
Calorific value (Q_i^r MJ/kg)	-	23.5	27.9	22.7	21.1	21.2

Coal production in the Group in 2014-2018 (million tons)



The total sales of coal produced by the Group's mines, including intra-group and external deliveries, were 14.8 million tons, i.e. 0.2 million tons more than in 2017 (coking coal sales remained at the same level, while steam coal deliveries edged up by 0.2 million tons). The increase in the volume resulted from higher production level.

Coal sa



In 2018, compared to the corresponding period of the previous year, external sales of coking coal increased by 0.1 million tons (1.7%) and internal sales dropped by 0.1 million tons (2.2%). In the period in question, the volume of sales of steam coal to external buyers rose by 0.2 million tons, compared to the previous year, which resulted from the increase in the production in this segment.

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

ITEM	2018	2017	2016	2015	2014[1]	GROWTH RATE 2017=100
Production *(million tons)*	**15.0**	**14.8**	**16.8**	**16.3**	**13.9**	**101.4**
▪ Coking coal *(million tons)*	10.3	10.7	11.6	11.1	9.9	96.3
▪ Steam coal *(million tons)*	4.7	4.1	5.2	5.2	4.0	114.6
Total volume of JSW's sales *(million tons)*[2]	**14.8**	**14.6**	**17.2**	**16.6**	**13.7**	**101.4**
▪ Coking coal (million tons)	10.4	10.4	11.8	11.1	9.9	100.0
▪ Steam coal (million tons)	4.4	4.2	5.4	5.5	3.8	104.8
Intra-group sales *(million tons)*[2]	**4.4**	**4.5**	**5.5**	**5.4**	**4.9**	**97.8**
▪ Coking coal (million tons)	4.4	4.5	5.4	5.3	4.7	97.8
▪ Steam coal (million tons)	- [3]	-	0.1	0.1	0.2	-
External sales volume *(million tons)*[2]	**10.4**	**10.1**	**11.7**	**11.2**	**8.8**	**103.0**
▪ Coking coal (million tons)	6.0	5.9	6.4	5.8	5.2	101.7
▪ Steam coal (million tons)	4.4	4.2	5.3	5.4	3.6	104.8
Revenues on sales of coal (in PLN millions)[4]	**8,296.6**	**7,929.2**	**5,846.2**	**5,724.3**	**5,166.7**	**104.6**
Inter-segment coal sales revenues (PLN million)	**3,212.0**	**3,003.3**	**2,294.6**	**2,274.9**	**2,194.4**	**106.9**
Coal sales revenues from external buyers (PLN million)	**5,084.6**	**4,925.9**	**3,551.6**	**3,449.4**	**2,972.3**	**103.2**

[1] including KWK Knurów-Szczygłowice in JSW's structures from 1 August 2014,
[2] sales volume of coal produced by the Group,
[3] because of the low volume (1.2 thous. tons) there is no impact on the figures expressed in millions of tons,
[4] this value takes into account the Group's additional revenues in 2018, 2017, 2016, 2015 and 2014 of PLN 225.2 million, PLN 245.0 million, PLN 99.0 million, PLN 302.9 million and PLN 159.5 million, respectively, from the sale of coal produced outside the Group.

External coal deliveries to domestic customers were 78.7% (by volume) and 71.2% (by revenue) and 21.3% and 28.8%, respectively, to international customers. For comparison, in 2017 these percentages were as follows: local buyers 79.3% (by volume) and 71.3% (by revenue); foreign buyers 20.7% (by volume) and 28.7% (by revenue).

In 2018, revenues on sales to external buyers in the coal segment hit PLN 5,084.6 million and were up PLN 158.7 million (+3.2%) than recorded in the corresponding period of 2017, which is attributable to the change of the coal sales structure and significantly higher prices, reflecting the trend in the global market.

SALES OF COKE

Compared to 2017, production of coke increased by 2.9% while sales remained at the same level. Revenues on sales of coke and hydrocarbons in the period under analysis reached PLN 4,451.5 million and were 20.7% higher than in 2017.

ITEM	2018	2017	2016	2015	2014	GROWTH RATE 2017=100
Production *(million tons)*[1]	3.6	3.5	4.1	4.2	4.0	102.9
Coke sales volume *(million tons)*	3.5	3.5	4.1	4.0	4.2	100.0
Sales revenues (PLN million)[2]	4,451.5	3,688.1	2,822.7	3,051.8	3,489.2	120.7

[1] coke production from the Group's coking plants,
[2] revenues on the sales of coke and hydrocarbons.

SALES PRICES OF COAL AND COKE

In 2018, the average coal sales price (PLN 486.32 / ton) was 3.2% higher than in 2017. Coking coal prices jumped up 0.3%, while steam coal prices were higher by 20.7%. On the other hand, the average coke sales price obtained was PLN 1,095.37 per ton (FCA basis), which is a 17.0% increase compared to 2017.

ITEM	2018	2017	2016	2015	2014	GROWTH RATE 2017=100
Average sales prices of coal produced by JSW						
Coking coal (PLN/ton)	658.67	656.70	397.35	377.29	410.36	100.3
Steam coal (PLN/ton)	249.40	206.71	187.44	213.26	234.39	120.7
Total (PLN/ton)(1)	486.32	471.10	302.07	298.35	338.95	103.2
Average coke sales prices						
Coke (PLN/t)(2)	1,095.37	936.01	583.53	648.49	668.18	117.0

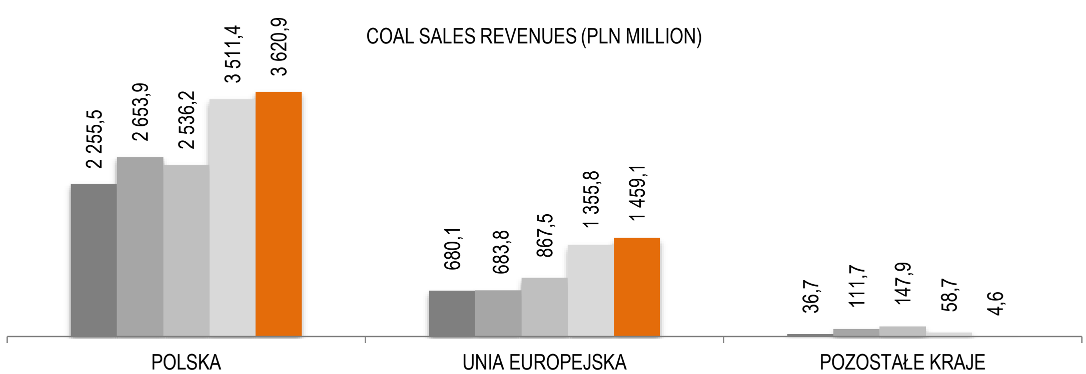
(1) the prices pertain to external deliveries of coal produced in the Group and include transportation costs amounting to, on average in JSW S.A., PLN 6.23 per ton in 2018, PLN 6.34 per ton in 2017, PLN 6.81 per ton in 2016, PLN 7.29 per ton in 2015 and PLN 7.31 per ton in 2014.

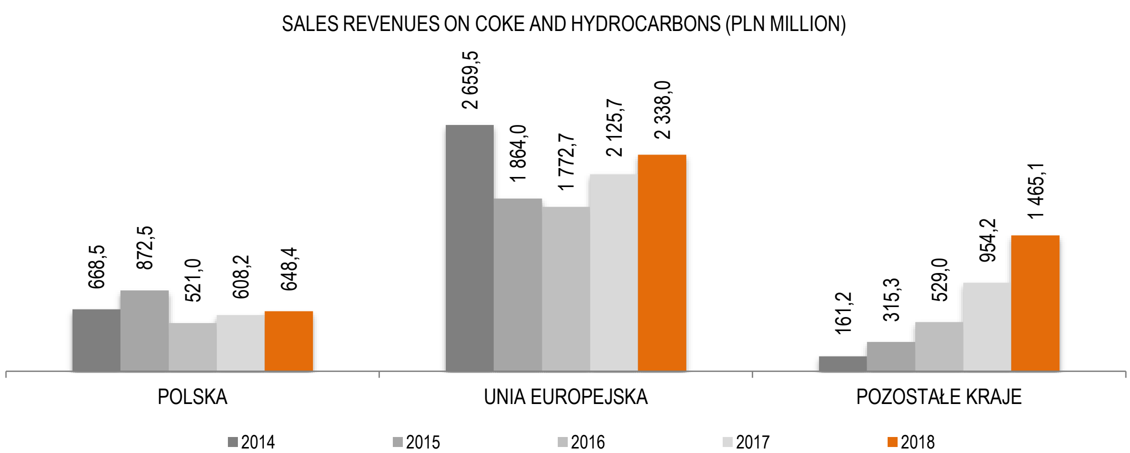
(2) FCA price.

4.4. SALES MARKETS

The Polish market is the main market for the coal produced by the Group. The main market for the sale of coke produced by the Group is the European market. Because of the market conditions and market diversification, a significant outlet for coke was in overseas locations, mainly in the Indian market. Coke offered by Poland in overseas markets successfully competes against Chinese, Russian, Ukrainian or Colombian coke. Hydrocarbons have regular customers in the European market. Surplus coke oven gas is sold to consumers directly by the coking plants.

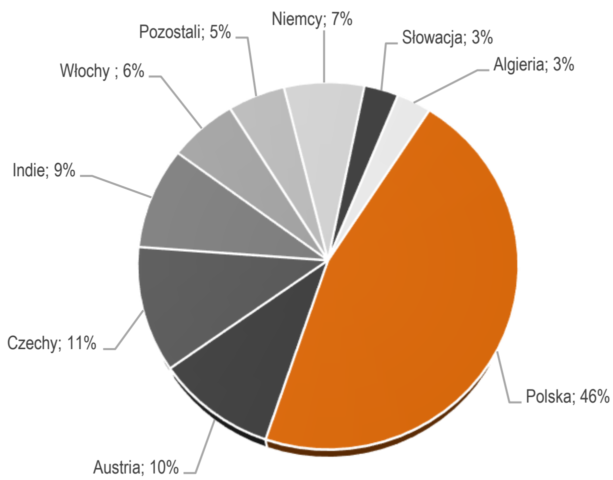
Revenues from sales of coal, coke and hydrocarbons broken down by geographical area of end customers





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

Group's revenue mix by country of destination as at 31 December 2018



4.5. SOURCES OF SUPPLIES

COURSE OF PROCUREMENT PROCEDURES

The Group is obligated to comply with provisions of the Act of 29 January 2004 entitled the Public Procurement Law. As at the balance sheet date, the Group was obligated to hold public tenders for deliveries and services with a value in excess of EUR 443 thousand, following the procedures prescribed by law.

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

SUPPLIERS IN THE COAL SEGMENT

The biggest suppliers in the coal segment in 2018 were the following firms: Huta Łabędy S.A., Grupa CZH S.A., Arcelor Mittal Poland S.A., MAS Sp. z o.o., DSI SCHAUM CHEMIE Sp. z o.o., MINOVA EKOCHEM S.A., P.W.DREMEX Sp. z o.o., FTT Wolbrom S.A., FAMUR S.A., Zakłady Produkcyjne B-D S.A.

SUPPLIERS IN THE COKE SEGMENT

The Group's biggest suppliers in the coking business are mainly: TRAFIGURA PTE LTD, TAURON Sprzedaż Sp. z o.o., Elektrociepłownia MARCEL Sp. z o.o., Biuro Projektów KOKSOPROJEKT Sp. z o.o., PCC ROKITA S.A., ELEKTROBUDOWA S.A., Przedsiębiorstwo Usług Wodociągowych HKW Sp. z o.o., ANWIL S.A., PKP CARGO S.A., PRZEDSIĘBIORSTWO REMONTOWO-PRODUKCYJNE „ZK-REM" Sp. z o.o.

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

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

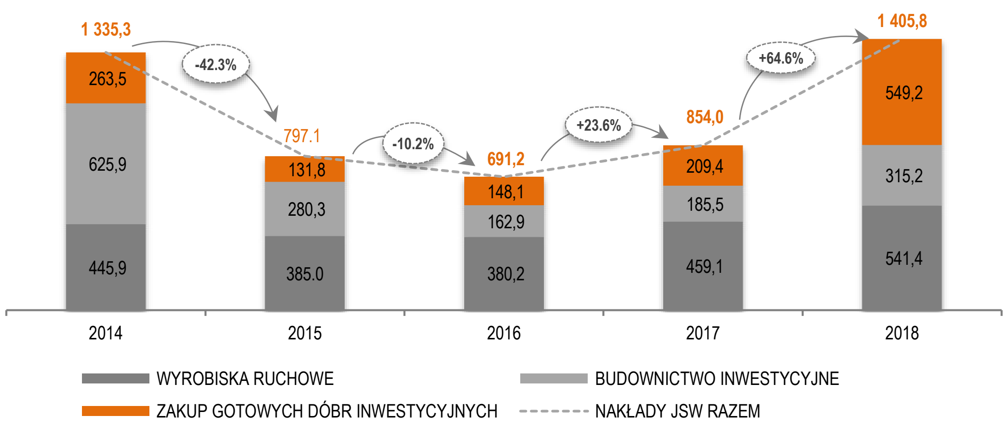
4.6.1. INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT

ITEM	2018	2017	2016	2015	2014	GROWTH RATE 2017=100
Coal segment						
Expenditures on property, plant and equipment (without expensable mining pits), investment property and intangible assets	864.4	394.9	311.0	412.1	889.4	218.9
Expenditures on expensable mining pits	541.4	459.1	380.2	385.0	445.9	117.9
Total	**1,405.8**	**854.0**	**691.2**	**797.1**	**1,335.3**	**164.6**
Coke segment						
Expenditures on property, plant and equipment and intangible assets	50.1	45.3	71.4	49.8	147.0	110.6
Total	**50.1**	**45.3**	**71.4**	**49.8**	**147.0**	**110.6**
Other segments						
Expenditures on property, plant and equipment and intangible assets	212.7	123.4	250.6	209.6	206.1	172.4
Total	**212.7**	**123.4**	**250.6**	**209.6**	**206.1**	**172.4**
Total segments						
Expenditures on property, plant and equipment (without expensable mining pits), investment property and intangible assets	1,127.2	563.6	633.0	671.5	1,242.5	200.0
Expenditures on expensable mining pits	541.4	459.1	380.2	385.0	445.9	117.9
Total*	**1,668.6**	**1,022.7**	**1,013.2**	**1,056.5**	**1,688.4**	**163.2**
Total (after consolidation adjustments)	**1,639.1**	**1,013.7**	**911.3**	**1,056.6**	**1,685.5**	**161.7**

** Value of expenditures before the consolidation adjustments (in 2018: PLN (-)29.5 million, in 2017: PLN (-)9 million, in 2016: PLN (-)101.9 million, in 2015: PLN 0.1 million, in 2014: PLN (-)2.9 million, in 2013: PLN (-)4.2 million., in 2012: PLN (-)3.5 million).*

Out of total expenditures of PLN 1,668.6 million incurred in 2018, PLN 1,649.7 million was incurred on property, plant and equipment, while PLN 18.9 million was incurred on intangible assets. No expenditures were made on investment property.

EXPENDITURES INCURRED BY THE PARENT COMPANY



Out of total expenditures of PLN 1,405.8 million incurred in 2018, PLN 1,400.4 million was incurred on property, plant and equipment, while PLN 5.4 million was incurred on intangible assets. The capital expenditures in 2018 were financed with funds generated by operating activities. Additionally, the Group used external financing.

The capital expenditures incurred by the Parent Company for property, plant and equipment in 2018 were designated for the performance of key tasks (vertical and horizontal development of the mines) and other tasks, including upkeep of the current production capacity.

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

ITEM	KEY INVESTMENT PROJECTS PERFORMED BY JSW IN 2018
BUILDING A 1120 LEVEL IN THE BORYNIA SECTION OF KWK BORYNIA-ZOFIÓWKA-JASTRZĘBIE MINE	Works have been launched in the Borynia-Zofiówka-Jastrzębie mine to build a new 1120 level. Recoverable reserves planned to be opened from level 1120m are estimated at 40 million tons. The deposits contain mainly type 35 (hard) coking coal. According to plans, the project will be executed in two stages: Stage 1 until 2023, assuming the opening of seams 502/1 and 504/1 and the deepening of shaft II, Stage 2 in 2023-2030, assuming the opening of areas B and C at level 1120. In 2018, works were conducted in connection with the tunneling process. Exploitation of resources based on the deepened shaft II should commence in 2022. In 2018, in connection with the execution of the project, expenditures of PLN 8.9 million were incurred.
DEVELOPMENT OF ZOFIÓWKA SECTION OF THE BORYNIA-ZOFIÓWKA-JASTRZĘBIE MINE	In 2018, JSW continued the opening and utilizing of new resources started in 2005: “Bzie-Dębina 2-Zachód” and “Bzie-Dębina 1-Zachód” from level 1,110m. Recoverable reserves are estimated at 140.0 million tons, down to level 1180m. The deposits contain mainly type 35 (hard) coking coal. In 2018, in connection with the execution of the project, expenditures of PLN 16.3 million were incurred. In 2018, works were performed to prepare for exploitation the deposit “Bzie-Dębina 2 Zachód” in area N of seam 505/1. In September 2018, the mining of resources in area N of the “Bzie-Dębina 2-Zachód” deposit started. It is planned to initiate exploitation of resources in area A of the “Bzie-Dębina 2-Zachód” deposit in 2022. In addition, in 2018, JSW continued the execution of the project of building the 1080 level in the Zofiówka Section in order to open and develop resources of the “Zofiówka” deposit below level 900. The estimated amount of recoverable reserves between levels 900-1080 is 43.9 million tons. In 2018, works were continued on deepening of the IIz shaft to the 1080 level. In 2018, in connection with the execution of the project, expenditures of PLN 23.7 million were incurred.
CONSTRUCTION OF A NEW LEVEL IN THE BUDRYK MINE AND MODERNIZATION OF COAL ENRICHMENT PLANTS	JSW continued the development of the 1290 m mining level started in 2007. The total amount of recoverable reserves available from level 1290m is estimated at 169.0 million tons to a depth of 1400m. In 2018, the work related to the construction of a shaft lift to level 1050 and the work to expand the air conditioning system and build the main underground coal haulage conveyor belt at level 1050 for the production of type 35 coal. In 2018, expenditures of PLN 63.5 million were incurred in connection with the execution of the project. The construction of the new 1290 level together with modernization of the Coal Enrichment Plant (“ZPMW”) will make it possible to start production of type 35 (hard) coal from 2019, increase the production of coking coal in the mine’s production structure to approx. 60% and increase total coal production. The completion of key elements of the capital expenditure project determining the achievement of the assumed results is planned in 2019. Execution of part of the capital expenditure tasks, i.e. those related to the modernization of Coal Enrichment Plants in 2016-2019 is carried out by JZR Sp. z o.o. with the participation of external financing from the Enterprise Restructuring Fund. In 2018, expenditures of PLN 77.1 million were incurred in connection with the execution of the project. By the end of 2018, approx. 70% of the entire investment project associated with the modernization of the Coal Enrichment Plants was completed.
CONSTRUCTION OF LEVEL 1050 IN THE KNURÓW SECTION OF THE KNURÓW-SZCZYGŁOWICE MINE	JSW conducted works aimed at tapping into the resources available on level 850-1050 in the Knurów Section. The project is executed with a view to gaining access to the deposits of high quality type 34 coking coal. The total quantum of documented recoverable reserves available on level 850-1050 in the Knurów Section is 102 million tons. In 2018, work was conducted in connection with the tunneling process at level 1050. In 2018, capital expenditures of PLN 8.5 million were incurred in connection with the execution of the project.
CONSTRUCTION OF LEVEL 1050 IN THE SZCZYGŁOWICE SECTION OF THE KNURÓW-SZCZYGŁOWICE MINE	The Parent Company conducted works aimed at tapping into the resources available on level 850-1050 in the Szczygłowice Section. The project is executed with a view to gaining access to the deposits of type 35 coking coal. The total quantum of documented recoverable reserves available on level 850-1050 in the Szczygłowice Section is approximately 83.7 million tons. In 2018, capital expenditures were incurred in connection with the purchase and installation of belt conveyors necessary to deepen shaft I. In 2018, capital expenditures of PLN 15.7 million were incurred in connection with the execution of the project.
DEEPENING OF SHAFT II AND EXTENSION OF THE SHAFT LIFT IN THE SZCZYGŁOWICE SECTION OF THE KNURÓW-SZCZYGŁOWICE MINE	The Parent Company started works preparing shaft II for the deepening operation. The project is to secure efficiency of production of type 35 coal in the Szczygłowice Section after 2025 by ensuring the capacity of vertical transport of the winnings and optimizing the ventilation system while applying preventive measures against natural hazards. In 2018, capital expenditures of PLN 6.4 million were incurred in connection with the execution of the project.
EXTENSION OF THE PNIÓWEK MINE	The Parent Company continued the investment project launched in 2017 in the Pniówek mine related to expansion of the mining level of 1,000 m together with deepening shafts IV and III. In 2018, in order to execute the investment project, work was conducted on the tunneling of mine workings and on the deepening of shaft IV. The project is performed to secure effective exploitation and an access to reserves of type 35 coal in the south-west part of the Pniówek deposit which are planned to be exploited after 2022. The total quantum of recoverable reserves available from level 1000 in KWK Pniówek is estimated to be approximately 61.3 million tons. In 2018, works were conducted on the deepening of shaft IV and the tunneling of mine workings. In 2018, expenditures of PLN 56.0 million were incurred in connection with the execution of the project.

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

CAPITAL EXPENDITURES ON KEY INVESTMENT PROJECTS CARRIED OUT BY JSW	2018	2017	2016	2015	2014	GROWTH RATE 2017=100
▪ KWK Borynia-Zofiówka-Jastrzębie, Borynia Section *Construction of level 1120m*	8.9	0.3	-	-	-	2,966.6
▪ KWK Borynia-Zofiówka-Jastrzębie, Zofiówka Section *Opening and industrial utilization of resources within the area of the Bzie-Dębina 2-Zachód and Bzie-Dębina 1-Zachód deposits*	16.3	4.2	23.0	61.0	82.0	388.1
▪ KWK Borynia-Zofiówka-Jastrzębie, Zofiówka Section *Construction of level 1080m*	23.7	12.6	1.8	8.2	56.1	188.1
▪ KWK Budryk *Construction of level 1290m*	63.5	26.8	17.2	23.8	110.9	236.9
▪ KWK Knurów-Szczygłowice, Knurów Section *Construction of level 1050m*	8.5	2.0	1.5	2.5	-	425
▪ KWK Knurów-Szczygłowice, Szczygłowice Section *Construction of level 1050m*	15.7	-	-	1.3	0.7	-
▪ KWK Knurów-Szczygłowice, Szczygłowice Section *Deepening of shaft II and extension of the shaft lift*	6.4	0.1	-	-	0.5	6,400.0
▪ KWK Pniówek *Expansion of level 1,000 m with the deepening of shaft IV*	56.0	34.6	6.9	-	-	161.8
TOTAL	**199.0**	**80.6**	**50.4**	**96.8**	**250.2**	**246.9**

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

The Group performs a capital expenditure project to modernize the coal preparation plants and other capital expenditure activities to launch production of type 35 (hard) coal, increase the share of coking coal in total output and increase the net coal production level. The project will make it possible to increase the share of the coking coal (type 34 and 35) to the target level of 80% in the mine's production structure, start the production of type 35 (hard) coking coal in 2019 and increase the total production level. The performance of part of the capital expenditure tasks, i.e. those related to the modernization of Coal Enrichment Plants in 2016–2019 and other tasks aimed at increasing the net coal production level, is conducted by JZR. In 2018, expenditures of PLN 63.8 million were incurred in connection with the execution of the project. By the end of 2018, approx. 79% of the entire investment project was completed.

OTHER CAPITAL EXPENDITURES OF THE GROUP

Capital expenditures in other Group companies in 2018 amounted to PLN 262.8 million and were 55.8% lower than in 2017. Capital expenditures in the coke segment and other segments in 2018 accounted for 15.7% of the Group's total expenditures. Investments in property, plant and equipment incurred by the companies were allocated for execution of key investment projects and tasks securing their on-going operating activities.

ITEM	KEY INVESTMENT PROJECTS CARRIED OUT BY OTHER GROUP COMPANIES IN 2018
MODERNIZATION OF COKE OVEN BATTERIES IN THE PRZYJAŹŃ COKING PLANT	The Przyjaźń Coking Plant (JSW KOKS) is performing its investment program as a part of which in 2011 modernized battery no. 1 was commissioned for use and further coke oven batteries are to be modernized. On 15 September 2011, the company signed an agreement with BP Koksoprojekt Sp. z o.o. from Zabrze, selected in a tender procedure, to perform formal, legal and design work for the purpose of modernization of coke oven batteries no. 3 and 4, and execution designs for modernization of coking battery no. 4. Completed in 2014 was the stage of preparation of working designs for modernization of battery no. 4. On 14 March 2018, the JSW Management Board adopted a resolution to adopt and approve Execution Documents to implement in 2018-2021 an investment project entitled "Modernization of coke oven battery no. 4 at the Przyjaźń Coking Plant". In 2018, capital expenditures of PLN 6.3 million were incurred in connection with the execution of the project.

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

ITEM	KEY INVESTMENT PROJECTS CARRIED OUT BY OTHER GROUP COMPANIES IN 2018
CONSTRUCTION OF A POWER UNIT AT THE RADLIN COKING PLANT	This project, performed by JSW KOKS, aims to use coke oven gas to generate electricity and heat for own needs and for sale. Planned as part of the project is the construction of a power unit fired with own coke oven gas, of a thermal power 104 MW, with an extraction condensing turbine of a capacity of 28 MWe and a heat-generating segment of a capacity of 37 MWt which will ensure the supply of electricity, steam and heat to the Radlin coking plant as well as heat to the nearby KWK Marcel and the inhabitants of the town of Radlin. In 2018, no capital expenditures were made in connection with this investment project. On 22 December 2015, JSW KOKS and Agencja Rozwoju Przemysłu S.A. signed an “Agreement defining the key terms and conditions of execution of the planned joint venture involving construction and operation of the Radlin CHP Plant, including the conditions of entering into the investment agreement” (Term Sheet). In 2016, the General Contractor selection procedure was conducted in the procedure to award a public procurement contract, conducted pursuant to the provisions of the Public Procurement Law in the form of a limited tender which was announced on 14 January 2016. On 19 December 2016, JSW KOKS canceled, in accordance with Article 93 Section 1 Item 4 of the Public Procurement Law, the procedure in a limited tender to execute the project. Due to the amount resulting from the tender procedure, ARP S.A. withdrew from the provision of financing for the project. On 14 March 2018, the JSW Management Board adopted a resolution to adopt and approve Execution Documents to implement in 2018-2020 an investment project entitled “Construction of a power unit at the Radlin Coking Plant.”
MODERNIZATION OF THE BTX PLANT WITH NEIGHBORING FACILITIES IN THE RADLIN COKING PLANT	Modernization of the BTX plant with neighboring facilities in the Radlin Coking Plant will enable an increase in the BTX recovery efficiency with a concurrent adaptation of the quality of purified coke oven gas to the requirements of the future power unit in the (gas-fired) Radlin Coking Plant and will enable a reduction in the negative impact of the coking plant on the environment and a decrease in overhaul costs incurred. According to plan, the project will be executed in the years 2015-2017 as part of capital expenditures totaling PLN 72.0 million, using financing in the form of a PLN 45.0 million preferential loan granted by the National Environment Protection and Water Management Fund in Warsaw. In 2017, capital expenditures of PLN 27.4 million were incurred in connection with the execution of the project. The project was completed, with the final acceptance report signed on 31 October 2017. In 2018, capital expenditures of PLN 0.4 million were incurred in connection with the execution of the project, for the construction and assembly work on the modernization of the coking plant’s energy supply system. The investment project was completed in June 2018. The total value of the undertaking was PLN 71.3 million.

4.6.2. EQUITY INVESTMENTS

A detailed description of the equity investments made from 1 January to 31 December 2018 is presented in Section 2.4 of this report and in Note 1.2. Consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2018.

4.7. DISPUTES

In 2018, in the Group, there were no pending proceedings in court or arbitration authority or a public administration body concerning accounts payable or accounts receivable with individual or aggregated value exceeding 10% of JSW’s equity.

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

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

On 27 December 2012, Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A. filed a lawsuit against the Parent Company before the Regional Court in Gliwice, 10th Commercial Division, file ref. no.: X GC 421/12, for payment of the amount of PLN 9,507,208.00 as indemnity for the loss in property resulting from endogenous fire that occurred underground in Zofiówka Section of KWK Borynia-Zofiówka-Jastrzębie owned by JSW. The Regional Court in Gliwice handed down a non-binding judgment on 8 June 2017:

- in item 1, it discontinued the proceedings in respect of the demand to award PLN 720,000.00 with statutory interest for the period from 29 March 2013,
- in item 2, it awarded the plaintiff, i.e. Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A., the amount of PLN 4,898,736.77 from the defendant JSW with statutory interest until 31 December 2015 and with statutory interest for delay from 1 January 2016; however, the interest on the amount of PLN 4,591,529.00 is awarded from 7 June 2011 until the payment date and on the amount of PLN 307,207.77 from 20 April 2010 until the payment date,

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

- in item 3, it awarded the plaintiff, i.e. Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A. statutory interest from the defendant, i.e. JSW on the amount of PLN 720,000.00 for the period from 7 June 2011 until 28 March 2013,
- in item 4, it dismissed the remaining part of the claim,
- in item 5, it awarded the plaintiff the amount of PLN 71,973.11 from the defendant as reimbursement of the costs of proceedings.

Both parties appealed against the verdict. On 15 June 2018, the case was taken over by the General Counsel to the Republic of Poland.

Proceedings concerning the property tax on underground mine workings

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 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).

Proceedings regarding 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 JSW'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).

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

On 30 November 2015, a lawsuit began before the Regional Court in Katowice for payment of contractual penalties for a failure to meet the execution deadline for an investment project on the area of the Przyjaźń Coking Plant.

In August 2015, JSW KOKS issued a debit note in the amount of PLN 8,236 thousand for 74 days of delay, which was not accepted by the contractor. The first hearing was held on 23 March 2017 and on that date the Regional Court delivered to the Company a counterclaim, in which the contractor demanded payment of PLN 9,521 thousand from the Company on account of penalties. The case is complex; the parties put forward pleadings with requests for evidence and successive witnesses are heard. In 2018, the company sent a letter to the insurer requesting payment of an amount of PLN 4,268 thousand due under the insurance guarantee securing the above investment project. The insurer refused to pay out the requested amount. This case is pending.

5. FINANCIAL POSITION OF THE JSW GROUP AND JSW

5.1. ECONOMIC AND FINANCIAL HIGHLIGHTS FOR THE JSW GROUP

Item	Unit	2018	2017	2016	2015	2014[1]	GROWTH RATE 2017=100
CONSOLIDATED STATEMENT OF FINANCIAL POSITION							
Total assets	mPLN	13,762.6	12,090.2	11,519.6	11,812.2	15,369.3	113.8
Non-current assets	mPLN	10,300.7	8,118.2	9,097.3	10,324.7	13,085.9	126.9
Current assets	mPLN	3,461.9	3,972.0	2,422.3	1,487.5	2,283.4	87.2
Equity	mPLN	8,445.4	6,621.5	4,069.6	3,934.2	7,267.5	127.5
Liabilities	mPLN	5,317.2	5,468.7	7,450.0	7,878.0	8,101.8	97.2
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME							
Sales revenues	mPLN	9,809.5	8,877.2	6,731.3	6,934.9	6,814.9	110.5
Gross profit (loss) on sales	mPLN	2,871.1	3,238.9	1,229.7	(50.2)	(4.7)	88.6
Operating profit/(loss)	mPLN	2,254.1	3,116.5	226.6	(3,896.0)	(774.8)	72.3
EBITDA	mPLN	3,020.1	3,941.2	1,065.4	(2,533.1)	528.5	76.6
EBITDA margin	%	30.8	44.4	15.8	(36.5)	7.8	69.4
Profit/(loss) before tax	mPLN	2,192.5	3,123.6	19.6	(4,045.3)	(882.2)	70.2
Net profit/(loss)	mPLN	1,760.8	2,543.3	4.4	(3,285.2)	(657.1)	69.2
Total comprehensive income	mPLN	1,718.4	2,552.0	16.2	(3,301.1)	(1,079.2)	67.3
CONSOLIDATED CASH FLOW STATEMENT							
Net cash flow on operating activity	mPLN	2,818.4	2,870.7	896.5	725.1	644.3	98.2
Net cash flow on investing activity	mPLN	(1,581.7)	(2,170.3)	(354.4)	(1,015.3)	(3,040.4)	72.9
Net cash flow on financing activity	mPLN	(755.8)	(699.8)	277.7	(80.0)	1,077.4	108.0
Net change in cash and cash equivalents	mPLN	480.9	0.6	819.8	(370.2)	(1,318.7)	80,150
FINANCIAL RATIOS							
Dividend per share	PLN/share	-	-	-	-	-	
Current liquidity		1.03	1.67	1.14	0.39	0.58	61.7
Quick liquidity		0.84	1.46	0.98	0.26	0.45	57.5
Net return on sales	%	17.9	28.6	0.1	(47.4)	(9.6)	62.6
Return on Assets (ROA)	%	12.8	21.0	0.0	(27.8)	(4.3)	61.0
Return on Equity (ROE)	%	20.8	38.4	0.1	(83.5)	(9.0)	54.2
Total debt ratio		0.39	0.45	0.65	0.67	0.53	86.7
Debt to equity ratio		0.63	0.83	1.83	2.00	1.11	75.9
Fixed capital to non-current assets ratio		0.91	1.0	0.70	0.49	0.81	91.0
PRODUCTION DATA							
Coal production	m tons	15.0	14.8	16.8	16.3	13.9	101.4
Coking coal production	m tons	10.3	10.7	11.6	11.1	9.9	96.3
Steam coal production	m tons	4.7	4.1	5.2	5.2	4.0	114.6
Coke production	m tons	3.6	3.5	4.1	4.2	4.0	102.9
Mining cash cost	PLN/ton	396.46	312.54	251.38	307.10	353.22	126.9
Cash conversion cost	PLN/ton	161.68	149.82	133.52	144.66	151.85	107.9
OTHER DATA							
Stock price at the end of the period	PLN/share	67.26	96.27	66.90	10.65	16.25	69.9
Headcount at the end of the period	persons	28,268	26,465	27,366	32,168	34,120	106.8
Average headcount during the year	persons	27,207	26,563	30,765	33,116	31,280	102.4
Investments in property, plant and equipment		1,639.1	1,013.7	911.3	1,056.6	1,685.5	161.7
Depreciation and amortization	mPLN	766.0	824.7	838.8	1,362.9	1,303.3	92.9

[1] *KWK Knurów-Szczygłowice from 1 August 2014*

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

5.2. RULES FOR PREPARING THE ANNUAL FINANCIAL STATEMENTS

The consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2018 and the financial statements of Jastrzębska Spółka Węglowa S.A. 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 adopted accounting principles were employed using the principle of continuity in all of the presented financial years. The accounting policies applied for the preparation of the financial statements are presented in notes to the financial statements.

This report is consistent with the requirements of the provisions of law and regulations of capital market institutions pertaining to the scope of activity reports. This report has been prepared while retaining the internal consistency of the document and conformity with the consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2018 and the financial statements of Jastrzębska Spółka Węglowa S.A. for the financial year ended 31 December 2018.

5.2.1. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

ITEM	2018	2017	2016	2015	2014	GROWTH RATE 2017=100
Sales revenues	9,809.5	8,877.2	6,731.3	6,934.9	6,814.9	110.5
Cost of products, materials and goods sold	(6,938.4)	(5,638.3)	(5,501.6)	(6,985.1)	(6,819.6)	123.1
GROSS PROFIT/(LOSS) ON SALES	**2,871.1**	**3,238.9**	**1,229.7**	**(50.2)**	**(4.7)**	**88.6**
Selling and distribution expenses	(298.8)	(282.4)	(342.4)	(350.1)	(362.4)	105.8
Administrative expenses	(623.8)	(480.8)	(480.6)	(535.5)	(610.8)	129.7
Other revenues	1,616.5	1,569.4	226.7	2,175.2	160.3	103.0
Bargain purchase gain (including: KWK Knurów-Szczygłowice)	-	-	-	-	306.2	-
Revenue on reversal of the provision for the Company Social Benefit Fund for old-age and disability pensioners	-	-	-	207.9	-	-
Other costs	(1,296.9)	(972.1)	(253.5)	(5,329.8)	(262.4)	133.4
Other net profit/(loss)	(14.0)	43.5	(153.3)	(13.5)	(1.0)	-
OPERATING PROFIT/(LOSS)	**2,254.1**	**3,116.5**	**226.6**	**(3,896.0)**	**(774.8)**	**72.3**
Financial income	40.1	132.9	6.9	34.3	49.2	30.2
Financial costs	(101.8)	(125.9)	(213.8)	(183.7)	(157.0)	80.9
Share in profits of associated entities	0.1	0.1	(0.1)	0.1	0.4	100.0
PROFIT/(LOSS) BEFORE TAX	**2,192.5**	**3,123.6**	**19.6**	**(4,045.3)**	**(882.2)**	**70.2**
Income tax	(431.7)	(580.3)	(15.2)	760.1	225.1	74.4
NET PROFIT/(LOSS)	**1,760.8**	**2,543.3**	**4.4**	**(3,285.2)**	**(657.1)**	**69.2**
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO NET RESULT	**14.6**	**16.1**	**3.9**	**(29.9)**	**(56.8)**	**90.7**
Change in the value of hedges	18.0	19.9	4.8	(36.9)	(70.1)	90.5
Income tax	(3.4)	(3.8)	(0.9)	7.0	13.3	89.5
OTHER COMPREHENSIVE INCOME NOT TO BE RECLASSIFIED TO PROFIT OR LOSS	**(57.0)**	**(7.5)**	**7.9**	**14.0**	**(365.3)**	**760.0**
Actuarial profit/(loss)	(70.4)	(9.2)	9.8	17.3	(451.0)	765.2
Income tax	13.4	1.8	(1.9)	(3.3)	85.7	744.4
TOTAL OTHER COMPREHENSIVE INCOME	**(42.4)**	**8.7**	**11.8**	**(15.9)**	**(422.1)**	**-**
TOTAL COMPREHENSIVE INCOME	**1,718.4**	**2,552.0**	**16.2**	**(3,301.1)**	**(1,079.2)**	**67.3**
Net profit/(loss) attributable to:						
- shareholders of the Parent Company	1,737.1	2,538.9	6.7	(3,265.5)	(659.1)	68.4
- non-controlling interest	23.7	4.4	(2.3)	(19.7)	2.0	538.6
Total comprehensive income attributable to:						
- shareholders of the Parent Company	1,695.2	2,547.8	18.5	(3,281.4)	(1,080.9)	66.5

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

ITEM	2018	2017	2016	2015	2014	GROWTH RATE 2017=100
- non-controlling interest	23.2	4.2	(2.3)	(19.7)	1.7	552.4
Basic and diluted earnings/(loss) per share attributable to shareholders of the Parent Company (in PLN per share)	14.80	21.62	0.06	(27.81)	(5.61)	68.5

In 2018, **sales revenues** were PLN 9,809.5 million and were PLN 932.3 million higher than the revenues earned in 2017. The increase in revenues was driven mainly by higher revenues on sales of coke by PLN 666.0 million, or 19.8%, coal by PLN 158.7 million, or 3.2%, and hydrocarbons by PLN 97.4 million, or 30.4%. The higher revenues on sales of coke resulted mainly from a 17.0% increase in the average coke sales price, while the higher revenues on coal sales – from a 0.3 million tons, or 3.0% increase in sales volume and a 3.2% increase in the average selling price of coal. The increase in revenues on sales of hydrocarbons resulted mainly from a 51.3% hike in the price of tar.

Cost of products, materials and goods sold incurred in 2018 increased by PLN 1,300.1 million (23.1%) compared to 2017, driven among others by the higher coal production costs in the Parent Company. As a result, the **gross profit on sales** in 2018 amounted to PLN 2,871.1 million, down by PLN 367.8 million (11.4%) from the profit earned in 2017.

Selling and distribution expenses that consist mostly of the costs of shipping the Group's main products in the period under analysis amounted to PLN 298.8 million, up by PLN 16.4 million, i.e. 5.8%, from 2017. **Administrative expenses** encompassing costs associated with the execution of management and administrative functions were PLN 623.8 million, or PLN 143.0 million (29.7%) more those incurred in 2017; in the Parent Company they rose by PLN 126.1 million (a PLN 71.7 million increase in employee benefits).

Other revenues in 2018 were PLN 1,616.5 million which represents growth of PLN 47.1 million, or 3.0% as compared to PLN 1,569.4 million posted in 2017. The main contributors to the increase in other revenues in 2018 was the reversal of an impairment loss on property, plant and equipment and intangible assets in the Parent Company in the amount of PLN 719.1 million, which is presented in more detail in Note 7.3. of the consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2018, as well as compensation received to cover the costs related to the fire in the area of W-1 longwall in seam 362/1 at KWK Pniówek, in the amount of PLN 61.5 million.

In the analyzed period, other revenues also included reversal of a provision for potential litigation related to the free coal allowance for old-age and disability pensioners in the amount of PLN 653.5 million (PLN 1,249.2 million in 2017), disclosure of fixed assets in the amount of PLN 37.9 million (PLN 11.4 million in 2017) as well as revenues related to the transfer of KWK Krupiński to SRK in the amount of PLN 15.5 million (PLN 225.8 million in 2017).

Other costs amounted to PLN 1,296.9 million in 2018 and were PLN 324.8 million, i.e. 33.4%, higher than those incurred in 2017. The increase in other costs was significantly affected by the recognition of impairment losses on property, plant and equipment and intangible assets in the Parent Company in 2018 in the amount of PLN 1,214.0 million, or PLN 454.9 million more than in 2017. On the other hand, other costs in 2017 included costs related to the transfer of KWK Krupiński to SRK in the amount of PLN 125.7 million, that is PLN 117.5 million more than in 2018.

Other net gains/losses in 2018 amounted to PLN (14.0) million, compared to the gain of PLN 43.5 million in 2017, signifying a decline of PLN 57.5 million. The change in other net gains/losses was driven mainly by the loss on derivatives of PLN 29.2 million incurred in 2018, compared to a net gain of PLN 72.9 million earned in 2017. In 2018, a higher loss was also recorded on the sale of property, plant and equipment that amounted to PLN 25.2 million, compared to PLN 11.5 million in 2017, and a loss on valuation of the FIZ asset portfolio in the amount of PLN 1.8 million. On the other hand, in 2018 a profit of PLN 27.9 million was achieved on account of interest income of the FIZ asset portfolio and profit of PLN 14.3 million on FX differences, compared to a loss of PLN 17.6 million in 2017.

In 2018, the Group achieved **operating profit** of PLN 2,254.1 million compared to PLN 3,116.5 million of profit in 2017.

Financial income in 2018 was PLN 40.1 million and was PLN 92.8 million, or 69.8%, lower than in 2017, as a result of, among others, the Parent Company's posting revenues from FX differences on the valuation of bonds in 2017, which did not occur in 2018.

Financial costs were PLN 101.8 million and were PLN 24.1 million, or 19.1%, lower than those incurred in 2017, mainly due to a PLN 26.0 decline in bond interest costs.

As a result of the factors described above, in 2018 the Group posted **profit before tax** of PLN 2,192.5 million. After the consideration of income tax of PLN (431.7) million, the net result was PLN 1,760.8 million and was PLN 782.5 million or 30.8% less than the result generated in 2017.

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

In 2018, following the recognition, in **other comprehensive income**, of the valuation of hedging instruments in the amount of PLN 18.0 million, deferred tax of PLN (3.4) million, actuarial losses of PLN (70.4) million and income tax of PLN 13.4 million, **total comprehensive income** amounted to PLN 1,718.4 million.

Basic and diluted earnings per share was PLN 14.80 (PLN 21.62 PLN/share in 2017).

COSTS BY NATURE

ITEM	2018	2017	2016	2015	2014	GROWTH RATE 2017=100
Depreciation and amortization	766.0	824.7	838.8	1,362.9	1,303.3	92.9
Consumption of materials and energy	1,612.0	1,243.0	1,157.0	1,443.2	1,464.4	129.7
External services	1,793.3	1,457.7	1,441.2	1,561.7	1,622.0	123.0
Employee benefits	4,086.4	3,213.8	2,880.9	3,517.5	3,643.4	127.2
Taxes and fees	207.4	188.8	222.0	224.3	211.7	109.9
Other costs by nature	65.2	31.0	8.3	40.4	38.3	210.3
Cost of materials and goods sold	71.3	166.5	80.8	154.9	67.2	42.8
TOTAL COSTS BY NATURE	**8,601.6**	**7,125.5**	**6,629.0**	**8,304.9**	**8,350.3**	**120.7**
Selling and distribution expenses	(298.8)	(282.4)	(342.4)	(350.1)	(362.4)	105.8
Administrative expenses	(623.8)	(480.8)	(480.6)	(535.5)	(610.8)	129.7
Cost of performances and property, plant and equipment produced for own use and expensable mining pits	(648.0)	(603.6)	(505.5)	(466.0)	(533.6)	107.4
Change in products	(92.6)	(120.4)	201.1	31.8	(23.9)	76.9
COST OF PRODUCTS, MATERIALS AND GOODS SOLD	**6,938.4**	**5,638.3**	**5,501.6**	**6,985.1**	**6,819.6**	**123.1**

The expenditures incurred by the Group in 2018 on operating activity amounted to PLN 8,601.6 million, compared to PLN 7,125.5 million incurred in 2017 (an increase of PLN 1,476.1 million i.e. 20.7%). The higher level of the Group's operating expenses was driven mainly by:

- higher costs of **employee benefits** by PLN 872.6 million, or 27.2%, compared to 2017, caused mainly by the Salary Agreements signed in the Parent Company between the Management Board and the trade unions. These agreements unified the rules of calculating wages for working on Saturdays, Sundays and holidays, paying salaries for the time of sickness, recreational leave and increased the basic salary rates as of 1 June 2018 (and equalized the rules and entitlement to receive the seniority allowance, i.e. the Miner's Charter) and caused backpayment of the Annual Bonus known as the 14th salary for 2016 (PLN 174.9 million) and the free coal allowance for 2016 (PLN 124.4 million). Another driver of the upward movement in employee benefit expenses was an increase in the average headcount in the Parent Company by 347 persons compared to the corresponding period in 2017,
- higher costs of **consumption of materials and energy** by PLN 369.0 million, or 29.7%, of which consumption of materials increased by PLN 334.8 million, i.e. 38.0%, which resulted primarily from the rise in the prices of basic materials necessary to conduct preparatory works, install reinforcements and maintain mining walls, and from an increase in the prices of coal from outside of the Group for the coke production operation. An increase in energy consumption costs by PLN 34.2 million, i.e. 9.5%, was driven mainly by an increase in unit prices of electricity purchases in 2018, which are to a large extent regulated by the market (Polish Power Exchange).
- an increase in the **costs of external services** by PLN 335.6 million, or 23.0%, resulted mainly from higher such costs in the Parent Company; these costs are associated with the removal of mining damages, repair services provided in order to secure the mining of resources in order to achieve the assumed production capacity, as well as other costs related to coal production, primarily the work related to reclamation of land and other specialist works.
- an increase in **other costs by nature** by PLN 34.2 million, i.e. by 110.3%, mainly due to an increase of premiums, as of 1 January 2018, in active non-life insurance contracts. Additionally, in May 2018, the Parent Company made an additional premium payment resulting from the settlement of the 2017 insurance period; the additional payment was required since the value of the property covered by insurance also rose;
- an increase in **taxes and charges** by PLN 18.6 million, or 9.9%, caused mainly by an increase in property taxes payable by the Parent Company after the value of roof supports with installation costs was included in the taxable base in 2018 and tax was calculated on new fixed assets;

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

- a decrease in the **cost of materials and goods sold** by PLN 95.2 million, or 57.2%, mainly due to a lower sales volume of coal from outside the Group.

After adjusting costs by nature by selling and distribution expenses, administrative expenses and the cost of performances and property, plant and equipment produced for own needs and expensable mining pits, and a change in products, the cost of products, materials and goods sold in 2018 was PLN 6,938.4 million, up by PLN 1,300.1 million, or 23.1%, from 2017.

5.2.2. EXTRAORDINARY EVENTS AND FACTORS INFLUENCING THE GROUP'S RESULT

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

Impact of non-recurring events on EBITDA

ITEM	2018	2017
EBITDA	**3,020.1**	**3,941.2**
Impact of non-recurring events, including:	**80.7**	**(432.4)**
▪ *transfer of KWK Krupiński to SRK:*		
– *reversal of a provision for losses on account of unrealized agreements pertaining to KWK Krupiński*	-	*(14.2)*
– *reversal of the mine closure provision*	-	*(97.1)*
– *reversal of the provision for employee benefits for employees transferred to SRK*	-	*(50.1)*
– *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)*
– *net value of liquidated assets and expensable mining pits transferred to SRK*	*2.1*	*57.7*
– *reversal of the impairment losses on property, plant and equipment of the Krupiński Mine transferred from the Suszec Section to other JSW units*	*(15.5)*	*(51.2)*
– *other costs associated with the maintenance of the Suszec Section*	*6.1*	*68.0*
▪ *salary backpayment and non-recurring awards*	*299.3*	*157.8*
▪ *reversal of a portion of the provision for potential litigation related to the free coal allowance for old-age and disability pensioners*	*(653.5)*	*(1,249.2)*
▪ *impairment loss for property, plant and equipment and intangible assets of JSW units made as a result of the conducted impairment tests*	*1,214.0*	*759.1*
▪ *reversal of the impairment loss on property, plant and equipment and intangible assets*	*(719.1)*	-
▪ *compensation to cover the costs related to the fire at KWK Pniówek*	*(61.5)*	-
▪ *rescue campaign and removal of consequences after the tremor in KWK Borynia-Zofiówka-Jastrzębie*	*8.8*	-
EBITDA (net of non-recurring events)	**3,100.8**	**3,508.8**

Transfer of JSW's assets to SRK

On 31 March 2017, the Parent Company effected a gratuitous transfer of a portion of the Krupiński mine's production assets to SRK (an entity controlled by the State Treasury). As a consequence of the agreement signed, 1.1 thousand JSW employees moved to SRK under the procedure contemplated by Article 23[1] of the Labor Code. The allocation of the Krupiński mine's personnel was effected based on an agreement reached by the parties whereby all employees of KWK Krupiński who have been transferred to other JSW mines are covered by the employment guarantees arising from the agreement signed with the trade unions before JSW's IPO in 2011. In total, new jobs in JSW's mines were found by 1.8 thousand staff of KWK Krupiński. On the date of signing of the agreement for the free-of-charge transfer of KWK Krupiński between JSW and SRK, out of the assets which formed part of KWK Krupiński but were not transferred to SRK, a new organizational structure, called the Suszec Section, was created within KWK Pniówek.

Costs incurred in connection with the maintenance of the Suszec Section in the period under analysis amounted to PLN 6.1 million. As at 30 September 2018, the Suszec Section terminated its operation as a separate organizational structure.

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

Salary backpayment and non-recurring awards

On 11 June 2018, the JSW signed a Salary Agreement with the representative trade unions operating in JSW to end the collective dispute commenced on 16 April 2018 concerning a 15% raise in the wage rates and backpayment of the benefits lost, according to the demand lodged by the representative trade union organizations and based on the clauses of the Collective Agreement of 16 September 2015. Pursuant to the Salary Agreement, the salary fund will increase by 7% in 2018 (through an increase in the basic salary rates and equalization of the rules and entitlement to receive the seniority allowance, i.e. the Miner's Charter) as of June 2018. Moreover, employees hired in 2016, who remained employed as at the date of signing the Agreement, would receive a backpayment of the Annual Bonus (the so-called 14th salary) for 2016 (the payment was made in July 2018) and a free coal allowance for 2016 would be paid out after analysis of the financial results for Q3 2018, which will allow this benefit to be paid out (the payment was effected in October 2018). The cost of the backpayment of these 2016 benefits, as captured in the books as at 30 September 2018, was PLN 306.2 million (the Annual Bonus ("14th salary") for 2016 (PLN 174.9 million) and the free coal allowance for 2016 (PLN 131.3 million)). The actual amount of the free coal allowance paid in October 2018 was PLN 124.4 million and the remaining part of the provision was reversed in the same reporting period as that of the payment of this liability. The signing of the foregoing agreement satisfies the payroll-related claims in 2018.

On 16 October 2018, the JSW S.A. Management Board and the Representative Trade Union Organizations at JSW, having analyzed the financial performance for Q3 2018, decided to pay out the free coal allowance for 2016 on 26 October 2018.

Reversal of the provision for potential litigation related to the free coal allowance for old-age and disability pensioners

On 20 December 2018, the JSW Management Board adopted a resolution 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 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 JSW'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).

Impairment losses on property, plant and equipment and intangible assets

In the current reporting period, JSW analyzed the existing evidence to verify whether any further impairment of assets or a reversal of any previously recognized impairment losses may have occurred. 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 and also reversal of an impairment loss on property, plant and equipment at the Budryk Coal Mine in the amount of PLN 719.1 million. The total impairment loss recognized in 2018 as a result of the impairment tests carried out on the non-current assets of JSW's units 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). This impairment loss has been recognized in other costs in the statement of profit or loss and other comprehensive income. On the other hand, the reversed impairment loss on the non-current assets of the Budryk Coal Mine was recognized in the amount of PLN 719.1 million as other revenues in the statement of profit or loss and other comprehensive income. Impairment losses on non-financial non-current assets are presented in Note 7.3. of the consolidated financial statements of the Jastrzębska Spółka Węglowa Group for the financial year ended 31 December 2018.

Compensation for KWK Pniówek

In March 2018, JSW received a compensation of PLN 61.5 million for the coverage of the costs of the fire in the vicinity of the W1 longwall in KWK Pniówek.

Rescue campaign in KWK Borynia-Zofiówka-Jastrzębie, Zofiówka Section

An autonomous shock wave caused by natural conditions took place in the Zofiówka Section on 5 May 2018. As a result of this event 7 miners were trapped underground and 5 could not be rescued. The rescue campaign continued for 11 days in extremely difficult conditions due to significant methane hazard and involved almost 2,500 people. As at 31 December 2018, the costs incurred in connection with the rescue campaign and the removal of the consequences of the tremor reached PLN 8.8 million.

EXTERNAL FACTORS

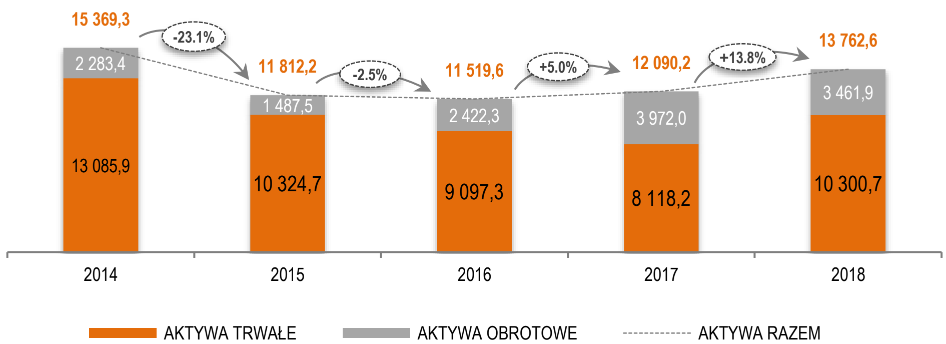
The situation on interconnected international markets of steel, coke and coal weighs heavily on the Group's results. Detailed information on the factors influencing the prices for the Group's main products is presented in Sections 4.2 and 4.3 of this report.

5.2.3. DIFFERENCES BETWEEN FINANCIAL RESULTS IN THE ANNUAL REPORT AND PREVIOUSLY PUBLISHED FORECASTS FOR 2018

The Group has not published any financial result forecasts for 2018.

5.2.4. GROUP'S STATEMENT OF FINANCIAL POSITION

ECONOMIC POSITION



ITEM	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014	GROWTH RATE 2017=100
ASSETS						
NON-CURRENT ASSETS						
Property, plant and equipment	7,303.0	6,835.9	7,483.2	8,624.5	12,153.6	106.8
Intangible assets	130.8	116.3	125.4	145.8	156.2	112.5
Investment property	21.1	21.7	22.4	23.0	23.6	97.2
Derivatives	-	-	-	-	-	--
Investments in associates	1.1	1.1	1.2	1.4	1.7	100.0
Deferred tax assets	669.5	814.3	1,161.4	1,219.2	436.9	82.2
Investments in the FIZ asset portfolio	1,826.1	-	-	-	-	-
Other non-current financial assets	349.1	328.9	303.7	310.8	313.9	106.1
TOTAL NON-CURRENT ASSETS	**10,300.7**	**8,118.2**	**9,097.3**	**10,324.7**	**13,085.9**	**126.9**
CURRENT ASSETS						
Inventories	656.5	499.4	342.5	491.9	538.2	131.5
Trade and other receivables	1,146.7	2,256.7	897.9	634.6	1,008.2	50.8
Income tax overpaid	0.7	32.5	5.7	4.7	2.5	2.2
Derivatives	7.2	13.8	5.8	2.8	2.9	52.2
Investments in associates	-	-	-	-	10.9	-
Other current financial assets	-	0.1	0.1	3.1	0.2	-
Cash and cash equivalents	1,650.8	1,169.5	1,170.3	350.4	720.5	141.2
TOTAL CURRENT ASSETS	**3,461.9**	**3,972.0**	**2,422.3**	**1,487.5**	**2,283.4**	**87.2**
TOTAL ASSETS	**13,762.6**	**12,090.2**	**11,519.6**	**11,812.2**	**15,369.3**	**113.8**

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

Drivers of change in non-current assets (up by PLN 2,182.5 million)

The biggest non-current assets line item as at 31 December 2018 was property, plant and equipment (70.9%). In 2018, their value increased by PLN 467.1 million, or 6.8%, chiefly due to incurring higher capital expenditures. In the current reporting period, JSW analyzed the existing evidence to verify whether any further impairment of assets or a reversal of any previously recognized impairment losses may have occurred. The total tests have shown the justification for the recognition, as at 31 December 2018, of the impairment loss on the non-current assets of JSW's units amounting to PLN 1,214.0 million (PLN 1,213.1 million of that figure pertained to property, plant and equipment while PLN 0.9 million pertained to intangible assets). This impairment loss has been recognized in other costs in the statement of profit or loss and other comprehensive income. On the other hand, the reversed impairment loss on the non-current assets of the Budryk Coal Mine was recognized in the amount of PLN 719.1 million as other revenues in the statement of profit or loss and other comprehensive income.

Moreover, the higher amount of non-current assets was influenced mainly by Investments in the FIZ asset portfolio in the amount of PLN 1,826.1 million. In order to prevent the potential risk of the deterioration of liquidity, the Parent Company established the Closed-End Investment Fund ("FIZ"). 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. On 29 December 2017, JSW made a payment in the amount of PLN 1,450.0 million to subscribe for A series investment certificates, which as at 31 December 2017 were captured in the Group's statement of financial position as other receivables. The remaining part of the payment was made on 18 January 2018, thus satisfying the requirements of the articles of association and the value of the investment certificates recognized at the end of 2017 in trade and other receivables item was transferred to the Investments in the FIZ asset portfolio line item. At the end of 2018, the Fund received additional PLN 300 million. The carrying amount of investments in the FIZ asset portfolio as at 31 December 2018 was PLN 1,826.1 million.

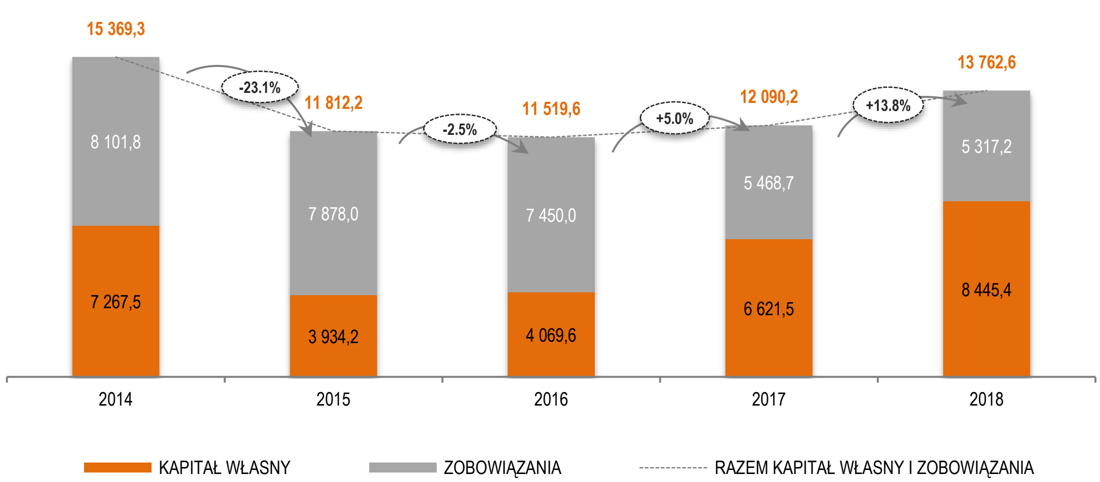
Drivers of change in current assets (down by PLN 510.1 million)

As at the last day of the reporting period, compared to 31 December 2017, the overall level of current assets decreased by PLN 510.1 million, driven mainly by a PLN 1,110.0 million, or 49.2% decrease in trade and other receivables caused by a transfer of funds of PLN 1,450.0 million designated for the Stabilization Closed-End Investment Fund to the investments in the FIZ asset portfolio line item in connection with the receipt of investment certificates.

As at 31 December 2018, cash and cash equivalents rose by PLN 481.3 million compared to 31 December 2017, mainly as a result of higher cash inflows from operating activity as compared to cash expenditures for investing and financing activity, which amounted to PLN 480.9 million.

Also, inventories increased by PLN 157.1 million due to an increase in finished products by PLN 93.8 million and materials by PLN 63.1 million. As at 31 December 2018, the Group's coal inventories were 791.6 thousand tons (up 146.4 thousand tons compared to 31 December 2017). As regards coke inventories, as at the date ending the reporting period, they stood at 225.3 thousand tons (up 31.2 thousand tons compared to 31 December 2017).

SOURCES OF COVERING ASSETS



ITEM	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014	GROWTH RATE 2017=100
EQUITY						
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY						
Share capital	1,251.9	1,251.9	1,251.9	1,251.9	1,251.9	100.0
Share premium account	905.0	905.0	905.0	905.0	905.0	100.0
Capital on revaluation of financial instruments	(52.1)	(66.7)	(82.8)	(86.7)	(56.8)	78.1
Retained earnings	5,976.6	4,298.9	1,928.4	1,764.9	5,012.2	139.0
	8,081.4	**6,389.1**	**4,002.5**	**3,835.1**	**7,112.3**	**126.5**
NON-CONTROLLING INTEREST	**364.0**	**232.4**	**67.1**	**99.1**	**155.2**	**156.6**
TOTAL EQUITY	**8,445.4**	**6,621.5**	**4,069.6**	**3,934.2**	**7,267.5**	**127.5**
LIABILITIES						
NON-CURRENT LIABILITIES						
Loans and borrowings	36.5	70.6	59.7	81.9	105.3	51.7
Liabilities under debt securities issued	-	792.6	1,529.3	102.6	36.9	-
Derivatives	-	-	-	0.9	0.3	-
Deferred tax liabilities	15.6	12.4	11.4	42.1	42.1	125.8
Employee benefit liabilities	731.7	558.6	580.3	695.9	2,803.9	131.0
Provisions	788.0	1,363.0	2,755.1	2,659.2	700.2	57.8
Trade and other liabilities	119.9	135.7	148.8	251.9	298.6	88.4
TOTAL NON-CURRENT LIABILITIES	**1,691.7**	**2,932.9**	**5,084.6**	**3,834.5**	**3,987.3**	**57.7**
CURRENT LIABILITIES						
Loans and borrowings	33.5	51.6	27.3	95.3	100.5	64.9
Liabilities under debt securities issued	121.0	63.4	67.1	1,339.3	1,272.2	190.9
Derivatives	6.0	-	6.7	1.9	15.0	-
Current income tax liabilities	203.6	2.2	2.3	4.2	1.7	9,254.5
Employee benefit liabilities	150.8	118.6	119.0	178.4	306.6	127.2
Provisions	273.1	159.9	233.6	206.7	208.4	170.8
Trade and other liabilities	2,837.5	2,140.1	1,909.4	2,217.7	2,210.1	132.6
TOTAL CURRENT LIABILITIES	**3,625.5**	**2,535.8**	**2,365.4**	**4,043.5**	**4,114.5**	**143.0**
TOTAL LIABILITIES	**5,317.2**	**5,468.7**	**7,450.0**	**7,878.0**	**8,101.8**	**97.2**
TOTAL EQUITY AND LIABILITIES	**13,762.6**	**12,090.2**	**11,519.6**	**11,812.2**	**15,369.3**	**113.8**

Drivers of change in equity (up by PLN 1,823.9 million)

An increase in equity by 27.5% in total as at the final date of the reporting period is associated primarily with an increase in retained earnings by PLN 1,677.7 million, i.e. 39.0% as compared to the balance as at 31 December 2017, which resulted directly from the net profit achieved in that period in the amount of PLN 1,760.8 million. In addition, as at 31 December 2018, the Group recognized in the consolidated statement of financial position the capital on revaluation of financial instruments in the amount of PLN (52.1) million, constituting a cumulative part of profits and losses resulting from changes in the fair value of hedging instruments, which is presented in more detail in Note 7.10.2. of the consolidated financial statements of the Jastrzębska Spółka Węglowa Group for the financial year ended 31 December 2018.

Drivers of change in liabilities (down by PLN 151.5 million)

On the final date of the reporting period, liabilities constituted 38.6% of total equity and liabilities, which was 6.6 percentage points less than on 31 December 2017.

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

In the analyzed period, non-current liabilities were observed to decline by PLN 1,241.2 million, i.e. by 42.3%, as compared to the balance as at 31 December 2017 including in particular liabilities under debt securities issued by PLN 792.6 million (in connection with their reclassification to current liabilities). In 2018, the Parent Company redeemed debt securities for a total value of PLN 737.3 million (including PLN 446.0 million and USD 80.5 million). As at 31 December 2018, total liabilities under debt securities issued, measured at amortized cost, carried in the statement of financial position were PLN 121.0 million (as at 31 December 2017: PLN 856.0 million). In addition, the balance of long-term provisions declined by PLN 575.0 million in connection with the reversal of the at Parent Company's provision for court disputes about free coal allowance for old-age and disability pensioners in the amount of PLN 653.5 million. The reversal has a positive effect on the Group's operating result in the amount of PLN 653.5 million in Q4 2018.

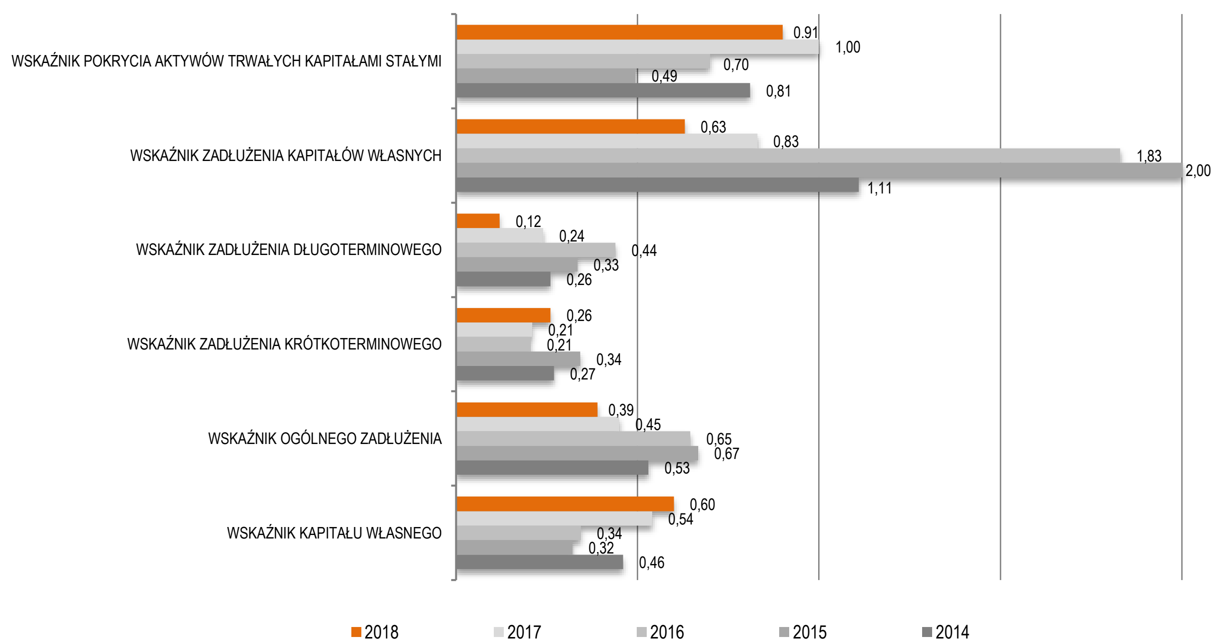
In the analyzed period, current liabilities were observed to grow by PLN 1,089.7 million, i.e. by 43.0%, as compared to the balance as at 31 December 2017 including in particular trade and other liabilities by PLN 697.4 million, i.e. by 32.6%, which mainly included investment liabilities (by PLN 367.1 million) connected with higher capital expenditures incurred in 2018 against 2017 and the balance of trade liabilities higher by PLN 190.4 million. In 2018, there was also an increase in current provisions by PLN 113.2 million, including the provisions for remedial of mining damage at the Parent Company in the amount of PLN 90.0 million.

5.2.5. SELECTED FINANCIAL RATIOS

The methodology for calculating the ratios is presented at the end of this report.

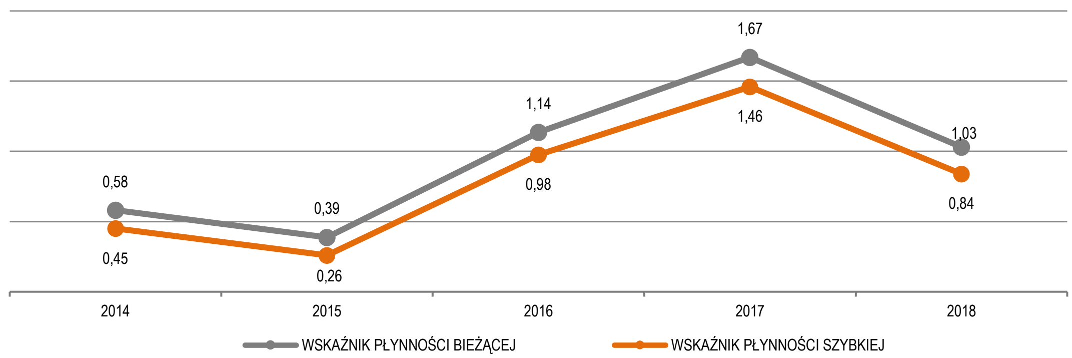
DEBT AND FUNDING MIX

As at the end of the reporting period, the share of liabilities in financing the Group's activity, measured by the total debt ratio, was 0.39 compared to 0.45 as at the end of 2017. The long-term debt ratio fell from 0.24 to 0.12, driven mainly by the reduction of non-current liabilities by PLN 1,241.2 million, i.e. 42.3%, primarily in connection with the redemption of debt securities in the amount of PLN 737.3 million by the Parent Company and reversal of the provision for court disputes related to free coal allowance for old-age and disability pensioners in the amount of PLN 653.5 million. Short-term debt ratio increased by 0.21 to 0.26 as at 31 December 2018, mainly as a result of a growth in trade and other liabilities which by PLN 697.4 million and as a result of the rise in provisions for current liabilities by PLN 113.2 million.



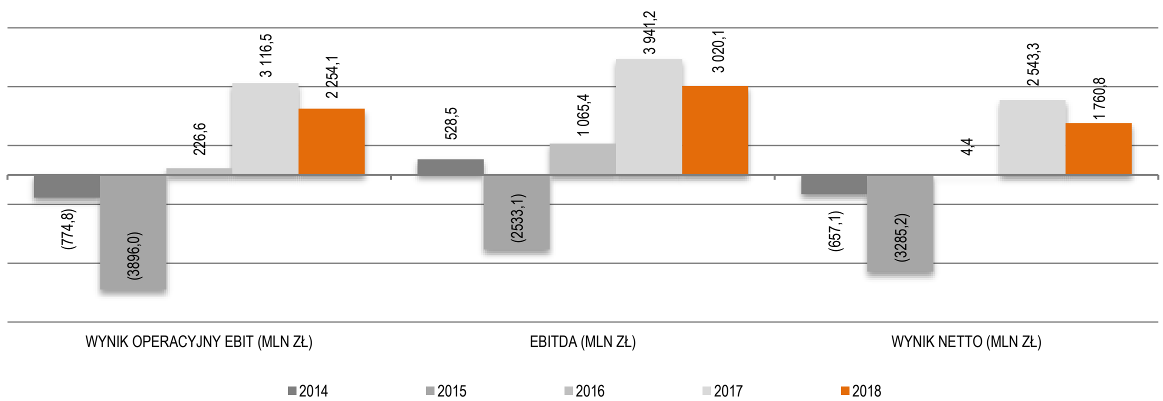
LIQUIDITY

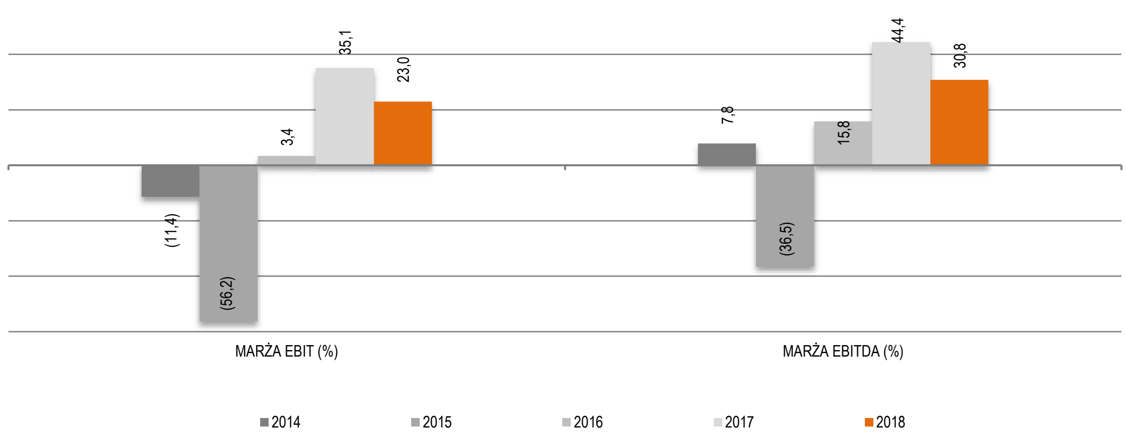
In the period from 1 January to 31 December 2018, current and quick liquidity ratios decreased compared to 31 December 2017 to 1.03 and 0.84, respectively. The lower levels of these ratios resulted from a decline in current assets by PLN 510.1 million, in connection with the transfer of FIZ cash to the group of non-current assets and an increase in current liabilities by PLN 1,089.7 million, including trade and other liabilities by PLN 697.4 million.



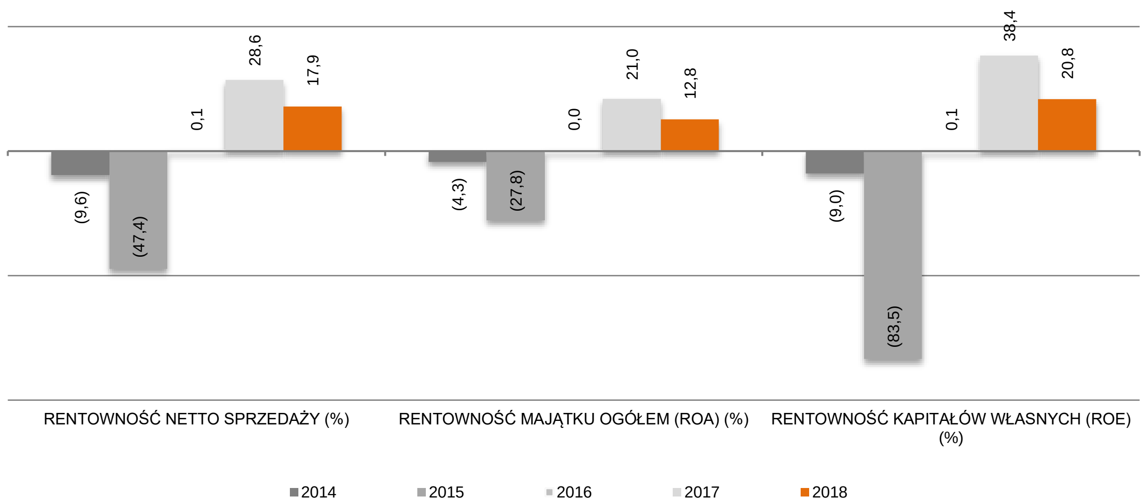
PROFITABILITY

Analysis of several profitability ratios points to the Group's good operating efficiency in 2018, despite the decline in the ratios compared to the corresponding period in 2017. The lower profitability ratio figures were caused mainly by the lower operating result despite higher sales revenues by PLN 932.3 million.





The return on assets (ROA) and return on equity (ROE) ratios indicate the efficiency of the Group's utilization of its assets and equity in 2018.



MINING CASH COST

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

ITEM	2018	2017	2016	2015	2014	GROWTH RATE 2017=100
Consumption of materials and energy	1,022.2	846.5	880.3	980.2	1,064.7	120.8
External services	1,614.0	1,275.9	1,158.3	1,292.6	1,610.6	126.5
Employee benefits	3,141.3	2,370.3	2,064.6	2,583.8	3,046.9	132.5
Taxes and fees	122.3	104.6	131.0	129.4	118.5	116.9
Other costs by nature	54.6	18.3	(2.2)	23.7	25.4	298.4
Other costs of the period not applicable to coal production	-	-	-	-	(939.8)	-
Mining cash cost (*PLN million*)	**5,954.4**	**4,615.6**	**4,232.0**	**5,009.7**	**4,926.3**	**129.0**
Coal extraction *(million tons)*	15.0	14.8	16.8	16.3	13.9	101.4
Mining cash cost *(PLN/ton)*[(1)]	**396.46**	**312.54**	**251.38**	**307.10**	**353.22**	**126.9**

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

Mining cash cost in 2018 stood at PLN 5,954.4 million, i.e. it was PLN 1,338.8 million (29%) higher than in 2017. The increase in mining cash cost was caused primarily by the following factors:

- higher costs of employee benefits by PLN 771.0 million (32.5%) caused mainly by the Agreement signed with the Trade Unions to unify the rules of calculating wages for working on Saturdays, Sundays and holidays, remuneration for the time of sickness and recreational leave as well the Agreement to increase the basic salary rates as of 1 June 2018 and equalize the rules and entitlement to receive the seniority allowance, i.e. the Miner's Charter and to make the backpayment of the Annual Bonus known as the 14th salary for 2016 (PLN 174.9 million) and the free coal allowance for 2016 (PLN 124.4 million). Another driver of the upward movement in employee benefit expenses was an increase in the average headcount by 347 persons compared to the corresponding period in 2017,

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

- an increase in the costs of external services by PLN 338.1 million (26.5%), mainly in connection with the increase in:
  - mining damage remediation services (by PLN 94.0 million) - in 2018, provisions were created for remediation of mining losses caused by the activity of the mines in the amount resulting from reported, recognized or documented claims for the same title and in the amount of expenditures to protect the area against the effects of mining activity,
  - renovation services (by PLN 65.3 million) due to the launch of renovations to the extent allowing for maintenance of production capacities at the assumed level,
  - other services concerning coal production (by PLN 49.1 million) – mainly because of the establishment of the provision for a task connected with reclamation of the area concerning the Pochwacie heap and as a result of an increase in the rates of agreements for air-conditioning services and the services of leasing Coal Enrichment Plants,
  - drilling and mining services (by PLN 33.1 million) in connection with higher rates for particular mining works,
  - methane drainage services (by PLN 30.7 million) as a result of changed rates of unit prices for methane drainage boreholes in connection with new agreements executed by JSW in 2018 for, among others, comprehensive maintenance of methane drainage and making methane drainage boreholes and protective boreholes,
  - services of leasing mining machines and equipment (by PLN 22.7 million) – in connection with higher average rate of leasing and the quantity of equipment leased mostly for the “means of production“ group,
- an increase in costs of consumption of materials and energy by PLN 175.7 million (20.8%), of which the consumption of raw materials rose by PLN 128.7 million and energy consumption by PLN 47.0 million. Higher prices of the consumption of materials are connected primarily with an increase in the prices of basic materials necessary to conduct preparatory works, install reinforcements and maintain mining walls, while the growth in the energy consumption follows from an increase in the unit price of energy in 2018, which is largely regulated by the Market (the Polish Power Exchange),
- an increase in other costs by nature by PLN 36.3 million (198.4%) mainly related to non-life insurance (PLN 19.9 million) in connection with an increase in premiums (tariffs) resulting from executed insurance agreements which came into force on 1 January 2018. Also, in May 2018, the premium was paid following from settlement of the insurance period from 1 January to 31 December 2017. The additional premium payment followed from an increase in the value of the property covered by insurance. The increase in other costs by PLN 16.4 million results from revaluation of the provision for Mine Closure (PLN 13.5 million), created on the basis of requirements following from the Geological and Mining Law Act,
- an increase in taxes and fees by PLN 17.7 million (16.9%) relating mainly to an increase in property taxes by PLN 14.8 million, after roof supports with installation costs were included in the taxable base in 2018 and tax was calculated on new fixed assets. On the other hand, in 2017, certain provisions were reversed in connection with corrections of tax returns and decisions received.

On a per-unit basis, mining cash cost in the analyzed period was PLN 396.46 per ton, i.e. PLN 83.92 per ton (26.9%), more than in 2017, which was affected by an 29.0% boost in coal production expenditures for a 1.7% increase in net coal production.

CASH CONVERSION COST

Cash conversion cost (“CCC”) is a measure used by the Group's coking plants and calculated as the sum of costs by nature incurred by the coking plants, net of the cost of coal feedstock (including the cost of transporting the feedstock) and selling and distribution expenses net of depreciation attributable to cost of sales. Unit cash conversion cost is calculated as the value of this measure divided by the coke production volume designated for sale.

ITEM	2018	2017	2016	2015	2014	GROWTH RATE 2017=100
Consumption of materials net of coal feedstock	59.4	50.2	53.0	47.7	53.6	118.3
Energy consumption	55.8	47.9	48.3	59.5	43.2	116.5
External services net of transport costs of coal feedstock	162.2	154.9	196.3	211.2	214.5	104.7
Taxes and fees	50.2	51.7	51.5	52.1	47.1	97.1
Personnel costs	209.3	183.4	235.4	271.2	285.3	114.1
Other costs by nature	0.8	3.5	4.5	5.4	3.8	22.9
Administrative expenses less depreciation and amortization	65.2	55.5	-	-	-	117.5
Selling and distribution expenses less depreciation and amortization attributable to selling and distribution expenses	(27.7)	(30.1)	(35.7)	(37.4)	(38.2)	92.0

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

ITEM	2018	2017	2016	2015	2014	GROWTH RATE 2017=100
Cash conversion cost (PLN million)	575.2	517.0	553.3	609.7	609.3	**111.3**
Coke production for sale (million tons)	3.6	3.5	4.1	4.2	4.0	102.9
Cash conversion cost (PLN/ton)	161.68	149.82	133.52	144.66	151.85	**107.9**

In 2018, the presentation of cash conversion cost for production facilities was changed by separating administrative expenses, without affecting the existing calculation method of this measure. The data presented for the period from 1 January 2017 to 31 December 2017 have been restated to reflect the new presentation of these costs.

In 2018, the cash conversion cost was PLN 575.2 million, up PLN 58.2 million, or 11.3%, as compared to 2017. This increase was driven mainly by:

- an increase in personnel costs by PLN 25.9 million, or 14.1%, in connection with the agreement on changes in the payroll policy for 2018 signed between the Management Board of JSW KOKS and the Trade Union Organizations,
- an increase in administrative expenses less depreciation and amortization by PLN 9.7 million, or 17.5%, caused by higher costs of wages and payroll-related benefits by PLN 6.3 million, transportation services (by PLN 1.0 million) and of other services (by PLN 1.8 million),
- an increase in the costs of consumption of materials net of coal feedstock by PLN 9.2 million, or 18.3%, caused by higher consumption of direct materials for coke production,
- an increase in energy consumption costs by PLN 7.9 million, or 16.5%, which results from the necessity of higher electricity purchases following the stoppage of a power unit and higher electricity prices,
- an increase in costs of external services without the coal feedstock transport costs by PLN 7.3 million, i.e. by 4.7%, related mainly to an increase in the costs of repair services by PLN 8.1 million and other material services by PLN 6.6 million. On the other hand, the costs of transport services fell by PLN 7.4 million, mainly those related to the handling of rail sidings,

As a result of the above events, on a per-unit basis, Cash Conversion Cost for 2018 reached PLN 161.68 per ton and was 11.86%, i.e. 7.9%, higher than in 2017.

5.2.6. MANAGEMENT OF THE GROUP'S FINANCIAL RESOURCES

The Group manages its financial resources both at the level of individual companies and at the consolidated level. The management process is regulated by the JSW Group's Liquidity Management Policy and procedure, the main objective of which is to monitor effectively and report the liquidity position allowing the Group to take measures if a threat to liquidity arises. Group companies have been regularly projecting and monitoring their liquidity based on expected cash flows.

External debt financing of the Group

ITEM	2018	2017	2016	2015	2014	GROWTH RATE 2017=100
Loans and borrowings	70.0	122.2	87.0	177.2	205.8	57.3
Liabilities under debt securities issued	121.0	856.0	1,596.4	1,441.9	1,309.1	14.1
Finance lease liabilities	40.3	66.8	72.1	123.5	111.3	60.3
TOTAL	**231.3**	**1,045.0**	**1,755.5**	**1,742.6**	**1,626.2**	**22.1**
including:						
long-term	*55.5*	*896.6*	*1,625.3*	*252.3*	*219.8*	*6.2*
short-term	*175.8*	*148.4*	*130.2*	*1,490.3*	*1,406.4*	*118.5*

After the final date of the reporting period, i.e. 18 January 2019, the Parent Company 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).

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

LOANS EXTENDED (INCLUDING INTRA-GROUP ONES)

In 2018, JSW Innowacje granted a loan to its subsidiary, HAWK-e, in the amount of PLN 992.5 thousand, with the maturity date on 7 June 2019, with interest based on the rate of WIBOR 3M +3%.

STRUCTURE OF ASSETS AND LIABILITIES IN THE CONTEXT OF LIQUIDITY

The main factors affecting the Group's financial standing are supply and demand and the average price of the main products, that is coal and coke, which has a direct effect on revenues.

ITEM	2018	2017	2016	2015	2014	GROWTH RATE 2017=100
Net cash flow on operating activity	2,818.4	2,870.7	896.5	725.1	644.3	98.2
Net cash flow on investing activity, including:	(1,581.7)	(2,170.3)	(354.4)	(1,015.3)	(3,040.4)	72.9
- including acquisition of KWK Knurów-Szczygłowice	-	-	-	-	*(1,490.0)*	-
- including proceeds from the sale of PEC, SE, WZK Victoria	-	-	*612.2*	-	-	-
- payment to purchase FIZ assets	*(350.0)*	*(1,450.0)*	-	-	-	24.1
Net cash flow on financing activity, including:	(755.8)	(699.8)	277.7	(80.0)	1,077.4	108.0
- including debt securities issued	-	-	*340.8*	*116.7*	*1,249.2*	-
- including redemption of debt securities	*(737.3)*	*(653.8)*	*(39.1)*	*(46.9)*	*(61.2)*	112.8
NET CHANGE IN CASH AND CASH EQUIVALENTS	**480.9**	**0.6**	**819.8**	**(370.2)**	**(1,318.7)**	**80,150.0**

Cash flow on operating activity

The positive net cash flow on operating activity generated by the Group in 2018 in the amount of PLN 2,818.4 million (mainly due to the profit before tax generated in the amount of PLN 2,192.5 million and depreciation and amortization of PLN 766.0 million) made it possible to, among others, cover capital expenditures incurred for the purchase of property, plant and equipment totaling PLN (1,246.2) million and to redeem debt securities for PLN (737.3) million. Other factors affecting the cash flow on operating activity are presented in Note 8.1. of the consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2018).

Cash flow on investing activity

In 2018, cash used in investing activities was PLN 1,581.7 million and was PLN 588.6 million lower compared to 2017, which is connected with the fact that in 2017, the Parent Company made payment to purchase FIZ assets in the amount of PLN 1,450 million. The main capital expenditures item in 2018 is the purchase of property, plant and equipment in the amount of PLN (1,246.2) million and the payment for the purchase of FIZ assets in the amount of PLN (350.0) million.

Cash flow on financing activity

In 2018, net cash flow on financing activity was PLN (755.8) million compared to PLN 699.8 million of cash flows in 2017. Their level in the analyzed period takes into account, among others, the redemption of debt securities in the amount of PLN (737.3) million, interest paid on financing activities in the amount of PLN (37.5) million and payments related to finance lease in the amount of PLN (31.8) million. At the same time, the Group received proceeds from the contribution of the State Treasury to the capitals of JZR, at the level of PLN 120.0 million.

As a result of the above-described events, the balance of cash and cash equivalents as at 31 December 2018 was PLN 1,650.8 million. Net change in cash and cash equivalents was PLN 480.9 million.

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 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).

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

As at 31 December 2018, there were 7,151 outstanding bonds with a par value of PLN 10,000.00 each and 1,317 bonds with a par value of USD 10,000.00 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 JSW Management Board 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

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. The following represent the collateral for the bonds:

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: movable 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 from agreements.
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 held 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 receivables assignment agreements governed by Polish law: rights assignment agreement to secure receivables of 28 October 2015 (as amended) entered into by and between JSW as the assignor and PKO BP as the assignee, rights assignment agreement to secure receivables of 11 August 2016 (as amended), entered into by and between JSW as the assignor and PKO BP as the assignee.

INVESTMENTS IN THE FIZ ASSET PORTFOLIO

One of the important actions that the Company took to prevent potential threats related to the deterioration of liquidity, was the establishment of the Closed-End Investment Fund ("FIZ"). 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, the Parent Company 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 the Group. 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. 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 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.

5.2.7. INFORMATION ABOUT EXTENDED AND RECEIVED SURETIES AND GUARANTEES IN 2018

In 2018, the Group did not extend or receive any sureties or guarantees. As at the date ending the reporting period, the following sureties were in force, granted by companies in the Group: surety extended by JSW KOKS for liabilities of the Parent Company in respect of the issue of bonds up to a total amount of PLN 2,218.5 million, valid until 31 March 2026, and surety extended by JSW for the liabilities of Wojewódzki Szpital Specjalistyczny No. 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, in the Group, there was an active bank guarantee for the total amount of 1.8 million, to secure the repayment of granted loans.

5.2.8. GROUP'S CURRENT AND ANTICIPATED FINANCIAL STANDING

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

5.3. BASIC ECONOMIC AND FINANCIAL FIGURES OF JSW

Item	Unit	2018	2017	2016	2015	2014[(1)]	GROWTH RATE 2017=100
STATEMENT OF FINANCIAL POSITION							
Total assets	mPLN	13,604.4	11,923.0	11,560.8	10,953.8	14,108.3	114.1
Non-current assets	mPLN	10,002.1	7,732.6	8,840.8	9,848.6	12,048.0	129.3
Current assets	mPLN	3,602.3	4,190.4	2,720.0	1,105.2	2,060.3	86.0
Equity	mPLN	7,786.8	6,408.5	3,974.0	3,591.1	6,393.3	121.5
Liabilities	mPLN	5,817.6	5,514.5	7,586.8	7,362.7	7,715.0	105.5
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME							
Sales revenues	mPLN	12,773.6	11,631.8	8,476.3	8,410.4	8,207.7	109.8
Gross profit/(loss) on sales	mPLN	2,391.2	3,153.1	1,400.7	(147.2)	(189.9)	75.8
Operating profit/(loss)	mPLN	1,825.8	2,969.5	640.7	(3,285.0)	(806.7)	61.5
EBITDA	mPLN	2,437.9	3,650.4	1,296.3	(2,187.1)	228.1	66.8
EBITDA margin	%	19.1	31.4	15.3	(26.0)	2.8	60.8
Profit/(loss) before tax	mPLN	1,767.0	2,986.3	423.7	(3,439.0)	(908.9)	59.2
Net profit/(loss)	mPLN	1,418.6	2,422.1	372.0	(2,786.7)	(684.3)	58.6
Total comprehensive income	mPLN	1,379.8	2,434.5	382.9	(2,802.2)	(1,098.1)	56.7
CASH FLOW STATEMENT							
Net cash flow on operating activity	mPLN	2,436.9	2,983.1	588.5	637.0	223.3	81.7
Net cash flow on investing activity	mPLN	(1,508.9)	(2,062.4)	122.2	(876.9)	(2,666.1)	73.2
Net cash flow on financing activity	mPLN	(807.3)	(790.9)	130.1	(156.0)	1,162.1	102.1
Net change in cash and cash equivalents	mPLN	120.7	199.8	840.8	(395.9)	(1,280.7)	60.4
FINANCIAL RATIOS							
Dividend per share	PLN/share	-	-	-	-	-	
Current liquidity		0.86	1.53	1.06	0.28	0.50	56.2
Quick liquidity		0.75	1.41	0.96	0.23	0.42	53.2
Net return on sales	%	11.1	20.8	4.4	(33.1)	(8.3)	53.4
Return on Assets (ROA)	%	10.4	20.3	3.2	(25.4)	(4.9)	51.2
Return on Equity (ROE)	%	18.2	37.8	9.4	(77.6)	(10.7)	48.1
Total debt ratio		0.43	0.46	0.66	0.67	0.55	93.5
Debt to equity ratio		0.75	0.86	1.91	2.05	1.21	87.2
Fixed capital to non-current assets ratio		0.84	1.00	0.69	0.43	0.76	84.0
PRODUCTION DATA							
Coal production	m tons	15.0	14.8	16.8	16.3	13.9	101.4
Coking coal production	m tons	10.3	10.7	11.6	11.1	9.9	96.3
Steam coal production	m tons	4.7	4.1	5.2	5.2	4.0	114.6
Mining cash cost	mPLN	5,954.4	4,615.6	4,232.0	5,009.7	4,926.3	129.0
Mining cash cost	PLN/ton	396.46	312.54	251.38	307.10	353.22	126.9
OTHER DATA							
Stock price at the end of the period	PLN/share	67.26	96.27	66.90	10.65	16.25	69.9
Headcount at the end of the period	persons	21,616	20,887	21,168	24,315	26,356	103.5
Average headcount during the year	persons	21,095	20,748	22,952	25,286	23,843	101.7
Investments in property, plant and equipment	mPLN	1,405.8	854.0	691.2	797.1	1,335.3	164.6
Depreciation and amortization	mPLN	612.1	680.9	655.6	1,097.9	1,034.8	89.0

(1) KWK Knurów-Szczygłowice from 1 August 2014

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

5.3.1. JSW'S STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

ITEM	2018	2017	2016	2015	2014	GROWTH RATE 2017=100
Sales revenues	12,773.6	11,631.8	8,476.3	8,410.4	8,207.7	109.8
Cost of products, materials and goods sold	(10,382.4)	(8,478.7)	(7,075.6)	(8,557.6)	(8,397.6)	122.5
GROSS PROFIT/(LOSS) ON SALES	2,391.2	3,153.1	1,400.7	(147.2)	(189.9)	75.8
Selling and distribution expenses	(343.8)	(302.1)	(368.6)	(366.9)	(382.0)	113.8
Administrative expenses	(535.6)	(409.5)	(368.2)	(386.4)	(450.7)	130.8
Other revenues	1,599.6	1,565.4	275.7	2,099.8	154.9	102.2
Bargain purchase gain for KWK K-S	-	-	-	-	297.4	-
Revenue on reversal of the provision for the Company Social Benefit Fund for old-age and disability pensioners	-	-	-	207.9	-	-
Other costs	(1,270.4)	(1,080.7)	(301.5)	(4,689.5)	(238.7)	117.6
Other net profit/(loss)	(15.2)	43.3	2.6	(2.7)	2.3	-
OPERATING PROFIT/(LOSS)	1,825.8	2,969.5	640.7	(3,285.0)	(806.7)	61.5
Financial income	37.7	133.2	5.5	32.7	46.8	28.3
Financial costs	(96.5)	(116.4)	(222.5)	(186.7)	(149.0)	82.9
PROFIT/(LOSS) BEFORE TAX	1,767.0	2,986.3	423.7	(3,439.0)	(908.9)	59.2
Income tax	(348.4)	(564.2)	(51.7)	652.3	224.6	61.8
NET PROFIT/(LOSS)	1,418.6	2,422.1	372.0	(2,786.7)	(684.3)	58.6
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO NET RESULT	**14.6**	**16.1**	**2.9**	**(29.1)**	**(56.6)**	90.7
Change in the value of hedges	18.0	19.9	3.6	(35.9)	(69.9)	90.5
Income tax	(3.4)	(3.8)	(0.7)	6.8	13.3	89.5
OTHER COMPREHENSIVE INCOME NOT TO BE RECLASSIFIED TO PROFIT OR LOSS	**(53.4)**	**(3.7)**	**8.0**	**13.6**	**(357.2)**	**1443.2**
Actuarial profit/(loss)	(65.9)	(4.6)	9.8	16.8	(441.0)	1432.6
Income tax	12.5	0.9	(1.8)	(3.2)	83.8	1388.9
TOTAL OTHER COMPREHENSIVE INCOME	**(38.8)**	**12.4**	**10.9**	**(15.5)**	**(413.8)**	**-**
TOTAL COMPREHENSIVE INCOME	1,379.8	2,434.5	382.9	(2,802.2)	(1,098.1)	56.7

In 2018, **sales revenues** were PLN 12,773.6 million and were PLN 1,141.8 million higher than the revenues earned in 2017 (an increase of 9.8%). Sales revenues on the coal produced by JSW, which accounted for 63.2% of total revenues, stood at PLN 8,071.4 million, i.e. were PLN 387.2 million (5.0%) higher than in 2017. The rise in the sales revenues on the coal produced at JSW resulted for the most part from the higher average coal selling price (an increase by PLN 15.22 per ton, i.e. 3%), which increased the revenues by PLN 240.8 million. In 2018, 14,827.3 thousand tons of coal were sold, i.e. 269.0 thousand tons more than in 2017 (a 1.8% increase), which increased the revenues by PLN 146.4 million.
In 2018, JSW also sold coke and hydrocarbons, earning revenues of PLN 4,379.6 million. As compared to 2017, they were higher by PLN 753.2 million (20.8%), mainly due to the average FCA sales price of coke being higher by PLN 159.26 per ton (17.0%).

Cost of products, materials and goods sold in 2018 were PLN 10,382.4 million, which means a growth by PLN 1,903.7 million (22.5%) as compared to 2017, which was affected by: PLN 1,228.1 million higher costs of producing the coal sold by JSW, PLN 592.5 million higher costs of coke purchased in coking plants and PLN 83.1 million higher other costs of products, materials and goods sold.

The **gross profit on sales** in 2018 amounted to PLN 2,391.2 million, down by PLN 761.9 million (24.2%) from the profit earned in 2017.

Selling and distribution expenses, which consist mostly of the costs of shipping JSW's main products in the period under analysis amounted to PLN 343.8 million, up by PLN 41.7 million (13.8%) from 2017, which follows primarily from the volume of coal and coke sold higher by 269.0 thousand tons and 80.3 thousand tons, respectively.

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

Administrative expenses, including costs connected with the performance of management and administrative functions, amounted to PLN 535.6 million, which means an increase by PLN 126.1 million (30.8%) compared to 2017, caused mainly by the Agreement signed with the Trade Unions to unify the rules of calculating wages for working on Saturdays, Sundays and holidays, paying salaries for the time of sickness, recreational leave and the Agreement to increase the basic salary rates as of 1 June 2018 and equalize the rules and entitlement to receive the seniority allowance, i.e. the Miner's Charter and to make the backpayment of the Annual Bonus known as the 14th salary for 2016 as well as the free coal allowance for 2016.

Other revenues in 2018 were PLN 1,599.6 million, which represents a growth of PLN 34.2 million, or 2.2% as compared to PLN 1,565.4 million posted in 2017. One of the main contributors to the increase in other revenues in 2018 was the reversal of an impairment loss on property, plant and equipment and intangible assets in the amount of PLN 719.1 million, which is presented in more detail in Note 6.3. of the consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. for the financial year ended 31 December 2018, as well as compensation received to cover the costs related to the fire in the area of W-1 longwall in seam 362/1 at KWK Pniówek, in the amount of PLN 61.5 million.

In the analyzed period, other revenues also included reversal of a provision for potential litigation related to the free coal allowance for old-age and disability pensioners in the amount of PLN 653.5 million (PLN 1,249.2 million in 2017), disclosure of fixed assets in the amount of PLN 37.9 million (PLN 11.4 million in 2017) as well as revenues related to the transfer of KWK Krupiński to SRK in the amount of PLN 15.5 million (PLN 225.8 million in 2017).

In 2018, **other costs** amounted to PLN 1,270.4 million against PLN 1,080.7 million in 2017, which means an increase by PLN 189.7 million, i.e. 17.6%, mostly because, in 2018, impairment losses on property, plant and equipment and intangible assets were recognized in the amount of PLN 1,214.0 million, or PLN 454.9 million more than in 2017. On the other hand, other costs in 2017 included costs related to the transfer of KWK Krupiński to SRK in the amount of PLN 125.7 million, that is PLN 117.5 million more than in 2018.

Other net gains/(losses) in 2018 amounted to PLN (15.2) million, compared to the gain of PLN 43.3 million in 2017, signifying a decline of PLN 58.5 million. The change in other net gains/(losses) was driven mainly by the difference between the profit achieved in 2017 on derivatives in the amount of PLN 73.9 million and the loss incurred in 2018 from the same for the amount of PLN (30.9) million. The decrease of PLN 104.8 million is connected mainly with a change in the market conditions and the difference in transaction volumes. At the same time, higher results were recorded in the following line items: foreign exchange differences by PLN 36.2 million and measurement of investment certificates by PLN 26.1 million as well as a loss on the sale of property, plant and equipment, higher than in 2017, by PLN (15.8) million.

Financial income in 2018 was PLN 37.7 million, i.e. PLN 95.5 million lower than in 2017, mainly as a result of posting revenues from FX differences on the valuation of bonds in 2017, which did not occur in 2018.

Financial costs were at a level of PLN 96.5 million, and their level was lower from the performance in 2017 (PLN 116.4 million) by PLN 19.9 million, which resulted for the most part from interest on financing activity being lower by PLN 27.1 million.

As a result of aforedescribed factors, **profit before tax** for 2018 amounted to PLN 1,767.0 million and, compared to 2017, was lower by PLN 1,219.3 million. **Net profit** for 2018 amounted to PLN 1,418.6 million and was lower by PLN 1,003.5 million as compared to 2017.

In 2018, following the recognition, in **other comprehensive income**, of the valuation of hedging instruments in the amount of PLN 18.0 million with income tax of PLN (3.4) million, and actuarial losses of PLN (65.9) million with income tax of PLN 12.5 million, **total comprehensive income** amounted to PLN 1,379.8 million.

Basic and diluted earnings per share was PLN 12.08 (PLN 20.63 PLN/share in 2017).

COSTS BY NATURE

ITEM	2018	2017	2016	2015	2014	GROWTH RATE 2017=100
Depreciation and amortization	612.1	680.9	655.6	1,097.9	1,034.8	89.9
Consumption of materials and energy	1,170.8	983.8	1,002.7	1,104.1	1,064.7	119.0
External services	2,032.4	1,663.0	1,579.0	1,624.5	1,610.6	122.2
Employee benefits	3,536.9	2,732.4	2,315.1	2,893.2	3,046.9	129.4
Taxes and fees	123.8	105.2	131.4	130.1	118.5	117.7
Other costs by nature	56.5	21.0	(1.6)	24.0	25.4	269.0
Cost of materials and goods sold	4,378.1	3,683.6	2,459.2	2,742.9	2,892.8	118.9
– including: cost of coke and hydrocarbons sold	*4,143.6*	*3,467.0*	*2,441.0*	*2,599.0*	*2,840.0*	*119.5*
Total costs by nature	**11,910.6**	**9,869.9**	**8,141.4**	**9,616.7**	**9,793.7**	**120.7**

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

ITEM	2018	2017	2016	2015	2014	GROWTH RATE 2017=100
Selling and distribution expenses	(343.8)	(302.1)	(368.6)	(366.9)	(382.0)	113.8
Administrative expenses	(535.6)	(409.5)	(368.2)	(386.4)	(450.7)	130.8
Cost of performances and property, plant and equipment produced for own use and expensable mining pits	(606.9)	(573.1)	(422.8)	(428.3)	(472.9)	105.9
Change in products	(41.9)	(106.5)	93.8	122.5	(90.5)	39.3
Cost of products, materials and goods sold	**10,382.4**	**8,478.7**	**7,075.6**	**8,557.6**	**8,397.6**	**122.5**

The expenditures incurred by the JSW in 2018 on operating activity amounted to PLN 11,910.6 million, compared to PLN 9,869.9 million incurred in 2017 (an increase of PLN 2,040.7 million i.e. 20.7%). The higher level of JSW's operating expenses was driven mainly by:

- higher costs of **employee benefits** by PLN 804.5 million, or 29.4%, compared to 2017, caused mainly by the Salary Agreements signed between the JSW Management Board and the Trade Unions. These agreements unified the rules of calculating wages for working on Saturdays, Sundays and holidays, paying salaries for the time of sickness, recreational leave and increased the basic salary rates as of 1 June 2018 (and equalized the rules and entitlement to receive the seniority allowance, i.e. the Miner's Charter) and caused backpayment of the Annual Bonus known as the 14th salary for 2016 (PLN 174.9 million) and the free coal allowance for 2016 (PLN 124.4 million). In addition, what contributed to the increase in the costs in 2018 was the increase in the average headcount in JSW by 347 persons compared to the corresponding period in 2017,
- an increase in **cost of materials and goods sold** in 2018 by PLN 694.5 million, i.e. 18.9%, compared to 2017, which was primarily affected by the increase in the value of coke sold. The increase in the volume of coke sold by 82.9 thousand tons (2.0%) and the higher unit cost by PLN 145.8 per ton (16.0%) contributed to the growth in the value of coke sold by PLN 592.5 million (18.0%). The higher unit cost of purchasing coke resulted from the higher prices achieved on the sales to external customers, which determine the prices at which coke is purchased from a coking plant,
- higher costs of **external services** by PLN 369.4 million, i.e. by 22.2%, including first of all an increase in the costs of the following: services connected with removal of mining damage – an increase by PLN 94.0 million, repair services – an increase by PLN 66.0 million, transportation services by PLN 44.0 million, other services related to coal production – an increase by PLN 41.7 million, drilling and mining services – an increase by PLN 35.2 million, other services – an increase by PLN 32.2 million, methane drainage services – an increase by PLN 30.6 million, services of leasing mining machines and equipment – an increase by PLN 25.7 million,
- higher costs of **consumption of materials and energy** by PLN 187.0 million, i.e. 19.0%, of which the consumption of raw materials rose by PLN 136.5 million and the energy consumption by PLN 50.5 million. Higher prices of the consumption of materials are connected primarily with an increase in the prices of basic materials necessary to conduct preparatory works, install reinforcements and maintain mining walls, while the growth in the energy consumption follows from an increase in the unit price of energy in 2018,
- an increase in **other costs by nature** by PLN 35.5 million, or 169.0%, mainly related to growth in costs of non-life insurance following a change of premiums and the base for property insurance; furthermore, the increase in the costs were caused by the revaluation of the Mine Closure Provision by PLN 13.5 million,
- an increase in **cost of taxes and fees** by PLN 18.6 million, or 17.7%, related mainly to an increase in property taxes payable by JSW after roof supports with installation costs were included in the taxable base in 2018 and tax was calculated on new fixed assets. On the other hand, in 2017, certain provisions were reversed in connection with corrections of tax returns and decisions received; also some items were derecognized due to expiration of their statute of limitations.

After adjusting JSW's costs by nature by selling and distribution expenses, administrative expenses and the cost of performances and property, plant and equipment produced for own needs and expensable mining pits, and a change in products, the resulting cost of products, materials and goods sold in 2018 was PLN 10,382.4 million, up by 22.5% from 2017.

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

5.3.2. EXTRAORDINARY FACTORS AND EVENTS AFFECTING THE JSW'S RESULT

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

ITEM	2018	2017
EBITDA	**2,437.9**	**3,650.4**
Impact of non-recurring events, including:	**80.7**	**(319.0)**
▪ *transfer of KWK Krupiński to SRK:*		
– *reversal of a provision for losses on account of unrealized agreements pertaining to KWK Krupiński*	-	*(14.2)*
– *reversal of the mine closure provision*	-	*(97.1)*
– *reversal of the provision for employee benefits for employees transferred to SRK*	-	*(50.1)*
– *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)*
– *net value of liquidated assets and expensable mining pits transferred to SRK*	*2.1*	*57.7*
– *reversal of the impairment losses on property, plant and equipment of the Krupiński Mine transferred from the Suszec Section to other JSW units*	*(15.5)*	*(51.2)*
– *other costs associated with the maintenance of the Suszec Section*	*6.1*	*68.0*
▪ *salary backpayment and non-recurring awards*	*299.3*	*157.8*
▪ *reversal of a portion of the provision for potential litigation related to the free coal allowance for old-age and disability pensioners*	*(653.5)*	*(1,249.2)*
▪ *impairment loss for property, plant and equipment and intangible assets of JSW units made as a result of the conducted impairment tests*	*1,214.0*	*759.1*
▪ *reversal of the impairment loss on property, plant and equipment and intangible assets*	*(719.1)*	-
▪ *impairment losses from shares of JSW KOKS*	-	*113.4*
▪ *rescue campaign and removal of consequences after the tremor in the Zofiówka Section*	*8.8*	-
▪ *compensation to cover the costs related to the fire at KWK Pniówek*	*(61.5)*	-
EBITDA (net of non-recurring events)	**2,518.6**	**3,331.4**

Transfer of JSW's assets to SRK

On 31 March 2017, JSW effected a gratuitous transfer of a portion of the Krupiński mine's production assets to SRK. As a consequence of the agreement signed, 1.1 thousand JSW employees moved to SRK under the procedure contemplated by Article 23¹ of the Labor Code. The allocation of the Krupiński mine's personnel was effected based on an agreement reached by the parties whereby all employees of KWK Krupiński who have been transferred to other JSW mines are covered by the employment guarantees arising from the agreement signed with the trade unions before JSW's IPO in 2011. In total, new jobs in JSW's mines were found by 1.8 thousand staff of KWK Krupiński. On the date of signing of the agreement for the free-of-charge transfer of KWK Krupiński between JSW and SRK, out of the assets which formed part of KWK Krupiński but were not transferred to SRK, a new organizational structure, called the Suszec Section, was created within KWK Pniówek.

Costs incurred in connection with the maintenance of the Suszec Section in the period under analysis amounted to PLN 6.1 million. As at 30 September 2018, the Suszec Section terminated its operation as a separate organizational structure.

Salary backpayment and non-recurring awards

On 11 June 2018, the JSW signed a Salary Agreement with the representative trade unions operating in JSW to end the collective dispute commenced on 16 April 2018 concerning a 15% raise in the wage rates and backpayment of the benefits lost, according to the demand lodged by the representative trade union organizations and based on the clauses of the Collective Agreement of 16 September 2015. Pursuant to the Salary Agreement, the salary fund started to increase by 7% in 2018 (through an increase in the basic salary rates and equalization of the rules and entitlement to receive the seniority allowance, i.e. the Miner's Charter) as of June 2018. Moreover, employees hired in 2016 who remained employed as at the date of signing the Agreement, received a backpayment of the Annual Bonus (the so-called 14th salary) for 2016 in the amount of PLN 174.9 million (the payment was made in July 2018) and payment of a free coal allowance for 2016 after analysis of the financial results for Q3 2018 in the amount of PLN 124.4 million (the payment was made on 26 October 2018). The signing of the foregoing agreement satisfies the payroll-related claims in 2018.

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

Reversal of the provision for potential litigation related to the free coal allowance for old-age and disability pensioners

On 20 December 2018, the JSW Management Board adopted a resolution 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 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 JSW'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).

Compensation for KWK Pniówek

In March 2018, JSW received a compensation of PLN 61.5 million for the coverage of the costs of the fire in the vicinity of the W1 longwall in KWK Pniówek.

Rescue campaign in KWK Borynia-Zofiówka-Jastrzębie mine, Zofiówka Section

An autonomous shock wave caused by natural conditions took place in the Zofiówka Section on 5 May 2018. As a result of this event 7 miners were trapped underground and 5 could not be rescued. The rescue campaign continued for 11 days in extremely difficult conditions due to significant methane hazard and involved almost 2,500 people. As at 31 December 2018, the costs incurred in connection with the rescue campaign and the removal of the consequences of the tremor reached PLN 8.8 million.

Impairment losses on property, plant and equipment and intangible assets

In the current reporting period, JSW analyzed the existing evidence to verify whether any further impairment of assets or a reversal of any previously recognized impairment losses may have occurred. 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 and also reversal of an impairment loss on property, plant and equipment at the Budryk Coal Mine in the amount of PLN 719.1 million. The total impairment loss recognized in 2018 as a result of the impairment tests carried out on the non-current assets of JSW's units 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). This impairment loss has been recognized in other costs in the statement of profit or loss and other comprehensive income. On the other hand, the reversed impairment loss on the non-current assets of the KWK Budryk Coal Mine was recognized in the amount of PLN 719.1 million as other revenues in the statement of profit or loss and other comprehensive income. Impairment losses on non-financial non-current assets are presented in Note 6.3. of the financial statements of Jastrzębska Spółka Węglowa S.A. for the financial year ended 31 December 2018.

External factors

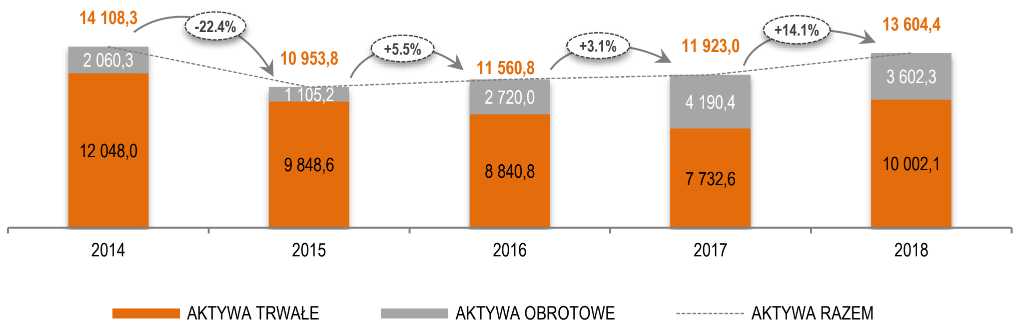
The situation on interconnected international markets of steel, coke and coal weighs heavily on the Parent Company's results. Details of the factors influencing the prices for the Company's main products is presented in Sections 4.2 and 4.3 of this report.

5.3.3. DIFFERENCES BETWEEN JSW'S FINANCIAL RESULTS IN THE ANNUAL REPORT AND PREVIOUSLY PUBLISHED FORECASTS FOR 2018

Neither the Group nor the Parent Company have published any financial result forecasts for 2018.

5.3.4. STATEMENT OF JSW'S FINANCIAL POSITION

ECONOMIC POSITION



ITEM	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014	GROWTH RATE 2017=100
ASSETS						
NON-CURRENT ASSETS						
Property, plant and equipment	5,259.8	4,869.5	5,542.9	5,817.3	8,635.4	108.0
Intangible assets	80.8	75.3	78.2	88.0	85.8	107.3
Investment property	21.1	21.7	22.4	23.0	23.6	97.2
Investments in subsidiaries, co-subsidiaries and associates	2,009.5	1,837.1	1,950.1	2,559.0	2,596.3	109.4
Deferred tax assets	455.9	600.2	943.6	1,051.1	395.2	76.0
Other non-current financial assets	2,175.0	328.8	303.6	310.2	311.7	661.5
TOTAL NON-CURRENT ASSETS	**10,002.1**	**7,732.6**	**8,840.8**	**9,848.6**	**12,048.0**	**129.3**
CURRENT ASSETS						
Inventories	457.3	317.0	248.6	215.2	322.1	144.3
Trade and other receivables	1,501.2	2,618.5	1,359.6	661.0	1,099.1	57.3
Income tax overpaid	-	31.3	-	-	-	-
Derivatives	7.2	13.8	6.8	2.9	3.0	52.2
Investments in associates	-	-	-	-	0.1	-
Other current financial assets	-	-	-	-	-	-
Cash and cash equivalents	1,636.6	1,209.8	1,105.0	226.1	636.0	135.3
TOTAL CURRENT ASSETS	**3,602.3**	**4,190.4**	**2,720.0**	**1,105.2**	**2,060.3**	**86.0**
TOTAL ASSETS	**13,604.4**	**11,923.0**	**11,560.8**	**10,953.8**	**14,108.3**	**114.1**

Drivers of change in non-current assets (up by PLN 2,269.5 million)

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

The biggest non-current assets line item as at 31 December 2018 was property, plant and equipment (52.6%). In 2018, their value increased by PLN 390.3 million, or 8.0%, chiefly due to incurring higher capital expenditures. In the analyzed period of 2018, capital expenditures on property, plant and equipment totaled PLN 1,400.4 million with depreciation and amortization at PLN 608.5 million. In the current reporting period, JSW analyzed the existing evidence to verify whether any further impairment of assets or a reversal of any previously recognized impairment losses may have occurred. The total tests have shown the justification for the recognition, as at 31 December 2018, of the impairment loss on the non-current assets of JSW's units amounting to PLN 1,214.0 million (PLN 1,213.1 million of that figure pertained to property, plant and equipment while PLN 0.9 million pertained to intangible assets). This charge has been recognized in other costs in the statement of profit or loss and other comprehensive income. On the other hand, the reversed impairment loss on the non-current assets of the KWK Budryk Coal Mine was recognized in the amount of PLN 719.0 million as other revenues in the statement of profit or loss and other comprehensive income.

Moreover, the higher amount of non-current assets was influenced by the PLN 1,846.2 million increase in other long-term financial assets. In order to prevent the potential risk of the deterioration of liquidity, JSW established the Closed-End Investment Fund ("FIZ"). 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. On 29 December 2017, JSW made a payment in the amount of PLN 1,450.0 million to subscribe for A series investment certificates, which as at 31 December 2017 were captured in JSW's statement of financial position as other receivables. The remaining part of the payment was made on 18 January 2018, thus satisfying the requirements of the articles of association and the value of the investment certificates recognized at the end of 2017 in the item of trade and other receivables was transferred to the item of other long-term financial assets. At the end of 2018, the Fund received additional PLN 300 million. The carrying amount of investments in the FIZ asset portfolio as at 31 December 2018 was PLN 1,826.1 million.

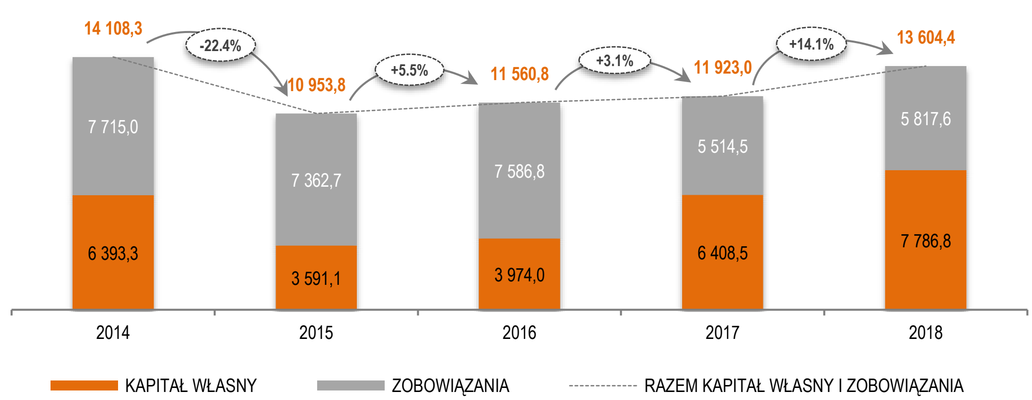
In addition, what contributed to the higher level of non-current assets was an increase of PLN 172.4 million, i.e. 9.4% in investments in subsidiaries, co-subsidiaries and associates. At the same time, there was a decrease of deferred tax assets by PLN 144.3 million (in December 2018, the provision for court litigation concerning free coal allowance granted to old-age and disability pensioners in the amount of PLN 653.5 million, for which a deferred tax asset was created for PLN 124.2 million).

Drivers of change in current assets (down by PLN 588.1 million)

Current assets as at 31 December 2018 amounted to PLN 3,602.3 million, down by PLN 588.1 million (14.0%) from the end of 2017, mainly as a result of a fall in trade and other receivables by PLN 1,117.3 million, among others, because of transferring cash designated for the Stabilization Closed-End Investment Fund in the amount of PLN 1,450.0 million to the item of other long-term financial assets. At the same time, there was an increase in cash and cash equivalents by PLN 426.8 million, i.e. 35.3%, as compared to 2017. The balance sheet amount of cash as at 31 December 2018 includes the amount of PLN 489.0 million from cash received by JSW within settlements under Physical Cash Pooling. The increase in cash resulted chiefly from positive cash flows on operating activity.

As at the end of 2018, inventories constituted 12.7% of current assets. Their closing balance at the end of the reporting period was PLN 457.3 million, up by PLN 140.3 million compared to 31 December 2017. Inventories of finished products as at 31 December 2018 amount to 657.6 thousand tons of coal with a value of PLN 215.2 million (as at 31 December 2017, inventories of finished products amounted to 483.3 thousand tons of coal with a value of PLN 173.3 million). On the other hand, the value of goods in the inventories rose by PLN 96.7 million, from PLN 119.1 million at the end of 2017 to PLN 215.7 million at the end of 2018.

SOURCES OF COVERING ASSETS



ITEM	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014	GROWTH RATE 2017=100
EQUITY						
Share capital	1,251.9	1,251.9	1,251.9	1,251.9	1,251.9	100.0
Share premium account	905.0	905.0	905.0	905.0	905.0	100.0
Capital on revaluation of financial instruments	(52.1)	(66.7)	(82.8)	(85.7)	(56.6)	78.1
Retained earnings	5,682.0	4,318.3	1,899.9	1,519.9	4,293.0	131.6

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

ITEM	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014	GROWTH RATE 2017=100
TOTAL EQUITY	**7,786.8**	**6,408.5**	**3,974.0**	**3,591.1**	**6,393.3**	**121.5**
LIABILITIES						
NON-CURRENT LIABILITIES						
Loans and borrowings	5.0	7.0	-	-	-	71.4
Liabilities under debt securities issued	-	792.6	1,529.3	-	-	-
Employee benefit liabilities	568.0	413.6	447.6	514.3	2,622.3	137.3
Provisions	784.5	1,358.8	2,754.3	2,657.3	699.3	57.7
Trade and other liabilities	84.7	99.9	109.7	146.7	158.3	84.8
TOTAL NON-CURRENT LIABILITIES	**1,442.2**	**2,671.9**	**4,840.9**	**3,318.3**	**3,479.9**	**54.0**
CURRENT LIABILITIES						
Loans and borrowings	2.0	2.0	-	-	-	100.0
Liabilities under debt securities issued	121.0	63.4	67.1	1,287.6	1,271.9	190.9
Derivatives	6.0	-	8.3	1.7	15.0	-
Current income tax liabilities	194.7	-	-	-	-	-
Employee benefit liabilities	126.7	94.7	95.5	146.2	272.9	133.8
Provisions	204.5	101.7	178.5	136.2	134.2	201.1
Trade and other liabilities	3,720.5	2,580.8	2,396.5	2,472.7	2,541.1	144.2
TOTAL CURRENT LIABILITIES	**4,375.4**	**2,842.6**	**2,745.9**	**4,044.4**	**4,235.1**	**153.9**
TOTAL LIABILITIES	**5,817.6**	**5,514.5**	**7,586.8**	**7,362.7**	**7,715.0**	**105.5**
TOTAL EQUITY AND LIABILITIES	**13,604.4**	**11,923.0**	**11,560.8**	**10,953.8**	**14,108.3**	**114.1**

Drivers of change in equity (up by PLN 1,378.3 million)

An increase in total equity by 21.5 as at the final date of the reporting period is associated primarily with an increase in retained earnings by PLN 1,363.7 million as compared to 31 December 2017, which resulted directly from the net profit achieved for 2018 in the amount of PLN 1,418.6 million. In addition, as at 31 December 2018, JSW recognized in the statement of financial position the capital on revaluation of financial instruments in the amount of PLN (52.1) million, constituting a cumulative part of profits and losses resulting from changes in the fair value of hedging instruments, which is presented in more detail in Note 6.10.2. of the financial statements of Jastrzębska Spółka Węglowa S.A. for the financial year ended 31 December 2018.

Drivers of change in liabilities (up by PLN 303.1 million)

As at the final date of the reporting period, liabilities constituted 42.8% of total capitals and liabilities, compared to 46.3% at the end of 2017. In the analyzed period, current liabilities were observed to grow by PLN 1,532.8 million as compared to the balance as at 31 December 2017, including in particular trade and other liabilities, which rose by PLN 1,139.7 million in connection with an increase in investment liabilities (higher capital expenditures incurred in 2018 against 2017) and a higher balance of trade liabilities. In addition, there was an increase in current provisions by PLN 102.8 million, including the provisions for remedial of mining damage in the amount of PLN 90.0 million. Current liabilities under debt securities issued also grew, by PLN 57.6 million.

In contrast, a decline was observed in non-current liabilities, by PLN 1,229.7 million, including in liabilities under debt securities issued, which dropped by PLN 792.6 million. In the period in question, JSW redeemed debt securities in the total amount of PLN 446.0 million and USD 80.5 million (i.e. PLN 737.3 million in aggregate). In addition, the balance of long-term provisions declined by PLN 574.3 million in connection with the reversal of the provision for disputes about free coal allowance for old-age and disability pensioners in the amount of PLN 653.5 million, as well as long-term trade and other liabilities - a decrease by 15.2 million (15.2%). At the same time, employee benefit liabilities were observed to rise by PLN 154.4 million, or 37.3%, as compared to the balance as at 31 December 2017.

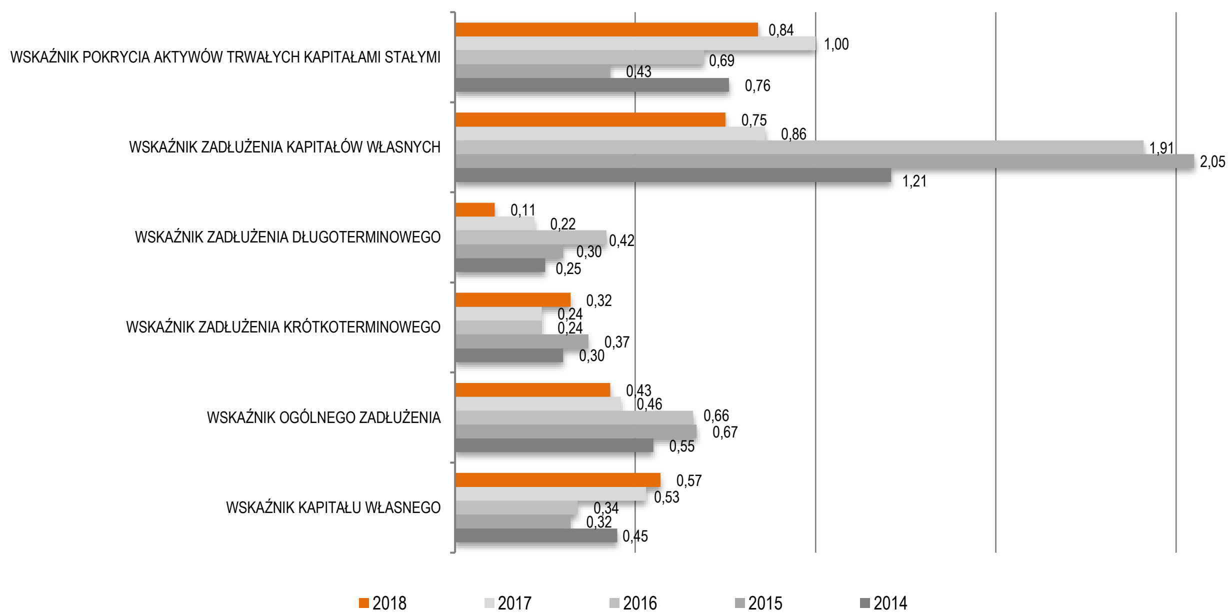
(All amounts in tables expressed in millions of Polish zloty unless stated otherwise)

5.3.5. SELECTED FINANCIAL RATIOS

The methodology for calculating the ratios is presented at the end of this report.

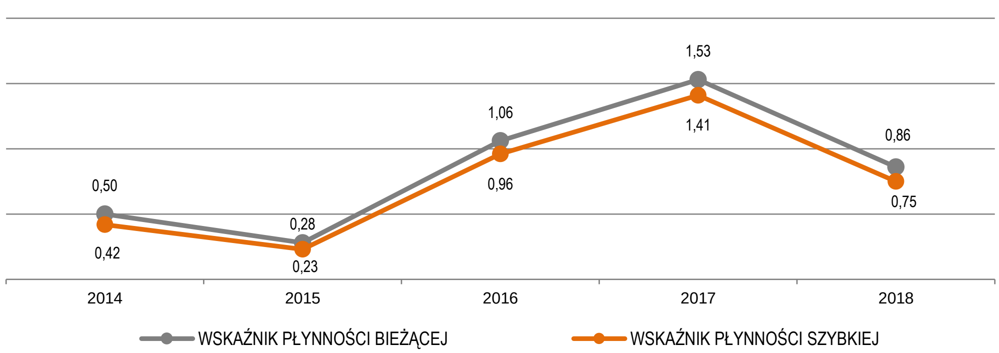
JSW'S DEBT AND FUNDING MIX

As at the end of the reporting period, the share of liabilities in financing JSW's activity, measured by the total debt ratio, was 0.43 compared to 0.46 as at the end of 2017. As at the end of 2018, JSW had a debt arising from the issuance of debt securities in the amount of PLN 121.0 million, finance leases in the amount of PLN 26.7 million and credit and loans (a loan from the VFEPWM) in the amount of PLN 7.0 million. The long-term debt ratio fell by 50.0%, from 0.22 at the end of 2017 to 0.11 at the end of 2018, driven mainly by the reduction of non-current liabilities by PLN 1,229.7 million, i.e. 46.0%, primarily in connection with the reversal of the provision for potential court disputes related to free coal allowance for old-age and disability pensioners in the amount of PLN 653.5 million and reduction in the balance of liabilities under debt securities issued by PLN 792.6 million. Short-term debt ratio was 0.32 as compared to 0.24 at the end of 2017, primarily as a result of an increase in the balance of current liabilities by PLN 1,532.8 million, i.e. by 53.9%.



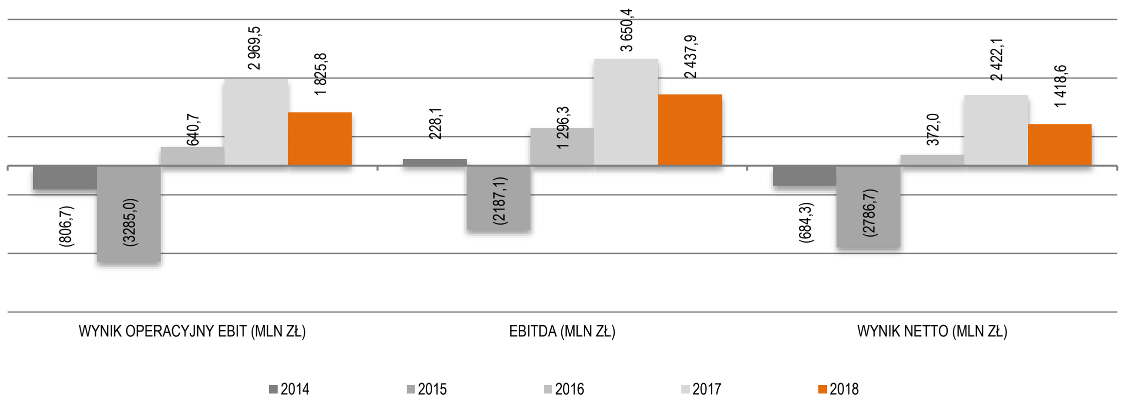
LIQUIDITY

Current liquidity ratio for 2018 was 0.86, decreasing against 2017 by 43.8%, while quick liquidity ratio declined by 46.8%, from 1.41 at the end of 2017 to 0.75 at the end of 2018. What contributed most to the level of the liquidity ratio was an increase in current liabilities (without current provisions) by PLN 1,430.0 million, i.e. by 52.2%, mainly because of an increase in trade and other liabilities by PLN 1,139.7 million and a growth in current income tax liabilities by PLN 194.7 million. At the same time, current assets declined by PLN 588.1 million, i.e. by 14.0%, primarily those in respect of trade and other receivables, by PLN 1,117.3 million, i.e. 42.7%, in connection with the transfer of FIZ cash to the item of other long-term financial assets. The level of inventories at the end of 2018 amounted to PLN 457.3 million and was higher from the end of 2017 by PLN 140.3 million (increase by 44.3%), mainly in the group of goods, which grew by PLN 96.7 million.

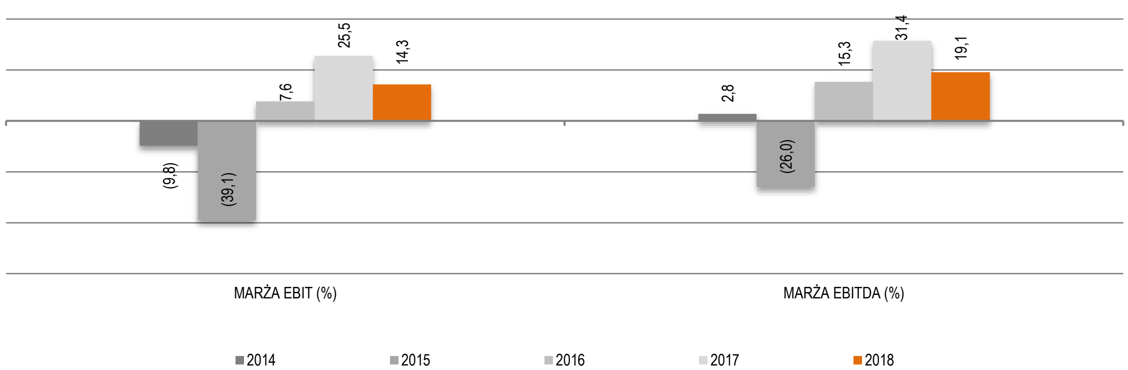


PROFITABILITY

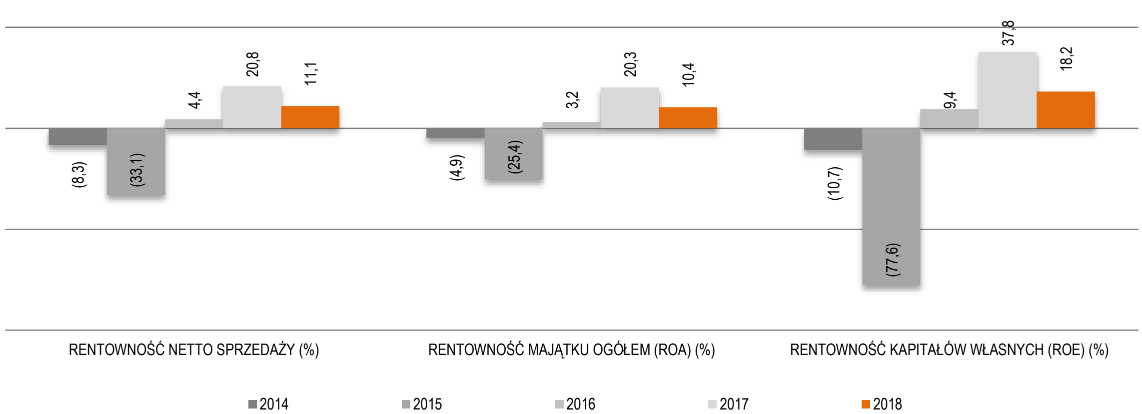
Analysis of several profitability ratios points to JSW's good operating efficiency in 2018. An increase in the average coal price from PLN 527.82 per ton for 2017 to PLN 544.36 per ton for 2018, i.e. by PLN 16.54 per ton (3.1%). EBITDA for 2018 was PLN 2,437.9 million compared to PLN 3,650.4 million in 2017, down by PLN 1,212.5 million.



The EBITDA margin decreased by 12.3 p.p. from PLN 31.4% for 2017 to PLN 19.1% for 2018. On the other hand, the EBIT margin reached 14.3%, which means that, in JSW S. A.'s core business, every PLN 1 million of sales revenues generated approx. PLN 143 thousand in operating profit. In comparison to 2017, the EBIT margin fell by 11.2 p.p.



The net return on sales was 11.1%, i.e. lower by 9.7 p.p. than in 2017. The return on assets (ROA) and return on equity (ROE) ratios indicate the efficiency of JSW's utilization of its assets and equity in 2018.



MINING CASH COST

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

ITEM	2018	2017	2016	2015	2014	GROWTH RATE 2017=100
Consumption of materials and energy	1,022.2	846.5	880.3	980.2	1,064.7	120.8
External services	1,614.0	1,275.9	1,158.3	1,292.6	1,610.6	126.5
Employee benefits	3,141.3	2,370.3	2,064.6	2,583.8	3,046.9	132.5
Taxes and fees	122.3	104.6	131.0	129.4	118.5	116.9
Other costs by nature	54.6	18.3	(2.2)	23.7	25.4	298.4
Other costs of the period not applicable to coal production	-	-	-	-	(939.8)	-
Mining cash cost (*PLN million*)	**5,954.4**	**4,615.6**	**4,232.0**	**5,009.7**	**4,926.3**	**129.0**
Coal extraction *(million tons)*	15.0	14.8	16.8	16.3	13.9	101.4
Mining cash cost *(PLN/ton)*(1)	**396.46**	**312.54**	**251.38**	**307.10**	**353.22**	**126.9**

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

Mining cash cost in 2018 stood at PLN 5,954.4 million, i.e. it was PLN 1,338.8 million (29%) higher than in 2017. The increase in mining cash cost was caused primarily by the following factors:

- higher costs of employee benefits by PLN 771.0 million (32.5%) caused mainly by the Agreement signed with the Trade Unions to unify the rules of calculating wages for working on Saturdays, Sundays and holidays, remuneration for the time of sickness and recreational leave as well the Agreement to increase the basic salary rates as of 1 June 2018 and equalize the rules and entitlement to receive the seniority allowance, i.e. the Miner's Charter and to make the backpayment of the Annual Bonus known as the 14th salary for 2016 (PLN 174.9 million) and the free coal allowance for 2016 (PLN 124.4 million). Another driver of the upward movement in employee benefit expenses was an increase in the average headcount by 347 persons compared to the corresponding period in 2017,
- an increase in the costs of external services by PLN 338.1 million (26.5%), mainly in connection with the increase in:
  - mining damage remediation services (by PLN 94.0 million) - in 2018, provisions were created for remediation of mining losses caused by the activity of the mines in the amount resulting from reported, recognized or documented claims for the same title and in the amount of expenditures to protect the area against the effects of mining activity,
  - renovation services (by PLN 65.3 million) due to the launch of renovations to the extent allowing for maintenance of production capacities at the assumed level,
  - other services concerning coal production (by PLN 49.1 million) – mainly because of the establishment of the provision for a task connected with reclamation of the area concerning the Pochwacie heap and as a result of an increase in the rates of agreements for air-conditioning services and the services of leasing Coal Enrichment Plants,
  - drilling and mining services (by PLN 33.1 million) in connection with higher rates for particular mining works,
  - methane drainage services (by PLN 30.7 million) as a result of changed rates of unit prices for methane drainage boreholes in connection with new agreements executed by JSW in 2018 for, among others, comprehensive maintenance of methane drainage and making methane drainage boreholes and protective boreholes,
  - services of leasing mining machines and equipment (by PLN 22.7 million) – in connection with higher average rate of leasing and the quantity of equipment leased mostly for the "means of production" group,
- an increase in costs of consumption of materials and energy by PLN 175.7 million (20.8%), of which the consumption of raw materials rose by PLN 128.7 million and energy consumption by PLN 47.0 million. Higher prices of the consumption of materials are connected primarily with an increase in the prices of basic materials necessary to conduct preparatory works, install reinforcements and maintain mining walls, while the growth in the energy consumption follows from an increase in the unit price of energy in 2018, which is largely regulated by the Market (the Polish Power Exchange),
- an increase in other costs by nature by PLN 36.3 million (198.4%) mainly related to non-life insurance (PLN 19.9 million) in connection with an increase in premiums (tariffs) resulting from executed insurance agreements which came into force on 1 January 2018. Also, in May 2018, the premium was paid following from settlement of the insurance period from 1 January to 31 December 2017. The increase

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in other costs by PLN 16.4 million results from revaluation of the provision for Mine Closure (PLN 13.5 million), created on the basis of requirements following from the Geological and Mining Law Act,

- an increase in taxes and fees by PLN 17.7 million (16.9%) relating mainly to an increase in property taxes by PLN 14.8 million, after roof supports with installation costs were included in the taxable base in 2018 and tax was calculated on new fixed assets. On the other hand, in 2017, certain provisions were reversed in connection with corrections of tax returns and decisions received.

On a per-unit basis, mining cash cost in the analyzed period was PLN 396.46 per ton, i.e. PLN 83.92 per ton (26.9%), more than in 2017, which was affected by an 29.0% boost in coal production expenditures for a 1.7% increase in net coal production.

5.3.6. MANAGEMENT OF JSW'S FINANCIAL RESOURCES

The major tool for managing the owned financial resources is the implemented Policy for Investing Available Cash at JSW, the PCP service operating in the Group and the maintenance of the Stabilization Fund. The tools ensure effective cash management, while maintaining security of return of capital with interest due, maximization of interest income from cash surpluses, with a simultaneous reduction in costs connected with the cash management service.

External debt financing includes:

ITEM	2018	2017	2016	2015	2014	GROWTH RATE 2017=100
Loans and borrowings	7.0	9.0	-	-	-	77.8
Liabilities under debt securities issued	121.0	856.0	1,596.4	1,287.6	1,271.9	14.1
Finance lease liabilities	26.7	55.7	59.2	107.2	93.4	47.9
TOTAL	**154.7**	**920.7**	**1,655.6**	**1,394.8**	**1,365.3**	**16.8**
including:						
long-term	*15.9*	*826.2*	*1,557.8*	*57.8*	*66.4*	*1.9*
short-term	*138.8*	*94.5*	*97.8*	*1,337.0*	*1,298.9*	*146.9*

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).

LOANS EXTENDED (INCLUDING INTRA-GROUP ONES)

The Parent Company did not grant any loans in 2018.

STRUCTURE OF CASH AND CASH EQUIVALENTS

ITEM	2018	2017	2016	2015	2014	GROWTH RATE 2017=100
Cash on hand and on bank accounts	1,093.2	807.8	929.8	218.2	518.2	135.3
- including cash received on account of Physical Cash Pooling settlements	*489.0*	*183.2*	*276.8*	*238.8*	*252.9*	*266.9*
Cash assets payable up to 3 months	539.7	343.1	175.2	7.9	117.8	157.3
Interest on deposits maturing up to 3 months	0.8	0.5	-	-	-	160.0
Cash provided on account of Physical Cash Pooling settlements	2.9	58.4	-	-	-	5.0
TOTAL	**1,636.6**	**1,209.8**	**1,105.0**	**226.1**	**636.0**	**135.3**

Cash is kept mainly on interest-bearing bank accounts and to a small extent they are invested in bank term deposits. The selection of a particular instrument depends on its safety and return on investment.

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

In connection with the need to ensure efficient operational support associated with the payment of current due amounts, cash is maintained mainly on the accounts included in the Physical Cash Pooling structure. In the PCP structure, the Parent Company acts as an Agent (coordinator), i.e. it represents the Group in its relations with the bank, coordinates the conditions for providing the services to Group companies. At the same time, JSW also acts as Member of the PCP system, has access to additional, short-term sources of funding for its current activity (by acting as a "negative participant") through being able to use the available funds accumulated in the Group.

Interest income earned on cash, deposits and investments

ITEM	2018	2017	2016	2015	2014	GROWTH RATE 2017=100
Cash on hand	19.0	25.6	4.1	5.8	12.3	74.2
Securities and participation units	-	-	-	-	-	-
Time Deposits	7.6	7.4	0.1	0.9	13.0	102.7
Borrowings	-	-	-	-	-	-
Interest earned on cash transferred in cash pooling	2.6	3.8	-	-	0.2	68.4
TOTAL	**29.3**	**36.8**	**4.2**	**6.7**	**25.5**	**79.6**

STRUCTURE OF ASSETS AND LIABILITIES IN THE CONTEXT OF JSW'S LIQUIDITY

The major factor shaping JSW's financial position is the market price of coal and coke, which directly affects sales revenues. The market position in 2018 made it possible to generate a positive financial result and cash surplus. The Parent Company retains the proper structure of assets and liabilities and a safe level of liquidity, which allows for repayment of assumed liabilities.

ITEM	2018	2017	2016	2015	2014	GROWTH RATE 2017=100
Net cash flow on operating activity	2,436.9	2,983.1	588.5	637.0	223.3	81.7
Net cash flow on investing activity, including:	(1,508.9)	(2,062.4)	122.2	(876.9)	(2,666.1)	73.2
– acquisition of the KWK Knurów-Szczygłowice Mine	-	-	-	-	*(1,490.0)*	-
- sales of the companies: SEJ, WZK Victoria	-	-	*721.8*	-	-	-
- payment to buy investment certificates	*(350.0)*	*(1,450.0)*	-	-	-	*24.1*
Net cash flow on financing activity, including:	(807.3)	(720.9)	130.1	(156.0)	1,162.1	112.0
- issue of debt securities	-	-	*300.0*	-	*1,197.4*	-
- redemption of debt securities	*(737.3)*	*(653.8)*	*(39.1)*	*(46.9)*	-	112.8
NET CHANGE IN CASH AND CASH EQUIVALENTS	**120.7**	**199.8**	**840.8**	**(395.9)**	**(1,280.7)**	**60.4**

Cash flow on operating activity

The net cash flow on operating activity generated by the Parent Company in 2018 in the amount of PLN 2,436.9 million was achieved as a result of positive cash payments under operating activity in the amount of PLN 2,404.7 million, mainly due to the profit before tax generated in the amount of PLN 1,767.0 million. Major factors affecting the cash flow on operating activity are presented in Note 7.1. of the financial statements of Jastrzębska Spółka Węglowa S.A. for the financial year ended 31 December 2018. The cash generated made it possible to, among others, cover capital expenditures incurred for the purchase of property, plant and equipment in the amount of PLN 1,018.7 million, redeem debt securities for PLN 737.3 million in 2018, purchase investment certificates for the amount of PLN 350.0 million and purchase financial assets in the amount of PLN 173.4 million.

Cash flow on investing activity

In 2018, cash used in investing activities was PLN (1,508.9) million and as compared to the cash of PLN (2,062.4) million used in investing activities in 2017. The main capital expenditure item is the purchase of property, plant and equipment in the amount of PLN 1,018.7 million, the payment for the purchase of investment certificates in the amount of PLN 350.0 million and the acquisition of financial assets for PLN 173.4 million.

Cash flow on financing activity

In 2018, net cash flow on financing activity was PLN (807.3) million compared to PLN 720.9 million of cash flows in 2017. Their level in the analyzed period takes into account, among others, the redemption of debt securities in the amount of PLN 737.3 million, interest paid on financing activities in the amount of PLN 37.5 million and payments related to finance lease in the amount of PLN 26.5 million.

As a result of the above-described events, the balance of cash and cash equivalents as at 31 December 2018 was PLN 1,147.6 million. Net change in cash and cash equivalents was PLN 120.7 million.

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

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 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 10,000.00 each and 1,317 bonds with a par value of USD 10,000.00 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 JSW Management Board 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

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. The following represent the collateral for the bonds:

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: movable 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 from agreements.
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 held 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 receivables assignment agreements governed by Polish law: rights assignment agreement to secure receivables of 28 October 2015 (as amended) entered into by and between JSW as the assignor and PKO BP as the assignee, rights assignment agreement to secure receivables of 11 August 2016 (as amended), entered into by and between JSW as the assignor and PKO BP as the assignee.

JSW STABILIZATION FUND

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"). 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. 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 investment certificates as at 31 December 2018 was PLN 1,826.1 million. Investment certificates are presented as long-term financial assets.

5.3.7. INFORMATION ABOUT EXTENDED AND RECEIVED SURETIES AND GUARANTEES IN 2018

In 2018, the Parent Company did not extend or receive any sureties or guarantees. As at the end of the reporting period, the surety extended by JSW continued to be in force for the liabilities of Voivodship Specialist Hospital No. 2 specialist hospital in Jastrzębie-Zdrój for the loan contracted from Bank Ochrony Środowiska S.A. up to PLN 0.3 million, valid till 31 December 2020.

At the same time, JSW's bond issue liabilities as at 31 December 2018 were guaranteed by JSW KOKS (the surety in favor of PKO Bank Polski S.A., Bank Gospodarstwa Krajowego, Powszechny Zakład Ubezpieczeń S.A., Powszechny Zakład Ubezpieczeń na Życie S.A. Towarzystwo Finansowe Silesia Sp. z o.o. up to a total of PLN 2,218.5 million, valid until 31 March 2026). After the final date of the reporting period, JSW redeemed all the bonds for a total nominal amount of PLN 71.5 million and USD 13.2 million.

5.4. RELATED PARTY TRANSACTIONS

Detailed information on JSW's transactions with related parties is presented in Note 9.3. of the financial statements of Jastrzębska Spółka Węglowa S.A. for the financial year ended 31 December 2018.

5.5. MATERIAL OFF-BALANCE SHEET ITEMS

Contingent items are presented in Note 10.1. Of the consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2018. The most important of the above items are presented below:

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 of WZK Victoria was paid. The sales price is subject to reduction because of price adjustment based on the value of accumulated EBITDA of WZK Victoria for 2016-2019. The payment of a possible price adjustment will take place as a bullet payment within 3 months after the Shareholder Meeting of WZK VICTORIA approves the audited financial statements for 2019. EBITDA will be calculated by a renowned independent financial advisor and the calculations will be based on approved financial statements of WZK Victoria for 2016-2019, audited by a renowned independent auditor of the company. The calculation prepared in the above manner will be a binding arrangement for the parties and the basis for defining a price adjustment. If a price adjustment is not defined as provided for above, regardless of the reason, by 31 December 2020, the amount of price adjustment will be defined by a court.

JOINT AND SEVERAL AND SUBSIDIARY LIABILITY

In connection with the signing of the agreement on 31 July 2014 to purchase an organized part of enterprise 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.

ACQUISITION OF PBSz

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, that is 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.

5.6. CURRENT AND EXPECTED FINANCIAL STANDING OF JSW

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

5.7. AGREEMENT WITH AN ENTITY AUTHORIZED TO AUDIT FINANCIAL STATEMENTS

PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp. k. is the entity authorized to audit the financial statements of JSW and the consolidated financial statements of the JSW Group for 2018. 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 JSW Group for 2018-2020, review of JSW's interim financial statements for H1 2018, 2019 and 2020 and the interim consolidated financial statements of the JSW 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 JSW Group for 2017.

The information pertaining to the remuneration of the entity authorized to audit financial statements is presented in Note 9.4. The financial statements of Jastrzębska Spółka Węglowa S.A. for the financial year ended 31 December 2018 and in Note 10.5. Of the consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2018.

6. JSW's CAPITAL AND OWNERSHIP STRUCTURE

6.1. SHAREHOLDER STRUCTURE

As at the last day of the reporting period, and as at the preparation and publication date hereof, JSW's share capital amounted to PLN 587,057,980.00 and was divided into 117,411,596 ordinary shares with a nominal value of PLN 5.00 each, comprising: 99,524,020 series A shares, 9,325,580 series B shares, 2,157,886 series C shares and 6,404,110 series D shares. The total number of votes attached to all the shares issued by JSW corresponds to 117,411,596 votes at the JSW Shareholder Meeting.

JSW has no detailed breakdown of the shareholding structure as at the last day of the reporting period and as at the date of preparation and publication hereof. In the reporting period, JSW did not receive any information about exceeding the percentage thresholds of the total number of votes specified in Article 69 Section 1 of the Act on Public Offerings and the Conditions for Floating Financial Instruments in an Organized Trading System and on Public Companies. According to the most recent statutory notice from 2012 received from a shareholder holding directly or indirectly through subsidiaries at least 5% of the total number of votes at the JSW Shareholder Meeting (Current Report No. 40/2012 of 30 November 2012), JSW's ownership structure is as follows:

*Shareholder Structure**

Shareholder	Number of shares	Number of votes at the Shareholder Meeting	% of 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 JSW 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.*

The rights attached to JSW shares held by the State Treasury are exercised by the minister in charge of energy issues.

6.2. AGREEMENTS WHICH MAY RESULT IN THE FUTURE IN CHANGES TO THE PROPORTIONS OF SHARES HELD BY THE EXISTING SHAREHOLDERS

In 2018, the Company did not conclude any agreements which may result in changes to the proportions of shares held by the existing shareholders.

6.3. PURCHASE OF TREASURY STOCK

In 2018, the Company did not purchase any treasury stock.

6.4. ISSUE OF SECURITIES AND UTILIZATION OF PROCEEDS FROM THE ISSUES

In 2018, the Parent Company did not issue securities.

6.5. NUMBER OF JSW SHARES AND SHARES IN RELATED PARTIES HELD BY PERSONS DISCHARGING MANAGEMENT AND SUPERVISION FUNCTIONS

First and last name	Number of shares on the day of conveying the report for 3 quarters of 2018	Number of shares as at 31 December 2018	Number of shares as at the date of this report
JSW Management Board			
Daniel Ozon	-	-	-
Artur Dyczko(1)	-	-	-
Jolanta Gruszka(2)	200	200	-
Robert Ostrowski(3)	2,464	2,464	-
Tomasz Śledź	-	-	-

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

First and last name	Number of shares on the day of conveying the report for 3 quarters of 2018	Number of shares as at 31 December 2018	Number of shares as at the date of this report
Artur Wojtków	-	-	-
Robert Małłek[(4)]	-	-	-
JSW Supervisory Board			
Halina Buk	-	-	-
Robert Kudelski	-	-	-
Adam Pawlicki	-	-	-
Tomasz Lis	-	-	-
Antoni Malinowski	-	-	-
Alojzy Nowak	-	-	-
Tadeusz Kubiczek	-	-	-
Paweł Bieszczad	208	208	208
Arkadiusz Wypych	60	60	60
Konrad Balcerski	-	-	-

(1) Mr. Artur Dyczko discharged the function of Vice-President of the Management Board for Strategy and Development until 10 January 2019.

(2) Ms. Jolanta Gruszka discharged the function of Vice-President of the Management Board for Sales until 10 January 2019.

(3) Mr. Robert Ostrowski discharged the function of Vice-President of the Management Board for Financial Matters until 28 February 2019.

(4) Mr. Robert Małłek has been discharging the function of Supervisory Board Member since 17 January 2019. On 26 February 2019, the Supervisory Board delegated Mr. Robert Małłek to act temporarily in the capacity of Vice-President of the Management Board for Strategy and Development as of 27 February 2019.

The persons discharging management and supervisory functions in the Parent Company hold no shares in JSW's subsidiaries.

6.6. INFORMATION ON THE CONTROL SYSTEM FOR EMPLOYEE STOCK OWNERSHIP PLANS

Since JSW was incorporated as a result of transformation of state-owned enterprises into a joint-stock company, pursuant to the provisions of the Act on Commercialization and Privatization, eligible employees and their heirs are entitled to acquire gratuitously 15% of JSW's shares from the State Treasury. On 6 July 2011, the State Treasury introduced JSW's shares into trading on a regulated market, consequently as of 10 October 2011 JSW started to hand over 14,928,603 series A shares with a nominal value of PLN 5.00 each to eligible employees. Employees employed as at the date of the first listing of JSW's shares who did not acquire the entitlement to acquire shares free of charge, acquired the right to receive free of charge additionally issued 2,157,886 series C shares in connection with the contribution of shares in Kombinat Koksochemiczny Zabrze S.A. (KK Zabrze) shares to JSW, the State Treasury Minister, acting pursuant to Article 38 d Section 1 of the Act on Commercialization and Privatization, issued an offer addressed to entitled to a gratuitous purchase of KK Zabrze shares allowing them to exercise their right to gratuitous purchase of shares by purchasing JSW shares instead of KK Zabrze shares. On 23 April 2012, the gratuitous sale of shares commenced, to eligible employees of KK Zabrze who submitted their declarations that their right to a gratuitous purchase of KK Zabrze shares may be exercised by a purchase of 1,130,137 series D registered shares of JSW with a par value of PLN 5.00 each.

By 31 December 2018, the following shares were transferred:

- 14,424,179 out of 14,928,594 series A shares earmarked for eligible employees (9 shares were not allocated to eligible employees and remain the property of the State Treasury). 504,415 shares have not been allocated.
- 2,127,663 out of 2,157,886 series C shares earmarked for ineligible employees. 30,223 shares have not been made available.
- 895,747 out of 930,830 series D shares earmarked for eligible employees (199,307 shares were not allocated to eligible employees and remain property of the State Treasury). 35,083 shares have not been allocated.

The process of gratuitous disposal of series A and C shares was concluded on 8 October 2013. For series D shares, the gratuitous disposal process continued until 21 March 2014. This deadline is extended for heirs of the eligible employees, by the period specified in the Act on Commercialization and Privatization, if the conditions specified in the act are met (Article 38c section 5 of the Act). On 8 July 2013, JSW's employee shares were listed for the first time.

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

Series of shares	Number of JSW shares available for gratuitous acquisition by Group employees	Number of JSW employee shares introduced into stock market trading on 8 July 2013	Number of shares remaining to be admitted into trading on WSE's regulated market after 8 July 2013	Number of shares remaining to be admitted to WSE's regulated market
Series A shares	14,928,603	14,091,006	327,277	510,320
Series C shares	2,157,886	2,157,886	-	-
Series D shares	1,130,137	855,699	38,417	236,021
TOTAL	**18,216,626**	**17,104,591**	**365,694**	**746,341**

JSW keeps conducting activities aimed at introduction of further share pools for public trading.

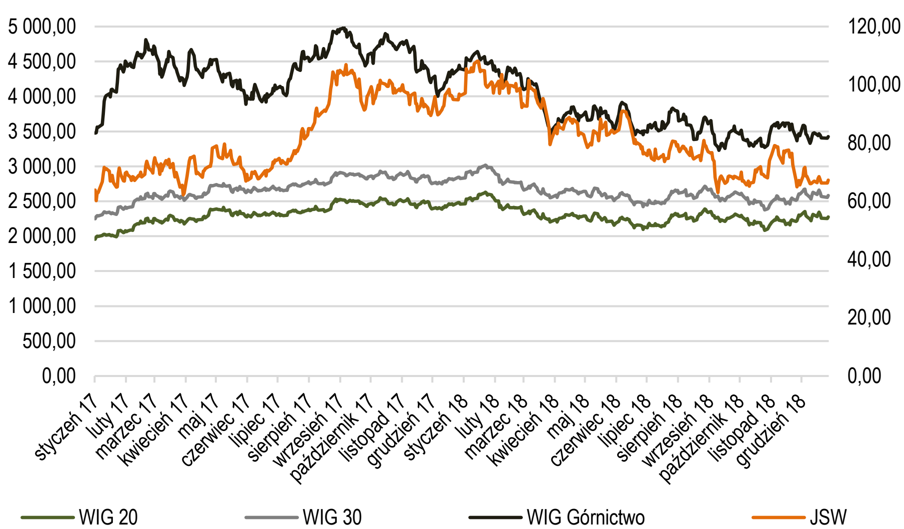
6.7. JSW ON THE CAPITAL MARKET

JSW's shares have been listed on the Warsaw Stock Exchange since 6 July 2011. Exchange transactions on securities are executed in PLN.

INFORMATION ON SHARES	2018	2017	2016	2015	2014
Number of shares at yearend (units)	117,411,596	117,411,596	117,411,596	117,411,596	117,411,596
The lowest closing price (PLN)	63.00	60.21	8.77	10.00	16.25
The highest closing price (PLN)	108.15	106.95	87.50	25.96	54.05
Closing price on the last day of quotation (PLN)	67.26	96.27	66.90	10.65	16.25
Capitalization at the end of the year (PLN million)	7,897.1	11,303.2	7,854.8	1,250.4	1,907.9

In 2018, JSW's shares were in the following indices: price-based indices (WIG Index, WIG20 Index, WIG30 Index, RESPECT Index) and income-based indices (WIG-Poland Index, WIG-Górnictwo Index). Moreover, JSW is included in the MSCI Poland index.

The average price per JSW share during the analyzed period was PLN 81.87 and the difference between the listing at the beginning and end of the reporting period was minus 30.8%. For comparison, in the same period other indices fell: WIG20 by 7.6%, WIG30 by 9.0%, WIG-Górnictwo by 22.1%.



According to JSW's knowledge, 19 recommendations were issued by brokerage houses concerning JSW's shares in 2018. Twelve brokerage houses recommended buying JSW's shares, five other brokerage houses issued a neutral "hold" recommendation, and yet two other brokerage houses recommended selling JSW's shares.

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

6.8. INVESTOR RELATIONS

Maintaining regular communication with the capital market and transparency is one of the most important elements contributing to the Group's efficient and effective operation. Given the superior principle of equal access to accurate information for all stakeholders, such as shareholders, investors, analysts and journalists, JSW investor relations take a range of measures to ensure ongoing and transparent dialog with all market participants. In 2018, the communication with the market assumed two forms:

- publishing current and periodic reports and
- organizing meetings, conferences, giving interviews, corresponding, taking part in investor conferences.

In 2018, the Parent Company organized regular results conferences at which Management Board members discussed the achieved financial results. The conferences were broadcast live in both Polish and English.

JSW organized also a range of meetings and press conferences. The assumptions of the Strategy adopted for the period 2018-2030, the current achievements, investment and development plans under implementation were presented to stakeholders, as well as the present financial standing and condition of the Group and prospects for the mining industry were discussed at numerous meetings with the Management Board.

JSW was also an active participant of a dozen or so meetings and conferences with investors both in Poland and abroad. JSW organized a visit in JSW's registered office as well as in the mine and coking plant for analysts from brokerage houses and managers of mutual funds as part of the communication maintained with the financial market, which enabled the participants to become familiar with the entire production process from coal mining, to storage, to transportation, to preparation, to coke production.

The diligent approach to reporting duties regulated by laws and activities for maintaining high standards of communication and transparency of the pursued business activities were appreciated by the market. JSW was included in the RESPECT Index, a prestigious index of socially responsible companies which observe the rules of corporate governance and investor relations management, it earned an honorable mention in the 2nd edition of the WIG20 index "Transparent company 2017" ranking list prepared by editors of the *Parkiet* daily in cooperation with the Institute of Accountancy and Taxes ("IRiP"), and, as an enterprise, it was ranked third in the category of main awards in "The Best Annual Report 2017" contest organized by IRiP, which promotes annual reports with the highest value in use for shareholders and investors.

The participants and capital market entities may contact the Issuer using the following e-mail address: relacje@jsw.pl.

6.9. REPORTING CALENDAR IN 2019

14 March 2019	• ANNUAL REPORT FOR 2018
14 March 2019	• REPORT ON PAYMENTS TO PUBLIC ADMINISTRATION FOR 2018
16 May 2019	• QUARTERLY REPORT FOR Q1 2019
22 August 2019	• SEMI-ANNUAL REPORT FOR H1 2019
21 November 2019	• QUARTERLY REPORT FOR Q3 2019

6.10. DIVIDEND POLICY

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

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 business performance, 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 the Management Board considers important, and will be subject to change to align it to the above factors.

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 a resolution of 28 June 2018, the Ordinary Shareholder Meeting of JSW decided to allocate the Company's entire 2017 net profit in the amount of PLN 2,422.1 million to supplementary capital (to rebuild the supplementary capital).

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 S.A. 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.

YEAR	DATE OF RECORD	DATE OF PAYMENT DIVIDENDS	DIVIDEND (PLN)	DIVIDEND (PLN/SHARE)
2011	20.06.2011	20.07.2011	256,978,067,20*	2.16
2012	06.07.2012	24.07.2012	631,674,386.48	5.38
2013	31.07.2013	20.08.2013	295,877,221.92	2.52
2014	-	-	-	-
2015	-	-	-	-
2016	-	-	-	-
2017	-	-	-	-
2018	-	-	-	-

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

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

7. CORPORATE GOVERNANCE STATEMENT

Pursuant to § 70 section 6 item 5) and § 71 sections 4 and 5 of the *Finance Minister's Regulation of 29 March 2018 on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent* JSW S.A. Management Board hereby presents its Representation on the Application of Corporate Governance Rules in 2018.

7.1. IDENTIFICATION OF CORPORATE GOVERNANCE RULES BEING APPLIED

In 2018, the Parent Company applied the corporate governance rules set forth in the document entitled "Code of Best Practice for WSE Listed Companies 2016" adopted by Resolution no. 26/1413/2015 of the Warsaw Stock Exchange Supervisory Board on 13 October 2015. The text of the Code of Best Practice 2016 is published on the website of the Warsaw Stock Exchange at the following address: https://www.gpw.pl/dobre-praktyki Moreover, the information on the status of the JSW's observance of recommendations and rules included in the Code of Best Practice 2016 is available on the JSW corporate website at http://www.jsw.pl/relacje-inwestorskie/lad-korporacyjny/dobre-praktyki/.

7.2. IDENTIFICATION OF THE SET OF CORPORATE GOVERNANCE RULES ON THE APPLICATION OF WHICH JSW COULD DECIDE VOLUNTARILY

JSW does not apply any corporate governance rules going beyond the requirements prescribed by the document entitled "Code of Best Practice for WSE Listed Companies 2016".

7.3. IDENTIFICATION OF ANY INFORMATION ABOUT THE CORPORATE GOVERNANCE PRACTICES GOING BEYOND THE REQUIREMENTS PROVIDED FOR BY THE NATIONAL LAW APPLIED BY JSW

JSW does not apply any corporate governance rules going beyond the requirements prescribed by the document entitled "Code of Best Practice for WSE Listed Companies 2016".

7.4. IDENTIFICATION OF CORPORATE GOVERNANCE RULES NOT APPLIED

JSW does its utmost to apply the corporate governance rules prescribed by the document entitled Code of Best Practice for WSE Listed Companies 2016. In 2018, JSW resigned from applying the following rules:

Recommendation IV.R.2. (Shareholder meeting and investor relations)

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

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

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

Rule V.Z.6. (Conflict of interest and transactions with related parties)

In its internal regulations, the Company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.
Explanation:
JSW is refraining from using that rule until proper changes are made to corporate documents prevailing in JSW.
Moreover, JSW does not use rules I.Z.1.10., III.Z.6., VI.Z.2. and recommendation IV.R.3 because they do not apply to the Parent Company.

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

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

Under the internal control and risk management system, in the process of preparing financial statements the Group applies a number of procedures and internal bylaws whose purpose is to procure effective and efficient control as well as identification and elimination of prospective risks. The system is implemented mostly on the basis of:

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

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

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

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

The Parent Company continuously employs cohesive IFRS-compliant accounting rules to present financial data in the financial statements, periodic reports and other reports conveyed to shareholders. The same rules are in force in the Group's member companies in which JSW is the Parent Company.

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

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

The Supervisory Board evaluates the standalone and consolidated financial statements and has appointed an Audit Committee, which is an advisory and opinion-giving body. The primary objective of the Audit Committee's operation is to support the Supervisory Board in exercising financial supervision and delivering to the Supervisory Board accurate information and opinions, enabling the making of the right decisions on financial reporting, internal control and risk management, as well as to monitor independence of the audit firm auditing the financial statements.

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

The fundamental element of risk management in the process of preparing financial statements is to audit the control mechanisms and the occurrence of risks in JSW's operations. In performing these duties, the internal audit division assists the Audit Committee by conducting the relevant work to check the effectiveness of control and the efficiency of processes. The Internal Audit division performs audit tasks of an assurance and consulting nature and ad hoc audits.

The internal control system covers all the JSW operations contemplated in the Articles of Association and all the levels of organizational structure, and thereby all the processes in JSW, including areas having a direct or indirect impact on the correctness of preparing the financial statements. The Internal Control System ("ICS") encompasses the system of financial and IT solutions related to control as well as relevant regulations, procedures and organizational structures. Activities of ICS serve the purpose of ensuring the organization's effective and efficient operations, credibility of financial reporting and compliance of the operations with laws and internal regulations. The Parent Company checks the functioning of the ICS and its control mechanisms on a regular basis and indicates potential risks in the processes.

7.6. SHAREHOLDERS WITH MAJOR BLOCKS OF SHARES

JSW does not have a detailed breakdown of the shareholding structure as at the final day of the reporting period or as at the preparation date or as at the publication date of this report. In the last financial year, JSW did not receive any information about exceeding the percentage thresholds of the total number of votes specified in Article 69 Section 1 of the Act on Public Offerings and the Conditions for Floating Financial Instruments in an Organized Trading System and on Public Companies. The only shareholder of JSW which held a number of shares constituting 5% of the share capital and giving it the right to the same amount of votes at the Shareholder Meeting, as at 31 December 2018 and as at the date of preparation and publication of this report was the State Treasury, which is presented in item 6.1 of this report.

7.7. HOLDERS OF SECURITIES WITH SPECIAL RIGHTS OF CONTROL

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

7.8. RESTRICTIONS REGARDING THE EXERCISE OF VOTING RIGHTS

Restrictions regarding the exercise of voting rights are described in detail in § 9 of Parent Company's Articles of Association, available on JSW's website at www.jsw.pl. The restrictions set forth in JSW's Articles of Association have been worded as follows:

1. Voting rights of the shareholders holding above 10% of all the votes in the Company are restricted in such a manner that no such shareholder may exercise more than 10% of all the votes at the Company's Shareholder Meeting.
2. The restriction of the voting rights referred to in section 1 above does not apply to the State Treasury and the State Treasury subsidiaries in the period in which the State Treasury, together with the State Treasury subsidiaries, holds a number of the Company's shares authorizing it to exercise at least 34% plus one vote in all the votes in the Company.
3. The votes held by shareholders linked by a controlling or subsidiary relationship within the meaning of § 9 of the Articles of Association (Group of Shareholders) shall be cumulative; if the cumulative number of votes exceeds 10% of all the votes in the Company, it shall be reduced. Vote accumulation and reduction principles are defined in sections 6 and 7 below.
4. Within the meaning of § 9 item 4 of JSW's Articles of Association, a shareholder is any person, including its parent company and subsidiary, which holds a direct or indirect voting right at the Shareholder Meeting under any legal title; this also applies to a person holding no shares in the Company, in particular a user, pledgee, beneficiary under a depositary receipt within the meaning of the Act of 29 July 2005 on Trading Financial Instruments, and a person authorized to take part in the Shareholder Meeting despite selling the shares after the date when the right to participate in the Shareholder Meeting was determined.
5. A controlling entity or a subsidiary for the purposes of § 9 section 5 is understood respectively as a person:
    1) remaining in a controlling or subsidiary relationship within the meaning of the Commercial Company Code,
    2) having the status of a controlling company, subsidiary company or a simultaneously controlling company and subsidiary company, within the meaning of the Act on Competition and Consumer Protection of 16 February 2007, or

3) having the status of a controlling entity, controlling entity of a higher level, subsidiary entity, subsidiary entity of a lower level, or having simultaneously the status of a controlling entity (including controlling entity of a higher level) entity and subsidiary entity (including subsidiary of a lower level and co-subsidiary) within the meaning of the Accountancy Act of 29 September 1994, or
4) who exerts (controlling entity) or is subject to (subsidiary entity) decisive influence within the meaning of the Act of 22 September 2006 on Transparency of Financial Relations between Public Authorities and Public Enterprises and Financial Transparency of Certain Enterprises, or
5) whose votes following from the Company's shares, held directly or indirectly, are cumulative with the votes of another person or other persons on the principles set forth in the Act of 29 July 2005 on Public Offerings and the Terms and Conditions for Introducing Financial Instruments to an Organized Trading System and on Public Companies, in connection with holding, selling or acquiring significant stakes of the Company's shares.

6. Vote accumulation involves adding up the number of votes held by individual shareholders from a Shareholder Group.
7. Reduction of votes involves reduction of the total number of votes in the Company at the Shareholder Meeting vested in the shareholders from a Group of Shareholders, to the level of 10% of total votes in the Company. Reduction of votes is effected according to the following principles:
   1) the number of votes of the shareholder holding the biggest number of votes in the Company from among all shareholders from the Shareholder Group is reduced by the number of votes equal to the surplus above 10% of all the votes in the Company vested jointly in all shareholders from the Shareholder Group,
   2) if, despite the reduction referred to in item 1) above, the total number of votes at a Shareholder Meeting vested in the shareholders in a Group of Shareholders exceeds 10% of total votes in the Company, the votes held by other shareholders in the Group of Shareholders will be reduced further. Further reduction of votes of individual shareholders shall take place in the order determined on the basis of the number of votes held by individual shareholders in the Group of Shareholders (from the biggest to the smallest). Further reduction is carried out until the total number of votes held by shareholders from the Shareholder Group does not exceed 10% of total number of votes in the Company,
   3) in each case a shareholder whose voting right has been reduced, retains the right to exercise at least one vote,
   4) the reduction of the voting rights pertains also to shareholders who are not present at the Shareholder Meeting.
8. Each shareholder who intends to take part in a Shareholder Meeting, directly or by proxy, is obligated, without a separate request referred to in section 9 below, to notify the Management Board or the Shareholder Meeting Chairperson that he/she holds directly or indirectly more than 10% of the total votes in the Company.
9. Notwithstanding the provisions of section 8 above, in order to determine the basis for vote accumulation and reduction, a Company shareholder, the Management Board, Supervisory Board and individual members of these bodies may demand that a Company Shareholder provide information as to whether he/she is a person having the status of a controlling entity or subsidiary of another shareholder within the meaning of § 9 of the Articles of Association. The right referred to in the preceding sentence comprises also the right to demand disclosure of the number of votes which a Company shareholder has independently or jointly with other shareholders.
10. A person who has failed to perform or improperly performed the reporting duty referred to in sections 8 and 9 above may exercise the voting right only on one share until the omission in performing the information duty is remedied; such person’s exercise of voting rights from the remaining shares shall be ineffective.

7.9. RESTRICTIONS ON THE TRANSFER OF OWNERSHIP TITLE TO SECURITIES

Restrictions on the transfer of ownership title to securities follow from the laws in force, including the Act on Rules for Managing State Property.

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

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

7.10.1. MANAGEMENT BOARD

RULES FOR APPOINTING AND DISMISSING MANAGEMENT BOARD MEMBERS

The Management Board consists of three to seven Members. Management Board members are appointed for a joint term of 3 years. The mandate of a Management Board member appointed before the end of the term of office of the Management Board expires simultaneously with the expiry of the mandates of the remaining Management Board members. Management Board Members are appointed and dismissed by the Supervisory Board following a qualification procedure (except for the Management Board Member appointed by JSW employees). Rules for appointing and dismissing Management Board Members are defined by the Articles of Association and the Act on Rules for Managing State Property.

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

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

An announcement about a recruitment procedure is published on JSW's website and in the Public Information Bulletin of the Ministry of Energy. The Supervisory Board shall inform the shareholders about the outcome of the recruitment procedure at the nearest Shareholder Meeting and make the recruitment procedure report available to them.

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

1. may be a person who fulfills all of the following conditions:
   - he/she holds a university degree or a university degree received abroad and ratified in the Republic of Poland on the basis of separate regulations,
   - has at least 5-year employment period based on an employment agreement, appointment, selection, nomination, cooperative employment agreement or provision of services on the basis of another contract or conducting business activity on one's own account,
   - has at least 3 years of experience on managerial or independent positions or arising from conducting business activity on one's own account,
   - he/she meets any requirements set forth in separate regulations other than those mentioned in items a-c, and in particular he/she is not in violation of the provisions that restrict or prohibit a person from holding a position on an executive body in commercial companies,
2. cannot be a person who:
   a) a person who acts as a social collaborator or is employed in a PM's office, senator's office or PM's-senator's office or office of a member of the European Parliament under an employment agreement or provides work on the basis of a mandate contract or other agreement of a similar nature,
   b) a person who forms part of a political party's body representing the political party outside and authorized to incur liabilities,
   c) a person who is employed by a political party under an employment agreement or provides work on the basis of a mandate agreement or other agreement of a similar nature,
   d) a person who is an elected official in a company trade union organization or in a company trade union organization of any company from the group,
   e) his/her public or business activity raises conflict of interest with the Company's business.

If the average annual headcount in the Company exceeds 500 employees one Management Board member shall be elected by the Company employees, in accordance with the election bylaws adopted by the Supervisory Board. Results of the election are binding for the body authorized to appoint the Management Board, i.e. the Supervisory Board. Lack of election of a Company employee representative to the Management Board shall not hinder the Management Board from adopting binding resolutions. Upon request of at least 15% of all the Company employees, a ballot shall be held to dismiss the Management Board member elected by employees. Such dismissal, death or other important reasons that decrease the number of Management Board Members by the Member elected by the Company's employees shall require supplementary election. The supplementary election should be held within one month after it is called by the Supervisory Board. The Supervisory Board shall call an election of

the Management Board member to be elected by the employees for the next term within two months from the elapse of the last full year of the Management Board's term of office. Such election should be held within two months after they are called by the Supervisory Board. Detailed regulation of this matter is included in JSW's Articles of Association.
A Management Board member shall submit a resignation in writing to the Supervisory Board at the Company's registered office.

POWERS OF THE MANAGEMENT BOARD

The Management Board operates in compliance with the applicable provisions of law, the Articles of Association and the Bylaws of the Management Board, adopted by the Management Board and approved by a resolution of the Supervisory Board. The Management Board handles the Company's matters and represents it in and out of court of law, sets its strategic directions and determines its targets and objectives as well as makes decisions in all matters not restricted for other Company's corporate bodies. The Management Board manages the Company directly through the adopted resolutions, other forms of decisions made, entries to minutes, and indirectly through Office Directors, Management Board Representatives and Directors of Entities through whom it supervises also the work of individual Entities.

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

Management Board members perform their responsibilities in accordance with the function specified by the Supervisory Board in the Resolution on appointment to the Management Board. The President of the Management Board supervises the overall operation of the Company, manages the work of the Management Board and names the Vice-President to perform these duties in his or her absence. The President of the Management Board convenes the Management Board meetings and chairs them. If no substitute is named for the period of absence of the Management Board President, then the substitute is the Vice-President of the Management Board for Technical Matters. The scope of responsibilities of the President of the Management Board includes the exercise of direct supervision over the work of reporting organizational units belonging to the Division of the President of the Management Board, in accordance with the current organizational chart of the Management Board Office. Vice-Presidents of the Management Board oversee the overall activity of the Company, in particular they oversee the operation of the organizational cells which belong to their divisions.

Management Board resolutions are adopted by an absolute majority of votes, where at least three Management Board Members attend the meeting and may be adopted if all the Management Board Members have been correctly notified of the Management Board meeting. Management Board Members may participate in meetings via teleconference or videoconference. Management Board resolutions are minuted.

Management Board Members may not make decisions on share issues or buyouts.

7.10.2. SUPERVISORY BOARD

RULES FOR APPOINTING AND DISMISSING SUPERVISORY BOARD MEMBERS

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

Supervisory Board members exercise their rights and perform their duties in person. They are appointed for a joint three-year term. If Supervisory Board members are elected by way of separate group voting, the number of Supervisory Board members is set by the Shareholder Meeting in gremio; however, in such a situation the Supervisory Board may consist of at least five Members. The mandate of a Supervisory Board member appointed before the end of the term of office of the Supervisory Board shall expire simultaneously with the expiration of the mandates of the remaining Supervisory Board members.

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

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

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

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

Upon a written request of at least 15% of all JSW employees, a vote is held in the matter of dismissing a Supervisory Board member elected by the employees. Such a dismissal, death or any other important reason that decreases the number of Supervisory Board members elected by Employees shall require supplementary elections.

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

In a situation when no Supervisory Board member meets the independence requirement, the Company's Management Board is obligated to convene a Shareholder Meeting immediately and place an item concerning changes in the composition of the Supervisory Board in the agenda of that Shareholder Meeting. Until the moment of making changes to the Supervisory Board composition, aiming at adjusting the number of independent members of the Supervisory Board to the requirements prescribed in the articles of association, the Supervisory Board shall act in the previous composition.

No Supervisory Board member may perform any activities contradicting his or her duties or potentially leading to a suspicion of partiality or pursuit of self-interest.

POWERS OF THE SUPERVISORY BOARD

The Supervisory Board operates in compliance with the applicable provisions of law, the Articles of Association, Commercial Company Code, and the Bylaws of the Supervisory Board which are adopted by it. Powers of the Supervisory Board are set forth in the Company's Articles of Association. The Supervisory Board follows the guidelines of the Prime Minister contained in the document entitled Principles of Ownership Supervision over Companies with State Treasury shareholding, and the rules included in the Code of Best Practice for WSE Listed Companies in performance of their duties.

The powers of the Supervisory Board include in particular:

1. approving the Management Board Bylaws and issuing an opinion on the Organizational Bylaws defining the organization of the Company's enterprise,
2. appointing and dismissing the Company's Management Board members, without prejudice to § 11 section 5 of the Articles of Association,
3. suspending a Management Board member or the entire Management Board from performing its duties for important reasons by secret ballot,
4. delegating any Supervisory Board member or members to temporarily perform the duties of those Management Board members who are unable discharge their functions,
5. signing, terminating and amending agreements with Management Board Members, establishing the rules for hiring and remunerating them and setting their remuneration, without prejudice to the powers of the Company's Shareholder Meeting arising from the mandatory provisions of law,
6. selecting an entity authorized to audit financial statements to audit the Company's financial statements,
7. evaluating the financial statements in terms of their compliance with the ledgers and documents and with the facts,
8. evaluating the Company's activity report and the Management Board's motions on the distribution of profit or the coverage of loss,
9. submitting written reports on the results of the activities referred to in items 7 and 8 above to the Shareholder Meeting,
10. submitting to the Shareholder Meeting the annual concise evaluation of the Company's standing, taking into account the evaluation of the internal audit system and the risk management system, as well as the annual report on Supervisory Board's work;
11. giving an opinion on matters submitted to the Shareholder Meeting,
12. approving the Company's operational strategy,

13. opining the Company's annual plans,
14. approving the Bylaws governing the operation of the internal control system,
15. issuing opinions on reports prepared by the Management Board on entertainment expenditures, expenditures for legal services, marketing services, public relations and social communication services and management consulting services,
16. issuing opinions on the amendments to the rules governing the disposal of non-current assets set forth in §29[1] of the Articles of Association,
17. approving the compensation policy for the group,
18. issuing opinions on the rules for sponsorship activity conducted by the Company and evaluating efficiency of such sponsorship activity.

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

1. setting up another company, subscribing for, purchasing or selling shares in other companies, without prejudice to §26 section 3 items 3 and 4 of the Articles of Association, with a reservation that the Supervisory Board's request referred to in this item 1 is not required for the following:
   - subscription for or acquisition of shares in another company in an amount lower than 1/10 of the share capital of such company,
   - sale of shares in another company in which the Company holds less than a 1/10 share in the share capital,
   - subscribing for or acquiring shares in another company in return for the Company's accounts receivable as part of proceedings ended with a composition or settlement with creditors,
   - selling shares acquired or subscribed for by the Company in return for the Company's accounts receivable as part of proceedings ended with a composition or settlement with creditors,
   - subscription for, acquisition or sale of shares in another company whose shares are listed on a regulated market,

   unless the value of such shares exceeds PLN 20 million,
2. establishment of foreign branches,
3. purchase and sale of fixed assets whose value exceeds PLN 20 million, subject to § 26 section 3 items 1 and 2 of the Articles of Association,
4. contracting contingent liabilities, including the Company's granting financial guarantees and sureties whose value exceeds PLN 20 million,
5. disbursement of interim dividends,
6. issuance of promissory notes with the value exceeding PLN 20 million,
7. purchase or sale of a real property or a right of perpetual usufruct or of a share in a real property or in a right of perpetual usufruct the value of which exceeds PLN 20 million,
8. the voting instructions for the Shareholder Meetings of companies in which the Company holds at least 50% of all shares, in the following matters:
   - the company setting up another company,
   - amending the company's articles of association or articles of partnership and the company's line of business,
   - merger, transformation, demerger, dissolution or liquidation of the company,
   - increase or decrease of the company's share capital.
   - sale or lease of the company's business or an organized part thereof or establishment of a limited right in rem thereon,
   - purchase and sale of real property or right of perpetual usufruct or interest in real property or in a right of perpetual usufruct, their encumbrance, lease and release for use against payment or free of charge, if their value exceeds 1/10 of that company's share capital,
   - purchase, sale, encumbrance, lease and release for use against payment or free of charge of non-current assets other than those listed in the previous sub-item, if their value exceeds 1/10 of that company's share capital, excluding companies in which the share capital is lower than PLN 5 million,
   - the company entering into a credit facility, loan agreement, guarantee agreement or some other similar agreement, if their value exceeds 1/10 of the company's share capital but no less than PLN 5 million,
   - issue of any type of bonds,
   - purchase of treasury shares in the situation set forth in Article 362 § 1 item 2 of the Commercial Company Code and purchase of shares in the situation defined in Article 200 § 1 of the Commercial Company Code,
   - compulsory redemption of shares pursuant to Article 418 of the Commercial Company Code,
   - retirement of shares,
   - decisions on claims to remedy damages incurred when setting up a company or in its management or oversight,
   - contribution of non-current assets by the company as contribution in a company or a cooperative if their value exceeds 1/10 of that company's share capital,
   - setting the compensation of Members of Management Boards and Supervisory Boards,

- in the matters mentioned in Article 17 Section 1 of the Act on Rules for Managing State Property of 16 December 2016 (Journal of Laws of 2016 Item 2259), subject to § 30 section 6 of the Articles of Association,

9. conclusion of agreements on legal services, marketing services, public relations and social communication services and management consulting services, if the total fee for the services exceeds PLN 500,000 net per annum,
10. amendment to an agreement on legal services, marketing services, public relations and social communication services and management consulting services increasing the fee above the amount referred to in item 9 above,
11. conclusion of agreements on legal services, marketing services, public relations and social communication services and management consulting services in which the maximum fee is not defined,
12. conclusion of a donation agreement or other agreement with similar effect, with the value exceeding PLN 20,000 or 0.1% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements,
13. release of debt or other agreement with similar effect, with the value exceeding PLN 50,000 or 0.1% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements.

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

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

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

7.12. OPERATION OF THE SHAREHOLDER MEETING, ITS PRINCIPAL POWERS AND DESCRIPTION OF SHAREHOLDERS' RIGHTS AND HOW THEY ARE EXERCISED

OPERATION OF THE SHAREHOLDER MEETING

The manner of operation of the JSW Shareholder Meeting and its powers are defined in the Articles of Association and in the JSW Shareholder Meeting Bylaws.

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

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

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

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

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

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

A decision on the holding of a Shareholder Meeting with the use of means of electronic communication shall be made by the Supervisory Board. The course of the Shareholder Meeting is registered in an audiovisual system and broadcast online and its electronic recording is published on JSW's website.

POWERS OF THE SHAREHOLDER MEETING

The following matters require a resolution of the Shareholder Meeting:

1. examining and approving the Company's Management Board activity report and the financial statements for the previous financial year and granting a discharge to the members of the Company's governing bodies on the performance of their duties,
2. distributing profits or covering losses,
3. changing the Company's line of business,
4. amending the Company's Articles of Association,
5. increasing or decreasing the share capital,
6. authorizing the Management Board to purchase the Company's treasury stock for retirement and specifying the manner and conditions for retiring stock,
7. merging, splitting up or transforming the Company,
8. dissolving or liquidating the Company,
9. appointing or dismissing Supervisory Board members,
10. setting remuneration for Supervisory Board members,
11. allowing the Company to enter into a loan agreement, a surety agreement or another similar agreement with a Management Board member, a Supervisory Board member, a commercial proxy or a liquidator or in favor of any such person,
12. allowing a subsidiary to enter into a loan agreement, a surety agreement or another similar agreement with a Management Board member, a Supervisory Board member, a commercial proxy or a liquidator or in favor of any such person,
13. issuing bonds,
14. selling or leasing an enterprise or an organized part thereof and establishing a limited right in rem thereon,
15. making decisions on claims to remedy damages incurred during the establishment of the Company or in its management or oversight,
16. establishing or dissolving the Company's capitals and funds.

The purchase or sale of a real property or a right of perpetual usufruct or of a share in a real property or in a right of perpetual usufruct do not require consent of the Shareholder Meeting, except for the following matters for which consent of the Shareholder Meeting is required:

1. disposal of the non-current assets within the meaning of the Accounting Act of 29 September 1994, included in intangible assets, property, plant and equipment or long-term investments, including contribution made to a company or cooperative, if the market value of such assets exceeds 5% of the total assets within the meaning of the aforementioned Act, determined on the basis of the most recent approved financial statements, and delivery of such assets for use to another entity, for a period longer than 180 days in the calendar year, on the basis of a legal transaction, if the market value of the subject matter of the legal transaction exceeds 5% of total assets, with delivery for use in the case of:
   a) rental, lease and other agreements for the provision of an asset for non-gratuitous use by other entities – the market value of the subject matter of the legal transaction shall be construed as the value of benefits for:
      - one year – if the provision of the asset was effected under an agreement entered into for an indefinite term,
      - the entire term of the agreement – in the case of agreements entered into for a definite term,
   b) loan-for-use and other gratuitous agreements for the provision of an asset for use by other entities – the market value of the subject matter of the legal transaction shall be construed as the equivalent of benefits that would be due in the event of the execution of a rental or lease agreement for:
      - one year – if the delivery of the asset takes place on the basis of an agreement entered into for an indefinite term,
      - the entire term of the agreement – in the case of agreements entered into for a definite term,
2. purchase of non-current assets within the meaning of the Accounting Act of 29 September 1994, with the value exceeding:
   a) PLN 100,000,000.00 or
   b) 5% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements,
3. subscription or purchase of shares of another company with the value exceeding:
   a) PLN 100,000,000.00 or

   b) 10% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements,
4. disposal of shares of another company with the value exceeding:
   a) PLN 100,000,000.00 or
   b) 10% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements,

SHAREHOLDER RIGHTS

The rights of JSW shareholders are laid down in the Articles of Association and the Bylaws of the Shareholder Meeting. Shareholders representing at least half of the share capital or at least half of all the votes in JSW may have the right, among others, to file a request to convene an Extraordinary Shareholder Meeting. The Management Board convenes the Shareholder Meeting also upon request from Shareholders representing at least one-twentieth of the share capital.
The request to convene a Shareholder Meeting, place an item in the agenda of a Shareholder Meeting, draft resolutions concerning the items included in the agenda of the closest Shareholder Meeting or the items which will be included in the agenda should be submitted to the Management Board in writing or in the electronic form. Authorization documents of the persons authorized to take action should be attached to the request.

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

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

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

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

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

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

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

The Shareholder Meeting may appoint the Election Committee consisting of up to three persons.

Upon request of Shareholders representing at least one-tenth of the share capital represented at a Shareholder Meeting, the Attendance List should be checked by a committee elected for this purpose and composed of at least three people. The persons filing such motion will have the right to elect one Member of that committee.

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

The shareholder has the right to vote in a different manner under each share held. Votes are cast in an open ballot. Secret balloting is ordered for elections, dismissals, in personal matters and on the motions to charge the Members of governing bodies or liquidators with accountability. Secret balloting should be also ordered at the request of at least one Shareholder in attendance.

A shareholder may vote as a proxy when adopting resolutions concerning him/her, as mentioned in Article 413 §1 of the Commercial Company Code.

7.13. DESCRIPTION OF ACTIVITIES OF THE ISSUER'S MANAGEMENT, SUPERVISORY OR ADMINISTRATIVE BODIES AND THEIR COMMITTEES, ALONG WITH COMPOSITION OF THOSE BODIES AND CHANGES TO THEM OVER THE COURSE OF THE PREVIOUS FINANCIAL YEAR

7.13.1. MANAGEMENT BOARD

The Company's Management Board operates pursuant to the Commercial Company Code and other generally applicable provisions of law, JSW's Articles of Association and provisions of the JSW's Management Board Bylaws. When fulfilling their duties, Management Board Members are guided by the principles included in the code of Best Practice for Warsaw Stock Exchange Listed Companies, Management Board Bylaws and the Company's Articles of Association.

Issues exceeding ordinary management require a Management Board resolution, in particular: determining the organizational bylaws defining the Company's organization, appointing general proxies, buying and selling real property, matters in which the Management Board addresses the Shareholder Meeting and the Supervisory Board, issuing promissory notes, determining the bylaws governing the operation of the internal control system.

The President of the Management Board convenes Management Board meetings on his own initiative or upon request of one of the Management Board members at any time, also upon request of the Supervisory Board Chairperson. Two Management Board Members acting jointly or a Management Board Member acting with a proxy are authorized to make statements of will and affix signatures on behalf of JSW. In agreements between JSW and a Management Board Member, as well as in disputes with a Management Board Member, the Company shall be represented by the Supervisory Board.

COMPOSITION OF AND CHANGES TO THE JSW MANAGEMENT BOARD

FIRST AND LAST NAME	POSITION	TERM IN POSITION
	Composition of the JSW Management Board of the 9th term of office	
Daniel Ozon	President of the Management Board	01.01.2018 - 31.12.2018
Tomasz Śledź	Vice-President of the Management Board for Technical Matters	01.01.2018 - 31.12.2018
Artur Dyczko	Vice-President of the Management Board for Strategy and Development	01.01.2018 - 31.12.2018
Jolanta Gruszka	Vice-President of the Management Board for Sales	01.01.2018 - 31.12.2018
Robert Ostrowski	Vice-President of the Management Board for Financial Matters	01.01.2018 - 31.12.2018
Artur Wojtków (elected by employees)	Vice-President for Employment and Social Policy	01.01.2018 - 31.12.2018

No changes were made in the composition of the JSW Management Board in 2018. The tenure of the Management Board expires upon the date of holding the Ordinary Shareholder Meeting approving the Company's 2018 Financial Statements.

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

CHANGES TO THE JSW MANAGEMENT BOARD AFTER THE END DATE OF THE REPORTING PERIOD

On 9 January 2019, Robert Ostrowski tendered his resignation from serving in the capacity of a Management Board Member – Vice-President of the Management Board for Financial Matters with effect as of 28 February 2019.

On 10 January 2019, the JSW Supervisory Board dismissed:

- Mr. Artur Dyczko from the capacity of Vice-President of the Management Board responsible for Strategy and Development,
- Ms. Jolanta Gruszka from the capacity of Vice-President of the Management Board for Sales.

On 6 February 2019, the Supervisory Board adopted a resolution to release Robert Ostrowski from the obligation to render services effective 12 February 2019.

On 26 February 2019, the Supervisory Board adopted a resolution to delegate Mr. Robert Małek to act temporarily in the capacity of Vice-President of the Management Board for JSW Strategy and Development from 27 February 2019 to and including 26 May 2019, however no longer than the date of appointment of the Vice-President of the Management Board for Strategy and Development.

COMPOSITION OF THE JSW MANAGEMENT BOARD AT THE TIME OF PREPARING THIS REPORT

MEMBERS OF THE JSW MANAGEMENT BOARD

DANIEL OZON

President of the Management Board

dn@jsw.pl

Mr. Daniel Ozon is a graduate of the Warsaw School of Economics and of the Faculty of Law of the University of Warsaw.He specializes in corporate consulting, banking (investment and corporate), mergers, acquisitions, restructuring, finance, management, value growth management.
From 2014, he worked with EDF Trading in London advising on the acquisition of energy and gas trading on the Polish and CEE markets. From 2011, he was a partner in the Carlson Private Equity Ltd. Fund. From 2010, he was a co-owner of the Ventus Asset Management SA brokerage house holding a full license from KNF (Polish Financial Supervision Authority).
From 2008 to 2011, he worked with Experior Partner and from 2006 to 2008 he was associated with JSW where he acted in the capacity of the Vice-President of the Management Board, Director of the Corporate Governance and Capital Strategy Office. Among others, he coordinated the merger of the Budryk mine with JSW headed the work on JSW's development strategy. From 2004 to 2006 he worked for BBK Polska as a director. From 1999 to 2004 he was employed at Bank Handlowy Citibank where he headed the Restructuring Department and the Trade Finance Department.

Area of management:

He heads the work of the Management Board, convenes Management Board meetings and chairs them. He oversees all of the Company's operations, including in particular: Organization and Management, Security, Communications and PR, Audit and Control, Procurement, Integrated Management System and Risk Management.

TOMASZ ŚLEDŹ

Vice-President for Technical Matters

dt@jsw.pl

Mr. Tomasz Śledź graduated from the Silesian University of Technology in Gliwice with his major in the Mining of Deposits and Waste Management. In 2011, he completed postgraduate studies at the Department of Organization and Management at the Silesian University of Technology in Corporate Project Management.
From the outset of his career he has been active in the mining industry. He began to work in 1988 as a miner, then foreman, then supervisor until he became the chief mining engineer - head of the mining department. From September 2015 to January 2017 he served as the Production Director at JSW's Knurów-Szczygłowice hard coal mine, and subsequently he served as the Production Director of the Szczygłowice Section of the Knurów-Szczygłowice hard coal mine.
In 2010 he took part in the work to merge the Knurów mine with the Szczygłowice mine, and then in 2014 he participated in the incorporation of the Knurów-Szczygłowice Mine into JSW.
During his career he focused on enhancing and improving occupational health and safety standards.
He has co-authored numerous articles and publications regarding initiatives and new ideas in the mining industry.

Area of management:
He oversees all of the Company's operations, including in particular: Coal Production, Preparation and Quality, Environmental Protection and Mining Damage.

MEMBERS OF THE JSW MANAGEMENT BOARD

ROBERT MAŁŁEK

acting Vice-President of the Management Board for Strategy and Development

ds@jsw.pl

Is a graduate of the Faculty of Law and Administration at University of Warsaw and a Post-Graduate Course at the Canadian International Management Institute accredited with the Harvard Business School. In 1998–1999, he was an advisor to the President of the Social Security Institution (ZUS). From 1999 to 2001 he worked for the Prime Minister's Office (KPRM) as Deputy Director of KPRM's Head Office. From 2001 to 2002 he worked for Niezależny Operator Międzystrefowy Sp. z o.o. as manager responsible for organization. From 2002 to 2006 he was employed by the Municipal Office, Capital City of Warsaw. From 2006 to 2007 he was a Management Board Member at Stołeczne Przedsiębiorstwo Energetyki Cieplnej S.A. (Warsaw District Heating Company), in 2007-2008 a Management Board Member and Strategic Director at Spolana a.s. owned by the Orlen Group. From 2009 to 2012 he was the Vice-President of the Management Board of Stomil Poznań and subsequently from 2012 to 2016 the Management Board President of Grupa Hoteli WAM Sp. z o.o. In 2016-2018, he served as Management Board Member responsible for Sales at Unipetrol a.s.

Area of management:

He oversees all of the Company's operations, including in particular: investment, strategy, innovation, development, corporate social responsibility and corporate governance.

ARTUR WOJTKÓW

Vice-President of the Management Board for Employment and Social Policy

dp@jsw.pl

A lawyer by education, graduate of the University of Silesia in Katowice. He also completed post-graduate studies in social labor dialog at the University of Economics in Katowice and in management of industrial occupational health and safety at the Silesian University of Technology in Gliwice. He has been associated with Jastrzębska Spółka Węglowa S.A. almost since its establishment, i.e. since 1995. From May 1995 to August 1999 he served as Head of the Organizational and Legal Department and then from 1999 to 2009 as Director for Labor at the Borynia Coal Mine. From 2009 to today, he's been serving as Vice-President of the Management Board for Employment and Social Policy, elected by the employees.

Area of management:

He oversees all of the Company's operations, including in particular: Labor, Payroll, Property Management and HR Management.

7.13.2. SUPERVISORY BOARD

The Supervisory Board exercises permanent supervision over the Company's activity and performs its duties as a collective body, however it may delegate its Members to carry out specific supervisory and controlling activities individually. Supervisory Board members exercise their rights and perform their duties in person.

The Supervisory Board Chairman convenes Supervisory Board meetings and presides over them, and if the Chairman is unable to convene a meeting, his/her Deputy Chairman or the person named by the Chairman shall do so. The first meeting of a newly elected Supervisory Board shall be convened and opened by the President of the Management Board. The Supervisory Board will hold meetings at least once every two months. The Supervisory Board Chairman shall be obligated to convene a Supervisory Board meeting at the written request of a Supervisory Board member or at the written request of the Company's Management Board. The meeting should be held within two weeks after the submission of the request. The Supervisory Board adopts resolutions by an absolute majority of votes present at the meeting, in the presence of at least half the number of the Supervisory Board Members, provided that all Supervisory Board Members have been invited to attend the meeting. An absolute majority of votes means more than one half of the votes cast. In the event of a tie vote the Supervisory Board Chairman's vote shall prevail. Supervisory Board members may participate in adopting Supervisory Board resolutions by casting their vote in writing through another Supervisory Board member. Voting in writing cannot apply to matters introduced to the agenda at a Supervisory Board meeting. Supervisory Board members may adopt resolutions by following a written procedure or via remote means of direct communication. A resolution shall be valid if all Supervisory Board Members have been notified of the content of the draft resolution and no Supervisory Board Member has requested that the resolution be adopted at the next meeting of the Supervisory Board. Supervisory Board members may also participate in the meeting via teleconference or videoconference on the rules prescribed in the Supervisory Board Bylaws.

Supervisory Board resolutions are adopted in an open ballot. Secret ballots are ordered in personnel matters or upon request of at least one of the persons eligible to vote. Resolutions adopted by the Supervisory Board are minuted.

Pursuant to § 26 of the Company's Articles of Association, a Shareholder Meeting resolution is required to determine Supervisory Board's salary.

COMPOSITION OF AND CHANGES TO THE JSW SUPERVISORY BOARD

FIRST AND LAST NAME	POSITION	TERM IN POSITION
Composition of the JSW Supervisory Board of the 9th term of office		
Halina Buk	Deputy Chairperson	01.01.2018 - 28.06.2018
Krzysztof Kwaśniewski	Member	01.01.2018 - 28.06.2018
Tomasz Lis	Member	01.01.2018 - 28.06.2018
Antoni Malinowski	Member	01.01.2018 - 28.06.2018
Alojzy Nowak	Member	01.01.2018 - 28.06.2018
Adam Pawlicki	Member	01.01.2018 - 28.06.2018
Supervisory Board Members elected by employees:		
Eugeniusz Baron	Secretary	01.01.2018 – 28.06.2018
Robert Kudelski	Member	01.01.2018 – 28.06.2018
Andrzej Palarczyk	Member	01.01.2018 – 28.06.2018
Arkadiusz Wypych	Member	18.01.2018 – 28.06.2018
Composition of the Supervisory Board of the 10th term of office		
Halina Buk	Member	28.06.2018 – 27.07.2018
	Chairwoman of the Supervisory Board;	27.07.2018 – 31.12.2018
Krzysztof Kwaśniewski	Member	28.06.2018 – 27.07.2018
	Deputy Chairperson of the Supervisory Board	27.07.2018 – 22.10.2018
Tomasz Lis	Member	28.06.2018 – 31.12.2018
Antoni Malinowski	Member	28.06.2018 – 31.12.2018
Alojzy Nowak	Member	28.06.2018 – 31.12.2018
Adam Pawlicki	Member	28.06.2018 – 31.12.2018
Konrad Balcerski	Member	22.10.2018 – 31.12.2018
Supervisory Board Members elected by employees:		
Paweł Bieszczad	Member	28.06.2018 – 30.09.2018
Tadeusz Kubiczek	Member	28.06.2018 – 30.09.2018
Robert Kudelski	Member	28.06.2018 – 27.07.2018
	Secretary of the Supervisory Board;	27.07.2018 – 31.12.2018
Arkadiusz Wypych	Member	28.06.2018 – 31.12.2018

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

CHANGES IN THE JSW SUPERVISORY BOARD IN 2018

- On 18 January 2018, the Extraordinary Shareholder Meeting of JSW appointed Mr. Arkadiusz Wypych to be a Member of the JSW Supervisory Board of the 9th term of office.
- On 28 June 2018, the JSW Ordinary Shareholder Meeting appointed the following persons elected by employees to the JSW Supervisory Board of the 10th term of office: Paweł Bieszczad, Tadeusz Kubiczek, Robert Kudelski, Arkadiusz Wypych.
- On 28 June 2018, the Minister of Energy, by way of statements submitted to the Company, appointed the following persons to the JSW Supervisory Board of the 10th term of office: Halina Buk, Krzysztof Kwaśniewski, Adam Pawlicki, Antoni Malinowski, Tomasz Lis and Alojzy Nowak.
- On 22 October 2018, the Minister of Energy, by way of statements submitted to the Company, dismissed Mr. Krzysztof Kwaśniewski from the Supervisory Board and appointed Mr. Konrad Balcerski to the Supervisory Board.

CHANGES TO THE JSW SUPERVISORY BOARD AFTER THE END DATE OF THE REPORTING PERIOD

- On 17 January 2019, the Minister of Energy, by way of a statement submitted to JSW, appointed Mr. Robert Małłek to the JSW Supervisory Board. On 26 February 2019, the Supervisory Board adopted a resolution to delegate Mr. Robert Małłek to act temporarily in the capacity of Vice-President of the Management Board for Strategy and Development as of 27 February 2019.

COMPOSITION OF THE SUPERVISORY BOARD OF THE 10TH TERM OF OFFICE AT THE TIME OF PREPARING THIS REPORT

MEMBERS OF JSW'S SUPERVISORY BOARD	
HALINA BUK Position: Supervisory Board Chairperson Represents: State Treasury	Economics professor at the University of Economics in Katowice. Specialist, researcher and practitioner in the fields of corporate accounting and finance. She authored or co-authored numerous published monographs, scientific articles and academic handbooks, more than 70 scientific, research and commissioned papers on economics, and corporate organization, restructuring programs and financial planning. Academic lecturer in graduate, post-graduate and doctoral courses, on subjects such as Financial Accounting, Management Accounting, Financial Analysis, Financial Reporting, Consolidated Reporting, Controlling. Prof. Halina Buk was an economic consultant in several dozen projects implemented in various companies, including: Agencja Rynku Energii S.A., Kompania Węglowa S.A., Koncern Energetyczny "Energa" S.A., Huta Łabędy S.A. and KGHM Polska Miedź S.A. She has received numerous distinctions, including: the Golden Cross of Merit, the Silver Cross of Merit twice, Medal of the National Education Commission and the Commander's Cross of the Order of Polonia Restituta.
ROBERT KUDELSKI Position: Supervisory Board Secretary Represents: JSW employees	He has been an employee of JSW since 1993, currently working on the position of manager of the investments and mine overhaul department at KWK "Borynia-Zofiówka-Jastrzębie". He completed the mining secondary school in Jastrzębie-Zdrój with the title of underground mining machinery and equipment technician. Graduated from the Catholic University in Lublin, with a MA degree in management and marketing. He also completed postgraduate studies at the Silesian University of Technology in Gliwice (in public procurement law and corporate project management) and University of Silesia in Katowice (in human resources management).Completed a number of development courses and seminars among others in the area of: quality management system, application of the public procurement law and controller education program. He was a Supervisory Board member of Centralne Zakłady Automatyki Hutnictwa S.A. in Katowice and Towarzystwo Budownictwa Społecznego "Daszek" Sp. z o.o. in Jastrzębie-Zdrój. Currently he is a member of the JSW Supervisory Board (since 2012).
ANTONI MALINOWSKI Position: Supervisory Board Member Represents: State Treasury	In 1973, he graduated from the AGH University of Science and Technology in Kraków with a mining engineer degree. In 1973-1974, he worked at the lignite mine KWB "Konin" in Konin. In 1974-1976, he was the plant manager at Warszawskie Zakłady Eksploatacji Kruszywa in Warsaw. In 1976-1983, he worked at the Central Research and Development Unit (COBR) of PKP (Polish Railway Company) in Warsaw as the manager of the mining laboratory. In 1983-1986, he was employed at MB and PMB in Warsaw. In addition, in 1989-1993, he discharged the function of management board member at PPH "Marbetex" sp. z o.o. in Warsaw. In 1986-1990, he worked at Przedsiębiorstwo Produkcji i Organizacji Dostaw in Warsaw. Since 1993 he has been employed by the Ministry of Economy and in 2015-2017 by the Ministry of Energy. In the past, he was a member of the Supervisory Boards of CZW "Węglozbyt" (until 1996), Katowicki Holding Węglowy S.A. (until 2008) and Kompania Węglowa S.A. (until 2009). Until 2000, he was also the Chairman of the Supervisory Board of the mine "Jan Kanty" S.A.
ALOJZY NOWAK Position: Supervisory Board Member	In 1984 he graduated from the Warsaw School of Economics; In 1991, gained the title of Doctor of Economics, and in 1995, the postdoctoral degree ('habilitation'); In 1992 he studied economics at the University of Illinois in Urbana-Champaign, USA; In 1993 he completed studies in banking, finance and capital markets at the University

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

MEMBERS OF JSW'S SUPERVISORY BOARD

Represents: State Treasury	of Exeter in the United Kingdom; In 1996 he completed studies in economics at the Free University of Berlin and in 1997 International Economics studies at RUCA. In 2002, he gained the title of Professor of Economics. Mr. Alojzy Nowak has received numerous awards and distinctions, including the Rector's Award for scientific achievements (every year since 1997), Award of the Minister of Education for his book entitled "Integracja europejska. Szansa dla Polski?" ("European Integration. An Opportunity for Poland?") and his book entitled "Banki a gospodarstwa domowe – dynamika rozwoju" ("Banks and Households – the Dynamics of Development"). Member of scientific organizations and professional editing boards of periodicals, among others Foundations of Management (member), Journal of Interdisciplinary Economics (editor in chief), Yearbook on Polish European Studies, Mazovia Regional Studies, Gazeta Bankowa and a reviewer at PWE SA in Warsaw. For many years he has been a committee member of "Teraz Polska" Award and a member of the Scientific Board of the "European Studies". He gained his knowledge and professional experience working as head of International Business Relations Section at Management Faculty, University of Warsaw, head of National Economy Unit at Management Faculty, University of Warsaw, Director of the European Center at University of Warsaw, Deputy Dean in charge of foreign cooperation at Management Faculty, University of Warsaw, Dean of Management Faculty, University of Warsaw, and Deputy Rector responsible for research and cooperation at University of Warsaw. Outside University of Warsaw, he is a lecturer in France, UK, US, Russia, China and Korea. In addition he discharged the functions of: advisor to the Prime Minister, to the Minister of Agriculture, President of the Academic Sports Association in Poland, and at University of Warsaw, member of the advisory committee NewConnect at Management Board of Warsaw Stock Exchange, member of the National Bank of Poland Foundation Council, chairman of the National Bank of Poland Scientific Council. He held positions in supervisory boards of various institutions, to include: PZU S.A., PTE WARTA S.A., PKO BP S.A., JSW S.A., Chairman and Deputy Chairman of the Supervisory Board in EUROLOT S.A. He is a member of the National Development Council appointed by the President of Poland, Andrzej Duda. From 26 March 2018 he has been a member of Bank Millennium S.A.'s Supervisory Board. In December 2018 he became a member of the Scientific Board of the Institute of New Structural Economics at Peking University. The group of 22 outstanding scientists from all over the world comprises, among others, 4 Nobel Prize winners in economics.
TADEUSZ KUBICZEK Position: Supervisory Board Member Represents: JSW employees	Graduated from the Silesian University of Technology in Gliwice at the Mining Faculty. In 1988, he gained the master's degree in mining engineering. In 1999, also at the Silesian University of Technology in Gliwice, he completed postgraduate studies in HR Management and Professional Counseling. He has been involved in the mining industry since 1988. He gathered professional experience already as an intern at the Mining Department in the Szczygłowice mine, working on the position of Chief Mining Engineer. Since 2003 he has been employed in the Ventilation Department. Since 2005 he has been occupying the position of Chief Ventilation Engineer – Manager of the Ventilation Department. In 2015, he was appointed a member of the Mining Aerology Section at the Mining Commission of the Polish Academy of Sciences Branch in Katowice for the term of office 2015-2018. Co-author of articles on recognizing and fighting natural hazards in hard coal mining.
KONRAD BALCERSKI Position: Supervisory Board Member Represents: State Treasury	Graduate of the Faculty of Law and Administration at the University of Warsaw. He is an attorney. He is also a graduate of the Post-Graduate Course of Study on Audit, Financial Control and Accounting and the Post-Graduate Course of Study on Taxes administered by the Warsaw School of Economics. He has participated in many courses and training sessions in accounting and project management (TenStep Project Management and Prince 2). Mr. Konrad Balcerski has many years of experience in corporate governance in companies with a State Treasury shareholding operating chiefly in the oil and gas sector. He is currently an employee of the Department of Oversight and Ownership Policy at the Minister of Energy.
ADAM PAWLICKI Position: Supervisory Board Member Represents: State Treasury	He is a graduate of the University of Economics in Katowice. Specialist in Strategic and Operational Management. He has extensive experience in corporate finance and corporate restructuring. Since 2011, has been CEO of a consultancy Wizard Sp. z o.o. In 2008-2011, he was Chief Financial Officer in PEC Katowice (now Tauron Ciepło Sp. z o.o.). From 1996 to 2008 he was employed by the CTL Logistics S.A. Group in Warsaw as the Deputy Director of the Internal Logistics Division, Deputy Director General for Finance and Management Board Member.
TOMASZ LIS Position: Supervisory Board Member Represents: State Treasury	Tomasz Lis is a Doctor of Economic Sciences of the University of Economics in Katowice. Assistance professor at the Katowice School of Economics. In his professional life he combined the work of a researcher, lecturer and practitioner. The substantive scope of his competences focuses on such areas as: accounting in the context of national and international standards, management accounting, financial reporting, tax issues, financial audit, cost accounting, consolidated reporting, management of resources and assets. Author of a few hundred publications and research projects both in Poland and abroad. He acts also as an expert at various Economic Congresses. He has professional qualifications granted by the Minister of Finance for bookkeeping services. Member of, among others, Polish Economic Society and Polish Accountants' Association. He carried out and provided academic oversight over several scientific projects for the Prime Minister's Office and the Ministry of Finance on the testing of the public spending efficiency. He also carried out individually, in a team or as an economic expert dozens of projects for enterprises, including Energa S.A., Kompania Węglowa S.A., PGE Polish Energy Group, PKN Orlen, PKP S.A. and Orange S.A. He implemented reporting systems in the areas of energy, water and sewage. He participated in transformations and implementation of comprehensive processes in WSE-listed companies and

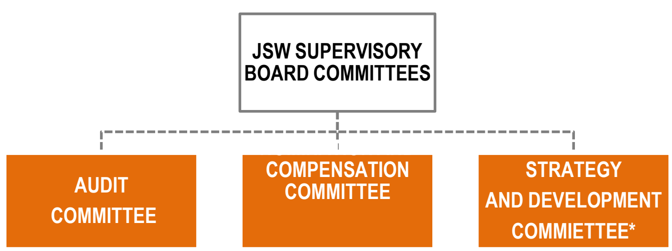
(All amounts in tables expressed in millions of Polish zloty unless stated otherwise)

MEMBERS OF JSW'S SUPERVISORY BOARD	
	private groups, constructing their accounting models together with pertinent software. For his service, he was awarded the Medal of the National Education Commission and the Medal for Long Service.
ARKADIUSZ WYPYCH Position: Supervisory Board Member Represents: JSW employees	Mr. Arkadiusz Wypych graduated in 2002 from the Silesian University of Technology in Gliwice with a bachelor's degree in civil engineering. In 2013, also at the Silesian University of Technology in Gliwice, he obtained a master's degree in mechanical engineering majoring in mining and drilling machinery and equipment. Mr. Arkadiusz Wypych started his professional career in 1995 and since then has worked in various commercial undertakings, including in the following positions: surveyor, sales and marketing manager, administration manager, construction engineer, trade manager, technical and commercial advisor. In 2007, he joined JSW's Production Support Unit in the position of procurement inspector, then in 2008 he joined KWK Borynia-Zofiówka-Jastrzębie, Zofiówka Section, as a specialist and currently a shift foreman in the shaft and elevator equipment division. In 2017 he completed a course for candidates for supervisory boards and management boards. In 2017 he passed an exam for candidates for members of supervisory bodies before an examination commission at the Prime Minister's Office.
PAWEŁ BIESZCZAD Position: Supervisory Board Member Represents: JSW employees	Graduate of the AGH University of Science and Technology in Kraków. In 2004, he gained the title of mining engineer majoring in Automation and Robotics. Since 2005 he has been associated with JSW, gaining professional experience initially as an intern in the Power Engineering Department, in the ICT Unit at KWK "Pniówek". Currently employed on the position of senior foreman for ICT equipment. Completed numerous specialist courses and, among others, passed an exam for supervisory board members in State Treasury companies. He also holds the qualifications of an internal auditor.

7.13.3. SUPERVISORY BOARD COMMITTEES

The Supervisory Board elects from amongst its members the audit committee and may also elect other committees. A Supervisory Board Member may participate in more than one committee. Committees shall consist of at least three members, while in the audit committee at least one member must be qualified in accounting or financial audit and be a person who:

1. does not hold any shares or other ownership titles in the Company or an entity affiliated with it,
2. has not participated during the last 3 years in keeping the Company's accounting ledgers or preparing the Company's financial statements while performing financial audit activities in the Company,
3. is not a spouse, relative or lineal kin up to the second degree, or a person fostered, in the custody of or under the wardship of a Supervisory Board or Management Board Member or a person conducting financial audit activities in the Company, and did not employ such persons for carrying out the financial audit activities.



** change of the name as of 27 July 2018 (previously Restructuring and Strategy Committee).*

AUDIT COMMITTEE

It is appointed to support the Supervisory Board in exercising financial oversight and to provide the Board with reliable information and opinions that allow it to efficiently make correct decisions in the area of financial reporting, internal control and risk management. The committee is an advisory and opinion-making body. The committee is composed of three members with expertise and skills in the industry in which JSW operates. At least one Audit Committee member holds expertise and skills in accounting or audit of financial statements. Most Audit Committee members, including the chairman, are independent of JSW.

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

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

- monitoring of the:
  - financial reporting process,
  - effectiveness of internal control systems, risk management systems and internal audit, including in the area of financial reporting,
  - performance of financial audit activities, in particular audits conducted by the audit firm, taking into account all conclusions and findings of the Audit Supervision Commission resulting from inspections performed in the audit firm,
- inspection and monitoring of the independence of the statutory auditor and the audit firm, in particular in cases where the audit firm renders other services in favor of JSW than the audit services,
- provision of information to the JSW Supervisory Board or supervisory or control body about the outcome of the audit and explanation of how the audit contributed to the integrity of financial reporting in the Company and what the role of the audit committee was in that process,
- assessment of the independence of the statutory auditor and expressing consent to the auditor's provision of permitted non-audit services (at JSW's justified request),
- preparation of a policy governing the selection of an audit firm to perform the audit,
- preparation of a policy governing the provision of permitted non-audit services by the audit firm performing the audit, by its related parties and by a member of the audit firm's chain,
- development of the procedure for selecting an audit firm by JSW,
- presentation to the Supervisory Board or another supervisory or control body or the body referred to in Article 66 Section 4 of the Accounting Act of 29 September 1994 of recommendations on the appointment of statutory auditors or audit firms, in accordance with the said policies,
- submission of recommendations intended to ensure the reliability of the financial reporting process at JSW.

The committee submits its findings, stances and recommendations worked out in connection with discharging its functions with due notice to enable the Supervisory Board to immediately take pertinent actions. The committee submits annual written reports on its activity to the Supervisory Board.

FIRST AND LAST NAME	POSITION	TERM IN POSITION
Composition of the Supervisory Board Audit Committee of the 9th term of office		
Halina Buk	Chairwoman	01.01.2018 - 28.06.2018
Eugeniusz Baron	Member	01.01.2018 - 28.06.2018
Robert Kudelski	Member	01.01.2018 - 28.06.2018
Antoni Malinowski	Member	01.01.2018 - 28.06.2018
Composition of the Supervisory Board Audit Committee of the 10th term of office		
Halina Buk	Chairwoman	27.07.2018 – 31.12.2018
Paweł Bieszczad	Member	27.07.2018 – 31.12.2018
Robert Kudelski	Member	27.07.2018 – 31.12.2018
Tomasz Lis	Member	27.07.2018 – 31.12.2018
Antoni Malinowski	Member	27.07.2018 – 31.12.2018

In the JSW Supervisory Board Audit Committee, the statutory independence criteria are satisfied by the following persons:

- Halina Buk
- Tomasz Lis
- Antoni Malinowski,
- Paweł Bieszczad,
- Robert Kudelski

The following JSW Supervisory Board Audit Committee member holds expertise and skills in accounting or audit of financial statements:

- Ms. Halina Buk – economics professor at the University of Economics in Katowice. Specialist, researcher and practitioner in the fields of corporate accounting and finance. She authored or co-authored numerous published monographs, scientific articles and academic handbooks, more than 70 scientific, research and commissioned papers on economics, and corporate organization, restructuring programs and financial planning. Academic lecturer in graduate, post-graduate and doctoral courses, on subjects such as financial accounting, management accounting, financial analysis, financial reporting, consolidated reporting, controlling.

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

The JSW Supervisory Board Audit Committee members who hold expertise and skills in the mining industry are:

- Mr. Paweł Bieszczad – graduate of the AGH University of Science and Technology in Kraków. In 2004, he gained the title of mining engineer majoring in Automation and Robotics. Since 2005 he has been associated with JSW, gaining professional experience initially as an intern in the Power Engineering Department, in the ICT Unit at KWK "Pniówek". Currently employed on the position of senior foreman for ICT equipment. He completed numerous specialist courses in the area of mining.
- Mr. Robert Kudelski – completed the mining secondary school in Jastrzębie-Zdrój with the title of underground mining machinery and equipment technician. He has been associated with JSW since 1993. Currently he is working on the position of manager of the Investments and Mine Development Division at KWK Borynia-Zofiówka-Jastrzębie. Completed a number of development courses and seminars among others in the area of: quality management system, application of the public procurement law and controller education program.

In 2018 the JSW Supervisory Board Audit Committee held seven meetings devoted to discharging its duties. As part of its work the Committee also adopted resolutions using remote means of direct communication.

In the analyzed reporting period the audit firm auditing JSW's financial statements did not provide any permitted non-audit services.

POLICY AND PROCEDURE FOR SELECTION OF THE AUDIT FIRM AND POLICY GOVERNING THE PROVISION OF PERMITTED NON-AUDIT SERVICES BY THE AUDIT FIRM, BY ITS RELATED PARTIES AND BY A MEMBER OF THE AUDIT FIRM'S CHAIN

JSW has in place a "Policy and procedure for selection of the audit firm and policy governing the provision of permitted non-audit services by the audit firm, by its related parties and by a member of the audit firm's chain" ("Policy") established by the Audit Committee for Jastrzębska Spółka Węglowa S.A. In accordance with the aforementioned policy:

1) The Supervisory Board is authorized to select the audit firm to audit the Company's financial statements, having obtained the recommendation of the Audit Committee.
2) The Company is obligated to inform the Polish Financial Supervision Authority that the audit firm to audit the financial statements is selected by the JSW Supervisory Board.
3) The Supervisory Board selects the audit firm taking into account the principles of impartiality and independence of statutory auditors.
4) The Supervisory Board, selecting the audit firm, and the Audit Committee, at the stage of preparation of proposal requirements and then recommendations, follow the following criteria:
   - required workload of the statutory auditor,
   - knowledge of the industry and the existing experience of the audit firm in auditing the financial statements of companies with a similar business profile (underground mining and coking industry),
   - knowledge of the specificity of State Treasury companies,
   - composition of the audit team, in particular in terms of the optimum proportions of statutory auditors and their assistants in the team, taking into account the specificity of the Company,
   - professional qualifications and personal experience of the persons directly involved in the audit,
   - reputation of the audit firm in the financial markets,
   - price proposed by the audit firm,
   - confirmation of the independence of the audit firm,
   - the independent statutory auditor's mandate quality control policy with regard to auditing statutory entities of public interest.
5) The audit firm selection procedure should be launched and conducted within the timeframes allowing the audit firm to participate in the inventory-taking of JSW's material assets (it is recommendable to select the audit firm and enter into a financial statements audit agreement by the end of Q3 of the financial year to be audited).
6) The costs of the audit of the financial statements are incurred by the audited entity.
7) The Supervisory Board recommends striving to ensure that the financial statements of the parent company and selected key Group companies are audited by the same audit firm.
8) If one audit firm is selected to audit the financial statements of several Group companies, the Supervisory Board should recommend to the Management Board undertaking negotiations to optimize the costs of the audit of the Company's financial statements.
9) Before selecting the audit firm the Supervisory Board defines by way of a resolution:
   - the statutory auditor selection criteria and the method for assessing the proposals regarding the audit of the Company's financial statements,
   - the content of the announcement with the invitation to submit proposals for the audit of the Company's financial statements.
10) The audit firm is selected following the selection procedure described in the adopted Policy.
11) The Company (immediately) informs KNF about selecting the audit firm.

12) Any and all contractual clauses in the agreements entered into by the Company which limit the possibility of selecting the audit firm by the Supervisory Board for the needs of the statutory audit of the Company's financial statements to specific categories or lists of audit firms are deemed invalid by virtue of law.
13) Periods of cooperation with the audit firm (rotation):
    - in the case of a statutory audit, the first financial statements audit agreement is entered into with the audit firm for a term not shorter than two years, with the possibility of renewing it for further minimum two-year terms,
    - the maximum time of uninterrupted duration of the statutory audit mandate for a single audit firm may not exceed 5 years,
    - the key statutory auditor may not carry out the statutory audit in JSW for more than 5 years. They may carry out the statutory audit again after elapse of 3 years from the end of the last statutory audit.

The main assumptions of the "Policy governing the provision of permitted non-audit services by the audit firm performing the audit, by its related parties and by a member of the audit firm's chain" are as follows:

- The Supervisory Board may use the advisory services of an audit firm during the financial year in a strictly limited scope. The firm may not be the entity auditing the annual financial statements in JSW or its subsidiaries.
- The audit firm auditing the statutory financial statements, the audit firm's related party and by each member of the audit firm's chain may not provide the entity with prohibited non-audit services or financial audit activities. The prohibition covers the audited entity, its parent company and subsidiaries in the EU. The services described in item 6 are exempted from this prohibition.
- The statutory auditor or audit firm carrying out the Company's statutory audit do not provide, directly or indirectly, to the audited entity, its parent company or its controlled entities, any prohibited non-audit services in the following periods:
    - in the period from the commencement of the audited period to the issuing of the audit report, and
    - in the financial year immediately preceding the aforementioned period with regard to the services listed in item 4 g).
- Prohibited non-audit services mean:
    - tax services pertaining to: preparation of tax returns, payroll taxes, customs liabilities, identification of public subsidies and tax incentives, unless the support of the statutory auditor with regard to such services is required by law, support pertaining to tax inspections carried out by tax authorities, unless the support of the statutory auditor with regard to such inspections is required by law, calculation of direct and indirect tax and deferred income tax, provision of tax advisory services,
    - services involving any participation in management or the decision-making process of the audited company,
    - keeping the accounts and preparing the accounting documentation and financial statements,
    - payroll services,
    - preparation and implementation of internal control procedures and risk management procedures associated with preparation or control of financial information or preparation and implementation of technological systems pertaining to financial information,
    - valuation services, including valuation in connection with actuarial services or litigation resolution support services,
    - legal services involving provision of general legal advice, negotiating on behalf of the audited company and appearing in the capacity of an ombudsman as part of dispute resolution,
    - services associated with the audited company's internal audit function,
    - services associated with financing, capital structure and capital allocation and investment strategy of the client for whom the audit is carried out, except for providing assurance services in connection with the financial statements, such as issuing comfort letters in connection with the audited company's prospectuses,
    - conducting promotional activities and trading in equities of the audited company on its own account or the audited company's equity issue underwriting,
    - human resources services in respect of: management staff that may exert significant influence on preparation of the accounting documentation or financial statements subject to statutory audit, if they involve searching for and selecting candidates for such positions or verification of the references of the candidates for such positions, preparation of the organizational structure, cost control.
- Prohibited services include also other non-financial-audit services.
- The following services do not constitute prohibited services:
    - executing due diligence procedures as regards the economic and financial standing, issuing comfort letters - performed in connection with a prospectus of the audited entity, carried out in accordance with the local standard of related services and involving completion of agreed procedures,
    - assurance services regarding pro forma financial information, projections of results or estimate results, published in the audited entity's prospectus,
    - audit of historical financial information for the prospectus,
    - verification of consolidation packages,

  - confirmation of satisfaction of the conditions of concluded loan agreements based on an analysis of financial information derived from the financial statements audited by the audit firm,
  - assurance services regarding reporting on corporate governance, risk management and corporate social responsibility,
  - services involving assessment of compliance of the information disclosed by financial institutions and investment firms with the disclosure requirements for capital adequacy and variable compensation components,
  - assurance pertaining to financial statements or other financial information earmarked for supervision authorities, supervisory board or other supervisory body of the company or owners, exceeding the scope of the statutory audit and aimed at helping such bodies to fulfill their statutory obligations.
- Provision of the permitted services (listed in item 6 above) is possible only to the extent not associated with the audited company's tax policy, after the Audit Committee has assessed the threats and safeguards of the independence of the audit firm.
- Non-audit services, other than prohibited services, can be provided by the audit firm under the condition that they are approved by the Audit Committee.
- The company prepares a justified motion to the Audit Committee for approval of the mandate for the audit firm auditing the financial statements to perform a specific permitted non-audit service.
- The Audit Committee assesses the independence of the statutory auditor and the audit firm.
- The Audit Committee approves the performance of services other than prohibited non-audit services by the audit firm auditing the financial statements for the given financial year.

PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp. k. is the entity authorized to audit the financial statements of JSW and the consolidated financial statements of the JSW Group for 2018. The audit firm was selected on 29 November 2017 by the JSW Supervisory Board. The recommendation of the Audit Committee regarding the selection of the audit firm has been prepared following the completion of an organized procedure satisfying the prevailing criteria.

NOMINATION AND COMPENSATION COMMITTEE

It has been formed for the purpose of presenting opinions and proposals to the Supervisory Board on how to shape the governance structure of JSW, including issues related to organizational solutions, the compensation system, the level of compensation and the selection of managers with the qualifications needed to build the success of the Group. The Committee is an advisory and opinion-making body for the Supervisory Board. The Committee is made up of at least three members appointed and dismissed by the Supervisory Board from among its members for the period of its term of office. The Supervisory Board elects the chairman to manage the Committee's work from among the Committee members. At least one Committee member should satisfy the criteria set for the independent Supervisory Board member referred to in §16 Section 2 of JSW's Articles of Association. During selection of the Committee members the Supervisory Board takes into account the competences, knowledge and experience of the candidates regarding the matters subject to the Committee's scope of activity.

The Nomination and Compensation Committee has in particular the following tasks:

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

The Committee submits to the Supervisory Board the adopted findings, stances and recommendations worked out in connection with discharging its functions with due notice to enable the Supervisory Board to immediately take pertinent actions. The Committee submits annual written reports on its activity to the Supervisory Board.

FIRST AND LAST NAME	POSITION	TERM IN POSITION
Composition of the Supervisory Board Nomination and Compensation Committee of the 9th term of office		
Alojzy Nowak	Chairman	01.01.2018 - 28.06.2018
Eugeniusz Baron	Member	01.01.2018 - 28.06.2018
Andrzej Palarczyk	Member	01.01.2018 - 28.06.2018
Composition of the Supervisory Board Nomination and Compensation Committee of the 10th term of office		
Alojzy Nowak	Chairman	27.07.2018 – 31.12.2018
Robert Kudelski	Member	27.07.2018 – 31.12.2018
Adam Pawlicki	Member	27.07.2018 – 31.12.2018
Arkadiusz Wypych	Member	27.07.2018 – 31.12.2018

STRATEGY AND DEVELOPMENT COMMIETTEE

It is formed with the purpose of presenting opinions and requests on JSW's restructuring and strategy to the Supervisory Board. The Committee is an advisory and opinion-making body for the Supervisory Board.

The Audit Committee's basic tasks include in particular the following:

- evaluation of the Group's Corporate Strategy and presentation of the evaluation results to the Supervisory Board,
- recommendation of the scope and dates for the JSW Management Board to submit strategic annual and long-term plans to the Supervisory Board,
- evaluation of the impact of strategic investments, planned and undertaken, on parent company's assets,
- monitoring of the fulfillment of strategic investment tasks,
- evaluation of actions related to the management of JSW's material assets,
- issuing opinions on strategic documents submitted to the Supervisory Board by the JSW Management Board.

The Committee is authorized to review all of JSW's activity from the perspective of its duties and demand from the JSW Management Board and employees any and all information, reports and explanations required to perform the Committee's duties. The Management Board of the parent company is obligated to provide information on an ongoing basis about all planned and taken actions and changes in the law and regulatory environment subject to the Committee's scope of activity.

FIRST AND LAST NAME	POSITION	TERM IN POSITION
Composition of the Supervisory Board Restructuring and Strategy Committee of the 9th term of office		
Krzysztof Kwaśniewski	Chairman	01.01.2018 - 28.06.2018
Adam Pawlicki	Member	01.01.2018 - 28.06.2018
Tomasz Lis	Member	01.01.2018 - 28.06.2018
Alojzy Nowak	Member	01.01.2018 - 28.06.2018
Andrzej Palarczyk	Member	01.01.2018 - 28.06.2018
Composition of the Supervisory Board Strategy and Development of the 9th term of office		
Adam Pawlicki	Member	27.07.2018 – 26.10.2018
	Chairman	26.10.2018 – 31.12.2018
Krzysztof Kwaśniewski	Chairman	27.07.2018 – 22.10.2018
Konrad Balcerski	Member	10.12.2018 – 31.12.2018
Tadeusz Kubiczek	Member	27.07.2018 – 31.12.2018
Tomasz Lis	Member	27.07.2018 – 31.12.2018
Alojzy Nowak	Member	27.07.2018 – 31.12.2018
Arkadiusz Wypych	Member	27.07.2018 – 31.12.2018

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

7.14. DIVERSITY POLICY

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

7.15. AGREEMENTS CONCLUDED WITH MANAGERS PROVIDING FOR COMPENSATION IN THE EVENT OF THEIR RESIGNATION OR DISMISSAL FROM THE OCCUPIED POSITION WITHOUT AN IMPORTANT REASON OR IN THE EVENT THAT THEIR DISMISSAL RESULTED FROM A MERGER WITH THE COMPANY THROUGH AN ACQUISITION

With the Management Board Members, no separate agreements were signed that would provide for compensation in the event of their resignation or dismissal from the occupied position. The issues are regulated in the management contracts executed with the Management Board Members. Pursuant to provisions of the above contracts:

1) Both Parties have the right to terminate the contract with immediate effect in the event of material breach of the contract provisions by the other Party, including when the Manager fails to comply with the duty to obtain the JSW Supervisory Board's consent to assume, as planned, the function in corporate bodies of another commercial company, to acquire shares or interests in another commercial company, to perform work or provide services for other entities pursuant to an employment contract, mandate agreement or another legal relationship – at least 14 days in advance before the occurrence of the event – and also in particular when:
   a) the Manager committed a crime, as stated in a legally valid and final court decision, preventing him from complying with the duties following from the contract,
   b) through a deliberate action or omission or negligence of his duties, as shown in documents, the Manager exposes JSW to the risk of losses,
   c) the Manager lost the capacity to discharge functions in commercial law companies as a result of events defined in commonly prevailing provisions of law, in particular the Commercial Company Code and the Act on Rules for Managing State Property,
   d) JSW, without a justified reason, is overdue with the payment of compensation due for a period longer than 2 months.
2) Each of the Parties has the right to terminate the contract for other reasons than the ones specified above with:
   a) 1-month notice period if the Manager discharges the function for a period shorter than 12 months, with effect at the end of the calendar month,
   b) 3-month notice period if the Manager discharges the function for a period of at least 12 months, with the reservation that if an event resulting in contract termination as a result of the person ceasing to serve in his capacity, then the contract is terminated with immediate effect.

If the contract is dissolved or terminated by JSW for reasons defined in sec. 1 above, the Manager is eligible to a severance pay in the amount of 3 times the Fixed Compensation, provided that the Manager has discharged the function for at least 12 months before the agreement is terminated.

The severance pay shall not be due if:
   a) contract termination, dissolution or amendment as a result of change of the function discharged by the Manager in the Management Board,
   b) contract termination, dissolution or amendment as a result of appointing the Manager for another term of office of the Management Board,
   c) the Manager is appointed a management board member in a Group company,
   d) the Manager resigns from his function.

The severance pay shall be disbursed within 7 days of the date JSW receives a correctly issued bill, to the bank account specified by the Manager.

If the function discharged by the Manager in the Management Board changes in the term of the contract, the Parties undertake to sign an annex to adjust the content of the contract to the Manager's new function.

7.16. REMUNERATION AND OTHER PERQUISITES OF PERSONS DISCHARGING EXECUTIVE AND SUPERVISORY FUNCTIONS IN JSW

7.16.1. REMUNERATION OF MANAGEMENT BOARD MEMBERS

The rules governing the determination of remunerations of the Parent Company's Management Board members have been adopted by way of decisions made by the JSW Extraordinary Shareholder Meeting and the JSW Supervisory Board in compliance with the regulations laid down in the Act on the Rules for Shaping the Compensation of Persons Managing Certain Companies.

Management service contracts with Management Board members have been signed for a definite term and will remain in force until the end of the current term of the Management Board, i.e. until the date of the Ordinary Shareholder Meeting approving the financial statements for 2018. These contracts provide for the obligation to render the services personally even if the Manager is acting within the framework of his/her own business activity.

The amount of the monthly **Fixed Compensation** of Management Board Members has been set by the Supervisory Board, subject to the following provisions adopted by the Shareholder Meeting:

- The Fixed Compensation of the President of the Management Board has been set within the range of between 7 and 15 times of the average compensation in the corporate sector without profit-sharing, in the fourth quarter of the previous year, as announced by the President of the Central Statistical Office.
- The Fixed Compensation of the other Management Board Members has been set within the range of between 7 and 12 times of the average compensation in the corporate sector without profit-sharing, in the fourth quarter of the previous year, as announced by the President of the Central Statistical Office.

In accordance with the decision made by the Supervisory Board, for rendering management services and discharging other obligations ensuing from the contract, the Manager is entitled to the **Total Compensation** consisting of the following:

a) Monthly (per calendar month) lump-sum base compensation (**Fixed Compensation**):
   - for the President of the Management Board: gross amount of PLN 60,000.00,
   - for each of the other Management Board Members: gross amount of PLN 50,000.00.

   The Fixed Compensation also includes compensation for the transfer of copyright and for the performance of other obligations arising from the contract.

b) Supplementary compensation for the relevant financial year (**Variable Compensation**) contingent on the degree of achievement of the management objectives, which may not exceed 100% of the annual Fixed Compensation.

The Fixed Compensation and the Variable Compensation are payable after the deduction, by the Parent Company as the payer, of the applicable public-law levies subject to payment to the pertinent authorities in respect of the Manager. If the applicable provisions of law require that, despite the fact that the Manager does not run his/her own business activity, the Fixed Compensation, the Variable Compensation or benefits payable by virtue of severance pay or non-competition clauses are subject to VAT at the applicable rate, such VAT will be added on top the amount in question. If it becomes mandatory for the Manager to pay VAT for any past periods, the Parent Company undertakes to pay to the Manager the amount equivalent to such tax arrears with interest.

The Fixed Compensation is payable within 7 days of the date of delivery of a properly issued bill to JSW. In the contract is in force for a shorter period than a full calendar month or if the Manager is unable to render his/her services in an uninterrupted manner, as provided for in the contract, the Fixed Compensation will be calculated on a pro rata basis.

The Manager will also be entitled to the Variable Compensation if he/she performs the contract for a period of less than one full financial year but at least for 3 months in the relevant financial year, in which case the Variable Compensation will be calculated on a pro rata basis. The pro rata calculation will depend on the number of days of the Manager's provision of the services in the relevant financial year. The determination of the maximum Variable Compensation for a given financial year, the Management Objectives for a given financial year and the method of evaluation of their achievement will be defined (to the extent consistent with the compensation-related decisions of the Shareholder Meeting) by the Supervisory Board. The general set of Management Objectives has been outlined by a resolution adopted by the Shareholder Meeting, and the Supervisory Board has been authorized by the Shareholder Meeting to define them precisely, assign weights to such objectives and to define objective and measurable criteria of their achievement and settlement.

The Variable Compensation will be paid out provided that the Manager fulfills his/her Management Objectives, after the JSW Management Board Activity Report and the financial statements for the preceding financial year have been approved and the Manager has been granted a discharge on the performance of his/her duties as a Management Board Member by the Shareholder Meeting in accordance with the provisions of the contract. The Variable Compensation, provided that it is due, will be paid within 7 days from the date of delivery to the Parent Company of a correctly issued bill by transfer to a bank account indicated by the Manager. In accordance with the decision of the Shareholder Meeting, payment of a portion of the Variable Compensation may be deferred for a period not to exceed 36 months, depending on the fulfillment of conditions by the specified deadline according to the designated Management Objectives, in which case that portion of the Variable Compensation may be paid out in full or partially at the end of the settlement period.

The Parent Company will be entitled to put forward a claim for reimbursement (in full or in the appropriate part) of the disbursed Variable Compensation if, following such disbursement, it becomes apparent that the Variable Compensation (in whole or in the appropriate part, as the case may be) was granted to the Manager on the basis of data that subsequently turned out to be untrue.

MANAGEMENT BOARD REMUNERATIONS FOR 2018 (PLN)

FIRST AND LAST NAME	PERIOD	REMUNERATION	MANAGEMENT SERVICES*	ANNUAL BONUS FOR 2018**	BENEFITS, INCOME FROM OTHER SOURCES***	INCOME EARNED IN SUBSIDIARIES	TOTAL
Daniel Ozon	01.01.-31.12.2018	-	720,000.00	-	-	-	720,000.00
Artur Dyczko	01.01.-31.12.2018	-	600,000.00	-	-	-	600,000.00
Tomasz Śledź	01.01.-31.12.2018	-	600,000.00	-	-	-	600,000.00
Robert Ostrowski	01.01.-31.12.2018	-	600,000.00	-	-	-	600,000.00
Jolanta Gruszka	01.01.-31.12.2018	-	600,000.00	-	-	-	600,000.00
Artur Wojtków	01.01.-31.12.2018	-	600,000.00	-	-	-	600,000.00
TOTAL		**-**	**3,720,000.00**	**-**	**-**	**-**	**3,720,000.00**

* *This item includes only the cost of remuneration based on management contracts.*

** *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).*

MANAGEMENT BOARD REMUNERATIONS FOR 2017 (PLN)

FIRST AND LAST NAME	PERIOD	REMUNERATION	MANAGEMENT SERVICES*	ANNUAL BONUS FOR 2017**	BENEFITS, INCOME FROM OTHER SOURCES***	INCOME EARNED IN SUBSIDIARIES	TOTAL
Tomasz Gawlik	01.01.-06.03.2017	-	180,000.00	-	360,000.00	-	540,000.00
Daniel Ozon	30.11.-31.12.2017	-	62,000.00	-	-	-	62,000.00
Artur Wojtków	01.01.-31.12.2017	-	600,000.00	-	-	-	600,000.00
Józef Pawlinów	01.01.-03.03.2017	-	150,000.00	-	150,000.00	-	300,000.00
Robert Ostrowski	01.01.-31.12.2017	-	600,000.00	-	-	-	600,000.00
Artur Dyczko	09.08.-31.12.2017	-	238,333.33	-	-	-	238,333.33
Jolanta Gruszka	01.01.-31.12.2017	-	600,000.00	-	-	-	600,000.00
Tomasz Śledź	06.10.-31.12.2017	-	143,333.33	-	-	-	143,333.33
Krzysztof Mysiak****	23.06-06.10.2016	-	-	-	50,000.00	-	50,000.00
TOTAL		**-**	**2,573,666.66**	**-**	**560,000.00**	**-**	**3,133,666.66**

* *This item includes only the cost of remuneration based on management contracts.*

** *This item includes the annual bonus for 2017 depending on the attainment of management objectives.*

*** *This item includes benefits payable after the expiration of the management contract (compensation for the notice period for management services, severance pay, compensation for refraining from competitive activity).*

**** *The value of benefits paid to Management Board Members in 2017 in respect of their work in this capacity in previous years after the expiration of the management contract (compensation for the notice period for management services, severance pay, compensation for refraining from competitive activity).*

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

REMUNERATION OF THE SUPERVISORY BOARD MEMBER SECONDED TO TEMPORARILY PERFORM THE DUTIES OF THE PRESIDENT OF THE MANAGEMENT BOARD IN 2017 (PLN)

FIRST AND LAST NAME	PERIOD	REMUNERATION*	MANAGEMENT SERVICES	ANNUAL BONUS	BENEFITS, INCOME FROM OTHER SOURCES	INCOME EARNED IN SUBSIDIARIES	TOTAL
Daniel Ozon	06.03.-06.06.2017 08.06.-07.09.2017 09.09.-30.11.2017	524,322.58	-	-	-	-	524,322.58
TOTAL		**524,322.58**	**-**	**-**	**-**	**-**	**524,322.58**

* *Pursuant to the Articles of Association, the remuneration was set by the Supervisory Board.*

7.16.2. NO COMPETITION CLAUSE

The no competition clause during the contract term has been defined in the management contract and the Manager is not entitled to any additional compensation for refraining from competitive activity.

The management contracts signed with the Management Board Members also include provisions prohibiting competition after the contract termination.

The Manager additionally undertakes, after the contract is terminated, if he has discharged the function for a period of at least 6 months from the date of the Manager's appointment to the JSW Management Board, not to conduct any competitive activity as defined in the contract over the period of 6 months from the date he/she ceases to perform his/her function.

The Manager is entitled to compensation for complying with the no-competition clause after the function ends, in the total amount equal to 0.5 times the monthly Fixed Compensation x 6. This compensation will be payable in 6 monthly installments, each by the 10th day of the following month. The compensation payment is conditional upon a written representation of the Manager confirming compliance with the no-competition clause after the function ended, delivered to JSW in writing by the 5th day of the month following the month for which the compensation is due.

The no-competition clause after the function ends does not apply if, before the end of the term of the clause, the Manager undertakes to perform a function in JSW or JSW's subsidiary belonging to the Group. In such a case, the entitlement to compensation expires on the day the manager takes up the function.

A management contract may be terminated in the part concerning the no-competition clause at any time by virtue of an agreement of the parties or by JSW with a 1-month notice period. The agreement and the termination notice must be made in writing; otherwise, they are null and void. The contract ceases to be in force if JSW fails to comply with its duty to pay the compensation, on the date that the payment term for this compensation installment to which JSW's delay refers elapses. The contract in the part concerning the no-competition clause may be also terminated with immediate effect at any time upon a written notice submitted by JSW in the event of a gross violation of the no-competition clause by the Manager after his function ends. If the no-competition clause ends in the event of contract termination, the compensation is due and payable in the appropriate proportion.

If the no-competition clause is violated while it is still in force but after the function ends, the clause ceases to be in force and JSW has the right to demand payment of contractual penalty from the Manager in the amount of 100% of the compensation within 14 days of receipt of JSW's summons by the Manager.

The payment of contractual penalty shall not preclude JSW's right to pursue damages in excess of the contractual penalty on general terms.

7.16.3. REMUNERATION OF SUPERVISORY BOARD MEMBERS

The rules governing the determination of remunerations of the Supervisory Board Members have been adopted by way of a decision made by the JSW Extraordinary Shareholder Meeting, in compliance with the regulations laid down in the Act on the Rules for Shaping the Compensation of Persons Managing Certain Companies.

The monthly compensation of Supervisory Board Members is set as the product of the average monthly salary in the corporate sector net of profit-sharing in the fourth quarter of the previous year, as announced by the President of the Central Statistical Office [GUS] and the following multiplier:

- 1.2 – for the Supervisory Board Chairperson,
- 1 – for the other Supervisory Board members

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

Supervisory Board Members are entitled to receive remuneration regardless of the number of meetings convened. Supervisory Board Members are not entitled to any remuneration for the month in which they did not attend any of the correctly convened meetings and their absence was not excused. The Supervisory Board decides by way of a resolution whether the absence of a Supervisory Board Member at a meeting was justified or not. Supervisory Board Members shall be entitled to reimbursement of expenses incurred in connection with the participation in the works of the Supervisory Board.

REMUNERATION FOR THE SUPERVISORY BOARD IN 2018 (PLN)

FIRST AND LAST NAME	PERIOD IN OFFICE	REMUNERATION	OTHER INCOME	TOTAL
Halina Buk	01.01.-31.12.2018	57,391.22	-	57,391.22
Eugeniusz Baron	01.01.-28.06.2018	26,129.09	-	26,129.09
Tomasz Lis	01.01.-31.12.2018	52,845.36	-	52,845.36
Robert Kudelski	01.01.-31.12.2018	52,845.36	-	52,845.36
Krzysztof Kwaśniewski	01.01.-22.10.2018	42,617.23	-	42,617.23
Antoni Malinowski	01.01.-31.12.2018	52,845.36	-	52,845.36
Alojzy Zbigniew Nowak	01.01.-31.12.2018	52,845.36	-	52,845.36
Andrzej Palarczyk	01.01.-28.06.2018	26,129.09	-	26,129.09
Adam Pawlicki	01.01.-31.12.2018	52,845.36	-	52,845.36
Konrad Balcerski	22.10.-31.12.2018	10,228.13	-	10,228.13
Arkadiusz Wypych	18.01.-31.12.2018	50,430.38	-	50,430.38
Paweł Bieszczad	28.06.-31.12.2018	26,863.06	-	26,863.06
Tadeusz Kubiczek	28.06.-31.12.2018	26,863.06	-	26,863.06
TOTAL		**530,878.06**	**-**	**530,878.06**

REMUNERATION FOR THE SUPERVISORY BOARD IN 2017 (PLN)

FIRST AND LAST NAME	PERIOD IN OFFICE	REMUNERATION	OTHER INCOME	TOTAL
Daniel Ozon*	08.09-08.09.2017 07.06-07.06.2017 01.01-06.03.2017	-	-	-
Eugeniusz Baron	01.01.-31.12.2017	52,845.36	-	52,845.36
Halina Buk	01.01.-31.12.2017	52,845.36	-	52,845.36
Robert Kudelski	01.01.-31.12.2017	52,845.36	-	52,845.36
Krzysztof Kwaśniewski	01.01.-31.12.2017	52,845.36	-	52,845.36
Tomasz Lis	01.01.-31.12.2017	52,845.36	-	52,845.36
Antoni Malinowski	01.01.-31.12.2017	52,845.36	-	52,845.36
Alojzy Zbigniew Nowak	01.01.-31.12.2017	52,845.36	-	52,845.36
Andrzej Palarczyk	01.01.-31.12.2017	52,845.36	-	52,845.36
Adam Pawlicki	01.01.-31.12.2017	52,845.36	-	52,845.36
Jan Przywara	01.01.-02.10.2017	39,918.13	-	39,918.13
TOTAL		**515,526.37**	**-**	**515,526.37**

* *Mr. Daniel Ozon, on the basis of the representation of 8 August 2016, renounced his right to collect remuneration for discharging the function of JSW Supervisory Board Member and the right to collect any amounts due on account of domestic and foreign business trip as of the date of his appointment to the position of Supervisory Board Member.*

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

7.16.4. INFORMATION ON ANY LIABILITIES UNDER PENSIONS AND SIMILAR BENEFITS FOR FORMER PERSONS DISCHARGING EXECUTIVE AND SUPERVISORY FUNCTIONS

Management service contracts entered into with Management Board Members do not contain the provisions concerning liabilities under pensions and similar benefits.

8. STATEMENT ON NON-FINANCIAL INFORMATION

8.1. STATEMENT OF THE JSW GROUP ON NON-FINANCIAL INFORMATION FOR 2018

This statement ("Statement", "Report") encompasses non-financial information concerning Jastrzębska Spółka Węglowa S.A. and the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2018. The statement was drafted in accordance with the requirements of Article 49 b and 55 of the Accounting Act which obligates the entities of public interest to disclose non-financial data. It contains the set of selected non-financial information which is important from the standpoint of the conducted activity. This information was compiled on the basis of, among other things, the following:

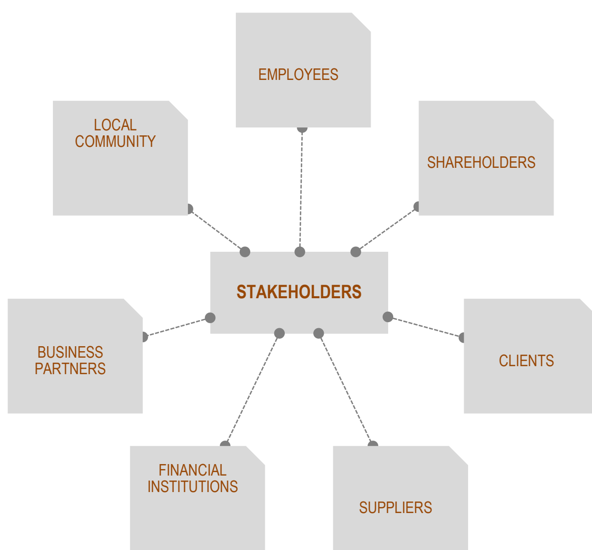
- PN-ISO 26000 standard,
- GRI Standards,
- Non-Financial Information Standard (SIN)
- GRI G4 sectoral supplements in the scope concerning the mining industry, and
- own ratios.

However, at the same time, this statement cannot be treated as a study drafted in accordance with GRI Standards.

The statement contains a comprehensive presentation of the Group's and JSW's impact on environmental, employee and social issues, including measures taken to ensure compliance with human rights and counteract corruption.

8.2. SIGNIFICANT STAKEHOLDERS AND NON-FINANCIAL ISSUES

This Statement is addressed at the group of main stakeholders which include:



In the JSW Group, social issues, HR management, and economic and environmental issues constitute a key element of business strategy and they are embodied through responsible and consistent growth of the Group's value. Relations with individual groups of stakeholders, including the form and frequency of the dialog as well as the topics discussed, are determined by the particular groups to which they pertain.

8.3. KEY NON-FINANCIAL EFFICIENCY RATIOS

The group contains the list of key non-financial ratios which are monitored and reported as part of the conducted reporting processes. At the same time, they are used in the process of making strategic and operational decisions.

Subsequent items of this Statement contain a presentation of the ratios related to the following areas: environmental, social and employee.

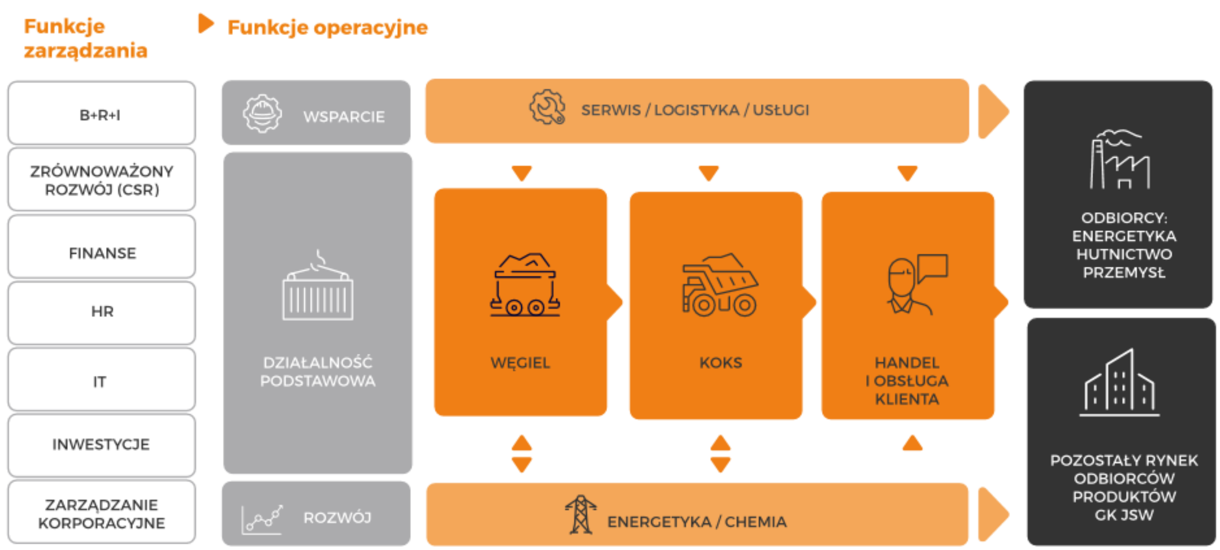
8.4. MANAGEMENT MODEL

BUSINESS MODEL AND THE STRATEGY OF THE JSW GROUP

The Group is the largest producer of type hard coking coal. For years, it has held the key position on the Polish and European market for coking coal, due to the high quality coal it produces and due to its location in proximity to its main customers. The main line of the Group's business is also the mining and sales of steam coal. JSW is also central for selling all coal derivative products, i.e. coke and hydrocarbons produced by coking plants owned by the Group.

The main line of business of JSW SA, the company that leads the JSW Group, is extraction of black coal, which takes place in separate organizational units, i.e. mines. JSW KOKS is responsible for coke production in the Group. Coal extraction and coke production form the core of our operations. Other companies with auxiliary functions, whose scope of activities was listed in Section 2.1, also form part of the Group.

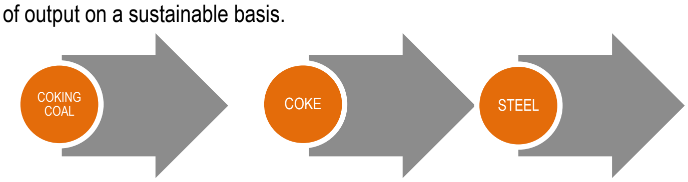
The Group companies operate in a complex socio-economic environment and its mining operations face demanding geological and mining conditions. In recent years, JSW and the Group went through a host of organizational transformations whose fundamental purpose was to optimize operating expenses and enhance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



The main directions of the adopted **business strategy** are discussed in greater detail in Item 3 of this report.

STRUCTURE OF THE GROUP AND PRESENTATION OF THE OPERATING SEGMENT AS PART OF SUPPLY CHAIN

The Group is an active participant of the coking coal – coke – steel supply chain. It focuses on extraction and processing of coal as well as sale of the JSW Group's products, such as coal, coke and other hydrocarbons. It forms therefore the key element of the recommended JSW Group operation model. The model assumes full integration of the value chain by elevating the intensity of long-term cooperation with customers in order to secure an appropriate level of output on a sustainable basis.



The Group includes varied-profile companies that occupy different niches in the supply chain. The Group operates on the basis of its two core lines of business: mining, consisting of the extraction of black coal (mainly coking coal), and coking, including the production of a full range of coke products. Other companies with auxiliary functions also form part of the Group.

The recommended Group operation model assumes full integration of the value chain by increasing the intensity of long-term cooperation with customers in order to secure an appropriate level of output on a sustainable basis.

The Group is organized and managed in segments by type of products offered and type of production activity. The Management Board of the Parent Company has identified operating segments based on the financial reporting of the companies comprising the Group. After analyses of the aggregation criteria and quantitative thresholds, the following operating segments were established in the Group's consolidated financial statements:

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

The Group is aware that it would be impossible to arrive at the optimal value creation model without the direct attainment of a number of smaller partial objectives, related both to securing coal resources and ensuring a high quality of output and growth in productivity. These objectives are driven directly by the deployment of innovative technical and technological solutions, optimization of energy intensity, alertness to people and their safety, and care for the natural environment.

SUSTAINABLE DEVELOPMENT STRATEGY

From a formal point of view, the Group has not adopted generic social, employee, environmental protection, human rights and anti-corruption policies that would apply to all companies in the Group (by generic, we mean here separate documents concerning individual areas).

The approach to managing the aforesaid issues has been set forth in the *Sustainable Development Strategy for 2017-2020 ("Strategy")*. JSW believes that the Strategy document not only replaces these policies but also goes beyond them, because it defines objectives and indicators used to measure the development of Group companies in important impact areas.

The Strategy is based on seven areas treated as objectives.

These objectives have been assigned indicators planned to be achieved in successive years. In 2018, the achievement of key objectives for 2017 was assessed, with results considered while appraising the Parent Company with a view to its presence in the RESPECT Index (an independent audit was staged in November 2018). The document will be subject to period reviews both as regards achieving the objectives, that is the planned indicator values, as well as the up-to-date character of individual objectives.

Fundamental objectives of the Sustainable Development Strategy for 2017-2020

OBJECTIVE 1: **We respect science and make use of innovative solutions in order to develop our business in a more sustainable manner**	1.1. Initiating projects independently or building partnerships with business (B2B) and the scientific community (B2U) in order to develop projects and technologies intended to find ever better ways to: protect the life and health of people employed in the mining industry (occupational health and safety), reduce the impact of mining operations on nature and the environment, respect limited resources of coal in order to extract and consume them more efficiently and to find profitable applications for raw materials obtained as by-products of coal and coke (including methane, coke oven gas, waste rock, mine water and salt). 1.2. Acquiring external funds for research in this area in B2B or B2U projects (e.g. from the National Research and Development Center (NCBR) or the National Fund for Environmental Protection and Water Management (NFOŚiGW).
OBJECTIVE 2: **We respect human life and health and refuse to compromise on safety**	2.1. "Zero" fatalities 2.2. Reducing the number of accidents at work (including accidents involving the employees of third party companies)
OBJECTIVE 3: **We respect each and every human being and our community, sharing the responsibility for JSW and its property**	3.1. Building an organizational culture based on respect for other human beings. 3.2. Eliminating the instances of discrimination, mobbing, violation of employee rights or other unethical behaviors. 3.3. Eliminating the instances of unequal treatment of men and women in the organization.
OBJECTIVE 4: **We respect non-renewable resources by using them effectively**	4.1. Efficient utilization of the coal deposits that are being mined and are commercially viable 4.2. Efficient economic utilization of methane which exits along with the coal deposits 4.3. Efficient economic utilization of coke oven gas 4.4. Optimization of electric energy consumption 4.5. Optimization of the consumption of fuels 4.6. Carbon footprint reduction and emission management
OBJECTIVE 5: **We respect the natural environment, nature in our immediate vicinity and the local communities in the areas where JSW operates and of which it is a co-resident and neighbor**	5.1. Ensuring the security of the natural environment in the immediate vicinity 5.2. Ensuring the safety and quality of life of the residents of local communities
OBJECTIVE 6: **We respect the needs and expectations of our Clients**	6.1. Coking coal sales volume 6.2. Coke sales volume
OBJECTIVE 7: **We respect transparency and honesty in management**	7.1. Presence in RESPECT Index

INTERNAL MANAGEMENT SYSTEMS

Both JSW and a number of Group companies have implemented certified management systems. The Parent Company operates a certified Integrated Management System with respect to:

- **Quality** – *according to ISO 9001 requirements*;
- **Environment** – *according to ISO 14001 requirements*;
- **Occupational health and safety** – *according to PN-N 18001 requirements*;
- **Information safety** – *according to ISO 27001 requirements*,

as regards extraction, processing and sales of coal.

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

The established and implemented Integrated Management System Policy matches the nature and scope of conducted activities and is also compliant with the mission and vision, ethical values and culture of the enterprise and oriented on the needs and expectations of all stakeholders.

The system encompasses quality objectives, environmental objectives and tasks, general and detailed objectives related to occupational health and safety, and objectives, plans and safeguards in respect of information safety. Appropriate financial, human and organizational resources have been ensured to maintain and continuously improve the effectiveness of the Integrated Management System and achieve the set objectives.

The primary objectives of the Integrated Management System include:

- ensuring in a documented manner that quality requirements for goods are met at all stages of conducted processes and that requirements concerning occupational health and safety are fulfilled,
- minimizing the potential risk of non-conformity of offered goods,
- identifying and eliminating, as soon as possible, causes and effects that disrupt conducted processes by means of implementation of corrective and preventive actions,
- curtailing any adverse impact on the environment,
- continuously improving employee safety,
- protecting the Parent Company informational resources and means used to process them,
- ensuring data safety and continuous business processes,
- improving the Parent Company's position as a reliable partner that stands out clearly against other coal companies and building an image of an environmentally friendly enterprise.

COMPLIANCE SYSTEM

In the analyzed period, the Parent Company conducted advanced works to design and implement a complex compliance system. The system consists of internal regulations which, taken as a whole, are designed to prevent and mitigate the consequences of legal sanctions imposed as a result of potential irregularities. The Parent Company's compliance system, now at the design stage, consists of the following components:

COMPLIANCE POLICY (UNDER CONSTRUCTION)	The Policy is a regulation designed to limit and prevent the consequences of irregularities that increase non-compliance risk. The Compliance Policy is the basic document regulating the manner in which compliance is achieved at JSW. The Policy also divides related duties and competences among individual organizational units.
ANTI-CORRUPTION POLICY (UNDER CONSTRUCTION)	The overarching objective of this Policy is the disavowal of corruption and all its forms by JSW employees, associates and representatives. The Policy also establishes a uniform route to notify and report irregularities while protecting those who act in good faith with a guarantee of anonymity.
CODE OF ETHICS (ADOPTED)	The Code names the most important behavior principles and standards of which JSW approves and contains advice on conduct in circumstances in which a decision or situation may give rise to ethical dilemmas.
INTERNAL REGULATIONS ADOPTION BYLAWS (ADOPTED)	The purpose of bringing the Bylaws into effect is ensuring that all JSW internal regulations are drafted using a uniform workflow, have a consistent form, and are complete, coherent and compliant with provisions of law, the Parent Company's Articles of Association, and other internal regulations
BUSINESS PARTNERS VERIFICATION PROCEDURE, LIST OF ANTI-CORRUPTION PROVISIONS (UNDER CONSTRUCTION)	This document, drafted in accordance with to standards recommended for companies listed on the Warsaw Stock Exchange, will contain a business partners verification procedure designed to check entities cooperating with JSW for non-compliance and corruption risks in the scope matching the needs of the Parent Company.
EXTERNAL INSPECTIONS PROCEDURE (UNDER CONSTRUCTION)	This document applies in case of an inspection or search conducted at JSW by state authorities.
SAFETY POLICY – PROTECTION OF PERSONAL DATA PRINCIPLES (ADOPTED)	The purpose of the document is to ensure that JSW processes personal data inside and outside IT systems in compliance with effective rules of law and internal regulations.
PROTECTION OF CLASSIFIED INFORMATION PRINCIPLES (ADOPTED)	This regulation assigns responsibility for protection of classified information and sets forth the duties of the Classified Information Protection Officer.
EMPLOYMENT OF FAMILY AND ACQUAINTANCES POLICY (UNDER CONSTRUCTION)	This document is designed to prevent the abuse of a position through preferring and favoring family members.

SPONSORING AND CHARITABLE ACTIVITIES POLICY (UNDER CONSTRUCTION)	This document regulates JSW's sponsoring, philanthropic and social activities. Considering the need to maintain good market practices with respect to the rational character of activities at each stage, the document will refer to social corporate responsibility that considers the needs of all JSW stakeholders. The document will delimit areas in which direct and indirect sponsoring of specific entities is prohibited, defining the allowed scope of such activities.
ANONYMOUS REPORTING OF VIOLATIONS OF MONEY LAUNDERING AND TERRORISM FINANCING PROVISIONS PROCEDURE (ADOPTED)	This procedure sets forth the principles of reporting the violations to a designated JSW Management Board member.
MONEY LAUNDERING AND TERRORISM FINANCING PREVENTION PROCEDURE (ADOPTED)	A document that defines JSW conduct in the above scope as an entity that offers the services of keeping accounting books.
GIFTS DISTRIBUTION AND ACCEPTANCE POLICY (UNDER CONSTRUCTION)	The principles listed in this policy apply when distributing and accepting gifts is possible, defining their value and the conditions which must be fulfilled.
CONFLICTS OF INTEREST PREVENTION POLICY (UNDER CONSTRUCTION)	A document defining the standards and methods to properly identify, avoid and manage conflicts of interest.

The compliance approach used by JSW takes into consideration both legal requirements and guidelines and recommendations in this respect and is compliant with best practices. The final adoption of all regulations that together make up the comprehensive compliance system at JSW is planned in the first quarter of 2019.

DIVERSITY POLICY

The diversity policy has been expressed in the Ethics Code adopted by the Group. The document contains the most essential features of ethics, anti-corruption and anti-discrimination policy as well as principles of respect for diversity and tolerance. The Ethics Code also contains the rules for reporting irregularities, the duty to comply with occupational health and safety rules, minimizing impact on the natural environment and local community, refraining from activities competing with or prejudicial to the Group, and building honest relations with partners. In anticipation of new requirements and expectations resulting from standards recommended for compliance management systems as regards preventing corruption and protection of whistleblowers in listed companies, a change of the Code of Ethics is also planned to extend the above principles and standards of conduct.

DIVERSITY IN MANAGEMENT BOARDS AND SUPERVISORY BOARDS OF GROUP COMPANIES	2018	2017	GROWTH RATE 2017=100
MANAGEMENT BOARDS	**25**	**30**	**83.3**
▪ Women	8	5	160.0
▪ Men	17	25	68.0
SUPERVISORY BOARDS	**50**	**59**	**84.7**
▪ Women	10	12	83.3
▪ Men	40	47	85.1

INTERNAL CONTROL SYSTEM

The internal control system in operation in JSW covers all JSW operations contemplated in the Articles of Association and all levels of organizational structure, and thereby impacts all processes taking place at JSW. The system defines activities in the areas of internal control, risk management, compliance, internal audit and others that have direct or indirect influence on correctly compiled financial statements. The system involves numerous implemented control mechanisms and internal regulations.

The internal control system area is subject to the *Internal Control System Operation Bylaws*, a set of regulations and principles underlying the construction, operation and usage of the internal control system at JSW in accordance with the Company's Articles of Association.

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

The Company's internal control system is permanently embedded in the management process. and based on identification and assessment of risk related to processes and activities conducted in all organizationally separate units. Identified risk is used to design and implement respective internal control mechanisms. The mechanisms should protect the Company against the risk that identified threats for achieving JSW objectives will materialize.

The Company's internal control system comprises all regulations, procedures and organizational structures that act together to ensure:

- compliance with strategy,
- efficiency and effectiveness of procedures,
- protection of assets,
- compliance of transactions and activities with the mandatory provisions of law, supervisory regulations and internal policies, plans, provisions and procedures,
- support for the decision-making process.

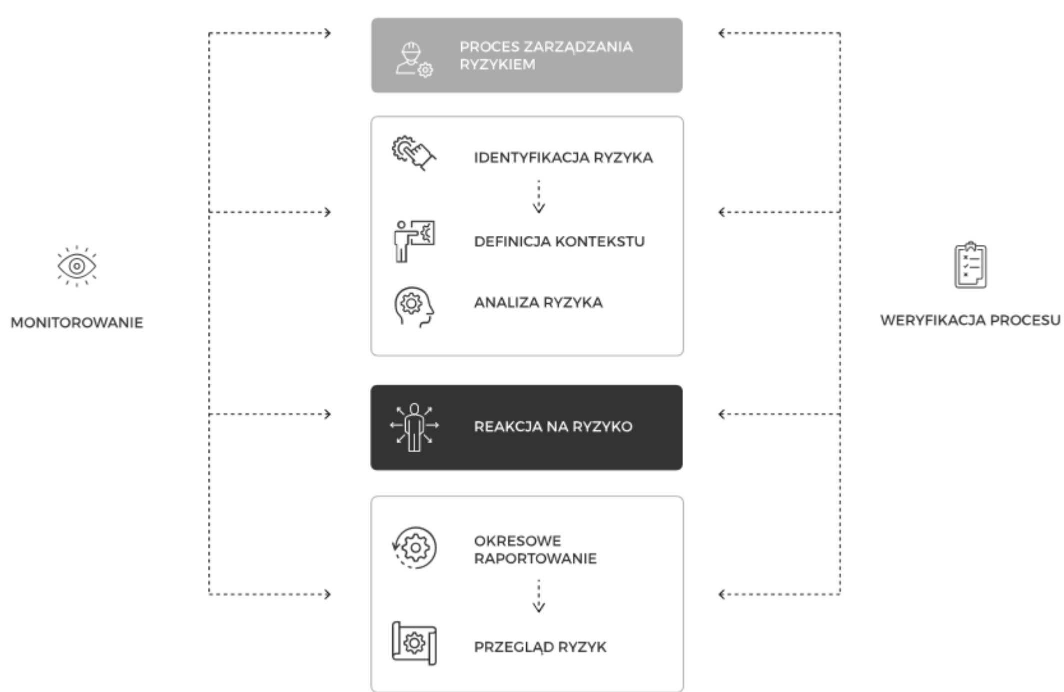
The internal control system, permanently and consistently embedded in the JSW management system, allows supervising conducted activities as a whole and is oriented on recognizing and assessing the entirety of risk at JSW, including risk related to each operation. The impact of risk on individual Group areas of activity is assessed with respect to its importance.

The purpose of the internal control system is to support management, achieve set goals, increase the efficiency of tasks and ensure its safe and stable operation.

8.5. RISKS RELATED TO KEY STRATEGY AREAS

The Group has in place a comprehensive enterprise risk management system which comprises the Enterprise Risk Management Policy and Procedure. Adopting uniform risk management standards in the Group is meant to maintain risk within predetermined limits and ensure the achievement of business objectives while guaranteeing safety for the Group.
To properly supervise the risk management process, an ERM Officer has been appointed to coordinate the corporate risk management process. The ERM Officer also collaborates with the Supervisory Board Audit Committee by submitting reports on the Group's risk profile and corporate risk management progress.
Mindful management of existing threats and opportunities enables the Group to protect its attained value and improve its ability to add extra value. Enterprise risk management is a continuous process and is subject to modifications driven by the changing business environment, the Group's operations and changes in the impact of specific risks on the Group's business objectives. Risk management occurs in all links of the organizational structure and in all areas of operations, including: operational, strategic, financial, commercial, and legal and regulatory.

BUSINESS OBJECTIVES OF JASTRZĘBSKA SPÓŁKA WĘGLOWA S.A.



To each objective set in the Group's Sustainable Development Strategy for 2017-2020, the following risk aspects can be assigned:

RISKS RELATED TO THE SOCIAL AREA	
RISK ASSOCIATED WITH CORPORATE SOCIAL RESPONSIBILITY	The risk that the Group will have a negative public image due to not paying enough attention to social interests (for example, conducting business activities by the JSW Group, including JSW, may prompt disputes with local communities concerning the areas where the Group conducts or intends to conduct its operations).
INVESTOR RISK	The risk that the Group will not be viewed by investors as transparent and trustworthy.
RISK ASSOCIATED WITH PROPER BRAND, MARKETING AND REPUTATION MANAGEMENT	The risk resulting from an undesirable appearance of the Group (image and brand) arising among various groups of stakeholders as a result of negative media coverage, mudslinging, data leaks, conflicts of interest, environmental aspects, crisis situations, social disturbances, large-scale disasters, violating safety rules and other events negatively affecting the company's appearance.

RISKS RELATED TO THE EMPLOYEE AREA	
OCCUPATIONAL HEALTH AND SAFETY RISK	**Explosives** (risk of threat to human safety and health, property and natural environment as a result of an explosion of explosives stored, transported or used in mining works). **Unexpected geological disruptions** (the risk that unexpected geological disruptions may lead to loss of life or health or threat to safety of persons, destruction of or damage to Company or third party property, or interruption or even suspension of operating activities). **Occupational diseases** (the risk that, due to the nature of their work, employees may in the future be diagnosed with occupational diseases, such as pneumoconiosis, permanent hearing impairment, hand-arm vibration syndrome, eye diseases, muscle and bone diseases etc.) **Industrial accidents and other threats** (the risk of an industrial accident threatening the life or health of employees, causing property damage, environmental pollution or other negative consequences). **Methane hazard** (the risk that rising methane concentration in a mining pit or part thereof will cause an explosion, methane burnout or displacement of oxygen in mine air, resulting in loss of life, health, threat to safety of persons, or destruction or damage to Company property, with the possibility that operation activities will be limited or even suspended). **Rock burst hazard** (the risk that as a result of a dynamic phenomenon caused by a shock wave in the rock mass, a burst will occur, resulting in loss of life, health or a threat to safety of persons. The pit or a part thereof, as well as the equipment located at the pit, i.e. the Company's property, may be damaged or destroyed. Such an event may cause total or partial loss of the pit's functionality. **Water hazard** (the risk that as a result of an inrush of water or an increased flow of water or mixtures containing loose material into the pit, that exceeds the capacity of collection and draining, the Company's property will be destroyed or there will be a hazard to life, health, and safety of persons present in the hazardous areas, and the operations will be restricted, interrupted or even stopped altogether). **Underground fires** (the risk that an exogenous or endogenous fire and higher than acceptable concentration of carbon monoxide in the mine air will result in loss of life, health, a threat to safety of persons or in destruction of the Company's property, and its operations being interrupted or even stopped altogether). **Coal dust explosion hazard** (the risk that coal dust will accumulate in underground pits or other premises of the mining plant). When exposed to air, this accumulation may create an explosive mixture, and - with a relevant trigger - explode. This may result in loss of life, health, a threat to safety of persons, as well as destruction of the Company's property, and its operating activity being interrupted or even stopped altogether). **Gas and rock outburst hazard** (the risk that as a result of mining works conducted in an area of geological disturbances, a dynamic geological gas phenomenon (an outburst of methane and rock mass) or a sudden release of methane from the rock mass into the pit will occur, which will cause: loss of life, health, or a

	threat to safety of persons in the presence of atmosphere unsuitable for breathing, damage of the shield and equipment, and creation of a post-outburst cavern or explosive accumulation of methane. **Climatic hazard** (the risk of reduction of employee working time in the case of a climatic hazard developing in mining pits or hindering the possibility of mining work in the case of the temperature as measured by a dry thermometer to increase above 33 °C). **Hazard of natural substance radioactivity** (the risk that an exposure to natural radioactive isotopes as well as radon and its breakdown products caused by mining activities will result in loss of life, health or a threat to safety of employees or persons being in contact with them, or a hazard to the natural environment.
RISK CONNECTED WITH HUMAN RESOURCES MANAGEMENT	**Availability of employees, allocation and development of human resources and availability of subcontractors** (the risk of limited recruitment opportunities, incorrect selection of employees, inadequate allocation and development of human resources, employee departures and inability to use subcontractors). **Performance measurement system and incentive system** (the risk that unrealistic, misunderstood, subjective or unenforceable performance measures may cause managers and other employees to act in a manner inconsistent with the Company's ethical objectives, strategies and standards or best business practices). **Allocation of powers and efficiency of the delegation of responsibility** (the risk that unclear allocation of powers and limitations in the delegation of duties and responsibilities will result in employees taking risks that are unacceptable from the standpoint of the Company's interests, or that excessive restrictions will reduce the effectiveness of the decision-making process). **Succession and filling key positions** (the risk that absence of an effective human resources planning system and the key personnel succession system may jeopardize the implementation of the business model and achievement of the Company's key objectives). **Labor law** (the risk that the regulations, processes, training system and information flow in the Company will be inadequate to ensure compliance with the labor law and occupational health and safety regulations.)

RISKS CONNECTED WITH HUMAN RIGHTS

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

RISK CONNECTED WITH CORRUPTION AND BRIBERY

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

RISK CONNECTED WITH ENVIRONMENTAL PROTECTION

RISKS OF ENVIRONMENTAL PROTECTION REGULATIONS	The risk resulting from there being no possibility of adjusting the organization to new legal solutions and other ecological requirements in connection with imposing stricter environmental standards and legal regulations on the Group companies.

RISK OF THE REQUIREMENT TO ADJUST OPERATIONS TO THE EU CLIMATE POLICY	The risk that as a result of restrictive climate policy of the European Union, the Group will be required to reduce the production of fossil fuels.
ACOUSTIC CLIMATE HAZARDS	The risk that as a result of operation of machinery and equipment the permissible noise level is exceeded.
ATMOSPHERIC HAZARDS	The risk that as a result of the Company's activity the permissible level of gas and dust emissions into the air is exceeded.
HAZARDS TO AQUATIC ENVIRONMENT	The risk that as a result of the Company's activity, the Group will fail to fulfill the conditions of discharging salinated underground waters, as defined by law and relevant decisions.
RISK OF IMPROPER HANDLING OF HAZARDOUS SUBSTANCES AND MATERIALS	The risk that because of improper handling of hazardous substances and materials, there is a threat to the environment, human life and health, property or the risk of other losses.
THREATS ARISING FROM THE OCCURRENCE OF MINING DAMAGE ON THE SURFACE	The risk connected with the requirement imposed on the Group to cover the costs of repair of mining damage occurring on the surface of a given area as a result of mining works.
RISK CONNECTED WITH WASTE AND BYPRODUCTS MANAGEMENT	The risk that the volume and flexibility of production is limited by the possibilities to manage mining waste.

8.6. EMPLOYEE MATTERS

The *JSW Strategy, including JSW Group Subsidiaries, for 2018-2030* has the primary role in defining the approach to human resources management. The approach to employee-related matters has also been defined in the *Sustainable Development Strategy for 2017-2020*.

8.6.1. HEADCOUNT IN THE GROUP

Development of a proper organizational culture based on mutual respect is key to the area of employee matters - in its aspects unrelated to OHS, of key importance in mining. For this purpose it is necessary:

- to create a coherent policy of objective assessment of employees, promotions, training and development planning, as well as protection against discrimination,
- to diagnose the existing situation.

Therefore, the *Sustainable Development Strategy for 2017-2020* envisages to implement a regular survey of the organization's culture and employees' satisfaction. Based on these surveys, it will be possible to develop the human resources management, so as to optimally fulfill employees' expectations. Even though in accordance with the assumptions of the strategy, the first survey of the organizational culture was to be conducted in 2018, it was actually conducted still in 2017. The Management Board asked employees to fill in a short questionnaire on 18 December 2017. The questionnaires, collected in ballot boxes, were treated as confidential, and the survey results, particularly critical reports, have become a valuable source of information on areas that require improvement and corrective actions.

One of the management's obligations to the employees is monitoring to ensure a non-discriminatory remuneration system, as well as a non-discriminatory system of promotion and development. It would be first applicable to units employing both men and women, in order to identify, and then eliminate, potential discrimination against women. At the same time, the threat of discrimination on the grounds of gender would also be taken into consideration in employee surveys, so that the interested persons themselves can say whether, and to what extent, they feel to be treated as inferior, and not only in terms of remuneration, but more broadly, e.g. in the context of interpersonal relations, as well.

In addition, the Company started the implementation, based on best market practices, of an internal system of annual employee assessment and the interconnected system of training and development planning.

A necessary condition for the development of a healthy organizational culture is effective and open internal communication. Ultimately, it should also become a tool for developing employees' sensitivity to ethical issues, including prevention of unethical conduct.

In 2018, within the framework of the reorganization of JWS and the JSW Group, a lot of attention was devoted to streamlining the human resources management structures, i.e. to an analysis and consolidation of the HR areas, which thus far operated under a number of different functional divisions of JSW.

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

The *Recruitment Procedure in Jastrzębska Spółka Węglowa S.A.* operated by the Parent Company is primarily designed to streamline and standardize the process of recruiting the best candidates with competences that could not be found to a sufficient degree in the internal recruitment process.

In view of the necessity to ensure an inflow of young employees into the Company, the JSW Management Board is stepping up its cooperation with local governments of the towns and municipalities where it operates, in the area of vocational mining education in schools managed by the local governments. This cooperation is aimed at improving the quality of education of young people by the way of, inter alia, internships and support for various types of educational projects.

In 2017, work was initiated to implement a procedure to regulate the rules of raising employees' professional qualifications. The *Procedure of Raising Vocational Qualifications of JSW Employees* came into force on 1 January 2018. That procedure envisages, inter alia, joint budget planning, more effective use of funds, centralization of training organization, the motivating role of training, and transparent criteria for employees' development opportunities.

In the remaining companies, activities in the employee area, including OHS activities, were conducted in accordance with the applicable legal regulations and regulations and internal procedures adopted individually in those entities.

The Group headcount, by: type of employment, position and age, and by gender (in persons) was as follows:

ITEM	2018			2017		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
EMPLOYMENT STRUCTURE BY THE TYPE OF CONTRACT						
Employment contract, indefinite term	2884	23267	26151	2,695	22,533	25,228
Employment contract, definite term	315	1065	1380	158	504	662
Employment contract, trial period	71	666	737	37	538	575
Civil law agreement	*124*	*447*	*571*	*62*	*166*	*228*
EMPLOYMENT STRUCTURE BY POSITION						
White-collar (no-manual work positions)	42	2752	2794	34	2,657	2,691
Blue-collar positions	0	15708	15708	-	14,658	14,658
White-collar positions, on the surface	2104	1650	3754	1,874	1,504	3,378
Blue-collar positions, on the surface	1124	4888	6012	982	4,756	5,738
GROUP'S HEADCOUNT STRUCTURE BY AGE						
Up to 30 years of age	325	4816	5141	241	4,520	4,761
From 31 to 40 years	656	10511	11167	520	10,117	10,637
From 41 to 50 years	1039	6297	7336	998	5,704	6,702
Over 50 years of age	1250	3374	4624	1,131	3,234	4,365
TOTAL	**3270**	**24998**	**28268**	**2,890**	**23,575**	**26,465**

As at 31 December 2018, The Group employed 28,268 employees. The headcount increased by 1,803 persons compared to the same period of the previous year. The headcount increased in order to ensure secure implementation of the planned production activities. The Parent Company has the highest headcount, which as at 31 December 2018 was 21,616 employees, and was higher by 729 persons in comparison to 31 December 2017. The headcount increase in the Parent Company was a result of, inter alia, the Memorandum concluded on 26 April 2017 between JSW and the Representative Trade Union Organizations, under which JSW SiG employees are gradually employed in JSW's organizational units in order to strengthen coal-face and longwall crews in mines. In 2018, the share of employees working underground in the Group's total headcount was 65%.

The average headcount in the Group in 2018 was 27,207 persons. It was 644 persons higher than in the previous year. The average headcount in the Parent Company in 2018 was 21,095 persons. It was 347 persons higher than in the previous year.

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

8.6.2. TRAINING AND DEVELOPMENT

Parent Company's employees can raise their professional qualifications by the way of training organized by the employer and - in some cases - foreign language courses. Detailed principles of raising employee qualifications are described in the procedure "Procedure of Raising Vocational Qualifications of JSW Employees".

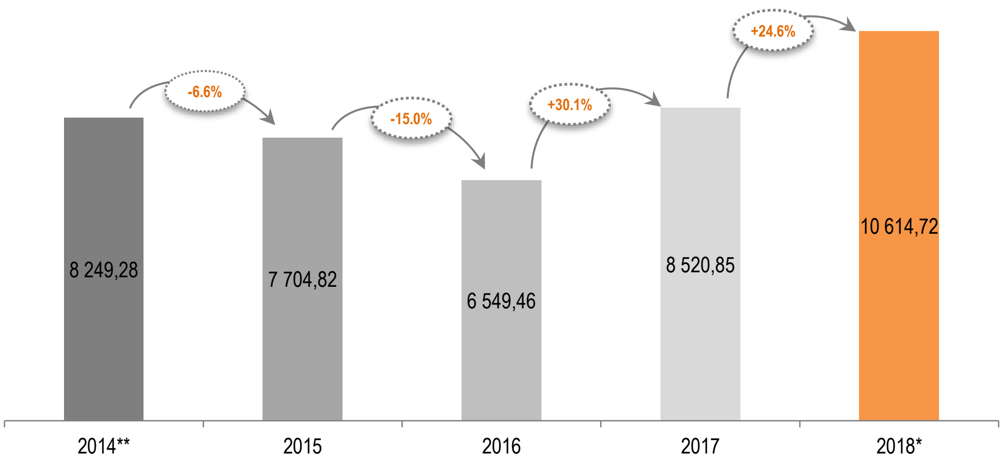
On 14 March 2018, the JSW Management Board adopted a scholarship program used in cooperation with local governments, which are responsible for mining occupations schools. The primary objective of the scholarship program is to encourage young people to start education in mining programs, and to become JSW mines employees in the future. The program is in line with the general plan of the Ministry of Education to rebuild and develop industry and technical vocational schools. The scholarships are addressed to day students of mining programs in schools and classes included in the agreements concluded by JSW. The scholarship is merit-based, including the student grades, conduct and attendance.

NUMBER OF TRAINING HOURS	2018	2017	GROWTH RATE 2017=100
Per one JSW employee (in hours)	14.33	11.25	127.4
Average per one Group employee (in hours)	13.27	9.94	133.5

8.6.3. PAYROLL

The Group companies have variable employee remuneration principles. In 2018, remuneration in individual Group entities ranges from PLN 2,867.35 to PLN 12,632.83.

The average monthly salary in the Parent Company (net of profit sharing bonus) is shown in the diagram below (in PLN):



* *Average monthly salary in 2018, in the amount of PLN 10,614.72, includes the backpayment of benefits for 2016, i.e. the 14th salary and the free coal allowance.* Net of the aforementioned backpayment of benefits and allowances, the average monthly salary is PLN 9,642.81

** *Average monthly pay in 2014 of PLN 8,249.28 also includes the remuneration of employees at KWK Knurów-Szczygłowice received for their time of work at JSW.*

The remuneration of most JSW employees is paid on the basis of company-level collective bargaining agreements ("CCBA") terminated effective as of 1 January 2010. Employees who started their employment after 15 February 2012 are remunerated according to the principles defined in new employment contracts.

Pursuant to internal regulations, for their work employees of the Parent Company receive renumeration composed of a base salary rate, a bonus or a piecework surplus, the Miner's Charter (seniority allowance), a functional allowance (e.g. a wall-face allowance), and an allowance for work in onerous, dangerous and hazardous conditions. The employee's base salary depends on the category of the employee's rank, the nature or the specifics of the work performed and the position held by the employee. Hiring employees for the appropriate jobs and awarding a category of rank is based on the Job Valuator. In addition to the aforementioned salary components, JSW's employees are entitled to such additional benefits as: annual Miner's Day bonus, Miner's Day cash equivalent, additional annual bonus – the so-called 14th salary, free coal allowance, jubilee awards, retirement and disability severance pay, holiday travel costs refund allowance (the so-called Miner's Charter Ticket), and school aids allowance. Additionally employees may receive an incentive bonus.

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

Under the new employment contracts, employees are entitled to remuneration composed of a basic salary and period of service allowance. The amount of remuneration depends on the type of work performed and the time an employee has worked for the Company. In addition to the above salary components, employees employed under new contracts, are entitled to the following additional benefits: annual Miner's Day bonus ("Barbórka"), additional annual bonus – the so-called 14th salary, free coal allowance, retirement and disability pension severance pay, holiday travel costs refund allowance (the so-called Miner's Charter Ticket), and school aids allowance. Additionally employees may receive an incentive bonus. Some of the aforementioned benefits have been suspended.

The following memorandums concluded with the social partner in 2017 and 2018, and decisions of the Management Board, had a significant impact on the average monthly salary in 2018:

1. The Memorandum concluded on 23 February 2015 between the JSW Management Board and the Trade Union Organizations in connection with financial and economic difficulties, halting the pay-out or manner of calculation of certain remuneration components, which was reinstated as from 1 March 2018, including:
   - payment of the school aids allowance;
   - holiday travel costs refund allowance (the so-called Miner's Charter Ticket);
   - remuneration for sickness leaves and the sickness allowance, which during the suspension period were calculated pursuant to the Labor Code and the Act on Social Benefits from Social Insurance in Case of Illness and Maternity;
   - remuneration for holiday leaves, which during the suspension period were calculated pursuant to the Labor Code and the Regulation of the Minister of Labor and Social Policy of 8 January 1997 on the detailed rules of granting holiday leaves, setting and paying remuneration for the time of holiday leaves and cash equivalent for holiday leaves;
   - payment of the OHS bonus.
2. The Memorandum signed on 16 September 2015 between the JSW Management Board and the Trade Union Organizations, under which certain autonomous JSW labor law regulations were suspended for three years (2016-2018) and at the same time the following remuneration setting solutions were implemented in JSW:
   - suspension of the 14th salary payment,
   - suspension of the Miner's Day ("Barbórka") cash equivalent payment,
   - change of the rules for calculation of the Miners' Day bonus,
   - suspension of the right to the free coal allowance,
   - changes of the rules for payment of the retirement severance pay.
3. In the period in question, the process of remuneration regulation was continued in KWK Knurów-Szczygłowice (in accordance with the Memorandum concluded on 27 January 2016).
4. The Memorandum of Agreement signed on 5 December 2017 between the JSW Management Board and the Trade Union Organizations, which waived the provisions of § 3 item 1 and § 3 item 3 of the Memorandum of 16 September 2015, regarding the annual bonus, the so-called 14th salary, and the free coal allowance. The payment of the aforementioned benefits and allowances was made pursuant to the rules applicable prior to the Memorandum: for the 14th salary - as from 1 January 2017, and for the free coal allowance - as from 1 January 2018.
5. The Memorandum dated 27 December 2017 between the JSW Management Board and the Trade Union Organizations, under which the rules regarding the free coal allowance were standardized across the Company as from 2018.
6. The Memorandum between the JSW Management Board and the Trade Union Organizations, dated 19 February 2018 (regarding remuneration for work on bank holidays, Sundays and public holidays, remuneration for the time of holiday leave and remuneration for the time of sickness leave and the sickness benefit), and the Memorandum dated 28 March 2018 (regarding school aids and the Miner's Charter tickets), which introduced standard rules for those benefits and allowances across the Company.
7. The Memorandum between the JSW Management Board and the Trade Union Organizations, concluded on 11 June 2018, under which the salary fund would increase by 7% from June 2018 through an increase in the basic salary rates and standardization of the rules of, and entitlements to, the seniority allowance, i.e. the Miner's Charter, across the Company. Furthermore, a backpayment of the 14th salary for 2016 was made (in July 2018) and of the free coal allowance for 2016 (paid on 26 October 2018, after a positive assessment of the financial result for Q3 of 2018).

As regards the risks related to remuneration, it should be noted that the market situation in 2019, i.e. the inflation rate and increase of remuneration in other companies, may lead to employee claims and consequent trade union demands for pay increase.

The details of the agreements concluded in 2018 are presented further below.

8.6.4. RESPECT FOR HUMAN RIGHTS

The issues related to the respect for human rights in the Group many be divided into the following categories:

- respect for rights, in particular personal freedoms, of persons working for the Group,
- respect for the freedom of association and the right to take part and organize peaceful demonstrations.

PERSONAL RIGHTS AND FREEDOMS

The aspects related to safeguarding the due respect for inalienable rights and freedoms of every person have become the foundation of activities planned in the *Sustainable Development Strategy for 2017-2020*, in the area of employee matters and building a healthy and non-discriminatory organizational culture. The Strategy seeks to ensure formal mechanisms, not in existence earlier, that will support elimination of the risk of unethical conduct in interpersonal relations (such as mobbing, discrimination on the grounds of gender or nepotism), which may potentially arise in any organization. Zero tolerance for such conduct results directly from the provisions of law, including the labor law, which serves as a basis for compliance of the Company's all internal regulations.

Adopted in 2017, the *JSW Group's Code of Ethics* is a tool that supports the development of desired conduct and enforcement of possible violations of those ethical standards. The Code also reflects JSW's ethical and anti-discriminatory, as well as - to some extent - anti-corruption policies. It establishes the procedures of reporting violations and irregularities, non-compliance with legal obligations, threats to occupational health and safety, health of customers and bystanders, environmental safety, unfair competition practices and attempts to conceal any of the above. It provides an opportunity for all employees, regardless of their position, to report problems at a high level and find protection from possible repressions by their superiors. The Code is also helpful in resolving conflicts of interests, which will inevitably arise in any organization.

FREEDOM OF ASSOCIATION

As at 31 December 2018, there were 125 trade union organizations in the Group (122 at as 31 December 2017). Given that an employee may be affiliated with several unions, the total number of trade union members exceeds the number of the Group's employees, and as at 31 December 2018 stood at 31,739, which translates into the union membership ratio of 119.9%.

The *"Principles of Mutual Cooperation Between the Management Board of JSW SA and Trade Union Organizations Operating in JSW SA*", adopted on 7 November 2017, set out the basis of cooperation with trade union organizations in the Parent Company.

Collective dispute launched by Trade Unions: Trade Union "Jedność" of the Employees of JSW KWK Pniówek, Trade Union "Jedność" of the Employees of JSW KWK Krupiński, Trade Union "Jedność" of the Employees of the JSW Zofiówka Section, Trade Union "Jedność" of the Employees of the JSW Borynia Section, Trade Union "Jedność" of the Employees of JSW KWK Knurów-Szczygłowice, Trade Union "Jedność" of the Employees of the Knurów Section

In the letter of 26 January 2018, the Trade Unions "Jedność" informed the JSW Management Board of the commencement of a collective dispute due to failure to satisfy the demands set out in the letter of 5 January 2018. The dispute concerned the following demands:

- to sign and adopt a Uniform Company-Level Collective Bargaining Agreement for JSW submitted to the employer on 8 November 2017 by the Joint Representation of Trade Unions at JSW ("WRZZ JSW") supported by the Company's employees in a referendum organized by WRZZ JSW,
- to immediately discontinue the discrimination against JSW employees due to their trade union membership or lack thereof and take disciplinary measures against persons perpetrating such acts,
- to pay all the employees, as a compensation for the sacrifices they made to save the financial condition of JSW in 2015-2017, a one-time bonus of PLN 25,000.00.

During negotiations on 15 February 2018, the Employer's representation presented its position on the demands to the trade unions. The trade unions clarified and explained their position in greater detail. Another meeting concerning the collective dispute was held on 27 February 2018. During the meeting, the trade unions updated their position and the Employer presented an opinion from the Prof. Monika Gładoch Law Firm, which stated that pursuant to the Collective Dispute Resolution Act, a demand from the social partner cannot be the subject matter of a dispute. The meeting ended with the signing of a discrepancy report. The Parties agreed that the Employer will request a mediator to be appointed from the list of the Ministry of Family, Labor and Social Policy.

On 19 March 2018, the Employer applied to the Ministry of Family, Labor and Social Policy to designate a mediator in the collective dispute. In a letter of 5 April 2018 the Ministry of Family, Labor and Social Policy appointed a mediator in the dispute. The first mediation meeting was held on 31 July 2018. During separate meetings with the mediator, the parties to the dispute presented their positions on the demands. At the same time, the mediator proposed a fee for conducting the mediation. The Employer agreed to a fifty-fifty split of the fee proposed by the mediator. However, the Trade Unions did not accept the proposed fee amount and agreed to pay only 50% of the mediator's fee calculated in accordance with the

Regulation on the terms of remunerating mediators from the list complied by the competent minister. After the parties presented their positions regarding the split of the fee, the mediator withdrew from conducting further mediations.

In a letter of 28 August 2018, the Ministry of Family, Labor and Social Policy designated a new mediator to conduct negotiations in this collective dispute. The first mediation meeting was held on 19 September 2018. During the meeting, the parties presented their positions on the demands. Given that no agreement was reached in the successive mediation proceedings, on 27 November 2018 the parties signed a discrepancy report.

Termination of the Memorandum of 8 November 2017 concerning compensation for work on Saturdays, Sundays and public holidays

In view of the expiration, on 1 March 2018, of the Memorandum of 23 February 2015, which suspended some of the autonomous provisions of the labor law applied in JSW, on 30 January 2018 the JSW Management Board terminated the Memorandum of 8 November 2017 between the Employer and the Representative Trade Union Organizations of JSW concerning compensation for work on Saturdays, Sundays and public holidays.

Restoration of autonomous provisions of the labor law applied in JSW, suspended by force of the Memorandum of 23 February 2015

The Memorandum of 23 February 2015, concluded pursuant to Article 9 of the Labor Code, suspended the fulfillment of certain payroll elements provided for in the Company-Level Collective Bargaining Agreements and the Remuneration Bylaws in JSW for a period of 3 years, i.e. until the end of February 2018.

In order to unify the rules of remuneration at JSW Units, on 19 February 2018 the Management Board and the Representative Trade Union Organizations concluded a Memorandum. The following rules were unified:

- remuneration for work on Saturdays, Sundays and public holidays,
- remuneration for holiday leave,
- remuneration for the time of absence due to sickness.

Furthermore, on 28 March 2018, another Memorandum was concluded, setting out the unified rules for calculating the school aid allowance and the holiday travel costs refund allowance applicable to all employees.

A lack of unification of the rules could result in workers' claims and litigation concerning unequal treatment in employment.

Demand of Representative Trade Unions of JSW (ZOK NSZZ "Solidarność" JSW, ZZ Kadra Pracowników JSW, Federacja ZZG JSW) under the Collective Dispute Resolution Act

In a letter dated 26 March 2018, the Representative Trade Unions of JSW presented to the JSW Management Board a demand to streamline remuneration in JSW's organizational units within a unified remuneration system. During the meeting held on 5 April 2018, the trade unions specified in greater detail the demand to streamline salaries in JSW's organizational units within a unified remuneration system, by bringing the remuneration within individual vocational groups to the highest daily remuneration applicable in a given job position. Since this demand could not be fulfilled, on 16 April 2018 the trade union modified its demand as follows:

- a 15% increase in basic salary rates, and
- backpayment of all the benefits lost pursuant to the provisions of § 9 of the Collective Bargaining Agreement of 16 September 2015 concluded pursuant to Article 9^1 and Article 23^{1a} of the Labor Code.

To satisfy this demand, on 11 June 2018, a Memorandum was concluded by the JSW Management Board and the Representative Trade Union Organizations, under which the salary fund would increase by 7% from June 2018 through an increase in the basic salary rates as from 1 June 2018 for all JSW employees and the rules and entitlements to receive the seniority allowance, i.e. the Miner's Charter, would be standardized across the Company.

At the same time, the JSW employees hired in 2016, who remained employed as at the signing date of the Memorandum, received a backpayment pursuant to § 9 of the Collective Bargaining Agreement of 16 September 2015 concluded pursuant to Articles 9^1 and 23^{1a} of the Labor Code, of the Annual Bonus (the so-called 14th salary) for 2016, which was paid in July 2018, and a free coal allowance for 2016, after an analysis of the financial results for Q3 2018, to be paid out in October 2018. The signing of the foregoing Memorandum satisfies all the payroll-related claims in 2018.

In order to fulfill the provisions of the Memorandum of 11 June 2018, regarding the payment of the free coal allowance for 2016, the JSW Management Board and the Representative Trade Union Organizations in JSW signed a Memorandum on 16 October 2018 on the payment of the free coal allowance for 2016 on 26 October 2018.

Meeting with trade union organizations operating in KWK Knurów-Szczygłowice to summarize the implementation of the third stage of the remuneration standardization process in KWK Knurów-Szczygłowice

On 27 April 2018, a meeting was held with trade union organizations operating in KWK Knurów-Szczygłowice, during which the implementation of the third stage of the remuneration standardization process in KWK Knurów-Szczygłowice was summarized. The salaries were brought down to the level applicable in the lowest-earning mine in JSW. As of today, the standardization of salaries in KWK Knurów-Szczygłowice has been completed.

Memorandum of 16 May 2018 between JSW and Representative Trade Union Organizations in JSW

On 16 May 2018, the JSW Management Board and Representative Trade Union Organizations in JSW: ZOK NSZZ "Solidarność" JSW, ZZ "Kadra" Pracowników JSW and Federacja ZZG JSW signed a Memorandum under which, as of 1 May 2018, the unified rules for paying out post-mortem benefits have been established for all employees.

MATERIAL DISPUTES INITIATED BY THE SOCIAL PARTNER AND RELATIONS WITH SOCIAL PARTNERS IN THE OTHER GROUP COMPANIES

JSW KOKS

The Company is open to dialog and needs of employees, represented by the Workers Council and 10 trade union organizations; the Office for Communication and Social Dialog has been set up to cooperate with the social partner. The Company operates pursuant to internal regulations adapted to the generally applicable laws. The Company operates the Workers Council and the Social Labor Inspection; working conditions and remuneration are discussed at regular meetings with the social partners, and changes are introduced by agreement and/or consultation, in accordance with the existing law.

In 2018, the following memorandums regarding employee remuneration and benefits were concluded in the company: a memorandum on the remuneration policy in 2018; a memorandum on the payment of the so-called hot bonus; a memorandum on the shift allowance; a memorandum on the implementation of §5 and §6 of the Memorandum on the rules of remuneration increases under the agreed payroll policy; a memorandum on, inter alia, setting an individual basic salary rate for eligible employees and individual remuneration regulation - on 11 July 2018 and 20 August 2018; a memorandum on health restoration leave in JSW KOKS S.A. the KKZ branch in Radlin; a memorandum on the I stage of negotiations regarding a uniform company-level Collective Bargaining Agreement; a memorandum on an additional contribution to the Company Social Benefit Fund in 2019.

JZR

There are 5 trade union organizations operating in the company. In the course of negotiations conducted with the trade unions, a Salary Agreement was concluded on 9 March 2018, under which the implementation of the payroll policy in 2018 was agreed with respect to:

- an increase of the basic salary tables by 3%, effective from 1 April 2018, and including compensation for March 2018,
- reclassification of 10% employees with indefinite term employment contracts – including in particular those with the lowest salaries (for employees with temporary contracts, the company will continue the practice of reclassifying employees when the next employment contract is signed, provided their requisite skills and professional competence are confirmed),
- the parties will return to the discussion of the possibility of paying out one-off awards after the H1 2018 results are analyzed and after the two following conditions are jointly satisfied: in the production and repair business, the company achieves on-going financial results that are better than those assumed in the 2018 Technical and Economic Plan and the employees increase their real productivity in Q2 and Q3 2018 as compared to Q1 2018 (where productivity will be measured by the level of sickness leave absences). If negotiations are reinstated before the end of Q3 2018, then the employee productivity analysis will be conducted monthly.

These arrangements satisfy the demands of the Trade Unions in respect to the payroll policy in 2018.

JSK

On 25 January 2018, the Management Board of JSK held a meeting with trade union representatives. The following issues were discussed: preliminary spending budget of the Company Social Benefit Fund, amendments to the Bylaws of the Company Social Benefit Fund, amendments to the Labor Bylaws and the Rules and Regulations of Compensation, in consideration of the funds from the 500+ program in determination of the amount of income per family member and the living standard, family and material situation for a given year, establishment of the Railwaymen's Day as a company holiday. The preliminary spending budget and Regulations of the Company Social Benefit Fund were amended in accordance with the suggestions of trade union representatives.

On 25 April 2018, another meeting was held between the JSK Management Board and trade union representatives to address the following issues: a salary increase and agreeing on the rules of pay raises for JSK employees in 2018, the seniority allowance and a discretionary bonus in the JSK Rules and Regulations of Compensation, Railwaymen's Day award. The JSK Management Board responded to the suggestions put forward by the trade unions explaining that the first stage of reclassification had been conducted since April 2018, as a result of which the salary increase was approx. 1.38% (approx. 40 persons were reclassified). The second stage of reclassification was planned for October 2018.

The JSK Rules and Regulations of Compensation were updated in respect to the discretionary bonus: 10% of the bonus was included in the basic rate, which will also increase the basic salary. The Rules and Regulations of Compensation in respect to the seniority allowance are due to be updated in 2019. At present, the seniority allowance rises until the employee reaches a tenure of 15 years; after 15 years the seniority allowance remains at a constant level of 17%. Trade union representatives have applied for a modification of the seniority allowance so that its amount increases for each successive year on the job. On 12 July 2018, another meeting was held, at which the wording of the JSK Rules and Regulations of Compensation was finally agreed upon.

Moreover, during the meeting held on 4 September 2018, the amount of the Railwaymen's Day award (introduced to the JSK Rules and Regulations of Compensation at the initiative of Trade Union Representatives) was set at PLN 200.00 net for each employee remaining in employment as at 31 October 2018, pro rata to the period of employment during the first 10 months of 2018. At the same time, the JSK Management Board also undertook to pay an annual bonus, in an amount to be determined based on company's financial standing.

In December 2018, the last meeting took place, to agree cost estimates for 2019 and update the Company Social Benefit Fund Bylaws and the Labor Bylaws.

PGWiR

There are 4 trade union organizations operating in the company. On 24 January 2018, a Memorandum was concluded between the Employer and the Trade Unions on the payroll policy for 2018, which included: bonus increase, reclassifications and payment of a Christmas bonus.

MATERIAL DISPUTES INITIATED BY THE SOCIAL PARTNER AND RELATIONS WITH SOCIAL PARTNERS IN THE OTHER GROUP COMPANIES	
ZREM-BUD	There are 7 trade union organizations operating in the company. In 2018 the Management Board of the company is continuing the negotiations and work on the new Collective Bargaining Agreement.
JSW Logistics	On 24 July 2018, the Inter-Company Organization of the Independent Self-Governing Trade Union "Solidarność" and the Inter-Company Commission of the Independent Trade Union of Coke Production Employees at JSW KOKS Przyjaźń Branch entered into a collective dispute on wage issues with the company's Management Board. Other trade union organizations acceded to the collective dispute on 6 August 2018. During the negotiations held on 23 August 2018, the following Memorandums were signed with the trade unions: on an increase in individual monthly base salary rates by PLN 400.00 gross per employee; an additional payroll regulation to the maximum amount of PLN 20.00 gross per employee; payment of two bonuses in August and September in the amount of PLN 1,000.00 gross per employee.
BTS	On 13 April 2018, the trade union organizations entered into a collective dispute relating to wage postulates. Following a series of meetings, the parties finally agreed on: a gross wage increase of PLN 300.00, an increase in the ZFŚS charge of PLN 1,000.00, payment of a transportation worker's day award in the gross amount of PLN 1,000.00, to be paid out in two tranches of PLN 500.00 each. These arrangements ended the collective dispute. On 1 August and 6 August 2018, trade union representatives submitted letters requesting that wages be increased 15% starting in August. Because no agreement was reached, trade unions threatened to resume the collective dispute. On 19 September 2018, the parties signed an agreement on the introduction, starting in September of this year, of a 9% increase, on average, in gross wages for all employees and payment of compensation for August in the gross amount of PLN 348.00 for eligible employees. On 31 October and 2 November 2018, trade union representatives submitted letters in the matter of payment of an additional cash award for the company's employees. Following a round of negotiations, on 11 December 2018 a Memorandum was concluded in which the payment of the "Christmas Eve Allowance" for 2018 was agreed in the gross amount of PLN 700.00. The allowance was paid out in according to the rules set forth in Article 30.1 of the Collective Bargaining Agreement (CCBA).
CLP-B	There are 7 trade union organizations operating in the company. On 28 June 2018, following the negotiations, an agreement was signed with the trade unions aimed at adopting the new Rules and Regulations of Compensation. The new Rules and Regulations of Compensation came into effect on 1 August 2018.
JSW SiG	There are 2 trade union organizations operating in the company. On 15 June 2018, trade unions submitted a letter containing demands: to increase personal classification rates by 7% starting in July 2018, introduce and pay out the "14th salary", introduce and pay out a free coal allowance at 8 tons per employee and to issue a strong response to the numerous reports of the company's employees being forced to join JSW trade union organizations. Since the demands were not satisfied, a collective dispute was launched on 21 June 2018. The company's management board undertook to start negotiations with the trade unions. Following the negotiations, a discrepancy report was signed on 21 August 2018 and the mediator selection procedure began. Starting on 1 July 2018, a discretionary bonus was introduced in the amount of 7% for the employees, whose employment period in the company is at least 3 months (which however did not include the persons employed for the 3-month trial period and persons punished with individual penalties) Mr. Jerzy Nowak (selected from the Ministry's list) was appointed as a mediator. The mediation meetings were held on 29 November and 10 December 2018. On 16 January 2019, another mediation meeting was held, at which a compatibility report was signed in the matter of an increase in personal classification rates by 7% and a discrepancy report about the remaining postulates.

8.6.5. DISCRIMINATION AND WORKPLACE HARASSMENT

In 2017, the Parent Company carried out a study of its organizational culture and employee satisfaction. The study was carried out in the form of a questionnaire. The analysis of data on mobbing or discrimination indicates that these negative phenomena are not prevalent.

NUMBER OF REPORTED INCIDENTS	2018	2017	GROWTH RATE 2017=100
MOBBING	1	-	-
EMPLOYEE DISCRIMINATION	-	-	-

8.7. OCCUPATIONAL HEALTH AND SAFETY

Because of the nature of industrial production operations, occupational health and safety is of key importance for the Group. The strategic objectives for the OHS area include, among others:

- maintaining the certified management systems PN-N-18001 as regards extraction, processing and sales of coal,
- employee involvement in improvement of the OHS management system, including developing solutions which would be dedicated to specific workplaces
- maintaining the high quality of OHS training, with particular emphasis on up-to-dateness and practicality of discussed issues,

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

- raising OHS awareness ("Crew Head's zone and more" web training and information platform),
- taking action to prevent accidents, occupational illnesses and potential accidents.

We are planning to implement innovative technological solutions aiming at mechanizing and automating the underground work. The primary purpose of such activities is to withdraw humans from danger zones or reduce human involvement in tasks with high potential for accidents. This will result in reduction or even elimination of several OHS risk categories. Safety improvement will be achieved through the planned implementation of technical solutions allowing to monitor the devices' operations and to locate the employees under ground. According to the Integrated Management System Policy, the management commits to ensuring the necessary funding and resources to shape safe attitudes among the employees, and monitor the hazards and reduce their impact on the work environment. It also emphasizes employee development.

In the Integrated Management System Policy, the JSW management has committed to ensure the necessary funding and resources to shape safe attitudes among the employees, and monitor the hazards and reduce their impact on the work environment. This makes it possible to improve the activities in those areas, especially take the actions aiming at ensuring the application of safe technological processes and striving to prevent accidents, occupational disorders and events that may lead to accidents. The Occupational Health and Safety Management System promotes in particular a consistent execution of the agreed tasks such as: developing and announcing to the crew the OHS policy and objectives to show the commitment undertaken by the senior management, defining responsibilities and rights of individual employees in respect to OHS activities, ensuring appropriate training and motivating employees to engage in healthy and safe work practices, organizing an efficient OHS communication system, evaluating occupational risks, developing the rules for responding to accidents at work and implementing corrective and preventive measures related to occupational health and safety, monitoring and auditing the OHS management system.

In 2018, the following areas were in focus in this area:

- application of effective OHS prevention measures commensurate with the existing hazards,
- high quality of training and raising the level of safety awareness,
- curtailment of the "human factor" impact on the accident rate.

Because of special conditions of work at JSW's mines, as regards preventive health care for employees, an extended scope of preventive medical tests in the area of occupational medicine was in force. The extended scope of tests includes mandatory additional tests for preventing cardiovascular diseases for company workers and employees of companies providing services in the operation of JSW mines.

In order to ensure a high level of knowledge about OHS and appropriate professional qualifications of employees, at all the JSW units, the plan of OHS training as well as training and courses to raise qualifications was implemented. Because of the close connection between employees' professional qualifications, the headcount level and safety of work, activities in the area of specialist training and courses and supplementing employees' qualifications had to be continued to be conducted at JSW plants. Training was given to all the employee groups, taking especially into consideration persons working in conditions involving natural risks.

The "Crew head's zone and more", a training and information platform that received many awards, is in place and is continuously being developed in JSW. The aim of the platform is to offer a broad range of tools and information used to raise awareness and expand knowledge and improve professional qualifications. In 2018, the 5th edition of the "Internet competition of OHS knowledge" was held on the platform, while in the Parent Company's headquarters the 9th edition of the "JSW CEO's Cup competition in OHS regulations knowledge" was organized, in which representatives of all JSW's mines too part.

The requirement to have passed OHS training, preventive tests, and to hold appropriate certificates and qualifications are the main measures undertaken to ensure safety and the desirable quality of work performed in a mine, also by external entities.

In hard coal mines, in connection with the special nature of mining conditions, workers are exposed to harmful and health-threatening factors found in the work environment. In JSW mines, among present and former workers, the most frequently diagnosed occupational disease is pneumoconiosis (black lung disease). Other diseases, such as occupational hearing loss, chronic diseases of the musculoskeletal system, hand-arm vibration syndrome (HAVS), have been eliminated or limited to incidental cases.

Key OHS statistics in the Group	2018	2017	GROWTH RATE 2017=100
Expenditures for OHS, in PLN 000s	834,415.0	667,055.7	125.1
Number of accidents at work – total number of accidents	404	377	107.2
• Number of fatalities at work	7	1	700.0
• Number of accidents at work – serious accidents	0	5	-
• Number of accidents at work – minor accidents	397	371	107.0

In 2018 one instance of occupational damage of hearing was diagnosed in a former employee. On the other hand, 42 cases of falling with pneumoconiosis were recorded, including 39 cases in former workers. To reduce the exposure of workers at JSW mines to factors causing occupational diseases, prevention programs are conducted in cooperation with the Institute of Occupational Medicine and Environmental Health in Sosnowiec, with the participation of mine OHS services and physicians providing health care services in the area of occupational medicine, to prevent occupational hearing loss and pneumoconiosis in the mines.

LTIFR by JSW units*	2018	2017	GROWTH RATE 2017=100
KWK Borynia-Zofiówka-Jastrzębie	6.02	5.69	105.8
KWK Budryk	13.04	11.20	116.4
Knurów-Szczygłowice	5.70	6.07	93.9
KWK Pniówek	8.08	9.05	89.3
ZWP	4.19	2.63	159.3
Management Board Office	1.48	1.60	92.5
TOTAL JSW	**7.42**	**7.28**	**101.9**

** number of accidents among company employees and employees of firms rendering services to JSW's mines (except for accidents involving fatalities) per one million hours worked*

OHS activities in other Group companies:

- At **JSW KOKS**, an Occupational Health and Safety Management System based on the PN-N-18001 standard has been in place as part of the Integrated Management System since 2002. The Integrated Management System policies also cover the training area. Also a number of normative acts and procedures have been prepared to support the supervision of the OHS area in the form of the regulation on occupational health and safety with instructions as well as the following procedures: identification of threats and assessment of occupational risk (RISC SCORE methodology), reporting the occurrences of potential accidents. At JSW KOKS, a number of normative acts and procedures have been prepared to support the supervision of the OHS area in the form of the regulation on occupational health and safety with instructions as well as the following procedures: identification of threats and assessment of occupational risk (RISC SCORE methodology), reporting the occurrences of potential accidents.
- Within the framework of the Integrated Management System, **JZR** implemented an occupational health and safety management system in compliance with the PN-N-18001:2004 standard, ensuring that utmost care is exercised in this respect. Non-mandatory prevention activities are also conducted.
- PGWiR has an occupational health and safety management system compliant with the PN-N 18001 standard, an OHS commission and two OHS inspectors on the payroll. The company developed appropriate procedures and continues to improve the system reducing the likelihood of accidents at work and occurrence of occupational diseases. PGWiR is exposed to a high risk of accidents because of the earthwork construction works, operation of pressure equipment and power grids up to 20 kV and due to the operation of water chlorination equipment.

In the remaining companies, activities in the employee area, including OHS activities, were conducted in accordance with the applicable legal regulations and regulations and internal procedures adopted individually in those entities.

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

8.8. EFFICIENT UTILIZATION OF NON-RENEWABLE RESOURCES.

COAL SEGMENT

Utilization of coal resources by JSW is presented in the document entitled *Deposit Development Plan.* This document is developed by the mining enterprise and, after it is opined by the regulatory authority, it is sent to the Ministry of the Environment for approval.

Utilization of resources is described by the utilization rate of economic reserves, which is as follows for the individual deposits:

Borynia	0.59
Jas-Mos	0.32
Zofiówka	0.52
Bzie-Dębina 2-Zachód	0.54
Budryk	0.57
Chudów-Paniowy 1	0.55
Knurów	0.53
Szczygłowice	0.52
Pniówek	0.61
Pawłowice	0.68

Based on the size of the documented resource base the following periods are anticipated for production activities by particular mines forming part of the Parent Company's organizational structure:

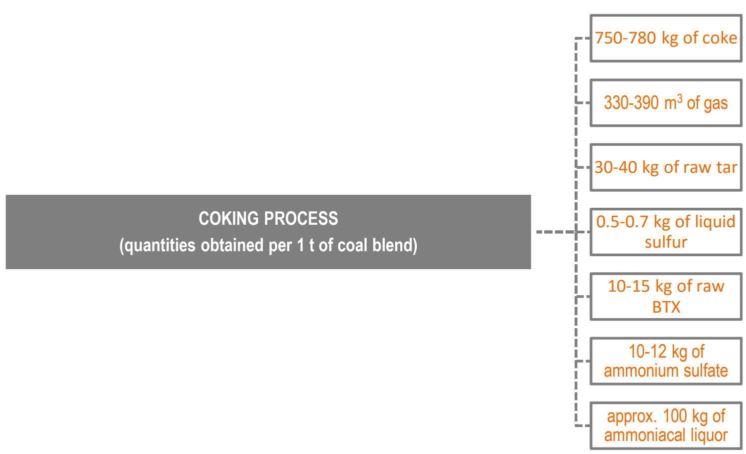
The lifetimes of individual mines and sections as well as the size of resources are presented in Section 2.2 of this report.

COKE SEGMENT

At the same time, from the point of view of the Group's value chain, non-renewable resources in the form of coking coal are used in the coking process.

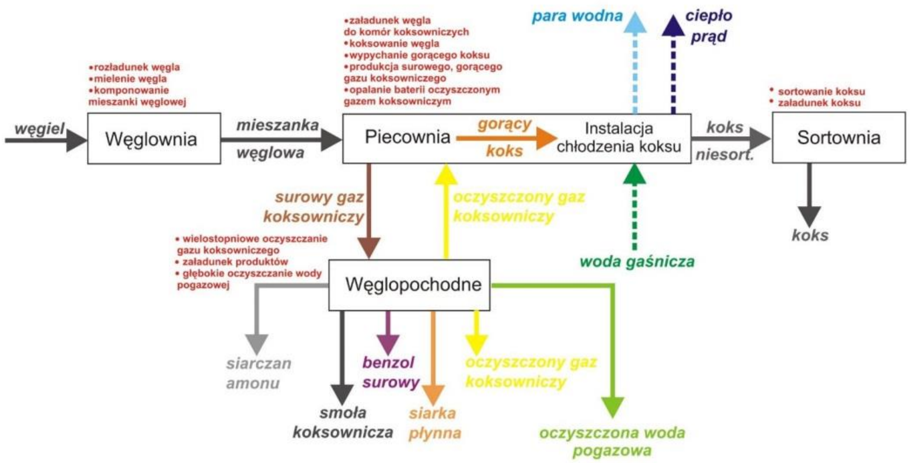
The coking process occurs in coking chambers grouped in batteries with several dozen chambers each. The process involves coal being heated without access of air, from the ambient temperatures to about 1000 ºC, usually over the period of 16-28 hours. Purified coke oven gas is used to heat the batteries. The organic substance that constitutes the main component of coal degrades, as a result of which a coke and raw coke oven gas form, from which hydrocarbons are produced.

For most coking plants, the products of the process are within the range presented below.



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

The chart below is a block chart of a coking plant showing the technological links between the individual organizational units.



At present there are three production plants operating in JSW KOKS S.A.: - Przyjaźń Coking Plant, Jadwiga Coking Plant and Radlin Coking Plant. The Dębieńsko Coking Plant owned by JSW KOKS was decommissioned on 31 August 2018.

All the coking plants produce raw tar, raw BTX and coke oven gas. The Przyjaźń Coking Plant and the Radlin Coking Plant utilize a contemporary methodology for removing ammonia and hydrogen sulfide from coke oven gas (catalytic decomposition of ammonia and desulfurization using the Claus method), while the Jadwiga Coking Plant uses a saturator method for removing ammonia. Accordingly the Jadwiga Coking Plant produces ammonium sulfate and the remaining coking plants produce liquid sulfur.

In 2018, the coking plants consumed roughly 4,900,000 tons of coal (of which about 91% from JSW mines) and produced approximately 3,560,000 tons of coke and the following quantities of hydrocarbons:

- Tar - 150,000 t,
- BTX – 47,400 t,
- sulfur – 3,250 t (Przyjaźń Coking Plant and Radlin Coking Plant),
- ammonium sulfate – 4,800 t (Jadwiga Coking Plant and Dębieńsko Coking Plant),
- coke oven gas – 1,690,384 x 10^3 m^3.

Coking industry is an example of efficient utilization of non-renewable resources. Coking plants utilize coking coal that is not suitable for other industrial sectors, e.g. in power generation. They use this raw material to produce coke, fuel that is virtually smokeless and containing no volatile matter. Coke is used in steel smelting, foundries, lime industry, cement industry, while hydrocarbons are used in the chemical industry. Coke can also be used as smokeless fuel, contributing to the reduction of so-called "low-stack emissions" The use of coke oven gas for heat and electricity production reduces the consumption of steam coal used for this purpose.

Modern coking plants are equipped with environmental protection installations, which include in particular: hydroinjection of charging gases, dust removal systems for equipment and whole processes of the coal processing and sorting plants, installations for removing ammonia, hydrogen sulfide and acidic components from coke oven gas, encapsulation of Hydrocarbons installations and charging points, biochemical waste treatment plants.

8.9. ENVIRONMENTAL CONSIDERATIONS

2018 was another year for the Group of management based on the principles of sustainable development. The Group continued its integrated environmental protection efforts, made in compliance with legal environmental conditions while taking into account the needs of local stakeholders and the local community. The Group treats care for the natural environment as its Corporate Social Responsibility to the local community and not just as a matter of fulfilling the duties following from the application of the law. The Group's priorities are to act responsibly on the basis of the highest standards concerning the environment, safety and product quality and to be consistent in undertaking environmental tasks. Commitment to protection of natural environment is reflected by actions aimed at minimizing the negative environmental impact of its activity. By following best practices in this area the Group is taking action focused on constant oversight and monitoring while showing care for having the lowest possible volume of pollutants emitted into the environment, and taking all steps possible to utilize space and natural resources in an optimum manner.

8.9.1. GROUP'S ENVIRONMENTAL MANAGEMENT SYSTEM

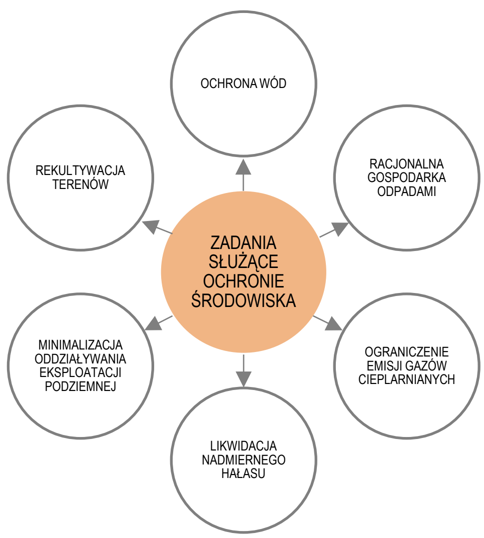
The environmental management system based on the requirements set forth in the PN-EN ISO 14001:2015 standard is in place in the Parent Company and in the Group's companies: JSW KOKS, JZR and PGWiR. PGWiR has additionally implemented the EMAS environmental management system, which satisfies the requirements of Regulation (EC) No 1221/2009 of the European Parliament and of the Council of 25 November 2009 on the voluntary participation by organizations in a Community eco-management and audit scheme (EMAS) and Commission Regulation (EU) 2017/1505 of 28 August 2017 (EMAS III). The environmental management system enables the identification and oversight over all areas of activity that have or are likely to have an impact on the environment.

The Group companies which have implemented an environmental management system identify significant environmental aspects, i.e. the aspects that have or may have an impact on the environment resulting from their activities. Every year the environmental aspects are evaluated based on objective criteria adopted in specific procedures. Based on the environmental management system policy, which contains, among other things, a declaration to minimize negative impact on the environment, to prevent pollution and outage and to conduct business activities in compliance with applicable laws and requirements under internal regulations, actions are taken on an ongoing basis to achieve its objectives, among others by defining, monitoring and fulfilling environmental objectives.

The adopted objectives take into account the legal and other requirements related to the operations of individual companies, material environmental aspects, identified risks and opportunities, financial and technological capabilities and stakeholders' expectations.

8.9.2. GROUP'S ENVIRONMENTAL IMPACT IN 2018

In 2018, the Group continued to implement the principles included in the environmental strategy into its activities. This purpose was served by the performance of the specified environmental protection tasks.



PROTECTION OF WATER

The Parent Company took actions to reduce the quantity and load of underground brines released into surface sewage by use them to the greatest extent for the mines' technological purposes and in underground mining pits for fire prevention and to liquidate unnecessary mining pits. Unused mine drainage water:

- Borynia-Zofiówka-Jastrzębie and Pniówek mines dosed water into the Odra River using a hydro engineering method of water protection, i.e. the Olza retention and dosage system operated by PGWiR,
- Budryk – desalinated water in the PGWiR plant in Dębieńsko,
- Knurów-Szczygłowice conducted controlled release of water into surface water in compliance with the conditions specified in the applicable regulations.

PGWiR consistently improved the Olza retention and dosing system and the desalination plant in Dębieńsko by continuing modernization and renovation work. PGWiR also operates rainwater pumping stations in mining areas, industrial and rainwater pumping stations, as well as operates mine sewage treatment plants in Ornontowice and Szczygłowice.

SALINATED UNDERGROUND WATERS (JSW) (MILLION OF M^3)	2018	2017	GROWTH RATE 2017=100
Handled	1.3	0.9	144.4
Discharged to the environment	3.7	2.8	132.1
Discharged to the Desalination Plant	2.3	2.4	95.8
Discharged to the Olza channel	4.8	4.8	100.0
Total	**12.1**	**10.9**	**111.0**

WASTE MANAGEMENT

With regard to waste management, land reclamation and management of areas transformed by mining activity, in 2018, the Group continued to use the production methods and service forms, and raw materials and other materials that made it possible to prevent generation of waste or keep their level as low as possible. All actions associated with waste management were taken in accordance with the waste management hierarchy, minimizing their negative impact on human life and health and natural environment through optimum management of space and natural resources, with special focus on reclamation and revitalization of sites and land transformed by mining activity. In extraction and processing of coal, in 2018 the Group generated 10.8 million tons of mining waste. To minimize the negative impact of the mining waste on the natural environment and to increase revenues through rational waste management, the Group followed the strategic directions of activity, including: limiting the quantity of waste produced, increasing the amount of utilized waste in the underground pits, selling unprocessed waste, producing and selling crushed rock produced from waste, managing waste in the facilities for managing mine waste on the surface.

WASTE VOLUME (JSW) (MILLION TONS)	2018	2017	GROWTH RATE 2017=100
Mining waste	10.8	11.1	97.3
Hazardous waste	0.0002	0.0002	100.0
Non-hazardous waste, except for mining waste	0.04	0.17	23.5
Total	**10.8**	**11.3**	**95.8**

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

Intensifying action to produce crushed rock in the mines' wash plants and to sell it provided for the optimum utilization of mining waste in highway and road construction, in civil engineering and hydro engineering projects. Production of aggregates was carried out in accordance with the technical approvals obtained and based on decisions held by the mines. In 2018, about 0.1 million tons of crushed rock and mine waste were sold.

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

WASTE MANAGEMENT (JSW) (MILLION TONS)	2018	2017	GROWTH RATE 2017=100
Generation of mining waste, including:	10.8	11.1	97.3
- Shaft stone (01 01 02)	*0.1*	*0.1*	*100.0*
Coal Enrichment Plant stone (01 04 12)	*10.0*	*10.2*	*98.0*
- Flotation tailings (01 04 81)	*0.7*	*0.8*	*87.5*
Managing mining waste and aggregates on the surface	10.7	11.0	96.4
Managing mining waste underground	0.1	0.1	100.0
Managing power station waste underground	0.3	0.3	100.0

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

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

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

CURTAILING GREENHOUSE GAS EMISSIONS

Curtailing greenhouse gas emissions in the Group was accomplished by making the maximum energy utilization of gas through methane drainage in the mines. As a result of utilization of captured methane for production of electricity and heat in high-efficiency cogeneration systems, in 2018 the emission of methane into the atmosphere was reduced by approx. 74.8 million m^3. In 2018, procedures associated with the launch of subsequent engines running on gas from methane drainage in the Budryk and Knurów-Szczygłowice mines were initiated.

In the coke segment, there is constant oversight over efficient and rational utilization of coke oven gas and further capital expenditures are planned to improve energy efficiency of the installations used. On 30 August 2018, the Dębieńsko Coking Plant owned by JSW KOKS, an installation participating in the carbon dioxide emissions trading system, was decommissioned. In December 2018, the Annual CO2 Emission Report was prepared, submitted for review and approved by an authorized reviewer. In connection with the participation of JSW KOKS in the greenhouse gas emissions trading system in reference to carbon dioxide, the Group carries out ongoing estimations of the costs that it will have to incur in connection with the operation of its coking installations, heat generation plants and combined heat and power plants in the fourth settlement period of 2021-2030. By pursuing a more sustainable business model, which is strictly connected with optimizing energy consumption, eliminating power intensive solutions or recovery and economic utilization of methane, in 2018 the Group continued its work to implement comprehensive solutions enabling advanced estimations of the “carbon footprint” of the entire Group as well as the key production processes.

Carbon footprint is defined as the total quantity of greenhouse gases emitted over the product’s life-cycle by an organization, an event or a person in its life-cycle.

A detailed inventory-taking and analysis of emission sources has been carried out and the system for managing emission data has been put in order. A carbon footprint calculation methodology has been adopted and the inputs for calculation have been identified. In the first half of 2019, the carbon footprint is to be calculated for the base year and for 2018 and the IT tool supporting the calculations in the coming years should be implemented.

ELIMINATION OR LIMITATION OF EXCESSIVE NOISE

The strategy regarding liquidation of excessive notice emitted into the environment assumes taking actions leading to reduction of noise emissions from the most onerous sources to a permissible level. In 2018 the Group continued performing the tasks associated with muffling the facilities in the main plant of the Pniówek mine.

EMISSION OF DUST AND GAS (JSW) (THOUS. TON)	2018	2017	GROWTH RATE 2017=100
Dust emissions - total	0.2	0.3	66.7
Gas emissions - total	292.3	306.7	95.3

GREEN JSW ENERGY CLUSTER

In late 2017 and early 2018, the Group undertook to analyze in-house the possibility of establishing an energy cluster in the area of its operations in a study entitled “Environmental activities in an energy cluster within the framework of the Green JSW strategy”. The analysis identified a tentative potential of the energy infrastructure in the area of JSW’s operations and conclusions from the study indicated that cooperation with the municipalities would be possible, among others, in the following respects:

- possibility of supporting initiatives to generate electricity and heat, including ones using RES,
- increasing the chances of obtaining co-financing and funds to enhance energy consumption, cut emissions and ramp up the percentage of RES,
- developing transport in the direction of electro-mobility, including the construction of charging stations for electrical vehicles and development of electrically-driven public transport,
- improving air quality through joint activities reducing low-stack emissions.

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

At the later stage, JSW ordered JSW Innowacje to work with Krajowa Agencja Poszanowania Energii S.A. to establish and develop an energy cluster in the area of their operations. 5 municipalities were selected, which showed potential for cooperation within the project: Pawłowice, Jastrzębie-Zdrój, Świerklany, Mszana and Ornontowice.

Within the project's framework training workshop meetings will be conducted. The workshops will be followed by the preparation of the energy cluster strategy document, which will describe the resources and potential of the region, but above all it will present the objectives and directions of development based on the support instruments that are available or planned. It will also emphasize the important role of local governments as an initiator and promoter of activities aimed at improving energy efficiency and developing renewable energy sources in the region and building the overall awareness of their residents. The last stage of the project will involve the preparation of an application to the Ministry of Energy in order to certify the cluster.

In 2018, expenditures connected with broadly-defined environmental protection in the Parent Company exceeded PLN 130.0 million.

ITEM	2018	2017	GROWTH RATE 2017=100
Dosing salinated water with the "Olza" system	8.3	8.7	95.4
Water desalination in the plant in Dębieńsko	17.8	15.0	118.6
Repairing mining damage	75.8	58.5	129.6
Land-reclamation work	1.0	0.4	250.0
Environmental usage and water service fees**	4,3*	3.7	116.2
Investments for environmental protection	29.7	3.5	848.6
Total	**136.9**	**89.8**	**152.4**

* a new method of settlement of water services came into effect as of 1 January 2018; therefore the figure is the sum of fees due for water services and environmental fees.
** Environmental usage and water service fees for other Group companies, excluding the fees included in the costs of services provided to JSW amount to PLN 12.1 million.

ENERGY CONSUMPTION IN THE GROUP

ITEM	2018	2017	GROWTH RATE 2017=100
Electricity [MWh]	1,437,580.8	1,390,484	103.4
Heat (steam or hot water) (GJ)	3,783,262.5	3,863,711	97.9

CONSUMPTION OF SELECTED FUELS IN THE GROUP

ITEM	2018	2017	GROWTH RATE 2017=100
Motor gasoline (t)	132.4	100.0	132.4
Diesel fuel (ON) (t)	6,641.1	6,693.5	99.2
LPG (t)	29.1	25.6	113.7
Methane drainage gas (dam^3)	18,732.8	36,619.1	51.2
Coke oven gas (dam3)	1,327,904.2	1,287,644.3	103.1
Heating oil (t)	57.4	64.0	89.7
Hard (steam) coal (t)	109.1	16,544.9	0.7
Waste gas fuel (excess gas) (GJ)	125,723.0	124,045	101.4
Natural gas (dam^3)	84.0	50.9	165.0

8.9.3. ENVIRONMENTALLY-FRIENDLY INVESTMENTS

In 2018, the Parent Company spent PLN 29.7 million on environmentally-friendly investments. The key tasks in this area include:
- Construction of methane drainage pipelines from the methane drainage station at shaft VI to level 1290 – KWK Budryk – PLN 4.8 million,
- Commercial use of methane – Knurów Section of KWK Knurów-Szczygłowice – PLN 5.3 million,
- Commercial use of methane – Szczygłowice Section of KWK Knurów-Szczygłowice – PLN 6.0 million,
- Sealing mixture transport installations – KWK Pniówek – PLN 3.0 million.

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

In 2018, JSW KOKS spent PLN 10.6 million on environmentally-friendly investments. The key tasks in this area include:

- Installation of sprinklers on the coal storage yards – PLN 1.5 million,
- Design and construction of an encapsulated installation for the separation of BTX from gas – PLN 2.0 million,
- Modernization of the waste treatment plant – installation of exchangers – PLN 1.1 million.

In 2018, PGWiR spent PLN 4.1 million on environmentally-friendly investments. The key tasks in this area include:

- Modernization of working block of a SC-40 compressor – PLN 1.7 million,
- Container-based water treatment station – Zofiówka Section – PLN 0.7 million.

Other Group Companies, due to the nature of their operations, did not execute material environmental investments.

8.10. SOCIAL MATTERS

The nature of the Group's business requires it to build partnership relations with local communities and administration in order to pursue common goals and build understanding for the mutual relations.

8.10.1. IMPACT OF MINING ACTIVITY

Due to the unique impact of the Group's mining activities on the environment, very often the procedures that are environmentally important are also crucial for the local community and in terms of operational risks. Mining damages are definitely the most important from the point of view of the local community. Appropriate controls are applied to mitigate these risks, which include, among others, measures such as:

- coordinating activities associated with preparation of: geological works program, geological and hydrological documentation, geological engineering documentation, deposit development plan and operations plan,
- planning of locations endangered with mining damage (among others based on the target deposit mining schedule and operations plan),
- oversight over compliance with provisions of concessions and environmental decisions, surveying and construction monitoring,
- monitoring the performance of repairs of mining damage, in terms of quantities and costs,
- monitoring of a provision recognized for mining damage repairs,
- cooperation with local government units within consultation teams,
- exclusion of land from development or a deposit from mining,
- mining damage prevention activities to make sure that gravitational flow of surface water is preserved,
- application of preventive measures at the construction stage in order to properly secure the existing buildings and new buildings erected on mine areas.

Internal regulations related to the remedial of mining damages are of particular importance. Individual remedial projects to repair damage to public, local government and private property are prepared based on the procedure specified in Directive adopted by the JSW S.A. Management Board President on 20 December 2017 containing *Damage Remediation Bylaws* and *Bylaws of the Committee for Evaluation of Damage Remediation Projects*.

Expenditures for remedial of mining damage (JSW) (PLN million)	2018	2017	GROWTH RATE 2017=100
State sector	26.8	17.3	154.9
Private sector	34.7	30.1	115.3
Local government sector	14.3	11.1	128.8

Number of mining damage remediation projects (JSW)	2018	2017	GROWTH RATE 2017=100
State sector	73	58	125.9
Private sector	883	1,018	86.7
Local government sector	81	68	119.1

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

In 2018, the Parent Company fulfilled the plan of repairs of the damages related to the operation of mines, performing tasks for the total amount of PLN 75.8 million. In 2017, the expenditures incurred for execution of all damage remedial projects amounted to PLN 58.5 million.

For 2019, the Group has secured funds for repairs in the amount of PLN 68.7 million.

8.10.2. DIALOG WITH LOCAL COMMUNITIES AND LOCAL GOVERNMENTS

The dialog conducted by JSW with local governments in the municipalities where mining activity is carried out is an important element of the Group's proper operation. The key objective in this area is to manage production in a way that will be the least burdensome for local communities.

The JSW's strategy assumes organization of meetings between Management Board representatives and local government officials. These contacts are usually maintained by Director for Labor in the individual mines.

Starting in 2018, the cooperation area was extended to also include the townships where Group companies operate. For that purpose, a *Management Board Representative for Contacts with Local Governments* was appointed, who is responsible for cooperation with the townships where JSW KOKS has its production facilities. Special letters were sent to the mayors of Czerwionka-Leszczyny and Radlin and presidents of Zabrze and Dąbrowa Górnicza, introducing the person holding this function, providing contact data and a description of responsibilities. The first to respond was the mayor of Czerwionka-Leszczyny. A meeting was held to discuss concerns as to the further operation of the Dębieńsko Coking Plant. Both parties approached this cooperation properly and the meetings are held regularly, on a monthly basis. This helped in the closure of the Dębieńsko Coking Plant without conflict.

Currently, the talks are underway to determine the future use of the land of the former Dębieńsko Coking Plant by JSW KOKS. Zabrze and Radlin were next to initiate cooperation. For them, JSW KOKS is an important company operating on their area. In both cases, meetings are held regularly to resolve ongoing issues and to discuss the expectations of the authorities. In Radlin, the mayer expects communication in connection with the launch of the construction of the co-generation unit, which is one of key construction projects for the city. Dąbrowa Górnicza was the last area to undertake cooperation with the Group in 2018. The new president currently develops the area of expected cooperation with JSW.

In the entire area of activities focused on cooperation with townships, all the people responsible for cooperation with local governments, including the Representative mentioned above, remain available to their officials.

ESTABLISHING A FOUNDATION

The JSW Foundation appointed by the Group will continue the cooperation conducted on the entire area of the Group's operation. It is to cooperate with local governments and support local initiatives. The JSW Management Board has elected to create this organization to strengthen the JSW Group's image as a company espousing the principles of corporate social responsibility and demonstrating its charitable commitment.

The Foundation will lend support to local governments, especially the ones where Jastrzębska Spółka Węglowa S.A. operates. The JSW Foundation's Supervisory Board consists of eleven members and its Management Board consists of five people. Jastrzębska Spółka Węglowa is the founder. The Foundation will be a tool to help pursue relations with municipalities in a transparent fashion when it comes to providing financial support to the various initiatives conducted by local governments.

8.10.3. SOCIAL ACTIVITIES

In the period of the report, the Group carried out promotional and social activities in the region, not only to compensate for the possible difficulties related to the mining activity, but also strengthening friendly attitudes towards the Group. Striving to be a good neighbor for the communities, to which it has been inextricably linked for years, the Group focuses its social activities on them.

Charitable activity was aimed mainly to support health care, education, culture, sport, religious communities, and charitable organizations.

Promotion in the Group plays an important role in building relations with the local communities, supporting the development of the region and building positive brand associations and awareness and increasing the level of identification of the employees with the organization. In 2018, promotion services agreements were signed with 36 sports clubs, which accounted for 70.0% of the Group's total promotional activity.

The Parent Company treats sports as a very important field of social life, therefore it supports top-class sports competitions, as well as amateur sports. In 2018, cooperation was continued with professional sports clubs and numerous amateur sports club operating in the area of Jastrzębie-Zdrój, Pawłowice, Suszec, Ornontowice, Katowice, Rybnik and Pszczyna, involving sports disciplines such as:

- volleyball – KS Jastrzębski Węgiel S.A.,
- hockey – Jastrzębski Klub Hokejowy GKS Jastrzębie,
- boxing – Bokserski Klub Sportowy Jastrzębie,

- football – GKS Pniówek-74, GKS Jastrzębie 1962, KS ROW 1964 Rybnik, LKS Granica Ruptawa, KS Gwarek Ornontowice, GKS Krupiński Suszec, LKS Unia Turza, MKS Concordia Knurów and other.

Other activities include cooperation with various projects and events associated with a centenary of Poland's independence and 25 years of JSW's activity, celebration of traditional Barbórka festivities, initiation of good relations with cultural and educational establishments and participation in numerous conferences in Poland and abroad.

The Parent Company as the pillar of the coal and coke industry, known and appreciated in Poland and abroad, is building the image of a company managed in a modern way, and socially friendly and responsible.

ITEM	2018	2017	GROWTH RATE 2017=100
Value of donations (financial and material) (PLN 000s)	3,940.5	1,029.1	382.9

Each of the companies, because of the different nature of its operating activity, has its own individual character of social impact, and therefore also its own approach to managing it.

The formalized approach in JSW KOKS is aimed not only at meeting the needs of the social and natural environment in the immediate vicinity. In 2018, JSW KOKS' social activity focused mainly on assistance to institutions operating in the following areas: poverty prevention, public health, sports and local community initiatives. The Company supported various campaigns organized by foundations and parishes, aimed, among other things, at purchasing medical equipment, preparation of food parcels for the needy and assistance for the homeless, impoverished and socially excluded. The Company supported hospice activities, helped in renovations, for example of a kindergarten at the Young Miners' Residential Project in Zabrze, Orphanage in Zabrze and the Neurology Ward of the Municipal Hospital in Zabrze. The Company also supported a campaign aimed at assisting in rehabilitation of a road accident victim (a mine rescuer from the Knurów-Szczygłowice Mine). JSW KOKS also supported the organization of traditional St. Nicholas meetings in four institutions and supported the annual sports competition for pre-schoolers. Also, JSW KOKS conducted a charitable campaign in 2018 to collect food and other articles for animal shelters. Cooperation with the sports community was continued in 2018. The company supported both professional (Jastrzębski Węgiel S.A.) and amateur operations, among others by supporting young talents (Górnik Zabrze Football Academy) and local clubs (such as LKS Tęcza Błędów, UKS Przemsza Okradzionów). JSW KOKS also provides continuous support for employee sports teams in several disciplines (football tournaments, inter-company volleyball and bowling competitions and skiing competitions).

8.11. CUSTOMER RELATIONS

The Group as an active participant in the "coking coal – coke – steel" supply chain operates in a volatile market environment influenced by the situation in the steel market and competition in the market of suppliers of coking coal and coke. As the leading producer of coking coal in the EU and a major producer of coke, it is an important player on the European market. Sales of the Group's main products: coking coal, coke and steam coal, are based on long-term contracts with offtakers with an established market position.

The Parent Company has a group of regular buyers of coking coal, that is European coking plants, located mainly in Poland and in Central Europe. The structure of customers does not change significantly over the years.

Coke produced by the Group is sold mainly to European steel concerns. In order to diversify sales markets, coke is also shipped to overseas customers. The unique trade relations with coke customers, which are different than in the case of coking coal, results from the fact that most steel concerns have their own integrated coking plants and make supplementary purchases on the market. For this reason, coke has greater volatility in terms of volumes shipped to respective customers and countries. The Group has some regular coke buyers, which purchase the material based on long-term offtake contracts. In case of temporary coke surpluses, they are exported to European or overseas customers cooperating with the Group occasionally, depending on the Group's own needs and capabilities. In accordance with the accepted commercial strategy, in respect of steam coal sales, the Parent Company cooperates mainly with domestic commercial power plants, including key domestic power companies. JSW as a relatively small producer of steam coal cannot on its own dictate commercial terms on the domestic steam coal market, so it tries to optimize its strategy taking into account the market reality imposed by the largest market players. Selling markets are discussed in more detail in Section 4.4 of this report.

8.12. INNOVATION AND DEVELOPMENT

The overriding objective of the *Research, Development and Innovation Policy at JSW Group* is to improve efficiency, quality, safety and environmental impact of the main activity, i.e. the production of coking coal. The R&D&I Policy also takes into account the need to diversify the Group's operations and improve its image.

According to the Strategy, which was adopted in December 2017, and the *Innovation Strategy* it describes, the R&D&I Policy, through its investments in the innovation area, should ensure stabilization of quality of products offered by the Group.

The innovations will be deployed in four main substantive areas: Efficiency, Quality, Safety and Social and Environmental Responsibility. It will be possible to implement the Innovation Strategy due to four major categories of measures:

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

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

JSW Innowacje, a company owned by the Group, forms the Jastrzębie Center for Innovation and Development and serves as a comprehensive research and development facility for the whole Group. It covers all the phases of research and development activities: from research to projects, environmental impact assessments, feasibility studies and execution oversight.

One of the main goals underlying the R&D&I policy is to ensure appropriate classification of projects subject to the policy. The classification is as follows:

STRATEGIC R&D&I PROJECTS	R&D&I projects, where the funds to be committed by Group companies have been estimated at PLN 10 million or more
INNOVATIVE R&D&I PROJECTS	R&D&I projects, where the funds to be committed by Group companies have been estimated between PLN 0.25 million and PLN 10 million Certain undertakings will also be classified as Innovative Projects if the value of funds committed by Group companies is less than PLN 0.25 million but the project assumes participation of more than one of the Group's companies or business units
LOCAL R&D&I PROJECTS	projects, whose value was estimated below PLN 0.25 million and which are carried out by as single Group company or business unit

R&D&I PROJECT HANDLING METHODOLOGY

The projects classified as being subject to the R&D&I Policy are managed in accordance with the *R&D&I Project Handling Methodology.* The methodology covers the handling of R&D&I projects int eh Group, through the model of Decision Gates and appropriate reporting of these projects. The following units are involved in the R&D&I project management process: JSW Management Board, JSW Strategy and Development Department, JSW Innowacje. A detailed description of the R&D&I Policy is provided in the document entitled *Research, Development and Innovation Policy at JSW Group.*

KEY INNOVATION AND RESEARCH & DEVELOPMENT PROJECTS CARRIED OUT BY THE GROUP

Project name	Executing entity	Project description	Target group
Deposit modeling and production planning at JSW	JSW IT Systems	An innovative project implemented in the Group together with JSW IT Systems (Advicom), substantive advisor, external suppliers and a business integrator. The project is implemented in stages: pre-implementation analysis for all mines/sections, implementation of the deposit data management system for the selected mine – a pilot, development of interfaces to existing IT systems, implementation of the system in the remaining mines/sections, implementation of the design and scheduling system database along with integration with existing systems.	JSW units
Implementation of RCM – Stage I, improved efficiency in monitoring of parameters	JSW	The innovation project will be implemented as part of the IT/OT Strategy in the Group and within the framework of the "Efficiency" program. After the project is implemented, the availability factor of machinery should increase. The project pertains to: retrofitting of machinery and equipment, extension of the fiberoptic network and the software that monitors	JSW

Project name	Executing entity	Project description	Target group
		working parameters of machinery and equipment, implementation of the overriding monitoring system, establishing a new organizational unit responsible for maintaining the monitoring systems in working order.	
Independent Rockbolt Support	JSW Innowacje	The goal of this project is to develop a technology of conducting mining work using the bolting technique in the system of continuous mining and installation of independent rockbolt supports suitable to the conditions, in coking coal mines with a methane hazard in Polish conditions, including a loading and haulage technology for the winnings, manufacture appropriate equipment and prepare documentation in this respect and ensure safety of people, the optimum utilization of equipment and materials and the optimum organization of work.	JSW and JSW Innowacje
Optimization of roadway excavation support systems at JSW	JSW	Project with research and development features implemented as part of the "Efficiency" program. Its goal is to evaluate the potential for reducing the costs of operation by reducing costs associated with drilling and maintaining roadway excavations as well as a pilot deployment of the recommended solutions. This project is to focus on selecting potential headings where the analyzed technological solutions can be implemented, selecting the optimum support system, executing the headings and ensuring their further monitoring.	JSW
Mechanized roadheader for roadway excavation in underground coal and mineral mines	JSW Innowacje, Maszyny i Konstrukcje Przemysłowe Sp. z o.o.	The main goal of the project is to develop and test, in a demonstration scale and in underground conditions, a mechanized prototype of a roadheader for roadway excavation in underground coal mines. Implementation of the solution developed in the project should first of all lead to an increase in efficiency of drilling of underground roadways, an increase in production capacities, increased profitability of underground work and elimination of limitations in roadway excavation works performed by roadheaders in specific locations due to mining conditions.	JSW
Autonomous Longwall System	JSW, JSW Innowacje, GIG, EY, CSIRO	The project assumes implementation of an innovative integrated longwall system. The project is to increase automation of the mining process and ensure the monitoring of work of a longwall shearer. Based on this implementation, the technical advancement of longwall systems will increase, which should improve efficiency and safety of work.	JSW, JSW Innowacje
Development of a technology to produce carbon adsorbents and a technology of removing mercury from exhaust gas originating int he combustion process in order to build a manufacturing plant of activated carbon and coke – AWKD	JSW Innowacje, JSW KOKS	The planned investment project involves a change in the production profile of the Dębieńsko Coking Plant and is fits perfectly int he current global trends relating to the rationalization of management of material resources and introduction of increasingly stringent emission standards. A change of the production profile of the Dębieńsko Coking Plant should significantly improve the negative social perception of this outdated plant, which will be transformed into a modern company producing high-quality products for environmental protection purposes. The carbon sorbents produced in the new Dębieńsko plant will find application in water treatment and exhaust gas purification processes (mainly to remove mercury and its compounds). The production of the useful carbon adsorbents in the new plant will be based mainly on the raw materials from the JSW Group (type 34.2 hard coal and coke dust).	JSW GROUP
Pilot installation for the production of carbon nanotubes	JSW Innowacje, AGT Management & Engineering AG, JSW	The project will be executed with a foreign partner, AGT Management & Engineering AG (AGT), which has the know-how for the LTC (Low Temperature Conversion) technology together with the CCVD (Catalytical Chemical Vapour Deposition) technology, for the production of carbon nanostructures (carbon nanotubes, CNT). Stage I of the project will be used to improve the technological parameters and to test the methodology in order to manufacture high-quality CNT. Stage II of the project aims at establishing a special-purpose vehicle, SPV. The purpose of the SPV will be to launch a pilot CNT producing installation. It is assumed that the pilot installation will be built on the post-industrial land of the former Dębieńsko Coking Plant based on the LTC/CCVD technology. Stage III of the project is aimed at building further Production Lines within the SPV.	JSW GROUP
Separation of high-purity hydrogen from coke oven gas available in the Group's coking plants	JSW Innowacje, JSW KOKS	The Group holds considerable quantities of hydrogen from coke oven gas produced in the Group's coking plants. Hydrogen is the fuel of the future, used in fuel cells generating electricity and heat, while emitting just steam. JSW Innowacje has taken steps to obtain a technology to separate hydrogen from coke oven gas from foreign markets (Germany, China, Japan). In parallel, JSW Innowacje initiated work with a domestic supplier of the hydrogen separation technology to prepare assumptions for building a pilot installation. The goal is to develop a hydrogen separation technology from coke oven gas and obtain a proprietary, domestic know-how for the technology. JSW Innowacje S.A. has also initiated cooperation with suppliers of hydrogen fuel cells (Ballard, Hydrogenics) in order to develop assumptions for the project.	JSW KOKS

9. REPORT ON ACTIVITY OF THE JSW MANAGEMENT BOARD AS THE COMPANY'S CORPORATE BODY FOR 2018

1. Information about the term of office, date of appointment and personnel composition of the Management Board of the current term of office

The information is presented in Section 7.13. of this report.

2. Changes to the Management Board's composition during the financial year

The information is presented in Section 7.13. of this report.

3. Information about internal division of duties and functions discharged by Management Board Members

The information is presented in Section 7.13. of this report.

4. Information about granted and revoked commercial proxies

During the year 2018, the JSW Management Board did not adopt any resolution to appoint a commercial proxy(-ies) and no Management Board Member revoked any previously awarded commercial proxy(-ies).

5. Information about Management Board meetings held and resolutions adopted

In 2018, the JSW Management Board held 75 meetings and adopted 956 resolutions.

6. Information about execution of Shareholder Meeting resolutions in the financial year 2018 and Energy Minister's recommendations addressed to JSW

Shareholder Meeting resolutions and Energy Minister's recommendations addressed to JSW are executed on an ongoing basis.

7. Information about key actions and decisions made by the Management Board, affecting JSW's economic and financial standing

A description of key actions and decisions made by the Management Board, affecting JSW's economic and financial standing is presented in the individual chapters of the Management Board Report on the Activity of Jastrzębska Spółka Węglowa S.A. and the Jastrzębska Spółka Węglowa S.A. Group in the financial year ended 31 December 2018.

10. APPROVAL OF MANAGEMENT BOARD ACTIVITY REPORT

This 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 was approved for publication and signed by the Management Board of JSW on 13 March 2019.

Jastrzębie-Zdrój, 13 March 2019

SIGNATURES OF JSW MANAGEMENT BOARD MEMBERS

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

GLOSSARY OF TERMS AND ABBREVIATIONS

ARP	Industrial Development Agency (Agencja Rozwoju Przemysłu)
CCC	Coke's cash conversion cost
CLP-B	Central Laboratory (Centralne Laboratorium Pomiarowo-Badawcze)
PCP	Physical Cash Pooling cash management system in effect in the Group
CSIRO	Commonwealth Scientific and Industrial Research Organization (Australian government agency)
CSR	Corporate Social Responsibility
EBITDA	Earnings before interest, taxes, depreciation and amortization – operating profit before deduction of interests on interest-bearing liabilities (loans, bonds), taxes, amortization of intangible assets and depreciation of property, plant and equipment
FIZ	Closed-End Investment Fund (Fundusz Inwestycyjny Zamknięty)
FLZG	Mine Closure Fund (Fundusz Likwidacji Zakładów Górniczych)
GRI	Global Reporting Initiative – sustainable development reporting guidelines
WSE	Warsaw Stock Exchange
JSAG	Jastrzębska Strefa Aktywności Gospodarczej Sp. z o.o.
JSK	Jastrzębska Spółka Kolejowa Sp. z o.o.
JSU	Jastrzębska Spółka Ubezpieczeniowa Sp. z o.o.
JSW	Jastrzębska Spółka Węglowa S.A.
JSW SIG	Jastrzębska Spółka Węglowa Szkolenie i Górnictwo Sp. z o.o.
JZR	Jastrzębskie Zakłady Remontowe Sp. z o.o.
KRS	National Court Register (Krajowy Rejestr Sądowy)
KW S.A.	Kompania Węglowa S.A.
KWK	Hard coal mine (Kopalnia Węgla Kamiennego)
MCC	Mining Cash Cost
IFRS	International Financial Reporting Standards
MZPP	Program and Project Management Methodology (Metodyka Zarządzania Programami i Projektami)
PBSZ	Przedsiębiorstwo Budowy Szybów S.A.
BIP	Bond Issue Program
PGG	Polska Grupa Górnicza
ARA ports	Ports of Amsterdam, Rotterdam and Antwerp
SOK	Independent Bolting Supports *(Samodzielna Obudowa Kotwiowa)*
SRK	Spółka Restrukturyzacji Kopalń S.A.
TFS	Towarzystwo Finansowe Silesia sp. z o.o.
TSI	The Steel Index
UOKiK	Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
WACC	Weighted average cost of capital

RATIO CALCULATION METHODOLOGY

EBIT MARGIN	Operating result x 100 / Sales revenues
EBITDA	Operating result + depreciation and amortization
EBITDA MARGIN	EBITDA x 100 / Sales revenues
CURRENT LIQUIDITY RATIO	Current assets / Current liabilities excl. current provisions
QUICK LIQUIDITY RATIO	(Current assets - Inventories) / Current liabilities excl. current provisions
NET RETURN ON SALES	Net financial result x 100 / Sales revenues
RETURN ON ASSETS (ROA)	Net financial result x 100 / Total assets
RETURN ON EQUITY (ROE)	Net financial result x 100 / Equity
FIXED CAPITAL TO NON-CURRENT ASSETS RATIO	(Equity + Non-current liabilities excl. non-current provisions) / Non-current assets
DEBT TO EQUITY RATIO	Total liabilities / Equity
LONG-TERM DEBT RATIO	Non-current liabilities / Total liabilities and equity
SHORT-TERM DEBT RATIO	Current liabilities / Total liabilities and equity
TOTAL DEBT RATIO	Total liabilities / Total liabilities and equity
EQUITY RATIO	(Equity – Intangible assets) / Total assets