Independent auditor's report

To the Shareholder Meeting and the Supervisory Board of Jastrzębska Spółka Węglowa S.A.

Audit report on the annual consolidated financial statements

Our opinion

In our opinion, the attached annual consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group ("Group") in which Jastrzębska Spółka Węglowa S.A. is the parent company ("Parent Company"):

- give a true and fair view of the economic and financial position of the Group as at 31 December 2018 and of its consolidated financial result and its consolidated cash flows for the financial year then ended in accordance with the applicable International Financial Reporting Standards endorsed by the European Union and the adopted accounting policy;
- are consistent as to the form and content with the legal regulations applicable to the Group and the provisions of the Parent Company's articles of association.

The opinion is consistent with our additional report for the Audit Committee issued as of the date of this report.

Subject matter of our audit

We have audited the annual consolidated financial statements of the Group, which are comprised of:

- consolidated statement of financial position as at 31 December 2018;

and the following, prepared for the financial year from 1 January to 31 December 2018:

- consolidated statement of profit or loss and other comprehensive income
- consolidated statement of changes in equity;
- consolidated statement of cash flows, and
- notes to the consolidated financial statements containing the description of the accepted accounting policies and other explanatory information.

Basis for opinion

We have conducted our audit in accordance with the International Standards on Auditing as adopted as the National Standards on Auditing by the National Council of Statutory Auditors ("NSA") and in accordance with the provisions of the Act of 11 May 2017 on Statutory Auditors, Auditing Firms and Public Supervision ("*Act on Statutory Auditors*" – Journal of Laws of 2017, Item 1089, as amended) and Regulation (EU) No 537/2014 of 16 April 2014on specific requirements regarding statutory audit of public - interest entities ("*EU Regulation*" – OJ EU L158). Our responsibilities under those NSAs are described below in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and ethics

We are independent of the Group in accordance with the International Federation of Accountants' *Code of Ethics for Professional Accountants* ("IFAC Code") as adopted by resolutions of the National Council of Statutory Auditors and other ethical requirements that are applicable to the auditing of financial statements in Poland.
We have fulfilled our other ethical obligations under these requirements and the IFAC Code. During the audit, the key statutory auditor and the audit firm remained independent of the Group in accordance with the independence requirements set out in the Act on Statutory Auditors and in the EU Regulation.

Our approach

Overview

- The overall materiality threshold adopted for the purposes of our audit was set at PLN 100 million, which represents roughly 5% of the profit before tax.

- We have audited the Parent Company and two subsidiaries, JSW KOKS S.A. and JZR Sp. z o.o.
- We have received reports on the audit from other statutory auditor's auditing the consolidation packages from the Group's other subsidiaries.
- The scope of our audit covered 97% of the Group's revenues and 98% of the absolute value of its financial result before consolidation eliminations.

- The key audit matters included:
  - Impairment of property, plant and equipment,
  - Reversal of the provision for claims in respect of free coal allowances,
  - Measurement and completeness of provisions for future costs of mine closures, for mining damage and environmental matters.

We have designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board of the parent company made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud. We have adapted the scope of our audit in order to perform sufficient work that allowed us to issue an opinion on the consolidated financial statements as a whole, considering the Group's structure, accounting processes and controls and the industry, in which the Group operates.

Materiality

The scope of our audit was influenced by the assumed materiality level. Our audit was designed to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement.
Misstatements may arise due to fraud or error. They are considered material when they can be reasonably expected to influence, individually or taken together, the economic decisions of users taken based on the consolidated financial statements.
Based on our professional judgment, we set certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole, as presented below. These thresholds, together with qualitative considerations, allowed us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

The concept of materiality is used by the auditor both in planning and conducting an audit, as well as in assessing the effect of the misstatements identified during the audit and the unadjusted misstatements (if any), on the financial statements, and also in forming our auditor's opinion. Therefore, all opinions, assertions and statements contained in the auditor's report have been made taking into consideration the quantitative and qualitative materiality levels determined in accordance with the auditing standards and the registered auditor's professional judgment.

Overall materiality for the Group	PLN 100 million
Basis for determination	5% of profit before tax
Rationale for the basis used	We have selected profit before tax as the basis for determining materiality because, in our opinion, it is an indicator commonly used by the users of financial statements to evaluate the Group's operations and is a generally accepted benchmark. We have adopted the materiality threshold of 5% because, based on our professional judgment, it is within the acceptable quantitative materiality thresholds.

We have agreed with the Parent Company's Audit Committee that we would report to them of misstatements identified during our audit of the consolidated financial statements above PLN 5 million, as well as any misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were most significant in our audit of the consolidated financial statements of the current period. They include the most significant identified risks of material misstatements, including the identified risks of material misstatement resulting from fraud. We addressed these matters in the context of our audit of the consolidated financial statements statements as a whole, and in forming our opinion thereon; we summarized our response to these risks and, when deemed appropriate, presented the most important observations relating to these risks.
We do not provide a separate opinion on these matters.

Key audit matters	*How our audit addressed the matter*
Impairment of property, plant and equipment In its 2018 financial result the Group recognized impairment losses of PLN 1,214.0 million in respect of the property, plant and equipment of two mines: KWK (Section) Zofiówka and KWK Knurów-Szczygłowice and it reversed impairment losses of PLN 719.1 million in respect of one mine: KWK Budryk. The disclosures regarding the impairment losses are presented in note 7.3 to the consolidated financial statements. The Group also performed impairment tests concerning the cash generating centers in which the grounds for impairment were identified in accordance with paragraph 12 of IAS 36, or its reduction in accordance with paragraph 111 of IAS 36. At KWK (Section) Zofiówka, the basis for writing down the value of the property, plant and equipment was the loss of the ability to operate a portion of the deposit on account of the high energy shock wave. At KWK Knurów-Szczygłowice the recognition of an additional impairment loss followed from the material movement in the components of mining cost that permanently reduced this mine's profitability. The reversal of the impairment loss to the assets of KWK Budryk recognized in previous years is related to the opening up of a new coal seam facilitating the production of coal possessing better qualitative parameters. Conducting impairment tests on mines is related to the necessity of making a number of material macroeconomic assumptions but also making significant estimates in respect of the quantum and accessibility of a coal deposit, coal's qualitative parameters, future coal prices, mining output and mining costs. Having regard for the materiality of the line items in the consolidated financial statements and the inherent risk of uncertainty related to significant estimates made by the Management Board of the parent company, we deemed that this issue is key to our audit.	Our audit procedures encompassed in particular: • understanding and assessing the grounds for conducting impairment tests on the non-current assets of various mines, • the rules for defining the cash generating centers, also for determining the value of the tested assets minus employee liabilities and provisions for future mine closure costs and mining damage; • analyzing the impairment tests administered by the Management Board of the parent company, in particular: (a) critically assessing the assumptions accepted by the Management Board and the estimates made to specify the recoverable value (the period of the forecast for future cash flow and its assumed level of revenue with special emphasis on coal's price paths, operating margin, the assumed level of coal production, future capital expenditures, the discount rate used and assessing the assumptions regarding working capital); (b) verifying the mathematical correctness and methodological consistency of the valuation model based on discounted cash flows by engaging PwC's inhouse experts on valuation; • assessing the sensitivity analysis conducted by the Management Board of the results of the tests to the assumptions made; • assessing the correctness and completeness of the disclosures regarding impairment tests in the financial statements. On the basis of the procedures conducted, we do not have material comments on the results of the conducted tests.

Reversal of the provision for claims in respect of free coal allowances

In the audited financial year the Group reversed the provision for court cases regarding free coal allowances totaling PLN 653.5 million. The disclosures regarding this subject are presented in note 7.12 to the consolidated financial statements.

The parent company is the defendant in several hundred cases of litigation concerning claims for payment of free coal allowances to former employees, current and future old-age and disability pensioners and their families. The provision for these claims was established in 2015 and has been updated every year. In the audited period, after analyzing the status of court adjudications, the Management Board decided to reverse the outstanding amount of the provision totaling PLN 653.5 million for unfinished litigation.

Since the claims follow from a complicated legal situation, while the reversal of the provision involved a material judgment made by the Management Board of the parent company and it has a material, non-recurring impact on the financial result in the audited financial year, we deemed that this is a key matter for analysis during the audit.

Our audit procedures encompassed in particular:

- understanding the legal status and the rules for the Group to make this estimate in the prior periods and in the audited period;
- analyzing the documentation concerning the reported claims and the pending litigation;
- analyzing the specific principle adopted by the Management Board concerning its assessment of the adjudications pronounced in the individual court cases and the formation of case law;
- obtaining letters from the parent company's lawyers involved in the various legal proceedings;
- assessing the completeness and correctness of the disclosures concerning the reversal of the provision in the financial statements.

As a result of the procedures conducted, based on the collected review documentation, also including declarations obtained from the management of the parent company, we have not ascertained a necessity of making material adjustments in the audited financial statements.

Measurement and completeness of provisions for future costs of mine closures, for mining damage and environmental matters

As at the balance sheet date the Group recognized provisions in the consolidated financial statements for the following:

- mine closure costs of PLN 547.0 million,
- mining damage repair costs and environmental matters of PLN 431.1 million.

These provisions and the accounting standards pertaining to them and the assumptions are described in note 7.12 to the consolidated financial statements.

To estimate provisions for mine closure costs it is necessary to accept assumptions concerning the lifetime of mines and estimate the scope of the mine closure work and identify the facilities

Our audit procedures encompassed in particular:

- understanding and assessing the process of estimating the provision for mine closure costs;
- understanding and assessing the process of identifying facilities and areas affected by mining damage or in need of reclamation and the rules for calculating the provision for mining damage repair costs and reclamation;
- analyzing documentation spanning the assumptions and calculation of the mine closure costs;
- analyzing documentation pertaining to the identified mining damage and facilities in need of reclamation, also including correspondence with the authorities and the decisions made by the competent authorities responsible for environmental protection;

subject to liquidation, the methods of liquidation and the time needed to conduct the liquidation and the future cash flow associated with the liquidation of the assets.

The provisions for mining damage and environmental matters call for the Management Board to make a judgment on defining the form and scope of repair of mining damage or reclamation of the area, the schedule of the various works and the amount of cash flow; they also necessitate incorporating factors stemming from legal regulations and the exactitude of field studies. In this case the impact exerted by this activity on the environment is also significant, along with identifying the legal duties following from this impact.

Since the determination of the provisions for the above entails the necessity of the Management Board of the parent company adopting a number of assumptions and making judgments, the key matter for the audit was to confirm the correctness of the measurement and the completeness of these provisions.

- conversations and declarations made by the Management Board of the parent company and persons responsible for the process of identifying mining damage and facilities subject to reclamation on the completeness of the provisions and assumptions used for calculation;
- analyzing the calculations prepared by the Management Board and external experts, in particular:

    (a) we analyzed the estimates concerning mine closure costs and the costs of damage repair and reclamation,

    (b) we considered the justification for the accepted assumptions based on our knowledge, practice and experience and we compared the estimates with external evidence if available,

    (c) we verified the mathematical correctness of the model used for calculation incorporating the accepted assumptions regarding the growth rates for costs and the discount rate;
- assessing the completeness and correctness of the disclosures on the provisions in the financial statements.

As a result of the procedures conducted, we did not identify a necessity to make material adjustments to the provisions recognized in the consolidated financial statements.

Responsibility of the Management Board and Supervisory Board for the consolidated financial statements

The Parent Company's Management Board is responsible for the preparation of the annual consolidated financial statements that give a true and fair view of the Group's economic and financial position and its financial results in accordance with the International Financial Reporting Standards as endorsed by the European Union, the adopted accounting policies, the laws applicable to the Group and the articles of association, and for such internal control as the Management Board deems necessary to enable the preparation of the consolidated financial statements that are free from material misstatement due to fraud or error.

In preparing the consolidated financial statements, the Parent Company's Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, where applicable, matters related to going concern and using the going concern basis of accounting, except in the situation where the Management Board either intends to liquidate the Group or to discontinue operations, or has no realistic alternative for such liquidation or discontinuation.

The Parent Company's Management Board and members of its Supervisory Board are obliged to ensure that the consolidated financial statements satisfy the requirements prescribed by the Accounting Act of 29 September 1994 (*"Accounting Act"* – consolidated text in Journal of Laws of 2019, Item 351, as amended). Members of the Supervisory Board are responsible for overseeing the financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report containing our opinion. Reasonable assurance is a high level of assurance, but it does not guarantee that an audit conducted in accordance with the NSAs will always reveal a material misstatement. Misstatements may arise from fraud or error and are material when they can be reasonably expected to influence, individually or taken together, the economic decisions of users taken based on these consolidated financial statements.

The scope of the audit does not include any assurance as to the Group’s future profitability or the efficiency or effectiveness of the management of the Parent Company’s affairs at present or in the future by the Management Board.

As part of an audit in accordance with the NSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures addressing those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent Company’s Management Board;
- conclude on the appropriateness of the Parent Company’s Management Board’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report, however, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient and appropriate evidence for auditing financial information of business units or operations within the Group in order to give an opinion on the consolidated financial statements. We are responsible for managing, overseeing and conducting the Group’s audit and we are solely responsible for our opinion on the audit.

We communicate with the Parent Company’s Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to endanger our independence, and where applicable, related safeguards.

From the matters communicated to the Audit Committee, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the activity report

Other information

Other information consists of the joint activity report of the Parent Company and the Group for the financial year ended 31 December 2018 (*"Activity Report"*) and the corporate governance statement and the statement on non-financial information referred to in Article 55 sec. 2b of the Accounting Act, which are separate parts of the Activity Report.

Responsibility of the Management Board and Supervisory Board

The Parent Company's Management Board and the Supervisory Board members are responsible for preparing the Activity Report in accordance with the law.

Furthermore, the Parent Company's Management Board and the Supervisory Board members are obliged to ensure that the Activity Report with its separate parts satisfies the requirements stipulated in the Accounting Act.

Statutory auditor's responsibility

Our opinion on the audit of the consolidated financial statements does not cover the Activity Report.

In connection with our audit of the consolidated financial statements and the Parent Company's financial statements, our responsibility is to read the Activity Report and, in doing so, consider whether it is materially inconsistent with the consolidated financial statements and the Parent Company's financial statements, our knowledge obtained in our audit, or otherwise appears to be materially misstated.
If, based on the work performed, we identified a material misstatement in the Activity Report, we are obliged to inform about it in our audit report.

In accordance with the requirements of the Act on Statutory Auditors, it is also our responsibility to issue an opinion as to whether the Activity Report has been prepared in compliance with the law and whether it is consistent with the information disclosed in the annual consolidated financial statements and the Parent Company's financial statements.

Moreover, we are obliged to issue an opinion on whether the Parent Company and the Group provided the required information in its corporate governance statement and to inform whether the Parent Company and the Group prepared a statement on non-financial information.

Opinion on the Activity Report

Based on the work performed during the audit, in our opinion, the Activity Report:

- has been prepared in accordance with the requirements of Article 49 of the Accounting Act and par. 70 and par. 71 of the Finance Minister's Regulation of 29 March 2018 on current and periodic information submitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (*"Current Information Regulation"* – Journal of Laws of 2018, Item 757);
- is consistent with the information included in the consolidated financial statements and in the Parent Company's financial statements.

Additionally, based on the knowledge of the Parent Company and the Group and their environment obtained during our audit, we have not identified any material misstatements in the Activity Report.

Opinion on the corporate governance statement

In our opinion, in the corporate governance statement, the Parent Company and the Group included the information specified in par. 70 sec. 6 item 5 of the Current Information Regulation. In addition, in our opinion, the information specified in par. 70 sec. 6 item 5 (c)-(f), (h) and (i) of the said Regulation included in the corporate governance statement is consistent with the applicable provisions of law and with information included in the consolidated financial statements and the Parent Company's financial statements.

Information on non-financial information

In accordance with the requirements of the Act on Statutory Auditors, we confirm that the Group has prepared a statement on non-financial information referred to in Article 55 sec. 2b of the Accounting Act as a separate section of the Activity Report.

We have not performed any assurance work pertaining to the statement on non-financial information and we do not give any assurance in respect thereof.

Report on other requirements of law and regulations

Statement on provision of non-audit services

To the best of our knowledge and belief, we declare that the non-audit services we have provided to the Company and its subsidiaries are in accordance with the laws and regulations applicable in Poland and that we have not provided any non-audit services that are prohibited under Article 5(1) of the EU Regulation and Article 136 of the Act on Statutory Auditors.

The non-audit services that we have provided to the Parent Company and its subsidiaries in the audited period are listed in Note 10.5 of the consolidated financial statements.

Selection of the audit firm

We were selected to audit the Group's annual consolidated financial statements by the Supervisory Board resolution of 29 November 2017. The Group's most recent consolidated financial statements audited by us was the statement for the financial year ended 31 December 2012.

The key statutory auditor responsible for the audit on behalf of PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp. k. (formerly: PricewaterhouseCoopers sp. z o.o.), a company entered in the list of audit firms under number 144, which resulted in this independent auditor's report, is Tomasz Reinfuss.

Document signed by Tomasz Reinfuss
Date: 2019.03.13 08:37:26 CET

Tomasz Reinfuss Key
Statutory Auditor
Registered number
90038

Katowice, 13 March 2019