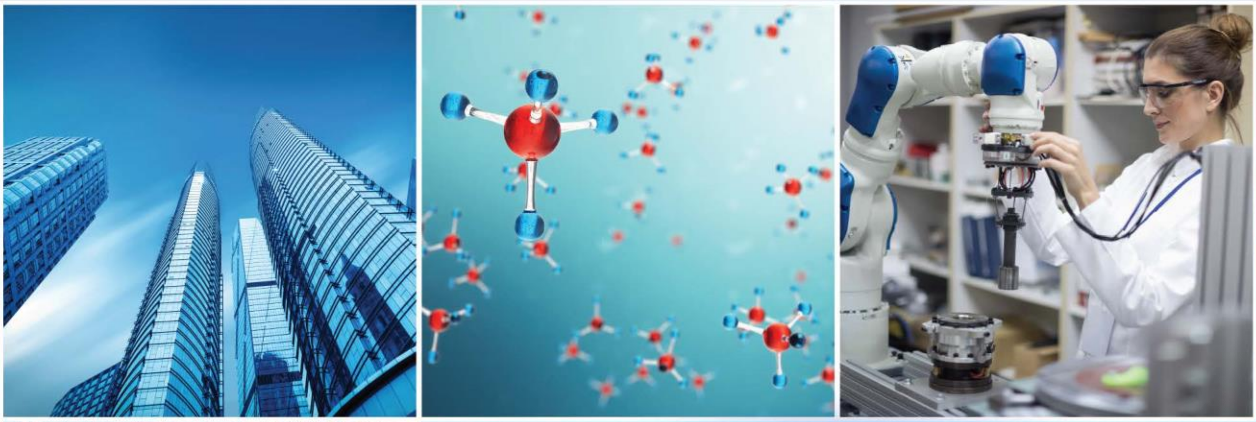
JSW SA



CONSOLIDATED FINANCIAL STATEMENTS

OF THE JASTRZĘBSKA SPÓŁKA WĘGLOWA S.A. GROUP

for the financial year ended 31 december 2019

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	For the financial year ended 31 December 2019	For the financial year ended 31 December 2018
Sales revenues	4.1	8,671.8	9,809.5
Cost of products, materials and goods sold	4.2	(7,068.2)	(6,938.4)
GROSS PROFIT ON SALES		**1,603.6**	**2,871.1**
Selling and distribution expenses	4.2	(261.5)	(298.8)
Administrative expenses	4.2	(709.3)	(623.8)
Other revenues	4.3	289.5	1,616.5
Other costs	4.4	(95.1)	(1,296.9)
Other net gains/(losses)	4.5	78.4	(14.0)
OPERATING PROFIT		**905.6**	**2,254.1**
Financial income	4.6	26.5	40.1
Financial costs	4.6	(104.4)	(101.8)
Share in profits/(losses) of associates		0.3	0.1
PROFIT BEFORE TAX		**828.0**	**2,192.5**
Income tax	5.1	(178.4)	(431.7)
NET PROFIT		**649.6**	**1,760.8**
Other comprehensive income to be reclassified to net result:		**31.5**	**14.6**
Change in the value of hedges	7.13.2	38.9	18.0
Income tax	5.1	(7.4)	(3.4)
Other comprehensive income not to be reclassified to net result:		**(44.4)**	**(57.0)**
Actuarial profit/(loss)	7.14	(54.8)	(70.4)
Income tax	5.1	10.4	13.4
TOTAL OTHER COMPREHENSIVE INCOME		**(12.9)**	**(42.4)**
TOTAL COMPREHENSIVE INCOME		**636.7**	**1,718.4**
Net profit attributable to:			
- shareholders of the Parent Company		628.9	1,737.1
- non-controlling interest		20.7	23.7
Total comprehensive income attributable to:			
- shareholders of the Parent Company		616.7	1,695.2
- non-controlling interest		20.0	23.2
Basic and diluted earnings per share attributable to shareholders of the Parent Company (in PLN per share)	4.7	5.36	14.80

Notes to the consolidated financial statements form an integral part hereof.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31.12.2019	31.12.2018
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	7.1	8,672.3	7,303.0
Goodwill	7.2	57.0	-
Intangible assets	7.3	117.3	130.8
Investment property	7.6	23.9	21.1
Right-of-use asset	7.4	618.3	-
Investments in associates		1.2	1.1
Deferred tax assets	5.2	525.0	669.5
Investments in the FIZ asset portfolio	7.7	1,174.0	1,826.1
Other non-current financial assets	7.8	376.1	349.1
TOTAL NON-CURRENT ASSETS		**11,565.1**	**10,300.7**
CURRENT ASSETS			
Inventories	7.9	1,130.8	656.5
Trade and other receivables	7.11	866.1	1,146.7
Income tax overpaid		162.8	0.7
Financial derivatives	9.4	60.5	7.2
Investments in the FIZ asset portfolio	7.7	700.0	-
Other current financial assets	7.10	90.8	-
Cash and cash equivalents	7.12	350.3	1,650.8
TOTAL CURRENT ASSETS		**3,361.3**	**3,461.9**
TOTAL ASSETS		**14,926.4**	**13,762.6**

Notes to the consolidated financial statements form an integral part hereof.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	31.12.2019	31.12.2018
EQUITY			
Share capital	7.13.1	1,251.9	1,251.9
Share premium account		905.0	905.0
Capital on revaluation of financial instruments	7.13.2	(20.6)	(52.1)
Retained earnings	7.13.3	6,326.9	5,976.6
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY		**8,463.2**	**8,081.4**
NON-CONTROLLING INTEREST		**388.3**	**364.0**
TOTAL EQUITY		**8,851.5**	**8,445.4**
LIABILITIES			
NON-CURRENT LIABILITIES			
Loans and borrowings	6.1	333.3	36.5
Deferred tax liabilities	5.2	22.5	15.6
Employee benefit liabilities	7.14	832.5	731.7
Provisions	7.15	866.9	788.0
Lease liabilities	6.3	406.7	-
Trade and other liabilities	7.16	118.9	119.9
TOTAL NON-CURRENT LIABILITIES		**2,580.8**	**1,691.7**
CURRENT LIABILITIES			
Loans and borrowings	6.1	25.8	33.5
Liabilities under debt securities issued	6.2	-	121.0
Financial derivatives	9.4	1.3	6.0
Current income tax liabilities		6.3	203.6
Employee benefit liabilities	7.14	172.2	150.8
Provisions	7.15	300.3	273.1
Lease liabilities	6.3	206.4	-
Trade and other liabilities	7.16	2,781.8	2,837.5
TOTAL CURRENT LIABILITIES		**3,494.1**	**3,625.5**
TOTAL LIABILITIES		**6,074.9**	**5,317.2**
TOTAL EQUITY AND LIABILITIES		**14,926.4**	**13,762.6**

Notes to the consolidated financial statements form an integral part hereof.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to shareholders of the Parent Company						
		Share capital	Share premium account	Capital on revaluation of financial instruments	Retained earnings	Total	Non-controlling interest	Total equity
BALANCE AS AT 1 JANUARY 2019 (approved data)		**1,251.9**	**905.0**	**(52.1)**	**5,976.6**	**8,081.4**	**364.0**	**8,445.4**
Impact of implementing IFRS 16 as of 1 January 2019		-	-	-	(37.0)	(37.0)	-	(37.0)
BALANCE AS AT 1 JANUARY 2019 (restated data)		**1,251.9**	**905.0**	**(52.1)**	**5,939.6**	**8,044.4**	**364.0**	**8,408.4**
Total comprehensive income:		-	-	31.5	585.2	616.7	20.0	636.7
- net profit		-	-	-	628.9	628.9	20.7	649.6
- other comprehensive income		-	-	31.5	(43.7)	(12.2)	(0.7)	(12.9)
Transactions with shareholders		-	-	-	(197.6)	(197.6)	4.3	(193.3)
Dividends		-	-	-	(200.8)	(200.8)	-	(200.8)
Transactions with non-controlling interest	10.3	-	-	-	3.2	3.2	4.3	7.5
Other		-	-	-	(0.3)	(0.3)	-	(0.3)
BALANCE AS AT 31 DECEMBER 2019		**1,251.9**	**905.0**	**(20.6)**	**6,326.9**	**8,463.2**	**388.3**	**8,851.5**
AS AT 1 JANUARY 2018 (approved data)		**1,251.9**	**905.0**	**(66.7)**	**4,298.9**	**6,389.1**	**232.4**	**6,621.5**
Impact of implementing IFRS 9 as at 1 January 2018		-	-	-	(1.5)	(1.5)	-	(1.5)
AS AT 1 JANUARY 2018 (restated data)		**1,251.9**	**905.0**	**(66.7)**	**4,297.4**	**6,387.6**	**232.4**	**6,620.0**
Total comprehensive income:		-	-	14.6	1,680.6	1,695.2	23.2	1,718.4
- net profit		-	-	-	1,737.1	1,737.1	23.7	1,760.8
- other comprehensive income		-	-	14.6	(56.5)	(41.9)	(0.5)	(42.4)
Transactions with shareholders	10.3	-	-	-	(1.4)	(1.4)	108.4	107.0
Dividends		-	-	-	-	-	-	-
Transactions with non-controlling interest		-	-	-	(1.4)	(1.4)	108.4	107.0
BALANCE AS AT 31 DECEMBER 2018		**1,251.9**	**905.0**	**(52.1)**	**5,976.6**	**8,081.4**	**364.0**	**8,445.4**

Notes to the consolidated financial statements form an integral part hereof.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the financial year ended 31 December 2019	For the financial year ended 31 December 2018
CASH FLOW ON OPERATING ACTIVITY			
Cash flow from operating activity	8.1	1,537.8	2,856.1
Interest paid		(6.5)	(10.1)
Change in financial derivatives*	9.4	-	12.6
Income tax (paid)/refunds received		(391.0)	(40.2)
NET CASH FLOW ON OPERATING ACTIVITY		**1,140.3**	**2,818.4**
CASH FLOW ON INVESTING ACTIVITY			
Acquisition of property, plant and equipment		(2,040.5)	(1,246.2)
Acquisition of intangible assets		(8.9)	(12.8)
Acquisition of businesses (PBSz)	10.3	(170.9)	-
Acquisition of financial assets		(106.4)	(12.4)
Payment to purchase FIZ assets	7.7	-	(350.0)
Proceeds on the sale of property, plant and equipment		39.4	10.7
Sale of financial assets		10.3	-
Dividends received		0.1	0.1
Interest received		16.4	28.9
NET CASH FLOW ON INVESTING ACTIVITY		**(2,260.5)**	**(1,581.7)**
CASH FLOW ON FINANCING ACTIVITY			
Loans and borrowings received	6.4	328.7	-
Subsidies received		8.4	-
Repayment of loans and borrowings	6.4	(37.2)	(52.2)
Net proceeds from issuing shares and additional capital contributions (transaction with non-controlling interest)	10.4	-	120.0
Dividends paid		(200.8)	-
Redemption of debt securities	6.4	(121.0)	(737.3)
Transactions with non-controlling interest	10.3	-	(13.0)
Payments related to leases**		(121.4)	(31.8)
Interest and commissions paid in financing activity***		(33.2)	(37.5)
Other net cash flow on financing activity		(3.8)	(4.0)
NET CASH FLOW ON FINANCING ACTIVITY		**(180.3)**	**(755.8)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(1,300.5)**	**480.9**
Cash and cash equivalents at the beginning of the period		1,650.8	1,169.5
Exchange differences on translation of cash and cash equivalents		-	0.6
Impairment losses pertaining to cash and cash equivalents ensuing from the implementation of IFRS 9 as at 1 January 2018		-	(0.2)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	7.12	**350.3**	**1,650.8**

* starting in 2019, this item is presented in cash proceeds from operating activities
** as of 1 January 2019, this item includes payments related to leases resulting from the implementation of IFRS 16
*** as of 1 January 2019, this item includes also interest on leases (the change of presentation is related to the implementation of IFRS 16)

Notes to the consolidated financial statements form an integral part hereof.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BACKGROUND

1.1. NAME, REGISTERED OFFICE AND LINE OF BUSINESS

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

Key information about the Parent Company

NAME	Jastrzębska Spółka Węglowa S.A.
REGISTERED OFFICE	Aleja Jana Pawła II 4, 44-330 Jastrzębie-Zdrój
KRS	0000072093 – District Court in Gliwice, 10th Commercial Division of the National Court Register
REGON	271747631
NIP	633,000 51 10
LINE OF BUSINESS	Mining, enrichment and sale of hard coal and sale of coke and hydrocarbons

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

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

1.2. COMPOSITION OF THE GROUP

As at 31 December 2019, the Group consisted of: JSW S.A. as the Parent Company and its direct and indirect subsidiaries located in the territory of Poland. The subsidiaries are consolidated by the full method.

As at 31 December 2019, JSW held, directly or indirectly, shares in 20 related companies, including:

- 19 subsidiaries (direct or indirect),
- 1 associated company.

In connection with the JSW's acquisition of 4,430,476 shares in PBSz constituting 95.01% of the share capital on 20 May 2019, the consolidated statement of financial position as at 31 December 2019 includes the financial data of that company. The consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows include the data of PBSz for the 6-month period ended 31 December 2019.

JSW Stabilization Closed-end Investment Fund was also consolidated.

The investment in the associate (Remkoks Sp. z o.o.) is measured by the equity method in the consolidated financial statements.

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

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

Item	Company name	Registered office	Line of business	Percentage of share capital held by Group companies 31.12.2019	Percentage of share capital held by Group companies 31.12.2018
	Parent company				
1.	Jastrzębska Spółka Węglowa S.A. ("JSW")	Jastrzębie-Zdrój	Black coal mining and sales, sales of coke and hydrocarbons.	not applicable	
	Direct subsidiaries				
2.	JSW KOKS S.A. ("JSW KOKS")	Zabrze	Production of coke and hydrocarbons	96.28%	96.28%
3	Jastrzębskie Zakłady Remontowe Sp. z o.o. („JZR")	Jastrzębie-Zdrój	Service activity pertaining to renovation of machinery and equipment, production of machinery for mining, quarrying and construction	62.09%	58.61%
4.	Przedsiębiorstwo Budowy Szybów S.A. ("PBSz")	Tarnowskie Góry	Specialized mining services: designing and execution of vertical and horizontal mine workings and tunnels, construction services, architectural and engineering services, lease of machinery and equipment, assembly, repairs and upkeep of machinery for the mining, quarrying and construction industries.	95.01%	-
5.	JSW Innowacje S.A. ("JSW Innowacje")	Katowice	The JSW Group's research and development activity, feasibility studies and oversight over execution of projects and implementations.	100.00%	100.00%
6.	Przedsiębiorstwo Gospodarki Wodnej i Rekultywacji S.A. ("PGWiR")	Jastrzębie-Zdrój	Provision of water and sewerage services, treatment and discharge of salt waters, supply of industrial water for the coal and power sector plants, reclamation activity, production of salt	100.00%	100.00%
7.	Centralne Laboratorium Pomiarowo-Badawcze Sp. z o.o. ("CLP-B")	Jastrzębie-Zdrój	Technical research services, chemical and physiochemical analyses of minerals, and solid, liquid and gaseous materials and products	99.92%	99.92%
8.	Jastrzębska Spółka Kolejowa Sp. z o.o. ("JSK")	Jastrzębie-Zdrój	Provision of railway lines, maintenance of railway infrastructure structures and equipment, construction and repair of railway tracks and facilities	100.00%	100.00%
9.	JSW IT Systems Sp. z o.o. ("JSW IT Systems", formerly Advicom Sp. z o.o.)	Jastrzębie-Zdrój	Consulting with respect to computer hardware; activities related to software and data processing	100.00%	100.00%
10.	JSU Sp. z o.o. ("JSU")	Jastrzębie-Zdrój	Insurance intermediation and insurance administration pertaining to insurance claims handling, provision of tourist and hotel services	100.00%	100.00%
11.	JSW Logistics Sp. z o.o. ("JSW Logistics")	Katowice	Rail siding services, transportation of coal and coke, organizing the carriage of cargo and technical maintenance and repair of rail vehicles	100.00%	100.00%
12.	JSW Szkolenie i Górnictwo Sp. z o.o. ("JSW SiG")	Jastrzębie-Zdrój	Mining support activity and operating the shower room in JSW's mines	100.00%	100.00%
13.	JSW Shipping Sp. z o.o. ("JSW Shipping")	Gdynia	Marine freight forwarding and marine transport agency services	100.00%	100.00%
	Indirect subsidiaries				
14.	BTS Sp. z o.o. ("BTS")	Dąbrowa Górnicza	Transportation and general construction services	100.00%	100.00%
15.	ZREM-BUD Sp. z o.o. ("ZREM-BUD")	Dąbrowa Górnicza	Manufacture of spare parts, assemblies and devices, steel structures, technical equipment, tools and instruments; mechanic and electric repairs and maintenance of automation technology, renovation and construction services	100.00%	100.00%
16.	CARBOTRANS Sp. z o.o. ("Carbotrans")	Zabrze	Road transport of goods, mainly hydrocarbons and raw materials for their production	100.00%	100.00%
17.	JZR Dźwigi Sp. z o.o. ("JZR Dźwigi")	Jastrzębie-Zdrój	Services related to production, upgrade, renovation, upkeep, inspection and repairs of material handling equipment.	84.97%	84.97%
18.	JSW Ochrona Sp. z o.o. ("JSW Ochrona")	Jastrzębie-Zdrój	Security services, auxiliary services related to maintaining order in buildings	100.00%	100.00%
19.	Hawk-e Sp. z o.o. ("Hawk-e")	Katowice	Provision of services using drones for commercial purposes	100.00%	100.00%

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

Item	Company name	Registered office	Line of business	Percentage of share capital held by Group companies	
				31.12.2019	31.12.2018
20.	JSW Zwałowanie i Rekultywacja Sp. z o.o. ("JSW Zwałowanie i Rekultywacja")	Jastrzębie-Zdrój	Provision of post-mining waste disposal and reclamation services.	100.00%	-
	Other entities				
21.	JSW Stabilizacyjny Fundusz Inwestycyjny Zamknięty ("JSW Stabilization FIZ")*	Warsaw	The Fund's only line of business is investment of cash raised through private proposals to purchase Investment Certificates, in the securities, Money Market Instruments and other property rights as specified in the Articles of Association.	100.00%	100.00%

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

CHANGES IN EQUITY RELATIONS IN 2019

- *Establishment of JSW Zwałowanie i Rekultywacja*

On 20 February 2019, PGWiR established a 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 1,000 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 company was registered in the National Court Register on 28 March 2019. The transaction has no effect on the Group's consolidated financial statements.

- *Increase of the share capital of PGWiR*

On 7 March 2019, the Extraordinary Shareholder Meeting of PGWiR with its registered office in Jastrzębie-Zdrój adopted a resolution to increase the company's share capital from PLN 52.4 million to PLN 53.5 million through the issue of 104,919 series F registered shares with the issue price of PLN 10.00 equal to their par value. The shares were fully subscribed by JSW in exchange for a contribution-in-kind in the form of separate assets of the Szczygłowice Section of the JSW's Knurów-Szczygłowice Mine, namely the ownership title to water and sewage management fixed assets with the market value of PLN 1.1 million. On 28 March 2019 a share subscription agreement was concluded. The share capital increase was registered in the National Court Register on 31 May 2019. The transaction has no effect on the Group's consolidated financial statements.

- *Acquisition of PBSz shares by JSW*

On 20 May 2019, a dispositive agreement was signed between PRIMETECH S.A. in Katowice and its subsidiary PBSZ 1 sp. z o.o. as Sellers and JSW as the Buyer on the sale of shares in Przedsiębiorstwo Budowy Szybów S.A. in Tarnowskie Góry ("PBSz"). Pursuant to the agreement, JSW purchased from the Sellers a block of 4,430,476 bearer shares constituting 95.01% of the share capital of PBSz entitling the holder to exercise 4,430,476 votes representing 95.01% of total votes at the Shareholder Meeting of PBSz. The overall sale price for the block of shares was PLN 204.0 million, of which PLN 199.0 million was paid, while PLN 5.0 million was retained to guarantee the Seller's warranties and was to be settled no later than 3 months after the closing date. Following the post-acquisition review of PBSz conducted by JSW, the PBSz's 2018 EBITDA was adjusted, which had not achieved the EBITDA assumed by the Parties in the agreement, which according to the SPA was the condition for paying out the retained amount. The post-acquisition audit also demonstrated that the Sellers might have breached the representations they made. Despite the meetings and correspondence in this matter, the Sellers failed to explain these concerns. In connection with the above, JSW believes that the retained amount should not be paid out, about which it informed the Seller.

The transaction to purchase PBSz was discussed in detail in Note 10.3.

- *Increase of the share capital of Hawk-e*

On 21 May 2019, the Extraordinary Shareholder Meeting of Hawk-e adopted a resolution to increase the company's share capital from PLN 2.0 million to PLN 5.0 million by creating 60,000 shares with a par value of PLN 50.00 each. All the new shares were subscribed for by JSW Innowacje and covered by cash. On 19 June 2019, the capital increase was registered in KRS. The transaction has no effect on the Group's consolidated financial statements.

- *Increase of the share capital of JZR*

On 16 July 2019, the Extraordinary Shareholder Meeting of JZR adopted a resolution to increase the JZR's share capital from PLN 652.3 million to PLN 712.3 million, i.e. by PLN 60.0 million, by way of issuing 120,000 shares with the par value of PLN 500.00 each. All the new shares will be subscribed for by JSW and covered by a cash contribution. At the same time, the State Treasury's right of first refusal for the shares has been excluded. The Agreement on JSW's subscription for shares in JZR's increased share capital was signed on 16 July 2019. The share capital increase was registered in the National Court Register on 9 August 2019. The contributed cash will be designated for the performance of construction work as part of the investment project entitled "JZR Development Program - update". As a result of this transaction, the value of non-controlling interest changed – Note 10.3 presents more details on how this transaction was accounted for.

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

- *Increase of the share capital of JSW Logistics*

On 23 September 2019, the Extraordinary Shareholder Meeting of JSW Logistics adopted a resolution to increase the share capital of JSW Logistics from PLN 2.1 million to PLN 4.6 million, i.e. by PLN 2.5 million by creating 5,000 new shares with the par value of PLN 500.00 each. All the shares were subscribed for by JSW and covered by a cash contribution. The Agreement on JSW's subscription for shares in JSW Logistics's increased share capital was signed on 23 September 2019. On 4 November 2019, the capital increase was registered in KRS. The transaction has no effect on the Group's consolidated financial statements.

- *Increase of the share capital in JSW Ochrona*

On 16 October 2019, the Shareholder Meeting of JSW Ochrona adopted a resolution to increase the share capital from PLN 1.4 million to PLN 2.0 million, i.e. by PLN 0.6 million by creating 1,221 new shares with the par value of PLN 500.00 each. All the shares were subscribed by Jastrzębska Spółka Kolejowa Sp. z o.o., except for the right of first refusal for the subscription to new shares by the second partner to date, i.e. JSW Szkolenie i Górnictwo Sp. z o.o. The increased share capital in JSW Ochrona was covered in full by a contribution-in-kind, i.e. the perpetual usufruct right of land, the ownership title to a building with office equipment and the structure located at ul. Armii Krajowej 39 in Jastrzębie-Zdrój in the total market value of PLN 0.6 million and a cash contribution in the net amount of PLN 81.00. On 18 November 2019, the capital increase was registered in KRS. The transaction has no effect on the Group's consolidated financial statements.

- *Liquidation of JSAG in liquidation*

On 1 July 2014 the Shareholder Meeting of JSAG adopted a resolution to dissolve the company and to liquidate it. As at the dissolution date, JSW held 4,938 shares in JSAG representing 50% of the company's share capital, while the other 50% was held by the Jastrzębie-Zdrój City. On 26 October 2018, the liquidation process ended and on 17 December 2018, the Ordinary Shareholder Meeting approved the final statements for 2018. The company's removal from KRS became final as of 7 March 2019. The transaction has no effect on the Group's consolidated financial statements.

INFORMATION ON SUBSIDIARIES WITH NON-CONTROLLING INTEREST

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

Company name	Registered office	Percentage stake held by the Group		Profit/(loss) allocated to non-controlling interest for the year		Accumulated value of non-controlling interest	
		31.12.2019	31.12.2018	2019	2018	31.12.2019	31.12.2018
JZR	Jastrzębie-Zdrój	62.09%	58.61%	13.9	11.5	309.9	299.4
JSW KOKS	Zabrze	96.28%	96.28%	6.7	10.8	69.6	63.2
PBSz	Tarnowskie Góry	95.01%	-	(0.3)	-	7.1	-
Other subsidiaries with non-controlling interest	-	Note 1.2	Note 1.2	0.4	1.4	1.7	1.4
TOTAL	**-**	**-**	**-**	**20.7**	**23.7**	**388.3**	**364.0**

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

Item	JZR		JSW KOKS		PBSz	
	2019	2018	2019	2018	2019	2018
STATEMENT OF FINANCIAL POSITION						
Assets	933.4	857.1	2,461.6	2,500.2	264.5	-
Equity	817.5	723.3	1,869.9	1,698.8	143.2	-

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

Item	JZR		JSW KOKS		PBSz	
	2019	2018	2019	2018	2019	2018
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME						
Sales revenues	270.8	213.6	3,584.0	4,346.1	127.6	-
Net profit/(loss)	35.0	28.5	179.4	288.0	(6.0)	-

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

2. ACCOUNTING POLICIES

2.1. GROUNDS FOR PREPARATION OF THE FINANCIAL STATEMENTS

These consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2019 were prepared in accordance with the International Financial Reporting Standards ("IFRS") approved by the European Union ("EU").

These consolidated financial statements have been drawn up in accordance with the historical cost principle, except for financial derivatives, investments in the FIZ assets portfolio, interests in other entities and energy efficiency certificates (white certificates) that are measured upon initial recognition at fair value.

2.2. GOING CONCERN ASSUMPTION

These consolidated financial statements have been prepared based on the assumption that the Group would continue as a going concern for at least 12 months of the final date of the reporting period. The Management Board of the parent company, as at the date of approval of these consolidated financial statements, has found no facts and circumstances that would indicate a threat to the Group's continuation as a going concern in the foreseeable future. Moreover, all the assets and liabilities are posted in the consolidated statement of financial position assuming that the Group will be able to obtain economic benefits from the assets and fulfill the obligations in the ordinary course of business.

2.3. ACCOUNTING POLICY AND SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

Item in the Consolidated Statement of Financial Position	Value of the item to which an estimate in the consolidated financial statements pertains		Description of the accounting policy and material estimates
	31.12.2019	31.12.2018	
Property, plant and equipment	8,672.3	7,303.0	Note 7.1, Note 7.5
Intangible assets	117.3	130.8	Note 7.3, Note 7.5
Right-of-use asset	618.3	-	Note 7.4
Deferred tax assets	525.0	669.5	Note 5.2
Inventories	1,130.8	656.5	Note 7.9
Trade and other receivables	866.1	1,146.7	Note 7.11
Employee benefit liabilities	1,004.7	882.5	Note 7.14
Provision for mine closures	619.7	547.0	Note 7.15
Provision for mining damage	333.4	362.2	Note 7.15
Provision for contested property tax on mine workings	14.3	20.1	Note 7.15
Trade and other liabilities	2,900.7	2,957.4	Note 7.16

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

2.4. PRINCIPLES OF CONSOLIDATION AND RECOGNITION OF INVESTMENTS IN ASSOCIATES

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

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

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

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

2.5. NEW STANDARDS, INTERPRETATIONS AND THEIR AMENDMENTS

a) Standards and interpretations applied for the first time in 2019

In these consolidated financial statements, the Group applied for the first time the following standard published by the International Accounting Standards Board ("IASB") and endorsed in the European Union, which came into force in 2019 and has effect on the Group's consolidated financial statements:

Standard	Brief description of changes	Impact on the statements
IFRS 16 "Leases"	This new standard establishes the rules for recognizing, measuring, presenting and making disclosures concerning lease contracts. Under every lease transaction, a lessee obtains the right to use an asset and an obligation to make lease payments. Thus IFRS 16 abolishes the classification of an operating lease and finance lease according to IAS 17 and introduces a single model for accounting registration of leases by a lessee. A lessee will be obligated to recognize: (a) assets and liabilities for all lease transactions concluded for a period above 12 months, except for the situations where an assets is a low-value asset; and (b) depreciation of the leased asset separately from interest on the lease liability in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.	The impact of the standard on the consolidated financial statements is described in detail in Note 2.6.1.

The changes listed below, which are in effect from 1 January 2019, are not related to the Group's business or have no material effect on the Group's consolidated financial statements:

- Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation,
- IFRIC 23 "Uncertainty over Income Tax Treatments",
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – measurement of long-term investments,
- Amendments to IAS 19 "Employee Benefits" – changes to the defined benefit plan,
- Amendments to various standards "Annual Improvements to IFRS (2015-2017 cycle)".

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

When approving these consolidated financial statements, the Group did not elect for early application of the standards enumerated below, amendments to standards and interpretations that were published and endorsed in the EU but have not as yet become effective. The Group will apply the standards, amendments to standards and interpretations, to the extent applicable to its operations from the time they come into effect.

- Amendments to references to the IFRS Framework,
- IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors",
- Amendments to IFRS 9, IAS 39 and IFRS 7 in respect to the reference rate.

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

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

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

The standards and interpretations do not pertain to the Group's operations or will not exert a material impact on the financial statements.

Standard	Effective date *
Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – sale or contributions of assets between an investor and its associate or joint venture.	Endorsement of this amendment has been deferred by the EU.
IFRS 3 "Business Combinations"	1 January 2020
IFRS 17 "Insurance Contracts"	1 January 2021

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

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

2.6. IMPACT OF FIRST APPLICATION OF THE STANDARD ON CONSOLIDATED FINANCIAL STATEMENTS

As of 1 January 2019 the Group has made changes to the accounting rules applied in connection with the entry into force of the new accounting standard: IFRS 16 "Leases".

2.6.1. IMPACT OF FIRST APPLICATION OF IFRS 16 ON CONSOLIDATED FINANCIAL STATEMENTS

In these consolidated financial statements, the Group applied for the first time the IFRS 16 "Leases" standard issued by the International Accounting Standards Board on 13 January 2016 and endorsed by the European Union on 31 October 2017. The new standard is applicable to annual periods beginning on or after 1 January 2019.

The Group has decided to implement the IFRS 16 standard as of 1 January 2019 by applying a modified retrospective approach (Appendix C par. C5 IFRS 16). In effect, the comparative data for 2018 were not restated.

Upon adoption of IFRS 16, the Group posted lease liabilities for agreements that had been previously classified under IAS as operating leases (which also included lease, rental agreements and future payments related to perpetual land usufruct rights). The liabilities were measured at the present value of the lease payments remaining to be paid, discounted using the incremental borrowing rate as at 1 January 2019. The discount rates calculated and applied by the Parent Company ranged (depending on the term and nature of the lease contract) from 1.64% to 5.86% for contracts in PLN.

In the case of contracts recognized as at 31 December 2018 as finance leases, the Group recognized the carrying amount of the lease asset and liability directly before the adoption of IFRS 16 for application, as the carrying amount of the right-of-use assets and lease liabilities on the first application date, i.e. 1 January 2019. The principles of measurement resulting from the new standard are applied only after that date.

a) Application of practical solutions

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

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

b) Measurement of right-of-use assets

For leases earlier classified under IAS 17 as operating leases, the Group measured as at 1 January 2019 the right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepayments or accrued lease payments relating to the lease, recognized in the consolidated statement of financial position immediately before the first application date.

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

c) *Measurement of lease liabilities*

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

d) *Impact on Consolidated statement of financial position*

The impact of the application of IFRS 16 entailing the recognition of additional lease liabilities and corresponding right-of-use assets was estimated on the basis of agreements in effect as at 1 January 2019.

Finance lease components were also reclassified from property, plant and equipment and intangible assets (mainly perpetual usufruct right to land) to the Right-of-use assets item in the total amount of PLN 126.9 million.
The implementation of IFRS 16 also affected the amount of retained earnings, which is discussed in detail in item f).

e) *Impact on the consolidated statement of profit or loss and other comprehensive income*

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

f) *Impact on consolidated statement of changes in equity*

According to IFRS 16 par. 33, right-of-use assets recognized as at 1 January 2019 were covered by impairment losses in the amount of PLN 45.6 million as a result of the adjustment of the impairment tests from 2018. The value of this impairment loss, reduced by the deferred tax asset, was recognized as at 1 January 2019 as an adjustment to retained earnings in the amount of PLN 37.0 million.
The impact of recognition of additional lease liabilities and related right-of-use assets is presented in the table below:

Impact on the statement of financial position	31.12.2018	Reclassification as at 1 January 2019	Impact of IFRS 16	01.01.2019
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	7,303.0	(51.6)		7,251.4
Intangible assets	130.8	(75.3)		55.5
Right-of-use asset	-	126.9	296.1	423.0
Deferred tax asset	669.5		8.6	678.1
EQUITY				
Retained earnings	5,976.6		(37.0)	5,939.6
LIABILITIES				
NON-CURRENT LIABILITIES				
Lease liabilities	19.0		257.6	276.6
CURRENT LIABILITIES				
Lease liabilities	21.3		84.1	105.4

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

By 31 December 2019, the Group applied hedge accounting in accordance with IAS 39. The Group made a decision to implement the hedge accounting requirements under IFRS 9 as of 1 January 2020.
According to IFRS 9 (paragraph 7.2.24), hedging relationships that qualified for hedge accounting in accordance with IAS 39 that meet all the requirements for hedge accounting under IFRS 9, after taking into account any rebalancing of the hedging relationship on transition, may be regarded as continuing hedging relationships.

During transition to hedge accounting provisions consistent with IFRS 9, the hedge ratio value calculated in accordance with IAS 39 is used as the reference value for making decisions on the possible actions to rebalance the hedge ratio (IFRS 9: 7.2.25(b)). Rebalancing involves adjustment of the amount of the hedging instrument or hedged item in response to changes in external factors (in particular economic) affecting the effectiveness of the hedging relationship.

The effective portion of changes to the fair value of derivative instruments designated for and qualifying as cash flow hedges is recognized in equity. The profit or loss related to the ineffective portion is recognized in the current period profit or loss.

The amounts recognized in equity are classified as revenues or costs of the same period, in which the hedged item will affect the profit or loss (e.g. at the moment the planned sales transaction, which is subject to the hedge).

The Group assumes that the hedging relationships designated before the first application of hedge accounting provisions presented in IFRS 9 will be continued. The Group considered the changes resulting from transition of the new standard as insignificant.

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

3. NOTES TO THE OPERATING SEGMENTS

3.1. OPERATING SEGMENTS

SELECTED ACCOUNTING POLICIES

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

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

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

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

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

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

SEGMENT-SPECIFIC INFORMATION FOR REPORTING PURPOSES:

	Coal	Coke	Other segments *	Consolidation adjustments **	Total
FOR THE PERIOD ENDED 31 DECEMBER 2019					
Total segment sales revenues	**7,688.0**	**3,545.0**	**1,294.0**	**(3,855.2)**	**8,671.8**
- Revenues on inter-segment sales	2,916.9	-	938.3	(3,855.2)	-
- Sales revenues from external customers	4,771.1	3,545.0	355.7	-	8,671.8
Gross profit on sales of the segment	**1,177.2**	**285.4**	**172.6**	**(31.6)**	**1,603.6**
Segment's operating profit/(loss)	**478.1**	**259.5**	**93.2**	**74.8**	**905.6**
Depreciation and amortization	(878.6)	(103.4)	(108.9)	57.0	(1,033.9)
OTHER SIGNIFICANT NON-CASH ITEMS:					
- Reversal of impairment losses for non-financial non-current assets	5.6	189.8	-	-	195.4
TOTAL SEGMENT ASSETS, INCLUDING:	**8,280.7**	**2,343.9**	**1,955.9**	**(744.5)**	**11,836.0**
Increases in non-current assets (other than financial instruments and deferred income tax assets)	2,424.1	107.5	528.7	(318.1)	2,742.2

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

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

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

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

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

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

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

	2019	2018
OPERATING PROFIT	**905.6**	**2,254.1**
Financial income	26.5	40.1
Financial costs	(104.4)	(101.8)
Share in profits/(losses) of associates	0.3	0.1
PROFIT BEFORE TAX	**828.0**	**2,192.5**

SEGMENT ASSETS

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

Group assets are located in Poland.

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

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

	31.12.2019	31.12.2018
SEGMENT ASSETS	**11,836.0**	**10,908.9**
Investments in associates	1.2	1.1
Deferred tax assets	525.0	669.5
Investments in the FIZ Asset Portfolio, long-term	1,174.0	1,826.1
Other non-current assets	376.1	349.1
Income tax overpaid	162.8	0.7
Financial derivatives	60.5	7.2
Investments in the FIZ Asset Portfolio, short-term	700.0	-
Other current financial assets	90.8	-
TOTAL ASSETS ACCORDING TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION	**14,926.4**	**13,762.6**

INFORMATION RELATING TO GEOGRAPHICAL AREAS

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

	Note	2019	2018
Sales in Poland, of which:			
Coal		3,509.2	3,712.3
Coke		720.0	648.3
Other segments		354.7	271.8
TOTAL SALES IN POLAND		**4,583.9**	**4,632.4**
Sales abroad, including:			
EU member states, of which:		3,486.9	4,809.5
Coal		1,261.9	1,372.3
Coke		2,224.5	3,436.0
Other segments		0.5	1.2
Non-EU Europe, of which:		601.0	367.6
Coke		600.5	367.2
Other segments		0.5	0.4
Total sales abroad, including:		**4,087.9**	**5,177.1**
Coal		1,261.9	1,372.3
Coke		2,825.0	3,803.2
Other segments		1.0	1.6
TOTAL SALES REVENUES	4.1	**8,671.8**	**9,809.5**

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

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

	2019	2018
Poland	4,583.9	4,632.4
Austria	1,308.6	1,098.3
Germany	1,006.6	1,997.0
Czech Republic	769.1	940.1
Switzerland	471.1	216.6
Norway	129.9	126.8
Slovakia	118.1	283.5
Belgium	98.8	145.9
Spain	74.3	152.0
Luxembourg	60.2	120.8
France	21.1	-
Romania	18.9	-
Sweden	9.7	49.1
Other countries	1.5	47.0
TOTAL SALES REVENUES	**8,671.8**	**9,809.5**

INFORMATION ON KEY CUSTOMERS

For the period from 1 January to 31 December 2019, revenues on sales to two clients, to each one of them individually, exceeded 10% of the Group's revenues on sales. Revenues on sales to one of them were PLN 2,502.6 million and to the other PLN 1,288.1 million. Revenues on sales to those clients were included in the Coal segment and in the Coke segment.

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

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

SELECTED ACCOUNTING POLICIES

REVENUES

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

Requirements for identifying a contract with a customer

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

Identification of performance obligations

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

Determination of the transaction price

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

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

Allocation of the transaction price to the various performance obligations

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

Recognition of revenue at the time of fulfilling the performance obligations

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

In addition to the above accounting policies concerning the recognition of revenues, the main contracts concerning the sale of coal and coke (which represent 93% of total sales revenues) the Group also uses international trade rules, i.e. INCOTERMS (FCA, DAP, FOB). The moment of passing control over the promised goods and services to the customer is shown precisely in each delivery rule.

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

COSTS

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

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

4.1. SALES REVENUES

	2019	2018
Coal sales	4,771.1	5,084.6
Sales of coke	3,259.3	4,033.2
Sales of hydrocarbons	285.7	418.3
Other business	355.7	273.4
TOTAL SALES REVENUES	**8,671.8**	**9,809.5**

The Group has concluded long-term master agreements containing basic quantitative arrangements per annum and options. Each time before the year begins they are made specific and divided into quarters and the terms for exercising the options are defined. Operationally, the arrangements for specific quarters are made through quarterly negotiations. Therefore, the Group assumes that performance obligations arise under contracts with the expected term up to 1 year and on this basis uses the exemption specified in IFRS 15 and does not present the transaction price attached to the performance obligations not fulfilled under these agreements.

4.2. COSTS BY NATURE

	2019	2018
Depreciation and amortization	1,033.9	766.0
Consumption of materials and energy, of which:	1,722.1	1,612.0
- consumption of materials	*1,319.8*	*1,215.9*
- consumption of energy	*402.3*	*396.1*
External services	1,817.2	1,793.3
Employee benefits	4,447.2	4,086.4
Taxes and fees	190.4	207.4
Other costs by nature	80.2	65.2
Cost of materials and goods sold	51.7	71.3
TOTAL COSTS BY NATURE	**9,342.7**	**8,601.6**
Selling and distribution expenses	(261.5)	(298.8)
Administrative expenses	(709.3)	(623.8)
Cost of performances and property, plant and equipment produced for own use and expensable mining pits	(772.2)	(648.0)
Change in products	(531.5)	(92.6)
COST OF PRODUCTS, MATERIALS AND GOODS SOLD	**7,068.2**	**6,938.4**

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

4.3. OTHER REVENUES

	Note	2019	2018
Reversal of the provision for potential litigation related to the free coal allowance for old-age and disability pensioners	7.15	-	653.5
Reversal of the impairment loss on property, plant and equipment and intangible assets	7.5	194.7	719.3
Reversal of the impairment loss for right-of-use asset		0.7	-
Revenues connected with handing over units to SRK pertaining to the following:		-	15.5
- reversal of the impairment loss on property, plant and equipment of the Krupiński Mine transferred from the Suszec Section to other units		-	*15.5*
Interest		19.0	11.1
Damages and penalties received		20.2	67.7
Subsidies (written off according to their amortization)		3.9	3.6
Reversal of impairment losses on receivables on account of the disputed property tax		5.0	4.3
Rental income from investment properties	7.6	1.7	1.7
Expired liabilities		18.5	6.7
Reversal of the provision and the impairment loss on account of the failure to perform the contract		-	22.0
Reversal of the provision for costs of maintaining land and liquidation work		-	18.7
Disclosure of fixed assets		1.9	37.9
Disclosure of goods		10.0	10.6
Reversal of the impairment loss on other financial assets		3.7	-
Reduction of output VAT		5.5	-
Other		4.7	43.9
TOTAL OTHER INCOME		**289.5**	**1,616.5**

4.4. OTHER COSTS

	Note	2019	2018
Impairment losses on property, plant and equipment and intangible assets	7.5	-	1,214.0
Interest		39.6	32.9
– including mortgage interest on liabilities calculated pursuant to Article 5 of the Polish Act on Payment Terms in Commercial Transactions		*30.0*	*29.0*
Costs connected with handing over units to SRK pertaining to the following:		-	8.2
– net value of liquidated assets and expensable mining pits of mines transferred to SRK		-	*2.1*
– other costs associated with the maintenance of the Suszec Section		-	*6.1*
Donations		18.6	3.9
Enforcement fees and penalties		2.8	2.4
Investment property costs	7.6	1.0	1.0
Costs of managing non-productive assets		2.7	-
Recognition of an impairment loss for interest receivables		2.6	-
Environmental protection provision recognized		-	25.1
Output VAT		5.5	-
Recognition of impairment losses on other financial assets		3.4	-
Recognition of the provision for ZK Dębieńsko		8.5	-
Other		10.4	9.4
TOTAL OTHER COSTS		**95.1**	**1,296.9**

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

4.5. OTHER NET GAINS/(LOSSES)

	Note	2019	2018
Profit/(loss) on the disposal of property, plant and equipment		(31.4)	(25.2)
FX gains and losses		(1.9)	14.3
Profit / (loss) on financial derivatives		61.6	(29.2)
Profits/(losses) from fair value measurement of the FIZ asset portfolio		11.4	(1.8)
Interest income of the FIZ asset portfolio	9.3	36.5	27.9
Other		2.2	-
TOTAL OTHER NET GAINS/(LOSSES)		**78.4**	**(14.0)**

4.6. FINANCIAL INCOME AND COSTS

	2019	2018
Interest income on cash and cash equivalents	15.8	28.8
Revaluation of interest on liabilities for disputed property tax	5.4	-
FX gains and losses on cash and Fx Forward transactions	4.1	9.9
Exchange differences – other	0.1	1.4
Other	1.1	-
TOTAL FINANCIAL INCOME	**26.5**	**40.1**
Interest cost:	48.9	65.7
– unwinding of the discount on account of long-term provisions	*35.2*	*34.3*
– interest on bonds	*0.3*	*28.2*
– bank loans and borrowings	*12.4*	*3.2*
– other interest	*1.0*	-
Exchange differences on measurement of bonds	-	11.6
FX gains and losses on bonds from realization of the hedged position	32.0	21.3
Interest on leases*	22.9	2.8
Other	0.6	0.4
TOTAL FINANCIAL COSTS	**104.4**	**101.8**
NET FINANCIAL REVENUES / (COSTS)	**(77.9)**	**(61.7)**

* *as of 1 January 2019, this item includes interest resulting from the implementation of IFRS 16*

4.7. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share

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

Diluted earnings/(loss) per share

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

	2019	2018
Net profit attributable to shareholders of the Parent Company	628.9	1,737.1
Weighted average number of common shares	117,411,596	117,411,596
BASIC AND DILUTED EARNINGS PER SHARE (IN PLN PER SHARE)	**5.36**	**14.80**

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

5. EXPLANATORY NOTES PERTAINING TO TAX

SELECTED ACCOUNTING POLICIES

CURRENT AND DEFERRED TAX

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

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

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

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

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

5.1. INCOME TAX

Income tax captured in net profit:

	2019	2018
Current tax:	30.5	273.3
- current tax liability	20.4	273.7
– adjustments posted in the current period relating to tax from the previous years	10.1	(0.4)
Deferred tax	147.9	158.4
TOTAL INCOME TAX CAPTURED IN NET PROFIT	**178.4**	**431.7**

Income tax captured in other comprehensive income

	2019	2018
Deferred tax:		
– actuarial gains/(losses)	(10.4)	(13.4)
– change in the value of hedges	7.4	3.4
TOTAL INCOME TAX CAPTURED IN OTHER COMPREHENSIVE INCOME	**(3.0)**	**(10.0)**

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

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

	2019	2018
Profit before tax	828.0	2,192.5
Tax calculated at the rate of 19%	157.3	416.6
Tax effect of income not classified as income according to tax regulations	(3.1)	2.3
Tax effect of costs which are not tax-deductible expenses according to tax regulations	14.1	13.2
Adjustments posted in the current period relating to tax from the previous years	10.1	(0.4)
INCOME TAX CHARGES TO NET PROFIT	**178.4**	**431.7**

Effective tax rate	Key factors affecting the effective tax rate
2019 21.5%	▪ the higher effective tax rate in 2019 vs. 2018 was caused by the decline in pre-tax profit by more than PLN 1 billion, and therefore any permanent differences weigh more in the reconciliation of the effective rate, and ▪ recognition in revenues of the dividend received in the amount of PLN 5.0 million, the equivalent of depreciation charges financed with subsidies and grants in the amount of PLN 1.0 million, and an update of interest on real property tax in the amount of PLN 5.5 million, which are not classified as taxable income, ▪ recognition in expenses of the PFRON charge in the amount of PLN 28.7 million, donations made in the amount of PLN 18.6 million, expenditures towards costs of representation in the amount of PLN 4.4 million, provisions of PLN 1.8 million, which are not taxable expenses; ▪ Recognition in the financial result of the tax of PLN 10.1 million on account of correction of tax declarations for previous years. The above differences between pre-tax profit and the taxable base constitute “permanent differences” which affect the level of the effective tax rate.
2018 19.7%	▪ the equivalent of depreciation charges financed with subsidies and grants in the amount of PLN 1.1 million, which is not taxable income, but is recognized as revenue, ▪ recognition of taxable revenue from purchased shares in the amount of PLN 17.1 million, which was not classified as accounting revenues, ▪ recognition in expenses of: a PFRON charge in the amount of PLN 25.5 million, donations granted in the amount of PLN 3.3 million and expenditures towards costs of representation in the amount of PLN 3.9 million, costs not associated with revenues of PLN 3.2 million, penalties, fines and interests on liabilities to the state budget in the amount of PLN 1.1 million, provisions of PLN 1.6 million, which are not taxable expenses. The above differences between pre-tax profit and the taxable base constitute “permanent differences” which affect the level of the effective tax rate.

5.2. DEFERRED TAX

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

	31.12.2019	31.12.2018
Deferred tax assets		
– to be realized after the period of 12 months	548.5	672.2
– to be realized within the period of 12 months	257.9	214.3
TOTAL	**806.4**	**886.5**
Deferred tax liabilities		
– to be realized after the period of 12 months	282.4	224.7
– to be realized within the period of 12 months	21.5	7.9
TOTAL	**303.9**	**232.6**
DEFERRED TAX ASSETS	**525.0**	**669.5**

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

	31.12.2019	31.12.2018
DEFERRED TAX LIABILITIES	**22.5**	**15.6**

Change in deferred tax is as follows:

	2019	2018
Surplus of deferred tax assets over deferred tax liabilities – AS AT 1 JANUARY	**653.9**	**801.9**
Impact of implementing IFRS 16 as of 1 January 2019	8.6	-
Impact of implementing IFRS 9 as of 1 January 2018	-	0.4
Recognized / (charged) to net profit	(147.9)	(158.4)
Acquisition of businesses (PBSz)	(15.1)	-
Increase/(decrease) of other comprehensive income	3.0	10.0
Surplus of deferred tax assets over deferred tax liabilities - AS AT 31 DECEMBER	**502.5**	**653.9**
Deferred tax assets	525.0	669.5
Deferred tax liabilities	22.5	15.6

Change in deferred tax asset and liabilities before offsetting

DEFERRED TAX ASSETS	Employee benefit liabilities	Provisions	Unpaid salaries and other benefits	Tax loss	Measurement of non-financial non-current assets	Other	Total
AS AT 1 JANUARY 2018 (approved data)	**137.9**	**235.6**	**19.6**	**52.6**	**448.1**	**128.7**	**1,022.5**
Impact of implementing IFRS 9 as of 1 January 2018	-	-	-	-	-	0.4	0.4
BALANCE AS AT 1 JANUARY 2018 (restated data)	**137.9**	**235.6**	**19.6**	**52.6**	**448.1**	**129.1**	**1,022.9**
(Charged)/credited to net profit	22.7	(87.7)	3.3	(49.8)	(11.2)	(23.7)	(146.4)
Increase/(decrease) of other comprehensive income	13.4	-	-	-	-	(3.4)	10.0
BALANCE AS AT 1 JANUARY 2019 (approved data)	**174.0**	**147.9**	**22.9**	**2.8**	**436.9**	**102.0**	**886.5**
Impact of implementing IFRS 16 as of 1 January 2019	-	-	-	-	8.6	-	8.6
BALANCE AS AT 1 JANUARY 2019 (restated data)	**174.0**	**147.9**	**22.9**	**2.8**	**445.5**	**102.0**	**895.1**
(Charged)/credited to net profit	12.0	18.1	3.2	4.7	(138.7)	4.3	(96.4)
Acquisition of businesses (PBSz)	1.0	2.0	-	-	0.2	1.5	4.7
Increase/(decrease) of other comprehensive income	10.4	-	-	-	-	(7.4)	3.0
BALANCE AS AT 31 DECEMBER 2019	**197.4**	**168.0**	**26.1**	**7.5**	**307.0**	**100.4**	**806.4**

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

DEFERRED TAX LIABILITIES	Value of expensable mining pits	Measurement of other non-financial non-current assets	Other	Total
AS AT 1 JANUARY 2018	**166.1**	**19.7**	**34.8**	**220.6**
Charged/(credited) to net profit	(1.1)	1.9	11.2	12.0
BALANCE AS AT 31 DECEMBER 2018	**165.0**	**21.6**	**46.0**	**232.6**
Charged/(credited) to net profit	24.3	6.8	20.4	51.5
Acquisition of businesses (PBSz)	-	17.2	2.6	19.8
BALANCE AS AT 31 DECEMBER 2019	**189.3**	**45.6**	**69.0**	**303.9**

Ability to recover deferred tax assets

The Group measures deferred tax assets using the tax rates that will be applied at the anticipated moment when the asset is utilized, based on the tax regulations in force on the end of the reporting period. The Group recognizes an income tax asset based on the assumption that tax profit would be recorded in the future allowing the Group to use the asset.

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

	Settlement period					Total
	2020	**2021**	**2022**	**2023**	**2024**	
Deferred tax assets on tax loss	4.7	2.5	0.6	0.4	0.4	**8.6**

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

6. EXPLANATORY NOTES PERTAINING TO DEBT

SELECTED ACCOUNTING POLICIES

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

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

Since 1 January 2019, the Group recognizes a lease liability on the lease commencement date.

Lease liabilities are measured on recognition in present values. Such liabilities include the net present value of the following lease payments:

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

After the lease commencement date, the Group measures the lease liability by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and remeasuring the carrying amount to reflect any reassessment or change of the lease term, change of the purchase option, change in the amounts expected to be payable under a residual value guarantee, change of future lease payments resulting from a change in the index/rate, or to reflect revised in-substance fixed lease payments.

In order to remeasure a lease liability, taking into account changes in lease fees, the Group recognizes the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The remeasurement of the lease liability is performed by discounting the revised lease payments using a revised discount rate if there is a change in the lease term, or there is a change in the assessment of an option to purchase the underlying asset. If there is a change in the amounts expected to be payable under a residual value guarantee and a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Group remeasures the lease liability by discounting the revised lease payments by using the previous discount rate.

Lease payments are discounted using the interest rate used in the lease, if it can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate. In order to calculate it for the purposes of IFRS 16, the Group has assumed that the discount rate should reflect the cost of financing that would be incurred to purchase an asset of value similar to the leased item. In order to estimate the discount rate, the Group took into account the following parameters of the agreement: type, duration, currency and potential margin that it would have to pay to financial institutions in order to obtain financing.

The Group benefits from an exemption from the application of IFRS 16 requirements, which are described in detail in Note 7.4.

In the comparative period, the Group recognized finance lease liabilities arising out of finance lease agreements, which transferred to the Group substantially all of the risks and rewards of ownership of the leased item, as at the lease commencement date, at the lower of two figures: fair value of the leased item, or the present value of minimum lease payments. The present value of the minimum lease payments was recorded as liabilities on account of financial lease, divided into a short-term part (payable within 1 year) and a long-term part (payable in over 1 year). When calculating the present value of the minimum lease payments, the discount rate used was the lease interest rate, provided it could be determined. Otherwise, the lessee's incremental borrowing rate was used. The minimum lease payments were divided between financial costs and reduction of the lease liability. Financial costs were settled over the individual periods covered by the term of the lease, to obtain a fixed interest rate for the outstanding balance of liabilities.

LIABILITIES RELATED TO DEBT

	Note	31.12.2019	01.01.2019 IFRS 16	31.12.2018 (approved data)
Loans and borrowings	6.1	359.1	70.0	70.0
Liabilities under debt securities issued	6.2	-	121.0	121.0
Lease liabilities	6.3	613.1	382.0	40.3
TOTAL		**972.2**	**573.0**	**231.3**
including:				
long-term		740.0	313.1	55.5
short-term		232.2	259.9	175.8

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

6.1. LOANS AND BORROWINGS

	31.12.2019	31.12.2018
LONG-TERM:	**333.3**	**36.5**
Bank loans	179.9	-
Borrowings	153.4	36.5
SHORT-TERM:	**25.8**	**33.5**
Bank loans	14.8	21.3
Borrowings	11.0	12.2
TOTAL	**359.1**	**70.0**

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

Loans and borrowings taken as at 31 December 2019, by maturity:

Currency of the loan	Value of the loan/borrowing at the end of the reporting period	of which, repayable:				
		short-term	long-term			
			up to 1 year to 2 years	from 2 years up to 3 years	from 3 years to 5 years	above 5 years
loans						
PLN	100.1	0.1	-	-	100.0	-
USD	94.6	14.7	14.5	14.5	29.1	21.8
borrowings						
PLN	164.4	11.0	25.2	33.4	56.1	38.7
TOTAL	**359.1**	**25.8**	**39.7**	**47.9**	**185.2**	**60.5**

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

Currency of the loan	Value of the loan/borrowing at the end of the reporting period	of which, repayable:				
		short-term	long-term			
			up to 1 year to 2 years	from 2 years up to 3 years	from 3 years to 5 years	above 5 years
loans						
PLN	21.3	21.3	-	-	-	-
borrowings						
PLN	48.7	12.2	11.0	11.0	14.5	-
TOTAL	**70.0**	**33.5**	**11.0**	**11.0**	**14.5**	**-**

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

	31.12.2019	31.12.2018
Unused credit facilities	260.7	0.8

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

Average interest rate on loans and borrowings:

	31.12.2019	31.12.2018
PLN	3.50%	3.05%
USD	4.64%	-

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

FINANCE CONTRACT WITH CONSORTIUM

On 9 April 2019, a finance contract was entered into by and between JSW and Agencja Rozwoju Przemysłu S.A., Bank Gospodarstwa Krajowego, Bank Polska Kasa Opieki S.A., Powszechna Kasa Oszczędności Bank Polski S.A. ("PKO BP") and ICBC (Europe) S.A. Branch in Poland ("Consortium"). This financing was granted in the form of:

1) a term loan in the amount of PLN 100.0 million,
2) term loans facilities A and C in the USD equivalent of PLN 300.0 million,
3) renewable loan B in the amount of PLN 360.0 million.

The financing is planned for a maximum term of 7 years, however the financing in the form of the revolving loan has been set for 5 years with the possibility of extending it by up to 2 years.

The beneficiary of the facility plans to earmark the funds among other things for: financing JSW Group's investments, financing Group's other general corporate needs and financing the acquisition of a 95.01% stake in PBSz by the Parent Company.

IN REFERENCE TO 1

On 28 June 2019, the term loan in the amount of PLN 100.0 million was disbursed. The loan will be repaid in quarterly installments of PLN 4.8 million starting from June 2021. The loan is denominated in Polish zloty. The loan bears interest at a floating interest rate.

IN REFERENCE TO 2

On 16 May 2019, part of term loan C to finance the Parent Company's acquisition of a 95.01% stake in PBSz was drawn in the amount of USD 26.0 million. The loan will be repaid quarterly, starting from December 2019. The loan bears interest at a floating interest rate.

As at 3 January 2020, term loan A was drawn down in the amount of USD 52.4 million. The loan will be repaid quarterly, starting from June 2021. The loan bears interest at a floating interest rate.

IN REFERENCE TO 3

As at 31 December 2019, JSW used a portion of the loan in the amount of PLN 100.0 million out of the renewable loan facility B in the amount of PLN 360.0 million. On 3 January 2020, the remaining portion of the renewable loan in the amount of PLN 260.0 million was drawn down. The loan bears interest at a floating interest rate.

FINANCE CONTRACT WITH THE EUROPEAN INVESTMENT BANK

On 9 April 2019, a finance contract was entered into by and between JSW, its subsidiary JSW KOKS and the European Investment Bank ("EIB") with its registered office in Luxembourg. This financing was granted in the form of a term facility in the amount of EUR 58.5 million. Both JSW and JSW KOKS may take out financing on this account. The agreement did not specify in which parts the financing will be divided between JSW and JSW KOKS.

The borrowers have the option of drawing the loan in EUR or, subject to availability, in USD or PLN. The facility amortization term is 8 years from its origination, while the contract permits its early repayment. The beneficiaries of the facility granted by EIB with the support of the European Fund for Strategic Investments intend to use the funds obtained to conduct a project involving the modernization of a coking plant and investments to generate energy using coke oven gas and methane obtained from a hard coal mine.

The collateral of the finance agreements with the Consortium and the EIB is shared based on the *pari passu* principle:

1) Registered pledges up to the highest collateral amount of PLN 690.0 million, USD 117.8 million and EUR 87.8 million established in favor of PKO BP as the pledge administrator on the following:
   - personal property assets of Knurów-Szczygłowice OPE, Pniówek OPE, Zofiówka OPE, Bzie-Dębina OPE,
   - shares held by JSW in JSW KOKS and PBSz,
   - JSW's bank accounts.

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

2) Joint contractual mortgages established in favor of PKO BP as the mortgage administrator up to PLN 690.0 million and up to USD 117.8 million and in favor of EIB up to EUR 87.8 million on real properties owned or held in perpetual usufruct by JSW, comprising organized parts of JSW's enterprise in the form of Knurów-Szczygłowice OPE, Pniówek OPE, Zofiówka OPE, Bzie-Dębina OPE.
3) Sureties extended to the Consortium by JSW KOKS up to PLN 690.0 million and USD 117.8 million.

Assignment of receivables under a commercial agreement and receivables under insurance agreements effected under the assignment agreement of 9 April 2019 governed by Polish law, entered into by and between JSW as the assignor and PKO BP as the assignee.

NON-RENEWABLE LOAN AGREEMENT WITH BOŚ S.A.

On 14 May 2019, a non-renewable loan agreement was signed between the subsidiary JSW KOKS and BOŚ S.A. in the amount of PLN 60.1 million to finance the task entitled "Modernization of coke oven battery no. 4 at the Przyjaźń Coking Plant", which at the same time is co-financed under a separate agreement signed by JSW KOKS on 17 October 2018 with NFOŚiGW in Warsaw in the amount of PLN 200.0 million.

Under the agreement, the non-renewable loan will be secured on:

1) surety extended by JSW up to PLN 90.2 million,
2) registered pledge on coal inventories worth no less than PLN 75.0 million and no less than 100 thousand tons of coal with an assignment of an insurance policy up to the amount of no less than PLN 20.0 million;
3) registered pledge on machinery and equipment to be purchased as part of the task entitled "Modernization of coke oven battery no. 4 at the Przyjaźń Coking Plant" up to the amount of PLN 90.2 million.

PREFERENTIAL LOAN AGREEMENT WITH NFOŚIGW

On 9 December 2019, a preferential loan was partly released in the amount of PLN 36.9 million by the subsidiary JSW KOKS from the National Fund for Environmental Protection and Water Management in Warsaw, which was granted in the amount of PLN 134.0 million as part of the Operational Programme Infrastructure and Environment for the implementation of a project titled "Improvement of Energy Efficiency at JSW KOKS" related to the construction of a power unit in the Radlin Coking Plant. The loan was granted at an interest rate of 0%. At the end of 2019, the loan was evaluated at PLN 28.5 million. The difference is the preferential interest rate of PLN 8.4 million.

The borrowing will be repaid quarterly, starting from September 2022.

OTHER COLLATERAL FOR LOANS AND BORROWINGS

(in addition to the collateral on the financing agreement with EIB and the Consortium and the loan from BOŚ S.A., which are described above):

- mortgage on real properties of PLN 223.8 million,
- registered pledges on movable assets of PLN 56.3 million,
- assignments of receivables under bank agreements/accounts,
- assignment of receivables from the term deposit account in the amount of PLN 10.1 million.

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

6.2. LIABILITIES UNDER DEBT SECURITIES ISSUED

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

	31.12.2019	31.12.2018
Liabilities under bonds issued	-	121.0
TOTAL	**-**	**121.0**
including:		
long-term	-	-
short-term	-	121.0

Notes to the consolidated financial statements form an integral part hereof.

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

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

	31.12.2019	31.12.2018
– PLN	-	71.5
– USD	-	49.5
TOTAL	**-**	**121.0**

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

On 16 January 2019, the JSW Management Board adopted a resolution on the full redemption of bonds for a total nominal amount of PLN 121.0 million (including PLN 71.5 million and USD 13.2 million). The final bond redemption date was 30 December 2019. The redemption of bonds was carried out on 18 January 2019, which resulted in ending the Bond Issue Program. As at 31 December 2019, the Group had no liability under debt securities issued (as at 31 December 2018: PLN 121.0 million). The redemption of the bonds was consistent with the Terms and Conditions of Issue.

Interest and commission of PLN 0.3 million paid in the reporting period in relation to the issue of bonds is presented in the financing activity part of the consolidated statement of cash flows.

6.3. LEASE LIABILITIES

The currency structure of the Group's lease liabilities after translation to PLN is as follows:

	31.12.2019	31.12.2018
PLN	606.4	35.0
EUR	6.7	5.3
TOTAL	**613.1**	**40.3**

Lease liabilities captured in the consolidated statement of financial position:

	Note	31.12.2019	01.01.2019 (IFRS 16)	31.12.2018 (approved data)
Lease liabilities	6.4	613.1	382.0	40.3
TOTAL		**613.1**	**382.0**	**40.3**
including:				
long-term		406.7	276.6	19.0
short-term		206.4	105.4	21.3

In the measurement of lease liabilities the Group includes variable lease payments linked to reference interest rates.

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LEASEBACK

In the 12-month period ended 31 December 2019, one of the subsidiaries (PGWiR) purchased machinery and equipment and vehicles in the amount of PLN 11.6 million from international and domestic suppliers. Subsequently, these assets were sold to PKO Leasing S.A. and then taken over from PKO Leasing S.A. by way of sale and leaseback transactions. The transaction of purchasing and selling these assets had no effect on the Group's financial result. Fixed assets were purchased, resold and taken over through a sale and leaseback transaction in the same amount, i.e. PLN 11.6 million.

In the 12-month period ended 31 December 2019, the subsidiary PBSz concluded leaseback agreements. The total amount of sales and leaseback transactions in the period of 12 months of 2019 was PLN 12.8 million (of which PLN 0.8 million before JSW obtained control). The sales value was equal to the purchase value of the device. The total result on sale and leaseback under the concluded leaseback agreements in PBSz was insignificant in the context of the Group.

On 25 September 2019, the JSW Innowacje subsidiary signed a lease agreement with "PEKAO LEASING" Spółka z ograniczoną odpowiedzialnością. The leased asset was a shearer with coalface equipment and other equipment. Under the lease agreement, "PEKAO LEASING" Sp. z o.o. undertook to purchase the leased asset from JSW Innowacje and release it to the company for use. This transaction was recognized as a leaseback. The transaction of purchasing and selling these assets had no effect on the Group's financial result. Fixed assets were purchased, resold and taken over through a sale and leaseback transaction in the same amount, i.e. PLN 27.5 million.

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

On 7 November 2019, the PBSz subsidiary and PEKAO LEASING Sp. z o.o. with its registered office in Warsaw signed an agreement to grant a lease limit of PLN 20.0 million.

In 2019, in connection with the effective date of IFRS 16, the presentation of liabilities under lease agreements changed. The tables below present finance lease liabilities recognized in 2018 (comparative data).

Finance lease liabilities recognized in the consolidated statement of financial position as at 31 December 2018:

	31.12.2019		31.12.2018	
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Up to 1 year	-	-	23.2	21.3
Between 1 and 5 years	-	-	21.1	19.0
TOTAL	**-**	**-**	**44.3**	**40.3**
Future financial costs for finance leases	**-**	**-**	**(4.0)**	**-**
PRESENT VALUE OF MINIMUM LEASE PAYMENTS			**40.3**	**40.3**
including:				
long-term	-	-	-	19.0
short-term	-	-	-	21.3

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

	31.12.2019	31.12.2018
Intangible assets	-	0.2
Property, plant and equipment:	-	41.6
Technical equipment and machinery	-	31.6
Other property, plant and equipment	-	10.0
TOTAL	**-**	**41.8**

6.4. RECONCILIATION OF DEBT

The table below depicts the movement in debt as at 31 December 2019:

	Loans and borrowings	Liabilities under debt securities issued	Lease liabilities	TOTAL
BALANCE AS AT 1 JANUARY 2019 (audited data)	**70.0**	**121.0**	**40.3**	**231.3**
Impact of implementing IFRS 16 as of 1 January 2019	-	-	341.7	341.7
BALANCE AS AT 1 JANUARY 2019 (restated data)	**70.0**	**121.0**	**382.0**	**573.0**
Proceeds from drawing down debt:	328.7	-	312.9	641.6
- received financing	*328.7*	-	-	*328.7*
- new lease agreements signed	-		*312.9*	*312.9*
Accrued interest	15.4	0.3	23.2	38.9

Notes to the consolidated financial statements form an integral part hereof.

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

Debt-related payments:	(52.6)	(121.3)	(140.6)	(314.5)
- repayment of debt (principal)	*(37.2)*	*-*	*(121.4)*	*(158.6)*
- bond redemption	*-*	*(121.0)*	*-*	*(121.0)*
- interest paid	*(15.4)*	*(0.3)*	*(19.2)*	*(34.9)*
FX gains and losses	(1.2)	-	0.1	(1.1)
Acquisition of businesses (PBSz)	-	-	25.1	25.1
Other increases / (decreases)	(1.2)	-	10.4	9.2
BALANCE AS AT 31 DECEMBER 2019	**359.1**	**-**	**613.1**	**972.2**

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

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

7. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

7.1. PROPERTY, PLANT AND EQUIPMENT

SELECTED ACCOUNTING POLICIES

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

Depreciation of property, plant and equipment is calculated using the linear method to distribute their initial values, minus their final values, over their useful life periods. The estimated useful life periods for the individual groups of property, plant and equipment are, respectively:

- *Buildings and structures (including capital pits)* — *1-79 years;*
- *Technical equipment and machinery* — *1-79 years;*
- *Means of transportation* — *1-30 years;*
- *Other property, plant and equipment* — *1-22 years,*
- *Land* — *is not depreciated*

When determining the useful life of fixed assets comprising the permanent underground and overground infrastructure, the life expectancy of a mine is taken into account. For the property, plant and equipment items that constitute movable assets of a mine, when determining the useful life, the possibility of using them in other JSW S.A. mines is taken into account.

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

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

In the comparative period, finance lease assets were recognized in assets on the lease commencement date, at the lower of the two amounts: the fair value of the leased item or the present value of the minimum lease payments. Any initial direct costs of the lessee were added to the amount recognized as an asset.

Depreciable assets acquired under financial leases were depreciated over the useful lives of the assets if the agreement envisaged transfer of the ownership title to the leased item to the lessee. If the agreement did not envisage ultimate transfer of the leased item to the lessee the asset was depreciated over the term of the lease.

Starting in 2019, leased assets have been recognized in a separate item of the consolidated statement of financial position which, along with the changes in accounting principles, was discussed in Note 7.4.

EXPENSABLE MINING PITS

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

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

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

MATERIAL ESTIMATES

Useful life periods of property plant and equipment

The Group sets the estimated useful lives and consequently the depreciation rates for particular property, plant and equipment. This estimate is based on the anticipated useful lives of those assets. The correct application of depreciation periods and rates and the final value of property, plant and equipment are subject to annual reviews in the fourth quarter of the year in order to make appropriate adjustments to depreciation charges starting from the next financial year. The review of depreciation rates for property, plant and equipment resulted in a PLN 1.4 million increase in depreciation in 2019 vs. the previous year.

Settlement of expensable mining pits

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

PROPERTY, PLANT AND EQUIPMENT

	Note	Land	Buildings and structures	Expensable mining pits *	Technical equipment and machinery	Other property, plant and equipment	Property, plant and equipment under construction **	Total
BALANCE AS AT 1 JANUARY 2019								
Gross value		43.0	7,603.2	868.0	7,160.6	494.0	1,352.7	17,521.5
Accumulated depreciation ***		-	(4,210.0)	-	(5,376.5)	(383.9)	(248.1)	(10,218.5)
NET CARRYING AMOUNT (approved data)		**43.0**	**3,393.2**	**868.0**	**1,784.1**	**110.1**	**1,104.6**	**7,303.0**
Reclassifications as at 1 January 2019 (IFRS 16)		-	-	-	(42.4)	(9.2)	-	(51.6)
NET BOOK VALUE (restated data)		**43.0**	**3,393.2**	**868.0**	**1,741.7**	**100.9**	**1,104.6**	**7,251.4**
Increases		-	3.6	533.3	3.9	1.1	1,504.5	2,046.4
Change in the provision for mine closure costs	7.15	-	68.9	-	-	-	-	68.9
Movements from commenced investments		4.3	607.1	-	799.4	48.3	(1,459.1)	-
Acquisition of businesses (PBSz)		-	23.2	-	34.5	2.5	11.8	72.0
Decreases		-	(22.8)	(16.4)	(5.9)	(0.6)	(56.2)	(101.9)
Depreciation and amortization		-	(169.0)	(357.4)	(300.0)	(32.8)	-	(859.2)
Impairment loss - reversal	7.5	-	70.2	-	124.4	0.1	-	194.7
Impairment loss – movement between groups****			(0.7)	(31.2)	(111.9)	(0.5)	144.3	-
NET CARRYING AMOUNT		**47.3**	**3,973.7**	**996.3**	**2,286.1**	**119.0**	**1,249.9**	**8,672.3**
BALANCE AS AT 31 DECEMBER 2019								
Gross value		47.3	8,216.3	996.3	7,801.4	511.3	1,353.7	18,926.3
Accumulated depreciation ***		-	(4,242.6)	-	(5,515.3)	(392.3)	(103.8)	(10,254.0)
NET CARRYING AMOUNT		**47.3**	**3,973.7**	**996.3**	**2,286.1**	**119.0**	**1,249.9**	**8,672.3**

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

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

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

**** *This item resulted from the impairment tests carried out, which was described in detail in Note 7.5.*

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

	Note	Land	Buildings and structures	Expensable mining pits *	Technical equipment and machinery	Other property, plant and equipment	Property, plant and equipment under construction **	Total
AS AT 1 JANUARY 2018								
Gross value		41.3	7,375.9	688.2	6,918.9	460.7	921.2	16,406.2
Accumulated depreciation ***		-	(3,964.8)	-	(5,094.9)	(359.3)	(151.3)	(9,570.3)
NET CARRYING AMOUNT		**41.3**	**3,411.1**	**688.2**	**1,824.0**	**101.4**	**769.9**	**6,835.9**
Increases		-	50.3	541.4	2.1	0.1	1,079.1	1,673.0
Change in the provision for mine closure costs	7.15	-	87.9	-	-	-	-	87.9
Transfers from property, plant and equipment under construction		1.9	140.5	-	390.8	54.8	(588.0)	-
Transfer of KWK Krupiński to SRK		-	-	-	(2.1)	-	-	(2.1)
Decreases		(0.2)	(18.8)	(26.9)	(9.3)	(0.7)	(1.8)	(57.7)
Depreciation and amortization		-	(162.5)	(264.9)	(294.5)	(33.7)	-	(755.6)
Impairment loss - recognition	7.5		(595.8)	(166.9)	(246.9)	(14.2)	(189.3)	(1,213.1)
Impairment loss - reversal	7.5	-	480.5	97.1	120.0	2.4	34.7	734.7
NET CARRYING AMOUNT		**43.0**	**3,393.2**	**868.0**	**1,784.1**	**110.1**	**1,104.6**	**7,303.0**
BALANCE AS AT 31 DECEMBER 2018								
Gross value		43.0	7,603.2	868.0	7,160.6	494.0	1,352.7	17,521.5
Accumulated depreciation ***		-	(4,210.0)	-	(5,376.5)	(383.9)	(248.1)	(10,218.5)
NET CARRYING AMOUNT		**43.0**	**3,393.2**	**868.0**	**1,784.1**	**110.1**	**1,104.6**	**7,303.0**

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

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

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

DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

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

	2019	2018
Cost of products, materials and goods sold	836.4	709.0
Selling and distribution expenses	2.5	34.2
Administrative expenses	12.7	11.6
Cost of performances and property, plant and equipment produced for own use	7.3	0.6
Other costs	0.3	0.2
TOTAL DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT AND THE SETTLEMENT OF EXPENSABLE MINING PITS	**859.2**	**755.6**

OTHER INFORMATION ON PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2019, the net value of property, plant and equipment items securing the repayment of liabilities is PLN 2,243.5 million (as at 31 December 2018: PLN 2,389.9 million) and this is security for the repayment of liabilities under debt financing agreements. The security interest for loans and borrowings is described in Note 6.1.

In 2019 and in 2018, there were no capitalized costs of external financing of property, plant and equipment in the Group.

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

7.2. GOODWILL

SELECTED ACCOUNTING POLICIES

GOODWILL

Goodwill is the surplus of:

- the consideration transferred,
- the amount of any non-controlling interests in the acquiree,
- the fair value of previously held equity instruments of the acquiree owned by the acquirer,

over the fair value of identifiable acquired net assets. If these amounts are lower than the fair value of identifiable net assets of the acquiree then the difference is captured directly in the financial result as bargain purchase gain.

After initial recognition, goodwill is recognized at initial value less impairment losses, if any.

Gain or loss on disposal includes the carrying amount of the goodwill relating to the disposed entity.

Goodwill is not amortized but is subject to an annual impairment test, irrespective of whether there is any indication of impairment.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to individual cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represent the lowest level at which the goodwill is monitored for internal management purposes;
- cannot be larger than an operating segment as defined in IFRS 8 before aggregation.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and also whenever there is an indication that the unit may be impaired.

If some or all of the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit must be tested before the end of the current annual period.

The tests are carried out by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds its carrying amount then the unit and the goodwill allocated to that unit are regarded as not impaired.

Goodwill is monitored on the operating segment level.

Goodwill is recognized in a separate item of the consolidated statement of financial position.

GOODWILL

In 2019, the presented goodwill amount was affected by the purchase price allocation for the acquisition of Przedsiębiorstwo Budowy Szybów S.A. ("PBSz") in Tarnowskie Góry, which is discussed in detail in Note 10.3.

As a result of this transaction, the Group presented in its consolidated statement of financial position prepared as at 31 December 2019 the goodwill of PLN 57.0 million, as specified in the table below:

GOODWILL	31.12.2019	31.12.2018
Purchase price (after adjustment for the retained amount)	199.0	-
Non-controlling interests (4.99%)	7.5	-
Fair value of acquired assets and liabilities (net assets)	(149.5)	
GOODWILL	**57.0**	**-**

Having in mind the accounting policy in effect in the group, the goodwill representing future economic benefits that the Group expects as a result o fthe acquisition of PBSz and also considering the synergies described in Note 10.3, the JSW Management Board believes that the goodwill obtained in the purchase price allocation process for PBSz shares should be allocated in full to the segment to which PBSz was allocated – Other segment.

The summary of the goodwill allocation at the segment level is presented below:

2019	Poland	Other countries	Total
Coal segment	-	-	-
Coke segment	-	-	-
Other segments	57.0	-	57.0
TOTAL	**57.0**	**-**	**57.0**

Impairment of goodwill

According to the standard, testing measures recoverable amount of the cash generating unit to which goodwill is allocated. Recoverable amount is defined as the higher of: fair value less cost to sell, and the value in use (estimated present value of the future cash flows expected to be derived from the cash-generating unit). Value in use has been assumed for the testing calculation purposes.

The recoverable amount was calculated at the level of the cash generating unit, i.e. PBSz.

The assumptions adopted e.g. for projected revenues, costs, capital expenditures are the same as the projections included in the "JSW Strategy including the JSW Group's subsidiaries for 2020-2030", discount rate at 6.81% (in real terms).

The projections included in the above Strategy are, at the moment of testing, the most likely estimate that the Group could make. There are no other estimates to suggest that other values should be assumed. The projection period is 5 years.

The result of the testing indicates that no impairment loss had to be recognized for a Group asset (goodwill).

7.3. INTANGIBLE ASSETS

SELECTED ACCOUNTING POLICIES

INTANGIBLE ASSETS

(a) Geologic information

The right to use geological information is capitalized at the amount of expenses incurred to purchase it. The capitalized expenses are written off throughout the estimated useful life of information. The estimated useful life of geological information is from 5 to 45 years.

(b) Software

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

(c) Certificates of origin of energy

The act on renewable energy sources offers the Group, which has the status of an industrial offtaker, the ability to buy on its own and produce for redemption property rights following from certificates of origin of energy, or for them to remit the substitution fee. The property rights following from certificates of origin of energy produced in renewable energy sources or using agricultural biogas are created when they are entered in the registry of certificates and expire at the time of their redemption. The deadline for the obligation to redeem the certificates of origin or to pay the substitution fees for the year is 30 June of the following year.

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

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

Starting in 2019, perpetual usufruct rights – those acquired against payment as well as those acquired free of charge, have been recognized in a separate item of the consolidated statement of financial position which, along with the changes in accounting principles, was discussed in Note 7.4.

MATERIAL ESTIMATES

Periods of useful life for intangible assets

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

The review of amortization rates for intangible assets resulted in a PLN 0.1 million increase in amortization in 2019 vs. the previous year.

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

INTANGIBLE ASSETS

	Geologic information	Perpetual usufruct right to land	Other intangible assets	Total
BALANCE AS AT 1 JANUARY 2019				
Gross value	31.0	92.5	110.9	234.4
Accumulated depreciation	(17.0)	(17.4)	(69.2)	(103.6)
NET CARRYING AMOUNT (approved data)	**14.0**	**75.1**	**41.7**	**130.8**
Reclassification as at 1 January 2019 – IFRS 16	-	(75.1)	(0.2)	(75.3)
NET CARRYING AMOUNT (restated data)	**14.0**	**-**	**41.5**	**55.5**
Increases	2.6	-	34.6	37.2
Acquisition of businesses (PBSz)	-	-	36.1	36.1
Decreases	-	-	(0.7)	(0.7)
Depreciation and amortization	(1.2)	-	(9.6)	(10.8)
NET CARRYING AMOUNT	**15.4**	**-**	**101.9**	**117.3**
BALANCE AS AT 31 DECEMBER 2019				
Gross value	33.6	-	177.7	211.3
Accumulated depreciation	(18.2)	-	(75.8)	(94.0)
NET CARRYING AMOUNT	**15.4**	**-**	**101.9**	**117.3**

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

AMORTIZATION OF INTANGIBLE ASSETS

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

	2019	2018
Cost of products, materials and goods sold	9.1	7.0
Selling and distribution expenses	0.1	0.6
Administrative expenses	1.6	2.2
TOTAL AMORTIZATION OF INTANGIBLE ASSETS	**10.8**	**9.8**

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

PERPETUAL USUFRUCT RIGHT TO LAND

In connection with the application of IFRS 16 as of 1 January 2019, the perpetual usufruct right to land not previously presented in the consolidated financial statements has been recognized as a right-of-use asset.

	31.12.2019	31.12.2018
Space (thousands of m^2)	-	9,449
Value (PLN million)	-	72.1

OTHER INFORMATION CONCERNING INTANGIBLE ASSETS

As at 31 December 2019, the net value of intangible assets securing the repayment of liabilities is PLN 10.8 million (as at 31 December 2018: PLN 59.6 million) and this is security for the repayment of liabilities under debt financing agreements. The security interest for loans and borrowings is described in Note 6.1.

In 2019 and in 2018, there were no capitalized costs of external financing of intangible assets in the Group.

CERTIFICATES OF ORIGIN

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

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

CERTIFICATES OF ORIGIN	**2019**	**2018**
Net book value at the beginning of the period	11.8	4.5
Increases	25.6	14.1
Reduction/redemption of certificates of origin	-	(6.8)
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**37.4**	**11.8**

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

7.4. RIGHT-OF-USE ASSET

SELECTED ACCOUNTING POLICIES

RIGHT-OF-USE ASSET

Since 1 January 2019, date the Group recognizes a right-of-use asset on the lease agreement commencement date.

The assets used by the Group under lease agreements include mainly longwall shearers and roadheaders and mining machines, means of transport, computer and multimedia equipment, as well as real property and the perpetual usufruct right to land.
On initial recognition, a right-of-use asset is measured at cost. The cost of a right-of-use asset consists of:
- *the amount of initial measurement of the lease liability,*
- *any lease payments made at or before the commencement date, less any lease incentives received;*
- *any initial direct costs incurred by the lessee in connection with the execution of a lease agreement,*
- *an estimate of costs to be incurred by the lessee in connection with the duty of dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.*

After the lease commencement date, the Group measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any revaluation of the lease liability other than unwinding of the discount.
A right-of-use asset is amortized using a straight-line method over the useful life of assets no longer than the term of the lease based on the concluded agreements.
Amortization rates depend on the term of the agreement.
If the Group has reasonable certainty that it will exercise the purchase option, the right-of-use asset is amortized over the useful life of that asset.
The Group benefits from an exemption from the application of IFRS 16 requirements when the following are recognized:
- *short-term lease – a lease that, at the commencement date, has a lease term of 12 months or less. This simplification was not applied to short-term lease agreements for productive assets used in underground mines. A lease that contains a purchase option is not a short-term lease.*
- *lease of low value assets – assets, whose initial unit value of a new leased item does not exceed PLN 20 thousand, except for perpetual usufruct right to land and lease agreements to which a purchase option was introduced.*

Payments related to short-term leases and leases of low value assets are recognized on a straight-line basis in costs of the current period.
For leases where the Group is a lessee, for contracts containing lease components as well as non-lease components, if they cannot be separated, the Group applies a simplification and accounts for each lease component and non-lease component as a single lease component.

MATERIAL ESTIMATES

The application of IFRS 16 requires certain estimates and calculations to be made, which affect the measurement of lease liabilities and right-of-use assets. These include, among others:
- *determination of the term of the agreements (also for agreements with an indefinite term or with a renewal option),*
- *determination of the interest rate used to discount future cash flows,*
- *determination of the depreciation rate.*

	Note	Land	Buildings and structures	Technical equipment and machinery	Other property, plant and equipment	Perpetual usufruct right to land	Other intangible assets	Total
BALANCE AS AT 1 JANUARY 2019 (restated data)								
Gross value		14.8	9.7	275.3	29.1	208.4	0.8	538.1
Accumulated amortization *		(0.2)	(0.1)	(85.7)	(6.2)	(22.3)	(0.6)	(115.1)
NET CARRYING AMOUNT including:		**14.6**	**9.6**	**189.6**	**22.9**	**186.1**	**0.2**	**423.0**
Impact of IFRS 16	2.6.1.	14.6	9.6	147.2	13.7	111.0	-	296.1
Reclassification of assets in finance lease at 1 January 2019	2.6.1.	-	-	42.4	9.2	75.1	0.2	126.9
New lease agreements		0.3	8.3	279.8	24.7	0.1	-	313.2
Acquisition of businesses (PBSz)		-	4.0	36.4	0.4	3.5	-	44.3
Other increases		-	-	0.3	0.2	14.2	-	14.7

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

	Note	Land	Buildings and structures	Technical equipment and machinery	Other property, plant and equipment	Perpetual usufruct right to land	Other intangible assets	Total
Depreciation and amortization		(0.5)	(2.7)	(143.2)	(12.2)	(4.4)	(0.2)	(163.2)
Other decreases		-	(0.2)	(2.2)	(0.8)	(11.2)	-	(14.4)
Impairment loss - reversal		-	-	0.7	-	-	-	0.7
NET CARRYING AMOUNT		**14.4**	**19.0**	**361.4**	**35.2**	**188.3**	**-**	**618.3**
BALANCE AS AT 31 DECEMBER 2019								
Gross value		15.1	21.8	576.6	52.9	249.0	0.7	916.1
Accumulated amortization *		(0.7)	(2.8)	(215.2)	(17.7)	(60.7)	(0.7)	(297.8)
NET CARRYING AMOUNT		**14.4**	**19.0**	**361.4**	**35.2**	**188.3**	**-**	**618.3**

* *This item includes accumulated amortization and impairment losses of the right-of-use assets*

AMORTIZATION OF RIGHT-OF-USE ASSETS

Items including amortization of right-of-use assets:

	2019	2018
Cost of products, materials and goods sold	154.0	-
Selling and distribution expenses	-	-
Administrative expenses	3.2	-
Cost of performances and property, plant and equipment produced for own use	6.0	-
TOTAL AMORTIZATION OF RIGHT-OF-USE ASSETS	**163.2**	**-**

OTHER INFORMATION ON RIGHT-OF-USE ASSETS

As at 31 December 2019, the net value of right-of-use assets for assets securing the repayment of liabilities is PLN 51.0 million and this is mainly security for the repayment of liabilities under debt financing agreements. The security interest for loans and borrowings is described in Note 6.1.

In 2019 there were no capitalized costs of external financing of right-of-use asset in the Group.

The amount of fees for short-term leases accounted as costs in the consolidates statement of profit or loss and other comprehensive income for the period of 12 months ended 31 December 2019 is PLN 1.5 million, while the cost of lease for low-value agreement is PLN 0.3 million.

7.5. IMPAIRMENT OF NON-FINANCIAL NON-CURRENT ASSETS

MATERIAL ESTIMATES

Impairment of non-financial assets

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

For the purpose of the impairment analysis, assets are grouped at the lowest level where there are identifiable separate cash flows (cash flow centers). Impairment tests for non-financial non-current assets are conducted based on the principle that, for assets not withdrawn from use, the smallest group of assets is a mine or another subsidiary company ("cash-generating unit – CGU").

If an impairment test shows that the recoverable amount of a non-financial asset or a cash-generating unit is lower than its carrying amount then an impairment loss is made at the amount of the difference between the recoverable amount and the carrying amount of the asset or the CGU. After the impairment loss is recognized, the depreciation charge for the asset is adjusted so that the remaining net amount (after the loss is recognized) is depreciated over the remaining useful life. Non-financial assets whose impairment has been found earlier are evaluated at every end date of the reporting period for the occurrence of premises indicating that the impairment loss may be reversed.

Recognition and reversal of impairment losses on non-financial non-current assets is presented in the consolidated statement of profit or loss and other comprehensive income in the "other income/cost" item.

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

IMPAIRMENT LOSSES

Because of the volatile macroeconomic environment, the Group regularly reviews the indications that may suggest a decline in the recoverable amount of the assets in the respective Group companies. Impairment of non-current assets is analyzed by estimating the recoverable amounts of cash-generating units (CGUs). Such analysis is based on a number of significant assumptions, some of which are beyond the Group's control. Significant changes in these assumptions affect the results of impairment tests and, as a consequence, may lead to significant changes in the Group's financial standing and financial performance.

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

	2019				2018		
	Property, plant and equipment	**Intangible assets**	**Right-of-use asset**	**TOTAL**	**Property, plant and equipment**	**Intangible assets**	**TOTAL**
OPENING BALANCE(approved data)	**3,929.4**	**6.3**	**-**	**3,935.7**	**3,646.6**	**6.2**	**3,652.8**
Reclassification as at 1 January 2019	(14.0)	(4.0)	18.0	-	-	-	-
Impact exerted by IFRS 16 as at 1 January 2019	-	-	45.6	45.6	-	-	-
OPENING BALANCE (restated data)	**3,915.4**	**2.3**	**63.6**	**3,981.3**	**-**	**-**	**-**
Impairment loss recognized	-	-	-	-	1,213.1	0.9	1,214.0
Impairment loss used	(89.6)	-	(0.7)	(90.3)	(89.9)	(0.1)	(90.0)
Impairment loss reversed	(194.7)	-	(0.7)	(195.4)	(734.7)	(0.1)	(734.8)
Reclassification of the impairment loss for assets to accumulated depreciation	(0.2)	-	-	(0.2)	(105.7)	(0.6)	(106.3)
AS AT 31 DECEMBER	**3,630.9**	**2.3**	**62.2**	**3,695.4**	**3,929.4**	**6.3**	**3,935.7**

In connection with the impairment testing conducted as at 31 December 2018, considering the provisions of IFRS 16 par. 33, right-of-use assets recognized as at 1 January 2019 were covered by impairment losses in the amount of PLN 45.6 million. The value of this impairment loss, adjusted by the deferred tax asset, was recognized as at 1 January 2019 as an adjustment to retained earnings in the amount of PLN 37.0 million. At the same time, a portion of the impairment loss in the amount of PLN 14.0 million pertaining to property, plant and equipment recognized as at 1 January 2019 as the right-of-use asset was reclassified.

COAL SEGMENT

Analysis of indications

According to item 66 of IAS 36 *Impairment of Assets*, If there is any indication that an asset may be impaired, recoverable amount shall be estimated for the individual asset or a cash generating unit if the asset does not generate cash receipts on its own.

In the current reporting period, JSW analyzed the existing indications to verify whether any further impairment of assets or a reversal of any previously recognized impairment losses may have occurred. In particular, the Management Board considered the indication specified in item 12(d) of IAS 36, i.e. the value of the Parent Company's net assets exceeding its market capitalization. This indication arose at the moment of preparation of the financial statements for 2018. At that time, impairment tests were carried out and appropriate impairment losses were recognized in the ledgers for 2018. As a result of an analysis conducted in 2019, it was determined that there were no new or other indications, external or internal, to carry out an impairment test for cash generating units ("CGUs"). Moreover, no material changes were observed in the analyzed period in terms of the figures and metrics that constituted assumptions adopted in the model for calculating the recoverable amount and calculations of the impairment losses recognized earlier, and there was no need to increase or reverse them.

Movement of the impairment loss allowance from the Zofiówka Section to the Jastrzębie-Bzie Mine (OG Jastrzębie I)

As at 31 December 2018, impairment losses were recognized for the assets of JSW's mines, including for the KWK Borynia-Zofiówka-Jastrzębie (Zofiówka Section) cash generating unit, which also includes assets of the Jastrzębie Section. By decision of the JSW Management Board of 29 October 2019 in the matter of organizational changes aimed at implementing the "Adjustment Measures Program" to the current market situation of JSW and the Group, as of 1 January 2020 the Jastrzębie Section was separated from KWK Borynia-Zofiówka-Jastrzębie and was subordinated to KWK Bzie-Dębina under development.

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

Taking the above into account, a portion of the impairment losses for assets of the Zofiówka Section CGU was reclassified to the separate assets of OG Jastrzębie I up to the net value of fixed assets from buildings and structures grouips and capitalized costs of longwall areas (expensable mining pits) of OG Jastrzębie I in the amount of PLN 60.7 million.

Impairment testing in 2018

Several main factors have been identified in the comparative period, which could significantly affect the asset levels:

- Limitation of access to mining and drilling services characterized by a sudden increase in prices
- The rise of prices of steel products used in the deep mining sector continued in 2018,
- The need to raise capital expenditures to maintain the current production capacity in the long run,
- The need to increase headcount compared to the previously assumed numbers resulting from the observed decreasing output potential of the mines.
- Expiration of the salary agreement dated 23 February 2015 and an early withdrawal from certain provisions resulting from this agreement, which resulted in higher payroll expenses in 2017 and 2018 and signing of the salary agreement of 11 June 2018, which will result in an increase in wages in the coming years.

Considering the above, it was found necessary to carry out an impairment test for the following CGUs: KWK Borynia-Zofiówka-Jastrzębie – Borynia Section, KWK Borynia-Zofiówka-Jastrzębie – Zofiówka Section, KWK Budryk, KWK Pniówek, KWK Knurów-Szczygłowice.

As a result of the calculations, as at 31 December 2018, the following recoverable amount constituting the value in use of the cash generating centers for individual Mine Units and the amount of recognized/reversed impairment loss were determined at the following levels:

CGU (Mine Units)	Recoverable amount	Impairment loss amount recognized/reversed
Budryk mine	976.0	719.1
KWK Knurów-Szczygłowice	258.8	(303.1)
KWK Pniówek	1,229.1	-
KWK Borynia-Zofiówka-Jastrzębie, Zofiówka Section	(2,442.4)	(910.9)
KWK Borynia-Zofiówka-Jastrzębie, Borynia Section	397.9	-
TOTAL		**(494.9)**

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

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

COKE SEGMENT

Analysis of indications

In the current reporting period, JSW KOKS analyzed the existing indications to verify whether any further impairment of assets or a reversal of any previously recognized impairment losses may have occurred. The analysis showed that the coke market has clearly recovered, prices have risen (inventories were liquidated at much higher prices than expected at the balance sheet date) and full capacity utilization has been restored. As a result, at the time of preparing the consolidated financial statements, the following are observed: improvement of the economic situation on the coke market, increase in prices, increase in production volumes. Moreover, a significant increase in the value of assets of the CGU (Radlin Coking Plant) was observed as a result of stabilization of production parameters and capacities, as well as production currently underway and expected in the long term for the purposes of a favorable commercial contract, and the investment task in the construction of the CHP plant at the Radlin Coking Plant is expected to result in a significant increase in the cash flow of this CGU in the long term.

Other important factors affecting the evaluation of these indications are the positive future paths of coal purchase prices and coke sales prices.

Therefore, no indications of impairment were identified for the Jadwiga Coking Plant and the Przyjaźń Coking Plant. In the case of the Radlin Coking Plant, it wad decided that the impairment indications, which resulted in the recognition of impairment losses in previous years have already ceased. A decision was made to carry out impairment testing for the Radlin Coking Plant.

Impairment testing in 2019

Assumptions

The test for the Radlin Coking Plant was performed by determining the recoverable amount of this CGU. The recoverable amount of the analyzed assets has been determined on the basis of estimation of their value in use using the method of net discounted cash flows on the basis of the financial projections prepared for 2020-2024.

No termination date has been set for the CGU and therefore the value in use was determined with the use of residual value.

Below we present the assumptions made for the impairment testing purposes as at 31 December 2019:

- coal and coke price forecasts for the years 2020-2024 based on the JSW Strategy including the Group's subsidiaries for 2020-2030,
- stabilization of coke production level in 2020-2024,
- the impairment analysis was determined on the basis of the latest economic data prepared in real terms and using the average weighted average cost of capital (WACC) in the projection period at a level of 6.83%,
- inclusion of the existing provisions for employee benefits and other provisions ascribed to the given coking plant to determine the value of the tested property,
- capital expenditures were assumed at the level stated in the Strategy, adjusted for development expenditures,
- Capital expenditures and subsequent operating cash flows related to the construction of the Radlin CHP Plant and the production and sale of electricity and heat were excluded from the test, however we are aware of the significant positive impact that these new assets will have on the capacity to generate future cash flows,
- for residual cash flows, CAPEX was assumed to be equal to depreciation and amortization in the last year of the projection,
- administrative expenses were allocated to CGUs using the production level allocation key.

Determining the recoverable amount

As a result of the calculations, as at 31 December 2019, the following recoverable amount of the Radlin Coking Plant was determined, which is also the value in use of that CGU:

CGU (coking plant)	Recoverable amount	Reversed impairment loss amount
Radlin Coking Plant	574.6	189.8

The total impairment loss reversed as a result of the impairment test carried out in 2019 on the property, plant and equipment of the Radlin Coking Plant in the amount of PLN 189.8 million was recognized as other revenue in the Group's consolidated statement of profit or loss and other comprehensive income.

Sensitivity analysis

Results of sensitivity analysis have shown that the biggest impact on the value in use of the tested assets was caused primarily by changes in the revenue level, the prices of the main production material, i.e. coal, and changes in the average weighted cost of capital.

The table below presents the estimated impact of the most important changes in key parameters on the value in use of the tested assets of the Radlin Coking Plant as at 31 December 2019:

Parameter	Change	Impact on value in use of tested assets, in thousands of PLN	
		Increase of the value in use	Decrease of the value in use
Change in revenues for the entire forecast period	1%	76.4	-
	-1%	-	(76.4)
Discount rate	1 p.p.	-	(60.9)
	-1 p.p.	81.1	
Change of coal price for the entire forecast period	1%	-	(59.5)
	-1%	59.5	-

The change in parameters does not materially affect the value of the reversed impairment loss, because the Radlin Coking Plant CGU shows high value in use of the tested assets in the period under analysis.

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

7.6. INVESTMENT PROPERTY

SELECTED ACCOUNTING POLICIES

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

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

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

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

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

INVESTMENT PROPERTY

	2019	2018
AS AT 1 JANUARY		
Net book value at the beginning of the period	21.1	21.7
Depreciation and amortization	(0.7)	(0.6)
Acquisition of businesses (PBSz)	3.5	-
NET CARRYING AMOUNT	**23.9**	**21.1**
AS AT 31 DECEMBER		
Gross value	34.5	31.0
Accumulated amortization *	(10.6)	(9.9)
NET CARRYING AMOUNT	**23.9**	**21.1**

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

Rental income from and cost associated with investment property:

	Note	2019	2018
Rental income from investment properties	4.3	1.7	1.7
Direct operating expenses generating rental income in the period	4.4	(1.0)	(1.0)

Notes to the consolidated financial statements form an integral part hereof.

7.7. INVESTMENTS IN THE FIZ ASSET PORTFOLIO

SELECTED ACCOUNTING POLICIES

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

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

- financial assets measured at amortized cost.

Financial assets measured at amortized cost include those assets that meet the SPPI test and are held for the purpose of collecting the principal and interest; these include mainly: cash and bank deposits, receivables arising in current activity.

Financial liabilities measured at amortized cost include liabilities arising in current activity.
In the FIZ portfolio, the Group does not hold debt instruments measured at fair value through other comprehensive income (i.e. assets meeting the SPPI test and held for the purpose of collecting the principal and interest and for sale).
All other assets in the FIZ portfolio are classified as "measured at fair value through profit or loss".

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

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

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

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

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

The Fund subscribes to a conservative investment policy. Its only business is investment of funds accumulated through private offerings of Investment Certificates in very secure liquid assets specified in the Articles of Association, including primarily State Treasury bonds and other treasury and banking debt instruments for which the applicable exposure limit has been strictly defined in the Fund's investment policy. The Fund has been entered in the register pursuant to the decision of 26 January 2018. The fund is managed by Towarzystwo Funduszy Inwestycyjnych Energia S.A. On 6 February 2018, the Fund commenced its investment operations by way of the Investment Committee of TFI Energia making the first investment decision on the allocation of the Fund's assets.

In 2019, no new investment certificates were issued within the Fund.

The carrying amount of investments in the FIZ asset portfolio as at 31 December 2019 was PLN 1,874.0 million (PLN 1,826.1 million as at 31 December 2018).

The Group has been investing in a portfolio of financial assets through the Fund in which the Parent Company holds 100% outstanding investment certificates.

The Fund may invest its assets in:

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

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

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

Rules for diversifying investments:

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

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

	31.12.2019	**31.12.2018**
Financial assets at fair value through profit or loss	**892.8**	**827.4**
Covered bonds (not quoted on an active market)	204.0	183.4
Debt securities, of which:	688.8	644.0
- bonds	*688.8*	*619.0*
- other (certificate of deposit)	*-*	*25.0*
Liabilities	**(26.2)**	**(6.5)**
Derivative instruments (non-standardized derivatives – interest rate swap (IRS) in PLN)	(10.1)	(6.5)
Fund's liabilities	(16.1)	-
Financial assets measured at amortized cost	**1,007.4**	**1,005.2**
Deposits	661.8	701.0
Buy-Sell-Back Transactions	272.9	-
Cash and cash equivalents	72.6	304.2
Fund's receivables	0.1	-
TOTAL	**1,874.0**	**1,826.1**

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

Credit risk

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

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

Credit risk	31.12.2019	31.12.2018
Amounts reflecting the maximum exposure to credit risk if the fair value of additional collateral is not taken into account:	**1,900.2**	**1,832.6**
- Cash in bank	72.6	304.2
- Receivables	0.1	-
- Buy-Sell-Back Transactions	272.9	-
- Investment components quoted on an active market (State Treasury bonds)	283.7	280.3
- Investment components not quoted on an active market	1,270.9	1,248.1

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

Credit risk	31.12.2019	31.12.2018
Instances of significant concentration of credit risk in individual investment categories, by balance sheet categories	**1,021.0**	**1,396.0**
SANTANDER BANK POLSKA SA	369.7	346.2
Cash	*19.7*	*346.2*
Deposits	*294.2*	-
Bonds not quoted on an active market	*55.8*	-
MBANK S.A.	-	278.3
Bank deposits	-	*278.3*
BNP PARIBAS BANK POLSKA S.A.	*367.6*	-
Bank deposits	*367.6*	-
PKO BANK HIPOTECZNY S.A.	-	191.6
Covered bonds	-	*191.6*
POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI S.A.	-	298.2
Bank deposits	-	*298.2*
STATE TREASURY OF THE REPUBLIC OF POLAND	283.7	281.7
Bonds quoted on an active market	*283.7*	*280.3*
Bonds not quoted on an active market	-	*1.4*

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

7.8. OTHER NON-CURRENT FINANCIAL ASSETS

SELECTED ACCOUNTING POLICIES

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

OTHER NON-CURRENT FINANCIAL ASSETS

	Note	31.12.2019	31.12.2018
Non-current financial assets - cash and cash equivalents of the Mine Closure Fund		351.9	329.1
gross value		*352.0*	*329.3*
impairment loss	9.1	*(0.1)*	*(0.2)*
Bank term deposits		-	10.6
gross value		-	*10.6*
Ownership interest and shares in other entities		0.1	0.1
Financial receivables		3.9	-
Other non-financial receivables		20.2	9.3
TOTAL		**376.1**	**349.1**

All the non-current financial assets are denominated in Polish zloty.

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

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

7.9. INVENTORIES

SELECTED ACCOUNTING POLICIES

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

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

White certificates are certificates confirming the saving of a specific quantum of energy as a result of completing investments to enhance energy efficiency. The Group classifies the proprietary rights arising from energy efficiency certificates as goods.The proprietary rights arising from these certificates are recognized by the Group in its accounting ledgers as of the date they are awarded. These rights on their initial recognition are measured as the product of the number of awarded rights and the unit market price per property right arising from a certificate of origin on the date the certificate or origin was awarded and property rights acquired. The second posting is in other revenues. On the other hand, sales of energy efficiency certificates increase revenues from sales of goods and cost of goods sold. The measurement of the outgoing certificates of origin is determined by the FIFO method.

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

MATERIAL ESTIMATES

Impairment loss for inventories

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

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

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

INVENTORIES

	31.12.2019	31.12.2018
Materials	144.2	197.1
Production in progress	6.6	4.9
Finished products	970.6	439.3
Goods	9.4	15.2
TOTAL	**1,130.8**	**656.5**

The inventories of finished products as at 31 December 2019 included, among others, inventories of 1,789.4 thousand tons of coal produced by the Group worth PLN 587.9 million and inventories of 485.8 thousand tons of coke produced by the Group worth PLN 378.3 million (as at 31 December 2018: 791.6 thousand tons of coal worth PLN 275.9 million and 225.3 thousand tons of coke worth PLN 149.4 million).

IMPAIRMENT LOSSES FOR INVENTORIES

The table below depicts impairment losses for inventories:

	2019	2018
AS AT 1 JANUARY	**25.0**	**26.1**
Impairment loss recognized	166.6	31.8
Impairment loss used	(43.1)	(14.7)
Reversal of charge	(0.1)	(18.2)
Acquisition of businesses (PBSz)	0.6	-
AS AT 31 DECEMBER	**149.0**	**25.0**

Recognition and reversal of impairment loss amounts for inventories were recognized as costs in the current reporting period.
Impairment losses for inventories recognized in 2019 refer to finished products and materials and merchandise.

7.10. OTHER CURRENT FINANCIAL ASSETS

SELECTED ACCOUNTING POLICIES

The Group classifies bank term deposits as assets measured at amortized cost. An asset is classified as belonging to this category if both of the following conditions are satisfied:

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

The financial assets in this category after their initial recognition are measured at amortized cost while using the effective interest rate, after subtracting any possible impairment losses.

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

Other current financial assets are presented in the following table:

	31.12.2019	31.12.2018
Deposits	90.8	-
TOTAL OTHER CURRENT FINANCIAL ASSETS	**90.8**	**-**

7.11. TRADE AND OTHER RECEIVABLES

SELECTED ACCOUNTING POLICIES

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

MATERIAL ESTIMATES

Impairment losses for receivables

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

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

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

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

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

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

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

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

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

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

TRADE AND OTHER RECEIVABLES

	31.12.2019	31.12.2018
Gross trade receivables	709.0	1,056.5
- including receivables on account of valuation of long-term contracts	19.2	-
Impairment loss	(80.4)	(79.6)
Net trade receivables	628.6	976.9
Prepaid expenses	30.7	10.5
Prepayments	3.3	4.9
Receivables related to taxes and social security	176.6	130.9
Other receivables	26.9	23.5
TOTAL TRADE AND OTHER RECEIVABLES	**866.1**	**1,146.7**

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

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

	31.12.2019	31.12.2018
Trade receivables [PLN]	458.9	519.1
Trade receivables [EUR]	138.0	327.7
Trade receivables [USD]	28.7	130.1
Trade receivables [CZK]	3.0	-
TOTAL TRADE RECEIVABLES	**628.6**	**976.9**

IMPAIRMENT LOSSES FOR RECEIVABLES

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

	2019	2018
BALANCE AS AT 1 JANUARY according to IAS 39*	**79.6**	**80.3**
Impairment loss for trade receivables ensuing from the implementation of IFRS 9 as at 1 January 2018	-	1.6
AS AT 1 JANUARY according to IFRS 9	**79.6**	**81.9**
Impairment loss recognized	7.7	10.3
Acquisition of businesses (PBSz)	0.8	-
Utilization of the impairment loss for uncollectible receivables	(0.8)	(1.1)
Reversal of unused amounts	(7.2)	(11.5)
Charge transferred	0.3	-
AS AT 31 DECEMBER	**80.4**	**79.6**

* *IAS 39 was applied to the amount pertaining to 2018*

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

The table below presents the age structure of trade receivables as at 31 December 2019:

	Regular	Past due					Total
		up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	above 12 months	
Gross trade receivables	513.3	114.1	1.3	0.5	2.2	*77,6	**709.0**
Impairment loss	(0.8)	-	(0.2)	(0.4)	(1.4)	(77.6)	**(80.4)**
NET TRADE RECEIVABLES	**512.5**	**114.1**	**1.1**	**0.1**	**0.8**	**-**	**628.6**

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

As at 31 December 2019, PLN 195.7 million of trade receivables was past due. That figure included PLN 115.4 million of receivables that were not found impaired and an impairment loss of PLN 2.1 million was recognized for them in 2019, while PLN 80.3 million were found impaired and an impairment loss of PLN 3.7 million in respect of them was recognized in 2019.

The PLN 613.7 million of trade receivables included trade receivables of PLN 404.0 million from coal and coke counterparties with more than 2.5% share in revenues and PLN 131.3 million from coal and coke counterparties with a share in revenues below 2.5%.

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

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

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

As at 31 December 2018, PLN 113.0 million of trade receivables was past due. That figure included PLN 36.2 million of receivables that were not found impaired and an impairment loss of PLN 1.1 million was recognized for them in 2018, while PLN 76.8 million were found impaired and an impairment loss of PLN 3.4 million in respect of them was reversed in 2018.

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

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

7.12. CASH AND CASH EQUIVALENTS

SELECTED ACCOUNTING POLICIES

Cash and cash equivalents include cash on hand, bank deposits payable on demand, other short-term investments with high liquidity and with original maturity date of up to three months. Overdraft facilities are presented in the consolidated statement of cash flows as a component of cash flows from financing activities.

The overdraft facility contracted under the financing agreement with the Consortium is presented in the consolidated statement of financial position as an element of long-term loans and borrowings in non-current liabilities.

The Group classifies cash and cash equivalents as financial assets measured at amortized cost, while taking into account, from 1 January 2018, impairment losses calculated in accordance with the expected loss model.

MATERIAL ESTIMATES

Impairment losses for cash and cash equivalents

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

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

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

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

	31.12.2019	31.12.2018
Cash at bank and in hand	339.1	1,109.6
Short-term bank deposits	11.2	541.2
TOTAL	**350.3**	**1,650.8**
including restricted cash	70.2	165.8

As at 31 December 2019, restricted cash amounted to PLN 70.2 million (PLN 165.8 million on 31 December 2018) and included cash received by JZR under an agreement with the State Treasury Minister to provide support which does not constitute public aid, designated for specific investment projects in the amount of PLN 31.5 million and funds accumulated on the VAT account (as part of the split payment mechanism) as well as bid deposits and good performance bonds. In the course of its business, the Group makes payments on the above accounts on an ongoing basis.

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

	31.12.2019	31.12.2018
PLN		
Cash at bank and in hand	283.0	1,082.4
Short-term bank deposits	11.2	401.2
TOTAL	**294.2**	**1,483.6**
EUR		
Cash at bank and in hand	11.7	27.1
TOTAL	**11.7**	**27.1**
USD		
Cash at bank and in hand	43.9	0.1
Short-term bank deposits	-	140.0
TOTAL	**43.9**	**140.1**
CZK		
Cash at bank and in hand	0.5	-
TOTAL	**0.5**	**-**
TOTAL	**350.3**	**1,650.8**

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

7.13. EQUITY

7.13.1. SHARE CAPITAL

SELECTED ACCOUNTING POLICIES

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

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

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

	Number of shares (thousand)	Common shares par value	Hyperinflation adjustment	Total
As at 31 December 2018	117,412	587.0	664.9	1,251.9
As at 31 December 2019	117,412	587.0	664.9	1,251.9

As at 31 December 2019, the share capital of JSW was PLN 587,057,980.00 and was divided into 117,411,596 common shares with no voting preference, fully paid up, with a par value of PLN 5.00 each. All the shares were issued and registered as at the end date of the reporting period. The total number of votes linked to all the shares issued by JSW is 117,411,596 votes at the Shareholder Meeting of JSW.

The Parent Company's share capital as at 31 December 2019 consists of the following share series:

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

As at 31 December 2019 and as at the date of these consolidated financial statements, the structure of JSW's shareholders was as follows*:

Shareholder	Number of shares	Number of votes at the Shareholder Meeting	% of the share capital	% of total votes at the Shareholder Meeting
State Treasury	64,775,542	64,775,542	55.16%	55.16%
Other shareholders	52,636,054	52,636,054	44.84%	44.84%
TOTAL	**117,411,596**	**117,411,596**	**100.00%**	**100.00%**

* *According to Current Report No. 45/2019 of 3 July 2019, the only shareholder with at least 5% of votes at the most recent Ordinary Shareholder Meeting of JSW held on 26 June 2019 and continued after a break on 3 July 2019 was the State Treasury with 64,388,780 votes representing 54.84% of all votes.*

JSW does not have a detailed list of the shareholder structure as at 31 December 2019 or as at the date of these consolidated financial statements. In the reporting period, JSW did not receive any information about exceeding the percentage thresholds of the total number of votes specified in Article 69 Section 1 of the Act on Public Offerings and the Conditions for Floating Financial Instruments in an Organized Trading System and on Public Companies. The only shareholder of JSW which held a number of shares constituting 5% of the share capital and giving it the right to the same amount of votes at the Shareholder Meeting, as at 31 December 2019 and as at the date of preparation and publication of this report was the State Treasury.

7.13.2. CAPITAL ON REVALUATION OF FINANCIAL INSTRUMENTS

Change in capital on revaluation of financial instruments

	2019	2018
OPENING BALANCE	**(52.1)**	**(66.7)**
Change in valuation of hedging instruments	10.3	(9.1)
Change in valuation of hedging instruments posted to profit or loss of the period if the hedged item is realized	28.6	27.1
Deferred tax	(7.4)	(3.4)
CLOSING BALANCE	**(20.6)**	**(52.1)**

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

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

In the current reporting period, as a result of the measurement of transactions to hedge future cash flow, the amount of PLN 31.5 million was recognized in other comprehensive income, of which:

- PLN 15.2 million is the positive valuation driven by the change in fair value of the effective part of hedging instruments,
- PLN (6.1) million is the negative valuation driven by the change in fair value of the effective part of hedging instruments,
- PLN 1.2 million is the positive valuation driven by the change in fair value of the effective part of hedging instruments (loan),
- PLN (3.3) million is the value posted to the period's profit or loss if the hedged position is realized (FX Forward),
- PLN 31.9 million is the value posted to the period's profit or loss if the hedged position is realized (bonds, loan),
- PLN (7.4) million is the tax effect of the above items (deferred tax).

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

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

7.13.3. RETAINED EARNINGS

As at 31 December 2019, retained earnings of the Jastrzębska Spółka Węglowa S.A. Group amounted to PLN 6,326.9 million (PLN 5,976.6 million as at 31 December 2018). This item includes, among others, the Parent Company's supplementary capital.
Supplementary capital was created from allowances from profit generated by JSW in previous reporting periods. Also, pursuant to the requirements of the Commercial Company Code, joint stock companies are required to create supplementary capital to cover losses. At least 8% of the profit generated in any financial year, as disclosed in the standalone financial statements of the Parent Company, is transferred to this category of capital until it reaches at least one-third of the entity's share capital. The use of the supplementary capital is decided by the Shareholder Meeting of JSW, however, the portion of the supplementary capital representing one-third of the share capital may only be used to cover a loss posted in the financial statements and cannot be allocated to other purposes.

7.13.4. DIVIDENDS PAID AND PROPOSED

SELECTED ACCOUNTING POLICIES

Dividend payments to shareholders are recognized as liability in the Group's consolidated financial statements in the period when they are approved by the shareholders.

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

	2019	2018
Dividends	200.8	-
Number of common shares as at the dividend record date	117,411,596	117,411,596
DIVIDEND PER SHARE (IN PLN PER SHARE)	**1.71**	**-**

Distribution of the 2018 profit

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 JSW Management Board considers important, and will be subject to changes aimed at adapting it to the above factors. Considering the above, in 2019 the Parent Company's Management Board proposed to the JSW Shareholder Meeting to distribute the dividend at less than 30% of the 2018 consolidated net profit.
On 3 July 2019, the Ordinary Shareholder Meeting of JSW made a decision on the distribution of the net profit for the financial year ended 31 December 2018 in the amount of PLN 1,418.6 million. As a result it designated the amount of PLN 200.8 million, or PLN 1.71 per share, as a dividend for shareholders. The Ordinary Shareholder Meeting of JSW set the record date at 27 August 2019 and the dividend payment date at 10 September 2019.

The Shareholder Meeting decided 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 employee defined benefit plans 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 supplementary capital (shown in the consolidated statement of changes in equity in retained earnings).

2019 profit distribution proposal

The Management Board of JSW shall not recommend the payment of dividends for 2019 due to the obligation included in the Finance Contracts to not recommend the dividend payment in the case any disbursement of FIZ in the period of 12 months preceding such recommendation.

In connection to the above, the JSW Management Board will propose to allocate the net profit earned by JSW in 2019 in the amount PLN 330.4 million – after covering the net loss incurred on the first application date of IFRS 16 Leases in the amount of PLN 37.6 million and covering the net loss incurred in Other comprehensive income in the amount of PLN 33.5 million – to supplementary capital.

7.14. EMPLOYEE BENEFIT LIABILITIES

SELECTED ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

*Provisions for **unused holiday leaves** are calculated at the end of each quarter of the financial year. The provision is calculated as follows: number of days*

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

SELECTED ACCOUNTING POLICIES

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

MATERIAL ESTIMATES AND ASSUMPTIONS

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

One of the primary assumptions for determining the amount of the liability is the interest rate. As at the end date of the reporting period, based on the opinion issued by an independent actuary, the proper discount rate is applied, which reflects the interest rate of T-bonds denominated in the currency of the future disbursement of benefits, with maturities close to the dates of payment of the pertinent liabilities. Assumptions regarding future mortality rates and probability of the employee becoming a disability benefit recipient were estimated based on the statistical data from Polish survival tables for men and women published by the Central Statistical Office, as at the measurement date. The main assumptions adopted for the valuation as at 31 December 2019 and the sensitivity of liabilities on account of future employee benefits to changes in such assumptions are disclosed in the following Note.

EMPLOYEE BENEFIT LIABILITIES

	31.12.2019	31.12.2018
EMPLOYEE BENEFIT LIABILITIES CAPTURED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION ON ACCOUNT OF:		
– retirement and disability severance pays	239.0	203.1
– jubilee awards	507.8	461.0
– adjustment disability benefits	138.3	120.2
– write-offs for the Company Social Benefits Fund for old-age and disability pensioners	17.1	10.2
– other employee benefits	102.5	88.0
TOTAL	**1,004.7**	**882.5**
including:		
– long-term	832.5	731.7
– short-term	172.2	150.8

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

Change in employee benefit liabilities

	2019			2018		
	Post-employment benefits	Other benefits	TOTAL	Post-employment benefits	Other benefits	TOTAL
AS AT 1 JANUARY	**351.7**	**530.8**	**882.5**	**283.9**	**393.3**	**677.2**
Current headcount cost	20.3	41.8	62.1	10.8	56.8	67.6
Interest cost	10.3	13.5	23.8	8.9	10.6	19.5
Past employment costs	-	-	-	(1.0)	0.2	(0.8)
Actuarial losses/(gains) captured in pre-tax profit/loss	0.2	44.2	44.4	-	119.6	119.6
Actuarial losses/(gains) captured in other comprehensive income:	54.7	0.1	54.8	70.3	0.1	70.4
*- arising from changes in financial assumptions **	*47.3*	*0.1*	*47.4*	*37.0*	*-*	*37.0*

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

	2019			2018		
	Post-employment benefits	Other benefits	TOTAL	Post-employment benefits	Other benefits	TOTAL
*- arising from changes in demographic assumptions **	*(0.9)*	*-*	*(0.9)*	*(1.3)*	*-*	*(1.3)*
*- arising from other changes in assumptions and ex post adjustments of actuarial assumptions **	*8.3*	*-*	*8.3*	*34.6*	*0.1*	*34.7*
TOTAL RECOGNIZED IN COMPREHENSIVE INCOME	**85.5**	**99.6**	**185.1**	**89.0**	**187.3**	**276.3**
Benefits paid out	(21.0)	(54.1)	(75.1)	(21.2)	(49.8)	(71.0)
Acquisition of businesses (PBSz)	1.4	10.8	12.2	-	-	-
AS AT 31 DECEMBER	**417.6**	**587.1**	**1,004.7**	**351.7**	**530.8**	**882.5**

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

Post-employment benefits include: retirement or disability severance pays, death benefits, equalization disability benefits, while other benefits include: jubilee awards and unused holiday leaves.

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

	2019	2018
EMPLOYEE BENEFIT COSTS CAPTURED IN PRE-TAX PROFIT ON ACCOUNT OF THE FOLLOWING:		
– retirement and disability severance pays	19.8	13.5
– jubilee awards	96.8	170.6
– adjustment disability benefits	3.8	3.4
– other employee benefits	9.9	18.4
TOTAL	**130.3**	**205.9**

	2019	2018
EMPLOYEE BENEFIT COSTS CAPTURED IN OTHER COMPREHENSIVE INCOME ON ACCOUNT OF:		
– retirement and disability severance pays	24.7	48.1
– adjustment disability benefits	23.0	22.1
– write-offs for the Company Social Benefits Fund for old-age and disability pensioners	6.9	0.2
– other employee benefits	0.2	-
TOTAL	**54.8**	**70.4**

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

	2019	2018
Cost of products, materials and goods sold	92.1	173.4
Selling and distribution expenses	0.7	0.7
Administrative expenses	13.7	12.3
Financial costs	23.8	19.5
TOTAL COSTS CAPTURED IN PRE-TAX PROFIT	**130.3**	**205.9**

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

	2019	2018
Amount captured in other comprehensive income	54.8	70.4
TOTAL RECOGNIZED IN COMPREHENSIVE INCOME	**185.1**	**276.3**

KEY ACTUARIAL ASSUMPTIONS

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

	2019	2018
Discount rate *	2.00%	3.09%
Assumed average annual increase in the basis for calculating the provision for retirement and disability severance pays, jubilee awards and equalization disability benefits *	2.50%	2.50%
Weighted average employee mobility ratio *	2.76%	2.65%

* *As at 31 December 2019, the Group had 30,629 employees (of which 22,433, or 73.2%, were JSW employees) and therefore the actuarial assumptions used to measure employee benefit liabilities of the Parent Company had the greatest impact on the level of employee benefit liabilities.*

SENSITIVITY ANALYSIS

A sensitivity analysis was carried out as at 31 December 2019 and 31 December 2018 to determine how the results of actuarial valuation are affected by changes in the discount rate assumed for measurement and how the levels of employee benefit liabilities are affected by the planned changes in the benefit measurement base within the range of -/+0.5 p.p.

Sensitivity analysis as at 31 December 2019:

Employee benefit liabilities on account of:	Carrying amount of the provision	Discount rate		Planned changes in bases	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
– retirement and disability severance pays	239.0	250.4	228.4	229.0	249.8
– jubilee awards	507.8	525.7	491.0	488.5	528.1
– adjustment disability benefits	138.3	148.0	129.6	129.1	148.4
– write-offs for the Company Social Benefits Fund for old-age and disability pensioners	17.1	18.7	15.7	17.1	17.1
TOTAL	**902.2**	**942.8**	**864.7**	**863.7**	**943.4**
CHANGE VS. CARRYING AMOUNT		**40.6**	**(37.5)**	**(38.5)**	**41.2**

Sensitivity analysis as at 31 December 2018:

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

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

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

MATURITY OF EMPLOYEE BENEFIT LIABILITIES

Results of actuarial valuation of employee benefit liabilities as at 31 December 2019, by maturities:

Employee benefit liabilities on account of:	Period of payment 2020	2021	2022	2023	2024	Other years
– retirement and disability severance pays	22.4	10.4	11.7	11.4	13.5	169.6
– jubilee awards	55.6	45.8	44.8	40.2	39.9	281.5
– adjustment disability benefits	7.3	7.0	6.9	6.6	6.6	103.9
– write-offs for the Company Social Benefits Fund for old-age and disability pensioners	0.6	0.6	0.6	0.5	0.5	14.3
TOTAL	**85.9**	**63.8**	**64.0**	**58.7**	**60.5**	**569.3**

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

Employee benefit liabilities on account of:	Period of payment 2019	2020	2021	2022	2023	Other years
– retirement and disability severance pays	17.0	7.0	10.8	11.6	12.3	144.4
– jubilee awards	50.7	45.1	41.2	39.5	35.1	249.4
– adjustment disability benefits	7.2	6.9	6.5	6.3	6.0	87.3
– write-offs for the Company Social Benefits Fund for old-age and disability pensioners	0.5	0.5	0.5	0.5	0.4	7.8
TOTAL	**75.4**	**59.5**	**59.0**	**57.9**	**53.8**	**488.9**

7.15. PROVISIONS

SELECTED ACCOUNTING POLICIES

The Group recognizes provisions, in particular for:

(a) mine closures

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

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

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

(b) mining damage

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

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

(c) other provisions

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SELECTED ACCOUNTING POLICIES

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

Provisions are recognized respectively as operating expenses, other expenses, financial costs, depending on the circumstances surrounding the future obligations.

MATERIAL ESTIMATES

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

PROVISIONS

	Property tax	Mining damage	Mine closures	Environmental fee and environmental protection	Other provisions	Total
BALANCE AS AT 1 JANUARY 2019						
Long-term	-	217.5	547.0	19.9	3.6	788.0
Short-term	20.1	144.7	-	49.0	59.3	273.1
TOTAL	**20.1**	**362.2**	**547.0**	**68.9**	**62.9**	**1,061.1**
Recognition of additional provisions	0.8	88.1	68.9	37.3	49.0	244.1
Reversal of unused provisions	(4.3)	(21.7)	(2.1)	(0.7)	(9.3)	(38.1)
Provision recognized - interest expense	0.3	-	10.9	0.5	-	11.7
Provisions used	(2.6)	(95.2)	(5.0)	(2.6)	(6.8)	(112.2)
Acquisition of businesses (PBSz)	-	-	-	-	0.6	0.6
BALANCE AS AT 31 DECEMBER 2019	**14.3**	**333.4**	**619.7**	**103.4**	**96.4**	**1,167.2**
Long-term	-	198.8	605.9	57.3	4.9	866.9
Short-term	14.3	134.6	13.8	46.1	91.5	300.3

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

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

MINE CLOSURES

Estimating the provision for mine closure costs

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

a) *Assumptions for the life of a mine:*

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

Mines	According to the status	
	as at 31 December 2019	as at 31 December 2018
KWK Borynia-Zofiówka-Jastrzębie Mine		
– Borynia Section	to 31.12.2051	to 31.12.2042
– Zofiówka Section	to 31.12.2051	to 31.12.2051
– Jastrzębie Section	to 31.12.2025	to 31.12.2025
KWK Budryk Mine	to 31.12.2077	to 31.12.2077
KWK Pniówek Mine	to 31.12.2051	to 31.12.2051
KWK Bzie-Dębina Mine under development	to 31.12.2084	-
KWK Knurów-Szczygłowice Mine		
– Knurów Section	to 31.12.2072	to 31.12.2072
– Szczygłowice Section	to 31.12.2078	to 31.12.2078

The above forecasts of mine lives have been prepared under an assumption that the coal resources in active JSW mines have been fully exhausted, regardless of business performance. This assumption includes the implementation of future investments related to the construction of new mining levels or opening and developing of new deposits. As a result of the documentation of the Borynia deposit up to the depth of

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1,288m (where the previous depth of documentation was 1,004m), the amount of resources potentially available for extraction increased. Based on the increased resource base, following the analysis, the life expectancy of the Borynia Section was extended from 2042 to 2051.

If, due to market conditions, it is financially impossible to carry out the capital expenditures needed to fully develop the documented resources or extraction of some resources may prove to be unprofitable the life expectancy of the mines may be reduced.

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

	2019	2018
Inflation rate*	2.0%	2.3%
Nominal discount rate**	2.94%	3.1%
Average real discount rate from 5 most recent years***	0.92%	-

* *The assumed inflation rate for 2019 is the average inflation rate assumed for the measurement of the provision over the last 5 years.*

* *The assumed nominal discounting rate for 2019 is the average discounting rate assumed for the measurement of the provision over the last 5 years.*

*** *Real discounting rate for 2019 was negative, so the average real discounting rate for the last 5 years was assumed in order to remeasure the provision.*

If the discount rates used were 0.5% points lower than the JSW Management Board's estimates then the carrying amount of the provision for mine closure costs would be PLN 132.5 million more and if the discount rates used were 0.5% points higher then the carrying amount of the provision would be PLN 105.4 million less.

Estimations of coal resources

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

JSW's mines have a total of approx. 7.038 billion tons of resources of coal, including approx. 1197 billion tons of recoverable coal reserves (based on mine resource appraisal reports as at 31 December 2019).

Recoverable coal reserves in respective mines:

Mines	31.12.2019	31.12.2018
	m tons	
KWK Borynia-Zofiówka-Jastrzębie Mine:	**195.0**	**301.2**
– Borynia Section	87.1	88.3
– Zofiówka Section*	92.3	199.6
– Jastrzębie Section	15.6	13.3
KWK Budryk Mine	**249.6**	**251.6**
KWK Pniówek Mine	**262.3**	**181.5**
KWK Knurów-Szczygłowice Mine:	**316.0**	**321.6**
– Knurów Section	135.7	153.5
– Szczygłowice Section	180.3	168.1
KWK Bzie-Dębina Mine under development	**174.2**	-

* *In connection with the separation of the KWK Bzie-Dębina Mine under development, the portion of the deposit allocated to the Zofiówka Section was separated for the new mine.*

Remeasurement of the mine closure provision as at 31 December 2019 entailed an increase in the provision by PLN 68.9 million, which was recognized in property, plant and equipment in line with IFRIC 1 (Note 7.1).

MINING DAMAGE

Due to the need to remove mining damage resulting from the operations of mines, the Parent Company has established a provision for mining damage. The value of work necessary to remove mining damage as at 31 December 2019 was PLN 333.4 million and was calculated as the estimated cost of repairs of facilities and structures and of compensations resulting from the consequences of mining operations.

The moment of recognition (creation) of a financial provision is when a cause and effect relationship is determined between the mining exploitation carried out by a mining enterprise and damage caused to a building or a property. The provision is presented as the present value of expenditures required to fulfill this obligation and estimated based on the knowledge of the mine's technical function.

The Group expects that PLN 134.6 million of the provision will be used in 2020. The remaining amount of this provision will be used in the period from 2020 to 2027. The JSW mines classify the tasks based on their knowledge of the dates of repair of the individual damage (individual evaluation of tasks) or the agreed compensation payment dates. The tasks included in the non-current provision are systemically reclassified to the current part based on the technical and economic plan accepted for the year. The movement of individual provisions from non-current to current should occur quarterly or more frequently, i.e. when events or circumstances occur that require such movement of the provision.

ENVIRONMENTAL FEE AND ENVIRONMENTAL PROTECTION

As at 31 December 2019, the Parent Company has a provision for environmental protection associated with biological reclamation of land in the total amount of PLN 83.1 million. Based on the administrative decisions received, current zoning plans and the applicable act on the protection of arable land, JSW is legally obligated to reclaim the storage yards after it discontinues its industrial activity.

The Group's coke plants recognize a provision for the costs of remediation of contaminated sites in accordance with the law regulating the issues of soil, earth and groundwater pollution. The owner of the land where contamination of the earth's surface occurs is obliged to carry out remediation steps. As a result of the conducted tests, the existence of pollution with risk-causing substances was found in the areas of the Jadwiga, Przyjaźń and Radlin coking plant and in the areas of the former coking plants Dębieńsko and Makoszowy.
Installations holding an integrated permit have the option to postpone remediation until the end of the installation's operation if the operator demonstrates that it does not pose a significant threat to human health or the condition of the environment. The provision applies to installations currently in operation. Since no installations are in operation in the areas of the closed coking plants, JSW KOKS will have to carry out remediation and will not be able to postpone the process. At present, further work is underway to prepare reports on the contamination status of the soil, earth and groundwater in these areas.The provisions were estimated by taking into account primarily the costs of works related to the construction of sheet piling and reactive barriers, as well as the use of soil mixing and soil washing processes. The calculation also includes the necessary preparatory, documentation and acceptance works. Based on market data, an average cost estimate was prepared for the above-mentioned works per 1 hectare. The projected remediation costs of the hydrocarbons installations area in the former Makoszowy Coking Plant were estimated at PLN 9.0 million and of the hydrocarbons installations area in the Dębieńsko Coking Plant at PLN 10.9 million (as at 31 December 2018, the provision was PLN 19.9 million).

PROPERTY TAX

An assessment or risk conducted by the Group's coke plants, associated with the classification of fixed assets for property tax purposes, based on the updated risk calculation and assessment in this respect resulted in reducing the provision amount to PLN 14.3 million as at 31 December 2019 (PLN 18.6 million as at 31 December 2018).

OTHER PROVISIONS

Other provisions include mainly:

- provision for the litigation against JSW filed by Towarzystwo Ubezpieczeń Ergo Hestia S.A. for payment of compensation for the loss in property resulting from endogenous fire that occurred underground in the Zofiówka Section of KWK Borynia-Zofiówka-Jastrzębie. The total provision amount is PLN 9.2 million,
- provision for the litigation against JSW filed by FAMUR S.A. for payment of compensation for the loss in property resulting from endogenous fire that occurred underground in the KWK Krupiński mine. The total provision is PLN 12.8 million.
- provision for compensation liabilities on account of non-contractual use of a real property (land located within a former protection zone) affected by installations owned by one of the companies. According to the Civil Code, the damages period is 10 years. Accordingly, the company recognizes a provision for liabilities on account of damages. In 2019, the legal standing of this land was subject to repeated analysis. Since this is mainly a forested, uninhabited area that is not used for agricultural production, it is estimated that the probability of claims being raised is low. As at 31 December 2019, the provision amounts to PLN 1.8 million (PLN 1.8 million as at 31 December 2018).
- provision created by JSW KOKS for the reclamation fund of the waste storage yard in the amount of PLN 4.6 million,
- provision for the costs of liquidation of the Dębieńsko Coking Plant in the amount of PLN 13.4 million,

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- provision for penalties due to non-performance of an agreement.

7.16. TRADE AND OTHER LIABILITIES

SELECTED ACCOUNTING POLICIES

TRADE AND OTHER LIABILITIES

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

Current liabilities comprise trade and other liabilities maturing within 12 months of the final day of the reporting period.

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

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

SUBSIDIES

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

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

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

MATERIAL ESTIMATES

Estimation of interest on liabilities

Pursuant to Article 5 of the Polish Act on Payment Terms in Commercial Transactions of 8 March 2013, the Group calculates, not less frequently than as at the end of each quarter, hypothetical interest on liabilities for which the contractually defined payment term is longer than 30 days. The amount of calculated interest is then adjusted to the level of forecast amounts owed by the Parent Company to counterparties on account of the rights due to them. JSW charges 50% of the maximum amount of interest due to hypothetical counterparties to its financial result; this amount corresponds to the current level of the risk of counterparties raising a claim to pay interest for the term of payment extended over and above the one prescribed in the Act on payment terms in commercial transactions. Hypothetical interest on liabilities accruing for 2019 amounted to PLN 30.0 million (in 2018: PLN 29.0 million).

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

TRADE AND OTHER LIABILITIES

	Note	31.12.2019	01.01.2019 (IFRS 16)	31.12.2018 (approved data)
FINANCIAL LIABILITIES				
Trade liabilities		1,119.7	1,236.9	1,236.9
Finance lease liabilities	6.3	-	-	40.3
Accruals and deferred income		14.9	15.5	15.5
Other liabilities of a financial nature, including:		711.4	719.2	719.2
– investment liabilities		679.0	703.9	703.9
– other liabilities		32.4	15.3	15.3
TOTAL		**1,846.0**	**1,971.6**	**2,011.9**

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

	Note	31.12.2019	01.01.2019 (IFRS 16)	31.12.2018 (approved data)
NON-FINANCIAL LIABILITIES				
Deferred income		102.3	95.2	95.2
Other liabilities of a non-financial nature, including:		952.4	850.3	850.3
– liabilities for social security contributions and other taxes		506.9	476.5	476.5
– trade advances		17.0	2.6	2.6
– payroll		336.6	300.7	300.7
– other		91.9	70.5	70.5
TOTAL		**1,054.7**	**945.5**	**945.5**
TOTAL TRADE AND OTHER LIABILITIES		**2,900.7**	**2,917.1**	**2,957.4**
including:				
long-term		118.9	100.9	119.9
short-term		2,781.8	2,816.2	2,837.5

The Group has received subsidies under which it is obligated to use the funds received solely and exclusively for the performance of tasks specified in the relevant subsidy agreements and to meet the conditions set forth in the agreements. In 2019 and 2018, those conditions were satisfied. The subsidy amount recognized in profit or loss is specified in Note 4.3.

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

8. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

SELECTED ACCOUNTING POLICIES

The consolidated statement of cash flows is prepared using the indirect method.

Interest paid on account of leases, issued debt securities and loans and borrowings incurred under the financing agreement with the Consortium and EIB are recognized in cash flows on financing activities.

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

8.1. NET CASH FROM OPERATING ACTIVITY

	Note	2019	2018
Profit before tax		**828.0**	**2,192.5**
Depreciation and amortization	4.2	1,033.9	766.0
(Profit) / loss on the sale of property, plant and equipment	4.5	31.4	25.2
Interest and profit-sharing		(31.6)	(23.9)
Change in financial derivatives		(20.3)	-
Change in employee benefit liabilities		55.2	134.9
Change in provisions		36.6	(549.7)
Change in inventories		(470.8)	(157.1)
Change in trade and other receivables		351.2	(341.4)
Change in trade liabilities, other liabilities		(42.1)	342.2
Impairment loss on property, plant and equipment, intangible assets and right-of-use assets	7.5	(195.4)	494.7
Transfer of units to SRK		-	(13.4)
Exchange differences on measurement of bonds		-	11.6
Other cash flows		(38.3)	(25.5)
CASH FLOW FROM OPERATING ACTIVITY		**1,537.8**	**2,856.1**

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

	Note	2019	2018
Change in employee benefit liabilities from the consolidated statement of financial position	7.14	122.2	205.3
Actuarial gains/(losses) captured in other comprehensive income	7.14	(54.8)	(70.4)
Acquisition of businesses (PBSz)		(12.2)	-
CHANGE IN EMPLOYEE BENEFIT LIABILITIES IN THE CONSOLIDATED STATEMENT OF CASH FLOWS		**55.2**	**134.9**

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

	Note	2019	2018
Change in provisions in the consolidated statement of financial position	7.15	106.1	(461.8)
Change in the mine closure provision	7.1	(68.9)	(87.9)
Acquisition of businesses (PBSz)		(0.6)	-
CHANGE IN PROVISIONS IN THE CONSOLIDATED STATEMENT OF CASH FLOWS		**36.6**	**(549.7)**

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

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

	Note	2019	2018
Change in inventories in the consolidated statement of financial position	7.9	(474.3)	(157.1)
Acquisition of businesses (PBSz)		3.5	-
CHANGE IN INVENTORIES IN THE CONSOLIDATED STATEMENT OF CASH FLOWS		**(470.8)**	**(157.1)**

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

	Note	2019	2018
Change in trade and other receivables from the consolidated statement of financial position	7.11	280.6	1,110.0
Adjustment for a payment to buy investment certificates		-	(1,450.0)
Receivables under prepayments for purchase of fixed assets		-	0.2
Impairment loss for trade receivables ensuing from the implementation of IFRS 9 as at 1 January 2018		-	(1.6)
Acquisition of businesses (PBSz)		68.8	-
Other		1.8	-
CHANGE IN TRADE AND OTHER RECEIVABLES IN THE CONSOLIDATED STATEMENT OF CASH FLOWS		**351.2**	**(341.4)**

Reconciliation of the change in derivative financial instruments in the consolidated statement of cash flows:

	2019*	2018
Change in derivative financial instruments in the consolidated statement of financial position	(58.0)	-
Adjustment for profits/(losses) on measurement of hedging instruments in other comprehensive income transferred to the financial result in connection with the realization of the hedged position	37.7	-
CHANGE IN FINANCIAL DERIVATIVES IN THE CONSOLIDATED STATEMENT OF CASH FLOWS	**(20.3)**	**-**

** In 2019 the presentation changed as compared to 2018. According to the previous presentation:*
- *balance sheet change in derivative financial instruments was presented in a separate item of the statement of cash flows,*
- *profits/(losses) on measurement of hedging instruments in other comprehensive income transferred to the financial result in connection with the realization of the hedged position adjusted cash receipts from operating activities.*

The 2018 data were not restated because this change in presentation was not significant.

9. NOTES TO THE FINANCIAL INSTRUMENTS

SELECTED ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS

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

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

(a) Financial assets and liabilities measured at amortized cost

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

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

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

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

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

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

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

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

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

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

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

(d) Hedging instruments

This category includes assets and liabilities hedging various specific types of risk under hedge accounting. In this line item, the Group recognizes derivatives to which it applies hedge accounting principles. The applied hedge accounting principles are described in Note 9.4.

The Group made a decision to implement the hedge accounting requirements under IFRS 9 as of 1 January 2020.

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

9.1. CATEGORIES AND CLASSES OF FINANCIAL INSTRUMENTS

FINANCIAL ASSETS

Financial instrument classes	Note	Financial instrument categories			Total
		Amortized cost	ir value through profit loss	Hedging instruments	
AS AT 31 DECEMBER 2019					
Receivables of FIZ		0.1	-	-	**0.1**
gross value		*0.1*	-	-	***0.1***
Covered bonds		-	204.0		**204.0**
Debt securities		272.9	688.8		**961.7**
Deposits		661.8	-	-	**661.8**
gross value		*661.8*	-	-	***661.8***
Cash and cash equivalents in FIZ		72.6	-	-	**72.6**
gross value		*72.6*	-	-	***72.6***
Long-term receivables	7.8	3.9	-	-	**3.9**
gross value		*3.9*	-	-	***3.9***
Interests in other entities		-	0.1	-	**0.1**
Trade receivables	7.11	628.6	-	-	**628.6**
gross value		*709.0*	-	-	***709.0***
impairment losses		*(80.4)*	-	-	***(80.4)***
Financial derivatives		-	48.9	11.6	**60.5**
Bank term deposits	3.1	90.8	-	-	**90.8**
gross value		*90.8*	-	-	***90.8***
Cash and cash equivalents *	7.8, 7.12	702.2	-	-	**702.2**
gross value		*702.3*	-	-	***702.3***
impairment losses		*(0.1)*	-	-	***(0.1)***
TOTAL		**2,432.9**	**941.8**	**11.6**	**3,386.3**

* *This item also includes funds accumulated to finance the closure of a mine (Cash and cash equivalents of the Mine Closure Fund) – Note 7.8.*

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

FINANCIAL ASSETS

Financial instrument classes	Note	Financial instrument categories			Total
		Amortized cost	Fair value through profit or loss	Hedging instruments	
AS AT 31 DECEMBER 2018					
Covered bonds		-	183.4	-	**183.4**
Debt securities		-	644.0	-	**644.0**
Deposits		701.0	-	-	**701.0**
gross value		*701.0*	-	-	***701.0***
Cash and cash equivalents in FIZ		304.2	-	-	**304.2**
gross value		*304.2*	-	-	***304.2***
Interests in other entities		-	0.1	-	**0.1**
Trade receivables	7.11	976.9	-	-	**976.9**
gross value		1,056.5	-	-	***1,056.5***
impairment losses		(79.6)	-	-	***(79.6)***

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

Financial instrument classes	Note	Financial instrument categories			Total
		Amortized cost	Fair value through profit or loss	Hedging instruments	
Financial derivatives		-	1.9	5.3	**7.2**
Bank term deposits	7.8, 7.11	10.6	-	-	**10.6**
gross value		*10.6*	-	-	***10.6***
Cash and cash equivalents *	7.8, 7.12	1,979.9	-	-	**1,979.9**
gross value		*1,980.2*	-	-	***1,980.2***
impairment losses		*(0.3)*	-	-	***(0.3)***
TOTAL		**3,972.6**	**829.4**	**5.3**	**4,807.3**

* *This item also includes funds accumulated to finance the closure of a mine (Cash and cash equivalents of the Mine Closure Fund) – Note 7.8.*

FINANCIAL LIABILITIES

Financial instrument classes	Note	Financial instrument categories				Total
		Amortized cost	Fair value through profit or loss	Hedging instruments	Outside the scope of IFRS 9	
AS AT 31 DECEMBER 2019						
Loans and borrowings	6.1	264.5	-	94.6	-	**359.1**
Financial derivatives		-	0.4	0.9	-	**1.3**
FIZ derivatives – interest rate swap (IRS) in PLN		10.1	-	-	-	**10.1**
Other liabilities of FIZ		16.1	-	-	-	**16.1**
Lease liabilities	6.3	-	-	-	613.1	**613.1**
Trade and other financial liabilities	7.16	1,846.0	-	-	-	**1,846.0**
TOTAL		**2,136.7**	**0.4**	**95.5**	**613.1**	**2,845.7**

FINANCIAL LIABILITIES

Financial instrument classes	Note	Financial instrument categories			Total
		Amortized cost	Fair value through profit or loss	Hedging instruments	
AS AT 31 DECEMBER 2018					
Loans and borrowings	6.1	70.0	-	-	**70.0**
Liabilities under debt securities issued	6.2	121.0	-	-	**121.0**
Financial derivatives		-	5.6	0.4	**6.0**
FIZ derivatives – interest rate swap (IRS) in PLN		6.5	-	-	**6.5**
Finance lease liabilities*	6.3	40.3	-	-	**40.3**
Trade and other financial liabilities	7.16	1,971.6	-	-	**1,971.6**
TOTAL		**2,209.4**	**5.6**	**0.4**	**2,215.4**

** IFRS 16 did not apply as at 31 December 2018*

As at 31 December 2019 and as at 31 December 2018, the fair value of financial assets and liabilities measured at amortized cost did not differ significantly from their carrying amounts.

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

9.2. FAIR VALUE HIERARCHY

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

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

The table below depicts financial assets and liabilities that are measured at fair value. These items include derivatives in the form of FX forward transactions for which the maturity date falls after the end date of the reporting period and investments in the FIZ assets portfolio and shares in other entities. In terms of the assumptions adopted for valuation purposes, they are classified as level 2 in the above hierarchy.

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

	31.12.2019 Level 2	31.12.2018 Level 2
FINANCIAL ASSETS:		
Investments in the FIZ asset portfolio	1,874.0	1,826.1
Financial derivatives, including:	60.5	7.2
financial assets – FX hedges	11.6	5.3
FINANCIAL LIABILITIES		
Financial derivatives, including:	1.3	6.0
financial liabilities – FX hedges	0.9	0.4

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

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

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

	Note	Financial assets/liabilities at fair value through profit or loss	Financial assets/liabilities at fair value through other comprehensive income	Financial assets/liabilities measured at amortized cost	Hedging instruments	Total
FOR THE PERIOD ENDED 31 DECEMBER 2019						
Interest income/(cost) recognized in:		**36.5**	**-**	**(38.3)**	**-**	**(1.8)**
other income		-	-	19.0	-	19.0
other expenses		-	-	(39.6)	-	(39.6)
financial income	4.6	-	-	15.8	-	15.8
financial costs		-	-	(33.5)	-	(33.5)
other net gains/(losses)		36.5	-	-	-	36.5
Foreign currency gains/(losses) recognized in:		**-**	**-**	**2.3**	**(30.8)**	**(28.5)**
other net gains/(losses)	4.5	-	-	(1.9)	-	(1.9)
financial income	4.6	-	-	4.2	-	4.2
financial costs	4.6				(32.0)	(32.0)
other comprehensive income					1.2	1.2
Income/(costs) on measurement and exercise of derivatives, recognized in:		**59.7**	**-**	**-**	**7.7**	**67.4**
other net gains/(losses)	4.5	59.7	-	-	1.9	61.6
other comprehensive income		-	-	-	5.8	5.8
Impairment losses for trade receivables reversed/(recognized) in:		**-**	**-**	**(0.4)**	**-**	**(0.4)**
cost by nature		-	-	1.5	-	1.5
other income		-	-	0.1	-	0.1
other expenses		-	-	(2.0)	-	(2.0)
Gains/(losses) on changes in fair value recognized in:		**11.4**	**-**	**-**	**-**	**11.4**
other net gains/(losses)		11.4	-	-	-	11.4
TOTAL		**107.6**	**-**	**(36.4)**	**(23.1)**	**48.1**

	Note	Financial assets/liabilities at fair value through profit or loss	Financial assets/liabilities at fair value through other comprehensive income	Financial assets/liabilities measured at amortized cost	Hedging instruments	Total
FOR THE PERIOD ENDED 31 DECEMBER 2018						
Interest income/(cost) recognized in:		**28.2**	**-**	**(27.5)**	**-**	**0.7**
other income		-	-	11.1	-	11.1
other expenses		-	-	(32.9)	-	(32.9)
financial income	4.6	0.3	-	28.5	-	28.8
financial costs		-	-	(34.2)	-	(34.2)
other net gains/(losses)		27.9	-	-	-	27.9
Foreign currency gains/(losses) recognized in:		**0.1**	**-**	**13.6**	**-**	**13.7**
other net gains/(losses)		-	-	14.3	-	14.3
financial income		0.1	-	11.2	-	11.3

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

	Note	Financial assets/liabilities at fair value through profit or loss	Financial assets/liabilities at fair value through other comprehensive income	Financial assets/liabilities measured at amortized cost	Hedging instruments	Total
financial costs	4.6	-	-	(11.9)	-	(11.9)
Income/(costs) on measurement and exercise of derivatives, recognized in:		**(23.4)**	**-**	**(21.3)**	**(14.9)**	**(59.6)**
other net gains/(losses)	4.5	(23.4)	-	-	(5.8)	(29.2)
financial costs		-	-	(21.3)	-	(21.3)
other comprehensive income		-	-	-	(9.1)	(9.1)
Impairment losses for trade receivables reversed/(recognized) in:		**0.3**	**-**	**(0.6)**	**-**	**(0.3)**
cost by nature		-	-	0.8	-	0.8
other income		0.1	-	0.2	-	0.3
other expenses		0.2	-	(1.6)	-	(1.4)
Gains/(losses) on changes in fair value recognized in:		**(1.8)**	**-**	**-**	**-**	**(1.8)**
other net gains/(losses)		(1.8)	-	-	-	(1.8)
TOTAL		**3.4**	**-**	**(35.8)**	**(14.9)**	**(47.3)**

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

9.4. FINANCIAL DERIVATIVES

SELECTED ACCOUNTING POLICIES

DERIVATIVES

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

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

HEDGE ACCOUNTING

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

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

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

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

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

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

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

The Group made a decision to implement the hedge accounting requirements under IFRS 9 as of 1 January 2020.

Financial assets after conversion to PLN:

	31.12.2019			31.12.2018		
	Hedge derivatives	**Derivatives carried at fair value through profit or loss**	**Total**	**Hedge derivatives**	**Derivatives carried at fair value through profit or loss**	**Total**
FX forward:						
– EUR	8.0	1.8	9.8	4.7	0.3	5.0
– USD	3.6	21.1	24.7	0.6	0.3	0.9
Commodity options	-	0.2	0.2	-	0.8	0.8
Commodity swaps	-	25.8	25.8	-	0.5	0.5
TOTAL, OF WHICH	**11.6**	**48.9**	**60.5**	**5.3**	**1.9**	**7.2**
- short-term	11.6	48.9	60.5	5.3	1.9	7.2

Financial liabilities after conversion to PLN:

	31.12.2019			31.12.2018		
	Hedge derivatives	Derivatives carried at fair value through profit or loss	Total	Hedge derivatives	Derivatives carried at fair value through profit or loss	Total
FX forward:						
– EUR	-	0.1	0.1	-	0.6	0.6
– USD	0.9	0.3	1.2	0.4	2.6	3.0
Commodity swaps	-	-	-	-	2.4	2.4
TOTAL, OF WHICH	**0.9**	**0.4**	**1.3**	**0.4**	**5.6**	**6.0**
- long-term	-	-	-	-	-	-
- short-term	0.9	0.4	1.3	0.4	5.6	6.0

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

Contract		Currency	31.12.2019		31.12.2018	
			Hedge derivatives	Derivatives carried at fair value through profit or loss	Hedge derivatives	Derivatives carried at fair value through profit or loss
FX FORWARD		**EUR**	**88.5**	**23.9**	**98.0**	**81.1**
	sale		88.5	23.9	98.0	81.1
FX FORWARD		**USD**	**60.5**	**235.0**	**23.0**	**43.7**
	sale		60.5	235.0	23.0	43.7

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

Contract		31.12.2019		31.12.2018	
		Hedge derivatives	Derivatives carried at fair value through profit or loss	Hedge derivatives	Derivatives carried at fair value through profit or loss
COMMODITY SWAP		**-**	**0.2**	**-**	**0.1**
	sale	-	0.2	-	0.1
ASIAN PUT OPTION		**-**	**-**	**-**	**0.1**
	purchase	-	-	-	0.1

9.5. FINANCIAL RISK MANAGEMENT

9.5.1. FINANCIAL RISK FACTORS

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

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

(a) PRICE RISK

Commodity price risk

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

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

In order to react to changing prices at the right moment, the Group constantly monitors markets, analyzes them and tracks on an ongoing basis price trends on the coal, coke, steel and electricity markets and rail and marine cargo transport. Also, an analysis is conducted to monitor the opportunities and the terms for the offtakers to obtain coal or coke from alternative sources on the domestic market or from foreign, mainly overseas markets. The terms and conditions of long-term contracts allow for periodic price negotiations (annually for steam coal and quarterly for coking coal and quarterly, semi-annually or annually for coke). To achieve the risk management goals, the Group observes the rules described in the JSW Group's Sales Procedure and the rules of the Financial Risk Committee at the JSW Group, which monitors the inflow of currencies from deliveries of coal, coke and hydrocarbons.

Effective as of 18 July 2018, the JSW Management Board appointed the Financial Risk Committee and approved the *JSW S.A. Policy and Procedure for Managing Coking Coal Price Risk.*

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

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

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

In the 12-month period ended 31 December 2019, the Group implemented transactions hedging the economic risk of changes in coking coal prices (commodity swap) for the total nominal volume of 240 thousand tons and maturities from September 2019 to August 2020. As at 31 December 2019, the Group had active transactions hedging the risk of changes in coal prices in the total nominal volume of 185 thousand tons. As at 31 December 2019, the fair value of the derivatives hedging the risk of changes in coking coal prices was PLN 26.0 million.

Price risk - other

The Group has no material investments in capital securities and therefore is not exposed to price risk related to changes in the prices of such investments.

(b) FOREIGN EXCHANGE RISK

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

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

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

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

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

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

In an attempt to eliminate FX risk, in 2019 the Group concluded FX forward transactions (external), in accordance with the hedge ratios adopted by the JSW Management Board and the Financial Risk Committee. Intra-group hedging transactions have also been concluded in the Group. The maturity of the transactions did not exceed 18 months. In its FX risk management processes, the Group also applies natural hedging, i.e. takes out loans and to a small extent makes small purchases of materials, services or investment assets in the foreign currencies, in which it earns revenues.

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

In 2019, the Group designated FX Forward transactions with a nominal amount of USD 88.5 million and EUR 128.0 million for hedge accounting. As at 31 December 2019, the Group had outstanding FX Forward derivatives with a total notional amount of EUR 112.4 million and USD 295.5 million, of which EUR 88.5 million and USD 60.5 million were hedge transactions for hedge accounting purposes. Derivative transactions hedge proceeds from the sales of products and goods which the Group expects to receive by November 2020.

The tables below provide details of these derivative transactions:

Open FX transactions as at 31 December 2019 are as follows:

Transaction type	Transaction settlement date				
	up to 1 month	2 to 3 months	4 to 6 months	7 to 12 months	Total
TRANSACTIONS AT FAIR VALUE THROUGH PROFIT OR LOSS					
FX Forward	3.1	2.9	3.8	12.8	**22.6**
HEDGE TRANSACTIONS					
FX Forward	-	2.3	4.2	4.2	**10.7**
TOTAL	**3.1**	**5.2**	**8.0**	**17.0**	**33.3**

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

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

On 16 May 2019, the Group designated for hedge accounting a USD-denominated loan (taken out in 2019) as an instrument hedging future USD-denominated cash flows. The purpose of the Group's hedging actions to obtain protection against the risk of changing USD/PLN exchange rate is to guarantee a specific level of the PLN equivalent of USD receipts from coke sales fulfilled by the Group. The position being hedged is a highly probable USD-denominated cash flow, which is received repayment periods of principal installments and is matched with the USD-denominated principal installment amount. The hedging relationship is designated for the period from the designation date to the repayment date of the last principal installment, while for each designated volume repaid as part of the principal installment during the term of the hedge instrument, the relationship is maintained accordingly from its designation date to the repayment date of each such principal installment. The hedging instrument is the financial liability incurred by the Group denominated in USD with principal installments repaid on the last business day of each period (month) in and after which proceeds from the currency volume under the hedged sales are expected. A detailed listing of dates and volume of the designated hedging instrument is specified in the principal installment repayment schedule adopted by the Group.

The effective part of the change in the fair value of hedge transactions in the amount of PLN 10.3 million was recognized in other comprehensive income. The ineffective part of the fair value of hedging transactions and the change in the fair value of derivatives not designated for hedge accounting in the amount of PLN 22.4 million was recognized in the period's profit or loss. As a result of realization of the hedged item, the amount of PLN (28.7) million was recognized in the financial result in the period from January to December 2019.

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

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

SELECTED BALANCE SHEET ITEMS	31.12.2019 EUR	31.12.2019 USD	31.12.2018 EUR	31.12.2018 USD
Cash and cash equivalents	11.7	43.9	27.1	140.1
Trade receivables	142.7	28.7	327.7	130.1
Financial derivatives measured through profit or loss (assets)	1.8	47.2	0.3	1.7
Hedges (assets)	8.0	3.6	4.7	0.6
Trade liabilities	(7.8)	(0.3)	(11.7)	(0.3)
Liabilities under debt securities issued	-	-	-	(49.5)
Loan liabilities	-	(95.2)	-	-
Financial derivatives measured through profit or loss (liabilities)	(0.1)	(0.3)	(0.6)	(5.0)
Hedges (liabilities)	-	(0.9)	-	(0.4)
NET EXPOSURE	**156.3**	**26.7**	**347.5**	**217.3**

The Group's sensitivity to appreciation and depreciation of the EUR/PLN and USD/PLN exchange rates is presented in the table below. Sensitivity analysis includes only the items denominated in foreign currencies which remain open at the end of the reporting period and presents the potential change in the value of financial assets and liabilities as a result of a change in the exchange rate. The sensitivity analysis is calculated on the basis of the implied volatility published by the Reuters service as at 31 December 2019 for the current period and as at 31 December 2018 for comparative data.

Analysis of sensitivity to changes of exchange rates:

	EUR/PLN rate				USD/PLN rate			
	31.12.2019		31.12.2018		31.12.2019		31.12.2018	
	net profit	other comprehensive income	net profit	other comprehensive income	net profit	other comprehensive income	net profit	other comprehensive income
% change	4.6%		6.0%		8.3%		10.0%	
Change in the value of financial assets	7.1	-	21.3	-	8.1	-	27.2	-
Change in the value of financial liabilities	(5.0)	(17.3)	(21.6)	(25.3)	(73.8)	(26.9)	(21.7)	(8.7)
Effect on profit before tax or other comprehensive income	2.1	(17.3)	(0.3)	(25.3)	(65.7)	(26.9)	5.5	(8.7)
Tax effect	(0.4)	3.3	0.1	4.8	12.5	5.1	(1.0)	1.7
IMPACT ON NET PROFIT	**1.7**	**-**	**(0.2)**	**-**	**(53.2)**	**-**	**4.5**	**-**
IMPACT ON OTHER COMPREHENSIVE INCOME	**-**	**(14.0)**	**-**	**(20.5)**	**-**	**(21.8)**	**-**	**(7.0)**

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

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

The Group's exposure to interest rate risk concerns primarily potential changes in cash flows caused by shifts in market interest rates. The Group finances its operating and investing activities partly with external funds bearing interest at floating interest rates and invests free cash in financial assets which also in most cases bear interest at floating interest rates. The Group is exposed mainly to the risk of changes in interest rates in respect of the assets associated with the holding of the FIZ asset portfolio as well as cash and term deposits. To a lesser extent, the Group is exposed to the risk of changes in interest rates in respect of the liabilities under loans and borrowings and lease liabilities. Interest rate risk arises from the volatility of the following reference rates: WIBOR O/N, WIBOR 1M, WIBOR 3M, WIBID 1M, LIBOR 1M for EUR, EURIBOR 1M, LIBOR 1M for USD, LIBOR 3M for USD.

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

The items of the consolidated statement of financial position, which are exposed to changes in interest rates, are presented in the following table:

	31.12.2019	31.12.2018
Non-current financial assets:		
Bank term deposits	-	10.6
Cash and cash equivalents of the Mine Closure Fund	351.9	329.1
Investments in the FIZ asset portfolio	1,174.0	1,826.1
Current financial assets:		
Bank term deposits	90.8	-
Cash and cash equivalents	350.3	1,650.8
Investments in the FIZ asset portfolio	700.0	-
Long-term financial liabilities		
Loans and borrowings	333.3	36.5
Lease liabilities*	406.7	19.0
Current financial liabilities		
Loans and borrowings	25.8	33.5
Liabilities under debt securities issued	-	121.0
Lease liabilities*	206.4	21.3

* * as of 1 January 2019, this item includes lease liabilities resulting from the implementation of IFRS 16

The Group does not use derivatives to hedge against interest rate risk.

The tables below present the potential impact of a change in interest rates on net profit and other comprehensive income. The analysis only covers these positions in financial instruments, which are exposed to interest rate risk as at the last day of the reporting period. The level of changes in interest rates accepted in 2019 reflects the hypothetical change in the level of the PLN reference rate.

Analysis of sensitivity to interest rate changes:

	PLN interest rate		USD interest rate	
	31.12.2019 net profit / loss	31.12.2018 net profit / loss	31.12.2019 net profit / loss	31.12.2018 net profit / loss
Volatility in basis points	+ 50pb			
Change in the value of financial assets	13.0	18.1	0.2	0.7
Change in the value of financial liabilities	(4.4)	(0.9)	(0.5)	(0.2)
Impact on profit/loss before tax or other comprehensive income	8.6	17.2	(0.3)	0.5
Tax effect	(1.6)	(3.3)	0.1	(0.1)
IMPACT ON NET PROFIT	**7.0**	**13.9**	**(0.2)**	**0.4**

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

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

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

(d) CREDIT RISK

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

- trade receivables,
- cash and bank term deposits,
- derivatives,
- investments in the FIZ assets portfolio (covered bonds, bonds, receivables under buy sell back transactions, deposits, cash and cash equivalents).

Credit risk identified in trade receivables is related to their concentration and timely service. Sales are made to a limited number of buyers and therefore there is a concentration of risk associated with trade receivables. The coke sales policy implemented in the past years in the JSW Group through diversification of the buyers has reduced the credit risk associated with trade receivables.

In 2019, the ArcelorMittal Group and companies with the State Treasury in the shareholding structure still remain the principal buyers, responsible for respectively 32.2% and 31.2% of all trade receivables as at 31 December 2019. The share held by the ArcelorMittal Group in trade receivables is similar to that of 2018 when it was 33.4%. On the other hand, the companies with the State Treasury as a shareholder grew their share in 2019 compared to the previous year (in 2018 it was 16.1% of all trade receivables).

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

As at 31 December 2019, 10.5% of the Group's trade receivables were insured, 4.7% of the Group's trade receivables were secured by letters of credit and 0.1% by blank promissory notes (as at 31 December 2018: 11.5% of the Group's trade receivables were insured, 6.5% were secured by blank promissory notes and 13.3% were secured by letters of credit).

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

Concentration of financial resources in banks:

Bank	Rating	Rating organization	31.12.2019	31.12.2018
A	A2	Moody's	86.7%	81.9%
B	BBB+	Fitch	11.3%	10.0%
C	A-	Fitch	-	7.3%
Other	-	-	2.0%	0.8%
			100.0%	**100.0%**

This information covers the cash and short-term deposits presented in Note 7.7, Note 7.10 and Note 7.12.

The credit risk pertaining to cash and cash equivalents is limited because the Group invests its cash in banks with established market position and holding a rating awarded by international rating agencies. According to the agreement of 9 April 2019 on banking transactions, which was concluded between JSW and Pekao S.A., PKO BP S.A. and BGK, the mutual cooperation involving, among others, keeping of deposits and investment activity is currently conducted with selected banks with a strong market position, which meet the requirements of the policy for investing available cash implemented in the Group.

Considering the above, the level of risk of the investment activity may be estimated as low.

The Group selects cooperating banks for concluding forward transactions following similar principles as in the case of time deposits of available cash. In accordance with the FX Risk Management Policy in the Group, the Group hedges FX risk, among others by benefiting from natural hedges and entering into hedging transactions with banks and subsidiaries. To minimize the risk associated with execution of hedging transactions, the Group cooperates exclusively with highly credible banks. To diversify the risk associated with the execution of hedging transactions, the Financial Risk Committee at the Jastrzębska Spółka Węglowa S.A. Group defines the maximum concentration level for derivative transactions (the maximum nominal amount of transactions open at a single bank). The process of hedging exchange risk is monitored on an ongoing basis. The highest concentration level in one bank as at 31 December 2019 is about 36% of the permitted limit.

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

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

(e) LIQUIDITY RISK

In connection with the high capital expenditures incurred and the strong dependence of cash flows on coal and coke sale prices, in periods of bad economic conditions the Group is exposed to liquidity risk. The deteriorating market conditions may adversely affect liquidity, however in 2019 they allowed the Group to generate positive cash flows on its operating activities. The positive operating cash flows do not exceed the amount of capital expenditures, resulting in a declining balance of available cash.

Within the framework of its strategic activities, the Parent Company intends to maintain the Stabilization Fund, the role of which will be to provide a safety cushion in times of economic downturn when it will be necessary to incur expenditures not fully covered by cash inflows. With this in mind, a Cooperation Agreement was signed with TFI Energia S.A. (formerly PGE Towarzystwo Funduszy Inwestycyjnych S.A.), under which JSW established the JSW Stabilization Closed-End Investment Fund (JSW Stabilization FIZ). As at the end of 2019 the net value of FIZ assets was PLN 1,874.0 million. After the end of the reporting period, i.e. on 13 January 2020, a decision was made to redeem the investment certificates presented in the consolidated financial statements as investments in the JSW Stabilization FIZ asset portfolio in the amount of PLN 400.0 million of A series investment certificates and PLN 300.0 million of B series investment certificates. On 26 February 2020, the amount of PLN 300.7 million was credited to the Parent Company’s bank account. It is estimated that the amount received on the redemption of Investment Certificates in the JSW Stabilization FIZ fund in April 2020 will reach approximately PLN 400.0 million. Investments in the FIZ asset portfolio in this respect were presented as current assets. The monies obtained on this account will be used both for purposes related to JSW’s current operations and for capital expenditures.

The Group also intends to maintain the proper financing structure by keeping an appropriate level of long-term financing sources.

The Group’s process of liquidity risk management calls for effective monitoring and reporting of the liquidity position, among others, to take preventive measures in the event of a threat to liquidity and maintaining an appropriate (minimum) level of cash available for service of current payments.

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

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

	Under 1 year	From 1 to 2 years	From 2 to 5 years	Above 5 years	Total
BALANCE AS AT 31 DECEMBER 2019					
Loans and borrowings	39.5	52.0	248.1	77.6	417.2
Trade and other financial liabilities	1,840.6	1.6	3.2	16.7	1,862.1
Lease liabilities	233.2	187.9	130.1	374.9	926.1
Financial derivatives (gross-settled)	708.4	-	-	-	708.4
TOTAL	**2,821.7**	**241.5**	**381.4**	**469.2**	**3,913.8**
BALANCE AS AT 31 DECEMBER 2018					
Loans and borrowings	35.1	12.0	26.4	-	73.5
Trade and other financial liabilities	1,983.9	12.6	10.4	7.5	2,014.4
Liabilities under debt securities issued	121.3	-	-	-	121.3
Financial derivatives (gross-settled)	1,021.1	-	-	-	1,021.1
TOTAL	**3,161.4**	**24.6**	**36.8**	**7.5**	**3,230.3**

9.5.2. CAPITAL RISK MANAGEMENT

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

Capital risk management involves, among others, the monitoring of net financial debt/EBITDA and DSCR ratios calculated at the JSW Group level, based on the regulations and definitions set out in financing agreements concluded by the Parent Company. Pursuant to the requirements of the above financing agreements, the Parent Company as a matter of priority strives to maintain its net financial debt/equity ratio at a level not higher than 3.0 and to maintain its DSCR ratio at no less than 1.2. According to the provisions of financing agreements, JSW is obligated to present appropriate calculations of the ratios as at the end of each quarter. According to JSW's tentative estimates, as at the approval date of this report the above ratios for 2019 will be satisfied.

The Group is exposed to various risks in each area of its activity. In order to achieve its strategic objectives, the Group actively manages the risks arising in its operations, striving to mitigate or eliminate their potential negative effect on the financial result. In addition to the financial risks discussed in these consolidated financial statements, the Group is exposed to non-financial risks, which include risks arising from its social and economic and market settings, with its business activity, environmental risks and risks related to its legal environment. Non-financial risks are discussed in detail in Section 4.2 of the Management Board Report on the activity of Jastrzębska Spółka Węglowa S.A. and the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2019.

10. OTHER EXPLANATORY NOTES

10.1. CONTINGENT ITEMS

CONTINGENT ASSETS

Due to judgments handed down by administrative courts regarding the possibility of taxing roof supports of underground mine workings, JSW submitted correction tax returns to townships for the years not covered by the tax proceedings. In this situation, in H2 2017 JSW ceased to activate in its receivables subsequent taxes paid to the townships by virtue of taxed mining roof supports as specified in the surveying decisions and started to recognize them as contingent receivables. The amount of the real estate tax paid but possibly recoverable is PLN 11.2 million.

CONTINGENT LIABILITIES

(a) mining damage

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

(b) guarantee of employment

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

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

(c) adjustment of the sale price of WZK Victoria

On 30 September 2016, JSW entered into a dispositive agreement with Agencja Rozwoju Przemysłu S.A. and Towarzystwo Finansowe "Silesia" Sp. z o.o. regarding the sale of 92.84% of shares of WZK Victoria for the total sale price of PLN 350.0 million. The whole amount for the sale of shares in WZK Victoria was paid in Q3 2016. The sales price is subject to reduction because of price adjustment based on the value of accumulated EBITDA of WZK Victoria for 2016-2019. The payment of a possible price adjustment will take place as a bullet payment within 3 months after the Shareholder Meeting of WZK VICTORIA approves the audited financial statements for 2019. EBITDA will be calculated by a renowned independent financial advisor and the calculations will be based on approved financial statements of WZK Victoria for 2016-2019, audited by a renowned independent auditor of the company. The calculation prepared in the above manner will be a binding arrangement for the parties and the basis for defining a price adjustment. If a price adjustment is not defined as provided for above, regardless of the reason, by 31 December 2020, the amount of price adjustment will be defined by a court.

(d) granted and received guarantees and sureties

As at 31 December 2019, the following sureties extended by the Parent Company remained active:

- bill of exchange surety of 2 December 2019 for liabilities of the JSW KOKS subsidiary up to the maximum amount of PLN 134.0 million resulting from a loan financing agreement executed by its JSW KOKS subsidiary acting as the beneficiary and the National Fund for Environmental Protection and Water Management in Warsaw with its registered office in Warsaw.
- surety of 5 December 2019 for liabilities of the JSW Innowacje subsidiary up to the maximum amount of PLN 31.2 million resulting from an agreement to grant a lease limit between the PBSz subsidiary and PEKAO LEASING Sp. z o.o. with its registered office in Warsaw.

- surety of 18 November 2019 for liabilities of the PBSz subsidiary up to the maximum amount of PLN 20.0 million resulting from an agreement to grant a lease limit between the PBSz subsidiary and PEKAO LEASING Sp. z o.o. with its registered office in Warsaw.
- surety for the liabilities of Wojewódzki Szpital Specjalistyczny Nr 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,

As at 31 December 2019, the following sureties extended by JSW KOKS remained active:

- On 9 April 2019, the JSW KOKS subsidiary extended a surety for the Company's liabilities under the finance agreement signed between the Company and Agencja Rozwoju Przemysłu S.A., Bank Gospodarstwa Krajowego, Bank Polska Kasa Opieki S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and ICBC (Europe) S.A. Branch in Poland up to the maximum amount of PLN 690.0 million and USD 117.8 million. The surety will be in effect until 8 April 2029.

As at 31 December 2019, the following sureties extended by PBSz remained active:

- the subsidiary PBSz extended a surety for the liabilities of PPG ROW-JAS Sp. z o.o. against Generali Towarzystwo Ubezpieczeń S.A. in the amount of PLN 4.9 million.

As at 31 December 2019, in the Group, there was an active bank guarantee for the total amount of 0.7 million, to secure the repayment of granted loans for the total amount of PLN 22.3 million.

Following the full redemption of bonds issued under the Bond Issue Program by the Parent Company, the surety extended by JSW KOKS S.A. for the Parent Company's liabilities on account of the bond issue up to the maximum amount of PLN 2,218.5 million expired on 18 January 2019.

(e) hypothetical interest on liabilities

Pursuant to Article 5 of the Polish Act on Payment Terms in Commercial Transactions of 8 March 2013, the Group calculates, not less frequently than as at the end of each quarter, hypothetical interest on liabilities for which the contractually defined payment term is longer than 30 days. The amount of calculated interest is then adjusted to the level of forecast amounts owed by the Group to counterparties on account of the rights due to them. The Group charges 50% of the maximum amount of interest due to hypothetical counterparties to its financial result; this amount corresponds to the current level of the risk of counterparties raising a claim to pay interest for the term of payment extended over and above the one prescribed in the Act on payment terms in commercial transactions. Hypothetical interest on liabilities for 2019 was PLN 30.0 million. The remaining part of the expected risk of the Group being charged any hypothetical late interest is recognized as contingent liabilities. Interest exceed their statute of limitations after 3 years of the date of payment of the invoice, for which interest was due. In 2019, JSW received interest notes for past due payments (for years 2016-2019) in the total amount of PLN 6.9 million. The total amount of the contingent liability at the end of 2019 pertaining to the years 2017, 2018 and 2019 stood at PLN 66.7 million.

(f) other contingent items

On 4 November 2019, PGWIR signed a warehousing agreement with Kopalnia Soli "Kłodawa" Spółka Akcyjna, under which PGWIR SA undertook to accept bulk road salt for storage in its warehouses located in Czerwionka-Leszczyny, against payment, while accepting an obligation to secure the salt properly against damage, theft and the impact of weather conditions. The agreement was signed with the term to 30 April 2022. On 25 November 2019, PGWiR made a statement in the form of a notary deed on submitting to enforcement up to PLN 1.0 million under Article 777 § 1 item 5 of the Code of Civil Procedure, if it fails to satisfy its obligation to duly protect the goods under the above warehousing agreement.

INFORMATION ON MATERIAL COURT, ADMINISTRATIVE AND ARBITRATION PROCEEDINGS

In 2019, neither the Parent Company nor other Group companies were parties to pending proceedings before a court or arbitration authority or a public administration body concerning accounts payable or accounts receivable with individual or aggregated value exceeding 10% of JSW's equity. The Group takes part in court and administrative proceedings related to its ordinary business.

The court proceedings that may exert material impact on the Group's financial standing are presented in Section 5.6. 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 2019.

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

10.2. FUTURE CONTRACTUAL LIABILITIES AND OPERATING LEASE LIABILITIES

Future contractual liabilities

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

	31.12.2019	31.12.2018
Contractual liabilities incurred to purchase property, plant and equipment and intangible assets	799.3	694.4
Other	52.5	33.4
TOTAL	**851.8**	**727.8**

Operating lease liabilities – Group as lessee (user)

As of 1 January 2019, the Group implemented IFRS 16, which abolishes the classification of leases into operating and finance leases for the lessee; accordingly, the operating lease liabilities mentioned in this note refer to 2018 only.

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

The cost of lease payments under operating leases (lease or hire agreements) recognized in the 2018 financial result was PLN 137.3 million.

The total amounts of future lease payments under operating lease agreements were:

	31.12.2019	31.12.2018
Up to 1 year	-	80.9
Between 1 and 5 years	-	141.1
Over 5 years	-	19.7

The Group also classified perpetual usufruct right to land acquired gratuitously as an operating lease. The fees for perpetual usufruct right to land captured in the 2018 consolidated financial result amounted to PLN 6.2 million.

Future fees for the perpetual usufruct right to land:

	31.12.2019	31.12.2018
Up to 1 year	-	7.5
Between 1 and 5 years	-	23.3
Over 5 years	-	316.3

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

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

ACQUISITION OF 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 PBSz. On 21 December 2018, the representatives of JSW ("the Buyer") and the 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.
The dispositive agreement between PRIMETECH S.A. in Katowice and its subsidiary and JSW on the sale of shares in Przedsiębiorstwo Budowy Szybów S.A. in Tarnowskie Góry was signed on 20 May 2019. There were numerous conditions precedent that had to be satisfied prior the execution of the Agreement (the Buyer obtaining 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).

a) PBSz's line of business.

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. PBSz is a highly-specialized company operating in Poland and internationally, which has a strong market position on the mining construction market. Its experience, qualified personnel, its own transportation capacity, specialized equipment and modern technologies allow it to accept responsibility for comprehensive execution of even the most complex mining construction projects.

b) Synergies

The acquisition is consistent within the assumptions of the Group's Strategy. The purpose of acquiring 95.01% of shares in PBSz is for the Group to acquire competence in specialized design and mining construction services (design of mines, design and construction of shafts with infrastructure and roadway excavation). The above is necessary in order to achieve the technical parameters assumed in the Strategy by 2030. According to the Strategy, by 2020 JSW plans to execute capital expenditures to build shafts in JSW mines, extend ancillary shaft hoists, build and modernize winding engines and conduct roadway excavations. Given the scope of the above works, in order to implement the objectives set out in the Strategy, it was necessary to guarantee the implementation of specific capital expenditures (development projects) by a company specializing in this type of work.
The key factors leading to the recognition of goodwill included:

- ensuring the implementation of the shaft works planned by JSW in accordance with the accepted schedule – both currently and in the future it may be problematic to engage a company providing specialized services of this type,
- reducing operating expenses through the economies of scale and the resulting revenue and cost synergies,
- significant growth of market prices for services of this type in connection with limited market competition,
- increasing demand for shaft and excavation works related to JSW's capital expenditure and development program.

c) Acquisition price

As a result of negotiations held between the parties to the agreement, the ultimate transaction settlement price had been set at PLN 204.0 million, of which PLN 199.0 million was paid on the closing date of the transaction and PLN 5.0 million was retained to guarantee the Seller's warranties and was to be settled no later than three months after the closing date. Following the post-acquisition review of PBSz conducted by JSW, the PBSz's 2018 EBITDA was adjusted, which had not achieved the EBITDA assumed by the Parties in the agreement, which according to the SPA was the condition for paying out the retained amount. The post-acquisition audit also demonstrated that the Sellers might have breached the representations they made. Despite the meetings and correspondence in this matter, the Sellers failed to explain these concerns. In connection with the above, JSW believes that the retained amount should not be paid out, about which it informed the Seller.

The purchase of PBSz's assets was funded externally through a term loan, which is described in Note 6.1, and internally with the Parent Company's own funds.

d) Goodwill

In its consolidated financial statements, the JSW S.A. Group recognized the PBSz-related balance sheet items at fair value in accordance with the requirements of IFRS 3; as a result, goodwill of PLN 57.0 million has been recognized, which is a difference between the fair value of the purchased net assets of PLN 142.0 million and their purchase price of PLN 199.0 million.

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

The tables below present the purchase price allocation of PBSz S.A. at fair values:

	Date of acquisition of Przedsiębiorstwo Budowy Szybów S.A.
Property, plant and equipment	72.0
Intangible assets	36.1
Investment property	3.5
Right-of-use asset	44.3
Other non-current assets	4.8
Inventories	3.5
Trade and other receivables	68.8
Cash and cash equivalents	28.1
TOTAL ASSETS	**261.1**
Deferred tax liabilities	(17.0)
Current income tax liabilities	(0.1)
Employee benefit liabilities	(12.2)
Lease liabilities	(25.2)
Provisions	(0.6)
Trade and other liabilities	(56.5)
TOTAL LIABILITIES	**(111.6)**
TOTAL NET ASSETS	**149.5**

PURCHASE PRICE ADJUSTMENT	
Purchase price (after adjustment for the retained amount)	199.0
Non-controlling interests (4.99%)	7.5
Fair value of acquired assets and liabilities (net assets)	(149.5)
GOODWILL	**57.0**

e) Allocation of goodwill to cash-generating units

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to individual cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represent the lowest level at which the goodwill is monitored for internal management purposes;
- cannot be larger than an operating segment as defined in IFRS 8 before aggregation.

Having the above in mind, the goodwill representing future economic benefits that the Group expects as a result o fthe acquisition of PBSz and also considering the synergies described in item b), the JSW Management Board believes that the goodwill obtained in the purchase price allocation process for PBSz shares should be allocated in full to the cash generating unit, i.e. PBSz, which is part of the Other segment.

f) Impairment of goodwill

Goodwill recognized in the 2019 consolidated financial statements is subject to an annual impairment test, irrespective of whether there is any indication of impairment (IAS 36). The impact of the 2019 impairment testing of the company acquired through a business combination on the consolidated financial statements is presented in detail in Note 7.2.

g) Revenues and profits of the acquired business

Considering the time of PBSz's acquisition, i.e. 20 May 2019, the results of the acquired company were recognized in the Group's result – in connection with their significance and for practical reasons – from 1 July 2019.

In the period from 1 July to 31 December 2019 the acquired company generated revenues of PLN 128.4 million and a net loss of PLN (6.0) million (of which the loss of PLN (0.3) million was attributable to non-controlling interest).

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

h) Payment of the purchase price

The table below presents the outflows of cash for the purchase of PBSz:

	2019
Outflow of cash for the purchase (adjusted for the retained amount)	(199.0)
Cash obtained in the acquisition	28.1
GOODWILL	**(170.9)**

CHANGES IN NON-CONTROLLING INTEREST IN 2019

- *Subscription to shares in the increased capital of JZR*

On 16 July 2019, the Extraordinary Shareholder Meeting of JZR adopted a resolution to increase the JZR's share capital, which is described in detail in Note 1.2. After the capital increase, the JSW's stake in the JZR's share capital rose to 62.09%, while the State Treasury's stake went down to 37.91%.

Change in non-controlling interest as at 31 December 2019:

	JZR*	PBSz	Total
Non-controlling interest before the transaction	308.9	-	308.9
Change in the balance of non-controlling interest	(3.2)	7.5	4.3
Difference amount captured in retained earnings	3.2	-	3.2

* *Presented together with its JZR Dźwigi subsidiary*

CHANGES IN NON-CONTROLLING INTEREST IN 2018

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

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

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

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

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

Non-controlling interest as at 31 December 2018:

	JZR (subscription for shares by the State Treasury)	Advicom (currently JSW IT Systems)	JSW KOKS	CLPB	Total
Non-controlling interest before the transaction	161.2	8.0	56.8	2.9	228.9
Consideration	120.0	(9.9)	-	(3.1)	107.0
Change in the balance of non-controlling interest	(122.1)	9.8	0.4	3.5	(108.4)

Notes to the consolidated financial statements form an integral part hereof.

Difference amount captured in retained earnings	(2.1)	(0.1)	0.4	0.4	(1.4)

10.4. RELATED PARTY TRANSACTIONS

As at 31 December 2019, the State Treasury was the majority shareholder of the Group.

INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

In 2019, the State Treasury was the direct top-level parent. Accordingly, all companies owned by the State Treasury (directly or indirectly) are the Group's related parties. In these consolidated financial statements, the Management Board of the Parent Company has disclosed transactions with significant related parties identified as such according to the best knowledge of the Management Board.

Individually material transactions

In 2019 and in 2018, all the transactions between the Group and its related parties were executed on an arm's length basis, were typical and concluded in the normal course of business.

No individual transactions between JSW and parties related to the State Treasury were identified that would be significant due to their non-standard scope and/or amount.

Other transactions

Other transactions from 1 January to 31 December 2019 and from 1 January to 31 December 2018 concluded by the Group with the subsidiaries of the State Treasury, which are significant in aggregate, are related to purchases of materials and services for current operations (coal, electricity, forwarding and cargo transportation services). In 2019, the Group's most important, State Treasury-controlled suppliers included: PKP Cargo S.A., Huta Łabędy S.A., PGNiG Group, Enea S.A. Group. The Company's most important State Treasury-controlled customers in 2019 included: PGE S.A. Group, PGNiG Group, WZK Victoria S.A., Enea S.A. Group.

The table below presents transactions concluded with associates:

	2019	2018
Transactions with associates		
Purchases in the period	13.9	9.9
Balance of liabilities at the end of the period *	4.6	2.3
TOTAL PURCHASES	**13.9**	**9.9**
TOTAL BALANCE OF LIABILITIES	**4.6**	**2.3**

* *including VAT*

INFORMATION ON TRANSACTIONS WITH MEMBERS OF THE JSW MANAGEMENT BOARD

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

Compensation of Parent Company's Management Board members

	2019 (PLN 000s)	2018 (PLN 000s)
Short-term employee benefits:		
- remuneration, management services*	3,035.4	3,720.0
- variable compensation for 2019 **	-	-
- benefits, income from other sources ***	985.0	-
- variable compensation for 2018 ****	1,209.5	-
TOTAL	**5,229.9**	**3,720.0**

* *This item includes only remuneration based on agreements to provide management services – management contracts.*
In 2019, this item also included the compensation paid to Mr. Robert Małłek, the Supervisory Board Member seconded to perform temporarily the duties of the Vice-President of the JSW Management Board – compensation specified by the Supervisory Board resolutions.

** *This item includes the variable compensation for 2019 contingent on the attainment of management objectives (KPI), provided that the Parent Company generates profit.*

*** *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.*

**** *This item includes variable compensation for 2018 charged to costs of 2019 and paid out in January 2020 to: Mr. Robert Ostrowski, Mr. Tomasz Śledź, Mr. Artur Dyczko and Ms. Jolanta Gruszka. In accordance with the decision of the Supervisory Board, Mr. Artur Wojtków was granted variable compensation for 2018 in the amount of PLN 302.4 thousand, but it was not paid out as the appropriate bill had not been delivered to JSW.*

Details of the agreements concluded with the managers are provided in Section 8.14. 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 2019.

INFORMATION ON TRANSACTIONS WITH MEMBERS OF THE JSW SUPERVISORY BOARD

Compensation of the JSW Supervisory Board:

	2019 (PLN 000s)	2018 (PLN 000s)
Short-term benefits	708.8	530.9
TOTAL	**708.8**	**530.9**

Additional information on remuneration of JSW Management Board and Supervisory Board members are provided in the Management Board Report on the activity of Jastrzębska Spółka Węglowa S.A. and the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2019 (Section 8.14).

In 2019, no loans were granted to any members of the Management or Supervisory Board of JSW.

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

Information on transactions with Management Board members of Subsidiaries

	2019	2018
Short-term employee benefits*	12.1	9.8
Termination benefits (severance pay)	0.3	0.3
Post-employment benefits	1.1	0.2
Jubilee awards	0.6	0.1
Other	0.1	0.1
TOTAL	**14.2**	**10.5**

* *The Management Board of Hawk-e Sp. z o.o. did not receive any compensation in 2018 and 2019*

Information on transactions with Supervisory Board members of Subsidiaries

	2019	2018
Short-term benefits	2.2	1.8
TOTAL	**2.2**	**1.8**

In 2019, no loans were granted to any members of the Management or Supervisory Boards of the subsidiaries.

10.5. AUDITOR'S FEE

The audit firm authorized to audit the consolidated financial statements of the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2019 is PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. The audit firm was selected on 29 November 2017 by the JSW Supervisory Board.

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

The table below presents the statutory auditor's fees.

	2019 (PLN 000s)	2018 (PLN 000s)
Statutory Auditor's fee in respect of the Parent Company	**302.3**	**302.3**
Mandatory audit	226.3	226.3
Review of the interim financial statements	76.0	76.0
Other services	-	-
Statutory Auditor's fee in respect of the subsidiaries	**515.7**	**158.0**
Mandatory audit	447.3	158.0
Other services*	68.4	-
TOTAL	**818.0**	**460.3**

**additional procedures associated with the addition of a new company (PBSz) to the Group*

10.6. SUBSEQUENT EVENTS

According to our knowledge, there were no material events after 31 December 2019, i.e. after the end of the reporting period, other than those described below, that could have a significant effect on the evaluation of economic position, financial position and performance but had not been recognized in the consolidated financial statements for the financial year ended 31 December 2019.

- As of 1 January 2020, the JSW Management Board made a decision to change the organizational structure of two mines. The Jastrzębie Section has been spun off from KWK Borynia-Zofiówka-Jastrzębie and subordinated to KWK Bzie-Dębina under development and the name of the mine was changed to "Jastrzębie-Bzie".
- On 8 January 2020, the JSW Management Board adopted a resolution to redeem the investment certificates presented in the consolidated financial statements as investments in the asset portfolio of the JSW Stabilization Closed-end Investment Fund ("FIZ") in the amount of PLN 400.0 million for series A investment certificates and PLN 300.0 million for series B investment certificates. The expected proceeds from the redemption of FIZ certificates are PLN 300.0 million in February 2020 and PLN 400.0 million in April 2020. The monies obtained from the redemption of FIZ Certificates will be used both for JSW's current operations and for investment activity.
- On 13 January 2020, the Company's Supervisory Board made a resolution giving consent to redemption of the investment certificates presented in the consolidated financial statements as investments in the asset portfolio of the JSW Stabilization Closed-end Investment Fund ("FIZ") in the amount of PLN 400.0 million for series A investment certificates and PLN 300.0 million for series B investment certificates.
- On 20 January 2020, Mr. Robert Tomanek tendered his resignation from the function of a JSW Supervisory Board member, effective as of 21 January 2020.
- As of 20 January 2020, the JSW Supervisory Board made a decision to appoint Artur Dyczko to the position of Vice-President of the JSW Management Board for Technical and Operational Matters for the 10th term of office.
- On 21 January 2020, a trial started before the Court of Appeals in Katowice, in which the court dismissed the plaintiff's appeal (File ref. no.: X GC 152/15). Consequently, in January 2020, JSW released a part of the provision for action launched by FAMUR S.A. against JSW for payment of compensation for damages in assets as a result of a fire that broke out underground in the Krupiński Mine, in the amount of PLN 4.5 million, of which PLN 3.0 million is the principal of the claim and PLN 1.5 million is the amount of late interest and expected litigation costs.
- On 23 January 2020, the subsidiary PBSz and Bank Gospodarstwa Krajowego signed a multi-purpose overdraft facility agreement in the amount of PLN 20.0 million. In accordance with the signed agreement, a subsidiary may use the granted limit in the form of a current account overdraft up to the full amount of the limit and bank guarantees cumulatively up to the maximum exposure amount of PLN 5.0 million. The total exposure in respect of all products must not exceed the limit amount of PLN 20.0 million. According to the agreement, the multi-purpose facility will be secured on: mortgage on real property in the amount of PLN 30.0 million and assignment of rights under an insurance policy and an assignment of receivables under the agreement.
- On 12 February 2020 the JSW Supervisory Board adopted a resolution to dismiss from the JSW Management Board Mr. Rafał Pasieka, who had served in the capacity of Vice-President of the Management Board for Sales. At the same time, the JSW Supervisory Board adopted a resolution to entrust Mr. Włodzimierz Hereźniak with the duties of Acting Vice-President of the Management Board for Sales in the period from 12 February 2020 to the date of appointment of Vice-President of the Management Board for Sales. In this period, Mr. Włodzimierz Hereźniak will continue to serve as the President of the JSW Management Board.
- On 12 July 2020 the Company's Supervisory Board adopted a resolution to appoint Mr. Tomasz Duda as of 13 February 2020 to the position of Vice-President of the Management Board for Development of the 10th term.
- On 17 February 2020, the subsidiary PBSz and PKO BP S.A. signed a multi-purpose overdraft facility agreement in the amount of PLN 20.0 million. In accordance with the signed agreement, PBSz may use the granted limit in the form of a current account overdraft up to PLN 15.0 million and bank guarantees cumulatively up to the maximum exposure amount of PLN 5.0 million. According to the agreement, the multi-purpose overdraft facility will be secured on: mortgage on real property in the amount of PLN 30.0 million and assignment of rights under an insurance policy and an assignment of receivables under the agreement.

CORONAVIRUS

In connection with the spreading of the COVID-19 coronavirus, the Group has taken prevention measures, including adaptation of its emergency plans, to ensure operational continuity in accordance with the duties laid down in the provisions of law. On 10 March 2020 the Parent Company's Management Board made a decision to take actions preventing the spreading of the coronavirus. Among other things, preparations were made to implement a procedures for remote checking the body temperature of employees entering their workplaces. Preliminary medical consultations for persons who came to work although they had symptoms of the disease will be carried out in dedicated tents. The possibility of remote work was introduced. The situation is monitored on an ongoing basis to adapt the actions and measures preventive the spreading of the coronavirus COVID-19.

The pandemic of the coronavirus COVID-19 experts increasing impact on the Asian market, especially China. Currently, production capacity utilization in China, depending on the sector, is on average 40-60%. Due to the coronavirus COVID-19 there are restrictions in the area of logistics and production. In other regions problems affect companies importing products, semi-finished products and components from Asian markets, in particular from China due to difficulties in execution of deliveries.

In Europe, so far no steel production capacity utilization due to the COVID-19 coronavirus has been observed. In northern Italy, the region that has been the most affected by the epidemic and travel restrictions, steelworks work normally. Measures mitigating the risk of spreading the coronavirus COVID-19 are implemented, which may in the future impact the headcount in the area of transport and logistics and, in the longer run, on the situation in the steel sector.

In the period January-February 2020, in the first phase of the coronavirus COVID-19 epidemic, supply limitations in the Chinese market led to increase in the demand for import of coking coal, as a result of which the price indices went up. The weakening of the macroeconomic indicators in China and other countries will impact the global economy, including Europe. As at the date of publication of this report, it is hard to estimate the scale of this phenomenon, taking into account a number of stimulating tools introduced by Chinese authorities to help economic recovery.

As regards coal and coke sales, so far the JSW Group has not felt any direct effects of the COVID-19 pandemic. The JSW Group's coke plants are in a privileged position, coke production is based on JSW's own coke, with a minor share of overseas coal (from Australia, Columbia or US) as an additive improving quality parameters. As a result, JSW KOKS is not exposed to threats pertaining to raw material supply logistics.

As at the date of this report it is not possible to estimate the actual or potential impact of the coronavirus COVID-19 on the operations, financial standing and financial performance of the Group companies.

11. MANAGEMENT BOARD'S REPRESENTATIONS

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

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

The Management Board report on the activity of Jastrzębska Spółka Węglowa S.A. and the Jastrzębska Spółka Węglowa S.A. Group for the financial year ended 31 December 2019 contains a true presentation of developments, achievements and the position of the Jastrzębska Spółka Węglowa S.A. Group, including a description of key threats and risks.

12. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements for the financial year ended 31 December 2019 were approved for publication and signed by the Management Board of JSW on 19 March 2020.

Jastrzębie-Zdrój, 19 March 2020

Signature of the person responsible for preparing the financial statements:
Adam Mańka – Department Director, Chief Accountant

SIGNATURES OF JSW MANAGEMENT BOARD MEMBERS

Włodzimierz Hereźniak	President of the Management Board	
Artur Dyczko	Vice-President of the Management Board	
Tomasz Duda	Vice-President of the Management Board	
Artur Wojtków	Vice-President of the Management Board	
Radosław Załoziński	Vice-President of the Management Board	