

REPORT OF THE SUPERVISORY BOARD OF FAMUR S.A.

**ON THE ACTIVITIES OF THE SUPERVISORY BOARD AND ON THE
ASSESSMENT OF THE SEPARATE AND CONSOLIDATED FINANCIAL
STATEMENTS, DIRECTORS' REPORT ON THE COMPANY'S AND THE
GROUP'S OPERATIONS, THE MANAGEMENT BOARD'S RECOMMENDATION
CONCERNING DISTRIBUTION OF PROFIT FOR THE FINANCIAL YEAR 2019,
AND OF THE COMPANY'S STANDING,**

PREPARED FOR THE ANNUAL GENERAL MEETING

I. REPORT OF THE SUPERVISORY BOARD ON ITS ACTIVITIES IN 2019

1. LEGAL BASIS

This Report has been prepared in accordance with:

- a. Art. 382.3 of the Commercial Companies Code;
- b. Art. 15.2.1 of the Company's Articles of Association;
- c. Section 7.2 of the Rules of Procedure for the Company's Supervisory Board.

2. COMPOSITION OF THE SUPERVISORY BOARD

Composition of the Supervisory Board as at January 1st 2019:

Tomasz Domogała	– Chairman of the Supervisory Board
Czesław Kisiel	– Deputy Chairman of the Supervisory Board
Jacek Leonkiewicz	– Member of the Supervisory Board
Magdalena Zajączkowska-Ejsymont	– Member of the Supervisory Board
Dorota Wyjadłowska*	– Member of the Supervisory Board
Tomasz Kruk*	– Member of the Supervisory Board
Michał Nowak	– Member of the Supervisory Board

**Supervisory Board member meeting statutory independence criteria*

On November 29th 2019, the Company announced that Mr Michał Nowak resigned from his position on the Supervisory Board with effect from November 30th 2019 (see Current Report No. 62/2019 of November 29th 2019).

Composition of the Supervisory Board as at December 31st 2019 and as at the date of this report:

Tomasz Domogała	– Chairman of the Supervisory Board
Czesław Kisiel	– Deputy Chairman of the Supervisory Board
Jacek Leonkiewicz	– Member of the Supervisory Board
Magdalena Zajączkowska-Ejsymont	– Member of the Supervisory Board
Dorota Wyjadłowska*	– Member of the Supervisory Board
Tomasz Kruk*	– Member of the Supervisory Board

**Supervisory Board member meeting statutory independence criteria*

Since 2017, the following committees have operated within the Supervisory Board of FAMUR S.A.: Nomination and Remuneration Committee, Strategy and Investment Committee, and Audit Committee.

3. SUPERVISION PROCEDURES

Pursuant to the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure for the Supervisory Board, in 2019 the Supervisory Board exercised supervision over the Company's operations. The Supervisory Board performed its duties mainly by way of passing resolutions, by written ballot and during meetings. The Supervisory Board maintained regular contact with the Company's Management Board and the auditor.

4. ACTIVITIES OF THE SUPERVISORY BOARD IN THE REPORTING PERIOD

In 2019, as in previous years, the Supervisory Board dealt with both the strategic matters and the Company's day-to-day operations. In particular, the Supervisory Board focused on:

- assessment of the Company's financial statements for 2018, the Directors' Report on the Company's operations, the Management Board's proposal concerning distribution of profit, and the Supervisory Board's report on the assessment,
- assessment of the financial statements of the Group for 2018 and the Directors' Reports on the Group's operations in 2018,
- report on the Supervisory Board's activities in 2018,

- issuing opinions on draft resolutions of the Company’s General Meeting,
- effecting changes in the composition of the Management Board and appointing the Management Board for a new term of office,
- discussing the policy concerning remuneration of and bonus for members of the Management Board,
- giving consent to disposal of real property or perpetual usufruct rights in real property,
- giving consent to disposal of shares in a subsidiary,
- giving consent to the issue of Series B notes under the Notes Programme and approving the Terms of Series B Notes,
- approving annual budgets of the Company and the Group prepared by the Management Board,
- appointing the auditor.

II. SUPERVISORY BOARD'S REPORT ON THE ASSESSMENT OF THE SEPARATE FINANCIAL STATEMENTS FOR 2019, THE CONSOLIDATED FINANCIAL STATEMENTS OF THE FAMUR GROUP FOR 2019 AND THE DIRECTORS' REPORT ON THE OPERATIONS OF THE FAMUR GROUP AND FAMUR S.A. IN 2019

Pursuant to Art. 382.3 of the Commercial Companies Code and the Company's Articles of Association, the Supervisory Board has read and assessed the separate financial statements and the consolidated financial statements for the financial year from January 1st to December 31st 2019, as well as the Directors’ Report on the operations of the Group and the Company.

The Supervisory Board has read the independent auditor's report on the audit of the full-year financial statements for 2019 and the auditor's report on the audit of the full-year consolidated financial statements for 2019, as well as the Directors' Report on the operations of the Group and the Company, and has concluded that:

I. The full-year financial statements for 2019:

- give a true and fair view of the Company's assets and financial position as at December 31st 2019, as well as its financial results and cash flows for the period January 1st-December 31st 2019, in accordance with the applicable International Financial Reporting Standards as endorsed by the European Union and the adopted accounting policies;

- comply with the form and content requirements laid down in the laws and regulations applicable to the Company and in its Articles of Association;
- were prepared on the basis of properly maintained accounting records, in accordance with Chapter 2 of the Accounting Act of September 29th 1994 (the “Accounting Act”).

II. The full-year consolidated financial statements for 2019:

- give a true and fair view of the Group’s assets and financial position as at December 31st 2019, as well as its consolidated financial results and consolidated cash flows for the period January 1st-December 31st 2019, in accordance with the applicable International Financial Reporting Standards as endorsed by the European Union and the adopted accounting policies;
- comply with the form and content requirements laid down in the laws and regulations applicable to the Group and in the Parent’s Articles of Association.

III. Directors' Report on the operations of the FAMUR Group and FAMUR S.A. in 2019:

- has been prepared in accordance with Art. 49 of the Accounting Act and Par. 70 of the Minister of Finance’s Regulation of March 29th 2018 on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state (the “Current Information Regulation”),
- is consistent with the consolidated financial statements,

Pursuant to Par. 70.1.14 and Par. 71.1.12 of the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated March 29th 2019, having considered and assessed the full-year financial statements for 2019, the full-year consolidated financial statements for 2019, and the Directors' Report on the operations of the FAMUR Group and FAMUR S.A. in 2019, and having further considered:

- the auditor's reports on the above financial statements and discussions held with representatives of the audit firm, including the lead auditor;
- the positive recommendation by the Supervisory Board's Audit Committee to approve the full-year financial statements for 2019, the full-year consolidated financial statements for 2019, and the Directors' Report on the operations of FAMUR and FAMUR S.A. in 2019.

The Supervisory Board concluded that the full-year financial statements for 2019, the full-year consolidated financial statements for 2019 and the Directors' Report on the operations of the

FAMUR Group and FAMUR S.A. in 2019 are consistent with the accounting records, other relevant documents and facts.

Pursuant to Art. 4a of the Accounting Act of September 29th 1994 (the "Act"), the Supervisory Board further concludes that all elements of the full-year financial statements for 2019, the full-year consolidated financial statements for 2019, and the Directors' Report on the operations of the FAMUR Group and FAMUR S.A. in 2019 meet the requirements laid down in the applicable laws.

III. ASSESSMENT OF THE PROPOSAL CONCERNING DISTRIBUTION OF THE COMPANY'S PROFIT FOR 2019

Pursuant to Art. 382.3 of the Commercial Companies Code, the Supervisory Board hereby gives a positive assessment of the Management Board's proposal not to pay dividend for the financial year ended December 31st 2019, as contained in Resolution No. 45/2020 of April 21st 2020.

IV. CONCLUSIONS

The Supervisory Board collectively supervised the Management Board's activities in the financial year 2019 and performed its duties pursuant to the relevant provisions of the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure for the Supervisory Board.

Considering the results of the assessment of the (separate and consolidated) financial statements and the Directors' Report on the operations of the Company and the Group in 2019, and taking into account the overall conditions and circumstances in which the Company operated in 2019, the Supervisory Board recommends that the Annual General Meeting of FAMUR S.A.:

- a) receive the Company's full-year separate financial statements for 2019,
- b) receive the Group's full-year consolidated financial statements for 2019,
- c) receive the Directors' Report on the operations of the Company and the Group in 2019,
- d) pass the resolution on distribution profit as proposed by the Management Board,
- e) grant discharge to members of the Company's Management Board in respect of performance of their duties in 2019.

V. SUPERVISORY BOARD'S ASSESSMENT OF THE COMPANY'S AND THE GROUP'S STANDING IN 2019

1. ASSESSMENT OF THE COMPANY'S AND THE GROUP'S STANDING

In 2019, the Company achieved the best ever results in the Underground segment, which successfully capitalised on the constructive conditions in the mining industry. The Company also closed the sale of Przedsiębiorstwo Budowy Szybów S.A., which enabled it to early repay the Tranche B debt under the Restructuring Agreement of December 2016, which concerned the PRIMETECH Group (formerly Kopex Group). The Company implemented a Lean Management model, which allowed it to optimise costs and improve profitability. The service centres in Russia were integrated, and the technological facilities in Kazakhstan were expanded. The international expansion programme was continued by selling the first longwall system in Indonesia, an innovative low seam coal extraction project (MIKRUS system) in China, and roadheaders in Canada and India. In 2019, the Company reported significant contracts for delivery and lease of underground mining equipment worth a total of more than PLN 900m, while developing aftermarket sales and stepping up R&D work focused on innovative SmartMine solutions, which are being tested by two domestic customers and one customer abroad.

Revenue fell by more than 2% while net profit increased by 13% year on year, to PLN 2,165m and PLN 249m, respectively. The largest contributor to FAMUR's 2019 performance was the Underground business, accounting for just under 75% of the Group's revenue. The segment's revenue grew by PLN 214m (or 15%) year on year, to a total of PLN 1,621m.

A decrease in revenue from Mining Services was attributable to changes in the scope of the PRIMETECH Group's business and its structure, particularly the derecognition of Przedsiębiorstwo Budowy Szybów S.A. following its sale outside the FAMUR Group (in May 2019) and discontinuation of the coal trading business. Altogether, the FAMUR Group generated PLN 249m in profit for 2019, an increase of PLN 29m over 2018, thus achieving more than 11% profit margin. The negative effect of one-off items in Surface (the need to revise the budgets of long-term contracts and to recognise additional costs and goodwill impairment) was offset by improved profitability in Electrical Equipment and in Underground, and by a one-off gain on the sale of Przedsiębiorstwo Budowy Szybów S.A. outside the FAMUR Group. The increase in sales on a comparable basis and improved profitability across all segments, except for Surface, combined with efficient management of working capital, were factors behind the Company's cash flows from operating activities of PLN 504m in 2019. As at the end of 2019, the Group's net debt was maintained at a low level of PLN 220m (with the net debt to EBITDA of 0.5x), diversified both in terms of its forms (notes, bank borrowings and lease liabilities) and the number of financing institutions.

2019 was the first full year of implementation of the new FAMUR Strategy for 2019–2023, as part of which the Group concentrated on the four strategic goals of maintaining its position on the home market, foreign expansion, increasing the share of aftermarket services in total revenue and industry diversification.

As part of its expansion projects abroad, the Company stepped up efforts in those markets where it enjoys an established presence, including Russia and Kazakhstan. The Company also acquired customers in new markets, including Indonesia, where it signed its first contract to supply a longwall system, or Canada and India, where it delivered roadheaders in 2019. It also made its first deliveries to the promising Chinese market as part of the Mikrus project, which is expected to start operation in its target location in the first half of 2020. The value of the signed and reported export contracts for equipment deliveries in Underground totalled nearly PLN 327m in 2019, compared with PLN 262m in 2018. Exports represented 37% of the Group's total sales, up from 33% in 2018.

In addition to stepping up the sales efforts and expanding aftermarket services, the Company continued to develop its product portfolio in terms of its breadth and use of innovative technologies. It completed the testing phase of a project to develop a new virtual reality training service (VR), slated for commercial launch in 2020. Intensive work was also under way in 2019 to implement and add new functionalities to the EH SmartMine platform, which is being pilot tested by the FAMUR Group's customers in Poland and abroad. Further SmartMine modules – Predictive Maintenance and Enterprise Asset Management – are in the development phase and their pilot versions are expected to be delivered to customers in 2021.

Considering the overall market situation due to the COVID-19 pandemic, as well as information from our customers concerning possible revision of their 2020 budgets with respect to planned capital projects, such projects will likely be curtailed in 2020. Reduced mining production and changes to the work organisation introduced by our major customers in response to the COVID-19 pandemic will drive down the Group's revenue from new deliveries, leases and maintenance services. At the same time, the risk of payment defaults by companies operating on the Polish market has increased. Given the circumstances, the Company plans to put even more effort into optimising our cost base and manufacturing processes, and to continue to implement a Lean Management culture and adapt our organisational structure to the changing market environment.

In view of the foregoing, the Supervisory Board gives positive assessment of the Company's standing. The Supervisory Board gives a positive opinion on the Company's fulfilment of the disclosure obligations related to compliance with the corporate governance principles set out in the WSE Rules and legal regulations concerning current and periodic information to be disclosed by issuers of securities.

2. ASSESSMENT OF THE INTERNAL AUDIT SYSTEM AND THE MATERIAL RISK MANAGEMENT SYSTEM

Responsibility for the internal audit system and its operational effectiveness in the processes of preparing financial statements lies with the Management Board of the Company. In addition, a

separate Internal Audit Department has been created at the Company to carry out internal audits. Internal control, risk management and compliance functions are also performed within the corporate controlling and legal departments.

Monitoring of the effectiveness of the internal control and risk management systems as well as of the internal audit function, including with respect to financial reporting, is also performed by the Audit Committee.

The Supervisory Board gives a positive opinion on the internal audit and risk management systems in place at the Company.

3. SUMMARY

The Supervisory Board has not identified any threat to the Company continuing as a going concern. The Supervisory Board gives a positive opinion on the Management Board's activities in 2019 and therefore recommends that the Annual General Meeting grant discharge to members of the Management Board in respect of performance of their duties in 2019.