

Dear Ladies and Gentlemen,

On behalf of the Management Board of FAMUR S.A., it is my pleasure to present to you the consolidated annual report of the FAMUR Group and the separate annual report of FAMUR S.A. for the financial year 2017.

2017 was an exceptional year for our Group. We managed to complete the consolidation of the FAMUR and KOPEX Groups – Poland’s two leading manufacturers of mining machinery and equipment. The integration marks the end of an important phase in which we managed to consolidate regional players, but above all succeeded in building a strong Polish organisation well placed to expand into global markets. The integration of both Groups’ experience, know-how and market relations has provided a wider range of opportunities for our business.

In 2017, particular focus was placed on integrating the operations and processes. We centralised sales, sales support, co-operation and logistics. We developed an optimum operating structure model and assigned functions to individual plants of the Group, which will allow us to effectively manage its assets. In February 2018, the Polish Financial Supervision Authority approved the Information Memorandum, whereupon it became possible to close the final stage of the integration, involving formal and legal aspects of Kopex S.A.’s demerger and transfer of its machinery business to FAMUR S.A. We hope to be able to complete the process by the end of July 2018 and then focus on other challenges lying ahead.

2017 saw the parallel processes of our integration with the Kopex Group and consolidation of the Surface segment. We acquired shares in Fugo Sp. z o.o. and an organised part of Famago’s business, thus consolidating the Polish market’s broad capabilities in surface mining and cargo handling and significantly expanding our capacities necessary to further grow this business segment.

In total, the Group companies delivered revenue in excess of PLN 1.4bn and earned a net profit of PLN 56.8m, translating into an almost 42% year-on-year growth in consolidated sales. We are satisfied with the revenue level, which clearly indicates that the mining industry has begun to recover, although the positive market trends were accompanied by a significant increase in costs of raw materials (mainly steel), labour, services and other costs, especially in the second half of the year. Last year, the Group was mainly performing contracts signed in 2016 and early 2017, based on cost estimates made at that time. As these contracts were not renegotiable, there was a temporary drop in our margins, reflecting the rising costs.

Our 2017 earnings were also affected by one-off items, including impairment losses and provisions related to ongoing tax inspections. The recognised impairment losses and provisions reflected the considerable caution with which we approach all risks associated with our operations. The decision to recognise these allowances was led by a perceived change in how tax authorities tend to interpret tax laws. It should be noted that the tax settlements concerned were made in conformity with the laws in effect at that time, and with the consistent position adopted by tax authorities and administrative courts' rulings, and were also confirmed by the findings of a tax inspection carried out in 2013. Accordingly, we intend to pursue all remedies afforded by law to prove our case and have the impairment losses and provisions reversed in the future.

Since the second half of 2017, the domestic and global mining industry has shown clear signs of a recovery. Mining companies at home are concentrating on upgrades, modernisation and increased process automation. The previously announced plans to shift Polish coal production towards smart mining are already materialising, and FAMUR products and services fit well into this trend. We invest in research and development, refine our range to increase coal production efficiency and workplace safety through greater automation, remote-controlled equipment and removal of human labour in high-risk areas.

By consistently pursuing our strategy to expand the FAMUR Group's business across international markets, we have become a company with global operations. As a manufacturer, we experience both uptrends and downtrends in the global economy. What is important, trends in the global commodity market and the condition of heavy industry-related segments also affect other markets where FAMUR operates, including power and cargo handling. Therefore, we keep monitoring market trends to align the Group's business with current economic cycles.

Operating on a global scale, we are committed to environmental protection, which is why we have embraced sustainable development as a key aspect of the FAMUR Group's business. We continually implement product innovations and develop IT systems to improve the safety and efficiency of mining. Today, FAMUR's comprehensive solutions can be deployed in any place in the world to construct fully operational mines on a turnkey basis. To this end, we apply Industry 4.0 technologies, ensuring automated, efficient and low-emission mining production.

With regard to our internal processes, great importance is attached to maintaining financial stability, keeping costs at adequate levels, and ensuring operational efficiency and extensive technological expertise. All these factors significantly enhance the competitiveness of our product portfolio in terms of pricing, technological advantages, delivery lead times and quality of our solutions.

It is worth noting that all measures that we have taken to improve internal or external processes have brought tangible gains. They have had positive impact on various performance indicators, including revenue from foreign markets, which in 2017 accounted for nearly 40% of the Group's total revenue. Our target is for this figure to exceed 50% after 2020. I am convinced that the Company's stable financials, broad portfolio of solutions and strong focus on foreign markets will allow us to take advantage of the global economic upswing.

Of our current objectives, the most important one is to finalise the FAMUR Group's new strategy, which we expect to unveil by the end of Q3 2018. As our main goal is global growth, we have directed a lot of time and attention to considering various scenarios of foreign expansion. Given the current favourable trends in the mining industry, we want to take advantage of our global presence as soon and as best we can, harnessing the synergies from the integration of both Groups.

At this point, I wish to extend my thanks to all those who have put in a lot of effort and commitment into helping us grow FAMUR S.A. and its subsidiaries. In particular, my appreciation goes to our employees, members of the Supervisory Board, and the Management Boards of the Group companies for their dedication and consistent work to build the FAMUR brand, as well as our Investors and Business Partners, who have placed their trust in us for years. We will make every effort to make sure current and future results of our operations prove you have made the right choice investing in the FAMUR Group.

With kindest regards

Mirosław Bendzera

President of the Management Board of FAMUR S.A.