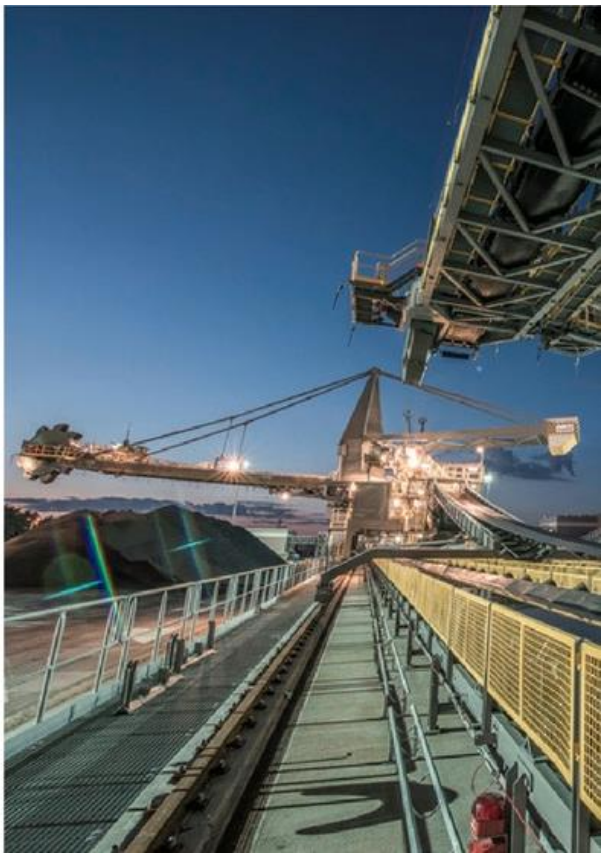
FAMUR

Directors' Report on the Operations of the FAMUR Group and FAMUR S.A. in H1 2018



Katowice, September 26th 2018

FAMUR

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1. General information

1.1. Basis of preparation of the half-year condensed consolidated financial statements

The interim condensed financial statements of FAMUR S.A. and the interim condensed consolidated financial statements of the FAMUR Group for H1 2018 were prepared in accordance with International Financial Reporting Standards (IFRSs) / International Accounting Standards (IAS) as endorsed by the European Union. The financial statements were prepared by applying uniform accounting policies for like transactions and other events in similar circumstances. The Company's and the FAMUR Group's financial statements were prepared in accordance with the same accounting policies and computation methods as those applied to prepare the most recent full-year financial statements. Unless stated otherwise, all amounts are presented in PLN '000.

1.2. About the FAMUR Group

FAMUR SPÓŁKA AKCYJNA with its registered office at ul. Armii Krajowej 51, 40-698 Katowice, Poland | phone: +48 32 359 63 00, fax: +48 32 359 66 77 | famur@famur.com.pl | www.famur.com | District Court Katowice - Wschód of Katowice, 8th Commercial Division of the National Court Register | KRS 0000048716 | Regon (Industry Identification No.) 270641528 | NIP (Tax Identification No.) 6340126246 | Share capital PLN 5.747.632,12 (paid in full)

The FAMUR Group is a manufacturer of machinery and equipment for the mining and power industries, able to supply complete mining systems for mines, turn-key coal feeding systems for power plants, and specialist loading and handling equipment for ports. The Group specialises in delivery of comprehensive mechanised longwall systems for coal mines; design and delivery of IT systems for back-to-back management of coal mining processes (from the face to the surface); delivery of reloading and handling systems for the power sector and ports; and delivery of surface mining systems.

FAMUR S.A. of Katowice ("FAMUR", "the Company"), a manufacturer of longwall shearer loaders and roadheaders, scraper and belt conveyors, floor-mounted railways, powered roof supports and other comprehensive mining solutions, is the parent of the FAMUR Group. In August 2006, FAMUR SPÓŁKA AKCYJNA (then FABRYKA MASZYN FAMUR SPÓŁKA AKCYJNA) became a listed company – currently, 574.7m Company shares are traded on the Warsaw Stock Exchange (abbreviated name: FAMUR; ticker code: FMF).

In 2017, the Company took control of the KOPEX Group by acquiring a controlling interest in KOPEX S.A. of Katowice ("KOPEX"), also a WSE listed company. In May 2018, KOPEX S.A. was demerged and a part of its assets in the form of an organised part of business was contributed to FAMUR S.A. Following the demerger, the number of KOPEX shares listed at the WSE is 15.6m (abbreviated name: KOPEX; ticker code: KPX). In August 2018, an Extraordinary General Meeting of KOPEX passed a resolution to change the company's name to PRIMETECH S.A. The change was registered by the District Court for Katowice-Wschód in Katowice, 8th Commercial Division, by a decision of September 21st 2018. For the purposes of this report, the Company will also use the name KOPEX S.A. to ensure continuity of historical events.

1.3. The FAMUR Group's principal business

Underground

The FAMUR Group is a leading global manufacturer of longwall machinery and systems for underground mining. An important part of the Group's business is production of equipment for the mining of coal and other soft rock minerals from 1- to 6-metre thick seams. Longwall systems manufactured by the Group

comprise shearer loaders, powered roof supports and scraper conveyors. The Group offers shearer loaders with capacities from 250 to 1,300 kW, while the range of operation of powered roof supports is from 0.8 to 6.0 m. The Group's offering also includes hydraulic actuators and controls, in particular hydraulic supports, pilot controls, and power hydraulics. The diameters of supports and actuators offered by the Group range from 50 to 440 mm.

Roof supports and shearer loaders

The Underground segment also manufactures equipment for transport and handling of bulk materials used, for example, in underground mines. The product mix for the soft rock mining industry includes underground belt conveyors, surface belt conveyors, as well as various underground means of transport for logistics purposes, such as cable-driven floor-mounted railways, diesel-powered suspended monorails, diesel-powered floor-mounted railways, diesel-powered locomotives, mechanical winches, and complete equipment for material transport and man-riding units.

The FAMUR Group's underground transport systems and bulk materials handling systems

The Underground segment's business also includes the manufacture of roadheading system components. The key element of a roadheading system are roadheaders, which are used primarily to excavate galleries and drill tunnels. Roadheaders offered by the Group can excavate galleries with sections of up to 37 m^2, in rocks with a compressive strength up to 110 MPa. At the end of 2015 and beginning of 2016, the FAMUR Group expanded its product portfolio to include drilling rigs, roof bolters, drills, dinting loaders and loaders used in underground mines.

Roadheaders

Surface segment

Another important category of products offered by the Group, integrated with its business of machinery and equipment for surface mining, is equipment made by FAMUR FAMAK S.A., which is the backbone of the Surface segment. The company is a leading manufacturer of industrial steel structures, cargo handling systems, hoisting equipment (including hoist and bridge cranes), systems and equipment for the

surface mining industry, and systems and equipment for other industries (power plants, ports etc.). With 70 years of experience, it is also Poland's leading supplier of back-to-back coal feeding and slag removal systems, as well as coal feeding systems for Polish power plants.

The company's products are intended in particular for:

- mechanisation of handling processes on open storage sites for bulk and granular materials at power plants, CHP plants, coke plants, mines, cement plants and ports;
- in-plant transport, assembly, disassembly and repair works;
- transport and assembly of heavy sections and blocks for ship building;
- mechanisation of handling processes in ports;
- container handling;
- unloading of bulk materials from open rail cars.

With access to the resources of FUGO-Projekt sp. z o.o., BPiRI Separator sp. z o.o., SKW Biuro Projektowo-Techniczne sp. z o.o., and Fugo S.A., the Company has extensive capabilities in engineering design. In 2017, the production capacities of the Surface segment increased significantly following the acquisition of Fugo Sp. z o.o. and an organised part of Famago's business. The increased capacities allows the Company to provide a full range of quality services based on its own engineering design resources, manufacturing assets and service facilities.

In the Surface segment, the FAMUR Group also offers a wide range of surface infrastructure design and construction solutions for mines and mine shaft hoists. The scope of the Group's services includes design and building services, construction of reinforced concrete and steel structures, delivery and assembly of machinery and equipment, as well as start-up and maintenance services. The Group also builds haulage lines, including solutions based on belt conveyors of proprietary design.

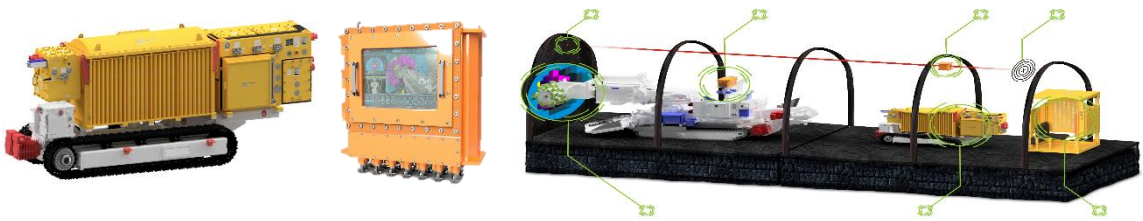
Machinery and equipment for surface mining and loading and handling equipment

Expansion of the Group's business

The acquisition of control over the KOPEX Group in 2017 opened the way to integrating both groups, while strengthening the product mix of the Underground segment. As of July 1st 2017, the FAMUR Group identifies two new business lines within the **Electrical Equipment** and **Mining Services** segments.

Electrical Equipment

This segment's activities comprise design and manufacture of power supply and switchgear equipment for mining machinery, electronic components, development and deployment of IT solutions, implementation of industrial automation systems, development of technical systems and devices, and integration of power and automation systems.



Explosion-proof devices and solutions proposed by the FAMUR Group

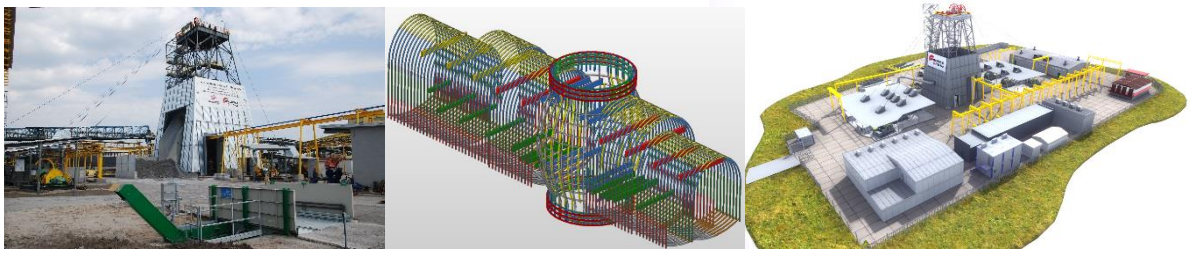
The segment ensures full support of investments in this area, and provides services, in particular a 24/7 service of mining equipment, repairs and equipment modernisation.

The FAMUR Group's main entity from the segment is Elgór+Hansen S.A.

Mining Services

The segment's activity is based on more than 70 years of experience of Przedsiębiorstwo Budowy Szybów S.A. (PBSz SA). The segment also includes the operations of ŚTW Dalbis Sp. z o.o. and the service and trade operations of KOPEX S.A. (currently PRIMETECH S.A.), including its commodity trading activities.

The operations of PBSz SA, which belongs to a small group of highly specialized companies providing underground construction services in Poland and abroad, are the principal type of business activity in this segment. The company performs a wide range of design services related to coal, ore, salt and other minerals mining, in particular vertical (mainly shafts and pits) and horizontal excavations and tunnels. It is technically, organisationally and logistically able to complete even the most difficult tasks, from the design stage to mine construction on a turnkey basis.



The segment provides mining construction services, including:

- shaft and sub-shaft sinking;
- deepening of existing shafts and sub-shafts;
- installation of shaft reinforcement, ancillary shaft equipment, pipelines and cables;
- comprehensive modernisation of shaft hoists;
- construction of storage facilities for excavated material and reservoirs;
- repairs of shaft supports and entries, shafts outfitting, storage facilities for excavated material;
- stone and stone/coal excavating;
- design services for mining construction, including conceptual and project design documentation (technical, technological, detailed design, as-built);

as well as raw materials trading.

In connection with the FAMUR Group's focus on continuing its core business activities, steps have been taken with a view to making a potential divestment in the Mining Services segment, by selling PBSz S.A. to an external investor. The sale of PBSz S.A. was envisaged already at the time of execution of the KOPEX Group restructuring agreement at the end of 2016, as one of the options enabling the repayment of a significant portion of the debt covered by the agreement and assigned to PBSz. In July 2018, a document was signed, together with Jastrzębska Spółka Węglowa S.A. ("JSW"), containing the term sheet for the sale of 95.01% of PBSz shares. For more information, see "Changes in the FAMUR Group in H1 2018 and after the reporting date."

1.4. Composition of the FAMUR Group

The process of building the Group started in 2003 with the acquisition of NFUG NOWOMAG S.A. by FAMUR. After several years of strong growth, when more than a dozen new companies joined the Group strengthening its product portfolio, the Group evolved from a supplier of stand-alone machinery to a supplier of comprehensive solutions for the mining, power and bulk handling sectors. As at June 30th 2018, the Group was composed of the parent and 39 subsidiaries. FAMUR S.A. of Katowice is the Group's parent. The chart on page 10 presents the entities indirectly or directly controlled by the Company as at June 30th 2018 (subject to certain reservations specified therein).

Simplified organisational structure of the FAMUR Group

In 2017, the Company made a key acquisition marking the successful completion of the consolidation process on the Polish market of mining systems manufacturers. By acquiring KOPEX, the Group has expanded both its product offering and geographical footprint. The transaction was also a milestone accelerating the FAMUR Group's foreign expansion.

Changes in the FAMUR Group in H1 2018 and after the reporting date:

- **Changes related to the acquisition of KOPEX and its demerger**

  In connection with the acquisition by FAMUR S.A. of a majority interest in KOPEX S.A. from TDJ S.A. subsidiaries on June 27th 2017, intensive work was underway in previous periods to integrate the FAMUR and KOPEX Groups. A model for optimal use of both Groups' production resources and administrative functions has been developed, central functions have been integrated, and the operational structures of the production units of the new Group, including the KOPEX Group, have been optimised and adapted to the current market conditions.

  On February 8th 2018, the **Polish Financial Supervision Authority** ("PFSA") approved the information memorandum prepared in connection with the companies' integration process.

  The Extraordinary General Meeting of FAMUR S.A. convened for April 13th 2018 passed Resolution No. 3 to demerge KOPEX S.A. (the "Demerged Company") through transfer of a part of its assets to FAMUR S.A. (the "Acquirer") and to amend the Acquirer's Articles of Association accordingly. Acting pursuant to Art. 541 of the Commercial Companies Code, the General Meeting approved the demerger plan agreed by the Demerged Company and the Acquirer on June 29th 2017, providing for the demerger of KOPEX S.A. of Katowice, entered in the Business Register of the National Court Register under No. KRS 0000026782, through transfer of a part of the Demerged Company's assets to FAMUR S.A. in accordance with the Demerger Plan (published in Current Report No. 48/2017 of June 29th 2017). In accordance with the resolution, the demerger was to be effected pursuant to Art. 529.1.4 of the Commercial Companies Code through transfer of a part of the Demerged Company's assets in the form of an organised part of its business, comprising in particular the operating assets and shares in companies involved in the manufacture, maintenance and distribution of mining machinery and in production or investment processes, including without limitation: the manufacturing plants (then located in Zabrze and Rybnik: KOPEX S.A. Kombajny Zabrzańskie, Przenośniki Ryfama, Zabrze Branch, KOPEX S.A. Hydraulika, Zabrze Branch, and KOPEX S.A. Obudowy TAGOR, Zabrze Branch), and an organised real property investment business comprising a complex of investment properties with related assets and liabilities, as well as shares in Polish and foreign companies described in detail in the Demerger Plan, to the existing company. i.e. FAMUR S.A. (a demerger through spin-off). The spin-off was to take effect following the registration of share capital reduction at the Demerged Company, on the day of registration of share capital increase at the Acquirer (the "Demerger Date").

  Pursuant to the aforementioned Resolution No. 3 of the Extraordinary General Meeting of FAMUR S.A. of April 13th 2018, the Company's share capital was increased through the issue of series F shares (the "Demerger Issue").

  On May 7th 2018, the District Court for Katowice-Wschód in Katowice, 8th Commercial Division of the National Court Register, **issued a decision** to register amendments to the Company's Articles of Association, approved by the Extraordinary General Meeting on April 13th 2018, and an increase of

the share capital to PLN 5,747,632.12, and to **register the demerger of KOPEX S.A.** Therefore, as of May 7th 2018, i.e. the date of registration of the Company's share capital increase, a part of KOPEX S.A. assets was transferred to FAMUR S.A. Changes in the Group structure associated with the demerger of KOPEX are shown on the diagram on page 10.

On May 29th 2018, the Central Securities Depository of Poland ("CSDP") withdrew 58,722,705 ordinary bearer shares in KOPEX S.A., which were cancelled, and registered the FAMUR S.A. shares issued as part of the Demerger Issue. The registration followed the allotment of FAMUR S.A. shares, effected through the exchange of shares in KOPEX S.A. for shares in the Company at the following share exchange ratio: 0.7636 share in the Company for 1 cancelled share in KOPEX S.A.

The Company's Demerger Shares were admitted to trading on the regulated market pursuant to a resolution of the Management Board of the Warsaw Stock Exchange ("WSE") on July 16th 2018, and then introduced to trading and assimilated with the other FAMUR S.A. shares on July 23rd 2018. This ended the formal process of integration of the FAMUR and KOPEX Groups.

Following the demerger of KOPEX S.A., the number of KOPEX S.A. shares listed on the WSE is 15.6m (abbreviated name: KOPEX; ticker code: KPX). In August 2018, an Extraordinary General Meeting of KOPEX passed a resolution to change the company's name to PRIMETECH S.A. The change was registered by the District Court for Katowice-Wschód in Katowice, 8th Commercial Division, by a decision of September 21st 2018.

For a detailed description of the FAMUR S.A. shareholder structure and its changes following the issue of Series F shares, see the "Securities" section of this Directors' Report.

- **Expected changes related to PBSz S.A.**

  In July 2018, representatives of the Company's subsidiaries, i.e. KOPEX S.A. and PBSz 1 Sp. z o.o. (the Sellers) and representatives of Jastrzębska Spółka Węglowa S.A. ("JSW") (the Buyer) signed the term sheet for the sale of 95.01% of shares ("Term Sheet") in Przedsiębiorstwo Budowy Szybów S.A. ("PBSz"). The Company announced the execution of the Term Sheet in Current Report No. 43/2018 of July 17th 2018.

  The Term Sheet does not oblige the parties to carry out the transaction, but only outlines the general framework and declarations of the parties, serving as guidelines for drafting an agreement which will define the terms of the transaction in a binding and detailed manner and which will be the basis for the transaction (the "Agreement"). The Term Sheet provides that the Agreement will take effect subject to fulfilment of a number of conditions, including those beyond the parties' control (such as the Office for Competition and Consumer Protection's clearance, agreement on the terms of security release with financial creditors under the Restructuring Agreement of December 1st 2016, agreement with trade unions, agreement with PBSz's largest two trading partners on confirming the progress of contract completion, and consent of JSW bondholders). The Agreement will specify the rights and obligations of the parties, as well as the mechanism for setting the final price. In accordance with locked-box mechanism, which will take into account any related adjustments, the Term Sheet sets the price at PLN 205,300 thousand as at January 1st 2018.

  In the Term Sheet, the parties expressed their will to negotiate and conclude the Agreement within three months from signing the Term Sheet. Conclusion of the Agreement will depend on the parties' agreement on individual detailed conditions of the transaction in negotiations. As at the date of this report, neither the negotiations nor the preparation of the draft Agreement have been completed.

  The potential sale of PBSz S.A. is related to the intention to focus on the core business of FAMUR and its Group, consisting in design and production of comprehensive solutions for the mining and cargo handling industries. The business area comprising mining construction services is auxiliary to the core activity of the Group, but from the beginning of the plans and activities aimed at integration with the FAMUR Group, PBSz S.A. was considered a potential divestment that could be made if a suitable investor interested in acquiring the company was found and the terms of the transaction were satisfactory to FAMUR and to the other stakeholders in PBSz S.A. and the KOPEX Group. The proceeds from the sale are to be used to repay the remaining portion of "tranche B" of the restructuring agreement, effectively assigned to PBSz.

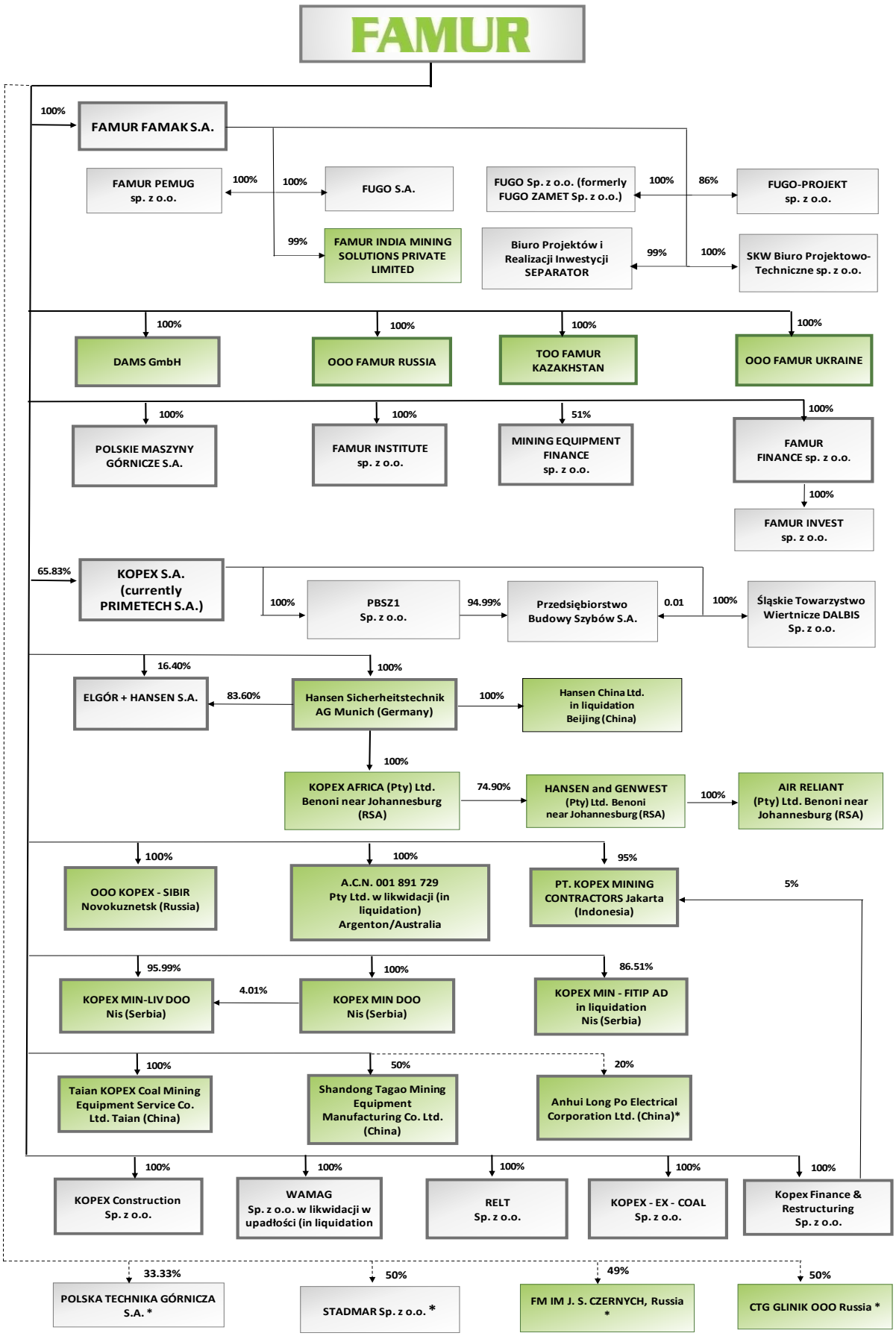
FAMUR

Companies consolidated as at June 30th 2018:

	Company	Registered office	wnership inter-est, *including: indirect*	Acquisition of control/ incorporation
1	FAMUR S.A.	Katowice		
2	FAMUR FAMAK S.A.	Kluczbork	100%	2014
3	FAMUR PEMUG Sp. z o.o.	Katowice	100%	2007
4	POLSKIE MASZYNY GÓRNICZE S.A.	Katowice	100%	2005
5	FUGO sp. z o.o. (formerly FUGO ZAMET sp. z o.o.)	Konin	100%	2017
6	FUGO S.A.	Kluczbork	100%	2014
7	FAMUR FINANCE SP. Z O.O.	Katowice	100%	2013
8	FAMUR INVEST SP. Z O.O.	Katowice	100%	2015
9	KOPEX S.A. (currently PRIMETECH S.A.)	Katowice	100%	2017
10	KOPEX CONSTRUCTION sp. z o.o.	Katowice	100%	2017
11	PRZEDSIĘBIORSTWO BUDOWY SZYBÓW S.A.	Tarnowskie Góry	100%	2017
12	RELT Sp. z o.o.	Bytom	100%	2017
13	HANSEN SICHERHEITSTECHNIK AG (Germany)	Germany	100%	2017
14	ELGÓR+HANSEN S.A.	Chorzów	100%	2017
15	KOPEX AFRICA (Pty) Ltd	South Africa	100%	2017
16	HANSEN and GENWEST (Pty) Ltd (South Africa)	South Africa	74.90%	2017
17	HANSEN CHINA Ltd (China)	China	100%	2017
18	KOPEX MIN (Serbia)	Serbia	100%	2017
19	KOPEX MIN-LIV (Serbia)	Serbia	100%	2017
20	PT KOPEX MINING CONTRACTORS (Indonesia)	Indonesia	100%	2017
21	OOO KOPEX SIBIR (Russia)	Russia	100%	2017
22	ŚLĄSKIE TOWARZYSTWO WIERTNICZE DALBIS sp. z o.o.	Tarnowskie Góry	100%	2017
23	KOPEX-EX-COAL sp. z o.o.	Przeciszów	100%	2017
24	TAIAN KOPEX COAL MINING EQUIPMENT SERVICE Co. Ltd (China)	China	100%	2017
25	AIR RELIANT (Pty) Ltd (South Africa)	South Africa	74.90%	2017
26	KOPEX FINANCE & RESTRUCTURING sp. z o. o.	Katowice	100%	2017
27	PBSZ1 sp. z o. o.	Katowice	100%	2017
28	Mining EQUIPMENT FINANCE sp. z o.o. (*)	Katowice	51.00%	2017

Source: FAMUR GROUP.

*) The entity is not a subsidiary, but an associate consolidated using the equity method



Note: Companies based abroad are marked in green.
*) The entities are not subsidiaries and there are no grounds for consolidation.
Source: FAMUR Group, Kopex Group

The Management Board resolved not to consolidate the companies listed below as their financial data is immaterial for the assessment of the FAMUR Group's performance and results. The non-consolidated entities are listed below.

Non-consolidated companies as at June 30th 2018:

1. FAMUR INSTITUTE sp. z o.o.
2. OOO FAMUR, Russia
3. FAMUR INDIA MINING SOLUTIONS PRIVATE LIMITED
4. TOO FAMUR KAZACHSTAN
5. OOO FAMUR UKRAINA
6. DAMS GmbH, Germany
7. FUGO-PROJEKT sp. z o.o.
8. BIURO PROJEKTÓW I REALIZACJI INWESTYCJI SEPARATOR sp. z o.o.
9. SKW Biuro Projektowo-Techniczne Sp. z o.o.
10. WAMAG Sp. z o.o. w upadłości (in bankruptcy)
11. A.C.N. 001 891 729 Pty Ltd. w likwidacji (in liquidation) Argenton/Australia (until September 8th 2016: Waratah Engineering)
12. KOPEX MIN - FITIP AD w likwidacji (in liquidation), Niš/Serbia
13. Shandong Tagao Mining Equipment Manufacturing Co. Ltd (China)

1.5. FAMUR S.A. ownership structure

As at the date of this report, the Company's share capital amounted to PLN 5,747,632.12 and was divided into 574,632,212 Series A, B, C, D, E and F shares with a par value of PLN 0.01 per share. All outstanding shares are ordinary shares without any preference in terms of profit distribution or voting rights at the General Meeting. There are no other securities conferring any special control rights. Also, the Management Board is not aware of any agreements that could lead to future changes in the shareholder structure.

The following chart and tables show the shareholding structure as at December 31st 2017, June 30th 2018 and as at the date of this Report, based on data from the Company's most recent General Meeting and notifications received. The lists show shareholders with major holdings of FAMUR S.A. shares as at the relevant reporting date. The materiality level is 5% of the share capital. Mr Tomasz Domogała is a related party of TDJ S.A. and TDJ Equity I sp. z o.o.

Shareholder structure as at December 31st 2017

Shareholder	Number of shares	Number of voting rights at GM	% of total voting rights at GM	% of share capital
TDJ Equity I sp. z o.o.	318,902,396	318,902,396	57.00%	57.00%
Nationale-Nederlanden OFE	35,000,000	35,000,000	6.26%	6.26%
AVIVA OFE	32,700,000	32,700,000	5.85%	5.85%
Tomasz Domogała	8,106,855	8,106,855	1.45%	1.45%
Treasury shares*	1,500	1,500	0.00%	0.00%
Other shareholders (excluding treasury shares)	164,729,749	164,729,749	29.45%	29.45%
Total	**559,440,500**	**559,440,500**	**100.00%**	**100.00%**

Source: FAMUR GROUP. to the best of the Company's knowledge based on data from the most recent General Meeting
**) indirectly through subsidiaries; treasury shares have no voting rights*

On April 13th 2018, the Company's Extraordinary General Meeting adopted a resolution concerning the demerger of KOPEX S.A. and the related increase of the share capital of FAMUR S.A. (the Series F Demerger Shares). On May 8th 2018, the Company received a decision of May 7th 2018 from the District Court for Katowice-Wschód in Katowice, 8th Commercial Division of the National Court Register, to register the related amendments to the Company's Articles of Association.

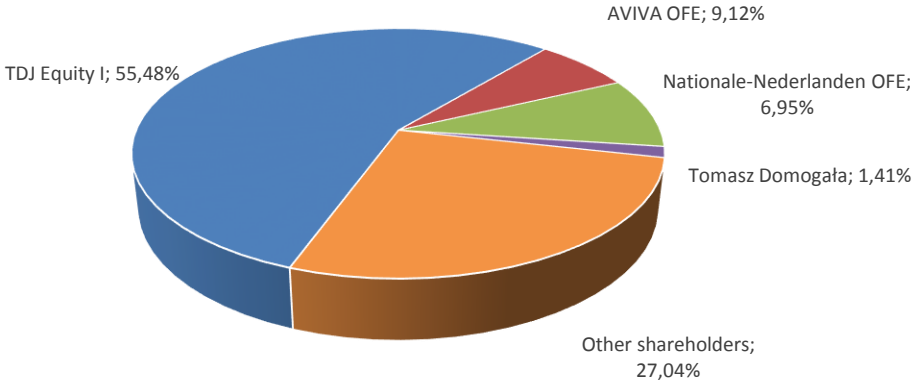
Changes in the Company's share capital are also discussed further in this report.

The following chart and table show the shareholding structure based on data from the Company's Annual General Meeting held on June 29th 2018 and the notifications received (list of shareholders representing 5% or more of total voting rights).

Shareholder structure as at June 30th 2018 and as at this report date

Shareholder	Number of shares	Number of voting rights at GM	% of total voting rights at GM	% of share capital
TDJ Equity I sp. z o.o.	318,902,396	318,902,396	55.48%	55.48%
Nationale-Nederlanden OFE	39,957,114	39,957,114	6.95%	6.95%
AVIVA OFE	52,400,000	52,400,000	9.12%	9.12%
Tomasz Domogała	8,106,855	8,106,855	1.41%	1.41%
Treasury shares*	4,616	4,616	0.00%	0.00%
Other shareholders	155,392,231	155,392,231	27.04%	27.04%
Total	**574,763,212**	**574,763,212**	**100.00%**	**100.00%**

Source: FAMUR GROUP; to the best of the Company's knowledge based on data from the most recent General Meeting
**) indirectly through subsidiaries; treasury shares have no voting rights*



Source: FAMUR GROUP.

The parent of TDJ Equity I sp. z o.o. is TDJ S.A. Tomasz Domogała, Chairman of the Supervisory Board, directly controls TDJ S.A., and thus indirectly controls a majority interest in FAMUR S.A.

Current shareholder structure based on data from the most recent General Meeting of FAMUR S.A.

At the Company's most recent General Meeting held on June 29th 2018, the list of shareholders representing 5% or more of total voting rights did not differ from that as at December 31st 2017. However, there were changes in the number of shares held by Nationale-Nederlanden OFE and by AVIVA OFE, which increased as specified in the tables above.

2. Organisation and management

2.1. The Management Board of FAMUR S.A.

Composition of the Management Board as at January 1st and June 30th 2018

Mirosław Bendzera	President of the Management Board
Beata Zawiszowska	Vice President of the Management Board
Adam Toborek	Vice President of the Management Board
Zdzisław Szypuła	Vice President of the Management Board
Dawid Gruszczyk	Vice President of the Management Board
Bartosz Bielak	Vice President of the Management Board

In the period covered by this report, there were no changes in the composition of the Company's Management Board.

2.2. Supervisory Board of FAMUR S.A.

Composition of the Supervisory Board as at January 1st 2018 and June 30th 2018

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
Robert Rogowski	Member of the Supervisory Board
Dorota Wyjadłowska	Member of the Supervisory Board
Michał Nowak	Member of the Supervisory Board

On September 13th 2018, the Company was notified that Robert Rogowski resigned as a member of the Supervisory Board, with effect from September 30th 2018, due to his plans to work for TDJ S.A., which entails loss of the status of independent member of the Supervisory Board. Having received Mr Rogowski's resignation, the Management Board resolved to convene an Extraordinary General Meeting, to be held on October 10th 2018, to fill the vacancy.

2.3. Shares held by the Company's management and supervisory personnel

The shares in FAMUR S.A. held by members of its Management and Supervisory Boards represent in aggregate 1.62% of total voting rights at the Company's General Meeting.

	Number of shares held	% of total voting rights at GM
Management person		
Dawid Gruszczyk	875,000	0.1522%
Beata Zawiszowska	321,000	0.0558%
Zbigniew Fryzowicz	2,568	0.0004%
Zdzisław Szypuła	1,497	0.0003%
Supervisory person		
Tomasz Domogała*	8,106,855	1.4105%

*Source: FAMUR GROUP. As at June 30th 2018; * Mr Tomasz Domogała, Chairman of the Supervisory Board directly controls TDJ S.A., and thus indirectly controls a majority interest in FAMUR S.A. held by TDJ Equity I sp. z o.o.*

3. Employment and remuneration

The table below presents the average number of employees across the FAMUR Group (including management personnel) and employment costs. The strong increase in workforce and related costs is primarily attributable to the development of the Underground segment and the acquisition of control over the KOPEX Group on June 27th 2017, and also partly to the acquisitions made in the Surface segment (the acquisition of Fugo Sp. z o.o. and of the organised part of business of Famago in 2017).

	Jan 1 – Jun 30 2018	Jan 1 – Jun 30 2017	Jan 1 – – Dec 31 2017
Average headcount			
White-collar workers	2,094	918	1,499
Blue-collar workers	3,194	1,719	2,826
Employees on parental leaves	10	4	6
Total	5,298	2,641	4,331
Employee costs			
Salaries and wages	156,966	75,233	247,498
Social security contributions	31,074	14,426	50,624
Other employee benefits	6,189	4,474	9,906
Total costs	194,229	94,133	307,811

Source: FAMUR GROUP; amounts in PLN '000.

4. Operating segments and market environment of FAMUR and the FAMUR Group

The FAMUR Group's main products are – in the **Underground** segment: plant and equipment comprising the longwall systems, roadheaders, belt conveyors and supporting equipment, and in the **Surface** segment: loading and hoisting equipment, together with comprehensive construction of mine shaft hoists. Following the takeover of the KOPEX Group and integration of the two organisations, starting from the second half of 2017 the FAMUR Group has identified two new business segments: **Electrical Equipment and Mining Services.**

FAMUR Group

The tables below present the results generated by the Company's business segments and the segments' contributions to total revenue.

	Underground	Surface	Electrical Equipment*	Mining Industry Services*	Total
Jan–Jun 2018					
Revenue	721,692	164,463	41,223	145,010	**1,072,388**
Cost of sales	550,626	154,195	22,735	127,054	**854,610**
Gross profit	171,066	10,268	18,488	17,956	**217,778**
Gross margin	*23.7%*	*6.2%*	*44.8%*	*12.4%*	***20.3%***
Profit on sales	95,951	447	10,338	9,855	**116,592**
Sales margin	*13.3%*	*0.3%*	*25.1%*	*6.8%*	***10.9%***
Segment's share in revenue	*67.3%*	*15.3%*	*3.8%*	*13.5%*	***100.0%***

	Underground	Surface	lectrical Equipment*	Mining Industry Services*	Total
Jan–Jun 2017					
Revenue	405,002	130,991	-	-	**535,993**
Cost of sales	293,215	115,888	-	-	**409,103**
Gross profit	111,787	15,103	-	-	**126,890**
Gross margin	*27.6%*	*11.5%*	-	-	*23.7%*
Profit on sales	66,351	6,577	-	-	**72,927**
Sales margin	*16.4%*	*5.0%*	-	-	***13.6%***
Segment's share in revenue	*75.6%*	*24.4%*	-	-	***100.0%***

In the first half of 2018, the FAMUR Group reported a significant increase in the Underground segment's revenue, by 78%, or PLN 317m, year on year. The increase is attributable mostly to the inclusion of the underground part of the KOPEX Group's operations in the Underground segment (starting from the second half of 2017) as well as higher volumes of orders in the underground mining segment. The segment's revenue was primarily driven by foreign and domestic contracts; sale of new roof supports; delivery of longwall systems; lease of shearer loaders and roadheaders with maintenance services; and manufacture and sale of scraper and belt conveyors, mainly for customers in Poland. The lower margin in the Underground segment was a consequence of growing costs of labour, services and raw materials, accompanying the significant recovery observed in the entire economy, especially starting from the second quarter of 2017. Starting from the first quarter of 2017, the segment has been improving its operating margins.

Surface segment's revenue rose by PLN 33.5m, or ca. 26% year on year. The revenue generated in the first half of 2018 was earned on projects for the power industry and from the sale of handling and lifting equipment, and machinery for the surface mining market (Austrian and Bulgarian markets). In pursuit of its revenue diversification policy, the FAMUR Group intends to maintain a strong position in the sector of electromechanical equipment for the surface mining and power industries, as well as ports and handling terminals.

The low profitability of the business was mainly attributable to the growing costs of labour and services, similarly as in the Underground segment; contracts signed in previous quarters and years, including in 2014-2015, which envisaged a lower cost base, are in the final stage of implementation. Due to the fact that the share of new contracts in revenues has been growing, margins have been gradually improving in relation to the first quarter of 2018.

4.1. Polish market

Key products offered by the FAMUR Group in Poland include components of longwall systems, such as shearer loaders, powered roof supports, conveyors, and roadheaders. The Polish market sees a large number of tender processes held by key hard coal producers – Jastrzębska Spółka Węglowa S.A., TAURON Wydobycie S.A. and Polska Grupa Górnicza S.A., which in 2017 acquired the majority of organisational units of former Katowicki Holding Węglowy S.A. Such tenders are called both for new machinery and equipment, spare parts, repairs and upgrades, as well as for renovated equipment. The vast majority of shearer loaders and roadheaders in Poland are used under lease agreements, which is also a characteristic feature of the market. Roadheaders are sometimes purchased by private drilling companies.

The key players in the Polish mining and heat and power sectors include:

- Polska Grupa Górnicza S.A.
- Jastrzębska Spółka Węglowa S.A.
- Lubelski Węgiel Bogdanka S.A.
- TAURON Wydobycie S.A.
- Węglokoks Kraj Sp. z o.o.
- KGHM Polska Miedź S.A.,
- PGE Group companies,
- Enea Wytwarzanie Sp. z o.o.
- Przedsiębiorstwo Górnicze Silesia sp. z o.o.[1]

The first two companies control approximately 80% of Poland's hard coal mines and are the key customers on the Polish market for mining equipment. The FAMUR Group's long-standing presence in the mining equipment sector, experience gained on foreign markets, a portfolio of recognised products, and the nature of the domestic market keep the Group's core customer base relatively stable.

In the Company's opinion, there is no material risk of its dependence on any single customer. However, the Company's sales are concentrated in a single sector of the economy. Customers accounting for more than 10% of the Group's total revenue in the first half of 2018 included Polska Grupa Górnicza S.A. and Jastrzębska Spółka Węglowa S.A.

Three years ago the FAMUR Group significantly diversified its domestic customer base following the acquisition FAMUR FAMAK, which is the backbone of the Surface segment with extensive credentials in the power, cargo handling and surface mining sectors.

The unfavourable situation on global coal markets (the sharp and long decline in prices in 2012–2016), the characteristics of the domestic market (mainly complex geological conditions) and insufficient restructuring, all contributed to a gradual erosion of the financial position of Polish coal producers in the previous years, which was reflected in the net losses of the entire coal industry recorded still in 2015 and 2016. Thanks to the improvement of global macroeconomic conditions (including the marked rebound of thermal and coking coal prices starting from the second quarter of 2016), as well as the ongoing restructuring of the Polish mining industry, the financial position of the main domestic producers of hard coal improved significantly. Based on available market information and reports published by listed companies, the producers' aggregate net profit for 2017 exceeded PLN 3bn. The continuing positive market trends seen in 2018 have supported the performance of domestic producers and, based on the data published and available so far, positive performance of the largest coal mining companies in Poland can be expected to be maintained.

[1] *A private company, with most of the share capital held by foreign investors*

One of the major threats to the coal mining sector are its delayed investment plans as some projects were put on hold in previous years. While increased demand for coal has resulted in gradual sell-off of stocks, it is not possible to rapidly ramp up production from Polish mines. The launch of mining operations involves prior preparatory work to access new coal deposits, which requires a sufficiently long project implementation time. Under current conditions, a rapid launch of investment projects in this area is becoming a priority.

In view of the significant improvement in the mining sector and in order to tackle the issues related to delayed investments, the largest Polish coal producers already last year announced plans to significantly increase capital expenditure in the coming periods. The gradual improvement in investments is becoming visible already in 2018, as confirmed by data on the growth of expenditures in Polish mines, released by the Industrial Development Agency. From January to May 2018, the value of capex exceeded PLN 900m, and was by nearly PLN 490m (more than 100%) higher than in the corresponding period of 2017.

According to experts, in order to successfully overcome the adverse trends in the hard coal industry, coal producers must thoroughly modernise their infrastructure, plant and equipment – an effort which will guarantee cost optimisation. Consistent implementation of cost-cutting measures is the key to improving profitability of coal production in Poland. Roll-out of innovative technologies and regular upgrading of equipment operated at coal mines is the right path to follow. The lower the production costs at Polish coal mines, the more attractive the price of Polish hard coal for both domestic and foreign customers. Therefore, it is of vital importance to strive for the highest possible productivity and profitability of coal production.

4.2. Foreign markets

The FAMUR Group's position and activities on foreign markets are strictly correlated with development opportunities of the global mining and power industries. The increasingly stringent environmental policies, especially in Europe, hinder the launch of new coal production projects. However, coal production and conventional power generation still represent a major source of energy globally. In many countries of the world, especially in Asia, the energy mix is dominated by coal-based generation, which is the only and cheapest way to reduce an energy shortfall.

In recent years, the market has seen a rise in global coal production, with new production centres emerging, mainly in Asia. According to the International Energy Agency, U.S. Energy Information Administration and BP, the outlook for coal-based power generation for the next 20 years is still moderately optimistic. The average annual demand for coal is estimated to rise by 0.2% per cent per year.[2]

The Group also has strong credentials in the cargo handling segment, offering turn-key solutions in bulk handling systems for ports, power plants and handling terminals. The Company gained unique credentials on the highly prospective market, following the delivery (in 2017) of a handling system for the Port of Rotterdam – Europe's largest bulk material handling terminal.

On the handling market, we see development opportunities in:

- Expansion of handling terminals in ports;
- Rising coal-fired generation capacities, including programmes in Indonesia and Turkey (80 power plants);
- Business development in India.

The Company's major competitive advantages in the handling and hoisting equipment segment include:

- quality certificates and contractor licences widely recognised on the EU market,
- the opinion of a reliable contractor on the European market, with many years of experience, working in accordance with global requirements,
- well-implemented European best practice in the application of EU standards, especially in project execution,
- the achieved level of product development enabling the Company to market finished products, while providing comprehensive services including: design, development of the manufacturing technology, construction, assembly, commissioning, training of maintenance personnel and experienced

[2] *BP Energy Outlook 2017.*

staff's support.

Several years ago, coal producers started to appreciate the benefits of being able to order complete mining systems from a single manufacturer. One of the advantages of such an approach is the full responsibility of a single vendor for the choice and compatibility of the machinery and for its maintenance.

In the 6 months of 2018, the FAMUR Group's export sales represented approximately 33.7% of total revenue and reached PLN 361.7m, up 86.9% year on year. The significant contribution of exports to total revenue came as a result of the strengthening of the FAMUR Group's capabilities and improvement in the economic conditions on the global commodity markets. The FAMUR Group's brand awareness on international markets is increasing gradually. It is associated with the high quality of 'Made in Europe' products, stable aftermarket service, and competitive prices. The table below presents the shares of individual foreign markets in the Group's total revenue.

Geographical segments – the FAMUR Group

Revenue	H1 2018	H1 2017	Change	Share
Poland	710,658	342,436	107.5%	66.3%
Russia and CIS	179,863	100,962	78.1%	16.8%
European Union	126,882	80,625	57.4%	11.8%
Other Europe	12,855	7,294	76.2%	1.2%
Other*	42,130	4,676	800.9%	3.9%
Total	1,072,388	535,993	100.0%	100.0%
Total exports	361,730	193,557	86.9%	33.7%
Poland	710,658	342,436	107.5%	66.3%

Source: FAMUR GROUP; amounts in PLN '000; *North and South America, Asia, Africa, Australia.

Due to the high unit value of contracts performed by the FAMUR Group, the shares of individual geographical markets in its total revenue may significantly change. Sales on individual foreign markets may fluctuate from quarter to quarter.

The FAMUR Group has consistently pursued its expansion plans based on building a stronger presence outside Poland. It is export sales that guarantee the Group's further growth. The Group's ever growing presence on those markets where the mining industry is an important part of the economy will support both the FAMUR Group's performance and its innovation capabilities.

Emerging markets continue to be among the most promising ones for the FAMUR Group. This is where the Group is charting its further expansion, and these markets include in particular South America, Turkey, the Balkans, the Middle East, India, Indonesia and Vietnam. The Group intends to export to these markets both deep and surface mining solutions as well as solutions for the power sector. US, Canada and Australia are viewed by the FAMUR Group as some of its important and prospective markets in the long term. Russia and other CIS countries as well as Mexico continue to be among the key markets for FAMUR proprietary solutions. On those markets the Group competes with several specialised companies, such as JOY Mining Machinery (currently Komatsu), the Caterpillar Group, EICKHOFF GmbH, SANDVIK AB, and Chinese manufacturers. The completed consolidation of the FAMUR and KOPEX Groups, as well as a strengthened and expanded servicing base, will help develop a more complete offering to meet customers' growing expectations, and will allow the Group to successfully compete with its major rivals offering comprehensive solutions.

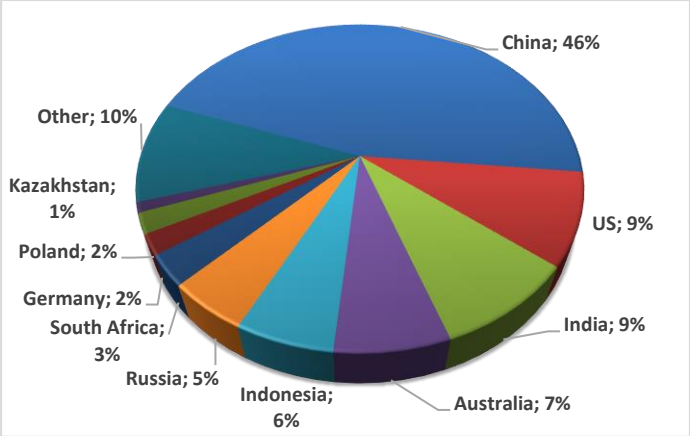
4.3. Consolidation of the mining-related industry

At the beginning of the previous decade, the largest manufacturers of mining equipment began consolidating the industry. The process primarily involved acquisitions to form groups with capacities sufficient to manufacture all key elements of the mechanised production process, based on both the longwall and surface mining systems. For many years, the FAMUR Group has also been monitoring the market and actively participating in its consolidation processes, which ultimately led to the acquisition of a controlling stake in KOPEX S.A. and integration of the two groups. Formally, the operational and legal integration of the two groups was completed in July 2018, as previously announced by the Management Boards of the two companies. The full integration ends the long efforts to consolidate Polish manufacturers of

mining machinery and equipment under a single strong brand, well placed to successfully compete in international markets. At the same time, the Company continues its efforts to improve the efficiency of the combined entities, maximise operational synergies and divest non-core assets.

At the same time, the FAMUR Group undertook consolidation measures in the Surface segment, first by acquiring some engineering design companies and then increasing its production capacities (acquisition of Fugo Zamet Sp. z o.o. and an organised part of business of Famago). In this way, the FAMUR FAMAK Group concentrated all key capabilities in design, manufacturing, assembly and maintenance, meeting the high quality and technology requirements of its customers and becoming a national leader in the industry. Thanks to the acquired assets and its consolidated comprehensive services, the **Surface** segment has also contributed to the implementation of the Group's Go GLOBAL strategy, by enhancing the recognisability of the FAMUR FAMAK brand in the European markets and winning further significant foreign orders.

5. External and internal factors relevant to the FAMUR Group's development



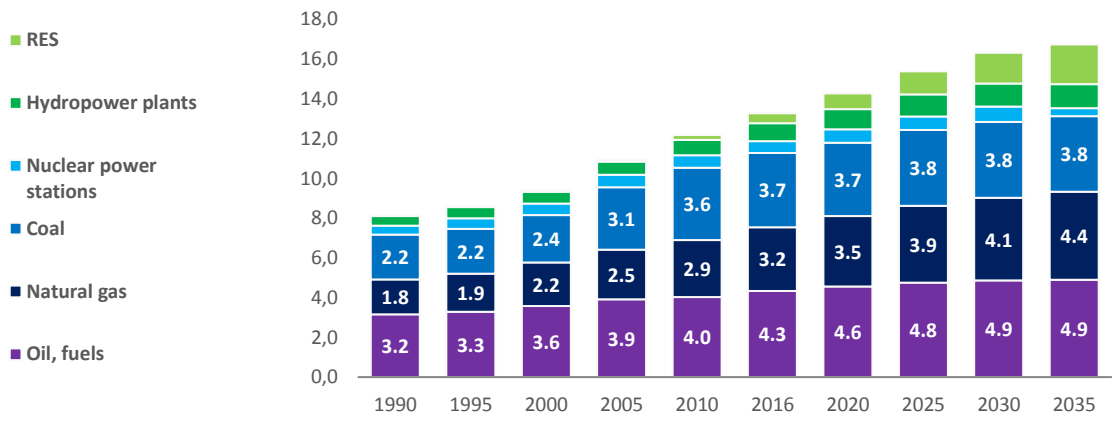
World's largest coal producers
Source: Statistical Review of World Energy 2017.

- **World reserves of coal** Coal remains a major fuel in power generation across the globe. The largest producer and consumer of coal is China. Other major producers are the US, India, Australia, Indonesia, Russia, South Africa, Germany, and Poland. The largest exporters of coal are Indonesia, Australia, Russia, the US, Colombia, South Africa, and Kazakhstan (see: http://www.tradingeconomics.com/commodity/coal). Because reserves of coal and other resources are limited, attitudes to their extraction had to change. There is a growing trend in global coal mining to ensure the best possible exploitation of reserves, which may be achieved through the use of longwall mining techniques. Technological improvements contribute to economically viable extraction of coal from thin seams, considered unprofitable until now. These changes are welcomed by manufacturers of technologically advanced mining equipment, including the FAMUR Group, because their products enable mining companies to work their deposits in the most efficient way. By strongly developing its product portfolio and focusing on the quality and efficiency of mining operations, the FAMUR Group has gained truly unique competence and expertise in the exploitation of thin seams.
- **Coal prices** materially affect the financial condition of the mining industry. In early 2016, the price of thermal coal hit an all-time low of USD 45 per tonne. A rebound of global prices since the second quarter of 2016 has had a positive impact also on Polish coal producers. At the moment, thermal coal prices are at their six-year high. Forecasts for the coal market envisage a gradual decrease in the commodity prices, both for coking and thermal coal, although the prices will still remain higher than in previous periods. According to KPMG's 'Coal price and FX market forecasts', the average price of thermal coal (benchmark Newcastle) will be about USD 96/t in 2018, USD 85/t in 2019, and about USD 78/t in 2020. The price of coking coal is forecast to reach approximately USD 194/t in 2018, USD 158/t in 2019, and USD 142/t in 2020 (hard coking coal).

Source: https://gornictwo.wnp.pl/notowania/ceny_wegla/?zakres=4

Long-term forecasting of coal market trends is related to the **energy market**, which relies on the assumption that within the next several decades the populations and incomes will grow, stimulating higher consumption of energy globally. Independent research studies by BP and the US Energy Information Administration predict an increase in energy production and consumption of 1.5% p.a. (consumption increase until 2035 according to 'BP Energy Outlook 2017') and 1.7% p.a. (consumption increase until 2040 according to the US Energy Information Administration's 'International Energy Outlook 2016'). Coal remains one of the main elements of growing energy demand. Given the important role of the Chinese and Indian economies, consumption of all energy carriers (including coal) is expected to grow globally within at least the next ten to twenty years.

Forecast global production of energy by source



Source: BP Energy Outlook 2018; data in Btoe.

- Faced by **global environmental challenges**, in the long term the OECD countries will gradually replace coal with renewable energy sources and other energy carriers (e.g. gas). At the same time, coal production and its use as the main energy carrier will grow in dynamically developing countries, especially in Southeast Asia.
- Also in Poland, there will be a gradual change in the energy mix in the long term, due to a tighter environmental regulatory regime, issues related to efficiency of mining operations, and competition from other energy sources. Nonetheless, given Poland's domestic coal resources, which guarantee national energy security, coal should remain the main fuel used to generate energy for the next

several dozens of years. According to the reference scenario contained in the Programme for Poland's Hard Coal Mining Sector, approved in January 2018, despite the decline of the share of coal in the energy mix, its nominal consumption volumes will remain at present levels until 2030.

- The FAMUR Group's revenue is largely dependent on **capital expenditures made by mines** – in the case of the Underground segment, and by heat and power producers and transport and cargo handling operators – in the case of the Surface segment. Such capex may relate to upgrades and repairs of the mines' existing machinery, as well as to purchases of new machines when preparing access to new longwall panels (the same applies to the power industry and transport and handling sector). Delivery of spare parts and provision of maintenance services are additional revenue sources. Because the Group derives a substantial part of its revenue from the domestic market, capital expenditure of the Polish mining industry is a significant revenue driver.
- **The mining market is subject to periodic changes.** Following a challenging period for the coal mining industry, particularly between 2014 and 2015, the situation has improved significantly over the recent dozen or so months. Intensive measures to restore profitability at major mining companies and rising coal prices since 2016 have prevented further erosion of their performance, but the investment activity is still put on hold. The mining sector's capital expenditure in Poland is expected to pick up strongly soon.
- The FAMUR Group's growth drivers include **expansion of the product portfolio and effective diversification of sales revenue**, for instance by ensuring a significant contribution to revenue from contracts performed in the Surface segment, as well as consolidation of all activities relating to Electrical Equipment into a single operating segment. Therefore, the financial performance of the Group as a while is affected by operations carried out in a number of business areas that may be at different stages of the economic cycle. Since its consolidation with the FAMUR Group, FAMUR FAMAK S.A. has significantly upscaled its business. The company has been successful is securing contracts not only with the heat and power sector companies, but also with the cargo handling sector (e.g. the contracts to construct the EMO terminal in Rotterdam and a ship unloader for Tata Steel IJmuiden BV of the Netherlands).
- The FAMUR Group's long-term growth driver is **consistent strengthening of the Company's position on the global market**, with the **GO GLOBAL** international expansion programme as one of the pillars of the Group's development. FAMUR has significant potential and extensive experience on foreign markets. For years, the Group has successfully sold its solutions to customers all over the world. The countries where FAMUR products are used include the CIS, primarily Russia and Kazakhstan, the Balkan countries, Turkey, Mexico, as well as countries in South America and Asia. There are still many countries where the power sector will continue to grow based on fossil fuels, and they chart the natural direction for FAMUR's international expansion.

  The Group intends to step up its foreign expansion by adapting its GO GLOBAL initiative to the markets on which the Group plans to develop. In the markets where the Group's position is strong, the Group will develop local servicing and distribution centres as part of its organic growth plans, with a particular focus on upscaling the aftermarket business (spare parts, servicing and upgrades). On the developed, but also promising, fast-growing international markets, the Group **considers establishing strategic alliances** with local companies enjoying a strong position and large customer base. The Group plans to use solutions based on the win-win concept. FAMUR offers a full portfolio of technologically advanced solutions capable of being adapted to individual customer needs. Implementation of such solutions significantly reduces the time necessary to enter such markets.
- **Exchange rates fluctuations** and the related ongoing valuation of forward transactions may also affect the performance recorded in individual quarters. However, the principal objective of using this form of hedging is to protect the operating margins under the Group's contracts. The valuation of forward contracts is presented below in this Report.
- The robust economic growth in Poland, especially in the manufacturing, construction and assembly industries, may contribute to continued **wage pressures as well as higher costs of services and raw materials**, mainly steel and related products. This may result in fluctuations in margins reported by the FAMUR Group. The margin management policy takes into account those risks, and consequently the Group's companies take steps to maintain satisfactory margins, for instance by adopting appropriate bases for calculating prices of the their products, signing long-term contracts for the supply of raw materials, and building a wide network of cooperating partners.

- The **internal drivers** of further growth of the FAMUR Group are the process of building replacement staff, ongoing R&D projects, increased automation of manufacturing processes (e.g. deployment of robotic workstations) and, since last year, the integration of potentials of the FAMUR Group and the KOPEX Group. The Management Board believes that leveraging the KOPEX Group's and FAMUR Group's potentials and expertise gives a real chance to build a strong Polish organisation which would have even larger potential for international expansion and would be able to successfully compete with the industry's giants.

6. Current financial position of the FAMUR Group

Consolidated financial results of the FAMUR Group

The table below presents key items of the FAMUR Group's consolidated accounts for the first half of 2018, compared with the results for the first half of 2017 and as at December 31st 2017.

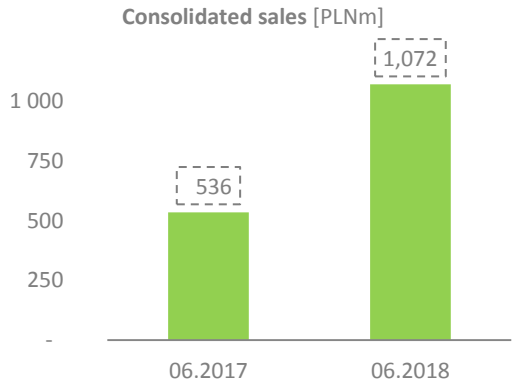
Selected financial data	H1 2018	H1 2017
Net revenue	1,072,388	535,993
Domestic sales	710,658	342,436
% share in total sales	66.3%	63.89%
Exports	361,730	193,557
% share in total sales	33.7%	36.11%
Operating profit/(loss)	120,391	64,424
Net profit/(loss)	97,879	51,338
Net profit/(loss) attributable to owners of the parent	89,637	51,338
Net cash from operating activities	107,129	47,267
Net cash from investing activities	-14,321	-113,656
Net cash from financing activities	-203,317	378,290
Total net cash flows	-110,509	311,902
Weighted average number of shares	564 062 994	490 921 379
Earnings per ordinary share (PLN)	0.16	0.10
Diluted earnings per ordinary share (PLN)	0.16	0.10

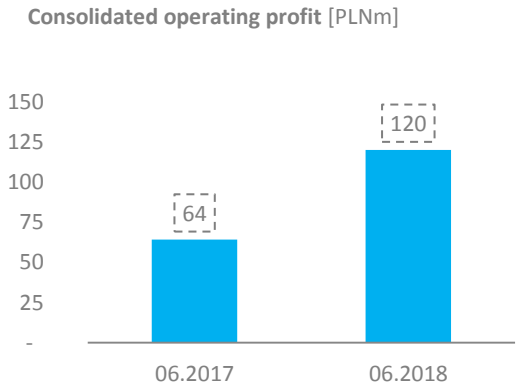
Selected financial data	Jun 30 2018	Dec 31 2017
Total assets	3,177,372	3,138,065
Equity	1,467,425	1,549,983
Equity attributable to owners of the parent	1,507,980	1,435,667
Liabilities and provisions for liabilities	1,691,283	1,576,330
Short- and long-term bank borrowings and other debt instruments	469,365	620,502
Number of shares	574 763 212	559 440 500
Book value per share (PLN)	2.55	2.72
Diluted book value per share (PLN)	2.55	2.72
Dividend per share, declared or paid (PLN)	0.44	-

Source: FAMUR GROUP; amounts in PLN '000, unless stated otherwise.

In the first half of 2018, FAMUR S.A. and its subsidiaries earned over PLN 1bn in consolidated revenue, up 100% year on year. The year-on-year change in revenue was affected by the revenue volumes generated as a result of integration with the KOPEX Group, which was acquired on June 27th 2017 and was not consolidated in the financial statements of the FAMUR Group in the first half of 2017; the strong revenue figure is also attributable to the recovery in the mining sector. Besides shearer loader and roadheader lease agreements, the FAMUR Group's other revenue sources in the first half of 2018 included manufacturing of longwall systems for customers in Poland, including PG Silesia, JSW S.A. and Polska Grupa Górnicza S.A., deliveries of belt conveyors to customers in Poland, including JSW S.A., as well as exports to the Kazakhstan, Russian, Turkish, Indian and other markets. In recent months, we have strengthened our position in the Russian market, particularly as a supplier for the SUEK Group. With fresh deliveries of roadheaders in 2018, we have also reinforced our presence in Mexico, with nine FAMUR roadheaders already in operation there. Deliveries of bolting and drilling equipment to customers in India have opened opportunities for continued collaboration and new contracts. In the Surface segment, revenues reported for the first half of 2018 were generated mainly on coal feed system projects for the

power plants in Opole, Kozienice and Jaworzno, manufacturing of bucket-wheel excavators for Bulgarian customers, the coal dressing plant contract with JSW, the fertilizer storage facility contract with Grupa Azoty Zakłady Azotowe Puławy, and manufacturing of gantry cranes for Hans Kunz.





Source: FAMUR GROUP; amounts in PLN

In the reporting period, the Group earned PLN 120.4m in operating profit, with operating profit margin at 11.2%, slightly below the 12% reported in the first half of 2017. It is important to note the high base effect, as the first quarter of 2017 was the best quarter of the year in terms of earnings, with strong margins generated on the contracts performed during that period. The margin erosion that began in the second quarter of 2017 was due to a number of factors, including a sharp rise in the costs of materials (mainly steel products, such as steel, castings, forgings) as well as labour and services, that the Group was unable to pass through to the prices of signed contracts in the short term. The downward trend in profitability started to reverse in the first quarter of 2018. The second quarter of 2018 was another period of growth in profitability, with gross margin at 11%, compared with 10.8% reported three months earlier and 6.9% reported in the fourth quarter of 2017.

In the first half of 2018, net other income stood at PLN 3.8m. Other income included primarily other items of income (PLN 30m), in particular reversal of impairment losses/write-downs on receivables, inventories and non-current assets (PLN 8.1m) and income from scrapping (PLN 7.5m). The largest items of other expenses were warranty repairs (PLN 12.4m) and customer complaints (PLN 8.5m).

The Group reported net finance costs of PLN -3.7m. The largest contributors to finance income included interest (PLN 8.9m), foreign exchange gains (PLN 5.1m) and settlement of forward contracts (PLN 4m). The largest components of finance costs were interest (PLN 12.7m) and settlement of forward contracts (PLN 4m). The PLN 4.7m increase in interest expense as compared with the first half of 2017 was associated with the consolidation and servicing of the KOPEX Group's debt. The FAMUR Group posted a net profit of PLN 97.9m for the first half of 2018, almost double the figure reported for the same period in 2017, with net profit margin (9.1%) remaining broadly flat year on year (9.6%).

Discontinued operations

Starting from 2017, the KOPEX Group's results are accounted for in the consolidated financial statements of the FAMUR Group. One of the objectives of the restructuring programme implemented at the KOPEX Group was to adjust the KOPEX Group's structure to the market situation and sell redundant assets, including non-strategic assets or assets that fail to bring the expected return on investment. In connection with the foregoing, the consolidated financial statements of the FAMUR Group include separate information on discontinued operations, comprising mainly Group companies' Serbian and Indonesian operations and manufacturing for the construction market. Revenue of PLN 14.2m and net loss of PLN -1.7m were allocated to discontinued operations in the first half of 2018. The main items of the statement of profit or loss and the statement of cash flows related to discontinued operations are given in the 'DISCONTINUED OPERATIONS' note to the interim condensed consolidated financial statements of the FAMUR Group for the first half of 2018.

Consolidated statement of financial position and ratios

	Jun 30 2018	Dec 31 2017		Jun 30 2018	Dec 31 2017
Non-current assets	**1,152,647**	**1,098,747**	**Equity**	**1,467,425**	**1,549,983**
Intangible assets	271,249	272,669	Share capital	5,748	5,594
Property, plant and equipment	620,016	654,256	Statutory reserve funds	785,801	715,170
Long-term receivables	77,686	50,234	Other capital reserves	114,617	113,663
Long-term investments	87,739	82,218	Retained earnings	607,428	599,195
Other non-current assets	2,250	2,927	Equity attributable to owners of the parent	1,507,980	1,435,667
Deferred income tax assets	93,706	36,443	Non-controlling interests	-40,555	114,316
Current assets	**2,024,725**	**2,039,318**	**Provisions and liabilities**	**1,691,283**	**1,576,330**
Inventories	383,070	307,701	Provisions for liabilities	126,252	178,168
Short-term receivables	1,009,917	968,866	Non-current liabilities	531,921	524,259
Assets held for sale	10	11	Current liabilities	972,605	857,238
Current financial assets	29,256	51,684	Other liabilities	56,505	30,313
Cash and cash equivalents	571,343	681,762	Liabilities associated with non-current assets held for sale	18,664	11,752
Prepayments and accrued income	8,845	6,425			
Non-current assets held for sale	22,285	22,869			
Total assets	**3,177,372**	**3,138,065**	**Total equity and liabilities**	**3,177,372**	**3,138,065**

Source: FAMUR GROUP; amounts in PLN '000.

Consolidated total assets were PLN 3,177.4m, up 1% on December 31st 2017. The high level of inventories as well as trade receivables and payables is typical of the business conducted by the FAMUR Group. High trade receivables, typical of the FAMUR Group especially in periods when large contracts are performed, are related to settlement of long-term contracts. The increase in inventories, trade receivables and trade payables as well as the accompanying slight extension of the collection/payment periods and inventory turnover cycle were attributable to the execution of large volumes of long-term contracts, mainly in the Underground segment. Furthermore, FAMUR S.A. is required to hold inventories of high-value spare parts to be able to provide maintenance services for leased machinery. The Company also holds inventories of standard components to be able to meet tight contract deadlines, especially under export contracts. However, thanks to an efficient central inventory management system, the inventory cycle at the FAMUR Group remained rather short in 2017, at 58 days. The decrease in cash by over PLN 110m was mainly related to early repayment of the PLN 150m credit facility contracted with PKO BP, made in an effort to reduce debt servicing costs at the FAMUR Group. As at June 30th 2018, the Group still held a high cash balance, of over PLN 571m.

The PLN 82.6m decrease in equity was a result of the General Meeting's decision to pay out a dividend of PLN 252.9m, and accounting for the merger with KOPEX S.A. A detailed statement of changes in equity is presented in the interim condensed consolidated financial statements for the first half of 2018. As at the end of June 2018, the FAMUR Group had total equity of PLN 1.47bn, providing a good base for financing the Group's future development expenditure. The increase in current liabilities by PLN 119m was mainly due to an increase in dividends payable (PLN 252.9m), which account for a significant portion of "other" current liabilities shown in the interim condensed consolidated financial statements for the first half of 2018.

Consolidated financial debt and cash

The FAMUR Group's balance of bank borrowings and other debt instruments, lease liabilities, notes and short-term investments is presented below.

	Jun 30 2018	Dec 31 2017
FAMUR Group		
1. Bank borrowings and other debt instruments	469,365	620,502
- long-term (restructuring agreement)	401,690	399,479
- including: KOPEX Group*	209,762	399,479
- including: FAMUR S.A *	191,928	-
- short-term	67,675	221,023
- including: Restructuring agreement – KOPEX Group *	30,000	30,000
- including: other	37,675	191,023
2. Lease liabilities	35,503	30,353
- long-term	16,771	13,938
- short-term	18,732	16,415
3. Notes	110,405	110,448
4. Cash and cash equivalents	**571,343**	**681,762**
5. Net debt	**43,931**	**79,542**

Source: FAMUR GROUP; amounts in PLN '000.

**) Liabilities under the restructuring agreement comprise tranches A and B. Tranche C was repaid early in 2017. As at June 30th 2018, the KOPEX Group retained only tranche B, effectively assigned to the assets of PBSz S.A. The rest of the debt under the restructuring agreement was transferred to FAMUR S.A. upon the demerger of KOPEX S.A.*

The Group's long-term and short-term bank borrowings and other debt instruments, including lease liabilities, totalled PLN 504.9m, equivalent to 34% of equity. The Group's gross financial debt, including notes in issue, stood at PLN 615.3m, equivalent to 42% of equity. In the first half of 2018, the FAMUR Group reduced the outstanding value of its credit facilities in order to reduce interest expenses and increased the flexibility of arrangements under its agreements with banks by executing new agreements, repaying a portion of the debt, and signing annexes to the existing agreements.

The FAMUR Group's cash at the end of the period amounted to PLN 571.3m, and the Group's net financial debt was PLN 43.9m, slightly lower than at the end of 2017.

Key ratios – the FAMUR Group

	H1 2018	2017*	
FAMUR Group			
Liquidity ratio	1.8	2.1	current assets / current liabilities, including short-term provisions and accruals and deferred income
Quick ratio	1.5	1.8	(current assets – inventories) / current liabilities, including short-term provisions and accruals and deferred income
Total asset turnover	0.7	0,6**	revenue / total assets
Average collection period (days)	166	143**	average trade receivables / operating expenses x number of days
Inventory cycle (days)	58	43**	average inventories / revenue x number of days
Average payment period (days)	66	57**	average trade payables / operating expenses x number of days
Total debt ratio	54%	51%	total debt / total assets
Return on sales	11%	12%	operating profit/(loss) / revenue
Net margin	9%	10%	net profit / revenue

Source: FAMUR GROUP; amounts in PLN '000. .

**) The ratios for 2017 are given as at December 31st 2017, except for the profitability ratios, which relate to the first half of 2017.*

***) To ensure the comparability of the average collection and payment periods, inventory cycles and asset turnovers, these ratios were calculated taking into account the KOPEX Group's revenue and cost data for H1 2017.*

Consolidated cash flows

In the first half of 2018, the Group's net cash flows were negative, at PLN 110.5m. Operating cash flow, of PLN 107.1m, was PLN 59.9m higher year on year. Cash flows from investing activities were negative, at PLN -14.3m, which was PLN 99.3m less than in the first half of 2017, when the high negative value of cash flows from investing activities was largely attributable to the acquisition of a majority interest in KOPEX S.A. and, to some extent, to the acquisition of an interest in Fugo Zamet Sp. z o.o. The FAMUR

Group reported a negative net cash flow from financing activities of PLN -203.3m, mainly reflecting repayments and reduced utilisation of credit facilities by the Group.

7. Current financial position of FAMUR S.A. (the Parent)

Factors and events, especially of non-recurring nature, with a material bearing on the H1 2018 financial statements – KOPEX demerger

An event that had a significant impact on the financial statements of the parent FAMUR S.A. was the process of demerger of KOPEX S.A. in the second quarter of 2018 (the event is described in more detail in other sections of this Directors' Report). Along with the registration of the Company's share capital increase by the court on May 7th 2018, KOPEX S.A. was effectively demerged through the transfer of a part of its assets to FAMUR S.A., as a result of which the Company assumed all the rights and obligations in relation to the assets spun off from KOPEX S.A. The total net fair value of the assets acquired by FAMUR was PLN 388m. The net assets acquired as part of the demerger of KOPEX S.A. were measured at fair value. For a detailed accounting for the merger and the acquired net assets of KOPEX, see Note 3 BUSINESS COMBINATION to the interim condensed financial statements of FAMUR S.A. for the first six months of 2018.

Selected separate financial information of FAMUR S.A. (the Parent)

The table below presents the key items of FAMUR S.A.'s separate accounts for the first half of 2018, along with comparative data for the first half of 2017 and as at December 31st 2017.

Selected financial data	H1 2018	H1 2017
Net revenue	677,155	423,401
Domestic sales	475,873	297,840
% share in total sales	70.3%	70.34%
Exports	201,282	125,561
% share in total sales	29.7%	29.66%
Operating profit/(loss)	81,358	57,222
Net profit/(loss)	62,208	44,927
Net profit/(loss) attributable to owners of the parent	62,208	44,927
Net cash from operating activities	63,630	96,567
Net cash from investing activities	53,720	-268,673
Net cash from financing activities	-142,080	398,660
Total net cash flows	-24,731	226,554
Weighted average number of shares	564 062 994	490 921 379
Earnings per ordinary share (PLN)	0.11	0.09
Diluted earnings per ordinary share (PLN)	0.11	0.09

Selected financial data	Jun 30 2018	Dec 31 2017
Total assets	2,508,642	2,055,359
Equity	1,217,476	1,134,116
Equity attributable to owners of the parent	1,217,476	1,134,116
Liabilities and provisions for liabilities	1,291,166	921,243
Short- and long-term bank borrowings and other debt instruments	346,033	290,577
Number of shares	574 763 212	559 440 500
Book value per share (PLN)	2.12	2.03
Diluted book value per share (PLN)	2.12	2.03
Dividend per share, declared or paid (PLN)	0.44	-

Source: FAMUR S.A.; amounts in PLN '000, unless stated otherwise.

In the first half of 2018, FAMUR S.A. generated revenue of PLN 677.1m, up 60% (or PLN 253.7m) year on year. The revenue growth was mainly attributable to the FAMUR and KOPEX merger. In connection with the demerger of KOPEX, the results of its machinery business have been included in the profit and loss account of FAMUR S.A. starting from May 2018.

In the first half of 2018, FAMUR S.A. earned an operating profit of PLN 81.3m, representing 12% of revenue generated in the period. Similarly as in the case of consolidated results, the Company's operating profit fell slightly compared with the first half of 2017, when the portfolio of performed contracts was characterised by particularly strong margins. Just like at the consolidated level, the parent's operating margin was gradually improving from Q1 2018.

Both net other income/expenses and net finance income/costs were negative in the first half of 2018, at PLN -3.2m and PLN -2.9m, respectively. Net other income/expenses included primarily income from scrapping (PLN 6m), cost of warranty repairs (PLN -8.2m), and cost of complaints (PLN -7.1m). The largest contributors to net finance income/costs were interest received (PLN 6.8m) and interest paid (PLN -8.8m). In the reporting period, FAMUR S.A. posted a net profit of PLN 62.2m, up by PLN 17.3m (or 38.5%) on the first half of 2017.

FAMUR S.A.'s statement of financial position and ratios

	Jun 30 2018	Dec 31 2017		Jun 30 2018	Dec 31 2017
Non-current assets	**1,101,943**	**886,866**	**Equity**	**1,217,476**	**1,134,116**
Intangible assets	202,571	166,006	Share capital	5,748	5,594
Property, plant and equipment	393,301	279,942	Statutory reserve funds	931,211	653,254
Long-term receivables	47,139	13,483	Other capital reserves	162,213	373,984
Long-term investments	383,869	405,180	Retained earnings	118,503	99,063
Other non-current assets	1,662	1,924	Equity attributable to owners of the parent	1,217,476	1,134,116
Deferred income tax assets	73,402	20,331	Non-controlling interests	-	-
Current assets	**1,406,699**	**1,168,492**	**Provisions and liabilities**	**1,291,166**	**921,243**
Inventories	295,342	168,492	Provisions for liabilities	91,617	75,469
Short-term receivables	708,922	567,498	Non-current liabilities	299,943	110,473
Assets held for sale	7	-	Current liabilities	867,365	713,266
Current financial assets	28,730	45,690	Other liabilities	32,241	22,035
Cash and cash equivalents	358,014	382,745	Liabilities associated with non-current assets held for sale	-	-
Prepayments and accrued income	4,464	2,507			
Non-current assets held for sale	11,218	1,560			
Total assets	**2,508,642**	**2,055,359**	**Total equity and liabilities**	**2 508,642**	**2,055,359**

Source: FAMUR S.A.; amounts in PLN '000.

FAMUR S.A.'s total assets were PLN 2,509m, having increased by PLN 453m (or 22%), mainly as a result of the acquisition of assets in connection with the demerger of KOPEX S.A., as well as performance of major long-term contracts. The increase in equity by PLN 83m on December 31st 2017 was also attributable to the merger with KOPEX S.A., as well as the decision to pay out a dividend. A detailed statement of changes in the Company's equity is presented in its interim condensed separate financial statements for the first half of 2018.

Financial debt and cash of FAMUR S.A.

FAMUR S.A.'s balance of bank borrowings and other debt instruments, lease liabilities, notes and short-term investments is presented below.

	Jun 30 2018	Dec 31 2017
FAMUR S.A.		
1. Bank borrowings and other debt instruments	346,033	290,577
- long-term (Tranche A of the restructuring agreement)	191,928	-
- short-term	154,106	290,577
2. Lease liabilities	7,913	1,091
- long-term	284	505
- short-term	7,629	586
3. Notes	110,405	110,448
4. Cash and cash equivalents	358,014	382,745
5. Net debt	106,337	19,372

Source: FAMUR S.A.; amounts in PLN '000.

Long-term and short-term bank borrowings and other debt instruments, including lease liabilities, totalled PLN 353.9m. The Company's gross financial debt, including notes in issue, stood at PLN 464.4m, or 38% of its equity. Cash at the end of the period amounted to PLN 358m. As a result, FAMUR S.A.'s net debt at the end of the first half of 2018 was PLN 106.3m, having increased by PLN 87m from the end of 2017, due to the fact that the Company assumed the financial liabilities of KOPEX S.A. under tranche A of the restructuring agreement (tranche B, effectively assigned to the assets of PBSz, was retained by KOPEX).

Separate statement of cash flows of FAMUR S.A.

In the first half of 2018, the Company's net cash flows were negative, at PLN 24.7m. Net operating cash flows in the period were PLN 63.6m, compared with PLN 96.6m in the first half of 2017. Cash flows from investing activities were positive, at PLN 53.7m, mainly due to the completed equity transaction (demerger of KOPEX S.A.). The negative net cash flow from financing activities of PLN -142.1m was mainly related to the repayment of borrowings by the parent, as discussed above in this report in the section on consolidated debt.

8. Additional information

8.1. Procurement of raw materials, merchandise and services

FAMUR S.A. coordinates a majority of materials supplies within the Group, centralising the supply chain management in the Underground segment. The other segments pursue independent procurement policies in their respective business areas. The Group has access to diversified sources of raw materials and is thus not dependent on one or more suppliers. The growth of its business enabled the FAMUR Group to enhance the efficiency of its procurement processes by leveraging the economies of scale.

8.2. Related-party transactions

The related-party transactions concluded by the Group in the first half of 2018 were conducted at market prices and, in the opinion of the Management Board, were typical and routine transactions. For detailed information on related-party transactions with non-consolidated entities, see Note RELATED-PARTY TRANSACTIONS to the interim consolidated financial statements of FAMUR S.A. for the first half of 2018.

8.3. Bank borrowings, other debt instruments, and contingent liabilities

Bank borrowings

Investment loans and working capital facilities are presented at outstanding balances, while overdraft facilities are presented at amounts drawn as at the end of the first half of 2018, with information on original credit limit. The specification of bank borrowings and other debt instruments, including information on the related security, is also provided in the 'BANK BORROWINGS AND OTHER DEBT INSTRUMENTS' notes as at June 30th 2018 in the FAMUR Group's interim condensed consolidated financial statements for the first half of 2018, and FAMUR S.A.'s interim condensed financial statements for the first half of 2018.

Bank borrowings and other debt instruments

The table below presents short-term bank borrowings and other debt instruments of **the FAMUR Group** as at June 30th 2018:

Lender	Borrowing amount as per agreement (PLN/EUR '000)	Maturity date	Cur-rency	Amount out-standing (PLN '000)	Interest rate
Bank Polska Kasa Opieki S.A.	100,000	Nov 30 2020	PLN		WIBOR + margin
Raiffeisen Bank Polska S.A.	50,000	Sep 30 2020	PLN		WIBOR + margin
Bank Gospodarstwa Krajowego	40,000	Feb 22 2021	PLN		WIBOR + margin
Industrial and Commercial Bank of China (Europe) S.A. Poland Branch	80,000	May 12 2019	PLN		WIBOR + margin
Credit Agricole Bank Polska S.A.	50,000	Feb 28 2021	PLN		WIBOR + margin
Bank Zachodni WBK S.A.	50,000	Feb 23 2021	PLN		WIBOR + margin
DAMS GmbH	2,077	Dec 31 2018	EUR	9,933	EURIBOR + margin
Restructuring agreement Tranche A notes	185,000	Mar 31 2022	PLN	185,000	3M WIBOR + margin
Bank Millennium S.A.	8,609	Feb 24 2020	PLN	8,609	1M WIBOR + margin
BPiRI Separator Sp. z o.o.	750	Dec 31 2018	PLN	750	1M WIBOR + margin
Bank BGŻ BNP Paribas S.A.	25,000	Feb 11 2020	PLN	9,897	1M WIBOR + margin
Credit Agricole Bank Polska S.A.	25,000	Oct 30 2019	PLN	2,962	1M WIBOR + margin
mBank S.A.	15,000	Oct 30 2019	PLN	3,921	ON WIBOR + margin
Restructuring agreement Tranche B	250,000	Dec 31 2021	PLN	239,762	3M WIBOR + margin
Bank Zachodni WBK S.A.	1,500	Jun 21 2019	PLN	1,500	WIBOR + margin
interest			PLN	7,031	WIBOR + margin

Compared with December 31st 2017, the FAMUR Group's total balance of bank borrowings and other debt instruments fell by PLN 151.1m, following efforts undertaken by the Group with a view to enhancing the flexibility of its arrangements with the financing institutions and reducing its debt service costs.

In July 2018, a term sheet for the sale of the 95.01% interest in PBSz S.A. to JSW was signed. The PBSz sale negotiation process is conducted with due regard to the interests and rights of all material stakeholders of both KOPEX and PBSz, including their major creditors/banks. If the negotiation process is completed and PBSz is sold, the proceeds from the sale are to be used to repay the remaining portion of "tranche B" under the restructuring agreement, effectively assigned to the assets of PBSz.

For detailed statements of FAMUR Group's and FAMUR S.A.'s liabilities under bank borrowings and other debt instruments, along with information on the related security, see the interim condensed financial statements of the FAMUR Group and FAMUR S.A. for the first half of 2018.

Contingent assets and liabilities – the FAMUR Group

	Jun 30 2018	Dec 31 2017	Jun 30 2017
Consolidated data			
1. Contingent receivables	6,477	8,919	5,241
2. Contingent liabilities	247,559	241,315	217,859
- guarantees issued, including:	197,644	179,766	143,234
- bid bonds	13,748	6,004	5,073
- performance bonds	135,020	135,478	138,032
- other	48,876	38,283	129

	Jun 30 2018	Dec 31 2017	Jun 30 2017
- surety bonds and promissory notes issued to financial institutions	6,006	5,485	5,493
- purchase of debt	42,793	48,563	61,631
- other	1,116	7,501	7,501

Source: FAMUR GROUP; amounts in PLN '000.

The Group had similar balances of contingent receivables and liabilities in the periods under analysis.

8.4. Litigation and court proceedings

FAMUR S.A. is party to a legal dispute with PRIMETECH S.A. of Katowice (formerly KOPEX S.A. and TAGOR S.A.) for payment of PLN 51,875,600.00, as reported by the FAMUR Group in recent periodic reports. In the course of the proceedings, the amount claimed was reduced to PLN 33,705,361.31 (without waiving the claim). On June 29th 2016, the Regional Court in Katowice dismissed the claim in its entirety. The case has been appealed against to the Court of Appeals in Katowice.

FAMUR S.A. (on July 28th 2017) and KOPEX S.A. (on August 2nd 2017) filed requests to suspend the proceedings upon a joint motion of the parties, together with a request for cancelation of the hearing set for September 7th 2017 given that FAMUR S.A. holds a controlling interest (65.83%) in KOPEX S.A. and has become its parent, which – in the opinion of the parties – implies the need for amicable settlement of the dispute. On August 7th 2017, at the joint request of the Parties, a decision to suspend the proceedings was issued.

8.5. Research and development

The company responsible for research and development within the Group is FAMUR Institute sp. z o.o., but the FAMUR Group's and the FAMUR FAMAK Group's manufacturing branches also conduct their own R&D work. Drawing on the extensive knowledge of its engineers, the FAMUR Group successfully carries out a number of projects to launch new products and improve those that are already marketed. Among the notable achievements of the research and development centre are switchgears for the machine building, power and mining industries, and the FR 160 roadheader with a wireless remote control system.

The business of FAMUR Institute Sp. z o.o. mainly comprises research and development work carried out for the FAMUR Group. Its key business areas are as follows:

- Design and building of gear trains (mechanical systems),
- Design of drive trains (mechanical and electrical systems),
- Design of new automation systems for excavation and coal cutting machines,
- Finite Element Analysis (structural strength, thermal distribution),
- Dynamometer testing of gear trains and drive trains, with a particular focus on noise emission standards,
- Machinery and subassembly failure analysis,
- Research and analyses falling within its remit carried out for the FAMUR Group.

Our research and development centre, in collaboration with the operational departments, is engaged in ongoing work to optimise and tailor technical solutions in the FAMUR Group's machinery and equipment to the needs of specific markets and customers. Such an approach ensures that local working conditions, as well as technical and technological capabilities of the mining companies, are all taken into account.

The main projects implemented by the FAMUR Group's R&D teams in 2018 included:
1) FSP 950 and FSP 1200 planetary worm gears,
2) FKW400/12.5-02 bevel helical gear.
Research work on the aforementioned gears was conducted as part of the industrial research phase.
3) Gear trains for open-pit mining excavators to be sold on the Bulgarian market: FBWG1000 and FBWG250 high-power bucket wheel gears, and development of a diagnostic system.
4) In 2018, FAMUR Institute launched a number of research and development projects under the 'Smart Mine' Programme, aimed at developing innovative solutions that would improve the efficiency of offered solutions and the safety of users.
This objective is pursued as part of, *inter alia*, the programme to implement Predictive Maintenance, whose goal is to increase the availability of machinery by reducing unplanned downtime and optimising

the servicing strategy. The achievement of these goals will be supported by innovative machine diagnostics, Data Mining techniques and dedicated IT solutions.

Solutions developed by Elgór+Hansen S.A. in 2018:

- Development of new 3.3 kV medium-voltage products supplying power to high-performance longwall systems; the products are equipped with new generation built-in protections which, together with a visualization and recording system, enable the user to analyse all irregularities in the operation of electric drives;
- Construction of a new box for electrical apparatus that powers the drives of R100B, a machine used for dinting in underground mines, equipped with a wireless control system;
- Reactivation of a methane monitoring system for a customer from Argentina, which facilitated recreating Elgór+Hansen S.A.'s competencies in the construction of methane monitoring system switchboards;
- Development of a versatile control panel eliminating the need to constantly redesign control panels depending on customer requirements;
- Development of embedded visualization and recording software for the FS300 shearer loader line, for the Windows 8 Embedded platform;
- Development of a historical data supplementation module for pressure measurement systems in RSPC roof support system props;
- Development of further modules of the distributed control system in accordance with the requirements of Industry 4.0.

Thanks to its carefully designed acquisition strategy, the FAMUR Group gains additional research and development capabilities, which are then further developed within the Group. Such acquisitions can also be seen in the **Surface** segment, whose potential has been strengthened in the area of surface mining machinery and equipment with respect to bucket-wheel excavators and chain-and-bucket type excavators, stackers, and caterpillar transporters; also the potential of industrial technologies and infrastructure has been increased with respect to designing and constructing complete plants for processing and beneficiation of minerals as well as construction of and supply of equipment for complete mine shaft hoists. At present, we have the necessary know-how to deliver 'turn-key' contracts.

8.6. Environmental protection

In its business operations, FAMUR S.A. takes into account the existing and future environmental impacts attributable to the processes applied at each of its manufacturing plants. The Company has implemented a certified ISO 14001 Environmental Management System to minimise any significant environmental impacts. As regards its environmental impact, the Company fulfils the environmental goals set by the FAMUR Management Board in the Group's Environmental Policy. The Company's environmental goals include better waste management, use of environmentally friendly technologies, raising the environmental awareness of staff, and rational use of energy resources. Moreover, by effectively monitoring all the environmental aspects we are able to control our environmental footprint and take, if required, immediate steps to reduce the risk of adverse environmental impacts.

The Company operates in compliance with the applicable environmental protection requirements and based on valid sectoral permits (including permits for waste generation, permits for gas and dust emissions, and water permits), fulfilling its reporting obligations stipulated in the environmental laws in a timely manner.

8.7. Securities

Shares

On June 18th 2015, the Annual General Meeting of FAMUR S.A. passed Resolution No. 27, under which the effective period of the authorisation for the Management Board to buy back the Company's own shares was extended until June 26th 2018 or until the funds earmarked for the buy-back are exhausted, whichever is earlier. The authorisation was granted under Resolution No. 24 passed by the Annual General Meeting held on June 26th 2013. The Annual General Meeting of FAMUR S.A. resolved that the other provisions of Resolution No. 24 of the Annual General Meeting held on June 26th 2013 should remain

unchanged. The above-mentioned authorisation to acquire own shares expired before the reporting date of June 30th 2018.

Issue of new Series D and Series E shares in 2017

In the first half of 2017, the Company issued new Series D and Series E shares to raise funds that would allow it to acquire a controlling interest in KOPEX S.A. (65.83%), and to pursue other development activities of the FAMUR Group, including: support of the GO GLOBAL strategy (through the development of foreign service companies), refinancing of TDJ's loan extended to KOPEX in connection with its repayment of Tranche C debt, acquisition of FUGO sp. z o.o. and of an organised part of business of FAMAGO sp. z o.o., as well as investments in automation and upgrade in the Surface segment.

The issue of new shares was effected simultaneously with the disposal by TDJ Equity I sp. z o.o. of 97m shares in FAMUR S.A., representing 20% of the Company's share capital, by way of an Accelerated Bookbuild Process (ABB), as announced by the Company in Current Reports No. 30/2017 and 32/2017.

*FAMUR Extraordinary General Meeting's decision to increase share capital and issue new **Series F shares (Demerger Shares)***

In connection with the demerger of KOPEX S.A. (the "Demerged Company") through the spin-off of a part of its assets (as described above in this Report) to FAMUR S.A. (the "Acquirer"), the Extraordinary General Meeting of FAMUR S.A. convened for April 13th 2018 passed Resolution No. 3 to increase the Acquirer's share capital by PLN 153,227.12, from PLN 5,594,405.00 to PLN 5,747,632.12, by way of issue of 15,322,712 Series F ordinary bearer shares with a par value of PLN 0.01 per share (the "Demerger Shares"). In accordance with the resolution, the Demerger Shares were paid for through the contribution to the Acquirer of a part of the Demerged Company's assets in the form of an organised part of its business, comprising in particular the operating assets and shares in companies involved in the manufacture, maintenance and distribution of mining machinery and in production or investment processes, including without limitation: the manufacturing plants (previously operating in Zabrze and Rybnik within the KOPEX S.A. structures: Kombajny Zabrzańskie, Przenośniki Ryfama Zabrze Branch, KOPEX S.A. Hydraulika Zabrze Branch, and KOPEX S.A. Obudowy TAGOR Zabrze Branch), and an organised property investment business comprising a complex of investment properties with related assets and liabilities, as well as shares in Polish and foreign companies described in detail in the Demerger Plan (published by the Company along with the text of the EGM's resolutions in Current Reports No. 24/2018 and 24K/2018). The Demerger Shares confer the right to distributions from the Acquirer's profit as of the financial year in which the Demerger Date takes place. The Demerger Shares were allotted to the shareholders of the Demerged Company in accordance with the Demerger Plan. The Acquirer, as a shareholder in the Demerged Company, did not receive its own shares as a result of the Demerger, and the share premium was allocated to the statutory reserve funds.

Registration of share capital increase and amendments to the Company's Articles of Association

On May 8th 2018, the Company was notified of the registration, on May 7th 2018, by the District Court for Katowice-Wschód of Katowice, 8th Commercial Division of the National Court Register, of the increase in the Company's share capital made by way of the issue of Series F shares and of the related amendments to the Company's Articles of Association. Following the registration, the Company's share capital is PLN 5,747,632.12 and consists of 574,763,212 Series A, B, C, D, E and F shares with a par value of PLN 0.01 per share, namely:

a) 432,460,830 Series A ordinary bearer shares,

b) 49,039,170 Series B ordinary bearer shares,

c) 4,970,000 Series C ordinary bearer shares;

d) 43,677,000 Series D ordinary bearer shares;

e) 29,293,500 Series E ordinary registered shares, to be converted into bearer shares at the shareholder's request;

b) 15,322,712 Series F ordinary bearer shares.

Moreover, following the registration the relevant provisions of the Company's Articles of Association concerning the amount of the share capital were amended.

Registration of FAMUR S.A. Series F shares in the CSDP, setting of the Reference Day and withdrawal of KOPEX S.A. shares

On May 16th 2018, the Central Securities Depository of Poland ("CSDP") decided to register 15,322,712 Series F ordinary bearer shares with a par value of PLN 0.01 per share (ISIN code: PLFAMUR00046), issued in connection with the demerger of KOPEX S.A. through transfer of a part of KOPEX S.A.'s assets to FAMUR S.A. pursuant to Art. 529.1.4 of the Commercial Companies Code.

At the same time, the CSDP set the Reference Day for May 18th 2018, and the registration date for May 29th 2018. The registration followed the allotment of FAMUR S.A. shares, effected through the exchange of shares in KOPEX S.A. for shares in the Company at the following share exchange ratio: 0.7636 share in the Company for 1 cancelled share in KOPEX S.A.

As a result, the Management Board of CSDP decided to withdraw 58,722,705 ordinary bearer shares in KOPEX S.A. from the securities depository on May 29th 2018. Following the withdrawal, the number of KOPEX S.A. shares in issue was 15,609,833.

On May 16th 2018, the Management Board of the Warsaw Stock Exchange (the "WSE"), passed a resolution to suspend trading in KOPEX S.A. shares (ISIN code: PLKOPEX00018) on the Main Market of the WSE from May 17th 2018 through May 29th 2018 (including that day).

Admission of Series F shares to trading and their assimilation

On July 16th 2018, the Management Board of the WSE passed a resolution whereby on the same day 15,322,712 Series F ordinary bearer shares with a par value of PLN 0.01 per share, assigned code PLFAMUR00046 by the CSDP, were admitted to trading on the regulated market. Pursuant to the resolution, the Series F shares were to be introduced to trading on July 23rd 2018 provided that on the same day the CSDP assimilates these shares with other Company shares already traded on the stock exchange, assigned code PLFAMUR00012.

On July 18th 2018, the CSDP passed a decision to assimilate the Series F shares with the other FAMUR S.A. shares as described above. The assimilation date was set for July 23rd 2018 and, on the same date, the Series F shares were introduced by the WSE to trading on a regulated market. Since the assimilation, the number of shares traded under the ISIN code PLFAMUR00012 has been 545,469,712. The total number of FAMUR S.A. shares is 574,763,212, comprising the aforementioned Series A, B, C, D and F bearer shares and also 29,293,500 Series E ordinary registered shares, which may be converted into bearer shares at a shareholder's request.

For a discussion of the Company's shareholder structure, see "FAMUR S.A. ownership structure."

Notes

In December 2015, the Company entered into a notes issue agreement. Under the Notes Programme, the Company may issue Notes up to the aggregate nominal value of PLN 500m.

During the term of the Programme, FAMUR S.A. issued secured Series A bearer Notes in book-entry form, with an aggregate nominal value of PLN 108m and an issue price of PLN 1 thousand per Note. The Series A Notes were issued under Polish law. In each interest period, the Series A Notes bear interest at a floating rate based on 6M WIBOR plus a margin, with interest paid every six months. The security for Noteholders are two blank promissory notes and a statement on voluntary submission to enforcement under Art. 777.1.5 of the Polish Code of Civil Procedure. The maximum enforcement amount was set at 125% of the total nominal value of the Notes in issue.

The Series A Notes were converted into securities in book-entry form and registered at the Central Securities Depository of Poland on January 12th 2016, and were assigned ISIN code PLFAMUR00038. The issue date is thus January 12th 2016, and the redemption date is January 13th 2020.

On March 18th 2016, the Management Boards of the WSE and BondSpot passed resolutions to introduce the Series A Notes issued by FAMUR S.A. to trading in the WSE ATS and BondSpot ATS. March 31st 2016 was set as the first day of trading in the Series A Notes issued by FAMUR S.A.

The term of the Notes Programme, that is the period during which the Company's Management Board may pass a resolution to issue individual series of Notes under the Programme, will expire not later than on December 31st 2018, subject to the cap on the aggregate nominal value of the Notes under the Programme.

8.8. Dividend

On June 29th 2018, the Annual General Meeting of FAMUR S.A. passed a resolution to allocate the net profit generated by FAMUR S.A. in 2017, in the amount of PLN 41,125,287.05, increased by the Company's net profit brought forward of PLN 211,770,526.23, for payment of dividend. The total dividend amount approved by the Annual General Meeting of FAMUR S.A. was PLN 252,895,813.28, i.e. PLN 0.44 (forty-four grosz) per share.

Pursuant to a resolution of the Annual General Meeting of FAMUR S.A., the dividend payment date was set for July 9th 2018. Shareholders entitled to receive the dividend included those holding Series A, B, C and D bearer shares traded under ISIN code PLFAMUR00012, Series E registered shares, and Series F bearer shares traded under ISIN code PLFAMUR00046 (subsequently assimilated with the other Company shares on July 23rd 2018), excluding all treasury shares. The dividend was paid on July 17th 2018.

8.9. Profit forecast

The FAMUR Management Board did not publish any 2018 profit forecast for the Company or the Group.

9. Assessment of financial resources management

Financial stability and diversified financing sources are the FAMUR Group's top priority. The FAMUR Management Board believes that the Group's financial resources are managed in a sound manner. Trade payables, public charges, and employee benefits are timely paid by the Group. The same applies to the servicing of bank borrowings and settlement of liabilities under the issue of notes. The sources of funding are well diversified and secure.
In the previous financial year, i.e. 2017, the KOPEX Group was incorporated into the FAMUR Group. Due to its difficult financial situation and breach of covenants under loan agreements, KOPEX was unable to independently obtain external financing prior to the incorporation. Effective optimisation and restructuring measures, as well as FAMUR's support, helped stabilise the financial position of the KOPEX Group. The Company's Management Board believes that the management of the FAMUR Group's financial resources is sound.
Despite the volatile conditions faced by the mining sector in previous years, the FAMUR Group never lost its ability to raise financing and perform contracts both in Poland and abroad. As at the end of H1 2018, the FAMUR Group's liquidity position was safe, and low net debt was reported. The FAMUR Group has long-standing relations with financial institutions. Thanks to the consistently pursued conservative financial policy, taking into account the improvement in the sector's overall situation in 2017 and 2018, and a positive outlook for the industry, the FAMUR Group's liquidity position should remain sound in the coming periods.

As far as the FAMUR Management Board is currently aware, there are no reasons to expect any recourse claims against FAMUR from financial institutions in connection with debt purchase agreements, as Polish coal mining companies settle such payments in a timely manner.

10. Significant agreements

In the first half of 2018 and after the reporting date, several reports were published concerning the execution of significant agreements or annexes to such agreements.

- **Fulfilment of condition precedent under agreement between FAMUR S.A., Polski Fundusz Rozwoju S.A. and Mining Equipment Finance Sp. z o.o.** On January 25th 2018, the Management Board of FAMUR S.A. announced that the decision of the District Court for Katowice-Wschód in Katowice, 8th Commercial Division of the National Court Register, to register amendments to the Articles of Association of the Company's subsidiary Mining Equipment Finance Sp. z o.o. (the "SPV") became final. The decision becoming final was a condition precedent for equity participation by Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (the "Fund"), represented by Polski Fundusz Rozwoju S.A. ("PFR"), and by the Company (collectively the "Parties") in the SPV. The Company's Management Board also announced that all the other conditions to the Parties' equity participation in the SPV had been met. The conditions included obtaining

consent from the Office of Competition and Consumer Protection for the establishment of the joint venture, execution of other agreements between the Parties related to the implementation of the joint venture (as specified in the agreement signed between the Parties on November 30th 2017), and fulfilment of other technical conditions related to leases and similar contracts. (Current Reports No. 3/2018, 79/2017 and 89/2017).

- **Conditional offer to purchase PBSz S.A. shares by subsidiary.** On January 30th 2018, the Company announced that its subsidiary KOPEX S.A. (the "Subsidiary" or "KOPEX") had received an offer from Jastrzębska Spółka Węglowa S.A. of Jastrzębie-Zdrój ("JSW") to purchase a controlling interest in Przedsiębiorstwo Budowy Szybów S.A. of Tarnowskie Góry ("PBSz"). The offer is conditional upon the parties' agreement regarding a number of factors, including the transaction price, as well as some formal and legal aspects. The Subsidiary treats the offer as an invitation to commence negotiations between the parties. For the Subsidiary, the key negotiation issue is to ensure that the transaction, if concluded, is consistent with the Restructuring Agreement reported by KOPEX in its Current Report No. 104/2016 of December 2nd 2016. According to the Restructuring Agreement, any funds raised from possible sale of PBSz shares should be used to repay KOPEX's liabilities, and such transaction must be consulted and agreed with the Subsidiary's financial creditors. (Current Report No. 4/2018).
- **Signing of Letter of Intent and subsequent execution of contract with OOO Polish Machines of Moscow.** On February 1st 2018, FAMUR S.A. reported that the Company and OOO Polish Machines of Moscow had signed a Letter of Intent for cooperation in a project comprising delivery of machinery and provision of services to the joint-stock company Inaglinsky Gorno-Obogatitelnyi Kombinat of Neryungri, Sakha (Yakutia) Republic (the "Customer"). On March 1st 2018, FAMUR S.A. reported it had received a copy of the contract signed on February 28th 2018 between the Company and OOO Polish Machines of Moscow for delivery of machinery and equipment, to be operated in the territory of the Russian Federation, and provision of installation supervision services to the Customer. The scope of deliveries agreed in the contract includes sections of powered roof support and a set of scraper conveyors, including an armoured face conveyor and a beam stage loader with auxiliary equipment. The total value of the contract is EUR 22,229,915.00, i.e. PLN 92,874,361.88, as translated at the EUR/PLN mid exchange rate effective for February 28th 2018 of PLN 4.1779 (Current Reports No. 5/2018, 15/2018 and 19/2018)
- **Approval and publication of the Information Memorandum.** On February 8th 2018, the Company received information that the Polish Financial Supervision Authority had issued a decision approving the Information Memorandum prepared in connection with the public offering of 15,322,712 Series F ordinary bearer shares with a par value of PLN 0.01 per share, addressed exclusively to the shareholders of KOPEX S.A. of Katowice and carried out in connection with its demerger through transfer of a part of its assets to the acquirer FAMUR S.A. of Katowice, and admission of Series F shares to trading on a regulated market. The Information Memorandum was made available to the public in electronic form on the Company's website (www.famur.com) in the 'Investor Relations – Integration with KOPEX' section (Current Reports No. 6/2018 and 7/2018).
- **Execution and termination by mutual agreement of contract for delivery of longwall system with Yubileynaya Mine.** On January 3rd 2018, the Management Board of FAMUR S.A. reported on the execution, on December 29th 2017, of a contract between its subsidiary OOO FAMUR of Russia, as the supplier, and the Yubileynaya Mine of Russia, as the customer, for delivery of a longwall system comprising powered roof supports and a shearer loader, produced by FAMUR Group companies, for a total amount of EUR 15,375,500, i.e. approximately PLN 64m (VAT exclusive). As certain circumstances occurred that had not been foreseen at the time when the contract was signed, on February 21st 2018 the Management Board announced that the contract was terminated by mutual consent of the parties. The parties agreed that the termination would not produce any negative financial consequences for the Issuer. (Current Reports No. 01/2018 and 12/2018)
- **Execution of agreement with Bank Zachodni WBK S.A.** On February 23rd 2018, FAMUR S.A. announced that it had entered into an agreement for a PLN 50,000,000 current account and foreign currency account overdraft facility and creation of security over the Company's assets with Bank Zachodni WBK S.A. of Wrocław ("BZWBK") . Pursuant to the agreement, the purpose of the facilities is to finance the Company's ongoing operations. The financing period is 36 months from the date of the facility agreement. The agreed interest rate is a variable rate equal to WIBOR plus the Bank's

margin. The facility is secured with: 1) joint contractual mortgage of up to 150% of the facility amount over real property owned by the Company, with assignment of rights under insurance policy, 2) representation on submission to enforcement under Art. 777 of the Code of Civil Procedure. Other terms and conditions of the agreement do not differ materially from the terms and conditions commonly applied in agreements of such type (Current Report No. 13/2018).

- **Execution of credit facility agreement with Credit Agricole Bank Polska S.A.** On February 23rd 2018, the Management Board of FAMUR S.A. announced that the Company and Credit Agricole Bank Polska S.A. of Wrocław entered into an agreement for the provision of a credit facility for up to PLN 50,000,000 and creation of security over the Company's assets. Pursuant to the agreement, the purpose of the facilities is to finance the Company's ongoing operations. Any funds borrowed under the credit facility are to be repaid by February 28th 2021 at the latest. The agreed interest rate is a variable rate equal to WIBOR plus the Bank's margin. The facility is secured with: 1) a joint mortgage of up to PLN 60,000,000 over properties owned by the Company together with assignment of rights under the insurance policy, 2) a statement on voluntary submission to enforcement pursuant to Art. 777 of the Code of Civil Procedure. Other terms and conditions of the agreement do not differ materially from the terms and conditions commonly applied in agreements of such type. (Current Report No. 14/2018).
- **Submission of instruction to repay liabilities under credit facility agreements with PKO Bank Polski S.A.** On February 27th 2018, the Management Board of FAMUR S.A. announced that it had submitted an instruction to repay liabilities of PLN 150,000,000 under non-revolving credit facility agreements with PKO Bank Polski S.A., and that the agreements had been terminated. The decision to terminate the credit facility agreements was made after the Company obtained more flexible and competitive financing on the market, as announced in Current Report No. 13/2018 of February 23rd 2018 and Current Report No. 14/2018 of February 23rd 2018. At the same time, the Company does not exclude cooperation with PKO BP with regard to various banking products (see Current Reports No. 16/2018, 49/2016, 17/2014 and 50/2013).
- **Execution of annexes to agreements with Bank Gospodarstwa Krajowego:** On February 28th 2018, the Management Board of FAMUR S.A. announced that it had received annexes, signed by Bank Gospodarstwa Krajowego of Warsaw (the "Bank" or "BGK") as the other party, to the PLN 40,000,000.00 overdraft facility agreement and the PLN 42,000,000 guarantee facility agreement, which were announced by the Company in Current Report No. 42/2015. Pursuant to the annexes, the overdraft facility repayment date has been extended by 36 months from the date of the annex. The maximum deadline for issuing guarantees under the guarantee facility was extended to 36 months from the annex execution date. The other material terms and conditions of the agreements remained unchanged (see Current Report No. 18/2018).
- **PFSA's approval of Annex 1, Annex 2 and Annex 3 to Information Memorandum.** On March 7th 2018, FAMUR S.A. announced that on March 6th 2018 the Polish Financial Supervision Authority issued a decision approving Annex 1, Annex 2 and Annex 3 to the Information Memorandum that were prepared in connection with the public offering of 15,322.712 Series F ordinary bearer shares with a par value of PLN 0.01 per share, addressed exclusively to the shareholders of KOPEX S.A. and carried out in connection with its demerger through transfer of a part of its assets to the acquirer FAMUR S.A., and admission of Series F Shares to trading on a regulated market. The Annexes were made available to the public in electronic form on FAMUR S.A.'s website (www.famur.com) in the 'Investor Relations – Integration with KOPEX' section. The Annexes were prepared in connection with execution of an agreement with Bank Zachodni BZ WBK (see Current Report No. 13/2018), execution of an agreement with Credit Agricole Bank Polska S.A. (see Current Report No. 14/2018), execution of annexes to agreements with Bank Gospodarstwa Krajowego (see Current Report No. 18/2018), submission of an instruction to repay liabilities under credit facility agreements with PKO Bank Polski S.A. (see Current Report No. 16/2018), and publication of preliminary financial results for 2017 and information on one-off events with a bearing on the Company's and the FAMUR Group's results for 2017, announced by the Company in Current Report No. 11/2018 on February 19th 2018 (see Current Reports No. 20/2018, 7/2018 and 6/2018).
- **Selection of FAMUR's bid for delivery of roof support system sections to JSW S.A.** On March 8th 2018, FAMUR S.A. announced that it was selected as the preferred bidder in a tender procedure called by Jastrzębska Spółka Węglowa S.A. – Production Support Plant for the delivery of brand new

powered roof support sections, including 102 line sections and 8 external sections, together with the necessary equipment, for JSW S.A. KWK Borynia-Zofiówka-Jastrzębie Ruch Zofiówka. The value of the selected bid is PLN 85,018,800.00 (VAT exclusive). The sections are expected to be delivered by mid July 2018. The other bidders may appeal against the decision to select FAMUR S.A.'s bid within the time limit prescribed by law (see Current Report No. 21/2018).

- **Execution of annexes to agreements with Raiffeisen Bank Polska S.A.** On May 16th 2018, the Company announced it had received information that the other party, i.e. Raiffeisen Bank Polska S.A. of Warsaw, executed an annex to the overdraft facility agreement of September 11th 2014, as amended, and an annex to the debt limit agreement of September 28th 2015, as amended. The total amount that can be drawn under these facilities pursuant to the annexes is PLN 132,500,000.00. Under the annexes, the maturity dates of the facilities were extended as follows: (1) The maturity date of the overdraft facility – September 30th 2020 (2) The maturity date of the debt limit – September 29th 2023. The other material terms of the agreement remained unchanged. (Current Report No. 31/2018).
- **Execution of contracts with JSW S.A. for the lease of 14 gallery drilling systems** On June 28th 2018, FAMUR S.A. announced that it became aware that its bid was selected as the winning bid and it was called upon to execute agreements following the resolution of a tender procedure for the lease of 14 new roadheaders for mining rocks with minimum compressive strength of 90 MPa along with necessary equipment, for the needs of JSW S.A. KWK Borynia – Zofiówka – Jastrzębie and JSW S.A. KWK Pniówek. On July 16th 2018, the Company announced that it became aware that the other party, JSW S.A., signed the last of the lease agreements. In accordance with the agreements, the Company will deliver new machines equipped with, among other things, a flameproof multi-contact switch, double voltage transformer station, a pump set, a data transmission system, and a visualization and monitoring system. The Company provides a guarantee and ensures maintenance and insurance of the equipment throughout the lease period. The VAT-inclusive value of the agreements is PLN 132,786,864.00 (PLN 107,956,800.00, VAT exclusive.) The machinery should be delivered to the buyer in stages, over a period spanning from the fourth (4th) to the forty-fourth (44th) week from the agreement date. The agreement performance period will be 1,080 calendar days for each roadheader. (Current Reports No. 37/2018 and 41/2018)
- **Definition of the term sheet for the sale of shares in Przedsiębiorstwo Budowy Szybów S.A. to JSW S.A.** On July 17th 2018, representatives of the Company's subsidiaries, i.e. KOPEX S.A. and PBSz 1 Sp. z o.o (as the Sellers) and representatives of Jastrzębska Spółka Węglowa S.A. ("JSW") (as the Buyer) signed the term sheet for the sale of 95.01% of shares ("Term Sheet") in Przedsiębiorstwo Budowy Szybów S.A. ("PBSz"). The Term Sheet stipulated that the parties would seek to conclude an agreement for the sale of PBSz shares, which would define the rights and obligations of the Parties and the conditions for the transfer of PBSz shares to the Buyer in accordance with the Term Sheet, within three months from the Term Sheet date. The transaction is subject to a number of conditions, including obtaining a merger clearance from the Polish Office of Competition and Consumer Protection (UOKiK) and release of encumbrances on PBSz assets and on the object of the transactions provided for in the 2016 restructuring agreement whose parties include, among others, the Seller, PBSz and the financial creditors, conclusion of satisfactory agreements with the PBSz trade unions and the two largest trading partners of PBSz, as well as obtaining the consent of JSW bondholders and corporate approvals. (Current Report No. 43/2018)
- **Execution of contract for lease of roadheaders to PGG S.A. – deliveries to be completed by end of 2019.** On July 31st 2018, the Management Board of FAMUR S.A. of Katowice announced the selection of the best bids, including the Company's bid, as a result of resolution of the tender procedure "Lease of roadheaders to Branches of Polska Grupa Górnicza S.A. – deliveries to be completed by the end of 2019," organised by PGG. The Company's bid was chosen for seven out of the eleven tasks for which bids could be placed. On August 28th 2018, the Company announced that it was notified of execution of the relevant lease contract by the other party, i.e. PGG S.A. The maximum aggregate price for the performance of the contract may reach PLN 124,589,100.00 (exclusive of VAT). The guaranteed lease period for each roadheader is 1,000 calendar days. The contract will be valid for the requirements notified during the period from the date of its conclusion to December 31st 2019, with an option to extend that period if the contract price is not fully utilised, but only until the end of June 2020. The other terms and conditions of the contract do not differ from standard market terms applied in contracts of such type. (Current Reports No. 45/2018 and 46/2018).

- **Execution of contract for lease of roadheaders to Branches of Polska Grupa Górnicza – deliveries to be completed by end of 2019.** On August 28th 2018, the Management Board of FAMUR S.A. announced that it was notified of execution of the contract for lease of roadheaders to Branches of PGG, with deliveries to be completed by the end of 2019, by the other party to the contract, i.e. Polska Grupa Górnicza ("PGG"). The maximum aggregate price for the performance of the contract may reach PLN 124,589,100.00 (exclusive of VAT). The guaranteed lease period for each roadheader is 1,000 calendar days. The contract will be valid for the requirements notified during the period from the date of its conclusion to December 31st 2019, with an option to extend that period if the contract price is not fully utilised, but only until the end of June 2020. The other terms and conditions of the contract do not differ from standard market terms applied in contracts of such type. (Current Report No. 46/2018).

11. Qualified auditor of the financial statements

The qualified auditor of the financial statements is Ernst & Young Audyt Polska sp. z o.o. sp.k. with its registered office at ul. Rondo ONZ 1, Warsaw, registered at the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, under No. KRS 0000481039, entered in the list of qualified auditors of financial statements maintained by the National Chamber of Statutory Auditors (Krajowa Izba Biegłych Rewidentów) under entry No. 130.

2018

Agreement date	Subject matter	Fee (VAT exclusive, PLN)
Jul 2nd 2018	- review: FAMUR S.A.'s interim separate financial statements and the FAMUR Group's interim consolidated financial statements, and	70,000
	- audit: FAMUR S.A.'s separate financial statements and the FAMUR Group's consolidated financial statements.	169,000
Total		**239,000**

Source: FAMUR S.A.

In 2017, the qualified auditor of the financial statements was Ernst & Young Audyt Polska sp. z o.o. sp.k. with its registered office at ul. Rondo ONZ 1, Warsaw, registered at the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, under No. KRS 0000481039, entered in the list of qualified auditors of financial statements maintained by the National Chamber of Statutory Auditors (Krajowa Izba Biegłych Rewidentów) under entry No. 130.

2017

Agreement date	Subject matter	Fee (VAT exclusive, PLN)
Jun 20 2017	- review: FAMUR S.A.'s interim separate financial statements and the FAMUR Group's interim consolidated financial statements, and	55,000
	- audit: FAMUR S.A.'s separate financial statements and the FAMUR Group's consolidated financial statements.	135,000
Total		**190,000**

Source: FAMUR S.A.

12. Material risk factors and threats with bearing on the Company's business

The risk factors discussed below are typical both for the FAMUR Group and for FAMUR S.A.

Risk of inadequate diversification of revenue sources

The FAMUR Group's business largely depends on the condition of the Polish hard coal mining industry. A considerable part of the Group's revenue is derived from the domestic market. Due to the potentially lower demand from the Polish hard coal mining sector in the long term, the Group may find it difficult to quickly find new customers for mining equipment. Therefore, the FAMUR Group pursues an active marketing and sales promotion policy targeted at promising export markets, such as India, Indonesia, Turkey,

Russia and other CIS countries, the Middle East, Mexico, and South American countries, with a view to winning new trading partners and consolidating existing business relations. Moreover, following the acquisition of FAMUR FAMAK S.A., the FAMUR Group diversified its markets and product range to include cargo handling systems, bridge cranes, and hoisting equipment. This will allow the Group to become an active and attractive partner for companies from the power sector. The integration with the PRIMETECH Group (formerly KOPEX Group) will provide opportunities to further diversify revenue sources thanks, among other things, to stronger presence of the integrated group on foreign markets. The combination of FAMUR and PRIMETECH (formerly KOPEX) will help generate numerous synergies in terms of both costs and revenue, and the Group will strengthen its position on many markets and create a comprehensive offering in the electrical equipment segment.

Risk of deterioration in mining companies' financial position

The FAMUR Group's performance depends on the situation in the Polish coal mining industry. Management of this risk is designed to mitigate the adverse effect on the FAMUR Group's financial condition of issues inherent in its operations, including in particular:

- liquidity/credit risk – the risk of a trading partner's failure to perform contractual obligations;
- risk of revenue erosion – caused by declining expenditure of the mining industry.

The Group's risk related to trade receivables results from outstanding contracts and is related to the risk of such events as a trading partner's insolvency, partial payment of receivables, and material delays in their payment, which in turn may give rise to the potential risk of FAMUR S.A.'s not being able to meet its obligations. Given the prevailing situation of the Polish mining industry, our customers still tend to delay payments under some of the contracts. The Group protects itself against failure to pay its liabilities by appropriately managing the payment and collection periods, as well as the system of advance payments. Additionally, the creditworthiness of trading partners is checked, and security (in the form of letters of credit or bank guarantees) is used to minimise the risk of non-payment. At the same time, the credit facility limits available to the Group are sufficient to prevent any negative consequences of delays in payment by customers who have bought our products or services.

Given the considerably improved performance of Polish coal mining companies, the need to increase coal production efficiency (which will undoubtedly require investment in higher quality equipment), as well as the urgent need to begin preparatory work to access new coal deposits, one should expect the Polish mining sector's capital expenditure to pick up soon. In view of the publicly announced plans to continue the restructuring and integration of the Polish mining industry, the FAMUR Management Board expects that coal producers should soon benefit from both favourable coal prices and positive effects of the restructuring efforts, which will help them carry out their investment plans and facilitate making payments.

Nevertheless, faced with the still volatile liquidity position of the Polish mining sector and its high dependence on global coal prices in the long term, the FAMUR Group is stepping up efforts to increase export sales and diversify its operations to include provision of services and manufacture of equipment for the power and bulk handling sectors.

Risk related to labour market volatility and rising labour costs

Competition for qualified staff in various fields of specialisation has intensified in the labour market these days, and there is a risk of skilled labour shortages and rising pay expectations of current employees. In the long run, rivalry for key skills and the upward pressure on wages could make recruitment of new employees more difficult, adversely affecting the expected efficiency and pace of growth. The FAMUR Group has put in place control mechanisms to mitigate this risk by implementing various incentive and development programmes, enhancing employee loyalty and attractiveness of the FAMUR Group as an employer, monitoring the market for opportunities to hire foreign employees, and implementing a broad range of measures to win and retain top talent at the FAMUR Group, including in local markets. FAMUR employs control systems to monitor the profitability of contracts in progress on an ongoing basis and adjusts the prices in tenders to the current and expected market conditions.

Role of engineering and technical staff

FAMUR S.A. is well aware that its execution capabilities depend to a large extent on the ability to efficiently and independently prepare complete technical documentation for the manufactured machinery and equipment. The process of preparing for the manufacture of each machinery item involves the performance of a number of engineering and technical design tasks. The ability to manufacture a product that would meet specific technical requirements depends on highly qualified engineering staff. Technical and engineering staff are the Group's and FAMUR's key employees. The FAMUR Group's business also entails the need to employ highly qualified manual workers with extensive experience and skills required in the manufacture of technologically advanced machinery. Also the implementation of new designs requires specialists with relevant engineering experience. There is a risk of future shortage of personnel with appropriate experience, educational background and professional skills, which may limit the Group's ability to increase production and introduce new machinery, designs, and technological solutions.

Risk of macroeconomic volatility

General macroeconomic conditions, including the government's economic policy and the central bank's monetary policy, have a bearing on the FAMUR Group's revenue. Lack of stability on global financial markets, volatile commodity prices, geopolitical and economic turmoil in many regions across the world, as well as exchange rate fluctuations, may result in revenue and profit erosion. Therefore, FAMUR and its subsidiaries will take these risk factors into account when signing new contracts, if any, and no contracts will be concluded with foreign entities in troubled or uncertain financial condition. The Company will seek to take out insurance for its significant export contracts with Korporacja Ubezpieczeń Kredytów Eksportowych (KUKE) or rely on the support of similar institutions.

Risk related to changes in the legal environment and interpretation of tax laws

The law in Poland and its practical application are subject to frequent changes. In particular, the FAMUR Group's operations may be adversely affected by changes in tax, labour and personal data protection laws. As interpretations of laws tend to vary, there is a risk of tax authorities adopting a different interpretation than that applied by the company, which may lead to the imposition of penalties. The materialisation of this risk may have a significant adverse effect on the Group's operations, both in terms of its current financial standing and growth prospects. The mechanisms used to control this risk are implemented at all levels of the Group's organisation and monitored on a daily basis. They include preventive measures involving comprehensive analysis of statutory interpretations and recent judicial decisions, and implementation of appropriate legal, organisational and systemic solutions, with a particular focus on data security protection and adequate IT system safeguards.

Risk of changes in the global energy market

As coal is one of the major energy commodities, its prices, production volumes and usage are shaped by global trends. Key risks are related to:

- electricity prices, affecting the selling prices of coal,
- long-term shifts in the energy mix – growing share of fuels other than coal.

These factors may affect investment outlays in the Polish and global mining industry. The Group keeps monitoring both current and forecast trends on the energy market. Moreover, the Group is intensifying efforts to diversify its product range mainly towards products and services for power generation and bulk handling sectors. Based on available analyses and publicly announced information, the Management Board of FAMUR S.A. also assumes that the share of coal in the energy mix will remain roughly stable over the coming years.

Financial risk

Financial risk management is designed to mitigate or eliminate the adverse effect on the FAMUR Group's financial condition of risks inherent in its operations, including in particular the interest rate risk, the price risk and the currency risk.
The Group seeks to minimise its exposure to various risks through natural hedging mechanisms and the application of certain hedging policy and hedge accounting principles.

- Interest rate risk – the Group is exposed to this risk as it finances its operations with bank loans/facilities bearing interest at WIBOR-based variable rates. As the majority of the Group's loans are denominated in the złoty, the Group regularly monitors the decisions of the Polish Monetary Policy Council and negotiates lending terms with banks.
- Price risk – the risk of price increases arises in connection with materials essential for the Group's operations, mainly steel products. The Group minimises this risk by ensuring that its contracts with suppliers (including steelworks, suppliers of hydraulic and electrical elements) provide for the right to negotiate prices and by placing framework purchase orders where prices and volumes are guaranteed but individual batches are collected gradually, when and as needed. The Group's sources of materials for production and provision of services are diversified insofar as possible.
- Exchange rate risk – since some of the Group's products are exported, the Group is exposed to the exchange rate risk. Two to nine months usually pass between the date of an export contract to supply machinery or equipment and the date of actual delivery, which is due to the length of the manufacturing cycle (in the case of larger contracts, this period can be even longer). Since the bulk of manufacturing costs are incurred in the Polish currency, the FAMUR Group is exposed to the exchange rate risk connected with its export operations. The Group takes steps to minimise foreign exchange risk by using natural hedging and by pursuing a defined hedging policy, entering into FX forwards to hedge its currency risk exposures, requiring advance payments in the case of some of its transactions, and applying hedge accounting, which was implemented at the parent as of the beginning of 2017. The following table presents the FAMUR Group's derivative instruments measured as at the reporting date, i.e. June 30th 2018.

Derivatives (groups of instruments)	**Planned date of materialisation** of hedged cash flow or group of cash flows	**Value of future cash flows** at forward rate	**Market value of hedging transactions** as at Jun 30 2018	**Hedged** risk
Forward - purchase of USD	Q3 2018	2,351	2,535	Foreign exchange risk
Forward - sale of USD	Q3 2018	2,181	2,191	Foreign exchange risk
Forward – sale of EUR	Q3 2018	117,808	120,698	Foreign exchange risk
Forward - purchase of USD	Q4 2018	1,582	1,704	Foreign exchange risk
Forward – sale of EUR	Q4 2018	58,021	59,705	Foreign exchange risk
Forward - purchase of USD	Q1 2019	551	594	Foreign exchange risk
Forward – purchase of EUR	Q1 2019	9,792	9,845	Foreign exchange risk
Forward – sale of EUR	Q1 2019	27,469	28,139	Foreign exchange risk
Forward – purchase of EUR	Q2 2019	1,163	1,169	Foreign exchange risk
Forward – sale of EUR	Q2 2019	4,265	4,438	Foreign exchange risk
Forward – sale of EUR	Q3 2019	2,156	2,240	Foreign exchange risk
Forward – sale of EUR	Q4 2019	8,250	8,554	Foreign exchange risk
Forward – sale of EUR	Q1 2020	4,360	4,517	Foreign exchange risk
IRS	Q1 2020	108,000	108,250	Interest rate risk
Forward – purchase of EUR	Q2 2020	1,264	1,258	Foreign exchange risk
Total		349,212	355,836	

Source: FAMUR; amounts in PLN '000.

13. Representations by the Management Board of FAMUR S.A.

Reliability of the consolidated financial statements

To the best of our knowledge, the interim condensed consolidated financial statements of FAMUR S.A. and the FAMUR Group for the first half of 2018 and the comparative data have been prepared in compliance with the applicable accounting standards, and give a true, fair and clear view of the Company and Group's assets, financial position and performance. The financial statements give a fair view of the development, achievements and position of FAMUR S.A. and the FAMUR Group, and describe the key risks and threats.

Auditor

Ernst & Young Audyt Polska sp. z o.o. sp.k., an auditing firm qualified to audit financial statements, which reviewed the H1 2018 interim condensed financial statements of FAMUR S.A. and the consolidated financial statements of the FAMUR Group, was appointed in compliance with the applicable laws. Both the auditing firm and the auditor who performed the audit met the conditions required to issue an objective and independent audit report, in accordance with the applicable provisions of Polish law.

Mirosław Bendzera – President of the Management Board

Beata Zawiszowska – Vice President of the Management Board

Adam Toborek – Vice President of the Management Board

Zdzisław Szypuła – Vice President of the Management Board

Dawid Gruszczyk – Vice President of the Management Board

Bartosz Bielak – Vice President of the Management Board

Katowice, September 26th 2018