

REPORT OF THE SUPERVISORY BOARD OF FAMUR S.A.

**ON THE ACTIVITIES OF THE SUPERVISORY BOARD AND ON THE
ASSESSMENT OF THE SEPARATE AND CONSOLIDATED FINANCIAL
STATEMENTS, DIRECTORS' REPORT ON THE COMPANY'S AND THE
GROUP'S OPERATIONS, THE MANAGEMENT BOARD'S RECOMMENDATION
CONCERNING ALLOCATION OF PROFIT FOR THE FINANCIAL YEAR 2020,
AND OF THE COMPANY'S POSITION,**

PREPARED FOR THE ANNUAL GENERAL MEETING

I. REPORT OF THE SUPERVISORY BOARD ON ITS ACTIVITIES IN 2020

1. LEGAL BASIS

This Report has been prepared in accordance with:

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

2. COMPOSITION OF THE SUPERVISORY BOARD

Composition of the Supervisory Board as at January 1st 2020:

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

**Supervisory Board member meeting statutory independence criteria*

Composition of the Supervisory Board as at December 31st 2020 and as at the date of this report:

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

**Supervisory Board member meeting statutory independence criteria*

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

3. SUPERVISION PROCEDURES

Pursuant to the provisions of the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure for the Supervisory Board, in 2020 the Supervisory Board exercised supervision over the Company's operations. The Supervisory Board performed its duties mainly by way of passing resolutions by written ballot. The Supervisory Board maintained regular contact with the Company's Management Board and the auditor.

4. ACTIVITIES OF THE SUPERVISORY BOARD IN THE REPORTING PERIOD

In 2020, as in previous years, the Supervisory Board dealt with both the strategic matters and the Company's day-to-day operations. In particular, the Supervisory Board focused on:

- assessment of the Company's financial statements for 2019, the Directors' Report on the Company's operations, the Management Board's proposal concerning allocation of profit, and the Supervisory Board's report on the assessment,
- assessment of the financial statements of the Group for 2019 and the Directors' Reports on the Group's operations in 2019,
- report on the Supervisory Board's activities in 2019,
- issuing opinions on draft resolutions of the Company's General Meeting,
- discussing the policy concerning remuneration of and bonus for members of the Management Board,

- giving consent to disposal of real property or perpetual usufruct rights in real property,
- giving consent to disposal of shares in subsidiaries,
- approving annual budgets of the Company and the Group prepared by the Management Board,
- approval of the decision to extend the duration of the Notes Programme.

II. SUPERVISORY BOARD'S REPORT ON THE ASSESSMENT OF THE SEPARATE FINANCIAL STATEMENTS FOR 2020, THE CONSOLIDATED FINANCIAL STATEMENTS OF THE FAMUR GROUP FOR 2020 AND THE DIRECTORS' REPORT ON THE OPERATIONS OF THE FAMUR GROUP AND FAMUR S.A. IN 2020

The Supervisory Board has read the independent auditor's report on the full-year separate financial statements for 2020 and the auditor's report on the full-year consolidated financial statements for 2020. In the auditor's opinion:

I. The separate financial statements for 2020:

- give a true and fair view of the Company's assets and financial position as at December 31st 2020, as well as its financial results and cash flows for the financial year ended on December 31st 2020, in accordance with the applicable International Financial Reporting Standards as endorsed by the European Union and the adopted accounting policies;
- comply with the form and content requirements laid down in the laws and regulations applicable to the Company and in the Company's Articles of Association;
- were prepared on the basis of properly maintained accounting records, in accordance with Chapter 2 of the Accounting Act of September 29th 1994 (the "Accounting Act" – Dz.U. of 2021, item 217).

II. The consolidated financial statements for 2020:

- give a true and fair view of the Group's assets and financial position as at December 31st 2020, as well as its consolidated financial results and consolidated cash flows for the year then ended, in accordance with the applicable International Financial Reporting Standards as endorsed by the European Union and the adopted accounting policies;
- comply with the form and content requirements laid down in the laws and regulations applicable to the Group and in the Parent's Articles of Association.

III. The Directors' Report on the operations of the FAMUR Group and FAMUR S.A. in 2020:

- has been prepared in accordance with Art. 49 of the Accounting Act and Section 70 of the Minister of Finance's Regulation of March 29th 2018 on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state (the "Current Information Regulation" – Dz.U. of 2018, item 757),
- is consistent with the separate financial statements.

Following consideration and assessment of the financial statements for 2020, the consolidated financial statements for 2020, and the Directors' Report on the operations of the FAMUR Group and FAMUR S.A. in 2020, taking into account:

- the auditor's opinion on the above financial statements and discussions held with representatives of the audit firm, including the lead auditor,
- the positive recommendation by the Supervisory Board's Audit Committee to approve the financial statements for 2020, the consolidated financial statements for 2020, and the Directors' Report on the operations of the FAMUR Group and FAMUR S.A. in 2020,

the Supervisory Board concluded that the financial statements for 2020, the consolidated financial statements for 2020 and the Directors' Report on the operations of the FAMUR Group and FAMUR S.A. in 2020 are consistent with the accounting records, other relevant documents and facts.

Pursuant to Art. 4a of the Accounting Act of September 29th 1994 (the "Act"), the Supervisory Board further concludes that all elements of the financial statements for 2020, the consolidated financial statements for 2020, and the Directors' Report on the operations of the FAMUR Group and FAMUR S.A. in 2020 meet the requirements laid down in the applicable laws.

III. ASSESSMENT OF THE PROPOSAL CONCERNING ALLOCATION OF THE COMPANY'S PROFIT FOR 2020

Pursuant to Art. 382.3 of the Commercial Companies Code, the Supervisory Board hereby gives a positive opinion regarding the Management Board's proposal made in the resolution of March 30th 2020 not to distribute the profit of PLN 169,544,171.88 for the financial year ended December 31st 2020 and to allocate the whole profit to the Company's statutory reserve funds.

IV. CONCLUSIONS

The Supervisory Board collectively supervised the Management Board's activities in the financial year 2020 and performed its duties pursuant to the relevant provisions of the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure for the Supervisory Board.

Considering the results of the assessment of the (separate and consolidated) financial statements and the Directors' Report on the operations of the Company and the Group in 2020, and taking

into account the overall conditions and circumstances in which the Company operated in 2020, the Supervisory Board recommends that the Annual General Meeting of FAMUR S.A.:

- a) receive the Company's separate financial statements for 2020,
- b) receive the Group's consolidated financial statements for 2020,
- c) receive the Directors' Report on the operations of the Company and the Group in 2020,
- d) pass the resolution on allocation profit as proposed by the Management Board,
- e) grant discharge from liability to members of the Company's Management Board in respect of performance of their duties in 2020.

V. SUPERVISORY BOARD'S ASSESSMENT OF THE COMPANY'S AND THE GROUP'S STANDING IN 2020

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

The year of 2020, particularly the second quarter, saw a strong adverse impact of the COVID-19 pandemic on the global economy, leading to a global slowdown in the mining industry. Low coal prices across global markets and the COVID-19 pandemic led to a significant drop in orders on the OEM market and for aftermarket services. In addition, as a result of the COVID-19 pandemic, mining companies in Poland declared force majeure, notifying their trading partners of temporary suspension of some of the deliveries of already ordered machinery and equipment and selected contracts for the lease of shearer loaders and roadheaders. Cross-border travel and administrative restrictions in the countries where FAMUR Group subsidiaries operate (Russia, Kazakhstan and South Africa) forced the subsidiaries to temporarily suspended their operations and significantly impeded the acquisition of new contracts and orders for aftermarket services.

Despite restrictions on cross-border traffic imposed after the COVID-19 pandemic outbreak, the Company successfully delivered a MIKRUS system to China. The MIKRUS system was presented by China Energy as one of the most innovative projects recently launched in China.

Owing to the orders acquired in 2020, mainly in Russia and, to a lesser extent, in other markets, as at the end of December 2020, the total value of the FAMUR Group's backlog (supplies of machinery and equipment and leases in accordance with the contracts terms) was approximately PLN 850m.

In 2020, a decision was made to liquidate the branches in Rybnik and Piotrków Trybunalski, whose technical and technological competencies were transferred to other plants of the Group.

Revenue fell 47% year on year in 2020. The largest year-on-year decline was recorded in revenue from the supply of machinery and equipment (down 54%), with recurring revenue down 28%. Revenue generated in foreign markets represented 33% of total revenue.

The Group delivered EBITDA of PLN 416m and net profit of PLN 190m. The EBITDA translated into operating cash flows of PLN 640m in 2020. This led to the recognition of a PLN 420m surplus of cash over debt at the end of December 2020.

As declared by the Management Board, the activities related to the core business in 2021 will focus on priority and promising markets, mainly Russia and Asian countries, and on regular monitoring of market developments in Poland. The Company intends to invest cash generated from the core business of supplying underground soft rock mining machinery and equipment in promising growth areas outside the mining industry.

The FAMUR Group has also commenced building a renewable energy arm as a revenue diversification direction for the Group. Given that the FAMUR Group's equipment manufacturing business is indirectly related to the power generation sector, the adopted direction fits into the transition away from coal taking place in Poland and the European Union as well as the growing prominence of renewable power. The measure will allow the FAMUR Group to transform and adapt its business profile to the economic transition under the New Green Deal.

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

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

Responsibility for the internal audit system and its operational effectiveness in the processes of preparing financial statements lies with the Management Board of the Company. In addition, a separate Internal Audit Department has been created at the Company to carry out internal audits. Internal control, risk management and compliance functions are also performed within the corporate controlling and legal departments.

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

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

3. SUMMARY

The Supervisory Board has not identified any threat to the Company continuing as a going concern. The Supervisory Board gives a positive opinion on the Management Board's activities in 2020 and therefore recommends that the Annual General Meeting grant discharge from liability to members of the Management Board in respect of their performance of duties in 2020.