

# Non-Financial Statement of the FAMUR Group for 2017



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## 1. Overview of the FAMUR Group's business model

### 1.1. Activities and business environment

#### 1.1.1. Principal business activity

**[G4-3]** For over 100 years now, the FAMUR Group has been offering top quality solutions for the mining sector, specialising in the mechanisation and automation of mining processes. Following the acquisition of FAMAK S.A. in 2014 and integration with the Kopex Group in 2017, FAMUR became a global supplier of comprehensive turn-key solutions for the mining industry (soft rock mining), the heat and power sector, and the cargo handling industry. The Group's operations focus on four key business segments: Underground, Surface, Electrical Equipment, and Services.

The FAMUR Group is one of the few manufacturers in the world that can supply end-to-end mining systems for mines and end-to-end coal feeding systems for power plants. The Group also supplies specialist cargo handling equipment for ports and stacking yards.

#### 1.1.2. Organisation and structure of the Group

The FAMUR Group comprises manufacturers of machinery and equipment for underground mining (the 'Underground' segment), surface mining industry, heat and power sector, cargo handling sector (the 'Surface' segment), as well as providers of other complementary services, offering a full range of solutions, such as design and service offices as well as foreign trade companies. Following the acquisition of control over the KOPEX Group companies in 2017, the FAMUR Group was expanded to include companies that specialise in providing comprehensive power supply, automation, and control solutions and products for the mining industry (the 'Electrical Equipment' segment), as well as in services and underground construction (the 'Mining Industry Services' segment).

### Underground



The Group specialises in delivering comprehensive mechanised longwall systems for coal mines as well as in designing and delivering IT tools for back-to-back management of coal mining processes. In Poland, the FAMUR Group is the leading manufacturer of longwall and gallery systems. A vast majority of all longwall shearer loaders and roadheaders working in Polish coal mines were made by the FAMUR Group companies. FAMUR is one of the few players globally capable of manufacturing and delivering longwall systems able to work even in the most challenging geological conditions. A detailed description of the segment is provided further in this Statement.



## Surface

The FAMUR Group provides surface mines with machinery and equipment forming an end-to-end system for continuous surface mining, heat and power producers – with back-to-back coal feeding and slag removal systems, and ports and terminals – with cargo handling systems. A detailed description of the segment is provided further in this Statement.

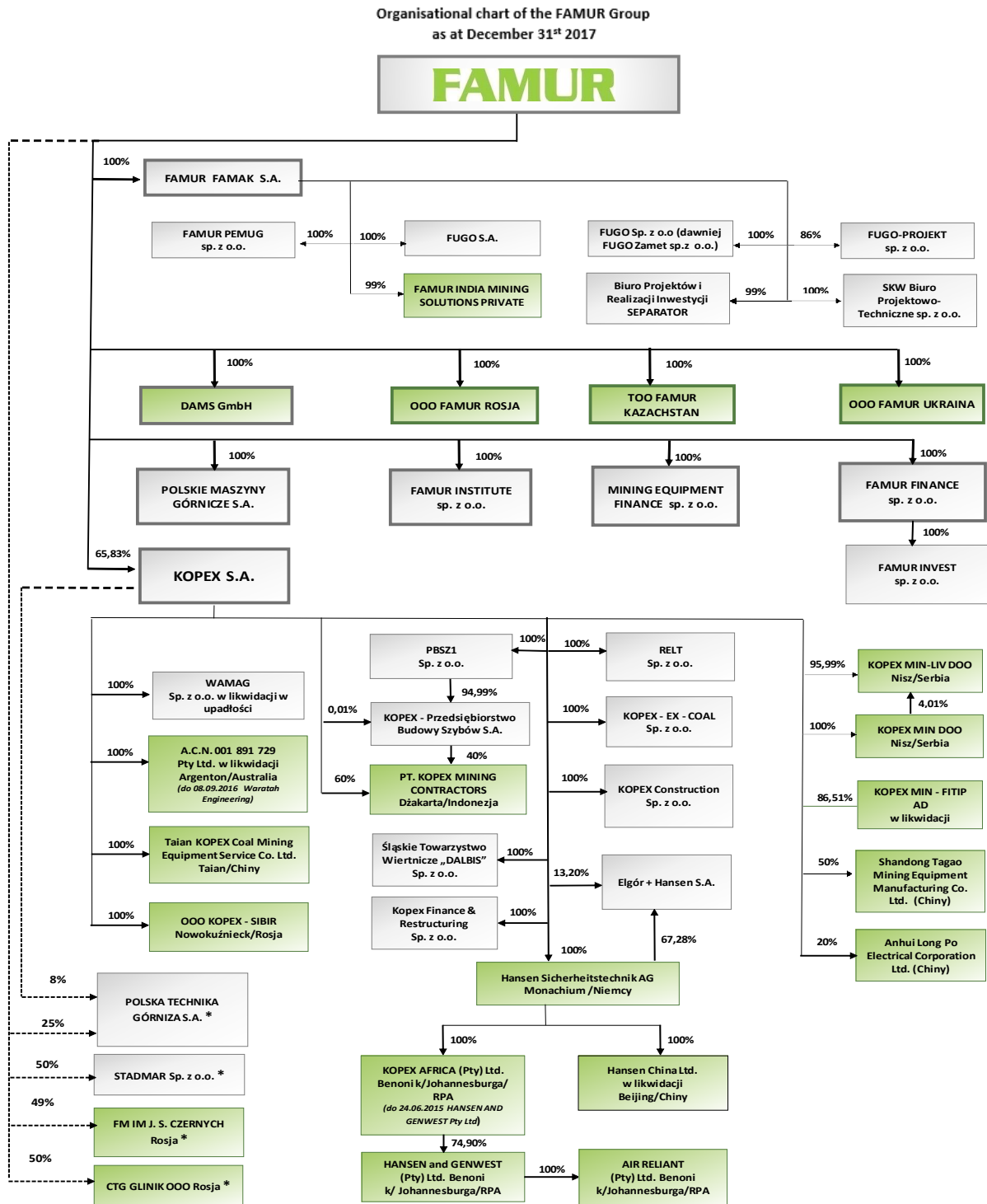
## Electrical Equipment

The segment's business focuses on the design and manufacture of a wide range of electrical equipment, control and automation systems (mainly for the needs of the mining sector), as well as auxiliary services. A detailed description of the segment is provided further in this Statement.

## Mining Industry Services

The operations of Przedsiębiorstwo Budowy Szybów S.A. (PBSz S.A.), which belongs to a small group of highly specialised 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 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. A detailed description of the segment is provided further in this Statement.

As at December 31st 2017, the structure of the FAMUR Group was as follows:

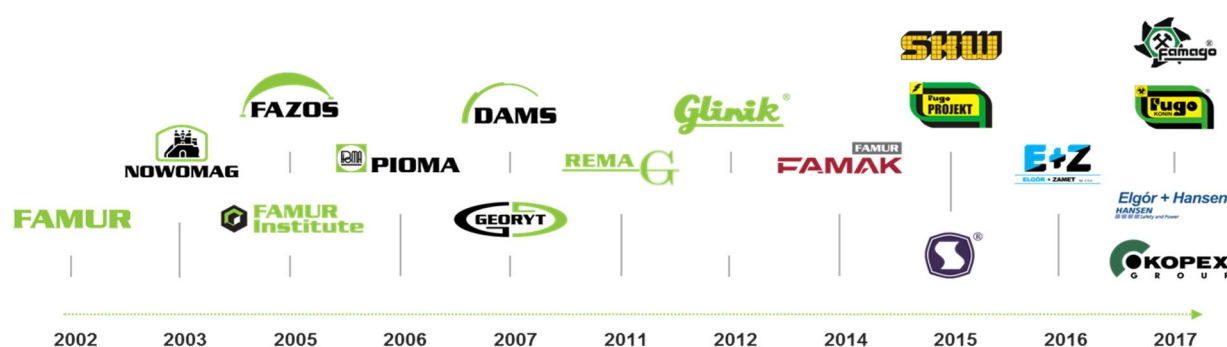


Note: green is used to mark companies based abroad  
 \*) Entity is not a subsidiary  
 Source: the FAMUR Group, the KOPEX Group

The FAMUR Group owes its current market position to the successful consolidation, initiated 15 years ago, of providers of solutions and equipment for the underground and surface mining sectors, heat and power producers, and the cargo handling industry. Below are presented the key stages of this process:

- In 2002, a private investment company owned by the Domogała family acquired Fabryka Maszyn FAMUR S.A., which at the time was in a difficult financial situation. A restructuring process was initiated, involving a number of capex projects;
- In 2003, FAMUR S.A. took over Nowosądecka Fabryka Maszyn Górniczych NOWOMAG S.A., a manufacturer of comprehensive output handling systems, i.e. mainly armoured face conveyors and beam stage loaders, belt conveyors, and crushers. The transaction marked the establishment of a group of companies manufacturing complementary mining machinery and equipment;
- In 2005, the FAMUR Group was merged with Fabryka Zmechanizowanych Obudów Ścianowych FAZOS S.A. of Tarnowskie Góry, one of the two largest manufacturers of powered roof supports in Poland, with a well-recognised brand globally. The FAMUR Group was also expanded to include Fabryka Maszyn Górniczych PIOMA S.A., one of the largest global manufacturers of mining machinery and equipment, specialising in the manufacture of transport systems: underground and surface belt conveyors, material transport and man-riding units, winding equipment, and coal dressing equipment.
- In 2006, FAMUR S.A. went public on the Warsaw Stock Exchange;
- In 2007, the Group acquired GEORYT – Centrum Produkcyjne Sp. z o.o. of Trzebinia, manufacturer of control hydraulics;
- In 2011, the Group expanded its product mix by adding roadheaders, following the acquisition of REMAG S.A., the leader of the roadheader segment in the Polish market. In the same year, FAMUR S.A. acquired an organised part of business of PEMUG S.A., specialising in designing, construction, and assembly of hoist frames and coal dressing plants, as well as Biuro Projektów PROREM Sp. z o.o., specialising in the design of state-of-the-art comprehensive process lines for coal dressing plants;
- In 2012, the Group acquired Zakład Maszyn Górniczych Glinik Sp. z o.o. of Gorlice and was thus joined by another well-known, strong mining brand specialising in the manufacture of powered roof supports, scraper conveyors and crushers;
- In 2014, FAMUR S.A. launched the Operational Integration Programme across the FAMUR Group. As part of the Programme, the Management Board initiated a process to combine the FAMUR Group companies so that ultimately they operate as a single entity with a number of production facilities. The programme was intended to simplify the Group's structure, reduce costs and further improve efficiency. In accordance with the objectives of the programme, all key entities developing solutions for the Underground segment, including REMAG S.A., ZMG Glinik Sp. z o.o. FAZOS S.A., PIOMA S.A. and Nowomag S.A., were gradually integrated into FAMUR S.A.
- In 2014, FAMUR S.A. acquired a controlling interest in FAMAK S.A. and expanded its business by adding handling and hoisting systems as well as systems for surface mining; based on FAMAK's assets and capabilities, the consolidation of the segment of solutions for surface mining, heat and power companies, and the cargo handling industry commenced;
- In 2015, the following acquisitions were made: Biuro Projektów i Realizacji Inwestycji SEPARATOR Sp. z o.o. of Gliwice, shares in FUGO Projekt Sp. z o.o. of Konin, and SKW Biuro Projektowo-Techniczne Sp. z o.o. of Zgorzelec, thus adding new capabilities to the Surface segment;
- In 2016, the Group became the legal successor of Elgór + Zamet Sp. z o.o., a supplier of drilling rigs, drillers, dinting loaders and loaders used in hard coal mines;
- In 2017, the FAMUR Group acquired a controlling interest in KOPEX S.A. – its key competitor listed on the WSE, thus ending many years of efforts to consolidate the potential of the Polish sector of mining machinery and equipment suppliers under one strong brand. This opened the way to integrate the structures of both Groups, significantly expanding the Underground segment's product mix, and adding two new business lines related to the Electrical Equipment Segment's and the Mining Industry Services Segment's products and services to the Group's offering. In 2017, the Group also acquired FUGO Zamet Sp. z o.o. (specialising in repairs of machinery and equipment for surface mines) with a manufacturing plant in Konin, and an organised part of business of Famago (manufacturer of machinery and equipment for surface mining and for the cargo handling industry) with a manufacturing plant in Zgorzelec, thus doubling the production capacities and successfully delivering on the strategy to consolidate the potential in the manufacture of loading and handling equipment, as well as plant and equipment for surface mining.

In 2017, intensive work continued to integrate the FAMUR and KOPEX Groups as part of the Group's largest segment, i.e. Underground. The operational integration is proceeding in accordance with the adopted schedule. 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 Kopek Group, have been optimised and adapted to the current market conditions. On February 8th 2018, the Polish Financial Supervision Authority approved an information memorandum drawn up in connection with the companies' integration. The KOPEX Group's machinery business will be merged with FAMUR S.A.'s business. An Extraordinary General Meeting of FAMUR S.A. was held on April 13th 2018 and passed a resolution to demerge KOPEX S.A. by transferring a part of its assets to FAMUR S.A. and amend the Articles of Association as appropriate. In exchange for the shares in KOPEX machinery business, the shareholders of KOPEX S.A. (excluding FAMUR S.A., being the Acquirer) will receive new Series F shares in FAMUR S.A. The Company's Management Board estimates that the final completion of the integration of the FAMUR Group and the KOPEX Group, including the conversion into book-entry form and registration of the demerger shares in FAMUR S.A. with CSDP, as well as their admission to trading, should take place in July 2018.



FAMUR Group history timeline

### 1.1.3. FAMUR Group's products and segments

The FAMUR Group offers technologically advanced machinery and equipment as well as solutions for:

- mines – (1) comprehensive design and construction of new as well as the upgrade of existing shafts and surface infrastructure, including coal dressing plants, (2) complete deep and surface mining systems, (3) power supply equipment and solutions, automation and industrial control systems;
- power plants – delivery of complete coal feeding systems, tailored to their needs;
- ports, handling and in-plant transport terminals – specialist handling equipment.

### Production capacities

As at December 31st 2017, the FAMUR Group owned the following key manufacturing plants:

- 7 plants in the Underground segment:
  - 1 plant manufacturing shearer loaders and gearboxes, in Katowice,
  - 1 plant manufacturing roadheaders, drills, anchor drill rigs, loaders, and dinting loaders, at the REMAG branch in Katowice,
  - 1 plant manufacturing powered roof support systems at the Glinik plant of Gorlice,
  - 2 plants manufacturing scraper conveyors and belt conveyors – NOWOMAG of Nowy Sącz and RY-FAMA of Rybnik (since mid-2017; the plant was acquired as a result of acquisition of KOPEX S.A. and as part of the integration with the KOPEX Group),
  - 1 plant manufacturing transport/handling systems for underground and surface mining – PIOMA of Piotrków Trybunalski,
  - KOPEX service centre of Zabrze and the Hydraulics Branch of Zabrze (since mid-2017; the centre was acquired as a result of acquisition of KOPEX S.A. and as part of the integration with the KOPEX Group);

- 3 plants manufacturing machinery and equipment as part of the Surface segment, i.e. loading and handling as well as transport and mining equipment used in surface mining: FAMUR FAMAK in Kluczbork, FUGO in Konin (since mid-2017) and Zgorzelec (since mid-2017, based on FAMAGO assets, currently within FUGO S.A.);
- 1 plant based in Chorzów, operating in the Electrical Equipment segment (ELGÓR+HANSEN S.A.).

The operations of the FAMUR Group are complemented with the Mining Services segment, comprising mainly Przedsiębiorstwo Budowy Szybów S.A. and ŚTW Dalbis sp. z o.o. of Tarnowskie Góry. The service and design offices – FUGO Projekt Sp. z o.o., BPiRI Separator Sp. z o.o., and SKW Biuro Projektowo-Techniczne Sp. z o.o. – provide significant support for the FAMUR Group's operating activities. Another important Group member is FAMUR INSTITUTE Sp. z o.o., a research and development company.

All plant and equipment manufactured by the FAMUR Group and placed on the market in the EU meet the requirements of applicable Directives of the European Parliament and of the Council. In addition, individual products marketed both in EU and non-EU markets meet the requirements of local regulations, as well as the national and international standards applicable in a given country.

## [G4-4] Operating segments

### Underground

The Group's offering for underground mining, i.e. the Underground segment, includes:

- Longwall systems  
The components of a longwall system include shearer loaders, powered roof supports, scraper conveyors, and other auxiliary equipment.  
The shearer loaders' installed capacities range from 250 to 1,300 kW, while the powered roof supports' range of operation is from 0.8 to 6 metres. The FAMUR Group's offering also includes power and control hydraulics, including in particular hydraulic supports, pilot controls, and electrohydraulics. The diameters of hydraulic supports and actuators range from 50 to 440 mm. The manufactured equipment facilitates mining coal seams with thickness ranging from 1 to 6 metres.
- Equipment for transport and handling of various bulk materials used in underground mines, for personnel transport, etc.  
The products include underground belt conveyors, surface belt conveyors, 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.
- Gallery systems  
The key element of a gallery system are roadheaders, which are used primarily to excavate galleries and drill tunnels. The roadheaders manufactured by the FAMUR Group can excavate galleries with sections of up to 37 m<sup>2</sup>, in rocks with a compressive strength up to 110 MPa. At the end of 2015 and beginning of 2016, the product portfolio was expanded to include anchor drill rigs, drills, dinting loaders and loaders.  
The FAMUR offering comprises solutions covering the entire process of hard coal mining, from equipment design, through production, delivery, assembly of equipment at the customer's site, start-up, maintenance and aftermarket support, as well as the delivery of IT systems for back-to-back management of coal mining processes (from the face to the surface).

### Surface segment

Another important segment of the FAMUR Group's operations is the production of equipment for surface works, used in surface mines, handling and loading terminals, power plants, and in storage yards.

The activities of this segment are concentrated in FAMUR FAMAK S.A. and its direct subsidiaries. The manufactured machinery and equipment are used for the following applications:



- mechanisation of handling work 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 work in ports;
- container handling;
- unloading of bulk materials from open rail cars;
- continuous surface mining;
- minerals beneficiation and standardisation;
- underground mining.

The product portfolio includes the following:

- continuous transport systems and equipment: stacker loaders, stackers, wheel diggers, scraper loaders, wagon tippers, paddle feeders, belt conveyors;
- hoisting equipment: overhead travelling cranes, gantry cranes, container cranes, quay gantry cranes, port and shipyard cranes;
- machinery and equipment for surface mining: bucket-wheel excavators, chain-and-bucket type excavators, stackers, caterpillar transporters;
- complete design and delivery of minerals processing and beneficiation plants;
- construction and delivery of equipment for complete mine shaft hoists;
- turnkey delivery of process systems, encompassing concept design, engineering design, construction/installation, commissioning, and project management.

## Electrical Equipment

This segment includes 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.

In this segment, the Group carries out projects in the above areas and also provides services, including a 24x7 service of equipment used in mining, as well as equipment repairs and modernisation.

The FAMUR Group's activity in the Electrical Equipment segment is concentrated in Elgór + Hansen S.A., controlled by FAMUR since the acquisition of a majority interest in KOPEX S.A. in 2017.

## Mining Industry Services

The segment covers 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. The segment also 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, outfitting of shafts and storage facilities for excavated material;
- stone and stone/coal excavating;
- design services for mining construction, including conceptual and project design documentation;
- raw materials trading.

The segment's principal company is Przedsiębiorstwo Budowy Szybów S.A., which has over 70 years of experience and belongs to the small group of highly specialised companies providing underground construction services in Poland and abroad. The segment also includes the operations of ŚTW DALBIS Sp. z o.o. and the service and trade operations of KOPEX S.A. (raw materials trading, among other activities).

Table 1. Sales structure in 2017, by segment (PLN '000).

	Revenue	% share
Underground	1,018,771	69.9%
Surface	292,125	20.0%
Electrical Equipment	40,569	2.8%
Mining Industry Services	108,136	7.4%
Total	1,459,602	100.0%

## Suppliers

FAMUR S.A. coordinates a majority of materials supplies, centralising the supply chain management in the Underground segment. The FAMUR Group has access to diversified sources of raw materials and is not dependent on one or more suppliers. The expansion of the FAMUR Group's operations, including integration with the Kopex Group structures, has enabled the Group to enhance the efficiency of its procurement processes, mainly by leveraging the economies of scale, and to implement an efficient management and logistics system.

## Customers

The FAMUR Group's main customers in Poland include the largest mining companies and energy producers, including:

- Polska Grupa Górnicza S.A. (now a joint stock company, operating as a limited liability company until 2017),
- JSW Group companies,
- Lubelski Węgiel Bogdanka S.A.,
- TAURON Wydobycie S.A. (formerly Południowy Koncern Węglowy S.A.),
- Przedsiębiorstwo Górnicze Silesia Sp. z o.o.,
- Węglokoks Kraj Sp. z o.o.,
- KGHM Polska Miedź S.A.,
- PGE Group companies,
- Enea Wytwarzanie Sp. z o.o.

In 2017, domestic revenue accounted for 62% of FAMUR Group's total revenue (2016: 70%). In connection with the implementation of the Go Global strategy, the FAMUR Group plans to increase the share of export revenue to 50% within five years.

## Sources of revenue

The FAMUR Group's principal source of revenue is the sale of new, high-performance machinery and equipment for the mining sector, heat and power producers, and the cargo handling industry. Another important source of revenue is lease of the machinery. The Group has a fleet of equipment, including in particular shearer loaders and roadheaders, which are leased to coal producers. To these entities, lease is in many cases a more economical solution than purchase.

The Group also earns revenue on after-sales support, repairs, maintenance and sale of spare parts (aftermarket service). Both lease and aftermarket services are significant and stable sources of cash to the FAMUR Group.

A significant portion of revenue comes from export contracts. The FAMUR Group' experience on export markets shows that many foreign customers look for comprehensive mining solutions. That is why the value of individual contracts concluded on foreign markets is usually higher than the value of contracts concluded with Polish customers.

Table 2. Revenue structure (PLN '000)

	2017	2016
Poland	912,189	725,810
Export, including:	547,413	303,931
Russia and CIS	288,281	124,255
European Union	178,165	123,457
Other Europe	7,960	4,220
other	73,008	51,998
Total	1,459,602	1,029,741

The FAMUR Group is present in more than 40 countries. Outside Poland, the Group's operations are coordinated by the parent FAMUR S.A., with the exception of the Surface segment, where the operations are coordinated by the subsidiary FAMUR FAMAK S.A., and selected foreign markets, where the operations are coordinated by foreign subsidiaries or associates.

Our foreign customer base includes multinational firms and corporations, including Siberian Coal Energy Company (SUEK), MMK Ugol, ALSTOM, ArcelorMittal, IMBAT, TEREX, Tata Steel Ijmuiden, Hans Künz GmbH, YCRT, Altos Hornos de México i S.A.B. de C.V. (AHMSA), EPS Serbia, Mini Maritza Iztok Bulgaria.

### 1.1.4. The Group's markets

#### Coal mining – current situation and development prospects

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. These entities' capital expenditure is spent on upgrades and repairs of the mines' existing machinery, as well as on purchases of new machinery when preparing access to new longwall panels (capex objectives are the same for the heat and power industry and the transport and cargo handling sector). Sale of spare parts and maintenance services is an additional source of revenue. 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.

## World

According to preliminary data of the World Coal Association, 7,269 million tonnes of hard coal and lignite were mined in the world in 2016. The largest coal and lignite producers were China (44.6% of global production), India (9.7%), and the United States (9.2%). Poland ranked ninth, with a 1.8% share in global production<sup>1</sup>.

It is estimated that coal is used to generate a third of all energy used worldwide and makes up 40% of electricity generation. It also plays a crucial role in the iron and steel making industries. Since approximately 65% of extracted coal is used to produce electricity and heat, the demand for coal depends mainly on trends in the heat and power sector, i.e. on changes in energy demand and in the energy mix<sup>2</sup> (structure of energy production and consumption). Over the last twenty years, the demand for electricity has been rising, by approximately 2% a year on average. The growing trend is expected to continue in the future.

The global commodity market is cyclical. After a period of economic downturn, in the second half of 2016 coal prices began to rise significantly, driven by various factors, including higher prices of other commodities, production cuts in Chinese mines, and trend balancing on the key global markets in the United States and China. In 2017, coal prices remained high, reaching USD 96 per tonne in the ARA ports (Amsterdam-Rotterdam-Antwerp) at the end of the year (end of 2016: USD 86). Long-term forecasts of market trends are related to the energy market, which is based on the assumption that within the next several decades the populations and incomes will grow, stimulating higher consumption of energy globally. Demand for coal is estimated to continue growing moderately in the long term. Despite a decline in the share of coal in the global energy mix, its output in nominal terms is expected to increase globally from the current 9 billion tonnes to 10 billion tonnes in 2040.<sup>3</sup> The domestic hard coal resources, which guarantee Poland's energy security, should make coal the key fuel for energy generation over the next several decades.

Chart 1. Price of 1 tonne of coal in the ports of Amsterdam-Rotterdam-Antwerp and Richards Bay (South Africa), in USD



Source: [www.gornictwo.wnp.pl](http://www.gornictwo.wnp.pl)

## Poland

Hard coal and lignite were Poland's basic sources of energy – they accounted for 82% of all electricity produced. **Hard coal**, mainly of domestic origin, remains the main source of energy. In 2017, 65.8 million tonnes of hard

<sup>1</sup> Source: Coal Information, Overview 2017, International Coal Agency.

<sup>2</sup> Source: Coal information, Overview (2017 edition), International Energy Agency.

<sup>3</sup> Source: IEA's 2017 World Energy Outlook's New Policies Scenario

coal were mined in Poland, whereas in 2016 the production volume was 70.6 million tonnes<sup>4</sup>. The decrease is related to one of the major threats faced by the coal mining sector, namely delays in implementing investment plans caused by putting on hold some projects 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, rapid launch of projects in this area is becoming the key priority. At the same time, raising financing for announced investment plans, whose implementation is necessary in order to maintain uninterrupted production, poses some challenge for the mining sector.

The key players in the Polish hard coal mining sector include:

- Polska Grupa Górnicza S.A. (now a joint stock company, operating as a limited liability company until 2017)
- Jastrzębska Spółka Węglowa S.A.,
- Lubelski Węgiel Bogdanka S.A.,
- TAURON Wydobycie S.A.,
- Węglokoks Kraj Sp. z o.o.
- Przedsiębiorstwo Górnicze Silesia Sp. z o.o.

The first three companies, which control approximately 80% of Poland's hard coal mines, are the key customers on the Polish market for mining equipment.

Between 2007 and 2015, the key issues faced by Polish coal companies included low productivity, overstaffing and an inefficient employee remuneration system, which translated into high fixed costs and sensitivity to fluctuations in coal demand and prices. The remedial measures taken in that period were insufficient to ensure profitability and competitiveness of the leading coal producers in Poland. After coal prices began to rise and restructuring programmes were launched, in the second half 2016 the financial situation of the main Polish coal producers started to improve and the producers' aggregate net profit for 2017 exceeded PLN 3bn, while in 2015 and 2016 they posted net losses (based on available market information and reports published by listed companies).

The improvement spurred the decision to increase capital expenditure. Virtually all Polish coal producers have announced plans to significantly increase investment spending in the coming years. In the long term though, the spending will also depend on a sustained improvement in production efficiency and company earnings, as well as on the implementation of a recovery plan by Poland's largest coal producer.

Lignite is another important component of Poland's energy mix. In 2017, over 61m tonnes of lignite were produced domestically, compared with 60.2m tonnes a year earlier<sup>5</sup>.

At present, Poland has five lignite mines<sup>6</sup>:

- The Bełchatów Lignite Mine in the Bełchatów Lignite Basin accounts for roughly 70% of Poland's annual lignite production. The mine is owned by PGE Górnictwo i Energetyka Konwencjonalna S.A.
- Two mines in Konin and Adamów owned by ZE PAK S.A. in the Konin Lignite Basin, representing 14% and around 4%, respectively, of lignite output in Poland.
- The Turów Mine owned by PGE Górnictwo i Energetyka Konwencjonalna S.A. in the Turoszów Lignite Basin, with an approximately 11% market share. The Sieniawa Lignite Mine, with a market share of about 1%.

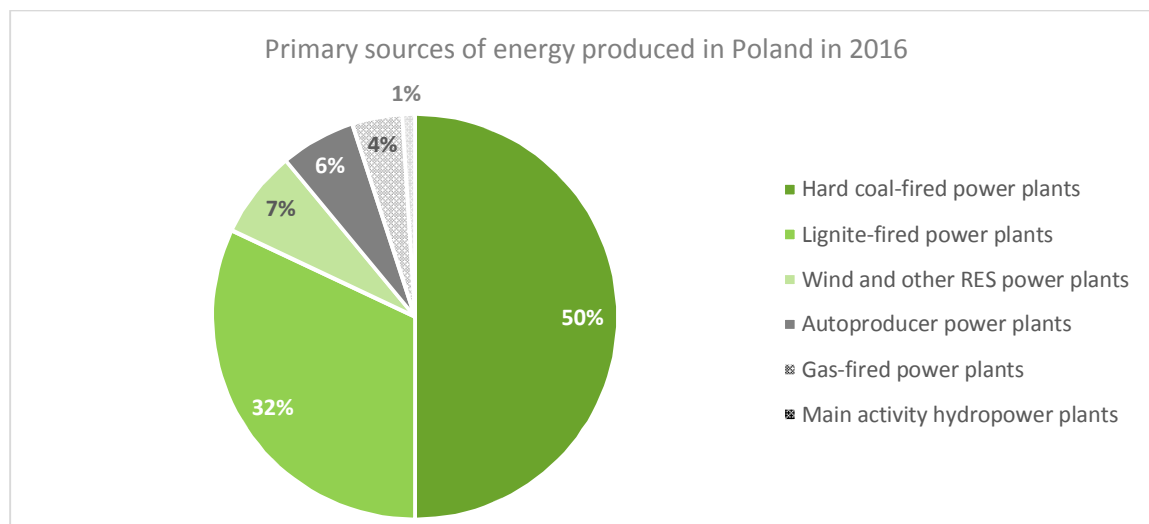
Presented below is Poland's energy mix by sources.

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<sup>4</sup> Source: Polish Central Statistics Office – Output of major industrial products in December 2017.

<sup>5</sup> Source: Polish Central Statistics Office, Lignite production 2017.

<sup>6</sup> Source: Węgiel Brunatny 2017, No. 3/100.



Source: Energy Regulatory Authority.

Since 2015, the FAMUR Group has significantly diversified its customer base by acquiring FAMUR FAMAŁ, which is the backbone of the Surface segment and has extensive credentials in the heat and power, cargo handling and surface mining sectors. In response to the growing production volumes in the Surface segment, the Group has made a series of business acquisitions to consolidate the segment's capabilities. Currently, the Group has strong credentials in the cargo handling segment, offering turn-key solutions in bulk handling systems for ports, power plants and handling terminals. Therefore, the Group's overall business encompasses a number of areas that may be at different stages of the economic cycle.

#### 1.1.5. Key trends and factors influencing the development of the industry and the Group

##### World

Global demand for energy is expected to slowly rise in the coming years, by some 1.3% annually<sup>7</sup>, driven by:

- Expected faster pace of growth in the global economy. According to the International Monetary Fund, global GDP will grow at an annual rate of around 3.7% until 2022,<sup>8</sup> with a major contribution from emerging economies like China and India. However, the technological advancement will reduce energy intensity of the growth – it is estimated that as global GDP doubles, electricity demand will rise by 30%;
- Global population growth;
- Increasing wealth and rising living standards. It is expected that by 2035 around two billion people will rise out of poverty, with a growing share of the world's population (mainly in Africa and Asia) enjoying increased access to electricity. The urbanisation process will accelerate, fuelling growth in energy demand.<sup>9</sup>

The energy mix will continue to change. Although it is estimated that in the long term (by 2040) the share of coal in the energy production mix will decline from approximately 29% to approximately 24%, the overall demand for coal in nominal terms (Mtoe) will increase slightly on the rising global demand for energy<sup>10</sup>. These changes will be led primarily by environmental protection and climate warming prevention measures as well as the use of other fuels for energy production (such as crude oil, natural gas, RES). The share of coal in the energy mix will fall the fastest in OECD member countries.

One of the factors slowing down global demand for conventional energy sources could be China's policy of replacing coal with low carbon fuels to produce energy. Nevertheless, China will remain the world's largest coal

<sup>7</sup> Source: BP Energy Outlook 2017.

<sup>8</sup> Source: International Monetary Fund's World Economic Outlook, October 2017.

<sup>9</sup> Source: BP Energy Outlook 2017.

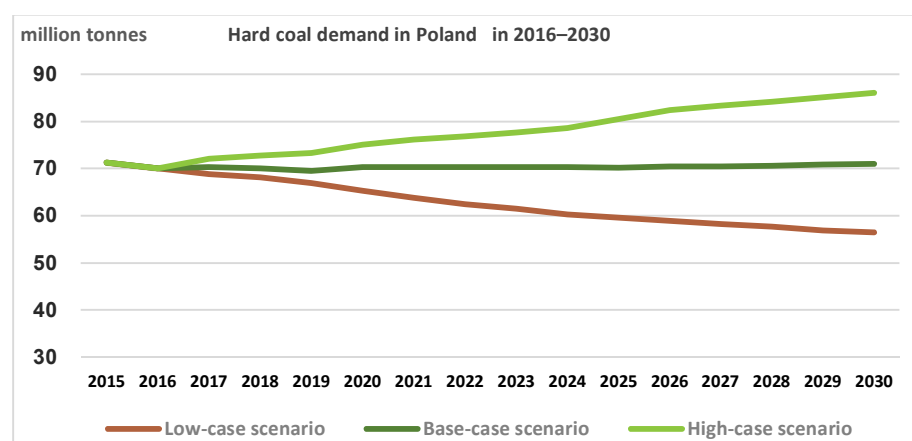
<sup>10</sup> Source: U.S. Energy Information Administration, International Energy Outlook 2016; BP Energy Outlook 2017; data in Btoe.

market, accounting for almost half of the global coal consumption until 2035. The largest market with an expected continued growth in coal consumption is India. The country's share of global demand for coal will rise from around 10% in 2015 to 20% in 2035. If these estimates prove correct, India will overtake the United States as the second largest global consumer of coal.<sup>11</sup> The Indian coal demand is expected to increase by over two thirds, driven by demand from India's heat and power sector. Overall, global coal consumption will increase by 30.5% between 2015 and 2030, chiefly driven by developing economies<sup>12</sup>.

According to McKinsey's 'Productivity in mining operations' report, rising production volumes and limited investment projects in recent years will contribute to an increase in investment spending – by around 5% annually until 2018, and then by 10% annually until 2020. There are more than 560 coal-fired power plants currently under construction around the world, with additional 1,000 in the pipeline, which makes up a total of nearly 1,600 projects in China, India, Indonesia, the Philippines, Vietnam, Turkey, Japan and Pakistan.

## Poland

Poland will also see some major shifts in its energy mix in the long term. These shifts will be driven by the tightening of environmental standards and regulations, challenges arising from the need to improve the efficiency and profitability of domestic coal producers, and competition from other energy sources, particularly RES and natural gas, as their share in the domestic and global energy mix expands. In response to these developments, the Polish government has addressed issues related to the domestic coal mining industry in its long-term programmes, in particular the Strategy for Responsible Growth until 2020 (with an Outlook until 2030), adopted in February 2017, and the Programme for Poland's Hard Coal Mining Sector, approved in January 2018. The reference scenario contained in the latter document anticipates that the nominal coal production volumes will remain at today's levels until 2030 despite a decline in the real share of coal in the energy mix.



Source: Ministry of Energy's 'Programme for Poland's Hard Coal Mining Sector'

Hard coal, which is a more expensive fuel than lignite, has a higher calorific value and remains Poland's primary energy source. As the financial condition of domestic coal producers and the overall situation in the coal market have improved, Poland's leading industry players have significantly increased their CAPEX plans for the coming years. Based on available press releases, Polska Grupa Górnicza estimates its capital expenditure until 2020 at approximately PLN 7.2bn, the planned capex of LW Bogdanka for 2016–2025 is PLN 3.7–4bn, and the aggregate capex of Jastrzębska Spółka Węglowa in 2018–2030 is estimated at around PLN 19bn (as stated in the company's strategy). According to the data presented in the Government Programme for the Mining Sector until 2030, announced on January 23rd 2018, as of 2021 the average projected expenditure on investments is to reach approximately PLN 2bn. It is important to note that successful delivery of these investment plans is contingent on many factors, including improvement of production efficiency and sustained profitability. Today, the challenge for the

<sup>11</sup> Source: BP Energy Outlook 2017.

<sup>12</sup> Source: World Energy Outlook 2017, International Energy Agency.

mining sector is to raise financing for the announced investment plans, whose implementation is necessary to maintain the continuity of production.

Lignite is the cheapest available primary source of energy in Poland, with the country sitting on extensive lignite deposits. The resources of the mines currently in operation allow them to keep producing at current levels only until 2030. If no new deposits are brought to production, there may be a rapid decline in production levels at the existing mines and the availability of lignite as a fuel for heat and power production will be restricted (according to Christian Schnell's 'Roadmap for Poland's power generation sector 2030+', lignite production may decline by as much as 90% by 2040 relative to 2016). For this reason it is necessary to develop new deposits and build new fuel and energy hubs. In planning the development of new deposits, the industry majors concerned must account for the need to secure demand from the heat and power generation sector, but also the changing environmental protection regulations. The potential new locations include deposits in Ościśłowo that could meet demand from ZE PAK and deposits in Żłoczew or Gubin that could meet demand from PGE. New capital investment projects could be undertaken in the future to help cover demand for this fuel from a new generating unit planned to be brought on stream at the Turów Power Plant.

Thanks to the effective consolidation of the Surface segment's potential, quality certificates and contractor licences generally recognised in the EU markets, as well as the delivery in 2017 of a transport system for the Port of Rotterdam (Europe's largest bulk material handling terminal) the Company has developed strong credentials in a highly prospective market. On the cargo handling market, the FAMUR Group sees 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.

## Competitive environment of the FAMUR Group

The consolidation with the KOPEX Group has enabled the FAMUR Group to effectively compete with such major players as Caterpillar and Komatsu in the global market of underground longwall mining machinery and equipment.

An overview of key competitors of the FAMUR Group is presented below.

### Caterpillar

The US-based Caterpillar (CAT) is a world leader in the production of construction and mining machinery, diesel and natural gas engines, industrial turbines and electric-diesel locomotives. The company's business is focused on three industries: construction, mining, heat and power generation, and transport. It also provides financial services to its customers.

In 2016, CAT's revenue amounted to USD 38.5bn, with a 59% share of export revenue. Caterpillar's products were available in 190 countries, in which the company employed a total of 95.4 thousand employees<sup>13</sup>. CAT's business competing with FAMUR's Underground business is concentrated in the Resource Industries segment, whose revenue amounted to approximately USD 5.7bn (15% of total revenue).<sup>14</sup>

The official distributor of CAT's machinery in Poland is Bergerat Monnoyeur Sp. z o.o., which has 14 regional representative offices. The company offers all CAT machines.<sup>15</sup> In addition, on the Polish market there is also Eneria Sp. z o.o., offering Caterpillar's technologies as part of comprehensive solutions for backup power sources, cogeneration, and engines used in the maritime, rail, and heat and power generation industries<sup>16</sup>.

### Komatsu

<sup>13</sup> <https://www.cat.com/>; [https://en.wikipedia.org/wiki/Caterpillar\\_Inc.](https://en.wikipedia.org/wiki/Caterpillar_Inc.)

<sup>14</sup> Data based on Caterpillar's annual report for 2016.

<sup>15</sup> <http://www.b-m.pl/pl/page/28/o-nas.html>

<sup>16</sup> <http://eneria.pl/>



The Tokyo-based Komatsu is a global conglomerate with over 90 years of history, providing comprehensive solutions for the construction and mining industries. In 2017, Komatsu acquired the American company Joy Global Inc., one of the most important players on the market of solutions for the mining industry. This acquisition will allow Komatsu to expand its offering for the mining industry. Following the acquisition, Joy Global Inc. was re-named as Komatsu Mining Corp.

Besides Japan, the Komatsu Group's factories are located in the US, Canada, Mexico, Brazil, the UK, Germany, Italy, the Czech Republic, Sweden, Norway, Russia, Indonesia, Thailand, India, and China. In the financial year ended March 31st 2017, the Komatsu Group generated revenue of JPY 1,802.9bn (approximately USD 16.2bn<sup>17</sup> – 2.8% down on the previous financial year). The Group has 47.2 thousand employees<sup>18</sup>. At Komatsu Mining Corp., revenue of the Underground segment, FAMUR's competitor, amounts to approximately USD 1.3bn (50% of total revenue).<sup>19</sup>

The production of equipment for deep and open-pit mining is one of the three pillars of the conglomerate's development in the coming years. Komatsu has announced its plans to use Internet of Things (IoT) in its products to optimise the use of machinery, and to introduce remote control of unmanned machines in order to increase production safety and efficiency.

## Competitors in the Surface segment

**ThyssenKrupp:** ThyssenKrupp is a German multinational conglomerate with a headcount of 159,000 and a presence in 79 countries around the world. The company's business comprises three core segments: steel production (it is among the world's largest steel producers), services (distribution, warehouse management, processing, engineering, etc.), and capital goods, comprising three divisions: Components Technology, Elevator Technology, Industrial Solutions. ThyssenKrupp's operations comprising manufacture of industrial solutions (for coke and cement plants, mines, refineries, subcontractors, etc.) that are competitive to the Group's Surface business are carried out by the Industrial Solutions division (revenue of EUR 5.5bn). Around 30% of ThyssenKrupp's sales are generated on the German market, with only a modest share of sales (6%) coming from Central and Eastern European markets.<sup>20</sup>

**FLSmidth:** FLSmidth & Co. A/S is a company based in Denmark, competing with Surface segment products, with a presence in 50 countries and a workforce of 11,700. It provides customers in the cement and mining industries with equipment and services. The company also delivers complete cement plants and minerals processing facilities, mainly targeting copper, gold, coal, iron ore, fertilizers and cement producers. It owns a manufacturing company in Elbląg (FLSmidth MAAG Gear Sp. z o.o.), which makes industrial gear unit components for mills, bucket-wheel excavators, belt conveyors, etc.<sup>21</sup>

**FAM:** Magdeburger Förderanlagen und Baumaschinen GmbH based in Magdeburg offers a full range of surface mining products. Established in 1830, the FAM Group now operates in 80 countries and has a workforce of over 1,600. The Group has no operations in Poland. Its product portfolio comprises mining, minerals processing, conveying, ship loading and unloading systems, and a broad range of equipment and machines for open-pit mines, power plants, cement, chemicals and fertilizer plants, as well as design and maintenance/repair services<sup>22</sup>.

**Tenova Takraf:** Founded sixty years ago, Takraf is a global German industrial company based in Leipzig. It was acquired by Tenova SpA. The company provides services comprising design, manufacture and delivery of industrial equipment for open-pit mining and bulk materials handling. Its conveying systems are used in ports, shipyards, power plants, cement plants, and steelworks. The company has a presence in 16 countries, with its European operations located in Germany, Bulgaria, Italy, Romania, and Russia. Tenova Takraf is owned by TECHINT,

<sup>17</sup> At the USD/JPY exchange rate of March 31st 2017.

<sup>18</sup> <https://home.komatsu/en/>; <https://mining.komatsu/>; [https://en.wikipedia.org/wiki/Komatsu\\_Limited](https://en.wikipedia.org/wiki/Komatsu_Limited)

<sup>19</sup> Based on the company's operating segments according to Bloomberg.

<sup>20</sup> <https://en.wikipedia.org/wiki/ThyssenKrupp>; <https://www.thyssenkrupp.com/en/company/>

<sup>21</sup> <http://www.flsmidth.com/>; <https://en.wikipedia.org/wiki/FLSmidth>

<sup>22</sup> <http://www.fam.de/>; [https://de.wikipedia.org/wiki/FAM\\_Magdeburger\\_F%C3%B6rderanlagen\\_und\\_Baumaschinen](https://de.wikipedia.org/wiki/FAM_Magdeburger_F%C3%B6rderanlagen_und_Baumaschinen)

an Italian-Argentine conglomerate composed of six main companies with an international reach operating in the fields of engineering, construction, steel, mining, oil & gas, industrial plants, and healthcare<sup>23</sup>.

**Bedeschi:** A privately-owned Italian family company Bedeschi S.p.A. designs, manufactures and delivers equipment for transport and handling of bulk materials (construction materials in particular), for mining, port handling and marine logistics applications. The company specialises in equipment for the manufacture of clay bricks and tiles, as well as solutions for the construction and cement industries. It has a workforce of around 350 and 90% of its sales are generated in the domestic market. The company has formed a business alliance with Liebherr and Logmarin. It operates technical centres in Italy and the United States<sup>24</sup>.

## 1.2. The FAMUR Group's mission, main objectives and values

The FAMUR Group draws on over a hundred years of tradition in the production of efficient and safe mining equipment. The FAMUR Group's mission is to build, for the employees, customers and shareholders, an innovative, globally successful Polish company.

The majority shareholder, with a 57% interest in<sup>25</sup> FAMUR S.A., is TDJ Equity I sp. z o.o., owned by TDJ S.A., a Polish private investment company owned by the Domogała family.

The main goal of the organisation is to become the preferred global supplier of high-performance mining and cargo handling solutions and systems, as well as support services, by offering advanced products and comprehensive services, and to help customers in achieving success by making available to them advanced technological and organisational solutions.

At the FAMUR Group, we uphold the values of faith, responsibility, collaboration, openness and credibility, that we share with the TDJ Group.

We define these values as follows:

- Faith – we believe in the pursuit of a shared vision; we act in accordance with our values; we focus on the future; we believe that investing in education and development is the most valuable contribution to society.
- Responsibility – we take bold and well-thought-out decisions; we take responsibility for our and our team's decisions and actions; we take initiative; we always act in the best interests of our company.
- Collaboration – we trust each other and we make a close-knit team; we listen to and learn from others, paying attention to all voices in a discussion; once a decision is made, we join efforts to attain our goals; we celebrate the accomplishments of our people and promote them across the organisation.
- Openness – we are loyal to each other; we communicate openly and honestly; we show respect for diverse beliefs and opinions; we are open to change and innovation; we talk about and learn from our mistakes.
- Credibility – we always deliver on our promises; we are reliable and honest; we play fair; we fulfil our obligations.

An essential contributor to the success of the FAMUR Group's strategy is the success of the Group's customers. Our organisation believes that in order to help customers succeed we should offer them:

- Excellent product – the product should have strictly defined features that testify to its excellence, such as innovation, efficiency and safety. The Group's main goal is to deliver a product which would rank among the TOP THREE on each market, taking into account the competitive cost advantage;
- Excellent service – the FAMUR Group provides comprehensive services along the entire value chain: from project design, support in raising financing for the project, to aftermarket service;

<sup>23</sup> <https://en.wikipedia.org/wiki/Techint>; [https://en.wikipedia.org/wiki/Tenova\\_Takraf](https://en.wikipedia.org/wiki/Tenova_Takraf); <https://www.takraf.tenova.com/>

<sup>24</sup> <http://www.bedeschi.com>; <https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapid=41322355>; <https://www.porttechnology.org/directory/bedeschi>; <http://www.machinesitalia.org/company/bedeschi>;

<sup>25</sup> As at December 31st 2017.

- Services of a system supplier – engineering and organisational solutions and ideas. Generally speaking, the Group provides the customer with an excellent product and top-level service by issuing a warranty for the solutions applied by FAMUR, and guarantees open communication with the customer, which includes providing them with detailed information on its products and services.

The FAMUR Group's strategic objective is to create a capital-efficient Group able to compete successfully with global leaders. To achieve this objective, FAMUR has been pursuing its Go Global international expansion programme. Under the programme, the Group performs contracts abroad, for customers in Russia, Turkey, Kazakhstan, Austria, the Balkans and other countries. The FAMUR Group is also strengthening its position in Asian markets, including India, Indonesia and Vietnam, as well as in South America, the Middle East, and Western Europe.

Consolidation with the KOPEX Group is crucial for the implementation of the FAMUR Group's strategy. One element of the integration plan is transfer of the machinery assets of the KOPEX Group to FAMUR S.A. The achieved production optimisation, consolidation of markets and business segmentation make it possible to manufacture all components of a mechanised mining production process for both longwall and surface mining.

FAMUR and KOPEX Groups' know-how, experience and market positions offer a platform for promoting Polish technological innovations on international markets and exporting a full suite of proven products and services. The integration of the FAMUR and KOPEX Groups is also a way to successfully overcome current challenges faced by the industry. The consolidation will allow for an even better adaptation of the offering to the current needs of the Polish mining industry and for intensified activities on the markets on which the KOPEX Group operated. Optimisation of production processes and growth in business scale should additionally reduce its costs.

In the coming years, the FAMUR Group intends to actively participate in the process of modernisation of the mining industry in Poland. In November 2017, the Group executed an agreement with Polski Fundusz Rozwoju (Polish Development Fund), providing for a joint investment in Mining Equipment Finance Sp. z o.o. The principal business of that FAMUR Group company is financing strategic investments in the modernisation of the mining and heat and power sectors. By joining forces with the Polish Development Fund, the FAMUR Group has obtained a new tool in financing and supporting major investment projects.

The FAMUR Group is seeking to gradually increase its presence in the world's key mining regions. Emerging markets are among the most promising ones for the FAMUR Group and this is where the Group intends to expand its footprint. These markets include in particular Indonesia, Vietnam, India, South America, the Balkans, Turkey, and the Middle East. The Group intends to export to these markets comprehensive solutions for both deep and surface mining, as well as solutions for the heat and power sector. The Group also plans to expand into key global markets, such as China, the United States, Canada and Australia, by finding strategic partners and forming alliances to achieve mutual benefits.

Russia and other CIS countries continue to be among the key markets for FAMUR proprietary solutions. The FAMUR Group's objective is to derive 50% of its revenue from sales to foreign markets by 2022 (in recent years, this share has been on the rise, having reached 38% in 2017). To this end, the Group intends to invest in setting up and developing maintenance companies and trade representatives. In 2018, the Group also plans to allocate funds for modernisation of its production processes, including their automation.

### 1.3. Value chain

The FAMUR Group consists of manufacturing as well as trading and service companies, operating in various market segments, both in Poland and abroad.

The FAMUR Group's common value chain comprises the following elements:

- A comprehensive end-to-end offering from design to construction to aftermarket service. The Group companies have the competencies required not only to manufacture, but also to design and develop machinery and equipment, which gives them flexibility and enables to adapt solutions to specific customer needs and offer tailor-made products. At the same time, the Group can offer its machinery and equipment at attractive prices thanks to low production costs – all production plants are located

in selected regions of Poland, and their operations are efficiently organised in line with the Group's models. High production capacities and continuous optimisation of processes make it possible to deliver premium quality machinery in a short time. Customers are also provided information on mining methods, in particular on mining in the most challenging geological conditions. The Group also offers assistance in obtaining investment financing from banks and leasing companies. Providing assistance in investment financing is an important driver of the FAMUR Group's unique competitive position. In addition, FAMUR S.A. offers lease of refurbished mining equipment.

- Well-designed and consistently implemented investment projects.  
In the last fifteen years, FAMUR S.A. took over a dozen or so companies, mostly entities whose business complemented the existing offering of the FAMUR Group, or paved the way to new related markets. As a result of these processes, the FAMUR Group now offers its customers not only shearer loaders (which were the flagship product of FAMUR's Underground business at the beginning of the 21st century), but also full mining lines for hard coal mines as well as transport and lifting equipment for lignite mines, ports and handling yards.  
Consolidation decisions strengthened the Group's position on both Polish and foreign markets. The integration progressed smoothly and yielded the expected benefits in the form of business diversification and thus independence from conditions present in the main market, acquisition of know-how, and reduction of production costs.
- Presence in key mining markets.  
The Group is present in more than 40 countries. Its machinery and equipment are used in mines of such countries as China, India, Russia, Kazakhstan, South Africa and Mexico, which are the largest coal producers. According to forecasts, the position of China and India as the leading coal producers will not change in the coming years (their joint share is expected to exceed 50%).
- Flexibility – the ability to quickly capture emerging market opportunities.  
The Group's production and intellectual potential allows it to swiftly respond to market developments.
- Experience and skills.  
The FAMUR Group companies have extensive experience gained in the execution of projects for mines around the world. At the same time, they have strong disposition and ability to continuously improve their organisation.
- Solid financial position based on:
  - Low net debt (PLN 80m at the end of 2017, with the net debt ratio of 0.3x);
  - Conservative financial policy and safe liquidity levels (at the end of 2017, the current ratio was 2.4x);
  - Focus on generating positive operating cash flows;
  - Satisfactory margins (2017 EBITDA margin at 20%);
  - Efficient and flexible management.
- Reliable owner ensuring long-term and sustainable growth.

## Key processes



DESIGN



MANUFACTURE



DELIVERY



ASSEMBLY



COMMISSIONING



MAINTENANCE

## CONSULTANCY, WITH OPTIONAL ASSISTANCE IN SEARCHING FOR FINANCING

As a leading manufacturer of machinery and equipment used in deep and surface mining, the FAMUR Group regularly participates in public tenders organised by the main market players, is invited to negotiations, and receives requests for proposals for the delivery of equipment and services to mines and other industrial enterprises. The Group also undertakes regular marketing efforts aimed at winning new orders and customers, especially on foreign markets.

Information contained in requests for proposals and tender documents are analysed in terms of technical, legal, financial and operational aspects. The FAMUR Group engages in the implementation of projects which will generate expected economic benefits for the Group companies while minimising operational, legal, and financial risks.

The manufacturing process commences upon the execution of a contract for delivery of machinery and equipment by the FAMUR Group and the customer. As the machinery and equipment manufactured by the Group are highly specialised and need to be adapted to the conditions prevailing at the site where they are to be operated (e.g. a mine), an important stage of contract performance is design, i.e. development of the required technical documentation for a particular order. In most cases, this work is performed by engineers employed at the individual manufacturing plants. The documentation is prepared not only based on the terms of reference – it also takes into account site conditions, EU directives, machinery directives, and analysis of failure rates. Guidelines are also prepared for the procurement of materials, taking into account the customer's requirements.

The FAMUR Group's Underground segment has a centralised system for the procurement of necessary feedstocks and materials. Procurement in the other segments is more diversified, with the companies having discretion in purchases and supplier selection. The supplier of materials and component parts is selected with due diligence: the supplier is checked in terms of its financial situation and whether it meets the criteria to eliminate the risk of carousel fraud. The FAMUR Group does not purchase materials from bargain suppliers offering prices that significantly differ from market levels.

In the manufacturing process, the FAMUR Group uses modern technologies, including for heat treatment and welding. In the construction of systems for use in mining, heat and power generation, and by industrial enterprises, the Group also uses already manufactured modules and commissions the construction of certain parts of machinery and equipment provided for in the contracts to subcontractors, with preference in the Underground segment given to FAMUR Group companies. The Underground segment's manufacturing plants also perform repairs of shearers and loaders which are returned after expiry of lease contracts. An essential element of each manufacturing process is multi-step quality control performed at the Group's plants. After assembly, machinery and equipment undergo tests. They are checked for compliance with technical approval certificates and quality certificates to make sure they all meet quality standards and formal requirements on dispatch to customers.

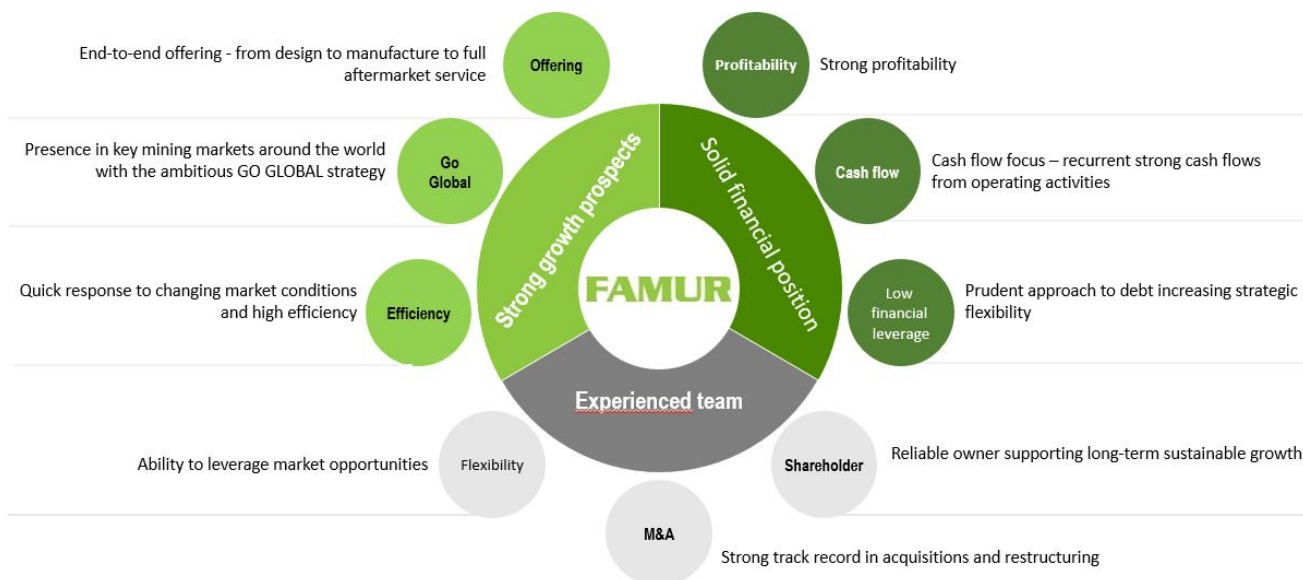
The machinery and equipment are delivered to customers, with large machines and process lines delivered in parts (batches). The delivery of machinery and equipment to customers is performed by proven external carriers, some of whom have signed agreements on regular cooperation with the Group. However, the Group companies also use RFPs to pick out the best bids from proven transport companies.

The FAMUR Group provides its customers with end-to-end, tailored solutions, where assembly is a vital element of contract performance, often guaranteed by the terms and conditions of the contract. On-site assembly work is performed by the Group's dedicated maintenance and assembly staff or, if necessary, by subcontractors working under close supervision of FAMUR specialists. FAMUR engineers and maintenance staff are able to ensure compatibility of FAMUR's machinery and equipment with those of other manufacturers, to form a single process line commissioned at the customer's site. The commissioning process involves gradual increasing of the installed machinery and equipment's capacity to the planned levels. The start-up of a production line can take up to three months. Large production lines are finally handed over and the acceptance report is signed after assembly and commissioning at the customer's site.

The Group's specialist service staff provide machinery and equipment service at customers' sites. In the case of Underground, the Group's largest segment, the Maintenance Centre is available to customers on a 24/7 basis; service is also ensured by the staff of local branches. The service staff have the required knowledge and experience necessary to restore the maximum capacity of machines in the shortest possible time. Based on information received from a customer during a telephone interview it is possible to decide whether the reported problem can be solved remotely or whether a qualified service staff member should be sent to solve the problem at the customer's site. The FAMUR Group also provides e-service, which involves ongoing monitoring of the current condition of machinery, estimating the time until next service, monitoring of alert thresholds of diagnostic systems, and preparing periodic and warning reports. In addition to the services covered by the guarantee, the Service Centre and local service staff also provide post-warranty services. Service of equipment delivered to the

Group's foreign customers is provided by service centres (external or owned by the FAMUR Group) located abroad. Prompt handling of issues reported by customers is a priority.

## Main competitive advantages



## Integrated Management Systems

To ensure the required quality of manufactured products and services meeting customers' requirements, FAMUR S.A. and its Subsidiaries have in place Integrated Management Systems, whose scope is consistent with their business profiles. The Management Systems are based on process-based management; processes identified in connection with the adopted strategy have been organised into a uniform system defining their sequence and interaction. Continuous improvement of the integrated management systems boosts competitiveness while mitigating environmental impacts and fostering occupational health and safety.

In the fulfilment of the requirements of the ISO 9001, ISO 14001, ISO 18001/OHSAS 18001 standards and industry standards for quality, health, safety and environment (QHSE) management, IMS documentation has been developed, comprising IMS Policies, IMS Objectives, as well as procedures and instructions.

The systems undergo annual surveillance audits and re-certification audits, carried out every three years by accredited certification bodies.

### 1.4. Other information

A description of the FAMUR Group's business model has been prepared based on internal documents and selected external sources specified in this Statement. Certain changes were made to the Group's business model in 2017, as described in this Statement. The changes were partly related to the consolidation of the Surface segment's assets and capabilities, but mainly they were associated with the integration with the Kopex Group. The Management Board estimates that the integration of the FAMUR and KOPEX Groups should be officially completed in July 2018.

## 2. Due diligence policies and procedures and results of their application

### 2.1. General objectives of the Group's sustainable development efforts

To fully meet market requirements and effectively compete on the Polish market and abroad, the FAMUR Group constantly improves the quality of its corporate governance, in accordance with the values and provisions of Polish and international laws.

The FAMUR Group believes that, in addition to generating economic benefits, sound management translates into competitive quality of products and services, safety at the workplace, care for the environment, and dialogue with local communities.

Implementing its business vision and strategy, the FAMUR Group is guided by the global idea of sustainable development and corporate social responsibility, which is reflected in:

- following the principles of corporate governance;
- “being a good neighbour” for the communities living in the areas where the Group operates, particularly in the immediate vicinity of the companies’ production plants and offices;
- creating safe workplaces;
- respecting human rights;
- respecting the diversity of employees and associates;
- caring for the environment and protecting natural resources by complying with environmental and quality requirements and developing right attitudes of the employees.

The FAMUR Group believes that this approach not only ensures stability of business operations in a changing world but is also beneficial to customers, shareholders and any other entities affected by the Group’s business.

## Sustainable Development Goals

A significant role in the FAMUR Group’s social engagement is played by the Sustainable Development Goals (SDGs), which were announced in the United Nations headquarters in New York at the Summit of the 2030 Agenda for Sustainable Development in 2015.

The Sustainable Development Goals were formulated as global challenges, with the belief that in the complex world of today any measures designed to prevent the destruction of the natural environment and climate change and to create decent living conditions must be undertaken globally in a synchronised manner and that the business sector plays a key role in the process. This is why the FAMUR Group has incorporated the Sustainable Development Goals in its business philosophy.

The following Sustainable Development Goals are particularly important in the Group’s operations<sup>26</sup>:

- **Goal 4:** Ensure inclusive and quality education for all and promote lifelong learning. In this respect, the Group’s activities are particularly relevant to the following target: “By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.”<sup>27</sup> The FAMUR Group works with universities and secondary schools to improve the quality of technical education and acquire new qualified employees. The Group also supports the TDJ Foundation, owned by TDJ S.A., whose primary goal is to foster child and youth development.
- **Goal 9:** Build resilient infrastructure, promote sustainable industrialization and foster innovation. In working towards this goal, the Group cooperates with other entities on the market to provide high quality products and services that are safe for people (employees, local communities, other stakeholders) and the environment. The FAMUR Group is a signatory of ‘Mining OK’, an initiative undertaken together with Jastrzębska Spółka Węglowa and the AGH University of Science and Technology in Kraków, among other partners.
- **Goal 17:** Strengthen implementation measures and revitalize the global partnership for sustainable development. This goal requires a partnership between governments, the private sector and civil society that is built upon principles and values, a shared vision and common goals that place people and the

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<sup>26</sup> See <http://www.un.org.pl>

<sup>27</sup> Ibidem.

planet at the centre. The FAMUR Group strives to build stable and lasting partnerships with social organisations and local communities by contributing to their development and actively supporting them. The Group's participation in 'Mining OK' and the implementation of the Industry 4.0 concept, focused on system modernisation and consolidation and integrated cooperation between people and digitally controlled machines widely relying on wireless networks and ICT technologies, also contribute to this objective. The FAMUR Group is committed to product innovation and use of IT systems that improve the safety and effectiveness of mining and reduce the costs. The FAMUR Group works with state institutions and academic centres on raising the standards of Polish and world mining techniques.

## Prudential policies and procedures

**[G4-DMA]** The FAMUR Group has implemented policies to be followed by the entire Group and its subsidiaries. A subsidiary is a consolidated company in which the Group directly or indirectly owns at least 50% of the voting power or which is otherwise controlled by the Group.

The FAMUR Group subsidiaries are obliged to comply with specific policies in their day-to-day operations. All the subsidiaries are required to communicate the policies to their employees.

As part of the prudential procedures, FAMUR S.A., as the parent, monitors compliance with a given policy and ensures that all necessary remedial measures are worked out and implemented immediately.

Any discrepancies between a given policy and applicable national regulations or other standards are subject to assessment by the FAMUR Group head office and the Group companies. The FAMUR Group periodically reviews the policies to ensure that they are adequate and relevant for the Group's operations.

## 2.2. Due diligence policies and procedures applied by the Group

### 2.2.1. Social issues

#### Social engagement policy

The FAMUR Group has implemented a social engagement policy the key provisions of which are presented below.

By implementing a social engagement policy, the FAMUR Group undertakes to build relationships with the communities in whose area it conducts operations and to support them in a way that maximises benefits to all parties involved.

The Group's social engagement objectives:

- To build cross-sectoral partnerships based on respect and mutual benefits;
- To remain open to important needs voiced by local communities, especially when the needs are related to the company's close environment.

Implementation of the objectives:

- Cross-sectoral partnership for local communities – actions undertaken (mainly in the vicinity of the Group's facilities) with the volunteer support of employees to address identified community needs;
- Assisting in the activities conducted by the TDJ Foundation, which provides wide-ranging support to children of the FAMUR Group employees and local communities to help them take advantage of their development and education opportunities (including by funding scholarships) and organises holiday camps for children and youth.
- Strengthening relationships with the company stakeholders in areas related to the operations of the FAMUR Group companies, including through the "Mining OK" initiative and cooperation with universities and technical schools.



## 2.2.2. Employee issues

### National and international law

As regards employee issues, the FAMUR Group complies with the applicable laws effective in the countries where the Group conducts its operations. In Poland, as far as human resources management is concerned, the principal binding legal act is the Polish Labour Code (Dz.U. of 1974, No. 24, item 141), on the basis of which internal documents governing the operations of the individual Group companies have been prepared.

### HR policy

The FAMUR Group has implemented a HR policy whose main strategic objectives include:

1. Ensuring safe working conditions;
2. Development of employees' competences;
3. Building a stable team of qualified employees;
4. Ensuring that the FAMUR Group and its companies are perceived as good employers.

In accordance with the adopted policy, the only criteria to be taken into account when hiring a new employee are appropriate skills and experience of the candidate and compliance with the rules applicable at the FAMUR Group. Aspects that cannot be taken into consideration are the candidate's origin or background, nationality, religion, race, gender, disability, sexual orientation, or age.

The FAMUR Group seeks to create a stable team of qualified employees by such means as building relationships with potential candidates, cooperating with schools and universities, and offering internships and work placements at the Group's companies and branches.

The FAMUR Group also aims to provide its employees with safe working conditions and fair terms of employment reflecting the employee's competence and the Group's business situation. Moreover, the Group adheres to the principle that employees should be fairly and adequately remunerated considering the work they actually perform and irrespective of their position.

The Group cares for all staff, whether working in or out of doors, and requires its service providers to ensure appropriate working conditions for their employees. Harassment and discrimination, in any form, are unacceptable. Managers are required to build and maintain a sense of mutual trust and atmosphere of dialogue within their teams and in the business environment, so that each employee can have a say.

The individual Group companies have in place documented internal policies governing training and facilitating effective management of human resources. These documents also define training needs and set growth priorities.

The FAMUR Group does not in any way restrict the employees' freedom of association or their right to set up unions and associations within the frameworks of the local law. It is also engaged in active dialogue with the trade unions operating within the Group companies.

## 2.2.3. Natural environment

### National and international law

As regards the natural environment, the FAMUR Group follows the policy of compliance with applicable laws. The requirements that follow from such laws are met by avoiding any non-compliance of the Group's products and services, as well as preventing accidents, near misses, and occupational diseases.

### Environmental policy

The FAMUR Group has developed and implemented an environmental policy. In order to properly manage quality, health, safety, and environmental issues, some of the FAMUR Group subsidiaries have implemented Integrated Management Systems (IMS). Such systems include Integrated Management System Policies (specific to the individual companies) as their integral parts. All the FAMUR Group subsidiaries have in place internal regulations designed to ensure top quality of their products and services and safety to those who use them as well as to employees. They also seek to minimise, wherever possible, the environmental impact of their operations.

In the areas covered by the policies, the Group subsidiaries implement management standards relevant to their business profiles, including the PN-EN ISO 9001:2015, BS OHSAS 18001:2007, PN-EN ISO 14001:2005, PN-EN ISO 14001:2015, PN-EN ISO 9001:2009 and PN-N 18 001:2004 18 standards. They have also developed internal documentation defining the ways of applying the policies in their day-to-day operations.

The Management Board of FAMUR S.A. as well as the management boards of the Group subsidiaries, the management staff and employees, are all engaged in the continuous development of the Integrated Management System and activities aimed at improvement of quality, promotion of a health and safety culture, and protection of the environment.

The Management Board of FAMUR S.A., the Group's parent, is committed to undertaking initiatives aimed at improving the quality of products and services provided by all of the Group companies, while seeking to minimise their impact on the environment and prevent pollution. In addition, it undertakes to ensure compliance with legal and other requirements concerning health and safety and environmental aspects that apply to the FAMUR Group operations.

#### 2.2.4. Respect for human rights

##### National and international law

The FAMUR Group pursues a policy of prevention of human rights abuse and seeks to ensure full compliance with applicable laws. The key legal acts applicable in the context of respect for employee diversity are the Constitution of the Republic of Poland and the Polish Labour Code (Dz.U. of 1974, No. 24, item 141), on the basis of which internal regulations governing the operations of the individual Group companies have been prepared.

##### Human rights policy

The FAMUR Group's human rights policy has been formulated on the basis of the Universal Declaration of Human Rights (1948), International Bill of Rights, United Nations Guidelines on Business and Human Rights<sup>28</sup>, and the United Nations Global Compact initiative<sup>29</sup>.

The FAMUR Group's human rights policy defines the rules of action and conduct relating to human rights at the FAMUR Group, including in the supply chain and in relations with stakeholders.

The FAMUR Group understands respecting human rights as refraining from violating the rights of others, active prevention of any such violations, and taking remedial measures should any of the Group companies directly or indirectly contribute to any such violation.

The FAMUR Group pledges to respect the human rights of its employees and to continuously raise their awareness of the human rights they have.

The FAMUR Group respects and promotes human rights in relations with its trading partners.

The Group seeks to respect human rights and to understand the needs, customs and values of the local communities where it directly or indirectly conducts its operations.

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<sup>28</sup> [http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR\\_EN.pdf](http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf)

<sup>29</sup> <https://www.unglobalcompact.org/>

Detailed issues covered by the human rights policy of the FAMUR Group include health and safety at work, ensuring freedom of speech, preventing child labour, eliminating exploitation, observing the terms and conditions of employment, protecting personal data, preventing discrimination, and respecting the rights of local communities.

## 2.2.5. Counteracting corruption

### Anti-corruption policy

**[G4-57]** To counteract corruption, conflicts of interest and other similar abuses, the FAMUR Group has implemented an anti-corruption policy which defines uniform procedures to be followed to deal with any identified abuses as well as to prevent and counteract abuses against the FAMUR Group and any activities that are inconsistent with the principles applicable at the Group. The Group also acts transparently vis-a-vis its trading partners.

In accordance with its policy, the FAMUR Group follows the principle of not making any business decisions where any corrupt activities could be involved.

The anti-corruption policy of the FAMUR Group is implemented by:

1. Training employees and informing other persons and business entities cooperating with the Group companies about matters related to the Group's anti-corruption policy;
2. Encouraging employees and co-workers to report any violations of the organisation's policies and unethical behaviour;
3. Reporting any violations of the law to law enforcement agencies.

The policy also defines the rules for preventing conflicts of interest, their disclosure and resolution, especially in such cases as personal relationships at the workplace, engagements outside of the organisation, relations with trading partners and competitors, accepting gifts, financing meals, travel or entertainment, as well as charging fees or commissions, and provision or use of services.

## 2.2.6. Diversity

### National and international law

The key legal act applicable in the context of respect for employee diversity is the Polish Labour Code (Dz.U. of 1974, No. 24, item 141), on the basis of which internal documentation governing the operation of the individual Group companies have been prepared.

### Diversity policy

The diversity policy implemented by the FAMUR Group requires the Group companies to:

- prevent any discrimination based on gender, racial, national or ethnic origin, religion or religious denomination, philosophy of life, degree or type of disability, health, age, psychosexual orientation or gender identity, family status, lifestyle or any other possible discriminatory grounds (policy of equal treatment);
- manage diversity by developing strategies, policies and programmes that help create a work environment in which each employee can feel appreciated, contributing to the success of the entire FAMUR Group.

Furthermore, the diversity policy assumes that in electing members to the Group companies' governing bodies and their key managers, the FAMUR Group seeks to ensure diversity, especially in terms of gender, educational background, age, and professional experience. High qualifications and professional preparation to perform a given function are the key factors in determining whether a person may take up a particular position.

## 3. FAMUR Group key non-financial performance indicators

### Social performance indicators

Key social initiatives:

#### Mining for Engagement

'Mining for Engagement' is a corporate volunteering programme promoting community engagement among employees in heavy industry. The programme serves to demonstrate that helping local communities goes hand in hand with spending time in a fun and creative way.

Twenty staff members of the KopeX Group and the FAMUR Group volunteered to participate in the programme. They received 40 hours of training in communication, social diagnosis, project planning and change management in order to design and deliver, with the assistance of a mentor, a community outreach micro-project supporting a selected cause. The programme participants also met with representatives of other non-governmental organisations from the Silesia region to learn from experts about providing help that is appropriate to needs. The purpose of the meeting with the NGOs was to show that 'doing good' and 'charity' are first and foremost about passionate and professional people providing long-term assistance.

From September 2016 to July 2017, the programme participants, assisted by their mentors, worked out ideas and goals for their micro-projects. As a result, five teams emerged, including: You Matter, Safe Car Seat, Sporty Kids, Angel Music, and Clean Air (the last one later got involved in a hospital wall painting project).

#### Social and Civic Competence Building Studio

The 'Social and Civic Competence Building Studio' is another long-term project carried out as part of employee volunteering programme, which was run from May to November 2017. Its purpose was to prepare 10 Group employees, working in various locations (Katowice, Gorlice, Piotrków Trybunalski) to act as social educators. During a dedicated training programme, future educators acquired theoretical, but above all practical, training knowledge, which they had an opportunity to apply just a few weeks later running their first classes with the youth during the Holidays with Passion.

The project was concluded by the participants organising a minimum of two workshops at schools or other institutions that gather youth. The classes were designed to show the students what opportunities are offered to them by the environment in which they live and to promote civic education and social attitudes among young people.

Over 370 young people aged between 13 and 23 have so far participated in the workshops with educators – students from schools located in the Łódź, Kraków and Katowice Provinces.

Our educators now have the theoretical and practical knowledge enabling them to run classes covering numerous subjects, including competences necessary for young entrants to the labour market, activating local communities, safe use of modern technologies, and corporate social responsibility.

#### Paint the world for children

The FAMUR Group also engaged in a project together with other companies of the TDJ Group. 400 litres of paint, more than 60 pairs of hands ready to work, and priceless help – this sums up how employees of the TDJ Group, FAMUR S.A., PGO S.A. and TDJ Estate Sp. z o.o., together with members and volunteers of the TDJ Foundation participated in an exceptional action of painting the out-patient clinic of the Upper Silesian Child Health Centre (GCZD) in Katowice-Ligota.

Painting of the interior walls of the clinic at the GCZD's paediatric hospital was scheduled for five consecutive weekends, starting from June 23rd 2017. Both production employees and management staff from the FAMUR

Group, PGO Group, TDJ Estate Sp. z o.o., TDJ S.A. and the TDJ Foundation took part in the project. Representatives of the Activity Mine social project as well as the employees' families also joined the initiative.

The idea to refresh the walls in GCZD was conceived by a TDJ employee whose child received help from the doctors in this hospital on a few occasions. No special incentive was necessary for the participants to engage. The response from the employees was amazing. More than 60 people took part in the painting, including families of our employees working for the TDJ Group companies, representatives of the TDJ Foundation, and even former employees of FAMUR S.A.

#### A gift from Santa Claus

The FAMUR Group employees have many times proven that they like helping and want to help others. In December 2017, FAMUR S.A. organised charitable collection for the Single Mother Shelter in Ruda Śląska and the Regional Care and Therapy Centre in Gliwice, widely known for the Activity Mine project. Generous 'Santas' from FAMUR S.A., Remag S.A., Elgór + Hansen S.A, TDJ S.A., and PGO S.A. brought children and adults plenty of clothes and toys. Among the donated items there were also bathtubs, bouncers, foodstuffs, and even a cot. In the end, two vans top-filled with gifts left the company.

#### Drive for the Youth Assistance Association

The Guardian Angels House Youth Assistance Association (Stowarzyszenie Pomocy Dzieciom i Młodzieży Dom Aniołów Stróżów) runs an environmental psychological preventive programme for children and young people as well as their families at risk of social marginalisation. The programme covers the local community of Katowice–Załęże, where unemployment, alcoholism and crime are major social issues. For children and youngsters, it is an opportunity to receive help in solving their problems without leaving their home, school and environment. The Association's objective is to hold back the process of degradation and isolation of entire families, and help in removing the gap between children from Katowice–Załęże and their peers from other backgrounds.

The head office of the FAMUR Group, together with the Katowice branches, engaged in a gift collection for the Guardian Angels House, organised in connection with the Children's Day. During a week, the office of the Organisational Development Department, which coordinated the action, filled with still more items, proving our employees' deep commitment to help. As suggested by the President of the Association, the gifts included fun and learning materials (coloured chalks, paper, drawing blocks, markers), cleaning products (towels, paper, dishwashing liquids), medical products (plasters, insecticides), and food (water, juices, puddings).

#### [G4-16] Mining OK initiative

In 2017, the parent FAMUR S.A., in a partnership with Jastrzębska Spółka Węglowa S.A., Przedsiębiorstwo Górnicze Silesia S.A., the Faculty of Organisation and Management of the Silesian University of Technology, the Faculty of Mining and Geoengineering of the Stanisław Staszic AGH University of Science and Technology in Kraków, and the Stanisław Staszic AGH University of Science and Technology Foundation, initiated efforts to establish the Mining OK Group for Joint Social Initiatives, with the following goals:

- To implement CSR principles in the mining industry in Poland and share CSR knowledge with the Group members;
- To optimise CSR efforts in the legal entities represented by the members;
- To develop and implement common CSR best practices in the industry;
- To work out and implement a CSR support policy for the mining industry as an important, necessary and responsible branch of Polish and European industry.

#### Employee performance indicators

**[G4-10] Table 3.** Revenue structure (PLN '000) Total number of employees in key companies by employment contract and gender

COMPANY	TYPE OF EMPLOYMENT	2016		2017	
		Women	Men	Women	Men

FAMUR S.A.	Employment contracts	106	190	149	263
	of which open-ended employment contracts	80	145	130	211
FAMUR S.A. Longwall Systems Branch in Katowice	Employment contracts	20	265	19	295
	of which open-ended employment contracts	15	228	17	227
FAMUR S.A. Electrical Equipment Branch in Katowice	Employment contracts	3	70	0	0
	of which open-ended employment contracts	3	48	0	0
FAMUR S.A. REMAG Gallery Systems Branch in Katowice	Employment contracts	29	324	29	329
	of which open-ended employment contracts	29	305	27	292
FAMUR S.A. Transport/handling systems PIOMA Branch in Piotrków Trybunalski	Employment contracts	18	258	19	249
	of which open-ended employment contracts	15	247	14	228
FAMUR S.A. GLINIK Longwall Systems Branch in Gorlice	Employment contracts	18	433	18	471
	of which open-ended employment contracts	18	358	17	352
FAMUR S.A. NOWOMAG Longwall Systems Branch in Nowy Sącz	Employment contracts	7	128	6	141
	of which open-ended employment contracts	7	86	6	79
FAMUR FAMAK S.A.	Employment contracts	45	460	47	449
	of which open-ended employment contracts	34	396	36	397
FUGO S.A.	Employment contracts	0	0	16	147
	of which open-ended employment contracts	0	0	14	119
Fugo Sp. z o.o.	Employment contracts	30	339	26	329
	of which open-ended employment contracts	24	301	22	290
FAMUR PEMUG Sp. z o.o.	Employment contracts	7	75	8	69
	of which open-ended employment contracts	7	58	6	52
KOPEX Finance & Restructuring Sp. z o.o. [1]	Employment contracts	0	0	0	0
	of which open-ended employment contracts	0	0	0	0
KOPEX S.A. [1]	Employment contracts	2	51	1	50
	of which open-ended employment contracts	2	4	1	3
KOPEX S.A. Head Office Branch in Zabrze [1], [2]	Employment contracts	136	84	14	21
	of which open-ended employment contracts	130	80	11	21
KOPEX S.A. Shearers and Conveyors Branch in Zabrze [1], [2]	Employment contracts	77	716	31	385
	of which open-ended employment contracts	75	704	31	361
KOPEX S.A. Hydraulics Branch in Zabrze [1], [2]	Employment contracts	8	145	6	127
	of which open-ended employment contracts	8	143	6	120
KOPEX S.A. Obudowy Tagor Branch in Zabrze [1], [2]	Employment contracts	17	148	3	5
	of which open-ended employment contracts	17	146	3	5
KOPEX CONSTRUCTION Sp. z o.o. [1]	Employment contracts	3	45	3	34
	of which open-ended employment contracts	3	35	3	28

KOPEX-Ex-Coal Sp. z o.o. [1]	Employment contracts	1	3	1	3
	of which open-ended employment contracts	0	3	1	3
PBSZ 1 Sp. z o.o. [1]	Employment contracts	0	0	0	0
	of which open-ended employment contracts	0	0	0	0
RELT Sp. z o.o [1]	Employment contracts	3	5	2	5
	of which open-ended employment contracts	3	5	2	5
Elgór + Hansen S.A. [1]	Employment contracts	39	132	37	147
	of which open-ended employment contracts	38	129	35	140
Przedsiębiorstwo Budowy Szybów S.A. [1]	Employment contracts	74	1,085	72	989
	of which open-ended employment contracts	66	659	66	623
ŚTW DALBIS Sp. z o.o. [1]	Employment contracts	4	83	4	69
	of which open-ended employment contracts	4	78	4	64

[1] A KOPEX Group company/branch, operating within the FAMUR Group since 2017.

[2] KOPEX S.A. branches, operating since December 8th 2016. The branches' 2016 data is presented for the period from December 8th 2016 to December 31st 2017.

Table 4. Trade unions at the FAMUR Group companies

COMPANY/BRANCH	TRADE UNIONS ACTIVE AT COMPANY/BRANCH (YES/NO)
FAMUR S.A.	YES
FAMUR S.A. Longwall Systems Branch in Katowice	YES
FAMUR S.A. Electrical Equipment Branch in Katowice	NO
FAMUR S.A. REMAG Gallery Systems Branch in Katowice	YES
FAMUR S.A. PIOMA Transport/Handling Systems Branch in Piotrków Trybunalski	YES
FAMUR S.A. GLINIK Longwall Systems Branch in Gorlice	YES
FAMUR S.A. NOWOMAG Longwall Systems Branch in Nowy Sącz	YES
FAMUR FAMA S.A.	YES
FUGO S.A.	YES
Fugo Sp. z o.o.	YES
FAMUR PEMUG Sp. z o.o.	YES
Kopex Finance & Restructuring Sp. z o.o. [1]	NO
KOPEX S.A. [1]	NO
KOPEX S.A. Head Office Branch in Zabrze [1], [2]	NO
KOPEX S.A. Zabrze shearers, Ryfama conveyors, Zabrze Branch	YES
KOPEX S.A. Hydraulics Branch in Zabrze [1], [2]	YES
KOPEX S.A. Obudowy Tagor Branch in Zabrze [1], [2]	NO
KOPEX CONSTRUCTION sp. z o.o. [1]	NO

KOPEX-Ex-Coal sp. z o.o. [1]	NO
PBSZ 1 sp. z o.o. [1]	NO
RELT Sp. z o.o [1]	NO
Elgór + Hansen S.A. [1]	YES
Przedsiębiorstwo Budowy Szybów S.A. [1]	YES
ŚTW DALBIS Sp. z o.o. [1]	NO

Relations with trade unions are handled in compliance with all applicable laws and regulations.

[1] A KOPEX Group company/branch, operating within the FAMUR Group since 2017.

[2] KOPEX S.A. branches, operating since December 8th 2016.

## [G4-LA1] TOTAL NUMBER AND RATES OF NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER

Table 5.a. Total number and rates of new employee hires at end of year

COMPANY		2016	2017
FAMUR S.A.	Number of new employee hires	35	64
	Rate of new employee hires	12%	16%
FAMUR S.A. Longwall Systems Branch in Katowice	Number of new employee hires	28	59
	Rate of new employee hires	10%	19%
FAMUR S.A. Electrical Equipment Branch in Katowice	Number of new employee hires	8	3
	Rate of new employee hires	11%	Not applicable (no employees as at Dec 31 2017)
FAMUR S.A. REMAG Gallery Systems Branch in Katowice	Number of new employee hires	26	42
	Rate of new employee hires	7%	12%
FAMUR S.A. PIOMA Transport/Handling Systems Branch in Piotrków Trybunalski	Number of new employee hires	7	21
	Rate of new employee hires	3%	8%
FAMUR S.A. GLINIK Longwall Systems Branch in Gorlice	Number of new employee hires	55	85
	Rate of new employee hires	12%	17%
FAMUR S.A. NOWOMAG Longwall Systems Branch in Nowy Sącz	Number of new employee hires	24	32
	Rate of new employee hires	18%	22%
FAMUR FAMA S.A.	Number of new employee hires	85	68
	Rate of new employee hires	18%	14%
FUGO S.A.	Number of new employee hires	0	14
	Rate of new employee hires	0	9%
Fugo Sp. z o.o.	Number of new employee hires	40	39
	Rate of new employee hires	11%	11%
FAMUR PEMUG Sp. z o.o.	Number of new employee hires	14	16
	Rate of new employee hires	17%	21%
Kopex Finance & Restructuring [1]	Number of new employee hires	0	0
	Rate of new employee hires	0%	0%



KOPEX S.A. [1]	Number of new employee hires	35	14
	Rate of new employee hires	66%	27%
KOPEX S.A. Head Office Branch in Zabrze [1], [2]	Number of new employee hires	2	8
	Rate of new employee hires	0.9%	23%
KOPEX S.A. Zabrze shearers, Ryfama conveyors, Zabrze Branch [1], [2]	Number of new employee hires	32	34
	Rate of new employee hires	4%	8%
KOPEX S.A. Hydraulics Branch in Zabrze [1], [2]	Number of new employee hires	6	17
	Rate of new employee hires	4%	13%
KOPEX S.A. Obudowy Tabor Branch in Zabrze [1], [2]	Number of new employee hires	7	0
	Rate of new employee hires	4%	0%
KOPEX CONSTRUCTION Sp. z o.o. [1]	Number of new employee hires	5	7
	Rate of new employee hires	10%	19%
KOPEX-Ex-Coal Sp. z o.o. [1]	Number of new employee hires	0	0
	Rate of new employee hires	0%	0%
PBSZ 1 Sp. z o.o. [1]	Number of new employee hires	0	0
	Rate of new employee hires	0%	0%
RELT Sp. z o.o [1]	Number of new employee hires	0	0
	Rate of new employee hires	0%	0%
Elgór + Hansen S.A. [1]	Number of new employee hires	4	11
	Rate of new employee hires	2%	6%
Przedsiębiorstwo Budowy Szybów S.A. [1]	Number of new employee hires	145	182
	Rate of new employee hires	13%	17%
ŚTW DALBIS Sp. z o.o. [1]	Number of new employee hires	5	14
	Rate of new employee hires	6%	19%

[1] A KOPEX Group company/branch, operating within the FAMUR Group since 2017.

[2] KOPEX S.A. branches, operating since December 8th 2016. The branches' 2016 data is presented for the period from December 8th 2016 to December 31st 2017.

Table 5b. Total number and rates of employee turnover at year end.

COMPANY		2016	2017
FAMUR S.A.	Number of terminated employees	65	52
	Employee turnover rate	22%	13%
FAMUR S.A. Longwall Systems Branch in Katowice	Number of terminated employees	29	46
	Employee turnover rate	10%	15%
FAMUR S.A. Electrical Equipment Branch in Katowice	Number of terminated employees	5	3

			Not applicable (no employees as at Dec 31 2017)
	Employee turnover rate	7%	
FAMUR S.A. REMAG Gallery Systems Branch in Katowice	Number of terminated employees	69	39
	Employee turnover rate	20%	11%
FAMUR S.A. Transport/handling systems PIOMA Branch in Piotrków Trybunalski	Number of terminated employees	15	24
	Employee turnover rate	5%	9%
FAMUR S.A. GLINIK Longwall Systems Branch in Gorlice	Number of terminated employees	84	37
	Employee turnover rate	19%	8%
FAMUR S.A. NOWOMAG Longwall Systems Branch in Nowy Sącz	Number of terminated employees	12	20
	Employee turnover rate	9%	14%
FAMUR FAMA S.A.	Number of terminated employees	59	77
	Employee turnover rate	13%	16%
FUGO S.A.	Number of terminated employees	0	0
	Employee turnover rate	0%	0%
Fugo Sp. z o.o.	Number of terminated employees	66	45
	Employee turnover rate	18%	13%
FAMUR PEMUG Sp. z o.o.	Number of terminated employees	19	23
	Employee turnover rate	23%	30%
Kopex Finance & Restructuring [1]	Number of terminated employees	0	0
	Employee turnover rate	0%	0%
KOPEX S.A. [1]	Number of terminated employees	95	16
	Employee turnover rate	179%	31%
KOPEX S.A. Head Office Branch in Zabrze [1], [2]	Number of terminated employees	2	122
	Employee turnover rate	0.9%	349%
KOPEX S.A. Zabrze shears, Ryfama conveyors, Zabrze Branch [1], [2]	Number of terminated employees	511	334
	Employee turnover rate	64%	80%
KOPEX S.A. Hydraulics Branch in Zabrze [1], [2]	Number of terminated employees	34	22
	Employee turnover rate	22%	17%

KOPEX S.A. Obudowy Ta- gor Branch in Zabrze [1] , [2]	Number of terminated em- ployees	15	156
	Employee turnover rate	10%	1950%
KOPEX CONSTRUCTION Sp. z o.o. [1]	Number of terminated em- ployees	9	18
	Employee turnover rate	19%	49%
KOPEX-Ex-Coal Sp. z o.o. [1]	Number of terminated em- ployees	14	0
	Employee turnover rate	350%	0%
PBSZ 1 Sp. z o.o. [1]	Number of terminated em- ployees	0	0
	Employee turnover rate	0%	0%
RELT Sp. z o.o [1]	Number of terminated em- ployees	0	1
	Employee turnover rate	0%	0%
Elgór + Hansen S.A. [1]	Number of terminated em- ployees	46	21
	Employee turnover rate	27%	11%
Przedsiębiorstwo Budowy Szybów S.A. [1]	Number of terminated em- ployees	259	300
	Employee turnover rate	22%	28%
ŚTW DALBIS Sp. z o.o. [1]	Number of terminated em- ployees	7	27
	Employee turnover rate	6%	19%

[1] A KOPEX Group company/branch, operating within the FAMUR Group since 2017.

[2] KOPEX S.A. branches, operating since December 8th 2016. The branches' 2016 data is presented for the pe-  
riod from December 8th 2016 to December 31st 2017.

## [G4-LA16] NUMBER OF GRIEVANCES ABOUT LABOR PRACTICES FILED, ADDRESSED, AND RESOLVED THROUGH FORMAL GRIEVANCE MECHANISMS

Listed below are grievances and litigations concerning labour practices filed and resolved when a company was part of the FAMUR Group and therefore a case was within the Group's control. Cases and proceedings initiated when a company was not a member of the FAMUR Group are not included.

### Grievances

Initiated and closed in 2016–2017:

- A wage increase dispute with one of the trade unions – closed in 2017;
- Employee litigation
  - 7 cases closed at FAMUR S.A. and its branches,
  - 1 case closed at Famak.

### Pilot secondary school partnership programme

In September 2017, the Pioma Transport/Handling Systems Division launched a trial programme of collaborative partnerships between the FAMUR Group and secondary schools. In partnership with Secondary School Complex

No. 2 in Piotrków Trybunalski, a curriculum was developed whose aim is to give students theoretical and practical means to work as cutting machine operators. During a three-year course, students will have the opportunity to take a tour around our manufacturing facilities and attend classes covering manufacturing processes and day-to-day business operations. Students will be offered opportunities to apply their skills to do practical tasks at the facilities under the supervision of our best specialists and a vocational instructor. The most talented students will be offered jobs at the Pioma Branch after graduation.

## Environmental performance indicators

Table 6. Environmental performance indicators

### FAMUR GROUP

Area: the environment

COMPANY	INDICATOR	2016	2017
FAMUR S.A. and its branches	[G4-EN3] Electricity [MWh]	19,166.6	18,833.4
	[G4-EN8] Water abstraction [m3]	81,792	80,482
	[G4-EN15] Carbon dioxide [kg]	197,859.4	277,913.9
	[G4-EN15] Industrial F-gases [kg]	162.8	63.5
	[G4-EN15] Nitrogen oxides [kg]	644.1	721.4
	[G4-EN23] Industrial waste [Mg]	10,803.1	10,885.9
	[G4-EN23] Municipal waste [Mg]	715.2	708.4
	[G4-EN23] Separated waste [Mg]	24.3	24.5
	[G4-EN29] Significant fines [PLN]	0	0
FAMUR FAMAK S.A.	[G4-EN3] Electricity [MWh]	5,621.9	5,769.8
	[G4-EN8] Water abstraction [m3]	14,255	11,373
	[G4-EN15] Carbon dioxide [Mg]	5,670.8	4,998.1
	[G4-EN15] Industrial F-gases [kg]	-	-
	[G4-EN15] Nitrogen oxides [Mg]	6.9	6.1
	[G4-EN23] Industrial waste [Mg]	1,880.4	1,873.6
	[G4-EN23] Municipal waste [m3]	205.3	221.8
	[G4-EN23] Reclaimed waste [m3]	105.1	105.1
	[G4-EN29] Significant fines [PLN]	0	0
FAMUR PEMUG Sp. z o.o.	[G4-EN3] Electricity [MWh]	1.5	0.9
	[G4-EN8] Water abstraction [m3]	118	127
	[G4-EN15] Carbon dioxide [kg]	12.1	14.5
	[G4-EN15] Industrial F-gases [kg]	-	-
	[G4-EN15] Nitrogen oxides [kg]	-	-
	[G4-EN23] Industrial waste [Mg]	7	7
	[G4-EN23] Municipal waste [Mg]	5.5	13.2
	[G4-EN23] Reclaimed waste [Mg]	-	-
	[G4-EN29] Significant fines [PLN]	0	0
FUGO S.A. Kluczbork/Zgorzelec	[G4-EN3] Electricity [MWh]	*-	**1 255.2
	[G4-EN8] Water abstraction [m3]	-	3,239
	[G4-EN15] Carbon dioxide [kg]	-	20
	[G4-EN15] Industrial F-gases [kg]	-	0
	[G4-EN15] Nitrogen oxides [kg]	-	0.3
	[G4-EN23] Industrial waste [Mg]	-	279
	[G4-EN23] Municipal waste [Mg]	-	10
	[G4-EN23] Reclaimed waste [Mg]	-	1
	[G4-EN29] Significant fines [PLN]	-	0
FUGO Sp. z o.o. of Konin	[G4-EN3] Electricity [MWh]	6,343.2	7,529.7
	[G4-EN8] Water abstraction [m3]	19,534	16,723
	[G4-EN15] Carbon dioxide [kg]	0.3	-

\* Did not carry on business activities.

\*\* August 1st – December 31st 2017

	[G4-EN15] Industrial F-gases [kg]	-	-
	[G4-EN15] Nitrogen oxides [kg]	0.4	-
	[G4-EN23] Industrial waste [Mg]	905.8	1059.8
	[G4-EN23] Municipal waste [Mg]	180	180
	[G4-EN23] Reclaimed waste [Mg]	11.9	14
	[G4-EN29] Significant fines [PLN]	0	300
	[G4-EN3] Electricity [MWh]	11,892	8,298.9
	[G4-EN8] Water abstraction [m3]	42,361.3	34,469.8
	[G4-EN15] Carbon dioxide [kg]	631.4	474.1
KOPEX S.A. and its branches [1], [2]	[G4-EN15] Industrial F-gases [kg]	0	2.5
	[G4-EN15] Nitrogen oxides [kg]	2,418.1	1,151.2
	[G4-EN23] Industrial waste [Mg]	3,400.7	3,028.3
	[G4-EN23] Municipal waste [Mg]	150	40
	[G4-EN23] Reclaimed waste [Mg]	30.6	10.4
	[G4-EN29] Significant fines [PLN]	0	0
		[G4-EN3] Electricity [MWh]	126.9
	[G4-EN8] Water abstraction [m3]	1,147	1,332
	[G4-EN15] Carbon dioxide [kg]	105.8	145.8
KOPEX Construction sp. z o.o. [1]	[G4-EN15] Industrial F-gases [kg]	0	0
	[G4-EN15] Nitrogen oxides [kg]	0	0
	[G4-EN23] Industrial waste [Mg]	18.6	36.5
	[G4-EN23] Municipal waste [Mg]	-	-
	[G4-EN23] Reclaimed waste [Mg]	-	-
	[G4-EN29] Significant fines [PLN]	0	0
		[G4-EN3] Electricity [MWh]	506
	[G4-EN8] Water abstraction [m3]	1,189.8	1,339.3
	[G4-EN15] Carbon dioxide [kg]	29,794.1	32,287.7
Elgór + Hansen S.A. [1]	[G4-EN15] Industrial F-gases [kg]	0	0
	[G4-EN15] Nitrogen oxides [kg]	22.72	24.7
	[G4-EN23] Industrial waste [Mg]	17.9	21.9
	[G4-EN23] Municipal waste [Mg]	82,160	82,160
	[G4-EN23] Reclaimed waste [Mg]	-	-
	[G4-EN29] Significant fines [PLN]	0	0
		[G4-EN3] Electricity [MWh]	742.01
	[G4-EN8] Water abstraction [m3]	7,117.6	4,424
	[G4-EN15] Carbon dioxide [kg]	253,450	0
Przedsiębiorstwo Bu- dowy Szybów S.A. [1]	[G4-EN15] Industrial F-gases [kg]	0	0
	[G4-EN15] Nitrogen oxides [kg]	322.31	774.5
	[G4-EN23] Industrial waste [Mg]	1,724.26	3371.7
	[G4-EN23] Municipal waste [Mg]	21.41	16.5
	[G4-EN23] Reclaimed waste [Mg]	2.8	4.6
	[G4-EN29] Significant fines [PLN]	0	0
		[G4-EN3] Electricity [MWh]	118,000
	[G4-EN8] Water abstraction [m3]	3,450	4,602
	[G4-EN15] Carbon dioxide [kg]	-	-
ŚTW Dalbis Sp. z o.o. [1]	[G4-EN15] Industrial F-gases [kg]	-	-
	[G4-EN15] Nitrogen oxides [kg]	-	-
	[G4-EN23] Industrial waste [Mg]	2,211.3	1,306.9
	[G4-EN23] Municipal waste [Mg]	1.5	5.3
	[G4-EN23] Reclaimed waste [Mg]	-	-
	[G4-EN29] Significant fines [PLN]	0	0

[1] A KOPEX Group company, operating within the FAMUR Group since 2017.

[2] KOPEX S.A. branches, operating since December 8th 2016.

Area: Occupational Health and Safety

COMPANY	INDICATOR	2016	2017
FAMUR S.A.	[G4-LA6] Number of occupational diseases	7	5
	[G4-LA6] Number of work-related fatalities	0	0
	[G4-LA6] Number of occupational accidents	2	1
	[G4-LA6] Frequency rate	6.5	2.9
	[G4-LA6] Severity rate	43.5	21
FAMUR S.A. Longwall Systems Branch	[G4-LA6] Number of occupational diseases	0	0
	[G4-LA6] Number of work-related fatalities	0	0
	[G4-LA6] Number of occupational accidents	3	1
	[G4-LA6] Frequency rate	10.5	3
	[G4-LA6] Severity rate	30	15
FAMUR S.A. Remag Gallery Systems Branch	[G4-LA6] Number of occupational diseases	0	1
	[G4-LA6] Number of work-related fatalities	0	0
	[G4-LA6] Number of occupational accidents	12	10
	[G4-LA6] Frequency rate	31.16	27.70
	[G4-LA6] Severity rate	30.45	27
FAMUR S.A. Glinik Longwall Systems Branch	[G4-LA6] Number of occupational diseases	0	0
	[G4-LA6] Number of work-related fatalities	0	0
	[G4-LA6] Number of occupational accidents	12	11
	[G4-LA6] Frequency rate	25.99	22.49
	[G4-LA6] Severity rate	37.58	82.36
FAMUR S.A. Nowomag Longwall Systems Branch	[G4-LA6] Number of occupational diseases	1	0
	[G4-LA6] Number of work-related fatalities	0	0
	[G4-LA6] Number of occupational accidents	8	1
	[G4-LA6] Frequency rate	61.1	7.2
	[G4-LA6] Severity rate	37	50
FAMUR S.A. Pioma Transport/Handling Systems Branch	[G4-LA6] Number of occupational diseases	0	1
	[G4-LA6] Number of work-related fatalities	0	0
	[G4-LA6] Number of occupational accidents	0	0
	[G4-LA6] Frequency rate	0	0
	[G4-LA6] Severity rate	0	0
FAMUR FAMAK S.A.	[G4-LA6] Number of occupational diseases	1	0
	[G4-LA6] Number of work-related fatalities	0	0
	[G4-LA6] Number of occupational accidents	2	4
	[G4-LA6] Frequency rate	4	8
	[G4-LA6] Severity rate	52	86.25
FAMUR PEMUG sp. z o.o.	[G4-LA6] Number of occupational diseases	1	0
	[G4-LA6] Number of work-related fatalities	0	0
	[G4-LA6] Number of occupational accidents	3	2
	[G4-LA6] Frequency rate	36.58	36.29
	[G4-LA6] Severity rate	63	91
FUGO S.A. Kluczbork/ Zgorzelec	[G4-LA6] Number of occupational diseases	*-	**0
	[G4-LA6] Number of work-related fatalities	-	0
	[G4-LA6] Number of occupational accidents	-	1
	[G4-LA6] Severity rate	-	-

* Did not carry out business activities.	[G4-LA6] Frequency rate	-	6.41
** August 1st – December 31st 2017	[G4-LA6] Severity rate	-	54
FUGO Sp. z o.o. of Konin	[G4-LA6] Number of occupational diseases	1	1
	[G4-LA6] Number of work-related fatalities	0	0
	[G4-LA6] Number of occupational accidents	5	4
	[G4-LA6] Frequency rate	13.55	11.33
	[G4-LA6] Severity rate	53	82.5
KOPEX S.A. [1]	[G4-LA6] Number of occupational diseases	5	8
	[G4-LA6] Number of work-related fatalities	0	0
	[G4-LA6] Number of occupational accidents	0	0
	[G4-LA6] Frequency rate	0	0
KOPEX S.A. Shearer Branch Conveyor Branch [1], [2]	[G4-LA6] Severity rate	0	0
	[G4-LA6] Number of occupational diseases	1	2
	[G4-LA6] Number of work-related fatalities	1	0
	[G4-LA6] Number of occupational accidents	32	19
KOPEX S.A. Hydraulics Branch in Zabrze [1], [2]	[G4-LA6] Frequency rate	40.35	33.15
	[G4-LA6] Severity rate	29.25	29.31
	[G4-LA6] Number of occupational diseases	0	0
	[G4-LA6] Number of work-related fatalities	0	0
KOPEX S.A. Hydraulics Branch in Zabrze [1], [2]	[G4-LA6] Number of occupational accidents	0	7
	[G4-LA6] Frequency rate	0	51.85
	[G4-LA6] Severity rate	0	38.28
	[G4-LA6] Number of occupational diseases	0	0
KOPEX Construction sp. z o.o. [1]	[G4-LA6] Number of work-related fatalities	0	0
	[G4-LA6] Number of occupational accidents	1	2
	[G4-LA6] Frequency rate	20.8	54.1
	[G4-LA6] Severity rate	182.0	74.0
Elgór + Hansen S.A. [1]	[G4-LA6] Number of occupational diseases	0	0
	[G4-LA6] Number of work-related fatalities	0	0
	[G4-LA6] Number of occupational accidents	1	3
	[G4-LA6] Frequency rate	5.8	15.9
Przedsiębiorstwo Budowy Szybów S.A. [1]	[G4-LA6] Severity rate	19	15
	[G4-LA6] Number of occupational diseases	8	1
	[G4-LA6] Number of work-related fatalities	1	0
	[G4-LA6] Number of occupational accidents	26	24
ŚTW Dalbis sp. z o.o. [1]	[G4-LA6] Frequency rate	22.45	22.64
	[G4-LA6] Severity rate	55.03	54.37
	[G4-LA6] Number of occupational diseases	0	0
	[G4-LA6] Number of work-related fatalities	0	0
ŚTW Dalbis sp. z o.o. [1]	[G4-LA6] Number of occupational accidents	1	0
	[G4-LA6] Frequency rate	12	0
	[G4-LA6] Severity rate	20	0
	[G4-LA6] Number of occupational diseases	0	0

\*) Indicators regarding the OHS area are presented by individual operational branches of FAMUR, as under the applicable regulations these branches are separate employers.

[1] A KOPEX Group company/branch, operating within the FAMUR Group since 2017.

[2] KOPEX S.A. branches, operating since December 8th 2016.

## 4. Management of risks related to the Group's business with a bearing on non-financial matters

### 4.1. Significant risks related to the FAMUR Group's business with a bearing on non-financial matters and management of these risks

#### Risk related to the business model

The FAMUR Group's significant customers operate in the mining sector, which is subject to economic cycles. Therefore, the course an economic cycle takes and the situation of the mining sector impact the FAMUR Group's operations and financial performance.

Analyses and reports concerning coal mining in Poland show that the industry is in a complex situation, not only technologically, and exposed to many adverse factors. These include deteriorating mining and geological conditions and depletion of deposits in the licence areas of some of the mines, depreciation of technical infrastructure of the mines, extraction and other work conducted far from shafts, numerous natural hazards (including methane emission, rock bumps, water hazards), and intensively developed areas in Upper Silesia.<sup>30</sup> According to industry analyses, the industry faces numerous challenges, among which low mining productivity and high unit labour costs seem to be of key importance<sup>31</sup>. Some of the analyses argue that this problem may be solved by significant workforce reduction in the coming years.

The Programme for the Hard Coal Mining Sector in Poland until 2030<sup>32</sup>, presented in January 2018, provides for 'a thorough reform of hard coal mining with active participation of the state'<sup>33</sup>. The specific objectives of the programme, which will be implemented by coal mining companies and the minister of energy, include 'recovery and stabilisation of liquidity, profitability and economic and financial efficiency of the hard coal mining sector, including by adapting production capacities to market needs and export opportunities'. Plans provide for 'continued integration of the coal mining and heat and power sectors and building an effective coal and coke group model', as well as for ensuring coverage of domestic hard coal demand, in particular from heat and power generators and coke producers<sup>34</sup>. The document provides grounds for a prudently optimistic view of the sector's future.

In the long term, global mining markets may also face many challenges despite the anticipated growth in demand worldwide (mainly Asian markets, in particular Indonesia, China and India). These challenges may be related to two areas: environmental and social<sup>35</sup>. The environmental challenges include the need to care for natural resources: water (pollution, limited resources), land (biodiversity, waste, leakage of heavy metals into the soil), and air (carbon dioxide emissions, generation of pollutants and particulate matter). The social challenges to the mining industry will concern economic and social issues (employment, infrastructure and education), health and safety (number of accidents at work, including fatalities), diseases connected with the industry, and quality of life (noise, vibration, impact on landscape).

Environmental protection is also one of the priorities in the activities of major international organisations, as evidenced by the World Bank's recent decision to cease financing activities related to oil and gas production after

<sup>30</sup> Supreme Audit Office, *Funkcjonowanie Górnictwa Węgla Kamiennego w latach 2007–2015 na tle założeń programu rządowego* [Hard coal mining sector in 2007–2015 in view of government programme assumptions], Warsaw 2017, p. 21.

<sup>31</sup> *Polski węgiel: Quo Vadis? Perspektywy rozwoju górnictwa kamiennego w Polsce* [Polish Coal: Quo Vadis? Growth prospects for hard coal mining in Poland, WiseEuropa Institute of Warsaw], Warsaw 2015, p. 7.

<sup>32</sup> The programme was adopted by the government of the Republic of Poland on January 23rd 2018.

<sup>33</sup> [http://bip.me.gov.pl/files/upload/27601/projekt%20Programu%20GWK\\_12.01.2018%20RM.pdf](http://bip.me.gov.pl/files/upload/27601/projekt%20Programu%20GWK_12.01.2018%20RM.pdf)

<sup>34</sup> [http://gornictwo.wnp.pl/rzad-przyjal-program-dla-gornictwa-wegla-kamiennego-do-2030-roku,315909\\_1\\_0\\_2.html](http://gornictwo.wnp.pl/rzad-przyjal-program-dla-gornictwa-wegla-kamiennego-do-2030-roku,315909_1_0_2.html)

<sup>35</sup> *Mining Takes on the Sustainability Challenge*



2019 due to their impact on the environment<sup>36</sup>. There is a risk that some international organisations, state governments and banks, especially in highly developed countries, will follow suit with the World Bank. Already today, the real challenge for the mining sector is to raise financing for the announced investment plans, which are necessary to maintain the continuity of production.

Material risk factors and threats with a bearing on the Company's business also include:<sup>37</sup>

- risk of inadequate diversification of revenue sources;
- risk of deterioration in mining companies' financial position and insolvency of mines;
- risk of macroeconomic volatility;
- risk of changes in the global energy market;
- 

According to the report of the World Economic Forum, technology, including waste management optimisation, is one of the key drivers which can ensure evolution and continued existence of the mining industry. In the coming years, pressures on achieving economies of scale and cost effectiveness and undertaking measures for the benefit of the environmental and local communities will be growing<sup>38</sup>.

Also the Polish government sees the need to restructure and modernise coal mines. The principal causes of the difficult situation of the mining industry are high costs of hard coal production due to difficult mining conditions (depth, threats, long transport routes, high share of fixed costs, including personnel costs)<sup>39</sup> and persistently low production efficiency, especially when compared with leading global producers.

The Strategy for Responsible Growth also includes the 'Programme for Silesia', which in particular provides for changing the region's economic profile through smooth diversification of traditional sectors, such as mining and steel industries, by introducing other manufacturing industries and services, including those with a large share of innovation and technological advancement<sup>40</sup>.

In the Strategy, under the 'Smart Mine' programme, it is also planned to stimulate the development of products which would enable the Polish industry to gain a significant position in the global market of mining and construction machinery<sup>41</sup>. With energy security in mind, the Polish government's plans provide for focusing on enhancing the efficiency of the Polish mining sector<sup>42</sup>.

One new direction for continuous use of Polish coal resources (both hard coal and lignite), while complying with strict environmental standards, may be the use of the SGT coal gasification technology.

In order to meet the trends and challenges related to the need for innovation and growing automation and digitisation of industrial processes, the FAMUR Group implements the Industry 4.0 concept, whose principal purpose is "system consolidation and integration of people with digitally controlled machines widely relying on wireless networks and ICT technologies"<sup>43</sup>. Industry 4.0 solutions are aimed at enhancing competitive advantage by fully controlling the production process, increasing efficiency and improving work safety, with the ultimate result of **boosting the operating profitability of mines over a longer time horizon**.

The FAMUR Group is a leading Polish producer of machinery and systems for the mining industry, actively implementing product innovations and IT systems that improve the safety and efficiency of raw materials extraction

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<sup>36</sup> <https://www.theguardian.com/business/2017/dec/12/uk-banks-join-multinationals-pledge-come-clean-climate-change-risks-mark-carney>

<sup>37</sup> *Directors' Report on the operations of the FAMUR Group and FAMUR S.A. in 2017*,

<sup>38</sup> *Mining & Metals in a Sustainable World 2050*, „World Economic Forum” 2015, p. 5.

<sup>39</sup> *Strategia na rzecz Odpowiedzialnego Rozwoju do roku 2020 (z perspektywą do 2030 r.) [Strategy for Responsible Growth until 2020 (with an Outlook until 2030)]*, the Ministry of Development, Warsaw 2017, p. 332.

<sup>40</sup> *Ibidem*, p. 190

<sup>41</sup> *Ibidem*, p. 78

<sup>42</sup> *Ibidem*, p. 332

<sup>43</sup> [http://gornictwo.wnp.pl/gornictwo-4-0-czyli-zwiekszac-efektywnosc-i-konkurencyjnosc-krajowych-producentow-wegla,308176\\_1\\_0\\_0.html](http://gornictwo.wnp.pl/gornictwo-4-0-czyli-zwiekszac-efektywnosc-i-konkurencyjnosc-krajowych-producentow-wegla,308176_1_0_0.html)

and reduce its costs. This makes the FAMUR Group a strong leader in implementing the Industry 4.0 concept, not only in Poland but also internationally. One example of measures undertaken by the Group in this respect is the 'e-mine' system being implemented by the Group, which is a set of IT and hardware solutions for monitored machines and processes used in the mining industry<sup>44</sup>.

In view of the situation of the Polish mining industry as described above, the FAMUR Group has decided to diversify its product range and enhance its portfolio of products and services, in particular those targeted at the industries of strategic economic importance (mining, heat and power generation, and cargo transport and handling), as well as electrical products and solutions.

At the same time, the FAMUR Group has decided to expand its footprint on foreign markets. The result of this decision is the launch and consistent implementation of the 'GO Global' international expansion programme, which provides for gradual expansion on foreign markets, especially in countries with expected high economic growth rates and high energy demand.

The Group's business model together with the modern equipment offered to customers fall in well with the market need to modernise of the mining industry.

## Risks associated with various aspects of the policy

### Social issues

With regard to its social engagement, the FAMUR Group faces the following challenges/risks:

1. Risk of increasingly more engagement being expected of the FAMUR Group by local communities (with regard to the number of initiatives, levels of funding, or commitment of time/work) as the former steps up related activities.

Risk management approach:

- When deciding on a social project to engage in, the Group will verify whether it is consistent with the general sponsorship policy applied by the Group as well as with its business.
- The FAMUR Group is a member of the TDJ Group, which has established a dedicated foundation to implement a number of social programmes and initiatives supported by the FAMUR Group, with the participation of volunteers from local communities as well as employees of the FAMUR Group companies and their family members.

2. Risk of employees being reluctant to commit to new social projects or social projects implemented in new locations.

Risk management approach:

- Taking measures beforehand to learn whether the initiatives to be taken suit employees' needs and are engaging enough to ensure their participation. Employees are also informed about particular programmes and initiatives through mailing, newsletters, and posters.

### Employee issues

With regard to HR management, the FAMUR Group faces the following challenges/risks:

1. Risk of occupational accidents.  
To mitigate this risk, due diligence procedures have been put in place across the FAMUR Group, aimed at implementing its 'zero-accident policy'. For more information on these procedures, see Section 2.2.2 of this Statement.
2. Risk of non-compliance with local or international employment laws or regulations.

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<sup>44</sup> <https://famur.com/produkty/e-kopalnia/>

To mitigate this risk, the FAMUR Group's HR department is responsible for monitoring employment-related legislation as it is being enacted, amended and/or restated, while the Group's foreign subsidiaries are required to do the same in countries where they hire staff.

3. Risk of recruiting inadequately qualified staff, resulting in improper performance of tasks and responsibilities and occurrence of related errors at work.

To mitigate this risk, the FAMUR Group is committed to ensuring that candidates being recruited meet specific job requirements. They are also required to take tests in order to verify their skills and level of expertise.

4. Risk of staff shortages, which may result in failure to meet project deadlines set by customers and in excessive workload for existing employees.

To mitigate this risk, the FAMUR Group has in place an effective large-scale recruitment policy and presents its job offers to as many potential candidates as possible.

5. Risk of production staff turnover.

To mitigate this risk, the FAMUR Group takes measures to ensure that new employees are charged with tasks which match their skills and qualifications, that staff needs, including workplace-related ones, are satisfied, and that employees are offered opportunities to develop and gain new experience. The Group also implements projects aimed at making the working conditions more attractive to those already employed.

6. Risk of incurring costs of staff training which will not translate into employees fully or effectively applying their newly gained skills or know-how.

To mitigate this risk, the FAMUR Group tailors its training programmes to the actual needs of its plants at a given time and carefully selects employees to be trained.

7. Risk related to skilled-labour shortage – shortage of production employees with a specific set of basic skills, e.g. the ability to read technical drawings, as well as specially-qualified professionals. The shortage is attributable to few vocational schools offering desired career training profiles. The problem is also further aggravated by:

- changes in the educational system at the level of vocational and secondary schools (insufficient number of educational institutions offering desired vocational training profiles);
- a generation gap, primarily among production staff;
- a shortage specific to some of the geographical markets where the Group's subsidiaries operate, due to local conditions.

To mitigate this risk, the FAMUR Group takes measures to:

- Identify people whose employment with the Company may terminate in 2018–2021;
- Identify potential replacements among staff. If no replacements can be found within the organisation, the Group makes a decision to commence an external recruitment process;
- Identify internal mentors/trainers and, if required, invite external partners to assist with a project;
- Identify a competency gap among replacement staff in order to provide them with adequate training to fill vacancies resulting from the generation gap. In the next step, budgets and job-specific development programmes are prepared for the replacement staff;
- Ensure employee development through dedicated programmes, which should include assessment of the participants' learning progress;
- Develop solutions for people whose employment with the Company may terminate to enable them to stay professionally active following termination of employment, including offering flexible forms of employment;
- Recruit foreign employees, including providing team induction and integration programmes;
- Carry out recruitment activities, including placing job adverts in local papers and posting them on online job portals and in social media;
- Stay in regular contact with local job centres and participate in meetings organised by them to present recruitment opportunities;
- Partner with secondary schools in organising vocational classes under the Group's patronage (which allows it to tailor the curriculum to the actual needs of the company and train future staff), organising school trips around the company (to generate interest among students in working for the company in the future), and offering apprenticeship programmes to students (where students' qualifications are verified for the first time);
- Run internship and job placement programmes, whereby younger employees are able to learn valuable practical know-how from older, more experienced personnel, who will be gradually retiring;

- Explore opportunities to recruit non-EU nationals, keeping in mind that this may pose translation/interpreting-related challenges (fewer translators/interpreters available);
  - Acquire new businesses to expand the FAMUR Group, e.g. FAMUR FAMAK, a member of the FAMUR Group, acquired Konin-based FUGO and the former plant and facilities of Zgorzelec-based FAMAGO in April and July 2017 respectively. By acquiring plants together with their workforce, the Group reduces the risk of staff shortages.
- 8.** Risk of workforce shortages, including shortage of foreign workforce, who could work in Poland.  
To mitigate this risk, the FAMUR Group monitors opportunities to recruit foreign workforce as well as takes extensive measures, as described above, to recruit and retain valuable local employees.
  - 9.** Risk of uneven integration of employees from different FAMUR Group companies, branches, or plants.  
When carrying out projects to develop employees' competences (such as the Civic Competence Building Studio), the FAMUR Group faces a challenge to integrate employees from across the Group companies, which affects the implementation of such projects.  
To mitigate this risk, the FAMUR Group consistently carries out activities to develop the competencies of employees from across the Group companies and branches, keeping in mind that integrating employees from different members of the Group is a process which requires a long-term approach.
  - 10.** Risk of employee solicitation by competitors, i.e. companies established in certain markets by former employees of the FAMUR Group, which recruit staff with the same competences as those sought by the FAMUR Group.  
To mitigate this risk, the FAMUR Group intends to focus on training programmes in accordance with Articles 103–106 of the Polish Labour Code in order to increase loyalty levels among employees and enhance the Group's employer brand.
  - 11.** Risk of unnoticed employee solicitation by other FAMUR Group companies located in the same area and seeking staff with similar qualifications. It may happen that job candidates take part in several recruitment processes conducted by members of the Group concurrently in order to increase their chances of employment (this also entails employee migration from one Group company to another).  
To mitigate this risk, the FAMUR Group intends to focus on putting in place a single Group-wide recruitment process with a clear set of guidelines applicable to employees who migrate from one member of the Group to another.
  - 12.** Risk of deterioration of the FAMUR Group's image due to negative portrayal of the traditional mining industry in the media, in particular in the EU.  
To mitigate this risk, the FAMUR Group takes measures to enhance the media image of the company itself as well as the industry at large, stressing its long-term stability and a modern approach to carrying on business in a volatile environment. The FAMUR Group supports the development of technologies which offer improved control over and efficiency of production, mining, and product supply processes and thus help reduce the risk of mismanagement and losses.

## Natural environment

With regard to environmental management, the FAMUR Group is facing the following challenges/risks (material direct aspects with a negative impact according to the Register of Environmental Aspects)<sup>45</sup>.

- 1.** Risk associated with generation of hazardous office waste (waste toners, light sources, and electrical and electronic equipment) and non-hazardous office waste (municipal waste, paper, plastics, and glass).  
To counteract this risk, the FAMUR Group has introduced internal instructions for waste management. In addition, the Group meets all the conditions required to obtain a waste generation permit, and its employees receive training in proper waste management.
- 2.** Risk associated with generation of production waste: hazardous (used water and oil emulsion, wiping cloths, sorbent, sludge from treatment of metal, grinding materials, paint, varnish, solvent and spray containers, used polymer emulsion, used quench oil, paint and solvent leftovers, cleaning the tanks of wash booths) and other (metal shavings, pure metal, scrap, mill scale, paper, plastic film, wood).  
To counteract this risk, the FAMUR Group has developed instructions for waste management and obtained a permit for waste generation.

<sup>45</sup> The identified risks are mainly associated with FAMUR S.A. as the Group's parent. However, given their nature, they can be deemed material also to other Group companies.

3. Risk associated with air emissions of dust from production processes, nitrogen dioxide, carbon dioxide, sulfur dioxide, carbon monoxide, acroleins, aliphatic hydrocarbons, xylene, butyl acetate, butanol, and ethylbenzene.  
The FAMUR Group has obtained a permit to release gases and dusts into the air.
4. Risk associated with generation of hazardous waste during continuous plant operation processes, including used oils, emulsions, lubricants, wiping cloths, as well as other waste, such as paper and plastic film. To counteract this risk, the FAMUR Group has developed instructions for waste management and obtained a permit for waste generation.

To comprehensively prevent various environmental risks, the FAMUR Group has implemented the Integrated Management System and complies with relevant standards as described in Section 2.2.3 of this Statement.

## Respect for human rights

The main risk associated with human rights consists in their violation, both in the FAMUR Group's operations and in its supply chain. Any violations of human rights may entail significant image and business risks for the Group.

To counteract this risk, the Group decided to adopt a policy of respect for human rights, described in Section 2.2.4 of this Statement.

## Counteracting corruption

The risk of corruption relates to all departments of the FAMUR Group companies and branches, especially those that cooperate directly with customers or suppliers (e.g. the procurement department), as well as the technical departments, which find solutions and suppliers on their own.

To counteract this risk, the FAMUR Group decided to adopt an anti-corruption policy, described in Section 2.2.5 of this Statement.

## Diversity

The main risk associated with diversity consists in violation of human rights, both in the FAMUR Group's operations and in its supply chain. Any violations of human rights may entail significant image and business risks for the Group.

To counteract this risk, the Group decided to adopt a policy of respect for human rights, described in Section 2.2.6 of this Statement.

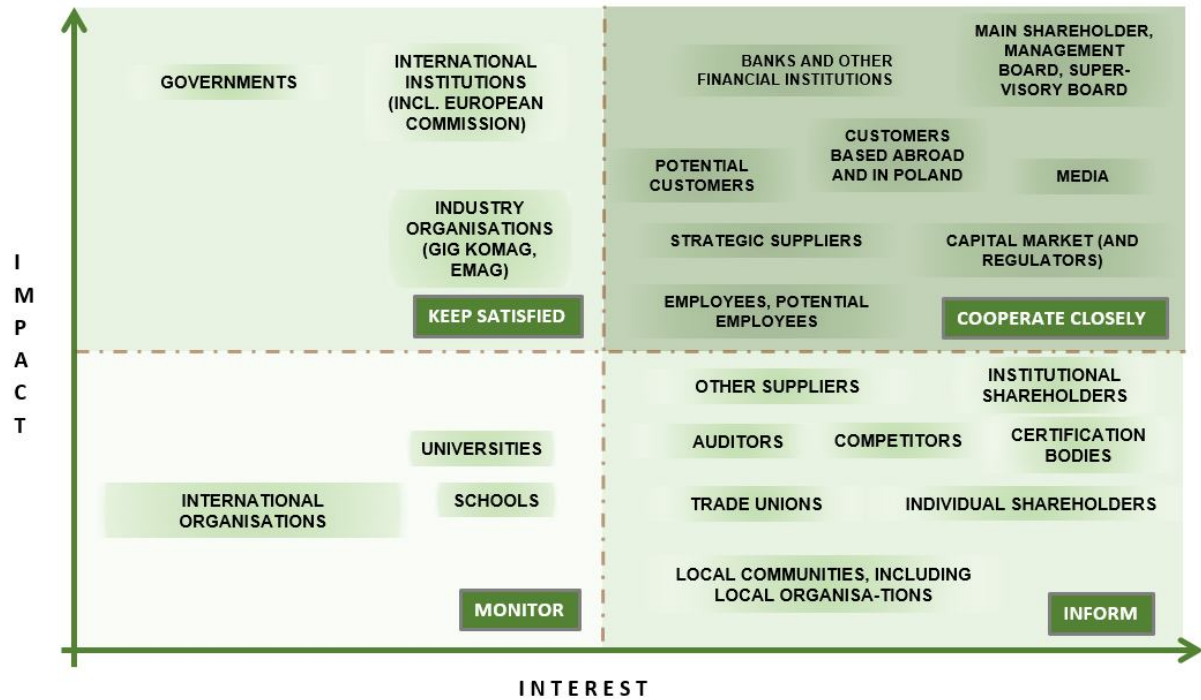
## 4.2. Stakeholders – stakeholder map

**[G4-24]** The stakeholders of a company or organisation are entities or groups (persons, communities, institutions, organisations, public authorities) that influence, and/or are influenced by, that company's or organisation's business. In other words, the company's activities are in their interest.

The interaction between a company and its stakeholders builds the organisation's value. There are many factors involved in this interaction, such as attractiveness of the offering reflecting the customers' needs, transparency of actions, support for local communities through the involvement in neighbours' affairs and local campaigns,

employee engagement, leading to improved quality of customer service. These are just a few examples of many factors with a bearing on the trust customers place with the Group, which in turn translates into higher economic benefits for the Group and consolidation of its strong market position.

Interaction with certain stakeholders is vitally important for proper functioning of the Company. Those stakeholders are shown in the right upper corner of the map below that illustrates the materiality of key stakeholders and their impact on and engagement in the FAMUR Group's activities. The map shows the approach and methods of managing relations with key stakeholders of the Group.



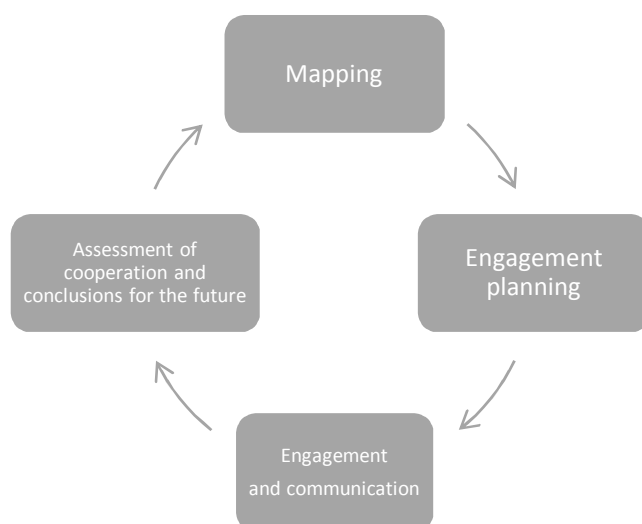
STAKEHOLDER MAP

### 4.3. Managing relations with individual stakeholder groups

Goodwill is built by managing relations with stakeholders, and the foundation of such relations is responsibility. This also means creating a positive impact on the company from its stakeholders, while reducing negative influences. For example, such efforts may include the development of an effective OHS framework, which reduces the risk of accidents at work or the occurrence of occupational diseases.

As far as customers are concerned, the overriding objective is to guarantee high quality and attractively priced products to ensure long-term satisfaction of customers and fulfil their needs.

With regard to relations with local communities, the Group seeks to be perceived as a friendly neighbour. Therefore, it helps local communities pursue their projects and solve local problems.



**STAGES OF STAKEHOLDER RELATIONS MANAGEMENT**

**[G4-25]** The internal analysis of the FAMUR Group’s stakeholder groups and relations with them is carried out in a continuous manner and serves as a basis for stakeholder mapping. The next stage is managing stakeholder relations in a manner that suits individual groups’ current needs with the ultimate goal of satisfying both stakeholders and the FAMUR Group.

Table 7. Methods of managing relations with particular stakeholder groups

STAKEHOLDER GROUP	METHODS OF MANAGING RELATIONS WITH PARTICULAR STAKEHOLDER GROUPS							
	MEETINGS	SATISFACTION SURVEYS	TRAINING	SOCIAL MEDIA	CONFERENCES AND INDUSTRY EVENTS	WEBSITE	INTERNAL COMMUNICATION	PHONE
<b>COOPERATE CLOSELY</b>								
MAIN SHAREHOLDER, MANAGEMENT BOARD, SUPERVISORY BOARD	X					X	X	X
POTENTIAL CUSTOMERS	X			X	X	X		X
BANKS AND OTHER FINANCIAL INSTITUTIONS	X				X			X
FOREIGN CUSTOMERS	X	X	X		X	X		X
CUSTOMERS BASED IN POLAND	X	X	X		X	X		X
MEDIA				X	X	X		X
CAPITAL MARKET (AND REGULATORS)	X					X		X
STRATEGIC SUPPLIERS	X		X				X	X
EMPLOYEES	X	X	X	X		X	X	X
POTENTIAL EMPLOYEES	X			X	X	X		
<b>INFORM</b>								
	MEETINGS	SATISFACTION SURVEYS	TRAINING	SOCIAL MEDIA	CONFERENCES AND INDUSTRY EVENTS	WEBSITE	INTERNAL COMMUNICATION	PHONE

OTHER SUPPLIERS	X							X
INSTITUTIONAL SHAREHOLDERS	X				X	X		X
AUDITORS	X				X			X
CERTIFICATION BODIES	X				X			X
COMPETITORS				X	X	X		
INDIVIDUAL SHAREHOLDERS	X				X	X		
TRADE UNIONS	X							X
LOCAL COMMUNITIES, INCLUDING LOCAL ORGANISATIONS	X			X			X	

KEEP SATISFIED	MEETINGS	SATISFACTION SURVEYS	TRAINING	SOCIAL MEDIA	CONFERENCES AND INDUSTRY EVENTS	WEBSITE	INTERNAL COMMUNICATION	PHONE
GOVERNMENTS	X							X
INTERNATIONAL INSTITUTIONS (INCL. EUROPEAN COMMISSION)	X							X
INDUSTRY ORGANISATIONS (CENTRAL MINING INSTITUTE (GIG), INSTITUTE OF MINING TECHNOLOGY (KOMAG), INSTITUTE OF INNOVATIVE TECHNOLOGIES (EMAG))	X				X			

MONITOR	MEETINGS	SATISFACTION SURVEYS	TRAINING	SOCIAL MEDIA	CONFERENCES AND INDUSTRY EVENTS	WEBSITE	INTERNAL COMMUNICATION	PHONE
SCHOOLS	X		X	X		X		
UNIVERSITIES	X		X	X		X		
INTERNATIONAL ORGANISATIONS	X					X		

## 5. Basis of preparation of non-financial statement

For the purposes of preparation of this Statement on non-financial data, the FAMUR Group has performed an internal analysis of its activities and its due diligence policies and procedures. The internal analyses were carried out, among others, on the basis of the G4 version of the Global Reporting Initiative guidelines and using the data collected by individual key companies of the FAMUR Group. In subsequent reporting periods, the FAMUR Group will strive to standardise the scope of collected data also for other companies covered by this Statement.

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Mirosław Bendzera – President of the  
Management Board

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Beata Zawiszowska – Vice President of the  
Management Board

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Adam Toborek – Vice President of the  
Management Board

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Zdzisław Szypuła – Vice President of the  
Management Board

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Dawid Gruszczyk – Vice President of the  
Management Board

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Bartosz Bielak – Vice President of the  
Management Board

Katowice, April 20th 2018