

**POLISH FINANCIAL SUPERVISION AUTHORITY****Current Report No.****65****/****2017**

Date:

September 29th 2017

Abbreviated issuer name:

FAMUR S.A.

Subject:

FAMUR S.A. Management Board's report presenting rationale for the demerger

Legal basis:

Art. 56.1.2 of the Public Offering Act – Current and periodic information

Text of the report:

Further to Current Report No. 19/2017 of May 9th 2017 on the adoption of an integration model for the Famur and Kopex Groups, Current Report No. 48/2017 of June 29th 2017 on a demerger plan for Kopex S.A. having been agreed by the Management Boards of Famur S.A. ("Company") and Kopex S.A., and Current Report No. 57/2017 of July 28th 2017 on the auditor's opinion on the audit of the demerger plan for Kopex S.A., the Company's Management Board publishes, attached hereto, a written report prepared in accordance with Art. 536 of the Commercial Companies Code.

Legal basis: Par. 21.2.2 in conjunction with Par. 5.1.15 of the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009.

## Appendices

File	Description
FAMUR S.A. Management Board's report presenting rationale for the demerger	FAMUR S.A. Management Board's report presenting rationale for the demerger
FAMUR Spółka Akcyjna ----- (full issuer name)	
FAMUR S.A. ----- (abbreviated issuer name)	Electromechanical (ele) ----- (sector according to the WSE)
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sekretariat@famur.com.pl ----- (email)	www.famur.com ----- (www)
634-012-62-46 ----- (Tax Identification Number – NIP)	270641528 ----- (Industry Identification Number – REGON)

**SIGNATURES OF AUTHORISED REPRESENTATIVES**

Date	Full name	Position	Signature
September 29th 2017	Zdzisław Szypuła	Vice President of the Management Board	
September 29th 2017	Olga Panek	Commercial Proxy	



**REPORT BY THE MANAGEMENT BOARD  
OF FAMUR S.A. OF KATOWICE  
PRESENTING RATIONALE  
FOR THE DEMERGER OF KOPEX S.A. UNDER ART. 529.1.4 OF THE  
COMMERCIAL COMPANIES CODE**

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Kapitał zakładowy: 5.594.405,00 zł, opłacony w całości.  
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## 1. DEFINITIONS:

“Demerger Shares”	means 15,322,712 (fifteen million, three hundred and twenty-two thousand, seven hundred and twelve) new Series F ordinary bearer shares in the Acquirer, with a par value of PLN 0.01 per share, to be allotted to Demerged Company shareholders following the Demerger, in accordance with the rules detailed in the Demerger Plan.
“KOPEX” or “Demerged Company”	means KOPEX Spółka Akcyjna with its registered office at ul. Grabowa 1, 40-172 Katowice, entered in the Business Register of the National Court Register maintained by the District Court for Katowice-Wschód in Katowice, 8th Commercial Division of the National Court Register, under No. (KRS) 0000026782, with Tax Identification Number (NIP) 634-012-68-49 and Industry Identification Number (REGON) 271981166.  The Demerged Company is a public company within the meaning of the Commercial Companies Code.
“FAMUR” or “Acquirer”	means FAMUR Spółka Akcyjna with its registered office at ul. Armii Krajowej 51, 40-698 Katowice, entered in the Business Register of the National Court Register maintained by the District Court for Katowice-Wschód in Katowice, 8th Commercial Division of the National Court Register, under No. (KRS) 0000048716, with Tax Identification Number (NIP) 634-012-62-46 and Industry Identification Number (REGON) 270641528.  The Acquirer is a public company within the meaning of the Commercial Companies Code.
“Reference Date”	means a date to be set by the Management Boards of the Demerged Company and of the Acquirer in accordance with the regulations of the Central Securities Depository of Poland (“CSDP”) on which shares in the Demerged Company registered in securities accounts will entitle the holders of those accounts to receive Demerger Shares.
“Demerger Date”	means a date on which the relevant increase in the Acquirer’s share capital will be registered with the National Court Register.
“Demerger”	means a demerger of the Demerged Company through partial transfer of the Demerged Company’s assets in the form of an organised part of its business to the existing Acquirer in accordance with the Demerger Plan.

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“Demerger Plan”	means a plan of KOPEX’s demerger through partial transfer of its assets in the form of an organised part of its business to the existing company – FAMUR (a demerger through spin-off pursuant to Art. 529.1.4 of the Commercial Companies Code), dated June 29th 2017, as adopted by the Demerged Company and the Acquirer.
“Share Exchange Ratio”	means an exchange ratio between Demerged Company shares and Demerger Shares whereby 0.7636 (nought point seven six three six) share in the Acquirer will be allotted for 1 (one) cancelled share in the Demerged Company.

## 2. INTRODUCTION

*This report has been prepared pursuant to Art. 536 of the Commercial Companies Code by the Management Board of FAMUR Spółka Akcyjna with its registered office at ul. Armii Krajowej 51, 40-698 Katowice, entered in the Business Register of the National Court Register maintained by the District Court for Katowice-Wschód in Katowice, 8th Commercial Division of the National Court Register, under No. (KRS) 0000048716, in connection with the planned demerger of KOPEX S.A. through partial transfer of its assets to FAMUR S.A. with its registered office at ul. Armii Krajowej 51, 40-698 Katowice, entered in the Business Register of the National Court Register maintained by the District Court for Katowice-Wschód in Katowice, 8th Commercial Division of the National Court Register, under No. (KRS) 0000048716.*

## 3. LEGAL BASIS FOR THE DEMERGER

3.1. The Demerger of the Demerged Company will be effected through partial transfer of the Demerged Company's assets in the form of an organised part of its business, comprising in particular the operating assets and shares in companies involved in the manufacture, maintenance and distribution of mining machinery and in production processes, as described in detail in the Demerger Plan, including without limitation: the manufacturing plants (currently located in Zabrze and Rybnik: KOPEX S.A. Kombajny Zabrzeńskie Przenośniki Ryfama, Zabrze Branch, KOPEX S.A. Hydraulika, Zabrze Branch, and KOPEX S.A. Obudowy TAGOR, Zabrze Branch), an organised real property investment business comprising a complex of investment properties with related assets and liabilities, as well as all shares in Polish and foreign companies except for those excluded under the Demerger Plan, to the Acquirer (a demerger through spin-off) pursuant to Art. 529.1.4 of the Commercial Companies Code.

3.2. Following the Demerger of the Demerged Company and partial transfer of its assets to the Acquirer, the latter's share capital will be increased by PLN 153,227.12, from PLN 5,594,405.00 to PLN 5,747,632.12, through the issue of 15,322,712 new Series F ordinary bearer shares in the Acquirer, with a par value of PLN 0.01 per share (Demerger Shares).

3.3. The Acquirer will take steps to have all the Demerger Shares admitted and introduced to trading on the regulated market operated by the Warsaw Stock Exchange ("WSE"). To this end, the Acquirer will prepare and make available, with the participation of an investment firm, an information memorandum, and will submit it to the Polish Financial Supervision Authority in accordance with the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005, will file a request to execute an agreement to register the Demerger Shares with the Central Securities Depository of Poland (the "CSDP"), and will apply to the WSE for introduction of all the Demerger Shares to trading on the regulated market. Therefore, the demerger resolution of the Acquirer's General Meeting will include a consent to the conversion of all the Demerger Shares into book-entry form and will authorise the Acquirer's Management Board to execute an agreement to register all the Acquirer shares, including the Demerger Shares, with the CSDP and to apply for admission and introduction of all the Demerger Shares to trading on the stock exchange.

3.4. The demerger will be effected with a reduction of the Demerged Company's share capital by PLN 58,722,705.00, from PLN 74,332,538.00 to PLN 15,609,833.00, through the cancellation of:

- 79% of Series A ordinary bearer shares in the Demerged Company, i.e. 15,715,233 (fifteen million, seven hundred and fifteen thousand, two hundred and thirty-three) Series A ordinary bearer shares in the Demerged Company, with a par value of PLN 1.00 (one złoty) per share;
- 79% of Series B ordinary bearer shares in the Demerged Company, i.e. 37,714,472 (thirty-seven million, seven hundred and fourteen thousand, four hundred and seventy-two) Series B ordinary bearer shares in the Demerged Company, with a par value of PLN 1.00 (one złoty) per share;

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- 79% of Series C ordinary bearer shares in the Demerged Company, i.e. 5,293,000 (five million, two hundred and ninety-three thousand) Series C ordinary bearer shares in the Demerged Company, with a par value of PLN 1.00 (one złoty) per share.

3.4 In accordance with Art. 537 of the Commercial Companies Code, the Demerger Plan has been audited by a qualified auditor for accuracy and reliability. The registry court-appointed auditor has concluded that:

- a) The Demerger Plan has been prepared accurately and reliably, in accordance with the adopted criteria;
- b) The share exchange ratio referred to in Art. 534.1.2 of the Commercial Companies Code has been determined properly;
- c) The methods used to determine the share exchange ratio proposed in the Demerger Plan are reasonable;
- d) No particular difficulties occurred in the valuation of shares in the Demerged Company.

3.5. Under Art. 541 of the Commercial Companies Code, the Demerger must be approved by relevant resolutions of the General Meetings of both the Demerged Company and the Acquirer.

## 4. SHARE EXCHANGE RATIO AND ALLOTMENT CRITERIA

4.1. The Demerger Shares will be allotted pro rata to the number of shares held in the Demerged Company as at a date to be set under the applicable regulations as the reference date (the „Reference Date”) to all existing shareholders in the Demerged Company (other than the Acquirer, which will not acquire its own shares in exchange for its Demerged Company shares to be cancelled), by applying the following exchange ratio between Demerged Company shares and Acquirer shares in respect of each shareholder in the Demerged Company: 0.7636 (nought point seven six three six) share in the Acquirer for 1 (one) cancelled share in the Demerged Company (the “Share Exchange Ratio”).

4.2. The share exchange ratio has been established based on the arithmetic mean of the average daily prices weighted by the volumes of trade in the Demerged Company stock and the Acquirer stock in the three months preceding the date as at which data for the Demerger Plan was adopted, i.e. May 1st 2017, that is: PLN 3.94 for one Demerged Company share and PLN 5.16 for one Acquirer share.

4.3. The aforementioned three-month period was adopted to calculate the Share Exchange Ratio for the following reasons. Until December 1st 2016, owing to the Demerged Company’s precarious financial condition and ongoing negotiations with the banks financing the Demerged Company and its Group, its future existence and prospects had been uncertain. On December 1st 2016, a Restructuring Agreement was signed with the creditors, and control of the Demerged Company was acquired by TDJ S.A.’s subsidiaries. Following changes to the Management Board and appointment of a new Supervisory Board of the Demerged Company in early January 2017, an intensive restructuring process was launched. In late December 2016, the Acquirer, also an entity of the TDJ S.A.-controlled group, announced it would work on an integration model for the Demerged Company and the Acquirer. For these reasons, the three months preceding the date as at which data for the Demerger Plan was adopted are a reliable period in which the effect of the above information was priced by investors into the market value of both the Demerged Company and the Acquirer.

4.4. According to data presented in the Demerger Plan, the net assets attributable to the Spun-Off Business represent approximately 79% of the Demerged Company’s total net asset value, which was reflected in the amounts by which the Demerged Company’s share capital was reduced and the Acquirer’s share capital was increased.

4.5. As part of the Demerger Shares issue, the Acquirer will not acquire its own shares in exchange for the cancelled 79% of the 48,932,015 shares it holds in the Demerged Company.

4.6. The Demerged Company shareholders who will not receive fractional parts of Acquirer shares as a result of their rounding off to the nearest integer will instead have the right to receive cash payments from the Acquirer. The cash payments will be made within 45 days of the Demerger Date.

4.7. The amount of the cash payment due to a shareholder will be calculated as the product

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of (i) the fractional part of Acquirer share that has not been delivered to the shareholder and (ii) the higher of the average closing price of Acquirer shares on the regulated market operated by the WSE during the 14 days from the Reference Date or the issue price of one Demerger Share.

4.8. The cash payments will be made from the Acquirer's statutory reserve funds. Where applicable, the cash payment amount will be reduced by the amount of income tax. Eligible shareholders will receive the cash payments through the Central Securities Depository of Poland.

4.9. The Demerger Shares in the Acquirer will be allotted through the CSDP to all Demerged Company shareholders other than the Acquirer, which will not acquire its own shares in exchange for its Demerged Company shares to be cancelled.

## 5. ECONOMIC RATIONALE FOR THE DEMERGER

5.1. FAMUR is a manufacturer of mining machinery, focusing on machines equipped with advanced, computerised control and monitoring systems. The KOPEX Group's principal business includes the manufacture of mining machinery and systems and mining-related trading/service operations for customers across the globe.

5.2. The main objective of the Demerger is for the Demerged Company and the Acquirer to closely integrate within a single entity the manufacturing business related to underground mining, so far conducted separately at FAMUR and KOPEX. The spun-off Machinery Business will be fully integrated with the FAMUR Group's assets to streamline production and support processes. In addition, the Demerger and integration of the Machinery Business assets with the FAMUR Group will result in more efficient use of the machinery and equipment installed on customer premises, including through joint management of the fleet of shearer loaders. FAMUR S.A. will also integrate the human resources necessary to professionally operate the Machinery Business. Following the Demerger, FAMUR S.A. will exercise the rights and perform the obligations under contracts currently being performed by the Machinery Business.

5.3. The optimum corporate process to concentrate the underground mining-related business within one entity, while splitting off the trading/service business and transferring it to another dedicated entity, is a demerger through spin-off within the meaning of Art. 529.1.4 of the Commercial Companies Code. One of its key advantages is the fact that the existing Demerged Company will become – in a single corporate process – the entity dedicated to the trading/service business without the need to go through any other legal formalities.

5.4. The combined core businesses of Poland's two leading manufacturers of machinery for the mining industry will create a unique platform for building a strong Polish organisation well placed to successfully compete with global leaders of the mining equipment market. Similar consolidation processes in the electromechanical industry have already been carried out in other countries, e.g. Germany. FAMUR S.A.'s and KOPEX S.A.'s combined know-how, experience and market positions will provide a springboard for international expansion of innovative Polish technologies and a range of proven products and services. The integrated companies have become one of the largest industrial conglomerates in Poland. Their combined potential makes them Europe's largest producer of deep mining equipment and one of few global manufacturers of complete longwall systems.

5.5. The Management Board believes the operational integration of the companies involved in the Demerger is the best way to successfully operate in the current globalised raw material and energy market, and to overcome current challenges faced by the industry. The consolidation will enable the Group to better align its offering with the Polish mining industry's current needs, while the optimisation of manufacturing processes will improve the cost base, which could provide meaningful support for the coal sector. Once carried out, the Demerger will on the one hand enable the building of an offering which – in terms of prices, quality, technological solutions and efficiency – will support coal mines in their efforts to improve the profitability of coal production, while on the other hand will provide stability and support for the Group's international expansion and pursuit of its growth programmes.

5.6. The completed consolidation of the FAMUR and KOPEX Groups will help develop a more complete offering to meet customers' growing expectations, and will allow the Group to successfully compete with its major rivals offering comprehensive solutions. Operations based on the combined potential of the companies involved in the Demerger will significantly strengthen the Group's position in foreign markets, where it perceives substantial business opportunities.

5.7. By reorganising the KOPEX Group's assets within a separate structure, it will be possible to fully capture synergies between the KOPEX and FAMUR Groups (including enhanced management and a centralised pool of staff competence and know-how, which will ultimately translate into a stronger market position) and create a clear-cut structure to easily identify companies engaged in trading and services and those focused on the manufacture and maintenance. The Management Board believes the Demerger will improve the Group's transparency and management efficiency on the back of simplified structures and focus on more homogeneous businesses. In the Management Board's opinion, the Demerger will in particular lead to:

- a) Consolidated, centralised and leaner organisational structure of the manufacturing business and the same managerial staff allocated to production, logistics, and procurement;
- b) Optimised management of production capacities;
- c) Central production planning for all manufacturing plants and utilisation of capacities available at different locations, which will make production more efficient;
- d) Concentration of all manufacturing assets and resources within a single entity to leverage the economies of scale;
- e) Optimised production costs, including in particular day-to-day operating expenses;
- f) Fewer formalities;
- g) Simpler transactions in the manufacturing business thanks to a revamped business model.



## 6. CONCLUSIONS

In the Management Board's opinion, the rationale for the Demerger presented above is sufficient to conclude that the described corporate reorganisation of the Group will have a positive effect on the processes carried out by the Acquirer.

Therefore, the FAMUR S.A. Management Board recommends that shareholders approve the above Demerger concept and pass relevant resolutions on the Demerger in line with the Demerger Plan.