# DIRECTORS' REPORT
# ON THE OPERATIONS
# OF KOPEX S.A.
# AND
# THE KOPEX GROUP
# IN 2016

KATOWICE, APRIL 2017

**TABLE OF CONTENTS**

## 1. KEY INFORMATION ON KOPEX S.A. (THE PARENT)

- Name and address: **KOPEX Spółka Akcyjna, ul. Grabowa 1, 40-172 Katowice, Poland**
- Telephone: **+48 32 604 70 00**
- Fax: **+48 32 604 71 00**
- Email address: **kopex@kopex.com.pl**
- Corporate website: **www.kopex.com.pl**
- Industry Identification Number REGON: **271981166**
- Tax Identification Number NIP: **634-012-68-49**
- National Court Register: **The Company is entered in the Business Register at 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.**
- Share capital: **PLN 74,332,538.00, divided into 74,332,538 ordinary bearer shares with a par value of PLN 1.00 per share; all the shares are fully paid.**
- Auditor: **PricewaterhouseCoopers Sp. z o.o.**

### 1.1. HISTORICAL BACKGROUND

KOPEX S.A. ('KOPEX', the 'Company', the 'Parent') was established under Regulation No. 128 of the Minister of Mining and Energy of November 4th 1961 as a state-owned enterprise under the name of Przedsiębiorstwo Budowy Zakładów Górniczych za Granicą – KOPEX, and on January 1st 1962 launched operations as a general supplier of mining facilities and equipment for export. In May 1971, the enterprise was authorised to independently enter into foreign trade transactions, including, on an exclusive basis, for export and import of mining and drilling machinery and equipment, and complete mining facilities.

Following restructuring of the mining sector, as of January 1st 1989 KOPEX operated as a state-owned enterprise under a new name of Przedsiębiorstwo Eksportu i Importu KOPEX of Katowice.

On November 19th 1993, under a notarial deed, KOPEX was transformed from a state-owned enterprise into a state-stock company under the name of Przedsiębiorstwo Eksportu i Importu KOPEX Spółka Akcyjna, and on January 3rd 1994, the Registry Court entered KOPEX into the Commercial Register as a commercial-law company under entry No. RHB 10375.

KOPEX S.A. was first listed on the main market of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) on June 4th 1998.

By the Registry Court's decision of October 23rd 2003, the Company's new name, KOPEX Spółka Akcyjna, was entered into the register, and the abbreviated name 'KOPEX S.A.' was approved.

On December 16th 2004, the State Treasury transferred 64.64% of KOPEX shares as a non-cash contribution to Krajowa Spółka Cukrowa S.A. in exchange for shares in the latter, acquired by the State Treasury as part of share capital increase at KSC.

A turning point in the history of KOPEX's privatisation was disposal by Krajowa Spółka Cukrowa S.A. of its entire holding of KOPEX shares on February 9th 2006. The shares were acquired by a trade investor, Zabrzańskie Zakłady Mechaniczne S.A. of Zabrze. The transaction resulted in the establishment of a group operating under the trade name of ZZM-KOPEX Group, one of the largest industrial groups in Poland in the sector of mining machinery, equipment and services for the mining industry.

Another major step in the transformation of the Company was the issue of 47,739,838 Series B bearer shares in the second half of 2007. The new shares were acquired by the shareholders of Zabrzańskie Zakłady Mechaniczne S.A. of Zabrze and the offering represented one of the first reverse takeovers on the Polish capital market, in which KOPEX acquired ZZM S.A. Following the transaction, KOPEX became the parent and leader of the KOPEX Group.

Towards the end of 2009, KOPEX carried out a successful issue of 6,700,000 Series C shares.

On December 1st 2009, an increase in the Company's share capital was registered. Since the increase, the share capital has amounted to PLN 74,332,538 and is divided into 74,332,538 ordinary bearer shares with a par value of PLN 1.00 per share. All shares are fully paid.

In 2009, the Group's trade name was changed from the ZZM-KOPEX Group to the KOPEX Group.

In December 2016, TDJ S.A., an investment vehicle owned by Mr Tomasz Domogała, became the parent of the KOPEX Group. TDJ S.A.'s investment portfolio comprises a number of WSE-listed companies, including FAMUR S.A., Zamet Industry S.A., Polska Grupa Odlewnicza S.A. and Pemug S.A.

## 1.2. THE GROUP'S BUSINESS

The core business of the KOPEX Group (the 'KOPEX Group' or the 'Group') is the manufacturing of advanced machinery and equipment for the mining industry. The KOPEX Group is not only a manufacturer and supplier of machinery and equipment for hard coal and lignite mining, but also a general contractor for investment projects. The Group operates production plants in Poland, Serbia and South Africa.

The KOPEX Group's competitive advantages include a comprehensive portfolio of products and services for underground mining, and the capacity to deliver products and services strictly to specific requirements of individual customers. The Group includes manufacturers of high-quality machinery and equipment as well as providers of high-quality technologies and solutions for the mining sector, with established presence in Poland and abroad. The Group leverages the technical expertise and specialist capabilities of its companies which have diversified and complementary product and service portfolios.

**The KOPEX Group's offering as a general contractor covers the entire investment process in the mining industry, including:**

- project feasibility studies,
- supervision over geological surveys and assessment of deposit volumes,
- development of first-working technology,
- design of mining facilities,
- manufacture, delivery and assembly of machinery, equipment and process systems, including maintenance services and spare part supplies,
- construction, extension, modernisation, operation and decommissioning of mines,
- training of project owner personnel and engineering support during project execution.

**Mining machinery and equipment offered by the KOPEX Group include:**

- mechanised longwall systems,
- various types of roof supports,
- heavy-duty shearer loaders, such as KSW 800, KSW 1500, KSW 2000,
- scraper and belt conveyors for underground mining,
- hydraulic power and control for powered roof support systems,
- electric power supply and control equipment, including DC transmission for mining systems,
- mining electronics,
- I&C systems,
- methane detection equipment and communications,
- controls and instruments,

as well as maintenance services, including the supply of necessary spare parts for customer's mining machinery and equipment.

## 1.3. MARKET POSITION

<u>Restructuring of the KOPEX Group</u>

In its most recent full-year financial statements the Company disclosed circumstances that could threaten its continuing as a going concern following loss of liquidity. In order to prevent bankruptcy, the Company has taken a series of steps to improve liquidity and continue as a going concern.

Due to the material deterioration of the KOPEX Group's financial condition and its failure to comply with bank covenants in Q4 2015, in early 2016 the Company was forced to enter into negotiations with the financing banks to restructure its debt. On December 1st 2016, the Restructuring Agreement was signed between the Company and its selected subsidiaries, the lending institutions, and the Investor.

The Group agreed to implement a number of restructuring measures, including:

- restructuring (divestment) of non-core non-current assets, with proceeds to be applied towards debt repayment,
- divestment of shares in non-strategic companies,
- cost and operational restructuring to reduce the Company's operating expenses and improve efficiency,
- streamlining of the organisational structure and reducing operating expenses,

which should enable the Group to perform the Restructuring Agreement and to continue as a going concern.

**<u>Overview of the business of the KOPEX Group's material subsidiaries</u>**

⇒ **<u>KOPEX S.A.</u>** – the main entity of the KOPEX Group; its business comprises manufacturing and trading activities.

KOPEX trades on international markets. Over time, it has developed into a general contractor and supplier of machinery and equipment, as well as a provider of specialist hard coal and lignite mining technology and services. With its extensive experience and highly-qualified personnel, KOPEX is an expert in extraction of coal and other minerals, and a provider of professional services to the mining sector and other industries.



On December 8th 2016, KOPEX (acquirer) merged with its subsidiaries: KOPEX MACHINERY S.A., Fabryka Maszyn i Urządzeń TAGOR S.A., Zabrzańskie Zakłady Mechaniczne – Maszyny Górnicze Sp. z o.o. and KOPEX Hydraulika Siłowa Sp. z o.o. (acquirees). As a result of the merger, the structure of the Group was streamlined and four branches were established within KOPEX:

⇒ KOPEX Head Office, Zabrze Branch – sales to foreign markets, finance, accounting, support services, investor relations and corporate governance.

⇒ **<u>KOPEX Kombajny Zabrzańskie Przenośniki Ryfama, Zabrze Branch (the branch largely focuses on activities previously carried out by KOPEX MACHINERY S.A. and Zabrzańskie Zakłady Mechaniczne – Maszyny Górnicze Sp. z o.o.)</u>** – manufacture of mining shearer loaders, rotating drums for shearer loaders, face conveyors, beam stage loaders, toothed reducers, dynamic crushers, cable suspensions, haulage assemblies, reversible drives with follow-up chain tensioning, belt conveyors, Ryfama conveyor belt turning stations, transport equipment (such as pipe, bucket and scraper conveyors, cages and skip hoists). The branch also supplies filters and spray systems for shearer loaders.



*MECHANISED AND AUTOMATED LONGWALL SYSTEMS*


*SHEARER LOADERS*

⇒ **<u>KOPEX Obudowy Tagor, Zabrze Branch (the branch largely focuses on activities previously carried out by Fabryka Maszyn i Urządzeń TAGOR S.A.)</u>** − design and manufacture of powered roof support systems and powered gate road support systems; supply of custom-built elements of roof support systems.

*POWERED ROOF SUPPORT SYSTEMS*

⇒ **<u>KOPEX Hydraulika, Zabrze Branch (the branch largely focuses on activities previously carried out by KOPEX Hydraulika Siłowa Sp. z o.o.)</u>** – the branch's primary offering comprises hydraulic actuators used in a number of industries, in particular the mining sector (including for powered roof support systems, shearer loaders, conveyors and other machinery), for CNC machines and other equipment. The range of products includes a proprietary and very durable protective coating for hydraulic cylinder bearing surfaces (piston rods and upper props) marketed under the DURACHROM brand. KOPEX also manufacturers standard and special seals mainly for hydraulic cylinders (actuators) and control fittings, as well as repair-grade sealing elements for the same units (cylinders). The business also includes repairs of hydraulic cylinders and their subassemblies, manufacture of thermoplastic elements by injection methods, design of hydraulic supports and cylinders (actuators), moving and resting sealing systems for special applications, as well as testing of functionality and durability of hydraulic elements (in particular seals), and measuring physical and mechanical properties and strength parameters of materials (plastics, metals, rubber).

*HYDRAULIC PROPS COATED WITH A LAYER OF UNIQUE DURACHROM PROTECTIVE COATING*

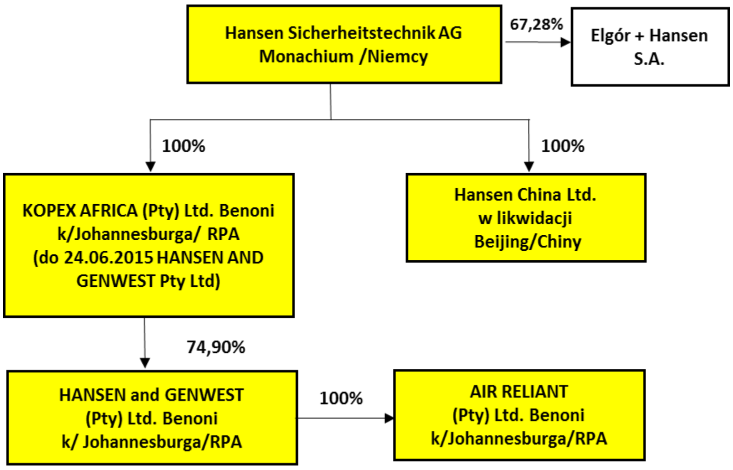
⇒ **<u>KOPEX-SIBIR Sp. z o.o. (Russia)</u>** – supply of machinery and equipment for underground mining, on-site aftermarket maintenance, repairs, supplying spare parts for machinery and equipment, and customer support during delivery of new solutions.


*SERVICE CENTRE*

⇒ **ELGÓR+HANSEN S.A**. – manufacturing of mining electrical equipment; drafting technical documentation for mining electrical equipment, providing end-to-end project management services, including design, manufacture and repair of explosion-proof equipment, as well as drafting documentation for integrated power supply and control units for mining systems.

*MINING ELECTRICAL EQUIPMENT*

⇒ **HANSEN Sicherheitstechnik AG (Germany)** – the company's business comprises purchase and management of own and/or third-party assets; holding shares in other companies involved in the manufacture and supply of electric explosion-proof equipment, in particular the design, manufacture and repair of power distribution systems in explosion-proof housing; procurement of electrical equipment for mining machinery; drafting technical documentation for mining electrical systems, in particular for explosive atmospheres; and manufacture of electronics for mining applications. The structure of the Hansen Group as at the date of the 2016 report is presented below:




⇒ **HANSEN AND GENWEST Pty Ltd (RSA)** – currently the HANSEN Group's main manufacturing company in the Republic of South Africa. In the RSA, the company is approved by SABS to manufacture, repair and modify switchgears in explosion-proof housing and non-anti-explosive housing for mining applications. The company also delivers equipment and provides maintenance services for electrical motor starters, workstations, control stations, mobile substations, gate-end boxes and specialist custom-built equipment and projects in the mining industry.

*MINING ELECTRICAL EQUIPMENT*

⇒ **KOPEX-Przedsiębiorstwo Budowy Szybów S.A.** – specialist contractor for the mining industry: vertical workings (chiefly shafts and fore-shafts), horizontal workings and tunnels. Construction, architecture, engineering; lease of machinery and equipment; assembly, repairs and maintenance of machinery for mining and construction applications.



*SPECIALIST SERVICES FOR THE MINING INDUSTRY*

⇒ **Śląskie Towarzystwo Wiertnicze DALBIS Sp. z o.o.** – the company specialises in drilling for various applications and implementing drilling technologies in engineering and geotechnical work at surface and underground mining facilities.



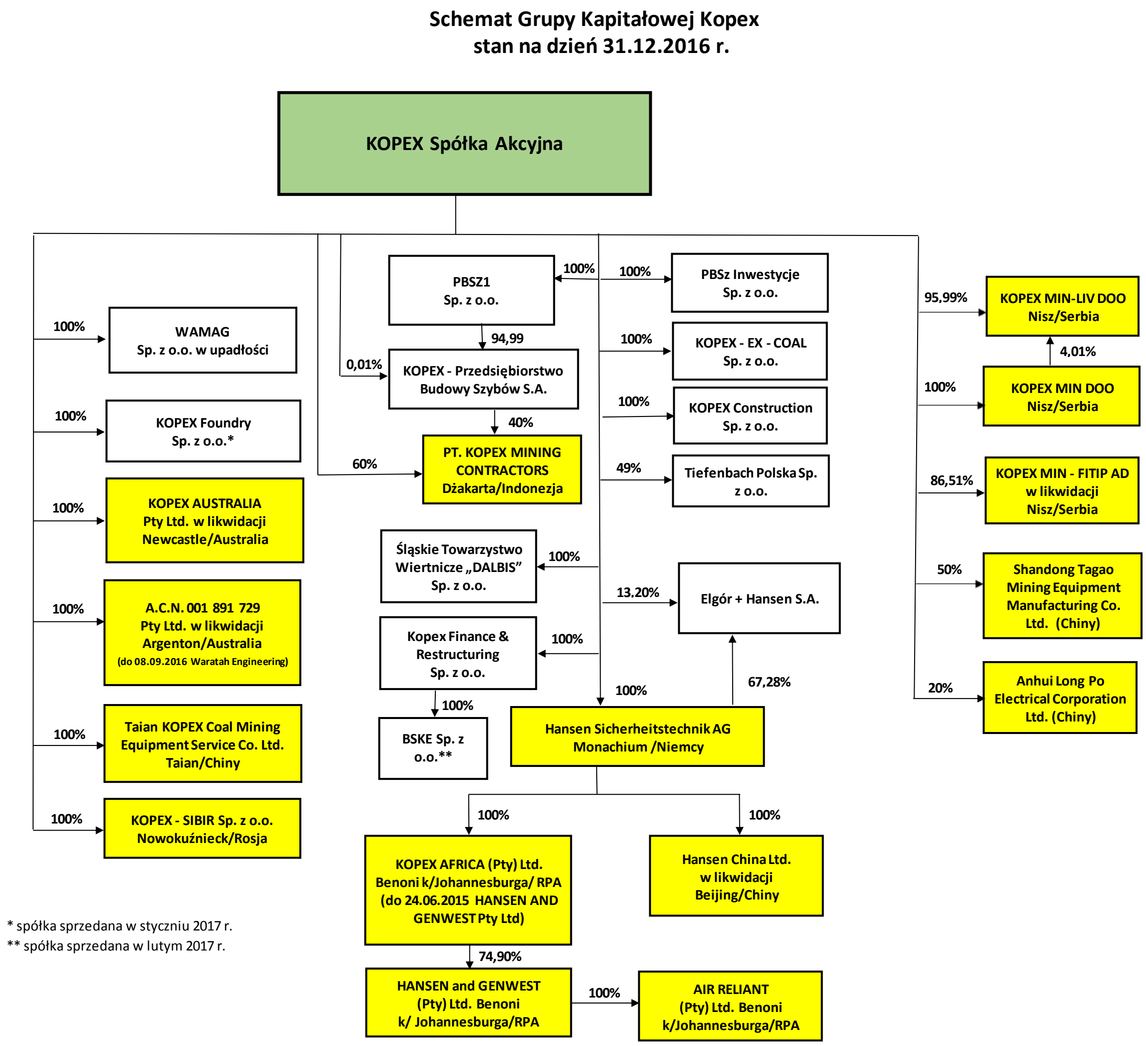
*DRILLING SERVICES*

### 1.4. CHANGES IN THE COMPANY'S AND THE GROUP'S ORGANISATIONAL OR EQUITY LINKS

#### 1.4.1. ORGANISATION OF THE GROUP

The KOPEX Group consists of the Parent, KOPEX S.A., and over a dozen subsidiaries with their respective related entities/groups. The subsidiaries' significance for and contribution to the KOPEX Group's business and results of operations vary on a case-by-case basis.

**KOPEX** conducts manufacturing and trading activities through the branches described in the previous section. As the Parent of the Group, it also exercises corporate governance functions with respect to the KOPEX Group companies.




Note: Companies marked in yellow are based outside Poland.
*Source: The Company; as at December 31st 2016.*

## 1.5. CHANGES IN THE GROUP'S STRUCTURE, INCLUDING CHANGES RESULTING FROM BUSINESS COMBINATIONS, ACQUISITION OR LOSS OF CONTROL OF SUBSIDIARIES, LONG-TERM INVESTMENTS, DEMERGERS, RESTRUCTURING, OR DISCONTINUED OPERATIONS

In 2016, the Company initiated a number of measures to restructure the organisation and assets of the KOPEX Group, including:

⇒ scaling down of operations on markets with insufficient business potential (i.e. the Australian and Serbian markets), foundry operations, and manufacturing for the construction market,
⇒ phasing out (with due account taken of the outstanding contractual obligations) the manufacture of roadheaders, as their lease proved unprofitable given the high manufacturing costs,
⇒ divestment of shares in non-strategic subsidiaries and associates,
⇒ declaring bankruptcy or placing in liquidation of subsidiaries whose poor financial condition does not justify their continued operation,
⇒ restructuring of companies' non-core non-current assets, mainly by putting out for sale redundant assets and reallocating manufacturing operations, which is expected to lead to a more efficient use of non-current assets,
⇒ reducing current assets, including through disposal or scraping of non-moving and redundant inventory,
⇒ optimisation of the workforce.

Following publication of the KOPEX Group's Q4 2015 financial report and the response from the financing banks (see current reports from No. 13/2016 to No. 16/2016, followed by Nos. 46/2016, 66/2016, 67/2016, 69/2016, 71/2016, 77/2016, 79/2016 and 104/2016; and PSr 2016 and QSr 3/2016 reports), the KOPEX Group was forced to intensify its restructuring measures and plans in 2016.

On December 1st 2016, KOPEX and its selected subsidiaries signed the Restructuring Agreement with the financing banks and TDJ EQUITY IV S.A., as the Investor, which outlines the main directions and scope of the KOPEX Group's restructuring efforts. Following execution of the Restructuring Agreement, TDJ S.A., holding indirectly a 65.8% interest in KOPEX, became KOPEX's indirect majority shareholder.

In performance of the Restructuring Agreement and as part of the undertaken restructuring measures, certain changes were made in the Group's structure.

The changes which occurred in the organisational structure of the KOPEX Group in the period from January 1st 2016 to the date of this Report, including changes resulting from the adopted restructuring measures and changes reflecting the KOPEX Group's development objectives, are presented below:

**1) Change in the legal form of KOPEX MIN DOO and KOPEX MIN-LIV DOO, Serbian subsidiaries of KOPEX**

On February 5th 2016, the Extraordinary General Meeting of KOPEX MIN A.D. and the Extraordinary General Meeting of KOPEX MIN-LIV A.D (both with their registered offices in Niš, Serbia) passed resolutions to initiate the procedure to change the legal form of each of these entities in order to transform them into limited liability companies. The General Meetings also passed resolutions to delist KOPEX MIN A.D. and KOPEX MIN-LIV A.D. from the regulated market (Belgrade Stock Exchange). On March 25th 2016, the Securities Commission of the Republic of Serbia issued a decision to delete KOPEX MIN A.D. and KOPEX MIN-LIV A.D. from the Register of Public Companies, which enabled the two companies to continue the transformation process. Those actions were a step in the organisational restructuring of the KOPEX Group. The transformation into limited liability companies (currently KOPEX MIN DOO and KOPEX MIN-LIV DOO) was effected on July 8th 2016.

**2) Merger of KOPEX Foundry Sp. z o.o. and STA-Odlewnie Sp. z o.o., and disposal of KOPEX Foundry Sp. z o.o.**

On March 31st 2016, the District Court for Rzeszów, 12th Commercial Division of the National Court Register, registered the merger of KOPEX Foundry Sp. z o.o. of Stalowa Wola (acquirer) and STA-Odlewnie Sp. z o.o. of Tarnowskie Góry (acquiree). The merger was effected under Art. 492.1.1 of the Commercial Companies Code, i.e. by transfer of all assets of the acquiree to the acquirer (combination by acquisition), in conjunction with Art. 516.6 of the Commercial Companies Code, and without increasing the share capital of the acquirer. On January 26th 2017, the shares of KOPEX Foundry Sp. z o.o. were sold to Polska Grupa Odlewnicza S.A. (see current report No. 10/2017).

**3) Establishment of KOPEX FINANCE & RESTRUCTURING Sp. z o.o.**

On June 12th 2016, a new company was established under the name KOPEX FINANCE & RESTRUCTURING Spółka z ograniczoną odpowiedzialnością of Katowice. The company was registered on June 14th 2016; its share capital, wholly owned by KOPEX S.A., currently amounts to PLN 254,000.00. The primary business object of KOPEX FINANCE & RESTRUCTURING Sp. z o.o. is to support the organisational and operational restructuring of the KOPEX Group.

**4) Change of name of KOPEX-EKO Sp. z o.o. (currently BSKE Sp. z o.o. in bankruptcy), declaration of the company's bankruptcy, and sale of the company**

On July 29th 2016, the General Meeting of KOPEX-EKO Sp. z o.o. passed a resolution to change the name of the company to BSKE Spółka z ograniczoną odpowiedzialnością. The change of was registered on August 25th 2016.
On July 28th 2016, BSKE Sp. z o.o. filed for liquidation bankruptcy with the District Court for Katowice-Wschód in Katowice, 10th Commercial Division, on insolvency grounds. On January 11th 2017, by decision of the District Court for Katowice-Wschód in Katowice, 10th Commercial Division, the company was declared bankrupt in liquidation (see current report No. 8/2017). On August 5th 2016, an agreement was executed to sell 2,400 BSKE shares (entire share capital) held by KOPEX S.A., to KOPEX FINANCE & RESTRUCTURING Sp. z o.o.. On February 22nd 2017, an agreement was executed to sell 2,400 BSKE shares (entire share capital) held by KOPEX FINANCE & RESTRUCTURING Sp. z o.o., to K77 Sp. z o.o..

**5) Initiation of the voluntary administration procedure at KOPEX Australia Pty Ltd**

On August 1st 2016, the board of directors of KOPEX Australia Pty Ltd, due to the difficult financial and economic condition of the company, passed a resolution to initiate the voluntary administration procedure under Australian laws in order to satisfy creditors' claims to the greatest extent possible. KOPEX Australia Pty Ltd is an indirect subsidiary of KOPEX, wholly owned by Fabryka Maszyn i Urządzeń TAGOR S.A. (as at before the merger of KOPEX S.A. and the acquirees). The company is a distributor of dumpers in Australia. Under the voluntary administration procedure, administrators sell company's assets.

**6) Liquidation of ACN 001 891 729 Pty Ltd (formerly KOPEX Waratah Pty Ltd)**

On July 29th 2016, the board of directors of KOPEX Waratah Pty Ltd, due to the difficult financial and economic condition of the company, passed a resolution to initiate the voluntary administration procedure under Australian laws in order to satisfy creditors' claims to the greatest extent possible. KOPEX Waratah Pty Ltd is an indirect subsidiary of KOPEX, wholly owned by KOPEX Machinery S.A. (as at before the merger of KOPEX and the acquirees), and a supplier of loader vehicles and other equipment used in underground mining in Australia and New Zealand. On September 2nd 2016, by resolution of the sole shareholder KOPEX Machinery S.A., KOPEX Waratah Pty Ltd was renamed ACN 001 891 729 Pty Ltd. The change was registered on September 8th 2016. As part of the voluntary administration procedure, the company's administrators sold the business on September 6th that year. On October 18th 2016, the meeting of creditors of ACN 001 891 729 Pty Ltd decided to liquidate ACN 001 891 729 Pty Ltd.; as a result, the voluntary administration process was terminated, and the company has been in liquidation since.

**7) Declaration of bankruptcy of WAMAG Sp. z o.o. in liquidation (formerly KOPEX-WAMAG Sp. z o.o.)**

On September 26th 2016, the Extraordinary General Meeting of KOPEX WAMAG Sp. z o.o. passed a resolution to dissolve KOPEX WAMAG Sp. z o.o. and to open its liquidation under the Commercial Companies Code Act. KOPEX WAMAG Sp. z o.o. is an indirect subsidiary of KOPEX S.A., wholly owned by KOPEX Machinery S.A., a subsidiary of the Parent. The liquidation procedures was initiated due to, among other factors, a significant decline in the volume of orders and no meaningful prospects for the company to be able to deliver financial results that would ensure its long-term market presence. Currently, the company operates under the name WAMAG Sp. z o.o. in liquidation, and the name change was registered on October 18th 2016. On October 26th 2016, due to the company's situation, liquidators of WAMAG Sp. z o.o. in liquidation filed a motion with the District Court for Wałbrzych for liquidation bankruptcy. On December 29th 2016, by decision of the District Court for Wałbrzych, 6th Commercial Division, WAMAG Sp. z o.o. in liquidation was declared bankrupt (see current report No. 1/2017).

**8) Merger of KOPEX and four subsidiaries**

On October 14th 2016, the Company's Management Board resolved to approve and sign the Merger Plan for KOPEX and the following direct subsidiaries of the Company ('Acquirees'):

- KOPEX Machinery S.A. of Zabrze,
- Zabrzańskie Zakłady Mechaniczne - Maszyny Górnicze Sp. z o.o. of Zabrze,
- Fabryka Maszyn i Urządzeń TAGOR S.A. of Tarnowskie Góry,
- KOPEX Hydraulika Siłowa Sp. z o.o. of Zabrze.

The merger consisted in transfer of all Acquirees' assets to the Acquirer by way of a simplified procedure, under Art. 516.6 of the Commercial Companies Code, without increasing the Acquirer's share capital pursuant to Art. 515.1 of the Commercial Companies Code. For details, see current report No. 87/2016 of October 14th 2016. In order to effectively carry out the merger, prior to the signing of the Merger Plan, on October 14th 2016 KOPEX acquired from KOPEX Machinery S.A.:
a) 68,274 shares of Zabrzańskie Zakłady Mechaniczne - Maszyny Górnicze Sp. z o.o., constituting the entire share capital and carrying all voting rights in the company;
b) 18,437 shares of KOPEX Hydraulika Siłowa Sp. z o.o., constituting the entire share capital and carrying all voting rights in the company;
c) 6,263,520 shares of Fabryka Maszyn i Urządzeń TAGOR S.A., constituting the entire share capital and carrying all voting rights in the company.

Upon the signing of the Merger Plan, the subsidiaries were transformed into wholly-owned direct subsidiaries of the Company.

On November 21st 2016, the Extraordinary General Meeting of KOPEX S.A. passed a resolution to merge KOPEX with KOPEX Machinery S.A., Zabrzańskie Zakłady Mechaniczne – Maszyny Górnicze Sp. z o.o., Fabryka Maszyn i Urządzeń TAGOR S.A. and KOPEX Hydraulika Siłowa Sp. z o.o., whereby:
1) approval was granted for the Merger Plan agreed and adopted on October 14th 2016 by the merging companies,
2) the merger of KOPEX (acquirer) with KOPEX Machinery S.A., Zabrzańskie Zakłady Mechaniczne – Maszyny Górnicze Sp. z o.o., Fabryka Maszyn i Urządzeń TAGOR S.A. and KOPEX Hydraulika Siłowa Sp. z o.o. (acquirees) was approved to be effected by way of transfer of all assets of the acquirees to KOPEX on the terms set forth in the Merger Plan.
For details, see current report No. 96/2016 of November 21st 2016.

Also on November 21st 2016, the corresponding resolutions on the merger of KOPEX with KOPEX Machinery S.A., Zabrzańskie Zakłady Mechaniczne – Maszyny Górnicze Sp. z o.o., Fabryka Maszyn i Urządzeń TAGOR S.A. and KOPEX Hydraulika Siłowa Sp. z o.o., were passed by: the extraordinary general meeting of KOPEX HYDRAULIKA SIŁOWA Sp. z o.o., the extraordinary general meeting of Zabrzańskie Zakłady Mechaniczne – Maszyny Górnicze Sp. z o.o., the extraordinary general meeting of KOPEX Machinery S.A. and the extraordinary general meeting of Fabryka Maszyn i Urządzeń TAGOR S.A.

On December 8th 2016, KOPEX (acquirer) merged with its subsidiaries: KOPEX Machinery S.A., Zabrzańskie Zakłady Mechaniczne – Maszyny Górnicze Sp. z o.o., KOPEX Hydraulika Siłowa Sp. z o.o. and Fabryka Maszyn i Urządzeń TAGOR S.A. (aquirees). See current report No. 115/2016. On October 26th 2016, in connection with the merger, the KOPEX Management Board resolved to establish, for operational purposes, branches of the merged company, to be separated as organisational units, each with a separate set of accounts, the split-off to reflect their market and product characteristics. On November 4th 2016, the registration court for Katowice-Wschód in Katowice, 8th Commercial Division of the National Court Register, registered the new KOPEX branches, i.e. : KOPEX Head Office, Zabrze Branch; KOPEX Kombajny Zabrzańskie, Przenośniki Ryfama, Zabrze Branch; KOPEX Obudowy TAGOR, Zabrze Branch; and KOPEX Hydraulika, Zabrze Branch.

**9) <u>Establishment of PBSZ1 Sp. z o.o.</u>**

On December 13th 2016, the company was entered in the national court register, with a share capital of PLN 264,005,000. The company was established in accordance with the restructuring agreement, as beneficiary of the contribution of shares in KOPEX – Przedsiębiorstwo Budowy Szybów S.A., formerly owned by KOPEX, effected on December 22nd 2016 (contribution in kind to PBSZ 1 Sp. z o.o. by KOPEX S.A.).

**<u>Long-term investments</u>**

In the period from January to December 2016, the Group did not make any long-term equity investments.

### 1.6. EMPLOYMENT AND REMUNERATION

**THE PARENT**

KOPEX's employment policy in 2016 reflected the difficult financial condition of the KOPEX Group, the difficult market situation, and the resulting fall in the number of orders, which adversely affected the volume of revenues earned as well as the volumes of production output and services rendered by KOPEX. All these factors necessitated employment restructuring across the Group.

The restructuring process also involved the establishment, in December 2016, of four Branches within KOPEX, each being a separate employer with a separate set of accounts:
- KOPEX S.A. Head Office, Zabrze Branch,
- KOPEX S.A. Kombajny zabrzańskie, przenośniki Ryfama, Zabrze Branch,
- KOPEX S.A. Hydraulika, Zabrze Branch,
- KOPEX S.A. Obudowy Tagor, Zabrze Branch.

Following the restructuring process, the number of employees at KOPEX and its Branches decreased, from 2,122 (KOPEX and merged companies) in December 2016, to 1,370 at year-end 2016.

Number of employees at KOPEX and its Branches:

NUMBER OF EMPLOYEES

| | Dec 31 2016 | Dec 31 2015 |
|---|---|---|
| White collar workers | 562 | 851 |
| Blue collar workers | 808 | 1,271 |
| **TOTAL** | **1,370** | **2,122** |

Employment costs:

PLN '000

| | 2016 | 2015 |
|---|---|---|
| Salaries and wages | 109,146 | 134,486 |
| Social security contributions and other benefits | 23,973 | 29,432 |
| **TOTAL** | **133,119** | **163,918** |

## KOPEX GROUP

In 2016, as part of the restructuring processes, the KOPEX Group implemented the employment optimization programme, with the aim of aligning the Group's human resources with the business objectives. Under the programme, at selected Group companies collective lay-off procedures were instigated and the voluntary redundancy scheme was launched.

As a result, the number of employees at the KOPEX Group decreased from 4,636 at year-end 2015 to 3,412 as at December 31st 2016.

Number of employees at the KOPEX Group:

NUMBER OF EMPLOYEES

| | Dec 31 2016 | Dec 31 2015 |
|---|---|---|
| White collar workers | 1,157 | 1,608 |
| Blue collar workers | 2,255 | 3,028 |
| **TOTAL** | **3,412** | **4,636** |

Employment costs:

PLN '000

| | 2016 | 2015 |
|---|---|---|
| Salaries and wages | 221,508 | 263,005 |
| Social security contributions and other benefits | 54,997 | 62,901 |
| **TOTAL** | **276,505** | **325,906** |

# 2. KEY ECONOMIC AND FINANCIAL DATA

## THE PARENT

### 2.1. SEPARATE STATEMENT OF PROFIT OR LOSS

#### REVENUE AND NET PROFIT/ (LOSS) BY OPERATING SEGMENT

For data on business segments and geographies, see Note 14 to the Financial Statements of KOPEX.

#### SEPARATE STATEMENT OF PROFIT OR LOSS

In 2016, net revenue from sale of products, merchandise and materials was PLN 482,794 thousand, which represents a decline year on year. Revenue decreased by PLN 185,701 thousand, or 27.8%, in the reporting period.

Breakdown of revenue, gross profit/(loss) and operating profit/(loss) of the Mining segment:

PLN '000

| | Services for mining industry | | Manufacture and supply of underground mining machinery and equipment | | Manufacture and supply of surface mining machinery and equipment | | Total Mining | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| **Revenue** | **21,740** | **19,851** | **287,340** | **447,930** | **7,646** | **73,958** | **316,726** | **541,739** |
| **Gross profit** | **3,773** | **5,555** | **-80,876** | **-42,348** | **1,712** | **116** | **-75,391** | **-36,677** |
| **Adjusted operating profit/(loss)** | **616** | **3,678** | **-133,542** | **-96,107** | **-857** | **-6,511** | **-133,783** | **-98,940** |
| Restructuring costs | - | - | 11,502 | - | - | - | 11,502 | - |
| Provisions recognised (-) reversed (+) | - | - | -8,385 | -9,757 | -1,489 | - | -9,874 | -9,757 |
| Impairment losses on non-financial assets recognised (-) reversed (+) | - | - | -208,699 | -129,923 | - | - | -208,699 | -129,923 |
| Impairment losses on financial assets recognised (-) reversed (+) | - | - | -114,254 | -38,826 | - | - | -114,254 | -38,826 |
| **Operating profit/(loss)** | 616 | 3,678 | -476,382 | -274,613 | -2,346 | -6,511 | **-478,112** | **-277,446** |

Revenue of the Mining segment by geography:

PLN '000

| | Services for mining industry | | Manufacture and supply of underground mining machinery and equipment | | Manufacture and supply of surface mining machinery and equipment | | Total Mining | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Poland | - | - | 256,594 | 300,534 | - | - | 256,594 | 300,534 |
| Exports | 21,740 | 19,851 | 30,746 | 147,396 | 7,646 | 73,958 | 60,132 | 241,205 |
| **TOTAL** | **21,740** | **19,851** | **287,340** | **447,930** | **7,646** | **73,958** | **316,726** | **541,739** |

Gross loss in 2016 was PLN 65,430 thousand, having increased by PLN 42,914 thousand on 2015.

Distribution costs were PLN 17,022 thousand, down PLN 17,680 thousand, or 50.9%, on 2015.

Administrative expenses were PLN 44,966 thousand in 2016, with no material change year on year.

The Parent posted an operating loss of PLN 671,882 thousand for 2016, PLN 383,491 thousand more than in 2015. Net other income/(expenses) in 2016 was negative at PLN -91,160 thousand. The key items of finance income were dividends received (PLN 110,887 thousand), compensation received (PLN 2,117 thousand), liabilities cancelled (PLN 1,869 thousand), government grants (PLN 1,189 thousand), and stock-taking surpluses (PLN 1,113 thousand). Other expenses included impairment losses on financial assets (PLN 138,211 thousand), provisions (PLN 28,837 thousand), restructuring costs (PLN 28,036 thousand), cost of scrapping current assets (PLN 6,853 thousand), cost of discontinued development work and production (PLN 3,420 thousand), as well as penalties, litigation costs and compensation paid (PLN 2,078 thousand).

The Parent recorded a loss of PLN 5,344 thousand on currency hedges, foreign exchange gains/(losses), disposal of property, plant and equipment, and disposal of financial assets.

In 2016, the Parent recognised impairment losses on non-financial assets of PLN 447,960 thousand, including impairment losses on shares (PLN 174,723 thousand), property, plant and equipment (PLN 104,702 thousand), development work (PLN 70,604 thousand), investment property (PLN 48,351 thousand) and other intangible assets (PLN 8,642 thousand), and inventory write-downs (PLN 40,938 thousand).

Other income and expenses, other gains and losses, impairment losses, and write-downs on non-financial assets are presented in Notes 12.26, 12.27, 12.28, and 12.29 to the financial statements of KOPEX S.A. for 2016.

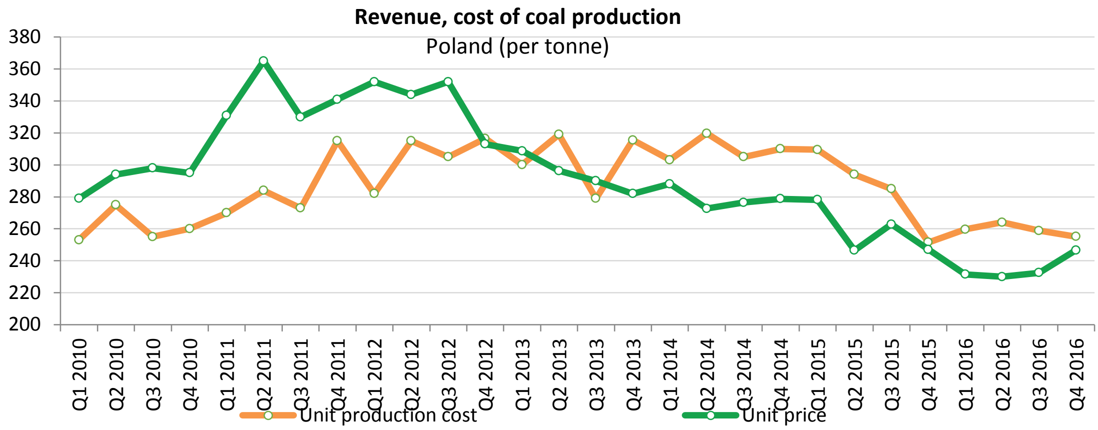
In 2016, the Parent recorded a net loss of PLN 895,844 thousand, which represents a PLN 546,917 thousand decrease in net profit/(loss) year on year. Net finance income/(costs) in 2016 was negative at PLN -150,269 thousand. Finance costs primarily included impairment losses on loans advanced (PLN 106,464 thousand), costs of sureties and guarantees (PLN 19,805 thousand), interest on borrowings (PLN 10,180 thousand), provisions for finance cost (PLN 7,759 thousand), and other interest (PLN 7,627 thousand). Interest received in 2016 was PLN 6,700 thousand. Other finance income and costs are presented in Notes 12.30 and 12.31 to the Financial Statements of KOPEX. for 2016.

## 2.2. ASSESSMENT OF THE PARENT'S FINANCIAL CONDITION

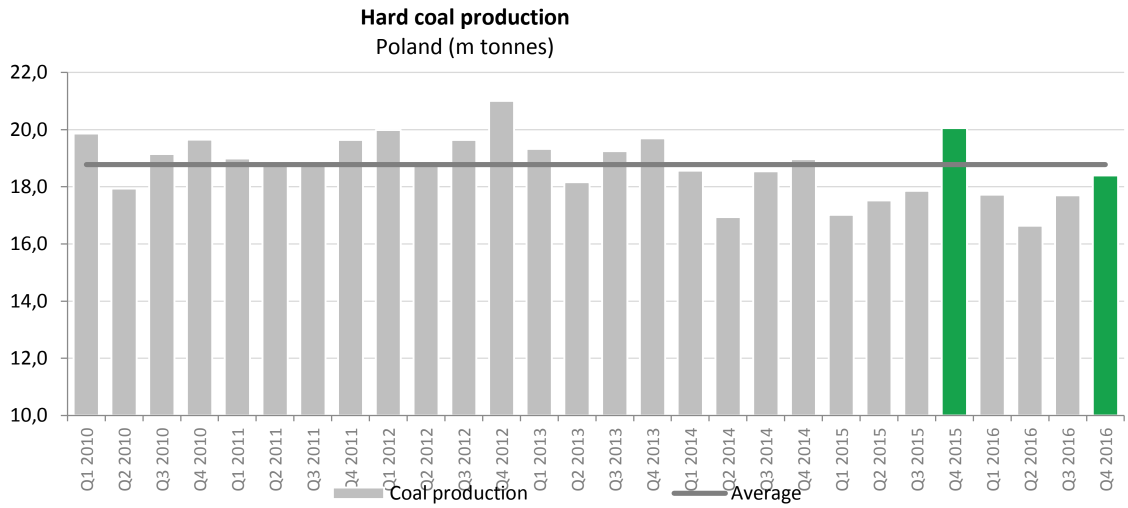
Following material deterioration of KOPEX's financial condition and its failure to comply with bank covenants in Q4 2015, in early 2016 the Parent was forced to enter into negotiations with the financing banks to restructure its debt. In December 2016, after prolonged negotiations between the banks, the Parent and the Investor (TDJ S.A.), the parties executed the Restructuring Agreement.

At present, given the ongoing restructuring process and the Parent's continuing financial distress, KOPEX is unable to obtain multi-purpose credit and guarantee facilities, which is a significant obstacle to securing major contracts, in particular in foreign markets. The Parent's current priority is to act in compliance with the provisions and obligations set out in the Restructuring Agreement. Successful performance of the Restructuring Agreement is expected to enable the Parent to continue as a going concern.

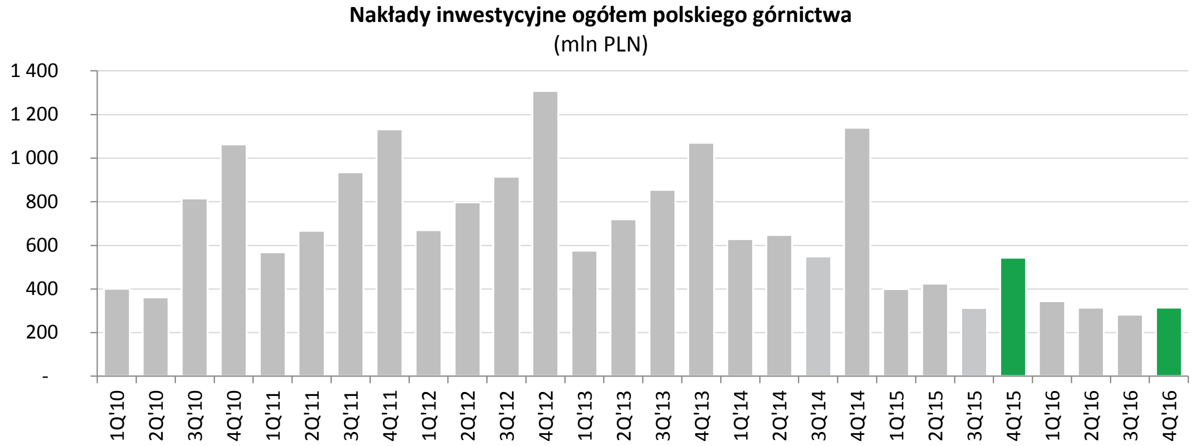
Besides the restructuring measures, other factors which had a bearing on the Parent's performance in 2016 included lower capex of Polish mines relative to previous years, and the consolidation and recovery processes in the Polish mining industry. In spite of the declining hard coal stocks and the ongoing restructuring, for most of 2016 production costs per tonne of coal were higher than the selling prices. In 2016, the average loss incurred by Polish mines per tonne of coal sold was PLN 6.97, almost four times less than a year earlier.



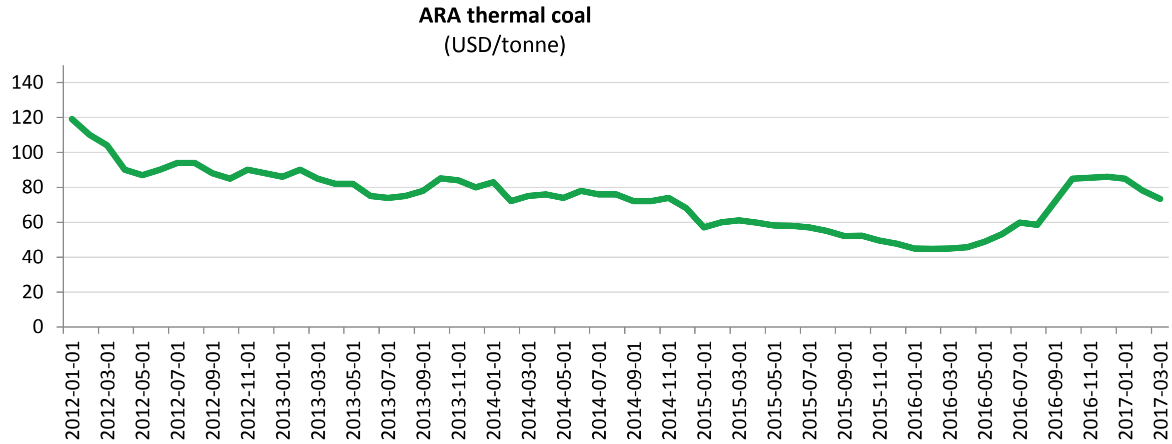

Coal production in Poland has been declining for several years; in 2016, it was about 70 million tonnes, down 11.4% year on year.




The current restructuring efforts in the Polish mining industry, including in particular the transfer of unprofitable mines to SRK (a restructuring company) and optimization of operations of the other mines, suggest that the long-term downward trend in coal production is likely to continue. Moreover, over the past few years, Polish coal producers have significantly reduced capital expenditure on new machinery and equipment. On the other hand, according to representatives of the mining sector, the coming years should see an increase in the sector's capital expenditure.




In 2016, the five-year downward trend in global coal prices reversed. The chart below presents prices of coal (USD per tonne) at the European ports (Amsterdam-Rotterdam-Antwerp).




As at the end of 2016, KOPEX's total assets were PLN 996,278 thousand, having decreased by 46.7%, or PLN 871,840 thousand, year on year. The decrease was mainly a result of a PLN 703,867 thousand fall in non-current assets and a PLN 169,962 thousand fall in current assets. The decrease in non-current assets was mainly caused by: a PLN 267,496 thousand decrease in non-current financial assets (impairment losses on shares and loans advanced); a PLN 254,806 thousand decrease in property, plant and equipment (impairment losses on machinery, equipment, structures and investment property); a PLN 102,014 thousand decrease in intangible assets (impairment losses on development work, licences and controlling models); and a PLN 73,408 thousand decrease in deferred tax assets. The decrease in current assets was chiefly attributable to: a PLN 136,459 thousand decrease in trade receivables; a PLN 71,949 thousand decrease in inventories; a PLN 55,548 thousand decrease in short-term loans advanced; and a PLN 44,277 thousand decrease in amounts due from customers for contract work.

The Parent's equity decreased by PLN 895,238 thousand, non-current liabilities grew by PLN 546,029 thousand (including a PLN 574,438 thousand increase in long-term borrowings), and current liabilities fell PLN 522,631 thousand (including a PLN 570,026 thousand decrease in short-term borrowings). For detailed information on the amounts and composition of the individual items of equity and liabilities at year-end 2016 and 2015, see p. 4−5 of the Financial Statements of KOPEX.

On March 31st 2017, KOPEX made early repayment of the Tranche C debt. Accordingly, as at the end of the first quarter of 2017, the Group's debt disclosed in the statement of financial position was PLN 511m; on the day immediately preceding the date of the Restructuring Agreement, the debt was PLN 619m. Despite the repayment, the Group's debt continues to be high, and its reduction remains a priority for the Management Board.

## 2.3. SELECTED FINANCIAL AND ECONOMIC INDICATORS

The table below presents selected financial and economic indicators in 2016 and their change over 2015.

| | 2016 | 2015 |
|---|---|---|
| **PROFITABILITY RATIOS** | | |
| **Gross margin (%)**<br>(gross profit / revenue) x 100 | -13.55 | -3.37 |
| **Operating profit margin (%)**<br>(operating profit/(loss) / revenue) x 100 | -139.17 | -43.14 |
| **EBITDA (%)**<br>(operating profit + depreciation and amortisation / revenue) x 100 | -109.35 | -26.64 |
| **Net margin (%)**<br>(net profit / revenue) x 100 | -185.55 | -52.20 |
| **Return on equity (ROE) (%)**<br>(net profit/(loss) / average equity) x 100 | -182.72 | -31.12 |
| **Return on assets (ROA) (%)**<br>(net profit / average total assets) x 100 | -62.55 | -17.63 |
| **LIQUIDITY RATIOS** | | |
| **Current ratio**<br>(current assets / current liabilities less provisions and accruals and deferred income) | 1.98 | 0.92 |
| **Quick ratio**<br>(current assets less inventories / current liabilities less provisions and accruals and deferred income) | 1.71 | 0.73 |
| **Cash ratio**<br>(cash and cash equivalents / current liabilities less provisions and accruals and deferred income) | 0.09 | 0.05 |
| **OPERATIONAL EFFICIENCY RATIOS** | | |
| **Average collection period (multiple)**<br>(revenue / average trade receivables) | 2.36 | 2.64 |
| **Average collection period (days)**<br>(number of days / average collection period (multiple)) | 155 | 138 |
| **Average payment period (multiple)**<br>(revenue / average trade payables) | 4.98 | 4.94 |
| **Average payment period (days)**<br>(number of days / average payment period (multiple)) | 73 | 74 |
| **Inventory cycle (multiple)**<br>(revenue / average inventory) | 4.28 | 4.22 |
| **Inventory cycle (days)**<br>(number of days / inventory cycle (multiple)) | 85 | 86 |
| **SOLVENCY RATIOS** | | |
| **Interest coverage ratio**<br>((pre-tax profit + interest) / interest) | -42.13 | -24.48 |
| **Debt to assets ratio (%)**<br>(total liabilities / total assets) x 100 | 95.72 | 49.79 |
| **Equity to assets ratio (%)**<br>(equity / total assets) x 100 | 4.28 | 50,21 |
| **Debt to equity ratio (%)**<br>(average liabilities / equity) x 100 | 2,208.18 | 91.50 |

## KOPEX GROUP

### 2.1.A CONSOLIDATED STATEMENT OF PROFIT OR LOSS

### REVENUE AND NET PROFIT/ (LOSS) BY OPERATING SEGMENT

For data on business segments and geographies, see Note 14 to the Consolidated Financial Statements of KOPEX.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

In 2016, consolidated net revenue from sale of products, merchandise and materials was PLN 777,174 thousand, which represents a decline year on year. Revenue decreased by PLN 203,486 thousand, or 20.7%, in the reporting period.

Breakdown of revenue, gross profit/(loss) and operating profit/(loss) of the Mining segment:

PLN '000

| | Services for mining industry | | Manufacture and supply of underground mining machinery and equipment | | Manufacture and supply of surface mining machinery and equipment | | Manufacture and supply of electrical and electronic equipment and machinery | | Total Mining | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| **Revenue** | **233,537** | **250,477** | **276,624** | **439,460** | **7,646** | **73,958** | **88,607** | **88,258** | **606,414** | **852,153** |
| **Gross profit** | **32,221** | **32,098** | **-54,545** | **-5,194** | **1,712** | **116** | **11,394** | **26,150** | **-9,218** | **53,170** |
| **Adjusted operating profit/(loss)** | 22,796 | 18,662 | -103,765 | -48,089 | -857 | -6,511 | -3,900 | 6,423 | **-85,726** | **-29,515** |
| Restructuring costs | 60 | - | 11,502 | - | - | - | 332 | - | 11,894 | - |
| Provisions recognised (-) reversed (+) | -1,782 | - | 1,215 | -9,446 | -1,489 | - | -865 | - | -2,921 | -9,446 |
| Impairment losses on non-financial assets recognised (-) reversed (+) | -6,629 | -14,116 | -231,263 | -1,190,848 | - | - | -46,416 | -88,725 | -284,308 | -1,293,689 |
| Impairment losses on financial assets recognised (-) reversed (+) | -2,345 | -2 | -70,981 | -30,821 | - | - | -463 | -1,032 | -73,789 | -31,855 |
| **Operating profit/(loss)** | **11,980** | **4,544** | **-416,296** | **-1,279,204** | **-2,346** | **-6,511** | **-51,976** | **-83,334** | **-458,638** | **-1,364,505** |

Revenue of the Mining segment by geography:

PLN '000

| | Services for mining industry | | Manufacture and supply of underground mining machinery and equipment | | Manufacture and supply of surface mining machinery and equipment | | Manufacture and supply of mining machinery, electrical and electronic equipment | | Total Mining | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Poland | 203,132 | 223,491 | 239,920 | 256,684 | - | - | 43,559 | 42,467 | 486,611 | 522,642 |
| Exports | 30,405 | 26,986 | 36,704 | 182,776 | 7,646 | 73,958 | 45,048 | 45,791 | 119,803 | 329,511 |
| **TOTAL** | **233,537** | **250,477** | **276,624** | **439,460** | **7,646** | **73,958** | **88,607** | **88,258** | **606,414** | **852,153** |

Gross loss in 2016 was PLN 8,374 thousand, having increased by PLN 76,069 thousand on 2015.

Distribution costs were PLN 25,765 thousand, down PLN 16,600 thousand, or 39.2%, on 2015.

Administrative expenses were PLN 66,902 thousand, down PLN 7,853 thousand, or 10.5%, on 2015.

In 2016, the Group incurred an operating loss of PLN 632,210 thousand, PLN 740,855 thousand less than in 2015. Net other income/(expenses) in 2016 was negative at PLN -150,861 thousand. The key items of finance income were compensation received (PLN 3,011 thousand), liabilities cancelled (PLN 1,894 thousand), government grants (PLN 1,885 thousand), and stock-taking surpluses (PLN 1,139 thousand). Other expenses included impairment losses on financial assets (PLN 89,423 thousand), restructuring costs (PLN 28,427 thousand), provisions recognised (PLN 21,883 thousand), cost of scrapping current assets (PLN 6,875 thousand), cost of discontinued development work (PLN 5,707 thousand), as well as penalties, litigation costs and compensation paid (PLN 4,009 thousand).

The Group recorded a loss of PLN 525 thousand on currency hedges, foreign exchange gains/(losses), disposal of property, plant and equipment and disposal of financial assets.

In 2016, the Group recognised impairment losses on non-financial assets of PLN 379,783 thousand, including impairment losses on property, plant and equipment (PLN 142,275 thousand), development work (PLN 74,647 thousand), inventory write-downs (PLN 67,216 thousand), investment property (PLN 45,800 thousand), goodwill (PLN 41,568 thousand), other intangible assets (PLN 4,175 thousand), and loss of control (PLN 4,102 thousand).

Other income and expenses, other gains and losses, impairment losses and write-downs on non-financial assets are presented in Notes 12.28, 12.29, 12.30, and 12.31 to the Consolidated Financial Statements of the KOPEX Group for 2016.

Net loss attributable to owners of the parent was PLN 901,703 thousand for 2016. Net finance income/(costs) in 2016 was negative at PLN -53,354 thousand.

Finance costs primarily included impairment losses on loans advanced (PLN 24,725 thousand), interest expense (PLN 19,000 thousand), provisions for finance cost (PLN 7,079 thousand), and commission fees on sureties, guarantees and bank loans (PLN 6,118 thousand).

### 2.2.A ASSESSMENT OF THE GROUP'S FINANCIAL CONDITION

As part of the restructuring process in 2016, the KOPEX Group had to materially scale down its non-core business relative to previous years.

At present, given the ongoing restructuring and the Group's continuing financial distress, KOPEX S.A. is unable to obtain multi-purpose credit and guarantee facilities, which is a significant obstacle to securing major contracts, in particular in foreign markets. The same applies to the other Group companies which are party to the Restructuring Agreement. The Group's current priority is to act in compliance with the provisions and obligations set out in the Restructuring Agreement. Successful performance of the Restructuring Agreement is expected to enable the Group to continue as a going concern.

Besides the restructuring measures, other factors which had a bearing on the Group's performance in 2016 included lower capex of Polish mines relative to previous years, and the consolidation and recovery processes in the Polish mining industry. In spite of the declining hard coal stocks and the ongoing restructuring, for most of 2016 production costs per tonne of coal were higher than the selling prices. In 2016, the average loss incurred by Polish mines per tonne of coal sold was PLN 6.97, almost four times less than a year earlier.

As at the end of 2016, total consolidated assets were PLN 1,264,529 thousand, having decreased by 40.6%, or PLN 864,243 thousand, year on year. The decrease was mainly a result of a PLN 636,876 thousand fall in non-current assets and a PLN 286,433 thousand fall in current assets. The decrease in non-current assets was mainly caused by: a PLN 375,101 thousand decrease in property, plant and equipment (impairment losses on machinery, equipment, structures and investment property); a PLN 109,237 thousand decrease in intangible assets (impairment losses on development work, licences and controlling models); a PLN 58,720 thousand decrease in deferred tax assets; a PLN 51,325 thousand decrease in equity-accounted investees; and a PLN 41,568 thousand decrease in subsidiaries' goodwill. The decrease in current assets was chiefly attributable to: a PLN 170,577 thousand decrease in trade receivables, a PLN 148,038 thousand decrease in inventories, a PLN 37,650 thousand decrease in short-term loans advanced, and a PLN 55,348 thousand decrease in amounts due from customers for contract work.

Equity decreased by PLN 899,931 thousand, non-current liabilities grew by PLN 545,661 thousand (including a PLN 574,439 thousand increase in long-term borrowings), and current liabilities fell by PLN 543,655 thousand (including a PLN 545,704 thousand decrease in short-term borrowings). For detailed information on the amounts and composition of the individual items of equity and liabilities at year-end 2016 and 2015, see p. 4−5 of to the Consolidated Financial Statements of KOPEX.

## 2.3.A SELECTED FINANCIAL AND ECONOMIC INDICATORS

The table below presents selected financial and economic indicators in 2016 and their change over 2015.

| | 2016 | 2015 |
|---|---|---|
| **PROFITABILITY RATIOS** | | |
| **Gross margin (%)**<br>(gross profit / revenue) x 100 | -1.08 | 6.90 |
| **Operating profit margin (%)**<br>(operating profit/(loss) / revenue) x 100 | -81.35 | -140.01 |
| **EBITDA (%)**<br>(operating profit + depreciation and amortisation / revenue) x 100 | -58.85 | -124.46 |
| **Net margin (%)**<br>(net profit / revenue) x 100 | -116.15 | -150.04 |
| **Return on equity (ROE) (%)**<br>(net profit/(loss) / average equity) x 100 | -138.37 | -79.10 |
| **Return on assets (ROA) (%)**<br>(net profit / average total assets) x 100 | -53.20 | -52.08 |
| **LIQUIDITY RATIOS** | | |
| **Current ratio**<br>(current assets / current liabilities less provisions and accruals and deferred income) | 2.17 | 1.19 |
| **Quick ratio**<br>(current assets less inventories / current liabilities less provisions and accruals and deferred income) | 1.84 | 0.89 |
| **Cash ratio**<br>(cash and cash equivalents / current liabilities less provisions and accruals and deferred income) | 0.32 | 0.07 |
| **OPERATIONAL EFFICIENCY RATIOS** | | |
| **Average collection period (multiple)**<br>(revenue / average trade receivables) | 2.53 | 2.53 |
| **Average collection period (days)**<br>(number of days / average collection period (multiple)) | 144 | 144 |
| **Average payment period (multiple)**<br>(revenue / average trade payables) | 6.19 | 5.67 |
| **Average payment period (days)**<br>(number of days / average payment period (multiple)) | 59 | 64 |
| **Inventory cycle (multiple)**<br>(revenue / average inventory) | 4.20 | 3.94 |
| **Inventory cycle (days)**<br>(number of days / inventory cycle (multiple)) | 87 | 93 |
| **SOLVENCY RATIOS** | | |
| **Interest coverage ratio**<br>((pre-tax profit + interest) / interest) | -37.15 | -88.61 |
| **Debt to assets ratio (%)**<br>(total liabilities / total assets) x 100 | 83.99 | 48.22 |
| **Equity to assets ratio (%)**<br>(equity / total assets) x 100 | 16.01 | 51.78 |
| **Debt to equity ratio (%)**<br>(average liabilities / equity) x 100 | 515.87 | 87.55 |

## 3. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES BY KOPEX IN 2016

KOPEX, as a company listed on the Warsaw Stock Exchange, was subject to the corporate governance rules stipulated in the 'Best Practice for WSE Listed Companies' (the 'Code of Best Practice') adopted by the Supervisory Board of the Warsaw Stock Exchange. The Company's current and periodic reports are published on its corporate website. The website also includes key corporate events, financials and news.

Recognizing the principles of corporate governance as the standards of ethical conduct shaping the relations of listed companies with their market environment, and considering them as being consistent with the good business practices and making the Company more transparent on the capital market, the Issuer has always applied most of the rules contained in the Code of Best Practice for WSE Listed Companies as proposed by the Warsaw Stock Exchange. In keeping with the 'comply or explain' approach, with reference to the few rules which are not followed by the Company (in whole or in part) and will not be applied until further notice, the Issuer published current reports through the Electronic Information Base (EBI) and referred to them in the 'Statements of compliance with corporate governance standards at KOPEX', included in the Directors' Reports for 2009–2016.

Information on corporate governance rules and EIB corporate governance reports are published by the Parent on its website at www.kopex.com.pl, in the Investor Relations / Corporate Governance tab.

### CORPORATE GOVERNANCE PRINCIPLES NOT APPLIED BY THE ISSUER

- In 2016, the Company did not comply with the rule provided for in Part IV Section 10 of the Code of Best Practice, whereby companies are required to enable the shareholders to participate in General Meetings using means of electronic communication through real-life broadcasts of General Meetings and real-time bilateral communication. KOPEX provides its shareholders with the possibility to participate in General Meetings in accordance with the mandatory requirements of the Commercial Companies Code.
- In 2016, the Company did not comply with the rule provided for in Section V.Z.6. of the Code of Best Practice whereby companies are required to define, in their internal regulations, the criteria and circumstances under which a conflict of interest may arise in the company; as well as the rules of conduct where a conflict of interest has arisen or may arise. KOPEX seeks to develop internal regulations which will provide, among other matters, for the ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the Management board or the Supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise, in order to apply the said rule.
- In 2016, KOPEX did not comply with the rule provided for in Section VI.Z.1. of the Code of Best Practice whereby companies are required to tie the level of remuneration of members of the company's management board and key managers to the actual long-term financial condition of the company and long-term shareholder value creation as well as the stability of the company's business.

### DIVERSITY POLICY

The elements of the Company's diversity policy with regard to members of its governing bodies and key management personnel have not been compiled into a binding diversity policy document, but the Company will seek to define and implement such formalised policy in the future, recognising it as an important factor in building its competitive advantage. In spite of the absence of a formally defined diversity policy, daily activities undertaken as part of the human resources management, and especially as part of the recruitment and selection processes, evaluation of professional development paths, and assessment of employees' usefulness to the Company and the pursuit of its strategy, are performed with due regard to diversity in terms of gender, education, age, professional experience or industry knowledge.

### INTERNAL CONTROL SYSTEM

The key features of the internal control and risk management systems used in the process of preparing financial statements are presented below:

1. The Parent prepares its financial statements in accordance with International Accounting Standards/International Financial Reporting Standards and related interpretations issued in the form of the European Commission's regulations, as well as – where not regulated by those standards – in compliance with the Polish Accountancy Act of September 29th 1994 (consolidated text: Dz.U. of 2013, item 330, as amended) and the secondary legislation issued thereunder; and in accordance with the Minister of Finance's Regulation on current and periodic reports to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the law of a non-member state, dated February 19th 2009 (consolidated text: Dz. U. of 2009, No. 33, item 259, as amended). Full-year financial statements of the KOPEX Group and the Parent's full-year financial statements (both separate and consolidated) are audited in each case by an independent statutory auditor appointed annually by the Parent's

Supervisory Board pursuant to the 'Rules for selection of an auditor to audit the Company's separate and the Group's consolidated financial statements'.
2. Documents are checked, accepted and described by persons responsible both for the subject matter they relate to and for the accounting aspects.
3. Each transaction is duly reviewed by the legal department to ensure that it is properly accounted for in accordance with the accounting and tax laws.
4. Appropriate control procedures put in place by the management are used, including:
   - checking the correctness of accounting entries by responsible persons,
   - control and monitoring of computer programs and the IT environment by assigning care of the programs and the IT environment to IT specialists and IT companies,
   - maintaining and reviewing subsidiary ledger accounts and statements of ledger transactions and account balances,
   - approval and control of documents,
   - comparing actual performance against budgeted targets and analysis of the results.
5. All transactions and other events are promptly recorded at correct amounts, in appropriate accounts and in proper accounting periods so as to enable the preparation of financial statements in accordance with the adopted financial reporting policy.
6. Access to assets and records is only possible with the management's authorisation.
7. Assets disclosed in accounting records are compared against physical assets, in accordance with the provisions of the accounting laws; relevant measures are taken whenever any discrepancies are found.
8. The accounting policy is updated as needed so that it is always in line with the current accounting laws.

## LARGE HOLDINGS OF SHARES

From January 1st 2016 to the date of issue of this full-year report, the share capital of KOPEX did not change. It amounts to PLN 74,332,538.00 and comprises 74,332,538 ordinary bearer shares with a par value of PLN 1.00 per share, including:

a) 19,892,700 Series A ordinary bearer shares,
b) 47,739,838 Series B ordinary bearer shares, and
c) 6,700,000 Series C ordinary bearer shares.

The issued shares are not subject to any restrictions on the exercise of voting rights, and there are no other securities conferring any special control rights. Also, the Management Board is not aware of any restrictions on the transferability of Company shares or of any agreements that could lead to future changes in the shareholder structure.

KOPEX shares have been listed on the Warsaw Stock Exchange (WSE) since June 4th 1998 (ISIN: KPX PLKOPEX00018, Market/Segment: main market, Sector: Machine engineering, Index: sWIG80).

According to the information and notifications held and received by the Issuer, <u>as at the date of issue of this full-year report,</u> the shareholders holding, directly or indirectly, 5% or more of total voting rights at the General Meeting KOPEX S.A. are:

| SHAREHOLDER | Number of shares held | % interest in share capital of KOPEX S.A. | Total voting rights at the AGM | % of total voting rights at the AGM |
|---|---|---|---|---|
| **Tomasz Domogała** *(indirectly, through subsidiaries)* | 48,932,015[1)] | 65.83% | 48,655,515 | 65.46% |
| **Other shareholders – free float** | 25,400,918 | 34.17% | 25,400,918 | 34.54% |
| **Total:** | **74,332,538** | **100.00%** | **74,332,538** | **100.00%** |

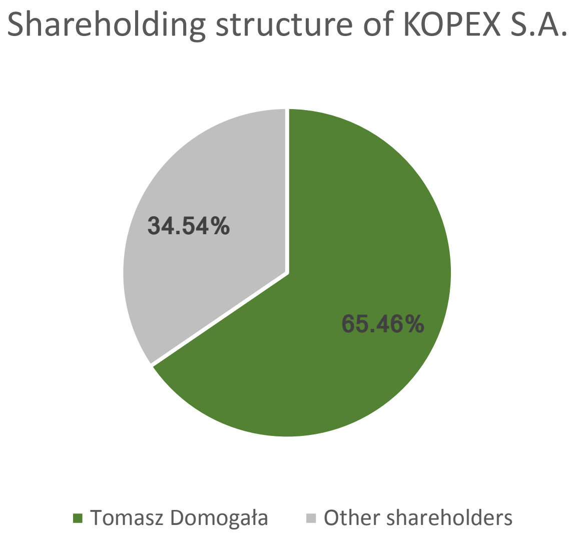
Source: Company based on notifications received.

<u>Note:</u>

1) Total number of KOPEX shares held by **Tomasz Domogała** (majority shareholder) and (directly and indirectly) his subsidiary, as specified in a notification of March 23rd 2017 received from TDJ S.A. (current report No. 15/2017 of March 24th 2017), of which:
   - Tomasz Domogała, through his subsidiary TDJ S.A. of Katowice, holds indirectly (through subsidiaries of TDJ S.A.) a total of 48,932,015 shares in KOPEX S.A. (including 276,500 treasury shares of the Company, TDJ S.A.'s subsidiary, in respect of which no voting rights may be

exercised) representing approximately 65.83% of the share capital of KOPEX and conferring the right to 48,655,515 votes (65.46% of total voting rights) at the General Meeting of KOPEX. Of this number:

a) GALANTINE Sp. z o.o. holds directly 7,433,000 KOPEX shares, representing 9.99% of the Company' share capital and conferring the right to 7,433,000 votes (9.99% of total voting rights) at the General Meeting of KOPEX;
b) TDJ Equity IV S.A. holds:
   - directly − 395 KOPEX shares, representing 0.00053% of the Company' share capital and conferring the right to 395 votes (0.00053% of total voting rights) at the General Meeting of KOPEX,
   - indirectly, through Partner S.A. − 24,217,120 KOPEX shares, representing 32.58% of the Company' share capital and conferring the right to 24,217,120 votes (32.58% of total voting rights) at the General Meeting of KOPEX S.A.,
   - indirectly, through ProInwest Sp. z o.o. − 17,005,000 KOPEX shares, representing 22.88% of the Company' share capital and conferring the right to 17,005,000 votes (22.88% of total voting rights) at the General Meeting of KOPEX.




**COMPOSITION AND ACTIVITIES OF THE ISSUER'S MANAGEMENT, SUPERVISORY AND ADMINISTRATIVE BODIES AND OF THEIR COMMITTEES. CHANGES IN THEIR COMPOSITION IN THE LAST FINANCIAL YEAR**

**MANAGEMENT BOARD**

In accordance with Art. 21.1 of the Company's Articles of Association, the Management Board is composed of two (2) to five (5) members. The number of Management Board members is defined by the governing body that appoints the Management Board. The term of office of Management Board members is five (5) years. Pursuant to Art. 25 of the Company's Articles of Association, members of the Parent's Management Board are appointed and removed by the Supervisory Board.

On June 8th 2016, the Annual General Meeting of KOPEX granted discharge to members of the Management Board for performance of their duties in 2015.

From January 1st 2016 to December 31st 2016, the composition of the Parent's Management Board, taking into account the changes which occurred in 2016 (see the notes to the table), was as follows:

| | Position held | Date of appointment | Notes |
|---|---|---|---|
| **Beata ZAWISZOWSKA** | **President of the Management Board** | **December 16th 2016** 20) | --- |
| **Bartosz BIELAK** | **Vice President of the Management Board** | **December 16th 2016** 21) | --- |
| **Bartosz BIELAK** | Member of the Supervisory Board delegated to perform the duties of Management Board member | September 14th 2016 16) | to December 15th 2016 |
| **Dariusz PIETYSZUK** | President of the Management Board | August 11th 2016 14) | to December 15th 2016 17) |
| **Henryk JURCZYK** | Member of the Management Board | July 1st 2016 13) | to December 15th 2016 18) |
| **Dariusz PIETYSZUK** | Member of the Supervisory Board delegated to perform the duties of President of the Management Board | May 10th 2016 12) | to August 10th 2016 |
| **Magdalena NAWŁOKA** | Member of the Management Board | May 10th 2016 11) | to December 15th 2016 19) |
| **Bogusław BOBROWSKI** | President of the Management Board | January 12th 2016 4) | to May 10th 2016 8) |
| **Marek USZKO** | Member of the Management Board | January 12th 2016 5) | to May 10th 2016 9) |
| **Krzysztof ZAWADZKI** | Member of the Management Board | February 1st 2016 6) | to May 10th 2016 10) |
| **Józef WOLSKI** | President of the Management Board | June 28th 2013 | to January 12th 2016 2) |
| **Andrzej MEDER** | Member of the Management Board | February 1st 2012 | to January 12th 2016 3) |
| **Joanna WĘGRZYN** | Member of the Management Board | June 23rd 2013 | to February 1st 2016 7) |
| **Michał ROGATKO** | Member of the Management Board | November 25th 2015 | to January 11th 2016 1) |
| **Piotr BRONCEL** | Member of the Management Board | February 1st 2014 | to September 2016 15) |

Source: Company

Notes:

1) Mr Michał Rogatko submitted to the Supervisory Board a written resignation from his position as member of the Management Board as of January 11th 2016;
2) At the meeting held on January 12th 2016, the Supervisory Board removed Mr Józef Wolski from the Management Board and from the position of President of the Management Board;
3) At the meeting held on January 12th 2016, the Supervisory Board removed Mr Andrzej Meder from the Management Board and from the position of member of the Management Board;
4) At the meeting held on January 12th 2016, the Supervisory Board appointed Mr Bogusław Bobrowski President of the Management Board;
5) At the meeting held on January 27th 2016, the Supervisory Board appointed Mr Marek Uszko member of the Management Board;
6) At the meeting held on January 27th 2016, the Supervisory Board appointed Mr Krzysztof Zawadzki as member of the Management Board as of February 1st 2016;
7) Mrs Joanna Węgrzyn submitted to the Supervisory Board a written resignation from her position as member of the Management Board as of February 1st 2016;
8) At the meeting held on May10th 2016, the Supervisory Board removed Mr Bogusław Bobrowski from the Management Board and from the position of President of the Management Board;
9) At the meeting held on May10th 2016, the Supervisory Board removed Mr Marek Uszko from the Management Board and from the position of member of the Management Board;
10) At the meeting held on May10th 2016, the Supervisory Board removed Mr Krzysztof Zawadzki from the Management Board and from the position of member of the Management Board;
11) At the meeting held on May 10th 2016, the Supervisory Board appointed Mrs Magdalena Nawłoka as member of the Management Board as of May 10th, 2016;
12) At the meeting held on May 10th 2016, the Supervisory Board delegated Mr Dariusz Pietyszuk to perform the duties of President of the Management Board as of May 10th 2016;

13) At the meeting held on May 31st 2016, the Supervisory Board appointed Mr Henryk Jurczyk as member of the Management Board as of June 1st 2016;
14) At the meeting held on August 11th 2016, the Supervisory Board appointed Mr Dariusz Pietyszuk President of the Management Board;
15) At the meeting held on September 14th 2016, the Supervisory Board removed Mr Piotr Broncel from the Management Board and from the position of member of the Management Board;
16) At the meeting held on September 14th 2016, the Supervisory Board delegated Mr Bartosz Bielak to perform the duties of member of the Management Board as of September 14th 2016;
17) Mr Dariusz Pietyszuk submitted to the Supervisory Board a written resignation from his position as member his position President of the Management Board as of December 15th 2016;
18) Mr Henryk Jurczyk submitted to the Supervisory Board a written resignation from his position as member of the Management Board as of December15th 2016;
19) Mrs Magdalena Nawłoka submitted to the Supervisory Board a written resignation from her position as member of the Management Board as of December15th 2016;
20) At the meeting held on December 15th 2016, the Supervisory Board appointed Mrs Beata Zawiszowska President of the Management Board;
21) At the meeting held on December 15th 2016, the Supervisory Board appointed Mr Bartosz Bielak Vice President of the Management Board.

Composition of the KOPEX Management Board in the period from January 1st 2017 to the date of this full-year report, taking into account the changes which occurred during the period:

| | Position held | Date of appointment | Notes |
|---|---|---|---|
| **Beata ZAWISZOWSKA** | **President of the Management Board** | December 16th 2016 | --- |
| **Bartosz BIELAK** | **Vice President of the Management Board** | December 16th 2016 | --- |

Source: Company

**RULES GOVERNING THE OPERATION OF THE MANAGEMENT BOARD**

The Management Board, as one of the Parent's governing body, operates pursuant to: (I) the Commercial Companies Code, (II) the Company's Articles of Association, (III) the Management Board Rules of Procedure, and (IV) other generally applicable laws. The Articles of Association and the Management Board Rules of Procedure currently in effect are available on the Company's website at www.kopex.com.pl, in the Investor Relations/Internal standard-setting documents tab.

The rules governing the appointment and removal of the Parent's Management Board are described in detail in Section (h) of this statement.

Pursuant to Art. 20 of the Company's Articles of Association, the Management Board manages the affairs of the Company and represents it in all actions before and out of court. All matters relating to the management of the Company's affairs which are not reserved under the law or the Articles of Association to the exclusive competence of the General Meeting or the Supervisory Board, fall within the scope of powers and responsibilities of the Management Board. Statements on behalf of the Company may be made by two Management Board members acting jointly or one Management Board member acting jointly with a sole or joint commercial proxy.

The organisation and operating procedures of the Management Board are defined in the 'Rules of Procedure of the Management Board of KOPEX S.A.', which are adopted by the Management Board and approved by the Supervisory Board. Pursuant to Art. 4 of the Management Board Rules of Procedure, every member of the Management Board may, without a prior resolution of the Management Board, manage any affairs of the Company falling within the scope of its day-to-day management. Pursuant to the Articles of Association, Management Board resolutions are passed with a simple majority of votes cast by Management Board members present at the meeting, with the proviso that appointment of a proxy requires a unanimous resolution by all Management Board members. In case of a tied vote, President of the Management Board has the casting vote. Under the Rules of Procedure, Management Board resolutions may be adopted also using means of remote communication (including through conference call, by fax or by email).

Pursuant to Art. 7 of the Management Board Rules of Procedure, any matters which fall outside the scope of the day-to-day management of the Parent's affairs require a resolution of the Management Board, in particular:
a) calling a General Meeting and setting the Meeting's agenda,
b) approval of full-year reports, namely the Directors' Report and financial statements, as well as full-year consolidated financial statements of the KOPEX Group,
c) making proposals as to distribution of profit or coverage of loss for a given financial year,
d) appointing the Company's commercial proxy,
e) internal division of responsibilities among members of the Management Board,

f) adopting the Company's organisational rules and the organisational chart, or any amendments thereto,
g) drafting the Management Board Rules of Procedure,
h) other matters reserved to the exclusive competence of the Management Board by law and the Articles of Association.

In addition, in accordance with the Articles of Association, apart from matters reserved to the competence of the General Meeting or the Supervisory Board the Management Board is required to obtain the consent of the Supervisory Board before taking any of the following actions:

a) any transactions involving acquisition or disposal of shares or other assets, lease, pledge or mortgage over the property, or any other encumbrance or disposal of property in one legal transaction, if the value of such transaction would exceed 15% of the Company's net assets disclosed in the most recent full-year statement of financial position,
b) incurring any credit facility or non-bank borrowing, if debt under such transaction would exceed 15% of the Company's net assets disclosed in the most recent full-year statement of financial position,
c) extending a loan if the amount of such transaction would exceed 15% of the Company's net assets disclosed in the most recent full-year statement of financial position.

**SUPERVISORY BOARD**

In accordance with Art. 35 of the Company's Articles of Association, the KOPEX Supervisory Board is composed of five (5) to nine (9) members. The number of Supervisory Board members for a given term of office is determined by the General Meeting. The Supervisory Board's term of office is 5 (five) years. Supervisory Board members are appointed for a joint term of office.

The Annual General Meeting of KOPEX held on June 26th 2013 reduced the number of members of the Supervisory Board of the seventh term of office from (7) seven to (5) five members.

On June 8th 2016, the Annual General Meeting of KOPEX granted discharge to members of the Supervisory Board for performance of their duties in 2015.

From January 1st 2016 to December 31st 2016, the composition of the Supervisory Board, taking into account the changes which occurred in 2016 (see the notes to the table), was as follows:

| | Position held | Date of appointment | Notes |
|---|---|---|---|
| **Czesław KISIEL** | Member of the Supervisory Board | September 1st 2016 8) | |
| **Bartosz BIELAK** | Member of the Supervisory Board (delegated to perform the duties of member of the Management Board) | May 20th 2016 6)<br>(September 14th 2016) | to December 15th 2016 9) |
| **Dariusz PIETYSZUK** | Member of the Supervisory Board (delegated to perform the duties of President of the Management Board) | May 10th 2016 4)<br>(May 10th 2016) | to August 11th 2016 7)<br>(to August 11th 2016) |
| **Krzysztof JĘDRZEJEWSKI** | Chairman of the Supervisory Board | June 27th 2012 | to January 3rd 2017 12) |
| **Bogusław BOBROWSKI** | Deputy Chairman of the Supervisory Board | June 27th 2012 | to January 12th 2016 1) |
| **Michał ROGATKO** | Deputy Chairman of the Supervisory Board | January 12th 2016 2) | to December 31st 2016 10) |
| **Daniel LEWCZUK** | Member of the Supervisory Board | January 29th 2015 | to December 31st 2016 11) |
| **Józef DUBIŃSKI** | Member of the Supervisory Board | February 20th 2014 | February 20th 2016 5) |
| **Janusz A. STRZĘPKA** | Member of the Supervisory Board | November 18th 2015 | to May 10th 2016 3) |

Source: Company

Notes:

1) On January 11th 2016, Deputy Chairman of the Supervisory Board, Mr Bogusław Bobrowski, submitted a written resignation from his position on the Supervisory Board as of January 12th 2016, to undertake other duties at the KOPEX Group;

2) On January 12th 2016, Mr Michał Rogatko was appointed to the Supervisory Board pursuant to Art. 35.4 of the Articles of Association in order to fill the vacancy on the Supervisory Board. The Supervisory Board, at the meeting held on January 12th 2016, appointed Mr Michał Rogatko Deputy Chairman of the Supervisory Board;

3) On May 10th 2016, Mr Janusz A. Strzępka submitted a written resignation from his position as member of the Supervisory Board as of May 10th 2016;

4) On May 10th 2016, Mr Dariusz Pietyszuk was appointed to the Supervisory Board pursuant to Art. 35.4 of the Articles of Association to fill the vacancy on the Supervisory Board. The Supervisory Board, at the meeting held on May 10th 2016, delegated Mr Draiusz Pietyszuk to perform the duties of President of the KOPEX Management Board;
5) On May 16th 2016, Mr Józef Dubiński submitted a written resignation from his position as member of the Supervisory Board as of May 16th 2016;
6) On May 10th 2016, Mr Bartosz Bielak was appointed to the Supervisory Board pursuant to Art. 35.4 of the Articles of Association in order to fill the vacancy on the Supervisory Board;
7) At the meeting held on August 11th 2016, the Supervisory Board appointed Mr Dariusz Pietyszuk President of the Management Board; the mandate of Mr Dariusz Pietyszuk as member of the Supervisory Board expired by operation of law;
8) The Extraordinary General Meeting of KOPEX S.A. held on September 1st 2016 appointed Mr Czesław Kisiel to the Supervisory Board;
9) On May 16th 2016, Mr Józef Dubiński submitted a written resignation from his position as member of the Supervisory Board as of May 16th 2016;
10) On December 30th 2016, Mr Michał Rogatko, Deputy Chairman of the Supervisory Board, submitted a written resignation from his position as member of the Supervisory Board as of December 31st 2016;
11) On December 30th 2016, Mr Daniel Lewczuk, Member of the Supervisory Board, submitted a written resignation from his position as member of the Supervisory Board as of December 31st 2016;
12) The Extraordinary General Meeting of KOPEX S.A. held on January 3rd 2016 removed Mr Krzysztof Jędrzejewski from the Supervisory Board.

Composition of the KOPEX Supervisory Board in the period from January 1st 2017 to the date of this full-year report, taking into account the changes which occurred during the period, was as follows:

| | Position held | Date of appointment | Notes |
|---|---|---|---|
| **Tomasz DOMOGAŁA** | Chairman of the Supervisory Board | January 3rd 2017 1) | |
| **Czesław KISIEL** | Deputy Chairman of the Supervisory Board | September 1st 2016 | |
| **Wojciech GELNER** | Secretary of the Supervisory Board | January 3rd 2017 2) | |
| **Jacek LEONKIEWICZ** | Member of the Supervisory Board | January 3rd 2017 3) | |
| **Magdalena ZAJĄCZKOWSKA-EJSYMONT** | Member of the Supervisory Board | January 3rd 2017 4) | |

Source: Company

Notes:

1) The Extraordinary General Meeting of KOPEX S.A. held on January 3rd 2017 appointed Mr Tomasz Domogała to the Supervisory Board.
2) The Extraordinary General Meeting of KOPEX S.A. held on January 3rd 2017 appointed Mr Wojciech Gelner to the Supervisory Board.
3) The Extraordinary General Meeting of KOPEX S.A. held on January 3rd 2017 appointed Mr Jacek Leonkiewicz to the Supervisory Board.
4) The Extraordinary General Meeting of KOPEX S.A. held on January 3rd 2017 appointed Mrs Magdalena Zajączkowska-Ejsymont to the Supervisory Board.

## RULES GOVERNING THE OPERATION OF THE SUPERVISORY BOARD AND ITS COMMITTEES

The Company's Supervisory Board, as one of the Parent's governing body, operates pursuant to: (I) the Commercial Companies Code, (II) the Company's Articles of Association, (III) the Supervisory Board Rules of Procedure, and (IV) other generally applicable laws.

In accordance with Art. 35 of the Company's Articles of Association, the Supervisory Board is composed of five (5) to nine (9) members. The number of Supervisory Board members for a given term of office is determined by the General Meeting. The Supervisory Board's term of office is 5 (five) years. Supervisory Board members are appointed for a joint term of office.

The Supervisory Board members are appointed by the General Meeting subject to the provisions of Art. 35. 4 of the Articles of Association, stipulating that in the event of removal from office, resignation or death of a Supervisory Board member during their term of office, a shareholder holding at least 51% of the total vote has the right to appoint a new member of the Supervisory Board to fill the vacancy. This right does not prejudice the other shareholders' rights to appoint members of the Supervisory Board, set forth in the Commercial Companies Code or in the Articles of Association.

The organisation and operating procedures of the Supervisory Board are defined in detail in the Supervisory Board Rules of Procedure, which are adopted by the Supervisory Board. The current version of the Rules of Procedure adopted by the Supervisory Board by way of Resolution No. 73/VI/2010 of May 13th 2010 is available on the Company's website at www.kopex.com.pl, in the Investor Relations/Internal standard-setting documents tab.

Pursuant to the Articles of Association, Supervisory Board resolutions are passed with a simple majority of votes of the Supervisory Board members present at the meeting.

In accordance with Art. 19.3 of the Articles of Association, in the case of a tied vote, the Chairperson of the Supervisory Board has the casting vote when voting on Supervisory Board resolutions.

The Supervisory Board can pass resolutions if at least half of its members are present at the meeting, and all the members have been invited to the meeting. Moreover, under the Company's Articles of Association, the Supervisory Board may also pass resolutions by written ballot or using means of remote communication, subject to the limitations specified in the Commercial Companies Code and provided that all Supervisory Board members have been notified of the contents of the draft resolutions.

In accordance with the Articles of Association, the powers and responsibilities of the Supervisory Board include in particular:

1. Assessment of the financial statements for the previous financial year, and ensuring that they are audited by a qualified auditor appointed by the Supervisory Board,
2. Assessment of the Directors' Report for the previous financial year, and ensuring that it is audited by a qualified auditor appointed by the Supervisory Board,
3. Granting approval for the execution of an underwriting agreement referred to in Art. 433 of the Commercial Companies Code,
4. Assessment of the Management Board's proposals concerning distribution of profit or coverage of loss, including issuing opinions on the proposed amount to be distributed as dividend, dates of dividend payment, or the proposed manner of coverage of loss,
5. Submission to the General Meeting of annual written reports on findings of the assessments referred to in items 1, 2, and 4 above,
6. Any transactions involving acquisition or disposal of shares or other assets, lease, pledge or mortgage over the property, or any other encumbrance or disposal of property in a single legal transaction, if the value of such transaction would exceed 15% of the Company's net assets disclosed in the most recent full-year statement of financial position,
7. Appointment, suspension from duties and removal from office of the Management Board members,
8. Delegation of Supervisory Board members to perform the duties of the Management Board when all members of the Management Board have been suspended from duties or removed from office, or when the Management Board is unable to operate for other reasons,
9. Adoption of the Supervisory Board Rules of Procedure which define its organisation and manner of operation.

The powers and responsibilities of the Supervisory Board also include granting prior consent to the Management Board to do any of the following:

1. Incurring any credit facility or non-bank borrowing, if debt under such transaction would exceed 15% of the Company's net assets disclosed in the most recent full-year statement of financial position,
2. Extending a loan if the amount of such transaction would exceed 15% of the Company's net assets disclosed in the most recent full-year statement of financial position.

When selecting an independent auditor of the financial statements, the Supervisory Board observes applicable laws, in particular the provisions of the Act on qualified auditors, their self-government, entities qualified to audit financial statements and on public supervision, dated May 22nd 2009 (Dz. U. of 2009, No. 77, item 649, as amended) as well as an internal regulation adopted by the Supervisory Board entitled "Rules for selection of an auditor to audit the Company's separate and the Group's consolidated financial statements" which define the manner of operation of the Company's Management and Supervisory Boards when selecting a qualified auditor.

**AUDIT COMMITTEE**

At its meeting held on June 28th 2013, the Supervisory Board passed Resolution No. 32/VII/2013 to incorporate the tasks of the Audit Committee into the powers and responsibilities of the Supervisory Board. In the Resolution, the Supervisory Board, acting pursuant to Art. 86.3 and Art. 86.7 of the Act on qualified auditors, their self-government, entities qualified to audit financial statements and on public supervision, dated May 22nd 2009 (Dz. U. of 2009, No. 77, item 649), determined that:

1) The Supervisory Board, having regard to the fact that on June 26th 2013 the Annual General Meeting of KOPEX S.A. resolved to reduce the number of members of the Supervisory Board from (7) seven to (5) five and that, accordingly, the Supervisory Board consists of no more than 5 members, decided that no separate Audit Committee will operate within the Supervisory Board;

2) The tasks of the Audit Committee set out in Art. 86.7 of the above Act and in Par. 4.4 of the Supervisory Board Rules of Procedure are performed by the Supervisory Board. These tasks include:
   a) monitoring the financial reporting process;

b) monitoring the effectiveness of internal control, internal audit and risk management systems;
c) monitoring audit activities;
d) monitoring the independence of the auditor and the auditing firm.

**RULES GOVERNING APPOINTMENT AND REMOVAL OF THE MANAGEMENT PERSONNEL. POWERS OF THE MANAGEMENT PERSONNEL, INCLUDING IN PARTICULAR THE AUTHORITY TO RESOLVE TO ISSUE OR BUY BACK SHARES**

Rules governing appointment and removal of members of the Management Board are set forth in the Commercial Companies Code and the Company's Articles of Association. The consolidated text of the Articles of Association, valid as at the date of issue of this Report (in effect as from August 13th 2015), is available on the Company's website at www.kopex.com.pl, in the Investor Relations/Internal standard-setting documents tab.

Pursuant to Art. 25 of the Articles of Association, members of the Management Board are appointed and removed by the Supervisory Board. The Management Board is composed of two (2) to five (5) members. The number of Management Board members is defined by the governing body that appoints the Management Board. The term of office of Management Board members is five (5) years. Management Board members are not appointed for a joint term of office.

Pursuant to Art. 20 of the Articles of Association, the Management Board manages the affairs of the Company and represents it in all actions before and out of court. All matters relating to the management of the Company's affairs which are not reserved under the law or the Articles of Association for the General Meeting or the Supervisory Board, fall within the scope of powers and responsibilities of the Management Board. Statements on behalf of the Company may be made by two Management Board members acting jointly or one Management Board member acting jointly with a commercial proxy. In any agreements or disputes between the Company and the Management Board members, the Company is represented by the Supervisory Board, which may authorise − by way of resolution − one or more members to perform such legal transactions. In accordance with the Company's Articles of Association, employment contracts with the Management Board members may also be executed by a proxy appointed by way of a General Meeting's resolution.

Pursuant to Art. 22 of the Articles of Association, the Management Board is authorised to pay interim dividend to the shareholders in accordance with the relevant provisions of the Commercial Companies Code.

The rules governing the operation of the Management Board are described in detail in Section (k) 1.1 of this statement.

The power to decide on an issue or buy-back of shares is set out in the Company's Articles of Association, which are consistent with generally applicable laws, including with the Commercial Companies Code.

The Management Board was authorised to repurchase Company shares by Resolution No. 1 of the Extraordinary General Meeting of KOPEX S.A. of December 11th 2008, on granting approval for and defining the terms of share repurchase by the Company with a view to offering the shares to Company employees and related entities; and by Resolution No. 2 of the Extraordinary General Meeting of KOPEX S.A. of December 11th 2008, on authorising the Management Board to repurchase Company shares in accordance with Art. 362.1.8 of the Commercial Companies Code. Pursuant to the Resolutions, the authorisations expired on December 11th 2013.

**RULES GOVERNING AMENDMENT OF THE COMPANY'S ARTICLES OF ASSOCIATION**

In accordance with Art. 54.2.1) of the Articles of Association, amendments to the Articles of Association require a resolution of the General Meeting, passed with a three-fourths majority of the votes present at the General Meeting, unless the Commercial Companies Code provides otherwise. In addition, the Company's Articles of Association provide that any amendment to the Articles of Association that increases the benefits receivable by shareholders or limits any rights granted personally to individual shareholders requires the consent of all the shareholders affected, whereas any resolution to change the Company's business takes effect without the buy-back referred to in Art. 416.4 of the Commercial Companies Code, if passed by a majority of two-thirds of the votes, provided that persons representing at least a half of the share capital are present at the General Meeting. Any amendment to the Articles of Association becomes effective upon its entry in the Business Register by the registry court having jurisdiction over the Company.

Otherwise, the terms and manner of amending the Articles of Association are governed by generally applicable laws, including the detailed provisions of the Commercial Companies Code.

**MANNER OF OPERATION OF THE GENERAL MEETING, ITS POWERS AND DESCRIPTION OF SHAREHOLDER RIGHTS, ALONG WITH THE PROCEDURE FOR THEIR EXERCISE, INCLUDING IN PARTICULAR RULES PROVIDED FOR IN THE GENERAL MEETING RULES OF PROCEDURE, IF ANY, UNLESS SUCH INFORMATION FOLLOWS DIRECTLY FROM THE PROVISIONS OF LAW**

The key regulations governing the convening, organization, powers and manner of conduct of the Company's General Meetings are contained in the Articles of Association and are largely based on the laws currently applicable to public companies, whereas detailed rules of organizational and procedural nature related to the holding of General Meetings are included in the Rules of Procedure for the General Meeting of KOPEX Spółka Akcyjna. The currently binding consolidated text of the General Meeting Rules of Procedure, including the amendments introduced by virtue of Resolution No. 7 of the Extraordinary General Meeting, dated February 20th 2014, is publicly available on the Company's website at www.kopex.com.pl, in the Investor Relations/Internal standard-setting documents tab.

In accordance with Art. 46 of the Articles of Association in effect on the date of issue of this Report, the Annual General Meeting is convened by the Management Board on its own initiative, or when requested by the Supervisory Board if the Annual General Meeting has not been held within the legally required deadline of six months after the end of the financial year. The Management Board has the duty to convene the Annual General Meeting within six months of the end of the financial year.

An Extraordinary General Meeting is convened by the Management Board or the Supervisory Board when deemed advisable. An Extraordinary General Meeting may also be convened by shareholders representing at least a half of the Company's share capital or at least a half of the total voting rights in the Company.
In accordance with the Articles of Association, also shareholders representing at least one-twentieth of the Company's share capital have the right to request the convening of an Extraordinary General Meeting; such a request may be submitted to the Management Board in writing or in electronic form.

General Meetings are convened by posting a relevant notice on the Company's website, at www.kopex.com.pl, in the General Meetings tab, and in the manner prescribed for publication of current reports, in accordance with the provisions of the Act on public offering, conditions governing the introduction of financial instruments to organised trading and public companies. A notice of General Meeting should be published at least twenty-six days prior to the date of the General Meeting.

A shareholder or shareholders representing at least one-twentieth of the share capital may request that certain matters be placed on the agenda of the forthcoming General Meeting. Any such request should be submitted to the Management Board no later than twenty-one days prior to the scheduled date of the Meeting and should contain a statement of reasons or a draft resolution concerning the proposed agenda item. The request may be submitted in electronic form. The Management Board is obliged to announce any changes made to the agenda at the request of shareholders without delay, and in any case not later than eighteen days prior to the date of the General Meeting. If the request referred to above is submitted later than twenty-one days before the scheduled date of the Meeting, it shall be regarded as a request to convene an Extraordinary General Meeting and place certain items on its agenda.

General Meetings may be held in Warsaw, in Zabrze or at the Company's registered office, and may, subject to Art. 404 of the Commercial Companies Code, pass resolutions only on matters placed on their detailed agenda as given in the notice of General Meeting. A decision to remove an item from the agenda or not to consider an item placed on the agenda at shareholders' request requires a General Meeting's resolution, which must be approved by all requesting shareholders present at the General Meeting and carried by at least 75% of the votes of shareholders present and entitled to vote at the General Meeting. Resolutions of the General Meeting are passed by a simple majority of the votes, except if they relate to matters where the applicable laws or the Articles of Association stipulate otherwise.

Pursuant to Art. $406^1$ of the Commercial Companies Code, only persons who were KOPEX shareholders 16 days prior to the date of the General Meeting, i.e. on the record date for participation in the General Meeting, have the right to participate in the Meeting.

To be entitled to participate in a General Meeting, holders of rights from bearer shares in book-entry form must request the entity maintaining their securities accounts to issue personal certificates confirming their right to participate in the General Meeting. Such requests may be submitted no earlier than after the announcement of the General Meeting and no later than on the first weekday following the record date.

The list of shareholders entitled to attend the General Meeting is drawn up by the Company on the basis of a list of shareholders registered for the General Meeting, made available to the Company no later than a week before the scheduled date of the General Meeting by the Central Securities Depository of Poland, and is displayed for inspection at the Company's registered office for the three weekdays prior to the General Meeting, as required under Art. 407.1 of the Commercial Companies Code.

A General Meeting is opened by the Chairperson or Deputy Chairperson of the Supervisory Board and then the Chairperson of the General Meeting is elected from among the persons entitled to participate in the Meeting. If the Chairperson and

Deputy Chairperson of the Supervisory Board are absent, the General Meeting is opened by the President of the Management Board or another person designated by the Management Board.

In their current wording, the Articles of Association do not provide for shareholders to:
a) participate in the General Meeting using means of electronic communication,
b) speak at the General Meeting using means of electronic communication,
c) vote by postal ballot or by using means of electronic communication.

Pursuant to Art. 50.3 of the Articles of Association, a General Meeting is valid if attended by shareholders (or a shareholder) representing at least 50% of the Company's share capital.

Draft resolutions and proposals are voted on in the order of their submission. Pursuant to Art. 54 of the Articles of Association, resolutions of the General Meeting are passed by a simple majority of the votes, except where the Commercial Companies Code or the Articles of Association provide otherwise.

Pursuant to Art. 50.1 of the Articles of Association, resolutions passed by the General Meeting are valid if the vote was attended by shareholders (or a shareholder) representing at least 50% of the Company's share capital.

A simple majority of votes is required in particular in voting on the following matters:
1) review and approval of the Directors' Report and financial statements for the previous financial year,
2) resolution on distribution of profit or coverage of loss,
3) granting discharge to members of the Company's governing bodies in respect of their performance of duties.

A three-fourths majority of votes is required for the General Meeting to pass resolutions concerning:
1) amendments to the Articles of Association, including issuance of new shares,
2) issue of bonds,
3) disposal of the Company's business,
4) Company's merger with another company,
5) dissolution of the Company.

Any resolution to change the Company's business takes effect without the buy-back referred to in Art. 416.4 of the Commercial Companies Code, if adopted by a majority of two-thirds of the votes, provided that persons representing at least a half of the share capital are present at the General Meeting.

Resolutions on any amendment to the Articles of Association that increases the benefits receivable by shareholders or limits any rights granted personally to individual shareholders require the consent of all the shareholders affected.

The Articles of Association also stipulate that the General Meeting may award to any person who holds or has held the position of a Supervisory Board or a Management Board member reimbursement of any expenses or coverage of any compensation that such person may be obligated to pay to any third party as a result of liability incurred in connection with performance of their duties, provided that the person acted in good faith and in a manner that the person reasonably (in the light of the circumstances then known) believed to have been in the best interest of the Company.

The Articles of Association modify the general rules provided for in the Commercial Companies Code to the extent that no General Meeting resolution is required for the Company to acquire or dispose of any property, interests in property or perpetual usufruct rights.

Any communication concerning the General Meeting and documents relating to the organisation of the General Meeting should be sent by electronic mail to wza@kopex.com.pl.

# 4. ADDITIONAL INFORMATION

## 4.1. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT

Following material deterioration of the KOPEX Group's financial condition and its failure to comply with bank covenants in Q4 2015, in early 2016 the Parent was forced to enter into negotiations with the financing banks to restructure its debt. While the negotiations continued, KOPEX S.A. was not able to use any credit facilities, so it resorted to taking remedial measures which consisted in actively managing its working capital and restructuring the business. In December 2016, after prolonged negotiations between the banks, the Parent and the Strategic Investor (TDJ S.A.), the parties executed the Restructuring Agreement.

At present, given the ongoing restructuring and the Group's continuing financial distress, KOPEX is unable to obtain multi-purpose credit and guarantee facilities, which is a significant obstacle to securing major contracts, in particular in foreign markets. The same applies to the other Group companies which are party to the Restructuring Agreement.

The Group's current priority is to act in compliance with the provisions of and obligations set out in the Restructuring Agreement. Successful performance of the Restructuring Agreement is expected to enable the Group to continue as a going concern.

Further implementation of the restructuring measures, including in particular:
- restructuring (divestment) of non-core non-current assets, with proceeds to be applied towards debt repayment,
- divestment of shares in non-strategic companies,
- cost and operational restructuring of the Company to reduce operating expenses and improve efficiency, and to adapt to market conditions,

are expected to enable the Company and the KOPEX Group to continue as a going concern.

## 4.2. BANK BORROWINGS

### THE PARENT AND THE KOPEX GROUP

PLN '000

| Borrowing | Type of debt | Amount as per agreement | Amount outstanding | Maturity date |
|---|---|---|---|---|
| KOPEX SA - Restructuring agreement - Tranche A | Tranche A - bonds | 185,000 | 185,222 | Mar 31 2022 |
| KOPEX SA - Restructuring agreement - Tranche A | Tranche A - assumption of debt | 10,238 | 10,238 | Mar 31 2022 |
| KOPEX SA - Restructuring agreement - Tranche B | Tranche B - credit facility | 250,000 | 250,000 | Dec 31 2021 |
| KOPEX SA - Restructuring agreement - Tranche C | Tranche C - credit facility | 184,574 | 128,978 | 31.12.2021 |
| Hansen and Genwest | Overdraft facility | 7,284 | 641 | Jun 25 2017 |
| **TOTAL** | | **637,096** | **575,079** | |

As at December 31st 2016, the Company's debt under bank borrowings was PLN 574,438 thousand.

On March 31st 2017, the Company repaid early its entire debt under Tranche C. Following the repayment, the Company received certificates from its financial creditors confirming release of the tranche security.

## 4.3. NON-BANK BORROWINGS AND LOANS

### THE PARENT

- **Borrowings**

As at the end of 2016, the outstanding amounts of borrowings contracted by KOPEX (net of interest) were as follows:
a. PLN-denominated borrowings: PLN 4,899 thousand,
b. EUR-denominated borrowings: EUR 450 thousand.

PLN '000

| No. | LENDER | DATE OF BORROWING | AMOUNT | AMOUNT OUTSTANDING AT DEC 31 2016 | MATURITY DATE |
|---|---|---|---|---|---|
| 1. | ELGÓR+HANSEN | Jun 10 2016 | 3,000 | 1,899 | Jan 31 2017 |
| 2. | ELGÓR+HANSEN | Sep 16 2016 | 3,000 | 3,000 | Jan 31 2017 |
| **TOTAL** | | | **6,000** | **4,899** | |

EUR '000

| No. | LENDER | DATE OF BORROWING | AMOUNT | AMOUNT OUTSTANDING AT DEC 31 2016 | MATURITY DATE |
|---|---|---|---|---|---|
| 1. | ELGÓR+HANSEN | Sep 16 2016 | 450 | 450 | Jan 31 2017 |
| **TOTAL** | | | **450** | **450** | |

The maturity dates of the borrowings received from Elgór+Hansen have been extended until June 30th 2017.

- **Loans**

As at the end of 2016, the outstanding amounts of loans granted by KOPEX (net of interest) were as follows:

a. PLN-denominated loans: PLN 130,458 thousand, including PLN 106,199 thousand impaired,
b. EUR-denominated loans: EUR 12,862 thousand, including EUR 12,693 thousand impaired,
c. USD-denominated loans: USD 2,619 thousand, including USD 2,129 thousand impaired,
d. AUD-denominated loans: AUD 9,810 thousand, including AUD 6,564 thousand impaired.

PLN '000

| No. | BORROWER | DATE OF LOAN | AMOUNT | AMOUNT OUTSTANDING AT DEC 31 2016 | IMPAIRMENT WRITE-DOWN | MATURITY DATE |
|---|---|---|---|---|---|---|
| 1. | KOPEX FOUNDRY | Dec 3 2012 | 4,300 | 4,300 | - | Dec 30 2017 |
| 2. | KOPEX FOUNDRY | Feb 16 2015 | 3,000 | 3,000 | - | Dec 31 2021 |
| 3. | BSKE | Mar 28 2013 | 1,973 | - | 1,973 | Dec 31 2019 |
| 4. | BSKE | May 25 2016 | 300 | - | 300 | May 31 2017 |
| 5. | KOPEX-EX COAL | May 23 2013 | 5,000 | - | 5,000 | Jun 30 2018 |
| 6. | KOPEX-EX COAL | Apr 18 2014 | 7,500 | - | 7,500 | Jun 30 2018 |
| 7. | KOPEX-EX COAL | Nov 12 2014 | 3,500 | - | 3,500 | Jun 30 2018 |
| 8. | KOPEX-EX COAL | Feb 12 2015 | 4,500 | - | 4,500 | Jun 30 2018 |
| 9. | KOPEX-EX COAL | Jun 15 2015 | 9,000 | - | 9,000 | Dec 31 2018 |
| 10. | KOPEX-EX COAL | Nov 5 2015 | 12,800 | - | 12,800 | Jun 30 2018 |
| 11. | KOPEX-EX COAL | Feb 18 2016 | 4,200 | - | 2.485 | Dec 31 2018 |
| 12. | KOPEX-FAMAGO | Jul 18 2013 | 13,000 | - | 13,000 | Dec 31 2016 |
| 13. | KOPEX-FAMAGO | Apr 29 2014 | 8,750 | - | 6,172 | Dec 31 2016 |
| 14. | KOPEX-FAMAGO | May 12 2014 | 13,000 | - | 11,555 | Dec 31 2016 |
| 15. | KOPEX-FAMAGO | Jul 15 2014 | 37,015 | 8,001 | 25,814 | Apr 1 2020 |
| 16. | KOPEX-FAMAGO | Feb 28 2013 | 1,500 | - | 1,500 | Dec 31 2016 |
| 17. | DALBIS | Sep 16 2016 | 600 | - | 600 | Jan 31 2017 |
| 18. | DALBIS | Oct 21 2016 | 500 | - | 500 | Jan 31 2017 |
| 19. | EMPLOYEE LOAN | Jun 30 2015 | 20 | 12 | - | Aug 10 2019 |
| **TOTAL** | | | **130,458** | **15,313** | **106,199** | |

EUR '000

| No. | BORROWER | DATE OF LOAN | AMOUNT | AMOUNT OUTSTANDING AT DEC 31 2016 | IMPAIRMENT WRITE-DOWN | MATURITY DATE |
|---|---|---|---|---|---|---|
| 1. | KOPEX MIN | Oct 31 2007 | 1,900 | - | 1,900 | Dec 31 2016 |
| 2. | KOPEX MIN | May 25 2009 | 1,100 | - | 1,100 | Dec 31 2016 |
| 3. | KOPEX MIN | Jul 15 2009 | 126 | - | 126 | Dec 31 2016 |
| 4. | KOPEX MIN | Jan 27 2010 | 60 | - | 60 | Dec 31 2016 |
| 5. | KOPEX MIN | Aug 17 2010 | 600 | - | 600 | Dec 31 2016 |
| 6. | KOPEX MIN | Aug 17 2010 | 300 | - | 300 | Dec 31 2016 |
| 7. | KOPEX MIN | Aug 17 2010 | 200 | - | 200 | Dec 31 2016 |
| 8. | KOPEX MIN | Nov 4 2011 | 5,500 | - | 5,500 | Dec 31 2016 |
| 9. | KOPEX MIN LIV A.D. | Apr 10 2008 | 500 | - | 500 | Dec 31 2016 |
| 10. | KOPEX MIN LIV A.D. | May 25 2009 | 35 | - | 35 | Dec 31 2016 |
| 11. | KOPEX MIN | Jul 15 2009 | 40 | - | 40 | Dec 31 2016 |
| 12. | KOPEX MIN | Aug 14 2013 | 1,100 | - | 1,100 | Dec 31 2016 |
| 13. | KOPEX MIN | Jan 21 2014 | 93 | - | 93 | Dec 31 2016 |
| 14. | KOPEX MIN LIV A.D. | Feb 10 2014 | 100 | - | 100 | Dec 31 2016 |
| 15. | KOPEX MIN | Dec 17 2014 | 200 | - | 200 | Jun 30 2017 |
| 16. | KOPEX MIN LIV A.D. | Dec 17 2014 | 183 | - | 183 | Dec 31 2016 |
| 17. | KOPEX MIN LIV A.D. | Jun 30 2015 | 500 | - | 500 | Instalments until Jun 30 2017 |
| 18. | SHANDONG TAGAO | Aug 23 2010 | 325 | - | 156 | 21 days after recovery of VAT by the borrower |
| **TOTAL** | | | **12,862** | - | **12,693** | |

USD '000

| No. | BORROWER | DATE OF LOAN | AMOUNT | AMOUNT OUTSTANDING AT DEC 31 2016 | IMPAIRMENT WRITE-DOWN | MATURITY DATE |
|---|---|---|---|---|---|---|
| 1. | KOPEX MINING CONTRACTORS INDONESIA | Mar 24 2011 | 2,000 | - | 2,000 | Dec 31 2016 |
| 2. | KOPEX MINING CONTRACTORS INDONESIA | Aug 17 2012 | 500 | - | 100 | Dec 31 2016 |
| 3. | KOPEX MINING CONTRACTORS INDONESIA | Jun 19 2015 | 50 | - | 50 | Dec 31 2016 |
| 4. | KOPEX MINING CONTRACTORS INDONESIA | Jan 8 2016 | 45 | - | 45 | Dec 31 2016 |
| 5. | KOPEX MINING CONTRACTORS INDONESIA | Jul 14 2016 | 24 | - | 24 | Dec 31 2016 |
| **TOTAL** | | | **2,619** | - | **2,219** | |

AUD '000

| No. | BORROWER | DATE OF LOAN | AMOUNT | AMOUNT OUTSTANDING AT DEC 31 2016 | IMPAIRMENT WRITE-DOWN | MATURITY DATE |
|---|---|---|---|---|---|---|
| 1. | WARATAH ENGINEERING | Apr 13 2015 | 1,800 | - | 1,600 | Dec 31 2016 |
| 2. | WARATAH ENGINEERING | Oct 26 2015 | 250 | - | 250 | Dec 31 2016 |
| 3. | WARATAH ENGINEERING | Dec 9 2015 | 2,000 | - | 933 | Dec 31 2016 |
| 4. | KOPEX AUSTRALIA LTD | Jun 30 2008 | 5,760 | - | 3,781 | Jan 31 2023 |
| **TOTAL** | | | **9,810** | - | **6,563** | |

The maturity dates of the loans granted by KOPEX to KOPEX Foundry was extended until April 30th 2017 under an annex to the loan agreements. The loans were then repaid on March 30th 2017.

The maturity dates of the loans granted by KOPEX to Dalbis have been extended until June 30th 2017.

## KOPEX GROUP

- **Loans**

PLN '000

| No. | BORROWER | DATE OF LOAN | AMOUNT | AMOUNT OUTSTANDING AT DEC 31 2016 | IMPAIRMENT WRITE-DOWN | MATURITY DATE |
|---|---|---|---|---|---|---|
| 1. | KOPEX-FAMAGO | Jul 18 2013 | 13,000 | - | 13,000 | Dec 31 2016 |
| 2. | KOPEX-FAMAGO | Apr 29 2014 | 8,750 | - | 6,172 | Dec 31 2016 |
| 3. | KOPEX-FAMAGO | May 12 2014 | 13,000 | - | 11,555 | Dec 31 2016 |
| 4. | KOPEX-FAMAGO | Jul 15 2014 | 37,015 | 8,001 | 25,814 | Apr 1 2020 |
| 5. | KOPEX-FAMAGO | Feb 28 2013 | 1,500 | - | 1,500 | Dec 31 2016 |
| 6. | KOPEX-FAMAGO | Jul 31 2012 | 11,000 | - | 11,000 | Dec 31 2016 |
| 7. | KOPEX-FAMAGO | May 22 2013 | 6,500 | - | 1,500 | Dec 31 2016 |
| 8. | KOPEX-FAMAGO | Jul 11 2012 | 1,800 | - | 1,800 | Dec 31 2016 |
| 9. | KOPEX-FAMAGO | Aug 20 2012 | 1,800 | - | 1,800 | Dec 31 2016 |
| **TOTAL** | | | **94,365** | **8,001** | **74,141** | |

## 4.4. CONTINGENT LIABILITIES – SURETIES – GUARANTEES

## THE PARENT

### CONTINGENT LIABILITIES

PLN '000

| CONTINGENT LIABILITIES | AS AT Dec 31 2016 | *INCREASE (+) DECREASE (-)* | AS AT Dec 31 2015 |
|---|---|---|---|
| **Total contingent liabilities, including:** | **61,687** | **-97,350** | **159,037** |
| *1. To subsidiaries* | - | -5,000 | 5,000 |
| *2. To other related entities* | - | -400 | 400 |
| *3. To other entities* | 61,687 | *-91,950* | *153,637* |

## CLAIMS AND DISPUTES

As at April 13th 2017, KOPEX S.A. of Katowice (formerly KOPEX S.A. and Tagor S.A.) was party to a legal dispute with FAMUR S.A. (formerly Fabryka Zmechanizowanych Obudów Ścianowych Fazos S.A. of Tarnowskie Góry and then Zakład Maszyn Górniczych GLINIK Sp. z o.o.), for payment of PLN 51,875,600.00. In the course of the proceedings, the amount claimed was reduced to PLN 33,705,361.31 (without waiving the claim). On June 29th 2016, the Regional Court in Katowice dismissed the claim in its entirety. The case was appealed against to the Court of Appeals in Katowice.

According to the law firm representing KOPEX, the probability of the claimant prevailing in court was lower than that of the claimant losing the case as there were no contractual grounds for the claims and no proximate cause. In view of the foregoing and in accordance with IAS 37, KOPEX concluded that it did not have any present obligation arising from past events and thus did not recognise any provision.

## SURETIES ISSUED

PLN '000

| No. | SURETY DATE | FOR | BENEFICIARY | AMOUNT | OUTSTANDING AMOUNT | PURPOSE | EXPIRY DATE |
|---|---|---|---|---|---|---|---|
| 1. | Mar 1 2011 | FAMAGO | mLEASING | 3,715 | 34 | Surety for lease agreement | Jul 15 2017 |
| 2. | Ape 21 2011 | FAMAGO | mLEASING | 1,589 | 244 | Surety for lease agreement | Jul 16 2017 |
| 3. | Jul 23 2012 | FAMAGO | mLEASING | 836 | 129 | Aval for lease agreement | Aug 30 2017 |
| 4. | Jan 28 2015 | FAMAGO | Air Products Sp. z o.o. | 125 | 125 | Security for delivery contract | May 1 2018 |
| 5. | Jul 20 2015 | FAMAGO | Multimet Sp. z o.o. | 100 | - | Security for cooperation agreement | Jun 30 2017 |
| TOTAL | | | | 6,365 | 532 | | |

PLN EUR

| No. | SURETY DATE | FOR | BENEFICIARY | AMOUNT | OUTSTANDING AMOUNT | PURPOSE | EXPIRY DATE |
|---|---|---|---|---|---|---|---|
| 1. | Dec 30 2015 | SkyTech Research | Bank Spółdzielczy w Knurowie | 144 | 144 | Surety for potential liabilities | Jul 31 2021 |
| 2. | Jan 19 2016 | FAMAGO | Siemens Sp. z o.o. | 363 | 5 | Surety for potential liabilities | Nov 30 2017 |
| TOTAL | | | | 507 | 149 | | |

As at the date of this Report, the sureties issued by the Parent to mLeasing and Air Products expired following satisfaction of the respective claims. The surety issued to Siemens was released by the beneficiary.

## SURETIES RECEIVED

In 2016, following execution of the Restructuring Agreement, KOPEX received sureties issued by the TDJ Group companies as part of security instruments provided to the financing banks. The surety issued by FAMUR S.A., as announced by the Company on December 2nd 2016 (current report No. 104/2016), expired following repayment of Tranche C.

## GUARANTEES PROVIDED

As at December 31st 2016, the amount of bid bonds and contract guarantees issued by KOPEX S.A. was PLN 51,791 thousand.

## KOPEX GROUP

### CONTINGENT LIABILITIES

PLN '000

| CONTINGENT LIABILITIES | AS AT Dec 31 2016 | *INCREASE (+) DECREASE (-)* | AS AT Dec 31 2015 |
|---|---|---|---|
| **Total contingent liabilities, including:** | **78,913** | **-47,930** | **126,843** |
| *1. To subsidiaries* | - | - | - |
| *2. To other related entities* | - | - | - |
| *3. To other entities* | *78,913* | *-47,930* | *126,843* |

### 4.5. TOTAL REMUNERATION AND BONUSES PAID OR PAYABLE TO MEMBERS OF THE PARENT'S MANAGEMENT AND SUPERVISORY BODIES. REMUNERATION AND BONUSES RECEIVED FOR THE PERFORMANCE OF FUNCTIONS IN THE GOVERNING BODIES OF SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES IN 2016 (NET)

For information on the remuneration paid or payable to the Company's supervisory and management personnel, and on non-compete agreements, see Note 18 to the Financial Statements of KOPEX, and Note 16 to the Consolidated Financial Statements of the KOPEX Group.

### 4.6. FEASIBILITY OF PLANNED INVESTMENTS, INCLUDING EQUITY INVESTMENTS, IN VIEW OF AVAILABLE FUNDING. POSSIBLE CHANGES IN THE FINANCING OF THE INVESTMENTS IN 2017

In 2017, the Parent's and the KOPEX Group's investments will include primarily replacement capex (especially longwall shearers and other property, plant and equipment for lease) and other investments if and when such investments become necessary to ensure the proper operation of production processes. The Group's ability to finance its investment is limited by the Restructuring Agreement. The planned investment projects will be financed mainly with the Group companies' own funds.

### 4.7. MATERIAL RISK FACTORS AND THREATS. EXTERNAL AND INTERNAL FACTORS RELEVANT TO THE GROUP'S DEVELOPMENT. ASSESSMENT OF NON-RECURRING FACTORS WITH A BEARING ON THE RESULTS OF OPERATIONS IN 2016

The key source of material risks and threats to the KOPEX Group's business is the Company's and its subsidiaries' continuing financial distress, resulting in their inability to obtain multi-purpose credit and guarantee facilities, which is a major obstacle to securing large contracts, in particular in foreign markets. Additionally, the difficult situation in the coal mining industry continued in 2016, which was one of the factors that adversely affected the amount of capital expenditure by coal producers and their liquidity position. As part of the ongoing restructuring of Kompania Węglowa S.A. (KW S.A.), some of the unprofitable mines were transferred to Spółka Restrukturyzacji Kopalń S.A., while more profitable facilities were taken over in May 2016 by Polska Grupa Górnicza Sp. z o.o. (PGG) – as a successor of KW S.A. The restructuring process was also carried out at Jastrzębska Spółka Węglowa S.A., which in 2016 implemented a number of remedial measures. The Parent's Management Board also points out to the risks associated with the current geopolitical and economic situation in Russia, other CIS countries, and Argentina. External factors affecting the Group's business include the shortage of qualified workforce for typical industrial occupations, the European Union's climate policy, and large and unpredictable exchange rate fluctuations.

Internal factors of key importance to the Group's future operations included the signing of the Restructuring Agreement with the financial creditors and TDJ EQUITY IV S.A. on December 1st 2016, undertaking a range of restructuring measures, and start of cooperation with the strategic investor, TDJ S.A., which enjoys an established position in the industrial sector. By continuing the decisive measures, mainly in the area of cost and operational restructuring, the Group should be able to optimise its operating expenses, improve operational efficiency, and adapt to the market situation, which in turn will allow the Group to maintain its competencies, including its valuable experience in the execution of large projects globally.

For information on financial risk management, see Note 9 to the Financial Statements of KOPEX, and Note 9 to the Consolidated Financial Statements of the KOPEX Group.

## 4.8. THE PARENT'S AND THE GROUP'S GROWTH PROSPECTS

The Company is continuing efforts to restructure operations, assets and finances of the KOPEX Group. The main objective of the process is to perform the Restructuring Agreement, which is of key importance to the Group's future activities. The restructuring measures include in particular divestment of the Group's non-core assets; sale or liquidation of certain subsidiaries and associates with respect to which business risks or strategic decisions do not justify their continued operation within the Group; and workforce optimisation. All those initiatives are aimed at optimising the Group's operating expenses, ensuring focus on core business, consolidating business areas, and generating positive cash flows.

The Parent believes that the following factors may also affect its performance in and beyond the next reporting period:

- Stabilisation of the liquidity position following the execution of the Restructuring Agreement with the banks. Following repayment of the Tranche C debt, the Company received certificates from its financial creditors confirming release of the tranche security, which is expected to improve efficiency of the restructuring process.
- Implementation of the Restructuring Agreement.
- Scaling down of operations on markets with insufficient business potential (i.e. the Australian and Serbian markets), foundry operations, and manufacturing for the construction market, and phasing out production of roadheaders.
- Factors related to the European Union's climate policy designed to counteract climate change. Consequences of the measures applied by the European Union may include an increase in the share of renewable energy sources in national energy mixes, energy efficiency improvements, and a further decline in consumption of energy and energy carriers. 2017 may be a period of continuing negative sentiment towards coal-based power generation both in Poland and Europe, given the EU's decarbonisation policy and the pressures to reduce coal's share in the energy mix in EU countries.
- Despite the long-term prospects for a gradual increase in demand for coal on global markets, the tightened EU policy is not conducive to the development of coal-based power generation in Europe and thus to any increase in demand for steam coal.
- Restructuring of the Polish mining sector remains a material issue. The final structure and financial capabilities of Polska Grupa Górnicza and the other Polish coal producers will determine the size of the KOPEX Group's offering for the Polish mining sector. The Group is looking for alternative markets abroad and is diversifying its product portfolio.
- Risks related to the ongoing financial restructuring of the mining sector. Polish mining companies are scaling down their expenditure on production assets and investment goods, and extend payment terms proposed in tender procedures to 120 or even 150 days.
- Despite the year-on-year increase in global prices of coal seen at the end of 2016, the situation in the mining industry continues to be unstable, with producers trying to adjust coal supply to the demand, which may result in further unpredictable price fluctuations. The KOPEX Group is restructuring in order to adapt its production capacities to market needs and to be able to more flexibly react to the changing market conditions.
- Risks related to the economic situation in Argentina, the third largest economy in Latin America. As the KOPEX Group is involved in a number of mining projects in Argentina, it is monitoring this market on an ongoing basis. In the first half of 2017, the Company will dispatch further equipment deliveries under a contract for the supply of longwall and roadheading systems to that country.

## 4.9. PRIMARY PRODUCTS, GOODS AND SERVICES

The structure of the Company's revenue by product is presented in section 2.1. of this Report and in Note 14 to the Financial Statements of KOPEX.

The structure of the Group's revenue by product is presented in section 2.1.A of this Report and in Note 14 to the Consolidated Financial Statements of KOPEX.

## 4.10. MARKETS AND SUPPLIERS

The main markets of the Parent:

- Poland – machinery and equipment for underground mining, industrial machinery and equipment, and other products;
- Russia and the CIS – machinery and equipment for underground mining and other products;
- European Union – services for the mining industry, machinery and equipment for underground mining, industrial machinery and equipment, sale of coal and other products;
- Other markets – machinery and equipment for underground mining and other products.

In 2016, the quantitative criterion for recognising a customer as a major account was satisfied by three customers. The Company derived revenue of PLN 127,623 thousand from sales to JSW S.A. in the Mining segment. There are no capital links between JSW S.A. and KOPEX. The Company derived revenue of PLN 55,874 thousand from sales to OKD A.S. in the Mining segment. There are no capital links between OKD A.S. and KOPEX. The Company derived revenue of PLN 54,633 thousand from sales to PGG S.A. in the Mining segment. There are no capital links between PGG S.A. and KOPEX.

The Company derived revenue of PLN 56,709 thousand from sales to E003B7 Sp. z o.o. in the industrial machinery and equipment segment. There are no capital links between E003B7 Sp. z o.o. and KOPEX. On February 14th 2017 an annex came into force to the contract between KOPEX and E003B7 Sp. z o.o. for execution of an investment project for Tauron Wytwarzanie S.A.. Under the annex, KOPEX was replaced by Stal-Systems S.A. as the leader of the consortium responsible for project execution. Stal-Systems S.A. also took over the entire scope of work remaining to be performed by KOPEX under the consortium agreement as at the effective date of the annex. Under separate agreements, KOPEX's subcontractors will become Stal-Systems S.A.'s subcontractors. The annex also amended the original agreement between the parties accordingly with respect to such matters as continued performance of the contract, and the manner of settling existing and future payables and receivables under the contract.

In 2016, the Parent's largest suppliers in the mining, industrial machinery and equipment, and coal segments were companies operating on the Polish market.

The share of one of the suppliers exceeded 10% of KOPEX's total revenue in 2016. The supplier operates in the mining segment and its share in the Parent's revenue was 21.4%. There are capital links between the supplier and KOPEX.

The main markets of the Group:

- Poland – services for the mining industry, machinery and equipment for underground mining, electrical and electronic machinery and equipment, industrial machinery and equipment, and other products;
- Russia and the CIS – machinery and equipment for underground mining, electrical and electronic machinery and equipment;
- European Union – services for the mining industry, machinery and equipment for underground mining, electrical and electronic machinery and equipment, industrial machinery and equipment, sale of coal and other products;
- Other markets – machinery and equipment for underground mining and electrical and electronic machinery and equipment.

In 2016, the quantitative criterion for recognising a customer as a major account was satisfied by three customers. The Group derived revenue of PLN 159,500 thousand from sales to JSW S.A. (the Mining segment). There are no formal links between KOPEX and the customer. The Group derived revenue of PLN 101,153 thousand from sales to PGG S.A. (the Mining segment). There are no formal links between KOPEX and the customer. The Group derived revenue of PLN 81,451 thousand from sales to KGHM POLSKA MIEDŹ S.A., (the Mining segment). There are no formal links between KOPEX and the customer.

In 2016, the Group's largest customers were companies operating in the mining, industrial machinery and equipment, and coal and other products segments.

**The Group's key suppliers in 2016**

The Group has a well-developed supply network, involving mainly Polish suppliers. In 2016, the Group's largest suppliers in the mining, industrial machinery and equipment, and coal and other products segments were companies operating on the Polish market.

The share of one of the suppliers exceeded 10% of the Group's total revenue in 2016. The supplier operates in the mining segment and its share in the Group's revenue amounted to 13.6%. There are capital links between the supplier and KOPEX.

### 4.11. MATERIAL AGREEMENTS AND EVENTS RELEVANT TO THE PARENT'S AND THE GROUP'S BUSINESS

In the reporting period, the Parent and its subsidiaries operated in line with their respective articles of association.

Below are presented the Parent's significant achievements and failures in the period from January 1st 2016 to the date of issue of this Report:

- On February 26th 2016, the Company received letters from two of its financing banks notifying the Company that it was in breach of covenants provided for in the financing agreements, and was advised of the consequences of such events of default: 1) Letter from ING Bank Śląski S.A. dated February 25th 2016, containing a notice of default under a credit facility agreement, consisting in the failure to maintain the IBD/EBITDA ratio at the agreed level. As a result, ING Bank Śląski S.A. refused: to disburse funds from all contracted products under the available credit line, to process submitted but not yet disbursed orders, and to process new orders; and reduced, with immediate effect, the available credit limit; 2) Letter from PKO BP S.A. dated February 26th 2016, containing a notice of default under a credit facility agreement, consisting in the failure to maintain the Net Debt/EBITDA ratio at the agreed level. As a result, Powszechna Kasa Oszczędności Bank Polski S.A. reduced the available credit limit to the amount already drawn under the agreement, and temporarily suspended the Company's right to use the limits provided under the agreement. The bank declared it would temporarily refrain from taking further steps aimed at reducing the amount and availability of the limit. The bank also conditionally declared it would not proceed to terminate the agreement and commence debt collection. The notifications were served on the Company following release on February 25th 2016 of the Q4 2015 financial report in which the Company disclosed results of its operations in the four quarters of 2015. Limited access to the credit facilities adversely affected the Parent's and its subsidiaries' ability to pay their current liabilities in a timely manner.

- On February 29th 2016, the Company received letters from another three of its financing banks notifying the Company that it was in breach of covenants provided for in the financing agreements, and was advised of the consequences of such events of default: 1) Letter from Polska Kasa Opieki S.A., dated February 29th 2016, containing a notice of reduction, as of February 25th 2016, of the available credit limit to the amount already drawn under the agreement. As grounds for its decision, Polska Kasa Opieki S.A. cited deterioration, in the bank's opinion, of the Parent's and the Group's creditworthiness following release of quarterly financial reports presenting results of the Parent's and the KOPEX Group's operations in 2015; 2) Letter from Bank Zachodni WBK S.A. dated February 29th 2016, containing a notice of default under a bank guarantee agreement, consisting in the failure to maintain the Net Debt/EBITDA ratio at the agreed level. As a result, Bank Zachodni WBK S.A. reduced the Company's limit under unused guarantees to EUR 0, effective as of February 29th 2016. As at February 29th, the Company did not use any of the guarantee limit provided by Bank Zachodni WBK S.A.; 3) Letter from Raiffeisen Bank Polska S.A. dated February 29th 2016, containing a notice of default under a receivables limit agreement, consisting in the failure to maintain the Net Senior Debt/EBITDA ratio at the agreed level. As a result, as of February 29th 2016 the bank increased its margin on the amount of provided guarantees, and suspended the availability of funds under the limits. Similarly to the steps taken by Powszechna Kasa Oszczędności Bank Polski S.A. and ING Bank Śląski S.A., reported by the Parent in its current report No. 13/2016 of February 26th 2016, the decision of Polska Kasa Opieki S.A. to reduce the available credit limit as of February 25th 2016 adversely affected the Company's and its subsidiaries' ability to repay current liabilities in a timely manner but did not prevent the Company and the Group from continuing as a going concern.

- On March 1st 2016, the Company took note of letters sent to the Company, on February 29th 2016, by BGŻ BNP Paribas S.A., one of its financing banks, containing a notice of defaults consisting in: the failure to maintain the Net Financial Debt/EBITDA ratio as at December 31st 2015 at the agreed level; and the occurrence of other events which, in the bank's reasonable opinion, may adversely affect the Company's assets, financial condition or legal situation to the extent threatening the Company's ability to perform under any of the agreements executed with the bank; these other events being the events of default under the financing agreements with Powszechna Kasa Oszczędności Bank Polski S.A. and ING Bank Śląski S.A. and their consequences, i.e. the banks' decisions to reduce the available credit limits to the amounts drawn as at February 29th 2016, and the banks' refusal to provide new guarantees or issue new LoCs at the Company's request. BGŻ BNP Paribas S.A. also declared its willingness to clarify the Company's situation and its effect on the agreements in a direct meeting. 2) On March 1st 2016, the Company received, by email, a scanned letter, dated February 29th 2016, from HSBC Bank Polska S.A., one of the financing banks, containing a notice of defaults consisting in: failure to maintain the Net Debt/EBITDA ratio and the Liquidity Ratio at the agreed levels; events of default under agreements between the Company and other banks and financial institutions, which may constitute circumstances under which the debt of the Company and its subsidiaries becomes due and payable before the original maturity; events which, in the bank's opinion, cause the Company's economic and financial condition to deteriorate and have a material adverse effect on the Company's creditworthiness, i.e. the actions by ING Bank Śląski S.A. and PKO BP S.A. reported by the Company in its current report No. 13/2016 dated February 26th 2016, and the effects of such events, i.e. the banks' refusal to provide to the Company and its subsidiaries the full amount of credit financing originally agreed with the banks. Until the date of receipt of the letter from HSBC Bank Polska S.A., the Company and its subsidiaries had utilised a portion of the contracted credit limit. Similarly to the steps taken by Powszechna Kasa Oszczędności Bank Polski S.A. and ING Bank Śląski S.A., reported by the Company in its current report No. 13/2016 of February 26th 2016, and actions by Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and Raiffeisen Bank Polska S.A., reported by the Company in its current report No. 14/2016 of February 29th 2016, BGŻ BNP Paribas S.A.'s decision to reduce the available credit line limit as of February 29th 2016 and HSBC Bank Polska S.A.'s refusal to disburse funds adversely affecte the Company's and its subsidiaries' ability to pay their current liabilities in a timely manner but will not prevent the Company and the Group from continuing as a going concern. The Company initiated discussions with the banks on the terms of further cooperation.
- On March 11th 2016, the Company, as a party to the credit facility agreement with Powszechna Kasa Oszczędności Bank Polski S.A. (the Company reported on the execution of the agreement and on subsequent annexes to the agreement in its current reports No. 60/2014 of August 4th 2014, 27/2015 of August 3rd 2015 and 29/2015 of September 25th 2015), was served a letter from the bank dated March 9th 2016, advising that the bank, as of the date of the letter, reduced the credit limit provided to the Company and its subsidiaries to the amount drawn as at February

25th 2016, i.e. to PLN 389,957,970.80, and caused to expire the unused amount of the limit of PLN 155,042,029.20. As a reason for its decision, the bank cited the actions taken by other financing banks to have their claims satisfied, i.e. the banks' decisions to reduce the credit and guarantee limits provided to the Company. In its letter the bank assured the Company that it continued to be interested in finding a solution to the Company's credit situation that would prevent termination of the facility and compulsory recovery of the bank's receivables under the agreement. The Parent continued to hold discussions with the financing banks on the terms of further cooperation, and in the Parent's opinion the discussions were at a very advanced stage at the time. The letter from PKO BP S.A. dated March 9th 2016 was not in contradiction with those negotiations.

- On March 17th 2016, the Company was notified by Mr Krzysztof Jędrzejewski, a majority shareholder of KOPEX S.A., of his signing, on March 17th 2016, of a conditional agreement with a special-purpose company, a subsidiary of TDJ S.A., which provides for the latter to acquire Mr Jędrzejewski's majority interest in KOPEX S.A. According to the information provided to the KOPEX Management Board, the performance of the agreement is subject to a number of conditions precedent, including: completion of debt restructuring at the KOPEX Group; satisfactory findings of due diligence of the KOPEX Group companies; obtaining a concentration clearance from the relevant anti-trust authorities.
- On March 23rd 2016, the Company was notified of the execution, by KOPEX - Przedsiębiorstwo Budowy Szybów S.A. in Bytom (a subsidiary), of another annex, dated March 11th 2016, to a material agreement of July 30th 2009 between KOPEX - Przedsiębiorstwo Budowy Szybów S.A. as the contractor and Jastrzębska Spółka Węglowa S.A. as the employer, for fabrication a shaft lining and double-sided entry for shaft 1 BZIE at the Borynia-Zofiówka-Jastrzębie Ruch Zofiówka mine owned by Jastrzębska Spółka Węglowa S.A.. The annex extends the scope of deliveries and changes to unit prices. In effect, the total amount of the agreement was increased to PLN 264,870,760.70. For details on the agreement, see the Company's current report No. 12/2015 of April 2nd 2015.
- On May 4th 2016, the Company acknowledged that since July 29th 2015 Company and its subsidiaries had executed with Kompania Węglowa S.A. of Katowice a number of contracts and agreements for an aggregate amount exceeding 10% of the Company's equity (as at the date of issue of the most recent annual report for 2015, published on April 29th 2016). The total amount of the contracts and agreements executed with Kompania Węglowa S.A. in the period from July 29th 2015 to May 4th 2016 and acknowledged by the Company was PLN 89,386,356.95, VAT exclusive. The highest-value agreement executed in the period is the framework agreement for sale of coal of February 3rd 2014, updated by Annex No. 23, dated February 22nd 2016 and received on February 29th 2016, with Kompania Węglowa S.A. as the Seller and KOPEX as the Buyer. The object of the annex is the sale of steam coal dust to the Austrian market. The current total amount of the framework agreement, net of VAT, including the executed annexes, is PLN 116,365,835.60, of which Annex No. 23 accounts for PLN 14,118,027.00. Coal prices applied in contracts under the framework agreement are each time negotiated between the parties and are documented in annexes, with the delivery terms being FCA railway car at the supplying mine's dispatching railway station (Incoterms 2010). The payment term was 30 days after the invoice date. Under Annex No. 23, the agreement expires on December 31st 2016. The parties may be subject to payment of liquidated damages for failure to supply or collect the coal volumes specified in annexes (with a tolerance of 10%), such damages being equal to 5% of the value, net of VAT, of the amount of coal that was not supplied or collected. Liquidated damages are payable within 21 days of the date of notice to pay served on the relevant party. The parties may however waive liquidated damages upon signing of a written memorandum to that effect. Other material terms of the agreement do not deviate from terms commonly applied in similar agreements.
- On May 12th 2016, the Company acknowledged that since November 6th 2015 the Company and its subsidiaries had executed with Jastrzębska Spółka Węglowa S.A. of Jastrzębie Zdrój a number of contracts and agreements whose aggregate amount exceeded 10% of the Company's equity (as at the date of issue of the most recent annual report for 2015, published on April 29th 2016). The total amount of the contracts and agreements executed with Jastrzębska Spółka Węglowa S.A. in the period from July November 6th 2015 to May 12th 2016 and acknowledged by the Company was PLN 93,515,173.78, VAT exclusive. The highest-value agreement among those executed in the period is the agreement dated January 18th 2016 and received on January 27th 2016, whose parties are Jastrzębska Spółka Węglowa S.A. as the employer and a consortium of companies comprising KOPEX MACHINERY S.A. (consortium leader, the Company's subsidary) and FAMUR S.A. (consortium member) as the contractor. The object of the agreement is the supply of 167 brand-new FRS-18/46-2x3056 powered roof support systems with a working height range from 2.0 to 4.5 metres together with a high-pressure power pack, and assembly and transport equipment; a brand-new RYBNIK 850 armoured face conveyor; and a brand-new GROT 850 beam stage loader with crusher and a mobile boot end, to the Knurów-Szczygłowice Ruch Szczygłowice mine owned by Jastrzębska Spółka Węglowa S.A.. The delivery period is 15 weeks from the contract date for powered roof support systems with the high-pressure power pack and assembly and transport equipment, and 6 weeks from the contract date for the armoured face conveyor, beam stage loader with crusher and the mobile boot. The contract price is PLN 60,290,071.55, net of VAT. The contractor may be subject to liquidated damages equal to 0.1% of the VAT-inclusive contract price for each day of delay in the contract performance or for exceeding the agreed deadline for remedying a failure, and for each hour of delay in starting to remedy a failure or a defect under the warranty. If the employer terminates the contract due to the contractor's fault, the contractor will pay to the employer liquidated damages equal to 10% of the VAT-inclusive

contract price. In addition to the right to claim liquidated damages, the parties may seek compensation on general terms, in accordance with the Polish Civil Code.

- On June 29th 2016, the Regional Court for Katowice, having examined case No. XIII GC 393/09/IW filed by FAMUR S.A. of Katowice (formerly Fabryka Zmechanizowanych Obudów Ścianowych FAZOS S.A. of Tarnowskie Góry) against the Company and against Fabryka Maszyn i Urządzeń TAGOR S.A. of Tarnowskie Góry, for payment of PLN 33,705,361.31 (originally, prior to partial withdrawal of the petitioner's claim, the amount of the claim was PLN 51,875,600.00) as compensation for disadvantageous settlement of forward currency transactions, passed a judgement ordering that:
  - the claim filed against the Company for the amount of PLN 33,705,361.31 be dismissed,
  - the proceedings regarding PLN 18,170,238.69 be discontinued,
  - PLN 7,217 be awarded in favour of the Company as reimbursement of costs of legal representation,
  - PLN 7,217 be awarded in favour of Fabryka Maszyn i Urządzeń TAGOR S.A. as reimbursement of costs of legal representation,
  - PLN 7,377.60 be awarded in favour of the Company as reimbursement of expenses towards the court expert's opinion,
  - the claimant pay to the Treasury - the Regional Court for Katowice - PLN 21,961.78 as reimbursement of expenses of the Court attributable to the claimant which were not covered in the course of the proceedings.

  The opposing party is entitled to lodge an appeal with the Court of Appeal of Katowice within 14 days of receipt of a copy of the judgement with a written statement of reasons. The Company reported on the litigation in its current reports Nos. 1/2010 of January 4th 2010, 4/2010 of January 8th 2010, 5/2010 of January 12th 2010, 1/2013 of January 10th 2013, 3/2013 of January 15th 2013, 51/2013 of June 24th 2013, 54/2013 of June 25th 2013, and most recently in report No. 11/2015 of April 2nd 2015.
- On July 27th 2016, an annex was signed to the contract reported by the Company in its current report No. 30/2015 of November 12th 2015. The parties to the contract are: a consortium comprising KOPEX (consortium leader) and Stal-Systems S.A. of Wólka Pełkińska (consortium partner) acting jointly as the contractor; and E003B7 Sp. z o.o. of Racibórz (subsidiary of RAFAKO S.A.) acting as the employer. The object of the contract is the supply and installation of steel structure of the building housing the turbine hall, the boiler room, the coal bunkering facility, LUVOs, SCR, installation of coal bunkers, elevation and placement of steam soot blowers for a 910 MWe power generation unit developed for Tauron Wytwarzanie S.A.'s Power Plant II in Jaworzno. The contract took effect on January 13th 2016, which was reported by the Company in its current report No. 7/2016. Under the annex, the parties agreed that, in connection with the employer's documentation transmitted to the contractor and resulting in the increase the steel structures' weight, the estimated total contract price (VAT exclusive) was increased from PLN 180m to PLN 210m. KOPEX's share in that amount is PLN 106m (VAT exclusive). The annex took effect following the employer's obtaining of all required consents.
- On August 5th 2016, KOPEX Machinery S.A., a subsidiary, signed an annex to the contract reported by the Company in its current report No. 64/2014 of October 10th 2014. Parties to the contract are KGHM Polska Miedź S.A. (employer) and KOPEX Machinery S.A. (contractor), and its object is the development of a prototype cutting system as part of the project 'Determination of technical, process and economic capacity for mechanical cutting of copper ores using a mechanised unit and participation in operating tests of the designed and fabricated prototype unit'. The Company reported the launch of works under the contract in its current report No. 1/2015 of January 2nd 2015. The contract is to be performed in three stages, with 20 months having been allocated to the current stage. In the annex, the parties agreed that proceeding to subsequent stages requires a relevant decision by the employer and the contractor. The decision to proceed to stage 2 of the project will be taken by September 30th 2017. Each subsequent stage starts on the date when the parties make the decision to proceed to that stage. It was further agreed that if any of the parties cancels a subsequent stage of the contract, no liquidated damages will be due or payable for such cancellation.
- On September 13th 2016, the Company was notified of receipt, by the law firm representing the Company, of a copy of the appeal lodged by FAMUR S.A. against judgement of the Regional Court for Katowice of June 29th 2016, issued in the case examined under case file No. XIII GC 393/09/IW. The Court dismissed the claim by FAMUR S.A. against the Company and Fabryka Maszyn i Urządzeń TAGOR S.A. in Tarnowskie Góry for payment of PLN 33,705,361.31, as reported by the Company in its current report No. 47/2016 of June 29th 2016. In its appeal, FAMUR S.A. contested that dismissal of the claim for payment and the award of the costs of proceedings.
- On October 5th 2016, the Company was notified of execution of a contract between Nowe Brzeszcze Grupa TAURON Sp. z o.o. and a consortium comprising FAMUR S.A. (consortium leader) and KOPEX Machinery S.A. (consortium member, a subsidiary of the Company). The contract provides for the supply of a brand-new high-efficiency longwall system with accompanying equipment to Nowe Brzeszcze Grupa Tauron Sp. z o.o. Delivery deadline: 120 days from the contract date, not later than December 30th 2016. Contract price: PLN 72.4m, VAT exclusive. Due to the complexity of the KOPEX Group's situation, including the ongoing restructuring process and the limited financing options available to the Company, the consortium members agreed that the value of the works contracted to KOPEX

Machinery S.A. would be PLN 5m, VAT exclusive, and the works would be carried out using materials provided to the contractor. The consortium members bear joint and several liability for due and timely performance of the contract. The contract contains standard provisions on liquidated damages (e.g. for delay in performance, removal of defects, or breach of confidentiality obligations). The parties to the contract are obliged to pay liquidated damages of 10% of the VAT-exclusive contract price if the contract is terminated for reasons attributable to the other party, or if the contract is terminated without a valid reason. If the liquidated damages fail to fully cover the loss suffered by the employer, the employer is entitled to claim additional compensation up to the full VAT-exclusive contract price.

- On October 14th 2016, the KOPEX Management Board passed a resolution to approve and sign the Merger Plan providing for the merger of KOPEX S.A. with the following companies which, as at the date of issue of the Report, are wholly-owned direct subsidiaries of the Company (acquirees): 1) KOPEX Machinery S.A. of Zabrze, 2) Zabrzańskie Zakłady Mechaniczne - Maszyny Górnicze Sp. z o.o. of Zabrze 3) Fabryka Maszyn i Urządzeń TAGOR S.A. of Tarnowskie Góry, 4) KOPEX Hydraulika Siłowa Sp. z o.o. of Zabrze. KOPEX Machinery S.A., Zabrzańskie Zakłady Mechaniczne – Maszyny Górnicze Sp. z o.o. and Fabryka Maszyn i Urządzeń TAGOR S.A. are key companies of the Group. In 2015, they accounted for nearly 20% of the Group's revenue (ranking 5th, 6th and 7th in the Group in terms of revenue). KOPEX Hydraulika Siłowa Sp. z o.o. was established as a result of merger of DOZUT-TAGOR Sp. z o.o. (accounting for 1.99% of the KOPEX Group's revenue in 2015) and HS Lubań Sp. z o.o. (1.52% of the KOPEX Group's revenue in 2015) and change of the company's name into KOPEX Hydraulika Siłowa Sp. z o.o., registered by the registry court on December 31st 2015. The resolution to approve and sign the Merger Plan indicated that the planned method of combining the Company with the acquirees was the transfer of all acquirees' assets to the acquirer in a simplified procedure, under Art. 516.6 of the Commercial Companies Code, without increasing the acquirer's share capital pursuant to Art. 515.1 of the Commercial Companies Code. The basis of the merger will be: a merger resolution of the General Meeting of the Company and merger resolutions of general meetings of the acquirees, whose drafts are presented in appendices to the Merger Plan. The banks which provide financing to the KOPEX Group, i.e. Bank BGŻ BNP Paribas S.A., Bank Polska Kasa Opieki S.A., Deutsche Bank Polska S.A., HSBC Bank Polska S.A., ING Bank Śląski S.A., Powszechna Kasa Oszczędności Bank Polski S.A., and Raiffeisen Bank Polska S.A., and which are parties to memoranda of understanding signed with KOPEX and selected companies of the KOPEX Group, as reported by the Company in its current reports No. 77/2016 and 79/2016, have consented to the business combination. Completion of the process is contingent upon conclusion of a restructuring agreement with the banks, or on their grant of a separate consent. Pursuant to Art. 14.5 of the Act on competition and consumer protection of February 16th 2007, the merger, being a concentration of businesses from the same group, is not required to be notified to the President of the Polish Office of Competition and Consumer Protection (UOKiK). The planned merger delivers on the commitment to continue efforts to significantly reduce the number of entities in the KOPEX Group, including by combination of the selected Group companies, as reported by the Company in its reports on the Group's operations in 2015, and in H1 2016, and is related to the ongoing financial debt restructuring for the Group. The planned merger will properly structure the complex financial debt of the combined companies and prepare them for debt restructuring being planned under the restructuring agreement with the banks, currently in preparation, by aggregating most of the KOPEX Group's financial debt within KOPEX, and through elimination of some intra-group liabilities. In addition, the merger will streamline the Group's structure and reduce its operating expenses. In the opinion of the Company's Management Board, the merger is justified in the context of the Group's strategy, operations and costs. The concentrated assets, effective management and optimum corporate structure will strengthen the market position of the merging companies. On October 14th 2016, the shareholders received the first notice of the planned merger. On October 31st 2016, the shareholders received the second notice of the planned merger.
- On November 18th 2016, the Company was notified that the consortium of KOPEX-Przedsiębiorstwo Budowy Szybów S.A. (a subsidiary) and FAMUR PEMUG Sp. z o.o. was awarded a contract in the tender for construction of the GRZEGORZ Shaft and ancillary surface infrastructure for TAURON Wydobycie S.A., organised by TAURON Wydobycie S.A. The price of the best bid was PLN 227,867,534.59 (VAT exclusive), with PLN 172,867,534.59 (VAT exclusive) of that amount attributable to KOPEX-Przedsiębiorstwo Budowy Szybów S.A. as the consortium leader.

- The Company's Extraordinary General Meeting, held on November 21st 2016, passed a resolution to merge KOPEX S.A. with KOPEX MACHINERY S.A., ZABRZAŃSKIE ZAKŁADY MECHANICZNE - MASZYNY GÓRNICZE SP. Z O.O., FABRYKA MASZYN I URZĄDZEŃ TAGOR S.A. and KOPEX HYDRAULIKA SIŁOWA SP. Z O.O. by way of transfer of all assets of the acquirees to KOPEX, on the terms laid out in the Merger Plan.

- On November 25th 2016, the Regional Court for Katowice passed a judgement in the case filed by Galantine Sp. z o.o. and Nationale Nederlanden OFE (formerly ING OFE) against KOPEX for repeal of Resolutions No. 6 and 7 of the Extraordinary General Meeting of KOPEX of February 20th and March 14th 2014. The Regional Court, having examined the case, dismissed the petition brought by Galantine Sp. z o.o. and Nationale Nederlanden OFE for the repeal of Resolutions No. 6 and 7. The judgement is not final, and the petitioner is entitled to apply for a written statement of reasons for the judgement, and then appeal against the judgement. Proceedings on other resolutions the repeal of which was requested by Galantine Sp. z o.o. in its petition were suspended by mutual request of the parties, i.e. Galantine Sp. z o.o. and KOPEX.

Contents of Resolutions No. 6 and 7:

RESOLUTION No. 6 of the Extraordinary General Meeting of KOPEX Spółka Akcyjna of Katowice dated February 20th 2014 on amending Article 50 of the Company's Articles of Association. Par.1 The Extraordinary General Meeting of KOPEX S.A. of Katowice, acting pursuant to Art. 415.1 of the Commercial Companies Code, Art. 54.2.1 of the Company's Articles of Association and Art. 8.5.1 of the Rules of Procedure of the Extraordinary General Meeting, hereby resolves as follows: In the Company's Articles of Association of June 27th 2012, effective from July 9th 2012 (consolidated text: notarial deed of June 27th 2012, reg. No. A 5591/2012), Art. 50.1 is amended to read as follows: "Resolutions passed by the General Meeting are valid if the vote was attended by a shareholder(s) representing at least 50% of the company's share capital"; in Art. 50, the following section 3 is added: "The General Meeting is considered valid if it is attended by a shareholder(s) representing at least 50% of the company's share capital". Par. 2 The Extraordinary General Meeting of KOPEX S.A. authorises the Supervisory Board of KOPEX S.A. to establish a consolidated text of the Articles of Association, incorporating the amendments resulting from this resolution and Resolution No. 5 of the Extraordinary General Meeting of KOPEX S.A. dated February 20th 2014. Par. 3 This resolution takes effect as of its date, whereas the amended Articles of Association referred to in Art. 1 of this resolution take effect on the date of registration of the amendments to the Articles of Association by the relevant Registry Court.

Objections to Resolution No. 6 were received and noted in the minutes.

RESOLUTION No. 7 of the Extraordinary General Meeting of KOPEX Spółka Akcyjna of Katowice dated February 20th 2014 on amending the Rules of Procedure of the General Meeting of KOPEX S.A. Par. 1 The Extraordinary General Meeting of KOPEX S.A. of Katowice, acting pursuant to the Commercial Companies Code and the Company's Articles of Association, hereby resolves to amend the Rules of Procedure of the General Meeting dated June 24th 2010, by amending its Art. 8.2, which will now read follows: „Resolutions passed by the General Meeting are valid if the vote was attended by a shareholder(s) representing at least 50% of the company's share capital. One share carries the right to one vote at the General Meeting."; and by deleting Art. 9.4.a. Par. 2 The Extraordinary General Meeting of KOPEX S.A. authorises the Management Board to establish a consolidated text of the Rules of Procedure of the General Meeting, incorporating the amendments resulting from this resolution. Par. 3 This resolution takes effect as of its date and shall remain in effect until the next General Meeting of the Company.

Objections to Resolution No. 7 were received and noted in the minutes.

- On November 30th 2016, the Management Board passed a resolution to establish and launch of a Notes Issue Programme, under which the Company may issue interest-bearing, secured ordinary bearer notes with a (nominal) value of PLN 100 per note, up to PLN 200m ('Programme'). The resolution was adopted in connection with the planned conclusion of the Restructuring Agreement, which requires the Company to issue bearer notes to enable the Group's creditors – parties to the Restructuring Agreement to subscribe for the notes in exchange for their receivables as specified in the agreement, and to pay for the notes by way of set-off of the issue price against that part of their receivables specified in the Restructuring Agreement. The Programme enables the Company to issue one or more series of notes in certificated form. The notes may be issued in blocks. Performance under the notes will be purely financial and will involve payment of the principal and interest. The notes will bear interest at a variable rate. The terms of security and interest rates will be specified in the terms and conditions of the issue. Particular parameters of each series of the notes will be determined by way of a separate resolution of the Management Board. The term of the Programme, that is the period during which the Management Board may adopt resolutions to issue the notes, will expire not later than on July 31st 2017, subject to the maximum aggregate nominal amount of the notes under the Programme. Invitations to purchase the notes will be made under Art. 33.2 of the Bond Act of January 15th 2015, i.e. the notes will be distributed by way of a private placement. There is no specified minimum number of notes required to be subscribed for the issue to take effect. The Company will not seek listing of the notes on a regulated market or a multilateral trading facility.

  Consent of the General Meeting was required for the notes issue in accordance with Art. 54.2.2 of the Articles of Association. Consideration of and voting on the issue resolution was included as item 6 in the agenda of the Extraordinary General Meeting convened for November 30th 2016. On November 30th 2016, the General Meeting approved the Programme.

- On December 1st 2016, the Restructuring Agreement was concluded between KOPEX S.A. and its selected subsidiaries ('Debtors'), financial creditors ('Financial Creditors') and TDJ EQUITY IV S.A. ('Investor') (for other disclosures on the restructuring process, see KOPEX's current reports Nos. 13/2016, 14/2016, 15/2016, 16/2016, 46/2016, 66/2016, 67/2016, 69/2016, 71/2016, 77/2016 and 79/2016, and periodic reports No. PSr 2016 and QSr 3/2016). Pursuant to the 'Key terms of restructuring of the financial debt of KOPEX S.A. and its selected subsidiaries' of September 7th 2016, the parties to the Agreement established general terms for the restructuring of the KOPEX Group's financial indebtedness, upon which the Financial Creditors, the Debtors and the Investor agreed to continue to participate in the restructuring process. The key terms of the Agreement are as follows: a) The debt restructuring process is expected to end on December 31st 2021. b) The restructuring will cover credit exposures of Powszechna Kasa Oszczędności Bank Polski S.A., Bank Pekao S.A., ING Bank Śląski S.A., Bank BGŻ BNP Paribas S.A., HSBC Bank Polska S.A. existing as at February 25th 2016, increased by any recourse claims identified until the date of the Memorandum on the key terms of restructuring, reported by the Company in current report No. 79/2016. The aggregate amount of the credit exposures and recourse claims is approximately PLN 620m ('On-Balance Sheet Exposure'). For restructuring purposes, the On-Balance Sheet Exposure was split into three parts of c.a. PLN 175m ('Tranche A'), c.a. PLN 260m ('Tranche B'), and c.a. PLN 185m ('Tranche C'). c) The restructuring will also cover guarantee and LoC exposures of Deutsche Bank Polska S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Raiffeisen Bank Polska S.A., ING Bank Śląski S.A. for an aggregate amount of c.a. PLN 28m ('Off-Balance Sheet Exposure'). d) Not later than on the Agreement execution date, the Investor will indirectly acquire a controlling interest in KOPEX's share capital. Some of the funds obtained from the transaction, equal to PLN 60m, will be applied towards repayment of some of the KOPEX Group's debt (through repayment of some of the KOPEX Group's receivables due from entities related to Mr Krzysztof Jędrzejewski, and then by application of the same amount towards partial repayment of the KOPEX Group debt (Tranche C) towards the Financial Creditors). e) Upon execution of the Agreement, KOPEX will irrevocably and unconditionally assume from: i. Elgór+Hansen S.A. ('Elgór+Hansen') – the entire Financial Debt of Elgór+Hansen; ii. KOPEX – Przedsiębiorstwo Budowy Szybów S.A. ('KOPEX-PBSz') – the entire Financial Debt of KOPEX-PBSz; iii. Fabryka Maszyn i Urządzeń Tagor S.A. ('FMiU Tagor') – the entire On-Balance Sheet Debt of FMiU Tagor; iv. KOPEX Machinery S.A. ('KOPEX Machinery') – the entire Financial Debt of KOPEX Machinery; v. Śląskie Towarzystwo Wiertnicze Dalbis Sp. z o.o. ('ŚTW Dalbis') – the entire Off-Balance Sheet Debt of ŚTW Dalbis. Thus the entire on- and off-balance-sheet debt of the KOPEX Group will be consolidated at KOPEX, which will enable the restructuring of the entire debt. Therefore, upon assumption of the debt by KOPEX, each of the companies specified above will be obliged to pay to KOPEX the respective portion of the assumed debt. f) An entity from the Investor's group will assume on-balance-sheet debt of the KOPEX Group due to BGŻ BNPP in the amount of PLN 47,889,115.86. g) On the Restructuring Agreement execution date, the consolidated debt will be split into the following tranches: i. Tranche A, to include a part of the On-Balance Sheet Exposure of c.a. PLN 175m and a part of the Off-Balance Sheet Exposure in the amount agreed upon by the parties. Tranche A will be refinanced with the issue of notes which (subject to the Company's and the Investor's compliance with specific restructuring terms) can be redeemed by the Investor or an entity indicated by the Investor for a price depending on results of the restructuring and on the selling price of KOPEX-PBsz shares (if such sale takes place). The notes may also be used to refinance 33.39% of potential recourse claims under the Off-Balance Sheet Exposure (when such claims arise). The notes will be issued for the period ending March 31st 2022. The terms of the issue will provide only for the following events triggering immediate redemption of the notes: (i) declaration of bankruptcy or opening of the Company's liquidation, (ii) delay in payment of financial claims under the notes to their holders in connection with early redemption. The terms of the notes will also provide for obligatory early redemption if there is surplus over the specified amount of proceeds from the potential sale of KOPEX-PBSz. Junior-ranking security for Tranche A will be established over assets of KOPEX Machinery and Tagor S.A.; and over Elgór+Hansen shares. The issuer of the notes will also submit to the Financing Banks declarations of submisson to enforcement under Art. 777 of the Code of Civil Procedure. ii. Tranche B, to include a part of the On-Balance Sheet Exposure of c.a. PLN 260m and a part of the Off-Balance Sheet Exposure in the amount agreed upon by the parties. Tranche B will be effectively assigned to KOPEX-PBSz and will be repaid in accordance with a schedule commencing in 2018, using funds earned by KOPEX-PBSz in the course of its business. Tranche B will be repaid through a one-off payment with proceeds from the sale of KOPEX-PBSz shares if such sale takes place as part of the divestment process provided for in the restructuring plan. Tranche B will be secured with pledge over all shares and key operating assets of KOPEX-PBSz (excluding the real property located at ul. Grabowa 1 in Katowice). KOPEX-PBSz will also submit to the Financing Banks declarations of submission to enforcement under Art. 777 of the Code of Civil Procedure. iii. Tranche C, to include a part of the On-Balance Sheet Exposure of c.a. PLN 260m and a part of the Off-Balance Sheet Exposure. Tranche C will be effectively assigned to the Company and the subsidiaries (other than KOPEX-PBSz). Security for Tranche C will include pledge over assets of KOPEX Machinery S.A., Tagor S.A., KOPEX Hydraulika Siłowa Sp. z o.o., ZZM MG Sp. z o.o. and Elgór+Hansen S.A.; and a PLN 125m surety provided by FAMUR S.A. for the period ending June 30th 2022. In addition, Tranche C debtors will submit to the Financing Banks declarations of submission to enforcement under Art. 777 of the Code of Civil Procedure. Tranche C will be repaid on the following terms: PLN 60m will be repaid immediately upon the signing of the Restructuring Agreement with funds obtained from repayment of loans and liabilities by entities related to Mr Krzysztof Jędrzejewski; - the remaining part of Tranche C (i.e. approximately PLN 125m) will be repaid in accordance with a schedule commencing in 2019; h) TDJ Equity IV S.A. agreed to provide KOPEX S.A. with access to emergency financing of up to PLN 92m. Emergency financing will be provided upon execution of the restructuring agreement, for a period until December 15th 2018. Security for the emergency financing will be established over assets of KOPEX and the Subsidiaries not used as security for the debt owed to the Financing Banks.

Events after the reporting date

- On February 14th 2017, an annex ('Annex') was signed to the contract for the supply and installation of the steel structure of the building housing the turbine hall, the boiler room, the bunkering room, LUVOs, SCR, installation of coal bunkers, elevation and placement of steam soot blowers for the 910 MWe power-generating unit for Tauron Wytwarzanie S.A. Jaworzno III Power Plant Branch, Power Plant II in Jaworzno (for other disclosures relating to the contract, see current reports No. 53/2016 of July 27th 2016, No. 80/2016 of September 7th 2016 and No. 103/2016 of December 1st 20160). The parties to the contract are the consortium of Stal-Systems S.A. and KOPEX S.A., acting jointly as the contractor, and E003B7 Sp. z o.o. (a subsidiary of RAFAKO S.A.), acting as the employer. Under the annex, KOPEX was replaced by Stal-Systems S.A. as the leader of the consortium responsible for project execution. Stal-Systems S.A. also took over the entire scope of work remaining to be performed by KOPEX under the consortium agreement as at the effective date of the annex. Under separate agreements, KOPEX's subcontractors will become Stal-Systems S.A.'s subcontractors. The annex also amended the original agreement between the parties accordingly with respect to such matters as continued performance of the contract, and the manner of settling existing and future payables and receivables under the contract. The value of the work completed by the Company under the contract by January 31st 2017 was approximately PLN 64m (VAT exclusive).
- Further to current reports No. 95/2016 and 7/2017 concerning a bid submitted by the consortium of KOPEX-Przedsiębiorstwo Budowy Szybów S.A. (a subsidiary) and FAMUR PEMUG Sp. z o.o. ('Consortium') for construction of the GRZEGORZ Shaft and ancillary surface infrastructure for TAURON Wydobycie S.A., the Management Board announced that the Consortium's bid was selected as the best bid in the repeated tender procedure. The price of the best bid was PLN 227,867,534.59 (VAT exclusive), with PLN 172,867,534.59 (VAT exclusive) of that amount attributable to KOPEX-Przedsiębiorstwo Budowy Szybów S.A. as the consortium leader.
- Further to current report No. 104/2016 of December 2nd 2016 on the conclusion of the Restructuring Agreement, the Company announced that PLN 142,564,796.80 was transferred to PKO BP S.A., acting as the paying agent and security agent, in early repayment of Tranche C. The amount included PLN 133,689,714.53 as repayment of the on-balance-sheet debt plus interest, and PLN 8,875,082.27 transferred by the Company as security for bank guarantees expiring after March 31st 2017. The early repayment was partly financed with proceeds from a loan received from a subsidiary of TDJ S.A. on March 31st 2017. The loan agreement provides for full repayment of the loan (PLN 75m) by December 31st 2018. Following repayment of Tranche C, security created over KOPEX S.A.'s and Elgór+Hansen S.A.'s assets will be released to the extent that it is attributable to that tranche.

For all significant disclosures in 2017, see KOPEX's website at:

http://www.kopex.com.pl/idm,3336,biezace.html

## 4.12. MATERIAL TRANSACTIONS CONCLUDED BETWEEN THE PARENT OR ITS SUBSIDIARY AND RELATED PARTIES OTHER THAN ON AN ARM'S LENGTH BASIS, INCLUDING AMOUNTS AND OTHER TERMS OF SUCH TRANSACTIONS

Based on available information, in 2016 neither KOPEX S.A. nor any of its direct or indirect subsidiaries entered into any related-party transactions other than on an arm's length basis.

## 4.13. CLARIFICATIONS ON DIFFERENCES BETWEEN FINANCIAL RESULT DISCLOSED IN THE ANNUAL REPORT AND PRIOR PROJECTIONS FOR 2016

Neither the Parent nor the Group published any forecasts for 2016.

### 4.14. EMPLOYEE SHARE OWNERSHIP SCHEME CONTROL SYSTEM

As at the date of issue of this Report, the Company had not implemented any employee share ownership scheme.

### 4.15. NUMBER AND PAR VALUE OF KOPEX SHARES HELD BY MANAGEMENT AND SUPERVISORY PERSONNEL OF KOPEX S.A.

A. Total number and par value of all shares in the Company and in its related entities held by the Company's management personnel at the date of issue of the full-year report.

| Full name | Position on the Management Board | Total number of KOPEX shares held | Total par value of shares held (PLN) | Changes in the number of KOPEX shares held since the issue of the most recent quarterly report |
|---|---|---|---|---|
| **Beata ZAWISZOWSKA** | President of the Management Board (since Dec 16 2016) | none | ---------------- | --- |
| **Bartosz BIELAK** | Member of the Management Board (since Dec 16 2016) | none | ---------------- | --- |

*Source: Company*

The members of the management staff specified above do not hold any shares in the Company's related entities.

B. Total number and par value of all shares in the Company and in its related entities held by the Company's supervisory personnel at the date of issue of the full-year report.

| Full name | Position on the Supervisory Board | Total number of KOPEX shares held | Total par value of KOPEX shares held (PLN) | Changes in the number of KOPEX shares held since the issue of the most recent quarterly report |
|---|---|---|---|---|
| **Tomasz DOMOGAŁA** | Chairman of the Supervisory Board (since Jan 3 2017) | 48,932,015 [1)] | PLN 48,932,015.00 | --- |
| **Czesław KISIEL** | Deputy Chairman of the Supervisory Board (since Sep 1 2016) | none | ---------------- | none [2)] |
| **Wojciech GELNER** | Secretary of the Supervisory Board (since Jan 3 2017) | none | ---------------- | --- |
| **Jacek LEONKIEWICZ** | Member of the Supervisory Board (since Jan 3 2017) | none | ---------------- | --- |
| **Magdalena ZAJĄCZKOWSKA-EJSYMONT** | Member of the Supervisory Board (since Jan 3 2017) | none | ---------------- | --- |

Source: Company

Note:

1) Total number of KOPEX shares held by **Tomasz Domogała** (majority shareholder) and (directly and indirectly) his subsidiary, as specified in a notification of March 23rd 2017 received from TDJ S.A. (current report No. 15/2017 of March 24th 2017), of which:

- Tomasz Domogała, through his subsidiary TDJ S.A. of Katowice, holds indirectly (through subsidiaries of TDJ S.A.) a total of 48,932,015 shares in KOPEX S.A. (including 276,500 treasury shares of the Company, TDJ S.A.'s subsidiary, in respect of which no voting rights may be exercised) representing approximately 65.83% of the share capital of KOPEX and conferring the right to 48,655,515 votes (65.46% of total voting rights) at the General Meeting of KOPEX. Of this number:
  c) GALANTINE Sp. z o.o. holds directly 7,433,000 KOPEX shares, representing 9.99% of the Company' share capital and conferring the right to 7,433,000 votes (9.99% of total voting rights) at the General Meeting of KOPEX;
  d) TDJ Equity IV S.A. holds:
    - directly − 395 KOPEX shares, representing 0.00053% of the Company' share capital and conferring the right to 395 votes (0.00053% of total voting rights) at the General Meeting of KOPEX,
    - indirectly, through Partner S.A. − 24,217,120 KOPEX shares, representing 32.58% of the Company' share capital and conferring the right to 24,217,120 votes (32.58% of total voting rights) at the General Meeting of KOPEX S.A.,
    - indirectly, through ProInwest Sp. z o.o. − 17,005,000 KOPEX shares, representing 22.88% of the Company' share capital and conferring the right to 17,005,000 votes (22.88% of total voting rights) at the General Meeting of KOPEX.

2) The number of Company shares held has not changed since the issue of the previous quarterly report (QSr-3/2016) on November 29th 2016.

The members of the supervisory staff specified above do not hold any shares in the Company's related entities.

### 4.16. AGREEMENTS WHICH MAY RESULT IN FUTURE CHANGES IN HOLDINGS OF SHARES BY CURRENT SHAREHOLDERS

KOPEX S.A. is not aware of any agreements which might result in future changes in holdings of shares by its current shareholders.

### 4.17. LITIGATION, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS

The following court proceedings were pending as at the date of issue of these financial statements:

| No. | OBJECT OF LITIGATION | AMOUNT UNDER LITIGATION (PLN '000) | DATE INSTIGATED | PLAINTIFF | DEFENDANT | COURT |
|---|---|---|---|---|---|---|
| 1 | PAYMENT OF COMPENSATION FOR LOSSES ON SETTLEMENT OF CURRENCY FORWARDS | PLN 33,705 THOUSAND | Dec 30 2009 | FAZOS S.A. (CURRENTLY: FAMUR S.A.) | KOPEX S.A. | REGIONAL COURT AND COURT OF APPEALS IN KATOWICE |
| 2 | FILING OF CLAIMS IN BANKRUPTCY PROCEEDINGS | PLN 83,624 THOUSAND Category 2 PLN 7,891 THOUSAND Category 3 | Dec 2 2016 | KOPEX S.A. | FAMAGO SP. Z O.O. W UPADŁOŚCI (IN BANKRUPTCY) | NOT ALL CLAIMS WILL BE SATISFIED IN THE COURSE OF THE BANKRUPTCY PROCEEDINGS |
| 3 | FILING OF CLAIMS IN BANKRUPTCY PROCEEDINGS | PLN 11,000 THOUSAND Category 2 PLN 1,340 THOUSAND Category 3 | Dec 2 2016 | ELGÓR+ HANSEN S.A. | FAMAGO SP. Z O.O. W UPADŁOŚCI (IN BANKRUPTCY) | DISTRICT COURT FOR WROCŁAW FABRYCZNA IN WROCŁAW |
| 4 | PAYMENT FOR LONGWALL SYSTEM SUPPLIED | EUR 16,540 THOUSAND | Dec 25 2015 | OOO KOPEX SIBIR | AO UGOLNAJA KOMPANIA SIEWIERNY KUZBAS OF RUSSIA | ARBITRATION COURT FOR THE KEMEROVO OBLAST, RUSSIA |

On July 21st 2016, AO Ugolnaja Kompania Siewiernyj Kuzbas of Russia filed a counterclaim against OOO KOPEX Sibir, seeking to reduce the payment for a shearer to EUR 13,814,000 on the grounds that the delivered shearer loader allegedly failed to meet the contract specifications, claiming compensation of RUB 157,730 thousand (EUR 2,190 thousand) for lost profits, and petitioning the court to summon KOPEX Machinery S.A. (now KOPEX S.A.) as a third party. OOO Kopex Sibir (and KOPEX S.A.) did not acknowledge the counterclaim and demanded that its claims be paid in full. On April 1st 2017, KOPEX Sibir and AO Ugolnaja Kompania Siewiernyj Kuzbas settled in court and amended the contract. Pursuant to the settlement and the amended contract, Siewiernyj Kuzbas paid EUR 2.5m to KOPEX Sibir on account of the outstanding contract price, and waived all of the claims asserted against KOPEX Sibir and KOPEX S.A. The balance of the price will be paid in instalments and is secured with a lien over the delivered equipment, subject to possible other liens in the future. On its part, KOPEX Sibir agreed to lower the price by 8% and increase the discount if additional liens are created or the liabilities are paid as scheduled. In view of the settlement and the amended agreement, the Arbitration Court for the Kemerovo Oblast decided to discontinue the case on April 5th 2017 (the court's decision is not final).

Except as described above, as at the date of issue of these financial statements neither the Company nor any entity of its Group was a party to any other pending proceedings before a court, arbitration tribunal or public administration body whose value would represent 10% or more of the Company's equity.

### 4.18. CHANGES IN THE GROUP'S GOVERNANCE PRINCIPLES

Changes in the Group's governance principles are presented in Section 1 of this Report.

### 4.19. CONTRACTS WITH THE AUDITOR

The auditor of KOPEX S.A.'s financial statements for 2016 is PricewaterhouseCoopers Sp. z o.o., with registered office at Al. Armii Ludowej 14, 00-638 Warsaw, Poland. The contract with PricewaterhouseCoopers Sp. z o.o. was concluded on February 29th 2012 and covered the review and audit of the separate and consolidated financial statements of KOPEX S.A. for 2012. The contract was automatically renewed for subsequent annual periods until 2016. The table below presents the contracts with the auditor, as well as the auditor's remuneration for 2016 and 2015.

PLN '000

| SUBJECT MATTER | REMUNERATION FOR 2016 | REMUNERATION FOR 2015 |
|---|---|---|
| Review of half-year separate and consolidated financial statements, as well as audit of full-year separate and consolidated financial statements | 219 | 105 |
| Tax advisory services | - | 10 |
| **Total** | **219** | **115** |

### 4.20. MANAGEMENT BOARD'S REPRESENTATION

The Management Board represents that the Directors' Report on the activities of KOPEX S.A. and the KOPEX Group in 2016 gives a true view of the Company's and its Group's development and achievements, and contains a description of the basic threats and risks.

**SIGNATURES**

| Vice President of the Management Board | President of the Management Board |
|---|---|
| Bartosz Bielak | Beata Zawiszowska |

Katowice, April 28th 2017