POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated annual report RS 2015

(In accordance with § 82, section 2 of the Decree of the Minister of Finance dated 19 February 2009
– Journal of Laws No. 33, point 259, with subsequent amendments)

for issuers of securities involved in production, construction, trade or services activities

for the financial year **2015** comprising the period from **1 January 2015** to **31 December 2015** containing the consolidated financial statements according to IFRS in PLN.

publication date: 17 March 2016

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

KGHM Polska Miedź S.A. (name of issuer in brief)	**Basic materials** (issuer branch title per the Warsaw Stock Exchange)
59 – 301 (postal code)	**LUBIN** (city)
M. Skłodowskiej – Curie (street)	**48** (number)
(48 76) 74 78 200 (telephone)	**(48 76) 74 78 500** (fax)
ir@kghm.com (e-mail)	**www.kghm.com** (website address)
692–000–00-13 (NIP)	**390021764** (REGON)

PricewaterhouseCoopers Sp. z o.o.
(entity entitled to audit financial statements)

SELECTED FINANCIAL DATA		in PLN mn		in EUR mn	
		2015	2014	2015	2014
I.	Sales revenue	20 008	20 492	4 781	4 892
II.	Profit on sales	506	3 353	121	800
III.	Profit/(loss) before income tax	(5 122)	3 098	(1 224)	740
IV.	Profit/(loss) for the period	(5 009)	2 451	(1 197)	585
V.	Profit/(loss) for the period attributable to shareholders of the Parent Entity	(5 012)	2 450	(1 198)	585
VI.	Profit for the period attributable to non-controlling interests	3	1	1	-
VII.	Other comprehensive income	686	997	164	238
VIII.	Total comprehensive income	(4 323)	3 448	(1 033)	823
IX.	Total comprehensive income attributable to the shareholders of the Parent Entity	(4 326)	3 441	(1 034)	821
X.	Total comprehensive income attributable to non-controlling interest	3	7	1	2
XI.	Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
XII.	Earnings per ordinary share (in PLN/EUR) attributable to the shareholders of the Parent Entity	(25.06)	12.25	(5.99)	2.92
XIII.	Net cash generated from operating activities	4 163	4 849	995	1 157
XIV.	Net cash used in investing activities	(4 906)	(5 544)	(1 172)	(1 323)
XV.	Net cash generated from financing activities	864	248	206	59
XVI.	Total net cash flow	121	(447)	29	(107)
XVII.	Non-current assets	30 448	33 569	7 145	7 876
XVIII.	Current assets	6 316	6 805	1 482	1 597
XIX.	Total assets	36 764	40 374	8 627	9 473
XX.	Non-current liabilities	10 153	9 292	2 382	2 180
XXI.	Current liabilities	6 197	5 552	1 454	1 303
XXII.	Equity	20 414	25 530	4 791	5 990
XXIII.	Equity attributable to shareholders of the Parent Entity	20 211	25 302	4 743	5 937
XXIV.	Non-controlling interest	203	228	48	53

Average EUR/PLN exchange rate announced by the National Bank of Poland

	2015	2014
Average exchange rate for the period*	4.1848	4.1893
Exchange rate at the end of the period	4.2615	4.2623

**Exchange rates are the arithmetical average of the current average exchange rates announced by the National Bank of Poland on the last day of each month respectively of 2015 and 2014*

This report is a direct translation from the original Polish version.
In the event of differences resulting from the translation, reference should be made to the official Polish version.

KGHM
POLSKA MIEDŹ

CONSOLIDATED ANNUAL REPORT RS 2015 COMPRISES:

Lubin, March 2016

KGHM POLSKA MIEDŹ

PRESIDENT'S LETTER

Lubin, March 2016

Dear Stakeholders,

I am pleased to present you with the annual report of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group for 2015.

The past year was a period of increasing challenges on the international commodities market. These challenges were largely due to falling commodities prices caused by unfavourable macroeconomic conditions. Also of significance was, among others, the economic slowdown in China and the record low oil prices. The average annual copper price on the London Metal Exchange (LME) amounted to 5 495 USD/t, or a nearly 20-percent decrease as compared to 2014. The average silver price according to the London Bullion Market Association (LBMA) decreased in 2015 by nearly 18 percent and amounted to 15.68 USD/ounce. The prices of the remaining commodities produced by the KGHM Group – such as gold, molybdenum and nickel – also ended the year 2015 at a substantially lower level than in 2014. For KGHM it was also of significance that during this same time the USD strengthened versus the PLN by almost 20%, which helped to mitigate the impact of the fall in the prices of our basic products.

Thanks to the increased production and despite such difficult macroeconomic conditions, the Group achieved revenues of over PLN 20 billion, which is comparable to the level achieved in the prior year The minerals extraction tax, which in 2015 amounted to over PLN 1.4 billion, continues to have a substantial impact on the Company's financial condition. During 2015 there was an increase in the production of copper equivalent, which nearly amounted to the level of 750 thousand tonnes, while C1 copper production costs decreased by 16%. In 2015 we paid shareholders a dividend of PLN 800 million, or PLN 4 per share.

The low commodities prices also impacted the carrying amount of our assets. In accordance with International Financial Reporting Standards, the carrying amounts of certain assets, which, for mining companies, fluctuate together with changes in commodities prices, must be periodically reviewed. Pursuant to this requirement, impairment tests were performed on the value of our investment in Sierra Gorda SCM in Chile, as well as on the mines in the Sudbury Basin in Canada, the Robinson mine in the USA and the Franke mine in Chile. As a result of these tests, total impairment losses were recognised in the consolidated financial statements for 2015 which, after accounting for the tax effect, amounted to USD 1 294 million (or PLN 5 048 million). Impairment tests were also performed on the domestic production assets, but these tests did not indicate the need to revise their value. A positive factor impacting the value of the Polish assets is the substantial weakening of the Polish zloty as compared to the American dollar. It is important to point out that during the recent period many other companies in the mining sector in Poland and abroad have also recognised similar impairment losses. These impairment losses are of a non-cash nature. Our response to macroeconomic forecasts is in conformance with the reaction of other world leaders in the non-ferrous metals sector as well as with market expectations.

Given the difficult market conditions in which the Company currently finds itself, the Management Board's objective is above all to preserve the Company's value over the long term to enable shareholders to achieve the expected rate of return on their investment. To achieve this goal, we are conducting a detailed review and analysis of our assumptions and investment plans for the Group in the short and medium terms. This will allow us to properly prioritise investments, and in turn steadily pursue the path of growth, while maintaining operational profitability. We will advance key investments, while the schedules and budgets of individual projects will be even better adapted to market conditions. Our ultimate goal is to increase our cost competitiveness, develop modern technological solutions and optimise management of our projects pipeline.

In response to the challenges arising from the current market situation, we have also adopted new, more stringent macroeconomic assumptions, in particular as regards the price of copper over the next four years. This is further evidence of our continuing dialogue with the market. At the same time – to meet shareholder expectations – we are striving to further reduce costs in our assets. All of this demonstrates that we are well prepared for hard times. The Group's financial condition is stable, based on predictable levels of production, cost discipline and more rational investment expenditures. This allows us to simultaneously enhance efficiency and continue moving to a more competitive position on the cost curve. The current recession on the commodities market is a substantial challenge requiring significant efforts to further enhance our Company's efficiency and competitiveness, but it also presents the opportunity to strengthen our fundamentals to prepare for and take advantage of the next upturn in the economic cycle. We want to come out of this period stronger than ever before, achieving a permanent competitive advantage.

Dear Stakeholders,

I want to thank all of the KGHM Group's employees for their commitment and hard work in building the Company's value in 2015 – a year full of challenges. I would also like to thank our shareholders for the trust they extended to KGHM in 2015. I wish to extend my special thanks to our customers for choosing KGHM as a supplier and for their many years of cooperation.

I am counting on the same level of cooperation in 2016 and subsequent years.

President of the Management Board

Krzysztof Skóra

Lubin, 15 March 2016

AUDITOR'S OPINION AND REPORT ON ITS AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2015

Lubin, March 2016

Independent Registered Auditor's Opinion
to the Shareholders' Meeting and the Supervisory Board
of KGHM Polska Miedź Spółka Akcyjna

Opinion on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the KGHM Polska Miedź Spółka Akcyjna Group (hereinafter called "the Group"), having KGHM Polska Miedź Spółka Akcyjna, Marii Skłodowskiej- Curie 48 Street, Lubin, as its parent company (hereinafter called "the Parent Company), which comprise the consolidated statement of profit and loss for the year from 1 January to 31 December 2015, the consolidated statement of comprehensive income, the consolidated statement of cash flows for the financial year, the consolidated statement of financial position as at 31 December 2015, the consolidated statement of changes in equity for financial year from 1 January to 31 December 2015 and explanatory notes.

The Company's Management Board and Supervisory Board's responsibility

The Parent Company's Management Board is responsible for preparing the consolidated financial statements and the Management Board's Report on the activities of the Group, and for the correctness of the accounting records comply with requirements of the Accounting Act of 29 September 1994 ("the Accounting Act" – Journal of Laws of 2013, item 330 as amended). The Parent Company's Management Board is also responsible for internal controls as management determines necessary to enable the preparation of financial statements consolidated that are free from material misstatement, whether due to fraud or error.

Members of the Management Board and Members of the Supervisory Board of the Parent Company are obliged to ensure that the consolidated financial statements and the Management Board's Report on the activities of the Group meet the requirements of the Accounting Act.

Auditor's Responsibility

Our responsibility was to perform an audit of the accompanying consolidated financial statements and to express an opinion and the report on whether the consolidated financial statements present, in all material respects, a true and fair view of the Group's financial position and its financial results in accordance with the regulations and the applicable accounting policies and on the corectness of the accounting records constituting the basis for their preparation.

Independent Registered Auditor's Opinion
to the Shareholders' Meeting and the Supervisory Board
of KGHM Polska Miedź Spółka Akcyjna (cont.)

We conducted our audit in accordance with section 7 of the Accounting Act and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Audit and Assurance. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Group`s consolidted financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements in all material respects:

a. give a true and fair view of the Group's financial position as at 31 December 2015 and its financial performance and its cash flows for the year from 1 January to 31 December 2015, in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and adopted accounting policies;

b. comply in terms of form and content with the applicable laws for the Group, including the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions of recognizing as equal information required by the law of other state, which is not a member state ("*the Decree"* – Journal of Laws of 2014, item 133);

c. have been prepared on the basis of properly maintained consolidation documentation.

Independent Registered Auditor's Opinion
to the Shareholders' Meeting and the Supervisory Board
of KGHM Polska Miedź Spółka Akcyjna (cont.)

Report on Other Legal and Regulatory Requirements

Opinion on the Management Board's Report on the activities of the Group

The information contained in the Management Board's Report on the activities of the Group for the year from 1 January 2015 to 31 December 2015 accommodates the requirements of article 49 paragraph 2 of the Accounting Act and The Decree and is consistent with the information contained in audited consolidated financial statements.

Based on the knowledge of the Group and its environment obtained during our audit we have not identified any material misstatements in the Management Board's Report on the activities of the Group.

In the Statement of Corporate Governance, which is a separate part of the Management Board's Report on the activities of the Group, the Group included information in accordance with the scope defined in the Decree. This information complies with the applicable regulations and is consistent with the information contained in the consolidated financial statements.

Auditor conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o. Registered Audit Company No. 144:

Marta Ratajczyk
Key Registered Auditor
No. 13125

Wrocław, 15 March 2016

Translation note:
This version of our report is a translation from the original, which was prepared in Polish language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2015 to the Shareholders' Meeting and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna

This report contains 15 consecutively numbered pages and consists of:

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I. General information about the Group

a. KGHM Polska Miedź Spółka Akcyjna („the Parent Company”) with its seat in Lubin, Marii Skłodowskiej-Curie 48 street is the parent company of the KGHM Polska Miedź Spółka Akcyjna Group ('the Group').

b. The Parent Company was founded as a result of transformation of a state-owned enterprise, Kombinat Górniczo-Hutniczy Miedzi on the basis of art. 5 of the Act dated 13 July 1990 concerning the privatisation of state-owned enterprises (*Journal of Laws* No. 51, item 298, with subsequent amendments). The Notarial Deed was drawn up on 9 September 1991 at the Notary public's Office No. 18 in Warsaw and registered with Rep. no. 8648/91. On 29 June 2001 the District Court Register decided to enter the Parent Company in the Commercial Register with the reference number KRS 0000023302.

c. In the audited year, the Parent Company operated on the basis of a concession granted by Minister of the Environmental Protection, Natural Resources and Forestry.

d. The Parent Company was assigned a tax identification number (NIP) 692-000-00-13 on 14 June 1993 for the purpose of making tax settlements and a REGON number 390021764 for statistical purposes on 13 August 2003.

e. As at 31 December 2015 and the date of signing this Report the Parent Company's share capital amounted to PLN 2.000 million and consisted of 200.000.000 shares, with a nominal value of PLN 10,00 each.

f. As at 31 December 2015 and the date of signing this Report, the Parent Company's shareholders were:

Shareholder's name	Number of shares held	Par value of shares held (PLN)	Type of shares held	Votes (%)
The Polish State Treasury	63.589.900	635.899.000	ordinary	31.79
Other shareholders	136.410.100	1.364.101.000	ordinary	68.21
	200.000.000	**200.000.000**		**100.00**

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I. General information about the Group (cont.)

g. In the audited year,the Group's operations comprised:

- copper ore and non-ferrous metals mining,
- production of copper, non-ferrous metals, precious metals and salts,
- production of copper and precious metals,
- casting of light metals and non-ferrous metals,
- recovery of metals associated with copper ores
- waste management,
- wholesale trading on the basis of direct payment or contract,
- geological and exploratory activities, research and technical analyses,
- production of machinery and mining equipment, production of road aggregates,
- transport services,
- research, analysis and design activities.

h. During the year the Management Board of the Parent Company comprised:

Herbert Wirth	President;
Jarosław Romanowski	I Vice President (Finance);
Jacek Kardela	Vice President (Development);
Marcin Chmielewski	Vice President (Corporate);
Wojciech Kędzia	Vice President (Production) to 31 January 2015;
Mirosław Laskowski	Vice President (Production) from 1 February 2015.

On 3 February 2016 Supervisory Board dismissed from possition of President and Vice Presidents respectively: Herbert Wirth, Jarosław Romanowski, Marcin Chmielewski and Jacek Kardela. Supervisory Board appointed Krzysztof Skóra as a President of Management Board and Jacek Rawecki, Mirosław Biliński as Vice Presidents of Management Board.

On 23 February Supervisory Board appointed Stefan Świątkowski as Vice President of Management Board. Since 23 February 2016 and for day of signing this Report Management Board of the Company comprised:

Krzysztof Skóra	President;
Mirosław Biliński	Vice President (Development);
Mirosław Laskowski	Vice President (Production);
Jacek Rawecki	Vice President (Supply Chain Management);
Stefan Świątkowski	Vice President (Finance).

I. General information about the Group (cont.)

i. As at 31 December 2015, the KGHM Polska Miedź S.A. Group comprised the following entities:

Entity	Type of capital relationship (% of share capital held)	Method of consolidation	Auditor of financial statements	Type of opinion (*)
KGHM Polska Miedź S.A.	parent company	Not applicable	PricewaterhouseCoopers Sp. z o.o.	unqualified
Capital Group KGHM INTERNATIONAL LTD .**, which Parent Company is KGHM INTERNATIONAL LTD.	Share of Parent Company in KGHM INTERNATIONAL LTD. Equals 100%	full	PricewaterhouseCoopers LLP, Canada	unqualified
BIPROMET S.A.	subsidiary (100%)	full	Ernst & Young Audyt Polska Sp. z o.o. Sp. k.	unqualified
CBJ Sp. z o.o.	subsidiary (100%)	full	Grant Thornton Frąckowiak Sp. z o.o. Sp. k.	unqualified with the explanation on the suspension of merger of KGHM CUPRUM Sp. z.o.o - CBR
Centrozłom Wrocław S.A.	indirect subsidiary (99,65%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified
Cuprum Development Sp. z o.o.	indirect subsidiary (100%)	full	PKF Consult Sp. z o.o. Sp. k.	unqualified
Cuprum Nieruchomości Sp. z o.o.	subsidiary (100%)	full	The Company was not subject to an audit	-
Energetyka Sp. z o.o.	subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified
Fermat 1 S.à r.l.	subsidiary (100%)	full	The Company was not subject to an audit	-
Fermat 2 S.à r.l.	indirect subsidiary (100%)	full	The Company was not subject to an audit	-
Fermat 3 S.à r.l.	indirect subsidiary (100%)	full	The Company was not subject to an audit	-
Fundusz Hotele 01 Sp. z o.o.	indirect subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified
Fundusz Hotele 01 Sp. z o.o. S.K.A.	indirect subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified
Future 1 Sp. z o.o.	subsidiary (100%)	full	The Company was not subject to an audit	-
Future 2 Sp. z o.o.	subsidiary (100%)	full	The Company was not subject to an audit	-

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Entity	Type of capital relationship (% of share capital held)	Method of consolidation	Auditor of financial statements	Type of opinion (*)
Future 3 Sp. Z o.o.	subsidiary (100%)	full	The Company was not subject to an audit	-
Future 4 Sp. Z o.o.	subsidiary (100%)	full	The Company was not subject to an audit	-
Future 5 Sp. Z o.o.	subsidiary (100%)	full	The Company was not subject to an audit	-
Future 6 Sp. Z o.o.	subsidiary (100%)	full	The Company was not subject to an audit	-
Future 7 Sp. Z o.o.	subsidiary (100%)	full	The Company was not subject to an audit	-
INOVA Sp. z o.o.	subsidiary (100%)	full	Instytut Studiów Podatkowych Modzelewski i Wspólnicy – AUDYT Sp. z o.o.	unqualified
Interferie Medical SPA Sp. z o.o.	indirect subsidiary (89,46%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified
INTERFERIE S.A.	indirect subsidiary (67,71%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	subsidiary (100%)	full	Orient Best Certified Public Accountants	unqualified
KGHM CUPRUM Sp. z o.o. – CBR	subsidiary (100%)	full	4AUDYT Sp. z o.o.	unqualified
KGHM I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified
KGHM III Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified
KGHM IV Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified
KGHM Kupfer AG	subsidiary (100%)	full	The Company was not subject to an audit	-
KGHM TFI S.A.	subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified

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KGHM V Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified
KGHM ZANAM S.A.	subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified
MERCUS Logistyka Sp. z o.o.	subsidiary (100%)	full	Grant Thornton Frąckowiak Sp. z o.o. Sp. k.	unqualified
Metraco S.A.	subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified
Miedziowe Centrum Zdrowia S.A.	subsidiary (100%)	full	Audytor S.A.	unqualified
NITROERG S.A.	subsidiary (85%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified
NITROERG Serwis Sp. z o.o.	indirect subsidiary (85%)	full	PKF Consult Sp. z o.o. Sp. k.	unqualified
PeBeKa Canada Inc.	indirect subsidiary (100%)	full	The Company was not subject to an audit	-
PHU Lubinpex Sp. z o.o.	indirect subsidiary (100%)	full	Grant Thornton Frąckowiak Sp. z o.o. Sp. k.	unqualified
Polska Grupa Uzdrowisk Sp. z.o.o	indirect subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	Unqualified with the explanation concerning the obligation to adopt a resolution of going concern the company's activities.
Polska Grupa Uzdrowisk Sp. z.o.o S.K.A in liquidation	indirect subsidiary (100%)	full	The Company was not subject to an audit	-
PMT Linie Kolejowe 2 Sp. z o.o.	subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified
PMT Linie Kolejowe Sp. z o.o.	indirect subsidiary (100%)	full	Kancelaria Biegłego Rewidenta Bronisława Dydyna	unqualified
POL-MIEDŹ TRANS Sp. z o.o.	subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified
Przedsiębiorstwo Budowlane Katowice S.A. in liquidation	indirect subsidiary (88,09%)	full	PKF Consult Sp. z o.o. Sp. k.	unqualified
Przedsiębiorstwo Budowy Kopalń PeBeKa S.A.	subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified
Uzdrowiska Kłodzkie S.A. - Grupa PGU	indirect subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified

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Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU	indirect subsidiary (98,29%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified
Uzdrowisko Połczyn Grupa PGU S.A.	indirect subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified
Uzdrowisko Świeradów - Czerniawa Sp. z o.o. - Grupa PGU	indirect subsidiary (98,95%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified
Walcownia Metali Nieżelaznych "Łabędy" S.A.	indirect subsidiary (84,98%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified,
Warszawska Fabryka Platerów Hefra S.A.	indirect subsidiary (100%)	full	Biuro Ekspertyz i Badania Bilansów „Piast" Sp. z o.o.	unqualified with an explanation regarding the non-participation of the statutory auditor in the inventory and achieving losses in the future in previous years
WPEC w Legnicy S.A.	indirect subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	unqualified
Zagłębie Lubin S.A.	subsidiary (100%)	full	BDO Sp. z o.o.	unqualified with an explanation concerning the obligation to adopt a resolution of going concern the company's activities and lack of a signed agreement on sponsorship for 2016.

(*) Financial statements of all entities of the Group were prepared as at 31 December 2015.

(**) KGHM INTERNATIONAL LTD. Group has been presented in explanatory note no. 12.12 to the consolidated financial statements.

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I. General information about the Group (cont.)

j. KGHM Polska Miedź S.A. is the Parent Company in the Group which, in the audited year, comprised 83 subsidiaries (including 82 consolidated subsidiaries). During the audited period:

- 10 subsidiaries have been established;
- the share in 11 subsidiaries has increased by the purchase of additional shares;
- 1 subsidiary has been combined with other subsidiaries;
- 1 subsidiary has been sold.

Additionally at the end of the financial year there were three joint ventures, which financial data have been presented in the consolidated financial statements under the equity accounting method.

In the year prior to the audited year the Group comprised 75 subsidiaries (including 74 consolidated subsidiaries). Additionally there was three joint ventures, which financial data have been presented in the consolidated financial statements under the equity accounting method. During the previous year two subsidiaries have been established, five subsidiaries have been combined with other subsidiaries, sold one subsidiary and two subsidiaries have been liquidated and and the share in twelve subsidiaries has increased by the purchase of additional shares.

k. The Parent Company is an issuer of securities admitted for trading on the Warsaw Stock Exchange and in accordance with the Act it prepares its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The Group adopted IFRS in 2005.

II. Information about the audit

a. The audit of the consolidated financial statements as at and for the year from 1 January to 31 December 2015 was conducted by PricewaterhouseCoopers Sp. z o.o. with its seat in Warsaw, Al. Armii Ludowej 14, registered audit company no. 144. The audit was conducted on behalf of the registered audit company under the supervision of the key registered auditor, the Group's registered auditor Marta Ratajczyk (no. 13125).

b. PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Group by Resolution No. 17/VIII/2013 of the Supervisory Board dated 27 March 2013 in accordance with paragraph 20, point 2 of the Parent Company's Articles of Association.

c. PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the entities belonging to the Group within the meaning of art. 56, clauses 2-4 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (Journal of Laws 2015, item 1011, as amended).

d. The audit was conducted in accordance with an agreement dated 4 April 2013, in the period from 15 February to 15 March 2016.

III. The Group's results, financial position and significant items of the consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2015 (selected lines)

			Change		Structure	
	31.12.2015 million	**31.12.2014 million**	**PLN million**	**(%)**	**31.12.2015 (%)**	**31.12.2014 (%)**
ASSETS						
Non-current assets	30.448	33.569	(3.121)	(9.,3)	82.8	83.1
Current assets	6.316	6.805	(489)	(7.2)	17.2	16.9
Total assets	**36.764**	**40.374**	**(3.610)**	**(8.9)**	**100.0**	**100.0**
LIABILITIES AND EQUITY						
Share capital	20.414	25.530	(5.116)	(20)	55.5	63.2
Long-term liabilities	10.153	9.292	861	9,3	27.6	23.0
Short-term liabilities	6.197	5.552	645	11.6	16.9	13.8
Total liabilities and equity	**36.764**	**40.374**	**(3.610)**	**(8.9)**	**100.0**	**100,0**

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

for the year from 1 January to 31 December 2015 (selected lines)

			Change		(%) of revenue	
	2015 PLN million	**2014 PLN million**	**PLN million**	**(%)**	**2015 (%)**	**2014 (%)**
Revenue	20.008	20.492	(484)	(2.4)	100.0	100.0
Costs of sales	(18.159)	(15.751)	(2.408)	15.3	(908)	(76.9)
Gross profit on sales	**1.849**	**4.741**	**(2.892)**	**(61.0)**	**9.2**	**23.1**
Net profit/(loss)	**(5.009)**	**2.451**	**(7.460)**	**>(100.0)**	**(25.0)**	**12.0**

III. The Group's results, financial position and significant items of the consolidated financial statements (cont.)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year from 1 January to 31 December 2015 (selected lines)

	2015	2014	Change		(%) of revenue	
	PLN million	PLN million	PLN million	(%)	2015 (%)	2014 (%)
Net profit/(loss)	(5.009)	2.451	(7.460)	>(100.0)	(25.0)	12.0
Other net comprehensive income	686	997	(311)	(31.2)	3.4	4.9
Total net comprehensive income	**(4.323)**	**3.448**	**(7.771)**	**>(100.0)**	**(21.6)**	**16.8**

Selected ratios characterizing the Group's financial position and results

The following ratios characterize the Group's activities, results of operations during the year and its financial position as at the balance sheet date compared with previous years:

	2015	2014	2013
Asset ratios			
- receivables turnover	30 days	36 days	33 days
- inventory turnover	67 days	77 days	71 days
Profitability ratios			
- net profit margin/loss	(25)%	12%	13%
- gross margin	3%	16%	19%
- return on capital employed	(22)%	10%	13%
Liability ratios			
- gearing	44%	37%	33%
- payables turnover	21 days	25 days	21 days

	31.12.2015	31.12.2014	31.12.2013
Liquidity ratios			
- current ratio	1,0	1,4	1,7
- quick ratio	0,5	0,7	1,0

III. The Group's results, financial position and significant items of the consolidated financial statements (cont.)

The above ratios have been calculated on the basis of the consolidated financial statements.

It was not the purpose of the audit to present the Group in the context of the results of operations and ratios achieved. A detailed interpretation of the ratios requires an in-depth analysis of the Group's operations and its circumstances.

The consolidated financial statements do not take into account the effects of deflation. The consumer price index (on a December to December basis) amounted to -0,5% in the audited year (inflation of -1,0% in 2014).

The following comments are based on information obtained during the audit of the consolidated financial statements.

The factors described below had a significant impact on the Group's results of operations and on its financial position as at the balance sheet date:

- At the end of the financial year, the Group's total assets amounted to PLN 36.764 million. During the year total assets decreased by PLN 3.610 million (i.e. by 8,9%). The decrease of total assets compared with the previous year was mainly due to decrease in value of investments accounted for using the equity method, mainly by impairment to PLN 4.461 milion and impairment of tangible fixed assets amounted to PLN 2.386 milion. At the same time the value of loans granted to join venture Sierra Gorda increased by PLN 1.273 million compared with the previous year.The change was mailny due to the difference in foreign exchange losses in financial statement of foreign party and accures interest. During the financial year the Group has achieved net loss amounted to PLN 5.009 milion. Additionaly, The Parent Company paid out dividend of PLN 800 million to its shareholders.
- Group's liquidity and the structure of liabilities have changed. The gearing ratio increased from 37% at the end of the previous year to 44% at the end of the current year. It is was mainly due to increase in interest-bearing loans and borrowings in Parent Company. The payables turnover ratio decreased from 24 days to 21 days,respectively.

III. The Group's results, financial position and significant items of the consolidated financial statements (cont.)

- Total revenues amounted to PLN 20.008 million and decreased by PLN 484 million (i.e. by 2,4,0%) compared with the previous year. In 2015 the Group's core revenue source was production and sale of copper, precious metals and smelter by-products which accounted for 89,6% of total sales revenue (88,6% in previous year). The main factor for the decrease of revenue was average price of copper and silver which decreased by 20% and 18% respectively when compared to 2014. During that time also the average exchange rate of US Dollar increase compared with the prior year by 19,5%.

- The operating expenses (the sum of the cost of goods and materials sold, the selling expenses and the administrative expenses) increased by PLN 2.363 million (i.e 13,8%) compared to 2014. The main factor for the increase of operating expenses was posting of impairment of tangible fixed assets amounted to PLN 2.387 milion.

- Profitability measured with gross profit amounted to 3% and was 13 percentage points lower compared with the previous year. The change in the Group's profitability was primarily due to decrease of average price of copper and silver compared with the previous year. Decrease of profitability measured by net profit from 12% in previous year to (25)% in audited year was caused additionaly by recognition of impairment loss on investments evaluated by equity method and tangible fixed assets.

- The Group's liquidity has changed. In the audited year, the current and quick ratios, which amountes to 1,0 (2014; 1,4) and 0,5 (2014; 0,7), respectively, decreased mainlu due to higher amount of interest- bearing loans and borrowings compared with the previous year.

IV. The independent registered auditor's statements

a. The Management Board of the Parent Company provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the accounting records and the disclosure of all contingent liabilities and post balance-sheet events which occurred up to the date on which that letter was signed.

b. The scope of the audit was not limited.

c. The consolidation of equity items and the determination of minority interests were carried out properly in all material respects.

d. The elimination of mutual balances (receivables and payables) and transactions (revenue and costs) of the consolidated entities were carried out, in all material respects, in accordance with IFRS as adopted by the European Union.

e. The elimination of unrealized gains/losses of consolidated entities included in the book value of assets and in respect of dividend payments was carried out, in all material respects, in accordance with IFRS as adopted by the European Union.

f. The impact of the disposal or partial disposal of shares in subordinated entities was accounted for properly in all material respects, in accordance with IFRS as adopted by the European Union.

g. The consolidation documentation was complete and accurate and it is stored in a manner ensuring proper safeguarding.

h. The consolidated financial statements of the Group as at and for the year ended 31 December 2014 were approved by Resolution No. 25/2015 passed by the Shareholders' Meeting of the Parent Company on 29 April 2015 and filed with the National Court Register in Wrocław on 8 May 2015.

i. The notes to the consolidated financial statements present all the significant information in accordance with IFRS as adopted by the European Union.

j. The information in the Management Board's Report on the activities of the Group for the year from 1 January to 31 December 2015 has been presented in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information to be provided by issuers of securities and conditions for recognizing as equivalent the information required by the provisions of law of a country not being a member state (Journal of Laws of 2014, item 133) and is consistent with that presented in the consolidated financial statements.

V. Final information

This report has been prepared in connection with our audit of the consolidated financial statements of the KGHM Polska Miedź Spółka Akcyjna Group having KGHM Polska Miedź Spółka Akcyjna, Marii Skłodowskiej - Curie 48 Street, Lubin, as its Parent Company. The consolidated financial statements were signed by the Parent Company's Management Board and the person entrusted with maintaining the books of account, on 15 March 2016.

This report should be read in conjunction with the Independent Registered Auditor's unqualified Opinion to the Shareholders' Meeting and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna dated 15 March 2016, concerning the said consolidated financial statements. The opinion on the consolidated financial statements expresses a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the consolidated financial statements.

Person conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Marta Ratajczyk

Group Registered Auditor, Key Registered Auditor
No. 13125

Wrocław, 15 March 2016 r.

Translation note:

This version of our report is a translation from the original, which was prepared in Polish language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

DECLARATION BY THE MANAGEMENT BOARD
OF KGHM POLSKA MIEDŹ S.A.
ON THE ACCURACY OF THE PREPARED
ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

Lubin, March 2016

DECLARATION BY THE MANAGEMENT BOARD OF KGHM POLSKA MIEDŹ S.A. ON THE ACCURACY OF THE PREPARED ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

According to our best judgement the annual consolidated financial statements for 2015 and the comparative data have been prepared in accordance with accounting principles currently in force, and give a true, fair and clear view of the financial position of the KGHM Polska Miedź S.A. Group and the loss for the period of the Group. The annual report on the activities of the Group for 2015 presents a true picture of the development and achievements, as well as the condition, of the KGHM Polska Miedź S.A. Group, including a description of the basic exposures and risks.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY			
Date	**First, Last Name**	**Position / Function**	**Signature**
15 March 2016	Krzysztof Skóra	President of the Management Board	
15 March 2016	Mirosław Biliński	Vice President of the Management Board	
15 March 2016	Mirosław Laskowski	Vice President of the Management Board	
15 March 2016	Jacek Rawecki	Vice President of the Management Board	
15 March 2016	Stefan Świątkowski	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last Name**	**Position / Function**	**Signature**
15 March 2016	Łukasz Stelmach	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

DECLARATION BY THE MANAGEMENT BOARD OF KGHM POLSKA MIEDŹ S.A. REGARDING THE ENTITY ENTITLED TO AUDIT FINANCIAL STATEMENTS

Lubin, March 2016

DECLARATION BY THE MANAGEMENT BOARD OF KGHM POLSKA MIEDŹ S.A. REGARDING THE ENTITY ENTITLED TO AUDIT FINANCIAL STATEMENTS

The entity entitled to audit financial statements, and which has audited the annual consolidated financial statements for 2015, was selected in compliance with legal provisions. This entity, as well as the certified auditors who have carried out this audit, have met the conditions for issuing an impartial and independent audit opinion, in compliance with appropriate legal provisions and professional standards.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY			
Date	**First, Last Name**	**Position / Function**	**Signature**
15 March 2016	Krzysztof Skóra	President of the Management Board	
15 March 2016	Mirosław Biliński	Vice President of the Management Board	
15 March 2016	Mirosław Laskowski	Vice President of the Management Board	
15 March 2016	Jacek Rawecki	Vice President of the Management Board	
15 March 2016	Stefan Świątkowski	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last Name**	**Position / Function**	**Signature**
15 March 2016	Łukasz Stelmach	Executive Director of Accounting Services Center Chief Accountant off KGHM Polska Miedź S.A.	

CONSOLIDATED FINANCIAL STATEMENTS FOR 2015

Lubin, March 2016

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		2015	2014
Note 2.3	Sales revenue	20 008	20 492
Note 4.1	Cost of sales	(18 159)	(15 751)
	Gross profit	**1 849**	**4 741**
Note 4.1	Selling costs and administrative expenses	(1 343)	(1 388)
	Profit on sales	**506**	**3 353**
Note 6.1	Share of losses of joint ventures accounted for using the equity method	(4 457)	(252)
Note 6.1	Impairment loss on interest in a joint venture	(671)	(15)
Note 6.2	Interest income on a loan granted to joint ventures	466	282
	Profit or loss on involvement in joint ventures	(4 662)	15
Note 4.2	Other operating income and costs	(660)	56
Note 4.3	Finance costs	(306)	(326)
	Profit/(loss) before income tax	**(5 122)**	**3 098**
Note 5.1	Income tax expense	113	(647)
	PROFIT/(LOSS) FOR THE PERIOD	**(5 009)**	**2 451**
	Profit/(loss) attributable to:		
	Shareholders of the Parent Entity	(5 012)	2 450
	Non-controlling interest	3	1
	Weighted average number of ordinary shares (million)	**200**	**200**
	Basic/diluted earnings per share (in PLN)	**(25.06)**	**12.25**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		2015	2014
Note 8.2.2	**Profit/(loss) for the period**	**(5 009)**	**2 451**
Note 8.2.2	Measurement of hedging instruments net of the tax effect	(362)	(246)
	Measurement of available-for-sale financial assets net of the tax effect	(79)	101
Note 8.2.2	Exchange differences from translation of foreign operations statements	1 070	1 444
	Other comprehensive income (net of the tax effect) which will be reclassified to profit or loss	**629**	**1 299**
	Actuarial gains/(losses) net of the tax effect	57	(302)
	Other comprehensive income, which will not be reclassified to profit or loss	**57**	**(302)**
	Total other comprehensive net income	**686**	**997**
	TOTAL COMPREHENSIVE INCOME	**(4 323)**	**3 448**
	Total comprehensive income attributable to:		
	Shareholders of the Parent Entity	(4 326)	3 441
	Non-controlling interest	3	7

amounts in PLN millions, unless otherwise stated

CONSOLIDATED STATEMENT OF CASH FLOWS

		2015	2014
	Cash flow from operating activities		
	Profit/(loss) before income tax	(5 122)	3 098
Note 4.1	Depreciation/amortisation recognised in profit or loss	1 943	1 635
Note 6.1	Share of losses of joint ventures accounted for using the equity method	4 457	252
Note 6.1	Impairment loss on interest in a joint venture	671	15
Note 6.2	Interest on a loan granted to joint ventures	(466)	(282)
	Interest and commissions on borrowings	201	142
Part 3	Other impairment losses on non-current assets	2 970	66
Note 12.9	Other adjustments to profit before income tax	(132)	272
	Exclusions of income and costs, total	9 644	2 100
Note 5.1	Income tax paid	(925)	(868)
Note 10.4	Changes in working capital	566	519
	Net cash generated from operating activities	**4 163**	**4 849**
	Cash flow from investing activities		
Note 9.1.3	Expenditures on mining and metallurgical assets	(3 553)	(3 112)
	Expenditures on other property, plant and equipment and intangible assets	(386)	(322)
Note 6.3	Loans granted to joint ventures	-	(1 628)
Note 6.1	Acquisition of newly-issued shares of a joint venture	(928)	(502)
	Other expenses	(114)	(61)
	Total expenses	(4 981)	(5 625)
	Proceeds	75	81
	Net cash used in investing activities	**(4 906)**	**(5 544)**
	Cash flow from financing activities		
Note 8.4.2	Proceeds from borrowings	4 988	2 641
	Other proceeds	33	37
	Total proceeds	5 021	2 678
Note 8.4.2	Repayments of borrowings	(3 096)	(1 240)
Note 12.2	Dividends paid to shareholders of the Parent Entity	(800)	(1 000)
	Interest paid	(232)	(136)
	Other	(29)	(54)
	Total expenses	(4 157)	(2 430)
	Net cash generated from financing activities	**864**	**248**
	TOTAL NET CASH FLOW	**121**	**(447)**
	Movements in cash and cash equivalents	**(14)**	**(389)**
	Cash and cash equivalents at beginning of the period	**475**	**864**
	Exchange gains/(losses) on cash and cash equivalents	(135)	58
Note 8.5	**Cash and cash equivalents at end of the period**	**461**	**475**

amounts in PLN millions, unless otherwise stated

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Note		2015	2014
	ASSETS		
	Mining and metallurgical property, plant and equipment	14 273	14 876
	Mining and metallurgical intangible assets	3 130	2 700
Note 9.1	Mining and metallurgical property, plant and equipment and intangible assets	17 403	17 576
	Other property, plant and equipment	2 653	2 745
	Other intangible assets	241	218
Note 9.2	Other property, plant and equipment and intangible assets	2 894	2 963
Note 6.1	Joint ventures accounted for using the equity method	562	4 363
Note 6.2	Loans granted to joint ventures	7 504	6 231
	Total involvement in joint ventures	8 066	10 594
Note 7.1	Derivatives	117	214
Note 7.1	Other financial instruments measured at fair value	579	931
Note 7.4	Other financial assets	735	627
	Financial instruments, total	1 431	1 772
Note 5.1.1	Deferred tax assets	557	535
Note 12.3	Other assets	97	129
	Non-current assets	**30 448**	**33 569**
Note 10.1	Inventories	3 382	3 362
Note 10.2	Trade receivables	1 541	1 890
Note 5.2	Tax assets	542	445
Note 7.1	Derivatives	7	277
Note 12.3	Other assets	383	356
Note 8.5	Cash and cash equivalents	461	475
	Current assets	**6 316**	**6 805**
		36 764	**40 374**
	EQUITY AND LIABILITIES		
Note 8.2.1	Share capital	2 000	2 000
Note 8.2.2	Other reserves from measurement of financial instruments	(64)	377
Note 8.2.2	Accumulated other comprehensive income	1 868	741
Note 8.2.2	Retained earnings	16 407	22 184
	Equity attributable to shareholders of the Parent Entity	20 211	25 302
	Equity attributable to non-controlling interest	203	228
	Equity	**20 414**	**25 530**
Note 8.4.1	Borrowings and debt instruments	4 870	2 997
Note 7.1	Derivatives	159	123
Note 11.1	Employee benefits liabilities	1 979	2 011
Note 9.4	Provisions for decommissioning costs of mines and other facilities	1 466	1 466
Note 5.1.1	Deferred tax liabilities	714	1 676
Note 12.4	Other liabilities	965	1 019
	Non-current liabilities	10 153	9 292
Note 8.4.1	Borrowings and debt instruments	2 145	1 813
Note 7.1	Derivatives	48	37
Note 10.3	Trade payables	1 418	1 209
Note 11.1	Employee benefits liabilities	760	765
Note 5.3	Tax liabilities	762	751
Note 12.4	Other liabilities	1 064	977
	Current liabilities	6 197	5 552
	Non-current and current liabilities	**16 350**	**14 844**
		36 764	**40 374**

amounts in PLN millions, unless otherwise stated

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Equity attributable to shareholders of the Parent Entity						
		Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings	Total	Equity attributable to non-controlling interest	Total equity
	As at 1 January 2014	**2 000**	**522**	**(399)**	**20 718**	**22 841**	**223**	**23 064**
Note 12.2	Dividend	-	-	-	(1 000)	**(1 000)**	-	**(1 000)**
	Transactions with non-controlling interest	-	-	4	16	**20**	(2)	**18**
	Transactions with owners	-	-	4	(984)	**(980)**	(2)	**(982)**
	Profit for the period	**-**	-	-	2 450	**2 450**	1	**2 451**
Note 8.2.2	Other comprehensive income	-	(145)	1 136	-	**991**	6	**997**
	Total comprehensive income	-	(145)	1 136	2 450	**3 441**	7	**3 448**
	As at 31 December 2014	**2 000**	**377**	**741**	**22 184**	**25 302**	**228**	**25 530**
Note 12.2	Dividend	-	-	-	(800)	**(800)**	-	**(800)**
	Transactions with non-controlling interest	-	-	-	35	**35**	(28)	**7**
	Transactions with owners	-	-	-	(765)	(765)	(28)	**(793)**
	Loss for the period	-	-	-	(5 012)	**(5 012)**	3	**(5 009)**
Note 8.2.2	Other comprehensive income	-	(441)	1 127	-	**686**	-	**686**
	Total comprehensive income	**-**	**(441)**	**1 127**	**(5 012)**	**(4 326)**	**3**	**(4 323)**
	As at 31 December 2015	**2 000**	**(64)**	**1 868**	**16 407**	**20 211**	**203**	**20 414**

amounts in PLN millions, unless otherwise stated

Part 1 – General information

Note 1.1 Corporate information

KGHM Polska Miedź S.A. ("the Parent Entity") with its registered office in Lubin at 48 M.Skłodowskiej-Curie Street is a joint stock company registered at the Wrocław Fabryczna Regional Court, Section IX (Economic) of the National Court Register, entry no. KRS 23302, on the territory of the Republic of Poland.

KGHM Polska Miedź S.A. has a multi-divisional organisational structure, comprised of a Head Office and 10 divisions: 3 mines (Lubin Mine Division, Polkowice-Sieroszowice Mine Division, Rudna Mine Division), 3 metallurgical plants (Głogów Smelter/Refinery, Legnica Smelter/Refinery, Cedynia Wire Rod Division), the Concentrator Division, the Tailings Division, the Mine-Smelter Emergency Rescue Division and the Data Center Division.

The shares of KGHM Polska Miedź S.A. are listed on the Warsaw Stock Exchange.

The Parent Entity's principal activities include:
- the mining of copper and non-ferrous metals ores; and
- the production of copper, precious and non-ferrous metals.

In addition, the Group conducts other activities, which are described in the Management Board's report on the activities of the Group (Appendix 3).
The consolidated financial statements were prepared under the assumption that the Group companies will continue as a going concern during a period of at least 12 months from the end of the reporting period in an unaltered form and business scope, and there are no reasons to suspect any intentional or forced discontinuation or significant limitation of its current activities. As at the date of signing of the consolidated financial statements the Management Board of the Parent Entity was not aware of any facts or circumstances that may cast doubt about the going concern in the foreseeable future. Impairment losses on non-current assets recognised in the current period, settled in profit or loss for the period in the amount of PLN (6 886) million, generated a loss for 2015, but they did not impact the net cash generated from operating activities which amounted to PLN 4 163 million, and therefore they do not pose a threat to the going concern.

The KGHM Polska Miedź S.A. Group carries out exploration and mining of copper, nickel and precious metals based on concessions given for Polish deposits to KGHM Polska Miedź S.A., and also based on legal titles held by KGHM INTERNATIONAL LTD. and KGHM AJAX MINING INC. for the exploration for and mining of these resources in the USA, Canada, and Chile. Detailed information is presented in the Management Board's report on the activities of the Group (point 3.2) and in Information on segments (Part 2).

In 2015, the Parent Entity of the Group consolidated 81 subsidiaries and used the equity method to account for the shares of three joint ventures (Sierra Gorda S.C.M., "Elektrownia Blachownia Nowa" sp. z o.o. and NANO CARBON Sp. z o.o.).
The Group's composition and changes to its structure are presented in the Financial Statements, in Note 12.2.

The consolidated financial statements were authorised for issue and signed by the Management Board of the Parent Entity on 15 March 2016.

Note 1.2 Basis of preparation and presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, on the historical cost basis, except for available-for-sale financial assets and derivatives measured at fair value.

The accounting policies of the Group which apply to the consolidated financial statements as a whole, as well as significant estimates and their impact on amounts presented in the consolidated financial statements were presented in the following note.

Topic	Accounting policies	Significant estimates
Consolidation principles	The consolidated financial statements include the financial statements of the parent entity and its subsidiaries. Subsidiaries are understood as entities which are either directly controlled by the Parent Entity or indirectly through its subsidiaries. Control is gained when the parent entity simultaneously has: • power over an entity when the parent entity has existing rights that give it the current ability to direct the relevant activities of the company; • is exposed to variable returns or has rights to variable returns from its involvement in the company; • has the ability to use its power over the company to affect the amount of returns from the company.	Determining whether the parent entity has control over a company requires an assessment whether it has rights to direct relevant activities of the company. Determining what constitutes relevant activities of the company and by which investor it is controlled, if it is

	Acquisition of control over a subsidiary, which is a business, is accounted for using the acquisition method. Recognised as goodwill are: the excess of the payment made by an acquirer, the amount of all non-controlling interest in an acquiree and the fair value of the interest of the acquiree at the acquisition date belonging to the acquirer prior to obtaining control, over the net amount set at the acquisition date of the values of identifiable acquired assets and liabilities of the acquired subsidiary. Subsidiaries are fully consolidated from the acquisition date to the date on which control ceases. Inter-company transactions, balances, income, expenses and unrealised gains recognised in assets are eliminated.	controlled, requires a judgement. The following factors are taken into consideration when assessing the situation and determining the nature of relationships: voting rights, relative voting power, dilution of voting rights of other investors and their ability to appoint members of key management personnel or members of the supervisory board.
Fair value measurement	Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For financial reporting purposes, a fair value hierarchy was established that categorises the inputs into three levels. The fair value hierarchy levels are as follows: Level 1 Value is based on inputs from active markets, as they are seen as the most reliable source of data. Data from this level should be applied whenever it's possible to do so; Level 2 Value is based on inputs other than from active markets, which are nevertheless observable (unbiased, measurable). Level 3 Value is based on unobservable inputs, used when it is not possible to acquire data from the first two measurement levels. It includes all measurements based on subjective inputs.	Fair value presents current estimates which may be subject to change in subsequent reporting periods due to changes in market conditions or due to other factors. There are many methods of measuring fair value, which may result in differences in fair values. Moreover, assumptions constituting the basis of fair value measurement may require estimating the changes in costs/prices over time, the discount rate, inflation rate or other significant variables. Certain assumptions and estimates are necessary to determine to which level of fair value hierarchy a given instrument should be classified.
Financial statements of subsidiaries, presented in a functional currency other than PLN	For purposes of preparing the consolidated financial statements in the presentation currency of the KGHM Polska Miedź S.A. Group, i.e. in PLN, individual items of financial statements of foreign operations whose functional currencies are other than PLN are translated in the following manner: (i) closing assets and liabilities are translated at the closing rate, i.e. at the average exchange rate for that currency at the end of the reporting period announced by the NBP; (ii) items impacting changes in assets and liabilities in a given reporting period are translated at the arithmetical average of average exchange rates announced for a given currency by the NBP at the end of each month of a given reporting period; (iii) opening assets and liabilities are translated at the closing rate, i.e. at the average exchange rate for that currency at the end of the comparable reporting period announced by the NBP, i.e. at the rate of valuation of closing balances of the prior comparable period , (iv) translation of items of equity, including: • share capital, by applying an exchange rate as at the date control was gained and for each date when the share capital was increased; • other reserves from measurement of financial instruments, including: - capital existing at the date of assuming control over a subsidiary, by applying a historical rate, i.e. at the rate from that date; - other reserves from measurement of financial instruments, which arose after the date of gaining control, is a sum of measurements in subsequent years expressed in PLN, performed in accordance with principles described in the below-mentioned point (V); • retained earnings, including: - retained earnings from previous years, which existed as at the date of gaining control, by applying a historical rate, i.e. at the rate from that date; - retained earnings from previous years, which arose after the date of	The consolidated financial statements are presented in PLN, which is also the functional currency of the parent entity and the Group's subsidiaries, with the exception of subsidiaries of a subgroup KGHM INTERNATIONAL LTD. and companies Fermat 1 S. á r. l., Fermat 2 S. á r. l., Fermat 3 S. á r. l. in which the US dollar (USD) is the functional currency. Exchange differences from the translation of financial statements of the above-mentioned companies amount to: • as at 31 December 2015 – PLN 2 241 million, • as at 31 December 2014 – PLN 1 171 million,

PART 1 – General information amounts in PLN millions, unless otherwise stated

	gaining control, are a sum of profits from previous financial years translated into PLN in accordance with measurements performed as at the end of each reporting year (financial year) and according to principles described in the below-mentioned point (v); (v) items of the statement of profit or loss and the statement of other comprehensive income are translated by applying an arithmetical average of average exchange rates announced for a given currency by the NBP at the end of each month of a given reporting period. If there is a significant volatility of exchange rates in a given period, revenues and costs in the statement of profit or loss and the statement of other comprehensive income are translated using the exchange rate as at the transaction date; (vi) items of the statement of cash flows are translated by applying an arithmetical average of average exchange rates announced for a given currency by the NBP at the end of each month of a given reporting period. If there is a significant volatility of exchange rates in a given period, items in the statement of cash flows are translated using the exchange rate as at the transaction date. Exchange differences from the translation of foreign operations statements are recognised in other comprehensive income of a given period.	

For a greater understanding of the data presented in the consolidated financial statements, important principles of measurement and accounting policies are presented through individual, detailed notes specified below:

Note	Title	Amount recognised in the financial statements 2015	2014	Accounting policies	Significant estimates and judgements
2	Sales revenue	20 008	20 492	X	
3	Impairment of non-current non-financial assets and of joint ventures	6 433	15	X	X
5.1	Income tax presented in the consolidated statement of profit or loss	(113)	647	X	
5.1.1	Deferred income tax presented in the consolidated statement of profit or loss	(1 008)	(221)	X	X
5.3	Tax assets	542	445	X	
5.3.	Tax liabilities	762	751	X	
6.1	Joint ventures accounted for using the equity method	562	4 363	X	X
7.2	Derivatives	(83)	331	X	
7.3	Other financial instruments measured at fair value	663	988	X	X
7.4	Other non-current financial assets	735	627	X	X
8.2	Equity	20 414	25 530	X	
8.4	Borrowings and debt instruments	7 015	4 810	X	
8.5	Cash and cash equivalents	461	475	X	
9.1	Mining and metallurgical property, plant and equipment and intangible assets	17 403	17 576	X	X
9.2	Other property, plant and equipment and intangible assets	2 894	2 963	X	
9.4	Provision for decommissioning costs of mines and other facilities	1 496	1 555	X	X
10.1	Inventories	3 382	3 362	X	X
10.2	Trade receivables	1 541	1 890	X	
10.3	Trade payables	1 598	1 384	X	
11.1	Employee benefits liabilities	2 739	2 776	X	X
12.3	Other assets	480	485	X	
12.4	Other liabilities	2 029	1 996	X	

The accounting policies described in this note and individual notes were applied by the Group in a continuous manner to all presented periods.

Note 1.3 Impact of new and amended standards and interpretations

New and amended standards which were applied by the Group and which came into force in the financial year beginning on 1 January 2015, did not have a material impact on the Group's accounting policy. The Group has decided for earlier application of the amendments to IAS 1 (published in December 2014) with respect to presentation. These amendments, published by the International Accounting Standards Board, aim at clarifying the concept of materiality and they clarify that if an entity considers certain information to be immaterial, then it should not disclose it, even if, as a general rule, such a disclosure is required by another IFRS. Amended IAS 1 clarifies that items presented in the statement of financial position and the statement of profit or loss and other comprehensive income may, depending on their materiality, be aggregated or disaggregated. Moreover, additional guidance was added on presenting subtotals in these statements.

Aiming at significantly improving the utility of financial statements for their users and meeting the criteria of the amended IAS 1, the Group optimised the disclosure of information in the financial statements by fundamentally remodelling the presentation method, the scope and the amount of disclosures, as well as the method of aggregating financial data used thus far. According to transitional rules of IAS 1, there is no obligation to disclose the applied changes.

The impact of new and amended standards and interpretations, which are not yet in force and were not applied earlier, is presented in note 1.4.

Note 1.4 Published standards and interpretations, which are not yet in force and were not applied earlier by the Group

In these consolidated financial statements, the Group did not decide for earlier application of the following published standards, interpretations or amendments to already existing standards prior to their effective date. Apart from the following new and amended standards, other changes are not applicable to the Group's activities or will not impact the consolidated financial statements.

- **IFRS 9 Financial Instruments**

IFRS 9 will be effective for annual periods beginning on or after 1 January 2018. The Group will apply IFRS 9 after its adoption by the European Union. However, as at the date of preparation of these financial statements, IFRS 9 has not yet been adopted by the European Union.

The standard introduces one model with only two categories of classifying financial assets: those measured at fair value and those measured at amortised cost. The classification is made at initial recognition and depends on the financial instruments management model adopted by an entity, and on contractual cash flow characteristics of these instruments.

IFRS 9 introduces a new model of measuring impairment losses – a model of expected credit losses.

The majority of requirements of IAS 39 concerning the classification and measurement of financial liabilities was transferred unchanged to IFRS 9. A key change is an obligation put on entities to present in other comprehensive income the effects of changes in their own credit risk due to financial liabilities designated at fair value through profit or loss.

Changes concerning hedge accounting were aimed at more closely aligning hedge accounting with risk management.

The Group is analysing the impact of IFRS 9 on the consolidated financial statements. It was initially estimated that IFRS 9 will have an impact on the Group's financial statements, in the area of hedge accounting and measuring impairment allowances on receivables using a model of expected credit losses. It is not expected that the amount of impairment allowances on receivables will change significantly; the impact on hedge accounting has not yet been estimated. The Group plans to conduct an in-depth analysis of the impact in 2016-2017.

- **IFRS 15 Revenue from contracts with customers**

IFRS 15 will be effective for annual periods beginning on or after 1 January 2018. The new standard replaces IAS 11 and IAS 18, as well as the following interpretations: IFRIC 13, 15 and 18 and SIC 31.

The Group will apply IFRS 15 from 1 January 2018. IFRS 15 has not yet been adopted by the European Union.

Principles stated in IFRS 15 will concern all agreements resulting in revenues. A fundamental principle of the new standard is recognising revenues at the moment when a given good is delivered or service rendered to a customer at the amount of the transaction price. All goods and services which are sold in bundles and which may be separately identifiable should be recognised separately, and moreover, all discounts and rebates influencing the transaction price should, as a rule, be allocated to individual parts of a bundle. If the amount of revenue is variable, then in accordance with the new standard variable amounts are recognised as revenues if it is highly probable that a reversal in the amount of revenue will not occur as a result of a revaluation. In addition, in accordance with IFRS 15, costs incurred to obtain and fulfil a contract with a customer should be capitalised and amortised when benefits of this contract are consumed.

The Group initially estimates that IFRS 15's impact on the consolidated financial statements will be immaterial.

- **IFRS 16 Leases**

IFRS 16 will be effective for annual periods beginning on 1 January 2019.
The Group will apply IFRS 16 from 1 January 2019. The standard has not yet been adopted by the European Union.
The new standard replaces IAS 17 as well as the following interpretations: IFRIC 4, SIC 15 and SIC 27. It also provides a single lessee accounting model, requiring lessees to recognise, in the statement of financial position, assets and liabilities for all leases unless the lease term is 12 months or more or the underlying asset has a low value. In accordance with the new standard, a lessee recognises, in the statement of financial position, the right to use assets and liabilities due to leases. The manner of recognition of leases in a lessor's accounting books will not change.
According to initial estimates IFRS 16 will not have a significant impact on the financial statements of the Group, as the Group does not lease a significant amount of assets using operating leases, but nevertheless the Group has not yet finished analysing the impact. An in-depth analysis will be conducted in 2018-2019.

Other standards and interpretations published, but not yet in force are either not applicable to the Group's activities or will not have an impact on them. These are as follows:

- Defined benefit plans: Employee contributions – amendments to IAS 19
- IFRS 14 Regulatory Deferral Accounts
- Amendments to IFRS 11 with respect to acquisitions of interest in joint operations
- Amendments to IAS 16 and to IAS 38 with respect to amortisation/depreciation
- Amendments to IAS 16 and IAS 41 with respect to bearer plants
- Amendments to IAS 27 with respect to the equity method in separate financial statements
- Amendments to IFRS 10 and IAS 28 with respect to the sale or contribution of assets between an investor and its associate or joint venture
- Annual improvements to IFRS, 2012-2014 Cycle
- Amendments to IFRS 10, IFRS 12 and IAS 28 with respect to applying the consolidation exception to investment entities
- Amendments to IAS 12 with respect to recognising deferred tax assets arising from unused tax losses
- Amendments to IAS 7 – the disclosure initiative – this change will not have an impact on the consolidated financial statements because the Group currently presents a reconciliation of net debt.

PART 2 – Information on segments and revenues

Note 2.1. Operating segments

The operating segments identified in the KGHM Polska Miedź S.A. Group reflect the structure of the Group, the manner in which the Group and its individual entities are managed and the regular reporting to the Parent Entity's Management Board.

In order to adjust the segment's structure to changes in the Group's structure during the reporting period and, in consequence changes in the manner of managing this structure, the classification of operating segments was updated as compared to the previous year. Moreover, the method of presentation of operating segments for the previous year was updated. These changes do not significantly impact the presented information on the operations and results of individual segments.

Due to the merger of KGHM INTERNATIONAL LTD. with 0929260 B.C U.L.C., the Ajax project, advanced by KGHM AJAX MINING INC. – a subsidiary of 0929260 B.C U.L.C. – is currently in the segment KGHM INTERNATIONAL LTD.. Moreover, as a result of a decision to discontinue the Weisswasser project by KGHM Kupfer AG, it was no longer justified to present the segment "Resource base development". Moreover, due to the "Support of the core business" segment's immateriality, from the IFRS8's aggregation criteria point of view, this segment was merged with the "Other segments".

Based on the aggregation of operating segments and taking into account the criteria stipulated in IFRS 8, the following reporting segments are currently identified within the KGHM Polska Miedź S.A. Group:

Reporting segment	Operating segments aggregated in a given reporting segment	Indications of similarity of economic characteristics of segments, taken into account in aggregations
KGHM Polska Miedź S.A.	KGHM Polska Miedź S.A.	Not applicable (it is a single operating and reporting segment)
KGHM INTERNATIONAL LTD.	Companies of the KGHM INTERNATIONAL LTD. Group, where the following mines, deposits or mining areas constitute the operating segments: Sudbury Basin, Robinson, Carlota, Franke and Ajax	Operating segments within the KGHM INTERNATIONAL LTD. Group are located in North and South America. The Management Board analyses the results of the following operating segments: Sudbury Basin, Robinson, Carlota, Franke, Ajax and other. In addition, the Management Board receives and analyses reports on the whole KGHM INTERNATIONAL LTD. Group. Operating segments are engaged in exploration and assessment of deposits of copper, molybdenum, silver, gold and nickel. The operating segments were aggregated based on the similarity of long term margins achieved by individual segments, and the similarity of products, processes and production methods.
Sierra Gorda S.C.M.	Sierra Gorda project (a joint venture)	Not applicable (it is a single operating and reporting segment)
Other segments	This item includes other Group companies (every individual company is a separate operating segment).	Aggregation was carried out as a result of not meeting the criteria necessitating the identification of a separate additional reporting segments.

Information on the activities of individual companies included in the aforementioned operating segments is presented in Appendix no. 3 to the Management Board's report on the activities of the Group in 2015.

The following companies were not included in any of the aforementioned segments:

- Fermat 1 S. á r. l., Fermat 2 S. á r. l. and Fermat 3 S. á r. l., which operate in the holding structure founded to acquire KGHM INTERNATIONAL LTD.,
- Future 1 Sp. z o.o., Future 2 Sp. z o.o., Future 3 Sp. z o.o., Future 4 Sp. z o.o., Future 5 Sp. z o.o., Future 6 Sp. z o.o. and Future 7 Sp. z o.o., which operate in the structure related to the establishment of a Tax Group.

These companies do not conduct operating activities, which could impact the results achieved by individual segments, and as a result their inclusion could distort the data presented in this part of the consolidated financial statements due to significant settlements with other Group companies.

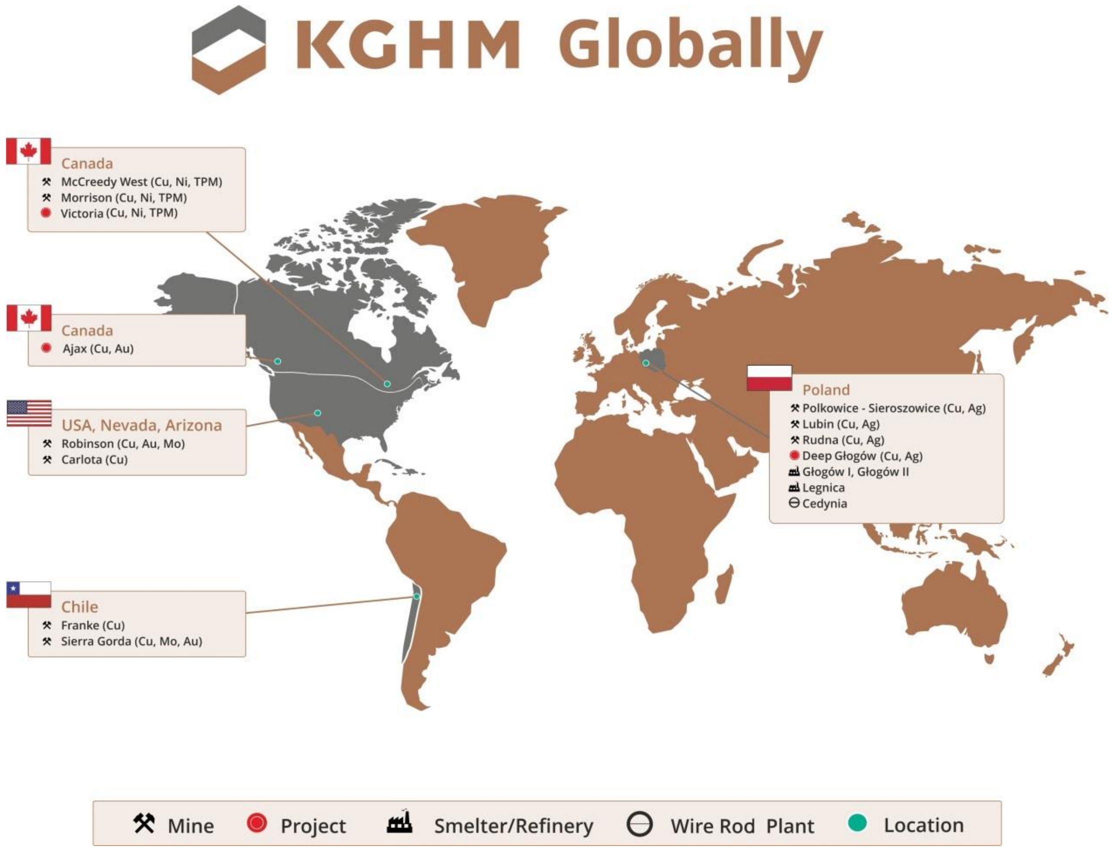
Each of the segments KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M. have their own Management Board, which reports the results of their business activities directly to the President of the Management Board of the Parent Entity.

The segment KGHM Polska Miedź S.A. is composed only of the Parent Entity, and the segment Sierra Gorda S.C.M. is composed only of the Sierra Gorda project (a joint venture). Other companies of the KGHM Polska Miedź S.A. Group are presented below by segment: KGHM INTERNATIONAL LTD. and Other segments.

THE SEGMENT KGHM INTERNATIONAL LTD.	
Location	**Company**
The United States of America	Carlota Copper Company
	Carlota Holdings Company
	DMC Mining Services Corporation
	FNX Mining Company USA Inc.
	Robinson Holdings (USA) Ltd.
	Robinson Nevada Mining Company
	Wendover Bulk Transhipment Company
Chile	Aguas de la Sierra Limitada
	Minera Carrizalillo Limitada
	Minera y Exploraciones KGHM International SpA
	Quadra FNX Holdings Chile Limitada
	Sociedad Contractual Minera Franke
Canada	KGHM INTERNATIONAL LTD.
	0899196 B.C. Ltd.
	Centenario Holdings Ltd.
	DMC Mining Services Ltd.
	FNX Mining Company Inc.
	Franke Holdings Ltd.
	KGHM AJAX MINING INC.
	KGHMI Holdings Ltd.
	Quadra FNX Chile Ltd.
	Quadra FNX Holdings Partnership
	Quadra FNX SG Ltd.
	Sugarloaf Ranches Ltd.
Greenland	Malmbjerg Molybdenum A/S
Mexico	Raise Boring Mining Services S.A. de C.V.
Barbados	Quadra FNX FFI Ltd.

OTHER SEGMENTS	
Type of activity	**Company**
Support of the core business	BIPROMET S.A.
	CBJ sp. z o.o.
	Energetyka sp. z o.o.
	INOVA Spółka z o.o.
	KGHM CUPRUM sp. z o.o. – CBR
	KGHM ZANAM S.A.
	Metraco S.A.
	PeBeKa S.A.
	POL-MIEDŹ TRANS Sp. z o.o.
	WPEC w Legnicy S.A.
Sanatorium-healing and hotel services	Interferie Medical SPA Sp. z o.o.
	INTERFERIE S.A.
	Uzdrowiska Kłodzkie S.A. - Grupa PGU
	Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU
	Uzdrowisko Połczyn Grupa PGU S.A.
	Uzdrowisko Świeradów - Czerniawa Sp. z o.o. – Grupa PGU
Investment funds, financing activities	Fundusz Hotele 01 Sp. z o.o.
	Fundusz Hotele 01 Sp. z o.o. S.K.A.
	KGHM TFI S.A.
	KGHM I FIZAN
	KGHM III FIZAN
	KGHM IV FIZAN
	KGHM V FIZAN
	Polska Grupa Uzdrowisk Sp. z o.o.
	Polska Grupa Uzdrowisk Sp. z o.o. S.K.A. in liquidation
Other activities	CENTROZŁOM WROCŁAW S.A.
	CUPRUM Development sp. z o.o.
	CUPRUM Nieruchomości sp. z o.o.
	KGHM (SHANGHAI) COPPER TRADING CO., LTD.
	KGHM Kupfer AG
	PB Katowice S.A. in liquidation
	MERCUS Logistyka sp. z o.o.
	MIEDZIOWE CENTRUM ZDROWIA S.A.
	NITROERG S.A.
	NITROERG SERWIS Sp. z o.o.
	PeBeKa Canada Inc.
	PHU "Lubinpex" Sp. z o.o.
	PMT Linie Kolejowe Sp. z o.o.
	PMT Linie Kolejowe 2 Sp. z o.o.
	Staropolanka Sp. z o.o.
	WFP Hefra SA
	WMN "ŁABĘDY" S.A.
	Zagłębie Lubin S.A.

The KGHM Polska Miedź S.A. Group operates on an international scale. Geographical breakdown of the conducted activities with a further breakdown by reporting segment is presented below; locations of head offices of companies engaged in production or services activities, which are part of a given segment, have been marked.



The Parent Entity and the KGHM INTERNATIONAL LTD. Group (a subgroup) have a fundamental impact on the assets and the generation of revenues in the KGHM Polska Miedź S.A. Group. The activities of KGHM Polska Miedź S.A. are concentrated on the mining industry in Poland, while those of the KGHM INTERNATIONAL LTD. Group are concentrated on the mining industry in the countries of North and South America. The profile of activities of the majority of the remaining subsidiaries of the KGHM Polska Miedź S.A. Group differs from the main profile of the Parent Entity's activities.

The Parent Entity's Management Board monitors the operating results of individual segments in order to make decisions on allocating the Group's resources and assess the financial results achieved.

Financial data prepared for management reporting purposes is based on the same accounting policies as those applied when preparing the consolidated financial statements of the Group, while the financial data of individual reporting segments constitutes the amounts presented in appropriate financial statements prior to consolidation adjustments at the level of the KGHM Polska Miedź S.A. Group, i.e.:

- The segment KGHM Polska Miedź S.A.– comprises data from the separate financial statements of the Parent Entity prepared in accordance with IFRSs. In the separate financial statements, investments in subsidiaries (including investment in KGHM INTERNATIONAL LTD.) are measured at cost.
- The segment KGHM INTERNATIONAL LTD.– comprises consolidated data of the KGHM INTERNATIONAL LTD. Group prepared in accordance with IFRSs and including fair value adjustments from the settlement of the acquisition of this Group by KGHM Polska Miedź S.A. in 2012. In these consolidated financial statements, the involvement in Sierra Gorda S.C.M. is accounted for using the equity method.
- The segment Sierra Gorda S.C.M.– comprises the 55% share of assets, liabilities, revenues and costs of this venture presented in the separate financial statements of Sierra Gorda S.C.M. after fair value adjustments of assets and liabilities of this venture, determined when accounting for the acquisition of the KGHM INTERNATIONAL LTD. Group in 2012.
- Other segments – comprises aggregated data of individual subsidiaries before excluding transactions and balances between them.

The Management Board of the Parent Entity assesses a segment's performance based on Adjusted EBITDA and the profit or loss for the period.

The Group defines adjusted EBITDA as profit/loss for the period pursuant to IFRS, excluding income tax (current and deferred), finance costs, other operating income and costs, the share of losses of joint ventures accounted for using the equity method, impairment losses on interest in a joint venture, depreciation/amortisation, impairment losses on property, plant and equipment included in the cost of sales, selling costs and administrative expenses. Adjusted EBITDA is not a measure defined by IFRS. As adjusted EBITDA is not a standardised measure, the calculation of adjusted EBITDA may vary between entities, and consequently the presentation and calculation of adjusted EBITDA applied by the Group may not be comparable to that applied by other market entities.

Assets which have not been allocated to the segments comprise cash and trade receivables. Liabilities which have not been allocated to the segments comprise trade liabilities and current corporate tax liabilities.

PART 2 – Information on segments and revenues amounts in PLN millions, unless otherwise stated

Note 2.2 Financial results of reporting segments

		2015						
						Reconciliation items to consolidated data		
		KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of segment Sierra Gorda S.C.M. data	Consolidation adjustments	Consolidated financial statements
Note 2.4	**Sales revenue**	**15 939**	**2 577**	**608**	**6 594**	(608)	(5 102)	20 008
	Inter-segment sales revenue	262	-	38	4 863	(38)	(5 125)	-
	External sales revenue	15 677	2 577	570	1 731	(570)	23	20 008
	Segment result – Loss for the period	**(2 788)**	**(7 731)**	**(4 455)**	**(49)**	**4 455**	**5 559**	**(5 009)**
	Additional information on significant costs/revenue items of the segment							
	Depreciation/amortisation recognised in profit or loss	(875)	(850)	(369)	(228)	369	10	(1 943)
	Impairment loss on non-current assets	(5 272)	(2 562)	(4 399)	(88)	4 399	4 952	(2 970)
	including: impairment losses on investments in subsidiaries	(4 928)	-	-	(23)	-	4 951	-
	Share of losses of joint ventures accounted for using the equity method	-	(4 455)	-	-	-	(2)	(4 457)
	Impairment loss on interest in a joint venture	-	(671)	-	-	-	-	(671)
	Deferred tax due to impairment losses on non-current assets	52	479	609	18	(609)	-	549
		2015						
	Assets, including:	**33 120**	**14 071**	**12 568**	**5 327**	**(12 568)**	**(15 754)**	**36 764**
	Segment assets	33 120	14 071	12 568	5 327	(12 568)	(15 754)	36 764
	Joint ventures accounted for using the equity method	-	534	-	-	-	28	562
	Assets unallocated to segments							1
	Liabilities, including:	**12 841**	**14 937**	**11 253**	**1 825**	**(11 253)**	**(13 253)**	**16 350**
	Segment liabilities	12 841	14 937	11 253	1 825	(11 253)	(13 253)	16 350
	Liabilities unallocated to segments							134
	Other information	2015						
	Expenditures on property, plant and equipment and intangible assets	2 481	1 101	1 119	327	(1 119)	30	3 939
	Production and cost data	2015						
	Payable copper (kt)	574.3	97.6	25.2				
	Silver (t)	1 283.2	1.6	7.7				
	TPM (koz t)	86.9	95.3	12.8				
	C1 cash cost of producing copper in concentrate (USD/lb)**	1.47	1.87	2.58				
	Adjusted EBITDA	**4 163**	**369**	**(101)**	**279**	**-**	**-**	**4 710**

* 55% of the Group's share in Sierra Gorda S.C.M.'s revenues, costs, assets and liabilities for data concerning profit or loss, expenditures and balance sheet data. Data, with exception of expenditures on property, plant and equipment and intangible assets, concern the period from the commencement of commercial production, i.e. from July 2015.
** unit cash cost of payable copper production, reflecting ore mining and processing costs, transport costs, the minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value.

PART 2 – Information on segments and revenues amounts in PLN millions, unless otherwise stated

The consolidation eliminations arise from the consolidation adjustments, financial data of companies not assigned to any segment and financial data of the Sierra Gorda S.C.M. joint venture, which is consolidated using the equity method, and as a result assets, liabilities and profit or loss of the joint venture are not recognised in the statement of financial position and in the statement of profit or loss of the Group, except for the item" Joint ventures accounted for using the equity method" and "Profit or loss on involvement in joint ventures".

Reconciliation of Adjusted EBITDA	2015			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.	Other segments
Loss for the period	**(2 788)**	**(7 731)**	**(4 455)**	**(49)**
[-] Share of losses of joint ventures accounted for using the equity method	**-**	**(4 455)**	**-**	**-**
[-] Impairment loss on interest in joint venture	**-**	**(671)**	**-**	**-**
[-] Current and deferred income tax	(850)	662	792	(17)
[-] Depreciation/amortisation recognised in profit or loss	(875)	(850)	(369)	(228)
[-] Finance costs	(158)	(629)	(354)	(12)
[-] Other operating income and costs	(5 064)	254	(38)	(73)
[=] EBITDA	4 159	(2 042)	(4 486)	281
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	(4)	(2 411)	(4 385)	2
Adjusted EBITDA	**4 163**	**369**	**(101)**	**279**

	2015			
Profit/(loss) on sales	**3 284**	**(2 892)**	**(4 855)**	**53**
[-] Depreciation/amortisation recognised in profit or loss	(875)	(850)	(369)	(228)
[=] EBITDA	4 159	(2 042)	(4 486)	281
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	(4)	(2 411)	(4 385)	2
[=] Adjusted EBITDA	**4 163**	**369**	**(101)**	**279**

PART 2 - Information on segments and revenues amounts in PLN millions, unless otherwise stated

Financial result of segments for the comparable period

		2014						
						Reconciliation items to consolidated data		
		KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of segment Sierra Gorda S.C.M. data	Consolidation adjustments	Consolidated financial statements
Note 2.4	**Sales revenue**	**16 633**	**2 280**	**-**	**6 867**	**-**	**(5 288)**	**20 492**
	Inter-segment sales revenue	264	-	-	5 011		(5 275)	-
	External sales revenue	16 369	2 280	-	1 856		(13)	20 492
	Segment result – profit/(loss) for the period	**2 414**	**(283)**	**-**	**26**		**294**	**2 451**
	Additional information on significant costs/revenue items of the segment							
	Depreciation/amortisation recognised in profit or loss	(818)	(596)	-	(230)		9	(1 635)
	Impairment loss on non-current assets	(33)	(36)	-	(3)		(9)	(81)
	Share of losses of joint ventures accounted for using the equity method	-	(251)	-	-		(16)	(267)
	Deferred tax due to impairment losses on non-current assets	-	13	-	-	-	-	13
		2014						
	Assets, including:	**32 312**	**18 666**	**14 285**	**5 166**	**(14 285)**	**(15 770)**	**40 374**
	Segment assets	32 312	18 666	14 285	5 166	(14 285)	(15 770)	40 374
	Joint ventures accounted for using the equity method	-	4 333	-	-	-	30	4 363
	Assets unallocated to segments							1
	Liabilities, including:	**8 035**	**13 745**	**9 655**	**1 717**	**(9 655)**	**(8 653)**	**14 844**
	Segment liabilities	8 035	13 745	9 655	1 717	(9 655)	(8 653)	14 844
	Liabilities unallocated to segments							87
	Other information	2014						
	Expenditures on property, plant and equipment and intangible assets	2 203	924	2 745	275	(2 745)	32	3 434
	Production and cost data	2014						
	Payable copper (kt)	576.9	86.0					
	Silver (t)	1 256.0	1.9					
	TPM (koz t)	82.8	70.1					
	C1 cash cost of producing copper in concentrate (USD/lb)**	1.82	2.26					
	Adjusted EBITDA	**4 331**	**415**	**-**	**144**	**-**	**-**	**4 890**

* 55% of the Group's share in Sierra Gorda S.C.M.'s revenues, costs, assets and liabilities for data concerning profit or loss, expenditures and balance sheet data.
** Cash cost of payable copper production, reflecting ore mining and processing costs, transport costs, minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value.

PART 2 - Information on segments and revenues amounts in PLN millions, unless otherwise stated

Reconciliation of adjusted EBITDA	2014			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.	Other segments
Profit/(loss) for the period	**2 414**	**(283)**	**-**	**26**
[-] Share of losses of joint ventures accounted for using the equity method	**-**	**(251)**	**-**	**-**
[-] Current and deferred income tax	(948)	364	-	(31)
[-] Depreciation/amortisation recognised in profit or loss	(818)	(596)	-	(230)
[-] Finance costs	(183)	(476)	-	(12)
[-] Other operating income and costs	32	297	-	153
[=] EBITDA	4 331	379	-	146
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	(36)	-	2
Adjusted EBITDA	**4 331**	**415**	**-**	**144**

	2014			
Profit/(loss) on sales	**3 513**	**(217)**	**-**	**(84)**
[-] Depreciation/amortisation recognised in profit or loss	(818)	(596)	-	(230)
[=] EBITDA	4 331	379	-	146
[-] recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	(36)	-	2
[=] Adjusted EBITDA	**4 331**	**415**	**-**	**144**

PART 2 - Information on segments and revenues amounts in PLN millions, unless otherwise stated

Note 2.3 External sales revenue of the Group – breakdown by products

Accounting policies

The Group generates revenues mainly from sales of copper, silver and gold. Other, smaller streams of revenues come from services provided and other products, merchandise and materials. Sales revenue is recognised at the fair value of the consideration received or receivable less VAT.
In the case of metals sales, mainly copper products and silver, for which the price is set after the date of recognition of a given sale, revenues are accounted for based on the forward prices from the date of sale. Revenues from the sale of copper are adjusted by the gain or loss from the settlement of derivatives hedging cash flows from forecasted sales transactions (accounting policies are presented in Note 7.2).
The Group recognises revenues from metal sales, when the significant risk and rewards of ownership have been transferred to the buyer, the amount of revenue and costs can be measured reliably and the receivables collection is probable. In the case of metal sales, the transfer of risk and rewards is usually performed using one of the following formulas: when merchandise is loaded on a ship chosen by the seller(maritime transport) [CIF, CFR], when merchandise is delivered to an agreed destination to be at the buyer's disposal (land transport) [DAP] or when merchandise is loaded on the transportation vehicle arranged by the buyer [FCA].

2015

					Reconciliation items to consolidated data		
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of segment Sierra Gorda S.C.M. data	Consolidation adjustments	Consolidated data
Copper	12 498	1 904	500	1	(500)	419	**14 822**
Silver	2 394	19	15	-	(15)	15	**2 428**
Gold	373	247	60	-	(60)	60	**680**
Services	86	467	-	509	-	(58)	**1 004**
Other	588	213	101	6 084	(101)	(5 538)	**1 347**
TC/RC**	-	(273)	(68)	-	68	-	**(273)**
TOTAL	**15 939**	**2 577**	**608**	**6 594**	**(608)**	**(5 102)**	**20 008**

2014

					Reconciliation items to consolidated data		
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of segment Sierra Gorda S.C.M. data	Consolidation adjustments	Consolidated data
Copper	13 217	1 694	-	9	-	(84)	**14 836**
Silver	2 471	-	-	-	-	-	**2 471**
Gold	327	86	-	-	-	-	**413**
Services	83	390	-	516	-	(56)	**933**
Other	535	311	-	6 342	-	(5 148)	**2 040**
TC/RC**	-	(201)	-	-	-	-	**(201)**
TOTAL	**16 633**	**2 280**	**-**	**6 867**	**-**	**(5 288)**	**20 492**

* 55% of the Group's share in revenues of Sierra Gorda S.C.M.
** Smelter treatment and refining charges

PART 2 - Information on segments and revenues amounts in PLN millions, unless otherwise stated

Note 2.4 External sales revenue of the Group – geographical breakdown reflecting the location of end clients

	2015	2014
Europe		
Poland	4 912	4 797
Germany	2 885	3 570
The United Kingdom	1 444	1 639
The Czech Republic	1 347	1 422
Italy	726	712
Hungary	656	596
France	619	712
Switzerland	481	455
Austria	271	253
Belgium	138	183
Slovakia	101	107
Romania	92	142
Other countries (dispersed sale)	326	359
North and South America		
The United States of America	1 721	587
Canada	691	784
Other countries (dispersed sale)	83	5
Australia		
Australia	115	414
Asia		
China	2 847	2 916
Turkey	181	498
South Korea	137	21
Other countries (dispersed sale)	232	309
Africa	3	11
TOTAL	**20 008**	**20 492**

Note 2.5 Main customers

In the period from 1 January 2015 to 31 December 2015 and in the comparable period the revenues from no single contractor exceeded 10% of sales revenue of the Group.

Note 2.6 Non-current assets – geographical breakdown

	Property, plant and equipment, intangible assets and investment properties	
	2015	2014
Poland	16 154	14 587
Canada	3 210	3 420
The United States of America	557	1 302
Chile	437	528
Other countries	-	763
TOTAL	**20 358**	**20 600**

The following were also recognised in non-current assets: joint ventures accounted for using the equity method, derivatives, other instruments measured at fair value, other financial and non-financial assets and deferred tax assets.

Note 2.7 Information on segment results

The segment KGHM Polska Miedź S.A.

In 2015, the adjusted EBITDA of the segment KGHM Polska Miedź S.A. amounted to PLN 4 163 million, which represents a decrease of PLN 168 million, or 4%, as compared to the previous year.

The decrease in the operating result is mainly the result of unfavourable macroeconomic conditions: lower prices of copper (by 20%) and silver (by 18%), which were only partially offset by a more favourable for the Parent Entity USD/PLN exchange rate (an increase by 20%). As a result, sales revenues were lower by PLN 694 million as compared to 2014.
On the other hand, the same factors resulted in a lower cost of purchased metal-bearing materials by PLN 336 million and a lower minerals extraction tax (a decrease by PLN 143 million), which resulted in a decrease in the costs of sales, selling costs and administrative expenses by PLN 464 million.

Moreover, the Parent Entity's financial result for 2015 was significantly impacted, besides the macroeconomic situation, by impairment losses on non-current assets of PLN (5 272) million, concerning mainly shares in subsidiaries (PLN (4 928) million), and available-for-sale financial assets (PLN (262) million). As a result, the segment's loss for the period amounted to PLN (2 788) million, which is a decrease as compared to 2014 by PLN 5 202 million.

The production and financial results of KGHM Polska Miedź S.A. are described in more detail in the Management Board's Report on the Activities of the Group in 2015, in section 7.4.

The segment KGHM INTERNATIONAL LTD.

In 2015, the adjusted EBITDA of the segment KGHM INTERNATIONAL LTD. amounted to PLN 369 million, and was lower by PLN 46 million as compared to 2014.
The segment's operational result was impacted by a decrease in metals prices, which, after translation of the financial statements of KGHM INTERNATIONAL LTD. from the functional currency (USD) to the presentation currency (PLN), was partially offset by an increase in sales volume and a favourable USD/PLN exchange rate.
The segment's financial result for 2015 of PLN (7 731) million was significantly impacted by impairment losses on property, plant and equipment, share of losses and an impairment loss on Sierra Gorda S.C.M. - a joint venture accounted for using the equity method - in the total amount of PLN (7 688) million before taxation and the net amount was PLN (7 209) million.

The production and financial results of the KGHM INTERNATIONAL LTD. Group are described in more detail in the Management Board's Report on the Activities of the Group in 2015, in section 7.4.

The segment Sierra Gorda S.C.M.

The adjusted EBITDA of the segment Sierra Gorda S.C.M. amounted to PLN (101) million and is for the second half of 2015, i.e. from the start of commercial production.
The negative value of the ratio is the result of low metals prices, including molybdenum, the price of which decreased much more than the copper price. Despite the decrease in quoted prices in the last quarter of 2015, there was an increase in sales revenue as compared to sales revenue recorded in the third quarter. This improvement was a result of a greater volume of sales of copper concentrate and molybdenum.

In 2015, the mine was still in the ramp-up stage which had a significant impact on the production parameters levels, and therefore on cost levels.

The segment recorded loss for the period which, after taking into account the Group's share in Sierra Gorda S.C.M. (55%), amounted to PLN (4 455) million. The main factor impacting the loss for the period, apart from the aforementioned factors, was the impairment loss recognised on non-current assets. Proportionally to the share in the company, the impairment loss amounted to PLN (4 399) million before taxation and the net amount was PLN (3 790) million. The segment's financial results include fair value adjustments from the settlement of the acquisition of Quadra FNX LTD.

The production and financial results of Sierra Gorda S.C.M. are described in more detail in the Management Board's report on the Activities of the Group in 2015, in section 7.4.

amounts in PLN millions, unless otherwise stated

PART 3 – Impairment of non-current non-financial assets and of joint ventures

Assessment of the risk of impairment of the Group's assets in terms of market capitalisation

In accordance with the adopted accounting policies, KGHM Polska Miedź S.A. considers a significant (i.e. over 20%) or a prolonged (i.e. maintained over at least a 12 months period) decrease in market capitalisation, when compared to the carrying amount of consolidated net assets, as a prerequisite for carrying out tests for impairment of the Group's assets.

The Parent Entity's market capitalisation in 2015 was below the carrying amount of the Group's net assets, and the decrease in share price between 31 December 2014 and 31 December 2015 was significant and amounted to 42%. As at 31 December 2015, the market capitalisation was significantly below the carrying amount of net assets of the Group and amounted to 62.2% of the Group's net assets.

KGHM Polska Miedź S.A.'s Management Board analysed the factors which contributed the most to the decrease in market capitalisation. One of the key factors that negatively impacted the Group's market capitalisation was the decrease in commodities prices. The following factors may be pointed out from the analysed ones that impact positively the profitability of the activities, and therefore the Group's assets: weakening of the Polish zloty (PLN) versus the American dollar (USD) that accompanies the decrease in commodities prices, stable production level, and the large ore deposits held by KGHM Polska Miedź S.A.

Taking into account the aforementioned factors, the Parent Entity's Management Board performed impairment testing of the following assets which are presented in the consolidated financial statements and which are exposed to decreasing commodities prices.

Tested assets	Recoverable amount	Carrying amount as at 31 December 2015	Recoverable amount as at 31 December 2015	Impairment loss
Mining and metallurgical assets of KGHM Polska Miedź S.A.	Value in use	12 517	Recoverable amount higher than the carrying amount	-
Mining assets of the KGHM INTERNATIONAL LTD. Group	Fair value less costs to sell	9 914	3 611	6 443

BASIC MACROECONOMIC ASSUMPTIONS ADOPTED FOR IMPAIRMENT TESTING OF CASH GENERATING UNITS (CGUs) – MINING AND METALLURGICAL ASSETS OF KGHM POLSKA MIEDŹ S.A.

Assumption	Level adopted for testing
Copper price	The copper price curve was adopted on the basis of internal macroeconomic assumptions which were prepared on the basis of available multi-year forecasts of financial and analytical institutions. A detailed forecast for 2016 – 2020 is being prepared, however, the price for 2021 and onwards is assumed to be, according to a long-term stable forecast, 7 075 USD/t.
Silver price	The silver price curve was adopted on the basis of internal macroeconomic assumptions which were prepared on the basis of available multi-year forecasts of financial and analytical institutions. A detailed forecast for 2016-2018 is being prepared, however, the price for 2019 and onwards is assumed to be, according to a long-term stable forecast, 16 USD/oz t.
Discount rate	7.5% - this is the real discount rate before taxation, due to the fact that cash flows adopted in the model were in real terms.

PART 3 – Impairment of non-current non-financial assets and of joint ventures amounts in PLN millions, unless otherwise stated

BASIC OPERATING ASSUMPTIONS IN THE FORECAST PERIOD AND AFTER THE FORECAST PERIOD	
Assumption	**Level adopted for testing**
Forecast period	A detailed forecast period of 5 years was adopted for the years 2016-2020, on the basis of Budget assumptions of KGHM Polska Miedź S.A. for 2016 and production assumptions till 2020.
Average cash cost of producing copper in concentrate - C1*	1.66 USD/lb (average in a detailed forecast period in the years 2016-2020)
Level of replacement expenditures	Total level of replacement expenditures adopted for testing in a detailed forecast period (years 2016-2020) amounts to PLN 6 246 million.
Rate of increase/decrease after the forecast period	-2%, resulting from a planned decrease in copper production from own concentrate during mine life (to 2055).

* Unit cash cost of producing payable copper in concentrate, reflecting costs of ore extraction and processing, transport costs, the minerals extraction tax, administrative costs during the mining stage, and smelter treatment and refining charges (TC/RC)

As a result of a test conducted on the CGUs of KGHM Polska Miedź S.A., the determined recoverable amount exceeded the carrying amount of the tested assets, and therefore there was no basis to recognise an impairment loss.

The sensitivity analysis performed on the recoverable amount of KGHM Polska Miedź S.A.'s operating assets shows that the key assumptions adopted for impairment testing are the adopted price curves and the discount rate. Assumptions concerning the price curves and the discount rate were adopted while taking into account the professional judgment of the Management Board with respect to the future fluctuations of these amounts, which was reflected in the calculation of the recoverable amount.

For the purposes of monitoring the risk of impairment of operating assets in subsequent reporting periods, it was determined that the recoverable amount would be equal to the carrying amount of assets if the discount rate was to increase by approximately 3.5 percentage points as compared to the adopted assumptions, or if the copper price, both during the period as well as beyond the specific forecast period, was to be lower by around 8% as compared to the adopted assumptions.

Impairment testing of assets of the KGHM INTERNATIONAL LTD. Group

The companies of the KGHM INTERNATIONAL LTD. Group are engaged in the mining production of metals (i.e. copper, gold, nickel and platinum) in mines operating in the USA, Canada and Chile, the largest of which are the Robinson, Morrison, Franke and Carlota mines as well as mining projects in the pre-operational stage, the most important of which are the Sierra Gorda in Chile and Victoria in Canada. Moreover, as a result of the merger of 0929260 B.C U.L.C. with KGHM INTERNATIONAL LTD. on 31 December 2015, the KGHM INTERNATIONAL LTD. Group included the Ajax project, which is in the pre-operational stage and is being advanced by KGHM AJAX MINING INC.

A key indication to perform impairment testing was the decrease in the market price of copper, silver, molybdenum and other commodities.

For the purposes of estimating the fair value of the KGHM INTERNATIONAL LTD. Group's assets, the following cash generating units (CGUs) were identified:

- The Robinson mine,
- The Sudbury Basin, comprising the Morrison mine, the McCreedy mine and the pre-operational Victoria project,
- The Franke mine,
- The Carlota mine,
- Involvement in the joint venture Sierra Gorda (impairment testing was conducted on two levels, i.e. on the level of Sierra Gorda's assets, and then on the level of the Group's investment in Sierra Gorda S.C.M.),
- The Ajax project, advanced by KGHM AJAX MINING INC.

To determine the recoverable amount of assets in individual CGUs during the testing, their fair value measurement was made (less costs to sell), using the DCF method, i.e. the method of discounted cash flows.

The fair value was classified to level 3 of the fair value hierarchy.

BASIC MACROECONOMIC ASSUMPTIONS ADOPTED TO CALCULATE FAIR VALUE OF KGHM INTERNATIONAL LTD'S ASSETS IN THE IMPAIRMENT TESTING	
Assumption	**Level adopted for testing**
Copper price	The copper price curve was adopted based on internal macroeconomic assumptions which were prepared based on available multi-year forecasts of financial and analytical institutions. A detailed forecast is being prepared for the period 2016 – 2020, however, the price for 2021 and onwards is assumed to be, according to a long-term stable forecast, 7 075 USD/t.

OTHER KEY ASSUMPTIONS USED FOR FAIR VALUE ESTIMATION OF ASSETS OF CGUs						
Assumption	**Robinson**	**Sudbury**	**Franke**	**Carlota**	**Sierra Gorda**	**KGHM AJAX**
Mine life/forecast period	11 years	19 years	4 years	5 years	40 years	21 years
Level of copper production during mine life [kt]	531	378	66	14	10 750	1 090
Average operating margin during mine life	33.6%	62.3%	-9.1%	27.4%	41.8%	41.9%
Capital expenditures to be incurred during mine life (USD million)	805	1 446	5	-	5 623 (will be incurred mainly in 2017-2020)	1 544
Applied discount rate after taxation for assets in the operational phase	9%	8%	11%	10%	8%	-
Applied discount rate after taxation for assets in the pre-operational phase	-	12%	-	-	11%	9%
Costs to sell	2%					

Results of the test performed as at 31 December 2015 are presented in the following table:

CGU	Segment (Note 2)	Carrying amount		Recoverable amount		Impairment loss	
		USD	PLN	USD	PLN	USD	PLN
Robinson	KGHM INTERNATIONAL LTD.	342	1 334	130	507	212	827
Sudbury	KGHM INTERNATIONAL LTD.	690	2 692	453	1 767	237	925
Franke	KGHM INTERNATIONAL LTD.	59	230	-	-	59	230
Carlota	KGHM INTERNATIONAL LTD.	-	-	26	101	-	-
KGHM AJAX MINING INC.	KGHM INTERNATIONAL LTD.	170	663	180	702	-	-
Sierra Gorda (55%)	KGHM INTERNATIONAL LTD.	309	1 205	137	534	172	671
	Sierra Gorda S.C.M.	972	3 790	-	-	972	3 790
Total						**1 652**	**6 443**

Impairment losses are recognised in the following items:

Cost of sales	2 386
Other operating income and costs	66
Impairment loss on interest in a joint venture	671
Impairment loss recognised in participation in a joint venture accounted for using the equity method	4 399
Income tax on recognised impairment losses	(1 079)
Total impairment losses, net	**6 443**

The performed sensitivity analysis of the fair value shows that the key assumptions adopted for impairment testing are the adopted price curves and the discount rate. Assumptions concerning the price curves and the discount rate were adopted while taking into account the professional judgment of the Parent Entity's Management Board with respect to the future fluctuations of these amounts, which was reflected in the calculation of the recoverable amount. For the purposes of monitoring the risk of impairment of tested assets in subsequent reporting periods, it was determined that adopting discount rates higher, on average, by percentage point, would result in the following impairment loss: for the CGU Sierra Gorda at the level of PLN 5 895 million, for other CGUs at the level of PLN 2 723 million, while adopting lower price curves (on average by 1%) would result in the following impairment loss: for the CGU Sierra Gorda at the level of PLN 5 897 million, for other CGUs at the level of PLN 2 220 million.

amounts in PLN millions, unless otherwise stated

PART 4 – Explanatory notes to the statement of profit or loss and the statement of other comprehensive income

Note 4.1. Expenses by nature

		2015	2014
Note 9.3	Depreciation of property, plant and equipment and amortisation of intangible assets*	2 015	1 635
Note 11.1	Employee benefits expenses	4 706	4 704
	Materials and energy	7 264	7 607
	External services	2 110	1 813
Note 5.2	Minerals extraction tax	1 439	1 520
Note 5.2	Other taxes and charges	504	488
	Advertising costs and representation expenses	75	77
	Property and personal insurance	31	31
Part 3	Impairment losses on property, plant and equipment and intangible assets	2 417	43
	Other costs	265	195
	Total expenses by nature	**20 826**	**18 113**
	Cost of merchandise and materials sold (+)	505	534
	Change in inventories of finished goods and work in progress (+/-)	(4)	5
	Cost of manufacturing products for internal use (-) (mainly stripping costs of surface mines)	(1 825)	(1 513)
	Total cost of sales, selling costs and administrative expenses, including:	**19 502**	**17 139**
	Cost of sales	18 159	15 751
	Selling costs	413	390
	Administrative expenses	930	998

*Depreciation of property, plant and equipment and amortisation of intangible assets recognised in expenses by nature in the amount of PLN 2 015 million was settled in profit or loss in the amount of PLN 1 943 million; the remaining amount was recognised in inventories, property, plant and equipment and intangible assets.

amounts in PLN millions, unless otherwise stated

Note 4.2. Other operating income and costs

		2015	2014
Note 7.2	Gains on the measurement and realisation of derivatives	121	258
	Foreign exchange gains on liabilities other than borrowings	143	146
	Other	216	236
	Total other operating income	**480**	**640**
Note 7.2	Losses on the measurement and realisation of derivatives	361	430
Note 7.3	Impairment loss on available-for-sale assets	265	14
	Impairment loss on fixed assets under construction and intangible assets not yet available for use	292	1
	Other	222	139
	Total other operating costs	**1 140**	**584**
	Other operating income and costs	**(660)**	**56**

Note 4.3. Finance costs

	2015	2014
Interest on borrowings	156	123
Exchange differences on borrowings	29	126
Other	121	77
Total finance costs	**306**	**326**

amounts in PLN millions, unless otherwise stated

PART 5 – Taxation

Note 5.1. Income tax in the consolidated statement of profit or loss

Accounting policies
Income tax recognised in profit or loss comprises current tax and deferred tax. Current income tax is calculated in accordance with current tax laws.

Income tax

	Income tax	2015	2014
	Current income tax	895	868
Note 5.1.1	Deferred income tax	(1 008)	(221)
	Income tax	**(113)**	**647**

In 2015, the Group entities paid income tax in the amount of PLN 925 million (in 2014: PLN 868 million) to appropriate tax offices.

The table below presents identification of differences between income tax from profit before tax for the Group and the income tax which could be achieved if the Parent Entity's tax rate was applied:

Reconciliation of effective tax rate

	2015	2014
Profit/(loss) before tax	**(5 122)**	**3 098**
Tax calculated using the Parent Entity's rate (2015: 19%, 2014: 19%)	(973)	589
Effect of applying other tax rates abroad	(430)	(51)
Remeasurement of deferred tax liabilities due to changes in tax law in Chile	-	(290)
SCT (Second Category Tax) adjustment due to impairment losses on investment in a joint venture	515	-
Minerals extraction tax, which is not deductible for corporate income tax purposes	274	289
Deductible temporary differences on which deferred tax assets were not recognised	770	85
Utilisation of previously-unrecognised tax losses	(275)	(52)
Other	6	77
Income tax in profit or loss (effective tax rate amounted to: 2.2% (in 2014: 20.9%) of profit/(loss) before tax)	**(113)**	**647**

In Poland, tax bodies are empowered to audit tax declarations for a period of five years, although during this period companies may offset tax assets with tax liabilities being the income of the State Treasury (including due to current income tax). In Canada, tax declarations may be audited for a period of three years without the right to offset assets with liabilities due to current income tax.

PART 5 – Taxation amounts in PLN millions, unless otherwise stated

Note 5.1.1. Deferred income tax

Accounting policies	Significant estimates and assumptions
Deferred tax is determined using tax rates and laws that are expected to be applicable when the asset is realised or the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period. Deferred tax liabilities and deferred tax assets are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the exception of temporary differences arising from initial recognition of assets or liabilities in transactions other than business combinations. Deferred tax assets are recognised if it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised. Deferred tax assets and liabilities are offset if the company has a legally enforceable right to set off current tax assets and current tax liabilities, and if the deferred tax assets and deferred tax liabilities relate to income taxes levied on a given entity by the same tax authority.	The probability of realising the deferred tax assets with future tax income is based on the budgets of the companies of the Group. Companies of the Group recognise deferred tax assets in their accounting books to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Companies of the Group which historically have generated losses, and whose financial projections do not foresee the achievement of taxable profit enabling the deduction of deductible temporary differences, do not recognise deferred tax assets in their accounting books.

	2015	2014
Net deferred tax liabilities at the beginning of the period, of which:	**(1 141)**	**(1 275)**
Deferred tax assets at the beginning of the period	535	451
Deferred tax liabilities at the beginning of the period	(1 676)	(1 726)
Recognised in profit or loss	1 008	221
Recognised in other comprehensive income	96	105
Exchange differences from translation of deferred income tax of foreign operations	(120)	(192)
Net deferred tax liabilities at the end of the period, of which:	**(157)**	**(1 141)**
Deferred tax assets at the end of the period	557	535
Deferred tax liabilities at the end of the period	(714)	(1 676)

Maturities of deferred tax assets and deferred tax liabilities were as follows:

	Deferred tax assets		Deferred tax liabilities	
	2015	2014	2015	2014
Maturity over the 12 months from the end of the reporting period	384	369	698	1 482
Maturity of up to 12 months from the end of the reporting period	173	166	16	194
Total	**557**	**535**	**714**	**1 676**

PART 5 – Taxation amounts in PLN millions, unless otherwise stated

Expiry dates of unused tax losses and tax credits, for which deferred tax assets were not recognised in individual countries, were presented in the following table:

	2015				2014			
	Unused tax losses	Expiry date	Unused tax credits	Expiry date	Unused tax losses	Expiry date	Unused tax credits	Expiry date
Luxembourg	708	2020	-	-	546	2019	-	-
Chile	1 042	undefined	-	-	880	undefined	-	-
Canada	990	2032-2035	55	2015-2021	20	2032-2033	-	-
Other	291		108		193		100	
Total	**3 031**		**163**		**1 639**		**100**	

PART 5 - Taxation amounts in PLN millions, unless otherwise stated

Deferred tax assets

Deferred tax assets	1 January 2014	Credited/(Charged) profit or loss	Credited/(Charged) other comprehensive income	Credited/(Charged) exchange differences from translation of foreign operations	31 December 2014	Credited/(Charged) profit or loss	Credited/(Charged) other comprehensive income	Credited/(Charged) exchange differences from translation of foreign operations	31 December 2015
Provision for decommissioning of mines and other technological facilities	106	92	-	-	198	(21)	-	-	177
Measurement of forward transactions	310	(99)	-	-	211	(120)	-	-	91
Difference between the depreciation rates for accounting and tax purposes	265	(57)	-	30	238	(204)	-	16	50
Future employee benefits	320	15	71	-	406	8	(14)	(2)	398
Other	315	93	3	19	430	170	28	77	705
Total	**1 316**	**44**	**74**	**49**	**1 483**	**(167)**	**14**	**91**	**1 421**

Deferred tax liabilities

Deferred tax liabilities	1 January 2014	(Credited)/charged profit or loss	(Credited)/charged Income tax rate changes	(Credited)/charged other comprehensive income	(Credited)/charged exchange differences from translation of foreign operations	31 December 2014	(Credited)/Charged profit or loss	(Credited)/Charged other comprehensive income	(Credited)/Charged exchange differences from translation of foreign operations	31 December 2015
Measurement of forward transactions	163	(70)	-	-	-	93	(60)	-	-	33
Re-measurement of hedging instruments	118	-	-	(55)	-	63	-	(63)	-	-
Difference between the depreciation rates for accounting and tax purposes	602	356	-	-	(38)	920	(110)	9	294	1 113
Adjustments due to fair value measurement of KGHM INTERNATIONAL LTD. and realisation of adjustments to the end of the reporting period	579	(11)	-	-	185	753	(472)	-	-	281
Temporary differences from dividends income from the Sierra Gorda investment (a)	831	-	(290)	-	(30)	511	(515)	-	4	-
Other	298	(162)	-	24	124	284	(18)	(28)	(87)	151
Total	**2 591**	**113**	**(290)**	**(31)**	**241**	**2 624**	**(1 175)**	**(82)**	**211**	**1 578**

(a) As a result of the decrease in value of the Sierra Gorda investment, the financial result for 2015 was increased by PLN 515 million (USD 126 million at the average exchange rate announced by the NBP as at 31 December 2015) due to temporary differences from dividends income from the Sierra Gorda investment. As a result of tax rate changes in Chile in 2014, the Parent Entity credited the profit for 2014 in the amount of PLN 290 million (USD 91 million at the average exchange rate announced by the NBP as at 31 December 2014) due to temporary differences from dividends income from the Sierra Gorda investment.

PART 5 – Taxation amounts in PLN millions, unless otherwise stated

Note 5.2. Other taxes and charges

The following table presents the Minerals extraction tax with which the Parent Entity is charged.

	2015	2014	Basis for calculating tax	Tax rate	Presentation in the consolidated statement of profit or loss
Minerals extraction tax, of which:	**1 439**	**1 520**			
- copper	1 135	1 218	Amount of copper in produced concentrate, expressed in tonnes	Weighted average tax rate calculated for every reporting period*	Minerals extraction tax in expenses by nature, presented in note 4.1.
- silver	304	302	Amount of silver in produced concentrate, expressed in kilogrammes		

* in accordance with conditions specified by the Act dated 2 March 2012 on the minerals extraction tax.

The minerals extraction tax paid by the Parent Entity is calculated from the amount of copper and silver in produced concentrate and depends on the prices of these metals as well as on the USD/PLN exchange rate. The tax is accounted for under manufacturing costs of basic products and is not deductible for corporate income tax purposes.

Other taxes and charges, with a breakdown by geographical location, were as follows:

	2015	2014
Poland	**450**	**446**
Real estate tax	169	165
Royalties	108	103
Excise tax	48	52
Environmental fees	36	35
Other taxes and charges	89	91
Other countries	**54**	**42**
Total	**504**	**488**

Note 5.3. Tax assets and liabilities

Accounting policies

Tax assets comprise current income tax assets and the settlement related to VAT.

Assets not representing financial assets are initially recognised at nominal value and are measured at the end of the reporting period at the amount due.

Tax liabilities comprise the Group's liabilities towards the tax office arising from the corporate income tax, including due to the withholding tax, personal income tax and liabilities towards the Polish Customs Office due to the minerals extraction tax and the excise tax.

Liabilities not representing financial liabilities are measured at the amount due.

	2015	2014
Current corporate income tax assets	137	87
Assets due to taxes, social and health insurance and other benefits	405	358
Tax assets	**542**	**445**

	2015	2014
Current corporate income tax liabilities	184	164
Liabilities due to taxes, social and health insurance and other benefits	578	587
Tax liabilities	**762**	**751**

PART 6 – Involvement in joint ventures

Accounting policies

The item *involvement in joint ventures* comprises investments in joint ventures accounted for using the equity method and loans granted to joint ventures.

The Group classifies as investments accounted for using the equity method the interest in joint ventures which are joint contractual arrangements, in which the parties sharing control have the right to the net assets of a given entity. Joint control occurs when decisions on relevant activities of joint ventures require unanimous consent of the parties sharing control.

Investments are initially recognised at cost. The Group's share in profit or loss of entities accounted for using the equity method (assessed while taking into account the impact of measurements to fair value at the investment's acquisition date) from the acquisition date is recognised in profit or loss, and its share in changes of accumulated other comprehensive income from the acquisition date (in particular due to exchange differences from the translation of a foreign operation) – in the relevant item of accumulated comprehensive income.

Unrealised gains and losses on transactions between the investor and the joint venture are eliminated in the amount proportional to the investor's share in these profits/losses.

If there are any indications of impairment, an investment is tested for impairment by calculating the recoverable amount in accordance with the policy presented in Part 3.

Loans granted to a joint venture do not meet the criteria of recognition as net investments in a joint venture. Loans are initially recognised at fair value and measured at the reporting date at amortised cost, including impairment losses.

Significant estimates and assumptions

Joint control

In the current period, the most significant item classified by the Group as a joint venture under IFRS 11, is the "JV Sierra Gorda", in which KGHM INTERNATIONAL LTD's share equals 55%, and which was entered into to develop the mining of copper and molybdenum in the Sierra Gorda area (Chile).

Classification of Sierra Gorda S.C.M. as a joint venture agreement, despite the 55% share of the Group, was made based on analysis of the terms of the agreement between the parties and contractual stipulations which indicated joint control.

Start of depreciation of the Sierra Gorda's assets from allocation of the purchase price

As a result of the acquisition of KGHM INTERNATIONAL LTD., for the purpose of accounting for the acquisition price, the fair value of the Sierra Gorda project was estimated using the discounted cash flow method. The excess of the fair value over the carrying amount of the investment in Sierra Gorda S.C.M., which was recognised in the consolidated financial statements at USD 651 million (PLN 2 540 million at the average exchange rate as at 31 December 2015 announced by the NBP), is mainly related to the measurement of Sierra Gorda S.C.M.'s assets. The assets of Sierra Gorda S.C.M. (including measurement to fair value at the date of acquisition of KGHM INTERNATIONAL LTD.) have been depreciated since the beginning of commercial production, i.e. from 1 July 2015. In 2015, the depreciation amounted to USD 20 million (PLN 76 million at the arithmetical average of current exchange rates announced by the NBP at the end of each month in the second half of 2015).

Impairment loss

A key indication to perform impairment testing of the investment in Sierra Gorda S.C.M. was the decrease in market price of copper and molybdenum. As at 31 December 2015, before recognition of the impairment loss on shares, the carrying amount of share in Sierra Gorda S.C.M. amounted to USD 1 281 million (PLN 4 995 million at the average exchange rate as at 31 December 2015 announced by the NBP). To determine the recoverable amount in the performed test, a measurement was made of the fair value of the tested assets less costs to sell, making use of the DCF method, i.e. the method of discounted cash flows for net present value of a tested asset.

As a result of the performed test, the fair value of 55% share in Sierra Gorda S.C.M. less 2% of costs to sell was determined to be at the level of USD 137 million (PLN 534 million at the average exchange rate as at 31 December 2015 announced by the NBP). The carrying amount was higher than the fair value of the investment in Sierra Gorda S.C.M., and therefore an impairment loss was recognised in the amount of USD 1 144 million (PLN 4 461 million at the average exchange rate as at 31 December 2015).

The performed sensitivity analysis of the recoverable amount of the investment in Sierra Gorda S.C.M. shows that the key assumptions adopted for the impairment testing are the adopted price curves and the discount rate. Assumptions concerning the price curves and the discount rate were adopted while taking into account the professional judgment of the Parent Entity's Management Board with respect to the future fluctuations of these amounts which was reflected in the calculation of the recoverable amount. Assumptions adopted for testing were described in Part 3.

PART 6 – Involvement in joint ventures amounts in PLN millions, unless otherwise stated

Note 6.1 Joint ventures accounted for using the equity method

	2015		2014	
	Sierra Gorda S.C.M.	Other	Sierra Gorda S.C.M.	Other
At the beginning of the financial year	**4 333**	**30**	**3 686**	**34**
Share in the increased share capital	928	-	490	12
Share of losses of joint ventures accounted for using the equity method	(4 455)	(2)	-	(1)
Decrease in the value of investment due to tax law changes in Chile	-	-	(251)	-
Impairment loss on interest in a joint venture	(671)	-	-	(15)
Elimination of unrealised gains between the investor and the joint venture	(110)	-	(201)	-
Exchange differences from the translation of a foreign operation	509	-	609	-
At the end of the financial period	**534**	**28**	**4 333**	**30**

Information on entities accounted for using the equity method

		Main place of business	% of share capital held by the Group	% of voting power	Value of the investment in the consolidated statement of financial position	
	Jointly controlled entities				**2015**	**2014**
	Sierra Gorda S.C.M.	Chile	55	50	534	4 333
	Other	Poland			28	30
Note 6.1	**Total**				**562**	**4 363**

Condensed financial data of Sierra Gorda S.C.M. is presented in the table below.

	2015	2014
Non-current assets	**21 774**	**24 427**
Current assets, including:	**1 076**	**1 576**
Cash and cash equivalents	183	981
Non-current liabilities, including:	**18 762**	**16 084**
Liabilities due to bank loans	3 160	3 192
Liabilities due to loans granted by jointly-controlling entities	13 616	11 328
Current liabilities, including:	**1 698**	**1 470**
Liabilities due to bank loans	330	317
Net assets	**2 390**	**8 449**
Group share in net assets (55%)	1 315	4 647
Impairment loss on interest in Sierra Gorda S.C.M.	(671)	-
Adjustment by the value of unrealised gains	(110)	(314)
Value of the investment in the consolidated statement of financial position	**534**	**4 333**

	2015
Sales revenue	1 105
Depreciation/amortisation	(671)
Impairment loss on property, plant and equipment	(7 999)
Interest costs	(644)
Other costs	(1 331)
Loss before taxation	**(9 540)**
Income tax	**1 440**
Loss for the period	**(8 100)**
Total comprehensive income	**(8 100)**
The Group's share (55%) in loss for the period	**(4 455)**

PART 6 – Involvement in joint ventures amounts in PLN millions, unless otherwise stated

	Other information on the Group's interest in Sierra Gorda S.C.M. joint venture	
	2015	2014
Group's share in commitments (investment and operating)	2 510	4 038
Group's share in the total amount of future minimal payments due to leasing agreements for mining equipment	1 094	862
Guarantee of proper performance of agreements granted by the Group	855	823

Note 6.2 Loans granted to joint ventures (Sierra Gorda S.C.M.)

Accounting policies	Significant estimates and assumptions
Assets included, in accordance with IAS 39, in the category "loans and receivables" are initially recognised at fair value and measured at the reporting date at amortised cost using the effective interest rate, reflecting impairment.	The terms of repayment of loans granted to finance operations abroad, including planned repayment dates, were set in individual agreements. Pursuant to the schedule, the repayment was set at 2024. The start of repayment of loans by Sierra Gorda S.C.M. will depend on the company's financial standing. It is assumed in the long-term plans of Sierra Gorda S.C.M. that the loans will be repaid with interest. Due to the fact that settling the loan is planned and probable in the foreseeable future, the loan is not a net investment under IAS 21.15

	2015	2014
At the beginning of the financial year	**6 231**	**3 378**
Loans granted – cash granted	-	1 628
Accrued interest	466	282
Exchange differences from the translation of a foreign operation	807	943
At the end of the financial year	**7 504**	**6 231**

As at 31 December 2015 the loans granted by the Group amounted to PLN 7 504 million, i.e. USD 1 923 million (as at 31 December 2014: PLN 6 231 million, i.e. USD 1 777 million).

This item is represented by long term loans based on a fixed interest rate, granted by the KGHM INTERNATIONAL LTD. Group for the financing of the joint mining venture in Chile (the loan for Sierra Gorda S.C.M.). Both the principal amount and interest are paid on demand, but not later than 15 December 2024.

Credit risk related to the loan granted depends on the risk related to realisation of the mining project, and was determined by the Group to be moderate.

The loan was granted in the functional currency of KGHM INTERNATIONAL LTD. and therefore it is not associated with the currency risk.

The loan's interest rate is fixed and therefore it is exposed to changes in fair value due to interest rates volatility, but as the loans are measured at amortised cost, changes in the fair value of this loan are not recognised in the financial statements of the Group.

As at 31 December 2015, the fair value of the loan granted amounted to PLN 7 504 million (in 2014: PLN 6 231 million).

In 2015, interest income on the loan granted amounted to PLN 466 million (in 2014: PLN 282 million).

In order to limit the risk due to loans granted, the Group continuously monitors the borrower's financial standing and financial results.

amounts in PLN millions, unless otherwise stated

PART 7 – Financial instruments and financial risk management

Note 7.1 Financial Instruments

	Categories of financial assets in accordance with IAS 39	2015 Available-for-sale	2015 At fair value through profit or loss	2015 Loans and financial receivables	2015 Hedging instruments	2015 Total	2014 Available-for-sale	2014 At fair value through profit or loss	2014 Loans and financial receivables	2014 Hedging instruments	2014 Total
	Non-current	579	11	8 239	106	**8 935**	931	24	6 858	190	**8 003**
Note 6.3	Loans granted to joint ventures	-	-	7 504	-	7 504	-	-	6 231	-	**6 231**
Note 7.2	Derivatives	-	11	-	106	**117**	-	24	-	190	**214**
Note 7.3	Other financial instruments measured at fair value	579	-	-	-	**579**	931	-	-	-	**931**
Note 7.4	Other financial assets	-	-	735	-	**735**	-	-	627	-	**627**
	Current	84	1	2 203	6	**2 294**	57	34	2 504	243	**2 838**
Note 10.2	Trade receivables	-	-	1 541	-	**1 541**	-	-	1 890	-	**1 890**
Note 7.2	Derivatives	-	1	-	6	**7**	-	34	-	243	**277**
Note 8.5	Cash and cash equivalents	-	-	461	-	**461**	-	-	475	-	**475**
	Other financial assets	84	-	201	-	**285**	57	-	139	-	**196**
	Total	**663**	**12**	**10 442**	**112**	**11 229**	**988**	**58**	**9 362**	**433**	**10 841**

amounts in PLN millions, unless otherwise stated

	Categories of financial liabilities in accordance with IAS 39	2015 At fair value through profit or loss	2015 At amortised cost	2015 Hedging instruments	2015 Total	2014 At fair value through profit or loss	2014 At amortised cost	2014 Hedging instruments	2014 Total
	Non-current	**1**	**3 894**	**1 328**	**5 223**	1	2 135	1 174	**3 310**
Note 8.4	Borrowings and debt instruments	-	3 700	1 170	**4 870**	-	1 945	1052	**2 997**
Note 7.1	Derivatives	1	-	158	**159**	1	-	122	**123**
	Other financial liabilities	-	194	-	**194**	-	190	-	**190**
	Current	-	3 666	48	**3 714**	27	3 144	10	**3 181**
Note 8.4	Borrowings and debt instruments	-	2 145	-	**2 145**	-	1 813	-	**1 813**
Note 7.1	Derivatives	-	-	48	**48**	27	-	10	**37**
Note 10.4	Trade payables	-	1 418	-	**1 418**	-	1 209	-	**1 209**
	Other financial liabilities	-	103	-	**103**	-	122	-	**122**
	Total	1	7 560	1 376	**8 937**	**28**	**5 279**	**1 184**	**6 491**

Note 7.2 Derivatives

Accounting policies
Derivatives are classified as financial assets/liabilities held for sale, unless they have not been designated as hedging instruments. Regular way purchases or sales of derivatives are recognised at the trade date. Derivatives not designated as hedges are initially recognised at fair value and are measured at fair value at the end of the reporting period, with recognition of the gains/losses on measurement in profit or loss. The Group applies hedge accounting for cash flows. Hedge accounting aims at reducing volatility in the Group's profit or loss for the period, arising from periodic changes in the measurement of transactions hedging individual types of market risk to which the Group is exposed. Hedging instruments are derivatives as well as bank loans in foreign currencies. The designated hedges relate to the future sales transactions forecasted as assumed in the Sales Plan for a given year. These plans are prepared based on the production capacities for a given period. The Group estimates that the probability that these transactions will occur is very high, as from a historical point of view, sales were always realised at the levels assumed in Sales Plans. The Group may use natural currency risk hedging through the use of hedge accounting for bank loans denominated in USD, and designates them as positions hedging foreign currency risk, which relates to future revenues of the Group from sales of copper, silver and other metals, denominated in USD. Gains and losses arising from changes in the fair value of the cash flow hedging instrument are recognised in other comprehensive income, to the extent by which the change in fair value represents an effective hedge of the associated hedged item. The portion which is ineffective is recognised in profit or loss as other operating income or costs. Gains or losses arising from the cash flow hedging instrument are recognised in profit or loss as a reclassification adjustment, in the same period or periods in which the hedged item affects profit or loss. The Group ceases to account for derivatives as hedging instruments when they expire, are sold, terminated or settled, or when the Group revokes the designation of a given instrument as a hedging instrument. The Group may designate a new hedging relationship for a given derivative, change the intended use of the derivative, or designate it to hedge another type of risk. In such a case, for cash flow hedges, gains or losses which arose in the periods in which the hedge was effective are retained in other accumulated comprehensive income until the hedged item affects profit or loss. If the hedge of a forecasted transaction ceases to exist because it is probable that the forecasted transaction will not occur, then the net gain or loss recognised in other comprehensive income is immediately transferred to profit or loss as a reclassification adjustment.

Hedging derivatives – open items as at the end of the reporting period

Type of derivative	2015 Financial assets Current	2015 Financial assets Non-current	2015 Financial liabilities Current	2015 Financial liabilities Non-current	2015 Net total	2014 Financial assets Current	2014 Financial assets Non-current	2014 Financial liabilities Current	2014 Financial liabilities Non-current	2014 Net total
Derivatives – Commodity contracts - Metals - Copper										
Options										
Purchased put options						20	-	-	-	20
Seagull						205	20	-	-	225
TOTAL	-	-	-	-	-	**225**	**20**	**-**	**-**	**245**
Derivatives – Currency contracts										
Options USD										
Purchased put options						2	-	-	-	2
Collar*	6	106	(48)	(158)	**(94)**	16	170	(10)	(122)	54
TOTAL	**6**	**106**	**(48)**	**(158)**	**(94)**	**18**	**170**	**(10)**	**(122)**	**56**
TOTAL HEDGING INSTRUMENTS	**6**	**106**	**(48)**	**(158)**	**(94)**	**243**	**190**	**(10)**	**(122)**	**301**

* Derivatives – currency contracts Collar - 2015

Notional Currency [USD thousands]	Avg. weighted exchange rate [USD/PLN]	Maturity/ settlement period From	Maturity/ settlement period Till	Period of profit/loss impact From	Period of profit/loss impact Till
2 200	3.4365-4.2216	Jan 16	Dec 18	Jan 16	Dec 18

PART 7 – Financial Instruments and financial risk management amounts in PLN millions, unless otherwise stated

The fair value measurement of derivatives was classified under level 2 of the fair value hierarchy (i.e. measurement which applies observable inputs other than quoted prices):

- In the case of forward currency purchase or sell transactions, the forward prices from the maturity dates of individual transactions were used to determine their fair value. The forward price for currency exchange rates is based on fixing and appropriate interest rates. Interest rates for currencies and the volatility ratios for exchange rates are taken from Reuters. The standard German-Kohlhagen model is used to measure European options on currency markets.

- In the case of forward commodity purchase or sell transactions, forward prices from the maturity dates of individual transactions are used to determine their fair value. In the case of copper, official closing prices from the London Metal Exchange as well as volatility ratios at the end of the reporting period are from Reuters. With respect to silver and gold the fixing price set by the London Bullion Market Association is used, for the purpose of valuation at the end of the reporting period. In the case of volatility and forward prices, quotations given by Banks/Brokers are used. Forwards and swaps on the copper market are priced based on the forward market curve, and in the case of silver forward prices are calculated based on fixing and the respective interest rates. Levy approximation to the Black-Scholes model is used for Asian options pricing on commodity markets.

The impact of derivatives on the statement of profit or loss and on the statement of comprehensive income is presented below:

		Impact of derivatives and hedging transactions	
	Statement of profit or loss	**2015**	**2014**
	Sales revenue	482	531
	Other operating and finance income/costs:	(252)	(172)
	On realisation of derivatives	(105)	(68)
	On measurement of derivatives	(147)	(104)
	Impact of derivatives on profit or loss for the period	**230**	**359**
	Statement of comprehensive income in the part concerning other comprehensive income		
	Impact of hedging transactions	(447)	(304)
Note 8.2.2	Impact of measurement of hedging transactions (effective portion)	35	227
Note 8.2.2	Reclassification to sales revenues due to realisation of a hedged item	(482)	(531)
	TOTAL COMPREHENSIVE INCOME	**(217)**	**55**

PART 7 – Financial Instruments and financial risk management amounts in PLN millions, unless otherwise stated

Note 7.3 Other financial instruments measured at fair value

Accounting policies	Major estimates
The item "financial instruments measured at fair value" includes financial assets classified, in accordance with IAS 39, to "available-for-sale financial assets". This category mainly includes shares not available for sale in the short term. Available-for-sale financial assets are initially measured at fair value plus transaction costs, and at the end of the reporting period they are measured at fair value with gains and losses on measurement recognised in other comprehensive income, up to the moment when impairment occurs, which is recognised in profit or loss. Listed shares are measured based on the closing price as at the end of the reporting period. If there are indications that an impairment has occurred (in particular a significant or prolonged decrease in the fair value of an equity instrument below cost) then the total amount of losses incurred to date which are recognised in other comprehensive income are transferred to profit or loss. An impairment loss is reversed through other comprehensive income.	Analysis of the market value of shares compared to their purchase price is performed at the end of each quarter. In accordance with the adopted accounting policy, the Group recognises, as indications to perform impairment testing of the carrying amount of assets, a significant decrease in fair value (by 20%) or a prolonged decline of fair value (a period of 12 months) when compared to the carrying amount of assets. The most significant item of available-for-sale financial assets are the shares of Tauron Polska Energia S.A., listed on the Warsaw Stock Exchange. During the year, the fair value of shares fluctuated, and as at 31 December 2015 it achieved a level lower than their carrying amount. As a result, in 2015 an impairment loss was recognised in the amount of PLN 395 million, which decreased other comprehensive income by PLN 133 million and decreased the financial result by PLN 262 million. As at 31 December 2015 the carrying amount of the shares of Tauron Polska Energia S.A. amounted to PLN 524 million (as at 31 December 2014, PLN 920 million).

	2015	2014
Shares in companies listed on a stock exchange (Warsaw Stock Exchange and TSX Venture Exchange)	611	978
Other	52	10
Financial assets measured at fair value	**663**	**988**

The measurement of listed shares is classified to level 1 of the fair value hierarchy (i.e. measurement is based on the prices of these shares listed on an active market at the measurement date).

Due to investments in listed companies, the Group is exposed to price risk. Changes in the share prices of these companies, resulting from current macroeconomic conditions, may significantly impact the amount of other comprehensive income and the accumulated amount recognised in equity. In the case of a significant or prolonged decrease in the fair value of these shares compared to their purchase price, the Group is exposed to the risk of a change in the profit or loss arising from the recognition of an impairment loss (transfer of the amount of the loss from other comprehensive income to profit or loss).

The following table presents the sensitivity analysis of listed companies' shares to price changes (as at 31 December):

	2015	Percentage change of share price		2014	Percentage change of share price	
		74%	-20%		13%	-20%
	Carrying amount	Other comprehensive income	Profit or loss	Carrying amount	Other comprehensive income	Profit or loss
Listed shares	**611**	454	(124)	**978**	130	(24)

PART 7 – Financial Instruments and financial risk management amounts in PLN millions, unless otherwise stated

Note 7.4 Other non-current financial assets

Accounting policies	Major estimates
The item other financial assets includes financial assets designated to cover the costs of decommissioning mines and restoring tailings storage facilities (accounting policy with respect to the obligation to decommission mines and restore tailings storage facilities is presented in Note 9.4) and other financial assets not classified to other items. Assets included, in accordance with IAS 39, in the category "loans and receivables", are initially recognised at fair value and measured at the reporting date at amortised cost using the effective interest rate, reflecting impairment.	Sensitivity analysis on the risk of changes in interest rates on cash on bank accounts of the Mine Closure Fund and Tailings Storage Facility Restoration Fund and of investments in debt instruments is presented in Note 7.5.1.4.

	2015	2014
Non-current financial assets designated for decommissioning mines and restoring tailings storage facilities	**371**	**358**
Cash held in the Mine Closure Fund and Tailings Storage Facility Restoration Fund	303	297
Debt instruments	68	61
Other non-current financial receivables, including:	**364**	**269**
Management fee for Sierra Gorda S.C.M.	219	109
Total	**735**	**627**

As at 31 December 2015, non-current financial assets for decommissioning mines and restoration of tailings storage facilities was presented by cash and debt instruments in the amount of PLN 371 million (2014: PLN 358 million) collected by the Parent Entity and the KGHM INTERNATIONAL LTD. Group based on obligations resulting among others from the Law on Geology and Mining, and the Waste Act as well as from laws applicable in the United States of America and Canada.

Other non-current financial assets designated for decommissioning mines and restoring tailings storage facilities are exposed to the credit risk described in Note 7.5.2.4.
Details regarding measurement of the provision for the decommissioning costs of mines and other technological facilities is described in Note 9.4.

Note 7.5 Financial risk management

In the course of its business activities the Group is exposed to the following main financial risk factors:

- market risk factors:
  - commodity risk,
  - risk of changes in foreign exchange rates,
  - risk of changes in interest rates,
  - price risk related to investments in debt instruments,
  - price risk related to investments in shares of listed companies (Note 7.3),
- credit risk, and
- liquidity risk (the process of financial liquidity management is described in Note 8).

The Group identifies and measures financial risk on an ongoing basis, and also takes actions aimed at minimising their impact on the financial position.

The Parent Entity manages identified financial risk factors in a conscious and responsible manner, using the adopted Market Risk Management Policy, the Financial Liquidity Management Policy and the Credit Risk Management Policy. The process of financial risk management in the Parent Entity is supported by the work of the Market Risk Committee, the Financial Liquidity Committee and the Credit Risk Committee.

Financial liquidity management in the Parent Entity is based on the Financial Liquidity Management Policy adopted by the Management Board. In KGHM INTERNATIONAL LTD. liquidity management principles are described in the Investment Policy. These documents describe the process of financial liquidity management while considering the specific character of the Group's companies, indicating procedures and instruments consistent with best practices. The Parent Entity oversees the process of liquidity management and acquiring external financing in the Group.

Note 7.5.1 Market risk

The market risk to which the Group is exposed to is understood as the possible occurrence of negative impact on the Group's results arising from changes in the market prices of commodities, exchange rates, interest rates, and debt instruments, as well as the share prices of listed companies.

Note 7.5.1.1 Principles and techniques of market risk management

In market risk management (especially commodity and currency risk) the scale and profile of activities of the Parent Entity and of mining companies of the KGHM INTERNATIONAL LTD. is of the greatest significance and impact on the results of the KGHM Polska Miedź S.A. Group.

The Parent Entity actively manages market risk by taking actions and making decisions in this regard within the context of the KGHM Polska Miedź S.A. Group's global exposure as a whole.

In accordance with the adopted policy, the goals of the market risk management process in the Group are as follows:

- limit volatility in the financial result;
- increase the probability of meeting budget targets;
- decrease the probability of losing financial liquidity;
- maintain financial health; and
- support the process of strategic decision making related to investing, including financing sources.

The objectives of market risk management should be considered as a whole, and their realisation is determined mainly by the Group's internal situation and market conditions.

The goals of market risk management at the Group level are achieved through their realisation in individual mining companies of the Group, with the coordination of these activities at the Parent Entity's level, in which key tasks related to the process of market risk management in the Group were centralised (such as coordination of the identification of sources of exposure to market risk, proposing hedging strategies, contacting financial institutions in order to sign, confirm and settle derivative transactions, and calculating measurements to fair value).

The primary technique used by the Parent Entity and KGHM INTERNATIONAL LTD. in market risk management is the utilisation of hedging strategies involving derivatives. Natural hedging is also used. Some other domestic companies of the Group make use of derivatives. However, only the Parent Entity applies hedging strategies, as understood by hedge accounting.

Taking into account the potential scope of their impact on the Group's results, the market risk factors were divided into groups:

	Group	Market risk	Approach to risk management
Note 7.2	Group I – with the greatest impact on the Group's total exposure to market risk	Copper price	A strategic approach is applied to this group, aimed at systematically building up a hedging position comprising production and revenues from sales for subsequent periods while taking into account the long-term cyclical nature of various markets. A hedging position may be restructured before it expires.
Note 7.2		Silver price	
Note 7.2		USD/PLN exchange rate	
Note 7.2	Group II – other exposures to market risk	Prices of other metals and merchandise	This group is tactically managed - which means taking advantage, on an ad-hoc basis, of favourable market conditions.
Note 7.2		Other exchange rates	
Note 7.2		Interest rates	

In market risk management various approaches are applied for particular, identified exposure groups.

The Parent Entity considers the following factors when selecting hedging strategies or restructuring hedging positions: current and forecasted market conditions, the internal situation of the Entity, the effective level and cost of hedging, and the impact of the minerals extraction tax.

The Parent Entity applies an integrated approach to managing the market risk to which it is exposed. This means a comprehensive approach to market risk, and not to each element individually. An example is the hedging transactions on the currency market, which are closely related to contracts entered into on the metals market. The hedging of metals sales prices determines the probability of achieving specified revenues from sales in USD, which represent a hedged position for the strategy on the currency market.

The Parent Entity only executes these derivatives which it has the ability to evaluate internally, using standard pricing models appropriate for a particular type of derivative, and which can be traded without significant loss of value with a counterparty other than the one with whom the transaction was initially entered into. In evaluating the market value of a given instrument, the Parent Entity uses information obtained from leading information services, banks, and brokers.

The Market Risk Management Policy in the Group permits the use of the following types of instruments:

- swaps;
- forwards and futures;
- options; and
- structures combining the above instruments.

The instruments applied may be, therefore, either of standardised parameters (publicly traded instruments) or non-standardised parameters (over-the-counter instruments). The primary instruments applied are cash flow hedging instruments meeting the requirements for effectiveness as understood by hedge accounting. The effectiveness of the financial hedging instruments applied by the Parent Entity in the reporting period is continually monitored and assessed (details in Note 7.2 Accounting policies).

The Parent Entity quantifies its market risk exposure using a consistent and comprehensive measure. Market risk management in the Group is supported by simulations (such as scenario analysis, stress-tests, backtests) and calculated risk measures. The risk measures being used are mainly based on mathematical and statistical modelling, which uses historical and current market data concerning risk factors and takes into consideration the current exposure to market risk.

One of the measures used as an auxiliary tool in making decisions in the market risk management process in the Parent Entity is EaR - Earnings at Risk. This measure indicates the lowest possible level of profit for the period for a selected level of confidence (for example, with 95% confidence the profit for a given year will be not lower than…). The EaR methodology enables the calculation of profit for the period incorporating the impact of changes in market prices of copper, silver and foreign exchange rates in the context of budgeted results. EBITDA-at-Risk ratio is calculated for both the KGHM INTERNATIONAL LTD. Group and JV Sierra Gorda S.C.M.

Due to the risk of production cutbacks (for example because of force majeure) or failure to achieve planned foreign currency revenues, as well as purchases of metals contained in purchased materials, limits with respect to commitment in derivatives have been set.

For the Parent Entity limits on metals and currency markets were set at:

- up to 85% of planned, monthly sales volume of copper, silver and gold from own concentrates, while: for copper and silver - up to 50% with respect to instruments which are obligations of the Parent Entity (for financing the hedging strategy), and up to 85% with respect to instruments representing the rights of the Parent Entity,
- up to 85% of planned, monthly revenues from the sale of products from own concentrates in USD or of the monthly, contracted net currency cash flows in the case of other currencies. For purposes of setting the limit, expenses for servicing the debt denominated in USD decrease the nominal amount of exposure to be hedged.

With respect to the risk of changes in interest rates, the Parent Entity has set a limit of commitment in derivatives of up to 100% of the debt's nominal value in every interest period, as stipulated in the signed agreements.

For selected mining companies in the Group, limits were set for using derivatives on the copper and currency markets at the same levels as those functioning in the Parent Entity, while with respect to transactions on the nickel, silver and gold markets the limits were set as up to 60% of planned, monthly sales volume of these metals from own concentrates.

These limits are in respect both of hedging transactions as well as of the instruments financing these transactions.

The maximum time horizon within which the Group decides to limit market risk is set in accordance with the technical and economic planning process and amounts to 5 years, whereas in terms of interest rate risk, the time horizon reaches up to the maturity date of the long-term financial liabilities of the Group.

Note 7.5.1.2. Commodity risk

The Parent Entity is exposed to the risk of changes in the prices of the metals it sells: copper, silver, gold and lead. Furthermore, the KGHM INTERNATIONAL LTD. Group is exposed to the risk of changes in the prices of copper, gold, nickel, molybdenum, platinum and palladium.

In the Parent Entity and the KGHM INTERNATIONAL LTD. Group, the price formulas used in physical delivery contracts are mainly based on average monthly quotations from the London Metal Exchange for copper and other common metals and from the London Bullion Market for precious metals. Within the commercial policy, the Parent Entity and KGHM INTERNATIONAL LTD. set the price base for physical delivery contracts as the average price of the appropriate future month.

The permanent and direct link between sales proceeds and metals prices, without similar relationships on the expenditures side, results in a strategic exposure. In turn, operating exposure is a result of possible mismatches in the pricing of physical contracts with respect to the Group's benchmark profile, in particular in terms of the reference prices and the quotation periods.

On the metals market, the Group has a so-called long position, which means it has higher sales than purchases. The analysis of the Group's strategic exposure to market risk should be performed by deducting from the volume of metals sold the amount of metal in purchased materials.

In the reporting and comparable periods the Group's strategic exposure to the risk of changes in the price of its primary metals is presented below:

	2015			2014		
	Net	Sales	Purchases	Net	Sales	Purchases
Copper [t]	504 308	668 887	164 579	491 173	653 226	162 093
Silver [t]	1 218	1 245	27	1 229	1 262	33
Nickel [t]	2 313	2 313	-	3 175	3 175	-

The notional amount of copper price hedging strategies settled in 2015 represented approx. 8% (in 2014: 15%) of the total sales of this metal realised by the Parent Entity. In 2015 and in 2014, the revenues from sales of silver were not hedged by derivatives.

In 2015 the Parent Entity did not implement any copper price or silver price hedging strategies. As a result as at 31 December 2015 the Parent Entity did not hold any open transactions in derivatives on the commodity market. However, during the comparable period it held a position on the copper market.

In 2015, neither KGHM INTERNATIONAL LTD. nor any of selected mining companies implemented any forward transactions on the commodity market. As at 31 December 2015, the risk of changes in metals prices was related only to derivatives embedded in the long-term contracts for supply of sulphuric acid and water.

The table below presents a sensitivity analysis of the Group to the risk of changes in metals prices, as at 31 December 2015:

Financial assets and liabilities	Value at risk	Carrying amount 31.12.2015	Copper price [USD/t] 6 144 +31%		3 566 -24%	
	[PLN million]	[PLN million]	profit or loss	other comprehensive income	profit or loss	other comprehensive income
Embedded derivatives	-	-	(3)	-	23	-
		Impact on profit or loss	**(3)**		**23**	
		Impact on other comprehensive income		**-**		**-**

Financial assets and liabilities	Value at risk [PLN million]	Carrying amount 31.12.2014 [PLN million]	Copper price [USD/t] 8 097 +27%		4 807 -24%	
			Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income
Derivatives – Commodity contracts - Metals	**244**	**244**	39	(237)	(28)	257
Embedded derivatives	**32**	**32**	(40)		80	
		Impact on profit or loss	**(1)**		**52**	
		Impact on other comprehensive income		**(237)**		**257**

Sensitivity analysis for significant types of market risk, to which the Group is exposed, presents the estimated impact of potential changes in individual risk factors (at the end of reporting period) on profit or loss and other comprehensive income.

Note 7.5.1.3 Risk of changes in foreign exchange rates

Regarding the risk of changes in foreign exchange rates within the KGHM Polska Miedź S.A. Group, the following types of exposures were identified:

- transaction exposure related to the volatility of cash flows in the base currency;
- exposure related to the volatility of selected items of the statement of financial position in the base (functional) currency;
- the exposure to net investments in foreign operations concerning volatility of consolidated equity in the Group's base currency (presentation currency).

The transaction exposure to currency risk stems from cash flow-generating contracts, whose values expressed in the base (functional) currency depend on future levels of exchange rates of the foreign currencies with respect to the base currency. Cash flows exposed to currency risk may possess the following characteristics:

- denomination in the foreign currency – cash flows are settled in foreign currencies other than the functional currency; and
- indexation in the foreign currency – cash flows may be settled in the base currency, but the price (i.e. of a metal) is set in a different foreign currency.

The key source of exposure to currency risk in the Parent Entity's business operations are the proceeds from sales of products (with respect to metals prices, processing and producer margins).
The exposure to currency risk derives also from items in the consolidated statement of financial position denominated in foreign currencies, which under the existing accounting regulations must be, upon settlement or periodic valuation, including due to the translation of foreign operations statements, translated by applying the current exchange rate of the foreign currencies versus the base (functional) currency. Changes in the carrying amounts of such items between valuation dates result in the volatility of profit or loss for the period or of other comprehensive income.

Items in the consolidated statement of financial position which are exposed to currency risk concern in particular:

- trade receivables and payables related to purchases and sales denominated in foreign currencies;
- financial receivables due to loans granted in foreign currencies;
- financial liabilities due to borrowings in foreign currencies; and
- cash and cash equivalents in foreign currencies.

In 2015, transactions hedging sales revenues for the total notional amount of USD 1 095 million and a time horizon falling from April 2015 to December 2018 (including USD 135 million for 2015) were implemented by the Parent Entity for the currency market. Put options (European options) and collar option strategies (i.e. purchased put options and sold call options) were used. In the case of the currency market, hedged revenues from sales represented approx. 29% (in 2014: 26%) of total revenues from metals sales realised by the Parent Entity.

With respect to currency risk management whose source is borrowing, the Parent Entity uses natural hedging by borrowing in currencies in which it has revenues. As at 31 December 2015, bank loans and the investment loan which were drawn in USD, and following their translation to PLN they amounted to PLN 6 411 million.

As a result, as at 31 December 2015, the Parent Entity held a hedging position in derivatives for the planned revenues from sales of metals in the amount of USD 2 220 million, including: USD 960 million for 2016 and USD 1 020 million for 2017 and USD 240 million for 2018. In addition, the first instalment of the loan granted by the European Investment Bank (in the amount of USD 300 million) hedges revenues from sales against the risk of changes in foreign exchange rates for the period from October 2017 to October 2026.
The condensed table of open transactions in derivatives on the currency market owned by the Parent Entity is presented below:

	Instrument	Notional [USD million]	Option strike price [USD/PLN] Sold call option	Option strike price [USD/PLN] Purchased put option	Average weighted premium [PLN for USD 1]	Effective hedge price [USD/PLN]	Participation limited to [USD/PLN]
I half	Collar	180	4.0000	3.2000	(0.0525)	3.1475	4.0000
	Collar	180	4.2000	3.3000	(0.0460)	3.2540	4.2000
	Collar	120	4.4000	3.5500	(0.0448)	3.5052	4.4000
	Total	**480**					
II half	Collar	180	4.0000	3.2000	(0.0553)	3.1447	4.0000
	Collar	180	4.2000	3.3000	(0.0473)	3.2527	4.2000
	Collar	120	4.4000	3.5500	(0.0468)	3.5032	4.4000
	Total	**480**					
	TOTAL 2016	**960**					
I half	Collar	270	4.0000	3.3500	(0.0523)	3.2977	4.0000
	Collar	180	4.4000	3.5500	(0.0477)	3.5023	4.4000
	Collar	60	4.5000	3.7500	(0.0300)	3.7200	4.5000
	Total	**510**					
II half	Collar	270	4.0000	3.3500	(0.0524)	3.2976	4.0000
	Collar	180	4.4000	3.5500	(0.0487)	3.5013	4.4000
	Collar	60	4.5000	3.7500	(0.0330)	3.7170	4.5000
	Total	**510**					
	TOTAL 2017	**1 020**					
I half	Collar	120	4.5000	3.7500	(0.0375)	3.7125	4.5000
II half	Collar	120	4.5000	3.7500	(0.0342)	3.7158	4.5000
	TOTAL 2018	**240**					

Some of the Group's Polish companies managed the currency risk related to their core business by opening hedging positions on the USD/PLN, EUR/PLN and GBP/PLN markets. The table of open transactions as at 31 December 2015 is not presented, due to its immateriality for the Group.
The currency structure of financial instruments exposed to currency risk is presented in the table below:

Financial instruments	Value at risk as at 31 December 2015			Value at risk as at 31 December 2014		
	total PLN million	USD million	EUR million	total PLN million	USD million	EUR million
Trade receivables	**1 098**	235	42	**1 386**	341	45
Cash and cash equivalents	**282**	61	10	**287**	69	11
Loans granted	**7 504**	1 923	-	**6 231**	1 777	-
Other financial assets	**571**	146	-	**249**	80	-
Derivatives	**(83)**	3	-	**331**	78	-
Trade payables	**(304)**	(44)	(31)	**(298)**	(47)	(31)
Borrowings and debt instruments	**(6 867)**	(1 740)	(110)	**(4 650)**	(1 307)	(15)
Other financial liabilities	**(28)**	(6)	(1)	**(35)**	(9)	(1)

The sensitivity analysis of the Group for currency risk as at 31 December 2015 is presented in the table below:

Financial assets and liabilities	Value at risk	Carrying amount 31.12.2015	USD/PLN 4.57 +17%		USD/PLN 3.30 -16%		EUR/PLN 4.74 +11%	EUR/PLN 3.88 -9%
	[PLN million]	[PLN million]	profit or loss	other comprehensive income	profit or loss	other comprehensive income	profit or loss	profit or loss
Trade receivables	1 098	1 541	127	-	(115)	-	17	(13)
Cash and cash equivalents	282	461	33	-	(30)	-	4	(3)
Loans granted to joint ventures	7 504	7 504	1 042	-	(942)	-	-	-
Other financial assets	571	1 020	79	-	(71)	-	-	-
Derivatives	(83)	(83)	(92)	(839)	299	288	(10)	8
Trade payables	(304)	(1 418)	(24)	-	22	-	-	-
Borrowings and debt instruments	(6 867)	(7 015)	(726)	(201)	656	181	(43)	34
Other financial liabilities	(28)	(297)	(3)	-	3	-	-	-
		Impact on profit or loss	**436**		**(178)**		**(32)**	**26**
		Impact on other comprehensive income		**(1 040)**		**469**		

The sensitivity analysis of the Group for currency risk as at 31 December 2014 is presented in the table below:

Financial assets and liabilities	Value at risk	Carrying amount 31.12.2014	USD/PLN 4.07 +16%		USD/PLN 2.98 -15%		EUR/PLN 4,72 +11%	EUR/PLN 3.88 -9%
	[PLN million]	[PLN million]	profit or loss	other comprehensive income	profit or loss	other comprehensive income	profit or loss	profit or loss
Trade receivables	1 386	1 890	155		(146)	-	17	(14)
Cash and cash equivalents	287	475	31	-	(29)	-	4	(3)
Loans granted to joint ventures	6 231	6 231	810	-	(759)	-	-	-
Other financial assets	283	823	37	-	(34)	-	-	-
Derivatives	331	331	(364)	(120)	94	431	(10)	9
Trade payables	(298)	(1 384)	(21)	-	20	-	(11)	10
Borrowings and debt instruments	(4 650)	(4 810)	(459)	(169)	429	158	(6)	5
Other financial liabilities	(35)	(312)	(4)	-	4	-	-	-
		Impact on profit or loss	**185**		**(421)**		**(6)**	**7**
		Impact on other comprehensive income		**(289)**		**589**		

Note 7.5.1.4 Interest rate risk

In 2015 the Group was exposed to the risk of changes in interest rates due to loans granted to joint ventures, investing cash and using borrowings.

Positions with variable interest rates expose the Group to the risk of changes in cash flow from a given position as a result of changes in interest rates (i.e. it has an impact on the interest costs or income recognised in profit or loss). Positions with fixed interest rates expose the Group to the risk of fair value changes of a given position, but due to the fact that these positions are measured at amortised cost, the change in fair value does not affect their measurement and profit or loss.

The main items which are exposed to interest rate risk are presented below:

	2015			2014		
	Cash flow risk	Fair value risk	Total	Cash flow risk	Fair value risk	Total
Cash and cash equivalents	772*	-	772	774*	-	774
Loans granted	-	7 527	7 527	-	6 231	6 231
Borrowings and debt instruments	5 798**	1 182	6 980	1 925**	1 067	2 992

** Presented amounts include cash accumulated in special purpose funds: Mine Closure Fund and Tailings Storage Facility Restoration Fund*
*** Presented amounts include the preparation fee paid which decreases financial liabilities due to bank loans*

Transactions hedging the Parent Entity against an increase in the interest rate (LIBOR USD) were implemented in the first quarter of 2015 by purchasing call options (interest rate cap) with a 2.50 % interest rate, for the period from January 2016 to December 2018 and an average quarterly notional amount of USD 717 million. As a result as at 31 December 2015 the Parent Entity held open derivative transactions on the interest rate market for 2016 (average quarterly notional amount of USD 550 million), for 2017 (average quarterly notional amount of USD 700 million) and for 2018 (average quarterly notional amount of USD 900 million).

The table below presents the sensitivity analysis of the Group for interest rate risk with respect to positions with variable interest rates.

	2015		2014	
	+1.5%	-0.5%	+1.5%	-0.5%
Cash and cash equivalents	12	(4)	12	(4)
Borrowings and debt instruments	(87)	29	(29)	10
Derivatives – interest rate	53	(7)	-	-
Total impact on profit or loss	**(22)**	**18**	**(17)**	**6**

The condensed table of open transactions in derivatives on the interest rate market is presented below:

Instrument	Notional [USD million]	Option strike price [LIBOR 3M]	Average weighted premium [USD for USD 1 million hedged]	Average weighted premium [%]	Effective hedge level [LIBOR 3M]
Purchase of interest rate cap options, I quarter	400	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options, II quarter	500	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options, III quarter	600	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options, IV quarter	700	2.50%	734	0.29%	2.79%
AVERAGE IN 2016	**550**				
Purchase of interest rate cap options, I quarter	700	2.50%	734	0.29%	2.79%

PART 7 – Financial Instruments and financial risk management amounts in PLN millions, unless otherwise stated

Purchase of interest rate cap options, II quarter	700	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options, III quarter	700	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options, IV quarter	700	2.50%	734	0.29%	2.79%
AVERAGE IN 2017	**700**				
Purchase of interest rate cap options, I quarter	900	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options, II quarter	900	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options, III quarter	900	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options, IV quarter	900	2.50%	734	0.29%	2.79%
AVERAGE IN 2018	**900**				

Note 7.5.2 Credit risk

Credit risk is defined as the risk that the Group's counterparties will not be able to meet their contractual obligations. Credit risk is related to three main areas:

- the creditworthiness of the customers with whom physical sale transactions are undertaken;
- the creditworthiness of the financial institutions (banks/brokers) with whom, or through whom, hedging transactions are undertaken, as well as those in which free cash and cash equivalents are deposited; and
- the financial standing of subsidiaries - borrowers.

In particular, the sources of exposure to credit risk are:

- cash and cash equivalents and bank deposits;
- derivatives;
- trade receivables;
- loans granted;
- guarantees granted (Note 8.6); and
- other financial assets.

Note 7.5.2.1 Credit risk related to cash, cash equivalents and bank deposits

The Group periodically allocates free cash in accordance with the requirements to maintain financial liquidity and limit risk and in order to protect capital and maximise interest income.

All entities with which deposit transactions are entered into by the Group, operate in the financial sector. Analysis of exposure to this type of risk, conducted on 31 December 2015 for the amount of PLN 458 million comprising 99% of the Group's cash, indicated that these are solely banks with the highest, medium-high and medium ratings, and which have an appropriate level of equity and a strong, stable market position. In the Parent Entity and KGHM INTERNATIONAL LTD., the credit risk in this regard is monitored through the on-going review of their financial standing and by maintaining an appropriately low concentration levels in individual financial institutions.

The following table presents the level of concentration of cash and cash equivalents and deposits, presenting the assessed creditworthiness of the financial institutions* (as at 31 December of the given year):

Rating level		2015	2014
Highest	AAA to AA- according to S&P and Fitch, and from Aaa to Aa3 according to Moody's	21%	40%
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	25%	23%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	54%	37%

* *Weighed by amount of deposits.*

As at 31 December 2015, the maximum share of one bank in relation to the level of cash allocated by the Group amounted to 29% (as at 31 December 2014: 20%).

PART 7 – Financial Instruments and financial risk management amounts in PLN millions, unless otherwise stated

Note 7.5.2.2 Credit risk related to derivative transactions

All entities with which derivative transactions (excluding embedded derivatives) are entered into by the Group operate in the financial sector.

The following table presents the structure of ratings of the financial institutions with whom the Group had derivatives transactions, representing an exposure to credit risk* (as at 31 December of the given year):

Rating level		2015	2014
Highest	AAA to AA- according to S&P and Fitch, and from Aaa to Aa3 according to Moody's	-	1%
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	97%	93%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	3%	6%

* *Weighed by positive fair value of open and unsettled derivatives.*

Taking into consideration the fair value of open derivative transactions entered into by the Group and the fair value of unsettled derivatives, as at 31 December 2015 the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 58% (as at 31 December 2014: 44%).

Due to diversification of risk in terms of both the nature of individual entities and of their geographical location, as well as to cooperation with medium-high and medium-rated financial institutions, the Group is not materially exposed to credit risk arising from derivative transactions entered into.

In order to reduce cash flows and at the same time to limit credit risk, the Parent Entity carries out net settlements (based on framework agreements entered into with its customers) to the level of the positive balance of fair value measurement of transactions in derivatives with a given counterparty.

The fair value of open derivatives of the Group and receivables due to unsettled derivatives by counterparties are presented in the table below.

	2015			2014		
	Financial receivables	Financial liabilities	Net	Financial receivables	Financial liabilities	Net
Counterparty 1	43	-	**43**	154	(1)	**153**
Counterparty 2	39	(19)	**20**	-	-	**-**
Counterparty 3	11	(9)	**2**	-	(8)	**(8)**
Other	74	(179)	**(105)**	339	(151)	**188**
Total	**167**	**(207)**	**(40)**	**493**	**(160)**	**333**
open derivatives	124	(207)	**(83)**	459	(160)	**299**
unsettled derivatives	43	-	**43**	34	-	**34**

Note 7.5.2.3 Credit risk related to trade receivables

The following Group companies have significant trade receivables: KGHM Polska Miedź S.A. PLN 976 million, the KGHM INTERNATIONAL LTD. Group PLN 348 million, CENTROZŁOM WROCŁAW S.A. PLN 47 million, WPEC w Legnicy S.A. PLN 29 million, KGHM ZANAM S.A. PLN 26 million, NITROERG S.A. PLN 23 million, MERCUS Logistyka Sp. z o.o. PLN 17 million, Metraco S.A. PLN 16 million, „MIEDZIOWE CENTRUM ZDROWIA" S.A. PLN 16 million, WMN „ŁABĘDY" S.A. PLN 11 million.

The Parent Entity limits its exposure to credit risk related to trade receivables by evaluating and monitoring the financial condition of its customers, setting credit limits and requiring collateral. An inseparable element of the credit risk management process performed by the Parent Entity is the continuous monitoring of receivables and the internal reporting system.

Buyer's credit is only provided to proven, long-term customers (as at 31 December 2015, receivables from this group represented approx. 90% of trade receivables), while sales of products to new customers are mostly based on prepayments or trade financing instruments which wholly transfer the credit risk to financial institutions.

PART 7 – Financial Instruments and financial risk management amounts in PLN millions, unless otherwise stated

The Parent Entity makes use of the following forms of collateral:

- registered pledges, bank guarantees, promissory notes, notarial enforcement declarations, corporate guarantees, cessation of receivables, mortgages and documentary collection;
- ownership rights to merchandise to be transferred to the buyer only after payment is received;
- a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables.

Taking into account the above forms of collateral and the credit limits received from the insurance company, as at 31 December 2015 the Parent Entity had secured 95% of its trade receivables (as at 31 December 2014, 95%).

Moreover, the Parent Entity enters into net settlement framework agreements, when it recognises both receivables and liabilities with the same client.

Assessment of concentration of credit risk in the Group:

Sector concentration	While KGHM Polska Miedź S.A. and KGHM INTERNATIONAL LTD. operate in the same sector, these two companies are different both in terms of their portfolios of products as well as in terms of the geographic location and nature of their customers, and consequently this sector concentration of credit risk is considered to be acceptable. Other companies of the Group operate in various economic sectors, such as transport, construction, commerce, industrial production and energy. As a consequence, in the case of most Group companies, in terms of sectors, there is no concentration of credit risk.
Clients concentration	As at 31 December 2015 the balance of receivables from the 7 largest clients represents 56% of the trade receivables balance (2014: 60%). Despite the concentration of this type of risk, it is believed that due to the availability of historical data and the many years of experience cooperating with its clients, as well as to the hedging used, the level of credit risk is low.
Geographical concentration	Companies of the Group have been cooperating for many years with a large number of customers, which affects the geographical diversification of trade receivables. Geographical concentration of credit risk for trade receivables is presented in the table below:

	2015			2014		
	Poland	EU (excluding Poland)	Other countries	Poland	EU (excluding Poland)	Other countries
Net trade receivables	39%	10%	51%	31%	28%	41%

Note 7.5.2.4 Credit risk related to other financial assets

The most significant item in other financial assets is cash accumulated on bank deposits in the special purpose funds: Mine Closure Fund and Tailings Storage Facility Restoration Fund in the amount of PLN 303 million.

All special purpose deposits of the Group, which are dedicated to collection of cash for future costs of decommissioning of mines and other technological facilities and restoration of tailing storage facilities, are carried out by banks with the highest or medium-high ratings confirming the security of the deposited cash.

The table below presents the level of cash concentration within special purpose funds dedicated to the collection of cash by the Group for future decommissioning costs of mines and other technological facilities and restoration of tailing storage facilities, according to the credit ratings of financial institutions holding special purpose deposits (as at 31 December 2015):

Rating level		
Highest	AAA to AA- according to S&P and Fitch, and from Aaa to Aa3 according to Moody's	23%
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	77%

amounts in PLN millions, unless otherwise stated

PART 8 – Borrowings and the management of liquidity and capital

Note 8.1 Capital management policy

Capital management in the Group is aimed at securing funds for business development and maintaining the appropriate level of liquidity.
In accordance with market practice, the Group monitors its capital, among others on the basis of ratios presented in the table below:

Ratios:	Calculations:	2015	2014
Net Debt/EBITDA	relation of net debt to EBITDA	**1.4**	**0.9**
Net Debt	borrowings, debt instruments and finance lease liabilities less free cash and short term investments with a maturity of up to 1 year	6 554	4 335
EBITDA*	profit on sales plus depreciation/amortisation recognised in profit or loss and impairment losses on non-current assets	4 811	4 890
Equity ratio	relation of equity less intangible assets to total assets	**0.5**	**0.6**
Equity	assets of the Group after deducting all of its liabilities	20 414	25 530
Intangible assets	identifiable non-cash items of assets without a physical form	3 371	2 918
Equity less intangible assets		17 043	22 612
Total assets	sum of non-current and current assets	36 764	40 374

** this amount represents the adjusted EBITDA and does not include the joint venture Sierra Gorda S.C.M.*

In the management of liquidity and capital, the Group pays also attention to adjusted operating profit, which is the basis for calculating the financial covenants and which is comprised of the following items:

	2015	2014
Profit on sales	506	3 353
Interest income on loans granted to joint ventures	466	282
Other operating income and costs	(660)	56
Adjusted operating profit	**312***	**3 691***

** presented amount does not include impairment loss on interest in joint ventures*

In order to maintain financial liquidity and the creditworthiness to acquire external financing at an optimum cost, the Group assumes that the *equity ratio* shall be maintained at a level of not less than 0.5, and the *ratio of Net Debt/EBITDA* at a level of up to 2.0.

Note 8.2 Equity

Accounting policies

Share capital is recognised at nominal value. Other reserves from measurement of financial instruments arise from the measurement of cash flow hedging instruments (see Note 7.2's accounting policies) and the measurement of available-for-sale financial assets (see Note 7.3's accounting policies) less any deferred tax effects.

Accumulated other comprehensive income consists of exchange differences from the translation of foreign operations statements (see Note 1.2) and actuarial gains/losses on post-employment benefits less any deferred tax effect (see Note 11's accounting policies).

Retained earnings are a sum of profit for the current financial year and accumulated profits from previous years, which have not been paid out as dividends, but increased the reserve capital or were not distributed.

PART 8 – Borrowings and the management of liquidity and capital amounts in PLN millions, unless otherwise stated

Note 8.2.1 Share capital

As at 31 December 2015 and at the date of signing of these financial statements, the Parent Entity's share capital, in accordance with the entry in the National Court Register, amounted to PLN 2 000 million and was divided into 200 000 000 shares, series A, fully paid, each having a face value of PLN 10. All of the shares are bearer shares. The Parent Entity has not issued preference shares. Each share grants the right to one vote at the general meeting. The Parent Entity does not have treasury shares. Subsidiaries and joint ventures do not have shares of KGHM Polska Miedź S.A.

As far as the Parent Entity is aware, as at 31 December 2015 and as at the date of signing of these financial statements, the Parent Entity's shareholder structure was as follows:

shareholder	number of shares/votes	total nominal value of shares (PLN)	percentage held in share capital/total number of votes
State Treasury	63 589 900	635 899 000	31.79%
Other shareholders	136 410 100	1 364 101 000	68.21%
Total	200 000 000	2 000 000 000	100.00%

amounts in PLN millions, unless otherwise stated

Note 8.2.2 Changes of other equity items

		Other reserves from measurement of financial instruments				
		Other reserves from measurement of available-for-sale financial assets	Other reserves from measurement of future cash flow hedging financial instruments	Other reserves from measurement of financial instruments, total	Accumulated other comprehensive income	Retained earnings
	As at 1 January 2014	**23**	**499**	**522**	**(399)**	**20 718**
	Dividends paid	-	-	-	-	(1 000)
	Transactions with non-controlling interest	-	-	-	4	16
	Transactions with owners:	-	-	-	4	(984)
	Profit for the period	-	-	-	-	2 450
	Profit from measurement of available-for-sale financial assets after prior impairment	124	-	124	-	-
Note 7.2	Impact of effective cash flow hedging transactions entered into	-	227	227	-	-
Note 7.2	Amount transferred to profit or loss - due to the settlement of hedging instruments	-	(531)	(531)	-	-
Note 11.2	Actuarial losses on post-employment benefits	-	-	-	(372)	-
	Exchange differences from the translation of subsidiaries	-	-	-	829	-
Note 6.1	Exchange differences from the translation of investment in joint ventures	-	-	-	609	-
Note 5.1	Deferred income tax	(23)	58	35	70	-
	Other comprehensive income	101	(246)	(145)	1 136	-
	Total comprehensive income	101	(246)	(145)	1 136	2 450
	As at 31 December 2014	**124**	**253**	**377**	**741**	**22 184**

PART 8 – Borrowings and the management of liquidity and capital amounts in PLN millions, unless otherwise stated

		Other reserves from measurement of financial instruments				
		Other reserves from measurement of available-for-sale financial assets	Other reserves from measurement of future cash flow hedging financial instruments	Other reserves from measurement of financial instruments, total	Accumulated other comprehensive income	Retained earnings
	As at 31 December 2014	**124**	**253**	**377**	**741**	**22 184**
	Dividends paid	-	-	-	-	(800)
	Transactions with non-controlling interest	-	-	-	-	35
	Transactions with owners:	-	-	-	-	(765)
	Loss for the period	-	-	-	-	(5 012)
	Losses from changes in fair value of available-for-sale financial assets	(186)	-	(186)	-	-
	Profit from measurement of available-for-sale financial assets after prior impairment	82	-	82	-	-
Note 7.2	Impact of effective cash flow hedging transactions entered into	-	35	35	-	-
Note 7.2	Amount transferred to profit or loss - due to the settlement of hedging instruments	-	(482)	(482)	-	-
Note 11.2	Actuarial gains on post-employment benefits	-	-	-	71	-
	Exchange differences from the translation of subsidiaries	-	-	-	561	-
Note 6.1	Exchange differences from the translation of investment in joint ventures	-	-	-	509	-
Note 5.1	Deferred income tax	25	85	110	(14)	-
	Other comprehensive income	(79)	(362)	(441)	1 127	-
	Total comprehensive income	(79)	(362)	(441)	1 127	(5 012)
	As at 31 December 2015	**45**	**(109)**	**(64)**	**1 868**	**16 407**

Based on the Act of 15 September 2000, the Commercial Partnerships and Companies Code, the Parent Entity is required to create reserve capital for any potential (future) or existing losses, to which no less than 8% of a given financial year's profit is transferred until the reserve capital has been built up to no less than one-third of the registered share capital. The reserve capital created in this manner may not be employed otherwise than in covering the loss reported in the financial statements.
As at 31 December 2015 the statutory reserve capital in the Group's entities amounts to PLN 762 million, of which PLN 660 million relates to the Parent Entity.

PART 8 – Borrowings and the management of liquidity and capital amounts in PLN millions, unless otherwise stated

Note 8.2.3 Other information related to capital

Information related to dividends paid may be found in Note 12.2.

Note 8.3 Liquidity management policy

The Management Board of the Parent Entity is responsible for financial liquidity management in the Group and compliance with adopted policy. The Financial Liquidity Committee, which was created in 2015, is an entity supporting the Management Board in this regard.

The management of financial liquidity in the Parent Entity is performed in accordance with the Financial Liquidity Management Policy (*Policy*) approved by the Management Board. In KGHM INTERNATIONAL LTD. liquidity management principles are described in the Investment Policy. These documents describe the process of managing the Group's financial liquidity, indicating the best practice procedures and instruments. The basic principles resulting from this document are:

- assuring the stable and effective financing of the Group's activities,
- investment of financial surpluses in safe instruments,
- compliance with limits for individual financial investment categories,
- compliance with limits for the concentration of funds in financial institutions, and
- effective management of working capital.

Under the process of liquidity management, the Group utilises instruments which enhance its effectiveness. One of the primary instruments used by the Group is the Cash Pool service, managed both locally in PLN, USD and EUR and internationally in USD. The Cash Pool service is aimed at optimising the management of cash resources, enabling control of interest costs, the effective financing of current working capital needs and the support of short-term financial liquidity in the Group.

Note 8.3.1 Contractual maturities for financial liabilities

Financial liabilities – as at 31 December 2015

Financial liabilities	Contractual maturities from the end of the reporting period: up to 12 months	1-3 years	over 3 years	Total (without discounting)	Carrying amount
Borrowings	2 160	1 129	3 916	**7 205**	**6 980**
Trade payables	1 418	18	382	**1 818**	**1 598**
Derivatives – Currency contracts	1	-	-	**1**	**207**
Other financial liabilities	117	27	7	**151**	**117**
Total financial liabilities by maturity	**3 696**	**1 174**	**4 305**	**9 175**	

Financial liabilities – as at 31 December 2014

Financial liabilities	Contractual maturities from the end of the reporting period: up to 12 months	1-3 years	over 3 years	Total (without discounting)	Carrying amount
Borrowings	1 116	142	1 968	**3 226**	**2 992**
Debt instruments	6	-	1 790	**1 796**	**1 775**
Trade payables	1 209	17	385	**1 611**	**1 384**
Derivatives – Currency contracts	-	-	-	**-**	**157**
Derivatives – Commodity contracts - metals	-	-	-	**-**	**1**
Other financial liabilities	137	35	10	**182**	**180**
Total financial liabilities by maturity	**2 468**	**194**	**4 153**	**6 815**	

PART 8 – Borrowings and the management of liquidity and capital amounts in PLN millions, unless otherwise stated

Note 8.4 Borrowings and debt instruments

Accounting policies

Liabilities arising from borrowings and debt instruments are initially recognised at fair value less transaction costs and are measured at amortised cost at the end of the reporting period. Accrued interest is recognised in finance costs, unless it is capitalised in the value of property, plant and equipment or intangible assets.

Note 8.4.1 Net debt

		2015	2014
	Bank loans	3 674*	143
	Loans	1 176	1 057
	Debt instruments	-	1 769
	Other	20	28
	Total non-current liabilities due to borrowings and debt instruments	**4 870**	**2 997**
	Bank loans	2 123	1 783
	Loans	7	9
	Debt instruments	-	6
	Other	15	15
	Total current liabilities due to borrowings and debt instruments	**2 145**	**1 813**
	Total borrowings	**7 015**	**4 810**
Note 8.5	Free cash and cash equivalents	461	475
	Net debt	**6 554**	**4 335**

* *Presented amounts include the preparation fee paid which decreases financial liabilities due to bank loans*

Borrowings by currency (translated into PLN) and by type of interest rate

	2015	2014
PLN/WIBOR	94	104
EUR/EURIBOR	470	66
USD/LIBOR	5 234	1 751
PLN/fixed	6	13
USD/fixed	1 176	1 058
Total	6 980	**2 992**

In 2015, liabilities due to borrowings increased, including an increase in current liabilities. Under bilateral agreements signed with banks, the Group makes use of working capital facilities and overdraft facilities with maturities of up to 2 years. As a result of the above, and that the bilateral agreements are successively extended for subsequent periods, the Group considers the liquidity risk connected to the received short-term bank loans as low.

PART 8 – Borrowings and the management of liquidity and capital amounts in PLN millions, unless otherwise stated

Note 8.4.2 Net debt changes

As at 1 January 2014	**2 065**
Net cash flow on borrowings	1 401
Exchange differences due to borrowings in foreign currencies	372
Redemption of debt instruments	-
Other non-cash changes	108
Changes in free cash and cash equivalents	389
As at 31 December 2014	**4 335**
Net cash flow on borrowings	3 788
Exchange differences on borrowings in foreign currencies	192
Redemption of debt instruments	(1 896)
Other non-cash changes	121
Changes in free cash and cash equivalents	14
As at 31 December 2015	**6 554**

Currency risk and interest rate risk are related to borrowings. A description of exposures to financial risks may be found in Note 7.5.
The fair value of liabilities due to borrowings amounts to PLN 6 957 million (2014: PLN 2 957 million). The fair value was set based on discounted cash flows and was classified to level 2 of the fair value hierarchy.

Note 8.4.3 Detailed information concerning main sources of borrowings

As at 31 December 2015, the Parent Entity had open credit lines and an investment loan with a total balance of available financing in the amount of PLN 15 571 million, out of which PLN 6 855 million had been drawn. The structure of financing sources of the Parent Entity is presented below.

	2015		2014
	Amount available	Amount drawn	Amount drawn
1. Unsecured, revolving **syndicated credit facility** in the amount of USD 2 500 million, obtained on the basis of a financing agreement concluded with a syndicate of banks in 2014 with a 5 year tenor (with the voluntary option of extending for another 2 years after a one year period and a two years period from the date of the agreement's conclusion). In 2015, the Parent Entity received permission from a syndicate of banks for extending the loan's maturity by 1 year. The new maturity expires on 10 July 2020. The funds acquired through this credit facility will be used to finance general corporate purposes, including expenditures related to the continued advancement of investment projects and for refinancing of the debt of KGHM INTERNATIONAL LTD. Interest on the credit facility is based on LIBOR plus a margin, depending on the net debt/EBITDA ratio. The credit facility agreement obliges the Parent Entity to comply with the financial covenant and non-financial covenants. As at 31 December 2015, during the reporting period and up to the date of authorising the financial statements for issue, there were no instances of violation of the covenants stipulated in the aforementioned agreement.	9 753	3 126	-
2. **Investment loan** from the **European Investment Bank** for PLN 2 000 million with a financing period of 12 years. This loan can be used in the form of non-revolving instalments drawn in PLN, EUR or USD, with either a fixed or variable interest rate of WIBOR, LIBOR or EURIBOR plus a margin. The remaining period of the instalments' availability is 5 months as at the reporting date. The payback period of drawn instalments expires on 30 October 2026. The funds acquired through this loan will be used to finance the Parent Entity's investment projects related to modernisation of metallurgy and development of the Żelazny Most tailings storage facility.	2 000	1 176	1 058

PART 8 – Borrowings and the management of liquidity and capital amounts in PLN millions, unless otherwise stated

The loan agreement obliges the Parent Entity to comply with the financial and non-financial covenants. As at 31 December 2015, during the reporting period and up to the date of authorising the financial statements for issue, there were no instances of violation of the covenants stipulated in the aforementioned agreement.			
3. **Other bank loans** in the total amount of PLN 3 818 million, used for financing working capital and supporting the management of current financial liquidity of the Parent Entity. The Parent Entity holds lines of credit in the form of short-term and long-term credit agreements. These are working capital facilities and overdraft facilities with availability of up to 2 years. The maturities of these agreements are successively extended for subsequent periods. The funds obtained under open lines of credit are available in PLN, USD and EUR, with interest based on variable WIBOR, LIBOR and EURIBOR plus a margin.	3 818	2 553	1 050
	15 571	**6 855**	**2 108**

Other companies of the Group have open lines of credit in the amount of PLN 260 million due to short- and long term bank loan agreements entered into, available in the following currencies: PLN and EUR, with interest based on variable WIBOR, or EURIBOR rates plus a margin. The funds acquired from the aforementioned credit agreements are used to finance working capital and support financial liquidity management, as well as to finance the continued advancement of the investment activities which are aimed at restoring, modernising or increasing the value of the Group's assets.

These sources fully cover the current, medium and long-term liquidity needs of the Parent Entity and the Group.

The syndicated credit in the amount of USD 2 500 million, the investment loan in the amount of PLN 2 000 million, as well as other bank loans in the amount of PLN 3 818 million are unsecured.

Repayment of other liabilities due to bank loans in the amount of PLN 260 million are secured amongst others by proxy rights to bank accounts, statements on submitting to an enforcement regime, contractual mortgages, registered pledges or the assignment of receivables.

Note 8.5 Cash and cash equivalents

Accounting policies
Cash and cash equivalents includes mainly cash in bank accounts and on-demand deposits with original maturities of up to three months from the date of their placement (the same applies to the statement of cash flows). Cash is measured at nominal amount plus interest.

	2015	2014
Cash in hand	1	1
Cash in bank accounts	179	288
Other cash	1	2
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits	280	184
Total	**461**	**475**

Note 8.6 Contingent liabilities due to guarantees granted

Guarantees and letters of credit are an essential financial liquidity management tool of the Group, thanks to which the companies of the Group do not have to use their cash in order to secure their liabilities towards other entities. Information on contingent liabilities may be found in Note 12.5.

As at 31 December 2015, the Group held contingent liabilities due to guarantees and letters of credit granted in the total amount of PLN 1 281 million and due to promissory notes liabilities in the amount of PLN 256 million.

The most significant items are contingent liabilities of the Parent Entity aimed at:

- securing the performance of agreements concluded by Sierra Gorda S.C.M. in the amount of PLN 855 million (a letter of credit of PLN 536 million granted as security for the proper performance of a long-term contract for the supply of electricity and PLN 319 million as corporate guarantees set as security on the payment of concluded lease agreements),
- securing restoration costs of the Robinson mine, the Podolsky mine and the Victoria project in the amount of PLN 324 million by the Group,

- securing the proper execution of future environmental obligations of the Parent Entity related to the obligation to restore terrain around the Żelazny Most tailings storage facility following the conclusion of its operations in the total amount of PLN 320 million (a bank guarantee of PLN 64 million and an own promissory note of PLN 256 million).

Based on analysis and forecasts, at the end of the reporting period the Group assessed the probability of payments resulting from contingent liabilities as low.

amounts in PLN millions, unless otherwise stated

PART 9 – Non-current assets and related liabilities

Note 9.1. Mining and metallurgical property, plant and equipment and intangible assets

Accounting policies – property, plant and equipment

The most important property, plant and equipment of the Group is property, plant and equipment related to the mining and metallurgical operations, comprised of land, buildings, water and civil engineering structures, such as: primary mine tunnels (including in underground mines: shafts, wells, galleries, drifts, primary chambers), backfilling, drainage and firefighting pipelines, piezometric holes and electricity, signal and optical fiber cables. Stripping costs of surface mines and machines, technical equipment, motor vehicles and other movable fixed assets are also included in mining and metallurgical property, plant and equipment.

Property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses (the policy regarding impairment is presented in Part 3).

In the initial cost of items of property, plant and equipment the Group includes discounted decommissioning costs of fixed assets related to underground and surface mining, as well as of other facilities which, in accordance with binding laws, must be decommissioned upon the conclusion of activities. Principles of recognition and measurement of decommissioning costs are presented in note 9.4.

The initial cost is increased by borrowing costs (i.e. interest and exchange differences representing an adjustment to interest cost) that were incurred for the purchase or construction of a qualifying item of property, plant and equipment.

Items of property, plant and equipment (excluding land) **are depreciated** by the Group, pursuant to the model of consuming the economic benefits from the given item of property, plant and equipment:

- **using the straight-line method,** for items which are used in production at an equal level throughout the period of their usage,
- **using the units of production method,** for items in respect of which the consumption of economic benefits is directly related to the quantity of extracted ore from a deposit or of units produced, and this extraction or production is not spread evenly through the period of their usage. In particular it relates to buildings and mine construction, as well as machines and mining equipment.

The useful lives, and therefore the depreciation rates of fixed assets used in the production of copper, are adapted to the plans for the closure of operations.

For individual groups of fixed assets, the following useful lives have been adopted, estimated based on the anticipated useful lives of mines with respect to deposit content:

Group	Total useful lives
Buildings	25-90 years
Primary mine tunnels	22-90 years
Backfilling, drainage and firefighting pipelines	6-90 years
Electricity, signal and optical fiber cables	10-70 years
Stripping costs	
Technical equipment, machines	4-15 years
Motor vehicles	3-14 years
Other fixed assets, including tools and equipment	5-10 years

The Group performs regular reviews of its property, plant and equipment in terms of the adequacy of applied useful lives to current operating conditions.

The individual significant parts of an item of a fixed asset (significant components), whose useful lives are different from the useful life of the given fixed asset as a whole are depreciated separately, applying a depreciation rate which reflects its anticipated useful life.

A fixed asset's carrying amount includes costs of necessary regular major overhauls, including costs of overhauls for the purpose of certification.

Accounting policies – intangible assets

Mining and metallurgical intangible assets are mainly comprised of exploration and evaluation assets, and water rights in Chile.

Exploration and evaluation assets

The following expenditures are classified as exploration and evaluation assets:

- work on geological projects;
- obtaining environmental decisions;
- obtaining concessions and mining usufruct for geological exploration;
- work related to drilling (drilling; geophysical and hydrogeological research; geological, analytical and geotechnical services; etc.);
- the purchase of geological information;
- the preparation of geological documentation and its approval;
- the preparation of economic and technical assessments of resources for the purpose of making decisions on the application for mine operating concessions; and
- equipment usage costs (property, plant and equipment) used in exploratory work.

Exploration and evaluation assets are measured at cost less accumulated impairment losses.

The Group is required to test an individual entity (project) for impairment when:

- the technical feasibility and commercial viability of extracting mineral resources is demonstrable; and
- the facts and circumstances indicate that the carrying amount of exploration and evaluation assets may exceed their recoverable amount.

Any potential impairment losses are recognised prior to reclassification resulting from the demonstration of the technical and economic feasibility of extracting the mineral resources.

Water rights in Chile

Due to the specific nature of this asset, i.e. the inexhaustibility of the source, the Group adopted an indefinite period of use for these rights and does not amortise this asset. Annual testing for impairment is performed however.

Significant estimates and assumptions

Significant estimates and assumptions relating to impairment of mining and metallurgical property, plant and equipment and intangible assets are presented in Part 3.

Net value of mining and metallurgical property, plant and equipment which are subject to depreciation using the natural method as at 31 December 2015 amounted to PLN 1 983 million.

amounts in PLN millions, unless otherwise stated

Mining and metallurgical property, plant and equipment and intangible assets

		Property, plant and equipment			Intangible assets			
		Buildings and land	Technical equipment, machines, motor vehicles and other fixed assets	Fixed assets under construction	Water rights	Exploration and evaluation assets	Other	Total
	As at 1 January 2014							
	Gross carrying amount	10 360	8 532	2 902	207	1 529	699	24 229
	Accumulated depreciation/amortisation	(4 904)	(4 475)	-	-	-	(229)	(9 608)
	Impairment losses	(186)	-	-	-	-	(31)	(217)
	Net carrying amount	**5 270**	**4 057**	**2 902**	**207**	**1 529**	**439**	**14 404**
	Changes in 2014 net							
	Settlement of fixed assets under construction	500	1 518	(2 018)	-	-	-	-
	Purchases	270	3	1 364	-	353	156	2 146
	Stripping cost	183	-	-	-	-	-	183
	Self-constructed	-	-	925	-	-	58	983
Note 4.1	Depreciation/Amortisation	(581)	(746)	-	-	-	(65)	(1 392)
	Impairment losses	(40)	-	-	-	-	(26)	(66)
	Exchange differences from the translation of foreign operations	347	91	19	-	118	33	608
Note 9.4	Change in provisions for decommissioning costs	520	-	-	-	-	-	520
	Other changes	115	95	82	11	105	(218)	190
	As at 31 December 2014							
	Gross carrying amount	12 752	9 996	3 281	218	2 105	733	29 085
	Accumulated depreciation/amortisation	(5 810)	(4 916)	(5)	-	-	(301)	(11 032)
	Impairment losses	(358)	(62)	(2)	-	-	(55)	(477)
	Net carrying amount	**6 584**	**5 018**	**3 274**	**218**	**2 105**	**377**	**17 576**
	Changes in 2015 net							
	Settlement of fixed assets under construction	475	779	(1 254)	-	-	-	-
	Purchases	-	-	1 444	-	470	19	1 933
	Stripping cost	462	-	-	-	-	-	462
	Self-constructed	-	-	1 126	-	1	57	1 184
Note 9.4	Change in provisions for decommissioning costs	(131)	-	-	-	-	-	(131)
Note 4.1	Depreciation/Amortisation	(884)	(813)	-	-	-	(48)	(1 745)
	Impairment losses	(2 077)	(332)	(8)	-	(208)	(2)	(2 627)
	Exchange differences from the translation of foreign operations	314	70	18	27	214	(73)	570
	Other changes	314	(154)	48	(2)	(87)	62	181
	As at 31 December 2015							
	Gross carrying amount	14 590	10 674	4 648	243	2 706	694	33 555
	Accumulated depreciation/amortisation	(6 856)	(5 648)	-	-	-	(301)	(12 805)
	Impairment losses	(2 677)	(458)	-	-	(211)	(1)	(3 347)
	Net carrying amount	**5 057**	**4 568**	**4 648**	**243**	**2 495**	**392**	**17 403**

PART 9 – Non-current assets and related liabilities amounts in PLN millions, unless otherwise stated

Note 9.1.1. Mining and metallurgical property, plant and equipment– fixed assets under construction

Major fixed assets under construction:	2015	2014
Pyrometallurgy Modernisation Program	1 537	956
Deep Głogów (Głogów Głęboki – Przemysłowy)	976	821
Construction of the SW-4 shaft	609	574
Investment activity related to development and operation of Żelazny Most Tailings Storage Facility	212	234
Investments related to mining region infrastructural development in mines	271	167

Note 9.1.2. Exploration and evaluation assets

Significant expenditures on exploration and evaluation assets are presented in the table below.

Operating segment	Description	Total expenditures incurred as at 31 December 2015	Expenditures incurred in 2015
KGHM INTERNATIONAL LTD.	Expenditures related to exploratory work, mainly within the Victoria project located in the Sudbury Basin in Canada	1 489	212
KGHM INTERNATIONAL LTD.	Expenditures related to exploratory work within the Ajax project	573	143

Note 9.1.3. Expenses related to mining and metallurgical assets

	2015	2014
Purchases	(2 078)	(2 146)
Self-constructed fixed assets	(1 184)	(983)
Stripping costs of surface mines	(462)	(183)
Change in liabilities due to purchases	109	106
Other	62	94
Total	**(3 553)**	**(3 112)**

Note 9.2. Other property, plant and equipment and intangible assets

Accounting policies

Other property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses (the policy regarding impairment is presented in Part 3). Depreciation is done using the straight-line method.
For individual groups of fixed assets, the following useful lives have been adopted:

The Group	Total useful lives
Buildings	25-60 years
Technical equipment and machines	4-15 years
Motor vehicles	3-14 years
Other fixed assets	5-10 years

Intangible assets are measured at cost less any accumulated amortisation and impairment losses (the policy regarding impairment is presented in Part 3).
Intangible assets are amortised using the straight-line method over their anticipated useful lives. The useful lives of main groups of intangible assets are as follows:

- acquired property rights not related to mining activities: 5 – 50 years;
- software: 2 – 5 years; and
- other intangible assets: 40 - 50 years.

PART 9 – Non-current assets and related liabilities amounts in PLN millions, unless otherwise stated

Other property, plant and equipment and intangible assets

		Property, plant and equipment				
		Buildings and land	Technical equipment, machines, motor vehicles and other fixed assets	Fixed assets under construction	Intangible assets	Total
	As at 1 January 2014					
	Gross carrying amount	1 968	1 931	149	510	4 558
	Accumulated depreciation/amortisation	(418)	(672)	-	(139)	(1229)
	Impairment losses	(37)	(20)	(2)	(31)	(90)
	Net carrying amount	**1 513**	**1 239**	**147**	**340**	**3 239**
	Changes in 2014 net					
	Settlement of fixed assets under construction	124	161	(285)	(175)	(175)
	Purchases	29	6	228	156	419
Note 4.1	Depreciation/amortisation	(62)	(181)	-	(52)	(295)
	Other changes	(41)	(108)	(25)	(51)	(225)
	As at 31 December 2014					
	Gross carrying amount	2 101	1 983	60	345	4 489
	Accumulated depreciation/amortisation	(415)	(852)	5	(127)	(1389)
	Impairment losses	(123)	(14)	-	-	(137)
	Net carrying amount	**1 563**	**1 117**	**65**	**218**	**2 963**
	Changes in 2015 net					
	Settlement of fixed assets under construction	212	194	(406)	-	-
	Purchases	-	-	271	31	302
	Self-constructed	-	-	42	7	49
Note 4.1	Depreciation/amortisation	(67)	(190)	-	(13)	(270)
	Impairment losses		(7)	(1)	(70)	(78)
	Other changes	(451)	260	51	68	(72)
	As at 31 December 2015					
	Gross carrying amount	1 855	2 267	23	443	4 588
	Accumulated depreciation/amortisation	(475)	(879)	-	(78)	(1432)
	Impairment losses	(123)	(14)	(1)	(124)	(262)
	Net carrying amount	**1 257**	**1 374**	**22**	**241**	**2 894**

PART 9 – Non-current assets and related liabilities amounts in PLN millions, unless otherwise stated

Note 9.3. Depreciation/amortisation

	2015	2014
Depreciation/amortisation	**2 015**	**1 635**
settled in profit or loss	1 943	1 635
being part of the manufacturing cost of other assets	72	-

Note 9.4. Provision for decommissioning costs of mines and other facilities

<table>
<tr><th>Accounting policies</th><th>Significant estimates and assumptions</th></tr>
<tr><td>The provision for future decommissioning costs of mines and other technological facilities is recognised based on the estimated expected costs of decommissioning of such facilities and of restoring the sites to their original condition. Estimation of this provision is based on specially-prepared studies using ore extraction forecasts (for mining facilities), and technical-economic studies prepared either by specialist firms or by the Parent Entity.

A change in the discount rate or in the estimated decommissioning cost, impacting the decrease in the provision, adjusts the value of the relevant item of a fixed asset, unless it exceeds the carrying amount of the item of a fixed asset (any surplus above this amount is recognised in other operating income).</td><td>These provisions represent the estimated future decommissioning costs of mines and other technological facilities discounted to present value. Revaluation of this provision at the end of the reporting period is affected by the following indicators:
1) in the Parent Entity:
a) the index of changes in prices in the construction-assembly sector published by the Central Statistical Office (GUS),
b) the forecasted discount rate calculated based on the yield on treasury bonds with maturities nearest to the planned financial outflow.
2) in the KGHM INTERNATIONAL LTD. Group:
a) the rate of return on investments in US 10-20 year treasury notes of the Federal Reserve of the United States of America, and
b) the rate of return on investments in 5-year government bonds issued by the governments of Canada and Chile.
The yield on treasury bonds and the inflation rate are set separately for future periods, i.e. for the first, second and third years, and jointly for periods from the fourth year.
In the KGHM Polska Miedź S.A Group, in order to estimate provisions for the decommissioning costs of mines and other technological facilities located in individual countries, the following discount rates were applied:

<table>
<tr><th></th><th>2015</th><th>2014</th></tr>
<tr><td>- in Poland</td><td>2.75 %</td><td>2.75 %</td></tr>
<tr><td>- in the United States</td><td>1.8% - 2.5%</td><td>1.8% - 2.5%</td></tr>
<tr><td>- in Canada</td><td>2.3% - 2.9%</td><td>2.3% - 2.9%</td></tr>
<tr><td>- in Chile</td><td>1.9%</td><td>1.9%</td></tr>
</table></td></tr>
</table>

		2015	2014
	Provisions at the beginning of the reporting period	**1 555**	**960**
Note 9.1	Changes in estimates recognised in fixed assets	(131)	520
	Other	72	75
	Provisions at the end of the reporting period including:	**1 496**	**1 555**
	- non-current provisions	**1 466**	**1 466**
	- current provisions	**30**	**89**

amounts in PLN millions, unless otherwise stated

PART 10 – Working capital

Note 10.1. Inventories

Accounting policies	Significant estimates and assumptions
The Group measures inventories at cost, not higher than the sales price less costs of completing production and costs to sale. Inventory disposals are measured at weighted average cost.	In the consolidated financial statements the amount of those inventories of the KGHM INTERNATIONAL LTD. Group which arise from the leaching process, is determined based on the estimated recovery of metal from ore. The nature of the process of leaching copper from ore limits the precision of monitoring the level of inventories arising during this process. In subsequent reporting periods, adjustments are made to the estimated recovery of copper from the leaching of ore in a given reporting period to the level of production achieved in the subsequent period. As at 31 December 2015 the provisionally-set value of inventories amounted to PLN 196 million (as at 31 December 2014, PLN 309 million). In 2015 there was an adjustment of inventories arising from the leaching process whose value was provisionally set in the previous reporting periods, in the amount of PLN 107 million (in 2014, PLN 88 million).

	2015	2014
Materials	787	682
Half-finished goods and work in progress	1 870	1 933
Finished products	560	547
Merchandise	165	200
Total net carrying amount of inventories	**3 382**	**3 362**

Write-down of inventories recognised in the consolidated statement of profit or loss in 2015 amounted to PLN 163 million (in 2014: PLN 91 million).

Note 10.2. Trade receivables

Accounting policies
Trade receivables are initially recognised at fair value. After initial recognition, these receivables are measured at amortised cost while taking into account impairment allowances.

	2015	2014
Current trade receivables	1 541	1 890

As at 31 December 2015 as well as 2014, there were no significant amounts of overdue trade receivables and for which no impairment was identified. Impairment allowances on trade receivables (cumulatively and recognised in a given period) are immaterial for the current and comparable reporting periods (the impairment allowance on trade receivables amounted to PLN 9 million (in 2014, PLN 6 million)).
The Group is exposed to the credit risk and currency risk arising from trade receivables. Credit risk management and assessment of the credit quality of receivables is presented in Note 7.5.2.3.
Information on risk of changes in foreign exchange rates is presented in Note 7.5.1.3
The fair value of trade receivables approximates the carrying amount.

Note 10.3. Trade payables

Accounting policies
Trade payables are initially recognised at fair value and are measured at amortised cost at the end of the reporting period.

	2015	2014
Non-current trade payables	180	175
Current trade payables	1 418	1 209
Trade payables	**1 598**	**1 384**

The item trade payables contains payables due to the purchase and construction of fixed assets and intangible assets which, as at 31 December 2015, amounted to PLN 172 million in the non-current part and PLN 521 million in the current part (as at 31 December 2014, respectively PLN 168 million and PLN 407 million).

PART 10 – Working capital amounts in PLN millions, unless otherwise stated

The Group is exposed to currency risk arising from trade payables and liquidity risk. Information on currency risk is presented in Note 7.5.1.3 and the liquidity risk in Note 8.3.1.
The fair value of trade payables approximates the carrying amount.

Note 10.4. Changes in working capital

	Inventories	Trade receivables	Trade payables	Total working capital
As at 31 December 2014	(3 362)	(1 890)	1 384	**(3 868)**
As at 31 December 2015	(3 382)	(1 541)	1 598	**(3 325)**
Change in the statement of financial position	(20)	349	214	**543**
Adjustments	99	32	(108)	**23**
Change recognised in the statement of cash flows	79	381	106	**566**

	Inventories	Trade receivables	Trade payables	Total working capital
As at 31 December 2013	(3 397)	(2 279)	1 291	**(4 385)**
As at 31 December 2014	(3 362)	(1 890)	1 384	**(3 868)**
Change in the statement of financial position	35	389	93	**517**
Adjustments	83	52	(133)	**2**
Change recognised in the statement of cash flows	118	441	(40)	**519**

The highest amount of adjustments to changes in working capital is due to a difference resulting from a change in liabilities due to the purchase of property, plant and equipment and intangible assets in the amount of PLN (92) million in 2015, and PLN (107) million in 2014.

amounts in PLN millions, unless otherwise stated

PART 11 – Employee benefits

Accounting policies

The Group is obliged to pay specified benefits following the period of employment (retirement benefits due to one-off retirement-disability rights, post-mortem benefits and the coal equivalent) and other long-term benefits (jubilee bonuses), in accordance with the Collective Labour Agreement.

The amount of the liabilities due to both of these benefits is estimated at the end of the reporting period by an independent actuary using the projected unit credit method.

The present value of liabilities from these benefits is determined by discounting estimated future cash outflow using the interest rates on treasury bonds expressed in the currency of the future benefits payments, with maturities similar to the date of settlement for liabilities.

Actuarial gains and losses from the measurement of specified benefits following the period of employment are recognised in other comprehensive income in the period in which they arose. Actuarial gains/losses from the measurement of other benefits (for example benefits due to jubilee bonuses) are recognised in profit or loss.

Significant estimates and assumptions

The amount of the liability due to future employee benefits is equal to the present value of the liabilities due to defined benefits. The amount of the liability depends on many factors, which are used as assumptions in the actuarial method. Any changes to the assumptions may impact the carrying amount of the liability. Interest rates are one of the basic parameters for measuring the liability. At the end of the reporting period, based on the opinion of an independent actuary, an appropriate discount rate for the Group's companies used for setting the present value of estimated future cash outflow due to these benefits is applied. In setting the discount rate for the reporting period, the actuary extrapolates current interest rates of government bonds along the profitability curve expressed in the currency of the future benefits payments, to obtain a discount rate enabling the discounting of payments with maturities which are longer than the maturities of the bonds.

Other macroeconomic assumptions used to measure liabilities due to future employee benefits, such as the inflation rate or the minimum salary, are based in part on current market conditions. The assumptions used to measure liabilities as at 31 December 2015 are presented in Note 11.1.

The sensitivity of future employee benefits liabilities to changes in assumptions was set based on the amounts of the Parent Entity's liabilities. In the remaining Group companies, due to the immaterial amounts of liabilities in this regard, the impact of changes on the basic parameters adopted for the calculation of provisions on future employee benefits liabilities in the consolidated financial statements would be immaterial.

Impact of changes in the indicators on the balance of liabilities (Parent Entity)

	2015	2014
an increase in the discount rate by 1%	(248)	(260)
a decrease in the discount rate by 1%	328	348
an increase in coal price rate and increase in salary rate by 1%	324	335
an decrease in coal price rate and decrease in salary rate by 1%	(250)	(261)

PART 11 – Employee benefits amounts in PLN millions, unless otherwise stated

Note 11.1. Employee benefits liabilities

Components of the item: employee benefits liabilities

		2015	2014
	Non-current	1 979	2 011
	Current	126	135
Note 11.2	**Total liabilities due to future employee benefits programs**	**2 105**	**2 146**
	Employee remuneration liabilities	219	217
	Accruals (unused annual leave, bonuses, other)	415	413
	Total employee benefits	**634**	**630**

Employee benefits expenses

		2015	2014
	Remuneration	3 475	3 442
	Costs of social security	1 201	1 182
	Costs of future benefits	30	80
Note 4.1	**Employee benefits expenses**	**4 706**	**4 704**

Note 11.2 Changes in liabilities related to future employee benefits programs

	As at 1 January 2014	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
	As at 1 January 2014	**1 694**	**328**	**250**	**1 050**	**66**
Note 11.1	Total costs recognised in profit or loss	**192**	100	24	63	5
	Interest costs	**76**	15	11	47	3
	Current service costs	**57**	26	13	16	2
	Future service costs	**1**	1	-	-	-
	Actuarial losses recognised in profit or loss	**58**	58	-	-	-
Note 8.2.2	Actuarial losses recognised in other comprehensive income	**372**	-	40	318	14
	Benefits paid	**(112)**	(49)	(21)	(38)	(4)
	As at 31 December 2014	**2 146**	**379**	**293**	**1 393**	**81**
Note 11.1	Total costs recognised in profit or loss	**153**	59	25	62	7
	Interest costs	**61**	10	**8**	38	5
	Current service costs	**69**	27	16	24	2
	Future service costs	**4**	3	1	-	-
	Actuarial losses recognised in profit or loss	**19**	19	**-**	-	-
Note 8.2.2	Actuarial (gains)/losses recognised in other comprehensive income	**(71)**	-	7	(75)	(3)
	Benefits paid	**(123)**	(54)	(25)	(41)	(3)
	As at 31 December 2015	**2 105**	**384**	**300**	**1 339**	**82**

As at 31 December	2015	2014	2013	2012	2011
Present value of liabilities due to employee benefits	2 105	2 146	1 694	1 748	1 465

PART 11 – Employee benefits amounts in PLN millions, unless otherwise stated

Main actuarial assumptions as at 31 December 2015:

	2016	2017	2018	2019	2020 and beyond
- discount rate	3.00%	3.00%	3.00%	3.00%	3.00%
- rate of increase in coal prices	0.00%	2.30%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	0.00%	3.30%	4.00%	4.00%	4.00%
- expected inflation	1.70%	1.80%	2.50%	2.50%	2.50%
- future expected increase in salary	1.50%	1.80%	2.50%	2.50%	2.50%

Main actuarial assumptions as at 31 December 2014:

	2015	2016	2017	2018	2019 and beyond
- discount rate	2.75%	2.75%	2.75%	2.75%	2.75%
- rate of increase in coal prices	0.00%	2.80%	2.60%	3.00%	3.00%
- rate of increase in the lowest salary	0.00%	3.80%	3.60%	4.00%	4.00%
- expected inflation	1.20%	2.30%	2.10%	2.50%	2.50%
- future expected increase in salary	1.50%	2.30%	2.10%	2.50%	2.50%

The change in actuarial gains/losses was caused by a change in the assumptions in respect of the increase of the discount rate, the increase in coal prices and the increase in the lowest salary.
For purposes of reassessment of the provision at the end of the current period, the parameters assumed were based on available forecasts of inflation, analysis of increase in coal prices and in the lowest salary, and also based on the anticipated profitability of long-term treasury bonds.

Actuarial (gains)/losses as at 31 December 2015 versus assumptions adopted as at 31 December 2014

Change in financial assumptions	(200)
Change in demographic assumptions	18
Other changes	129
Total actuarial (gains)/losses	(53)

Maturity profile of employee benefits liabilities

Year of maturity:	**TOTAL liabilities**	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
2016	**129**	41	36	44	8
2017	**160**	36	70	49	5
2018	**98**	29	17	48	4
2019	**93**	26	15	48	4
2020	**88**	26	12	46	4
Other years	**1 537**	216	162	1 105	54
Total liabilities in the statement of financial position as at 31 December 2015	**2 105**	**374**	**312**	**1 340**	**79**

amounts in PLN millions, unless otherwise stated

PART 12 – Other notes

Note 12.1. Related party transactions

The accounting policies and significant estimates and assumptions presented in Note 10 are applicable to transactions entered into with related parties.

The transactions between the Group and related parties include transactions with:

- the joint venture Sierra Gorda,
- entities controlled or jointly controlled by the State Treasury or over which it has significant influence, and
- the management board and the supervisory board (remuneration) – Note 12.11.

Operating income from related parties

	2015	2014
Revenues from sales of products, merchandise and materials	17	50
Interest income on a loan granted to a joint venture	466	282
Revenues from other transactions	104	17
	587	**349**

Purchases from related parties

	2015	2014
Purchase of services, merchandise and materials	85	17
Other purchase transactions	2	2
	87	**19**

Trade and other receivables from related parties

	2015	2014
From the joint venture Sierra Gorda S.C.M. (loans)	7 504	6 231
From the joint venture Sierra Gorda S.C.M. (other)	312	7
From other related parties	2	2
	7 818	**6 240**

Trade and other payables towards related parties

	2015	2014
Towards joint ventures	75	-
Towards other related parties	1	2

In the current reporting period, no individual transactions were identified between the Group and the Polish Government and entities controlled or jointly controlled by the Polish Government, or over which the government has significant influence, which would be considered as significant in terms of unusual scope and amount.

The remaining transactions, which were collectively significant, between the Group and the Polish Government and with entities controlled or jointly controlled by the Polish Government, or over which the government has significant influence, were within the scope of normal, daily economic operations, carried out at arm's length. These transactions concerned the following:

- the purchase of materials and services to meet the needs of current operating activities (fuel, energy, transport services). In the period from 1 January 2015 to 31 December 2015, the turnover from these transactions amounted to PLN 645 million (from 1 January 2014 to 31 December 2014: PLN 749 million), and, as at 31 December 2015, the unsettled balance of liabilities from these transactions amounted to PLN 241 million (as at 31 December 2014: PLN 241 million),
- sales to Polish State Treasury Companies. In the period from 1 January 2015 to 31 December 2015, the turnover from these sales amounted to PLN 119 million (from 1 January 2014 to 31 December 2014: PLN 82 million), and, as at 31 December 2015, the unsettled balance of receivables from these transactions amounted to PLN 8 million (as at 31 December 2014: PLN 7 million),
- dividends received from Polish State Treasury Companies in the period from 1 January 2015 to 31 December 2015 in the amount of PLN 27 million (from 1 January 2014 to 31 December 2014, PLN 35 million).

PART 12 – Other notes amounts in PLN millions, unless otherwise stated

Note 12.2. Dividends paid

In accordance with Resolution No. 5/2015 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 29 April 2015 regarding the appropriation of the Parent Entity's profit for financial year 2014, the amount of PLN 800 million was allocated as a shareholder dividend, amounting to PLN 4.00 per share. The dividend date was set at 27 May 2015 with the dividend being paid in two instalments: 18 June 2015 – PLN 2.00 per share (paid) and 19 October 2015 – PLN 2.00 per share. All shares of the Parent Entity are ordinary shares.

In accordance with Resolution No. 5/2014 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 23 June 2014 regarding the appropriation of the Parent Entity profit for financial year 2013, the amount of PLN 1 000 million, representing PLN 5.00 per share, was allocated from 2013 profit as a shareholder dividend.

Note 12.3. Other assets

Accounting policies

Receivables not constituting financial assets are initially recognised at nominal value, and at the end of the reporting period they are measured in the amount due.

Accounting policies concerning financial assets were described in Note 7.

	2015	2014
Prepayments	73	177
Available-for-sale financial assets - current	84	57
Amounts retained (security deposit) due to long-term construction contracts	38	52
Other	285	199
Other assets	**480**	**485**

Note 12.4. Other liabilities

Accounting policies

Other financial liabilities are initially recognised at fair value less transaction costs, and at the end of the reporting period they are measured at amortised cost.

	2015	2014
Liabilities due to Franco Nevada streaming contract (a)	670	731
Trade payables	180	175
Other	115	113
Other liabilities – non-current	**965**	**1 019**
Special funds	269	255
Provision for decommissioning costs of mines, other technological facilities and fixed assets - current	35	58
Provision for disputed issues and court proceedings, and other provisions	77	56
Deferred income	129	35
Accruals	319	285
Other financial liabilities	103	122
Other	132	166
Other liabilities - current	**1 064**	**977**

(a) this liability is recognised at fair value, corresponding to the obligation to provide streaming services in the future, arising from contractual obligations, which will be accounted for in the future based on the amount provided.

PART 12 – Other notes amounts in PLN millions, unless otherwise stated

Note 12.5. Assets and liabilities not recognised in the statement of financial position

The value of contingent assets and liabilities and other liabilities not recognised in the statement of financial position were determined based on estimates.

	2015	2014
Contingent assets	**635**	**474**
guarantees received	310	223
promissory notes receivables	168	109
other	157	142
Contingent liabilities	**1 780**	**1 720**
guarantees, including:	1 281	1 429
a letter of credit granted to secure the proper performance of a long-term contract for the supply of electricity for the joint venture Sierra Gorda S.C.M.	536	482
guarantees granted to additionally secure the proper performance of leasing agreements entered into by the joint venture Sierra Gorda S.C.M.	319	341
a guarantee granted to secure the proper performance of future environmental obligations of the Parent Entity to restore the area following the conclusion of operations of the Żelazny Most tailings storage facility	64	320
a letter of credit granted to secure the proper performance of future environmental obligations by KGHM INTERNATIONAL LTD. to restore the area following the conclusion of operations of the Robinson mine, Podolsky mine and the Victoria project	324	272
a promissory note liability securing the proper performance of future environmental obligations of the company to restore the area following the conclusion of operations of the Żelazny Most tailings storage facility	256	-
liabilities due to implementation of projects and inventions	91	154
other	152	137
Other liabilities not recognised in the statement of financial position	**172**	**244**
Liabilities towards local government entities due to expansion of the tailings storage facility	118	120
Liabilities due to operating leases	54	124

Note 12.6. Capital commitments related to property, plant and equipment and intangible assets

Capital commitments incurred in the reporting period, but not yet recognised in the statement of financial position, were as follows (as at 31 December of a given year):

	2015	2014
Capital commitments due to the purchase of:		
property, plant and equipment	2 111	2 855
intangible assets	29	34
Total capital commitments	**2 140**	**2 889**

The Group's share in capital commitments of joint ventures accounted for using the equity method (Sierra Gorda project) is presented in Note 6.1 [Joint ventures accounted for using the equity method].

Note 12.7. The right of perpetual usufruct of land

The Parent Entity and the Group's Polish subsidiaries obtained the right of perpetual usufruct of land mostly free of charge on the basis of laws in force. The land subject to perpetual usufruct is industrial area related to the core business activities, which also includes protective zones in which environmental quality standards have been exceeded as a result of the activities carried out.

Due to the nature of the use of the above-mentioned land, the Group has not determined fair values for these perpetual usufruct rights.

The table below contains information on future payments due to the right of perpetual usufruct of land.

PART 12 – Other notes amounts in PLN millions, unless otherwise stated

	2015	2014
Under one year	14	13
From one to five years	57	55
Over five years	732	703
Total value of future contingent payments due to the right of perpetual usufruct of land	**803**	**771**

The Group's liabilities due to the right of perpetual usufruct of land, which were not recognised in the statement of financial position, were estimated on the basis of annual payment rates resulting from the recent administrative decisions and the useful life of the land subject to this right.

Note 12.8. Employment structure

	2015	2014
White-collar employees	10 285	10 190
Blue-collar employees	23 313	23 907
Total (full-time equivalent)	**33 598**	**34 097**

Note 12.9. Other adjustments to profit before income tax in the statement of cash flows

	2015	2014
Change in assets/liabilities due to derivatives	509	723
Reclassification of other comprehensive income to profit or loss as a result of realisation of hedging derivatives	(482)	(531)
Exchange differences	(190)	27
Other	31	53
Total	**(132)**	**272**

Note 12.10. Remuneration of key managers

Remuneration of Members of the Management Board (in PLN thousands)	Period when function served in 2015	Period when function served in 2014	Fixed part of remuneration for 2015	Fixed part of remuneration for 2014	Other for 2015	Other for 2014	Total earnings in 2015	Total earnings in 2014
Members of the Management Board serving in the function								
Herbert Wirth	01.01-31.12	01.01-31.12	1 490	1 442	948	835	**2 438**	**2 277**
Jarosław Romanowski	01.01-31.12	01.01-31.12	1 340	1 297	858	426	**2 198**	**1 723**
Wojciech Kędzia	01.01-31.01	01.01-31.12	99	1 153	757	670	**856**	**1 823**
Jacek Kardela	01.01-31.12	01.01-31.12	1 192	1 153	732	349	**1 924**	**1 502**
Marcin Chmielewski	01.01-31.12	01.01-31.12	1 185	1 154	718	368	**1 903**	**1 522**
Mirosław Laskowski	01.02-31.12	-	1 093	-	184	-	**1 277**	**-**
other Members of the Management Board								
Włodzimierz Kiciński	-	-	-	324	-	611	**-**	**935**
Adam Sawicki	-	-	-	288	-	403	**-**	**691**
Dorota Włoch	-	-	-	288	-	381	**-**	**669**
			6 399	**7 099**	**4 197**	**4 043**	**10 596**	**11 142**

The amounts in the " Fixed part of remuneration" and " Other" columns include remuneration during the period of employment termination.

Remuneration of Members of the Supervisory Board (in PLN thousands)	Period when function served in 2015	Period when function served in 2014	Remuneration for service in the Supervisory Board for 2015	Remuneration for service in the Supervisory Board for 2014	Other for 2015	Other for 2014	Total earnings in 2015	Total earnings in 2014
Members of the Supervisory Board serving in the function								
Krzysztof Kaczmarczyk	-	01.01-23.06	-	52	-	4	**-**	**56**
Aleksandra Magaczewska	-	01.01-23.06	-	59	-	2	**-**	**61**
Jacek Poświata	01.01-31.12	01.01-31.12	100	97	1	2	**101**	**99**
Bogusław Szarek	01.01-31.12	01.01-31.12	100	96	240	226	**340**	**322**
Andrzej Kidyba	01.01-31.12	01.01-31.12	100	96	411	356	**511**	**452**
Iwona Zatorska-Pańtak	-	01.01-23.06	-	48	-	-	**-**	**48**
Marek Panfil	-	01.01-23.06	-	48	-	23	**-**	**71**
Tomasz Cyran	-	23.06-31.12	110	54	4	10	**114**	**64**
Barbara Wertelecka-Kwater	01.01-31.12	23.06-31.12	100	49	-	3	**100**	**52**
Marcin Moryń	01.01-31.12	23.06-31.12	125	60	-	3	**125**	**63**
Józef Czyczerski	01.01-31.12	23.06-31.12	100	49	108	76	**208**	**125**
Bogusław Stanisław Fiedor	01.01-31.12	23.06-31.12	100	49	2	3	**102**	**52**
Leszek Hajdacki	01.01-31.12	23.06-31.12	100	49	175	90	**275**	**139**
			935	**806**	**941**	**798**	**1 876**	**1 604**

	2015	2014
Remuneration and other benefits of other key managers	6 806	5 412

Based on the definition of key management personnel according to IAS 24 and based on an analysis of the rights and scope of responsibilities of managers of the Group arising from corporate documents and from management contracts, the members of the Board of Directors of KGHM INTERNATIONAL LTD. and the President of the Management Board of KGHM INTERNATIONAL LTD. were recognised as other key managers of the Group.

Note 12.11. Remuneration of the entity entitled to audit the financial statements and of entities related to it (in PLN thousands)

	2015	2014
Companies of the PricewaterhouseCoopers Group	**8 739**	**6 047**
From the contract for the review and audit of financial statements, including due to:	4 366	3 999
- audit of annual financial statements	3 741	3 283
- review of financial statements	625	716
From other contracts	4 373	2 048

Note 12.12. Composition of the Group

Company	Head office	% of Group's share as at 2015	% of Group's share as at 2014
"BIOWIND" sp. z o.o. in liquidation	Lubin	-	100
BIPROMET S.A.	Katowice	100	66
CBJ sp. z o.o.	Lubin	100	100
CENTROZŁOM WROCŁAW S.A.	Wrocław	99.65	99.54
CUPRUM Nieruchomości sp. z o.o.	Wrocław	100	100
"Energetyka" sp. z o.o.	Lubin	100	100
Fermat 1 S.á r. l.	Luxembourg	100	100
Fermat 2 S.á r. l.	Luxembourg	100	100
Fermat 3 S.á r. l.	Luxembourg	100	100
Fundusz Hotele 01 Sp. z o.o.	Wrocław	100	100
Fundusz Hotele 01 Sp. z o.o. S.K.A.	Wrocław	100	100
INOVA Spółka z o.o.	Lubin	100	100
INTERFERIE S.A.	Lubin	67.71	67.71
Interferie Medical SPA Sp. z o.o.	Lubin	89.46	89.46
KGHM CUPRUM sp. z o.o. - CBR	Wrocław	100	100
CUPRUM DEVELOPMENT sp. z o.o.	Wrocław	100	100
KGHM Kupfer AG	Berlin	100	100
KGHM I FIZAN	Wrocław	100	100
KGHM III FIZAN	Wrocław	100	100
KGHM IV FIZAN	Wrocław	100	100
KGHM V FIZAN	Wrocław	100	100
Legnicki Park Technologiczny LETIA S.A.	Legnica	-	84.93
Metraco S.A.	Legnica	100	100
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	Shanghai	100	100
KGHM TFI S.A.	Wrocław	100	100
KGHM ZANAM S.A. (formerly KGHM ZANAM Sp. z o.o.)	Polkowice	100	100
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	100	100
NITROERG S.A.	Bieruń	85	85
NITROERG SERWIS Sp. z o.o.	Wilków	85	85
PeBeKa S.A.	Lubin	100	100

PART 12 – Other notes amounts in PLN millions, unless otherwise stated

Company	Head office	% of Group's share as at 2015	2014
PeBeKa Canada Inc.	Vancouver	100	-
PB Katowice S.A. in liquidation	Katowice	88.09	58.14
MERCUS Logistyka sp. z o.o. (formerly PHP "MERCUS" sp. z o.o.)	Polkowice	100	100
PHU "Lubinpex" Sp. z o.o.	Lubin	100	100
Staropolanka Sp. z o.o.	Polanica Zdrój	100	-
PMT Linie Kolejowe 2 Sp. z o.o.	Owczary	100	-
Future 1 Sp. z o.o.	Lubin	100	-
Future 2 Sp. z o.o.	Lubin	100	-
Future 3 Sp. z o.o.	Lubin	100	-
Future 4 Sp. z o.o.	Lubin	100	-
Future 5 Sp. z o.o.	Lubin	100	-
Future 6 Sp. z o.o.	Lubin	100	-
Future 7 Sp. z o.o.	Lubin	100	-
PMT Linie Kolejowe Sp. z o.o.	Owczary	100	100
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	100	100
Polska Grupa Uzdrowisk Sp. z o.o.	Wrocław	100	100
Polska Grupa Uzdrowisk Sp. z o.o. S.K.A. in liquidation	Warsaw	100	100
"Uzdrowisko Cieplice" Sp. z o.o.-Grupa PGU	Jelenia Góra	98.29	97.87
Uzdrowiska Kłodzkie S.A. - Grupa PGU	Polanica Zdrój	100	99.31
Uzdrowisko Połczyn Grupa PGU S.A.	Połczyn Zdrój	100	98.42
Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o.-Grupa PGU	Świeradów Zdrój	98.95	98.65
WFP Hefra S.A.	Warsaw	100	100
WMN "ŁABĘDY" S.A.	Gliwice	84.96	84.96
WPEC w Legnicy S.A.	Legnica	100	85.2
Zagłębie Lubin S.A.	Lubin	100	100
0929260 B.C U.L.C.	Vancouver	-	100
KGHM INTERNATIONAL LTD. Group			
KGHM INTERNATIONAL LTD.	Vancouver	100	100
KGHM AJAX MINING INC.	Vancouver	80	80
Sugarloaf Ranches Limited	Vancouver	100*	100*
Malmbjerg Molybdenum A/S	Greenland	100	100
KGHMI (Barbados) Holdings Ltd.	Barbados	100	100
Quadra FNX Chile (Barbados) Ltd.	Barbados	100	100
Quadra FNX Holdings Chile Limitada	Chile	100	100
Quadra FNX SG (Barbados) Ltd.	Barbados	100	100
Aguas de la Sierra Limitada	Chile	100	100
Quadra FNX FFI Ltd.	Barbados	100	100
Robinson Holdings (USA) Ltd.	Nevada, USA	100	100
Wendover Bulk Transhipment Company	Nevada, USA	100	100
Robinson Nevada Mining Company	Nevada, USA	100	100
Carlota Holdings Company	Arizona, USA	100	100
Carlota Copper Company	Arizona, USA	100	100
FNX Mining Company Inc.	Ontario, Canada	100	100
DMC Mining Services Ltd.	Ontario, Canada	100	100
Quadra FNX Holdings Partnership	British Columbia, Canada	100	100
Raise Boring Mining Services, S.A. de C.V.	Mexico	100	100
FNX Mining Company USA Inc.	USA	100	100
DMC Mining Services Corporation	USA	100	100

PART 12 – Other notes amounts in PLN millions, unless otherwise stated

Company	Head office	% of Group's share as at 2015	2014
Centenario Holdings Ltd.	British Virgin Islands	100	100
Minera Carrizalillo Limitada	Chile	100	100
Mineria y Exploraciones KGHM International SpA	Chile	100	100
Franke Holdings Ltd. (formerly Frankie (BVI) Ltd.)	British Virgin Islands	100	100
Sociedad Contractual Minera Franke	Chile	100	100
0899196 B.C. Ltd.	British Columbia, Canada	100	100

Changes in the Group structure in 2015 did not have material impact on the results of the consolidated financial statements. Details were presented in point 6.1 of the Management Board's Report on the Activities of the Group.

Note 12.13. Subsequent events after the reporting period

KGHM Tax Group

The first fiscal year of the KGHM Tax Group commenced on 1 January 2016.
The agreement creating the KGHM Tax Group, as understood by the Act on CIT, was signed on 18 September 2015. The agreement was registered by the Head of the Lower Silesia Tax Office by a decision issued on 22 October 2015. KGHM Polska Miedź S.A. acts as the representative of the Tax Group.

The Tax Group comprises the following companies:
KGHM Polska Miedz S.A,
INOVA Centrum Innowacji Technicznych Spółka z o.o.
„Energetyka" sp. z o.o.,
KGHM CUPRUM sp. z o.o. - Centrum Badawczo Rozwojowe,
Future 1 Sp. z o.o.,
Future 2 Sp. z o.o.
Future 3 Sp. z o.o.,
Future 4 Sp. z o.o.,
Future 5 Sp. z o.o.,
Future 6 Sp. z o.o.,
Future 7 Sp. z o.o.,
PMT Linie Kolejowe 2 sp. z o.o.,
Przedsiębiorstwo Budowy Kopalń PeBeKa S.A.,
KGHM ZANAM S.A.,
„MIEDZIOWE CENTRUM ZDROWIA" S.A.,
Zagłębie Lubin S.A,
Metraco S.A.

Changes in the composition of the Supervisory Board of the Parent Entity

The Extraordinary General Meeting of KGHM Polska Miedź S.A. changed the composition of the Supervisory Board of KGHM Polska Miedź S.A. on 18 January 2016. The composition of the Supervisory Board as at the end of the reporting period was presented in point 2 of the Management Board's Report on the Activities of the Group.

Changes in the composition of the Management Board of the Parent Entity

The Supervisory Board of KGHM Polska Miedź S.A., on its meeting on 3 February 2016, changed the composition of the Management Board of the Parent Entity. Detailed information was presented in point 2 of the Management Board's Report on the Activities of the Group.

Decrease in the amount of available credit

On 21 January 2016 the Parent Entity signed an annex to a credit agreement with Bank Handlowy S.A. in Warsaw, and on its basis the amount available on overdraft was decreased from PLN 280 million to PLN 250 million. The interest is based on WIBOR/LIBOR plus a margin. The credit's maturity date expires on 12 October 2018.

Signing of financing agreements

On 5 February 2016 the Parent Entity entered into a credit agreement in the amount of USD 100 million with Bank Gospodarstwa Krajowego in Warsaw. The interest is based on LIBOR plus a margin. The agreement was concluded for a defined period of 3 months with the possibility to extend the financing periods for subsequent 3 month periods.
On 29 February 2016 the Parent Entity entered into an overdraft credit agreement with Bank Zachodni WBK S.A. in Warsaw for the amount of USD 50 million. The agreement dated 29 February 2016 supersedes the current financing agreement with BZ WBK S.A. The interest is based on LIBOR plus a margin. The credit's period of availability expires on 28 February 2017.

Corporate guarantee granted

On 12 February 2016 the Parent Entity granted a corporate guarantee to Banco de Chile in the amount of USD 63 million. The guarantee secures repayments of a short-term working capital facility granted to Sierra Gorda S.C.M. by Banco de Chile. The guarantee expires on 12 February 2017.

Extension of repayment of the credit

On 29 February 2016 the Parent Entity extended the repayment period of the overdraft credit in HSBC Bank Polska S.A. in the amount of PLN 100 million. The credit's interest is based on WIBOR/LIBOR plus a margin. The credit's maturity date expires on 29 August 2017.

Concerns of Chilean environmental enforcement agency

On 8 March 2016, the Chilean Environmental Enforcement Agency, in a public announcement, indicated areas in which there may have occurred breaches in the scope of the environmental permit issued to the Sierra Gorda mine. Work is currently underway on analysing the published document.

Significant commercial contract

On 11 March 2016, the Parent Entity signed an annex to the contract dated 28 April 2014 with the nkt cables group GmbH for the sale of copper wire rod. As a result of signing this annex, the total estimated value of contract for the sale of copper wire rod in years 2014-2016 amounts from PLN 3 342 million to PLN 3 441 million depending on the usage of quantitative option. The contract provides the possibility of prolonging it for year 2017.

Results forecast for 2016

On 15 March 2016, the Supervisory Board of the Parent Entity approved KGHM Polska Miedź S.A.'s Budget for 2016 as presented by the Management Board (detailed information on the adopted budget may be found in the Management Board's Report on the Activities of the Group in section 7.12).

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY			
Date	**First, Last Name**	**Position / Function**	**Signature**
15 March 2016	Krzysztof Skóra	President of the Management Board	
15 March 2016	Mirosław Biliński	Vice President of the Management Board	
15 March 2016	Mirosław Laskowski	Vice President of the Management Board	
15 March 2016	Jacek Rawecki	Vice President of the Management Board	
15 March 2016	Stefan Świątkowski	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last Name**	**Position / Function**	**Signature**
15 March 2016	Łukasz Stelmach	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

THE MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES OF THE GROUP IN 2015

Lubin, March 2016

CONTENTS

Table 1. Aggregated data of the KGHM Polska Miedź S.A. Group for the years 2009-2015 [1]

		2015	2014	2013	2012	2011	2010	2009
Statement of comprehensive income								
Sales revenue	mn PLN	20 008	20 492	24 110	26 705	22 107	17 293	12 120
Profit/(loss) on sales	mn PLN	506	3 353	4 594	7 142	9 402	6 690	3 183
Profit/(loss) before income tax	mn PLN	(5 122)	3 098	4 235	6 448	13 290	5 778	2 904
Profit/(loss) for the period	mn PLN	(5 009)	2 451	3 033	4 803	11 064	4 715	2 359
Statement of financial position								
Total assets	mn PLN	36 764	40 374	34 465	33 616	30 554	21 177	14 897
Non-current assets	mn PLN	30 448	33 569	26 488	23 762	12 037	12 414	9 808
Current assets	mn PLN	6 316	6 805	7 977	9 854	18 517	8 763	5 090
Equity	mn PLN	20 414	25 530	23 064	21 710	23 382	14 892	10 624
Liabilities and provisions	mn PLN	16 350	14 844	11 401	11 906	7 172	6 286	4 274
Financial ratios								
Earnings per share (EPS) [2]	PLN	(13.94)	12.07	15.29	24.34	56.67	22.84	12.7
Dividend per share (DPS) [2,3]	PLN	x	4.00	5.00	9.80	28.34	14.90	3.00
Price per share/ earnings per share (P/E) [2]	x	x	9.0	7.7	7.8	2.0	7.6	8.3
Current liquidity	x	1.0	1.2	1.7	2.1	4.2	2.6	2.2
Quick liquidity	x	0.5	0.6	1.0	1.3	3.6	1.9	1.3
Return on assets (ROA)	%	(13.6)	6.1	8.8	14.3	36.2	22.3	15.8
Return on equity (ROE)	%	(24.5)	9.6	13.2	22.1	47.3	31.7	22.2
Debt ratio	%	44.5	36.8	33.1	35.4	23.5	29.7	28.7
Durability of financing structure	%	83.1	86.2	86.4	85.8	85.7	83.9	84.5
Production results								
Electrolytic copper production	kt	697.1	662.9	666.0	676.3	571.0	547.1	502.5
Metallic silver production	t	1 293	1 258	1 164	1 274	1 260	1 161	1 203
Macroeconomic data (average annual)								
Copper prices on LME	USD/t	5 495	6 862	7 322	7 950	8 811	7 539	5 164
Silver prices per LBMA	USD/oz t	15.68	19.08	23.79	31.15	35.12	20.19	14.67
USD/PLN exchange rate	USD/PLN	3.77	3.15	3.17	3.26	2.96	3.02	3.12
USD/CAD exchange rate per Bank of Canada	USD/CAD	1.28	1.10	1.03	1.00			
USD/CLP exchange rate per Bank of Chile	USD/CLP	655	570	495	486			
Other data								
Market share price, end of period	PLN/share	63.49	108.85	118.00	190.00	110.60	173.00	106.00
Capital expenditures	mn PLN	3 933	3 635	3 386	2 516	2 023	1 526	1 362
Concentrate production cost C1	USD/lb	1.59	1.89	1.85	1.59	0.63	1.07	1.12

1/ since 2012 includes data of the KGHM INTERNATIONAL LTD. Group,
2/ with respect to KGHM Polska Miedź S.A.,
3/ dividend for the financial year.

Table 2. Significant events in the KGHM Polska Miedź S.A. Group*

	EVENT	S/RF **
Change in macroeconomic conditions		
2015	Decrease in average annual metals prices: - decrease by 20% in copper price on the London Metal Exchange (LME), - decrease by nearly 18% in silver price on the London Bullion Market, - decrease by 30% in nickel price on the LME, - decrease by 42% in molybdenum price on the LME. Increase in average annual exchange rates: - increase by nearly 20% in USD/PLN exchange rate per the NBP, - increase by nearly 15% in USD/CLP exchange rate per the Bank of Chile, - increase by nearly 16% in USD/CAD exchange rate per the Bank of Canada.	S 7.1
Fall in KGHM Polska Miedź S.A.'s share price		
2015	41.67% fall in the share price of KGHM Polska Miedź S.A. from PLN 108.85 on 30 December 2014 to PLN 63.49 at the end of 2015.	S 8.2
Group Strategy		
26.01.2015	Approval by the Supervisory Board of the Strategy of KGHM Polska Miedź S.A. for the years 2015-2020 with an outlook to 2040. Due to deterioration in macroeconomic conditions during the year, the process of reviewing the strategic assumptions of KGHM Polska Miedź S.A. for the years 2015 – 2020 was begun.	S 4
Change in composition of KGHM Polska Miedź S.A.'s governing bodies		
Changes in the Management Board		S 8.4
01.02.2015	Change in the composition of KGHM Polska Miedź S.A.'s Management Board – due to resignation of the Vice President (Production), a replacement was appointed to the position.	
17.03.2015	Appointment of the 9th-term Management Board (no change in composition).	
03.02.2016	Change in the Management Board's composition – 4 out of 5 Management Board members dismissed (incl. the President of the Management Board) and 3 new Management Board members appointed (incl. the President of the Management Board).	
23.02.2016	Change in the Management Board's composition – appointment of Vice President (Finance) and a change in the title of one of the Management Board members.	
Changes in the Supervisory Board		
18.01.2016	Changes in the composition of the Supervisory Board – dismissal and appointment of 6 new (out of 9) Supervisory Board members.	
Advancement of projects		
15.04.2015	Agreement signed to acquire shares in PGE EJ 1 sp. z o.o. – the special purpose company responsible for preparing and carrying out the investment to build and operate the first Polish nuclear power plant.	S 4
01.07.2015	Commencement of commercial production by the Sierra Gorda mine in Chile (copper, molybdenum and gold mine) – a joint venture of KGHM INTERNATIONAL LTD. (55%) and Sumitomo Group companies (45%).	S 7.4
13.01.2016	Results of updated Feasibility Study for the Ajax project (copper and gold project in British Columbia, Canada), belonging to the company KGHM Ajax Mining Inc., in which 80% of the shares are held by the KGHM Polska Miedź S.A. Group.	RF 2/2016
Change in the Group's structure		
31.12.2015	Merger of two Canadian companies: KGHM INTERNATIONAL LTD. and 0929260 B.C. Unlimited Liability Company by founding a new company under the name of KGHM INTERNATIONAL LTD. Following this merger KGHM AJAX MINING INC., advancing the Ajax project in British Columbia, Canada, involving construction of an open-pit copper and gold mine and processing plant with associated infrastructure, is part of the KGHM INTERNATIONAL LTD. Group.	S 6.1

31.12.2015	Transferal to Canada of the head offices of five companies of the KGHM INTERNATIONAL LTD. Group, which are not engaged in operations (three from Barbados, two from the British Virgin Islands).	S 6.1
Impairment of assets		
30.12.2015	Publication of information on indications to conduct tests for impairment of the carrying amount of KGHM Polska Miedź S.A. Group's assets, due to changes in the macroeconomic environment.	RF 26/2015
08.02.2016	Publication of information on the results of tests for impairment of the carrying amount of KGHM Polska Miedź S.A. Group's assets (estimates).	RF 8/2016
02.03.2016	Information on tests for impairment of the carrying amount of KGHM Polska Miedź S.A.'s Group assets which updated those announced on 08.02.2016 in the aforementioned regulatory filing.	RF 12/2016
Recognition in the financial statements for 2015 of impairment losses on the carrying amount of the Group's assets, on the basis of final, updated impairment tests.		S 7
Dividend paid		
26.01.2015	Adoption by the Parent Entity's Management Board of the Dividend Policy of KGHM Polska Miedź S.A.	S 8.3
29.04.2015	Adoption by the Ordinary General Meeting of KGHM Polska Miedź S.A. of a resolution on the allocation of profit for financial year 2014 with a dividend payout of 4 PLN/share.	
Significant agreements		
08.05.2015	Agreement signed by KGHM Polska Miedź S.A. with Tele-Fonika Kable S.A. for the sale of copper wire rod in the years 2016-2018 with the option to extend it for a subsequent two years.	S 6.2
Loan agreements entered into related to refinancing of the external debt of KGHM INTERNATIONAL LTD.:		
14.01.2015	cash loan agreement entered into between KGHM Polska Miedź S.A. and the indirect subsidiary 0929260 B.C. UNLIMITED LIABILITY COMPANY,	
25.05.2015	cash loan agreement entered into between KGHM Polska Miedź S.A. and the subsidiary Fermat 1 S.à r.l.,	
03.06.2015	cash loan agreement entered into between KGHM Polska Miedź S.A. and the indirect subsidiary 0929260 B.C. UNLIMITED LIABILITY COMPANY,	
08.06.2015	cash loan agreement entered into between subsidiaries: 0929260 B.C. UNLIMITED LIABILITY COMPANY and KGHM INTERNATIONAL LTD.	
Other		
2015	Complete refinancing of the external debt of KGHM INTERNATIONAL LTD.	S 7.8
25.06.2015	Publication by KGHM Polska Miedź S.A. of a „Mineral resources and reserves report", prepared as at 31 December 2014.	RF 21/2015

* *significant events in 2015 and to the date of signing this report*

** *S – section of this report, RF – regulatory filing*

ZERO HARM

TEAMWORK

RESULTS-DRIVEN

ACCOUNTABILITY

COURAGE

1. Introduction

KGHM Polska Miedź S.A. is the Parent Entity of a Group which is a world-class producer of copper and silver with over half a century of experience in the copper ore mining and processing industry. The company owns one of the largest copper ore deposits in the world, guaranteeing continued production in Poland for the next 40 years.

The company's wealth of experience in production technology and the skills of its employees, based on knowledge, enabled the company to develop on an international scale through the friendly takeover in 2012 of the Canadian company Quadra FNX Mining Ltd. (today KGHM INTERNATIONAL LTD.). As a result of this event the KGHM Polska Miedź S.A. Group became a global company, with significant mine resources and production assets on three continents: Europe, North America and South America.

As a result of the early completion of key provisions of the previous strategy of KGHM Polska Miedź S.A., in 2015 a new strategy was adopted for the years 2015-2020 with an outlook to 2040. The main goal of the new strategic outlook for the years 2015-2020 is to achieve annual production capacity of over 1 million tonnes of copper equivalent and to continue work aimed at constant improvement of mine operating efficiency. The basic factors determining achievement of this medium term goal arise from the diversified portfolio of investment projects which will increase the production capacity of the KGHM Polska Miedź S.A. Group.

In 2015, the Group consistently advanced the adopted strategy. On 1 July 2015 the Sierra Gorda mine located in Chile commenced commercial production, from one of the world's largest deposits of copper ore, molybdenum and gold. The mine is still in the ramp-up phase to achieving target processing capacity. This ramp-up phase will be completed in 2016. With respect to the Victoria Project, comprising the construction of an underground copper and nickel mine in Canada, in 2015 work was carried out on preparing surface infrastructure. Mining is expected to commence in 2021.

With respect to domestic investments, in 2015 work was continued on the sinking of a ventilation shaft and on developing primary mine tunnels as part of the Program to Access the Deep Głogów Deposit. In addition, development projects were advanced with respect to production technology and aimed at improving the efficiency of the core production business, including the main project being the Pyrometallurgy Modernisation Program at the Głogów smelter/refinery. In 2016, the commencement of the newly-constructed flash furnace at the Głogów smelter/refinery is planned.

The unfavourable macroeconomic conditions in 2015, including the substantial fall in the prices of the KGHM Polska Miedź S.A. Group's basic products, had a major impact on the Group's results, resulting for example in lower profitability on sales and in the impairment of assets. The unfavourable impact of the fall in metals prices was partially offset by an increase in the USD/PLN exchange rate. Due to the deterioration in market conditions advanced cost efficiency programs were implemented for the mining operations, based among others on optimising technological processes, employment and renegotiating contracts for the supply of materials and services.

The unfavourable market situation in the mining sector in 2015 impacted the market valuation of companies in this sector, and was also a cause of the drop in the share price of KGHM Polska Miedź S.A., though in the case of KGHM this drop was less than the average decrease for all companies in the peer group (the largest global companies in the copper mining sector).

Due to the deterioration of macroeconomic conditions, in 2015 the Management Board of KGHM Polska Miedź S.A. decided to commence the process of reviewing the assumptions contained in the Strategy to ensure the stability of the long term growth in the company's value for its stakeholders and to secure its operations in a challenging macroeconomic environment.

The key values which unite the employees of the KGHM Polska Miedź S.A. Group, regardless of their position in the organisation or nationality, and represent a guidepost for making decisions and taking actions are:

- **Zero harm – we are all jointly responsible for our safety,**
- **Teamwork – for us, cooperation is the basis of success,**
- **Results-driven – we achieve results while being focused on the long-term success of KGHM,**
- **Accountability – we are jointly responsible for the actions taken for the benefit of our stakeholders,**
- **Courage – we face new challenges in a well thought-out manner.**

2. Parent Entity governance

Management Board

The Management Board of the Parent Entity was comprised of the following persons as at the date of signing this report:

Krzysztof Skóra President of the Management Board

Graduate of the Faculty of Management and Computer Science of the University of Economics in Wrocław, as well as post-graduate studies in Finance and Banking at the same University.

Associated with KGHM Polska Miedź S.A. and the Group for many years - President of the Management Board of the Parent Entity in the years 2006- 2008. Apart from this he has been among others economic advisor, Vice President of the Management Board of a Municipal Water and Sewage Plant in Lubin (2008-2012), Treasurer of the municipality of Ruja (2003-2006), Vice President of the Management Board of the Lower Silesia Investment company in Lubin in the years 1999-2002 and Vice President of the Management Board of the Legnica Special Economic Zone.

He has been a member of Supervisory Boards, including of KGHM Polska Miedź S.A. in Lubin in the years 1991-1994, Polkomtel S.A. in Warsaw and Kupferhandelsges.m.b.H in Vienna as well as Chairman of the Supervisory Board of ZNM Zanam Sp. z o. o. in Polkowice and CVC Sp. z o.o. in Legnica (1996-1997).

He has also been Vice Chairman of the Lower Silesian Regional Assembly, Councillor of the Lower Silesian Regional Assembly (4th term), and Vice President of the Confederation of Polish Employers in the years 2007–2008.

Mirosław Biliński Vice President of the Management Board (Development)

Graduate of the Faculty of Management and Information Technology of the University of Economics in Wrocław, Master of Business Administration (MBA) (1996) and Wroclaw University of Technology, Institute of Mining, earning an Engineering degree and a Master of Science degree in mining (1985).

He is a Fellow of the Institute of Materials, Minerals and Mining in London and a member of the Canadian Institute of Mining, Metallurgy and Petroleum in Quebec.

He has worked in the mining sector for over 29 years, in Poland and abroad.

In the years 1999 – 2001 and 2006 he was the Vice-President of the Management Board of KGHM Polska Miedź S.A. (Production).

He has experience in managing mining projects in Asia, Africa and the Middle East.

From 2012 he worked for Mawarid Mining LLC in Oman as General Manager, followed by 3 years as Chief Operating Officer (COO).

In addition, he has served as a lecturer in the field of mining and as a consultant.

Mirosław Laskowski Vice President of the Management Board (Production)

Since the beginning of his career he has been involved with KGHM. He has worked at every level of the career ladder, and served in his last position – as Director of the Rudna mine – in the years 2010 – 2015.

He is a graduate of Wrocław University of Technology, Mining Faculty, with a specialisation in deposit mining technology as well as post-graduate studies at Wrocław University of Economics in organisational and financial management.

He has completed the ICAN Institute's Leadership and Innovation Academies as well as the TenStep Project Manager Certification at the TenStep Academy in Warsaw.

Jacek Rawecki Vice President of the Management Board (Supply Chain Management)

Graduate of the Faculty of Social Sciences at the University of Wrocław, currently in preparations for a doctoral dissertation in the Faculty of Law and Administration at the University of Kardynał Stefan Wyszyński in Warsaw, and MBA studies at the University of Economics in Wrocław.

He has been performing management functions since 2006. Among others, he was a president of the Management Board of Katowicki Węgiel Sp. z o.o. in Katowice, a director of the local branch of the Military Property Agency (Agencja Mienia Wojskowego) in Wrocław and a director for marketing and development of PUH Brajt in Wrocław. Since 2015, a member of the Management Board of a construction company (Przedsiębiorstwo Budowlane ARS Sp. z o.o.). In the years 2009-2013 he was President of the Management Board of KGHM Metraco S.A. (currently Metraco S.A.) in Legnica. During this time he developed the company to a considerable degree, quadrupling sales within four years. Among others, he introduced a new brand of rock salt, KGHM Sól, and oversaw the construction of a European state-of-the-art sulphuric acid transshipment terminal in Szczecin. During his service with KGHM Metraco S.A. (currently Metraco S.A.) he effectively transformed the company into an industry leader in the field of collecting scrap in Poland and into the fourth largest company in Lower Silesia.

He has experience in ownership supervision, gained in supervisory bodies of commercial law companies, among others as a member of the Supervisory Board of Grupa Energetyczna Katowice Sp. z o.o. and as secretary of the Supervisory Board of EnergiaPro Gigawat sp. z o.o.

Member of the Experts Group of the European Innovation Partnership for Natural Resources. In the past, he was a member of the Chamber Council of the Economic Chamber of Non-Ferrous Metals and Recycling.

Stefan Świątkowski Vice President of the Management Board (Finance)

Graduate of Łódź University of Technology (Master's Degree in mathematics), the University of Leeds in the United Kingdom (Master of Science in mathematics), and INSEAD in France (MBA).

He has many years of experience in financial management, risk management, and strategic management. Most recently he was a co-founder of Bizon Capital sp. z o.o. Earlier he served as the Vice President of the Management Board of FM Bank/Polski Bank Przedsiębiorczości and the bank Powszechna Kasa Oszczędności Bank Polski S.A. responsible for risk management. He was also the Finance Director at Europejski Fundusz Leasingowy S.A. and the ALCO Director at Lukas Bank S.A. He also worked in Bank Handlowy S.A. and in McKinsey & Company Poland sp. z o.o. as a consultant.

Author of articles on economic issues, including the concept of a solvent and fair pension system: „ZusPitOfeVat or how to reduce the harmfulness of the pension and tax systems" and on sources of funding entrepreneurship, alternative to banks: „Sposób na blokadę" (The blockade method) and a novel about Polish privatisation, „Deadline czyli stryczek" (Deadline - namely a noose).

He was awarded the Gold Cross of Merit in March 2010.

Supervisory Board

The composition of the Supervisory Board as at the date this report was signed was as follows:

- Dominik Hunek - Chairman,
- Radosław Barszcz - Deputy Chairman,
- Michał Czarnik,
- Cezary Godziuk
- Miłosz Stanisławski,
- Jarosław Witkowski

along with the following employee-elected members:

- Józef Czyczerski,
- Leszek Hajdacki.
- Bogusław Szarek - Secretary

3. Profile of the KGHM Polska Miedź S.A. Group's operations

3.1. Group structure and major assets

As at 31 December 2015, the Group was composed of KGHM Polska Miedź S.A. – the Parent Entity – and 81 subsidiaries (including four closed-end, non-public investment funds), located mostly on three continents: Europe, North America and South America. Some of these subsidiaries formed their own groups. The largest of these, in terms both of the number of entities as well as the value of equity, was the KGHM INTERNATIONAL LTD. Group, whose main assets are located in Canada, the USA and Chile. It was comprised of 27 subsidiaries. As at the end of the reporting period the KGHM Polska Miedź S.A. Group owned shares in three joint ventures - Sierra Gorda S.C.M., „Elektrownia Blachownia Nowa" sp. z o.o. and NANO CARBON Sp. z o.o.

A detailed diagram of the KGHM Polska Miedź S.A. Group presenting the relationships between entities may be found in Appendices 1 and 2 to this report.

The Group's main entities, which are engaged in the mining sector, comprise three primary reporting segments which are independently evaluated by management bodies. These are: KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M.

The following diagram presents the significant production assets and projects of the reporting segments.

Diagram 1. Main reporting segments in the KGHM Polska Miedź S.A. Group

KGHM Polska Miedź S.A. – Parent Entity

SEGMENT

Mined and metallurgical metals production - **Cu, Ag, Au**

Resources - **one of the world's largest copper deposits**

Main production assets	**underground mines** Lubin Polkowice-Sieroszowice Rudna **metallurgical plants** Legnica Głogów I and Głogów II **copper wire rod plant** Cedynia
Development projects	Deep Głogów Pre-production and exploration projects in south-west Poland

KGHM INTERNATIONAL LTD.

SEGMENT

Mined metals production - **Cu, Ni, Au, Pt, Pd**

Main production assets	**Robinson mine** in the USA (open-pit) **Morrison mine** (underground) in the **Sudbury Basin** in Canada
Development projects	**Victoria project** in the **Sudbury Basin** in Canada **Ajax project** in Canada - construction of an open-pit copper and gold mine, processing plant and associated infrastructure

Sierra Gorda S.C.M.

joint venture of KGHM INTERNATIONAL LTD. and Sumitomo Group companies

SEGMENT

Key international asset of the Group

Mined metals production - **Cu, Mo, Au, Ag**

Production assets	**Sierra Gorda mine** in Chile (open-pit)
Development projects	Development of Sierra Gorda project **- Phase 2** – increase in processing plant capacity

In terms of other entities which are not included in the above reporting segments, several main groups of entities may be identified:

- companies supporting the core business of KGHM Polska Miedź S.A. ,
- closed-end investment funds and portfolio companies,
- companies serving an important role in CSR policy,
- special purpose companies in the holding structure, and
- companies targeted for restructuring or divestment.

Principles for managing the Group

In 2015, the breakdown of the Group by segment was updated as compared to the breakdown applied in 2014. The basis for changing the structure of the segments was among others the changes in the Group's structure (a description of the segments and changes therein may be found in Section 7.4 of this report). The Management Board of the Parent Entity is currently monitoring the Group's operating results according to the segments indicated in Diagram 1 above. The most important change in the Group's segmental breakdown was the transferance of the Ajax project being advanced by the company KGHM AJAX MINING LTD. to the segment KGHM INTERNATIONAL LTD.

In addition, there were no changes in the principles for managing the Group in 2015, which are based on principles adopted in 2012 resulting from the acquisition of foreign mining assets. The internal structures and tools employed in the management process are adapted to the needs arising from the process of integration in the Group and project development.

In response to the changes in the Group in the last several years there was a change in the company's image on a global scale. In 2015, a new system of visual identification was implemented, in relation to which the most visible expression of the change in the company's position is the new logo, symbolising among others a new communication strategy, of which a key element is knowledge. A common brand is an element in the Group's integration.

KGHM Polska Miedź S.A. is committed to creating and upholding the highest standards of business ethics. In 2015 a uniform Code of Ethics was implemented throughout the Group. This ensures that behavior conforms to the basic collection of values which guide the KGHM Polska Miedź S.A. Group: zero harm, teamwork, results-driven, accountability and courage.

3.2. Group activities, location of mining assets

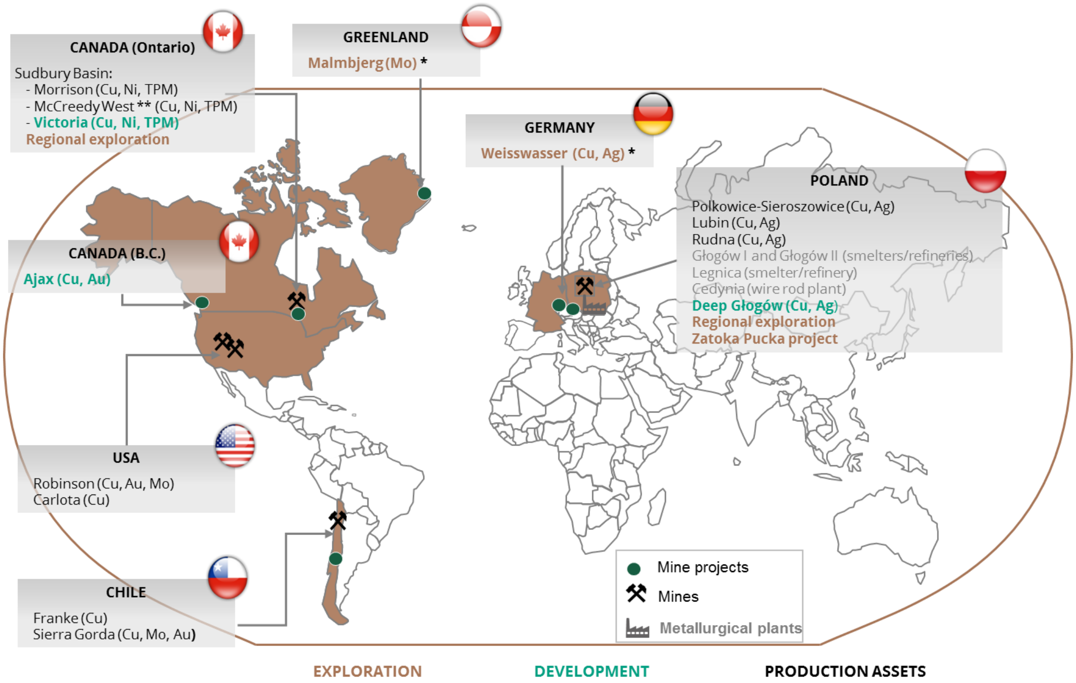
The Group includes companies involved in the core business, i.e. the mining production of metals (such as copper, silver, nickel, gold, molybdenum, platinum and palladium), exploring for and mining deposits of copper and other metals, and companies which support the core business, for example companies which provide services involving mine construction, transportation, the production of mining machinery and equipment, the generation of electricity and heat, the production of explosives and also research and development. Other companies which are not related to the core business provide services in fields such as health care and cash investment. Details on the activities of the Group's companies may be found in Appendix 3 to this report.

The KGHM Polska Miedź S.A. Group holds geographically diversified mining assets located in low-risk countries. The copper, nickel and precious metals mines of the KGHM INTERNATIONAL LTD. Group are located in the USA, Chile and Canada. The key international asset – the Sierra Gorda mine – is located in Chile. This is a joint venture of KGHM INTERNATIONAL LTD. and companies from the Sumitomo Group. In addition, there are mine projects in Chile and Canada which are at the preproduction phase at varied stages of development, as well as exploration projects.

The copper ore mines operated by the Parent Entity and its projects at the pre-production phase are located in south-west Poland. Most of the company's exploration projects, aimed at documenting and gaining access to copper ore deposits, are located in this region. In areas directly adjacent to those being mined the company is advancing the pre-production project Gaworzyce–Radwanice and the exploration projects Retków–Ścinawa and Deep Głogów. The projects Bytom Odrzański and

Kulów–Luboszyce remain in the preparatory phase. The company is also pursuing exploration projects: Synklina Grodziecka and Konrad, located in the so-called Old Copper Belt. In addition, based on a concession for the exploration and evaluation of deposits of potassium-magnesium salt in the Puck region, in 2015 surface-based geophysical surveys in the Zatoka Pucka area were carried out.

Drawing 1. Location of mining assets of the KGHM Polska Miedź S.A. Group.



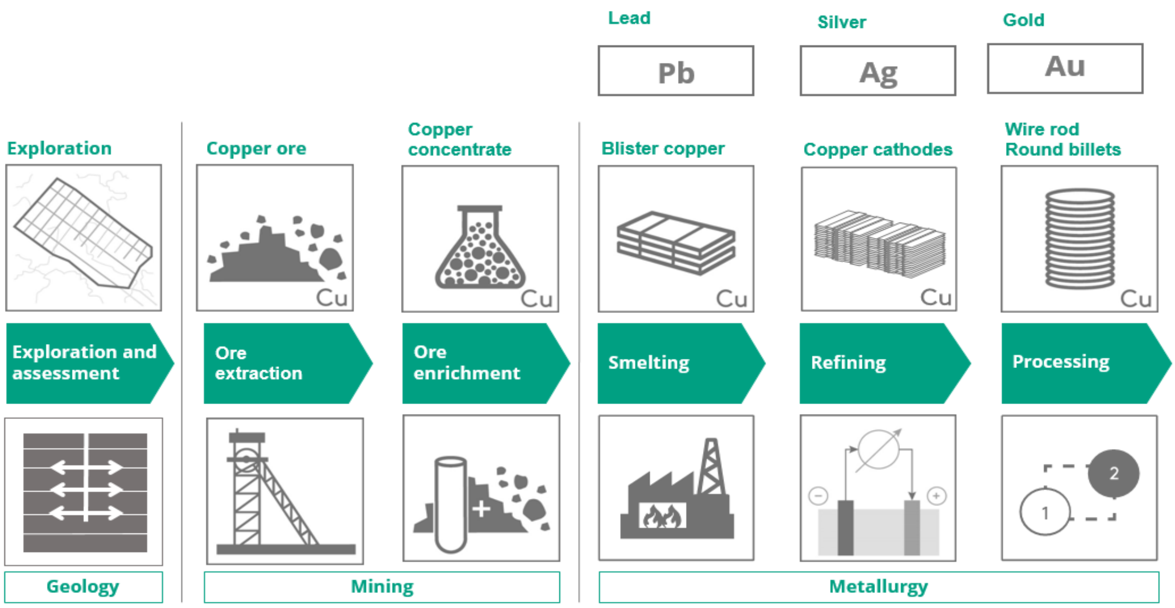
** in 2015 decision made to terminate the projects*
*** in 2015 decision made to cease production*

TPM – precious metals (gold, platinum, palladium)

3.3. Production processes

Production in the Group is based on the processes illustrated in the following two diagrams.

Drawing 2. Integrated mining, processing, smelting and refining process in KGHM Polska Miedź S.A.



Production in KGHM Polska Miedź S.A. is a fully integrated process, in which the end product of one phase is the starting material (half-finished product) used in the next phase. Ore extraction in KGHM Polska Miedź S.A. is performed by three mining divisions: Lubin, Rudna and Polkowice-Sieroszowice; the Concentrators Division, which prepares concentrate for the smelters, and the Tailings Division, responsible for storing and managing the tailings generated by the production process. The organisational structure of KGHM includes three metallurgical plants: the Legnica smelter and refinery, the Głogów smelter and refinery and the Cedynia copper wire rod plant.

Mining

The technology of mining the copper ore in all 3 mines is based on the room-and-pillar system with the use of blasting for ore extraction. The mined ore is transported to storage areas near the shafts, from where it is sent by skip hoisting shafts to the surface. After the ore is unloaded at the shaft top, it is transported by conveyor belts or railway to the processing plants located at each of the three mines.

The operations and processes applied at each of the three concentrators are similar. The enrichment technologies applied include the following individual operations: screening and crushing, milling and classification, flotation and drying of the concentrate.

The flotation process results in concentrate with an average copper content of approx. 22-23%, and flotation waste. The Rudna mine concentrator produces concentrate with the highest copper content (approx. 26%), while the lowest is at the Lubin mine concentrator (approx. 14%). The Polkowice mine concentrator produces concentrate of approx. 24% copper content.

The dried concentrate containing approx. 8.5% water is transported by rail to the three smelters: Legnica, Głogów I and Głogów II (Głogów I and Głogów II comprising one large facility).

The tailings, in liquid form, are transported through pipelines to the Żelazny Most tailings storage facility, where the sedimentation of the solid particles takes place and clarified water is collected and redirected to the ore processing plants. The storage site also serves as a retention-dosage reservoir for excess mine water. Excess water is periodically discharged to the Odra River.

Metallurgy

The copper smelters/refineries produce electrolytic copper from concentrates produced from our own mined oreas as well as from purchased metal-bearing material (concentrates, copper scrap and blister copper).

The Legnica and Głogów I smelter/refineries (in the latter case to the end of June 2016) use a multi-stage process whose main stages include: preparation of the charge material, its smelting in shaft furnaces to the form of matte copper, conversion to the form of raw copper with approx. 98.5% Cu content; fire refining in anode furnaces to produce anodes of 99.2% Cu content; and electrorefining. The final product is refined electrolytic copper cathodes with 99.99% Cu content.

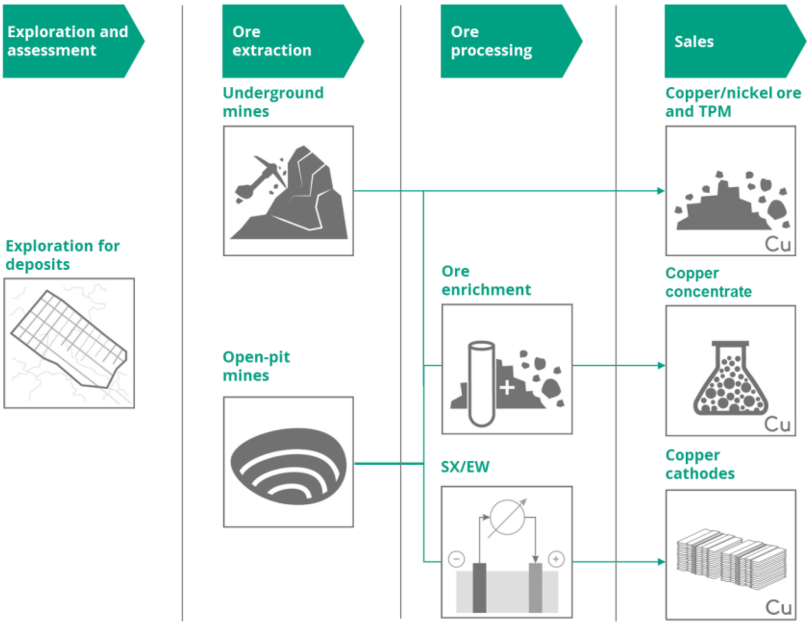
The Głogów II smelter/refinery applies flash furnace technology based on a modified license from the Finnish company Outokumpu. This technology combines three stages into one: drying of the concentrate, smelting of the matte copper and converting. The dried concentrate is smelted in a flash furnace into blister copper containing around 99% Cu, which is refined in an anode furnaces. The slag, which still contains on average 14% copper, is sent to an electric furnace, where the copper is removed while the alloy obtained is sent to the convertors, from which copper is sent for refining in anode furnaces. Copper anodes are sent for electrorefining. The end product is copper cathodes containing 99.99% Cu.

Approx. 40% of the electrolytically refined copper produced by all three smelters (mainly from the Głogów smelter/refinery) is transported to the Cedynia Copper Wire Rod Division in Orsk, where copper wire rod is produced by a continuous smelting, casting and rolling process as well as oxygen-free copper rod (Cu-OFE) and oxygen-free, silver-bearing copper rod based on UPCAST technology.

The anode slime produced during the electrorefining process at all three smelter/refineries contains precious metals. The anode slime is further processed at the Precious Metals Plant at the Głogów smelter/refinery to obtain refined silver, gold, palladium-platinum concentrate and selenium. The remaining electrolyte, once the copper is removed, is used to produce crude nickel sulphate.

The dust and slimes collected as a result of the removal of dust from technological exhaust gases at the smelters are mainly smelted in Dörschel furnaces at the Lead Section of the Głogów smelter/refinery into crude lead. This crude lead is then refined at the Legnica smelter/refinery to obtain the final product - refined lead.

Drawing 3. Operational flowchart of the KGHM INTERNATIONAL LTD. Group



The core business of the KGHM INTERNATIONAL LTD. Group is the mined production of metals, such as copper, nickel, gold, platinum and palladium, from both open-pit as well as underground mines.

The open-pit mines Carlota in the USA and Franke in Chile process their ore using SX/EW technology (involving leaching of the ore on heaps, extraction of the resulting solvent and its preparation for electrowinning to produce metallic copper). The end product is electrolytic copper in the form of cathodes.

The open-pit mine Robinson in the USA processes the ore it mines and sells the resulting concentrate with a copper content of above 20%. The mine also produces a small quantity of molybdenum concentrate.

The underground mines in the Sudbury Basin in Canada, including the Morrison mine, sell for processing the ore they extract, containing copper, nickel, gold, palladium and platinum.

The Sierra Gorda open-pit mine in Chile processes the ore it extracts and sells copper concentrate containing around 30% copper, as well as molybdenum concentrate, as a final product.

3.4. Primary Group products

Ore containing copper, nickel and TPM (gold, platinum, palladium)

Produced by the Morrison mine in Canada, part of the KGHM INTERNATIONAL LTD. Group.
Average metals grade: 7-9% Cu, 1-2% Ni, 0.3 oz/t TPM (platinum, palladium, gold).
The ore containing copper, nickel and TPM is sold for further processing to a smelter in the Sudbury Basin.

Copper concentrate

Produced by the Robinson mine in the USA, part of the KGHM INTERNATIONAL LTD. Group, containing over 20% copper.
This product is also produced by the Sierra Gorda mine in Chile (copper content approx. 30%).
Both of these concentrates also include gold as an additional product.
The copper concentrates are sold for further processing as a commercial product.

Copper cathodes

Copper cathodes made from electrolytic copper with a minimum copper content of 99.99% are the main product of KGHM Polska Miedź S.A. They meet the highest quality requirements and are registered as Grade „A" on the London Metal Exchange (LME) under three brands: HMG-S, HMG-B and HML and on the Futures Contracts Exchange in Shanghai.

Copper cathodes are also the primary product of the Carlota mine in the USA and the Franke mine in Chile, both part of the KGHM INTERNATIONAL LTD. Group.

The main customers for the cathodes are producers of wire rod, other rods, flat bars, pipes, sheets and belts.

Copper wire rod

The second-most important copper product produced by KGHM Polska Miedź S.A. in terms of volume is 8 mm copper wire rod manufactured through the Contirod® continuous process of melting, casting and drawing. Depending on the needs of the customer, wire rod is produced in various classes of quality. The main customers for wire rod are the cable, electrical goods and electrotechnical industries.

Copper rod and round billets

Other copper products produced by KGHM Polska Miedź S.A. are rod and round billets. Two types of rod are produced: Cu-OFE oxygen-free rod and CuAg(OF) oxygen-free, silver-bearing rod. Rod is produced using UPCAST® technology, in diameters from 8 mm to 25 mm (8 mm, 12.7 mm, 16 mm, 20 mm, 22 mm, 24 mm and 25 mm).
Customers for this product are in the cable industry, with application in the form of thin wires, enameled wires and fire-resistant cables, as well as cables for transmitting audio and video signals. In addition, oxygen-free, silver-bearing rod is used in the manufacture of trolleys and commutators. Round copper billets produced from copper cathodes cast in the classification Cu-ETP1 and Cu-ETP, and from oxygen-free phosphorus-containing copper in the classification Cu-HCP, Cu-PHC, Cu-DLP and Cu-DHP are used in the construction industry (to manufacture pipes) and the electrotechnical industry (to manufacture belts, rods and profiles).

Silver

Electrolytic silver is produced by KGHM Polska Miedź S.A. in the form of cast metal (bars, billets) and grains containing 99.99% silver. Silver bars (weighing approx. 32 kg) hold certificates registered on NYMEX in New York as well as Good Delivery certificates issued by the London Bullion Market Association and by the Dubai Multi Commodities Centre. Granule silver is packed in bags weighing 25 kg or 500 kg.

The main customers for silver are banks, investment funds, the jewelery industry, photographic industry, and the electronics and electrical industries as well as producers of coins and medallions.

Gold

Gold in the form of bars weighing 0.5 kg, 1 kg, 4 kg, 6 kg and 12 kg containing 99.99% gold are produced by KGHM Polska Miedź S.A.

Gold is used in the jewelery industry, by banks and in the electrical industry.

Refined lead

Refined lead in the form of bars (dimensions: 615 x 95 x 80 mm) is produced by KGHM Polska Miedź S.A. As a commercial product it has been registered on the London Metal Exchange since 2014 under the brand „KGHM".

Refined lead is mainly used to produce batteries and lead oxide.

Molybdenum concentrate

Production of molybdenum concentrate was commenced in 2015 at the Sierra Gorda Mine in Chile. This concentrate contains on average 48-50 % molybdenum. The concentrate is sold for further processing as a commercial product.

Molybdenum is used in the aircraft, defense, oil, nuclear and electronics industries.

3.5. Employment in the Group

The level and structure of employment in the KGHM Polska Miedź S.A. Group is presented below.

Table 3. Average employment by period (positions)

	2015	2014	Change 2014=100
White collar employees	10 285	10 190	100.9
Blue collar employees	23 313	23 907	97.5
Total	**33 598**	**34 097**	**98.5**

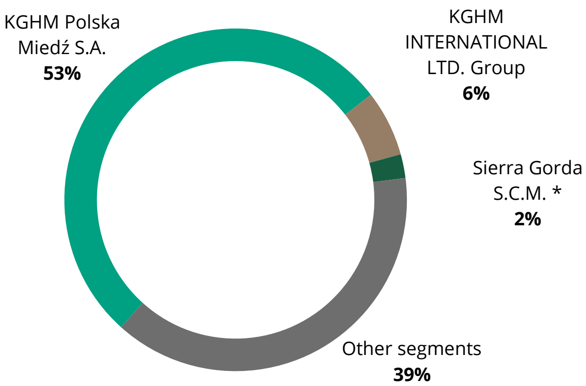
In 2015, average employment in the KGHM Polska Miedź S.A. Group was lower as compared to 2014 by 499 positions (1.5%) due to a decrease in employment in blue collar positions. The largest drop in employment was in the KGHM INTERNATIONAL LTD. Group, by 226 positions (10%). This was as a result of actions taken to reduce costs due to the significant decrease in the copper price. This reduction was related among others to the discontinuation of mining by the McCreedy West mine due to the low profitability of mining given current commodities prices.

In the Parent Entity employment decreased by 131 positions (3%) and was due to natural movements in staff.

Amongst the remaining domestic companies the largest decrease in average employment in 2015 was in CENTROZŁOM WROCŁAW S.A., by 77 positions (18%) and was due to restructuring within this company.

The following chart shows employment in the KGHM Polska Miedź S.A. Group by segment.

Chart 1. Structure of employment by segment in 2015



** employment proportional to share in the company (55%)*

Occupational health and safety

The life and health of employees and workplace safety in general is the chief priority in the hierarchy of values of the KGHM Polska Miedź S.A. Group. In 2014, we commenced implementation of a uniform occupational health and safety policy „Program to improve workplace safety in KGHM Polska Miedź S.A. to the year 2020". The Program is based on best practices currently applied by individual divisions, and was consulted with public labour inspectors as well as with the trade unions which signed the Collective Labour Agreement. The Program, which includes actions aimed at altering attitudes (behaviors), improving education (skills) and workplace environment and health, is aimed at:

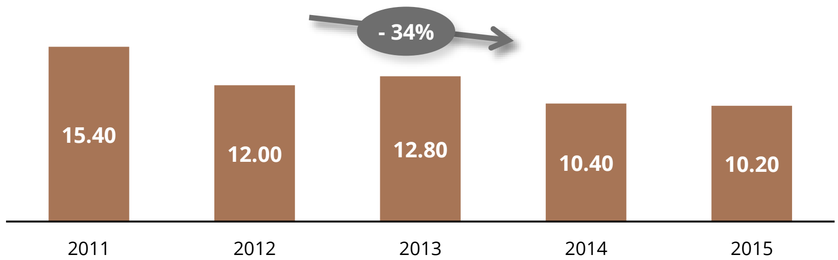
- decreasing the LTIFR ratio (the number of accidents per million worked hours),
- improving safety culture,
- raising the quality of training,
- wider participation by employees in efforts to improve safety,
- recording potential accident-inducing events and their elimination,
- implementing a coordinated program to promote health,
- implementing new types of personal protective equipment, and
- optimising costs related to occupational health and safety.

Amongst the most hazardous and life-threatening events involving employees in the mines of KGHM Polska Miedź S.A. are the natural hazards asociated with the underground mining of copper ore. In particular, hazards related to seismic tremors and their potential effects in the form of roof and wall collapses are considered as particularly important from the safety point of view, as their occurrence can lead to serious or even fatal injuries as well as damage to underground machinery, equipment and infrastructure, along with production downtimes. KGHM Polska Miedź S.A. maintains on-going seismic observations in its mines based on a well-developed network of underground and surface-based seismic monitoring stations, encompassing all of the company's active mining areas.

Actions are also undertaken to limit the threat of tremors and roof collapses, for example through careful planning of mining operations (selecting the size and shape of rooms and of inter-room pillars, the most advantageous direction of mine advance and the optimum order of extracting the ore to minimise local concentrations of stress), the systematic provocation of the rock mass by group blasting of mine faces and by blasting to relieve stress in the orebody and its flooring. To minimise risk, blasting is only performed between shifts, when there are no people in the areas at the mining faces, and to ensure safety after blasting, strong rock mass tremors, de-stressings and roof collapses, waiting times are strictly enforced.

The impact of these activities is reflected in the systematic drop in the LTIFR (Lost Time Injury Frequency Rate), i.e. the number of accidents per million worked hours.

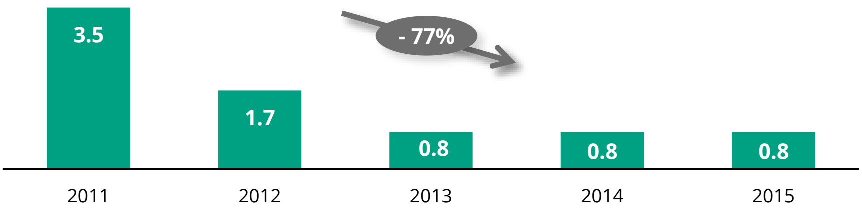
Chart 2. LTIFR in the Parent Entity



In the KGHM INTERNATIONAL LTD. Group a „Zero Harm" culture is practiced both by employees and clients, as well as in terms of the company's impact on local communities. The quality of the workplace health and safety standards applied by the KGHM INTERNATIONAL LTD. Group is continuously being raised, supported by the generally-recognised principle of joint accountability by all employees at every stage of safety management. Annual safety goals are set and monitored, utilising risk assessment techniques to define and control hazards so as to mitigate their potential impact.

The impact of these activities is reflected in the maintenance of the TRIR ratio (Total Recordable Incident Rate), or the number of accidents per 200 thousand worked hours, at the same level in the last three years.

Chart 3. TRIR in KGHM INTERNATIONAL LTD.



Due to the use of different accident frequency ratios by KGHM Polska Miedź S.A. and the KGHM INTERNATIONAL LTD. Group, work has begun to unify the statistical safety ratios used.

Human Resources projects

Based on a modified HR function developed in the project „Transformation of HR in KGHM Polska Miedź S.A. based on developed HR strategy models and the developed organisational culture" key processes were identified: Strategic Planning of Human Resources, Management by Results, Recruitment, Learning and Development and Managing Talent. These processes are consistently being implemented and/or modified by their owners.

In June 2015 a centralised project called „System for managing by results and managing talent" was initiated, the aim of which is to enable the Group to take advantage of a uniform system of Managing by Results and Managing Talent. Completion of the project is planned for the first quarter of 2016.

In May 2015 work commenced on a uniform company employee evaluation system.

Key development programs begun in prior years were continued:

- the second edition of the Talent Mine program was completed and selections were made to the third edition (the program is directed to the best students and graduates of higher education to gain and maintain staff with high potential),
- another edition of the Leadership Academy program was commenced, whose goal is to distinguish and raise the skills of employees in leadership positions based on the adopted Skills Model. By the end of 2016 the program will involve approx. 1 000 employees.

Relations with the trade unions

The major events involving relations with the trade unions in 2015 are described below:

KGHM Polska Miedź S.A. - in February 2015, the parties to the Collective Labour Agreement (CLA) signed an agreement with respect to wages and employee benefits in 2015 as well as an Additional Protocol to the CLA for the Employees of KGHM Polska Miedź S.A. As a result of these agreements basic wage rates increased by PLN 50, while the additional contribution to the social fund increased by 4.5%.
In July 2015, an annex was signed to the agreement regarding the granting of one-category raises from 1 August 2015 for blue-collar underground mine employees, who are classified to category 7 or category 8 (the lowest categories for a given position).

In January 2016, an Additional Protocol to the CLA was signed. It introduces changes in the principles for calculating the annual bonus on profit earned. The protocol states that the annual bonus starting from 2015 will no longer be calculated from profit for the period, but from the positive financial result as defined in this protocol, which is understood as profit/loss for the period excluding the impact of any impairment losses on non-current assets.

„MCZ" S.A. - this company remains in four collective disputes announced in 2007 mainly involving the question of wage raises. At present these disputes have been suspended, with the company's Management Board and the trade unions basing their relations on annual protocols of settlements or agreements reached. Based on the protocoled clauses from September 2015 and the agreement from November 2015, the basic contribution to the social fund was increased and regulations in the question of employee raises in the period from September 2015 to November 2016 were adopted. As a result of the above, the trade unions obligated themselves to refrain, until 31 December 2016, from commencing any „strike procedures".

PeBeKa S.A. – during the year a collective dispute was initiated with the trade unions regarding working conditions, remuneration and social benefits, which concluded with the signing of an agreement.
Since March 2010, the company has been in a collective dispute with the trade union Związek Zawodowy Pracowników Dołowych, which is demanding an increase in wage categories for employees, the payment of a one-off bonus and an increase in contributions to the Social Fund. Since August 2010 this dispute has been suspended for an indefinite time.

POL-MIEDŹ TRANS Sp. z o.o. - in February 2015 an agreement was signed concluding the collective dispute begun in 2013 over wages. Due to the division of POL-MIEDŹ TRANS Sp. z o.o. and the transferal of selected Organised Parts of the Company to other entities within the KGHM Polska Miedź S.A. Group, trade union representatives were informed of the anticipated date of the acquisition, and of its legal, economic and social consequences for employees.

Apart from the aforementioned events, agreements were signed in several other domestic companies with the trade unions regarding remuneration, working time and the social fund.

KGHM INTERNATIONAL LTD. Group - in January 2015 the company Sierra Gorda S.C.M. signed a collective agreement pursuant to Chilean law with representatives of Trade Union no. 2 as well as a new agreement for a period of 48 months, regarding various types of benefits for 433 employees. In May 2015 the company Sierra Gorda S.C.M. signed a collective agreement with representatives of Trade Union no. 1 and a new agreement for a period of 44 months, regarding various types of benefits for 366 employees.

3.6. Ethics and corporate governance

In 2015, a Code of Ethics was developed for the KGHM Polska Miedź S.A. Group. It is the main tool, in the corporate Group culture, which assists in defining priorities and in establishing a collection of principles which are binding for all employees in their daily work.

The objective of the Code of Ethics is to ensure that the behavior of employees conforms to the highest standards based on the values which guide the KGHM Polska Miedź S.A. Group's employees: zero harm, teamwork, results-driven, accountability and courage.

In parallel to the work on the creation of the Code of Ethics of the KGHM Polska Miedź S.A. Group, work was carried out aimed at developing appropriate policies and procedures, which will enable effective implementation of the principles and values set forth in the Code of Ethics across the KGHM Polska Miedź S.A. Group. In addition, their implementation meets world corporate governance standards as well as the increasing demands of stakeholders, including above all customers and financial institutions.

As a result, based on best practices in corporate governance in 2015, the following policies were developed and implemented, introducing global, unified standards which have been adapted to the laws applicable in all of the jurisdictions in which the KGHM Polska Miedź S.A. Group operate

Competition Law Policy in the KGHM Polska Miedź S.A. Group	The goal of the Competition Law Policy is to create a functional framework for a system that will enable the KGHM Polska Miedź S.A. Group to remain in conformity with the competition laws which are applicable in all of the countries in which the KGHM Polska Miedź S.A. Group operates.
Anticorruption Policy in the KGHM Polska Miedź S.A. Group	The Anticorruption Policy establishes basic principles and standards, whose goal is to prevent any breaches of the anticorruption laws in the jurisdictions in which the KGHM Polska Miedź S.A. Group operates. The Group applies a zero tolerance policy towards corruption and bribery.
Responsible Supply Chain Policy in the KGHM Polska Miedź S.A. Group	The Responsible Supply Chain Policy is aimed at securing the selection of only responsible suppliers, especially in the case of acquiring so-called conflict minerals (gold, zinc, wolframite and tantalum) and at ensuring that the merchandise and services purchased by the KGHM Polska Miedź S.A. Group are not utilised to finance terrorism, and are manufactured or provided in accordance with laws respecting basic human rights, labour standards, protecting the environment and counteracting corruption.

Work on further policies and procedures supporting the Code of Ethics of the KGHM Group will be continued.

In addition, continuously since 2009, KGHM Polska Miedź S.A. has been amongst the group of companies on the Warsaw Stock Exchange which comprise the prestigious RESPECT Index – the first such index of socially-responsible companies in Central-Eastern Europe.

4. Strategy of KGHM Polska Miedź S.A.

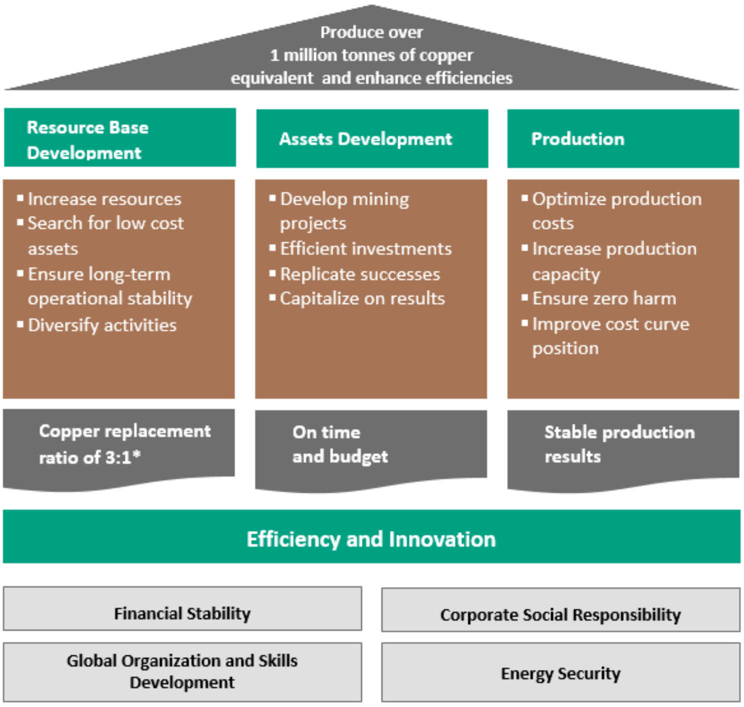
On 26 January 2015 the Parent Entity's Supervisory Board adopted the Strategy of KGHM Polska Miedź S.A. for the years 2015-2020 with an outlook to 2040 as submitted by the Management Board. Adoption of the Strategy is connected with the early completion of key provisions of the previous Strategy of the company, which was approved on 23 February 2009.

The mission of KGHM Polska Miedź S.A. is the development of a global resources Group, created by people with passion and skills. The long-term vision of KGHM Polska Miedź S.A. assumes that the company will continuously strive to achieve a competitive advantage through the development and introduction on an industrial scale of new technologies that will create an opportunity for a technological breakthrough in the industry. The strategic objective of KGHM Polska Miedź S.A. is to develop and implement on an industrial scale modern technologies which are critical to developing the world's first intelligent mine based on neural networks.

The main objective of the new strategic outlook for the years 2015-2020 is to achieve annual production capacity of over 1 million tonnes of copper equivalent and to continue work aimed at improving mine operating efficiency.

The Strategy for the years 2015 – 2020 with an outlook to 2040 is based on 3 main pillars, as presented in the following diagram.

Diagram 2. Pillars of the Strategy of KGHM Polska Miedź S.A. for the years 2015–2020 with an outlook to 2040



*replacement of each tonne of mined copper with three tonnes of newly-documented resources of this metal

Pillar I. **Resource Base Development**	As part of its exploration and acquisition activities, KGHM Polska Miedź S.A. plans to replace every mined tonne of copper with three tonnes of copper in new resources. This will ensure the long-term operational prospects of the company and an enhanced position on the cost curve. The company will concentrate on exploration in areas near its current operations and on the search for low-cost assets in geopolitically-stable regions. The planned development of KGHM Polska Miedź S.A.'s resource base will ensure long-term mining activities and higher production volume.
Pillar II. **Production Assets Development**	According to the Strategy for the years 2015-2020, the company plans to invest PLN 27 billion. These funds will be allocated to developing the current portfolio of investment projects, mainly including programs to develop the core business in Poland and those leading to the operational commissioning of resource projects in Poland and abroad. Completion of its investments projects will lead to a substantial increase in Group production capacity and enhance its position on the global cost curve of copper producers. KGHM Polska Miedź S.A. is committed to efficiently allocating financial resources and developing resource investment projects which have the highest rate of return.
Pillar III. **Production**	KGHM Polska Miedź S.A. aims to ensure stable production levels while optimising production costs and maintaining the highest standards of occupational safety . Under the Strategy for the years 2015-2020 the company plans to increase the annual volume of mined ore from the mines of KGHM Polska Miedź S.A. in Poland.

The three pillars of KGHM's activities in the years 2015–2020 are based on four supporting strategies:

Global organisation and skills development strategy	Achievement of an optimum model for the management and oversight of business processes within the global KGHM Polska Miedź S.A. Group
Financial strategy	Ensure stable financing for the activities of the KGHM Polska Miedź S.A. Group, enhance the ability to operate in more challenging economic conditions and support development and increased efficiency.
Corporate social responsibility strategy	Strengthen the position of KGHM Polska Miedź S.A. as a stable, growing and trustworthy partner, caring for the common good and the sustainable management of resources.
Energy strategy	Secure long-term energy prices and stable energy supplies by ensuring sources of energy for production purposes, including from renewable resources. The strategy assumes the centralisation of energy efficiency initiatives, ensuring the possibility of purchasing energy for key companies of the Group in Poland and global power purchases at below-market prices.

Basic production and economic targets for the Group (reflecting the 55% share in the Sierra Gorda project) assumed in the Strategy adopted for the years 2015 – 2020:

Production	Over 1 million tonnes of copper equivalent from own concentrates by the year 2020.
Share of copper equivalent production from international assets	An increase from 17% to 40% in 2020.
Capital Expenditures (CAPEX)	PLN 27 billion in total capex, of which around 65% will be allocated for development projects; over half of the capital expenditures will be invested in Poland.
EBITDA	Expected increase by 2020 of 70% as compared to 2014.
C1 cost	Planned decrease by 2020 of C1 cash cost of around 10 % as compared to 2014.
Net debt/EBITDA	Will be maintained at a safe level in the range of 1-2.

KGHM Polska Miedź S.A. analyses risk at every organisational level. This comprehensive approach to analysis encompasses both the identification of risk factors associated with achieving strategic goals as well as corporate risk factors (more in Section 6.4 of this report).

Achievement of the goals and of the production and economic targets adopted in the Strategy for the years 2015-2020 for the Group is associated with a variety of risk factors, which have been identified and assessed under Executory and Supporting Strategies. Among the most important of these are:

- the risk of unfavourable changes in metals prices and exchange rates,
- the risk of delays in completing resource and development projects,
- the risk of obtaining lower-than-expected economic parameters in resource and development projects,
- the risk of an unchanged taxation formula (minerals extraction tax), and
- the risk of not being able to achieve planned production given environmental threats.

The process of analysing risk associated with achieving planned strategic goals is the basis for reviewing the adopted Strategy, and at the same time enhances the possibility of achieving planned goals. In accordance with the Strategic Management Procedure adopted by KGHM Polska Miedź S.A., the risk maps of the Executory and Supporting Strategies are updated annually.

Strategy of KGHM Polska Miedź S.A. - current situation

The Strategy of KGHM Polska Miedź S.A. for the years 2015-2020 with an outlook to 2040, adopted by the company's Supervisory Board was aimed in the medium term at the achievement by KGHM Polska Miedź S.A. of production capacity of of 1 million tonnes of copper equivalent. The basic factors determining achievement of this medium term goal arise from the diversified portfolio of investment projects which will increase the production capacity of KGHM Polska Miedź S.A. Achievement of the investment targets of KGHM Polska Miedź S.A.'s Strategy involves the execution of investment projects totalling PLN 27 billion. Financing of this investment program is based on the internal resources of KGHM Polska Miedź S.A. and borrowing.

In 2015 the mining sector experienced a substantial decrease in the prices of the entire basket of commodities. The predominant reason for this trend was the global uncertainty about the sustainability of economic growth, in particular as concerns the People's Republic of China, which is the main consumer of commodities. Another factor weighing on the depreciation of most commodities is the substantial drop in the price of oil, with which commodities prices are strongly correlated. The substantial drop in the prices of the primary commercial products of KGHM Polska Miedź S.A. and the uncertainty as to the short and medium term outlook for the commodities markets significantly reduce the ability of KGHM Polska Miedź S.A. to generate free cash flow. However, the financial policy of the company does not assume aggressive exposure to debt market, that is why KGHM Polska Miedź S.A. does not anticipate any rapid increase in the level of debt.

Due to the current challenges the mining sector is facing, KGHM Polska Miedź S.A. is reviewing all of the assumptions contained in the strategy and prioritising investment portfolio to ensure the stable long-term growth of the company's value for its stakeholders and to secure its operations in a challenging macroeconomic environment.

5. Implementation of the strategy in 2015

In 2015, work was performed on defining the Strategy Implementation Plan of KGHM Polska Miedź S.A. for the years 2015-2020 with an outlook to 2040 as adopted on 26 January 2015 by the Supervisory Board of the Parent Entity. The Strategy Implementation Plan is the operational expression of the strategic goals, containing a list of operational goals including strategic initiatives under the Strategic Pillars (the so-called Executive Strategies and Supporting Strategies). For each operational goal, success measures have been defined, as well as the path for carrying out projects and strategic actions along with the allocation of required resources. The Strategy Implementation Plan is monitored and periodically assessed in terms of the degree of implementation of its tasks, which is one of the basic elements in evaluating achievement of the strategy.

Key achievements with respect to progress on strategic projects in individual areas of the Strategy in 2015:

Pillar I. Resource Base Development

Regional exploration program of KGHM Polska Miedź S.A. regarding the exploration and documentation of copper deposits in the Lower Zechstein formation located in south-western Poland and Lusatia (Saxony in Germany).

Advanced exploration projects, with defined copper mineralisation, for which geological exploration is underway throughout or in part of the given concession area:

Gaworzyce-Radwanice	Work continues on preparing the deposit mining plan. The first action planned is to develop the northern part of the Radwanice-Gaworzyce copper ore deposit.
Synklina Grodziecka and Konrad	In April 2015, a decision was received on a change in the Synklina Grodziecka concession, among others with respect to extending its validity to July 2017, i.e. to match the period of validity of the concession for the Konrad deposit. This action is aimed at enabling the development of joint geological documentation for both the Synklina Grodziecka and Konrad deposits. Surface-based geophysical surveys were completed in the concessioned areas, which will provide more detailed knowledge of the geological structure in order to determine geological-mining conditions. The next step in this work involves drilling which is aimed at detailed evaluation of hydrogeological conditions.
Retków-Ścinawa and Głogów	Drilling continued as part of stage I, and by the end of December 2015, seven holes had been drilled in the Retków - Ścinawa area, while a further three are underway. In the Głogów concession another four holes are being drilled. The first stage of work on this project involves the sinking of 15 drillholes in both concessioned areas.

Projects at the early exploration stage, without defined copper mineralisation:

Weisswasser (Saxony in Germany)	Work continued on the second phase of the second stage of the project, comprising the sinking of a single exploratory drillhole. In the third quarter of 2015, drilling was completed and laboratory research was performed on the core sample from the deposit zone. In the fourth quarter of 2015, a geological report was prepared on the transborder exploration for Zechstein-type copper ore deposits in the concessioned areas Weisswasser and Weisswasser II in Germany and in the Stojanów concession on the Polish side. The results of the report showed there was no geological justification to continue exploration. The company KGHM Kupfer AG, which advance the project, decided to discontinue exploratory work.

Stojanów	In the third quarter of 2015, work was carried out on reinterpreting archival geological and geophysical data. At the same time, work was performed on reviewing and identifying the seismic profile of geophysical and geoelectrical measurements. In the fourth quarter of 2015, based on a prepared geological report on the transborder exploration for Zechstein-type copper ore deposits in the concessioned areas Weisswasser and Weisswasser II in Germany and in the Stojanów concession on the Polish side, it was determined that there was no justification to continue exploration in this area, and the decision was made to discontinue exploratory work in the concessioned area.
Exploration projects in the preparatory phase:	
Bytom Odrzański Kulów–Luboszyce	In July 2015 a hearing was conducted with regard to the disputed concessions: Bytom Odrzański and Kulów-Luboszyce. The Regional Administrative Court in Warsaw overturned, based on formal reasons, the decision of the Minister of the Environment from 29 July 2014 regarding reversal of the decision dated 28 January 2014. At the turn of October and November 2015, KGHM Polska Miedź S.A. filed cassation appeals with the Supreme Administrative Court regarding Bytom Odrzański and Kulów-Luboszyce. A hearing date has not yet been determined.
Other concessions:	
Zatoka Pucka	In the fourth quarter of 2015, surface-based geophysical surveys in the concessioned area were completed. Data acquired from the reinterpretation of archival data and newly-performed geophysical research is undergoing detailed analysis and interpretation, based on which it will be possible to more precisely evaluate the geological structure of the concessioned area as well as verify the siting of planned drilling.
Pillar II. Production Assets Development	
Key development projects in terms of the Core Business in Poland:	
Accessing the Deep Głogów deposit	Work continued on the sinking of the GG-1 ventilation (input) shaft using tubing construction and on developing primary tunneling in the Rudna and Polkowice–Sieroszowice mines together with necessary technical infrastructure. With respect to construction of the Surface-based Ventilation Station at the R-XI shaft, work is underway on stage 2 of the investment, as a result of which it will be possible to increase the production of cooled air to the mine below the level of 1200 m to 25 MW. The planned date of completion of this work is the second half of 2016. In order to coordinate work related to accessing new mining areas based on updated long term mining plans and economic analyses of scenarios for the development of the core business on the terrain of the Legnica-Głogów Copper Belt, a comprehensive Deposit Access Program has been developed. The entire scope of the Program will be gradually expanded in subsequent years to include projects related to excavating a network of access and development tunnels as well as the development of the infrastructure of these tunnels along with the opening of subsequent mining areas in the Rudna and Polkowice-Sieroszowice mines. Until 2020 around PLN 250 million is expected to be spent on carrying out this program annually.
Mechanical mining program	**Excavation of drift tunnels using a combine team** – Project work performed in the underground conditions of the Polkowice-Sieroszowice mine confirmed the technical possibility of mechanically mining the copper ore deposits, as a technological alternative to the current method based on blasting technology. During work to improve the researched technology, elements which could potentially improve the production parameters of mechanically mining the ore were identified, with particular attention to work currently underway in areas of mining faults. Further project work will focus on quickening the rate of excavation to match current geological-mining conditions. **Development of mechanised mining technology -** In cooperation with the company Caterpillar Global Mining Europe GmbH, work was performed on the implementation of required modifications in the components of the prototype machine which will enable completion of the final stage of mining trials using the ACT (Active Cutting Technology) mining complex in a prepared pilot section of the Polkowice-Sieroszowice mine. The final review of the assumed technical and qualitative parameters of the researched technology will be completed in the first half of 2016. Taking into consideration the substantial uncertainty as to whether the project will achieve its target operational parameters and the insufficient probability that economic benefits will be achieved in the next several years, impairment losses were recognised on the carrying amount of the assets related to advancement of this project.

Pyrometallurgy Modernisation Program at the Głogów smelter/refinery	Assembly was completed of the Flash Furnace and Electrical Furnace hall. Assembly of equipment and installations continued with respect to the Flash Furnace, Electrical Furnace, Recovery Boiler and elements of the Charge Preparation Section at the Głogów I smelter/refinery. The current state of technical agreements and building permits allows the work to be completed on time. Due to the specific nature of work in an operating plant, the process of obtaining building permits and substitute building permits will continue until completion of the investment. Start-up of the Flash Furnace installation at the Głogów I smelter/refinery is planned in the fourth quarter of 2016.
Metallurgy Development Program (MDP)	The Program's definition was developed, which foresees the realisation of projects aimed at adapting the metallurgical production infrastructure to the change in smelting technology at the Głogów I smelter/refinery and the modernisation of selected elements of the metallurgical production line of KGHM Polska Miedź SA. The Metallurgy Development Program (MDP) is aimed at being able to process all of the concentrate produced by the company in its installations at the Głogów I smelter/refinery, the Głogów II smelter/refinery and the Legnica smelter/refinery after 2017, and offers the potential for higher copper production from imported concentrates. As part of this program work has commenced on the following projects: − Construction of a steam drier at the Głogów II smelter/refinery, − Construction of a concentrate roasting installation at the Głogów I smelter/refinery, − Modernisation of the Tank and Electrolite Decopperisation Hall at the Legnica smelter/refinery. Additional projects of the MDP are currently at the stage of preparing documentation aimed at obtaining decisions as to their execution.
Development of the Żelazny Most tailings storage facility	In the second quarter of 2015, legally binding changes were received regarding the Municipal Area Management Plans within the municipality of Polkowice, enabling development of the Żelazny Most tailings storage facility. On 20 October 2015, permission was received to develop the Żelazny Most tailings storage facility to a crown height of 185 m a.s.l. within the borders of the Rudna and Grębocice municipalities. Complete documentation was developed which is required to obtain permits to develop the Żelazny Most tailings storage facility to a crown height of 195 m a.s.l. across the entire area of the facility, and the procedure was commenced of obtaining an environmental decision for this stage of the investment. Work was performed whose goal is to select technology to construct the facility and to store tailings in the new planned Southern Quarter.
International development projects:	
Victoria project (Sudbury Basin, Canada) *KGHM INTERNATIONAL LTD.100%*	In 2015, work was carried out on preparing surface infrastructure, among others construction of the transformer station was completed. Additional exploration was carried out aimed at confirming the potential for continuous mineralisation below the currently-identified orebody. As part of the work conducted, two multilateral drillholes were sunk at a level below 2000 meters to a depth of around 2200 meters below the surface. Analysis of the core samples thus obtained gave positive results. Due to the current macroeconomic situation, the Management Board of KGHM Polska Miedź S.A. decided to modify the adopted schedule for the project.
Development of the Sierra Gorda project (Chile)	**Phase 2** (KGHM INTERNATIONAL LTD. 55%, Sumitomo Metal Mining and Sumitomo Corporation 45%) – The process of optimising project assumptions was carried out, aimed at reducing capital expenditures and improving plant efficiency after the completion of Phase 2 of the project. In 2015, work commenced on developing basic technical documentation, assuming an increase in the plant's processing capacity. Based on analytical work carried out to date, it is planned to increase processing capacity from 110 thousand tonnes to at least 220 thousand tonnes of ore per day. In addition, it is expected that the life of the mine will be extended as a result of developing the mineralised areas Pampa Lina and Salvadora which are adjacent to the Sierra Gorda mine, using the infrastructure developed during the second phase of the investment. **Sierra Gorda Oxide** (project for processing of the oxide ore) – Advanced engineering work was carried out. Design work continued on selecting an alternative project concept which will maximise its economic value.

Ajax project (British Columbia, Canada) *KGHM Polska Miedź S.A. Group 80%, Abacus Mining and Exploration Corp. 20%*	On 10 September 2015, an application was submitted for an environmental permit for construction of the Ajax open pit copper and gold mine. On 20 November 2015, the appropriate administrative body formally concluded its assessment of the environmental application with a positive result, and at the same time forwarded the document for further substantive assessment. On 18 January 2016, the updated application was submitted to the appropriate administrative body, which simultaneously commenced a 75-day social consultation period, with the citizens of the town of Kamloops as well as First Nations participating. In 2015, 35% of the basic engineering work required to prepare for construction of the mine plant was completed. The project's feasibility study was updated, under which the mine's infrastructure was moved away from the nearest buildings of the town of Kamloops. At the same time, as part of the engineering work carried out, improvements were made to the technological solutions and the daily processing capacity of the plant was increased from 60 to 65 thousand tonnes. Currently, KGHM AJAX MINING INC. is focused on obtaining all necessary permits and on continuing to bulid good relationships with the First Nations as well as with the citizens of the town of Kamloops.

Initiatives aimed at enhancing knowledge and innovation in KGHM Polska Miedź S.A.:

Systemic organisation of the innovation management process	As a result of the following actions, KGHM Polska Miedź S.A. became a leader in innovation amongst Polish companies and is recognised as a model example of cooperation between academia and industry in Poland. – For the first time a Strategic Research Agenda (SRA) was defined which sets out key directions and innovation initiatives supporting achievement of the company's strategy. The SRA describes the research space between prepared technological solutions available on the market and the vision of a production line expected by an organisation in individual technological areas. In addition, the SRA represents the basis for initiating joint projects and enterprises aimed at developing new, innovative technology and solutions and identifies projects which could be financed by public funds, both domestic and EU. − A target model for the functioning of R&D and innovation activities in the KGHM Group was defined – including international entities, based on internal resources and available public funds, both domestic and EU. The above is aimed at consolidating the skills of the KGHM Group's entities operating in the fields of research and innovation, eliminating the duplication of operating scopes, optimising the use of research infrastructure and regulating the questions of intellectual property rights and knowledge management. − A model for managing innovations was developed based on the stage gate process for KGHM Polska Miedź S.A. and the company's international assets, together with defined threshold criteria between specific stages, enabling active portfolio management and effective implementation of the results of R&D work in the core business as well as the international commercialisation of Polish technology. Work is underway to prepare for implementation of the model. − Implementation of the knowledge management system with respect to research, development and innovation in the KGHM Group was prepared, based on a defined concept containing a list of mechanisms enabling the effective utilisation of the potential of knowledge resources, both visible and hidden, within the Company. − With respect to work on the creation of a Knowledge Center, the entity which is integrating the R&D skills of key companies in the KGHM Group has developed a business model which takes into account the identified expectations of the main stakeholders.
Main R&D initiatives	In 2015 over 200 R&D projects and academic/scientific papers were performed, in the total amount of over PLN 51 million. The main R&D projects are concentrated on the development of innovative solutions aimed at achieving the vision of an Intelligent Production Line, as well as on seeking innovative technical and organisational solutions enabling an improvement in efficiency and safety and ensuring production continuity. Work continued on R&D projects in the form of joint ventures with industry partners and scientific and R&D institutions along with co-financing from domestic and international public funds, including:

CuBR Program	– with respect to the first bilateral CuBR Sector Program in Poland, carried out in cooperation with the National Centre for Research and Development, 12 projects selected during the first two editions of the competition were supervised and 20 new tasks for the third edition of the competition announced in December 2015 were prepared;
Horizon 2020	– R&D projects under grants by the European Union research program Horizon 2020, i.e. „DISIRE", „BioMOre" and „INTMET", whose total amount of co-financing amounts to EUR 1 220 thousand;
KIC RawMaterials	– KGHM Polska Miedź S.A. actively participates in the International Steering Committee of the Knowledge and Innovation Community with respect to KIC RawMaterials. The result of these activities was the siting of one of the six branches of KIC RawMaterials in Wrocław, Poland, and the presence of a company representative on the seven-person European Executive Board. The budget for this enterprise is approx. EUR 1.6 billion, and as a result of the Community's actions 10 thousand jobs are to be created in the European commodities industry as well as several dozen innovative enterprises in the small-to-medium enterprise sector.

Pillar III. Production

Sierra Gorda mine in Chile – Phase 1 *KGHM INTERNATIONAL LTD. 55%, Sumitomo Metal Mining and Sumitomo Corporation 45%*	Work continued to increase processing capacity under Phase 1 of the Sierra Gorda project. The achievement of target Phase 1 processing capacity, enabling the production of 120 thousand tonnes of copper annually (the processing of 110 thousand tonnes of ore per day), is planned in the first half of 2016. With respect to the process of achieving target production capacity, technical assumptions for the existing infrastructure are being optimised and reviewed. As a result of these actions, at the end of 2015 the maximum daily processing amount was recorded of over 130 thousand tonnes of ore daily. The production of copper in concentrate from the Sierra Gorda mine in 2015 amounted to around 84 thousand tonnes. The production of molybdenum in concentrate from the Sierra Gorda mine in 2015 amounted to around 7 thousand tonnes. Since May 2015 the Sierra Gorda mine has been supplying molybdenum concentrate to the processing plants for further processing. In July 2015 the export of molybdenum concentrate began. In June 2015 the transport of copper concentrate from the mine to a warehouse dedicated to Sierra Gorda at the port of Antofagasta commenced. On 1 July 2015 the Sierra Gorda mine commenced commercial production. Due to the macroeconomic situation and to the lower than expected production results, work was carried out on implementing savings initiatives, such as renegotiating contracts to reduce contracted prices, optimising inventories levels and reducing internal employment as well as contracted employment.
Maintaining production from own concentrate	Preparatory work was carried out on commencing mining in new areas of the deposits as part of the Deep Głogów project as well as actions related to gaining a concession to mine the copper ore from the Radwanice-Gaworzyce deposit in the Gaworzyce mining area: – preparatory work is underway in the G-51 region of the Polkowice-Sieroszowice mine, – on 20 August 2015, the Minister of the Environment granted KGHM Polska Miedź S.A. a concession to explore the Radwanice-Gaworzyce copper ore deposit in the Dankowice area using the underground method, which will enable mining to be carried out in this area.
Improving efficiency in the core business in Poland	With respect to the mining and metallurgical activities of KGHM Polska Miedź S.A., among others those related to the VCP (Value Creation Plan) Program, initiatives aimed at improving resource management effectiveness were continued, at the same time enabling limitation of cost increases by: – more efficient utilisation of resources (3D deposit modeling), – optimising management of underground machines (purchasing and servicing, availability), – automation of production lines in the mines and concentrators, – more efficient management of production infrastructure, – implementation of an energy savings program, and – optimising employment levels.

Program to improve occupational health and safety	A schedule for the implementation of individual components of the program was defined, under which further initiatives are being implemented aimed at making changes to motivation and behaviors and increasing the knowledge and skills of employees in terms of occupational health and safety, as well as raising the level of health care and the overall health of employees. In 2015 the average Lost Time Injury Frequency Rate (LTIRF), which is the number of accidents per million hours worked, throughout the core production business of KGHM Polska Miedź S.A. amounted to 10.23 (as compared to 10.4 in 2014).
Other important initiatives supporting the core business	
Global Organisation and Skills Development	
Improving efficiency and effectiveness in managing a global organisation	Business analysis was carried out aimed at developing a global management model for the KGHM Polska Miedź S.A. Group taking into account among others the centralisation of selected business processes. Work is underway on implementing an Integrated Quality Management System comprising all of the processes occuring in the organisation. In 2015, work concentrated on preparing to implement the system with respect to international standards for energy management (ISO 50001) and information security (ISO 27001).
Human Resources Management	Work continued on initiatives focused on ensuring an appropriately motivated and competent staff resource required to accomplish the goals of a global organisation. Actions in this regard primarily comprise: – educational programs to develop professional, managerial and specialist skills. – development of a system of management by results for the management staff and an evaluation system encompassing all employees, – implementation of a staff mobility policy in the KGHM Group, and – improvement of existing and implementation of new tools to support the acquisition of the highest quality staff from outside the company.
Corporate Social Responsibility	
	In the fourth quarter of 2015, KGHM Polska Miedź S.A. adopted a new global CSR strategy, in accordance with the company's existing business strategy for the years 2015-2020. This strategy is focused on strengthening KGHM's position as a stable, developing, global leader which cares about the common good. The initiatives undertaken by KGHM Polska Miedź S.A. assume among others the development and maintenance of its position as a responsible employer, building its image as an environmentally friendly company and improving cooperation with local communities.
Ensuring the energy security of the KGHM Polska Miedź S.A. Group	

Preparation for the construction and operation of the first Polish nuclear power plant	KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A. and ENEA S.A. continued work on the project to prepare for the construction of a nuclear power plant in Poland. On 15 April 2015, these companies signed an agreement for the acquisition of shares in PGE EJ 1 sp. z o.o. („PGE EJ 1"), the special purpose company which is responsible for the preparation and execution of the investment to build and operate the first Polish nuclear power plant with a capacity of approx. 3 GWe (the Project). KGHM Polska Miedź S.A., TAURON Polska Energia S.A. and ENEA S.A. each acquired from PGE Polska Grupa Energetyczna S.A. 10% of the shares in PGE EJ 1 sp. z o.o. (a total of 30% of the shares). KGHM Polska Miedź S.A. paid the amount of PLN 16 million for the acquired shares. The transaction was financed by internal funds. According to the Shareholders Agreement dated 3 September 2014, the parties will jointly, proportionally to their interest, fund activities of the initial phase of the Project. The objective of this phase is to determine such elements as potential partners, including the strategic partner, technology suppliers, EPC (Engineering, Procurement, Construction) contractors, nuclear fuel suppliers and acquiring funds for the Project, as well as preparing PGE EJ 1 organisationally and in terms of the skills required for its role as the nuclear power plant's future operator, responsible for its safe and efficient operation („Integrated Proceedings"). On 29 July 2015, the Shareholders Meeting of PGE EJ 1 adopted a resolution to increase the share capital of PGE EJ 1 by PLN 70 million. Pursuant to the shares held, KGHM Polska Miedź S.A. acquired shares, paid for in cash, worth PLN 7 million in the increased share capital. The Parties to the Shareholders Agreement expect that subsequent decisions concerning the Project, including a decision on the further participation of each party in the next stage of the

	Project, will be made after the end of the initial phase and directly before the conclusion of the Integrated Proceedings.
Development of small-scale photovoltaics	In its search for new, innovative methods of generating electricity, Energetyka sp. z o.o. is developing projects related to the construction of pilot photovoltaic farms. In the first half of 2015 another pilot installation using thin-layer CIGS (Copper Indium Gallium Selenide) technology was opened. The photovoltaic farms in use to date in Legnica and Głogów use three different photovoltaic technology modules: CIGS, monocrystalline and polycrystalline. The goal of the project is to determine which of the three applied technologies is the most suitable for local atmospheric conditions.

6. Activities of the Group in 2015

6.1. Changes in Group structure, equity investments and their financing

In 2015, equity investments were mainly aimed at financing the international resource base development projects by granting loans or increasing share capital.

In addition, in the analysed period actions were continued aimed at improving and simplifying the Group's structure, in both the domestic and international companies.

Changes in the Group's structure and organisation

Founding of entities	
PeBeKa Canada Inc.	The domestic subsidiary PeBeKa S.A. founded the subsidiary PeBeKa Canada Inc. in Canada with its registered head office in Vancouver, and acquired 100% of the shares with a total value of CAD 100 thousand. The founding of this company is related to the mine projects being advanced by the Group in Canada, including the Victoria project.
Staropolanka Spółka z o.o.	A new entity was founded within the KGHM I FIZAN Fund - Staropolanka Spółka z o.o. with share capital of PLN 20 thousand. Its founding is related to the process of dividing the company Uzdrowiska Kłodzkie S.A. – Grupa PGU, which is an element in the restructurisation of the company Polska Grupa Uzdrowisk (Polish spa group) aimed at enhancing its efficiency, among others by separating out other than spa-related activities. The mineral water production business, separated as an organised part of the company, will be added to the newly-created company.
PMT Linie Kolejowe 2 Sp. z o.o.	The direct subsidiary PMT Linie Kolejowe 2 Sp. z o.o. (with share capital of PLN 5 million) was founded as a result of the division of the subsidiary POL-MIEDŹ TRANS Sp. z o.o. (PMT) (described below). An organised part of the railway infrastructure separated from PMT was transferred to the company.
7 special purpose companies **from Future 1 Sp. z o.o. to Future 7 Sp. z o.o.**	KGHM Polska Miedź S.A. founded 7 special purpose subsidiaries with share capital of PLN 50 thousand each, which were included in the KGHM Polska Miedź S.A. Tax Group founded in 2015 (effective from 1 January 2016).The creation of these entities is aimed at shaping the Tax Group in the future.
Sales/purchases	
LETIA S.A. **Legnicka Specjalna Strefa Ekonomiczna S.A.**	KGHM Polska Miedź S.A. sold all of the shares it had held in LETIA S.A. (85%) by transferring them as a non-cash contribution to cover the acquisition of shares of the company Legnicka Specjalna Strefa Ekonomiczna S.A. (LSSE). At the end of 2015, KGHM Polska Miedź S.A. did not hold any shares of LETIA S.A. while its share in LSSE amounted to 12.24% of the share capital and 7.8% of the votes at the company's general meeting;
BIPROMET S.A.	KGHM Polska Miedź S.A. purchased 34% of the shares of the subsidiary BIPROMET S.A. (including 25.23% as a result of a tender offer and 8.77% through a mandatory purchase), achieving the target of 100% of the share capital of this company. In addition, in accordance with adopted assumptions, on 27 July 2015 the company was de-listed.
PGE EJ 1 sp. z o.o.	KGHM Polska Miedź S.A. acquired 10% of the shares of a special purpose company – PGE EJ 1 sp. z o.o. – which is responsible for preparing and carrying out the investment to build and operate the first Polish nuclear power plant, for the amount of PLN 16 million. During 2015, the share capital of this company was increased. KGHM Polska Miedź S.A. acquired shares proportionally to its interest in the company and paid for them in cash in the amount of PLN 7 million.

WPEC w Legnicy S.A.	„Energetyka" sp. z o.o. purchased shares from employees of the subsidiary WPEC w Legnicy S.A., becoming its sole owner. The shares purchased represent 14.8% of the share capital (including 4.3% through a mandatory purchase).
Division	
POL-MIEDŹ TRANS Sp. z o.o.	The direct subsidiary POL-MIEDŹ TRANS Sp. z o.o. was divided in order to separate those areas of the company's activities unrelated to its core business which is railway transport. The separated business areas in the form of an organised part of the company were transferred to the following Group subsidiaries (acquirees): MERCUS Logistyka sp. z o.o. (vehicular passenger transport), KGHM ZANAM S.A. (commodity transport and spedition), „Energetyka" sp. z o.o. (trade in oil products) as well as to the newly-founded company PMT Linie Kolejowe 2 Sp. z o.o. (railway infrastructure). As a result of this division the share capital of POL-MIEDŹ TRANS Sp. z o.o. was decreased by PLN 61 million (from PLN 124 million to PLN 63 million).
Mergers	
KGHM INTERNATIONAL LTD. and 0929260 B.C. Unlimited Liability Company	As at 31 December 2015, two Canadian companies were merged: KGHM INTERNATIONAL LTD. and 0929260 B.C. Unlimited Liability Company by founding a new company. The newly-founded entity with share capital in the amount of that of the company 0929260 B.C. Unlimited Liability Company as at 31 December 2015 (USD 2 080 million) acquired the company and statutes of KGHM INTERNATIONAL LTD. as well as all of the assets and liabilities of both companies. As a result of the above, the company KGHM AJAX MINING INC., advancing the Ajax project in British Columbia, Canada, which assumes building an open-pit copper and gold mine along with an ore processing plant with associated infrastructure, has joined the composition of the KGHM INTERNATIONAL LTD. Group.
Liquidations	
„BIOWIND" sp. z o.o. in liquidation	As a result of conclusion of the process of liquidating the subsidiary „BIOWIND" sp. z o.o. begun in 2013, it was removed from the National Court Register (the company had not begun operations).
International Molybdenum Ltd.	During the year the process of liquidating the company International Molybdenum Ltd. with its registered head office in the United Kingdom was begun and completed.
Polska Grupa Uzdrowisk Sp. z o.o. S.K.A.	In May 2015, the process of liquidating the subsidiary Polska Grupa Uzdrowisk Spółka z ograniczoną odpowiedzialnością S.K.A. (hereafter: PGU SKA) was begun. The liquidation of this company is related to the sale in February 2015 of the company PGU SKA to the company Uzdrowiska Kłodzkie S.A. Grupa PGU.

In execution of obligations arising from a sales agreement with the State Treasury to submit an irrevocable purchase offer for all remaining shares acquired by employees during the privatisation process, employee shares of spa companies and in CENTROZŁOM WROCŁAW S.A. were purchased. In addition, shares were purchased from employees of the company WPEC w Legnicy S.A., which they acquired during the privatisation process.

Table 4. Acquisition of employees' shares of Group companies in 2015

Acquisition by KGHM I FIZAN of employees' shares of spa companies

KGHM I FIZAN acquired employees' shares of spa companies, increasing its ownership interest in their share capital in the following manner:

- Uzdrowiska Kłodzkie S.A. - Grupa PGU – an increase to 100% (or by 0.7%),
- Uzdrowisko Połczyn Grupa PGU S.A. – an increase to 100% (or by 1.6%),
- Uzdrowisko Cieplice Sp. z o.o. – Grupa PGU – an increase to 98.3% (or by 0.4%),
- Uzdrowisko Świeradów-Czerniawa Sp. z o.o. – Grupa PGU – an increase to 99% (or by 0.3%).

Acquisition by KGHM Metraco S.A. of employees' shares of CENTROZŁOM WROCŁAW S.A.

Metraco S.A. acquired employees' shares of the company CENTROZŁOM WROCŁAW S.A. representing 0.3% of the share capital of this company, increasing its interest from 99.5% to 99.9%.

Acquisition by „Energetyka" sp. z o.o. of employees' shares of WPEC w Legnicy S.A.

„Energetyka" sp. z o.o. acquired employees' shares of the company WPEC w Legnicy S.A. (as presented in Table 3 above).

In addition, in 2015 the subsidiary KGHM ZANAM Sp. z o.o. was transformed into a joint stock company (currently KGHM ZANAM S.A.).

As at 31 December 2015 the statutory and actual head offices of the following companies of the KGHM INTERNATIONAL LTD. Group, which are not engaged in operations, were transferred to Canada:

– KGHMI HOLDINGS LTD. (formerly KGHMI (Barbados) Holdings Ltd) – QUADRA FNX CHILE LTD. (formerly Quadra FNX Chile (Barbados) Ltd) – QUADRA FNX SG LTD. (formerly Quadra FNX SG (Barbados) Ltd)	former head office - Barbados
– Centenario Holdings Ltd. – FRANKE HOLDINGS LTD. (formerly Frankie (BVI) Ltd.)	former head office – British Virgin Islands

The aforementioned changes in the head offices of these companies were related to the implementaton of a new taxation model in Chile. By transfering these entities to Canada, with which Chile has signed an agreement to avoid double taxation, those companies of the KGHM INTERNATIONAL LTD. Group which have their head office w Chile (Sierra Gorda S.C.M., Sociedad Contractual Minera Franke, Mineria y Exploraciones KGHM International SpA) will incur a taxation rate of 35%, instead of the 44.45% rate which would have been applied had they not been transferred.

Other equity investments and their financing

In 2015, to finance the international resource base development projects, including the key project Sierra Gorda, and the projects Sierra Gorda Oxide, Victoria and Ajax, KGHM Polska Miedź S.A. granted loans to the company Fermat 1 S.à r.l. (a direct subsidiary) and to the following companies: 0929260 B.C. Unlimited Liability Company, Quadra FNX Holdings Chile Limitada and Mineria y Exploraciones KGHM International SpA (indirect subsidiaries) in the total amount of USD 374.6 million (PLN 1 461.2 million at the average exchange rate of the NBP from 31 December 2015). Subsequently, these funds were transferred as loans and/or increases in the share capital of special purpose companies within the holding structure to companies carrying out individual projects.

Table 5. Financing of international resource base development projects in 2015

Sierra Gorda project	Financing for the Sierra Gorda project, proportionally to the interest held in the share capital of Sierra Gorda S.C.M. (55%), amounted in 2015 to USD 244.8 million, all of which came from funds supplied by KGHM Polska Miedź S.A. (PLN 954.8 million at the average exchange rate of the NBP from 31 December 2015).
Victoria project	Financing for the Victoria project amounted to USD 71.9 million (PLN 280.5 million at the average exchange rate of the NBP from 31 December 2015) all of which came from funds supplied by KGHM Polska Miedź S.A.
Ajax project	Financing for the Ajax project, proportionally to the interest held by the KGHM Polska Miedź S.A. Group in the share capital of KGHM AJAX MINING INC. (80%), from KGHM Polska Miedź S.A. amounted to USD 41.1 million (PLN 160.4 million at the average exchange rate of the NBP from 31 December 2015), including USD 6 million (PLN 23.4 million at the average exchange rate of the NBP from 31 December 2015) under a loan granted to the partner in this company pursuant to the Partners Agreement.
Sierra Gorda Oxide project	Financing for the Sierra Gorda Oxide project from KGHM Polska Miedź S.A. amounted to USD 16.8 million (PLN 65.5 million at the average exchange rate of the NBP from 31 December 2015).

The increases in share capital of Group companies aimed at financing the international development projects as well as other domestic entities (including issuances of certificates) are described in the following table.

Table 6. Increases in the share capital of Group companies and acquisition of certificates in 2015

Company	Amount*	Description
International companies		
Fermat 2 S.à r.l.	USD 355 million (PLN 1 331.7 million) **	The share capital of the company was increased several times. All of the shares in the increased share capital were acquired by Fermat 1 S.à r.l. (the sole owner of the company). The shares were paid for in cash. The funds obtained from this capital increase were used to increase the share capital of the company 0929260 B.C. Unlimited Liability Company, as described below.
0929260 B.C. Unlimited Liability Company ***	CAD 473.8 million (PLN 1 435.0 million)	The share capital of the company was increased several times. All of the shares in the increased share capital were acquired by Fermat 2 S.à r.l. (the sole owner of the company 0929260 B.C. Unlimited Liability Company). The shares were paid for in cash. The funds obtained from this capital increase were used to increase the share capital of KGHM INTERNATIONAL LTD. and of KGHM AJAX MINING INC., as described below, to refinance the debt of KGHM INTERNATIONAL LTD. and to provide a loan to the company Abacus Mining & Exploration Corp.
KGHM INTERNATIONAL LTD. ***	CAD 239.8 million (PLN 718.4 million)	The share capital of the company was increased several times. All of the shares in the increased share capital were acquired by 0929260 B.C. Unlimited Liability Company (an indirect subsidiary of KGHM Polska Miedź S.A., being the sole owner of KGHM INTERNATIONAL LTD.). The shares were paid for in cash. The funds obtained from this capital increase were used to advance the Sierra Gorda, Sierra Gorda Oxide and Victoria projects.
KGHMI HOLDINGS LTD. *formerly KGHMI (Barbados) Holdings Ltd.*	USD 264.6 million (PLN 1 033 million)	The share capital was increased in order to finance the Sierra Gorda project and to settle liabilities required to transfer the company from Barbados to Canada. All of the shares in the increased share capital were acquired by KGHM INTERNATIONAL LTD. The shares were paid for in cash.
QUADRA FNX CHILE LTD. *formerly Quadra FNX Chile (Barbados) Ltd.*	USD 100.9 million (PLN 382.3 million)	The share capital was increased in relation to finane the Sierra Gorda project and to the settlement of liabilities required to transfer the company from Barbados to Canada. All of the shares in the increased share capital were acquired by KGHMI HOLDINGS LTD. (formerly KGHMI (Barbados) Holdings Ltd.). The shares were paid for in cash.
Quadra FNX Holdings Chile Limitada	USD 99 million (PLN 365.4 million)	The share capital was increased in order to finance the Sierra Gorda project. All of the shares in the increased share capital were acquired by Quadra FNX Chile (Barbados) Ltd.
Sierra Gorda S.C.M.	USD 244.75 million (PLN 935.5 million)	The share capital was increased in order to finance the Sierra Gorda project. Proportionally to its interest in the company Sierra Gorda S.C.M., the company Quadra FNX Holdings Chile Limitada acquired 55% of the shares in the increased share capital, while the remaining 45% were acquired by SMM SIERRA GORDA INVERSIONES LIMITADA (a Sumitomo Group company). The shares were paid for in cash.
CENTENARIO HOLDINGS LTD.	USD 2.7 million (PLN 10.9 million)	The share capital was increased in order to settle liabilities required to transfer the company from the British Virgin Islands to Canada. All of the shares in the increased share capital were acquired by FNX Mining Company Inc. The shares were paid for in cash.
FRANKE HOLDINGS LTD. *formerly Frankie (BVI) Ltd.*	USD 0.02 million (PLN 0.08 million)	The share capital was increased in order to settle liabilities required to transfer the company from the British Virgin Islands to Canada. All of the shares in the increased share capital were acquired by CENTENARIO HOLDINGS LTD. The shares were paid for in cash.
FNX Mining Company Inc.	USD 2.7 million (PLN 10.9 million)	The share capital was increased to finance an increase in the share capital of CENTENARIO HOLDINGS LTD. All of the shares in the increased share capital were acquired by KGHM INTERNATIONAL LTD. The shares were paid for in cash.

Company	Amount*	Description
KGHM AJAX MINING INC.	CAD 44.4 million (PLN 132.2 million)	The share capital of the company was increased several times. Proportionally to its interest in the share capital, the company 0929260 B.C. Unlimited Liability Company acquired 80% of the shares in the increased share capital, while the remaining 20% were acquired by Abacus Mining & Exploration Corp. The shares were paid for in cash. The funds from the increase in share capital were used to advance the Ajax project.
KGHM Kupfer AG	EUR 2 million (PLN 8.6 million)	All of the shares in the increased share capital were acquired by KGHM Polska Miedź S.A. and were paid for in cash. The funds from the increase in share capital were used to carry out phase II of research under stage II of the Weisswasser project.
Domestic companies		
Cuprum Nieruchomości sp. z o.o.	PLN 18 million	All of the shares in the increased share capital were acquired by KGHM Polska Miedź S.A. (the sole owner) and were paid for by a non-cash contribution in the form of 100% of the shares of the subsidiary Cuprum Development sp. z o.o.
KGHM CUPRUM sp. z o.o. - CBR	PLN 13.5 million	All of the shares in the increased share capital were acquired by KGHM Polska Miedź S.A. (the sole owner) and were paid for in cash. The funds from the increase in share capital were used among others as a refund on a payment to capital.
KGHM ZANAM S.A. *formerly KGHM ZANAM Sp. z o.o.*	PLN 8 million	All of the shares in the increased share capital were acquired by KGHM Polska Miedź S.A. (the sole owner) and were paid for in cash. The funds from the increase in share capital were used for investments and as a refund on a payment to capital.
NITROERG SERWIS Sp. z o.o.	PLN 1.2 million	All of the shares in the increased share capital were acquired by NITROERG S.A. (the sole owner) and were paid for in cash. The funds from the increase in share capital were used for investments.
Investment funds		
KGHM IV FIZAN	PLN 9 million	KGHM Polska Miedź S.A. acquired Investment Certificates of the fund. The funds from the issuance were used to advance a real estate project.
	PLN 18 million	Cuprum Nieruchomości sp. z o.o. acquired Investment Certificates and paid for them with 100% of the shares in the company Cuprum Development sp. z o.o.

* *amount of capital paid-in by Group companies, translated based on the NBP exchange rate from the date of the increase in capital*

** *amount includes agio from the excess of the issue value over the nominal value of shares in the increased share capital*

*** *the companies were combined on 31.12.2015 by founding a new entity, which acquired KGHM INTERNATIONAL LTD.*

6.2. Significant contracts for the Group

In 2015, Group companies entered into the following significant contracts.

Table 7. Significant contracts signed in 2015

8 May 2015 **Contract for the sale of copper wire rod in the years 2016 - 2018** (with the option to extend it for a subsequent two years) **signed between KGHM Polska Miedź S.A. and Tele-Fonika Kable S.A.**	The estimated value of the Contract during the first three years ranges from PLN 3 913 million to PLN 4 246 million, depending on the volume of options used and the relocation of material between plants of Tele-Fonika Kable S.A. The value of the Contract was calculated based on the forward copper price curve and the average USD/PLN and EUR/PLN exchange rates announced by the NBP as at 7 May 2015. The Contract's coming into force is contingent on Tele-Fonika Kable S.A. receiving necessary financing for the repayment of financial liabilities as specified in the contract, but no sooner than on 1 January 2016 (condition precedent). If the condition precedent is not met by 30 June 2016 the contract will expire. On 11 December 2015, the company received confirmation from Tele-Fonika Kable S.A. that the condition precedent set forth in the contract, i.e. the receipt of necessary financing by Tele-Fonika Kable S.A. for the repayment of financial liabilities as set forth in the contract, had been met. As a result of meeting the Condition Precedent set forth in the contract, the Contract came into force on 1 January 2016, and as at this date KGHM Polska Miedź S.A. commenced sales of copper wire rod under the terms set forth in the contract.

14 January 2015 **Loan agreement between KGHM Polska Miedź S.A. and its indirect subsidiary 0929260 B.C. UNLIMITED LIABILITY COMPANY**	Based on the agreement, KGHM Polska Miedź S.A. granted company 0929260 B.C. UNLIMITED LIABILITY COMPANY a loan in the amount of USD 200 million (the equivalent of PLN 731 million at the average exchange rate for USD/PLN, announced by the NBP on 14 January 2015) with a maturity date of 31 December 2019. Funds from the loan were used to refinance the debt of KGHM INTERNATIONAL LTD. in the form of a bank loan.
25 May 2015 **Loan agreement between KGHM Polska Miedź S.A. and its direct subsidiary Fermat 1 S.à r.l.**	Based on the agreement, KGHM Polska Miedź S.A. granted Fermat 1 S.à r.l. a cash loan in the amount of USD 210 million (the equivalent of PLN 788 million at the average exchange rate for USD/PLN, announced by the NBP on 25 May 2015) with a maturity date of 31 December 2021. Funds from the loan were transferred through the special purpose companies of the holding structure to 0929260 B.C. UNLIMITED LIABILITY COMPANY for the purpose of refinancing the debt of KGHM INTERNATIONAL LTD. in the form of senior notes issued in 2011.
3 June 2015 **Loan agreement between KGHM Polska Miedź S.A. and its indirect subsidiary 0929260 B.C. UNLIMITED LIABILITY COMPANY**	Based on the agreement, KGHM Polska Miedź S.A. granted company 0929260 B.C. UNLIMITED LIABILITY COMPANY a loan in the amount of USD 309 million (the equivalent of PLN 1 148 million at the average exchange rate for USD/PLN, announced by the NBP on 3 June 2015) with a maturity date of 31 December 2021. Funds from the loan were used to refinance the debt of KGHM INTERNATIONAL LTD. in the form of senior notes issued in 2011.
8 June 2015 **Loan agreement between the indirect subsidiaries 0929260 B.C. UNLIMITED LIABILITY COMPANY and KGHM INTERNATIONAL LTD.**	The loan agreement, pursuant to which the indirect subsidiary 0929260 B.C. UNLIMITED LIABILITY COMPANY granted a loan in the amount of USD 519 million (the equivalent of PLN 1 941 million, at the average exchange rate for USD/PLN, announced by the NBP on 8 June 2015) to its wholly-owned subsidiary KGHM INTERNATIONAL LTD. for the early redemption of the senior notes issued in 2011. The funds for this loan were transferred by KGHM Polska Miedź S.A. under the financing described above (loan agreements dated 25 May 2015 and 3 June 2015). The repayment of loan, which has a maturity date of 31 December 2021, is secured by a demand promissory note issued by KGHM INTERNATIONAL LTD.

Detailed information regarding the process of optimising the Group's financing, which includes the aforementioned loan agreements, may be found in Section 7.8 of this report.

Information on significant transactions entered into between related entities, under other than arm's length conditions

In 2015, neither the Parent Entity nor subsidiaries entered into transactions between related entities under other than arm's length conditions.

Information on contracts and remuneration of the entity entitled to audit the financial statements

The entity entitled to audit the separate financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the KGHM Polska Miedź S.A. Group is PricewaterhouseCoopers Sp. z o.o. with its registered head office in Warsaw, Al. Armii Ludowej 14.

On 4 April 2013, KGHM Polska Miedź S.A. signed a contract with PricewaterhouseCoopers Sp. z o.o. for review of the half-year financial statements and for the audit of the annual financial statements for the years 2013, 2014 and 2015.

PricewaterhouseCoopers Sp. z o.o. was also selected to audit the financial statements of twenty-four Polish subsidiaries of KGHM Polska Miedź S.A. and selected international entities.

Remuneration for the years 2014-2015 for the review and audit of financial statements and remuneration for other titles, of the entity entitled to provide the auditing services described above, as well as for its Group entities, is presented in the following table.

Table 8. Remuneration of the entity entitled to audit the financial statements of KGHM Polska Miedź S.A. and selected subsidiaries *(in thousand PLN)*

	2015	2014
Remuneration of companies of the PricewaterhouseCoopers Group	**8 739**	**6 047**
Due to the contract for the review and audit of financial statements, including:	4 366	3 999
– audit of the annual financial statements	3 741	3 283
– review of the financial statements	625	716
Due to other contracts	4 373	2 048

6.3. Litigation and claims

At the end of 2015, the total value of on-going disputed issues both by and against KGHM Polska Miedź S.A. and its subsidiaries were as follows: receivables of PLN 153 million and liabilities of PLN 174 million. The total value of the above disputes did not exceed 10% of the equity of the Parent Entity.

Value of proceedings involving receivables at the end of 2015:

- proceedings by KGHM Polska Miedź S.A. amounted to PLN 51 million,
- proceedings by subsidiaries amounted to PLN 102 million.

Value of proceedings involving liabilities at the end of 2015:

- proceedings against KGHM Polska Miedź S.A. amounted to PLN 99 million,
- proceedings against subsidiaries amounted to PLN 75 million.

The largest on-going proceedings involving the receivables and liabilities of KGHM Polska Miedź S.A. and its subsidiaries are presented below.

Table 9. Litigation and claims

Proceedings related to liabilities	
Administrative proceedings regarding the granting of concessions for exploration and assessment of the Bytom Odrzański copper ore deposit	The Minister of the Environment on 29 July 2014 reversed the following decisions in entirety: – a decision dated 28 January 2014 declining to grant a concession to KGHM Polska Miedź S.A. for the exploration and evaluation of the Bytom Odrzański copper ore deposit, – Concession no. 3/2014/p dated 28 January 2014 granted to Leszno Copper Spółka z o.o. for the exploration and evaluation of the Bytom Odrzański copper and silver ore deposit. Leszno Copper Spółka z o.o. filed claims against the decisions of the Minister of the Environment with the Regional Administrative Court. The Regional Administrative Court in Warsaw, in a judgment dated 10 July 2015, overturned the disputed decisions. On 28 October 2015, KGHM submitted a cassation appeal to the Supreme Administrative Court in the case of Bytom Odrzański. The company is awaiting a hearing date.
Royalties for use of invention project no. 1/97/KGHM	Value of amount under dispute: PLN 42 million. The claim was filed with the District Court in Legnica on 26 September 2007 by 14 co-authors of invention project no. 1/97/KGHM. KGHM Polska Miedź S.A. received the suit on 14 January 2008. Each of the plaintiffs in this suit is demanding royalties equivalent to the given plaintiff's share in the economic effects achieved for the 8th period of the project's application (calendar year 2006). In the company's opinion the royalties being pursued through the Court are undue, as KGHM Polska Miedź S.A. covered the amounts due to the authors of the project resulting from use of an invention project. Proceedings are in progress.
Payment of remuneration or contractual penalties	Value of amount under dispute: PLN 20 million. In a claim from April 2012, filed against „Energetyka" sp. z o. o. (a subsidiary of KGHM Polska Miedź S.A.), the liquidation receiver Gross-Pol Sp. z o.o. is demanding payment of remuneration or contractual penalties due to the execution of five contracts entered into in the years 2007, 2008 and 2009. „Energetyka" sp. z o. o., in a response to the claim dated 10 September 2012, requested the dismissal of the claim in its entirety, citing their claim and evidence for its support. The parties petitioned for evidence to be presented in the form of testimony by witnesses and in the form of court experts from various fields. Proceedings are in progress. In the company's opinion the probability of the claims being adjudicated against the company is very low.
Payment of contractual penalties	Amount under dispute: PLN 19 million. The Capital City of Warsaw, in a suit filed 12 March 2013, is seeking the payment of contractual penalties from Przedsiębiorstwo Robót Górniczych „Metro" Sp. z o. o. and from PeBeKa S.A. (a subsidiary of KGHM Polska Miedź S.A.) – as leader of the consortium – due to failure to perform remediation work during construction of a metro station on time. The company PeBeKa S.A. has charged that the Capital City of Warsaw cannot act as plaintiff in the suit as the entity Metro Warszawskie is the actual investor, and has requested the court to order the company BEM Brudniccy Sp. z o.o. (subcontractors) to take part in the proceedings, as it was this company which performed the faulty work. In the opinion of PeBeKa S.A. it is possible that the imposition of contractual penalties may be waived due to the lack of possibility to remediate defects caused by unfavourable atmospheric conditions, or that contractual penalties may be imposed in an amount of up to PLN 0.5 million,

	representing 10% of the value of the faulty work. At a hearing on 12 November 2013 the District Court ordered the appointment of a court expert. The opinion of the court expert confirmed the lack of possibility to remediate the defects due to the unfavourable atmospheric conditions. A supplementary opinion also confirmed the primary opinion, and the parties decided to begin discussions on reaching an eventual understanding. In the meantime the Court suspended the proceedings due to the bankruptcy of PRG Metro. At present discussions are underway on reaching a court understanding. The defendant expects the Capital City of Warsaw to present its position.
Return of costs related to protection against mining damages	Value of amount under dispute: PLN 16 million. A claim was filed against KGHM Polska Miedź S.A. with the District Court in Legnica by the company Prestiż MGC Inwest Sp. z o. o. Sp. k. in August 2009 for payment of the amount of PLN 16 million due to the return of costs of protecting against mine damages incurred during construction of the Centrum Handlowo-Usługowe „CUPRUM ARENA" in Lubin. The District Court, by a judgment dated 26 February 2013, ordered KGHM Polska Miedź S.A. to pay the amount of PLN 307 thousand. Both parties filed appeals: the defendant in respect of the amount of PLN 305 thousand, and the plaintiff in respect of the amount of PLN 16 million. The Appeals Court appointed a court expert. In the company's opinion the claim is unfounded and should be dismissed. However, due to the complex nature of the matter and the judgment made by the District Court, it is difficult to foresee the final resolution. Appeal proceedings are in progress.
Proceedings related to receivables	
Return of undue royalties for use of invention project no. 1/97/KGHM	In January 2008 KGHM Polska Miedź S.A. filed a counter claim against 14 project co-authors for payment of undue royalties paid in the amount of PLN 25 million for use of invention project no. 1/97/KGHM in the 6th and 7th periods (calendar years 2004 – 2005). The court has combined both these matters: the claims of 14 co-authors for the payment of royalties for use of invention project no. 1/97/KGHM in the amount of PLN 42 million, with the claims of KGHM Polska Miedź S.A. for the payment of undue royalties paid for use of invention project no. 1/97/KGHM in the amount of PLN 25 million, for joint hearing. In the Parent Entity's opinion the payment of royalties to the project's authors was unfounded. Proceedings are in progress.
Return of excise tax	Value of amount under dispute: PLN 18 million. „Energetyka" sp. z o. o. (a subsidiary of KGHM Polska Miedź S.A.) filed a claim with the Regional Administrative Court against a decision of the Director of the Customs Office which denied a refund for overpayment of excise tax from January 2006 to February 2009. The Regional Administrative Court, in a judgment from October 2011, reversed the decision appealed by the subsidiary. The Director of the Customs Office and „Energetyka" sp. z o.o. in December 2011 filed cassation appeals to the Supreme Administrative Court. The court upheld the cassation appeal of „Energetyka" sp. z o.o., and by a judgment dated 27 November 2013 it reversed the appealed judgment and ordered the matter to be reheard by the Regional Administrative Court. As a result of these proceedings, on 2 September 2014 the Regional Administrative Court in Wrocław reversed the Decision of the Director of the Customs Office. At present, proceedings are in progress with the Director of the Customs Office in Wrocław regarding the entirety of the dispute, i.e. PLN 18 million.
Return of excise tax	The amount of excise tax for 2003 under dispute as at 31 December 2015 amounts in total to PLN 16 million. POL-MIEDŹ TRANS Sp. z o. o. filed a claim with the Regional Administrative Court against a decision of the Director of the Customs Office setting excise taxation for individual months from March to December 2003. The Regional Administrative Court, in judgments from April, May and June 2011, dismissed the claims. POL-MIEDŹ TRANS Sp. z o.o. filed cassation appeals against the judgments to the Supreme Administrative Court, which reversed the judgments of the Regional Administrative Court and ordered the matter to be reheard by the Regional Administrative Court. The Regional Administrative Court, in a hearing on 16 January 2014, reversed all of the decisions of the Director of the Customs Office respecting the period from March to December 2003. After re-hearing the matter regarding the months from March to December 2003, the Director of the Customs Office in Wrocław, over the period from 28 May 2014 to 6 August 2014, reversed the decisions of the Head of the Customs Office and issued decisions which set new tax liabilities (decreased by PLN 2 164 thousand). Claims have been filed with the Regional Administrative Court against these decisions. On 2 February 2015 the RAC in Wrocław suspended all proceedings for the period of March-December 2003 until a hearing has been held regarding the point of law directed to the Constitutional Tribunal

regarding the constitutionality of the clauses of the excise tax which form the basis for making a judgment on the disputed decisions of the customs authorities.

With respect to the clauses for January and February 2003, on 16 December 2011, POL-MIEDŹ TRANS Sp. z o.o. filed a claim with the European Human Rights Tribunal – this case is awaiting a hearing. Independent of this, the disputed judgments were overturned by the Supreme Administrative Court in a judgment dated 9 September 2015 as a result of the issuance by the Constitutional Tribunal of a positive opinion regarding the company dated 20 February 2015. The case will be reheard by the Regional Administrative Court in Wrocław. As a result of the judgment by the Constitutional Tribunal, tax proceedings were also renewed – which at the moment are suspended due to the court proceedings.

The value of the amounts under dispute for January and February 2003 are respectively PLN 1.1 million and PLN 1.3 million (the company has recognised these amounts together with interest).

On 30 June 2015, with respect to the five months of 2003, judgments were issued dismissing the company's claims calling for new decisions of the Director of the Customs Office. Requests were submitted with them for the purpose of filing cassation appeals. With respect to the months of July, August, September and November 2003, the Regional Administrative Court on 14 July 2015 also issued a judgment dismissing the company's claims calling for new decisions of the Director of the Customs Office in Wrocław.

As a result, requests were submitted asking for justification for these judgments. On 28 August 2015, cassation appeals were filed on the company's behalf to the Supreme Administrative Court requesting a judgment regarding the indicated periods. With respect to the month of December 2003 and the period from January to April 2004, the Regional Administrative Court issued analogous judgments to the cases involving the remaining settlement periods of 2003, and on 11 August 2015 issued a judgment dismissing the company's claims calling for new decisions of the Director of the Customs Office in Wrocław. Cassation appeals have been filed against these judgments.

In addition, there are ongoing disputes with tax authorities and with administrative courts regarding property tax on the underground mines of KGHM Polska Miedź S.A. for the period 2006-2012. These matters are being pursued by Divisions of the company: the Lubin mine, the Polkowice-Sieroszowice mine and the Rudna mine.

The amount of the disputes is PLN 106 million, including receivables (concerning the overpayment of property tax by the company) of PLN 88 million, while the amount of disputed liabilities assessed by decisions of tax bodies, for which a provision has been recognised, amounts to PLN 18 million.

6.4. Key risk factors and risk management

Comprehensive Risk Management System in the KGHM Polska Miedź S.A. Group

The KGHM Polska Miedź S.A. Group defines risk as uncertainty, being an integral part of the activities conducted and having the potential to result in both opportunities and threats to achievement of the business goals. The current, future, actual and potential impact of risk on the KGHM Polska Miedź S.A. Group's activities is assessed. Based on this assessment, management practices are reviewed and adjusted in terms of responses to individual risk factors.

Under the Corporate Risk Management Policy and Procedure and the Rules of the Corporate Risk Committee approved in 2013, the process of corporate risk management in the Group is consistently performed. The companies of the Group have implemented rules and procedures to regulate the management of corporate risk which are consistent with those of the Parent Entity. KGHM Polska Miedź S.A. oversees the process of managing corporate risk in the Group.

Risk factors in various areas of the Group's operations are continuously identified, assessed and analysed in terms of their possible limitation.

Key risk factors in the Group undergo in-depth analysis in order to develop a Risk Response Plan and Corrective Actions. Other risk factors undergo constant monitoring by the Corporate Risk Management and Compliance Department, and in terms of financial risk by the Executive Director for Finance and the Market and Credit Risk Management Department.

This comprehensive approach to analysing risk factors also comprises the identification of risk factors related to achieveing the strategic goals (more in Section 4 of this report).

Presented below is the organisational structure of risk management in the Parent Entity. The breakdown of rights and responsibilities applies best practice principles for Corporate Governance and the generally recognised model of three lines of defense.

Diagram 3. Organisational structure of risk management in KGHM Polska Miedź S.A.

Supervisory Board (Audit Committee)

Performs annual assessment of the effectiveness of the risk management process and monitors the level of key risk factors and ways to address them.

Management Board

Has ultimate responsibility for the risk management system and supervision of its individual elements.

1st line of defense

Management

Management staff is responsible for identifying, assessing and analysing risk factors and for the implementation, within their daily duties, of responses to risk. The task of the management staff is ongoing supervision of the application of appropriate responses to risk within the tasks realised, to ensure the expected level of risk is not exceeded.

2nd line of defense

Risk Committees

Support effective risk management and ongoing supervision of key risk factors.

Market Risk Committee	Credit Risk Committee	Corporate Risk Committee	Financial Liquidity Committee
Manages risk of changes in metals prices (e.g.: copper and silver) as well as exchange and interest rates	Manages risk of failure of debtors to meet their obligations	Manages corporate risk and continuously monitors key risk factors	Manages risk of loss of liquidity, understood as the ability to pay financial liabilities on time and to obtain financing for operations
Market Risk Management Policy	*Credit Risk Management Policy*	*Corporate Risk Management Policy*	*Liquidity Management Policy*
Market and Credit Risk Management Department ***Reports to the First Vice President of the Management Board (Finance)***		Corporate Risk Management and Compliance Department ***Reports to the President of the Management Board***	Executive Director, Finance ***Reports to the First Vice President of the Management Board (Finance)***

3rd line of defense

Internal Audit

The Internal Audit Plan is based on assessing risk and subordinated business goals, assessed is the current level of individual risk factors and the degree of efficiency with which they are managed.

Internal Audit Rules

Audit and Internal Control Department

Reports to the President of the Management Board

Corporate risk – key risk factors and their mitigation

A key tool used in identifying risk factors in the KGHM Polska Miedź S.A. Group is the Risk Factors Model. Its construction is based on a given risk's source and is divided into the following 5 categories: Technological, Values chain, Market, External and Internal. Several dozen sub-categories have been identified and defined covering particular areas of the operations or management.

Following are the key risk factors in the KGHM Polska Miedź S.A. Group (with separate identification of Parent Entity and KGHM INTERNATIONAL LTD. Group risk factors).

The following abbreviations are used in the table below: KGHM Group = KGHM Polska Miedź S.A. Group; KGHM INTERNATIONAL Group = KGHM INTERNATIONAL LTD. Group.

Risk factor	Risk - description	Mitigation
Technology		
Technology	**(Parent Entity)** Technological risk related to the mining of deep underground copper ore deposits, under conditions associated with natural hazards.	R&D work and trials of alternate mining methods to currently-used copper ore mining technology, including among others projects involving alternative mining methods: longwall and room-and-pillar systems using mechanical extraction systems. *More in Section 5 Implementation of the strategy in 2015 (Pillar II. Production Assets Development and Pillar III. Production).*

Risk factor	Risk - description	Mitigation
	(Parent Entity) Risk of geological-mining changes in the mines and the associated increase in the calorific value of the copper concentrate produced in the Concentrator plants, resulting in a decrease in the amount of concentrates smelted in the pyrometallurgy process.	Construction of a concentrate roasting installation at the Głogów I smelter, together with associated infrastructure, is aimed at reducing the calorific value of smelted concentrates by eliminating excess organic elements in the concentrate produced. *More in Section 5 Implementation of the strategy in 2015 (Pillar II. Production Assets Development and Pillar III. Production).*
Value chain		
Planning	**(KGHM Group)** Risk related to using inappropriate economic parameters related to production, investments, macroeconomics and finance, for preparing forecasts of company results. **(KGHM INTERNATIONAL Group)** Risk related to the acuracy of estimating closure costs for certain mines.	Forecasts related to specific areas of the operations are prepared by appropriate specialised units.
Logistics and supply chain	**(KGHM Group)** The risk of restricted access to transportation infrastructure, which affects the steady flow of resources and materials required in production and the delivery of finished products.	Supply flow management and maintenance of minimum levels of resources and materials inventories required in production.
Resources and reserves	**(KGHM Group)** Risk related to insufficient knowledge of the parameters and characteristics of a deposit, both for exploration projects (estimated input data for orebody evaluation models), as well as for on-going mining operations.	Additional expenditures on exploratory work to enhance the precision of estimated resources and the level of knowledge of geological-mining conditions, optimisation of the drilling network, geological research, knowledge gained through access drifts, consultations with external experts. *More in Section 5 Implementation of the strategy in 2015 (Pillar I. Resource Base Development).*
Waste management	**(Parent Entity)** Risk of the inability to store mine tailings.	Operation, construction and development of the tailings pond pursuant to the operating rules. Coopperation with a Team of International Experts (TIE) and the General Designer, introduction of Observation Methods during development recommended by the TIE, based on the evaluation of geotechnical parameters obtained from the results of monitoring performed, which allow conclusions to be made regarding the behavior of the facility. *More in Section 5 Implementation of the strategy in 2015 (Pillar II. Production Assets Development).*
Availability of materials and utilities	**(KGHM Group)** Risk related to the lack of availability of utilities (electricity, gas, water).	Ensure back-up systems for key utilities and on-going evaluation of the security of power systems. Conduct a variety of investments aimed at strengthening energy security. *More in Section 5 Implementation of the strategy in 2015 (Other important initiatives supporting the core business).*

Risk factor	Risk - description	Mitigation
Production and infrastructure	**(KGHM Group)** Risk related to industrial emergencies resulting in a shut-down of production lines, both as a result of natural hazards as well as internal factors related to the applied technology. **(KGHM INTERNATIONAL Group)** Geotechnical risks in open-pit mines (wall stability) and in underground mines. Risk of not achieving targeted leach recovery parameters.	Preventative management of key elements of infrastructure which impact the smooth flow of operations. On-going analysis of geotechnical risks and reviews of planned recoveries.
	(KGHM INTERNATIONAL Group) Risk related to achieving full production capacity and expected quality of products.	Continuation of actions aimed at achieving full production capacity according to plan.
Efficiency and costs	**(KGHM Group)** Risk related to the cost effectiveness of the production process, mining projects and the processing of copper-bearing materials, including the risk of significant increases in the prices of materials, services and utilities and of restoration costs.	Monitoring trends on the copper-bearing materials market and maintaining costs at the planned levels. Creating multi-year plans and budgets to achieve profitability under the given market conditions. *More in Section 5 Implementation of the strategy in 2015 (Pillar III. Production).*
Market		
Market Risk	**(KGHM Group)** Risk related to volatility in commodity prices (copper, silver and other metals), exchange rates and interest rates.	This risk is actively managed (in the Parent Entity, in accordance with the Market Risk Management Policy currently in force). A basic technique for managing market risk in the company are hedging strategies utilising derivative instruments. Natural hedging is also applied. *More in Section 6.4 Key risk factors and risk management (Market, credit and liquidity risk).*
Credit Risk	**(KGHM Group)** Risk related to the lack of paid receivables by commercial customers or financial institutions.	This risk is actively managed (in the Parent Entity, in accordance with the Credit Risk Management Policy currently in force). Exposure to credit risk is limited by evaluating and monitoring the financial condition of customers, setting credit limits and applying creditor security. *More in Section 6.4 Key risk factors and risk management (Market, credit and liquidity risk).*
Liquidity Risk	**(KGHM Group)** Risk related to the loss of liquidity, understood as a loss of the ability to pay liabilities on time and to obtain financing for operations.	This risk is actively managed (in the Parent Entity, in accordance with the updated Financial Liquidity Management Policy). *More in Section 6.4 Key risk factors and risk management (Market, credit and liquidity risk).*
Equity investments and divestments	**(KGHM Group)** The risk of not receiving the expected return on an equity investment. Risk of loss of company value, the failure to achieve assumed synergies, the loss of alternative profits, a fall in the price of shares of listed companies.	Detailed analysis of the effectiveness and justification of equity investment plans; feasibility studies of investment projects and on-going monitoring of the value of assets owned.
Financial risk	**(KGHM Group)** Risk of impairment of the carrying amount of assets.	On-going analysis of the possibility of indications to conduct impairment tests of the carrying amount of assets.

External		
Administrative proceedings	**(KGHM Group)** The risk of restricting or suspending operations as a result of administrative and/or legal proceedings: administrative decisions not received, withdrawn or which undergo unfavourable changes.	The process of obtaining administrative decisions is conducted with an appropriate level of prudence and care. Deadlines are met. Being proactive (initiating procedures at an early stage and executing decisions with a margin of safety in terms of time). Legal counsel is employed when the company is engaged in administrative proceedings. Appeals procedures are followed. The opinions of external experts are sought. *More in Section 5 Implementation of the strategy in 2015 (Pillar I. Resource Base Development) and Section 6.3. Litigation and claims.*
Natural hazards	**(KGHM Group)** The risk of employees' loss of life or health. Disruptions or restrictions in production as a result of seismic events and associated roof collapses, or destressings of the rock mass and the occurance of uncontrolled rock bursts.	A wide variety of technological and organisational solutions and other active and passive methods are applied to prevent roof collapses enabling restriction of the effects of dynamic events (roof collapses or rock mass destressings) in the mines. Preparation of reserve fields in the orebody which could handle reduced production. *More in Section 5 Implementation of the strategy in 2015 (Pillar II. Production Assets Development and Pillar III. Production).*
	(Parent Entity) Risk related to gas hazards (methane and hydrogen sulphide).	The risk of gas hazards occuring is being assessed and principles are being developed for working under the risk of such hazards. Individual employee safety measures are applied as well as equipment and means for reducing concentrations of hydrogen sulphides and neutralising oppressive odors.
	(Parent Entity) Risk related to underground climate risk, which increases in tandem with increasing mine depth.	The construction of additional ventilation shafts, the use of centralised, workplace and individual air cooling systems as well as reduced working time.
Natural environment and climate change	**(KGHM Group)** The extraction and processing of copper ore at all stages has an unavoidable impact on various parts of the natural environment. Risk related to pricing and the placing of limits on CO_2 emissions.	Compliance with rigorous environmental standards imposed by law is possible thanks to the systematic modernisation of environmental protection installations, both those built in the past as well as new investments in this regard. (In the Parent Entity a CO_2 Emissions Management Sysytem has been implemented as well as environmental management standards ISO 14001). *More in Section 6.5. Environmental protection.*
	(Parent Entity) Risk related to evaluating air quality in Lower Silesia (exceeding the average annual target level of arsenic in suspended dusts PM10).	Carrying out the list of actions arising from Air Protection Programs.
Law and regulations	**(KGHM Group)** The risk of changes in the regulatory environment in areas such as geological-mining law, environmental protection and energy.	Monitoring of legal changes in individual jurisdictions and active participation in legislative processes. Taking preemptive actions to adapt to organisational, infrastructural and technological changes.
Taxes	**(Parent Entity)** The risk of there being no change in the royalty formula (the minerals extraction tax) and the risk of taxation arising from other regulations. **(KGHM INTERNATIONAL Group)** Tax risk factors related to operating in numerous jurisdictions.	

Internal		
Occupational health and safety	**(KGHM Group)** The risk of serious accidents or industrial illnesses caused by improper workplace organisation, the failure to follow procedures or the use of improper safety devices. The risk of temporary work stoppages caused by serious accidents.	(In the Parent Entity, occupational health and safety standards are in force (18001/OHSAS); regular training in occupational health and safety standards, programs to identify potential accidents. *More in Section 5 Implementation of the strategy in 2015 (Pillar III. Production) and Section 3.5. Employment in the Group (Occupational health and safety).*
Information policy	**(KGHM Group)** The risk of the unintended disclosure of sensitive or inside information.	Internal procedures for managing inside information, being information of a confidential and secret nature as regards the company, information security; confidentiality clauses and limits on the number of persons having access to sensitive information.
Global corporation	**(KGHM Group)** Risk related to the process of integrating and creating a global organisation, with the potential to cause interruptions in the operations as a result of changes in the structure and business model.	An appropriate governance and management structure, elimination of barriers which might arise, assurance of a mobile and experienced staff for a model international organisation, systematic reviews of the results of integration and the strengthening of changes already introduced. The goal of meeting international corporate governance standards was met by introducing a Code of Ethics for the KGHM Group with associated global policies (eg. an anticorruption policy, competition law, responsible supply chain). *More in Section 3.6. Ethics and corporate governance.*
Stakeholders	**(KGHM Group)** The risk of negative ad campaigns and the risk of lack of acceptance by the public, local governments or other stakeholders for the conduct of development and exploration work.	Execution of the CSR Strategy, close cooperation with government bodies; meetings and negotiations with stakeholders, informational campaigns, conferences, publications. *More in Section 5 Implementation of the strategy in 2015 (Other important initiatives supporting the core business).*
Human resources	**(KGHM Group)** The risk of not being able to acquire and keep human resources, for example in order to properly support development projects.	Programs aimed for example at raising the effectiveness of the processes of recruitment, finding successors and maintaining key positions. Employee mobility program. *More in Section 3.5. Employment in the Group (Human Resources projects).*
Security, IT and data protection	**(KGHM Group)** The risk of theft of assets of significant value, physical attacks, intentional unauthorised disclosures, unauthorised changes to or destruction of key data and information.	Strict adherance to and application of the principles, among others, of the Information Security Policy and Facility Protection Plans.
Project management	**(KGHM Group)** The risk of exceeding project/program budgets and schedules, exceeding defined scopes and failing to meet defined quality parameters as a result of the improper management of portfolios and projects. **(KGHM INTERNATIONAL Group)** Risk related to the operational management and development of key mining projects, including issues related to costs incurred, permitting and infrastructural requirements.	Project Management in accordance with the KGHM Step Methodology as well as on-going monitoring and updating of schedules. On-going evaluation of the economic effectiveness of existing and anticipated development projects.

Market, credit and liquidity risk

The goal of market, credit and liquidity risk management in the KGHM Polska Miedź S.A. Group is to restrict the undesired impact of financial factors on cash flow and financial results in the short and medium terms and to enhance the Group's value over the long term. The management of these risk factors includes both the processes of risk identification and measurement as well as its restriction to acceptable levels. The process of risk management is supported by an appropriate policy, organisational structure and procedures. In the Parent Entity these issues are covered in the following documents:

- Market Risk Management Policy and the Rules of the Market Risk Committee,
- Credit Risk Management Policy and the Rules of the Credit Risk Committee, and
- Financial Liquidity Management Policy.

The „Market Risk Management Policy in the KGHM Polska Miedź S.A. Group" covers selected mining companies in the Group (KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD., FNX Mining Company Inc., Robinson Nevada Mining Company, KGHM AJAX MINING Inc. and Sociedad Contractual Minera Franke), with representatives of the Parent Entity and KGHM INTERNATIONAL LTD. serving as members of the Market Risk Committee.

Financial liquidity management in the Parent Entity is carried out in accordance with the Management Board-approved „Financial Liquidity Management Policy". In KGHM INTERNATIONAL LTD. the principles of liquidity management have been set forth in the "Investment Policy". The Parent Entity oversees the process of liquidity management and borrowing in the Group.

Credit risk management in the Parent Entity is carried out in accordance with the Management Board-approved Credit Risk Management Policy. The Parent Entity serves as an advisor to the Group's companies with respect to managing credit risk. In 2015, a „Credit Risk Management Policy in the KGHM Polska Miedź S.A. Group" was adopted, the goal of which is to introduce a comprehensive, joint approach and the most important elements of the credit risk management process in selected Group companies.

Market risk management

Market risk is understood as the possible negative impact on the Group's results arising from changes in the market prices of commodities, exchange rates and interest rates, as well as the share prices of listed companies.

In terms of market risk management (in particular the risk of changes in metals prices and exchange rates) of greatest significance and impact on the results of the Group are the scale and nature of the activities of the Parent Entity and the mining companies of KGHM INTERNATIONAL LTD.

The Parent Entity actively manages the market risk to which it is exposed, undertaking actions and decisions in this regard within the context of the global exposure throughout the KGHM Polska Miedź S.A. Group.

The Management Board is responsible for market risk management in the Parent Entity and for adherence to policy in this regard. The main body involved in performing market risk management is the Market Risk Committee, which makes recommendations to the Management Board in this area.

Commodity risk, currency risk	In 2015, the Group was mainly exposed to the risk of the changes in the prices of metals it sells: copper and silver. Of major significance for the Parent Entity was the risk of changes in currency rates, in particular the USD/PLN exchange rate. Other Group companies are additionally exposed to the risk of volatility in the prices of nickel, lead, molybdenum, platinum and palladium. Market risk related to changes in metals prices arises from the formula for setting prices in physical metals sales contracts, which are usually based on the average monthly market prices for the relevant future month. In accordance with the Market Risk Management Policy, in 2015 the Parent Entity continuously identified and measured market risk related to changes in metals prices, exchange rates and interest rates (analysis of the impact of market risk factors on the Parent Entity's activities – profit or loss, statement of financial position, statement of cash flow), and also analysed the metals and currencies markets. These analyses, along with assessment of the internal situation of the Parent Entity and Group, represented the basis for taking decisions on the application of hedging strategies on the metals, currency and interest rates markets. In 2015, the Parent Entity did not implement any copper or silver price hedging strategies. However, on the currency market transactions were entered into to hedge revenues from sales in the total notional amount of USD 1 095 million and a time horizon covering the period from April 2015 to December 2018. The Parent Entity made use of put options (European options) as well as collar options strategies.

	In terms of managing currency risk deriving from bank loans, the Parent Entity applies natural hedging, based on the drawing of credit in those currencies in which it earns revenues. Liabilities which comprised the balance of bank loans as at 31 December 2015 were drawn in USD and partially in EUR, and following their translation to PLN they amounted to PLN 6 855 million. As at 31 December 2015, the Parent Entity held an open hedging position on the currency market totalling USD 2 220 million in planned revenues from sales. In addition, the first instalment from the European Investment Bank (in the amount of USD 300 million) is being used to hedge revenues from sales against the risk of a change in the exchange rate in the period from October 2017 to October 2026. As at 31 December 2015, KGHM INTERNATIONAL LTD. did not hold open hedging positions on the metals and currency markets. Some of the Group's Polish companies managed the currency risk related to their core businesses by opening hedging positions on the EUR/PLN and GBP/PLN markets.
Interest rate risk	Interest rate risk is the possibility of the negative impact of changes in interest rates on the Group's situation and results. In 2015, the Group was exposed to such risk due to loans granted, free cash invested on deposits and borrowings. As at 31 December 2015, the following positions were exposed to interest rate risk by impacting the amount of interest costs and income: - cash and cash equivalents: PLN 772 million, including deposits of special purpose funds: the Mine Closure Fund and the Tailings Storage Facility Restoration Fund, - liabilities due to bank loans drawn: PLN 5 798 million. As at 31 December 2015, the following positions were exposed to interest rate risk due to changes in the fair value of instruments with fixed interest rates: - receivables due to loans granted by the Group: PLN 7 527 million, including due to loans granted by KGHM INTERNATIONAL LTD. for the financing of a joint mining venture in Chile: PLN 7 517 million (USD 1 927 million), - liabilities due to loans drawn with fixed interest rates: PLN 1 182 million, including loans received by the Parent Entity from the European Investment Bank in the amount of PLN 1 176 million (or USD 302 million). Holding financial liabilities denominated in USD and EUR, based on LIBOR or EURIBOR, exposes the Group to the risk of higher interest rates which would result in higher interest costs. As a result, taking into consideration the global exposure of the Group to interest rate risk, the Parent Entity decided to exercise its right to draw loans from the European Investment Bank based on a fixed interest rate. In terms of interest rate risk management, in the first quarter of 2015 the Parent Entity entered into transactions hedging itself against an increase in the interest rate (LIBOR USD) by purchasing call options (interest rate CAP) with a 2.50 % interest rate, for the period from January 2016 to December 2018 and an average quarterly notional amount of USD 717 million.
Price risk related to the change in share prices of listed companies	Price risk related to the shares of listed companies held by the Group is understood as the change in their fair value due to changes in their quoted share prices. As at 31 December 2015, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Venture Exchange was PLN 611 million.
Result on derivatives	The total impact of derivatives on the Group's profit or loss for 2015 amounted to PLN 230 million, of which: - PLN 482 million was recognised in sales revenue, - PLN 240 million decreased the result on other operating activities (wherein: the loss from the realisation of derivatives amounted to PLN 105 million, and the loss from the measurement of derivatives amounted to PLN 135 million), - PLN 12 million decreased the result on financing activities (a loss from the measurement of derivatives). As at 31 December 2015, the fair value of open positions in derivatives (on the currency and interest rate markets) amounted to -PLN 83 million.

Credit risk management

Credit risk is defined as the risk that counterparties will not be able to meet their contractual obligations.

The Management Board is responsible for credit risk management in the Parent Entity and for compliance with policy in this regard. The main body involved in realising credit risk management is the Credit Risk Committee.

In 2015, the KGHM Polska Miedź S.A. Group was exposed to this risk, mainly in four areas:

Credit risk related to trade receivables	The Group's companies have been cooperating for many years with a large number of customers, which affects the geographical diversification of trade receivables. The Parent Entity limits its exposure to credit risk related to trade receivables by evaluating and monitoring the financial standing of its customers, setting credit limits and using debtor security. An inseparable element of the credit risk management process realised by the Parent Entity is the on-going monitoring of receivables and the internal reporting system. Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are mostly based on prepayments or commercial financing instruments which transfer all of the credit risk to financial institutions. In 2015, the Parent Entity secured the majority of its receivables by promissory notes, frozen funds on bank accounts, registered pledges, bank guarantees, corporate guarantees, mortgages, documentary collection and letters of credit. Additionally, the majority of customers who hold buyer's credit on contracts have ownership rights confirmed by a date certain. To reduce the risk of insolvency by its customers, the Parent Entity has entered into a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables. Taking into account the collateral held and the credit limits received from the insurance company, as at 31 December 2015 the Parent Entity had secured 95% of its trade receivables (as at 31 December 2014: 95%). The concentration of credit risk in the Group is related to the terms of payment granted to key clients. Consequently, as at 31 December 2015 the balance of receivables from 7 of the Group's largest clients, in terms of trade receivables at the end of the reporting period, represented 56% of the trade receivables balance (as at 31 December 2014: 60%). Despite the concentration of this type of risk, it is considered that due to the availability of historical data and the many years of experience cooperating with clients, as well as above all due to the hedging used, the level of credit risk is low.
Credit risk related to cash and cash equivalents and bank deposits	The Group periodically allocates free cash in accordance with the requirements to maintain financial liquidity and limit risk and in order to protect capital and maximise interest income. Credit risk related to bank deposits is continuously monitored by the on-going review of the credit ratings of those financial institutions with which the Group cooperates, and by maintaining an appropriately low level of concentration in individual financial institutions.
Credit risk related to derivatives transactions	All of the entities with which the Group enters into derivative transactions operate in the financial sector. These are mainly financial institutions, with medium-high and medium ratings. According to fair value as at 31 December 2015, the maximum share of a single entity with respect to credit risk arising from open derivative transactions entered into by the Group and from unsettled derivatives amounted to 58%. Due to diversification of risk in terms both of the nature of individual entities and of their geographical location, as well as taking into consideration the fair value of assets and liabilities arising from derivative transactions, the Group is not materially exposed to credit risk as a result of derivative transactions entered into.
Credit risk related to loans granted	As at 31 December 2015, the balance of loans granted by the Group amounted to PLN 7 527 million. The most important of these are long-term loans in the total amount of PLN 7 504 million, or USD 1 923 million, granted by the KGHM INTERNATIONAL LTD. Group for the financing of a joint mining venture in Chile. Credit risk related to the loans granted is dependent on the risk related to mine project advancement and is considered by the Group to be moderate. To limit risk due to loans granted, the Group continuously monitors the financial standing and financial results of its borrowers.

Financial liquidity risk and management of capital

The management of capital in the Group aims at providing both relevant funding capabilities for business development and at securing relevant liquidity.

Financial liquidity management	Financial liquidity is managed in the Parent Entity in accordance with the Management Board-approved „Financial Liquidity Management Policy". In KGHM INTERNATIONAL LTD., the principles of liquidity management have been set forth in the Investment Policy. These documents describe the process of financial liquidity management considering the nature of the Group's companies, indicating best practice procedures and instruments. The basic principles resulting from these documents are: – the need to ensure stable and effective financing for the Group's operations, – placement of surplus cash in safe instruments, – limits for individual financial investment categories, – limits for the concentration of resources held in financial institutions, – effective management of working capital. Borrowing by the Group is based on three pillars: - an unsecured, revolving syndicated credit facility in the amount of USD 2 500 million with a maturity of 10 July 2020 (with the option to extend for another year) obtained by the Parent Entity, - an investment loan granted to the Parent Entity by the European Investment Bank in the amount of PLN 2 000 million with a financing period of 12 years, and - bilateral bank loans in the amount of over PLN 4 000 million, to support the management of current liquidity in companies, to support financing of working capital, as well as to finance the continued advancement of investments. Detailed information regarding available sources of financing and their utilisation in 2015 may be found in Section 7.8 of this report. These sources of financing fully cover the Group's liquidity needs. During 2015, the Group made use of borrowing which was available from all of the above pillars. As at 31 December 2015, liabilities of the Group due to bank and other loans drawn amounted to PLN 5 711 million.
Management of capital	In order to maintain the ability to operate, taking into consideration the execution of planned investments, the Group manages capital so as to be able to generate returns for shareholders and provide benefits for other stakeholders. The Group assumes that the equity ratio shall be maintained at a level of not less than 0.5, and the ratio of Net Debt/EBITDA at a level of up to 2.0.

6.5. Environmental protection

Activities of KGHM Polska Miedź S.A. related to environmental protection

KGHM Polska Miedź S.A. as one of the most important and socially responsible companies in Lower Silesia, cannot and does not want to avoid its responsibility for the environment in which it operates. The idea of sustainable growth, and in particular respect for the natural environment, is an important element of the company's strategy. The extraction of copper ore, followed by its processing at all stages of production, is inextricably linked to its impact on various aspects of the natural environment. Adherence to strict environmental standards, mandated by law, is possible thanks to the systematic modernisation of installations protecting the environment, both those built in the past as well as new investments in this area. In 2015 the company spent PLN 631 million on investments related to environmental protection, of which the largest expenditure, in the amount of PLN 616 million, was incurred on the Pyrometallurgy Modernisation Program at the Głogów I smelter/refinery.

In addition, KGHM Polska Miedź S.A., taking into consideration its corporate social responsibility, in the previous year continued a Program to Promote Health and Prevent Environmental Threats. This program is aimed mainly at children from ages 1 to 16 who live in the vicinity of our metallurgical facilities, and was comprised, among others, of blood testing for lead content, trips to „Green schools", pool-related activities and education related to ecology and health. In 2015 this program covered 756 children and 98 adults.

In accordance with the agreement on sustainable development signed in 2013 between the Głogów County (Powiat Głogowski) and the Management Board of KGHM Polska Miedź S.A., in 2015 the liming of soil was performed in the municipality of Jerzmanowa. By a resolution of the Management Board of KGHM Polska Miedź S.A., financial resources were provided to the municipality of Jerzmanowa, which enabled the liming of agricultural soil over an area of 1 652 ha, wherever it was necessary and required, while in the municipality of Pęcław, 2 032 ha of soil were analysed.

Environmental fees

Total environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2015 amounted to PLN 32 million. The amount of fees paid was PLN 2 million higher than in 2014. The increase in fees was mainly due to an increase in individual environmental fees.

In 2015 the highest fees paid by the company were for emission of substances in excess water from the Żelazny Most tailings storage facility: PLN 21 million. Another item of costs is the fee for air emissions in the amount of PLN 6 million.

Legal status and future actions

KGHM Polska Miedź S.A. operates ten installations whose functioning, in accordance with the Act on Environmental Protection, requires integrated permits.

In addition the Tailings Division holds permits for the operation of the Żelazny Most tailings storage facility, while the integrated permits which are still valid will be successively terminated as required sector permits are received. The remaining Divisions of the company possess environmental sector administrative decisions.

Metallurgical installations at the Głogów and Legnica smelter/refineries as well as the gas-steam blocks in Polkowice and Głogów also hold permits to participate in the CO_2 emissions trading system, as since 2013 KGHM Polska Miedź S.A. has been participating in the obligatory European Union Emissions Trading System (ETS). In 2015, CO_2 emissions from the installations in the ETS system in 2014 were settled. Total CO_2 emissions from these installations, in the amount of 543 thousand tonnes, were covered by freely-acquired rights to generate these emissions. It is expected that emissions in 2015 will be settled mainly thanks to freely-acquired rights and partially based on excess rights and purchases of CER (certified emission reduction) certificates from prior periods.

Due to changes in environmental law introduced in 2015, the environmental permits held by KGHM Polska Miedź S.A. were updated on an on-going basis.

The most important planned environmental undertakings in the near term are as follows:

- completion of work related to the modernisation of pyrometallurgy at the Głogów smelter/refinery,
- adaptation of administrative decisions held to legal changes,
- overseeing the system for trading CO_2 emissions,
- work related to ensuring the security of the Żelazny Most tailings storage facility, such as strengthening the containment dam,
- continuation of a program to promote health and prevent environmental threats – aimed at the people living in former protective zones, and
- development of the Żelazny Most tailings storage facility by the so-called southern quarter.

Activities to meet REACH requirements

KGHM is a member of six international consortia created to meet the requirements of the European Union's REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) decree. In 2015, cooperation with the consortia involved adaptation to changes in REACH requirements as regards registration documentation, the classification of substances, assessment and authorisation.

In 2015, costs incurred by KGHM Polska Miedź S.A. due to cooperation with the consortia amounted to EUR 114 thousand. The main item was the assessment of silver, conducted by order of the European Chemicals Agency.

In 2016, KGHM plans to register gold and bizmuth (which is present in the lead-bismuth alloy produced). The cost of these two registrations is EUR 33 thousand, while current cooperation with the consortia will amount to around EUR 50-100 thousand per year.

Updating of BREF documentation

At the end of 2013 the European Commission decided it was necessary to update the BREF (Best available techniques Reference document) to deal with mining tailings and waste. (BREF documents are required by the EU and comprise descriptions of techniques applied in various industries with an emphasis on best available ecological techniques, for the use of Member States as a starting point for the issuance of environmental permits.)

Work is being conducted by the Joint Research Centre – Institute of Prospective Technological Studies (JRC-IPTS) in Seville in cooperation with a Technical Working Group (TWG), composed of representatives of Member States, organisations and industry (including KGHM).

In 2015, a variety of data was collected based on questionnaires prepared by JRC-IPTS. Currently JRC-IPTS is compiling this information and creating a working BREF draft, which will then be discussed and amended.

Other Group companies in Poland

Amongst the remaining Polish companies of the Group, the largest environmental impact comes from the activities of the company „Energetyka" sp. z o.o. In 2015, this company incurred the highest environmental fees. They amounted to PLN 3 million and were mainly comprised of payments for water intake and waste discharge (PLN 2.4 million) and for emission of contaminants to the atmosphere (PLN 0.6 million). The company is pursuing an investment program aimed at reducing its environmental impact.

KGHM INTERNATIONAL LTD. Group

In 2015, entities of the KGHM INTERNATIONAL LTD. Group also engaged in activities related to environmental protection. Activities at the Robinson mine in the USA were aimed at monitoring air and water quality and the restoration of mining areas (total expenditures amounted to approx. PLN 25 million). At the Carlota mine in the USA, activities were mainly related to closure of the mine and environmental monitoring (total expenditures for this purpose amounted to approx. PLN 44 million). In addition, activities at the Franke mine in Chile were focused on dust control (total expenditures approx. PLN 3 million). Expenditures in the other operations amounted to PLN 5.1 million.

Financial assets for mine closure and restoration of tailings storage facilities

As at 31 December 2015, non-current financial assets designated for the decommissioning of mines and restoration of tailings storage facilities consisted of cash and debt instruments in the amount of PLN 371 million (in 2014: PLN 358 million) collected by the Parent Entity and by the KGHM INTERNATIONAL LTD. Group pursuant to legal requirements, including the Act on Geology and Mining and the Waste Act as well as under laws in force in the United States and Canada.

Pursuant to laws in force in the United States and Canada, the KGHM INTERNATIONAL LTD. Group is obligated to purchase government environmental bonds at the amount of the estimated provision for mine decommissioning. As at 31 December 2015, the value of assets to cover the costs of decommissioning the mines of KGHM INTERNATIONAL LTD. (cash and debt instruments) amounted to PLN 140 million (as at 31 December 2014 – PLN 152 million). In addition, as at 31 December 2015, KGHM Polska Miedź S.A. had issued letters of credit to secure liabilities related to covering the costs of decommissioning mines and restoring terrain in the amount of PLN 324.4 million.

6.6. Capital expenditures

In 2015, expenditures by the Group on property, plant and equipment and intangible assets amounted to PLN 3 909 million and were higher by PLN 507 million (15%) than expenditures incurred in 2014. Capital expenditures increased in every segment except Sierra Gorda S.C.M. In 2015, expenditures on property, plant and equipment and intangible assets in this segment were substantially lower than in 2014, due to the completion in 2015 of the construction phase and the commencement of commercial production. The 55% interest of the KGHM Polska Miedź S.A. Group in expenditures on the Sierra Gorda project in 2015 amounted to PLN 1 119 million (in 2014 PLN: 2 745 million), or a decrease as compared to 2014 by PLN 1 626 million (59%).

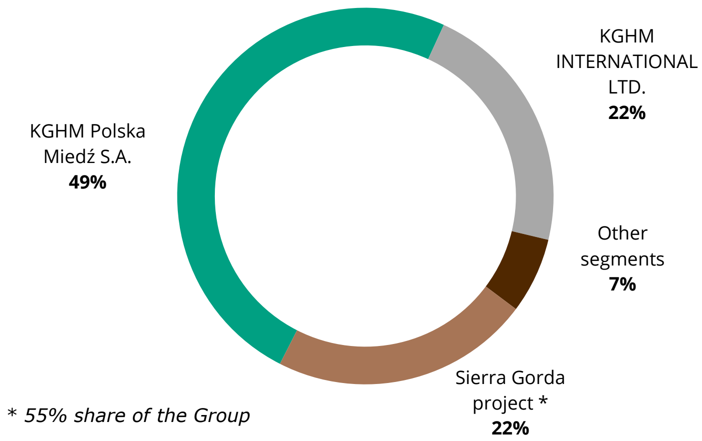
Information on the amount of expenditures incurred on the main projects in each segment may be found in Section 7.4 of this report.

Table 10. Expenditures by the Group on property, plant and equipment and intangible assets *(in mn PLN)**

	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
KGHM Polska Miedź S.A.	2 481	2 203	112.6	739	596	487	659
KGHM INTERNATIONAL LTD.	1 101	924	119.2	298	293	284	226
Other segments	327	275	118.9	114	74	53	86

* *prior to consolidation adjustment*

Chart 4. Breakdown of investment expenditures reporting segment in 2015



7. Review of financial performance

Principles for the preparation of the Consolidated financial statements

During the analysed period KGHM Polska Miedź S.A., as the Parent Entity of the Group, consolidated 81 subsidiaries, and used the equity method to account for the shares of three joint ventures – Sierra Gorda S.C.M., „Elektrownia Blachownia Nowa" sp. z o.o. and NANO CARBON Sp. z o.o.

The subsidiary TUW–CUPRUM was not consolidated, as the assets, revenues and financial result of this entity do not materially impact the consolidated statement of financial position and the consolidated statement of comprehensive income.

Detailed principles adopted when preparing the Consolidated financial statements for 2015 are presented in Note 1.2 of the Consolidated financial statements.

7.1. 2015 macroeconomic environment

Global economic growth in 2015 slowed down slightly as compared to 2014 and, according to estimates of the International Monetary Fund (IMF), amounted to 3.1% YoY, which was the lowest rate of growth since 2009. The engine of global economic growth in 2015 continued to be the United States, where the rate of growth increased to 2.5% YoY, while the unemployment rate fell to 5.0%.

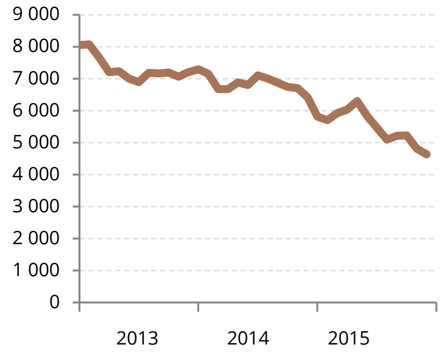
Other key economies continued to search for solutions to their structural problems. The eurozone grew by 1.5% YoY (accelerating from 0.9% YoY in 2014), mainly thanks to recovery in France and Italy, but the European Central Bank was still unable to clearly stimulate inflation. Japan meanwhile emerged from the minimal recession of 2014, although in 2015 GDP in this country only grew by 0.6% YoY. More substantial problems were experienced by developing economies, where the entire segment grew by 4.0% as compared to an increase by 4.6% in 2014, among others due to recession in Russia and Brazil.

Among emerging markets countries the greatest fears were raised by the situation in China. The Chinese economy is going through a period of transformation, aimed at modernising its industry and an economy largely based on internal services and consumption. Fears exist about the effectiveness of China's authorities in implementing this new model, with these fears supported by the ongoing deterioration in macroeconomic parameters – 2015 saw a continuation of this downward trend, such as in industrial production, the level of investments in non-current assets, and also GDP, which in 2015 grew by 6.9%. Investor faith was also shaken by the precipitous crash in share prices on China's Shanghai stock exchange in June and July 2015.

2015 saw the first increase in interest rates in the United States in almost 10 years. Following the conclusion of the assets buying program by the Fed at the end of 2014, for most of 2015 the market expected an increase in the cost of money in the USA, but global economic volatility, especially in China, resulted in this decision being postponed until December 2015. During this time other large central banks continued their expansive monetary policies, led by the ECB with its „quantitative easing" program in the eurozone.

In 2015 commodities markets continued their downward trend, although, similarly as in 2014, the second half of the year brought a substantial deterioration in sentiment. By the end of June 2015 the Bloomberg Commodity Index (BCOM) had weakened by only 1.6%, while the energy commodities index grew by 1.8%. The only clear loss – by 10.4% – was in industrial commodities. In the second half of 2015, the growing aversion to risk, caused by the fear of a global slowdown, led to sharp losses by all of the main commodities. The main BCOM index lost 23.5%, the commodities index 18.5%, and the energy index 40%.

Chart 5. Copper price on the London Metal Exchange (USD/t)

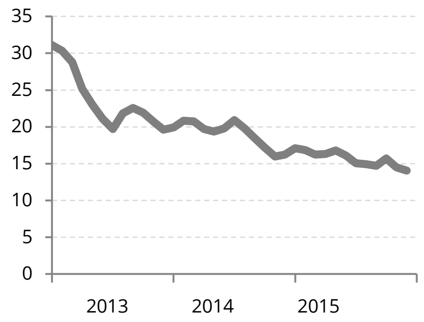


In the first half of 2015 the cash settlement price of copper on the London Metal Exchange (LME) ranged from 5 391 – 6 448 USD/t. The lowest copper price was recorded at the end of January 2015, when increased activity by Chinese investment funds, playing on price drops, led to a sharp fall in the copper price. The following months, similarly as in 2014, brought however an improvement in sentiment, along with higher copper prices. The bursting of a speculative bubble on Chinese stock markets, the deterioration of macroeconomic data and devaluation of the yuan brought on another wave of losses in the copper price, additionally pushed by the drop in the price of oil. As a result, the price of copper in USD at the end of 2015 was 26% lower than at the beginning of the year, and in PLN by 19%.

According to estimates by CRU International, global consumption of refined copper in 2015 rose by 0.4%, while supply increased by 1.6%. As a result, copper's market balance moved from a deficit of 188 thousand tonnes in 2014 to a surplus of 63 thousand tonnes in 2015. Official exchange inventories of copper increased from 287 thousand tonnes to 453 thousand tonnes, while material in duty-free Chinese warehouses decreased from 650 thousand tonnes to 460 thousand tonnes.

The average annual price of copper on the London Metal Exchange (LME) in 2015 was 5 495 USD/t, 20% below the level from 2014 (6 862 USD/t).

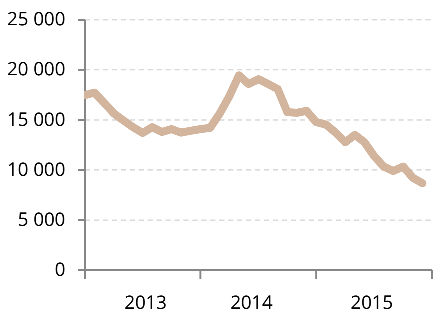
Chart 6. Silver price per the London Bullion Market (USD/oz t)



Silver in 2015 continued its downward march from prior years, and the proportion of silver prices to gold prices remained at a relatively high level – on average 1:74. The silver price in the first half of 2015 ranged from 15.47 – 18.23 USD/ounce, while the higher prices were mainly the result of increased risk aversion. The second half of 2015, similarly as in the case of other metals, saw a drop in prices, and silver ended the year at 13.82 USD/ounce. Apart from investor aversion to commodities, the lower prices were due to expectations of higher interest rates in the USA, as well as to falling energy commodities prices, which brought on deflationary pressures.

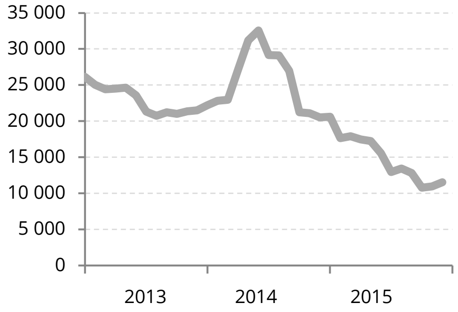
The average price of silver according to the London Bullion Market Association (LBMA) fell in 2015 by nearly 18% and averaged 15.68 USD/ounce as compared to 19.08 USD/ounce in 2014.

Chart 7. Nickel price on the London Metal Exchange (USD/t)



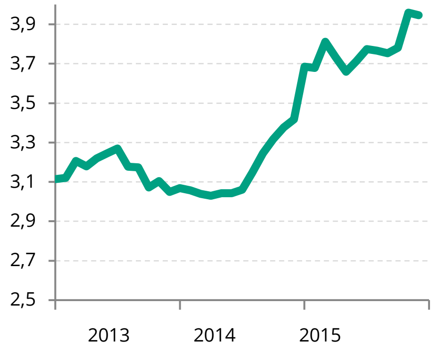
The average annual price of nickel on the LME in 2015 amounted to 11 807 USD/t and was 30% lower than the average price recorded in 2014 (16 867 USD/t). Despite continuation of the embargo on nickel ore exports instituted by the Indonesian government in 2014, which somewhat reduced availability of this metal on global markets, nickel remained in a downward trend, mainly due to weak demand for steel. The lower prices of this metal were also, similarly as in the case of other commodities, the result of lack of investor interest in this class of assets and of fears of a sustained weakening of the Chinese economy.

Chart 8. Molybdenum price on the London Metal Exchange (USD/t)



In 2015 the price of molybdenum, similarly as in the case of nickel, was impacted by sentiment in China and by low demand for steel. Another negative factor which has a strong impact on demand for molybdenum was the sharp fall in the price of oil, which led to a rapid restriction in drilling and exploration in the oil sector, which responds to a substantial portion of demand for this metal. The fall in moly prices was also due to the lifting of customs duties on the export of commodities from China in May, which increased the supply of molybdenum on the global market. As a result, the average price of this metal in 2015 amounted to 14 837 USD/t and was 42% lower than the average price in 2014 (25 548 USD/t).

Chart 9. USD/PLN exchange rate per the National Bank of Poland

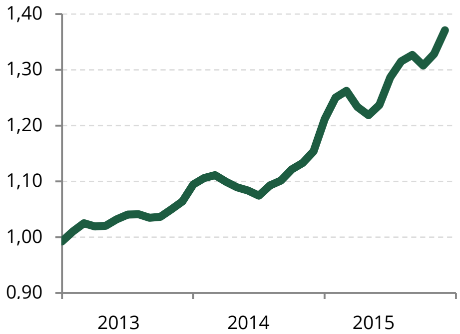


In 2015 the American dollar continued its appreciation as compared to other world currencies, although less dynamically than in the prior period – the value of the USD (the so-called dollar index) increased by over 9% – mainly thanks to the relative strength of the US economy as compared to its trading partners. During this time the PLN remained relatively stable as compared to the euro, while the increase in the USD/PLN rate was mainly due to the decrease in the EUR/USD rate, as well as increased political risk due to presidential and parliamentary elections, and also general investor aversion to developing economies.

The average annual USD/PLN exchange rate (per the NBP) in 2015 amounted to 3.77 USD/PLN and was nearly 20% higher than the rate in 2014. The minimum USD/PLN exchange rate, similar to that recorded at the beginning of 2015, was recorded in May 2015 at the level of 3.550 USD/PLN, while the maximum level was recorded in December 2015 – 4.040 USD/PLN.

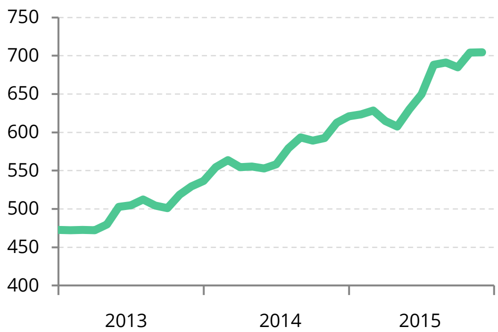
Both the Canadian dollar and the Chilean peso continued to depreciate as compared to the American dollar. Similarly as was the case in 2014, the main factors responsible for the depreciation in these currencies was the fall in prices of the commodities which these countries export, as well as the general global strengthening of the USD.

Chart 10. USD/CAD exchange rate as per the Bank of Canada



The average USD/CAD exchange rate (per the Bank of Canada) in 2015 amounted to 1.28 and was nearly 16% higher than in 2014 (1.10). The lowest USD/CAD exchange rate in 2015 was recorded at the beginning of January – 1.1728, while the highest was in the second half of December – 1.3990.

Chart 11. USD/CLP exchange rate as per the Bank of Chile



The average annual USD/CLP exchange rate (per the Bank of Chile) in 2015 was 655, meaning a weakening of the local currency as compared to the USD by nearly 15%. The peso in 2015 was at its strongest in May – 597.10, while its weakest point was recorded in November – 715.66.

The macroeconomic factors of the greatest significance for the operations of the Group are presented in the following table.

Table 11. Macroeconomic factors significant for the operations of the KGHM Polska Miedź S.A. Group – average prices

	Unit	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Average copper price on the LME	USD/t	5 495	6 862	80.1	4 892	5 259	6 043	5 818
Average silver price on the LBM	USD/oz t	15.68	19.08	82.2	14.77	14.91	16.39	16.71
Average nickel price on the LME	USD/t	11 807	16 867	70.0	9 437	10 561	13 008	14 338
Average molybdenum price on the LME	USD/t	14 837	25 548	58.1	11 070	13 048	16 694	18 711
Average USD/PLN exchange rate per the NBP	PLN/USD	3.77	3.15	119.7	3.89	3.77	3.70	3.73
Average USD/CAD exchange rate per the Bank of Canada	CAD/USD	1.28	1.10	116.4	1.34	1.31	1.23	1.24
Average USD/CLP exchange rate per the Bank of Chile	CLP/USD	655	570	114,8	697	676	618	624

The Group's market position

According to estimates by CRU International, global copper mine production in 2015 amounted to 19 121 thousand tonnes. During the same period mine production by the KGHM Polska Miedź S.A. Group amounted to 569.8 thousand tonnes of copper in concentrate, representing 3.0% of global production. Global production of refined copper, according to estimates by CRU, amounted to 22 035 thousand tonnes. Production of refined copper in the Group amounted to 600.9 thousand tonnes, representing 2.7% of global production.

In 2015, global mine production of silver amounted to 867 million ounces (estimated data from CRU International). The KGHM Polska Miedź S.A. Group during this period produced 38.9 million ounces of silver in concentrate, representing 4.5% of the global production of this metal.

7.2. Sale of products

The largest share in the sales revenue of the KGHM Polska Miedź S.A. Group is from sales of the basic products produced by the Parent Entity and companies of the KGHM INTERNATIONAL LTD. Group.

Table 12. Revenues from sales of products of segment KGHM Polska Miedź S.A. *(in mn PLN)*

	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Cathodes and cathode parts	6 255	6 966	89.8	1 827	1 358	1 713	1 357
Copper wire rod and OFE rod	5 982	5 990	99.9	1 267	1 443	1 697	1 575
Other copper products	261	261	100.0	67	68	64	62
Total copper and copper products	**12 498**	**13 217**	**94.6**	**3 161**	**2 869**	**3 474**	**2 994**
Metallic silver	2 394	2 471	96.9	704	561	628	501
Metallic gold	373	327	114.1	134	94	56	90
Refined lead	219	183	119.7	54	45	65	55
Other goods and services	306	294	104.1	69	73	71	93
Total	**15 790**	**16 492**	**95.7**	**4 122**	**3 641**	**4 293**	**3 734**

Total revenues from the sale of KGHM Polska Miedź S.A.'s products in 2015 amounted to PLN 15 790 million and were lower by 4% than revenues achieved in 2014, mainly due to the fall in metals prices expressed in the Polish zloty and to a lower volume of copper sales by 1.9 thousand tonnes.

Revenues from the sale of copper and copper products were lower by 5.4%. Revenues from silver sales were lower by 3.1% as compared to their level in 2014, while revenues from gold sales were higher by over 14%. The increase in revenues from gold sales was due both to the increase in the price of this metal expressed in the Polish zloty as well as to an increase in sales volume as compared to 2014.

The value of revenues from sales in 2015 reflects the positive result from the settlement of hedging instruments in the amount of almost PLN 482 million (in 2014: PLN 531 million).

Table 13. Revenues from sales of products of the segment KGHM INTERNATIONAL LTD. *(in mn USD)*

	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Copper *	502	533	94.2	104	149	120	129
Nickel	24	56	42.9	5	5	8	6
Precious metals (gold, platinum, palladium)	93	70	132.9	21	32	20	20
Other**	61	58	105.2	26	9	15	11
Total	**679**	**717**	**94.7**	**156**	**195**	**163**	**165**

* *copper in the form of copper cathodes, payable copper in concentrate, payable copper in ore*

** *including revenues from sales of other metals, revenues from services provided by DMC, TC/RC (treatment and refining charges) and income from a service fee for operator services rendered by KGHM INTERNATIONAL LTD. over the Sierra Gorda mine*

Table 14. Revenues from sales of products of the segment KGHM INTERNATIONAL LTD. *(in mn PLN)*

	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Copper *	1 904	1 693	112.5	416	564	445	479
Nickel	91	177	51.4	20	19	30	22
Precious metals (gold, platinum, palladium)	353	221	159.7	83	121	74	75
Other**	229	189	121.2	96	34	56	43
Total	**2 577**	**2 280**	**113.0**	**615**	**738**	**605**	**619**

* *copper in the form of copper cathodes, payable copper in concentrate, payable copper in ore*

** *including revenues from sales of other metals, revenues from services provided by DMC, TC/RC (treatment and refining charges) and income from a service fee for operator services rendered by KGHM INTERNATIONAL LTD. over the Sierra Gorda mine*

Despite the increase in the volume of copper sales by 24%, in 2015 the segment KGHM INTERNATIONAL LTD. recorded a decrease in sales of this metal by USD 31 million (by 6%) as compared to 2014. This was due to the deterioration in macroeconomic conditions and was reflected in a lower achieved copper sales price, which in 2015 amounted to 5 071 USD/t as compared to 6 636 USD/t in 2014 (lower by 24%).

Revenues from sales of nickel in 2015 were lower by USD 32 million as compared to 2014 due to lower production of this metal in the mines of the Sudbury Basin and to a lower achieved sales price by 39%.

The increase in the volume of precious metals sales resulted in an increase of revenues by USD 23 million (33%) in 2015 alongside a lower achieved sales price.

As a result of the commencement of commercial production by Sierra Gorda S.C.M. from the beginning of the third quarter of 2015, the following tables present the revenues from sales and volumes sold for the second half of 2015 (the third and fourth quarters of 2015). Results achieved prior to this period decreased expenditures on mine construction.

Table 15. Revenues from sales of products of segment Sierra Gorda S.C.M. on a 100% basis *(in mn USD)*

	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Copper *	236	-	x	122	114	-	-
Molybdenum*	48	-	x	36	12	-	-
Gold*	28	-	x	14	14	-	-
Silver*	7	-	x	3	4	-	-
Other**	(32)	-	x	(17)	(15)	-	-
Total	**286**	**-**	**x**	**158**	**128**	**-**	-

* *payable metal in concentrate*

** *including mainly treatment and refining charges (TC/RC)*

In the fourth quarter of 2015, Sierra Gorda S.C.M. recorded an increase in revenues from sales of 23% as compared to the previous quarter. This increase, achieved in a situation of unfavourable metals prices, was due to an increase in sales volumes, above all molybdenum.

Table 16. Revenues from sales of products of segment Sierra Gorda S.C.M. on a 100% basis *(in mn PLN)*

	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Copper *	908	-	x	481	427	-	-
Molybdenum*	183	-	x	140	43	-	-
Gold*	109	-	x	58	51	-	-
Silver*	28	-	x	15	13	-	-
Other**	(123)	-	x	(69)	(54)	-	-
Total	**1 105**	**-**	**x**	**625**	**480**	**-**	-

* *payable metal in concentrate*

** *treatment and refining charges (TC/RC)*

Table 17. Sales volume of the basic products by segments of the KGHM Polska Miedź S.A. Group

	Unit	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
KGHM Polska Miedź S.A.								
Cathodes and cathode parts	kt	294.4	303.9	96.9	93.1	67.8	72.1	61.3
Copper wire rod and OFE rod	kt	264.8	257.5	102.8	59.5	66.7	70.7	68.0
Other copper products	kt	12.2	11.9	102.5	3.4	3.3	2.8	2.7
Total copper and copper products	**kt**	**571.4**	**573.3**	**99.7**	**156.0**	**137.8**	**145.5**	**132.1**
Metallic silver	t	1 245	1 263	98.6	376	307	317	245
Metallic gold	kg	2 660	2 530	105.1	974	687	388	612
Refined lead	kt	30.4	25.8	117.8	7.8	6.3	8.5	7.7
KGHM INTERNATIONAL LTD.								
Copper *	kt	98.9	80.1	123.5	24.0	30.9	20.9	23.1
Nickel	kt	2.2	3.2	68.8	0.6	0.5	0.6	0.5
Precious metals (gold, platinum, palladium)	koz t	97.0	66.5	145.9	26.3	30.3	19.6	20.8
Sierra Gorda S.C.M. (100%)								
Copper **	kt	51.2	-	-	26.4	24.8	-	-
Molybdenum **	kt	4.3	-	-	3.4	0.9	-	-
Gold **	koz t	25.4	-	-	13.0	12.4	-	-
Silver **	koz t	495.1	-	-	244.3	250.8	-	-

* *copper in the form of copper cathodes, payable copper in concentrate, payable copper in ore*

** *payable metal in concentrate*

In 2015, as compared to 2014, KGHM Polska Miedź S.A. recorded a slight decrease in the volume of copper sales by 1.9 thousand tonnes (0.3%), due to a slight decrease in electrolytic copper production. There was a change in sales structure – sales of copper wire rod and OFE rod increased by 2.8% (7.3 thousand tonnes) alongside a decrease by 3.1% (9.5 thousand tonnes) in cathode sales.

Silver sales amounted to 1 245 t and were lower by 1.4% (17 t) than in 2014. Gold sales increased by 5.1% (130 kg) and amounted to 2 660 kg. The increase in gold sales was due to the 5.0% (128 kg) higher production of this metal as a result of processing purchased copper-bearing materials containing among others a high amount of gold.

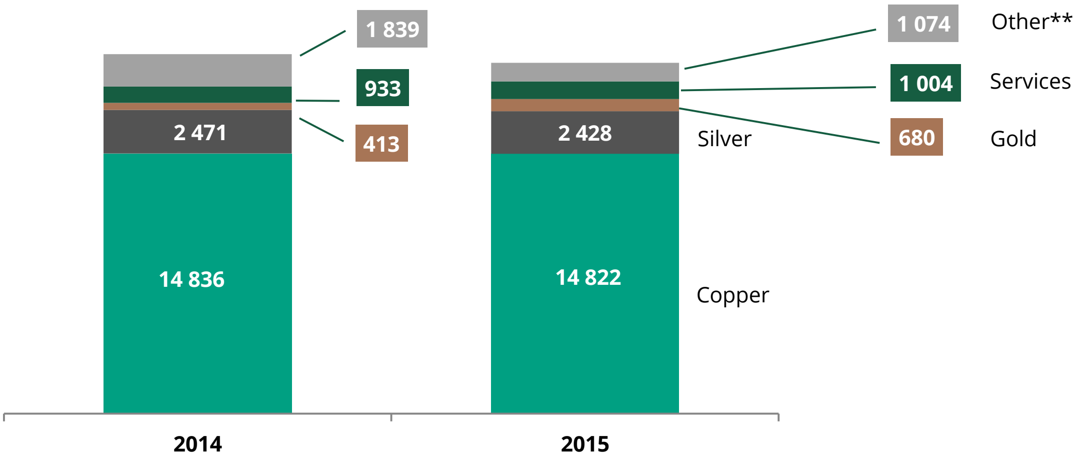
The increase in sales of copper and precious metals by the segment KGHM INTERNATIONAL LTD., respectively by 18.8 thousand tonnes and 30.5 thousand troy ounces in 2015 as compared to 2014 was due to higher production of these metals by the Robinson mine.

The decrease in nickel sales by 1 thousand tonnes was due to lower production by the mines of the Sudbury Basin, including the Morrison mine, due to the lower ore grade.

In 2015, Sierra Gorda S.C.M. systematically increased production and sales, including above all molybdenum. Revenues and sales are discussed in detail in the section describing the results of Sierra Gorda S.C.M. (Section 7.4 of this report).

The Group generates revenues mainly from the sale of copper, silver and gold. The remaining revenues are generated from the sale of services, other products, merchandise and materials.

Chart 12. Breakdown of sales by the KGHM Polska Miedź S.A. Group to customers outside the Group *(in mn PLN)**



** including 55% share in revenues of Sierra Gorda S.C.M.*
***including mainly treatment and refining charges: PLN (273) million in 2015, PLN (201) million in 2014.*

7.3. Sales markets

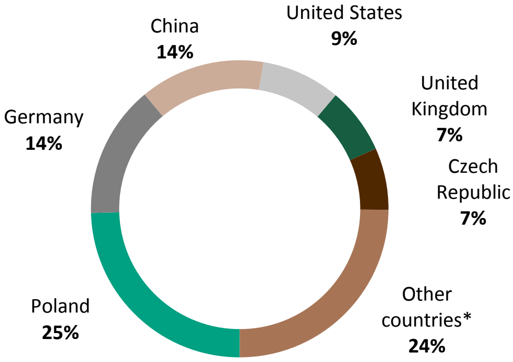
Geographical breakdown of sales

In 2015 the largest proportion of the Group's sales revenue (25%) was from the Polish market. The largest remaining recipients of the products, merchandise and services offered by the Group's companies were Germany, China, the United States of America, the United Kingdom and the Czech Republic.
The Group's revenues from sales to customers outside the Group is broken down geographically in the following table.

Table 18. Group sales revenue by market *(in mn PLN)*

Country	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Poland	4 912	4 797	102.4	1 197	1 211	1 345	1 159
Germany	2 885	3 570	80.8	648	644	867	726
China	2 847	2 916	97.6	1 089	649	538	571
United States of America	1 721	587	x2.9	425	396	521	379
United Kingdom	1 444	1 639	88.1	376	336	399	333
Czech Republic	1 347	1 422	94.7	249	324	398	376
Other countries	4 852	5 561	87.3	1 164	1 240	1 261	1 187
Total	**20 008**	**20 492**	**97.6**	**5 148**	**4 800**	**5 329**	**4 731**

Chart 13. Sales revenue breakdown by market in 2015



** sales revenue to each of the remaining countries did not exceed 5%*

Sales in the Polish market

Around 70% of the revenues from sales of the Group in 2015 on the Polish market were earned by the Parent Entity. The sales volume of copper and copper products achieved by KGHM Polska Miedź S.A. on the Polish market accounted for 25% of total copper sales. Silver sales on the Polish market accounted for 1% of the total volume of silver sales.

Amongst other companies, a significant part of the sales revenue of the whole KGHM Polska Miedź S.A. Group on the Polish market came from CENTROZŁOM WROCŁAW S.A. (10%), whose business involves trade in scrap and smelter products. The share of other companies did not exceed 3%.

Sales for export and to EU markets

Around 81% of sales revenue of the KGHM Polska Miedź S.A. Group from export and to EU markets in 2015 were earned by the Parent Entity. The sales volume of copper and copper products accounted for 76% of total copper sales. During the analysed period, the largest customers of the copper produced by KGHM Polska Miedź S.A. were Germany, China, the Czech Republic and Hungary. Silver sales accounted for 99% of the total volume of silver sales. The largest customers of the silver produced by KGHM Polska Miedź S.A. were the United Kingdom, the United States and Australia.

Companies of the KGHM INTERNATIONAL LTD. Group earned approx. 17% of revenues from sales of the KGHM Polska Miedź S.A. Group from export and to EU markets. The main customers of the products produced by these entities were the USA, Canada, China and Italy.

Suppliers to and customers of Group companies

In 2015, there was no recorded dependence on a single or multiple customers or suppliers – neither revenues from nor the level of purchases of a single contracting party exceeded 10% of the Group's sales revenue.

7.4. Operating segments

In order to adapt the structure of the segments to the changes in the Group's structure during the financial year, and in turn to the changes in the way this structure is managed, the breakdown of operating segments was updated as compared to 2014. These changes do not materially impact the information provided on the operations and results of individual segments. As a result of the transfer of the Ajax project being advanced by KGHM AJAX MINING LTD. to the segment KGHM INTERNATIONAL LTD. (due to the merger of KGHM INTERNATIONAL LTD. with 0929260 B.C U.L.C.) and of the decision to terminate the Weisswasser project by KGHM Kupfer AG, presentation of the segment „Development of the resource base" was no longer justified. Moreover, due to the immateriality of the segment „Support of the core business" under the aggregation criteria of IFRS 8, this segment was combined with the segment „Other segments".

Within the KGHM Polska Miedź S.A. Group the following reporting segments have been identified:

- **KGHM Polska Miedź S.A.**,
- **KGHM INTERNATIONAL LTD.,**
- **Sierra Gorda S.C.M.**
- **Other segments -** all remaining Group companies, excluding the companies:
  - Fermat 1 S. á r. l., Fermat 2 S. á r. l. and Fermat 3 S. á r. l., which function within the holding structure created for the purpose of acquiring KGHM INTERNATIONAL LTD.,

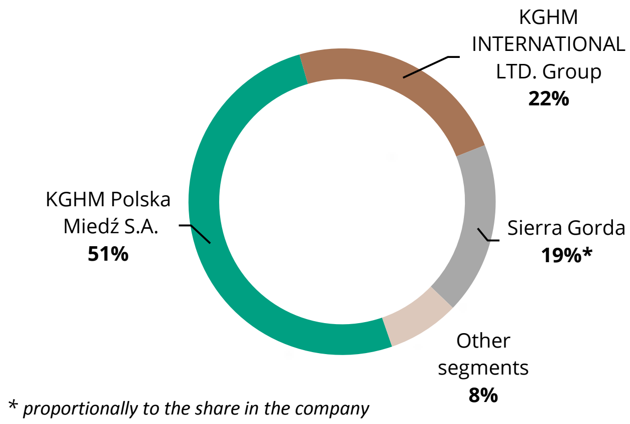
    These companies do not engage in operations which have an impact on the results achieved by individual segments, and therefore their presentation could distort the presented data due to the significant settlements with other Group companies.
  - Future 1 Sp. z o.o., Future 2 Sp. z o.o., Future 3 Sp. z o.o., Future 4 Sp. z o.o., Future 5 Sp. z o.o., Future 6 Sp. z o.o., Future 7 Sp. z o.o., which function within the structure related to the creation of a KGHM Polska Miedź S.A. Tax Group, which in 2015 had not commenced operations.

The results of the segments analysed by the Management Board of the Parent Entity are measured using Adjusted EBITDA and profit/(loss) for the period.

The Group defines adjusted EBITDA as profit/loss for the period for period set according to IFRS, excluding income tax (current and deferred), finance costs, other operating income and costs, the share in losses of joint ventures accounted for using the equity method, impairment losses on the interest in a joint venture, depreciation/amortisation, impairment losses on property, plant and equipment included in the cost of sales, selling costs and administrative expenses. Adjusted EBITDA is not a measure defined by IFRS. Adjusted EBITDA is not a standardised measure and the calculation of adjusted EBITDA may vary between entities, and consequently the presentation and calculation of adjusted EBITDA applied by the Group may not be comparable to that applied by other market entities.

The assets of the Parent Entity account for over half of the Group's assets (reflecting the 55% interest in Sierra Gorda S.C.M.). The Group's structure of assets is presented below by segment.

Chart 14. Structure of Group assets by reporting segment – as at 31 December 2015



The structure of the Group's assets by segment at the end of 2015 was not substantially different from that at the end of 2014.

The Group's primary source of revenues is the production and sale of copper, silver and other precious metals, such as gold, platinum and palladium (TPM). The production results of the three main segments in this regard is presented in the following charts (segment Sierra Gorda S.C.M. includes 55% share in production results from the commencement of commercial production).

Chart 15. Metals production by the KGHM Polska Miedź S.A. Group in the years 2014-2015

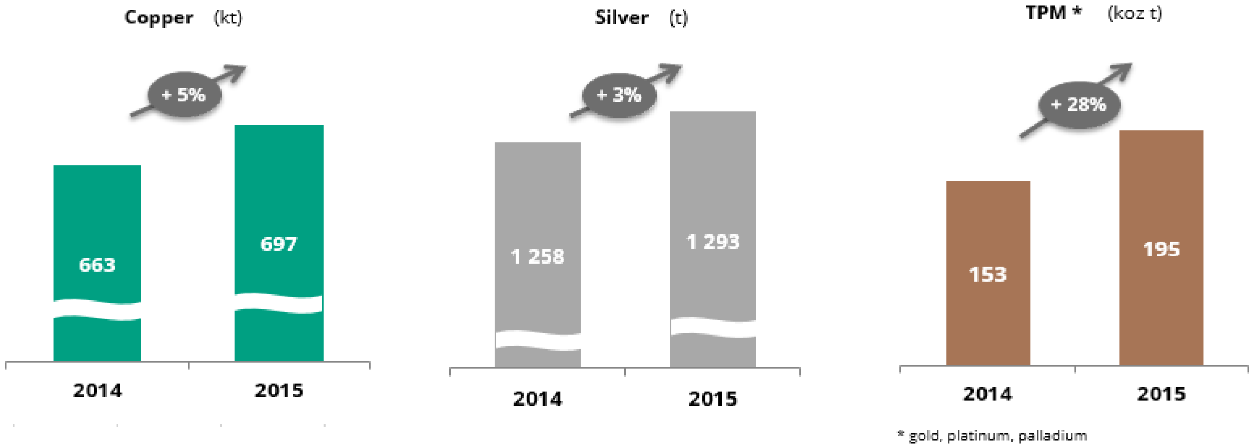
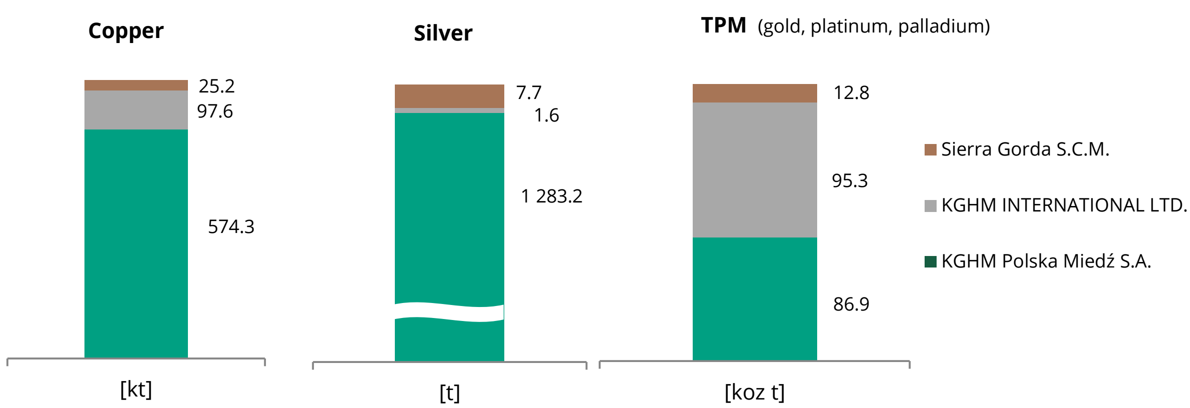


Chart 16. Metals production by the KGHM Polska Miedź S.A. Group in 2015 by segment



Presented below are the production and financial results of individual reporting segments and information on their main assets and projects.

SEGMENT - KGHM POLSKA MIEDŹ S.A.

The Parent Entity represents the most important production segment in the Group. The segment KGHM Polska Miedź S.A. generates the highest results in the Group.

The mining assets of KGHM Polska Miedź S.A. are comprised of deposits of copper ore which are extracted by the following mines: Lubin, Polkowice-Sieroszowice and Rudna, as well as the Głogów Głęboki Przemysłowy (Deep Głogów) mine project to access ore. KGHM Polska Miedź S.A. also owns exploration projects involved in the exploration for and evaluation of deposits of copper ore in the region.

Processing of the copper ore extracted and the production of copper concentrate is performed by the Concentrator Division, comprised of three installations located at each of the mines (Lubin, Polkowice-Sieroszowice and Rudna). The production of electrolytic copper, silver and other products produced from copper concentrate takes place at two metallurgical facilities, the Głogów and Legnica smelter/refineries, while numerous copper products are produced at the Cedynia wire rod plant from the electrolytic copper, including rod, wire and granulate.

KGHM Polska Miedź S.A. conducts mining and exploration activities on one of the largest copper ore deposits in the world. The copper ore owned ensures continuity of operations in Poland for the next 40 years.

Production and operating results

Table 19. Production results of segment KGHM Polska Miedź S.A. (metallurgical production)

	Unit	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Payable copper	kt	574.3	576.9	99.5	142.2	145.8	143.8	142.4
- from own concentrate	kt	420.5	420.4	100.0	99.7	111.1	104.2	105.5
- from purchased metal-bearing materials	kt	153.8	156.5	98.3	42.5	34.8	39.7	36.9
Wire rod, OFE and CuAg	kt	263.7	257.9	102.2	52.8	70.3	71.1	69.5
Round billets	kt	12.7	8.8	144.3	3.4	3.2	2.5	3.6
Metallic silver	t	1 283	1 256	102.1	367	304	314	298
Metallic gold	kg	2 703	2 575	105.0	1 020	547	575	560
	koz t	86.9	82.8	105.0	32.8	17.6	18.5	18.0
Refined lead	kt	29.3	26.1	112.3	7.6	6.3	7.5	7.8

The production of payable copper as compared to 2014 decreased by 2.6 thousand tonnes, or by 0.4% and was the second highest result in the history of the company – 574.3 thousand tonnes – while maintaining the production of copper from own concentrate at over 420 thousand tonnes. Production was maintained thanks to processing a higher amount of own concentrate as well as purchased metal-bearing materials in the form of scrap, blister copper and imported concentrate. Supplementing our own concentrate with purchased metal-bearing materials enabled the efficient utilisation of existing technology.

The production of other metallurgical products (silver, wire rod, OFE rod and round billets) is directly connected to the level of electrolytic copper production, and depends on the type of raw materials used and on market demand.

In comparison to 2014, the production of metallic gold increased by 128 kg, or by 5.0% and for the first time in KGHM's history reached the level of 2 703 kg. Metallic silver production was higher by 27 tonnes, closing the year at 1 283 tonnes.

Table 20. Cash cost of producing copper in segment KGHM Polska Miedź S.A.

	Unit	2015	2014	Change 20'14=100	4Q'15	3Q'15	2Q'15	1Q'15
Cash cost of producing copper– C1*	USD/lb	1.47	1.82	80.8	1.40	1.49	1.52	1.46

** unit cost of producing copper C1 - cash cost of producing payable copper in concentrate, reflecting costs of ore extraction and processing, the minerals extraction tax, transport costs, administrative expenses during the mining stage, and smelter treatment and refining charges (TC/RC), less the value of by-products*

C1 cost was impacted by a weakening in the PLN as compared to the USD (C1 cost achieved in 2015, using the USD/PLN rate and metals prices from 2014, would have amounted to 1.75 USD/lb), higher production of copper in concentrate by 1.2% and higher content of silver in own concentrate by 2.1%.

Table 21. Operating results of the segment KGHM Polska Miedź S.A. *(in mn PLN)*

	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Sales revenue	15 939	16 633	95.8	4 166	3 681	4 325	3 767
Cost of sales, selling costs and administrative expenses	(12 655)	(13 120)	96.5	(3 479)	(3 019)	(3 259)	(2 898)
Profit/(loss) on sales (EBIT)	**3 284**	**3 513**	**93.5**	**687**	**662**	**1 066**	**869**
Result on other operating activities, including:	(5 064)	32	x	(4 957)	(95)	67	(79)
- impairment losses on shares in subsidiaries	(4 928)	(30)	x164.3	(4 916)	(12)	-	-
Profit/(loss) for the period	**(2 788)**	**2 414**	**x**	**(4 463)**	**354**	**824**	**497**
Depreciation/amortisation (recognised in profit or loss)	875	818	107.0	220	226	203	226
Capital expenditures *	2 481	2 203	112.6	739	596	487	659
EBITDA**	4 159	4 331	96.0	907	888	1 269	1 095
Adjusted EBITDA ***	4 163	4 331	96.1	911	888	1 269	1 095

* *expenditures on property, plant and equipment and intangible assets*

** *EBITDA = EBIT (profit/(loss) on sales) + depreciation/amortisation (recognised in profit or loss)*

*** *Adjusted EBITDA = EBIT (profit/(loss) on sales) + depreciation/amortisation (recognised in profit or loss) + impairment losses (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)*

Sales revenue of KGHM Polska Miedź S.A. in 2015 were lower by 4.2% than revenues achieved in 2014, mainly as a result of the decrease in metals prices expressed in the Polish zloty and to a decrease in copper sales by 1.9 thousand tonnes.

The value of sales revenue in 2015 reflects the positive result from the settlement of hedging instruments in the amount of nearly PLN 482 million (in 2014: PLN 531 million).

The company's cost of sales, selling costs and administrative expenses (cost of products, merchandise and materials sold plus selling costs and administrative expenses) in 2015 amounted to PLN 12 655 million and were 3% lower as compared to 2014. The decrease in costs was mainly due to the fall in metals prices, which resulted in lower costs of purchased metal-bearing materials and a lower minerals extraction tax.

In 2015, KGHM Polska Miedź S.A. recorded a loss for the period of PLN 2 788 million. As compared to 2014, the result was lower by PLN 5 202 million and was mainly caused by the recognition of impairment losses on shares held in subsidiaries in the amount of PLN 4 928 million, including shares of KGHM INTERNATIONAL LTD. in the amount of PLN 4 854 million. In addition, profit or loss for the period was impacted by impairment losses on available-for-sale assets – the shares of TAURON Polska Energia S.A. Total impairment losses on shares amounted to PLN 395 million, of which PLN 262 million decreased the financial result and PLN 133 million decreased other comprehensive income.

In 2015, KGHM Polska Miedź S.A. incurred expenditures on property, plant and equipment and intangible assets which were higher by PLN 278 million (or 13%) than those incurred in 2014. This increase was mainly due to investments in metallurgy, including mainly the Pyrometallurgy Modernisation Program project.

Expenditures incurred in 2015 on the main projects:

- Pyrometallurgy Modernisation Program	PLN 674 million
- Deep Głogów	PLN 366 million
- Metallurgy Development Program	PLN 364 million
- Mine infrastructure development	PLN 210 million
- Mining machinery replacement	PLN 195 million
- Other replacement-related investments	PLN 397 million

Pyrometallurgy Modernisation Program

The newly-constructed flash furnace production line at the Głogów I smelter/refinery is planned to be brought online in the fourth quarter of 2016, as part of the comprehensive Pyrometallurgy Modernisation Program. The main modifications and improvements under this project involve replacing the shaft furnace technology currently in use by the Głogów I smelter/refinery with modern flash furnace technology with a processing capacity of 1050 thousand tonnes of concentrate per year. The goal of this project is to create a functionally integrated, cost effective and environmentally friendly metallurgical structure for KGHM Polska Miedź S.A. as well as technology which will ensure the capacity to continue processing both own as well as imported concentrates to remain a functioning copper producer over the coming decades, among others by eliminating the risk factors associated with shaft furnace technology. The company expects that the four-month shutdown of the Głogów I smelter/refinery, due to the change in technology, will result in a decrease of 49 thousand tonnes of electrolytic copper as compared to 2015 production, mainly from own concentrate.

By discontinuing the smelting of concentrate using shaft furnace technology the company will be able to:
- avoid the necessity of incurring further capital expenditures on additional modernisation of the shaft furnace technology in order for it to conform to environmental laws,
- avoid the risk associated with obtaining black liquor, which is a byproduct of the outdated, environmentally unfriendly process of producing cellulose via the sulfite method, and
- decrease the environmental impact of smelting by decreasing dust emissions by approx. 55% and gas by approx. 58% as well as decrease the amount of stored tailings.

The main benefits of this change in technology are:
- increased revenues for the KGHM Polska Miedź S.A. Group from the sale of additional amounts of silver, rhenium and refined lead;
- lower expenditures on replacing assets as well as lower maintenance and labour costs;
- the fulfillment of BAT standards;*
- improved working conditions – the elimination of hazardous shaft furnace technology worksites,
- improved process energy efficiency and the recovery of chemical energy in the form of useable heat;
- a substantial decrease in the environmental impact of metallurgy; and
- enhancement of the metallurgical competitiveness of KGHM Polska Miedź S.A..

** BAT (Best Available Technique) as defined in Directive 96/61/EC, means the most effective and advanced stage in the development of activities and their methods of operation which indicate the practical suitability of particular techniques for providing in principle the basis for emission limit values designed to prevent and, where that is not practicable, generally to reduce emissions and the impact on the environment as a whole*

SEGMENT - KGHM INTERNATIONAL LTD.

This segment comprises the company KGHM INTERNATIONAL LTD. and its subsidiaries, presented in Appendix 2 of this report. As a result of the merger at the end of 2015 of the companies KGHM INTERNATIONAL LTD. and 0929260 B.C. Unlimited Liability Company, the company KGHM AJAX MINING INC., which is advancing the Ajax copper and gold mine project in British Columbia, Canada, became part of the KGHM INTERNATIONAL LTD. Group. The Group has an 80% share in KGHM AJAX MINING INC., while the remainder belongs to Abacus Mining & Exploration Corp.

The segment data presented include adjustments due to the final accounting for the acquisition of KGHM INTERNATIONAL LTD.

KGHM INTERNATIONAL LTD. has been a subsidiary of KGHM Polska Miedź S.A. since March 2012.

This segment comprises the operation of functioning mines extracting copper (and other metals) located in the Sudbury Basin in Canada (Morrison), in the USA (Robinson and Carlota) and in Chile (Franke), pre-operational mining projects at various stages of development (Victoria and Ajax in Canada) and exploration projects.

Companies of the KGHM INTERNATIONAL LTD. Group also provide services under the brand DMC Mining Services in shaft sinking, development work, above-ground and underground mine facilities, mine drilling, tunnel drilling for general construction purposes and engineering services.

Under the segment KGHM INTERNATIONAL LTD., the share of the Group (55%) in Sierra Gorda S.C.M. is presented as an investment accounted for using the equity method, which due to its significance represents a separate reporting segment.

Production and operating results

Table 22. Production results of the segment KGHM INTERNATIONAL LTD.

Products	Unit	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Payable copper	**kt**	**97.6**	**86.0**	**113.5**	**24.3**	**28.2**	**23.5**	**21.6**
including:								
Robinson mine (USA)	kt	56.8	39.3	144.5	13.1	17.7	13.8	12.2
Sudbury Basin mines *	kt	14.1	16.9	83.4	4.1	3.6	3.4	3.0
Payable nickel	**kt**	**2.2**	**3.2**	68.8	0.6	0.5	0.6	0.5
Precious metals (TPM)**	**koz t**	**95.3**	**70.1**	**135.9**	**25.7**	**27.7**	**21.7**	**20.2**
including:								
Robinson mine (USA)	koz t	56.8	25.0	x2.3	13.8	18.9	13.9	10.2
Sudbury Basin mines *	koz t	38.5	45.1	85.4	11.9	8.8	7.8	10.0

** Mines: Morrison, McCreedy West in the Sudbury Basin, Ontario Canada*
*** TPM - precious metals: gold, platinum, palladium*

Copper production by the segment KGHM INTERNATIONAL LTD. in 2015 amounted to 97.6 thousand tonnes and was higher by 11.6 thousand tonnes as compared to 2014. The increase in volume is mainly due to the Robinson mine, in which copper production increased by 17.5 thousand tonnes, or by 45%. Production by this mine increased as a result of extracting a better quality ore from the Ruth pit in 2015 (as compared to the Kimbley pit which was mined in 2014) which also led to improved operating parameters.

The increase in precious metals production by 25.2 thousand troy ounces, or by 36%, including gold by 93%, was a result of the mining of ore with a higher gold content in the Robinson mine and the higher recovery of this metal.

The lower production of copper, nickel and precious metals in the Sudbury Basin mines respectively by 2.8 thousand tonnes, 1 thousand tonnes and 6.6 thousand troy ounces was due to the lower content of these metals in the ore, changes in mining technology and to seismic hazards in the Morrison mine. In addition, starting from the fourth quarter of 2015 production by the McCreedy mine was suspended due to the continuing unfavourable macroeconomic situation.

Table 23. Cash cost of producing copper in the segment KGHM INTERNATIONAL LTD.

	Unit	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Cash cost of producing copper – C1*	USD/lb	1.87	2.26	82.7	1.72	1.74	1.83	2.21

* *unit cost of producing copper C1 - cash cost of producing payable copper, reflecting costs of ore extraction and processing, the minerals extraction tax, transport costs, administrative expenses during the mining stage, and smelter treatment and refining charges (TC/RC), less the value of by-products*

The unit cash cost of producing copper by all of the operations of the segment KGHM INTERNATIONAL LTD. in 2015 amounted to 1.87 USD/lb, and was lower by 17% than in 2014. The decrease was mainly due to the Robinson mine, which due to lower costs, a higher copper sales volume and higher revenues from sales of precious metals (which reduce C1 cost) was at the level of 1.40 USD/lb (in 2014: 2.52 USD/lb).

Table 24. Operating results of the segment KGHM INTERNATIONAL LTD. *(in mn USD)*

	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Sales revenue	679	717	94.7	156	195	163	165
Cost of sales, selling costs and administrative expenses, including:	(1 424)	(785)	181.4	(794)	(241)	(180)	(209)
- impairment losses on non-current assets	(618)	(11)	x56.2	(611)	(7)	-	-
Profit/(loss) on sales (EBIT)	(745)	(68)	x11.0	(638)	(46)	(17)	(44)
Profit/(loss) for the period, including:	**(1 987)**	**(93)**	**x21.4**	**(1 804)**	**(104)**	**(31)**	**(48)**
- share of losses of joint ventures accounted for using the equity method and impairment loss on investment in joint ventures accounted for using the equity method	(1 315)	(79)	x16.6	(1 232)	(83)	-	-
Depreciation/amortisation (recognised in profit or loss)	224	187	119.8	49	66	34	75
EBITDA *	**(521)**	**119**	**x**	**(589)**	**20**	**17**	**31**
Adjusted EBITDA **	**97**	**130**	**74.6**	**22**	**27**	**17**	**31**

* *EBITDA = EBIT (profit/(loss) on sales) + depreciation/amortisation (recognised in profit or loss)*

** *Adjusted EBITDA = EBIT (profit/(loss) on sales) + depreciation/amortisation (recognised in profit or loss) + impairment losses (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)*

Table 25. Operating results of the segment KGHM INTERNATIONAL LTD. *(in mn PLN)*

	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Sales revenue	2 577	2 280	113.0	615	738	605	619
Cost of sales, selling costs and administrative expenses, including:	(5 469)	(2 497)	x2.2	(3 107)	(911)	(668)	(783)
- impairment loss on non-current assets	(2 411)	(36)	x67.0	(2 384)	(27)	-	-
Profit/(loss) on sales (EBIT)	(2 892)	(217)	x13.3	(2 492)	(173)	(63)	(164)
Profit/(loss) for the period, including:	**(7 731)**	**(283)**	**x27.3**	**(7 047)**	**(390)**	**(114)**	**(180)**
- share of losses of joint ventures accounted for using the equity method and impairment loss on investment in joint ventures accounted for using the equity method	(5 126)	(251)	x20.4	(4 815)	(311)	-	-
Depreciation/amortisation (recognised in profit or loss)	850	596	142.6	191	251	126	282
EBITDA *	**(2 042)**	**379**	**x**	**(2 301)**	**78**	**63**	**118**
Adjusted EBITDA **	**369**	**415**	**88.9**	**83**	**105**	**63**	**118**

* *EBITDA = EBIT (profit/(loss) on sales) + depreciation/amortisation (recognised in profit or loss)*

** *Adjusted EBITDA = EBIT (profit/(loss) on sales) + depreciation/amortisation (recognised in profit or loss) + impairment losses (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)*

The increase in the cost of sales, selling costs and administrative expenses by USD 639 million, or by 81% in 2015 as compared to 2014 was mainly due to the impairment losses recognised on property, plant and equipment in the amount of USD 618 million. These impairment losses were in regards to the Robinson and Franke mines as well as to the mines of the Sudbury Basin as described in detail in Part 3 of the financial statements. Moreover, the increase in the cost of sales, selling costs and administrative expenses was also due to an increase in depreciation/amortisation by USD 37 million. This increase was mainly due to the settlement of amounts previously incurred on pre-stripping by the Robinson mine due to a higher production volume.

Despite the substantial increase in production volume, the cost of sales, selling costs and administrative expenses, excluding the impairment losses on property, plant and equipment and depreciation/amortisation, was at a level similar to that of 2014, which was due to savings initiatives undertaken as well as to the weakening of the Canadian dollar and Chilean peso as compared to the American dollar.

The segment KGHM INTERNATIONAL LTD. recorded a higher loss on sales as compared to 2014 by USD 677 million as a result of lower metals prices, higher depreciation/amortisation and recognised impairment losses on property, plant and equipment. These factors were partially offset by by the higher volume of production and sales and by savings initiatives undertaken.

The segment KGHM INTERNATIONAL LTD. incurred a loss for 2015 of USD 1 987 million as compared to the loss for 2014 of USD 93 million. Apart from those factors mentioned above, profit/(loss) for the period was impacted by share of losses and an impairment loss on the interest in Sierra Gorda S.C.M. in the total amount of USD 1 315 million.

Moreover, the segment's profit/(loss) for the period includes a loss of the company 0929260 B.C. Unlimited Liability Company in the amount of USD 94 million for 2015 (USD 93 million in 2014) due to accrued interest on loans received.

The unfavourable metals prices, which were partially offset by higher sales volumes and by continued cost discipline, led to a decrease in adjusted EBITDA from USD 130 million in 2014 to USD 97 million in 2015.

Capital expenditures

Table 26. Capital expenditures by the segment KGHM INTERNATIONAL LTD. *(in mn USD)* *

	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Victoria project	62	60	103.3	15	22	13	12
Sierra Gorda Oxide project	17	12	141.7	6	4	4	3
Pre-stripping and other	167	166	100.6	38	43	50	36
Ajax	44	52	84.6	15	10	12	7
Total	**290**	**290**	**100.0**	**74**	**79**	**79**	**58**
Financing for Sierra Gorda S.C.M.	245	666	36.8	83	63	44	55

* *expenditures incurred*

Table 27. Capital expenditures by the segment KGHM INTERNATIONAL LTD. *(in mn PLN)* *

	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Victoria project	235	191	123.0	59	83	48	45
Sierra Gorda Oxide project	64	38	168.4	19	19	15	11
Pre-stripping and other	633	529	119.7	191	151	156	135
Ajax	169	166	101.8	57	39	45	28
Total	**1 101**	**924**	**119.2**	**412**	**253**	**219**	**217**
Financing for Sierra Gorda S.C.M.	929	2 117	43.9	322	238	163	206

** expenditures incurred*

In 2015 capital expenditures by the segment KGHM INTERNATIONAL LTD. amounted to USD 290 million and remained at the level of the prior year. Over 50% of the expenditures were incurred by the Robinson mine and were mainly due to pre-stripping work.

Expenditures related to the Victoria project in the amount of USD 62 million were for the development of technical documentation, commencement of construction of infrastructure, including a power substation and waste rock storage area as well as a drilling program.

Expenditures on the Sierra Gorda Oxide project (USD 17 million) involved work on the development of technical documentation and testing of the production process. On current stage the project is advanced by KGHM INTERNATIONAL LTD. The base case scenario for this investment foresees inclusion of the Sierra Gorda Oxide project within the structure of Sierra Gorda S.C.M. and its joint advancement with Sumitomo. All of the expenditures related to the project, until Sumitomo joins the project, are incurred by KGHM INTERNATIONAL LTD.

In 2015, the KGHM INTERNATIONAL LTD. Group continued to finance the Sierra Gorda mine in the amount of USD 245 million, which was related to continuation of the ramp-up phase to achieve target production capacity. The level of expenditures was also shaped by the unfavourable macroeconomic conditions, in particular the low prices of copper and molybdenum.

Capital expenditures by KGHM AJAX MINING INC. amounted to USD 44 million and were incurred on the preparation of technical documentation and on the application for an environmental permit, as well as to acquire land required for construction of the mine's infrastructure.

Major Group production assets and projects in the segment

Robinson mine

Location	Nevada, USA
Ownership	100% Robinson Nevada Mining Company
Type of mine	open-pit
Main ore type	copper ore
Associated metals	gold
Type of orebody	porphyry/skarn
End product	copper concentrate
Employment (31.12.2015)	568

The mine is located in White Pine County, Nevada, USA, around 11 km west of Ely (approx. 400 km north of Las Vegas), in the Egan Range, at an average altitude of 2 130 m a.s.l., near Highway 50.

The mine is comprised of 3 large pits: Liberty, Tripp-Veteran and Ruth, which is currently in operation. The ore is extracted by conventional open-pit methods, and is then processed into a copper and gold concentrate in a concentrating plant.

Morrison mine (one of the Sudbury Basin mines)

Location	Sudbury Basin, Ontario, Canada
Ownership	100% FNX Mining Company
Type of mine	underground
Main ore type	copper ore
Associated metals	nickel, platinum, palladium, gold
Type of orebody	footwall/contact Ni
End product	copper ore
Employment (31.12.2015)	263

The mine is located at the edge of the town of Sudbury (Ontario Province, Canada), on the western border of the richly-mineralised North Range complex of the Sudbury Igneous Complex (SIC) in the Sudbury Basin. This is an elliptical structure 60 km long and 30 km wide, which is related to substantial economic resources of nickel, copper, platinum, palladium, gold, and other metals.

The ore is accessed and mined with the aid of leased infrastructure of the Craig mine owned by Xstrata Nickel. Mineralisation in the Morrison deposit most commonly occurs in the form of ore veins.

Mining is carried out at the 4030 level (approx. 1228 m) using mining techniques adapted to the deposit's geometry.Drilling is being carried out to define the lower portions of the orebody above the 4700 level (approx. 1433 m). All of the ore extracted from the mine is processed by Vale's Clarabelle plant in Sudbury.

DMC – mining services

Under the DMC Mining Services brand, the group of companies FNX Mining Company Inc., Raise Boring Mining Services S.A. de C.V. and DMC Mining Services Corporation provide services in shaft sinking, development work, above-ground and underground mine facilities, mine drilling, tunnel drilling for general construction purposes and engineering services.

Victoria project

Location	Sudbury Basin, Ontario, Canada
Ownership	100% KGHM INTERNATIONAL LTD.
Type of mine	underground
Main ore type	copper-nickel ore
Associated metals	gold, platinum, palladium
Mine life	13 years
End product	copper concentrate, nickel concentrate
Forecasted production	16 kt Ni, 15 kt Cu
Start of production	start of mining in 2021, full production capacity in 2023

This project is located in the Canadian province of Ontario, around 35 km west of the town of Sudbury. In 2002 rights were acquired to the Victoria mineral deposit and a campaign of exploration in this terrain commenced. Measured, indicated and inferred mineral resources are estimated at 13.6 million tonnes of ore, with average grade of 2.6% Cu, 2.7% Ni and 8.3 g/t of all associated metals. All of the ore extracted from the mine will be processed in the Clarabelle plant in Sudbury, owned by Vale.

The current development scenario for the project calls for the sinking of 2 shafts to access the deposit (a production shaft and a ventilation shaft).

In 2015, work on the mine's detailed technical documentation describing the process of constructing the mine was completed.

As previously declared by the company's Management Board, in 2015 additional exploration work was performed on the terrain of the Victoria project aimed at confirming the potential continuity of the mineralisation below the currently identified orebody. As part of the work conducted, aimed at documenting economic copper mineralisation at a level below 2000 meters, two multilateral drillholes were sunk (throughout the entire program of work a total of six ore intersections were taken) to a depth of around 2200 meters below the surface. Analysis of the results obtained from this drilling for core samples gave positive results. Among others, a core was obtained with a length of over 30 meters demonstrating mineralisation of over 6.5% Cu, 2.2% Ni and 33.9g/t TPM.

In addition in 2015 work was carried out aimed at preparing surface infrastructure, among others construction of the transformer station was completed. Work is currently underway aimed at connecting it to the high-voltage network.

Due to the current macroeconomic environment, the Management Board of KGHM Polska Miedź S.A. decided to modify the adopted schedule for the project.

Ajax project

Location	Kamloops, British Columbia, Canada
Ownership	KGHM INTERNATIONAL LTD. 80%; Abacus Mining and Exploration Inc. 20%
Type of mine	open-pit
Main ore type	copper ore
Associated metals	precious metals (gold and silver)
Mine life	18 years
End product	copper concentrate
Forecasted production	58 kt Cu, 125 koz Au
Start of production	The construction schedule and date of first production of copper concentrate will be determined following receipt of requisite permits.

The Ajax project is located in British Columbia, Canada, 400 km north-east of Vancouver near the town of Kamloops. The project assumes the construction and operation of an open-pit copper and gold mine and an ore processing plant, with associated infrastructure. In January 2012, the company Abacus Mining and Exploration Inc. prepared a feasibility study, based on which the preliminary economic parameters of this project were described. Due to the substantial risk of not receiving environmental permits based on the assumed technological parameters of the project, including the siting of basic mine plant infrastructure, the assumptions on which the feasibility study from 2012 were based were reviewed in terms of identifying risk factors and the potential for increasing the project's value.

On 13 January 2016, an Updated Feasibility Study was published, replacing the earlier version dated 6 January 2012. The Updated Feasibility Study reflects changes to the project, under which the mine's infrastructure was moved farther from the nearest buildings in the town of Kamloops, technology improvements were incorporated and the processing facility's throughput capacity was increased from 60 to 65 thousand tonnes per day.

Based on drilling conducted to date, Measured and Indicated resources increased compared to the 2012 feasibility study to 568 million tonnes of ore containing 0.26% of copper, 0.18 g/t of gold and 0.35 g/t of silver as compared to 512 million tonnes

of ore containing 0.31% of copper and 0.19 g/t of gold in the 2012 feasibility study. Proven & probable mineral reserves were estimated at 426 million tonnes of ore containing 0.29% of copper, 0.19 g/t of gold and 0.39 g/t of silver, as compared to the 503 million tonnes of reserves containing 0.27% of copper and 0.17 g/t of gold reported in the 2012 feasibility study.
The project's pre-tax investment parameters are as follows: USD 429 million NPV @ 8% discount rate, 13.4% IRR. Under the base case scenario, the investment payback period is approximately six and one half years.

Initial capital expenditures are estimated at USD 1 307 million and reflect the introduction into the project of several important technological changes, aimed at increasing metals recovery during processing, decreasing operating costs, and reducing environmental impact (such as changes in preliminary milling and ore transport systems as well as technological solutions at the processing plant, and in the tailing storage system). The C1 cash-cost has been calculated at USD 1.37/pound. Mine construction will last two and one half years once it commences.

The construction schedule and date of first production of copper concentrate will be determined following receipt of requisite permits. Currently, KGHM AJAX MINING INC. is focused on obtaining all necessary permits and on continuing to build good relationships with First Nations as well as with the citizens of the town of Kamloops.

On 10 September 2015, an application was submitted for an environmental permit. On 20 November 2015, the appropriate administrative body formally concluded its assessment of the environmental application with a positive result, while on 18 January 2016, a period of substantive assessment of the application began, comprising a 75-day social consultation period, in which both the citizens of the town of Kamloops as well as First Nations are participating.

SEGMENT: SIERRA GORDA S.C.M.

Sierra Gorda S.C.M. is a joint venture of KGHM INTERNATIONAL LTD. (55%) and Sumitomo Group companies (45%). The Company is advancing this key development project in the KGHM Polska Miedź S.A. Group due to its scale – construction of one of the world's largest mines of copper, molybdenum and gold on one of the largest deposits of copper and molybdenum in the world, comprising both sulphide copper ore as well as oxide copper ore located above the sulphide level. In 2015 the company commenced commercial production.

Production and operating results

The following production and financial information was prepared on a 100% basis, unless otherwise indicated.

The Sierra Gorda mine commenced copper production on 30 July 2014, and molybdenum production on 14 April 2015. The commercial production level was achieved at the end of the second quarter of 2015, which was a prerequisite for the mine's transition to the operational phase. This being the case, the table below, together with the associated commentary, concerns the second half of 2015. Moreover, to ensure comparability in future reporting periods, production data for the full year 2015 was included.

Table 28. Production results of segment Sierra Gorda S.C.M. *

	Unit	2015	4Q'15	3Q'15	2Q'15	1Q'15
Copper **	kt	84	24	22	21	17
Molybdenum **	kt	7	3	2	2	-

* *apart from copper and molybdenum the mine also produces gold and silver – metals of less significance (12% of revenues from sales)*
** *payable metal in concentrate*

The Sierra Gorda mine is steadily improving its production results. Copper production in the fourth quarter of 2015 amounted to 24 thousand tonnes. This increase by 9% as compared to the third quarter of 2015 was achieved due to improved production parameters, including above all metals recovery. There was improvement in daily ore processing as well as in the productivity of machinery and equipment.

Despite the improvement in production results, as a result of the continued ramp-up to full production capacity the mine was exposed to numerous unplanned shutdowns resulting from failures and from a prolonged re-start period for production installations.

During the continued mine ramp-up defects were identified, based on which the scope of required modernisation was selected. Most of these modifications were implemented at the beginning of 2016, while the remaining changes in construction should be introduced within the planned schedule. The modernisations introduced should ensure stable ore processing at the designed level (110 thousand tonnes daily), and consequently completion of the ramp-up of the mine in the first half of 2016.

The delay in attaining full production capacity had an impact on the C1 cash cost of copper production, which in the second half of 2015 amounted to 2.58 USD/lb. The valuation of by-products also had a detrimental impact on the C1, especially with respect to molybdenum, the price of which decreased by 32% as compared to the first half of 2015.

Table 29. Cash cost of producing copper in segment Sierra Gorda S.C.M.

	Unit	2015	4Q'15	3Q'15	2Q'15	1Q'15
Cash cost of producing copper – C1*	USD/lb	2.58	2.56	2.60	-	-

* *unit cost of producing copper C1 - cash cost of producing payable copper, reflecting costs of ore extraction and processing, the minerals extraction tax, transport costs, administrative expenses during the mining stage, and smelter treatment and refining charges (TC/RC), less the value of by-products*

The calculation of cash cost of copper production was modified in order to adapt the mine, which is still in the ramp-up stage, to the standards for calculating C1 in the sector. The change was made to reflect the additional costs related to the processing of molybdenum concentrate. As a result, the C1 cost for the third quarter of 2015 presented in this report (2.60 USD/lb) is higher than that presented in the consolidated report for the third quarter of 2015 (2.44 USD/lb).

The segment's financial results include the operating results of the company Sierra Gorda S.C.M. proportionally to the interest held (55%), the impact of the final settlement of the acquisition of Quadra FNX LTD. (currently KGHM INTERNATIONAL LTD.) with respect to the Sierra Gorda project and impairment losses recognised on the segment's assets at the level of the KGHM Polska Miedź S.A. Group.

At the end of 2015, the carrying amount of the segment's assets was tested for impairment. The main indicator for the testing was the continued unfavourable situation on the metals market, reflected in the drop in prices to date and in the decreased forecasts in this regard for the next several years.

Consequently, an impairment loss was recognised in the gross amount of PLN 4 399 million, comprised of an impairment loss at the level of Sierra Gorda in the amount of PLN 2 004 million and an additional impairment loss at the level of the KGHM Polska Miedź S.A. Group in the amount of PLN 2 395 million. The total net impairment loss amounted to PLN 3 790 million and was charged to the segment's profit/(loss) for the period. The segment's final result was a loss for the period of PLN 4 455 million.

Sierra Gorda S.C.M. has prepared operational statements of profit or loss since the commencement of commercial production, that is from 1 July 2015, and therefore the following tables present the basic financial results for the second half of 2015. In addition, to facilitate analysis, apart from the segment's results comprising the impact of settlement of the acquisition price and of the impairment losses on assets at the level of the KGHM Polska Miedź S.A. Group, the operating results of Sierra Gorda S.C.M. have also been presented on a 100% basis adjusted by the impairment losses recognised at the level of this company.

The data were translated from USD into PLN at the USD/PLN rate of 3.8588 set as the arithmetical average of the current average exchange rates announced by the NBP on the last day of each month in the second half of 2015, with the exception of the impairment losses on non-current assets recognised at the end of 2015, translated based on the exchange rate as at 31 December 2015, i.e. 3.9011 USD/PLN.

Table 30. Operating results of the segment and company Sierra Gorda S.C.M. *(in mn USD)*

	2015 Segment (55%)*	2015 Company (100%)**	4Q'15	3Q'15	2Q'15	1Q'15
Sales revenue	158	286	158	128	-	-
Cost of sales, selling costs and administrative expenses, including:	(1 403)	(1 399)	(1 185)	(214)	-	-
- impairment loss on non-current assets	(1 124)	(928)	(928)	-		
Profit/(loss) on sales (EBIT)	(1 245)	(1 113)	(1 027)	(86)	-	-
Profit/(loss) for the period	**(1 144)**	**(927)**	**(796)**	**(131)**	**-**	**-**
Depreciation/amortisation (recognised in profit or loss)	95	137	71	66	-	-
EBITDA* **	**(1 150)**	**(976)**	**(956)**	**(20)**		
Adjusted EBITDA ****	**(26)**	**(48)**	**(28)**	**(20)**	**-**	**-**

* *segment results, reflecting the operating results of Sierra Gorda S.C.M. proportionally to the Group's interest held (55%), settlement of the purchase price and impairment losses on non-current assets at the level of the KGHM Polska Miedź S.A. Group*

** *results of company Sierra Gorda S.C.M. (100%) based on the company's statutory financial statements, reflecting the impairment loss on non-current assets at the level of Sierra Gorda S.C.M.*

*** *EBITDA = EBIT (profit/(loss) on sales) + depreciation/amortisation (recognised in profit or loss)*

**** *Adjusted EBITDA = EBIT (profit/(loss) on sales) + depreciation/amortisation (recognised in profit or loss) + impairment losses (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)*

Table 31. Operating results of the segment and company Sierra Gorda S.C.M. *(in mn PLN)* *

	2015 Segment (55%)*	2015 Company (100%)**	4Q'15	3Q'15	2Q'15	1Q'15
Sales revenue	608	1 105	625	480	-	-
Cost of sales, selling costs and administrative expenses, including:	(5 463)	(5 437)	(4 637)	(800)	-	-
- impairment loss on non-current assets	(4 385)	(3 619)	(3 619)	-	-	-
Profit/(loss) on sales (EBIT)	(4 855)	(4 332)	(4 012)	(320)	-	-
Profit/(loss) for the period	**(4 455)**	**(3 603)**	**(3 112)**	**(491)**	**-**	**-**
Depreciation/amortisation (recognised in profit or loss*)*	369	529	281	248	-	-
EBITDA*****	**(4 486)**	**(3 803)**	**(3 731)**	**(72)**	**-**	**-**
Adjusted EBITDA ******	**(101)**	**(184)**	**(112)**	**(72)**	**-**	**-**

* *segment results, reflecting the operating results of Sierra Gorda S.C.M. proportionally to the interest held (55%), settlement of the purchase price and impairment losses on non-current assets at the level of the KGHM Polska Miedź S.A. Group*

** *results of Sierra Gorda S.C.M. (100%) based on the company's statutory financial statements, reflecting the impairment loss on non-current assets at the level of Sierra Gorda S.C.M.*

*** *EBITDA = EBIT (profit/(loss) on sales) + depreciation/amortisation (recognised in profit or loss)*

**** *Adjusted EBITDA = EBIT (profit/(loss) on sales) + depreciation/amortisation (recognised in profit or loss) + impairment losses (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)*

Below summary of financial results includes revenues and costs on the basis of statutory statement of Sierra Gorda S.C.M. on a 100% basis and without effects on settlement of acquisition and additional impairment loss at the KGHM Polska Miedź S.A. Group's level.

During the first six months since the start of commercial production, Sierra Gorda S.C.M. earned revenues of USD 286 million (PLN 1 105 million). Despite the unfavourable situation on the metals market, in the fourth quarter of 2015 revenues increased by USD 30 million, or by 23% as compared to the third quarter of 2015. This was due to an increase in sales volume, including mainly molybdenum, which resulted in higher revenues from the sale of this metal by USD 24 million.

Volumes and revenues by product are presented in the section describing sales in the Group (Section 7.2 of this report).

Revenues were negatively impacted by the situation on the metals market, especially that of molybdenum, which fell to a greater extent than copper.

The cost of sales, selling costs and administrative expenses incurred by Sierra Gorda S.C.M. amounted to USD 1 399 million (PLN 5 437 million). Apart from the impairment loss recognised at the company's level in the amount of USD (928) million, or PLN (3 619) million, as well as administrative expenses and selling costs in the total amount of USD 84 million (PLN 325 million), the largest items are:

- external services, including mainly contracts related to providing services for the mine and ore processing facility (machinery and equipment repairs, providing social services for the mine's employees, catering, transport, lease of auxiliary equipment),
- depreciation/amortisation, including amortisation of expenditures on accessing the deposit, and
- materials, energy and fuel.

The aforementioned costs of external services, depreciation/amortisation and materials, energy and fuel accounted for over 60% of costs prior to the recognition of impairment losses on assets and decreased by capitalised costs related to preparing the deposit for future mining.

EBITDA adjusted by the recognised impairment loss on non-current assets amounted to USD (48) million, or PLN (101) million. The negative EBITDA was due to the low metals prices as well as to the continued mine ramp-up described above.

Capital expenditures

In the period January-December 2015, expenditures on property, plant and equipment and intangible assets recognised in the statement of cash flows amounted to USD 527 million (PLN 2 034 million), including USD 120 million on replacing assets, while USD 312 million was incurred on pre-stripping to gain access to further areas of the deposit.

Capital expenditures in 2015 were mainly financed by increases in share capital, which amounted to USD 445 million, of which USD 245 million was provided by the KGHM Polska Miedź S.A. Group. In 2015 Sierra Gorda S.C.M. did not receive owner loans.

At the end of 2015, the carrying amount of the loans received in prior periods amounted to USD 3 490 million, of which USD 703 million represented the nominal amount of interest.

Sierra Gorda mine and project

Location	Region II , Chile
Ownership	55% KGHM INTERNATIONAL LTD, 45% Sumitomo group companies: - Sumitomo Metal Mining Co., Ltd. (31.5%) - Sumitomo Corporation (13.5%)
Type of mine	open-pit
Main ore type	copper ore
Associated metals	molybdenum, gold
Mine life	19 years for the current deposit, with the possibility to prolong to 40 years, taking into account new deposits
End product	copper concentrate, molybdenum concentrate
Forecasted production	approx. 220 kt Cu, 11 kt Mo, 2 tonnes Au per year
Start of production	2014: start of commercial production – 1 July 2015

The Sierra Gorda mine is located in the Atacama desert, in the Sierra Gorda administrative area in the Antofagasta region, in northern Chile, approx. 60 km south-west of the city of Calama. The project is situated at an altitude of 1 700 m a.s.l. and 4 km from the town of Sierra Gorda. The copper and molybdenum concentrates produced are transported to the port of Antofagasta, and from there by sea to smelters around the world.

The development of the Sierra Gorda project assumes two investment stages. The first stage comprised the construction of a conventional open-pit mine (extraction using blasting materials and dump trucks, loading and ore transport to a processing plant), development of infrastructure (among others a tailings pond, power line, salt water pipeline) and a processing plant with an installation to separate the molybdenum concentrate (high-pressure crushers, ball mills and conventional flotation) with processing capacity of 110 thousand tonnes of ore per day.

In the second stage, the capacity of the processing plant is planned to be increased to at least 220 thousand tonnes of ore per day. In April 2015 the molybdenum installation commenced production, and on 1 July 2015 the Sierra Gorda mine commenced commercial production (since then it has prepared operational statements of profit or loss). The processing plant is still in the ramp-up phase to achieving target processing capacity, during which work is underway to optimise and verify the technical assumptions of the existing infrastructure. As a result of these actions, at the end of 2015 the maximum daily amount of ore processed was recorded at the level of over 130 thousand tonnes of ore daily. Following the ramp-up phase, which due to the process of optimisation will be completed in 2016, the mine will have annual production of 120 thousand tonnes of copper and 40 - 50 million pounds of molybdenum in its first years of operation.

In 2015, the process of optimising project assumptions was carried out aimed at reducing capital expenditures and improving the functional efficiency of the plant following completion of the project's second phase, and work commenced on developing basic technical documentation for phase two. In addition, it is expected that the life of the mine will be extended as a result of developing the mineralised areas Pampa Lina and Salvadora which are adjacent to the Sierra Gorda mine, using the infrastructure developed during the second phase of the investment.

The goal of the Sierra Gorda Oxide project, is to process the oxide ore obtained during construction and development of the Sierra Gorda mine. Under consideration is the recovery of metal in an installation using SX/EW technology. The oxide ore is currently being stored separately for later heap leaching. In 2015, advanced engineering work and design work were carried out related to selecting an alternative concept for the project to maximise its economic value. On current stage the project is advanced by KGHM INTERNATIONAL LTD. The base case scenario for this investment foresees inclusion of the Sierra Gorda Oxide project within the structure of Sierra Gorda S.C.M. and its joint advancement with Sumitomo. All of the expenditures related to the project, until Sumitomo joins the project, are incurred by KGHM INTERNATIONAL LTD.

OTHER SEGMENTS

Companies in the remaining segments are very diversified in their operations. Among others they are of an equity investment nature, as well as fulfilling corporate social responsibility. This segment also includes companies which are to be restructured and divested.
The segment also includes closed-end investment funds and their portfolio companies (including those forming the Polska Grupa Uzdrowisk (Polish Spa Group)).

Operating results

Table 32. Operating results of other segments *(in mn PLN)**

	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Sales revenue	6 594	6 867	96.0	1 701	1 523	1 779	1 591
Cost of sales, selling costs and administrative expenses	(6 541)	(6 951)	94.1	(1 691)	(1 513)	(1 754)	(1 582)
Profit/(loss) on sales (EBIT)	**53**	**(84)**	**x**	**10**	**9**	**25**	**9**
Profit/(loss) for the period	**(49)**	**26**	**x**	**(29)**	**(16)**	**(55)**	**51**
Depreciation/amortisation (recognised in profit or loss)	228	230	99.1	60	55	54	59
Capital expenditures **	327	275	118.9	114	74	53	86
EBITDA* **	**281**	**146**	**192.5**	**70**	**65**	**79**	**67**
Adjusted EBITDA ****	**279**	**144**	**193.8**	**69**	**64**	**79**	**67**

* *prior to consolidation adjustments*
** *expenditures on property, plant and equipment and intangible assets*
*** *EBITDA = EBIT (profit/(loss) on sales) + depreciation/amortisation (recognised in profit or loss)*
**** *Adjusted EBITDA = EBIT (profit/(loss) on sales) + depreciation/amortisation (recognised in profit or loss) + impairment losses (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)*

In 2015, other segments earned a profit on sales, prior to recognition of consolidation adjustments, in the amount of PLN 53 million, which was a significant improvement as compared to 2014, when this segment recorded a loss on sales in the amount of PLN 84 million.

The impairment losses on non-current assets recognised in other operating costs caused a loss for the period in the amount of PLN 49 million. The main reason for this loss were the impairment losses recognised as a result of the decision to terminate the project advanced by the company KGHM Kupfer AG related to exploring for copper ore deposits in the concessioned areas Weisswasser and Weisswasser II in Germany in the amount of PLN 62 million (lack of geological evidence to continue exploration).

Other segments earned a profit for 2014 in the amount of PLN 26 million which was mainly due to an increase in the value of assets of the KGHM I FIZAN fund – companies comprising the Polish Spa Group – as a result of remeasurement.

7.5. Review of financial performance

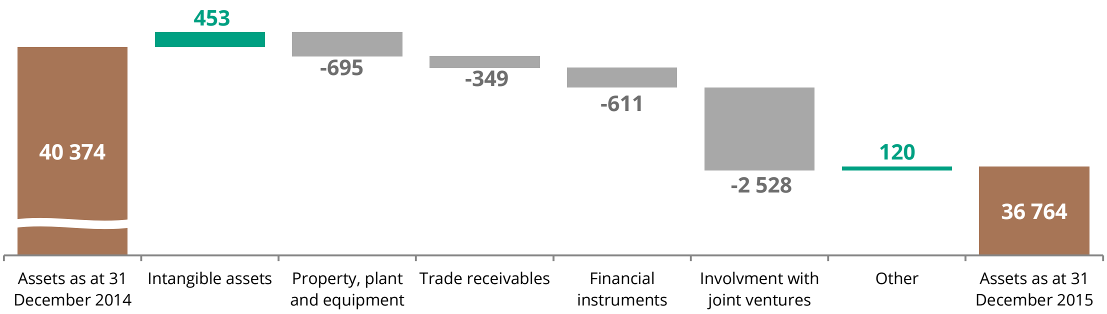
Assets

At the end of 2015, total assets in the consolidated statement of financial position decreased as compared to the end of 2014 by PLN 3 610 million (9%).

Table 33. Current and non-current assets *(in mn PLN)*

	31.12.2015	31.12.2014	Change 31.12.14=100	30.09.2015	30.06.2015	31.03.2015
Property, plant and equipment	16 926	17 621	96.1	18 454	17 909	18 091
Intangible assets	3 371	2 918	115.5	3 428	3 306	3 101
Involvement in joint ventures	8 066	10 594	76.1	12 018	11 912	11 822
Financial instruments	1 438	2 049	70.2	1 598	1 879	1 915
Deferred tax assets	557	535	104.1	656	581	760
Inventories	3 382	3 362	100.6	3 767	3 890	3 678
Trade receivables	1 541	1 890	81.5	1 247	1 281	1 555
Tax assets	542	445	121.8	284	286	478
Cash and cash equivalents	461	475	97.1	941	780	876
Other assets	480	485	99.0	562	602	505
TOTAL ASSETS	**36 764**	**40 374**	**91.1**	42 955	42 426	42 781

Chart 17. Change in assets in 2015 *(in mn PLN)*



Major changes in assets in 2015

Item	Main reasons for change
Involvement in joint ventures	**A decrease by PLN 2 528 million** (or 24%) due to: – a decrease in the value of joint ventures by PLN 3 801 million, including Sierra Gorda S.C.M. by PLN 3 799 million (value of investment at the end of 2015: PLN 534 million, at the end of 2014: PLN 4 333 million); The change in value of the Sierra Gorda S.C.M. investment was mainly due to : - share of losses of a joint venture accounted for using the equity method in the amount of PLN 4 455 million, - impairment losses on shares in the amount of PLN 671 million. - acquisition of shares in increased share capital in the amount of PLN 928 million, - foreign exchange gains from translation in the amount of PLN 509 million. (detailed information regarding the Sierra Gorda investment and impairment losses on its value are included in the description of the segment Sierra Gorda in Section 7.4 of this report and in Part 6 of the financial statements) – an increase in the value of loans granted to Sierra Gorda S.C.M. by the KGHM INTERNATIONAL LTD. Group to advance a mine project in the amount of PLN 1 273 million; The increase was due to accrued interest in the amount of PLN 466 million and foreign exchange gains from translation in the amount of PLN 807 million.
Financial instruments	**A decrease by PLN 611 million**, including: – a decrease by PLN 352 million due to measurement of financial instruments measured at fair value, due to an impairment loss on the shares of TAURON Polska Energia S.A. listed on the WSE in the amount of PLN 395 million, – a decrease by PLN 367 million due to derivatives, alongside an increase in non-current financial assets – financial receivables due to management fee for Sierra Gorda S.C.M. by PLN 110 million.
Intangible assets	**An increase by PLN 453 million**, mainly due to: – an increase in the assets due to the exploration for and evaluation of mineral resources by the amount of PLN 390 million (reflects impaitment losses in the amount of PLN 208 million and foreign exchange gains from the translation of foreign operations in the amount of PLN 214 million), – an increase in water rights in Chile by the amount of PLN 25 million (includes foreign exchange gains from the translation of foreign operations in the amount of PLN 27 million). Substantial amounts of expenditures on the exploration for and evaluation of mineral resources (including impairment losses) recognised in KGHM INTERNATIONAL LTD.: – Victoria project - expenditures as at 31 December 2015 amounted to PLN 1 489 million, including expenditures recognised in 2015 of PLN 212 million, – Ajax project - expenditures as at 31 December 2015 amounted to PLN 573 million, including expenditures incurred in 2015 of PLN 143 million.

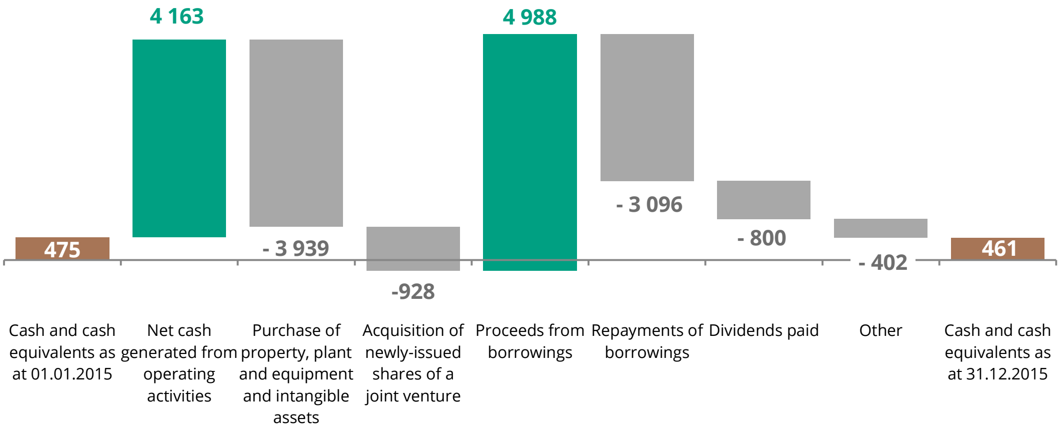
Property, plant and equipment	**A decrease by PLN 695 million**, mainly due to impairment losses on property, plant and equipment in the amount of PLN 2 425 million (of which PLN 2 417 million were recognised in cost of sales, selling costs and administrative expenses). In 2015, expenditures incurred on property, plant and equipment amounted to PLN 3 345 million, with depreciation of PLN 1954 million.

Cash flow

Table 34. Cash flow (in mn PLN)

	2015	2014	Change 31.12.14=100	IVQ'15	IIIQ'15	IIQ'15	IQ'15
Profit/(loss) before income tax	**(5 122)**	**3 098**	**x**	**(6 962)**	**147**	**1 116**	**577**
Exclusions of incomes and costs:	9 644	2 100	x4.6	7 905	1 033	(69)	775
Depreciation/amortisation recognised in profit or loss	1 943	1 635	118.8	469	530	380	564
Share in losses of joint ventures accounted for using the equity method	4 457	252	1 768.7	4 144	312	1	-
Interest on loans granted to joint ventures	(466)	(282)	165.2	(147)	(142)	(95)	(82)
Interest and commissions on borrowings	201	142	141.5	29	31	88	53
Impairment loss/(reversal) of impairment loss	3 641	81	x45.0	3 427	211	3	-
Other adjustments to profit/(loss) before income tax	(132)	272	x	(17)	91	(446)	240
Income tax paid	(925)	(868)	106.6	(234)	(235)	(219)	(237)
Change in working capital	566	519	109.1	61	19	393	93
Net cash generated from operating activities	**4 163**	**4 849**	**85.9**	**770**	**964**	**1 221**	**1 208**
Expenditures on mining and metallurgical assets	(3 553)	(3 112)	114.2	(1 052)	(897)	(803)	(801)
Expenditures on other property, plant and equipment and intangible assets	(386)	(322)	119.9	(166)	(77)	(54)	(89)
Loans granted to joint ventures	-	(1 628)	x	-	-	-	-
Acquisition of newly - issued shares of a joint venture	(928)	(502)	184.9	(320)	(239)	(163)	(206)
Other expenses	(39)	20	x	9	10	(43)	(15)
Net cash used in investing activities	**(4 906)**	**(5 544)**	**88.5**	**(1 529)**	**(1 203)**	**(1 063)**	**(1 111)**
Proceeds from borrowings	4 988	2 641	188.9	907	670	2 264	1 147
Repayments of borrowings	(3 096)	(1 240)	x2.5	(206)	(254)	(1 876)	(760)
Dividends paid to shareholders of the Parent Entity	(800)	(1 000)	80.0	(400)	-	(400)	-
Interest paid	(232)	(136)	170.6	(24)	(29)	(162)	(17)
Other	4	(17)	x	(10)	4	3	7
Net cash generated from/(used in) financing activities	**864**	**248**	**x3.5**	**267**	**391**	**(171)**	**377**
Total net cash flow	121	(447)	x	(492)	152	(13)	474
Exchange (losses)/gains on cash and cash equivalents	(135)	58	x	12	9	(83)	(73)
Movements in cash and cash equivalents	(14)	(389)	3.6	(480)	161	(96)	401
Cash and cash equivalents at beginning of the period	475	864	55.0	941	780	876	475
Cash and cash equivalents at end of the period	461	475	97.1	461	941	780	876

Chart 18. Cash flow in 2015 *(in mn PLN)*



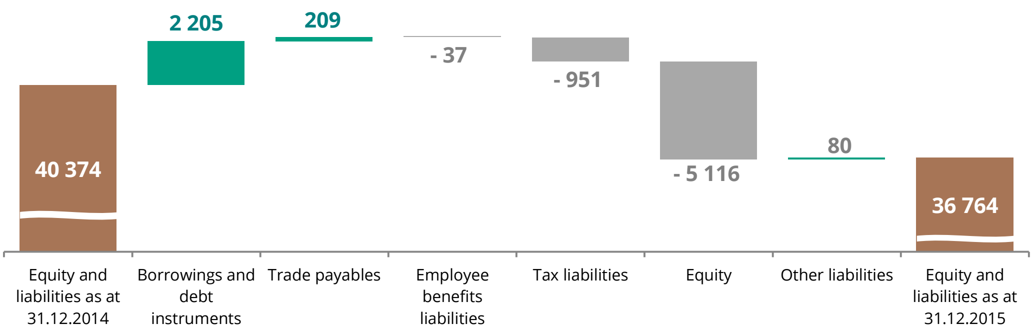
7.6. Equity and liabilities

At the end of 2015, the share of equity in total equity and liabilities amounted to 56%.

Table 35. Equity and liabilities *(in mn PLN)*

	31.12.2015	31.12.2014	Change 31.12.14=100	30.09.2015	30.06.2015	31.03.2015
EQUITY	20 414	25 530	80.0	26 353	26 557	26 402
Share capital	2 000	2 000	100.0	2 000	2 000	2 000
Other reserves from measurement of financial instruments	(64)	377	x	53	129	191
Accumulated other comprehensive income	1 868	741	x2.5	1 458	1 616	1 403
Retained earnings	16 407	22 184	74.0	22 634	22 601	22 584
Equity attributable to shareholders of the Parent Entity	20 211	25 302	79.9	26 145	26 346	26 178
Equity attributable to non-controlling interest	203	228	89.0	208	211	224
Liabilities (current and non-current)	16 350	14 844	110.1	16 602	15 869	16 379
Borrowings and debt instruments	7 015	4 810	145.8	6 185	5 753	5 556
Trade payables	1 418	1 209	117.3	1 209	1 287	1 029
Derivatives	207	160	129.4	172	250	326
Employee benefits liabilities	2 739	2 776	98.7	2 832	2 552	2 990
Tax liabilities	1 476	2 427	60.8	2 283	2 411	2 744
Provisions for decommissioning costs of mines and other facilities	1 466	1 466	100.0	1 448	1 205	1 617
Other liabilities	2 029	1 996	101.7	2 473	2 411	2 117
TOTAL EQUITY AND LIABILITIES	36 764	40 374	91.1	42 955	42 426	42 781

Chart 19. Change in equity and liabilities in 2015 *(in mn PLN)*



Major changes in equity and liabilities in 2015

Item	Main reasons for change
EQUITY	**A decrease by PLN 5 116 million**, mainly due to: – the loss for 2015 in the amount of PLN 5 009 million, – the dividend paid from profit for 2014 to shareholders of the Parent Entity, in the amount of PLN 800 million, alongside foreign exchange gains from the translation of subsiadiaries and joint ventures statements, in the amount of PLN 1 070 million.
Tax liabilities	**A decrease by PLN 951 million** mainly due to a decrease in liabilities due to deferred income tax by PLN 962 million (details in Section 7.9 of this report).
Borrowings and debt instruments	**An increase by PLN 2 205 million,** results from increase in debt of the Parent Entity due to bank loans on financing development projects in the Group and on securing funds for dividend payment for 2014.
Trade payables (current)	**An increase by PLN 209 million**, including an increase by PLN 114 million due to the purchase and construction of fixed assets and intangible assets.

7.7. Contingencies and commitments

At the end of 2015, contingent assets amounted to PLN 635 million and related mainly to guarantees received by the Group (mainly with respect to the proper performance of agreements) in the amount of PLN 310 million and promissory notes receivable in the amount of PLN 168 million.

At the end of 2015, contingent liabilities amounted to PLN 1 780 million and mainly concerned:

- guarantees in the amount of PLN 1 281 million, including:
  - a letter of credit in the amount of PLN 536 million, granted to secure the obligations associated with the performance of a long-term contract for the supply of electricity to Sierra Gorda S.C.M.,
  - guarantees in the amount of PLN 319 million, granted to additionally secure the performance of leasing agreements entered into by Sierra Gorda S.C.M.,
  - a guarantee in the amount of PLN 64 million, granted to secure the proper performance of future environmental obligations of the Parent Entity to restore the area, following the conclusion of operations of the Żelazny Most tailings storage facility,
  - a letter of credit in the amount of PLN 324 million, granted to secure the proper performance of future environmental obligations by KGHM INTERNATIONAL LTD. to restore the area following the conclusion of operations of the Robinson mine, Podolsky mine and the Victoria project,
- promissory notes granted to secure the proper performance of future environmental obligations by KGHM Polska Miedź S.A. to restore the area, following the conclusion of operations of the Żelazny Most tailings storage facility – in the amount of PLN 256 million,
- liabilities due to inventions and the implementation of projects – in the amount of PLN 91 million,
- other in the amount of PLN 152 million.

Other liabilities not recognised in the statement of financial position in the amount of PLN 172 million, comprises of:

- liabilities towards local government entities due to expansion of the tailings pond by KGHM Polska Miedź S.A. in the amount of PLN 118 million,
- liabilities due to operating leases in the amount of PLN 54 million.

7.8. Borrowings and debt instruments in the Group

The Management Board of KGHM Polska Miedź S.A. manages its financial resources in accordance with the „Financial Liquidity Management Policy". Its primary goal is to ensure the ability to maintain continuous operations by securing the availability of the funds required to achieve the company's business goals, while optimising incurred costs. Financial liquidity management involves securing an appropriate amount of cash resources and available lines of credit in the short, medium and long term. The Financial Liquidity Committee, which was created in 2015, supports the Management Board in carrying out this Policy.

Debt in the Group

Total debt of the Group due to borrowings and debt instruments at the end of 2015 amounted to PLN 7 015 million and increased as compared to the end of 2014 by PLN 2 205 million (46%). This increase was due to an increase in liabilities due to borrowings drawn by the Parent Entity.

In 2015, the process of debt consolidation in the Group at the Parent Entity's level was continued by refinancing the USD 700 million debt of KGHM INTERNATIONAL LTD. (a bank loan of USD 200 million and USD 500 million in senior notes). At the end of 2015, the Group did not have liabilities due to debt instruments, while the liabilities of KGHM Polska Miedź S.A. due to borrowings (including instalments drawn to refinance the debt of KGHM INTERNATIONAL LTD.) amounted to PLN 6 855 million. At the end of 2014, the Parent Entity's liabilities to due to borrowings amounted to PLN 2 108 million.

The consolidation of debt is the basic tenet of the Group's financing strategy and conforms with best market practice for large international groups. The adoption of such a financial strategy results in:

- lower borrowing costs of the Group,
- more efficient use of cash,
- enhanced transparency in the Group's borrowing structure,
- optimisation of the Group's financial and non-financial covenants, and
- the elimination of collateral established on the assets of KGHM INTERNATIONAL LTD.

The Group's net debt structure (liabilities due to borrowings and debt instruments less cash and cash equivalents) is presented below.

Table 36. Net debt of the Group *(in mn PLN)*

	31.12.2015	31.12.2014	Change 31.12.2014=100	30.09.2015	30.06.2015	31.03.2015
Liabilities due to:	**7 015**	**4 810**	**145.8**	**6 185**	**5 753**	**5 556**
Bank loans	*5 797	1 925	x 3.0	5 003	4 570	2 389
Other loans	1 183	1 067	110.8	1 145	1 141	1 154
Debt instruments	-	1 775	x	-	-	1 970
Other	35	43	81.4	37	42	43
Free cash and cash equivalents	461	**475**	**97.05**	**941**	**780**	**876**
Net debt	6 554	**4 335**	**151.2**	**5 244**	**4 973**	**4 680**

** presented amounts include the preparation fee paid which decreases financial liabilities due to bank loans received*

Borrowings by the Group

As at 31 December 2015, the Parent Entity held open lines of credit and an investment loan with total available amount of PLN 15 571 million, out of which PLN 6 855 million had been drawn.

Other companies of the Group hold lines of credit in an amount of over PLN 260 million under short- and long term credit agreements available in PLN and EUR, with interest based on variable WIBOR or EURIBOR plus a margin. The funds obtained under these agreements are used to finance working capital, are a tool supporting financial liquidity and assist in financing investments whose aim is to replace, modernise or increase the value of the Group's non-current assets.

These sources fully cover the current, medium and long-term liquidity needs of the Group.

Borrowings by the Parent Entity:

Unsecured, revolving syndicated credit facility in the amount of USD 2.5 billion with maturity of 10 July 2020 (with an option to extend for another year)	This financing agreement was signed with a syndicate banks group in 2014 in the amount of USD 2.5 billion with a five-year tenor with the option of extending for another 2 years. In 2015, the company obtained permission of the syndicate banks group to extend the maturity of credit facility by 1 year. The new maturity date is now 10 July 2020. The funds drawn were used to finance general corporate goals, including the continuation of investment projects and to refinance the debt of KGHM INTERNATIONAL LTD.
Investment loan from the European Investment Bank in the amount of PLN 2.0 billion with a financing period of 12 years	This financing agreement was signed with the European Investment Bank in 2014 in the amount of PLN 2 billion, with the possibility of drawing loan instalments in PLN, EUR and USD. As at the reporting date the instalments had a remaining period of availability of 5 months. The deadline for repaying the instalments drawn is 30 October 2026. The funds acquired through this loan are being used to finance the Parent Entity's investment projects related to modernisation of metallurgy and development of the Żelazny Most tailings storage facility.

Short-term bilateral bank loans in the amount of up to PLN 3.8 billion with availability of up to 2 years	The company has open lines of credit in the form of bilateral agreements in the total amount of PLN 3.8 billion. These are working capital facilities and overdraft facilities with availability of up to 2 years. The maturities of these agreement are successively extended for subsequent periods. The funds obtained under these agreements are used to finance working capital and are a tool in managing current financial liquidity.

Debt position as at 31 December 2015

In 2015, KGHM Polska Miedź S.A. made use of borrowings which were available from all of the above pillars. In addition, the company undertook actions aimed at optimising the process of managing capital by extending its payment periods for supplies or services rendered, in accordance with the trends observed in the mining sector. At the same time, to ensure that the company's suppliers receive payment prior to the contractual deadlines, a Supplier Financing Program was prepared and implemented by the banks cooperating with the company.

The following table presents a breakdown of borrowings used by KGHM Polska Miedź S.A. and the extent to which they were utilised.

Table 37. Amount available and drawn by KGHM Polska Miedź S.A. *(in mn PLN)*

Type of bank and other loan	Amount available as at 31.12.2015	Amount drawn as at 31.12.2015*	Amount drawn as at 31.12.2014	Change 31.12.2014=100
Unsecured, revolving syndicated credit facility	9 753	3 126	-	x
Investment loan	2 000	1 176	1 058	111.2
Working capital facility and overdraft facility	3 818	2 553	1 050	x2.4
Total	**15 571**	**6 855**	**2 108**	**x3.3**

* *amounts drawn include accrued interest unpaid as at the reporting date*

Liabilities due to borrowings in the amount of PLN 6 855 million as at 31 December 2015 were drawn in USD (PLN 6 443 million) and partially in EUR (or PLN 412 million).

Liabilities due to borrowings by the Group's remaining companies (excluding those of the KGHM INTERNATIONAL LTD. Group) at the end of 2015 represented only 2% of the Group's debt structure and amounted to PLN 158 million (a decrease as compared to 2014 by PLN 25 million). Amongst the 12 companies which engage in borrowings, the highest debt at the end of analysed period was held by Interferie Medical SPA Sp. z o.o., in the amount of PLN 48 million (an investment loan with a maturity of 31 December 2021).

Cash pool in the Group

In managing its financial liquidity, KGHM Polska Miedź S.A. utilises tools which support its efficiency. One of the basic instruments used by the company is the cash pool management system, domestically in PLN, USD and EUR and abroad in USD. The cash pool system is aimed at optimising cash management and limiting interest costs, the effective financing of current needs in terms of working capital and supporting short term financial liquidity in the Group.

Loans granted within the Group

In 2015, KGHM Polska Miedź S.A. granted loans to four international companies in the total amount of USD 1 094 million (PLN 4 269 million at the exchange rate of 31 December 2015) to refinance the debt of KGHM INTERNATIONAL LTD. and provide financing for the development projects of the KGHM INTERNATIONAL LTD. Group: Sierra Gorda, Victoria, Ajax and Sierra Gorda Oxide. Financing for individual projects is presented in Section 6.1 of this report. As at 31 December 2015 the balance of outstanding loans amounted to USD 1 125 million (PLN 4 387 million at the exchange rate of 31 December 2015).

The following table presents the major loans granted between Group companies, as at the end of 2015 (reflecting accrued interest).

Other loans, which are not not shown in the table, were granted to 11 of the Group's companies, with total liabilities as at the end of 2015 of PLN 28.5 million.

Table 38. Loans granted between Group companies as at 31 December 2015

Borrower	Year granted	Total loans granted*	Balance as at 31.12.2015**	Maturity ***
Loans granted by KGHM Polska Miedź S.A.				
„Energetyka" sp. z o.o.	2009	PLN 50 mn	PLN 19.3 mn	31.12.2019
Zagłębie Lubin S.A.	2013-2014	PLN 14.5 mn	PLN 14.6 mn	31.12.2026
0929260 B.C. Unlimited Liability Company ****	2014-2015	USD 630.3 mn	USD 651.6 mn (PLN 2 541.8 mn)	31.12.2024
Fermat 1 S.à r.l.	2013-2015	USD 873.6 mn	USD 919.8 mn (PLN 3 588.3 mn)	31.12.2024
Quadra FNX Holdings Chile Limitada	2015	USD 145.8 mn	USD 148.2 mn (PLN 578.3 mn)	31.12.2024
Mineria y Exploraciones KGHM International SpA	2015	USD 3.2 mn	USD 3.2 mn (PLN 12.6 mn)	31.12.2024
Loans granted by Fermat 1 S.à r.l.				
Fermat 2 S.à r.l.	2013-2015	USD 121.5 mn	USD 133.2 mn (PLN 519.8 mn)	31.12.2024
Fermat 3 S.à r.l.	2012-2015	USD 1 873.4 mn	USD 1 872.7 mn (PLN 7 305.5 mn)	04.03.2020
Loans granted by Fermat 3 S.à r.l.				
Fermat 2 S.à r.l.	2012	USD 2 825.1 mn	USD 2 507.0 mn (PLN 9 780.0 mn)	04.03.2020
Loans granted by Fermat 2 S.à r.l.				
0929260 B.C. Unlimited Liability Company ****	2012	USD 1 873.1 mn	USD 2 213.8 mn (PLN 8 636.4 mn)	05.03.2020
Loans granted by KGHM INTERNATIONAL LTD.				
Sociedad Contractual Minera Franke	2010, 2012	USD 130.0 mn	USD 104.2 mn (PLN 406.5 mn)	on demand
Quadra FNX FFI Ltd.	2012, 2013	USD 1 289.0 mn	USD 1 459 mn (PLN 5 691.7 mn)	on demand
Robinson Holdings USA Ltd.	2013	USD 150.0 mn	USD 43.7 mn (PLN 170.5 mn)	on demand, no later than to 30.06.2025
FNX Mining Company Inc.	2015	USD 140.0 mn	USD 51.5 mn (PLN 200.9 mn)	on demand
Malmbjerget Molybdenum A/S	2011	USD 20.0 mn	USD 4.7 mn (PLN 18.3 mn)	on demand
Loans granted by FNX Mining Company Inc.				
Minera Exploraciones KGHM International SpA	2012	USD 50.0 mn	USD 50.5 mn (PLN 197.0 mn)	on demand,
KGHM INTERNATIONAL LTD.	2014	USD 200.0 mn	USD 96.9 mn (PLN 378.6 mn)	on demand, no later than to 30.06.2025

* *total amount of loans granted to the given company*
** *amounts reflect accrued interest unpaid as at the reporting date*
*** *dates refer to loans with the longest maturity*
**** *liabilities acquired by KGHM INTERNATIONAL LTD. due to merger of 0929260 B.C. Unlimited Liability Company with KGHM INTERNATIONAL LTD.*

Table 39. Loans granted to other entities as at 31.12.2015

Borrower	Year granted	Loan amount and currency	Balance as at 31.12.2015	Maturity
Loans granted by KGHM INTERNATIONAL LTD.				
Sierra Gorda S.C.M.	2012	USD 1 700 mn	USD 1 923.6 mn (PLN 7 504.2 mn)	2024

Borrower	Year granted	Loan amount and currency	Balance as at 31.12.2015	Maturity
Loans granted by 0929260 B.C. Unlimited Liability Company				
Abacus Mining & Exploration Corporation	2015	USD 3.6 mn	CAD 7.9 mn (PLN 22.2 mn)	2020

Contingent liabilities due to guarantees granted

An important tool in managing financial liquidity within the Group are guarantees and letters of credit, thanks to which the Group's companies do not have to commit cash to secure their liabilities towards other entities.

As at 31 December 2015, the Group held contingent liabilities due to guarantees granted in the total amount of PLN 1 281 million and promissory notes liabilities in the amount of PLN 256 million.

Contingent liabilities are mainly concerned with security payments related to leasing agreements entered into by Sierra Gorda S.C.M., agreements to secure the proper performance of contracts entered into by Sierra Gorda S.C.M. and the KGHM INTERNATIONAL LTD. Group, and guarantees and own promissory notes together with a promissory note declaration to secure the proper performance of the future environmental obligations of the Group.

On 12 February 2016, the Parent Entity issued a corporate guarantee on behalf of Banco de Chile in the amount of USD 63 million. The guarantee secures the repayment of a short term working capital facility granted by Banco de Chile to Sierra Gorda S.C.M. The guarantee expires on 12 February 2017.

7.9. Statement of profit or loss

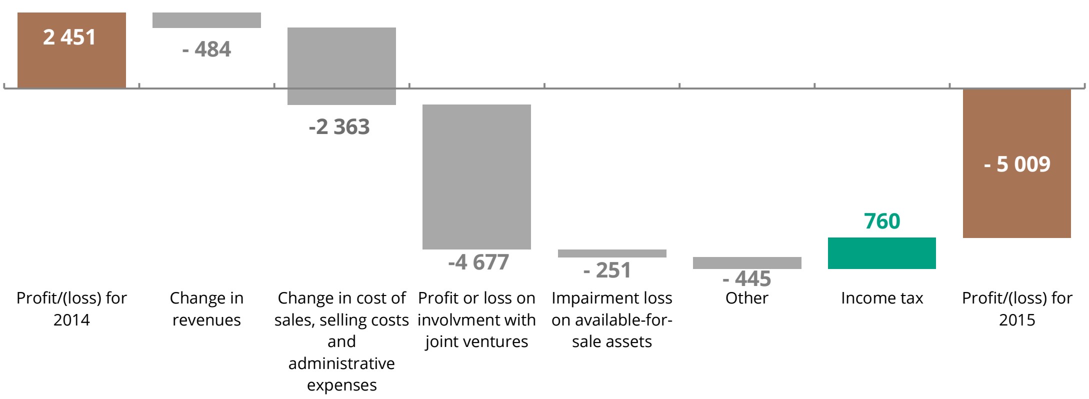
Table 40. Consolidated statement of profit or loss *(in mn PLN)*

	2015	2014	Change 31.12.14=100	IVQ'15	IIIQ'15	IIQ'15	IQ'15
Sales revenue	20 008	20 492	97.6	5 148	4 800	5 329	4 731
Cost of sales, selling costs and administrative expenses	(19 502)	(17 139)	113.8	(6 916)	(4 292)	(4 286)	(4 008)
Profit/(loss) on sales (EBIT)	**506**	**3 353**	**15.1**	**(1 768)**	**508**	**1 043**	**723**
Profit or loss on involvement in joint ventures	**(4 662)**	**15**	**x**	**(4 667)**	**(171)**	**94**	**82**
Other operating income and costs, including:	**(660)**	**56**	**x**	**(445)**	**(137)**	**14**	**(92)**
- Impairment loss on available-for-sale assets	(265)	(14)	x18.9	(265)	-	-	-
Operating profit/(loss)	**(4 816)**	**3 424**	**x**	**(6 880)**	**200**	**1 151**	**713**
Finance costs	**(306)**	**(326)**	**93.9**	**(82)**	**(53)**	**(35)**	**(136)**
Profit/(loss) before taxation	(5 122)	3 098	x	(6 962)	147	1 116	577
Income tax expense	113	(647)	x	725	(113)	(320)	(179)
Profit/(loss) for the period	**(5 009)**	**2 451**	**x**	**(6 237)**	**34**	**796**	**398**
Adjusted EBITDA *	**4 710**	**4 890**	**96.3**	961	1 051	1 456	1 242

* *EBITDA and Adjusted EBITDA according to data presented in PART 2 of the Financial statements (consolidated data)*

The method of calculating Adjusted EBITDA: EBIT (profit/(loss) on sales) + depreciation/amortisation (recognised in profit or loss) + impairment losses (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)

Chart 20. Profit/(loss) for 2015 *(in mn PLN)*



Main factors impacting the change of profit/(loss) for 2015 as compared to 2014

Sales revenue	**A decrease by PLN 484 million**, manly due to lower metals prices, alongside a more favourable USD/PLN exchange rate (details are presented in Section 7.2 and 7.4 of this report). Adjustments to revenues due to the settlement of hedging transactions in 2015 as compared to 2014 were lower by PLN 49 million (impact of hedging transactions on revenues in 2015: PLN 482 million, in 2014: PLN 531 million).
Cost of sales, selling costs and administrative expenses	**An increase by PLN 2 363 million**, mainly due to an increase in impairment losses on non-current assets in the amount of PLN 2 374 million. In 2015 impairment losses amounted to PLN 2 417 million, including PLN 2 411 million recognised on the assets of the KGHM INTERNATIONAL LTD. Group (results on testing for impairment were presented in Part 3 of the financial statements).
Profit or loss on involvement in joint ventures	**A decrease by PLN 4 677 million,** mainly in respect of Sierra Gorda S.C.M. due to: - share of losses of joint venture accounted for using the equity method in the amount of PLN 4 455 million, - impairment loss on shares in joint ventures accounted for using the equity method in the amount of PLN 671 million, alongside an increase in interest income on loans granted by PLN 184 million. The basis for recognising these impairment losses was the fall in the market prices of copper and molybdenum (details of the test for impairment of the investment in Sierra Gorda S.C.M. are presented in Part 6 of the Financial statements).
Impairment loss on available-for-sale assets	**An increase in impairment losses by PLN 251 million** mainly due to recognition of an impairment loss on the shares of TAURON Polska Energia S.A., listed on the Warsaw Stock Exchange, by PLN 395 million (which decreased the profit or loss by PLN 262 million, and decreased other comprehensive income by PLN 133 million).
Income tax	**A decrease by PLN 760 million** mainly due to an increase in the profit or loss for 2015 (due to lower deferred tax liabilities): – by PLN 515 million due to temporary differences from dividends income from the Sierra Gorda S.C.M. investment, due to a decrease in the value of this investment, – by PLN 472 million due to a decrease in deferred tax liabilities arising from the impairment losses on the mining assets of the KGHM INTERNATIONAL LTD. Group.
Other	**A decrease by PLN 445 million,** including increase of impairment loss on fixed assets under construction and intangible assets not yet available for use by PLN 291 million.

Table 41. Structure of Group financial result for 2015 *(in mn PLN)*

Description	Profit/(loss) for 2015
KGHM Polska Miedź S.A.	**(2 789)**
Subsidiaries *including:*	**(7 818)**
KGHM INTERNATIONAL LTD. Group	(7 731)
Other companies of the KGHM Polska Miedź S.A. Group	(87)
Total profit/(loss) for the period of Group entities	**(10 607)**
Consolidation adjustments	5 595
Profit/(loss) attributable to shareholders of the Parent Entity	(5 012)
Profit attributable to non-controlling interest	3
Total profit/(loss) for the period	**(5 009)**

7.10. Cost of sales, selling costs and administrative expenses

The cost of sales, selling costs and administrative expenses (cost of products, merchandise and materials sold plus selling costs and administrative expenses) in 2015 amounted to PLN 19 502 million and were 14% higher than that of 2014.

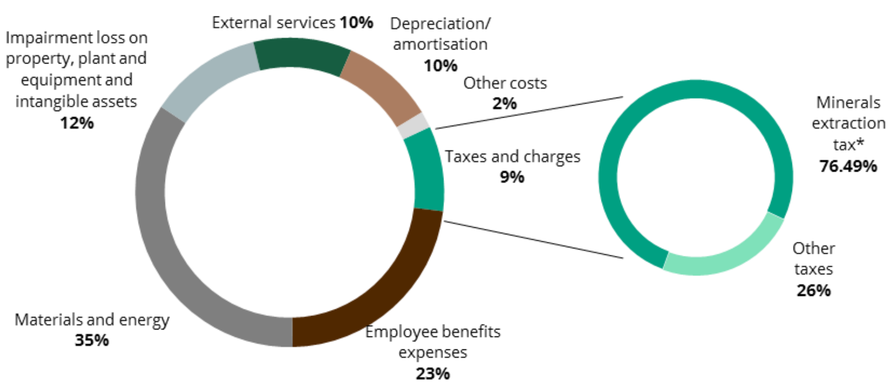
Table 42. Expenses by nature *(in mn PLN)*

	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Depreciation/amortisation	2 015	1 635	123.2	449	486	516	564
Employee benefits expenses	4 706	4 704	100.0	1 237	1 172	1 118	1 179
Materials and energy	7 264	7 607	95.5	1 887	1 673	1 949	1 755
External services	2 110	1 813	116.4	615	545	532	418
Taxes and charges	1 943	2 008	96.8	427	457	526	533
including:							
- minerals extraction tax	1 439	1 520	94.7	304	325	417	393
Impairment loss on property, plant and equipment and intangible assets	2 417	43	x56.2	2 417			
Other costs	371	303	122.4	89	106	126	50
Total	**20 826**	**18 113**	**115.0**	**7 121**	**4 439**	**4 767**	**4 499**

Expenses by nature in 2015 increased as compared to 2014 by PLN 2 713 million, mainly due to impairment losses on property, plant and equipment and intangible assets in the amount of PLN 2 417 million.

The structure of expenses by nature in 2015 is presented below.

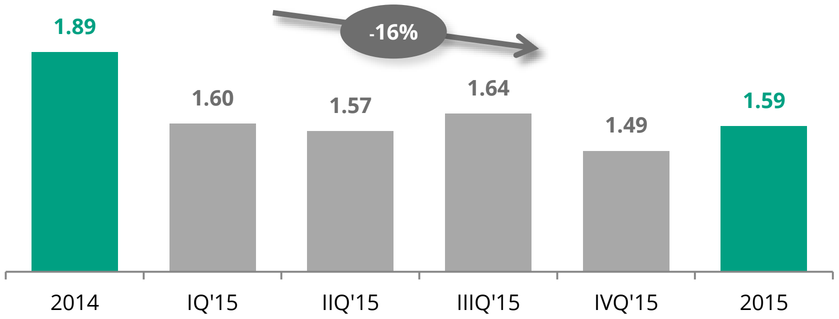
Chart 21. Structure of expenses by nature in the Group in 2015



* *The minerals extraction tax paid by the Parent Entity is calculated from the amount of copper and silver contained in produced concentrate and depends on the prices of these metals as well as on the USD/PLN exchange rate. The tax is accounted for under manufacturing costs of basic products and is not deductible for corporate income tax purposes.*

A key element impact operating costs are the costs associated with producing electrolytic copper (C1). The following chart illustrates the change in C1 cost over several periods.

Chart 22. C1 cost of producing copper in concentrate * in the KGHM Polska Miedź S.A. Group (USD/lb)

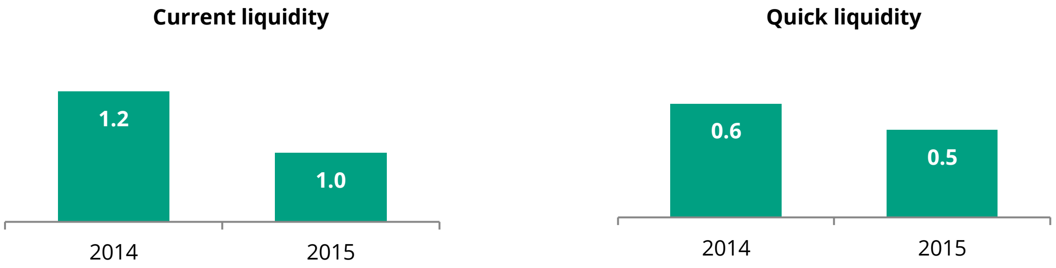


* *C1 unit cost of producing copper - cash cost of producing payable copper in concentrate, reflecting costs of ore extraction and processing, the minerals extraction tax, transport costs, administrative expenses during the mining stage, and smelter treatment and refining charges (TC/RC), less the value of by-products*

7.11. Financial ratios

The financial ratios of the KGHM Polska Miedź S.A. Group in the years 2014-2015 are presented in the following charts.

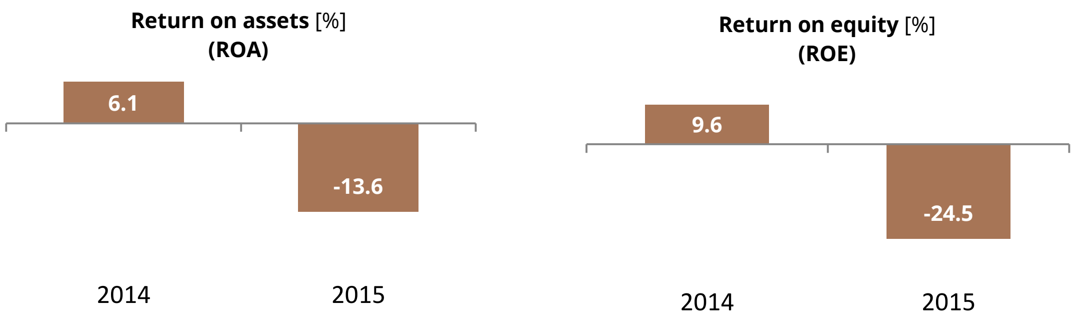
Chart 23. Liquidity ratios



Liquidity ratios show the relationship of current assets, or their more liquid part, to current liabilities. The decrease in these ratios as compared to 2014 is caused by an increase in current liabilities due to borrowings. The liquidity ratios are currently at a safe level.

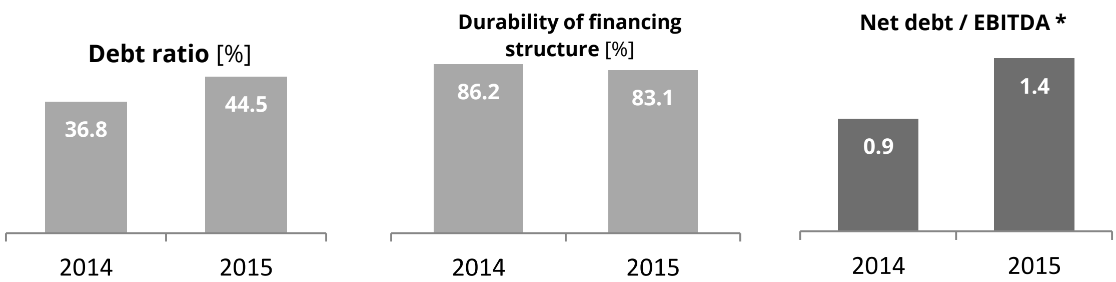
In 2015 there was an increase in leverage due to borrowings, as well as an increase in current liabilities. As a result, as at 31 December 2015 current liabilities amounted to PLN 6 197 million and were higher than current assets by PLN 119 million. Under the bilateral agreements entered into with banks, the Parent Entity makes use of working capital facilities and overdraft facilities with maturities of up to 2 years. As a result of the above as well as of the successive extension of the financing available under these bilateral agreements for subsequent periods, the liquidity risk connected with the short-term bank loans received is considered as low.

Chart 24. Profitability ratios



The substantial deterioration in 2015 of the ratios describing the return on equity (ROE) and the return on assets (ROA) was due to recorded loss for the period, mainly due to the impairment losses on assets.

Chart 25. Financing ratios



** adjusted EBITDA, excludes data of Sierra Gorda S.C.M.*

The durability of the financing structure ratio, which remains at a similar, high level, confirms the long-term nature of the Group's borrowings structure. The increase in the debt ratio in the Group reflects the increase in the use of leverage.

The Net debt/EBITDA ratio demonstrates the safe financial condition of the Group – in accordance with the Group's Financial Liquidity Management Policy, it is assumed that this ratio will remain below the level 2.0.

7.12. 2015 targets versus achievements and expected situation in 2016

KGHM Polska Miedź S.A. did not publish a forecast of Group financial results for 2015. In its annual financial statements for 2014 the Parent Entity announced its targets for 2015.

The production and sales volume of copper achieved by KGHM Polska Miedź S.A. in 2015 were at levels similar to the planned amounts (production of electrolytic copper: plan 567.5 thousand tonnes, execution 574.3 thousand tonnes; sale of copper products: plan 564.7 thousand tonnes, execution 571.4 thousand tonnes), while in the case of silver, production and sales volume were respectively by 11% and 8% higher than planned (production of metallic silver: plan 1 160 tonnes, execution 1 283 tonnes, sale of silver: plan 1 158 tonnes, execution 1 245 tonnes).

The lower-than-expected metals prices (average copper price: plan 6 800 USD/t, execution 5 495 USD/t) were partially offset by a more favourable exchange rate. The copper price expressed in PLN was 8% lower than planned, while silver was at the planned level.

The unit cost of electrolytic copper production from own concentrate was lower than planned mainly due to higher-than-planned copper production (total unit cost of electrolytic copper production: plan 15 940 PLN/t, execution 14 159 PLN/t). Meanwhile the C1 cash cost of producing copper in concentrate was substantially lower than planned (plan 1.86 USD/lb, execution 1.47 USD/lb), mainly due to the weakening in the PLN versus the USD, but also due to the higher content of silver in own concentrate.

The achievement by KGHM Polska Miedź S.A. of targets for 2015 was presented in detail in the Section 3.10 of the Management Board's Report on the Activities of the company in 2015 .

Expected economic situation in 2016

KGHM Polska Miedź S.A. expects a further deterioration of metals prices in 2016, including copper by 9% (planned average price of copper: 5 000 USD/t) and silver by 11% (planned average price of silver: 14.00 USD/oz t), whose negative impact will be partially offset by a weakening in the PLN versus the USD by 5%. As a result, copper and silver prices expressed in PLN are expected to be lower respectively by 5% and 6%.

In 2016, KGHM Polska Miedź S.A. plans to maintain stable production of copper in concentrate at the level of 426.8 thousand tonnes and to achieve C1 production cost at a level of 1.45 USD/lb, i.e. 1.4% lower than that achieved in 2015.

With regard to the planned, four-month shutdown at the Głogów I smelter/refinery related to the change from shaft furnace to flash furnace technology, the company also expects a decrease in electrolytic copper production in 2016 by 9% (i.e. to the level of 525.4 thousand tonnes) and silver by 21% (i.e. to the level of 1 010 tonnes). The decrease in production volume will result in an increase in the unit cost of electrolytic copper production from own concentrate: pre-precious metals credit unit cost by 6% and total cost by 15% (i.e. to the level of 16 345 PLN/t).

The planned volume of copper sales in 2016 is at a similar level to that of 2015 and amounts to 575.7 thousand tonnes, while the volume of silver sales is lower by 9% and amounts to 1 134 tonnes.

The sales volumes of copper and silver in 2016 include planned sales of own concentrate: 215 thousand tonnes dry weight (47 thousand tonnes of copper and 106 tonnes of payable silver), which will not be used by KGHM Polska Miedź S.A. due to the smelter shutdown.

In 2016, the Parent Entity expects capital expenditures in the amount of PLN 2 530 million and equity investments in the amount of PLN 1 488 million. The high level of investment expenditures is mainly due to the need to complete investments related to the change in metallurgical technology and to provide support in the form of owner loans for the operations of the Sierra Gorda mine as well as the mine assets of KGHM INTERNATIONAL LTD. given the current unfavourable macroeconomic conditions. In addition, in 2016 the company has set aside equity investment funds for its international resource base development projects (Ajax, Victoria and Sierra Gorda Oxide) related to obtaining required permits and conducting analyses.

In light of the aforementioned factors - the deterioration in macroeconomic conditions and lower production - the Management Board of the Parent Entity has decided to commence the process of reviewing the assumptions contained in the strategy for the years 2015–2020, including reviewing and prioritising investment projects throughout the Group in order to substantially reduce capital needs in the short and medium terms.

The Company is also implementing advanced cost efficiency programs for its mining operations, based among others on optimising technological processes, employment and renegotiating contracts for the supply of materials and services.

2016 targets of KGHM Polska Miedź S.A. are presented in details in the Section 3.10 of the Management Board's Report on the activities of the company in 2015.

7.13. Future equity considerations

Equity investments are based on the main goals of the Strategy of KGHM Polska Miedź S.A. for the years 2015-2020 with an outlook to 2040 adopted in January 2015.

Pursuant to the existing Strategy the activities of the Group in the coming years will be focused on advancing its portfolio of projects – above all Sierra Gorda (phase 2 of the project as well as the Sierra Gorda Oxide project which will process oxide ore), Victoria and Ajax.

Based on the results of exploration and assessment work and analysis carried out within exploration projects Weisswasser (Germany) and Malmbjerg (Greenland), it was determined that neither project demonstrates economic feasibility for further development. It was therefore decided to terminate both projects.

With respect to domestic equity investments involved in resource base development, KGHM Polska Miedź S.A. intends to advance a project related to the exploration and evaluation of deposits of potassium-magnesium salt, phosphorous minerals, rock salt and non-ferrous metals in the Zatoka Pucka region. The potential partners in the project are companies in the Azoty Group (Grupa Azoty).

KGHM Polska Miedź S.A., as one of the largest consumers of electricity in Poland, plans to take an active role in projects in the energy sector which will enable the company to secure its power needs, reduce its exposure to changes in fuel and electricity prices and reduce the impact of its climate-related obligations. KGHM Polska Miedź S.A. is participating in the project to prepare for the construction of Poland's first nuclear power plant. The company's partners in the project are ENEA S.A., PGE Polska Grupa Energetyczna S.A. and TAURON Polska Energia S.A.

Information regarding progress on the above projects may be found in Section 4 of this report.

In addition, we will continue actions aimed at optimising the structure of the KGHM Polska Miedź S.A. Group, through the processes of restructuring and liquidation.

Due to the deterioration of macroeconomic conditions, the Management Board has decided to commence the process of reviewing the assumptions contained in the Strategy. In particular, the investment projects of the Group are being reviewed and prioritised in order to substantially reduce capital needs in the short and medium terms.

Assessment of investment capabilities in terms of available funds, reflecting potential changes in the structure of financing these activities

The cash currently held by KGHM Polska Miedź S.A. along with the borrowing capabilities acquired guarantee that we will be able to achieve our investment goals, both in terms of equity investments as well as the purchase and construction of fixed assets.

8. Parent Entity

8.1. Share capital and ownership structure of the Parent Entity

As at 31 December 2015, the share capital of the KGHM Polska Miedź S.A., in accordance with the entry in the National Court Register, amounted to PLN 2 billion and was divided into 200 million shares, series A, having a face value of PLN 10 each. All shares are bearer shares. Each share grants the right to one vote at the General Meeting. The company has not issued preference shares.

In 2015 there was no change in either registered share capital or in the number of outstanding shares issued.

As far as the company's Management Board is aware, there was also no change in the ownership structure of significant blocks of shares of KGHM Polska Miedź S.A. during the same period. The only shareholder who as at 1 January 2015 as well as at 31 December 2015 held a number of shares granting the right to 5% or more of the total number of votes at the General Meeting of KGHM Polska Miedź S.A. was the Polish State Treasury. The company's shareholder structure as at 31 December 2015 and at the date this report was signed was as follows:

Table 43. Shareholder structure of KGHM Polska Miedź S.A. as at 31 December 2015 and at the date this report was signed

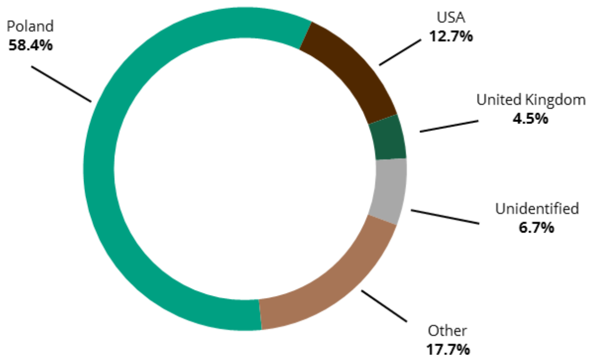
Shareholder	Number of shares/votes	% of share capital/total number of votes
State Treasury *	63 589 900	31.79 %
Other shareholders	136 410 100	68.21%
Total	**200 000 000**	**100.00%**

** based on an announcement received by the company dated 12 January 2010*

Other shareholders, whose total ownership of the share capital and share in the total number of votes amounts to 68.21%, are mainly institutional investors, both domestic and international.

Following is the geographic distribution of the company's shareholder structure. The data is based on research into the company's shareholder structure performed in 2015.

Chart 26. Geographic distribution of the shareholder structure of KGHM Polska Miedź S.A.



The company does not hold any treasury shares.

The Management Board of the company is unaware of any agreements which could result in changes in the proportion of shares held by present shareholders in the future.

Based on the information held by KGHM Polska Miedź S.A., as at 31 December 2015, the following Members of the Management Board of KGHM Polska Miedź S.A. held the company's shares.

Table 44. KGHM Polska Miedź S.A. shares held by Members of the Management Board of the company as at 31 December 2015

Position/function	Name	Number of shares held	Nominal value of shares in
President of the Management Board	Herbert Wirth	3 639	36 390
First Vice President of the Management Board	Jarosław Romanowski	3 650	36 500
Vice President of the Management Board	Marcin Chmielewski	3 743	37 430
Vice President of the Management Board	Jacek Kardela	3 664	36 640
Vice President of the Management Board	Mirosław Laskowski	1 715	17 150

On 3 and 23 February 2016 the Supervisory Board of KGHM Polska Miedź S.A. changed the composition of the Management Board of KGHM Polska Miedź S.A.

Based on the information held by KGHM Polska Miedź S.A., as at the date this report was signed the following Members of the Management Board of KGHM Polska Miedź S.A. held the company's shares.

Table 45. KGHM Polska Miedź S.A. shares held by Members of the Management Board of the company as at the date this report was signed

Position /function	Name	Number of shares held	Nominal value of shares in PLN
President of the Management Board	Krzysztof Skóra	5	50
Vice President of the Management Board	Mirosław Laskowski	1 715	17 150

Based on the information held by KGHM Polska Miedź S.A., as at 31 December 2015, the following Members of the Supervisory Board of KGHM Polska Miedź S.A. held the company's shares.

Table 46. KGHM Polska Miedź S.A. shares held by Members of the Supervisory Board of the company as at 31 December 2015

Position /function	Name	Number of shares held	Nominal value of shares in PLN
Member of the Supervisory Board	Józef Czyczerski	10	100
Member of the Supervisory Board	Leszek Hajdacki	1	10

On 18 January 2016, the Extraordinary General Meeting of KGHM Polska Miedź S.A. carried out changes to the composition of the company's Supervisory Board.

Based on the information held by KGHM Polska Miedź S.A., as at the date this report was signed the following Members of the Supervisory Board of KGHM Polska Miedź S.A. held the company's shares.

Table 47. KGHM Polska Miedź S.A. shares held by Members of the Supervisory Board of the company as at the date this report was signed

Position /function	Name	Number of shares held	Nominal value of shares in PLN
Member of the Supervisory Board	Józef Czyczerski	10	100
Member of the Supervisory Board	Leszek Hajdacki	1	10

Based on information held by KGHM Polska Miedź S.A., Members of the company's Management Board and Supervisory Board did not hold shares of the related entities of KGHM Polska Miedź S.A.

The company did not have an employee share incentive program in 2015.

8.2. The Parent Entity on the Warsaw Stock Exchange

KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange (WSE) in July 1997. The Parent Entity's shares are traded on the primary market in the continuous trading system and are a component of the WIG, WIG20 and WIG30 indices. The company's shares are included in the WIG-basic materials ("WIG-SUROWCE") sector index and the WIGdiv index.

In 2015 the shares of KGHM Polska Miedź S.A. were once again amongst the selected group of 23 companies listed on the Warsaw Stock Exchange which comprise the RESPECT Index. The company has participated in this index continuously since 2009, which confirms its conformance with the highest standards of social responsibility.

The RESPECT Index, which has been published since 19 November 2009, is an index of socially-responsible companies listed on the Warsaw Stock Exchange. The Index includes companies from the Warsaw Stock Exchange which conform to Corporate Social Responsibility (CSR) standards.

The RESPECT Index highlights those companies which are managed in a sustainable and responsible manner, and also highlights their investment attractiveness. Inclusion in the Index is determined by a company's quality of reporting, its level of investor relations and its adherence to Corporate Governance principles.

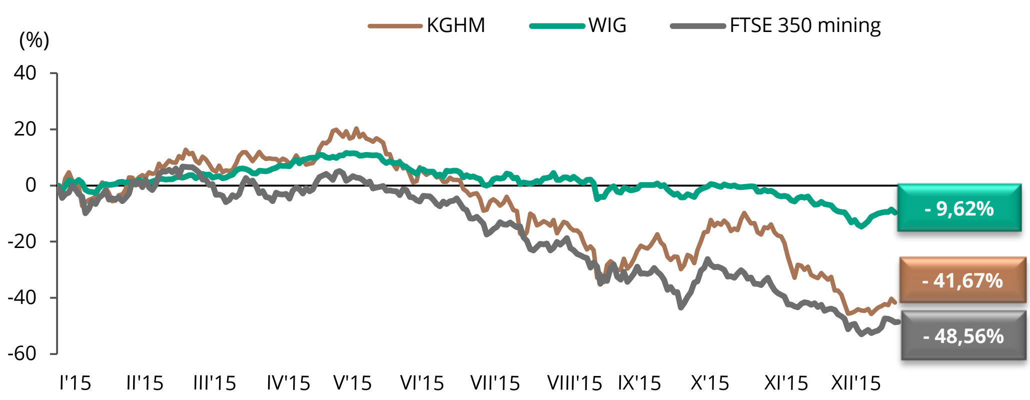
In 2015 companies operating in the mining sector, including KGHM Polska Miedź S.A., were under substantial pressure from macroeconomic factors related primarily to the slowing rate of economic growth in Asian markets (mainly China), the rapid decrease in commodities prices and the global geopolitical situation (the Middle East). This led to a trend to sell-off the shares of mining companies by investors. The FTSE 350 mining index fell in 2015 by 48.56%. The FTSE 350 Mining index is an index of companies listed on the London Stock Exchange (LSE). Amongst the 350 largest companies in terms of market capitalisation are companies in the mining sector. The index includes companies such as Anglo-American, Antofagasta, BHP Billiton and Rio Tinto.

Despite such strong pressure, the decrease in KGHM Polska Miedź S.A.'s share price in 2015 was lower than the average decrease for all companies in the peer group (the largest global companies in the mining sector), which amounted to approx. 50%.

In 2015 KGHM's share price fell by 41.67%, from a closing price of PLN 108.85 on 30 December 2014 to PLN 63.49 on the last trading day of 2015. During the same period the market indices WIG, WIG20 and WIG30 fell respectively by 9.62%, 19.72% and 16.56%.

On 13 May 2015 the company's shares reached their highest closing price of PLN 131.00. The lowest closing price amounted to PLN 59.07 and was recorded on 17 December 2015.

Chart 27. Change in share price of KGHM Polska Miedź S.A. versus the WIG index and FTSE 350 mining index



Key share price data of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange in the years 2014-2015 are presented in the following table.

Table 48. Key share price data of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange

Symbol: KGH, ISIN: PLKGHM000017	Unit	2015	2014
Number of shares issued		200 000 000	200 000 000
Market capitalisation of the company at year's end	PLN bn	12.7	21.8
Average trading volume per session		948 323	883 361
Change in share price from the end of the prior year	%	(41.67)	(7.75)
Highest closing price during the year	PLN	131.00	138.00
Lowest closing price during the year	PLN	59.07	99.90
Closing price from the last day of trading in the year	PLN	63.49	108.85

Source: WSE

Investor relations

The dialogue with stakeholders, among whom shareholders are of particular significance, is for us a key aspect of the company's operations. For KGHM Polska Miedź S.A., as a global company operating on three continents, it is a priority to ensure equal access to information to all members of the global capital markets. KGHM Polska Miedź S.A.'s actions are aimed at maintaining regular communication and transparent dialogue with investors and analysts as well as at ensuring conformance with our regulatory legal obligations.

We maintain an active dialogue with shareholders and market participants through meetings with investors and analysts both in Poland and abroad. In 2015 the company's representatives participated in numerous regional and sector conferences, meeting with investors and analysts. At the same time the company fulfils its informational obligations by publishing regulatory filings and periodic reports via the official reporting system (ESPI).

Publication of the company's financial results is accompanied by a conference open to all stakeholders, which is webcast live in Polish and English. A playback of the conference is available on the company's website at www.kghm.com in the Investors section. The Investors section is continuously updated with the latest information and documents. This section also includes regulatory filings and periodic financial statements and reports, information on the shareholder structure, documents related to general meetings and corporate governance, as well as presentations and videos for investors.

In 2015, sell-side reports on KGHM Polska Miedź S.A. were published by 16 analysts based in Poland and 8 based abroad.

Table 49. Financial institutions which issue recommendations and prepare research reports on KGHM Polska Miedź S.A.

POLAND		ABROAD
Deutsche Bank	IPOPEMA Securities	Morgan Stanley
DM Banku Handlowego	JP Morgan	Raiffeisen
DI mBank	PKO Dom Maklerski	Bank of America Merrill Lynch
DI Investors	Trigon Dom Maklerski	BMO
Haitong Bank	UBS	Credit Suisse
DM BZ WBK	Pekao Investment Banking	Goldman Sachs
Erste Group	DM BOŚ	WOOD & company
ING Securities	Societe Generale	Haitong

8.3. Dividend paid

In accordance with Resolution No. 5/2015 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 29 April 2015 regarding the appropriation of the KGHM Polska Miedź S.A.'s profit for financial year 2014, the amount of PLN 800 million was allocated as a shareholder dividend, amounting to PLN 4.00 per share. The dividend date (the day on which the right to dividend is set) was set at 27 May 2015 with the dividend being paid in two instalments: 18 June 2015 – PLN 2.00 per share and 19 October 2015 – PLN 2.00 per share.

Table 50. Dividend paid in 2014-2015

	Unit	2015	2014
Dividend paid in the financial year from the appropriation of profit for the previous year	mn PLN PLN/share	800 4.00	1 000 5.00
Dividend yield *	%	6.3	4.6

** dividend per share paid in the given financial year divided by the closing price in the last trading day in the given financial year*

On 26 January 2015, the Management Board of KGHM Polska Miedź S.A. resolved to adopt a Dividend Policy for KGHM Polska Miedź S.A. The Dividend Policy is part of its on-going efforts to ensure a balance between dividends paid out to shareholders and opportunities to efficiently invest the company's funds.

The Dividend Policy assumes that the Management Board will recommend allocation of up to one-third of the profit for the period of KGHM Polska Miedź S.A. for the previous financial year as a dividend, while taking into account the current and anticipated financial situation of the company and the Group. In particular, in making its recommendation the Management Board will take into account the company's anticipated requirements for capital to complete the company's development program as well as a safe debt level for the Group.

The final decision regarding the amount of dividends paid is made by the General Meeting of KGHM Polska Miedź S.A.

8.4. Changes in the Parent Entity's bodies

Management Board

Following is a description of changes in the Management Board which occured in 2015 and to the date this report was signed.

As at 1 January 2015, the composition of the 8th-term Management Board was as follows:

- Herbert Wirth - President of the Management Board,
- Jarosław Romanowski - First Vice President of the Management Board (Finance),
- Wojciech Kędzia - Vice President of the Management Board (Production),
- Jacek Kardela - Vice President of the Management Board (Development),
- Marcin Chmielewski - Vice President of the Management Board (Corporate Affairs).

On 18 December 2014, Wojciech Kędzia submitted his resignation from the function of Member of the Management Board, effective as at 31 January 2015. On 18 December 2014, the Supervisory Board appointed, with an effective date of 1 February 2015, Mirosław Laskowski as a Member of the Management Board of KGHM Polska Miedź S.A. in the function of Vice President of the Management Board.
From 1 February 2015, the composition of the Management Board was as follows:

- Herbert Wirth - President of the Management Board,
- Jarosław Romanowski - First Vice President of the Management Board (Finance),
- Marcin Chmielewski - Vice President of the Management Board (Corporate Affairs),
- Jacek Kardela - Vice President of the Management Board (Development),
- Mirosław Laskowski - Vice President of the Management Board (Production).

As a result of the conclusion of the 8th-term Management Board, on 17 March 2015 the Supervisory Board appointed the 9th-term Management Board as follows:

- Herbert Wirth - President of the Management Board,
- Jarosław Romanowski - First Vice President of the Management Board (Finance),
- Marcin Chmielewski - Vice President of the Management Board (Corporate Affairs),
- Jacek Kardela - Vice President of the Management Board (Development),
- Mirosław Laskowski - Vice President of the Management Board (Production).

From 17 March to 31 December 2015 there were no changes in the composition of the Management Board of KGHM Polska Miedź S.A.
In 2015, the Supervisory Board assigned specific duties to individual members of the Management Board as follows:

The President of the Management Board was responsible for overseeing:
- the initiation, development and updating of the Main Strategy,
- activities related to overall risk management at the corporate level as well as internal auditing and controlling within the Group,
- activities related to communications and corporate image-building within the Group,

- on the Founder’s behalf - the functioning of the KGHM Polish Copper Foundation as well as other organisations serving the public (as defined by Polish law) which support achievement of the Group’s business goals,
- the shaping of human resources policy within the Group; and
- activities related to developing the company’s resource base and advancement of the innovation policy.

The First Vice President of the Management Board (Finance) was responsible for overseeing:
- the shaping of Group financial policy;
- finances in all of the Group’s operations and activities;
- the creation of Group tax policy;
- the company’s accounting services;
- the shaping of the company’s portfolio of products and services;
- the shaping of the company’s commercial policy; and
- review of the Main Strategy’s projects in terms of their financial feasibility.

The Vice President of the Management Board (Corporate Affairs) was responsible for managing business relations and tasks related to corporate governance in the Group. He was also responsible for overseeing:
- the shaping of the portfolio of production and equity assets, as well as overall corporate oversight over the Group’s subsidiaries;
- compliance with corporate governance standards;
- analytical support with respect to equity investments;
- the means used to shape relations with the company’s external business environment (with current and potential investors);
- compliance with formal reporting and publishing obligations within the scope required by law;
- the restructurisation and transformation of the Group;
- the integration of acquired entities with other entities in the Group; and
- the development, updating and monitoring of the Group’s equity investment plan.

The Vice President of the Management Board (Development) was responsible for overseeing:
- the development and implementation of management standards related to carrying out the Main Strategy;
- development projects related to investments in property, plant and equipment;
- progress in projects other than R&D and investments in property, plant and equipment;
- management of the company’s property and real estate; and
- work of the Central Procurement Office.

The Vice President of the Management Board (Production) was responsible for managing the process of manufacturing the company’s products and services and oversees production operations in the Group’s subsidiaries, and is also responsible for acquiring, building and maintaining in readiness the production assets, in particular with respect to the tasks of occupational health and safety and control of environmental risk. He was also responsible for overseeing:
- activities involving the optimisation of production processes, occupational health and safety and control of environmental risk;
- activities with respect to acquiring, building and maintaining in readiness the production and non-production assets and achievement of the main goals of the Energy Strategy; and
- activities with respect to manufacturing products and services (primary mine and metallurgical production).

On 3 February 2016, the Supervisory Board of KGHM Polska Miedź S.A. adopted resolutions on changes in the composition of the Management Board of KGHM Polska Miedź S.A.:
- dismissed from the Management Board were: Herbert Wirth, Jarosław Romanowski, Marcin Chmielewski and Jacek Kardela.
- appointed to the Management Board were: Krzysztof Skóra, Mirosław Biliński and Jacek Rawecki.

From 3 February to 23 February 2016 the composition of the Management Board was as follows:

- Krzysztof Skóra - President of the Management Board,
- Mirosław Biliński - Vice President of the Management Board (Development),
- Mirosław Laskowski - Vice President of the Management Board (Production),
- Jacek Rawecki - Vice President of the Management Board (Corporate Affairs).

Subsequently, the Supervisory Board of KGHM Polska Miedź S.A. at a meeting on 23 February 2016, adopted a resolution in which it appointed Stefan Świątkowski as Vice President of the Management Board (Finance) of KGHM Polska Miedź S.A.

In addition, the Supervisory Board changed the area of responsibility of Jacek Rawecki, who was appointed on 3 February 2016 as a Vice President of KGHM Polska Miedź S.A. (Corporate Affairs) S.A., from “Corporate Affairs” to “Supply Chain Management”.

From 23 February 2016 to the date this report was signed the composition of the Management Board was as follows:

- Krzysztof Skóra - President of the Management Board,
- Mirosław Biliński - Vice President of the Management Board (Development),
- Mirosław Laskowski - Vice President of the Management Board (Production),
- Jacek Rawecki - Vice President of the Management Board (Supply Chain Management),
- Stefan Świątkowski - Vice President of the Management Board (Finance).

The preliminary breakdown of duties within the Management Board of KGHM Polska Miedź S.A., prior to the adoption by the Supervisory Board of the specific scope of duties of individual Members of the Management Board, is as follows.

The President of the Management Board is responsible for overseeing:

- activities related to comprehensive risk management at the corporate level as well as internal auditing and controlling within the Group,
- complete corporate oversight over the Group's subsidiaries,
- the development, updating and monitoring of the execution of the Group's equity investments plan,
- compliance with formal reporting and publishing obligations within the scope required by law,
- activities related to communications and corporate image-building within the Group; and
- the means used to shape relations with the company's external business environment.

The Vice President of the Management Board (Finance) is responsible for overseeing:

- the shaping of the Group's financial policy,
- finances in all of the Group's operations and activities,
- the creation of the Group's tax policy,
- the company's accounting services, and
- the reviewing of the Main Strategy's projects in terms of their financial feasibility.

The Vice President of the Management Board (Supply Chain Management) is responsible for overseeing:

- the work of the Central Procurement Office,
- the shaping of the company's commercial policy; and
- the shaping of the company's portfolio of products and services.

The Vice President of the Management Board (Development) is responsible for overseeing:

- the initiation, development and updating of the Main Strategy,
- the development and implementation of standards for managing the execution of the Main Strategy,
- the realisation of tangible investments,
- progress in projects other than R&D and tangible investments,
- activities related to developing the company's resource base and realisation of the innovation policy; and
- management of the company's land and real estate.

The Vice President of the Management Board (Production) is responsible for managing the process of manufacturing the company's products and services and oversees production operations in the Group's subsidiaries, and is also responsible for acquiring, building and maintaining the readiness of the production assets, in particular with respect to the tasks of workplace safety and control of environmental risk. He is also responsible for overseeing:

- activities involving the optimisation of production processes, workplace safety and control of environmental risk,
- activities with respect to acquiring, building and maintaining the readiness the production and non-production assets and achievement of the main goals of the Energy Strategy; and
- activities with respect to manufacturing the company's products and services (primary mine and metallurgical production).

Supervisory Board

As at 1 January 2015, the composition of the 9th-term Supervisory Board of KGHM Polska Miedź S.A. was as follows:

- Marcin Moryń - Chairman,
- Tomasz Cyran - Deputy Chairman,
- Bogusław Stanisław Fiedor,
- Andrzej Kidyba,
- Jacek Poświata,
- Barbara Wertelecka-Kwater

along with the following employee-elected members:

- Józef Czyczerski,
- Leszek Hajdacki,
- Bogusław Szarek - Secretary.

From 1 January to 31 December 2015 there were no changes in the composition of the Supervisory Board of KGHM Polska Miedź S.A.

On 18 January 2016 the Extraordinary General Meeting adopted resolutions regarding changes in the composition of the Supervisory Board of KGHM Polska Miedź S.A.:

- the following persons were dismissed from the composition of the Supervisory Board: Tomasz Cyran, Bogusław Stanisław Fiedor, Andrzej Kidyba, Marcin Moryń, Jacek Poświata, Barbara Wertelecka-Kwater,
- the following persons were appointed to the composition of the Supervisory Board: Radosław Barszcz, Michał Czarnik, Cezary Godziuk, Miłosz Stanisławski, Dominik Hunek, Jarosław Witkowski.

From 18 January 2016 to the date this report was signed the composition of the Supervisory Board is as follows:

- Dominik Hunek - Chairman of the Supervisory Board (from 3 February 2016),
- Radosław Barszcz - Deputy Chairman of the Supervisory Board (from 3 February 2016),
- Michał Czarnik,
- Cezary Godziuk,
- Miłosz Stanisławski,
- Jarosław Witkowski

along with the following employee-elected members:

- Józef Czyczerski,
- Leszek Hajdacki,
- Bogusław Szarek - Secretary.

8.5. Remuneration of members of bodies of the Parent Entity and of other key managers of the Group

The employment contracts which are signed with Members of the Management Board provide for the payment of remuneration, composed of the basic monthly salary and variable salary. The basic monthly salary is set as a multiple of the average monthly remuneration in the industrial sector, excluding payments from profit, in the fourth quarter of the previous year, announced by the President of the Chief Statistical Office. Payment of the variable salary is contingent on the fulfilment of criteria (tasks) set by the Supervisory Board, and is contingent upon achievement by the Members of the Management Board of key performance indicators (KPI) and amounts to up to 40% of the annual basic salary.

Additionally, the Supervisory Board, based on assessment of the work of the Management Board, may grant the Members of the Management Board up to 10% of the annual basic salary.

The employment contracts with Management Board Members also regulate the following matters:

- coverage by the company of costs required for the proper performance of the employment contracts (travel, flights, room, board, travel insurance and representation costs, incurred pursuant to the approved budget),
- the use of company cars and rental of a flat for Management Board Members (the costs associated with the use of a business car and flat are defined in a separate contract),
- medical benefits (in each calendar year of the life of the contract the company purchases a medical packet for Management Board members worth up to PLN 10 thousand); and
- life insurance premiums (once every year the company covers or reimburses the amount of the premiums to an amount up to one monthly basic salary).

The employment contracts do not provide for compensation due to the termination of the contracts prior to the dates in respect of which they were entered into.

The contracts signed with Members of the Management Board forbidding any activities which would represent a conflict of interest with KGHM Polska Miedź S.A. stipulate that, for adherence to such contracts, within a period of 12 months from the date of termination of employment in KGHM Polska Miedź S.A. – regardless of the cause of termination – the company shall pay the Management Board Member, for each month during this period, compensation in the amount of 40% of the basic salary resulting from the employment contract. A Management Board Member who violates the stipulations of the aforementioned contract shall be obligated to return the full amount of compensation received.

Detailed information on the amount of remuneration of the Management Board and other key management personnel of the Group may be found in Note No. 12.10 of Financial statements.

Potentially-due remuneration due to variable remuneration for 2015 is presented in the following table.

Table 51. Potentially-due remuneration of the Parent Entity's Management Board for 2015 *(in PLN thousands)*

Management Board Member	Position	Potentially-due variable remuneration for 2015
Herbert Wirth	President of the Management Board	745
Jarosław Romanowski	First Vice President of the Management Board	671
Jacek Kardela	Vice President of the Management Board	596
Marcin Chmielewski	Vice President of the Management Board	593
Wojciech Kędzia	Vice President of the Management Board	50
Mirosław Laskowski	Vice President of the Management Board	546
Total		**3 200**

On 23 February 2016, the Supervisory Board of KGHM Polska Miedź S.A. adopted a resolution on introducing new wording to the employment contracts, contracts on forbidding competition with the contracts signed and contracts forbidding conflicts of interest following termination of employment signed with Members of the Management Board.

The main changes as compared to the previous contracts involve:

- variable remuneration, granted by the Supervisory Board based on assessments of the work of individual Management Board Members and of the Management Board, which may represent up to 30% of the basic annual salary as well as additional remuneration – which may represent up to 20% of the aforementioned basis for measurement,
- the clauses on the contractual termination periods were removed,
- a clause was introduced providing for the possibility to terminate an employment contract based on agreement by the parties,
- with respect to the clause forbidding conflicts of interest following termination of employment, the qualifying period for compensation was reduced to 9 months, and was set at 50% of the basic salary,
- a clause was introduced stating that the contract forbidding conflicts of interest following termination of employment would come into force on the condition that the given Management Board Member had worked a full three months in the position of Management Board Member.

Information on bonus systems of key managers

As a result of cascading tasks and objectives of the Management Board on key managers, in KGHM Polska Miedź S.A. the following rules/regulations, based on two pillars, are applied:

STIP - Short-Term Incentive Plan – principles for setting and granting annual bonuses for executive directors of the Divisions and for directors assigned to specific matters in the Divisions, as well as for executive directors and directors of departments in the Head Office of KGHM Polska Miedź S.A.	This system is based on collective, individual and task-related KPIs which were derived from the priorities of the Management Board for 2015 as set by the Supervisory Board, as well as on goals arising from the company's strategy. The STIP System comprises a group of 85 managers in the company.
LTIP - Long-Term Incentive Plan – a long-term incentive program for executive directors in the Divisions and for directors responsible for individual matters in the Divisions, as well as for executive directors in the Head Office of KGHM Polska Miedź S.A. for the years 2013-2016.	The main goal of the program is to directly link the main long-term strategic goal of increasing the company's value with the system of remunerating key managing directors. This concept assumes setting target amounts under the market indicator TRS (Total Return to Shareholders) and individual indicators related to long-term strategic goals. The LTIP System comprises 56 directors, during the period from 1 July 2013 to 30 June 2016.

The aforementioned bonus systems are included in the process of Management by Objectives, which will gradually be cascaded to the lower levels of the organisation, creating in this way a dialogue between Management and key managers.

Supervisory Board remuneration

The remuneration of members of the Supervisory Board is regulated by Resolution No. 15/2003 of the Ordinary General Meeting of KGHM Polska Miedź S.A. regarding changes in the principles of remuneration of the Supervisory Board members adopted on 29 May 2003. The amount of monthly remuneration of individual members of the Supervisory Board depends on the function served and is set as a multiple of the gross average monthly remuneration in the industrial sector excluding payments from profit, for the last month of the previous quarter.

The company also covers or reimburses costs related to participation in the work of the Supervisory Board, and in particular to travel costs from the place of residence to the site of Supervisory Board meetings and back, as well as room and board.

Detailed information on the amount of remuneration of the Supervisory Board may be found in Note No. 12.10 of the Financial statements.

9. Corporate governance statement of KGHM Polska Miedź S.A.

In accordance with §91 sec. 5 point 4 of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of recognising information as equivalent as required by the laws of a non-member state and the Bylaws of the Warsaw Stock Exchange, the Management Board of KGHM Polska Miedź S.A. herein presents the Corporate governance statement for 2015.

KGHM Polska Miedź S.A., whose shares are listed on the Warsaw Stock Exchange, in 2015 was subject to the corporate governance principles described in the document „Code of Best Practice for WSE Listed Companies" (an appendix to Resolution No. 19/1307/2012 of the Warsaw Stock Exchange Supervisory Board dated 21 November 2012). These principles are available at the official website of the Warsaw Stock Exchange devoted to this subject (https://www.gpw.pl/WSE_corporate_governance), as well as at the website of KGHM Polska Miedź S.A. under the section devoted to corporate governance (http://kghm.com/en/investors/corporate-governance/governance-compliance).

Since 2016 the company has been subject to the principle adopted on 13 October 2015 by the Warsaw Stock Exchange Supervisory Board in resolution No. 26/1413/2015 regarding the adoption of a new collection of corporate governance principles called „Best Practice of GPW Listed Companies 2016".

The KGHM Polska Miedź S.A. has endeavoured at every stage of its operations to carry out the recommendations and principles respecting "Best Practice" for listed companies.

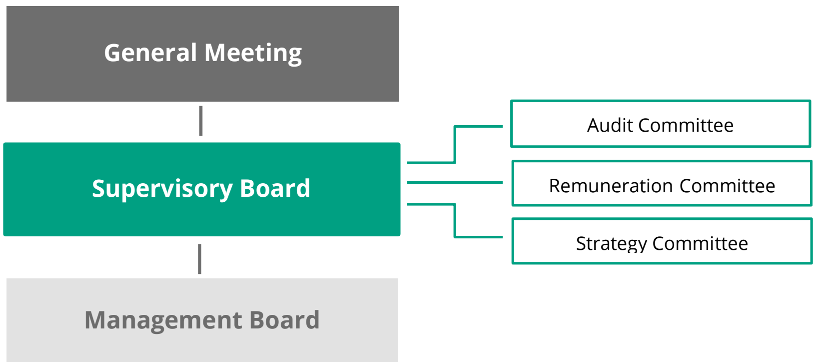
In 2015, KGHM Polska Miedź S.A. did not comply with the recommendation described in chapter I point 12 of „Best Practice...", regarding providing assurance by the company that its shareholders will have the possibility to personally, or through a proxy, exercise their voting rights during General Meetings from a location other than that of the Meeting, using electronic means of communication.

The company also refrained from application of the principle set forth in Section IV point 10 of „Best Practice...", according to which the company should provide its shareholders with the possibility to participate in General Meetings using electronic means of communication, based on real-time webcasts of General Meetings as well as real-time bilateral communication, based on which shareholders may take the floor during a General Meeting from a location other than that of the meeting.

In the company's opinion, introduction of the possibility of participation in General Meetings using electronic means of communication may carry risk factors of a legal and technical nature leading to interference with the efficient conduct of General Meetings, and as a result to the possible questioning of any resolutions adopted. In the company's opinion, current principles of participation in the General Meetings of KGHM Polska Miedź S.A. enable all shareholders to exercise the rights attached to owning the shares and protect the interests of all shareholders. The company is considering introducing the aforementioned principle and recommendation in situations when their technical and legal aspect no longer raises any doubts, and when such introduction will be justified by a real need for this form of communication with shareholder.

Starting from 2016 the KGHM Polska Miedź S.A. provides live webcasts of General Meetings.

Diagram 4. Corporate governance structure in KGHM Polska Miedź S.A.



General Meeting

The General Meeting of KGHM Polska Miedź S.A. is the company's highest authority. It meets in either ordinary or extraordinary form, based on generally prevailing law, the Statutes of the company and the Bylaws of the General Meeting of KGHM Polska Miedź S.A. General Meetings are convened by the company's Management Board. In situations defined by the Commercial Partnerships and Companies Code, General Meetings may be convened by the Supervisory Board or by shareholders. The Statutes of KGHM Polska Miedź S.A. also authorise the Polish State Treasury to convene a General Meeting. The General Meeting of the company is convened by an announcement published on the company website and in the manner set forth in the Act dated 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organised trading, and on public companies. A General Meeting may adopt resolutions if at least one-fourth of the share capital is represented. Resolutions are adopted by a simple majority of votes cast, unless the law or the company's Statutes state otherwise. The principles for conducting a General Meeting are set forth by the Commercial Partnerships and Companies Code and the company's Statutes. Additional issues related to the functioning of the General Meeting are regulated by the "Bylaws of the General Meeting of KGHM Polska Miedź S.A." adopted by the General Meeting of KGHM Polska Miedź S.A. on 17 May 2010, which are available on the company's website, www.kghm.com.

The duties of the General Meeting include in particular:

1) examining and approving the report of the Management Board on the company's activity and the financial statements, including the consolidated financial statements of the company Group, for the prior financial year,
2) adopting resolutions on the distribution of profits or coverage of losses,
3) acknowledging the fulfilment of duties performed by members of the bodies of the company,
4) changing the subject of the company's activity,
5) changes in the company Statutes,
6) increasing or decreasing the share capital,
7) the manner and conditions for retiring shares,
8) merging, splitting and transforming the company,
9) dissolving and liquidating the company,
10) issuing convertible bonds or senior bonds,
11) consenting to the disposal and lease of an enterprise or of an organised part thereof, as well as the attachment of limited property rights to same,
12) all decisions relating to claims for redress of damage suffered during the foundation of the company, or from management or supervisory activities,
13) purchase of the company's own shares, which are to be offered to employees or persons who were employed by the company or by related companies for a period of at least three years, and
14) establishing principles of the remuneration of members of the Supervisory Board.

The schedule of work on organising the General Meetings of the company is planned in such a way as to ensure that the obligations towards shareholders are properly met and to enable them to exercise their rights.

The introduction of changes to the company Statutes requires a resolution by the General Meeting and an entry in the National Court Register. Changes in the company Statutes are made by the General Meeting in accordance with generally prevailing laws, in the manner and form prescribed by the Commercial Partnerships and Companies Code, i.e. by a majority three-fourths of the votes cast in the presence of persons representing at least half of the share capital.

Amongst the regulations of the Commercial Partnerships and Companies Code, in respect of the organisation of General Meetings and shareholder rights, the company applies only those regulations which are obligatory, i.e. those which require the publication of announcements and relevant materials for the General Meeting on the company website and the use of electronic forms of contact with shareholders. Regulations enabling shareholders to participate in General Meetings using electronic means of communication are not applied.

Shareholders and their rights

The only shareholder of KGHM Polska Miedź S.A. holding at least 5% of the share capital and simultaneously granting the right to the same number of votes at the General Meeting on both 1 January 2015 and 31 December 2015 was the Polish State Treasury.

This shareholder held 63 589 900 shares of KGHM Polska Miedź S.A. and the same number of votes at the General Meeting, representing 31.79% of the share capital and of the total number of votes.

136 410 100 shares and votes, or 68.21% of the share capital and of the total number of votes, belonged to other institutional and individual investors (see also Section 8.1of this report).

Shareholders of the company exercise their rights in a manner and within the limits prescribed by prevailing law, the Statutes of the company and the Bylaws of the General Meeting of KGHM Polska Miedź S.A.

Shareholders are entitled to exercise their voting rights either personally or through a proxy. The authority to participate in a General Meeting and to exercise voting rights should be granted in writing or in electronic form. All of the shares are bearer shares. Each share represents one vote.

There is no limitation to the transfer of ownership rights to the shares of the company or with respect to the execution of voting rights on the shares of the company, other than those generally prescribed by laws in force.

The company has not issued securities which would grant special control rights in respect of the company.

A shareholder is entitled in particular to the following:

1) to convene an Extraordinary General Meeting if the said shareholder represents at least half of the share capital or has been authorised by a court of registration and represents at least one-twentieth of the share capital,
2) to announce draft resolutions during a General Meeting which are in regard to matters introduced to the agenda,
3) in accordance with the Statutes, the Polish State Treasury as a shareholder may convene an Ordinary General Meeting if the Management Board does not do so in the statutory timeframe as well as an Extraordinary General Meeting if it considers its convening as warranted,
4) to request that a matter included in the agenda be removed or not considered,
5) to order the convening of an Extraordinary General Meeting and to include specified matters on the agenda of this General Meeting, if the shareholder or shareholders represent at least one-twentieth of the share capital, and
6) to order the inclusion of specified matters on the agenda of the next General Meeting, if the shareholder or shareholders represent at least one-twentieth of the share capital.

Supervisory Board

The Supervisory Board of KGHM Polska Miedź S.A. is the permanent supervisory authority of KGHM Polska Miedź S.A., in all of the company's functional areas. According to the Statutes of the company, the Supervisory Board is composed of 7 to 10 members appointed by the General Meeting, 3 of whom are elected by the company's employees. The members of the Supervisory Board are appointed for a mutual term in the office, which lasts three years. The Supervisory Board selects from among its members a Chairman of the Supervisory Board, his Deputy and a Secretary. The Supervisory Board should meet at least once a quarter. For resolutions of the Supervisory Board to be valid all of the members of the Supervisory Board must be invited to attend and resolutions must be adopted by an absolute majority of votes in the presence of at least one-half of the members.

The duties of the Supervisory Board include in particular the following:

1) evaluating the separate and consolidated financial statements and the report of the Management Board on the activity of the company and the Group for the given financial year,
2) evaluating the proposals of the Management Board with respect to the distribution of profits or coverage of losses,
3) submitting to the General Meeting an annual written report on the results of the evaluation of the documents referred to in the first two points above,
4) submitting to the General Meeting annual requests for granting approval of the Management Board's members with respect to their activities,
5) examining and controlling the activity and financial condition of the company, and submitting to the Ordinary General Meeting an annual, brief assessment of the standing of the company,
6) choosing an auditor to audit the statements referred to in point 1,
7) suspending from their duties for important reasons some or all of the members of the Management Board,
8) temporarily delegating a member or members of the Supervisory Board to carry out the duties of members of the Management Board who are unable to carry out their duties,
9) establishing the remuneration of members of the Management Board, as well as the other conditions of agreements or contracts concluded with them,
10) approving the Bylaws of the Management Board of the company,
11) approving the company's annual and multi-year operating plans,
12) stating its opinion on any request of the Management Board addressed to the General Meeting,
13) at the request of the Management Board, expressing its consent to:
    - the purchase and sale of real estate, of perpetual usufruct or of a stake in real estate (this does not require a resolution of the General Meeting),
    - the granting of guarantees and loans to commercial entities in which the company owns less than 1/3 of the voting rights at the General Meeting of such entities,
    - establishing and acceding to commercial partnerships and companies,
    - disposing of shares in subsidiaries of the company,
    - establishing branches, companies, representative offices and other organizational or economic entities abroad,
    - obtaining or acquiring shares of another company, and
    - the establishment and liquidation of foundations,
14) appointing and recalling members of the Management Board, with due regard being given to § 12 of the Statutes of the company,
15) expressing an opinion on investments by the company in fixed assets, which meet one of the following conditions:
    - investments having a value of more than 10% of the budget for expenditures on investments in tangible assets of the company for a given financial year,

- investments of more than 5% of the budget for expenditures on investments in tangible assets of the company for a given financial year, if the investment does not meet the criteria for planned effectiveness in comparison to the accepted rate of return on equity in the company.

The Supervisory Board operates on the basis of generally prevailing law, the Statutes of the company and the Bylaws of the Supervisory Board. The Bylaws and Statutes of the company are available on the website, www.kghm.com.

As at 1 January 2015 the composition of the 9th-term Supervisory Board was as follows:

- Marcin Moryń - Chairman,
- Tomasz Cyran - Deputy Chairman,
- Bogusław Stanisław Fiedor
- Andrzej Kidyba
- Jacek Poświata
- Barbara Wertelecka-Kwater

along with the following employee-elected members:

- Józef Czyczerski
- Leszek Hajdacki
- Bogusław Szarek - Secretary.

Bogusław Stanisław Fiedor, Jacek Poświata, Andrzej Kidyba and Tomasz Cyran have submitted declarations on the fulfilment of independence criteria described in Principle III. 6 of the „Best Practice of GPW Listed Companies".
From 1 January to 31 December 2015 there were no changes in the composition of the Supervisory Board of KGHM Polska Miedź S.A.

On 18 January 2016 the Extraordinary General Meeting passed resolutions regarding changes in the composition of the Supervisory Board of KGHM Polska Miedź S.A.:

- the following persons were dismissed from the composition of the Supervisory Board: Tomasz Cyran, Bogusław Stanisław Fiedor, Andrzej Kidyba, Marcin Moryń, Jacek Poświata, Barbara Wertelecka-Kwater,
- the following persons were appointed to the composition of the Supervisory Board: Radosław Barszcz, Michał Czarnik, Cezary Godziuk, Miłosz Stanisławski, Dominik Hunek, Jarosław Witkowski.

From 18 January 2016 the composition of the Supervisory Board is as follows:

- Dominik Hunek - Chairman (since 3 February 2016)
- Radosław Barszcz - Deputy Chairman (since 3 February 2016)
- Michał Czarnik
- Cezary Godziuk
- Miłosz Stanisławski
- Jarosław Witkowski

along with the following employee-elected members:

- Józef Czyczerski
- Leszek Hajdacki
- Bogusław Szarek - Secretary.

The following Members of the Supervisory Board of KGHM Polska Miedź S.A. submitted declarations on meeting independence criteria, specified in principle no. II.Z.4. of "Best Practice of GPW Listed Companies 2016": Dominik Hunek, Jarosław Witkowski and Michał Czarnik.

Supervisory Board Committees

Within the structure of the Supervisory Board, there are three committees:

- the Audit Committee,
- the Remuneration Committee, and
- the Strategy Committee.

The Committees serve in an auxiliary role to the Supervisory Board in the preparation of assessments, opinions and other actions aimed at reaching decisions which must be made by the Supervisory Board.

Audit Committee

The Audit Committee is responsible for supervision in the areas of financial reporting, the internal control system, risk management and internal and external audits.

In accordance with the Bylaws of the Supervisory Board the tasks of the Audit Committee are as follows:

1) supervision on behalf of the Supervisory Board of the process of financial reporting in the company, including the process of reporting to the Supervisory Board,
2) analysis and/or evaluation of the accounting principles adopted by the company,
3) review of transactions carried out by the company which the Audit Committee regards as important for the company,

4) analysis and monitoring of the conclusions resulting from control of the risk management processes in the company,
5) conduct of the process of selection of independent auditors to audit the financial statements of the company in order to recommend the choice made to the Supervisory Board, and participation in the commercial negotiations held prior to the company's signing of the agreement with the auditor,
6) on-going cooperation with the independent auditor of the company during the audit, analysis, drawing of conclusions from the audit and opinion of the auditor regarding the financial statements, the auditor's letter to the Management Board and/or the Supervisory Board, and the preparation of draft reports and assessments required under the regulations for the company's bodies or other administrative institutions,
7) issuing an opinion on the company's internal audit plan and on the rules of the internal audit, and on any changes in the position of the internal audit director,
8) analysis of the conclusions and recommendations of the company's internal audit including the monitoring of the degree of implementation of recommendations by the company's Management Board,
9) monitoring of the rules applied in the company in the areas of accounting, finances and hedging against the trade and financial risk factors and the risk of exposing the company to serious harm, and
10) other tasks ordered by the Supervisory Board.

The following Members of the Supervisory Board served on the Audit Committee of the Supervisory Board of KGHM Polska Miedź S.A. in 2015:

– Bogusław Stanisław Fiedor - Committee Chairman,
– Bogusław Szarek - Deputy Committee Chairman,
– Tomasz Cyran
– Leszek Hajdacki.

Since 3 February 2016 the Audit Committee of the Supervisory Board has been composed of the following persons:

– Michał Czarnik - Committee Chairman,
– Cezary Godziuk,
– Dominik Hunek,
– Leszek Hajdacki,
– Miłosz Stanisławski,
– Bogusław Szarek,
– Radosław Barszcz,
– Jarosław Witkowski.

Remuneration Committee

The Remuneration Committee is responsible for supervising the performance of the duties set forth in the contracts signed with the Management Board, the remuneration system and benefits paid out in KGHM Polska Miedź S.A. and the Group, training and other benefits provided by the company, as well as audits performed by the Supervisory Board in this regard.

In accordance with the Bylaws of the Supervisory Board the tasks of the Remuneration Committee are as follows:

1) management of the affairs associated with the recruitment and employment of Management Board members by preparing and arranging the draft documents and processes to be submitted for the acceptance by the Supervisory Board,
2) preparation of the draft agreements and other model documents in relation to the employment relationship established with the Management Board members and supervision of the execution of contractual obligations of the parties,
3) supervision of implementation of the Management Board remuneration system, specifically the preparation of payment documents as regards variable elements and bonus-based remuneration in order to submit recommendations to the Supervisory Board,
4) monitoring and periodic analyses of the remuneration system of senior management of the company and, if necessary, the preparation of recommendations for the Supervisory Board,
5) supervision of the proper execution of additional benefits for the Management Board resulting from employment contracts, such as insurance, company cars, apartments, etc., and
6) other tasks ordered by the Supervisory Board.

The following Members of the Supervisory Board served on the Remuneration Committee of the Supervisory Board of KGHM Polska Miedź S.A. in 2015:

– Tomasz Cyran - Committee Chairman,
– Leszek Hajdacki - Deputy Committee Chairman,
– Józef Czyczerski,
– Marcin Moryń,
– Barbara Wertelecka-Kwater.

Since 3 February 2016 the Remuneration Committee of the Supervisory Board has been composed of the following persons:

- Radosław Barszcz - Committee Chairman
- Józef Czyczerski
- Leszek Hajdacki
- Dominik Hunek
- Miłosz Stanisławski

Strategy Committee

The Strategy Committee supervises the realisation of company strategy, the company's annual and multi-year operating plans, supervising the coherence of these documents, and also provides its opinion to the Supervisory Board on the strategic projects presented by the Management Board of the company and any changes thereto, as well as on the company's annual and multi-year operating plans.

In accordance with the Bylaws of the Supervisory Board the tasks of the Strategy Committee are as follows:

1) on behalf of the Parent Entity's Supervisory Board, performing tasks related to the supervision of issues associated with the company's strategy and with the annual and multi-year operating plans of the company,
2) monitoring implementation of the company's strategy by the Management Board and issuing opinions on the degree to which the existing strategy is able to deal with changes in the actual situation,
3) monitoring implementation of the company's annual and multi-year operating plans by the Management Board, and assessment of whether these plans need to be modified,
4) assessment of the conformity of the annual and multi-year operating plans of the company to the company's strategy as implemented by the Management Board, and the presentation of any proposed changes in all such company documents,
5) submission to the company's Supervisory Board of its opinions regarding the draft strategies of the company and any changes thereto, and regarding the annual and multi-year operating plans of the company as presented by the company's Management Board, and
6) other tasks ordered by the Supervisory Board.

The following Members of the Supervisory Board served on the Strategy Committee of the Supervisory Board of KGHM Polska Miedź S.A. in 2015:

- Barbara Wertelecka-Kwater - Committee Chairwoman,
- Andrzej Kidyba - Deputy Committee Chairman,
- Józef Czyczerski,
- Leszek Hajdacki,
- Marcin Moryń,
- Jacek Poświata,
- Bogusław Szarek.

Since 3 February 2016 the Strategy Committee of the Supervisory Board has been composed of the following persons:

- Jarosław Witkowski - Committee Chairman,
- Michał Czarnik,
- Józef Czyczerski,
- Cezary Godziuk,
- Leszek Hajdacki,
- Miłosz Stanisławski,
- Bogusław Szarek.

The detailed rights, scope of activities and manner of work of the aforementioned Committees are described by bylaws approved by the Supervisory Board.

After the end of the year the Audit, Remuneration and Strategy Committees submit reports on their activities to the Supervisory Board.

Management Board

The duties of the Management Board include all matters pertaining to the functioning of the company which have not been reserved by the Commercial Partnerships and Companies Code and the Statutes of the company to the duties of General Meeting and Supervisory Board. The detailed description of the Management Board's scope of duties and obligations and the manner in which it functions may be found in the Regulations of the Management Board.

According to the Statutes of the KGHM Polska Miedź S.A. the Management Board may be composed of 1 to 7 persons, appointed for a mutual term of office. The term of office of the Management Board lasts three consecutive years. The number of members of the Management Board is set by the Supervisory Board, which appoints and dismisses the President of the Management Board, and at his request appoints and dismisses the remaining members of the Management Board, including those serving as First Vice President and as the Vice Presidents of the Management Board, with due regard to §12 sec. 5 and sec. 7 to 12 of the company Statutes, regarding the appointment and dismissal of an employee-elected member of the Management Board. Members of the Management Board, including any employee-elected member of the Management Board, may be dismissed by the Supervisory Board prior to the completion of their term of office, which does not impair their rights resulting from employment contracts or other legal relationships involving fulfilling their functions as members of the Management Board. The result of elections for an employee-elected member of the Management Board, or the result of voting in the matter of his dismissal, is binding for the Supervisory Board, if at least 50% of the company's employees took part in the voting for his election or dismissal. The election and dismissal of an employee-elected member of the Management Board requires an absolute majority of the votes cast.

The Management Board operates based on generally prevailing law, the Statutes of the company and the Regulations of the Management Board of KGHM Polska Miedź S.A. For resolutions of the Management Board to be valid at least two-thirds of the members of the Management Board must be present. Resolutions of the Management Board are usually approved by a simple majority of the votes cast. In the case of a tie vote being cast for a given resolution either for or against, the President of the Management Board casts the deciding vote.

A detailed list of the matters requiring a resolution of the Management Board is included in the Regulations of the Management Board of KGHM Polska Miedź S.A. approved by the Supervisory Board.

The authority of the Management Board to pass decisions on the issuance or redemption of shares is statutorily limited. The shares of the company may be redeemed given shareholder consent through their acquisition by the company. A resolution of the General Meeting on the redemption of shares may be preceeded by an agreement entered into with a shareholder. In accordance with §29 sec. 1 point 6 of the Statutes of the company, any increase in share capital or issuance of shares requires the approval of the General Meeting. The same holds true for the issuance of bonds (§29 sec. 1 point 10 of the Statutes of the company). The Management Board of the company does not have the authority to increase the share capital or issue the shares of the company under conditions specified in art. 444-446 of the Commercial Partnerships and Companies Code.

The composition of the 8th-term Management Board and the delegation of duties amongst its Members as at 1 January 2015 was as follows:

- Herbert Wirth - President of the Management Board,
- Jarosław Romanowski - First Vice President of the Management Board (Finance),
- Wojciech Kędzia - Vice President of the Management Board (Production),
- Jacek Kardela - Vice President of the Management Board (Development),
- Marcin Chmielewski - Vice President of the Management Board (Corporate Affairs).

On 18 December 2014, Wojciech Kędzia submitted his resignation from the function of Member of the Management Board, effective as at 31 January 2015. On 18 December 2014, the Supervisory Board appointed, with an effective date of 1 February 2015, Mirosław Laskowski as a Member of the Management Board of KGHM Polska Miedź S.A. in the function of Vice President of the Management Board.

From 1 February 2015 the composition of the Management Board was as follows:

- Herbert Wirth - President of the Management Board,
- Jarosław Romanowski - First Vice President of the Management Board (Finance),
- Marcin Chmielewski - Vice President of the Management Board (Corporate Affairs),
- Jacek Kardela - Vice President of the Management Board (Development),
- Mirosław Laskowski - Vice President of the Management Board (Production).

Due to the conclusion of the 8th-term Management Board, the Supervisory Board appointed as at 17 March 2015 the 9th-term Management Board in the following composition:

- Herbert Wirth - President of the Management Board,
- Jarosław Romanowski - First Vice President of the Management Board (Finance),
- Marcin Chmielewski - Vice President of the Management Board (Corporate Affairs),
- Jacek Kardela - Vice President of the Management Board (Development),
- Mirosław Laskowski - Vice President of the Management Board (Production).

From 17 March to 31 December 2015 there were no changes in the composition of the Management Board of KGHM Polska Miedź S.A. On 3 February 2016 the Supervisory Board of KGHM Polska Miedź S.A. adopted resolutions regarding changes in the composition of the Management Board of KGHM Polska Miedź S.A.:

- the following persons were dismissed from the Management Board: Herbert Wirth, Jarosław Romanowski, Marcin Chmielewski and Jacek Kardela.
- the following persons were appointed to the Management Board: Krzysztof Skóra, Mirosław Biliński and Jacek Rawecki.

From 3 February 2016 to 23 February 2016, the composition of the Management Board was as follows:

- Krzysztof Skóra - President of the Management Board,
- Mirosław Biliński - Vice President of the Management Board (Development),
- Mirosław Laskowski - Vice President of the Management Board (Production),

- Jacek Rawecki - Vice President of the Management Board (Corporate Affairs).

Subsequently, the Supervisory Board of KGHM Polska Miedź S.A., during the meeting held on 23 February 2016 adopted a resolution appointing Stefan Świątkowski to the composition of the Management Board of KGHM Polska Miedź S.A.) as Vice President of the Management Board (Finance).

In addition, the Supervisory Board changed the area of responsibility of Jacek Rawecki, who was appointed on 3 February 2016 as a Vice President of KGHM Polska Miedź S.A. (Corporate Affairs), from "Corporate Affairs" to "Supply Chain Management".

From 23 February 2016 up to the date of signing this report, the composition of the Management Board was as follows:

- Krzysztof Skóra - President of the Management Board,
- Mirosław Biliński - Vice President of the Management Board (Development),
- Mirosław Laskowski - Vice President of the Management Board (Production),
- Jacek Rawecki - Vice President of the Management Board (Supply Chain Management),
- Stefan Świątkowski - Vice President of the Management Board (Finance).

Main characteristics of internal control and risk management systems as applied by the company in the process of preparing separate and consolidated financial statements

The system of internal control of KGHM Polska Miedź S.A and risk management. in the process of preparing financial statements is performed in the following manner:

Supervision of the application of uniform accounting principles by the Parent Entity and the companies of the KGHM Polska Miedź S.A. Group during the process of preparing reporting packets to prepare the consolidated financial statements of the KGHM Polska Miedź S.A. Group

In order to ensure reliability and accuracy in the keeping of the accounting records of the Parent Entity and the uniformity of the accounting principles applied when preparing the financial statements of Group subsidiaries, the Management Board of the Parent Entity has introduced for continuous use an Accounting Policy for the Group in accordance with International Financial Reporting Standards approved by the European Union which is regularly updated in compliance with new regulations.

Control over the accounting policies applied in the process of preparing the financial statements of KGHM Polska Miedź S.A. and of Group subsidiaries is based on the control mechanisms embedded in the functioning of the reporting systems.

The reporting packets of subsidiaries are also reviewed by appropriate units in the Parent Entity as well as by an independent auditor during the process of reviewing and auditing the consolidated financial statements of the Group.

Centralised financial and accounting services

KGHM Polska Miedź S.A. performs its accounting activities within a centralised financial and accounting services structure. Bookkeeping in the Parent Entity is performed by the Accounting Services Center under the Head Office of KGHM Polska Miedź S.A. The centralisation of accounting services under a model which provides for the transparent breakdown of duties and responsibilities ensures minimisation of the risk of bookkeeping errors and high-quality financial statements.

The accuracy and security of the accounting procedures was confirmed by an external audit aimed at „Assessment of the functioning of the financial and accounting control procedures as a result of the centralisation of these processes". Further actions are being taken aimed at optimising the functioning of the accounting services and enhancing the security of the process of bookkeeping accounting services.

Finance and accounting systems

KGHM Polska Miedź S.A. keeps accounting records in an integrated IT system. The modular structure of this system ensures a transparent segregation of processes and duties, coherence of accounting records and control over ledgers: special purpose ledger, general ledger and subledgers. Access to this data at various levels and in various units is available via a well-developed reporting system. The Parent Entity continuously adapts the IT information system to changing accounting principles or other legal standards. The Parent Entity's solutions are implemented in the systems of Group entities.

To ensure the legitimate utilisation and protection of systems, data, secure access to data and computer equipment, appropriate organisational and systemic solutions have been introduced. Access to the resources of the financial and accounting system, as well as accounting during the process of separate and consolidated financial reporting, is limited to the respective entitlements of authorised employees solely with respect to the duties which they carry out. These entitlements are subject to regular review and audits. As a result of the centralisation of financial and accounting services, an external audit was performed called the „Review of the delegation of responsibilities under the SAP system", which was aimed at eliminating the potential risk of improper delegation of responsibilities and the potential for conflicts between authorised persons. Control over this access is carried out at each stage of financial statements preparation, beginning with the entering of source data, through the processing of data, to the generation of output information.

A key element in limiting the risk of errors and misstatments in accounting for economic activities are the actions taken which are aimed at increasing the use of IT tools to automate control over and the settlement of purchases by the company. These actions include:

- on-going expansion of the scope of the Workflow system of electronic document settlement and approval,
- implementation of the EDI system for the electronic transmission of data between the system in the Parent Entity and IT systems in Group companies; and
- customer settlement based on e-invoices for procurement and sales.

Corporate risk management

Under the Corporate Risk Management Policy and Procedures and the Corporate Risk Committee Rules adopted in 2013, corporate risk management is an on-going process in the KGHM Polska Miedź S.A. Group. Risk factors associated with the Group's various operations are continuously identified, assessed and analysed in terms of their possible restriction.

The Corporate Risk Management and Compliance Department is responsible for coordination of the entire corporate risk management process and for developing the methods and tools used by managers in the Parent Entity, its subsidiaries and projects. This Department is responsible for risk monitoring and escalation, and for reporting incidents.

These activities also comprise risk management with respect to the process of preparing the separate financial statements of the Parent Entity and the consolidated financial statements of the Group.

Internal audit

A fundamental element of risk management with respect to the functioning of control mechanisms and the existence of risk in the operations of KGHM Polska Miedź S.A. is the work carried out by the Audit and Internal Control Department. Consequently this work indirectly augments the process of preparing financial statements as well as their accuracy.

The Audit and Internal Control Department carries out its tasks based on the "Integrated Audit and Internal Control Plan" for the given calendar year. This document was developed in conformity with the International Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors and positively reviewed by the Audit Committee of KGHM Polska Miedź S.A.

The goal of internal auditing and internal control is to provide the Management Board and the Audit Committee of the Supervisory Board of KGHM Polska Miedź S.A. with independent and objective information on internal control and risk management systems as well as with analyses of business processes within KGHM Polska Miedź S.A. and companies of the Group.

Independently from internal audit and institutional control, every employee of KGHM Polska Miedź S.A. is required to exercise selfcontrol in respect of their duties and for every level of management staff to exercise control as part of their supervisory duties.

External audit

In accordance with prevailing law, KGHM Polska Miedź S.A. submits its separate financial statements and consolidated financial statements for review and auditing by a certified auditor. The Supervisory Board selects the certified auditor through a tender process, based on the recommendations of the Audit Committee and the report on the tender conducted by the Committee. The appropriate entity to audit the separate and consolidated financial statements of KGHM Polska Miedź S.A. for the years 2013-2015 is PricewaterhouseCoopers Sp. z o.o. As part of the audit work performed the certified auditor performs an independent evaluation of the accounting principles applied by Parent Entity in preparing the financial statements and the accuracy and reliability of the separate and consolidated financial statements. The effectiveness of the internal control system and the risk management system in the process of preparing the financial statements is confirmed by the unqualified opinions issued by the certified auditor from its audit of the separate and consolidated financial statements of KGHM Polska Miedź S.A.

Supervision over the process of financial reporting

The body which supervises the process of financial reporting in KGHM Polska Miedź S.A. and which cooperates with the independent auditor is the Audit Committee, which is appointed by the Supervisory Board of the Parent Entity. The Audit Committee, in accordance with its duties as set forth in the Act dated 7 May 2009 on certified auditors and their self-governing body, entities entitled to audit financial statements and on public supervision (Journal of Laws 2009.77.649), in particular:

- monitors the process of financial reporting in terms of compliance with the Accounting Policy approved by the KGHM Polska Miedź S.A. Group and prevailing laws,
- monitors the effectiveness of internal control systems, internal audit and risk management,
- monitors the independence of the certified auditor and of the entity entitled to audit financial statements, and
- conducts the process of selecting the entity entitled to audit financial statements of the Paren Entity to provide a recommedation to the Supervisory Board.

Monitoring of the process of financial reporting and assessment of the financial statements by the Supervisory Board is the final step of the review and control carried out by an independent body, ensuring the reliability and accuracy of the data presented in the separate and consolidated financial statements of KGHM Polska Miedź S.A.

Proper management of the process of keeping records and preparing financial statements ensures the security of the data and the high quality of the information provided.

10. Significant subsequent events after the reporting period

KGHM Tax Group

The first fiscal year of the KGHM Tax Group commenced on 1 January 2016.The agreement creating the KGHM Tax Group, as understood by the Act on CIT, was concluded on 18 September 2015 between selected companies of KGHM Polska Miedź S.A. Group. Then, the agreement was registered by the Head of the Lower Silesia Tax Office by a decision issued on 22 October 2015. KGHM Polska Miedź S.A. acts as the representative of the Tax Group.

The Tax Group comprises the following companies: KGHM Polska Miedz S.A., INOVA Spółka z o.o., „Energetyka" sp. z o.o., KGHM CUPRUM sp. z o.o. - CBR, PMT Linie Kolejowe 2 sp. z o.o., PeBeKa S.A., KGHM ZANAM S.A., MCZ S.A., Zagłębie Lubin S.A, Metraco S.A., Future 1 Sp. z o.o., Future 2 Sp. z o.o., Future 3 Sp. z o.o., Future 4 Sp. z o.o., Future 5 Sp. z o.o., Future 6 Sp. z o.o., Future 7 Sp. z o.o.

Changes in the composition of the Supervisory Board of the KGHM Polska Miedź S.A.

On 18 January 2016, the Extraordinary General Meeting of KGHM Polska Miedź S.A. changed the composition of the Supervisory Board of KGHM Polska Miedź S.A. Details regarding this change are presented in Section 9 of this report.

Decrease in available credit limit

On 21 January 2016, the Parent Entity signed an annex to a credit agreement with Bank Handlowy S.A. w Warszawie, based on which the amount of credit on an overdraft facility was reduced from PLN 280 million to PLN 250 million. Interest is based on WIBOR/ LIBOR plus a margin. The credit's maturity date expires on 12 October 2018.

Changes in the composition of the Management Board of the company

On 3 February and 23 February 2016, the Supervisory Board of KGHM Polska Miedź S.A. changed the composition of the Management Board of KGHM Polska Miedź S.A. Details regarding this change are presented in Section 9 of this report.

Disposal of shares of Przedsiębiorstwo Budowlane Katowice Sp. z o.o. in liquidation

On 27 January 2016 the direct subsidiary BIPROMET S.A. sold all of the shares it had held, representing 88% of the share capital, of Przedsiębiorstwo Budowlane Katowice S.A. in liquidation.

Results of the Feasibility Study update on the Ajax project

On 13 January 2016, the Management Board of KGHM Polska Miedź S.A. announced the completion of work on the updated Feasibility Study for the Ajax project (a copper and gold mine project in British Columbia, Canada), owned by the joint venture company KGHM AJAX MINING INC., in which 80% of the shares are held by the KGHM Polska Miedź S.A. Group and 20% are held by Abacus Mining & Exploration.

Information on the results of the conducted tests for impairment

On 8 February 2016 an announcement was made on the results of testing for impairment of the carrying amount of assets of KGHM Polska Miedź S.A. (estimates).

On 2 March 2016 an announcement was made on the update of testing for impairment of the carrying amount of assets of KGHM Polska Miedź S.A., which results were announced on 8 February 2016.

Financing agreements signed

On 5 February 2016, the Parent Entity signed a credit agreement for USD 100 million with Bank Gospodarstwa Krajowego w Warszawie. Interest is based on LIBOR plus a margin. The agreement was signed for a 3-month period with the possibility to extend for another 3-month credit period.

On 29 February 2016, the Parent Entity signed a credit agreement in an account with Bank Zachodni WBK S.A. w Warszawie for USD 50 million. This credit supersedes the previous financing agreement with BZ WBK S.A. Interest is based on LIBOR plus a margin. Availability of the credit expires on 28 February 2017.

Corporate guarantee issued

On 12 February 2016, the Parent Entity issued a corporate guarantee on behalf of Banco de Chile in the amount of USD 63 million. The guarantee secures the repayment of a short term working capital facility granted by Banco de Chile to Sierra Gorda S.C.M. The guarantee expires on 12 February 2017.

Extension of credit maturity

On 29 February 2016, the Parent Entity extended the maturity date for repayment of credit from an overdraft facility in HSBC Bank Polska S.A. in the amount of PLN 100 million. Interest is based on WIBOR/LIBOR plus a margin. The credit's maturity date expires on 29 August 2017.

Concerns of Chilean environmental enforcement agency

On 8 March 2016, the Chilean Environmental Enforcement Agency, in a public announcement, indicated areas in which there may have occurred breaches in the scope of the environmental permit issued to the Sierra Gorda mine. Work is currently underway on analysing the published document.

Significant commercial contract

On 11 March 2016, the Parent Entity signed an annex to the contract dated 28 April 2014 with the nkt cables group GmbH for the sale of copper wire rod, which concerns the sale of copper wire rod in 2016. As a result of signing this annex, the total estimated value of contract amounts from PLN 3.3 to 3.4 billion. The contract provides the possibility of prolonging it for year 2017.

Forecast of 2016 results

On 15 March 2016, the Supervisory Board of the Parent Entity approved the Budget of KGHM Polska Miedź S.A. for 2016 as submitted by the Management Board (detailed information on the approved budget may be found in Section 7.12 of this report).

Appendix 1 Structure of the KGHM Polska Miedź S.A. Group as at 31 December 2015

The percentages shown in the diagram represent the total interest of the whole Group in the share capital of the given company. In every Group company, the share held is equal to the number of votes.

KGHM Polska Miedź S.A.

- **KGHM V FIZAN** – 100%
  - WFP Hefra SA – 100%
- **KGHM III FIZAN** – 100%
  - NANO CARBON Sp. z o.o. [2] – 49%
- **KGHM I FIZAN** – 100%
  - Polska Grupa Uzdrowisk Sp. z o.o. – 100%
  - Polska Grupa Uzdrowisk Sp. z o.o. S.K.A. in liquidation – 100%
  - Fundusz Hotele 01 Sp. z o.o. – 100%
  - Uzdrowiska Kłodzkie S.A. - Grupa PGU – 100%
  - Uzdrowisko Połczyn Grupa PGU S.A. – 100%
  - Staropolanka Spółka z o.o. – 100%
  - Uzdrowisko Świeradów -Czerniawa Sp. z o.o. - Grupa PGU – 99%
  - Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU – 98%
  - Interferie Medical SPA Sp. z o.o. – 89%
  - Fundusz Hotele 01 Sp. z o.o. S.K.A. – 100%
    - INTERFERIE S.A. – 68%
- **Cuprum Nieruchomości sp. z o.o.** – 100%
  - KGHM IV FIZAN – 100%
    - Cuprum Development sp. z o.o. – 100%

- **KGHM TFI S.A.** – 100%
- **KGHM CUPRUM sp. z o.o. – CBR** – 100%
- **CBJ sp. z o.o.** – 100%
- **INOVA Spółka z o.o.** – 100%
- **KGHM ZANAM S.A.** [3] – 100%
- **POL-MIEDŹ TRANS Sp. z o.o.** – 100%
- **PMT Linie Kolejowe 2 Sp. z o.o.** – 100%
  - PMT Linie Kolejowe Sp. z o.o. – 100%
- **BIPROMET S.A.** – 100%
  - Przedsiębiorstwo Budowlane Katowice S.A. in liquidation – 88%
- **„Energetyka" sp. z o.o.** – 100%
  - WPEC w Legnicy S.A. – 100%
- **Metraco S.A.** [4] – 100%
  - CENTROZŁOM WROCŁAW S.A. – 99.9%
  - Walcownia Metali Nieżelaznych „ŁABĘDY" S.A. – 85%
- **Fermat 1 S.à r.l.** – 100%
  - Fermat 3 S.à r.l. – 100%
  - Fermat 2 S.à r.l. – 100%
    - **KGHM INTERNATIONAL LTD. Group** – 100%

Group structure presented in Appendix *2*

- **KGHM (SHANGHAI) COPPER TRADING CO., LTD.** – 100%
- **KGHM Kupfer AG** – 100%
- **Zagłębie Lubin S.A.** – 100%
- **„MCZ" S.A.** – 100%
- **TUW-CUPRUM** [1] – 100%
- **Future 1 Sp. z o.o.** – 100%
- **Future 2 Sp. z o.o.** – 100%
- **Future 3 Sp. z o.o.** – 100%
- **Future 4 Sp. z o.o.** – 100%
- **Future 5 Sp. z o.o.** – 100%
- **Future 6 Sp. z o.o.** – 100%
- **Future 7 Sp. z o.o.** – 100%
- **PeBeKa S.A.** – 100%
  - PeBeKa Canada Inc. – 100%
- **MERCUS Logistyka sp. z o.o.** [5] – 100%
  - PHU „Lubinpex" Sp. z o.o. – 100%
- **NITROERG S.A.** – 85%
  - NITROERG SERWIS Sp. z o.o. – 85%
- **„Elektrownia Blachownia Nowa" Sp. z o.o.** [2] – 50%

1/ unconsolidated subsidiary
2/ joint venture accounted for using the equity method
3/ transformed: spółka z o.o. (limited liability) to spółka akcyjna (joint stocl
4/ name change (formerly KGHM Metraco S.A.)
5/ name change (formerly PHP „MERCUS" sp. z o.o.)

Appendix 2 Structure of the KGHM INTERNATIONAL LTD. Group as at 31 December 2015

KGHM INTERNATIONAL LTD.

- **FNX Mining Company Inc.** – 100%
  - DMC Mining Services Ltd. – 100%
  - Quadra FNX Holdings Partnership – 100%
    - Raise Boring Mining Services S.A. de C.V. – 100%
    - FNX Mining Company USA Inc. – 100%
      - DMC Mining Services Corporation – 100%
  - Centenario Holdings Ltd. – 100%
    - Minera Carrizalillo Limitada – 100%
    - Mineria y Exploraciones KGHM International SpA – 100%
    - FRANKE HOLDINGS LTD. [3] – 100%
      - Sociedad Contractual Minera Franke – 100%
- **0899196 B.C. Ltd.** – 100%
  - **KGHMI HOLDINGS LTD.** [4] – 100%
    - Malmbjerg Molybdenum A/S – 100%
    - Quadra FNX FFI Ltd. – 100%
    - QUADRA FNX SG LTD. [5] – 100%
    - Aguas de la Sierra Limitada – 100%
    - QUADRA FNX CHILE LTD. [6] – 100%
      - Quadra FNX Holdings Chile Limitada – 100%
        - Sierra Gorda S.C.M. [1] – 55%
- **KGHM AJAX MINING INC.** – 80%
  - Sugarloaf Ranches Ltd. [2] – 100%
- **Robinson Holdings (USA) Ltd.** – 100%
  - Wendover Bulk Transhipment Company – 100%
  - Robinson Nevada Mining Company – 100%
  - Carlota Holdings Company – 100%
    - Carlota Copper Company – 100%

1/ joint venture accounted for using the equity method

2/ actual Group share

<u>Change of companies' names due to transfer of their head offices from Barbados and British Virgin Islands to Canada:</u>

3/ former name: Franke (BVI) Ltd.

4/ former name: KGHMI (Barbados) Holdings Ltd.

5/ former name: Quadra FNX SG (Barbados) Ltd.

6/ former name: Quadra FNX Chile (Barbados) Ltd

Appendix 3 Activities of subsidiaries and joint ventures of KGHM Polska Miedź S.A.

Entity	Head Office	Activities
KGHM Polska Miedź S.A.	Poland	mining of copper ore, excavation of salt, production of copper and precious metals
„Energetyka" sp. z o.o.	Poland	generation, transmission and distribution of electrical and heating energy, water-sewage management; trade in oil-based products
PeBeKa S.A.	Poland	mine construction (construction of shafts and drifts), construction of roadway/railway tunnels; specialist construction, drilling services (geological-exploration drilling)
KGHM ZANAM S.A. *formerly* *KGHM ZANAM Sp. z o.o.*	Poland	production of mining machinery and equipment, construction machinery; machinery repairs; production maintenance services; objects made of steel; roadway cargo transport
KGHM CUPRUM sp. z o.o. - CBR	Poland	design and R&D activities
CBJ sp. z o.o.	Poland	research and chemical-physical analysis; measurement of imissions and emissions; industrial research
INOVA Spółka z o.o.	Poland	design and production – innovative solutions in electrical engineering, control engineering and communication systems; certification and attestation of machinery and equipment
Metraco S.A. *formerly* *KGHM Metraco S.A.*	Poland	trade and processing of non-ferrous metals scrap; rhenium recovery from acidic industrial waste; processing of shaft slag into road-building material and sale of such; trading in salt; recovery of copper and silver from smelter tiles; trading in chemical factors
POL-MIEDŹ TRANS Sp. z o.o.	Poland	railway cargo transport
NITROERG S.A.	Poland	production of explosives, Nitrocet 50 and initiating systems
MERCUS Logistyka sp. z o.o. *formerly* *PHP „MERCUS" sp. z o.o.*	Poland	materials logistics; trade in consumer goods; production of bundled electrical cables and hydraulic cables; passenger roadway transport
NITROERG SERWIS Sp. z o.o.	Poland	complex drilling and blasting service in open pit mines, sale of explosives and initiating systems
CENTROZŁOM WROCŁAW S.A.	Poland	recovery of raw materials from segregated materials – purchase and sale of metal scrap, waste recycling, sale of steel and aluminium and production of reinforcing building materials
Walcownia Metali Nieżelaznych „ŁABĘDY" S.A.	Poland	production of pressed goods from copper and its alloys; rolling services
WFP Hefra SA	Poland	production and sale of rust-proof, silver-plated and semi-silver-plated table settings
PHU „Lubinpex" Sp. z o.o.	Poland	gastronomic, commercial and catering services
PMT Linie Kolejowe Sp. z o.o.	Poland	maintenance of railway infrastructure, repair services, management of railway infrastructure
MT Linie Kolejowe 2 Sp. z o.o.	Poland	management of railway infrastructure
KGHM TFI S.A.	Poland	creation and management of investment funds
INTERFERIE S.A.	Poland	hotel services combining active recreation with sanatorium-healing, rehabilitation, SPA and wellness services
Interferie Medical SPA Sp. z o.o.	Poland	hotel, recreation, rehabilitation, health tourism and wellness services
WPEC w Legnicy S.A.	Poland	production of heat from its own sources, transmission and distribution of heat, servicing
Uzdrowiska Kłodzkie S.A. – Grupa PGU Uzdrowisko Połczyn Grupa PGU S.A. Uzdrowisko Cieplice sp. z o.o. – Grupa PGU Uzdrowisko Świeradów -Czerniawa Sp. z o.o. - Grupa PGU	Poland	services in the following areas: spa-healing, sanatorium, preventative medicine, rehabilitation, biological renewal, recreation based on natural healing materials bioclimatic conditions
Staropolanka Spółka z o.o.	Poland	production and sale of mineral water (the company did not commence operations in 2015)

Entity	Head Office	Activities
Fundusz Hotele 01 Sp. z o.o.	Poland	special-purpose companies operating within the structures of the KGHM I FIZAN investment fund
Fundusz Hotele 01 Sp. z o.o. S.K.A.		
Polska Grupa Uzdrowisk Sp. z o.o.		
Polska Grupa Uzdrowisk Sp. z o.o. S.K.A. in liquidation		
KGHM I FIZAN	Poland	closed-end, non-public investment funds – cash depositing
KGHM III FIZAN		
KGHM IV FIZAN		
KGHM V FIZAN		
„MCZ" S.A.	Poland	hospital services; medical practice; activities related to protecting human health; occupational medicine
Zagłębie Lubin S.A.	Poland	management of a football club, organisation of professional sporting events
BIPROMET S.A.	Poland	design services, consulting, technical conceptual work; general realisation of investments
Przedsiębiorstwo Budowlane Katowice S.A. in liquidation	Poland	comprehensive construction and specialist work
Cuprum Nieruchomości sp. z o.o.	Poland	activities related to real estate market services, construction services, design work and financing
Cuprum Development sp. z o.o.	Poland	
„Elektrownia Blachownia Nowa" sp. z o.o.	Poland	special purpose company founded to advance a project to build and operate a gas-steam power block
Future 1 Sp. z o.o.	Poland	special purpose company founded due to the creation of the KGHM Polska Miedź S.A. Tax Group (in 2015 these companies were not in active operation)
Future 2 Sp. z o.o.		
Future 3 Sp. z o.o.		
Future 4 Sp. z o.o.		
Future 5 Sp. z o.o.		
Future 6 Sp. z o.o.		
Future 7 Sp. z o.o.		
NANO CARBON Sp. z o.o.	Poland	production of epitaxial graphene
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	China	commercial activities involving copper/silicon merchandise, mine products (copper/silicon) and other and related services
KGHM Kupfer AG	Germany	exploration for and evaluation of deposits of copper and other minerals
Fermat 1 S.à r.l.	Luxembourg	the founding, development, management or control of other companies, including over the KGHM INTERNATIONAL LTD. Group (companies of the holding structure)
Fermat 2 S.à r.l.		
Fermat 3 S.à r.l.		
PeBeKa Canada Inc.	Canada	advancement of mining projects in Canada, including support of the Victoria project being advanced by KGHM INTERNATIONAL LTD.
KGHM INTERNATIONAL LTD. Group		
KGHM INTERNATIONAL LTD. *On 31.12.2015 r. KGHM INTERNATIONAL LTD. was combined with 0929260 B.C. U.L.C. by founding a new company which acquired KGHM INTERNATIONAL LTD.*	Canada	the founding, development, management or control of companies in the KGHM INTERNATIONAL LTD. Group
KGHM AJAX MINING INC.	Canada	exploration for and assessment of mineral deposits
Sugarloaf Ranches Ltd.	Canada	agricultural activities (this company owns assets in the form of land designated for future mining activities related to the Ajax project)
FNX Mining Company Inc.	Canada	mining of copper and nickel ore, production and sale of copper and nickel

Entity	Head Office	Activities
DMC Mining Services Ltd.	Canada	contract mining services
Quadra FNX Holdings Partnership	Canada	the management and control of other companies
0899196 BC Ltd.		
Sierra Gorda S.C.M.	Chile	the construction and operation of an open-pit copper and molybdenum mine
Quadra FNX Holdings Chile Limitada	Chile	the management and control of other companies
Minera Carrizalillo Limitada		
Aguas de la Sierra Limitada	Chile	the ownership and exercise of water rights in Chile
Mineria y Exploraciones KGHM International SpA	Chile	exploration services for among others, the Sierra Gorda project
Sociedad Contractual Minera Franke	Chile	copper ore leaching, production and sale of copper
Robinson Holdings (USA) Ltd.	USA	technical and management services
Wendover Bulk Transhipment Company	USA	shipment services
Robinson Nevada Mining Company	USA	copper ore mining, production and sale of copper
Carlota Copper Company	USA	copper ore leaching, production and sale of copper
Carlota Holdings Company	USA	the management and control of other companies
FNX Mining Company USA Inc.		
DMC Mining Services Corporation	USA	contract mining services
KGHMI HOLDINGS LTD. *formerly KGHMI (Barbados) Holdings Ltd.*	Canada *formerly Barbados*	the management and control of other companies
QUADRA FNX CHILE LTD. *formerly Quadra FNX Chile (Barbados) Ltd.*		
QUADRA FNX SG LTD. *formerly Quadra FNX SG (Barbados) Ltd.*		
Quadra FNX FFI Ltd.	Barbados	financial services
Raise Boring Mining Services S.A. de C.V	Mexico	mine drilling services
CENTENARIO HOLDINGS LTD.	Canada *formerly the British Virgin Islands*	the management and control of other companies
FRANKE HOLDINGS LTD. *formerly Frankie (BVI) Ltd.*		
Malmbjerg Molybdenum A/S	Greenland	development of the Malmbjerg molybdenum project

Appendix 4 Methodology of calculating ratios used in the report

Liquidity ratios

$$\text{Current liquidity} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Quick liquidity} = \frac{\text{Current assets - Inventories}}{\text{Current liabilities}}$$

Profitability ratios

$$\text{Return on assets (ROA)} = \frac{\text{Profit/loss for the period}}{\text{Total assets}} \times 100$$

$$\text{Return on equity (ROE)} = \frac{\text{Profit/loss for the period}}{\text{Equity}} \times 100$$

Financing ratios

$$\text{Debt ratio} = \frac{\text{Long and short term liabilities}}{\text{Equity and liabilities}} \times 100$$

$$\text{Durability of financing structure} = \frac{\text{Equity + Long term liabilities}}{\text{Equity and liabilities}} \times 100$$

$$\text{Net debt / Adjusted EBITDA} = \frac{\text{Liabilities due to borrowings – Free cash and cash equivalents}}{\text{Profit/(loss) on sales + Depreciation/amortisation + Impairment loss/Reversal of impairment losses on non-current assets}}$$

Appendix 5 List of tables, charts, diagrams and drawings

TABLES

CHARTS

DIAGRAMS

DRAWINGS

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY			
Date	**First, Last name**	**Position/Function**	**Signature**
15 March 2016	Krzysztof Skóra	President of the Management Board	
15 March 2016	Mirosław Biliński	Vice President of the Management Board	
15 March 2016	Mirosław Laskowski	Vice President of the Management Board	
15 March 2016	Jacek Rawecki	Vice President of the Management Board	
15 March 2016	Stefan Świątkowski	Vice President of the Management Board	