

**Report of the Supervisory Board of KGHM Polska Miedź S.A.
on the results of its evaluation of the financial statements
of KGHM Polska Miedź S.A. for financial year 2015 and of the report on the
Company's activities in financial year 2015, and on its evaluation of the
proposal of the Management Board of KGHM Polska Miedź S.A. covering the
loss for financial year 2015 and of a dividend payout.**

*(Approved by Resolution No. 45/IX/16 of the Supervisory Board of KGHM Polska Miedź S.A.
dated 17 May 2016)*

May, 2016

Report of the Supervisory Board of KGHM Polska Miedź S.A. on the results of its evaluation of the financial statements of KGHM Polska Miedź S.A. for financial year 2015 and of the report on the Company's activities in financial year 2015, and on its evaluation of the proposal of the Management Board of KGHM Polska Miedź S.A. covering the loss for financial year 2015 and of a dividend payout.

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1. Introduction

In accordance with §20 sec. 2 points 1) and 3) of the Statutes of KGHM Polska Miedź S.A. and based on art. 382 §3 of the Commercial Partnerships and Companies Code, on 15 March 2016 the Supervisory Board of KGHM Polska Miedź S.A. carried out an evaluation of the financial statements of KGHM Polska Miedź S.A. for financial year 2015 and the report on the Company's activities in financial year 2015.

The Supervisory Board has summarised its conclusions from the above evaluation, after reviewing the documents presented to it by the Management Board of the Company, in particular the following:

- the financial statements of KGHM Polska Miedź S.A. for financial year 2015;
- the report on the Company's activities in financial year 2015; and
- the auditor's opinion and report on its audit of the financial statements for 2015.

The audit of the financial statements of KGHM Polska Miedź S.A. prepared in accordance with national standards of auditing for the year ended 31 December 2015, was carried out by the Certified Auditor, PricewaterhouseCoopers Sp. z o.o. with its registered head office in Warsaw, who issued an audit opinion together with a report dated 15 March 2016. The audit included a review of the documentation which formed the basis for the amounts and information presented in the financial statements of KGHM Polska Miedź S.A. for financial year 2015, as well as an assessment of the propriety of the accounting principles and significant estimates approved and applied in the Company.

The results of the evaluation of the Supervisory Board are presented in the following report.

2. Evaluation of the financial statements for financial year 2015 (from 1 January to 31 December 2015)

The Supervisory Board familiarised itself with and analysed the financial statements of KGHM Polska Miedź S.A. prepared in accordance with International Financial Reporting Standards, as adopted by the European Union for the year ended 31 December 2015, containing:

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|---|--------------------|
| - the statement of profit or loss showing a loss for the period of | PLN 2 788 million |
| - the statement of comprehensive income showing a total comprehensive loss of | PLN 3 198 million |
| - the statement of cash flows showing an increase in net cash and cash equivalents of | PLN 90 million |
| - the statement of financial position, showing total assets and total equity and liabilities of | PLN 33 120 million |
| - the statement of changes in equity showing a decrease in equity of | PLN 3 998 million |
| - explanatory notes to the financial statements. | |

2.1 Statement of profit or loss for the period from 1 January to 31 December 2015

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In financial year 2015, individual items of revenues and results were as follows:

1)	sales revenue	PLN 15 939 million,
2)	gross profit	PLN 4 130 million,
3)	profit on sales	PLN 3 284 million,
4)	loss before income tax	PLN 1 938 million,
5)	loss for the period	PLN 2 788 million.

The loss for the period of PLN 2 788 million was set following obligatory deductions.

2.2 Statement of comprehensive income for the period from 1 January to 31 December 2015

The statement of comprehensive income for the year ended 31 December 2015 shows a total comprehensive loss of PLN 3 198 million, comprised of:

1)	Loss for the period	PLN 2 788 million,
2)	Other comprehensive income from the measurement of financial instruments - a loss of PLN 469 million:	
3)	Net actuarial gains	PLN 59 million.

2.3 Statement of cash flows for the period from 1 January to 31 December 2015

Cash and cash equivalents at the beginning of the year amounted to PLN 85 million.

Net cash flows in 2015 of PLN 90 million were as follows:

1)	net cash generated by KGHM Polska Miedź S.A. from operating activities of PLN 3 279 million,
2)	net cash used by KGHM Polska Miedź S.A. in investing activities of PLN 6 872 million,
3)	net cash generated by KGHM Polska Miedź S.A. from financing activities of PLN 3 683 million.

The impact of exchange rates related to cash and cash equivalents for 2015 was a decrease in cash and cash equivalents of PLN 17 million.

Cash and cash equivalents at the end of the reporting period amounted to PLN 158 million.

2.4 Statement of financial position as at 31 December 2015

The statement of financial position prepared as at 31 December 2015 shows total assets and total equity and liabilities of PLN 33 120 million.

In terms of assets the above amount is comprised of:

1)	non-current assets	PLN 28 406 million,
2)	current assets	PLN 4 714 million.

In terms of equity and liabilities the above amount is comprised of:

1)	equity	PLN 20 279 million,
2)	non-current liabilities	PLN 7 756 million,
3)	current liabilities	PLN 5 085 million.

When compared to the situation as at 31 December 2014, the following changes occurred in the assets structure and in the sources of financing structure:

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In assets:

- 1) non-current assets – an increase by PLN 967 million, including:
 - an increase in receivables due to loans granted by PLN 4 708 million,
 - an increase in property, plant and equipment and intangible assets by PLN 1 570 million, mainly due to expenditures on the construction of the Flash Furnace at the Głogów smelter/refinery and on the development of „Głogów Głęboki Przemysłowy” (Deep Głogów),
 - a decrease in investments in subsidiaries in the amount of PLN 4 920 million, caused by an impairment loss on the investment in Fermat 1 S.a.r.l. (a holding company which owns shares in KGHM International Ltd. and KGHM Ajax Mining Inc.).
- 2) current assets – a decrease by PLN 159 million.

In equity and liabilities:

- 1) equity – a decrease by PLN 3 998 million,
- 2) non-current liabilities – an increase by PLN 3 561 million, including due to borrowings drawn, PLN 3 672 million.
- 3) current liabilities – an increase by PLN 1 245 million.

The level of liabilities and their cycle of repayment was managed in a proper manner.

2.5 Statement of changes in equity for the period from 1 January to 31 December 2015

The statement of changes in equity for the year ended 31 December 2015 shows a decrease in equity by PLN 3 998 million. Equity at the end of the reporting period amounts to PLN 20 279 million.

The data presented in the statement of changes in equity for the year ended 31 December 2015 are complete and factually compliant.

The Supervisory Board declares that the financial statements of KGHM Polska Miedź S.A. for the year ended 31 December 2015 were prepared within the statutory deadline and in accordance with International Financial Reporting Standards as adopted by the European Union.

The financial statements of KGHM Polska Miedź S.A., pursuant to the opinion issued by the certified auditor, in all material respects give an accurate and clear view of all information of material importance to assess the financial results of the business activities, as well as the assets and financial position of the Company, were prepared properly and are in compliance with prevailing laws.

The propriety of the preparation of the financial statements of KGHM Polska Miedź S.A. for the year ended 31 December 2015, in terms of compliance with the accounts, documents and factual state, raises no reservations and is confirmed by the positive opinion of the certified auditor.

By confirming the compliance of the financial statements with the Company's accounts and documents and with International Financial Reporting Standards and the factual state, the Supervisory Board evaluates them positively and recommends that the Ordinary General Meeting approve the presented financial statements of KGHM Polska Miedź S.A. for the year ended 31 December 2015.

3. Evaluation of the report on the Company's activities in financial year 2015

The Supervisory Board declares that the Management Board's Report on the activities of KGHM Polska Miedź S.A. in financial year 2015 was prepared in accordance with the *Accounting Act dated 29 September*

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1994 and with 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 (Journal of Laws from 2014, item 133).

The report in question gives a fair and clear view of the assets, economic and financial situation, as well as of the development of the Company. The completeness of the report on the Company's activities in financial year 2015, and the correctness of the disclosed information was confirmed by the certified auditor.

Consequently, the Supervisory Board positively evaluates the Management Board's Report on the Company's activities in financial year 2015, and recommends its approval by the Ordinary General Meeting.

4. Evaluation of the proposal of the Management Board of KGHM Polska Miedź S.A. regarding coverage of the loss in financial year 2015 and of a dividend payout.

The Supervisory Board of KGHM Polska Miedź S.A. positively reviewed the proposal of the Management Board on covering the loss for financial year 2015 and of a dividend payout.

5. Summary

As a result of its evaluation, the Supervisory Board hereby finds that the above-mentioned statements:

- were prepared accurately, objectively and in accordance with the accounts and documents, as well as with the factual state,
- correctly and accurately reflect the results of the business activities for the year 2015 as well as the financial situation and assets of the Company as at 31 December 2015, and
- are compliant with the laws regulating the preparation of financial statements in form and content, as well as with the International Financial Reporting Standards approved by the EU.

Based on the results of this evaluation and on the positive opinion of the Certified Auditor – PricewaterhouseCoopers Sp. z o.o., issued on 15 March 2016, the Supervisory Board hereby recommends that the Ordinary General Meeting approve the financial statements of KGHM Polska Miedź S.A. prepared as at 31 December 2015 and the Management Board's report on the Company's activities in financial year 2015.