POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated half-year report PSr 2017

(amended)

(in accordance with § 82 section 2 and § 83 section 3 of the Decree of the Minister of Finance dated 19 February 2009 – unified text: Journal of Laws of 2014, item 133, with subsequent amendments)

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

For the first half of financial year **2017** from **1 January 2017** to **30 June 2017** containing the amended half-year condensed consolidated financial statements prepared under International Accounting Standard 34 in PLN and half-year condensed financial statements under International Accounting Standard 34 in PLN.

publication date: 09 November 2017

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

KGHM Polska Miedź S.A.
(name of the 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)

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.
(entity entitled to audit financial statements)

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.

SELECTED FINANCIAL DATA

data concerning the amended half-year condensed consolidated financial statements of KGHM Polska Miedź S.A.

		in PLN mn		in EUR mn	
		amended 1st half of 2017	1st half of 2016	amended 1st half of 2017	1st half of 2016
I.	Sales revenue	9 713	8 456	2 287	1 930
II.	Profit on sales	1 877	1 118	442	255
III.	Profit before income tax	1 649	683	388	156
IV.	Profit for the period	1 054	298	248	68
V.	Profit for the period attributable to shareholders of the Parent Entity	1 051	296	247	68
VI.	Profit for the period attributable to non-controlling interest	3	2	1	-
VII.	Other comprehensive net income	333	61	78	14
VIII.	Total comprehensive income	1 387	359	326	82
IX.	Total comprehensive income attributable to the shareholders of the Parent Entity	1 390	345	327	79
X.	Total comprehensive income attributable to non-controlling interest	(3)	14	(1)	3
XI.	Number of shares issued (million)	200	200	200	200
XII.	Earnings per ordinary share (in PLN/EUR) attributable to the shareholders of the Parent Entity	5.26	1.48	1.24	0.34
XIII.	Net cash generated from operating activities	1 192	1 331	281	304
XIV.	Net cash used in investing activities	(1 447)	(2 051)	(341)	(468)
XV.	Net cash generated from/(used in) financing activities	(164)	938	(39)	214
XVI.	Total net cash flow	(419)	218	(99)	50
		amended 1st half of 2017	amended 2016	amended 1st half of 2017	amended 2016
XVII.	Non-current assets	26 728	27 202	6 323	6 149
XVIII.	Current assets	6 773	6 240	1 603	1 410
XIX.	Total assets	33 501	33 442	7 926	7 559
XX.	Non-current liabilities	10 483	11 665	2 480	2 637
XXI.	Current liabilities	5 919	5 866	1 400	1 326
XXII.	Equity	17 099	15 911	4 046	3 596
XXIII.	Equity attributable to shareholders of the Parent Entity	16 963	15 772	4 014	3 565
XXIV.	Equity attributable to non-controlling interest	136	139	32	31

data concerning the half-year condensed financial statements of KGHM Polska Miedź S.A.

		in PLN mn		in EUR mn	
		1st half of 2017	1st half of 2016	1st half of 2017	1st half of 2016
I.	Sales revenue	7 701	6 540	1 813	1 493
II.	Profit on sales	1 735	1 012	408	231
III.	Profit before income tax	1 829	1 032	431	236
IV.	Profit for the period	1 310	668	308	152
V.	Other comprehensive net income	140	(47)	33	(11)
VI.	Total comprehensive income	1 450	621	341	141
VII.	Number of shares issued (million)	200	200	200	200
VIII.	Earnings per ordinary share (in PLN/EUR)	6.55	3.34	1.54	0.76
IX.	Net cash generated from operating activities	800	1 042	188	238
X.	Net cash used in investing activities	(1 226)	(1 797)	(289)	(410)
XI.	Net cash generated from financing activities	87	961	20	219
XII.	Total net cash flow	(339)	206	(81)	47
		1st half of 2017	2016	1st half of 2017	2016
XIII.	Non-current assets	25 458	25 594	6 023	5 785
XIV.	Current assets	5 270	4 506	1 247	1 019
XV.	Total assets	30 728	30 100	7 270	6 804
XVI.	Non-current liabilities	8 358	9 245	1 978	2 090
XVII.	Current liabilities	5 220	4 955	1 235	1 120
XVIII.	Equity	17 150	15 900	4 057	3 594

CONSOLIDATED HALF-YEAR REPORT PSr 2017 (AMENDED) COMPRISES:

1. **AUDITOR'S REVIEW REPORT ON THE HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

2. **AUDITOR'S REVIEW REPORT ON THE HALF-YEAR CONDENSED FINANCIAL STATEMENTS**

3. **DECLARATIONS BY THE MANAGEMENT BOARD**

4. **AMENDED HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

5. **HALF-YEAR CONDENSED FINANCIAL STATEMENTS OF KGHM POLSKA MIEDŹ S.A.**

6. **THE MANAGEMENT BOARD'S AMENDED REPORT ON THE ACTIVITIES OF THE GROUP IN THE FIRST HALF OF 2017**

Lubin, November 2017

AUDITOR'S REVIEW REPORT
ON THE HALF-YEAR CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

Lubin, November 2017

Deloitte Polska
Spółka z ograniczoną odpowiedzialnością Sp. k.
z siedzibą w Warszawie
Al. Jana Pawła II 22
00-133 Warszawa
Polska

Tel.: +48 22 511 08 11, 511 08 02
Fax: +48 22 511 08 13
www.deloitte.com/pl

REPORT ON REVIEW OF AMENDED HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders and Supervisory Board of KGHM Polska Miedź S.A.

Introduction

We have reviewed the accompanying amended half-year condensed consolidated financial statements of the KGHM Polska Miedź S.A. Capital Group (hereinafter: the "Capital Group") for which KGHM Polska Miedź S.A. with the registered office in Lubin, at ul. Marii Skłodowskiej-Curie 48 is the parent (hereinafter: the "Parent Company"), comprising the half-year consolidated statement of profit or loss prepared for the period from 1 January to 30 June 2017, the half-year consolidated statement of comprehensive income for the period from 1 January to 30 June 2017, the half-year consolidated statement of cash flows for the period from 1 January to 30 June 2017, the half-year consolidated statement of financial position prepared as at 30 June 2017, the half-year consolidated statement of changes in equity for the period from 1 January to 30 June 2017 and notes comprising a summary of significant accounting policies and other explanatory information.

On 16 August 2017, we issued a report from the review of half-year condensed consolidated financial statements of the KGHM Polska Miedź S.A. Capital Group prepared on 16 August 2017. The Management Board of the Parent Company introduced changes to the half-year condensed consolidated financial statements prepared on 16 August 2017 and presented to us the accompanying amended condensed consolidated financial statements prepared on 9 November 2017. The financial statements were amended following an adjustment of an assessment regarding determination of the functional currency of Future 1 Sp. z o.o., a subsidiary. Effects of the above change on the half-year condensed consolidated financial statements have been presented in Note 1.4 thereto.

Management Board and Supervisory Board of the Parent Company are responsible for the preparation and fair presentation of these half-year condensed consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union with respect to interim financial reporting (IAS 34). Our responsibility is to express a conclusion on these half-year condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with National Auditing Standard 2410 in line with the wording of the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" adopted by Resolution No. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 as amended.

A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on these interim condensed consolidated/ financial statements.

Based on the review, nothing has come to our attention that causes us to believe that the accompanying amended half-year condensed consolidated financial statements were not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

This report supersedes the report on the review of half-year condensed consolidated financial statements of the KGHM Polska Miedź S.A. Capital Group for the period from 1 January to 30 June 2017, issued on 16 August 2017.

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. - entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Adrian Karaś
Key certified auditor
No. 12194

Warsaw, 9 November 2017

The above review report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

AUDITOR'S REVIEW REPORT ON THE HALF-YEAR CONDENSED FINANCIAL STATEMENTS

Lubin, November 2017

Deloitte Polska
Spółka z ograniczoną odpowiedzialnością Sp. k.
z siedzibą w Warszawie
Al. Jana Pawła II 22
00-133 Warszawa
Polska

Tel.: +48 22 511 08 11, 511 08 02
Fax: +48 22 511 08 13
www.deloitte.com/pl

REPORT ON REVIEW OF THE HALF-YEAR CONDENSED FINANCIAL STATEMENTS

To the Shareholders and Supervisory Board of KGHM Polska Miedź S.A.

Introduction

We have reviewed the accompanying half-year condensed financial statements of KGHM Polska Miedź S.A. (hereinafter: "the Company") with its registered office in Lubin, Marii Skłodowskiej-Curie 48, including half-year statement of profit or loss for the period from 1 January 2017 to 30 June 2017, half-year statement of comprehensive income for the period from 1 January 2017 to 30 June 2017, half-year statement of cash flows for the period from 1 January 2017 to 30 June 2017, half-year statement of financial position as at 30 June 2017, half-year statement of changes in equity for the period from 1 January 2017 to 30 June 2017 and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board and Supervisory Board of the Company are responsible for the preparation and fair presentation of these half-year condensed financial statements in accordance with the International Financial Reporting Standards and the related interpretations published in the form of European Commission regulations. Our responsibility is to express a conclusion on this half-year financial information based on our review.

Scope of Review

We conducted our review in accordance with National Auditing Standard 2410 in line with the wording of the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" adopted by Resolution No. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 as amended. A review of half-year financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-year condensed financial statements do not give, in all material respects, a true and fair view of the financial position of the Company as at 30 June 2017, and of its financial performance and its cash flows for the 6-month period then ended in accordance with the International Financial Reporting Standards and the related interpretations published in the form of European Commission regulations.

Adrian Karaś
Key certified auditor
conducting the review
No. 12194

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Adrian Karaś – Vice-President of the Management Board of Deloitte Polska Sp. z o.o. – which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 16th of August 2017

The above review report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

DECLARATIONS
BY THE MANAGEMENT BOARD

Lubin, November 2017

DECLARATIONS BY THE MANAGEMENT BOARD

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

The Management Board of KGHM Polska Miedź S.A. declares that according to its best judgement:

- amended half-year condensed consolidated financial statements for the first half of 2017 and 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 profit for the period of the Group,
- half-year condensed financial statements of KGHM Polska Miedź S.A. for the first half of 2017 and 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 KGHM Polska Miedź S.A. and the profit for the period of KGHM Polska Miedź S.A.,
- the Management Board's amended report on the activities of the Group in the first half of 2017 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.

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 reviewed the half-year condensed consolidated financial statements and the half-year condensed financial statements of KGHM Polska Miedź S.A., was selected in compliance with legal provisions. This entity, as well as the certified auditors who have carried out this review, have met the conditions for issuing impartial and independent reports on their review of half-year condensed consolidated financial statements as well as of the half-year condensed financial statements of KGHM Polska Miedź S.A., in compliance with appropriate legal provisions and professional standards.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last Name**	**Position / Function**	**Signature**
09 November 2017	Radosław Domagalski-Łabędzki	President of the Management Board	
09 November 2017	Ryszard Jaśkowski	Vice President of the Management Board	
09 November 2017	Michał Jezioro	Vice President of the Management Board	
09 November 2017	Rafał Pawełczak	Vice President of the Management Board	
09 November 2017	Stefan Świątkowski	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last Name**	**Position / Function**	**Signature**
09 November 2017	Łukasz Stelmach	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A	

AMENDED HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Lubin, November 2017

Table of contents

Amended half-year condensed consolidated financial statements

HALF-YEAR CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		amended 1st half of 2017	1st half of 2016
Note 2.3	Sales revenue	9 713	8 456
Note 3.1	Cost of sales	(7 215)	(6 704)
	Gross profit	**2 498**	**1 752**
Note 3.1	Selling costs and administrative expenses	(621)	(634)
	Profit on sales	**1 877**	**1 118**
	Share of losses of joint ventures accounted for using the equity method	(215)	(476)
	Interest income on loans granted to joint ventures	161	306
	Profit or loss on involvement in joint ventures	(54)	(170)
Note 3.2	Other operating income and (costs)	(858)	(106)
Note 3.3	Finance income and (costs)	684	(159)
	Profit before income tax	**1 649**	**683**
	Income tax expense	(595)	(385)
	PROFIT FOR THE PERIOD	**1 054**	**298**
	Profit for the period attributable to:		
	Shareholders of the Parent Entity	1 051	296
	Non-controlling interest	3	2
	Weighted average number of ordinary shares (million)	**200**	**200**
	Basic/diluted earnings per share (in PLN)	**5.26**	**1.48**

HALF-YEAR CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	amended 1st half of 2017	1st half of 2016
Profit for the period	**1 054**	**298**
Measurement of hedging instruments net of the tax effect	173	(19)
Measurement of available-for-sale financial assets net of the tax effect	110	19
Exchange differences from the translation of statements of operations with a functional currency other than PLN	197	134
Other comprehensive income which will be reclassified to profit or loss	**480**	**134**
Actuarial losses net of the tax effect	(147)	(73)
Other comprehensive income, which will not be reclassified to profit or loss	**(147)**	**(73)**
Total other comprehensive net income	**333**	**61**
TOTAL COMPREHENSIVE INCOME	**1 387**	**359**
Total comprehensive income attributable to:		
Shareholders of the Parent Entity	1 390	345
Non-controlling interest	(3)	14

amounts in PLN millions, unless otherwise stated

HALF-YEAR CONSOLIDATED STATEMENT OF CASH FLOWS

		amended 1st half of 2017	1st half of 2016
	Cash flow from operating activities		
	Profit before income tax	1 649	683
	Depreciation/amortisation recognised in profit or loss	772	810
	Share of losses of joint ventures accounted for using the equity method	215	476
	Interest on loans granted to joint ventures	(161)	(306)
	Interest and other costs of borrowings	78	59
	Impairment losses on non-current assets	1	66
	Exchange differences, of which:	173	(92)
	from investment activities and cash	988	162
	from financing activities	(815)	(70)
	Change in other receivables and liabilities	(203)	(149)
	Change in assets/liabilities due to derivatives	(86)	118
	Other adjustments to profit before income tax	(6)	32
	Exclusions of income and costs, total	783	1 014
	Income tax paid	(703)	(127)
Note 4.10	Changes in working capital	(537)	(239)
	Net cash generated from operating activities	**1 192**	**1 331**
	Cash flow from investing activities		
	Expenditures on mining and metallurgical assets	(1 111)	(1 680)
	Expenditures on other property, plant and equipment and intangible assets	(97)	(106)
	Acquisition of newly-issued shares of a joint venture	(206)	(238)
	Other expenses	(55)	(43)
	Total expenses	(1 469)	(2 067)
	Proceeds	22	16
	Net cash used in investing activities	**(1 447)**	**(2 051)**
	Cash flow from financing activities		
	Proceeds from borrowings	1 447	1 980
	Other proceeds	2	18
	Total proceeds	1 449	1 998
	Repayments of borrowings	(1 532)	(996)
	Interest paid and other costs of borrowings	(81)	(55)
	Other payments	-	(9)
	Total expenses	(1 613)	(1 060)
	Net cash generated from/(used in) financing activities	**(164)**	**938**
	TOTAL NET CASH FLOW	**(419)**	**218**
	Cash and cash equivalents at beginning of the period	**860**	**461**
	Exchange gains/(losses) on cash and cash equivalents	5	19
	Cash and cash equivalents at end of the period	**446**	**698**

amounts in PLN millions, unless otherwise stated

HALF-YEAR CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		amended 1st half of 2017	amended 2016
	ASSETS		
	Mining and metallurgical property, plant and equipment	15 359	15 217
	Mining and metallurgical intangible assets	2 309	2 474
	Mining and metallurgical property, plant and equipment and intangible assets	17 668	17 691
	Other property, plant and equipment	2 599	2 591
	Other intangible assets	202	208
	Other property, plant and equipment and intangible assets	2 801	2 799
	Joint ventures accounted for using the equity method	26	27
	Loans granted to joint ventures	3 978	4 313
Note 4.2	Total involvement in joint ventures	4 004	4 340
	Derivatives	137	237
	Other financial instruments measured at fair value	712	577
	Other financial assets	916	930
Note 4.3	Financial instruments, total	1 765	1 744
	Deferred tax assets	372	511
	Other non-financial assets	118	117
	Non-current assets	**26 728**	**27 202**
	Inventories	4 512	3 497
Note 4.3	Trade receivables	1 097	1 292
	Tax assets	228	267
Note 4.3	Derivatives	101	72
	Other assets	389	252
Note 4.3	Cash and cash equivalents	446	860
	Current assets	**6 773**	**6 240**
		33 501	**33 442**
	EQUITY AND LIABILITIES		
	Share capital	2 000	2 000
	Other reserves from measurement of financial instruments	100	(183)
	Accumulated other comprehensive income	2 272	2 216
	Retained earnings	12 591	11 739
	Equity attributable to shareholders of the Parent Entity	16 963	15 772
	Equity attributable to non-controlling interest	136	139
	Equity	**17 099**	**15 911**
Note 4.3	Borrowings	5 493	6 539
Note 4.3	Derivatives	118	256
Note 4.6	Employee benefits liabilities	2 071	1 860
	Provisions for decommissioning costs of mines and other technological facilities	1 474	1 487
	Deferred tax liabilities	540	563
	Other liabilities	787	960
	Non-current liabilities	10 483	11 665
Note 4.3	Borrowings	1 641	1 559
Note 4.3	Derivatives	35	215
Note 4.3	Trade payables	1 613	1 433
Note 4.6	Employee benefits liabilities	754	787
	Tax liabilities	605	786
	Other liabilities	1 271	1 086
	Current liabilities	5 919	5 866
	Non-current and current liabilities	**16 402**	**17 531**
		33 501	**33 442**

amounts in PLN millions, unless otherwise stated

HALF-YEAR 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 2016	**2 000**	**(64)**	**1 868**	**16 407**	**20 211**	**203**	**20 414**
	Dividend	-	-	-	(300)	**(300)**	-	**(300)**
	Transactions with non-controlling interest	-	-	-	2	**2**	1	**3**
	Transactions with owners	-	-	-	(298)	**(298)**	1	**(297)**
	Profit for the period	**-**	-	-	296	**296**	2	**298**
	Other comprehensive income	-	-	49	-	**49**	12	**61**
	Total comprehensive income	-	-	49	296	**345**	14	**359**
	As at 30 June 2016	**2 000**	**(64)**	**1 917**	**16 405**	**20 258**	**218**	**20 476**
	As at 1 January 2017 - amended	**2 000**	**(183)**	**2 216**	**11 739**	**15 772**	**139**	**15 911**
Note 5.4	Dividend	-	-	-	(200)	**(200)**	-	**(200)**
	Transactions with non-controlling interest	-	-	-	1	**1**	-	**1**
	Transactions with owners	-	-	-	(199)	**(199)**	-	**(199)**
	Profit for the period	-	-	-	1 051	**1 051**	3	**1 054**
	Other comprehensive income	-	283	56	-	**339**	(6)	**333**
	Total comprehensive income	**-**	**283**	**56**	**1 051**	**1 390**	**(3)**	**1 387**
	As at 30 June 2017 - amended	**2 000**	**100**	**2 272**	**12 591**	**16 963**	**136**	**17 099**

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 Regional Court for Wrocław Fabryczna, 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.

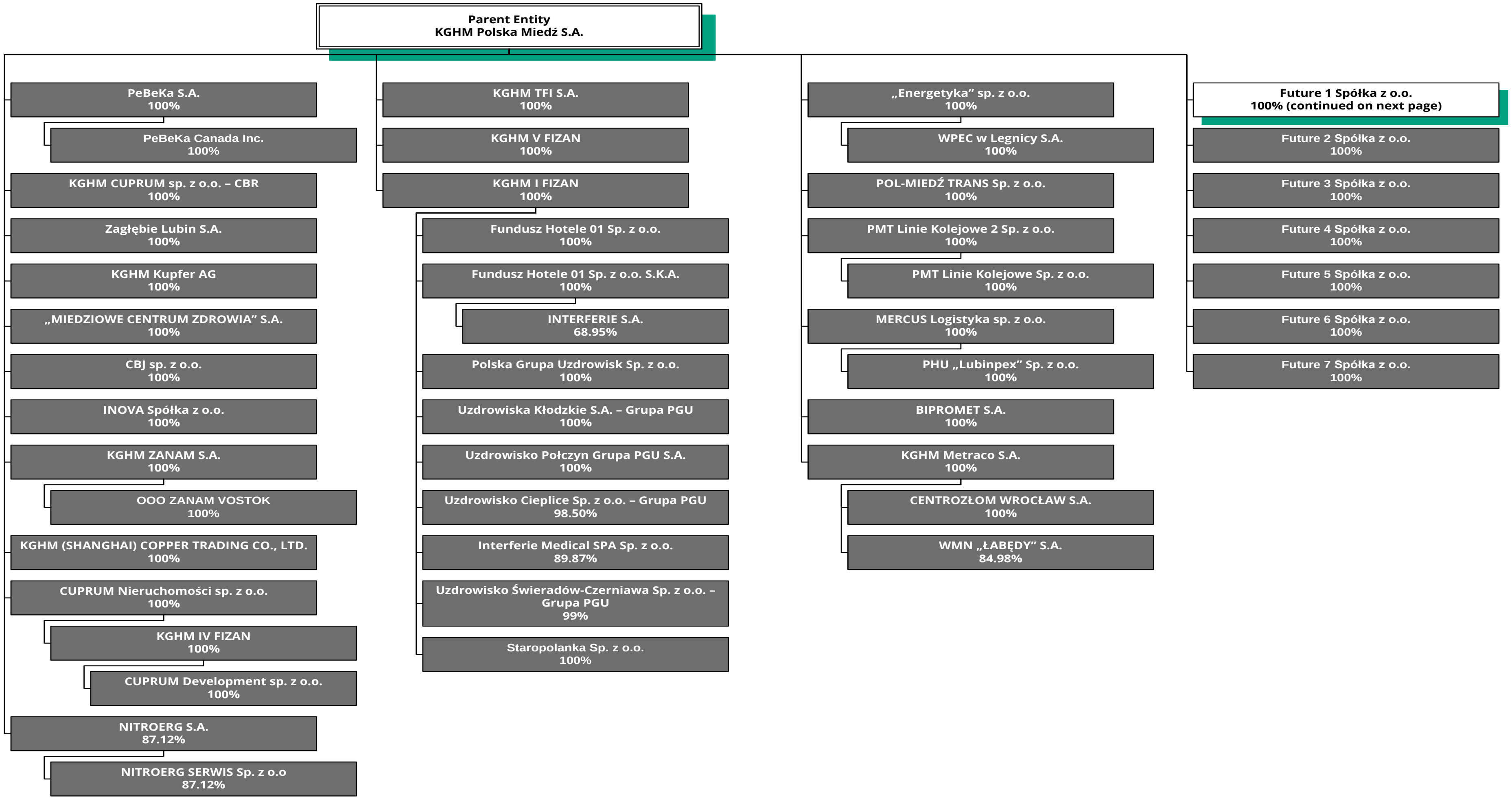
The business activities of the Group include:

- the mining of copper and non-ferrous metals ores;
- the mined production of metals, including copper, nickel, gold, platinum, palladium;
- the production of goods from copper and precious metals;
- underground construction services;
- the production of machinery and mining equipment;
- transport services;
- services in the areas of research, analysis and design;
- the production of road-building materials; and
- the recovery of associated metals from copper ore.

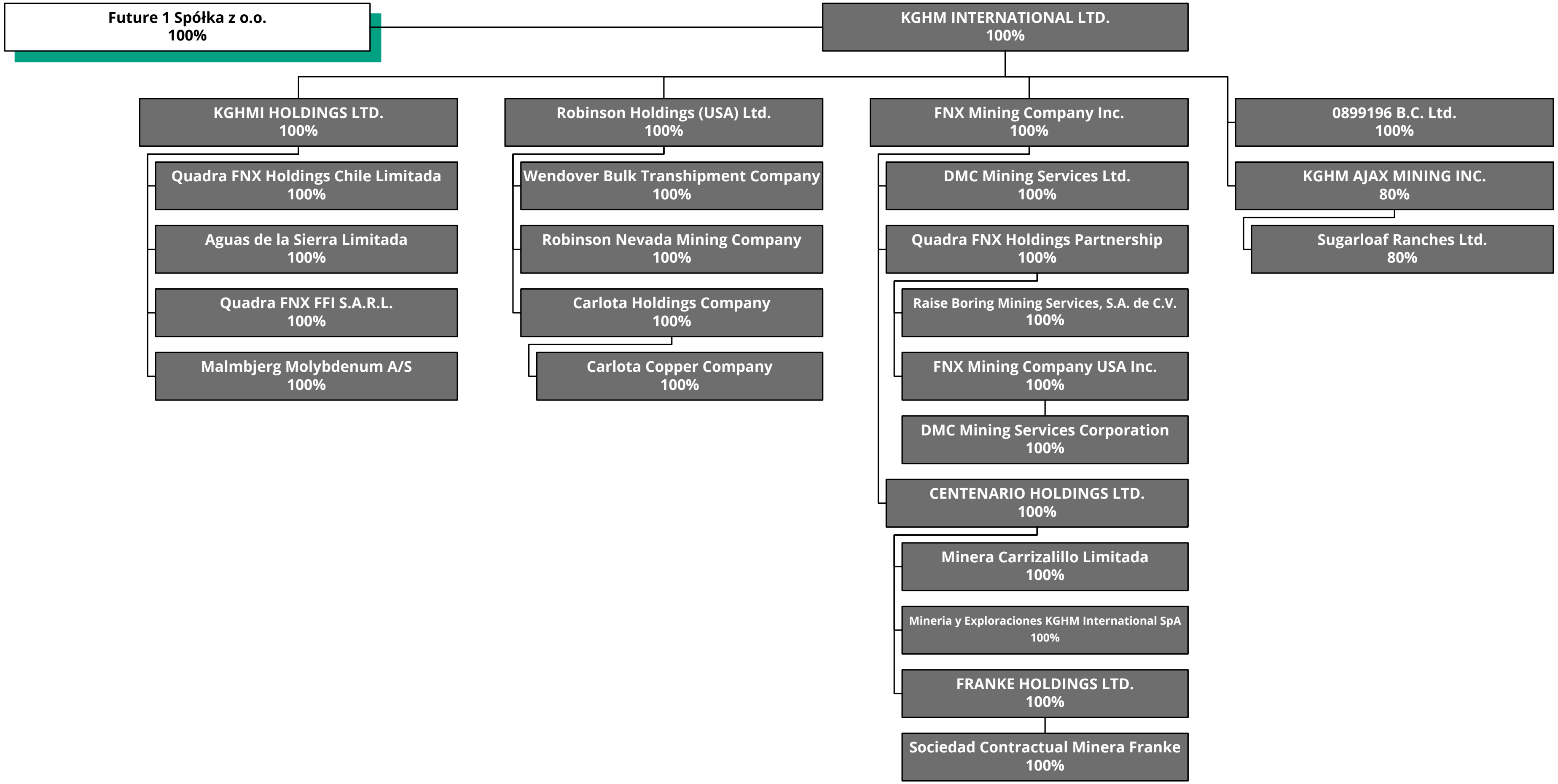
The KGHM Polska Miedź S.A. Group carries out exploration and mining of copper, nickel and precious metals based on concessions for Polish deposits given to KGHM Polska Miedź S.A., and also based on legal titles held by the KGHM INTERNATIONAL LTD. Group for the exploration for and mining of these resources in the USA, Canada and Chile.

Note 1.2 Structure of the KGHM Polska Miedź S.A. Group as at 30 June 2017

In the current half-year, KGHM Polska Miedź S.A. consolidated 72 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. in liquidation and NANO CARBON Sp. z o.o.).



The percentage share represents the total share of the Group.


Future 1 Spółka z o.o. 100%
KGHM INTERNATIONAL LTD. 100%
KGHMI HOLDINGS LTD. 100%
Quadra FNX Holdings Chile Limitada 100%
Aguas de la Sierra Limitada 100%
Quadra FNX FFI S.A.R.L. 100%
Malmbjerg Molybdenum A/S 100%
Robinson Holdings (USA) Ltd. 100%
Wendover Bulk Transhipment Company 100%
Robinson Nevada Mining Company 100%
Carlota Holdings Company 100%
Carlota Copper Company 100%
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. 100%
Sociedad Contractual Minera Franke 100%
0899196 B.C. Ltd. 100%
KGHM AJAX MINING INC. 80%
Sugarloaf Ranches Ltd. 80%

Note 1.3 Exchange rates applied

The following exchange rates were applied in the conversion of selected financial data in EUR:

- for the conversion of turnover, profit or loss and cash flow for the current period, the rate of ***4.2474 EURPLN*,***
- for the conversion of turnover, profit or loss and cash flow for the comparable period, the rate of ***4.3805 EURPLN*,***
- for the conversion of assets, equity and liabilities at 30 June 2017, applying the current average exchange rate announced by the National Bank of Poland (NBP) as at 30 June 2017, the rate of ***4.2265 EURPLN,***
- for the conversion of assets, equity and liabilities at 31 December 2016, applying the current average exchange rate announced by the NBP as at 30 December 2016, the rate of ***4.4240 EURPLN.***

**the rates represent the arithmetic average of current average exchange rates announced by the NBP on the last day of each month during the period from January to June respectively of 2017 and 2016.*

Note 1.4 Accounting policies and the impact of new and amended standards and interpretations

The presented half-year report is an amendment of a half-year report that was published on 17 August 2017, and in which the consolidated financial statements and the Management Board's report on the activities of the Group in the first half of 2017 were amended pursuant to regulatory filing No. 28/2017 dated 27 October 2017.

The following half-year report includes:

– half-year condensed consolidated financial statements of the KGHM Polska Miedź S.A. Group for the period from 1 January to 30 June 2017 and the comparable period from 1 January to 30 June 2016, together with selected explanatory information;
– half-year condensed financial statements of KGHM Polska Miedź S.A. for the period from 1 January to 30 June 2017 and the comparable period from 1 January to 30 June 2016, together with selected explanatory information;
– the Management Board's report on the activities of the Group.

The amended consolidated financial statements as at 30 June 2017 were re-reviewed by a certified auditor, and which submitted his report on re-review on 9 November 2017.
Due to the fact that changes made in the half-year consolidated financial statements have no impact on the half-year separate financial statements of KGHM Polska Miedź S.A., the amended half-year report for the first half of 2017 (PSr 2017) includes the report on review of the half-year financial statements of KGHM Polska Miedź S.A. dated 16 August 2017.

The condensed consolidated financial report for the period from 1 January 2017 to 30 June 2017 was prepared in accordance with IAS 34 Interim Financial Reporting as approved by the European Union and for a full understanding of the financial position and operating results of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group, should be read jointly with the Annual report R 2016 and the Consolidated annual report RS 2016.

This half-year report's financial statements were prepared using the same accounting policies and valuation methods for the current and comparable periods and principles applied in annual financial statements (consolidated and separate), prepared as at 31 December 2016, with the exception of the change published in the regulatory filing No. 28/2017 dated 27 October 2017, the impact of which is presented below.

Impact of a correction of a judgment on the functional currency of a subsidiary

As a result of reassessment of the currency of the primary economic environment in which the subsidiary Future 1 Sp. z o.o. (Future 1) operates, the Parent Entity's Management Board decided to correct its judgment on the functional currency of Future 1 and to change it from the Polish zloty (PLN) to the US dollar (USD) for the purposes of the consolidated financial statements. The correction of the judgment is a result of taking the following events into account:

− on 20 December 2016, there was a merger of Future 1 with Luxembourg companies (Fermat 1 S.a.r.l., Fermat 2 S.a.r.l. and Fermat 3 S.a.r.l.), as a result of which the main items of assets and liabilities of Future 1 are loans granted to KGHM International Ltd. and loans received from KGHM Polska Miedź S.A., denominated in USD,
− Future 1's activity consists of taking over Luxembourg companies, whose functional currency was USD.

The change of judgment on the functional currency resulted in the correction of a settlement of exchange differences from the translation of statements of subsidiaries with USD as their functional currency, which were taken over by Future 1 as part of a cross-border merger, as well as recognising exchange differences arising from the recognition of Future 1's assets and liabilities in other comprehensive income, while before the correction of the judgment the exchange differences were recognised in other operating income and costs.

amounts in PLN millions, unless otherwise stated

Below, we present in brief the impact of the aforementioned change on the consolidated financial statements:

- as at 31 December 2016:
  - an increase in accumulated other comprehensive income (exchange differences from the translation of statements of operations with a functional currency other than PLN) from PLN 855 million to PLN 2 216 million – a change in the amount of PLN 1 361 million,
  - a decrease in retained earnings (undistributed profit) from PLN 13 100 million to PLN 11 739 million – a change in the amount of PLN 1 361 million,
  - no impact on the financial result for 2016,

- for the period from 1 January 2017 to 30 June 2017:
  - an increase in other operating income and (costs) from PLN (1 506) million to PLN (858) million, and an increase in income tax expense from PLN (507) million to PLN (595) million – and therefore an increase in profit for the period from PLN 494 million to PLN 1 054 million – a change in the amount of PLN 560 million,
  - an increase in the ratio "Basic/diluted earnings per share" from PLN 2.46 to PLN 5.26 – a change in the amount of 2.80 PLN per 1 share,
  - a decrease in other comprehensive income, due to the recognition of exchange differences from the translation of statements of operations with a functional currency other than PLN, from PLN 981 million to PLN 333 million – a change in the amount of PLN 648 million,
  - a decrease in deferred tax assets from PLN 460 million to PLN 372 million – a change in the amount of PLN 88 million,

- for the period from 1 January 2017 to 31 March 2017:
  - an increase in other operating income and (costs) from PLN (738) million to PLN (426) million – and therefore an increase in profit for the period from PLN 398 million to PLN 710 million – a change in the amount of PLN 312 million,
  - a decrease in other comprehensive income, due to the recognition of exchange differences from the translation of statements of operations with a functional currency other than PLN, from PLN 462 million to PLN 150 million – a change in the amount of PLN 312 million.

Impact of new and amended standards and interpretations

The following amendments were approved for use after 1 January 2017 by the International Accounting Standards Board:

- Amendments to IAS 7 "Statement of Cash Flows" – the disclosure initiative,
- Amendments to IAS 12 "Deferred Tax" – recognition of deferred tax assets for unrealised losses.

Up to the date of publication of these financial statements, the aforementioned amendments were not adopted for use by the European Union. Their application would not have an impact on the Group's accounting policy or on these consolidated financial statements.

Note 1.5 Analysis of assumptions adopted for impairment testing as at 31 December 2016

In accordance with International Financial Reporting Standards, the Management Board of the Parent Entity conducted an analysis of eventual changes in key assumptions adopted for impairment testing of assets, conducted as at 31 December 2016, and their impact on the recoverable amount of assets as at the reporting date.
The analysis concerned the following issues:

Issue	Description
Macroeconomic assumptions – copper and silver price curves, exchange rates	At the end of the first half of 2017, the Company analysed price fluctuations and concluded that price curves adopted for impairment testing are within the range of market forecasts. Currently assumed exchange rates are within the range of available market forecasts.
Operating assumptions for individual Cash Generating Units (CGUs) – production forecasts, mine lives, level of capital expenditures, C1 cost	
KGHM INTERNATIONAL LTD. (CGU Robinson, CGU Sudbury, CGU Franke, CGU Carlota)	In the reporting period, there were no changes in the long-term production forecasts, mine lives or significant changes in capital expenditures. Based on the forecast which takes into account the actual results achieved in the first half of 2017, it is assumed that the basic production and financial targets for 2017, which were adopted for testing, will be achieved.
CGU Sierra Gorda	In the reporting period, there were no changes in the long-term production forecasts, mine lives or significant changes in capital expenditures. Based on the actual results for the first half of 2017, it is assumed that Sierra Gorda will achieve results for 2017 in the amounts adopted for impairment testing as at 31 December 2016.

The results of the conducted analysis confirmed that none of the factors that could have a significant impact on the change in the recoverable amount of assets occurred, and therefore there were no indicators necessitating an update of the tests for impairment conducted as at 31 December 2016.

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 way of reporting to the Parent Entity's Management Board.

As a result of 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, in which the following mines, deposits or mining areas constitute 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 others. Moreover, it receives and analyses reports of the whole KGHM INTERNATIONAL LTD. Group. The operating segments are engaged in the exploration and mining of copper, molybdenum, silver, gold and nickel deposits. 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 S.C.M. (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 segment.

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

- Future 1 Sp. z o.o., which acts as a holding company with respect to the KGHM INTERNATIONAL LTD. Group,
- 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 Boards, which report 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 joint venture Sierra Gorda. 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 Holdings Partnership, Sugarloaf Ranches Ltd.
Greenland	Malmbjerg Molybdenum A/S
Mexico	Raise Boring Mining Services S.A. de C.V.
Luxembourg	Quadra FNX FFI S.à r.l.

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., KGHM 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 IV FIZAN, KGHM V FIZAN, Polska Grupa Uzdrowisk Sp. z o.o.
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, 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., WMN "ŁABĘDY" S.A., Zagłębie Lubin S.A., OOO ZANAM VOSTOK

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 to 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. 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. prepared in accordance with IFRSs.

- Other segments – comprises aggregated data of individual subsidiaries after 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 income and (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 and impairment losses on property, plant and equipment included in the cost of sales, selling costs and administrative expenses. Adjusted EBITDA – as a financial indicator not defined by IFRSs – is not a standardised measure and therefore its method of calculation 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.

Unallocated assets and liabilities concern companies which have not been allocated to any segment. Assets which have not been allocated to the segments comprise cash, trade receivables and deferred tax assets. Liabilities which have not been allocated to the segments comprise trade liabilities and current corporate tax liabilities.

Note 2.2 Financial results of reporting segments

		KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data: Elimination of data of the segment Sierra Gorda S.C.M	Reconciliation items to consolidated data: Adjustments****	Consolidated financial statements
		1st half of 2017						
Note 3.3	**Sales revenue**	**7 701**	**1 181**	**868**	**3 093**	(868)	(2 262)	9 713
	Inter-segment sales revenue	144	49	-	2 101	-	(2 294)	-
	External sales revenue	7 557	1 132	868	992	(868)	32	9 713
	Segment result	**1 310**	**(467)**	**(320)**	**97**	**320**	**114**	**1 054**
	Additional information on significant cost/revenue items of the segment							
	Depreciation/amortisation recognised in profit or loss	(496)	(163)	(198)	(119)	198	6	(772)
	Share of losses of joint ventures accounted for using the equity method	-	(214)	-	-	-	(1)	(215)
		1st half of 2017						
	Assets, including:	**30 728**	**8 434**	**8 409**	**5 211**	**(8 409)**	**(10 872)**	**33 501**
	Segment assets	30 728	8 434	8 409	5 211	(8 409)	(10 912)	33 461
	Joint ventures accounted for using the equity method	-	-	-	-	-	26	26
	Assets unallocated to segments	-	-	-	-	-	14	14
	Liabilities, including:	**13 578**	**15 412**	**11 787**	**1 800**	**(11 787)**	**(14 388)**	**16 402**
	Segments liabilities	13 578	15 412	11 787	1 800	(11 787)	(14 388)	16 402
	Liabilities unallocated to segments	-	-	-	-	-	-	-
	Other information	**1st half of 2017**						
	Cash expenditures on property, plant and equipment and intangible assets	983	233	282	90	(282)	(98)	1 208
	Production and cost data	**1st half of 2017**						
	Payable copper (kt)	264.2	38.7	27.2				
	Molybdenum (million pounds)	-	0.4	13.0				
	Silver (t)	591.8	0.8	7.7				
	TPM (koz t)	55.4	35.8	13.5				
	C1 cash cost of producing copper in concentrate (USD/lb)**	1.33	2.02	1.74				
	Adjusted EBITDA	**2 231**	**264**	**195**	**173**	**-**	**-**	**2 863**
	EBITDA margin* **	**29%**	**22%**	**22%**	**6%**	**-**	**-**	**27%**

* 55% of the Group's share in Sierra Gorda S.C.M.'s financial and production data.

** 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.

*** Adjusted EBITDA to sales revenue. For the purposes of calculating the Group's EBITDA margin (27%), the consolidated sales revenue were increased by sales revenue of the segment Sierra Gorda S.C.M.
[2 863 / (9 713 + 868) * 100]

****Adjustments arise from consolidation eliminations and financial data of companies unallocated to any segment.

.

Financial results of reporting segments for the comparable period

		1st half of 2016						
						Reconciliation items to consolidated data		
		KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Adjustments****	Consolidated financial statements
Note 3.3	**Sales revenue**	**6 540**	**1 198**	**683**	**3 206**	**(683)**	**(2 488)**	**8 456**
	Inter-segment sales revenue	130	49	30	2 368	(30)	(2 547)	-
	External sales revenue	6 410	1 149	653	838	(653)	59	8 456
	Segment result	**668**	**(533)**	**(481)**	**(17)**	**481**	**180**	**298**
	Additional information on significant cost/revenue items of the segment							
	Depreciation/amortisation recognised in profit or loss	(451)	(248)	(376)	(117)	376	6	(810)
	Share of losses of joint ventures accounted for using the equity method	-	(476)	-	-	-	-	(476)
		2016						
	Assets, including:	**30 100**	**9 472**	**9 185**	**5 249**	**(9 185)**	**(11 379)**	**33 442**
	Segment assets	30 100	9 472	9 185	5 249	(9 185)	(11 407)	33 414
	Joint ventures accounted for using the equity method	-	-	-	-	-	27	27
	Assets unallocated to segments	-	-	-	-	-	1	1
	Liabilities, including:	**14 200**	**16 853**	**12 880**	**1 943**	**(12 880)**	**(15 465)**	**17 531**
	Segments liabilities	14 200	16 853	12 880	1 943	(12 880)	(15 651)	17 345
	Liabilities unallocated to segments	-	-	-	-	-	186	186
	Other information	1st half of 2016						
	Cash expenditures on property, plant and equipment and intangible assets	1 431	303	351	96	(351)	(44)	1 786
	Production and cost data	1st half of 2016						
	Payable copper (kt)	263.0	46.8	26.6				
	Molybdenum (million pounds)	-	0.4	6.9				
	Silver (t)	567.0	0.8	7.2				
	TPM (koz t)	53.5	46.9	**11.4**				
	C1 cash cost of producing copper in concentrate (USD/lb)**	1.33	1.53	**1.75**				
	Adjusted EBITDA	**1 463**	**272**	**154**	**173**	**-**	**-**	**2 062**
	EBITDA margin* **	**22%**	**23%**	**23%**	**5%**	**-**	**-**	**23%**

* 55% of the Group's share in Sierra Gorda S.C.M.'s financial and production data.
** 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.
*** Adjusted EBITDA to sales revenue. For the purposes of calculating the Group's EBITDA margin (23%), the consolidated sales revenue were increased by sales revenue of the segment Sierra Gorda S.C.M.
[2 062 / (8 456 + 683) * 100]
****Adjustments arise from consolidation eliminations and financial data of companies unallocated to any segment.
.

amounts in PLN millions, unless otherwise stated

Reconciliation of adjusted EBITDA

	1st half of 2017			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments
Profit/(loss) for the period	**1 310**	**(467)**	**(320)**	**97**
[-] Share of losses of joint ventures accounted for using the equity method	**-**	**(214)**	**-**	**-**
[-] Current and deferred income tax	(519)	(63)	97	(20)
[-] Depreciation/amortisation recognised in profit or loss	(496)	(163)	(198)	(119)
[-] Other operating income/(costs)	(597)	186	(3)	65
[-] Finance income/(costs)	691	(477)	(411)	(2)
[=] EBITDA	2 231	264	195	173
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
Adjusted EBITDA	**2 231**	**264**	**195**	**173**

	1st half of 2017			
Profit/(loss) on sales (EBIT)	**1 735**	**101**	**(3)**	**54**
[-] Depreciation/amortisation recognised in profit or loss	(496)	(163)	(198)	(119)
[=] EBITDA	2 231	264	195	173
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
[=] Adjusted EBITDA	**2 231**	**264**	**195**	**173**

*55% share of the Group in the financial data of Sierra Gorda S.C.M.

Reconciliation of adjusted EBITDA

	1st half of 2016			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments
Profit/(loss) for the period	**668**	**(533)**	**(481)**	**(17)**
[-] Share of losses of joint ventures accounted for using the equity method	**-**	**(476)**	**-**	**-**
[-] Current and deferred income tax	(364)	21	170	(24)
[-] Depreciation/amortisation recognised in profit or loss	(451)	(248)	(376)	(117)
[-] Other operating income/(costs)	161	208	(42)	(40)
[-] Finance costs	(141)	(310)	(387)	(9)
[=] EBITDA	1 463	272	154	173
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
Adjusted EBITDA	**1 463**	**272**	**154**	**173**

	1st half of 2016			
Profit/(loss) on sales (EBIT)	**1 012**	**24**	**(222)**	**56**
[-] Depreciation/amortisation recognised in profit or loss	(451)	(248)	(376)	(117)
[=] EBITDA	1 463	272	154	173
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
[=] Adjusted EBITDA	**1 463**	**272**	**154**	**173**

*55% share of the Group in the financial data of Sierra Gorda S.C.M.

amounts in PLN millions, unless otherwise stated

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

1st half of 2017

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data: Elimination of data of the segment Sierra Gorda S.C.M.	Reconciliation items to consolidated data: Consolidation adjustments	Consolidated data
Copper	5 720	830	627	4	(627)	(12)	**6 542**
Silver	1 220	11	16	-	(16)	-	**1 231**
Gold	288	80	65	-	(65)	-	**368**
Services	71	231	-	917	-	(676)	**543**
Other	402	130	228	2 172	(228)	(1 574)	**1 130**
TC/RC**	-	(101)	(68)	-	68	-	**(101)**
TOTAL	**7 701**	**1 181**	**868**	**3 093**	**(868)**	**(2 262)**	**9 713**

1st half of 2016

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data: Elimination of data of the segment Sierra Gorda S.C.M.	Reconciliation items to consolidated data: Consolidation adjustments	Consolidated data
Copper	4 865	829	455	4	(455)	(15)	**5 683**
Silver	1 086	9	13	-	(13)	-	**1 095**
Gold	248	150	54	-	(54)	-	**398**
Services	45	249	-	1 104	-	(871)	**527**
Other	296	101	224	2 098	(224)	(1 602)	**893**
TC/RC**	-	(140)	(63)	-	63	-	**(140)**
TOTAL	**6 540**	**1 198**	**683**	**3 206**	**(683)**	**(2 488)**	**8 456**

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

amounts in PLN millions, unless otherwise stated

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

		1st half of 2017	1st half of 2016
Europe			
	Poland	2 676	2 330
	Germany	1 058	1 118
	The United Kingdom	979	535
	Czechia	762	617
	France	559	333
	Switzerland	375	251
	Hungary	350	277
	Italy	171	225
	Austria	136	97
	Romania	64	38
	Slovakia	51	42
	Belgium	6	46
	Other countries (dispersed sale)	202	125
North and South America			
	The United States of America	663	850
	Canada	357	353
	Chile	49	51
	Other countries (dispersed sale)	-	2
Australia			
	Australia	2	79
Asia			
	China	1 147	733
	Turkey	71	63
	Japan	6	3
	South Korea	5	27
	Singapore	3	95
	India	-	159
	Other countries (dispersed sale)	14	3
Africa		7	4
TOTAL		**9 713**	**8 456**

Note 2.5 Main customers

In the period from 1 January 2017 to 30 June 2017 and in the comparable period the revenues from no single contractor exceeded 10% of the sales revenue of the Group.

Note 2.6 Non-current assets – geographical breakdown

	Property, plant and equipment, intangible assets and investment properties	
	1st half of 2017	2016
Poland	17 697	17 413
Canada	2 013	2 275
The United States of America	540	557
Chile	298	323
TOTAL	**20 548**	**20 568**

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

amounts in PLN millions, unless otherwise stated

Part 3 – Explanatory notes to the statement of profit or loss

Note 3.1 Expenses by nature

	1st half of 2017	1st half of 2016
Depreciation of property, plant and equipment and amortisation of intangible assets	833	829
Employee benefits expenses	2 408	2 306
Materials and energy	3 614	3 599
External services	1 049	1 029
Minerals extraction tax	871	606
Other taxes and charges	261	255
Other costs	114	107
Total expenses by nature	**9 150**	**8 731**
Cost of merchandise and materials sold (+)	293	212
Change in inventories of finished goods and work in progress (+/-)	(845)	(799)
Cost of manufacturing products for internal use (-)	(762)	(806)
Total costs of sales, selling costs and administrative expenses, of which:	**7 836**	**7 338**
Cost of sales	7 215	6 704
Selling costs	178	192
Administrative expenses	443	442

Note 3.2 Other operating income and (costs)

	1st half of 2017	1st half of 2016
Measurement and realisation of derivatives	231	46
Exchange differences on assets and liabilities other than borrowings	-	110
Other	103	114
Total other income	**334**	**270**
Measurement and realisation of derivatives	(157)	(215)
Impairment loss on available-for-sale assets	-	(57)
Exchange differences on assets and liabilities other than borrowings	(961)	-
Other	(74)	(104)
Total other costs	**(1 192)**	**(376)**
Other operating income and (costs)	**(858)**	**(106)**

Note 3.3 Finance income and (costs)

	1st half of 2017	1st half of 2016
Exchange differences on borrowings	815	-
Total finance income	**815**	**-**
Interest on borrowings	(53)	(31)
Exchange differences on borrowings	-	(70)
Losses on the measurement of derivatives	(27)	(10)
Other	(51)	(48)
Total finance costs	**(131)**	**(159)**
Finance income and (costs)	**684**	**(159)**

amounts in PLN millions, unless otherwise stated

Part 4 – Other explanatory notes

Note 4.1 Information on property, plant and equipment and intangible assets

Purchase of property, plant and equipment and intangible assets

	1st half of 2017	1st half of 2016
Purchase of property, plant and equipment	1 030	1 449
Purchase of intangible assets	74	116

Payables due to the purchase of property, plant and equipment and intangible assets

	1st half of 2017	2016
Payables due to the purchase of property, plant and equipment and intangible assets	368	520

Capital commitments not recognised in the consolidated statement of financial position

	1st half of 2017	2016
Purchase of property, plant and equipment	2 585	2 420
Purchase of intangible assets	68	90
Total capital commitments	**2 653**	**2 510**

Note 4.2 Involvement in joint ventures

Joint ventures accounted for using the equity method

	1st half of 2017		2016	
	Sierra Gorda S.C.M.	Other	Sierra Gorda S.C.M.	Other
As at the beginning of the reporting period	**-**	**27**	**534**	**28**
Acquisition of shares	206	-	671	-
Share of losses of joint ventures accounted for using the equity method	(214)	(1)	(1 199)	(1)
Exchange differences from the translation of statements of operations with a functional currency other than PLN	8	-	(6)	-
As at the end of the reporting period	**-**	**26**	**-**	**27**

	1st half of 2017	2016
Share of the Group (55%) in net losses of Sierra Gorda S.C.M., of which:	**(320)**	**(6 015)**
recognised in share of losses of joint ventures	(214)	(1 199)
not recognised in share of losses of joint ventures	(106)	(4 816)

Loans granted to a joint venture Sierra Gorda S.C.M.

	1st half of 2017	2016
As at the beginning of the reporting period	**4 313**	**7 504**
Accrued interest	161	633
Allowance for impairment of loans granted	-	(4 394)
Exchange differences from the translation of statements of operations with a functional currency other than PLN	(496)	570
As at the end of the reporting period	**3 978**	**4 313**

amounts in PLN millions, unless otherwise stated

Note 4.3 Financial instruments

Categories of financial assets in accordance with IAS 39	1st half of 2017					2016				
	Available-for-sale	At fair value through profit or loss	Loans and financial receivables	Hedging instruments	Total	Available-for-sale	At fair value through profit or loss	Loans and financial receivables	Hedging instruments	Total
Non-current	712	14	4 894	123	**5 743**	577	41	5 243	196	**6 057**
Loans granted to joint ventures	-	-	3 978	-	**3 978**	-	-	4 313	-	**4 313**
Derivatives	-	14	-	123	**137**	-	41	-	196	**237**
Other financial instruments measured at fair value	712	-	-	-	**712**	577	-	-	-	**577**
Other financial assets	-	-	916	-	**916**	-	-	930	-	**930**
Current	57	4	1 669	97	**1 827**	56	-	2 295	72	**2 423**
Trade receivables	-	-	1 097	-	**1 097**	-	-	1 292	-	**1 292**
Derivatives	-	4	-	97	**101**	-	-	-	72	**72**
Cash and cash equivalents	-	-	446	-	**446**	-	-	860	-	**860**
Other financial assets	57	-	126	-	**183**	56	-	143	-	**199**
Total	**769**	**18**	**6 563**	**220**	**7 570**	**633**	**41**	**7 538**	**268**	**8 480**

Categories of financial liabilities in accordance with IAS 39	1st half of 2017				2016			
	At fair value through profit or loss	At amortised cost	Hedging instruments	Total	At fair value through profit or loss	At amortised cost	Hedging instruments	Total
Non-current	**104**	**5 696**	**14**	**5 814**	129	5 538	1 347	**7 014**
Borrowings	-	5 493	-	**5 493**	-	5 319	1 220	**6 539**
Derivatives	104	-	14	**118**	129	-	127	**256**
Other financial liabilities	-	203	-	**203**	-	219	-	**219**
Current	31	3 578	4	**3 613**	31	3 084	218	**3 333**
Borrowings	-	1 641	-	**1 641**	-	1 525	34	**1 559**
Derivatives	31	-	4	**35**	31	-	184	**215**
Trade payables	-	1 613	-	**1 613**	-	1 433	-	**1 433**
Other financial liabilities	-	324	-	**324**	-	126	-	**126**
Total	**135**	**9 274**	**18**	**9 427**	**160**	**8 622**	**1 565**	**10 347**

amounts in PLN millions, unless otherwise stated

The fair value hierarchy of financial instruments

Classes of financial instruments	1st half of 2017 level 1	1st half of 2017 level 2	2016 level 1	2016 level 2
Listed shares	713	-	577	-
Other financial assets	-	58	-	58
Derivatives, including:	-	85	-	(162)
Assets	-	238	-	309
Liabilities	-	(153)	-	(471)

Investments in shares of listed companies (classified as available-for-sale financial assets) belong to level 1 of the fair value hierarchy. All other financial instruments of the Group are classified to level 2 of the fair value hierarchy. The manner and technique for measuring financial instruments to fair value have not changed in comparison to the manner and technique for measurement as at 31 December 2016.
There was no transfer in the Group of financial instruments between individual levels of the fair value hierarchy, in either the reporting or the comparable periods, nor was there any change in the classification of instruments as a result of a change in the purpose or use of these instruments.

Note 4.4 Commodity, currency and interest rate risk management

In managing commodity, currency and interest rate risk, the scale and profile of activities of the Parent Entity and of the mining companies of the KGHM INTERNATIONAL LTD. Group is of the greatest significance for, and has the greatest 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 whole KGHM Polska Miedź S.A. Group's global exposure.

The primary technique used by the Group in market risk management are hedging strategies involving derivatives. Natural hedging is also used. The Parent Entity applies hedging transactions, as understood by hedge accounting.

The impact of derivatives and hedging transactions on the items in the statement of profit or loss of the Group and on the items in the statement of comprehensive income is presented below.

	Impact of derivatives and hedging transactions	
Statement of profit or loss	**1st half of 2017**	**1st half of 2016**
Sales revenue	4	6
Other operating and finance income and costs:	47	(179)
On realisation of derivatives	3	(8)
On measurement of derivatives	44	(171)
Impact of derivatives on the financial result for the period	**51**	**(173)**
Statement of comprehensive income in the part concerning other comprehensive income		
Impact of hedging transactions	**213**	**(24)**
Impact of measurement of hedging transactions (effective portion)	217	(18)
Reclassification to sales revenues due to realisation of a hedged item	(4)	(6)
TOTAL COMPREHENSIVE INCOME	**264**	**(197)**

The management of market risk in the Parent Entity, and especially the management of the risk of changes in metals prices, exchange rates and interest rates, should be considered through an analysis of the hedging position together with the position being hedged (hedged position). A hedging position is understood as the Parent Entity's position in derivatives. A hedged position is comprised of highly probable, future cash flows (revenues from the physical sale of products).

The notional amount of copper price hedging strategies settled in the first half of 2017 represented approx. 26% of the total sales of this metal realised by the Parent Entity. Silver price hedging transactions represented approx. 8% of the total sales of this metal realised in the first half of 2017. Moreover, in the case of currency transactions, approx. 29% of total revenues from metals sales realised by the Parent Entity during the period were hedged.

In the first half of 2017 the Parent Entity implemented copper price hedging transactions with a total notional amount of 45 thousand tonnes and a hedging horizon falling from April 2017 to June 2018 (of which: 34.5 thousand tonnes for the period from July 2017 to June 2018). This hedging included the purchase of put options (Asian options).

amounts in PLN millions, unless otherwise stated

In the first half of 2017 the Parent Entity implemented transactions on the currency market as part of the restructurisation of an open position hedging against a change in the USD/PLN exchange rate. Written call options for the period from May to December 2017 with a total notional amount of USD 360 million (entered into in 2014 as part of the purchased collar-type options structures) were repurchased. The repurchase of these call options was financed by the sale of put options with a strike price of around USD/PLN 3.24 for the period from January 2018 to June 2019, i.e. for the period for which the Parent Entity held open collar strategies with a total notional amount of USD 780 million. Therefore, collar options strategies hedging revenues from sales in the period from January 2018 to June 2019 were transformed into seagull strategies.

With respect to managing currency risk, which arises from borrowings, the Parent Entity uses natural hedging by borrowing in currencies in which it has revenues. As at 30 June 2017, following their translation to PLN, the bank loans and the investment loan which were drawn in USD amounted to PLN 6 984 million (as at 31 December 2016: PLN 7 932 million).

In the first half of 2017 there were no derivative transactions implemented for the silver and interest rate markets.

As a result, as at 30 June 2017, the Parent Entity held a hedging position in derivatives for 97.5 thousand tonnes of copper (for the period from July 2017 to December 2018), 1.35 million ounces of silver (for the period from July 2017 to December 2017) as well as for planned revenues from sales of metals in the amount of USD 1 290 million (for the period from July 2017 to June 2019). Moreover, the Parent Entity held open derivatives transactions on the interest rate market for the years 2017-2020. In addition, natural hedging against interest rates risk included three instalments of the loan from the European Investment Bank, which were drawn based on a fixed interest rate (USD 300 million in 2014, USD 100 million in 2016 and USD 163 million in 2017). The first instalment of the loan granted by the EIB was designated in 2014 to hedge revenues from sales against the risk of changes in USD/PLN exchange rate for the period from October 2017 to October 2026. The Parent Entity ended the hedging relationship on 31 March 2017. Pursuant to IAS 39, cumulative losses related to a hedging instrument which are recognised directly in other comprehensive income in the period in which the hedge was effective are under a separate item in other comprehensive income until the planned transactions occur, i.e. until the loan's principal instalments are repaid in the period from October 2017 to October 2026.

Some of the Group's Polish companies managed the currency risk related to their core business by opening transactions in derivatives on the currency market. The table of open transactions of Polish companies as at 30 June 2017 is not presented, due to its immateriality for the Group.

The condensed tables of open transactions in derivatives held by the Parent Entity on the copper, silver, currency and interest rate markets are presented below. The hedged notional amounts of transactions on copper, silver and currency markets in the presented periods are allocated evenly on a monthly basis.

COPPER MARKET

	Instrument	Notional	Option strike price			Average weighted premium	Effective hedge price	Hedge limited to	Participation limited to
			Sold put option	Purchased put option	Sold call option				
		[tonnes]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]
3rd quarter	Seagull	10 500	4 200	5 400	7 200	-230	5 170	4 200	7 200
	Put option	10 500		5 800		-245	5 555		
4th quarter	Seagull	10 500	4 200	5 400	7 200	-230	5 170	4 200	7 200
	Put option	15 000		5 800		-247	5 553		
TOTAL VII-XII 2017		46 500							
1st half	Seagull	21 000	4 200	5 400	7 200	-230	5 170	4 200	7 200
	Put option	9 000		5 800		-250	5 550		
2nd half	Seagull	21 000	4 200	5 400	7 200	-230	5 170	4 200	7 200
TOTAL 2018		51 000							

amounts in PLN millions, unless otherwise stated

SILVER MARKET

	Instrument	Notional [oz t million]	Option strike price: Sold put option [USD/oz t]	Option strike price: Purchased put option [USD/oz t]	Average weighted premium [USD/oz t]	Effective hedge price [USD/oz t]	Hedge limited to [USD/oz t]
2nd half	Put spread	1.35	14.00	18.00	-1.48	16.52	14.00
	TOTAL VII-XII 2017	**1.35**					

CURRENCY MARKET

	Instrument	Notional [million USD]	Option strike price: Sold put option [USD/PLN]	Option strike price: Purchased put option [USD/PLN]	Option strike price: Sold call option [USD/PLN]	Average weighted premium [PLN per USD 1]	Effective hedge price [USD/PLN]	Hedge limited to [USD/PLN]	Participation limited to [USD/PLN]
2nd half	Put option	270		3.3500		-0.0860	3.2640		
	Collar	180		3.5500	4.4000	-0.0487	3.5013		4,4000
	Collar	60		3.7500	4.5000	-0.0275	3.7225		4,5000
	TOTAL VII-XII 2017	**510**							
1st half	Seagull	120	3.2441	3.7500	4.5000	-0.0302	3.7198	3,2441	4,5000
	Seagull	180	3.2441	3.8000	4.8370	0.0073	3.8073	3,2441	4,8370
2nd half	Seagull	120	3.2441	3.7500	4.5000	-0.0216	3.7284	3,2441	4,5000
	Seagull	180	3.2441	3.8000	4.8370	0.0126	3.8126	3,2441	4,8370
	TOTAL 2018	**600**							
1st half	Seagull	180	3.2441	3.8000	4.8370	0.0236	3.8236	3,2441	4,8370
	TOTAL I-VI 2019	**180**							

INTEREST RATE MARKET

Instrument	Notional [million USD]	Option strike price [LIBOR 3M]	Average weighted premium [USD per USD 1 million hedged]	Average weighted premium [%]	Effective hedge price [LIBOR 3M]
Purchase of interest rate cap options **QUARTERLY IN 2017**	700	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options **QUARTERLY IN 2018**	900	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options **QUARTERLY IN 2019**	1 000	2.50%	381	0.15%	2.65%
Purchase of interest rate cap options **QUARTERLY IN 2020**	1 000	2.50%	381	0.15%	2.65%

As at 30 June 2017, the net fair value of open positions in derivatives of the Group was positive and amounted to PLN 85 million (it was negative as at 31 December 2016 and amounted to PLN 162 million).

The fair value of hedging transactions, transactions initially designated as hedging and excluded from hedge accounting, and trade transactions (including embedded instruments) of the Group which were open as at 30 June 2017 is presented in the tables below.

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

Type of derivative	1st half of 2017 Financial assets Current	1st half of 2017 Financial assets Non-current	1st half of 2017 Financial liabilities Current	1st half of 2017 Financial liabilities Non-current	1st half of 2017 Net total	2016 Financial assets Current	2016 Financial assets Non-current	2016 Financial liabilities Current	2016 Financial liabilities Non-current	2016 Net total
Derivatives – Commodity contracts - Copper										
Purchased put options	20	2	-	-	22	15	-	-	-	15
Options – seagull	10	21	(4)	(12)	15	26	100	(4)	(30)	92
Derivatives – Commodity contracts - Silver										
Options – put spread	8	-	-	-	8	22	3	-	-	25
Derivatives – Currency contracts										
Options - collar	1	-	-	-	**1**	9	93	(180)	(97)	(175)
Purchased put options	58	100	-	(2)	156					
TOTAL HEDGING INSTRUMENTS	**97**	**123**	**(4)**	**(14)**	**202**	**72**	**196**	**(184)**	**(127)**	**(43)**

Open hedging derivatives	Notional Copper [t] Silver [million troy ounces] Currency [USD million]	Avg. weighted price/exchange rate [USD/t] [USD/oz t] [USD/PLN]	Maturity/ settlement period From	Maturity/ settlement period To	Period of profit/loss impact From	Period of profit/loss impact To
Copper –purchased put options	34 500	5 800	July 17	June 18	Aug 17	July 18
Copper – seagull*	63 000	5 400 – 7 200	July 17	Dec 18	Aug 17	Jan 19
Silver –put spread*	1.350	18.00	July 17	Dec 17	Aug 17	Jan 18
Currency – collars	1 020	3.7412 - 4.6609	July 17	June 19	July 17	June 19
Currency – purchased put options	270	3.3500	July 17	Dec 17	July 17	Dec 17

**in terms of seagull and put spread options, the table presents only those which were designated as hedging transactions.*

amounts in PLN millions, unless otherwise stated

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

Type of derivative	1st half of 2017 Financial assets Current	1st half of 2017 Financial assets Non-current	1st half of 2017 Financial liabilities Current	1st half of 2017 Financial liabilities Non-current	1st half of 2017 Net total	2016 Financial assets Current	2016 Financial assets Non-current	2016 Financial liabilities Current	2016 Financial liabilities Non-current	2016 Net total
Derivatives – Commodity contracts - Copper										
Options – seagull	-	-	-	(2)	(2)	-	-	(2)	(21)	(23)
Derivatives – Commodity contracts – Silver										
Options – put spread	-	-	-	-	-	-	-	(3)	(1)	(4)
Derivatives – Currency contracts										
Options and forward/swap USD and EUR	2	-	-	(1)	1	-	-	(1)	-	(1)
Purchased USD call options	2	-	-	-	2	-	-	-	-	-
Sold USD put options	-	-	(3)	(12)	(15)	-	-	-	-	-
Derivatives – interest rate										
Purchased interest rate cap options	-	14	-	-	14	-	41	-	-	41
Embedded derivatives										
Acid and water supply contracts	-	-	(26)	(89)	(115)	-	-	(25)	(107)	(132)
TOTAL TRADE INSTRUMENTS	**4**	**14**	**(29)**	**(104)**	**(115)**	**-**	**41**	**(31)**	**(129)**	**(119)**

Derivatives initially designated as hedging excluded from hedge accounting – open items as at the end of the reporting period

Type of derivative	1st half of 2017 Financial assets Current	1st half of 2017 Financial assets Non-current	1st half of 2017 Financial liabilities Current	1st half of 2017 Financial liabilities Non-current	1st half of 2017 Net total	2016 Financial assets Current	2016 Financial assets Non-current	2016 Financial liabilities Current	2016 Financial liabilities Non-current	2016 Net total
Derivatives – Currency										
Options USD – sold call options from collar strategy	-	-	(2)	-	(2)	-	-	-	-	-
TOTAL INSTRUMENTS INITIALLY DESIGNATED AS HEDGING EXCLUDED FROM HEDGE ACCOUNTING	**-**	**-**	**(2)**	**-**	**(2)**	**-**	**-**	**-**	**-**	**-**

amounts in PLN millions, unless otherwise stated

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

The following table presents the structure of ratings of the financial institutions with which the Group had derivatives transactions, representing an exposure to credit risk* (as at the end of the reporting period):

Rating level		1st half of 2017	2016
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	100%	100%

* *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 30 June 2017 the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 34%, i.e. PLN 73 million (as at 31 December 2016: 32%, i.e. PLN 47 million).

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. Moreover, the resulting credit risk is continuously monitored by the review of the credit ratings and is limited by striving to diversify the portfolio while implementing hedging strategies.

Despite the concentration of credit risk associated with derivatives' transactions, the Parent Entity has determined that, due to its cooperation only with renowned financial institutions, as well as continuous monitoring of their ratings, it is not materially exposed to credit risk as a result of transactions concluded with them.

amounts in PLN millions, unless otherwise stated

Note 4.5 Liquidity risk and capital management

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	1st half of 2017	2016
Net Debt/EBITDA	relation of net debt to EBITDA	**1.3**	**1.6**
Net Debt	Borrowings and finance lease liabilities less free cash and short term investments with a maturity of up to 1 year	6 706	7 262
EBITDA*	profit on sales plus depreciation/amortisation recognised in profit or loss and impairment losses on non-current assets	5 237	4 477
Equity ratio	relation of equity less intangible assets to total assets	**0.44**	**0.4**
Equity	assets of the Group after deducting all of its liabilities	17 099	15 911
Intangible assets	identifiable non-cash items of assets without a physical form	2 511	2 682
Equity less intangible assets		14 588	13 229
Total assets	sum of non-current and current assets	33 501	33 442

**adjusted EBITDA for the period of 12 months ended on the last day of the reporting period, excluding the EBITDA of the joint venture Sierra Gorda S.C.M.*

In the management of capital, the Group also pays attention to adjusted operating profit for the period of 12 months ended on the last day of the reporting period, which is the basis for calculating the financial covenants and which is comprised of the following items:

	1st half of 2017	2016
Profit on sales	3 303	2 544
Interest income on loans granted to joint ventures	488	633
Other operating income and (costs)	(1 554)	(802)
Adjusted operating profit*	**2 237**	**2 375**

** presented amount does not include impairment loss on interest in joint ventures and allowances for impairment of loans granted to joint ventures*

In order to maintain financial liquidity and the creditworthiness to acquire external financing at an optimum cost, the Group aims to maintain, in the long term, the equity ratio at a level of not less than 0.5, and the ratio of Net Debt/EBITDA at a level of up to 2.0.

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 is a unit 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 approved by the Management Board. In KGHM INTERNATIONAL LTD. liquidity management principles are described in the Investment Policy. The basic principles resulting from these documents 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.

amounts in PLN millions, unless otherwise stated

Details on borrowings

As at 30 June 2017, the Group had open credit lines and loans with a total balance of available financing in the amount of PLN 14 709 million, out of which PLN 7 141 million had been drawn.

The structure of financing sources is presented below.

	1st half of 2017		2016
	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 maturity of 9 July 2021. The funds acquired through this credit facility are used to finance general corporate purposes, including expenditures related to the continued advancement of investment projects.	9 265	2 966*	4 809*
2. **Loans,** including **an investment loan** granted to the Parent Entity by the **European Investment Bank** for PLN 2 000 million with a financing period of 12 years. As at 30 June 2017 the loan was fully utilised in scope of the available limit, and drawn in three instalments with maturity dates on 30 October 2026, 30 August 2028 and 23 May 2029. The funds acquired through this loan are used to finance Parent Entity investment projects related to modernisation of metallurgy and development of the Żelazny Most tailings storage facility.	2 030	2 110**	1 684
3. **Bilateral bank loans** in the total amount of PLN 3 414 million, used for financing working capital and which are the supporting tool for the management of financial liquidity and for financing conducted investment projects of the Group.	3 414	2 065	1 609
	14 709	**7 141**	**8 102**

* Amount drawn is not reduced by the preparation fee of the syndicated credit facility, which was included in the initial value of the credit liability.
** The limit of the investment loan from the EIB amounts to PLN 2 000 million, and it is drawn in USD. The amount of liability due to this loan as at 30 June 2017 amounts to PLN 2 095 million.

The aforementioned sources fully cover the current, medium and long-term liquidity needs of the Group.

Cash and cash equivalents

	1st half of 2017	2016
Cash in bank accounts	242	329
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits	198	519
Other cash	6	12
Total	**446**	**860**

amounts in PLN millions, unless otherwise stated

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 Group's companies do not have to use their cash in order to secure their liabilities towards other entities.

As at 30 June 2017, the Group held contingent liabilities due to guarantees and letters of credit granted in the total amount of PLN 2 419 million and due to promissory note liabilities in the amount of PLN 213 million.

The most significant items are contingent liabilities of the Parent Entity aimed at securing the following obligations:
Sierra Gorda S.C.M. – securing the performance of concluded agreements in the amount of PLN 1 882 million:

- a letter of credit of PLN 510 million granted as security for the proper performance of a long-term contract for the supply of electricity (as at 31 December 2016 in the amount of PLN 575 million),
- PLN 216 million as corporate guarantees set as security on the payment of concluded lease agreements (as at 31 December 2016 in the amount of PLN 277 million),
- PLN 489 million as corporate guarantees securing repayment of short-term working capital facilities (as at 31 December 2016 in the amount of PLN 437 million),
- PLN 667 million as corporate guarantees securing repayment of a specified part of payment to guarantees set by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation, securing repayment of a credit drawn by the joint venture Sierra Gorda S.C.M. (granted in the first half of 2017)

Other entities:

- securing the restoration costs of the Robinson mine, the Podolsky mine and the Victoria project and obligations related to proper execution of concluded agreements in the amount of PLN 401 million (as at 31 December 2016 in the amount of PLN 387 million),
- securing the proper execution of future environmental obligations of the Parent Entity related to the obligation to restore terrain, following the conclusion of operations of the Żelazny Most tailings storage facility - PLN 128 million in the form of a bank guarantee (as at 31 December 2016, PLN 96 million), and PLN 192 million in the form of an own promissory note (as at 31 December 2016, PLN 224 million).

Based on information held, at the end of the reporting period the Group assessed the probability of payments resulting from contingent liabilities related to:
- Sierra Gorda S.C.M. - as moderately low,
- other entities of the Group - as low.

Note 4.6 Employee benefits liabilities

	1st half of 2017	2016
Jubilee awards	401	367
Retirement and disability benefits	342	315
Coal equivalent	1 397	1 239
Other benefits	74	86
Total liabilities due to future employee benefits programs	**2 214**	**2 007**
Remuneration liabilities	138	230
Accruals due to employee benefits	473	410
Employee liabilities	**611**	**640**
Total employee benefits liabilities	**2 825**	**2 647**

Note 4.7 Provisions for decommissioning costs of mines and other technological facilities

	1st half of 2017	2016
Provisions at the beginning of the reporting period	**1 500**	**1 496**
Changes in estimates recognised in fixed assets	81	(53)
Other	(80)	57
Provisions at the end of the reporting period including:	**1 501**	**1 500**
- non-current provisions	**1 474**	**1 487**
- current provisions	**27**	**13**

amounts in PLN millions, unless otherwise stated

Note 4.8 Related party transactions

Operating income from related parties	1st half of 2017	1st half of 2016
Revenues from sales of products, merchandise and materials to a joint venture	49	49
Interest income on a loan granted to a joint venture	161	306
Revenues from other transactions with a joint venture	22	9
Revenues from other transactions with other related parties	11	11
	243	**375**

Purchases from related entities	1st half of 2017	1st half of 2016
Purchase of services, merchandise and materials from a joint venture	-	54
Purchase of services, merchandise and materials from other related parties	15	14
Other purchase transactions from other related parties	1	1
	16	**69**

Trade and other receivables from related parties	1st half of 2017	2016
From the joint venture Sierra Gorda S.C.M. – loans	3 978	4 313
From the joint venture Sierra Gorda S.C.M. – other	499	492
From other related parties	9	2
	4 486	**4 807**

Trade and other payables towards related parties	1st half of 2017	2016
Towards joint ventures	50	51
Towards other related parties	8	1
	58	**52**

Pursuant to IAS 24, the Group is obliged to disclose unsettled balances, including payables towards the Polish Government and entities controlled or jointly controlled by the Polish Government, or over which the Polish Government has significant influence.

As at 30 June 2017, balances of unsettled payables concerned the following:

- mining usufruct agreements necessary to conduct principal operating activities. Pursuant to these agreements, the Parent Entity is obliged to pay for the right to mine the copper and rock salt deposits. As at 30 June 2017, the balance due to these agreements amounted to PLN 183 million (as at 31 December 2016: PLN 209 million),
- the dividend payout approved by the Ordinary General Meeting, in the amount of PLN 200 million, to which the State Treasury gained rights, proportionally to the shares held on the dividend date set by the Ordinary General Meeting - with the State Treasury holding 31.79% of shares as at 30 June 2017.

In the current and comparable periods, no other individual transactions were identified 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 goods to meet the needs of current operating activities. In the period from 1 January to 30 June 2017, the turnover from these transactions amounted to PLN 414 million (from 1 January to 30 June 2016: PLN 323 million), and, as at 30 June 2017, the unsettled balance of liabilities from these transactions amounted to PLN 96 million (as at 31 December 2016: PLN 85 million),
- sales to Polish State Treasury Companies. In the period from 1 January to 30 June 2017, the turnover from these sales amounted to PLN 38 million (from 1 January to 30 June 2016: PLN 40 million), and, as at 30 June 2017, the unsettled balance of receivables from these transactions amounted to PLN 9 million (as at 31 December 2016: PLN 8 million).

Remuneration of the Supervisory Board of the Parent Entity (in PLN thousands)	1st half of 2017	1st half of 2016
Remuneration due to service in the Supervisory Board, salaries and other current employee benefits	1 029	826

Remuneration of the Management Board of the Parent Entity (in PLN thousands)	1st half of 2017	1st half of 2016
Salaries and other current employee benefits, of which:	3 981	6 825
Remuneration of the Management Board	3 981	3 912
Remuneration during the employment termination period	-	2 913
Benefits due to termination of employment	1 834	-
Total	**5 815**	**6 825**

Remuneration of other key managers (in PLN thousands)	1st half of 2017	1st half of 2016
Salaries and other current employee benefits	2 023	1 884

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 4.9 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.

		1st half of 2017	2016
	Contingent assets	**520**	**554**
	Guarantees received	208	252
	Promissory notes receivables	119	108
	Other	193	194
	Contingent liabilities	**2 986**	**2 346**
Note 4.5	Guarantees	2 419	1 787
Note 4.5	Promissory note liability	213	256
	Liabilities due to implementation of projects and inventions	142	91
	Other	212	212
	Other liabilities not recognised in the statement of financial position	**171**	**178**
	Liabilities towards local government entities due to expansion of the tailings storage facility	120	120
	Liabilities due to operating leases	51	58

amounts in PLN millions, unless otherwise stated

Note 4.10 Changes in working capital

	Inventories	Trade receivables	Trade payables	Working capital
As at 31 December 2016	(3 497)	(1 292)	1 613	(3 176)
As at 30 June 2017	(4 512)	(1 097)	1 781	(3 828)
Change in the statement of financial position	(1 015)	195	168	(652)
Adjustments	9	(39)	145	115
Change in the statement of cash flows	(1 006)	156	313	(537)

	Inventories	Trade receivables	Trade payables	Working capital
As at 31 December 2015	(3 382)	(1 541)	1 598	(3 325)
As at 30 June 2016	(4 066)	(1 146)	1 357	(3 855)
Change in the statement of financial position	(684)	395	(241)	(530)
Adjustments	17	6	268	291
Change in the statement of cash flows	(667)	401	27	(239)

Part 5 – Additional information to the consolidated half-year report

Note 5.1 Effects of changes in the organisational structure of the KGHM Polska Miedź S.A. Group

There were no significant changes in the Group's structure in the first half of 2017.

Note 5.2 Seasonal or cyclical activities

The Group is not affected by seasonal or cyclical activities.

Note 5.3 Information on the issuance, redemption and repayment of debt and equity securities

There was no issuance, redemption or repayment of debt and equity securities in the Group in the first half of 2017.

Note 5.4 Information related to a paid (declared) dividend, total and per share

In accordance with Resolution No. 7/2017 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 21 June 2017 regarding the payout of a dividend from prior years' profits and setting the dividend date as well as the dividend payment dates, the amount of PLN 200 million was allocated as a dividend, representing PLN 1.00 per share. The dividend date (the date on which the right to dividend is set) was set on 14 July 2017. Moreover, it was decided that the dividend will be paid in two instalments: on 17 August 2017 – the amount of PLN 100 million (representing PLN 0.50 per share) and on 16 November 2017 – the amount of PLN 100 million (representing PLN 0.50 per share).

All shares of the Parent Entity are ordinary shares.

Note 5.5 Subsequent events after the reporting period

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

On 24 July 2017, the Supervisory Board adopted a resolution on the appointment of Ryszard Jaśkowski as a Member of the Management Board of KGHM Polska Miedź S.A.

Signing of a contract for the supply of fuel gas with Polskie Górnictwo Naftowe i Gazownictwo S.A.

On 27 July 2017, the Management Board of KGHM Polska Miedź S.A. signed a Framework Agreement for the comprehensive sale of fuel gas as well as bilateral Individual Contracts with the company Polskie Górnictwo Naftowe i Gazownictwo ("PGNiG", "Seller"). The agreement in question along with the contracts replaced the existing five individual long-term contracts between the parties, which in accordance with the stipulations of the Framework Agreement are terminated. The Framework Agreement and Individual Contracts standardise the conditions for the purchase of fuel gas for all reception points, which until now had differed from one other.

The Framework Agreement was entered into for the period from 1 July 2017 to 1 October 2033. It regulates the manner in which Individual Contracts are entered into and terminated, as well as common terms and conditions for all of the contracts, such as the rules for placing orders for fuel gas supply, settling deliveries and renegotiating gas prices. Moreover, under certain conditions, the agreement provides for the possibility to change the type of fuel gas from nitrogen-rich gas to high-methane gas, and provides a mechanism enhancing the energy security of the Parent Entity, in which the Seller guarantees the fuel gas supplies, in the quantities required by KGHM Polska Miedź S.A.

These Individual Contracts represent implementing agreements to the Framework Agreement. They specify the amounts of fuel gas and the price formula shared by all of the contracts – based on market indices of gas prices, and other significant technical and trade parameters of the supply of gas to the Parent Entity. All of the Individual Contracts were signed for the period ending 1 October 2033, while for some of the contracts the date on which deliveries are to start was determined to be 1 July 2017, and for the others to be 1 October 2017.

The estimated value of the Framework Agreement together with Individual Contracts during the entire period they will be in force is approx. PLN 4.8 billion.

Extension of the deadline for repayment of the bank loan

On 7 August 2017, the Parent Entity extended the deadline for repayment of the working capital facility in the amount of USD 160 million in Bank Pekao S.A. to 8 August 2019. Interest on the facility is based on LIBOR/EURIBOR plus a margin.

Amendments to the Statutes of the Parent Entity

On 21 September 2017, the Regional Court for Wrocław-Fabryczna in Wrocław, Section IX (Economic) of the National Court Register, registered amendments to the Parent Entity's Statutes, adopted by resolutions of the Ordinary General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin dated 21 June 2017.

Information on the effects of the accident involving the recovery boiler at the Głogów I Copper Smelter and Refinery

On 13 October 2017, the Parent Entity completed its initial estimates of the impact of an accident involving the recovery boiler, which is responsible for cooling and de-dusting the process gases from the flash furnace, which occurred on 3 October at the Głogów I Copper Smelter and Refinery (HMG I). The accident at the boiler was caused by a certain amount of sinter (a combination of dust and metals which accumulate on the boiler) becoming detached and falling, which damaged the boiler's seal. The accident at the recovery boiler resulted in the need to cease production by the HMG I flash furnace. After the completion of the recovery boiler's repairs, the re-start of flash furnace by HMG I took place on 30 October 2017. The decrease in the amount of electrolytic copper produced as a result of this accident is estimated at approx. 18 thousand tonnes.

Correction of a judgment on the functional currency of a subsidiary

On 27 October 2017, in reference to regulatory filing no. 6/2017 dated 28 April 2017 on exchange differences in the first quarter of 2017, the Management Board of KGHM Polska Miedź S.A. ("the Company") announced that a decision was made to correct its judgment on the functional currency of the subsidiary Future 1 Sp. z o.o. (Future 1) and to change it from the Polish zloty (PLN) to the US dollar (USD) for the purposes of the consolidated financial statements. The change was made as a result of a reassessment of the currency of the primary economic environment in which Future 1 operates.

Below, we present in brief the impact of the aforementioned change on the consolidated financial statements:

- <u>as at 31 December 2016</u>:
  - an increase in accumulated other comprehensive income from PLN 855 million to PLN 2 216 million – a change in the amount of PLN 1 361 million,
  - a decrease in retained earnings (undistributed profit) from PLN 13 100 million to PLN 11 739 million – a change in the amount of PLN 1 361 million,
  - no impact on the financial result for 2016,
- <u>for the period from 1 January 2017 to 31 March 2017</u>:
  - an increase in profit for the period from PLN 398 million to PLN 710 million – a change in the amount of PLN 312 million,
  - a decrease in other comprehensive income from PLN 462 million to PLN 150 million – a change in the amount of PLN 312 million,
- <u>for the period from 1 January 2017 to 30 June 2017</u>:
  - an increase in profit for the period from PLN 494 million to PLN 1 054 million – a change in the amount of PLN 560 million,
  - a decrease in other comprehensive income from PLN 981 million to PLN 333 million – a change in the amount of PLN 648 million,
  - a decrease in deferred tax assets from PLN 460 million to PLN 372 million – a change in the amount of PLN 88 million.

The aforementioned change is of a non-cash nature and has no impact on the liquidity of the KGHM Polska Miedź S.A. Group. Correction of the functional currency will not have an impact on the separate financial statements of KGHM Polska Miedź S.A.
The consolidated financial statements of the KGHM Polska Miedź S.A. Group as at 30 September 2017, which are a part of the consolidated quarterly report QSr 3/2017, will take into account the correction of the functional currency.
As a result of the correction of the judgment, the amended periodic report for the first quarter of 2017 (QSr 1/2017) which took into account the aforementioned change, was published on 27 October 2017.

Signing of a credit agreement

On 27 October 2017, the Parent Entity entered into an overdraft facility's agreement in the amount of EUR 50 million with the Bank Intesa Sanpaolo S.p.A Spółka Akcyjna Oddział w Polsce (Poland branch). The facility's interest is based on EURIBOR plus a margin. The agreement was entered into for the period of up to 10 October 2018 with the option to extend it by another 365 days.

Management Board consent to setting terms and conditions of the loan agreement with the European Investment Bank

On 7 November 2017, the Management Board of KGHM Polska Miedź S.A. consented to set detailed terms and conditions for an unsecured loan in the amount of PLN 900 million with the European Investment Bank. In accordance with the preliminary offer, the agreement may be entered into for a period of 12 years, with the option of drawing in PLN, USD or EUR, with either a fixed or variable interest rate for each of the loan's instalments.
If the agreement is signed, the Company plans to use the acquired funds to finance the investment projects advanced by the Company, which are aimed at modernising the production line as well as at adapting current processes to variable mining conditions, increasing effectiveness, maintaining production continuity and implementing solutions concerning environmental issues.

Part 6 – Quarterly financial information of the Group

For the data presented for the second quarter of 2017, the data for the first quarter of 2017 was made comparable in accordance with the amended report for the first quarter of 2017 which was published on 27 October 2017. The impact of the correction on the consolidated financial statements for the first quarter of 2017 was presented in note 1.4 of this report.

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		2nd quarter of 2017	2nd quarter of 2016	2 quarters of 2017	2 quarters of 2016
	Sales revenue	4 802	4 544	9 713	8 456
Note 6.1	Cost of sales	(3 667)	(3 566)	(7 215)	(6 704)
	Gross profit	**1 135**	**978**	**2 498**	**1 752**
Note 6.1	Selling costs and administrative expenses	(332)	(350)	(621)	(634)
	Profit on sales	**803**	**628**	**1 877**	**1 118**
	Share of losses of joint ventures accounted for using the equity method	(215)	(255)	(215)	(476)
	Interest income on loans granted to joint ventures	79	153	161	306
	Profit or loss on involvement in joint ventures	(136)	(102)	(54)	(170)
Note 6.2	Other operating income and (costs)	(432)	203	(858)	(106)
Note 6.3	Finance income and (costs)	383	(389)	684	(159)
	Profit before income tax	**618**	**340**	**1 649**	**683**
	Income tax expense	(274)	(205)	(595)	(385)
	PROFIT FOR THE PERIOD	**344**	**135**	**1 054**	**298**
	profit for the period attributable to:				
	Shareholders of the Parent Entity	341	135	1 051	296
	Non-controlling interest	3	-	3	2
	Weighted average number of ordinary shares (million)	**200**	**200**	**200**	**200**
	Basic and diluted earnings per share (in PLN)	**1.71**	**0.68**	**5.26**	**1.48**

amounts in PLN millions, unless otherwise stated

Explanatory notes to the interim consolidated statement of profit or loss

Note 6.1 Expenses by nature

	2nd quarter of 2017	2nd quarter of 2016	2 quarters of 2017	2 quarters of 2016
Depreciation of property, plant and equipment and amortisation of intangible assets	428	425	833	829
Employee benefits expenses	1 235	1 178	2 408	2 306
Materials and energy	1 844	1 819	3 614	3 599
External services	594	550	1 049	1 029
Minerals extraction tax	405	313	871	606
Other taxes and charges	125	127	261	255
Other costs	62	64	114	107
Total expenses by nature	**4 693**	**4 476**	**9 150**	**8 731**
Cost of merchandise and materials sold (+)	133	122	293	212
Change in inventories of finished goods and work in progress (+/-)	(314)	(226)	(845)	(799)
Cost of manufacturing products for internal use of the Group (-) (mainly stripping costs in open-pit mines)	(513)	(456)	(762)	(806)
Total costs of sales, selling costs and administrative expenses, of which:	**3 999**	**3 916**	**7 836**	**7 338**
Cost of sales	3 667	3 566	7 215	6 704
Selling costs	92	94	178	192
Administrative expenses	240	256	443	442

Note 6.2 Other operating income and (costs)

	2nd quarter of 2017	2nd quarter of 2016	2 quarters of 2017	2 quarters of 2016
Measurement and realisation of derivatives	75	-	231	46
Exchange differences on assets and liabilities other than borrowings	-	408	-	110
Other	44	59	103	114
Total other income	**119**	**467**	**334**	**270**
Measurement and realisation of derivatives	(71)	(221)	(157)	(215)
Impairment losses on available-for-sale assets	-	-	-	(57)
Exchange differences on assets and liabilities other than borrowings	(458)	-	(961)	-
Other	(22)	(43)	(74)	(104)
Total other costs	**(551)**	**(264)**	**(1 192)**	**(376)**
Other operating income and (costs)	**(432)**	**203**	**(858)**	**(106)**

amounts in PLN millions, unless otherwise stated

Note 6.3 Finance income and (costs)

	2nd quarter of 2017	2nd quarter of 2016	2 quarters of 2017	2 quarters of 2016
Exchange differences on borrowings	443	-	815	-
Total finance income	**443**	**-**	**815**	**-**
Interest on borrowings	(21)	(16)	(53)	(31)
Exchange differences on borrowings	-	(346)	-	(70)
Measurement of derivatives	(14)	(2)	(27)	(10)
Other	(25)	(25)	(51)	(48)
Total finance costs	**(60)**	**(389)**	**(131)**	**(159)**
Finance income and (costs)	**383**	**(389)**	**684**	**(159)**

HALF-YEAR CONDENSED FINANCIAL STATEMENTS OF KGHM POLSKA MIEDŹ S.A.

Lubin, August 2017

Half-year condensed financial statements of KGHM Polska Miedź S.A.

HALF-YEAR STATEMENT OF PROFIT OR LOSS

		1st half of 2017	1st half of 2016
	Sales revenue	7 701	6 540
Note 2.1	Cost of sales	(5 571)	(5 140)
	Gross profit	**2 130**	**1 400**
Note 2.1	Selling costs and administrative expenses	(395)	(388)
	Profit on sales	**1 735**	**1 012**
Note 2.2	Other operating income and (costs)	(597)	161
Note 2.3	Finance income and (costs)	691	(141)
	Profit before income tax	**1 829**	**1 032**
	Income tax expense	(519)	(364)
	PROFIT FOR THE PERIOD	**1 310**	**668**
	Weighted average number of ordinary shares (million)	**200**	**200**
	Basic and diluted earnings per share (in PLN)	**6.55**	**3.34**

HALF-YEAR STATEMENT OF COMPREHENSIVE INCOME

	1st half of 2017	1st half of 2016
Profit for the period	**1 310**	**668**
Measurement of hedging instruments net of the tax effect	173	(20)
Measurement of available-for-sale financial assets net of the tax effect	110	40
Other comprehensive income, which will be reclassified to profit or loss	**283**	**20**
Actuarial losses net of the tax effect	(143)	(67)
Other comprehensive income, which will not be reclassified to profit or loss	**(143)**	**(67)**
Total other comprehensive net income	**140**	**(47)**
TOTAL COMPREHENSIVE INCOME	**1 450**	**621**

amounts in PLN millions, unless otherwise stated

HALF-YEAR STATEMENT OF CASH FLOWS

		1st half of 2017	1st half of 2016
	Cash flow from operating activities		
	Profit before income tax	1 829	1 032
	Depreciation/amortisation recognised in profit or loss	496	451
	Interest on investment activities	(180)	(169)
	Interest and other costs of borrowings	76	47
	Impairment loss on non-current assets	1	65
	Exchange differences	41	(92)
	Change in assets/liabilities due to derivatives	(81)	6
	Other adjustments to profit before income tax	(53)	28
	Exclusions of income and costs, total	300	336
	Income tax paid	(684)	(147)
Note 3.8	Changes in working capital	(645)	(179)
	Net cash generated from operating activities	**800**	**1 042**
	Cash flow from investing activities		
	Expenditures on mining and metallurgical assets	(974)	(1 422)
	Expenditures on other property, plant and equipment and intangible assets	(9)	(9)
	Loans granted	(219)	(325)
	Other expenses	(50)	(52)
	Total expenses	(1 252)	(1 808)
	Proceeds	26	11
	Net cash used in investing activities	**(1 226)**	**(1 797)**
	Cash flow from financing activities		
	Proceeds from borrowings	1 437	1 914
	Other proceeds	227	8
	Total proceeds	1 664	1 922
	Repayments of borrowings	(1 507)	(918)
	Interest and other costs	(70)	(43)
	Total expenses	(1 577)	(961)
	Net cash generated from financing activities	**87**	**961**
	TOTAL NET CASH FLOW	**(339)**	**206**
	Cash and cash equivalents at the beginning of the period	482	158
	Exchange gains/(losses) on cash and cash equivalents	(25)	28
	Cash and cash equivalents at the end of the period	**118**	**392**

amounts in PLN millions, unless otherwise stated

HALF-YEAR STATEMENT OF FINANCIAL POSITION

		1st half of 2017	2016
	ASSETS		
	Mining and metallurgical property, plant and equipment	14 676	14 379
	Mining and metallurgical intangible assets	531	507
	Mining and metallurgical property, plant and equipment and intangible assets	15 207	14 886
	Other property, plant and equipment	69	77
	Other intangible assets	22	24
	Other property, plant and equipment and intangible assets	91	101
	Investments in subsidiaries and joint ventures	3 370	2 002
	Loans granted	5 511	7 310
	Derivatives	137	237
	Other financial instruments measured at fair value	712	576
	Other financial assets	346	320
Note 3.2	Financial instruments, total	6 706	8 443
	Other non-financial assets	27	22
	Deferred tax assets	57	140
	Non-current assets	**25 458**	**25 594**
	Inventories	3 783	2 726
Note 3.2	Trade receivables	665	676
	Tax assets	166	188
Note 3.2	Derivatives	99	72
	Other assets	439	362
Note 3.2	Cash and cash equivalents	118	482
	Current assets	**5 270**	**4 506**
		30 728	**30 100**
	EQUITY AND LIABILITIES		
	Share capital	2 000	2 000
	Other reserves from measurement of financial instruments	87	(196)
	Accumulated other comprehensive income	(386)	(243)
	Retained earnings	15 449	14 339
	Equity	**17 150**	**15 900**
Note 3.3	Borrowings	5 382	6 423
Note 3.2	Derivatives	28	149
Note 3.4	Employee benefits liabilities	1 884	1 683
Note 3.5	Provisions for decommissioning costs of mines and other technological facilities	855	761
	Other liabilities	209	229
	Non-current liabilities	8 358	9 245
Note 3.3	Borrowings	1 601	1 509
Note 3.2	Cash pool liabilities	227	-
Note 3.2	Derivatives	9	189
Note 3.2	Trade payables	1 506	1 372
Note 3.4	Employee benefits liabilities	560	628
	Tax liabilities	473	636
	Other liabilities	844	621
	Current liabilities	5 220	4 955
	Non-current and current liabilities	**13 578**	**14 200**
		30 728	**30 100**

amounts in PLN millions, unless otherwise stated

HALF-YEAR STATEMENT OF CHANGES IN EQUITY

	Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings	Total equity
As at 1 January 2016	**2 000**	**(103)**	**(342)**	**18 724**	**20 279**
Dividend	-	-	-	(300)	**(300)**
Profit for the period	-	-	-	668	**668**
Other comprehensive income	-	20	(67)	-	**(47)**
Total comprehensive income	-	20	(67)	668	**621**
As at 30 June 2016	**2 000**	**(83)**	**(409)**	**19 092**	**20 600**
As at 1 January 2017	**2 000**	**(196)**	**(243)**	**14 339**	**15 900**
Dividend	-	**-**	-	(200)	**(200)**
Profit for the period	-	-	-	1 310	**1 310**
Other comprehensive income	-	283	(143)	-	**140**
Total comprehensive income	-	283	(143)	1 310	**1 450**
As at 30 June 2017	**2 000**	**87**	**(386)**	**15 449**	**17 150**

Part 1 – General information

ACCOUNTING POLICIES AND NEW STANDARDS

Accounting policies applied in preparing the half-year condensed financial statements of KGHM Polska Miedź S.A. and the impact of new and amended standards and interpretations were described in part 1, note 1.4 of this report's half-year condensed consolidated financial statements.

As at 31 December 2016, the Company recognised an impairment loss on the investment in KGHM INTERNATIONAL LTD., understood as the total value of shares in the company Future 1 Sp. z o.o. and the value of loans granted to the companies Future 1 Sp. z o.o. and KGHM INTERNATIONAL LTD. There was an impairment loss on the shares in Future 1 Sp. z o.o. in the amount of PLN 4 770 million, and an impairment allowance on loans granted in the amount of PLN 1 130 million. Such a recognition of impairment losses is based on the assumption that equity instruments should be the first to which impairment rules are applied, and after that an allowance for impairment is applied to debt financial instruments. The applied simplification did not have an impact as regards the accurate presentation of the financial statements for the year 2016. In the first half of 2017 the Company conducted an in-depth analysis of streams of realisation of the recoverable value of the investment in KGHM INTERNATIONAL LTD. within the Group's structure (the Company considers the repayment of granted loans and dividend payments by subsidiaries as being such streams).

As a result of the aforementioned in-depth analyses, as at 30 June 2017 the Company reallocated the impairment losses between the equity instruments and borrowings, in the following manner:

Impairment loss (in PLN million)	Impairment loss, after reallocation, as at 30 June 2017	2016
Impairment loss on shares in Future 1 Sp.z o.o.	3 402	4 770
Allowance for impairment of loans granted	2 369	1 130
Total	**5 771**	**5 900**

As a result of the above, as at 30 June 2017 the value of shares in Future 1 Sp. z o.o. increased by PLN 1 368 million, and the value of loans granted to Future 1 Sp. z o.o. and KGHM INTERNATIONAL LTD., after taking into account foreign exchange gains of PLN 129 million, decreased by PLN 1 239 million.

RISK MANAGEMENT

Commodity, currency and interest risk management in KGHM Polska Miedź S.A. was presented in part 4, note 4.4 of this report's half-year condensed consolidated financial statements.

amounts in PLN millions, unless otherwise stated

Part 2 – Explanatory notes to the statement of profit or loss

Note 2.1 Expenses by nature

	1st half of 2017	1st half of 2016
Depreciation of property, plant and equipment and amortisation of intangible assets	531	490
Employee benefits expenses	1 564	1 458
Materials and energy, including:	2 788	2 816
Purchased metal-bearing materials	1 759	1 787
Electrical and other energy	357	387
External services, including:	713	678
Transport	108	103
Repairs, maintenance and servicing	200	173
Mine preparatory work	207	207
Minerals extraction tax	871	606
Other taxes and charges	208	205
Other costs	60	45
Total expenses by nature	**6 735**	**6 298**
Cost of merchandise and materials sold (+)	107	81
Change in inventories of finished goods and work in progress (+/-)	(816)	(774)
Cost of manufacturing products for internal use (-)	(60)	(77)
Total costs of sales, selling costs and administrative expenses, including:	**5 966**	**5 528**
Cost of sales	5 571	5 140
Selling costs	56	51
Administrative expenses	339	337

Note 2.2 Other operating income and (costs)

	1st half of 2017	1st half of 2016
Measurement and realisation of derivatives	225	46
Interest on loans granted	181	170
Exchange differences on assets and liabilities other than borrowings	-	93
Fees and charges on re-invoicing of costs of bank guarantees securing payments of liabilities	23	19
Other	38	48
Total other income	**467**	**376**
Measurement and realisation of derivatives	(157)	(102)
Impairment loss on available-for-sale assets	-	(57)
Exchange differences on assets and liabilities other than borrowings	(835)	-
Other	(72)	(56)
Total other costs	**(1 064)**	**(215)**
Other operating income and (costs)	**(597)**	**161**

amounts in PLN millions, unless otherwise stated

Note 2.3 Finance income and (costs)

	1st half of 2017	1st half of 2016
Exchange differences on borrowings	812	-
Total finance income	812	**-**
Interest on borrowings	(58)	(27)
Bank fees and charges on borrowings	(14)	(17)
Exchange differences on borrowings	-	(68)
Losses on the measurement of derivatives	(27)	(10)
Unwinding of the discount	(22)	(19)
Total finance costs	**(121)**	**(141)**
Finance income and (costs)	**691**	**(141)**

amounts in PLN millions, unless otherwise stated

Part 3 – Other explanatory notes

Note 3.1 Information on property, plant and equipment and intangible assets

Purchase of property, plant and equipment and intangible assets

	1st half of 2017	1st half of 2016
Purchase of property, plant and equipment	741	1 204
Purchase of intangible assets	39	36

Payables due to the purchase of property, plant and equipment and intangible assets

	1st half of 2017	2016
Payables due to the purchase of property, plant and equipment and intangible assets	492	799

Capital commitments related to property, plant and equipment and intangible assets, not recognised in the statement of financial position

	1st half of 2017	2016
Capital commitments due to the purchase of:		
Property, plant and equipment	4 469	4 519
Intangible assets	80	143
Total capital commitments	**4 549**	**4 662**

amounts in PLN millions, unless otherwise stated

Note 3.2 Financial instruments

Categories of financial assets in accordance with IAS 39	1st half of 2017 Available-for-sale	At fair value through profit or loss	Loans and financial receivables	Hedging instruments	Total	2016 Available-for-sale	At fair value through profit or loss	Loans and financial receivables	Hedging instruments	Total
Non-current	712	14	5 857	123	**6 706**	576	41	7 630	196	**8 443**
Loans granted	-	-	5 511	-	**5 511**	-	-	7 310	-	**7 310**
Derivatives	-	14	-	123	**137**	-	41	-	196	**237**
Other financial instruments measured at fair value	712	-	-	-	**712**	576	-	-	-	**576**
Other financial assets	-	-	346	-	**346**	-	-	320	-	**320**
Current	-	2	1 087	97	**1 186**	-	-	1 446	72	**1 518**
Trade receivables	-	-	665	-	**665**	-	-	676	-	**676**
Derivatives	-	2	-	97	**99**	-	-	-	72	**72**
Cash and cash equivalents	-	-	118	-	**118**	-	-	482	-	**482**
Other financial assets	-	-	304	-	**304**	-	-	288	-	**288**
Total	**712**	**16**	**6 944**	**220**	**7 892**	**576**	**41**	**9 076**	**268**	**9 961**

Categories of financial liabilities in accordance with IAS 39	1st half of 2017 At fair value through profit or loss	At amortised cost	Hedging instruments	Total	2016 At fair value through profit or loss	At amortised cost	Hedging instruments	Total
Non-current	**14**	**5 567**	**14**	**5 595**	22	5 404	1 347	**6 773**
Borrowings	-	5 382	-	**5 382**	-	5 203	1 220	**6 423**
Derivatives	14	-	14	**28**	22	-	127	**149**
Other financial liabilities	-	185	-	**185**	-	201	-	**201**
Current	5	3 684	4	**3 693**	5	2 947	218	**3 170**
Borrowings	-	1 601	-	**1 601**	-	1 475	34	**1 509**
Cash pool liabilities	-	227	-	**227**	-	-	-	**-**
Derivatives	5	-	4	**9**	5	-	184	**189**
Trade payables	-	1 506	-	**1 506**	-	1 372	-	**1 372**
Other financial liabilities	-	350	-	**350**	-	100	-	**100**
Total	**19**	**9 251**	**18**	**9 288**	**27**	**8 351**	**1 565**	**9 943**

amounts in PLN millions, unless otherwise stated

Classes of financial instruments	1st half of 2017 level 1	1st half of 2017 level 2	2016 level 1	2016 level 2
Listed shares	656	-	521	-
Other financial assets	-	58	-	57
Derivatives	-	198	-	(29)
Assets	-	235	-	309
Liabilities	-	(37)	-	(338)

Investments in shares of listed companies (classified as available-for-sale financial assets) are classified under level 1 of the fair value hierarchy. All other financial instruments are classified under level 2 of the fair value hierarchy. The manner and technique for measuring financial instruments to fair value have not changed in comparison to the manner and technique for measurement as at 31 December 2016.
There was no transfer of financial instruments between individual levels of the fair value hierarchy, in either the reporting or the comparable periods, nor was there any change in the classification of instruments as a result of a change in the purpose or use of these instruments.

Note 3.3 Net debt

	1st half of 2017	2016
Bank loans*	3 385	4 785
Other loans	1 997	1 638
Total non-current liabilities due to borrowings	**5 382**	**6 423**
Bank loans	1 503	1 468
Other loans	98	41
Total current liabilities due to borrowings	**1 601**	**1 509**
Total borrowings	**6 983**	**7 932**
Free cash and cash equivalents	105	481
Net debt	**6 878**	**7 451**

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

Note 3.4 Employee benefits liabilities

	1st half of 2017	2016
Jubilee bonuses	305	273
Retirement and disability benefits	287	261
Coal equivalent	1 397	1 239
Other benefits	8	27
Total liabilities due to future employee benefits programs	**1 997**	**1 800**
Remuneration liabilities	81	170
Accruals due to employee benefits	366	341
Employee benefits	**447**	**511**
Total employee benefits liabilities	**2 444**	**2 311**

amounts in PLN millions, unless otherwise stated

Note 3.5 Provisions for decommissioning costs of mines and other technological facilities

	1st half of 2017	2016
Provisions as at the beginning of the reporting period	770	892
Changes in estimates recognised in fixed assets	81	(120)
Other	13	(2)
Provisions as at the end of the reporting period, including:	**864**	**770**
- non-current provisions	855	761
- current provisions	9	9

Note 3.6 Related party transactions

Operating income from related parties	1st half of 2017	1st half of 2016
From subsidiaries	353	327
From joint ventures	13	9
Total	**366**	**336**

Purchases from related entities	1st half of 2017	1st half of 2016
Purchase of products, merchandise and materials and other purchases from subsidiaries	2 099	2 327
Purchase of products, merchandise and materials from joint ventures	-	54
Total	**2 099**	**2 381**

Trade and other receivables from related parties	1st half of 2017	2016
From subsidiaries	5 851	7 671
From joint ventures	58	52
Total	**5 909**	**7 723**

Payables towards related parties	1st half of 2017	2016
Towards subsidiaries	545	619
Towards joint ventures	37	37
Total	**582**	**656**

Remuneration of key managers of KGHM Polska Miedź S.A., i.e. members of the Management Board and members of the Supervisory Board of KGHM Polska Miedź S.A. were presented in note 4.8, in part 4 of the half-year consolidated financial statements.

Pursuant to IAS 24, the Company is obliged to disclose unsettled balances, including payables towards the Polish Government and entities controlled or jointly controlled by the Polish Government, or over which the Polish Government has significant influence.

As at 30 June 2017, balances of unsettled payables concerned the following:

- mining usufruct agreements necessary to conduct principal operating activities. Pursuant to these agreements, the Company is obliged to pay for the right to mine the copper and rock salt deposits. As at 30 June 2017, the balance due to these agreements amounted to PLN 183 million (as at 31 December 2016: PLN 209 million),
- the dividend payout approved by the Ordinary General Meeting, in the amount of PLN 200 million, to which the State Treasury gained rights, proportionally to the shares held on the dividend date set by the Ordinary General Meeting - with the State Treasury holding 31.79% of shares as at 30 June 2017.

In the current and comparable periods, no other individual transactions were identified which would be considered as significant in terms of unusual scope and amount.

The remaining transactions, which were collectively significant, between the Company and the Polish Government and with entities controlled or jointly controlled by the Polish Government, or over which the Polish 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 goods to meet the needs of current operating activities. In the period from 1 January to 30 June 2017, the turnover from these transactions amounted to PLN 391 million (from 1 January to 30 June 2016: PLN 297 million), and, as at 30 June 2017, the unsettled balance of liabilities from these transactions amounted to PLN 90 million (as at 31 December 2016: PLN 80 million),

amounts in PLN millions, unless otherwise stated

- sales to Polish State Treasury Companies. In the period from 1 January to 30 June 2017, the turnover from these sales amounted to PLN 32 million (from 1 January to 30 June 2016: PLN 32 million), and, as at 30 June 2017, the unsettled balance of receivables from these transactions amounted to PLN 6 million (as at 31 December 2016: PLN 6 million).

Note 3.7 Assets and liabilities not recognised in the statement of financial position

	1st half of 2017	2016
Contingent assets	**445**	**582**
Guarantees received	122	160
Promissory notes receivables	168	268
Other	155	154
Contingent liabilities	2 873	**2 260**
Guarantees, including:	2 413	1 773
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.	510	575
corporate guarantees granted to additionally secure the repayment of a short-term working capital facility drawn by the joint venture Sierra Gorda S.C.M.	489	437
a corporate guarantee of repayment of a specified part of payment to the guarantee issued by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation, securing the repayment of a corporate loan drawn by the joint venture Sierra Gorda S.C.M.	667	-
letters of credit securing 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 and obligations related to the proper performance of concluded agreements	401	387
corporate guarantees granted to additionally secure the proper performance of leasing agreements entered into by the joint venture Sierra Gorda S.C.M.	216	277
a guarantee granted to secure 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	128	96
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	192	224
Liabilities due to implementation of projects and inventions	92	91
Other	176	172
Other liabilities not recognised in the statement of financial position	**125**	**126**
Liabilities towards local government entities due to expansion of the tailings storage facility	120	120
Liabilities due to operating leases	5	6

amounts in PLN millions, unless otherwise stated

Note 3.8 Changes in working capital

	Inventories	Trade receivables	Trade payables	Working capital
As at 31 December 2016	(2 726)	(676)	1 542	**(1 860)**
As at 30 June 2017	(3 783)	(665)	1 665	**(2 783)**
Change in the statement of financial position	(1 057)	11	123	**(923)**
Adjustments	32	-	246	**278**
Change in the statement of cash flows	(1 025)	11	369	**(645)**

	Inventories	Trade receivables	Trade payables	Working capital
As at 31 December 2015	(2 601)	(1 000)	1 490	**(2 111)**
As at 30 June 2016	(3 261)	(629)	1 318	**(2 572)**
Change in the statement of financial position	(660)	371	(172)	**(461)**
Adjustments	35	-	247	**282**
Change in the statement of cash flows	(625)	371	75	**(179)**

Part 4 – Quarterly financial information of KGHM Polska Miedź S.A.

INTERIM STATEMENT OF PROFIT OR LOSS

		2nd quarter of 2017	2nd quarter of 2016	2 quarters of 2017	2 quarters of 2016
	Sales revenue	3 805	3 561	7 701	6 540
Note 4.1	Cost of sales	(2 916)	(2 785)	(5 571)	(5 140)
	Gross profit	**889**	**776**	**2 130**	**1 400**
Note 4.1	Selling costs and administrative expenses	(219)	(223)	(395)	(388)
	Profit on sales	**670**	**553**	**1 735**	**1 012**
Note 4.2	Other operating income and (costs)	(327)	323	(597)	161
Note 4.3	Finance income and (costs)	382	(376)	691	(141)
	Profit before income tax	**725**	**500**	**1 829**	**1 032**
	Income tax expense	(220)	(202)	(519)	(364)
	PROFIT FOR THE PERIOD	**505**	**298**	**1 310**	**668**
	Weighted average number of ordinary shares (million)	**200**	**200**	**200**	**200**
	Basic and diluted earnings per share (in PLN)	**2.53**	**1.49**	**6.55**	**3.34**

mounts in PLN millions, unless otherwise stated

Explanatory notes to the interim statement of profit or loss

Note 4.1 Expenses by nature

	2nd quarter of 2017	2nd quarter of 2016	2 quarters of 2017	2 quarters of 2016
Depreciation of property, plant and equipment and amortisation of intangible assets	262	247	531	490
Employee benefits expenses	813	760	1 564	1 458
Materials and energy, including:	1 417	1 416	2 788	2 816
Purchased metal-bearing materials	906	902	1 759	1 787
Electrical and other energy	190	189	357	387
External services, including:	360	349	713	678
Transport	56	52	108	103
Repairs, maintenance and servicing	102	92	200	173
Mine preparatory work	103	102	207	207
Minerals extraction tax	405	313	871	606
Other taxes and charges	101	108	208	205
Other costs	40	26	60	45
Total expenses by nature	**3 398**	**3 219**	**6 735**	**6 298**
Cost of merchandise and materials sold (+)	51	47	107	81
Change in inventories of finished goods and work in progress (+/-)	(282)	(213)	(816)	(774)
Cost of manufacturing products for internal use (-)	(32)	(45)	(60)	(77)
Total costs of sales, selling costs and administrative expenses, including:	**3 135**	**3 008**	**5 966**	**5 528**
Cost of sales	2 916	2 785	5 571	5 140
Selling costs	30	26	56	51
Administrative expenses	189	197	339	337

Note 4.2 Other operating income and (costs)

	2nd quarter of 2017	2nd quarter of 2016	2 quarters of 2017	2 quarters of 2016
Measurement and realisation of derivatives	72	(98)	225	46
Interest on loans granted	85	91	181	170
Exchange differences on assets and liabilities other than borrowings	-	399	-	93
Fees and charges on re-invoicing of costs of bank guarantees securing payments of liabilities	3	12	23	19
Other	23	27	38	48
Total other income	**183**	**431**	**467**	**376**
Measurement and realisation of derivatives	(74)	(88)	(157)	(102)
Impairment loss on available-for-sale assets	-	-	-	(57)
Exchange differences on assets and liabilities other than borrowings	(410)	-	(835)	-
Other	(26)	(20)	(72)	(56)
Total other costs	**(510)**	**(108)**	**(1 064)**	**(215)**
Other operating income and (costs)	**(327)**	**323**	**(597)**	**161**

mounts in PLN millions, unless otherwise stated

Note 4.3 Finance income and (costs)

	2nd quarter of 2017	2nd quarter of 2016	2 quarters of 2017	2 quarters of 2016
Exchange differences on borrowings	443	-	812	-
Total income	**443**	**-**	**812**	**-**
Interest on borrowings	(29)	(14)	(58)	(27)
Bank fees and charges on borrowings	(7)	(7)	(14)	(17)
Exchange differences on borrowings	-	(343)	-	(68)
Measurement of derivatives	(14)	(2)	(27)	(10)
Unwinding of the discount	(11)	(10)	(22)	(19)
Total costs	**(61)**	**(376)**	**(121)**	**(141)**
Finance income and (costs)	**382**	**(376)**	**691**	**(141)**

THE MANAGEMENT BOARD'S AMENDED REPORT ON THE ACTIVITIES OF THE GROUP IN THE FIRST HALF OF 2017

Lubin, November 2017

Table of contents

Useful terms and abbreviations

Adjusted EBITDA	EBITDA adjusted by impairment losses (-reversals of impairment losses) on non-current assets recognised in cost of sales, selling costs and administrative expenses
Barren rock	Rock which accompanies the extraction of mineral ore and, due to its lack of minerals in sufficient quantities, is not considered as useful
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
BREF	"BAT REFerence document", the reference document of best available techniques (BAT)
Copper cathodes	The basic form of electrolytically-refined copper; the product of electrolytic copper refining
Copper concentrate	The product of enriching or concentrating low-grade copper ore
Copper equivalent	Total volume of production of all metals calculated to copper based on market prices
Copper wire rod	Drawn copper rod, usually with a diameter of 6-12 mm, universally used as a starting material in the cable industry
Deposit	Natural collection of minerals in the earth, arising as a result of various geological processes.
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation – profit/(loss) on sales plus depreciation/amortisation
EBITDA margin	EBITDA margin = Adjusted EBITDA / Sales revenue
Electrolytic copper	The product of electrolytic copper refining
Electrolytic copper refining technology	A process involving the electrolytic refining of metal, in this case copper. The periodic removal of portions of the electrolite is required to maintain the level of contaminates at an acceptable level, which is the one of decisive factors determining the quality of electrolytically-refined copper. The contaminated electrolyte and slimes are used as the raw material in the recovery of some of the metals accompanying the copper, such as silver, gold, selenium and nickel
Electrorefining	The process of electrolising dissoluble anodes which are produced from refineable alloys. During this process refined metal is collected on starter sheets under controlled conditions, while contaminants remain in the electrolyte as solids or liquid
Flotation (ore enrichment)	A stage in the process of breaking down ore into fragments of varying composition of useful elements which exploits differences in the degree of wettability of individual mineral grains. Well-wetted minerals fall to the bottom of the flotation tank, while the poorly-wetted grains (those whose wettability decreases due to the action of so-called collecting agents, e.g. xanthates) collect at the surface of the froth created from froth-inducing agents.
Flotation tailings	Waste remaining after the ore enrichment process; can be utilised or stored
ISO	International Organization for Standarization
LTIFR	Lost-time injury frequency rate – number of accidents per million worked hours
Mine excavation	Open area left after the mining work
Muck	Rock removed from a mine face. Contains both ore and barren rock.
NBP	National Bank of Poland
Net debt	Borrowings and finance lease liabilities less free cash and short term investments with a maturity of up to 1 year.
OFE rod	Oxygen-free copper wire rod produced at the Cedynia wire rod Division using UPCAST technology
Ore	Rock which contains one or more useful elements. Ore can be monometallic (containing a single metal) or polymetallic (containing more than one metal)
Payable copper	Volume of copper produced less the amount corresponding to the loss incurred in further processing to pure metal
Payable metal	Volume of metal produced less the amount corresponding to the loss incurred in further processing to pure metal
Pillar (mining)	An unremoved mass of rock in an underground mine used to support the ceiling against collapse.
REACH	Registration, Evaluation, Authorisation and Restriction of Chemicals - decree issued by the European Parliament and the European Council on the safe use of chemicals through their registration and evaluation, and in certain cases through the issuance of permits and restrictions in the sale and use of certain chemicals
Silver smelting and electrolytic refining technology	Comprised of: batch preparation (the mixture of batch elements followed by drying); the smelting of Doré metal and the casting of anodes (melting of the batch in a Kaldo furnace to remove slag or gasify impurities followed by casting of the product [99% silver] into anodes); silver electrorefining (forming into cathodes containing a min. 99.99% Ag); melting in an electric induction furnace and the casting of refined silver into commercial form (billets or granules)
TPM (Total Precious Metals)	Precious metals (gold, platinum, palladium)
Troy ounce	A unit of measure mainly used in English-speaking countries. The troy ounce (abbreviated as oz t) is universally used in jewellery and precious metals commerce. 1 troy ounce equals 31.1035 grams
YoY	year on year, i.e. comparison between one year and the next year

1. Strategy of KGHM Polska Miedź S.A.

1.1. Update of the Parent Entity's strategy (the Company)

Due to the changes in the Company's macroeconomic environment in the years 2015 – 2016, in 2016 the Management Board of KGHM Polska Miedź S.A. decided an update of the Company's Strategy was justified. The main determinants of this change in the Strategy were:

- **The primary goal of the 2015 Strategy** – the inability to achieve the primary goal of the 2015 Strategy, assuming the „production of 1 million tonnes of Cu equivalent and improved efficiency".
- **Impairments** – the tests conducted at the end of 2015 for the impairment of the carrying amounts of assets resulted in impairment losses in the net amount of PLN 5 220 million at the level of KGHM Polska Miedź S.A. and PLN 5 048 million on production assets in the consolidated financial statements of the KGHM Polska Miedź S.A. Group.
- **Financial position** – the Company does not possess the financial resources to achieve, in a responsible and stable manner, the full scope of the investment portfolio envisaged in the 2015 Strategy in the amount of PLN 27 billion (in the years 2015-2020)
- **High investment risk** – achievement of a significant portion of KGHM Polska Miedź S.A.'s projects portfolio is associated with a very high investment risk. It was necessary to review the merits of the Company's projects portfolio.
- **Servicing of debt** – it is necessary to secure the servicing of current debt liabilities and the stability of the debt level of KGHM Polska Miedź S.A.

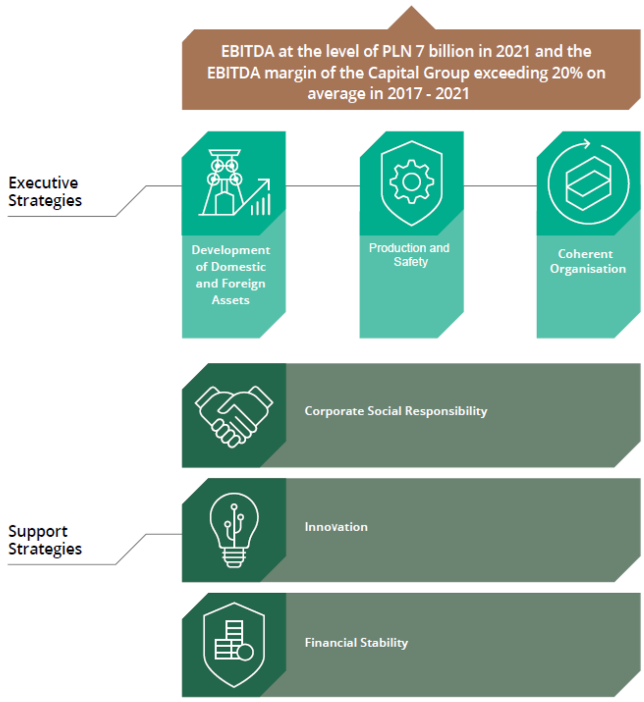
In May 2017, KGHM Polska Miedź S.A. approved the new Company Strategy for the years 2017-2021 with an outlook to 2040, establishing the following primary goal: EBITDA at the level of PLN 7 billion in 2021 as well as an EBITDA margin for the Group exceeding 20% on average in the years 2017 – 2021. The mission of the Company is based on the slogan „To always have copper", and it's vision is „To use our resources efficiently to become the leader in sustainable development". The Company's Strategy is being advanced by:

- 3 executive strategies:
  - Development of Domestic and Foreign Assets
  - Production and Safety
  - Coherent Organisation

and

- 3 support strategies:
  - Corporate Social Responsibility
  - Innovation
  - Financial Stability

Diagram 1. Strategy of KGHM Polska Miedź S.A.



A separate primary goal was defined for each of the aforementioned strategies:

Executive Strategies	
Development of Domestic and Foreign Assets	The Strategy aims to ensure the efficient management of investments and resource-related projects. The equity investment and capital expenditures of the KGHM Polska Miedź S.A. Group for 2017-2021 has been estimated at the level of PLN 15 billion, of which over PLN 9.7 billion relates to KGHM Polska Miedź S.A. itself.
Production and Safety	The Strategy assumes an average annual production volume (of copper in ore) in Poland at the level of approximately 470 thousand tonnes of copper, and an average annual production volume abroad of approximately 145 thousand tonnes of payable copper in the years 2017-2021. One of the main priorities is providing widely understood safety in the following areas: work, environment and energy.
Coherent Organisation	The Strategy aims at implementing systemic solutions oriented towards growth in the value of the KGHM Polska Miedź S.A. Group by working out tailor-made organisational processes aimed at improving the efficiency and effectiveness of the supply chain.
Support Strategies	
Corporate Social Responsibility	The Strategy aims to further strengthen the positive image of the KGHM Polska Miedź S.A. Group with regard to shaping appropriate relations with the environment (stakeholders).
Innovation	The Strategy is oriented towards improving productivity in the KGHM Polska Miedź S.A. Group. It will enable long-term economic efficiency of the Company's business operations.
Financial Stability	The Strategy assumes ensuring financial stability, supporting development and efficiency, and providing resilience to difficult market conditions. The Strategy aims to provide financial security to the KGHM Polska Miedź S.A. Group.

All of the mutually-complementary executive and support strategies are aimed at jointly achieving strategic priorities. The strategic priorities of KGHM Polska Miedź S.A. are:

- EBITDA at the level of PLN 7 billion in 2021 and the EBITDA margin of the Group exceeding 20% on average in 2017-2021.
- CAPEX at the level of PLN 15 billion in 2017-2021 – total equity investment and capital expenditures in the Group, both locally and abroad.
- Stable average annual production from domestic and foreign assets at a cost guaranteeing financial security.
- Functioning in accordance with sustainable development concepts in order to harmonise the common expectations of stakeholders with regard to economic, social and pro-environmental objectives.
- Financial stability in order to implement the assumed investment program on time and within budget.
- Focusing on innovative solutions in order to improve productivity.
- Readiness to bring foreign assets to their production maturity in order to maximise revenue and foreign ROI.
- Using the potential of companies from the KGHM Polska Miedź S.A. Group.

1.2. Executive Strategies

Development of Domestic and Foreign Assets

Due to the direct association and overlapping of scopes, the pillars from the previous Strategy called „Resource Base Development" and „Assets Development" were combined into a single executive strategy called „Development of Domestic and Foreign Assets".

Following are the operational goals defined for the executive strategy Development of Domestic and Foreign Assets:

- Optimising the investment projects portfolio and its economic effect.
- Building centrally-managed processes/systems/tools and skills aimed at improving the effectiveness and efficiency of the realisation of investments.
- Optimising the portfolio of domestic and foreign resource projects.

Under this strategy, the budget forecast for the years 2017-2021 assumes the continued implementation of the following **key projects**:

- The Deposit Access Program (Deep Głogów along with access and development tunnels).
- The Metallurgy Development Program (MDP) and the Project to Increase Production Capacity to 160 thousand tonnes of copper cathode annually at the Legnica Copper Smelter and Refinery (TCR).
- Development of the Żelazny Most Tailings Storage Facility.
- The Pyrometallurgy Modernisation Program (PMP).

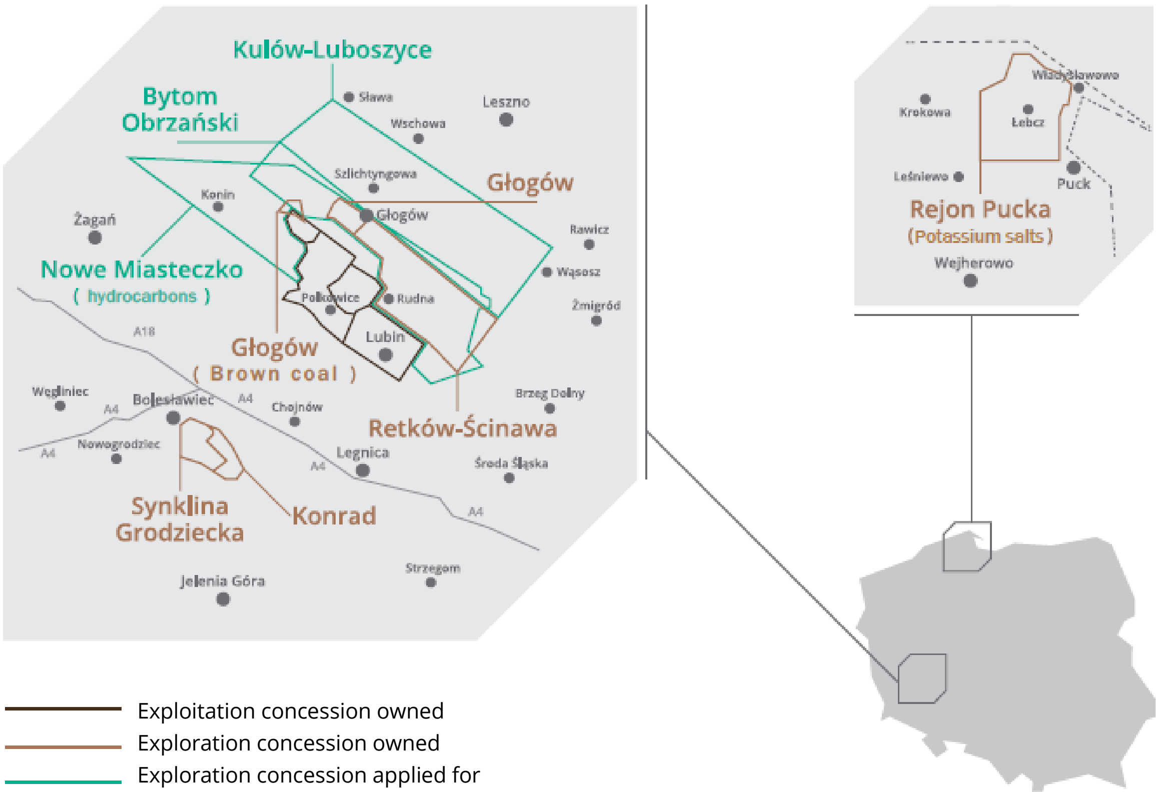
Another element, important from the point of view of implementation of the strategy Development of Domestic and Foreign Assets, is **domestic exploration**, which may be divided into projects related to copper exploration and non-copper projects:

- Cu projects – Under the basic mining activity exploration, aimed at increasing resource assets, geological work is currently underway on the concessions held to explore for and evaluate copper ore deposits in the following areas:

Synklina Grodziecka and Konrad, Retków-Ścinawa and Głogów. Proceedings are also underway regarding acquiring concessions to explore for and/or evaluate copper ore deposits in the areas Bytom Odrzański and Kulów-Luboszyce.

– Non-Cu projects – Geological work under the concessions held to explore for and evaluate deposits of potassium-magnesium salt in the Puck region together with associated minerals: copper and silver ores and rock salt.

Diagram 2. Location of concession areas:



The strategy Development of Domestic and Foreign Assets also places great emphasis on **international resource projects**:

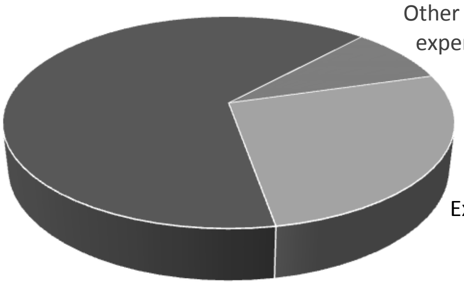
– Sierra Gorda Oxide Project – the Sierra Gorda Oxide (SGOx) project assumes the leaching of ROM (Run Of Mine) oxide ore on a stationary heap, as well as construction of a SX-EW installation together with associated infrastructure. The project is currently in the concept phase, involving the selection of the best economic variant of advancing the project while restricting required capital expenditures.

– Victoria Project – The project's concept assumes construction of an underground polymetallic mine, located in the Sudbury region of Canada. Given the current macroeconomic situation, the Management Board of KGHM Polska Miedź S.A. decided to modify the previously adopted project schedule.

– Ajax Project – KGHM Polska Miedź S.A. owns an 80% stake in the Project, with the remaining 20% belonging to Abacus Mining & Exploration. Forecasted average annual production is at the level of approx. 58 thousand tonnes of copper as well as approx. 125 thousand ounces of gold in concentrate. A key goal for the project is to receive an environmental permit issued by the province of British Columbia as well as by the federal government of Canada in 2017. The project team is continuing negotiations with First Nations aimed at the signing of a Project Agreement. Further proceedings, if the permit is received, will involve analysis of possibilities to advance the project and to select an optimum scenario for KGHM Polska Miedź S.A.

Total equity investment and capital expenditures by the Group under the Strategy of KGHM Polska Miedź S.A. for the years 2017-2021 will amount to PLN 15 billion, including over PLN 9.7 billion in the Company alone.

Chart 1. Structure of capital and equity expenditures in the years 2017-2021 (*in bn PLN*)



Production and Safety

In comparison to the former Strategy of KGHM Polska Miedź S.A., one area was added to the executive strategy which is dedicated to safety, understood both as workplace safety as well as environmental and energy security. The executive strategy „Production and Safety", apart from concentrating on questions related to safety in general, is based on maintaining a stable level of production, both domestically and abroad, while maintaining cost discipline. It regulates questions of both mine and metallurgical production volumes. Another important element is enhancing energy efficiency, as well as maintaining emissions standards and minimising the company's environmental impact. Aiming at becoming the leader in sustainable development, caring for the environment and safety are priority elements from the point of view of the business activities. It should be stressed that Production and Safety reflect elements functioning in the former Strategy in the supporting strategy area „Energy Security".

Achievement of the main goal of the executive strategy Production and Safety is aimed at assuring the effective implementation of eight operative goals, which are:

- Mining production at an annual level of approx. 470 thousand tonnes of copper in ore, with C1 cost at a level of approx. 3 800 USD/t (1.72 USD/lb).
- Maintaining metallurgical production at the level of approximately 570 thousand tonnes/year.
- Average annual production of mined copper from the Sierra Gorda mine in the period 2017-2021 at approx. 70 thousand tonnes of payable copper (on a 55% basis) at an average annual C1 cost of 3 622 USD/t (1.64 USD/lb) for the period.
- Production of mined copper from the Robinson mine at the average annual level of 47 thousand tonnes of copper, with C1 cost at approx. 4 200 USD /t (1.91 USD/lb) in the years 2017-2021.
- Production of copper from the Carlota, Franke and Morrison mines.
- Increasing workplace safety.
- Adhering to environmental emissions standards.
- Ensuring energy security and enhancing energy efficiency.

Domestic Production

In the global structure of KGHM Polska Miedź S.A.'s copper mining production, production from domestic assets accounts for the largest volume, which is why, in order to maintain production from own concentrates in Poland, it is envisaged to, among others, start extraction from the G-51 section of the Polkowice-Sieroszowice mine, to open subsequent mining areas in the „Głogów Głęboki-Przemysłowy" (Deep Głogów) area and to gain access to the Radwanice-Gaworzyce deposit. To achieve the expected cost parameters associated with mining production, a variety of actions aimed at improving operational and cost effectiveness need to be implemented. The most important are the efficient management of mining machinery and the improvement and automation of mining processes. The metallurgy development programs implemented in recent years by KGHM Polska Miedź S.A. enable the assumption that annual metallurgical copper production will be maintained at the level of 570 thousand tonnes. To maintain metallurgical production at the assumed level, it is necessary to maintain ore processing capacity at the Ore Enrichment Plants at a level enabling achievement of the assumed project parameters for the Pyrometallurgy Modernisation Program. Maintaining the assumed cost ratio will depend among others on the tasks carried out as part of improving operational and cost effectiveness in processing and metallurgy. Actions to mitigate threats to maintaining production, such as ensuring the sale of slag, the management of sulphuric acid produced in the copper production process and the removal of arsenic from the technological cycle, will be of key importance when implementing these strategic plans.

Production abroad

- Sierra Gorda – average production of mined copper from the Sierra Gorda mine in the period 2017-2021 at an annual level of about 70 thousand tonnes (on a 55% basis) will be achieved through the implementation of the project based on Phase I of the investment, together with activities aimed at optimising the production process, which will result in increased production capacity under the assumed investment expenditures. It is assumed that Sierra Gorda's financial independence will be achieved from 2021, which means no more ownership funding of the company after 2020. These objectives will be achieved among others by improving the operational and cost effectiveness.

- Robinson – production by this mine is expected to cease in 2022. This is the most advantageous scenario for KGHM Polska Miedź S.A., mainly from the point of view of incurred capital expenditures. In addition, work has begun on analysing the optimal process for closing the Robinson mine and reclaiming the land.

Coherent Organisation

A new pillar of the Company's Strategy is „Coherent Organisation", which replaced the existing „Global Organisation and Skills Development". Due to the complexity of the KGHM Polska Miedź S.A. Group, a clear division of duties and the standardisation of processes are desired directions of development of the company. „Coherent Organisation" is mainly aimed at implementing systemic solutions aimed at increasing the value of the entire Group by optimal and efficient cooperation throughout the production process.

Following are the operative goals set forth in the executive strategy for Coherent Organisation:

- Integrating the organisation by improving processes and management standards.
- Optimising the organisation and cost of the values chain.
- Co-operating within a sustainable supply chain.

Coherent Organisation will focus on improving, reorganising and implementing new processes arising from the need to constantly adapt to market conditions. This enables a rapid response in the face of change. A Coherent Organisation requires that the Company look at itself as well as at the key processes within it in an integrated manner.

This Strategy assumes the integration of management functions and the introduction of organisational process principles, followed by reorganisation of business processes and their further optimisation in such a manner as to gradually approach the desired economic effects as well as to adapt the organisation to a volatile business environment.

A systemic approach to changes brought about by the digitalisation and transformation of the company in accordance with the Industry 4.0 concept will enable the Company to maintain the pace of development and to respond appropriately to changes in the business environment – both by avoiding threats and seizing opportunities.

1.3. Support Strategies

Corporate Social Responsibility

As both in the former as well as in the new Company Strategy, there is the support strategy „Corporate Social Responsibility". For years, KGHM Polska Miedź S.A. has treated questions related to CSR as important issues. The Company's key CSR goals are focused around shaping cooperation and good relations with local communities, as well as on building a position as a trusted and stable employer and business partner. Care for the environment goes hand in hand with activities carried out under the strategy Production and Safety.

Following are the operative goals set forth in the support strategy Corporate Social Responsibility:

- Establishing co-operation with local communities and internal stakeholders.
- Strengthening the position as a trusted and stable business partner.
- Maintaining the position as a responsible employer.
- Building the image of the KGHM Polska Miedź S.A. Group as an environmentally-friendly and health-friendly one.
- Improving the efficiency of internal and external communications of the KGHM Polska Miedź S.A. Group.

Innovation

An important change in the new Strategy is the separation of the independent support strategy „Innovation" aimed at increasing productivity in the Group. For the KGHM Polska Miedź S.A. Group, innovation activities are a priority element in management. They enable long term maintenance of the economic efficiency of operations carried out and overseen by the Company.

Key questions impacting achievement of the main innovation goal were defined in operative goals:

- Increasing the role of intellectual capital within the KGHM Polska Miedź S.A. Group.
- Effective management of innovation within the KGHM Polska Miedź S.A. Group.
- Protecting intellectual property within the KGHM Polska Miedź S.A. Group.

Financial Stability

The final support strategy – Financial Stability – functioned under the same name in the former Company Strategy. The goal of realising the Strategy "Financial Stability" is to ensure the financial security of the KGHM Polska Miedź S.A. Group by an optimal structure and financing conditions. The further centralisation of processes in individual areas as well as continued implementation of best practices in financial management in the KGHM Polska Miedź S.A. Group will raise the efficiency of these processes as well as the achievement of synergy.

Following are the operative goals set forth in the support strategy Financial Stability:

- Optimising borrowing.
- Supporting comprehensive business management on the basis of the financial information available.
- Improving the risk management process in the KGHM Polska Miedź S.A. Group.

1.4. Long term outlook:

The long term goal of the company is to maintain a stable level of production from its domestic and foreign assets while ensuring safe working conditions and minimising its impact on the natural environment and surroundings. In contrast to trends in prior years, the paradigm of continuous economic growth has been superseded by sustainable development. For this reason, over the long term the Company will aim at creating a sustainable system, understood as conserving natural resources through their optimum and efficient utilisation, in a rational manner, in such a way as to pass them on to future generations. The actions of KGHM Polska Miedź S.A. are grounded in proven business practices, which ensure an increase in the Company's value and at the same time reflect social needs. In addition, the Company will continually identify potential opportunities for investment, which as financing allows, will enable the diversification of activities.

1.5. Implementation of the Parent Entity's strategy in the first half of 2017

Many of the tasks identified in the previous Strategy have been reflected and continued under the newly adopted Strategy. In the first half of 2017, the following projects in individual pillars were advanced:

Resource Base Development (currently reflected in the executive strategy Development of Domestic and Foreign Assets)

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:	
Advanced exploration projects, with defined copper mineralisation, for which geological exploration is underway throughout or in part of the given concession area:	
Radwanice-Gaworzyce	- In February 2017, the Company received a concession to extract copper ore from the Radwanice-Gaworzyce deposit in the area of Gaworzyce, and also signed an agreement setting mining usufruct. In April 2017, the Company applied to the Ministry of the Environment for the termination of concession no. 7/2015/p to evaluate the copper deposit Radwanice-Gaworzyce in the Dankowice area.
Synklina Grodziecka and Konrad	- Technical and economic analyses carried out which were reviewed by independent experts, at present and taking into account current macroeconomic conditions, indicated lack of justification for advancing this investment. Given the fact that, among others, the costs associated with dewatering the projected mine play a critical role in determining the economic feasibility of the project, it was decided that additional hydrogeological research would be conducted. Towards this end, at the end of the second quarter of 2017, applications were submitted to extend the validity of the concessions for Synklina Grodziecka and Konrad to 2020.
Retków-Ścinawa and Głogów	- In April 2017, the Company received a decision altering concession no. 7/2013p for the exploration and evaluation of copper ore deposits within the Retków-Ścinawa concession, which enables the continuation of work under stage 2, i.e. the execution among others of surface-based drill holes as well as underground mining areas representing a significant enhancement of knowledge about geological and mining conditions. Further drilling has commenced under stage 2. - On 20 March 2017, the Minister of the Environment issued a decision altering the concession for the exploration and evaluation of copper ore deposits within the Głogów area, which enables the commencement of the next stage of geological work.
Exploration projects in the preparatory phase:	
Bytom Odrzański, Kulów-Luboszyce	- Court and administrative proceedings are underway involving applied-for concessions: Bytom Odrzański, Kulów-Luboszyce (KGHM Polska Miedź S.A.) and Bytom Odrzański, Kotla and Niechlów (Leszno Copper). The Company is awaiting the setting of a date of hearing by the Supreme Administrative Court.
Other concessions	
Puck region	- Based on collected data the geological profile of the region was reinterpreted and the economic and technical feasibility of the potassium-magnesium salt deposits was evaluated, reflecting the mine model and processing technology, which justified further geological work.

Development of production assets (an element of the current executive strategy „Development of Domestic and Foreign Assets")

Key development projects of the Core Business in Poland	
Program to access the Deep Głogów Deposit	- Work continued on the sinking of the GG-1 shaft (the shaft's target depth is 1 340 meters with a diameter of 7.5 meters). Completion of the shaft's construction together with infrastructure (social buildings and lift machinery) is planned for the end of 2021. - With respect to the Construction of a Central Air Conditioning System at the GG-1 Shaft, a tender process has commenced to select contractors to build the Surface-based Central Air Conditioning System as well as an Ice Water Transportation System. - During the reporting period preparatory work continued related to receiving a permit to build facilities required for the sinking of the GG-2 („Odra") shaft. Development of the concept for the "Odra" shaft project is underway.
Pyrometallurgy Modernisation Program at the Głogów Copper Smelter and Refinery	- Guarantee testing was conducted and work related to the start-up phase of the modernised Flash Furnace production line at the Głogów I Copper Smelter and Refinery installation was completed – work is underway to achieve the designed production capacity. - Work continues related to optimising the settings of automated devices as well as safety-related issues.

Metallurgy Development Program (MDP)	- Construction and assembly work continues on key technological links under the program's component investment tasks, such as construction of a Steam Drier at the Głogów II Copper Smelter and Refinery. The planned date for the start-up of the drier is November 2017.
	- In the course of this program start-up work was carried out with respect to Modernisation of the Tank and Electrolite Decopperisation Hall at the Legnica Copper Smelter and Refinery. The modernised production line of the Tank and Electrolite Decopperisation Hall will enable the production of electrolytic copper at the level of 120 thousand tonnes per year.
	- During the reporting period intensive construction and assembly work was carried out related to the construction of a copper concentrate roasting installation. Start-up of the installation is planned for October 2017.
	- As part of the MDP projects are being continued related to adapting technical infrastructure to the change in metallurgical technology at the Głogów I Copper Smelter and Refinery, involving the implementation of technical-technological solutions aimed at optimising utilisation of the modernised metallurgical infrastructure in terms of the investment projects at the Głogów Copper Smelter and Refinery currently being advanced, including:
	  - replacement of non-current assets,
	  - ensuring that European Union regulations and other legal requirements are met,
	  - adapting power, roadway and other infrastructure at the Głogów I Copper Smelter and Refinery,
	  - providing electrical power, control and lighting of existing facilities and equipment at the Głogów I Copper Smelter and Refinery.

Development of the Żelazny Most Tailings Storage Facility	- Based on the permit received in 2016 to develop the Main Facility to a crown height of 195 meters a.s.l. and a permit to further operate the Tailings Storage Facility, the dam is being built up successively as part of the on-going operations of the Parent Entity. - Formal actions are underway aimed at further development of the Żelazny Most tailings storage facility, to ensure the possibility of depositing tailings in coming years.

Development of international assets (an element of the current executive strategy „Development of Domestic and Foreign Assets")

Victoria Project *(Sudbury Basin, Canada)* *KGHM Polska Miedź S.A. Group 100%*	- In the first half of 2017, the project team continued work related to securing existing infrastructure and project terrain.
Sierra Gorda Oxide *(Chile)* *KGHM INTERNATIONAL LTD. Group 100%.**	- In the first half of 2017, analytical work continued related to evaluating alternative scenarios to develop the project which will enable limitation of the level of required capital expenditures.
Project Ajax *(British Columbia, Canada)* *KGHM Polska Miedź S.A. Group 80%,* *Abacus Mining and Exploration Corp. 20%*	- In the first half of 2017, the project team continued work related to obtaining an environmental permit and building relations with First Nations, as well as with the people of the city of Kamloops.

** Sumitomo Metal Mining and Sumitomo Corporation hold an option to jointly acquire a 45% stake in the project*

Initiatives aimed at enhancing knowledge and innovation in KGHM Polska Miedź S.A. (currently the support strategy „Innovation")	
Main R&D initiatives	- New regulations were introduced in the Company with respect to principles for the planning and execution of R&D activities as well as uniform contract models related to innovation activities. Work is underway on implementing the new principles in the Group. - Work continues on R&D projects focused on developing and executing innovative technological and organisational solutions enabling an improvement in efficiency, workplace safety and ensuring uninterrupted production. Work is currently underway on analysing production line units, including with respect to R&D needs. - The Company joined the Scale UP project under the governmental acceleration program Start-In Poland, enabling the development of start-ups in KGHM Polska Miedź S.A. Preparatory work is underway on creating its own acceleration program in cooperation with the Group's R&D Center (Centrum Badawczo-Rozwojowe).
CuBR Program	- 12 R&D projects were continued under the Joint Venture, which involves support for scientific research and R&D work for the non-ferrous metals industry. In accordance with the schedules, the first Projects will be completed at the turn of 2017-2018. - Agreements were entered into to advance 9 R&D projects under the third competition of the Venture. The total value of the projects exceeded PLN 60 million. - Work commenced on starting the fourth competition.
Production (currently the executive strategy „Production and Safety")	
Sierra Gorda mine in Chile – *Phase 1 KGHM INTERNATIONAL LTD. Group 55%, Sumitomo Metal Mining and Sumitomo Corporation 45%*	- Production of payable copper in concentrate in the first half of 2017 amounted to 49.4 thousand tonnes, and production of payable molybdenum in concentrate amounted to 23.6 million pounds (on a 100% basis). - In June 2017 the credit agreement signed on 8 March 2012 by Sierra Gorda SCM was altered. The nature of the financing was changed from project finance to corporate credit. At the same time the documentation related to financing was modified, including guarantees issued by Sumitomo Metal Mining Co. Ltd. and Sumitomo Corporation, and their term of validity was maintained up to the end of the financing period, that is to 15 June 2021, since the Sierra Gorda SCM mine did not achieve part of the production and cost parameters in the deadline specified in the original financing agreement. KGHM issued a re-guarantee of repayment of a specified part of payment, if it is made by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation towards the financing banks, in an amount equal to the pro rata share of KGHM, but no more than the amount of USD 180 million. As at 30 June 2017, the amount of financing due to the loan agreement was around USD 760 million. - Currently, work is aimed at advancing the project based on phase 1 of the investment, together with actions aimed at optimising the production line, the result of which is expected to be an increase in production capacity.
Maintaining production from own concentrate	- Preparatory work continues related to commencing mining in new areas of the deposits as part of the Deposit Access Program (previously the Deep Głogów Project).

Improving efficiency in the core business in Poland	- Initiatives aimed at improving resource management effectiveness in the mines and metallurgical plants of KGHM Polska Miedź S.A. were continued, at the same time enabling limitation of cost increases by:
	  - more efficient utilisation of resources (3D deposit modeling),
	  - increasing extraction and the production of copper in concentrate,
	  - optimising management of underground machines,
	  - advancing the energy savings program,
	  - optimising employment.
	The initiatives are being carried out in accordance with adopted assumptions.

2. Macroeconomic conditions

	Unit	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Average copper price on the LME	USD/t	5 749	4 701	+22.3	5 662	5 831
Average silver price per the LBM	USD/oz t	17.32	15.82	+9.5	17.21	17.42
Average nickel price on the LME	USD/t	9 761	8 662	+12.7	9 225	10 271
Average molybdenum price on the LME	USD/t	15 806	13 306	+18.8	16 389	15 250
Average USD/PLN exchange rate per the NBP	PLN/USD	3.95	3.91	+1.0	3.83	4.06
Average USD/CAD exchange rate per the Bank of Canada	CAD/USD	1.33	1.33	-	1.34	1.32
Average USD/CLP exchange rate per the Bank of Chile	CLP/USD	660	690	-4.3	665	656

For the first time in several years, the International Monetary Fund in its April analysis of the condition of the global economy raised its global economic forecast as compared to the prior report. It confirms the stabilisation of most of the world's regions, which can also be seen in economic indicators. Almost immediately after the election of Donald Trump in the USA, the initial fear and uncertainty associated with his candidacy were replaced by hope as a result of announced reforms of the world's largest economy. Moreover, the results of elections in the Netherlands and France, which went according to expectations, partially calmed the situation on the old continent. The unresolved problem of immigrants, the question of Brexit and the structural difficulties of some southern European countries remain a barrier to potential

European economic growth. Thanks to monetary and fiscal stimulation, the decreases in the major macroeconomic indicators in China were stopped, and the first months of 2017 brought a slight quickening in the rate of economic growth of this country.

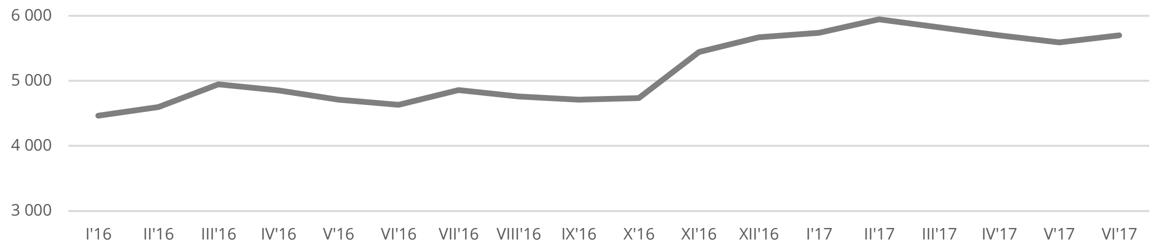
After a further increase in interest rates in the USA in December 2016, the Fed has continued its program of tightening monetary policy, predicting two further increases this year as well as signaling a desire to reduce the assets it amassed under the quantitative easing policy. Despite the actions taken by the Fed, the US dollar since the start of 2017 has systematically depreciated compared to the currency basket. Inflation, whose low level raised the greatest fears amongst representatives of the central banks, has risen for several months, while price indicators in many countries have either approached or reached their inflation goals. Likewise the ECB is increasingly sanguine about the conclusion of so-called quantitative easing in the coming quarters.

Due to the improved outlook for the global economy, hope related to reforms in the USA as well as stabilisation of economic growth in China, at the turn of 2016 and 2017 nearly all commodities gained in value.

The cash settlement **price of copper** on the London Metal Exchange (LME) in the first half of 2017 ranged from approx. 5 500 to 6 145 USD/t. Due to the appearance of positive data regarding the entire commodities basket (including crude oil), better data concerning copper consumption in China alongside a stable increase in demand, at the end of November the price of copper increased to 5 935.5 USD/t and remained at levels near 6 000 USD/t to the end of 2016. In the first months of 2017 the price of this metal, supported by supply-side problems, such as the 43-day strike at the world's largest copper mine, Escondida, a strike lasting several days at the Cerro Verde mine in Peru and the delayed agreement between the government of Indonesia and the owners of the Grasberg mine, exceeded 6 100 USD/t. Subsequent months saw a calming to this situation in terms of supply, while at the same time doubts arose as to the impact of the announced economic reforms in the USA as well as the sustainability of growth in copper demand in China. Copper prices fell up to May to 5 500 USD/t, then in subsequent weeks generally recovered their value, mainly due to the weakening of the US dollar.

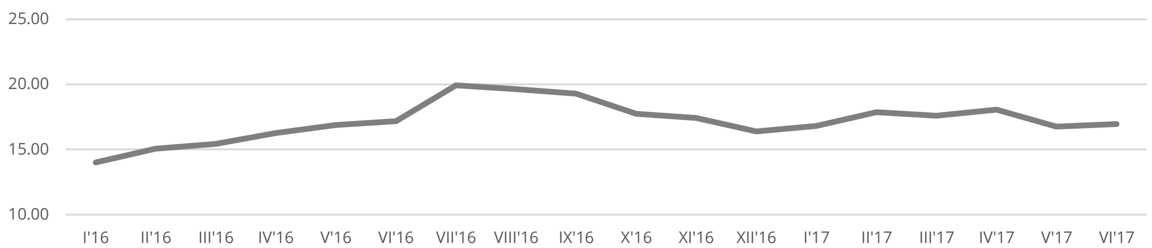
The average cash settlement price of copper in the first half of 2017 on the LME amounted to 5 749 USD/t and was 22% higher than in the comparable period of 2016, when it reached on average 4 701 USD/t.

Chart 2. Copper price on the London Metal Exchange (USD/t)



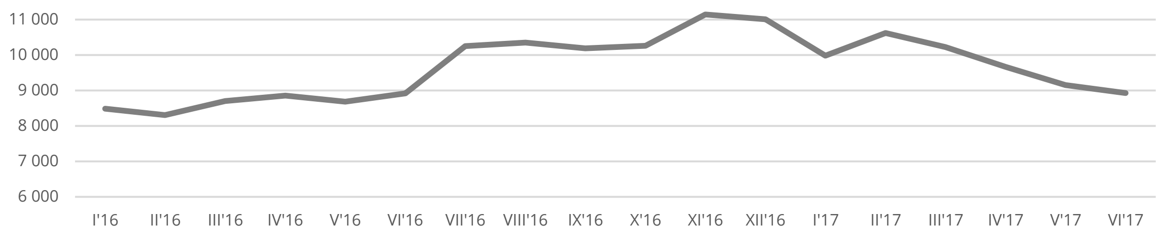
The average **price of silver** according to the London Bullion Market Association (LBMA) in the first half of 2017 reached the level of 17.32 USD/oz t (556.85 USD/kg), meaning an increase by 9.5% as compared to prices in the first half of 2016 – 15.82 USD/oz t. After a strong rise in the price of silver in the first half of 2016 to over 20 USD/oz t, in the second half of the year there was a correction in prices to approx. 16 USD/t. The first half of 2017 was a period of stabilisation in the silver price around 17 USD/oz t. This was spurred by a calming of the situation in the global economy and a lack of any visible inflationary threats, but also by the continued uncertainty related to the direction of changes in the value of the US dollar given the policy of monetary tightening by the Fed. The average price of silver in the first half of 2017 expressed in PLN, despite the over 6.5% drop as compared to the last six months of 2016, remained at levels higher than observed in the years 2014-2015.

Chart 3. Silver price per the London Bullion Market (USD/oz t)



The average **price of nickel** in the first half of 2017 amounted to 9 761 USD/t, meaning an increase of more than 13% as compared to the same period of 2016 (8 662 USD/t). In the second half of 2016 there was a growth correction to the several-year falling trend. Increased demand for nickel by the steel industry was accompanied by signals of reduced increase in supply, being the result of cuts in producer investment programs given the long lasting period of low prices. The slowdown in demand by the steel sector as well as the enormous level of inventories of this metal amassed in previous years led to the price of nickel returning to below 10 thousand USD/t.

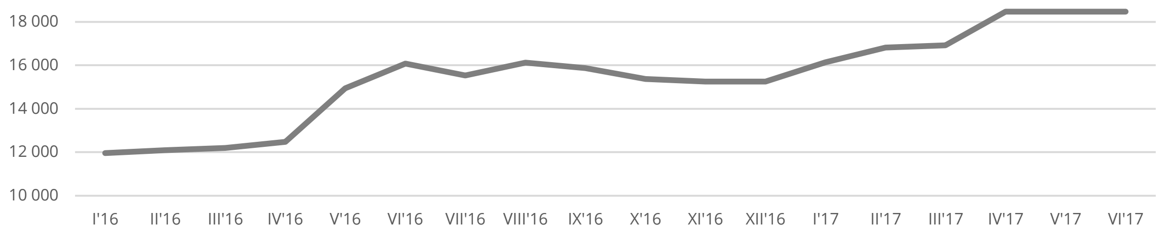
Chart 4. Nickel price on the London Metal Exchange (USD/t)



Since the start of 2017, the **molybdenum** market has seen a systematic increase in prices, mainly due to an improved fundamental situation. This market has seen a fall in inventories to relatively low levels, similar to those from 2010-2011. The main factor was stable demand, among others a recovery in the steel market. In terms of supply it is worth noting the significant fall in production in the first quarter of 2017 in the USA and Canada (-10.2%) as well as in Chile and Peru (-4.4%).

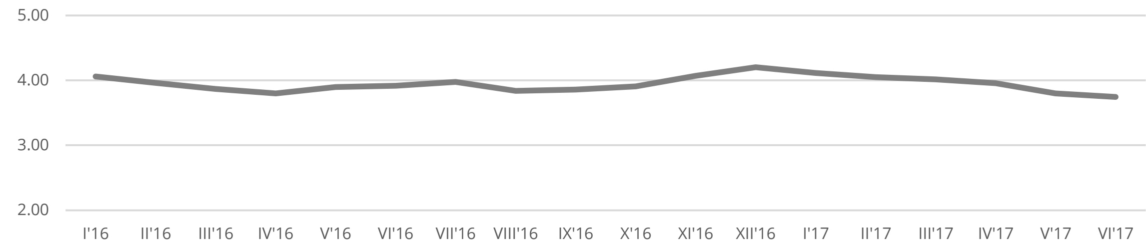
The average price of molybdenum in the first half of 2017 amounted to 15 806 USD/t, meaning a more than 19% increase as compared to the same period of 2016 (13 306 USD/t).

Chart 5. Molybdenum price on the London Metal Exchange (USD/t)



The average **USD/PLN exchange rate** (per the NBP) in the first half of 2017 amounted to 3.9473 and was higher compared to the same period of 2016 by 0.8% (3.9142). After reaching multi-year highs (approx. 4.25), at the end of December 2016, the USD/PLN exchange rate gradually appreciated and continued this trend throughout the first half of 2017. The strengthening of the PLN was due to favourable data showing improvement in the Polish economy in the first months of 2017. The maximum USD/PLN exchange rate was recorded in January at the level of 4.2271, and the minimum on the last day of June: 3.7062.

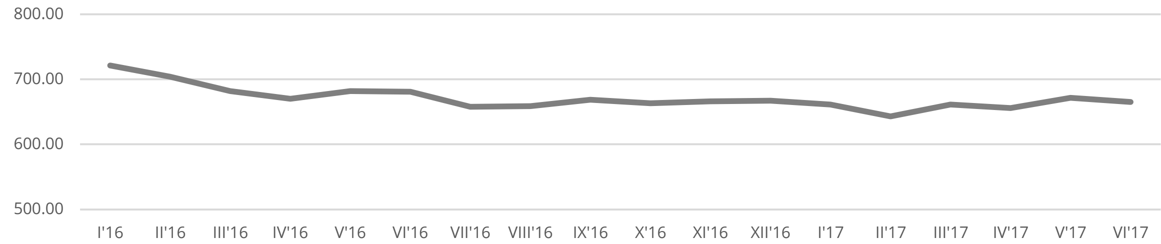
Chart 6. USD/PLN exchange rate per the National Bank of Poland



Both the **Canadian dollar** as well as the **Chilean peso** reacted positively to the increase in commodities prices at the turn of 2016 and 2017, strengthening slightly as compared to US dollar. In subsequent months of the year, together with the gradual fall in prices on the commodities market, the currencies of these countries depreciated in value. The acceleration of the falling trend of the US dollar in May led to a re-strengthening of the Canadian and Chilean currencies in the final months of the first half of 2017. Nonetheless, during the last dozen or so months the exchange rates of both currencies have been very stable, showing only relatively light volatility.

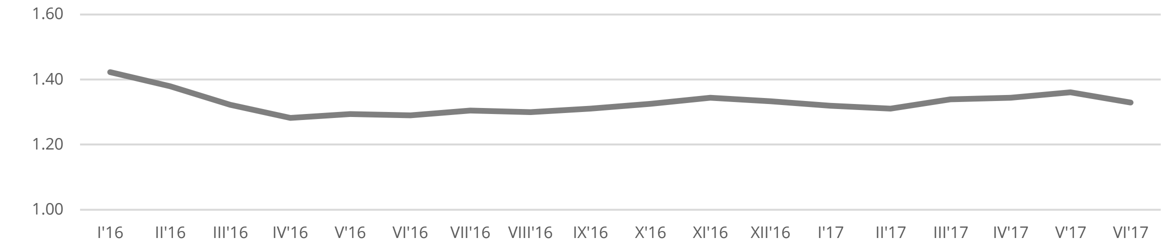
The average USD/CLP exchange rate (per the Bank of Chile) in the first half of 2017 amounted to 660 and was 4.3% lower than that in the first half of 2016 (690).

Chart 7. USD/CLP exchange rate per the Bank of Chile



The average USD/CAD exchange rate (per the Bank of Canada) in the first half of 2017 amounted to 1.3344 and was 0.3% higher as compared to the same period of 2016 (1.3302).

Chart 8. USD/CAD exchange rate per the Bank of Canada



3. Operating results of the segment KGHM Polska Miedź S.A.

3.1. Production

	Unit	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Mined ore (dry weight)	mn t	16.0	16.2	-1.2	8.0	8.0
Copper content in ore	%	1.50	1.50	-	1.49	1.51
Production of copper in concentrate	kt	212.0	212.9	-0.4	104.3	107.7
Production of silver in concentrate	t	659.7	630.0	+4.7	327.4	332.3
Production of electrolytic copper	kt	264.2	263.0	+0.5	133.6	130.6
- including from own concentrate	kt	183.8	183.5	+0.2	90.8	93.1
Production of metallic silver	t	591.8	567.0	+4.4	298.4	293.5
Production of gold	koz t	55.4	53.5	+3.6	21.9	33.5
Production of copper equivalent *	kt	259.1	264.6	-2.1	127.8	131.3

** Value of production volume of all metals calculated as a copper equivalent, based on market prices – from own concentrate*

In the first half of 2017, there was a decrease in ore extraction (dry weight) as compared to the same period of 2016. Copper content in ore remained at the same level of 1.50%.

Production of copper in concentrate decreased by around 1 thousand tonnes as compared to the first 6 months of 2016, and was due to processing a lower amount of feed.

The production of electrolytic copper increased as compared to the corresponding period of 2016 by 1.2 thousand tonnes (0.5%).

The higher production of metallic silver in the first half of 2017 was due to the higher content of Ag in domestic concentrate.

3.2. Sales revenue

	Unit	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Sales revenue, including:	**mn PLN**	**7 701**	**6 540**	**+17.8**	**3 805**	**3 896**
- copper	mn PLN	5 720	4 865	+17.6	2 804	2 916
- silver	mn PLN	1 220	1 086	+12.3	660	560
Volume of copper sales	kt	245	255	-3.9	125	120
Volume of silver sales	t	555	545	+1.8	308	247

Sales revenue in the first half of 2017 amounted to PLN 7 701 million and was higher than in the comparable period of 2016 by 18%. The main reasons for the increase in sales revenue were:

– higher metals prices on the commodities markets (of copper by 22%, silver by 9% and gold by 1%),
– a more favourable for KGHM Polska Miedź S.A. USD/PLN exchange rate (+1%), and
– a 2% increase in the volume of silver sales and a 14% increase in the volume of gold sales

alongside a 4% decrease in the volume of sales of copper and copper products.

3.3. Costs

	Unit	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Cost of sales, selling costs and administrative expenses	**mn PLN**	**5 966**	**5 528**	**+7.9**	**3 135**	**2 831**
Expenses by nature	mn PLN	6 735	6 298	+6.9	3 398	3 337
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate *	PLN/t	21 627	19 575	+10.5	22 628	20 812
Total unit cost of electrolytic copper production from own concentrate	PLN/t	14 471	13 404	+8.0	16 039	13 105
- including the mineral extraction tax	PLN/t	4 177	2 943	+41.9	4 549	3 815
C1 cost**	**USD/lb**	**1.33**	**1.33**	**-**	**1.34**	**1.33**

** Unit cost prior to decrease by the value of anode slimes containing, among others, silver and gold*

*** Cash cost of concentrate production reflecting the minerals extraction tax, plus administrative expenses and smelter treatment and refining charges (TC/RC), less depreciation/amortisation and the value of by-product premiums, calculated for payable copper in concentrate.*

The Parent Entity's cost of sales, selling costs and administrative expenses (total cost of products, merchandise and materials sold, selling costs and administrative expenses) in the first half of 2017 amounted to PLN 5 966 million and was higher by PLN 438 million as compared to the comparable period in 2016 due to higher expenses by nature by 6.9% alongside a lower volume of copper sales and a higher volume of silver sales.

In the first half of 2017, expenses by nature were higher by PLN 437 million as compared to the first half of 2016, mainly due to a higher minerals extraction tax by PLN 265 million alongside lower costs of consumption of purchased metal-bearing materials by PLN 28 million (due to the lower volume of consumption by 17 thousand tonnes of Cu and a 21% higher purchase price).

The increase in other expenses by nature, after excluding the minerals extraction tax and purchased metal-bearing materials, amounted to PLN 200 million and was mainly due to higher labour costs by PLN 106 million (a higher provision for future employee benefits, higher annual bonus and higher remuneration), higher depreciation/amortisation by PLN 41 million and higher costs of external services by PLN 35 million, mainly due to higher maintenance and conservation expenses.

C1 cost in the first half of 2017 amounted to 1.33 USD/lb and was at the same level as in the comparable period of 2016. C1 cost remained unchanged despite the higher minerals extraction tax. C1 cost excluding the minerals extraction tax amounted to respectively: in the first half of 2016, 0.99 USD/lb; in the first half of 2017, 0.84 USD/lb. The decrease in C1 cost was due to the higher valuation of by-products due to higher silver content in own concentrate and higher silver and gold prices.

The pre-precious metals credit unit cost of electrolytic copper production from own concentrate (unit cost prior to decrease by the value of anode slimes containing, among others, silver and gold) amounted to 21 627 PLN/t (in the comparable period of 2016: 19 575 PLN/t) and was higher by 10.5% mainly due to the higher minerals extraction tax by 1 234 PLN/t alongside a similar volume of copper production from own concentrate.

The total unit cost of copper production from own concentrate amounted to 14 471 PLN/t (in the first half of 2016: 13 404 PLN/t). The lower rate of increase of the total unit cost as compared to the pre-precious metals credit unit cost is due to the higher valuation of anode slimes in the current year, due to the higher content of silver in own concentrate and the higher prices of precious metals.

3.4. Financial performance

mn PLN	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Sales revenue, including:	**7 701**	**6 540**	**+17.8**	**3 805**	**3 896**
- adjustment to revenues due to hedging transactions	4	6	-33.3	8	(4)
Cost of sales, selling costs and administrative expenses	**(5 966)**	**(5 528)**	**+7.9**	**(3 135)**	**(2 831)**
- including the minerals extraction tax	(719)	(550)	+30.7	(353)	(366)
Profit on sales (EBIT)	**1 735**	**1 012**	**+71.4**	**670**	**1 065**
Result on other operating activities, including:	**(597)**	**161**	**×**	**(327)**	**(270)**
- measurement and realisation of derivatives	68	(56)	×	(2)	70
- interest on loans granted	181	170	+6.5	85	96
- exchange differences	(835)	93	×	(410)	(425)
- impairment loss on available-for-sale assets	-	(57)	×	-	-
- other	(11)	11	×	-	(11)
Net finance income/(costs), including:	**691**	**(141)**	**×**	**382**	**309**
- foreign exchange gains/(losses)	812	(68)	×	443	369
- interest costs on borrowings	(58)	(27)	×2.1	(29)	(29)
- fees and charges on bank and other loans drawn	(14)	(17)	-17.6	(7)	(7)
- measurement of derivatives	(27)	(10)	×2.7	(14)	(13)
- other	(22)	(19)	+15.8	(11)	(11)
Profit before income tax	**1 829**	**1 032**	**+77.2**	**725**	**1 104**
Income tax expense	(519)	(364)	+42.6	(220)	(299)
Profit for the period	**1 310**	**668**	**+96.1**	**505**	**805**
Depreciation/amortisation recognised in profit for the period	496	451	+10.0	257	239
EBITDA*	2 231	1 463	+52.5	927	1 304
Adjusted EBITDA**	**2 231**	**1 463**	**+52.5**	**927**	**1 304**
EBITDA margin (%)	**29**	**22**	**+31.8**	**24**	**33**

** EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss for the period)*

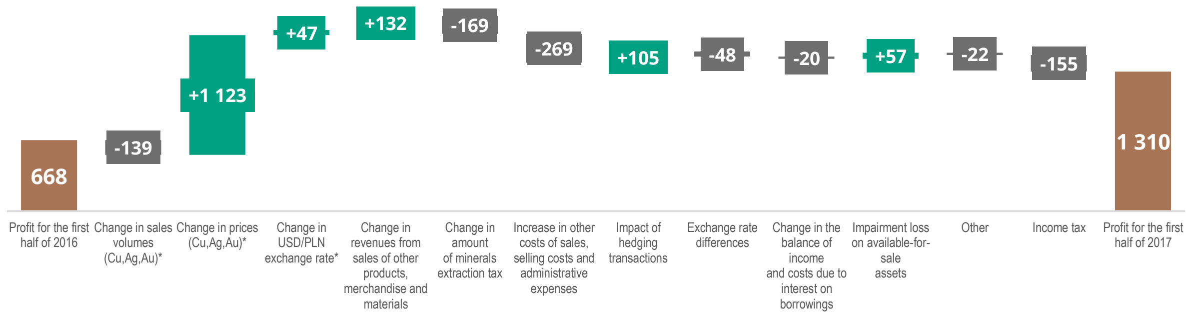
*** Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)*

Main reasons for the change in the financial result:

Item	Impact on change of result (mn PLN)	Description
Increase in sales revenue (excluding the impact of hedging transactions) by PLN 1 163 million	+1 123	An increase in revenues due to higher prices of basic products – copper by 22%, silver by 9% and gold by 1%
	(139)	A decrease in revenues due to a lower volume of copper sales (-4%) alongside a higher volume of silver (+2%) and gold (+14%) sales
	+47	An increase in revenues from sales of basic products (Cu, Ag, Au) due to a more favourable average annual USD/PLN exchange rate (a change from 3.91 to 3.95 USD/PLN)
	+132	An increase in revenues from sales of merchandise and materials (+PLN 27 mn) and other products and services, including from the settlement of concentrate sales in 2017 (+PLN 48 mn) as well as the higher value of refined lead sales (+PLN 23 mn)
Increase in cost of sales, selling costs and administrative expenses* by PLN 438 million	(169)	An increase in the minerals extraction tax from PLN 550 mn in the first half of 2016 to PLN 719 mn in the first half of 2017, due to higher copper prices expressed in PLN
	(269)	An increase in other costs, mainly due to higher costs of labour, depreciation/amortisation, external services and a write-down of inventories
Impact of hedging transactions (+PLN 105 million)	(2)	A lower positive adjustment of revenues due to the settlement of hedging transactions from PLN 6 mn to PLN 4 mn
	+99	A change in the result due to the measurement of derivatives from -PLN 59 mn to PLN 39 mn
	+9	A change in the result due to the realisation of derivatives from -PLN 8 mn to PLN 2 mn
Impact of exchange rate differences (-PLN 48 million)	(928)	A change in the result due to exchange differences presented in other operating activities
	+880	A change in the result due to net exchange differences on borrowings (presented in finance costs)
Change in the balance of income and costs due to interest on borrowings (-PLN 20 million)	+11	An increase in interest income on loans granted
	(31)	Higher interest costs on borrowings
Impairment loss on available-for-sale assets (+PLN 57 million)	+57	Relates mainly to the impairment loss on the shares of TAURON Polska Energia S.A. charged to the result for 2016
Income tax increase (-PLN 155 mn)	(155)	A higher income tax due to the increase in the tax base

** Cost of products, merchandise and materials sold, selling costs and administrative expenses*

Chart 9. Change in profit for the period (*in mn PLN*)



** Impact on sales revenue*

3.5. Cash expenditures on property, plant and equipment

In the first half of 2017, cash expenditures on property, plant and equipment and intangible assets amounted to PLN 983 million. Capital expenditures on property, plant and equipment and intangible assets amounted to PLN 780 million, meaning 37% of the Budget targets for 2017 have been achieved, while 93% of the target schedule has been achieved. The higher cash expenditures, as compared to capital expenditures in the first half of 2017, are due to the realisation of unsettled investment liabilities, in accordance with contractual payment deadlines.

Main reasons for changes in development projects as compared to Planned targets:

– Work delayed in 2016 was carried out.
– The Metallurgy Development Program was instituted at the Głogów and Legnica Copper Smelters and Refineries.
– Work commenced on an investment related to adapting existing infrastructure to legal requirements as well as to technical-technological requirements, aimed at optimising utilisation of the modernised metallurgical infrastructure with respect to investment projects currently being advanced at the Głogów Copper Smelter and Refinery.

Structure of expenditures on property, plant and equipment and intangible assets by Division (*in mn PLN*)

	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Mining	447	520	-14.0	244	203
Metallurgy	322	711	-54.7	167	155
Other activities	8	6	+33.3	4	4
Development work - uncompleted	3	3	-	3	0
Total	**780**	**1 240**	**-37.1**	**418**	**362**

Structure of expenditures on property, plant and equipment and intangible assets by analytical category (*in mn PLN*)

	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Replacement of equipment	252	193	+30.6	146	106
Maintaining mine production	87	176	-50.6	39	48
Development	438	868	-49.5	230	208
Development work - uncompleted	3	3	-	3	0
Total	**780**	**1 240**	**-37.1**	**418**	**362**

During the reporting period actions were undertaken aimed at preparing investments for execution, and as a result of these actions documentation is properly prepared, building permits are received, tenders are held to select contractors for work and suppliers of equipment, and contracts for execution are signed pursuant to the negotiated terms. During the reporting period work was carried out and machinery and equipment was purchased.

Under maintenance projects, execution of the project „Ensuring dam stability" at the Tailings Division was deferred to subsequent years (after adding support to the eastern dam and obtaining monitoring results, a final decision will be made as to the construction of additional support).

Investment activities are aimed at carrying out projects which are classified under one of the following three categories:

– **Development projects,** aimed at increasing production volume of the core business, maintaining production costs and adaptation projects aimed at adapting the company's operations to changes in standards, laws and regulations, including those related to environmental protection, represent 56% of total planned expenditures,
– **Replacement projects,** aimed at maintaining production equipment in a non-deteriorated condition which guarantees the achievement of on-going production tasks, represent 32% of total planned expenditures,

– **Maintenance projects,** ensuring necessary development of infrastructure to match mine advancement and the continuous removal of waste to ensure mine production at the level set forth in the plan of mining operations, represent 11% of total planned expenditures.

Information on the advancement of key investment projects may be found in part 1.5 of this report (Implementation of Strategy).

4. Operating results of the segment KGHM INTERNATIONAL LTD.

4.1. PRODUCTION

	Unit	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Payable copper, including:	kt	38.7	46.8	-17.3	21.5	17.2
- Robinson mine (USA)	kt	23.7	28.7	-17.4	13.7	10.0
- Sudbury Basin mines (CANADA) *	kt	4.3	7.0	-38.6	2.4	1.9
Payable nickel	kt	0.6	1.1	-45.5	0.3	0.3
Precious metals (TPM)**, including:	koz t	35.8	46.9	-23.7	21.3	14.5
- Robinson mine (USA)	koz t	15.5	24.9	-37.8	9.0	6.5
- Sudbury Basin mines (CANADA) *	koz t	20.3	22.0	-7.7	12.3	8.0
Production of copper equivalent ***	kt	46.8	59.3	-20.9	26.4	20.4

** Morrison mine and McCreedy West mine in the Sudbury Basin*
*** TPM – precious metals (gold, platinum, palladium)*
**** Value of production volume of all metals calculated as a copper equivalent, based on market prices – from own concentrate*

In the first half of 2017, copper production in the segment KGHM INTERNATIONAL LTD. amounted to 38.7 thousand tonnes, and was lower by 8.1 thousand tonnes (-17%) as compared to the first half of 2016.

The Robinson mine recorded a decrease in copper production by 5 thousand tonnes (-17%) due to a decrease in copper content in processed ore (-12%) and lower recovery (-11%), which was the result of the lower quality ore extracted from the higher levels of the Ruth West pit as compared to the ore from the Ruth East pit extracted in the first half of 2016. As a result of extracting the lower quality ore, there was also a decrease in gold production (lower content of this metal by 40%).

The lower copper production in the Sudbury Basin mines by 2.7 thousand tonnes (-39%) was due to the lower ore extraction, caused by poor extraction conditions and by delays in drilling. These factors also led to a decrease in precious metals production by 1.7 thousand troy ounces (-8%).

4.2. SALES REVENUE

	Unit	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Sales revenue, including:	**mn USD**	**303**	**304**	**-0.3**	**159**	**144**
- copper	mn USD	213	211	0.9	110	103
- nickel	mn USD	6	10	-40.0	3	3
- precious metals (TPM)*	mn USD	45	52	-13.5	29	16
Copper sales volume	kt	36.4	44.6	-18.4	19.2	17.2
Nickel sales volume	kt	0.6	1.1	-45.5	0.3	0.3
Precious metals (TPM) sales volume*	koz t	33.7	47.7	-29.4	19.9	13.8

** TPM – precious metals (gold, platinum, palladium)*

	Unit	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Sales revenue, including:	**mn PLN**	**1 181**	**1 198**	**-1.4**	**601**	**580**
- copper	mn PLN	830	829	0.1	416	414
- nickel	mn PLN	23	38	-39.5	11	12
- precious metals (TPM)*	mn PLN	175	205	-14.6	111	64

** TPM – precious metals (gold, platinum, palladium)*

The sales revenue of the segment KGHM INTERNATIONAL LTD. in the first half of 2017 remained at the level of the same period of 2016 due to lower sales volumes being offset by improved macroeconomic conditions.
Revenues from copper sales amounted to USD 213 million (USD 211 million in the first half of 2016). The decrease in sales of this metal by 8.2 thousand tonnes (-18%) was offset by a higher achieved sales price, from 4 726 USD/t in the first half of 2016 to 5 833 USD/t in the first half of 2017 (+23%).
The decrease in revenues from precious metals sales by USD 7 million (-14%) is mainly the result of a lower sales volume.

4.3. COSTS

	Unit	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
C1 unit cost *	USD/lb	2.02	1.53	+32.0	1.72	2.35

** C1 unit production cost of copper - cash cost of payable copper production, reflecting costs of ore extraction and processing, the minerals extraction tax, transport costs, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value*

The average weighted unit cash cost of copper production for all operations in the segment KGHM INTERNATIONAL LTD. in the first half of 2017 amounted to 2.02 USD/lb, meaning an increase by 32% as compared to the first half of 2016. The higher cost was due to the lower copper sales volume and to lower revenues from precious metals sales, which reduce this cost.

In the second quarter of 2017, C1 cost was lower by 27% as compared to the first quarter of 2017 as a result of lower costs of production, a higher copper sales volume and higher revenues from precious metals sales.

4.4. FINANCIAL PERFORMANCE

in mn USD	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Sales revenue, including:	303	304	-0.3	159	144
Cost of sales, selling costs and administrative expenses	(277)	(298)	-7.0	(133)	(144)
Profit/(loss) on sales (EBIT)	**26**	**6**	**x4.3**	**26**	**(0)**
Profit/(loss) before income tax, including:	**(104)**	**(141)**	**-26.2**	**(66)**	**(38)**
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	(55)	(121)	-54.5	(55)	-
Income tax expense	(16)	5	x	(14)	(2)
Profit/(loss) for the period	**(120)**	**(136)**	**-11.8**	**(80)**	**(40)**
Depreciation/amortisation recognised in profit or loss	(42)	(63)	-33.3	(23)	(19)
EBITDA*	68	69	-1.4	49	19
Adjusted EBITDA**	**68**	**69**	**-1.4**	**49**	**19**
EBITDA margin (%)	**22**	**23**	**-4.3**	**31**	**13**

** EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)*
***Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)*

in mn PLN	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Sales revenue, including:	1 181	1 198	-1.4	601	580
Cost of sales, selling costs and administrative expenses	(1 080)	(1 174)	-8.0	(499)	(581)
Profit/(loss) on sales (EBIT)	**101**	**24**	**x4.2**	**102**	**(1)**
Profit/(loss) before income tax, including:	**(404)**	**(555)**	**-27.2**	**(252)**	**(152)**
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	(214)	(476)	-55.0	(214)	-
Income tax expense	(63)	21	x	(55)	(8)
Profit/(loss) for the period	**(467)**	**(533)**	**-12.4**	**(307)**	**(160)**
Depreciation/amortisation recognised in profit or loss	(163)	(248)	-34.3	(87)	(76)
EBITDA*	264	272	-2.9	189	75
Adjusted EBITDA**	**264**	**272**	**-2.9**	**189**	**75**
EBITDA margin (%)	**22**	**23**	**-4.3**	**31**	**13**

** EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)*
***Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)*

Main reasons for the change in the financial result:

Item	Impact on change in result (mn USD)	Description
Decrease in sales revenue by USD 1 million, including:	(60)	A decrease in revenues due to lower sales volume, including copper (-USD 48 mn), TPM (-USD 8 mn) and nickel (-USD 5 mn)
	+52	An increase in revenues due to higher prices of basic products, mainly copper (+USD 49 mn), TPM (+USD 1 mn) and nickel (+USD 1 mn)
	+10	An increase in revenues due to a lower processing premium (TC/RC) due to lower sales volume
Decrease in cost of sales, selling costs and administrative expenses by USD 21 million, including:	(9)	An increase in costs of materials and energy (-USD 5 mn) related among others to an increase in diesel oil prices and higher costs of external services (-USD 4 mn) due to a larger scope of work carried out by DMC
	+10	A change in inventories
	+8	Lower depreciation/amortisation due to impairment losses on assets at the end of 2016 and a lower production volume by the Robinson mine and in the mines of the Sudbury Basin (units of production method of depreciation)
	+6	Lower costs of labour and administrative expenses due to undertaken savings initiatives
	+4	Lower costs of sales due to lower sales volume
Impact of other operating activities and finance activities (-48 USD million), including:	(42)	Higher finance costs – higher interest related to loans
	(36)	Lower interest income on loans granted to Sierra Gorda S.C.M. due to the recognition at the end of 2016 of an allowance for impairment of the loan granted to this company
	+28	No adjustment due to a one-off allocation of purchase price in the first half of 2017 as compared to USD 28 mn in the same period of 2016
Share of losses of joint ventures accounted for using the equity method (+USD 66 million)	+66	Recognition in the first half of 2017 of the share of losses of Sierra Gorda S.C.M. to the amount of granted financing, i.e. to the amount of USD 55 mn (the carrying amount of the interest held in Sierra Gorda S.C.M. as at 30 June 2017 amounted to USD 0 mn) as compared to the share of losses recognised in the first half of 2016 of USD 121 mn.
Income tax	(22)	Mainly due to utilisation of the unused tax losses

** Cost of products, merchandise and materials sold, selling costs and administrative expenses*

4.5. CASH EXPENDITURES ON PROPERTY, PLANT AND EQUIPMENT

in mn USD	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Victoria project	3	18	-83.3	1	2
Sierra Gorda Oxide project	1	7	-85.7	0	1
Pre-stripping and other	54	46	17.4	37	17
Ajax project	2	6	-66.7	1	1
Total	**60**	**77**	**-22.1**	**39**	**21**
Financing for Sierra Gorda S.C.M.	55	61	-9.8	55	-

in mn PLN	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Victoria project	11	72	-84.7	3	8
Sierra Gorda Oxide project	4	26	-84.6	2	2
Pre-stripping and other	210	183	14.8	142	68
Ajax project	8	22	-63.6	3	5
Total	**233**	**303**	**-23.1**	**150**	**83**
Financing for Sierra Gorda S.C.M.	214	238	-10.1	214	-

In the first half of 2017, cash expenditures by the segment KGHM INTERNATIONAL LTD. amounted to USD 60 million, meaning a decrease by USD 17 million as compared to the first half of 2016.

Over 70% of the cash expenditures were incurred by the Robinson mine. These mainly comprised pre-stripping work in the Ruth pit.

Cash expenditures incurred on the segment's projects in the first half of 2017 amounted to USD 6 million, including USD 3 million on the Victoria project (maintaining existing infrastructure), USD 2 million incurred on the Ajax project (related to obtaining an environmental permit) and USD 1 million on the Sierra Gorda Oxide project (analysis of alternative development concepts for the project).

In the first half of 2017, the segment KGHM INTERNATIONAL LTD. financed the Sierra Gorda mine in the amount of USD 55 million in order to maintain its financial liquidity.

5. Operating results of the segment Sierra Gorda S.C.M.

The segment Sierra Gorda S.C.M. is a joint venture (under the JV company Sierra Gorda S.C.M.) of KGHM INTERNATIONAL LTD. (55%) and Sumitomo Group companies (45%).

The following production and financial data are presented on a 100% basis for the joint venture and proportionally to the interest in the company Sierra Gorda S.C.M. (55%).

Production

In the second quarter of 2017, Sierra Gorda S.C.M. maintained copper production at a level similar to that of the first three months of 2017, while there was a significant improvement in the production of molybdenum. Consequently, production results for the first half of 2017 exceeded the level recorded in the same period of 2016.

	Unit	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Copper production*	kt	49.4	48.4	2.1	23.9	25.5
Copper production – segment (55%)	kt	27.2	26.6	2.1	13.2	14.0
Molybdenum production*	mn lbs	23.6	12.5	88.8	14.8	8.8
Molybdenum production – segment (55%)	mn lbs	13.0	6.9	88.8	8.2	4.8
TPM production**	koz t	24.5	20.7	18.4	13.1	11.4
TPM production – segment (55%)	koz t	13.5	11.4	18.4	7.2	6.3
Copper equivalent production***	kt	85.8	70.6	21.5	46.9	38.9
Copper equivalent production – segment (55%)	kt	47.2	38.8	21.5	25.8	21.4

** payable metal in concentrate.*
*** TPM – precious metals (gold in the case of Sierra Gorda S.C.M.)*
**** Value of production volume of all metals calculated as a copper equivalent, based on market prices – from own concentrate*

Copper production amounted to 49.4 thousand tonnes, meaning an increase year-to-year by 2.1%. This improvement is the result of a five percent increase in ore processing alongside a lower copper content in ore than in the prior year. As compared to the same period of 2016 there was a significant reduction in the number of recorded breakdowns. Moreover, due to the higher quality of processed ore (in terms of content of undesired minerals, as well as hardness) copper recovery increased by over 8%.

The mining and processing of better quality ore with higher molybdenum content, as well as an improvement in the flotation process, led to significantly higher molybdenum recovery. Taking into account the higher volume of ore processed than in the same period of the prior year, production of payable molybdenum amounted to 23.6 million pounds, nearly double that of the same period of the prior year.

Revenues from sales

In the first half of 2017, revenues from sales amounted to USD 405 million, or PLN 868 million respectively to the interest of KGHM Polska Miedź S.A. (55%).

	Unit	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Revenues from sales, including:	**mn USD**	**405**	**315**	**28.6**	**197**	**208**
- copper	mn USD	293	211	38.9	135	158
- molybdenum	mn USD	106	103	2.9	58	48
Copper sales volume	kt	50.0	43.6	14.7	23.5	26.5
Molybdenum sales volume	mn lbs	13.1	14.4	-9.0	8.5	4.6

	Unit	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Revenues from sales, including:	**mn PLN**	**1 578**	**1 241**	**27,2**	**743**	**835**
- copper	mn PLN	1 141	828	37,8	505	636
- molybdenum	mn PLN	414	406	2,0	220	194
Revenues from sales - segment (55% share)	**mn PLN**	**868**	**683**	27,1	409	**459**

The increase in revenues expressed in USD by nearly 29% was mainly due to the following factors:

- higher copper and molybdenum prices – higher revenues respectively by USD 45 million (Cu) and USD 14 million (Mo),
- a higher volume of copper sales by 6.4 thousand tonnes (+15%) – higher revenues by USD 38 million
- higher revenues from the sale of gold and silver (mainly due to higher volumes) – higher revenues by USD 7 million

At the same time molybdenum sales volume decreased by 1.3 million pounds, most of which was due to the sale of a large block of molybdenum inventories in the second quarter of 2016 – lower revenues by USD 11 million.

Costs

The cost of sales, selling costs and administrative expenses incurred by the company Sierra Gorda S.C.M. amounted to USD 406 million, including selling costs of USD 27 million and administrative expenses of USD 30 million. The costs of the segment Sierra Gorda, proportional to the interest held (55%) amounted to PLN 871 million.

	Unit	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Cost of sales, selling costs and administrative expenses	mn USD	406	418	-2.9	214	192
Cost of sales, selling costs and administrative expenses – segment (55% share)	mn PLN	871	905	-3.8	446	425
C1 unit cost *	**USD/lb**	**1.74**	**1.75**	**-0.6**	**1.53**	**1.94**

** C1 unit production cost of copper - cash cost of payable copper production, reflecting costs of ore extraction and processing, the minerals extraction tax, transport costs, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value*

As compared to the first half of 2016, the cost of sales, selling costs and administrative expenses are lower by USD 12 million, or by 3%, due to:

- lower, by USD 81 million (-47%) depreciation/amortisation costs due to a remeasurement of the value of non-current assets (impairment loss recognised at the end of 2016),
- lower, by USD 15 million (-13%) costs of materials and spare parts (due to the lower number of breakdowns and unplanned repairs) as well as costs of employee benefits, insurance and consulting.

At the same time energy costs were higher due to higher ore processing, higher fixed costs (the start-up of power blocks in 2016 to meet the needs of Sierra Gorda), taxation of carbon dioxide emissions and higher coal prices. In addition, there were increases in the costs of fuel (mainly due to higher oil prices), external service costs (higher prices by certain suppliers) and higher molybdenum conversion costs (higher Mo production). The total increase in costs of energy, fuel and external services and conversion (prior to the change in inventories) amounted to USD 67 million (+37%).

The unit cash cost of copper production (C1) in the first half of 2017 amounted to 1.74 USD/lb, and is slightly lower than the level recorded in the same period of the prior year. The level of C1 was significantly impacted by:

- the sales of by-products (higher by 19% due to an increase in the molybdenum sales price),
- the increase in the copper sales volume by 15%,
- the capitalisation of pre-stripping costs (higher by 23% due to a higher unit cost, being the basis for calculating capital expenditures, and a higher pre-stripping tonnage), and
- the aforementioned increase in costs of energy, fuel, external services and molybdenum conversion.

Financial performance

Below, the results of the company Sierra Gorda S.C.M were presented (100%) and the segment's results in PLN, proportionally to the interest held (55%).

Results of Sierra Gorda S.C.M. on the basis of statutory financial statements (100%)

in mn USD	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Sales revenue	405	315	28.6	197	208
Cost of sales, selling costs and administrative expenses	(406)	(418)	-2.9	(214)	(192)
Profit/(loss) on sales (EBIT)	(1)	(103)	-99.0	(17)	16
Profit/(loss) for the period	**(149)**	**(222)**	**-32.9**	**(84)**	**(65)**
Depreciation/amortisation recognised in profit or loss	(93)	(174)	-46.6	(53)	(40)
EBITDA*	**91**	**71**	**28.2**	**36**	**55**
Adjusted EBITDA (%) **	**91**	**71**	**28.2**	**36**	**55**

** EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)*
***Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)*

Results of the segment Sierra Gorda S.C.M. proportionally to the interest held (55%)

in mn PLN	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Sales revenue	868	683	27.1	409	459
Cost of sales, selling costs and administrative expenses	(871)	(905)	-3.8	(446)	(425)
Profit/(loss) on sales (EBIT)	(3)	(222)	-98.6	(37)	34
Profit/(loss) for the period	**(320)**	**(481)**	**-33.5**	**(177)**	**(143)**
Depreciation/amortisation recognised in profit or loss	(198)	(376)	-47.3	(110)	(88)
EBITDA*	195	154	26.6	73	122
Adjusted EBITDA **	**195**	**154**	**26.6**	**73**	**122**
EBITDA margin (%)***	**22**	**23**	**-4.3**	**18**	**27**

** EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)*
***Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)*
**** EBITDA margin – relationship of adjusted EBITDA to sales revenue*

In the first half of 2017, EBITDA amounted to USD 91 million with a loss for the period of -USD 149 million. Proportionally to the interest held (55%), EBITDA amounts to USD 50 million (PLN 195 million) and the loss for the period to -USD 82 million (-PLN 320 million).

As compared to the first half of 2016, EBITDA was higher (in USD) by 28%, due to earning higher sales revenue than in the first half of 2016 by USD 90 million, alongside an increase in costs prior to depreciation/amortisation by USD 69 million.

Following are the main factors responsible for the change in the profit/(loss) for the period:

Item	Impact on change in result (mn USD)	Description
Increase in sales revenue by USD 90 million, including:	+45	An increase in revenues due to higher copper prices
	+38	An increase in revenues due to a higher copper sales volume
	+14	An increase in revenues due to higher molybdenum prices
	(11)	A decrease in revenues due to a lower volume of molybdenum sales
Decrease in cost of sales, selling costs and administrative expenses by USD 12 million, including:	+81	Lower depreciation/amortisation, mainly due to impairment losses on assets recognised in the fourth quarter of 2016
	(67)	Higher costs of energy, fuel, external services and molybdenum conversion costs
	(26)	Change in inventories
	+15	Lower costs of sales, spare parts, employee benefits, insurance and consulting
	+12	Higher costs of pre-stripping subject to capitalisation
Impact on other operating activities – a higher result by USD 18 million	+18	Generally more favourable exchange differences
Increase in finance costs by USD 13 million	(13)	Mainly a higher level of interest accrued on the owners' loan granted for mine construction
Income tax	(33)	A lower loss before tax

The amount of interest on the owners' loans granted for mine construction increased the carrying amount of the loan, which at the end of June 2017 amounted to USD 3 932 million. There were significant changes in financing the mine's construction with respect to the loans granted by Japanese banks. The nature of the financing changed, which decreases the obligations and limitations of Sierra Gorda and therefore improves the mine's flexibility in terms of operating activities. As at 30 June 2017, the value of the financing under this loan agreement amounts to approx. USD 760 million. Additional information on this topic may be found in part 6.3 of this report, which concerns financing within the Group.

Cash expenditures on property, plant and equipment

In the first half of 2017, cash expenditures on property, plant and equipment and intangible assets recognised in the statement of cash flows amounted to USD 131 million (PLN 512 million), of which the majority, or USD 110 million (84%) were cash expenditures incurred on pre-stripping to gain access to subsequent areas of the deposit, with the remainder on development and the replacement of property, plant and equipment.

	Unit	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Cash expenditures on property, plant and equipment	mn USD	131	162	-19.1	65	66
Cash expenditures on property, plant and equipment	mn PLN	512	638	-19.7	245	267
Cash expenditures on property, plant and equipment – segment (55% share)	mn PLN	282	351	-19.7	135	147

The decrease as compared to the same period of 2016 (-19%) was with respect to cash expenditures on development and the replacement of property, plant and equipment, due to their above-average level in the first quarter of 2016, when they reflected deferred expenditures on mining equipment purchased in 2015.

With respect to capitalised pre-stripping costs, expenditures were higher by 23% due to a higher unit cost of extraction and a higher scope of work carried out.

The main source of financing investments was the inflow from operating activities and cash from 2016. In addition, in the second quarter of 2017 the company made use of financing in the form of an increase in share capital in the amount of USD 100 million, without the drawing of any new working capital facilities.

6. Review of consolidated financial performance

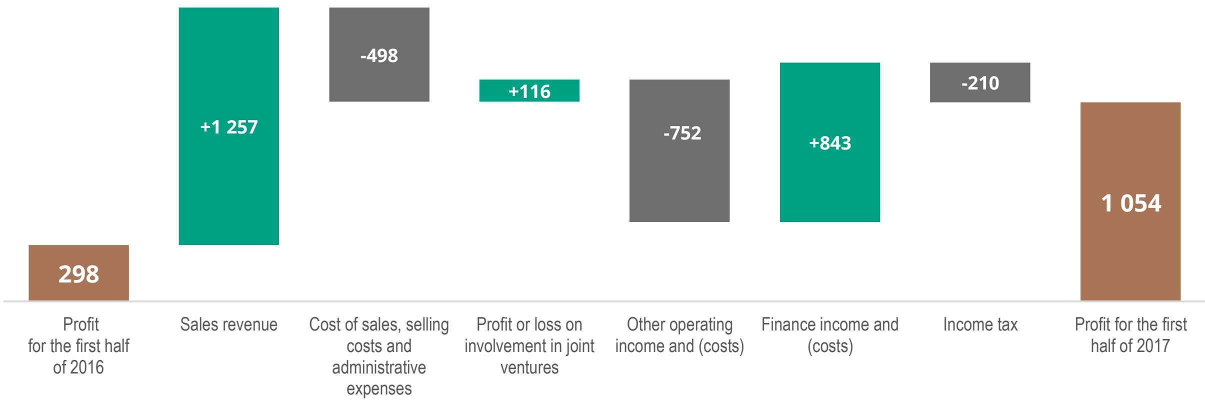
6.1. FINANCIAL RESULTS

in mn PLN	1st half 2017	1st half 2016	Change (%)	2Q'17	1Q'17
Sales revenue	9 713	8 456	+14.9	4 802	4 911
Cost of sales, selling costs and administrative expenses	(7 836)	(7 338)	+6.8	(3 999)	(3 837)
Profit on sales	**1 877**	**1 118**	**+67.9**	**803**	**1 074**
Profit or loss on involvement in joint ventures	(54)	(170)	-68.2	(136)	82
Other operating income and (costs)	(858)	(106)	×8.1	(432)	(426)
Finance income and (costs)	684	(159)	×	383	301
Profit before income tax	**1 649**	**683**	**x2.4**	**618**	**1 031**
Income tax expense	(595)	(385)	+54.5	(274)	(321)
Profit for the period	**1 054**	**298**	**x3.5**	**344**	**710**
Adjusted EBITDA *	2 863	**2 062**	**+38.8**	**1 282**	**1 581**
EBITDA margin**	27%	**23%**	**+17.4**	**25%**	**29%**

** Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses) pursuant to the data in part 2 of the condensed consolidated financial statements – together with Sierra Gorda S.C.M.*
*** EBITDA margin = relationship of adjusted EBITDA to sales revenue. For purposes of calculating the Group's EBITDA margin, consolidated sales revenue was increased by the sales revenue of the segment Sierra Gorda S.C.M.*

Item	Impact on change in result (mn PLN)	Description
Sales revenue	+1 257	An increase in revenues mainly due to KGHM Polska Miedź S.A. (+PLN 1 161 million) alongside a simultaneous decrease in sales revenue of KGHM INTERNATIONAL LTD. (-PLN 17 million). The detailed reasons for this decrease in the revenues of both segments are described in parts 3 and 4 of this report.
Cost of sales, selling costs and administrative expenses	(498)	The increase in costs in the consolidated result was mainly due to higher costs in KGHM Polska Miedź S.A. (by PLN 438 million) and to a decrease in costs in KGHM INTERNATIONAL LTD. by PLN 94 million, described in greater detail in parts 3 and 4 of this report.
Profit or loss on involvement in joint ventures	+116	The change in profit or loss on involvement in joint ventures with respect to Sierra Gorda S.C.M. from -PLN 170 million to -PLN 54 million was due to: – a lower share of losses of joint ventures accounted for using the equity method by PLN 261 million, and – lower interest income on loans granted to a joint venture by PLN 145 million due to the allowance for impairment of loans at the end of 2016.
Other operating income and (costs)	(752)	The change in the result on other operating activities from -PLN 106 million to -PLN 858 million was mainly due to: – lower, by PLN 1 071 million, result on the exchange differences on assets and liabilities other than borrowings, mainly with respect to loans to Sierra Gorda S.C.M., – a higher result on the measurement and realisation of derivatives by PLN 243 million, and – the absence of an impairment loss on available-for-sale assets (PLN 57 million in the first half of 2016)
Finance income and (costs)	843	The change in finance income/(costs) from -PLN 159 million to PLN 684 million was mainly due to: – higher result on the exchange differences on borrowings by PLN 885 million, and – higher interest costs on borrowings by PLN 22 million.
Income tax expense	(210)	The increase in income tax by PLN 210 million was mainly due to an increase in income tax in KGHM Polska Miedź S.A. (by PLN 155 million).

Change in profit or loss in the first half of 2017 *(in mn PLN)*



6.2. ASSETS AND LIABILITIES

Assets

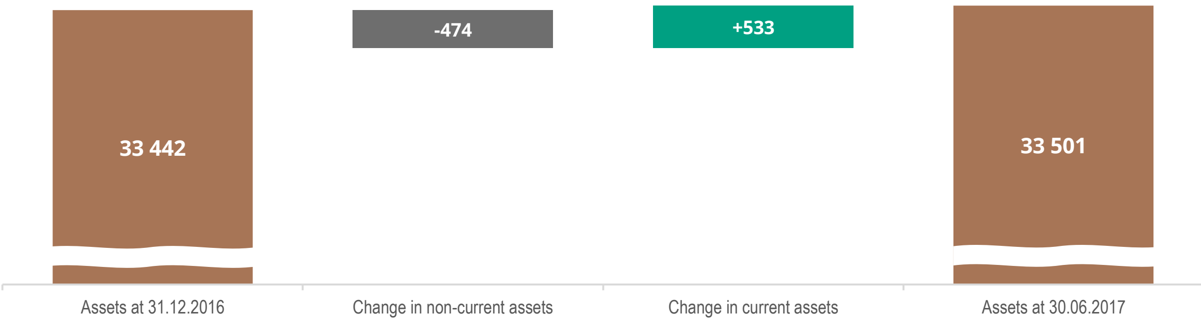
	30.06.2017	31.12.2016	Change (%)	31.03.2017
Mining and metallurgical property, plant and equipment	15 359	15 217	+0.9	15 301
Mining and metallurgical intangible assets	2 309	2 474	-6.7	2 395
Other property, plant and equipment	2 599	2 591	+0.3	2 543
Other intangible assets	202	208	-2.9	222
Joint ventures accounted for using the equity method	26	27	-3.7	27
Loans granted to joint ventures	3 978	4 313	-7.8	4 152
Derivatives	137	237	-42.2	162
Other financial instruments measured at fair value	712	577	+23.4	677
Other financial assets	916	930	-1.5	929
Deferred tax assets	372	511	-27.2	456
Other assets	118	117	+0.9	117
Non-current assets	**26 728**	**27 202**	**-1.7**	**26 981**
Inventories	4 512	3 497	+29.0	4 154
Trade receivables	1 097	1 292	-15.1	1 206
Tax assets	228	267	-14.6	233
Derivatives	101	72	+40.3	78
Other assets	389	252	+54.4	353
Cash and cash equivalents	446	860	-48.1	624
Current assets	**6 773**	**6 240**	**+8.5**	**6 648**
Total assets	**33 501**	**33 442**	**+0.2**	**33 629**

As at 30 June 2017, total assets in the consolidated statement of financial position amounted to PLN 33 501 million and were higher as compared to 31 December 2016 by PLN 59 million.

Non-current assets as at 30 June 2017 amounted to PLN 26 728 million and were lower by PLN 474 million as compared to the end of 2016. The decrease in non-current assets was mainly due to loans granted to joint ventures by PLN 335 million, mining and metallurgical intangible assets by PLN 165 million, derivatives by PLN 100 million and deferred tax assets by PLN 139 million. There was an increase mainly in mining and metallurgical property, plant and equipment by PLN 142 million and financial instruments measured at fair value by PLN 135 million.

Current assets increased by PLN 533 million, mainly due to an increase in the value of inventories by PLN 1 015 million and other assets by PLN 137 million, alongside a decrease in cash and cash equivalents by PLN 414 million and trade receivables by PLN 195 million.

Change in assets in the first half of 2017 *(in mn PLN)*



Equity and liabilities

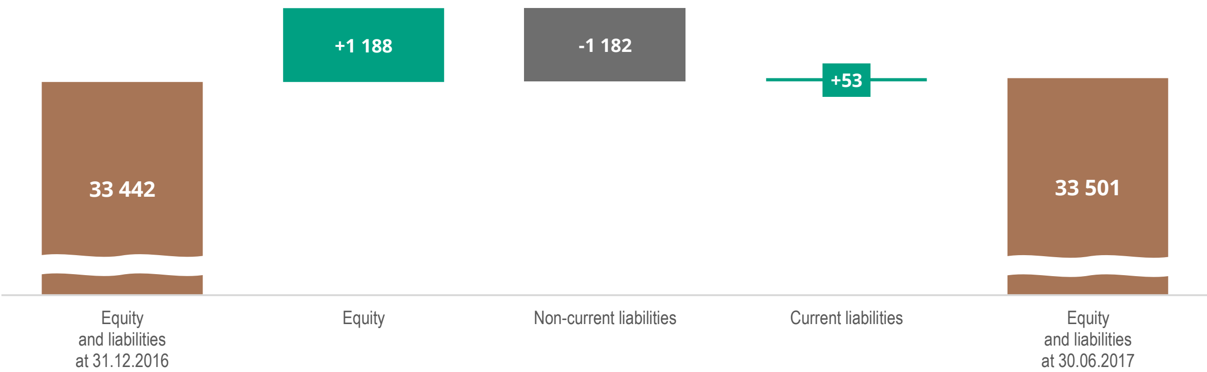
	30.06.2017	31.12.2016	Change (%)	31.03.2017
Share capital	2 000	2 000	-	2 000
Other reserves from measurement of financial instruments	100	(183)	×	26
Accumulated other comprehensive income	2 272	2 216	+2.5	2 160
Retained earnings	12 591	11 739	+7.3	12 449
Equity attributable to shareholders of the Parent Entity	**16 963**	**15 772**	**+7.6**	**16 635**
Equity attributable to non-controlling interest	**136**	**139**	**-2.2**	**136**
Equity	**17 099**	**15 911**	**+7.5**	**16 771**
Borrowings	5 493	6 539	-16.0	5 587
Derivatives	118	256	-53.9	153
Employee benefits liabilities	2 071	1 860	+11.3	2 061
Provisions for decommissioning costs of mines and other facilities	1 474	1 487	-0.9	1 502
Deferred tax liabilities	540	563	-4.1	516
Other liabilities	787	960	-18.0	906
Non-current liabilities	**10 483**	**11 665**	**-10.1**	**10 725**
Borrowings	1 641	1 559	+5.3	2 087
Derivatives	35	215	-83.7	73
Trade payables	1 613	1 433	+12.6	1 354
Employee benefits liabilities	754	787	-4.2	917
Tax liabilities	605	786	-23.0	595
Other liabilities	1 271	1 086	+17.0	1 107
Current liabilities	**5 919**	**5 866**	**+0.9**	**6 133**
Current and non-current liabilities	**16 402**	**17 531**	**-6.4**	**16 858**
Total liabilities and equity	**33 501**	**33 442**	**+0.2**	**33 629**

Equity as at 30 June 2017 amounted to PLN 17 099 million and was higher by PLN 1 188 million than at the end of 2016, mainly due to accumulated comprehensive income by PLN 56 million, other reserves from measurement of financial instruments by PLN 283 million and to an increase in retained earnings by PLN 852 million.

Non-current liabilities of the KGHM Polska Miedź S.A. Group as at 30 June 2017 amounted to PLN 10 483 million and were lower by PLN 1 182 million than at the end of 2016, mainly due to a decrease in non-current borrowings by PLN 1 046 million, other liabilities by PLN 173 million and derivatives by PLN 138 million, alongside an increase in employee benefits liabilities by PLN 211 million.

Current liabilities of the KGHM Polska Miedź S.A. Group as at 30 June 2017 amounted to PLN 5 919 million and were higher by PLN 53 million than at the end of 2016 mainly due to an increase in other liabilities by PLN 185 million, trade liabilities by PLN 180 million and current borrowings by PLN 82 million, alongside a decrease in tax liabilities by PLN 181 million and derivatives by PLN 180 million.

Change in equity and liabilities in the first half of 2017 *(in mn PLN)*



Cash flow

	1st half 2017	1st half 2016	Change (%)	2Q 2017	1Q 2017
Profit before income tax	1 649	683	x2.4	618	1 031
Depreciation/amortisation recognised in profit for the period	772	810	-4.7	401	371
Share of losses of joint ventures accounted for using the equity method	215	476	-54.8	215	-
Interest on a loan granted to joint ventures	(161)	(306)	-47.4	(79)	(82)
Interest and other costs of borrowings	78	59	+32.2	34	44
Impairment losses on non-current assets	1	66	-98.5	1	-
Exchange differences	173	(92)	×	41	132
Change in other receivables and liabilities	(203)	(149)	+36.2	(159)	(44)
Change in assets/ liabilities due to derivatives	(86)	118	×	6	(92)
Other adjustments to profit before income tax	(6)	32	x	(17)	11
Exclusions of income and costs, total	783	1 014	-22.8	443	340
Income tax paid	(703)	(127)	×5.5	(287)	(416)
Changes in working capital	(537)	(239)	×2.2	(40)	(497)
Net cash generated from operating activities	**1 192**	**1 331**	**-10.4**	**734**	**458**
Expenditures on mining and metallurgical assets	(1 111)	(1 680)	-33.9	(549)	(562)
Expenditures on other property, plant and equipment and intangible assets	(97)	(106)	-8.5	(44)	(53)
Acquisition of newly-issued shares of a joint venture	(206)	(238)	-13.4	(206)	-
Other expenses	(55)	(43)	+27.9	(11)	(44)
Total expenses	(1 469)	(2 067)	-28.9	(810)	(659)
Proceeds	22	16	+37.5	13	9
Net cash used in investing activities	**(1 447)**	**(2 051)**	**-29.4**	**(797)**	**(650)**
Proceeds from borrowings	1 447	1 980	-26.9	685	762
Other proceeds	2	18	-88.9	2	-
Total proceeds	1 449	1 998	-27.5	687	762
Repayments of borrowings	(1 532)	(996)	+53.8	(786)	(746)
Interest paid and other costs	(81)	(55)	+47.3	(39)	(42)
Other payments	-	(9)	-100.0	-	-
Total payments	(1 613)	(1 060)	+52.2	(825)	(788)
Net cash generated from/(used in) financing activities	**(164)**	**938**	**×**	**(138)**	**(26)**
TOTAL NET CASH FLOW	**(419)**	**218**	**×**	**(201)**	**(218)**
Cash and cash equivalents at beginning of the period	860	461	+86.6	624	860
Exchange gains/(losses) on cash and cash equivalents	5	19	-73.7	23	(18)
Cash and cash equivalents at end of the period	**446**	**698**	**-36.1**	**446**	**624**

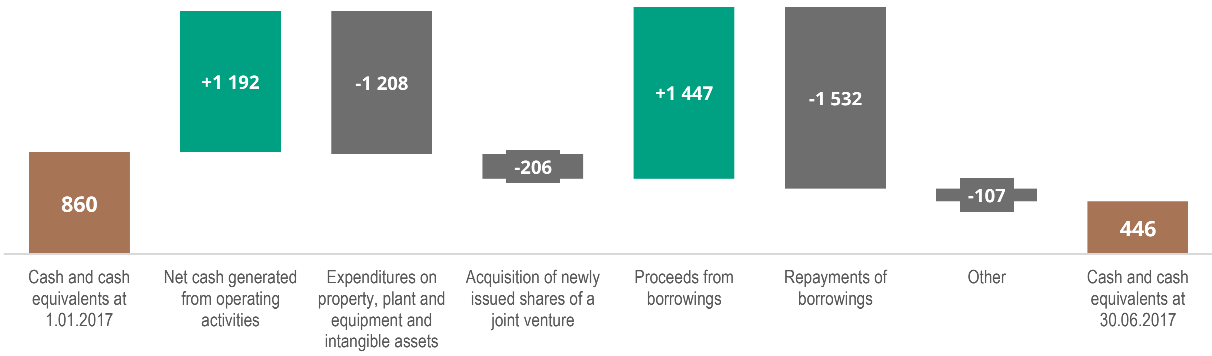
Net cash generated from operating activities in the first 6 months of 2017 amounted to PLN 1 192 million and was mainly comprised of profit before income tax of PLN 1 649 million plus exchange differences in the amount of PLN 173 million, depreciation/amortisation in the amount of PLN 772 million and the share of losses of joint ventures in the amount of PLN 215 million, less interest on a loan granted to joint ventures in the amount of PLN 161 million, income tax paid in the amount of PLN 703 million and a change in working capital in the amount of PLN 537 million.

Net cash used in investing activities in the first half of 2017 amounted to PLN 1 447 million and was mainly comprised of net cash expenditures on the purchase of mining and metallurgical property, plant and equipment and intangible assets as well as on other property, plant and equipment and intangible assets in the amount of PLN 1 208 million and the acquisition of newly-issued shares of a joint venture in the amount of PLN 206 million.

Net cash used in financing activities in the first 6 months of 2017 amounted to PLN 164 million and was mainly comprised of proceeds from borrowings in the amount of PLN 1 447 million, repayments of borrowings in the amount of PLN 1 532 million and interest paid in the amount of PLN 81 million.

After accounting for exchange gains/(losses) on cash and cash equivalents, in the first 6 months of 2017 cash and cash equivalents decreased by PLN 414 million and amounts to PLN 446 million.

Cash flow in the first half of 2017 *(in mn PLN)*



Contingencies and commitments

As at 30 June 2017, contingent assets amounted to PLN 520 million and were lower than at the end of 2016 by PLN 34 million. The decrease in the value of contingent assets was mainly due to a decrease in guarantees received by PLN 44 million.

As at 30 June 2017, contingent liabilities amounted to PLN 2 986 million and were higher than at the end of 2016 by PLN 640 million. This increase was mainly due to an increase in guarantees by PLN 632 million.

6.3. Financing of Group activities

General principles of financial resource management

The Parent Entity manages financial resources based on the approved "Financial Liquidity Management Policy". Its primary goal is to ensure continuous operations and the advancement of investments by securing the availability of funds required to achieve the Group'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.

Net debt in the Group

As at 30 June 2017, total debt of the Group due to borrowings amounted to PLN 7 134 million, 98% of which was consolidated at the level of the Parent Entity.

In the first half of 2017, the Company made use of the remaining available limit of the loan from the European Investment Bank in the amount of USD 163 million (or PLN 607 million, at the average exchange rate announced by the NBP as at 30 June 2017). The deadline for repaying this loan is 23 May 2029, with interest based on a fixed interest rate.

Net debt of the Group (*in mn PLN*)

	30.06.17	31.12.16	Change (%)
Liabilities due to:	7 134	8 098	-11.9
Bank loans*	5 008	6 391	-21.6
Other loans	2 110	1 684	+25.3
Other	16	23	-30.4
Free cash and cash equivalents	**428**	**836**	**-48.8**
Net debt	**6 706**	**7 262**	**-7.7**

** presented amounts include the preparation fee paid, which decreases financial liabilities due to bank loans received*

Sources of financing in the Group

As at 30 June 2017, the Group held open lines of credit and loans with a total available amount of PLN 14 709 million, out of which PLN 7 141 million had been drawn.

Unsecured, revolving syndicated credit facility in the amount of USD 2.5 billion with maturity of 9 July 2021	This financing agreement was signed by the Parent Entity 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, which the Company drew on in 2015 and 2016. The funds drawn are used to finance general corporate goals, including the continuation of investment projects and were used to refinance the debt of KGHM INTERNATIONAL LTD.
Investment loan from the European Investment	This financing agreement was signed by the Parent Entity 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

Bank in the amount of PLN 2.0 billion with a financing period of 12 years	30 June 2017, the full amount of the available loan had been drawn, in three instalments with repayment deadlines of 30 October 2026, 30 August 2028 and 23 May 2029. 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.
Bilateral bank loans in the amount of up to PLN 3.4 billion	The Group has lines of credit in the form of bilateral agreements in the total amount of PLN 3.4 billion. These are working capital facilities and overdraft facilities with availability of up to 2 years, which maturities are successively extended for subsequent periods, as well as long-term investment bank loans. The funds obtained under aforementioned bank loans agreements are used to finance working capital, are a tool in managing current financial liquidity and support the financing of investments advanced by the Group.

The aforementioned sources fully cover the current, medium- and long-term liquidity needs of the Group. In the first half of 2017, the Group made use of borrowings which were available from all of the above pillars.

Debt position as at 30 June 2017

The following table presents the structure of borrowings used by KGHM Polska Miedź S.A. and the extent to which they were utilised.

Amount available and drawn by the Group (*in mn PLN*)

	Amount drawn as at 30.06.17	Amount drawn as at 31.12.16	Change (%)	Amount available as at 30.06.17	Utilisation (%)
Unsecured, revolving syndicated credit facility	2 966	4 809	-38.3	9 265	32.0
Loans *	2 110	1 684	+25.3	2 030	103.9
Bilateral bank loans	2 065	1 609	+28.3	3 414	60.5
Total	****7 141**	****8 102**	**-11.9**	**14 709**	**48.5**

** limit of the investment loan from the EIB is PLN 2 000 mn, while the currency in which it is drawn is the USD. Liabilities due to this loan as at 30 June 2017 amounted to PLN 2 095 mn.*
*** amount drawn includes accrued interest, unpaid as at the reporting date and excludes costs related to entering a syndicated credit facility agreement, which decrease the initial value of liabilities due to bank loan.*

Liabilities of the Parent Entity due to bank loans and an investment loan in the amount of PLN 7 007 million as at 30 June 2017 were drawn in USD. The bank loans of other Group companies were drawn in PLN and EUR.

Cash pool in the Group

In managing its financial liquidity, the Group utilises tools which support its efficiency. One of the basic instruments used by the Group 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

As at 30 June 2017, the balance of loans granted by the Group amounted to PLN 4 016 million. This item comprises long-term loans with interest based on a fixed interest rate, granted by the KGHM INTERNATIONAL LTD. Group mainly to finance Sierra Gorda S.C.M.

Contingent liabilities due to guarantees granted

As at 30 June 2017, the Group held contingent liabilities due to guarantees and letters of credit granted in the total amount of PLN 2 419 million and due to promissory notes liabilities in the amount of PLN 213 million.

Detailed information regarding the amount and nature of contingent liabilities due to guarantees granted may be found in note 4.5 of the half-year condensed consolidated financial statements – Liquidity risk and capital management.

Evaluation of the likelihood of achieving investment goals given the resources held, including possible changes in the structure of financing these activities

The cash currently held by the Group along with the financing acquired guarantee the ability to achieve investment goals, both in terms of equity investments as well as expenditures on the purchase and construction of property, plant and equipment.

7. Other information

7.1. Description of basic threats and risk factors associated with the subsequent months of the financial year

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 and 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 updated in the first half of 2017, the process of corporate risk management in the Group is consistently performed. In the first half of 2017, the companies of the Group 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 an 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 Supervisory Standards Department, and in terms of financial risk by the Executive Director for Finance and Risk Management.

This comprehensive approach to analysing risk factors also comprises the identification of risk factors related to achieving strategic goals. The breakdown of rights and responsibilities applies best practice principles for Corporate Governance and the generally recognised model of three lines of defense.

Key risk factors and their mitigation

A detailed description of key risk factors of the KGHM Polska Miedź S.A. Group, together with mitigating actions and with an indication of specific risk factors for the Parent Entity and KGHM INTERNATIONAL LTD. Group, was presented in the Management Board's Report on the Activities of KGHM Polska Miedź S.A. and KGHM Polska Miedź S.A. Group in 2016, available at the Company's website www.kghm.com (Chapter 12 - Risk management in the Group).

Market risk management

Commodity risk, currency risk	In terms of managing commodity and currency risk as well as the risk of changes in interest rates, the scale and profile of the activities of the Parent Entity and of the mining companies of the KGHM INTERNATIONAL LTD. Group are of the greatest significance for and have the greatest impact on the results of the Group. In the first half of 2017, the Parent Entity implemented strategies hedging revenues from the sale of copper. Also, an open hedging position on the currency market was restructured. Details are described in part 4 of the condensed consolidated financial statements. On 30 June 2017, the Parent Entity held an open hedging position on the copper and silver market. Revenues from copper sales were hedged for the period from July 2017 to December 2018 for a total of 97.5 thousand tonnes of copper. Revenues from silver sales - for the period from July 2017 to December 2017 for a total of 1.35 million troy ounces. The Parent Entity also held an open hedging position on the currency market for USD 1 290 million of planned revenues from sales for the period from July 2017 to June 2019. 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 (USD). The value of bank loans and other investment loans as at 30 June 2017 drawn in USD, after translation to PLN amounted to PLN 6 984 million.
Interest rate risk	As at 30 June 2017, the following positions were exposed to interest rate risk by impacting the amount of interest income and costs : – cash and cash equivalents: PLN 899 million, including deposits of special purpose funds: the Mine Closure Fund, the Tailings Storage Facility Restoration Fund and the Social Benefits Fund, – liabilities due to bank loans drawn: PLN 5 007 million. As at 30 June 2017, 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 4 016 million, – liabilities due to loans drawn with fixed interest rates: PLN 2 110 million. Financial liabilities denominated in USD and EUR and 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 addition, the Parent Entity remains hedged against an increase in the interest rate (LIBOR USD) by a call option (interest rate CAP) with a 2.50% interest rate for the years 2017-2020.
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 30 June 2017, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Venture Exchange amounted to PLN 713 million.

Other important information regarding market risk management is presented in part 4 of the condensed consolidated financial statements.

Credit risk management

Credit risk related to trade receivables	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 30 June 2017, the Parent Entity had secured 91% of its trade receivables (as at 31 December 2016: 92%).
Credit risk related to cash and cash equivalents and bank deposits	The Group allocates periodically 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	Detailed information may be found in part 4 of the condensed consolidated financial statements.
Credit risk related to loans granted	As at 30 June 2017, the balance of loans granted by the Group amounted to PLN 4 016 million. This item is primarily comprised of long-term loans in the total amount of PLN 3 978 million, or USD 1 073 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.

Financial liquidity risk and capital management

Important information regarding financial liquidity risk and capital management is presented in part 4 of the condensed consolidated financial statements.

7.2. Factors which, in the issuer's opinion, will impact its results over at least the following quarter

The main impact on the KGHM Polska Miedź S.A. Group's results is from the Parent Entity and, to a lesser extent, the KGHM INTERNATIONAL LTD. Group.

As a result, through the Parent Entity, the most significant factors affecting the Group's results over at least the following quarter are:

- copper, silver and molybdenum prices on the metals markets,
- the USD/PLN exchange rate,
- electrolytic copper production costs, in particular due to the minerals extraction tax and the value of purchased copper-bearing materials used, and
- the effects of the implemented hedging policy.

The most significant factors affecting the results of the KGHM Polska Miedź S.A. Group, through the KGHM INTERNATIONAL LTD. Group, particularly in the following quarter, are:

- metal prices,
- the CLP/USD, CAD/USD and USD/PLN exchange rates, and
- mined copper production costs.

7.3. Position of the Management Board with respect to the possibility of achieving previously-published forecasts of results

KGHM Polska Miedź S.A. has not published a forecast of financial results for 2017.

7.4. Significant contracts for the Group

Change in the loan agreement of Sierra Gorda S.C.M.	On 30 June 2017 the Management Board of KGHM Polska Miedź S.A. decided to express agreement to the changes to the conditions of the loan agreement signed by Sierra Gorda SCM on 8 March 2012. The nature of the financing changed, which significantly decreases the limitations and duties of Sierra Gorda SCM and in particular improves the flexibility of the operating and financial activities of Sierra Gorda SCM. Moreover, the documentation related to financing was modified, including guarantees issued by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation and their term of validity was maintained up to the end of the financing period, that is to 15 June 2021, since the Sierra Gorda SCM mine did not achieve some of the parameters in the deadline specified in the original financing agreement. The condition precedent to the issuance of the aforementioned guarantees was the granting of a re-guarantee of repayment of a specified part of the payment by KGHM towards Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation. On 30 June 2017, the Management Board of KGHM issued a re-guarantee of repayment of a specified part of the payment, if it is made by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation towards the financing banks, in an amount equal to the pro rata share of KGHM, but no more than the amount of USD 180 million. As at 30 June 2017, the amount of financing due to the loan agreement was around USD 760 million.
Framework Agreement for the comprehensive sale of fuel gas *(signed after the balance sheet date)*	On 27 July 2017, a Framework Agreement for the comprehensive sale of fuel gas as well as bilateral Individual Contracts were concluded with the company Polskie Górnictwo Naftowe i Gazownictwo S.A. The agreement in question along with the contracts replace the existing five individual long-term contracts between the parties, which in accordance with the stipulations of the Framework Agreement are terminated – including the contracts which were announced by the Company in the following regulatory filings: no. 26/2010 dated 30 July 2010 and no. 6/2014 dated 30 January 2014. The Framework Agreement was entered into for the period from 1 July 2017 to 1 October 2033. It regulates the manner in which Individual Contracts are entered into and terminated, as well as common terms and conditions for all of the contracts, such as the rules for placing orders for fuel gas supply, settling deliveries and renegotiating gas prices. Moreover, under certain conditions, the agreement provides for the possibility to change the type of fuel gas from nitrogen-rich gas to high-methane gas, and provides a mechanism enhancing the energy security of the Company, in which the Seller guarantees the fuel gas supplies, in the quantities required by KGHM Polska Miedź S.A. The estimated total value of the Framework Agreement together with Individual Contracts during the entire period they will be in force is approx. PLN 4.8 billion.

In the first half of 2017 and as at the date of preparation of this report, there were no other contracts entered into of significance for the activities of the Parent Entity and Group.

7.5. Information on transactions entered into between related parties, under other than arm's length conditions

The KGHM Polska Miedź S.A. Group has implemented a variety of internal rules regulating the principles under which contracts between the Group's entities may be entered into, including:

- Organisational Regulation of the 1st Vice President of the Management Board (Finance) of KGHM Polska Miedź S.A. regarding the introduction in the organisational units of KGHM Polska Miedź S.A. of rules for setting transaction prices and procedures for preparing taxation documentation, and setting rules for the cooperation of KGHM Polska Miedź S.A. with the companies of the Group,
- Rules of Financial Management and the Economic System of KGHM Polska Miedź S.A.,
- Procurement Policy of the KGHM Polska Miedź S.A. Group.

Acting in compliance with the aforementioned rules, during the first half of 2017 neither the Parent Entity nor its subsidiaries entered into significant transactions with related parties under other than arm's length conditions.

7.6. Litigation and claims

At the end of the first half of 2017, the total value of on-going disputed issues both by and against KGHM Polska Miedź S.A. and its subsidiaries amounted to PLN 319 million, including receivables of PLN 143 million and liabilities of PLN 176 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 the first half of 2017:

- proceedings by KGHM Polska Miedź S.A. amounted to PLN 44 million,
- proceedings by subsidiaries amounted to PLN 99 million.

Value of proceedings involving liabilities at the end of the first half of 2017:

- proceedings against KGHM Polska Miedź S.A. amounted to PLN 96 million,
- proceedings against subsidiaries amounted to PLN 80 million.

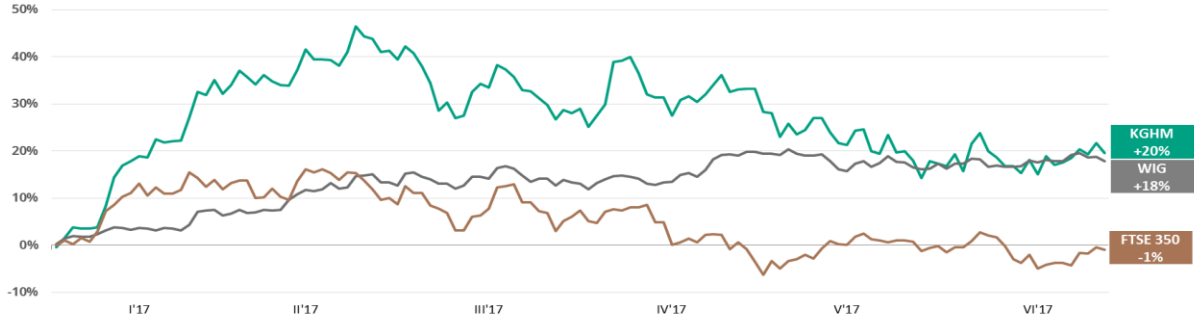
7.7. Company on the Warsaw Stock Exchange (WSE)

The Company's quotation in the first half of 2017

In the first half of 2017 the share price of KGHM Polska Miedź S.A. increased by 19.65% and at the close of the session on 30 June 2017 amounted to PLN 110.65. During the same period the price of copper – the Company's main product – increased by 7.39%. At the same time the main WSE indices increased: WIG by 17.90%, WIG20 by 18.06%, and the WIG30 by 18.74%, while the percentage change of the FTSE 350 mining index – an index comprised of companies from the mining sector, listed on the London Stock Exchange - amounted to -0.87% (Chart 10).

The Company's shares reached their half-year maximum closing price of PLN 135.50 on 21 February 2017. The minimum closing price of PLN 92.17 was recorded on 2 January 2017.

Chart 10. Share price of KGHM Polska Miedź S.A. versus the WIG index and FTSE 350 mining index (percentage change)



Source: GPWInfoStrefa, Bloomberg

Key share price data of the Company on the Warsaw Stock Exchange

KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange (WSE) in July 1997. The Company's shares are traded on the primary market of the WSE in the continuous trading system and are a component of the WIG, WIG20 and WIG30 indices, the sector index WIG-GÓRNICTWO as well as the WIGdiv index. Continuously since 19 November 2009, the Company has participated in the RESPECT Index, which confirms its conformance with the highest standards of social responsibility. The RESPECT Index highlights those companies which are managed in a sustainable and responsible manner, and also highlights their investment attractiveness.

Key share price data of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange are presented in the following table.

Symbol: KGH, ISIN: PLKGHM000017	Unit	1st half 2017	2016	1st half 2016
Number of shares issued	million	200	200	200
Market capitalisation of the Company at period's end	PLN bn	22.1	18.5	13.2
Average trading volume per session		913 943	1 089 209	1 181 297
Change in share price during the period	%	+19.65	+45.66	+3.95
Highest closing price during the period	PLN	135.50	97.95	77.00
Lowest closing price during the period	PLN	92.17	52.29	52.29
Closing price from the last day of trading in the period	PLN	110.65	92.48	66.00

7.8. Ownership structure of KGHM Polska Miedź S.A. and the shares of KGHM Polska Miedź S.A. held by members of the Company's Management Board and Supervisory Board

As at 30 June 2017, the share capital of the Company, in accordance with the entry in the National Court Register, amounted to PLN 2 000 million 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 the first half of 2017, 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. As at 31 December 2016 as well as at 30 June 2017, the following shareholders 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.: the Polish State Treasury and Nationale-Nederlanden Otwarty Fundusz Emerytalny. As at 30 June 2017 and as at the date of signing this report, the Company's shareholder structure was as follows:

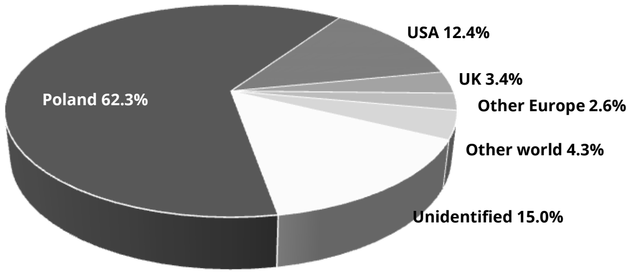
shareholder	number of shares/votes	% of share capital/total number of votes
State Treasury *	63 589 900	31.79%
Nationale-Nederlanden OFE **	10 104 354	5.05%
Other shareholders	126 305 746	63.16%
Total	**200 000 000**	**100.00%**

** based on a notification received by the Company dated 12 January 2010*
*** based on a notification received by the Company dated 18 August 2016*

Other shareholders, whose total ownership of the share capital and share in the total number of votes amounts to 63.16%, are mainly institutional investors, both domestic and international.

Following is the geographic distribution of the Company's shareholder structure. The shareholder structure was developed based on research performed in the second quarter of 2017.

Chart 11. Geographic shareholder structure of KGHM Polska Miedź S.A. – as at 30 April 2017



Source: CMi2i

Investors from Poland hold 62.3% of the shares, while shareholders from the United States and the United Kingdom hold respectively 12.4% and 3.4%. 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.

The number of KGHM Polska Miedź S.A.'s shares or rights to them owned by the Members of the Management Board and the Members of the Supervisory Board of KGHM Polska Miedź S.A. did not change in the period since the date of publication of the consolidated report for the first quarter of 2017.

Based on the information held by KGHM Polska Miedź S.A., as at 30 June 2017 and at the date this report was signed, no Member of the Management Board of the Company held shares of KGHM Polska Miedź S.A. or rights to them.

The number of KGHM Polska Miedź S.A.'s shares or rights to them owned by Members of the Supervisory Board of the Company as at 30 June 2017 and as at the date of signing this report was as follows:

position/function	first name, surname	number of shares	nominal value of shares (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., other Members of the Supervisory Board of the Company did not hold at this time shares of KGHM Polska Miedź S.A. or rights to them.

7.9. Organisational changes in the Group

In the first half of 2017 there were no significant organisational changes in the Group.

7.10. Other significant events

Information on the results of the conducted tests for impairment	On 14 February the Parent Entity announced in a regulatory filing that the major work related to testing for the impairment of international mining assets of the KGHM Polska Miedź S.A. Group has been completed. Detailed information on the results of the conducted impairment tests was provided in the aforementioned regulatory filing and in the annual report for 2016.
The Management Board's recommendation regarding the coverage of loss and dividend payout	On 11 May 2017, the Management Board of KGHM Polska Miedź S.A. adopted a resolution in which it recommended that the Ordinary General Meeting of KGHM Polska Miedź S.A. cover the loss for financial year 2016 in the amount of PLN 4 085 million from the Parent Entity's reserve capital and pay out a dividend in the amount of PLN 200 million (PLN 1.00 per share), from the Company's reserve capital in that part arising from profit.
Adoption of a resolution by the Ordinary General Meeting of KGHM Polska Miedź S.A. on the dividend payout	On 21 June 2017 the Ordinary General Meeting of KGHM Polska Miedź S.A. adopted a resolution on the dividend payout in the amount of PLN 200 million, representing PLN 1.00 per share, from the reserve capital of KGHM Polska Miedź S.A. in that part arising from profit. The dividend date (the date on which the right to dividend is set) was set at 14 July 2017 and dividend payment dates at 17 August 2017 – 1st instalment of PLN 100 million (0.50 PLN per share) and 16 November 2017 - 2nd instalment of PLN 100 million (0.50 PLN per share).
Adoption of a resolution by the Ordinary General Meeting of KGHM Polska Miedź S.A. on amendments to the Statutes of KGHM Polska Miedź S.A.	On 21 June the Ordinary General Meeting of the Company adopted resolutions regarding amendments to the Statutes of KGHM Polska Miedź S.A. Detailed information on the scope of these amendments may be found in the aforementioned regulatory filing.

Changes in the Parent Entity's bodies	
Changes in the composition of the Parent Entity's Management Board	On 3 February 2017, Jacek Rawecki submitted his resignation from the function of First Vice President of the Management Board of KGHM Polska Miedź S.A. On the same day the Supervisory Board adopted a resolution on the appointment of Rafał Pawełczak as a Vice President of the Management Board of KGHM Polska Miedź S.A. On 31 May 2017, Piotr Walczak submitted his resignation from the function of Vice President of the Management Board of KGHM Polska Miedź S.A. (Production), effective as of 13 June 2017. On 24 July 2017, the Supervisory Board adopted a resolution on the appointment of Ryszard Jaśkowski as a Member of the Management Board of KGHM Polska Miedź S.A.
Changes in the composition of the Parent Entity's Supervisory Board	On 21 June 2017, the Ordinary General Meeting of KGHM Polska Miedź S.A. appointed Janusz Marcin Kowalski to the Supervisory Board of the Company.
Subsequent events after the reporting period	
Signing of a contract for the supply of fuel gas with Polskie Górnictwo Naftowe i Gazownictwo S.A.	On 27 July 2017, KGHM Polska Miedź S.A. a Framework Agreement for the comprehensive sale of fuel gas as well as bilateral Individual Contracts were concluded with the company Polskie Górnictwo Naftowe i Gazownictwo S.A. Detailed information may be found in part 7.4 of this report.
Accident at the Głogów Smelter and Refinery	On 3 October 2017, there was an accident at the Głogów I Copper Smelter and Refinery involving the recovery boiler , which is responsible for cooling and de-dusting the process gases from the flash furnace. The accident at the boiler was causes by a certain amount of sinter (a combination of dust and metals which accumulate on the boiler) becoming detached and falling, which damaged the boiler's seal. The accident at the recovery boiler resulted in the need to cease production by the HMG I flash furnace. After the completion of the repairs, the re-start of production by HM Głogów I took place on 30 October 2017. The decrease in production is estimated to be at approx. 18.0 thousand tonnes of electrolytic copper.
Management Board consent to setting terms and conditions of the loan agreement with the European Investment Bank	On 7 November 2017, the Management Board of KGHM Polska Miedź S.A. consented to set detailed terms and conditions for an unsecured loan in the amount of PLN 900 million with the European Investment Bank. In accordance with the preliminary offer, the agreement may be entered into for a period of 12 years, with the option of drawing in PLN, USD or EUR, with either a fixed or variable interest rate for each of the loan's instalments. If the agreement is signed, the Company plans to use the acquired funds to finance the investment projects advanced by the Company, which are aimed at modernising the production line as well as at adapting current processes to variable mining conditions, increasing effectiveness, maintaining production continuity and implementing solutions concerning environmental issues.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY			
Date	**First, Last Name**	**Position /Function**	**Signature**
09 November 2017	Radosław Domagalski-Łabędzki	President of the Management Board	
09 November 2017	Ryszard Jaśkowski	Vice President of the Management Board	
09 November 2017	Michał Jezioro	Vice President of the Management Board	
09 November 2017	Rafał Pawełczak	Vice President of the Management Board	
09 November 2017	Stefan Świątkowski	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last Name**	**Position/Function**	**Signature**
09 November 2017	Łukasz Stelmach	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	