POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated annual report RS 2016

(in accordance with § 82 sec. 1 point 3 of the Decree of the Minister of Finance dated 19 February 2009 r. – unified text: Journal of Laws from 2014, item 133 as amended)

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

for the financial year **2016** comprising the period from **1 January 2016** to **31 December 2016** containing the consolidated financial statements according to International Financial Reporting Standards in PLN.

publication date: 16 March 2017

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

KGHM Polska Miedź S.A.	**Basic materials**
(name of the issuer in brief)	(issuer branch title per the Warsaw Stock Exchange)
59 – 301	**LUBIN**
(postal code)	(city)
M. Skłodowskiej – Curie	**48**
(street)	(number)
(+48) 76 7478 200	**(+48) 76 7478 500**
(telephone)	(fax)
ir@kghm.com	**www.kghm.com**
(e-mail)	(www)
6920000013	**390021764**
(NIP)	(REGON)

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

	SELECTED FINANCIAL DATA	in PLN mn		in EUR mn	
		2016	2015	2016	2015
I.	Sales revenue	19 156	20 008	4 378	4 781
II.	Profit on sales	2 544	506	581	121
III.	Loss before income tax	(3 801)	(5 122)	(869)	(1 224)
IV.	Loss for the period	(4 449)	(5 009)	(1 017)	(1 197)
V.	Loss for the period attributable to shareholders of the Parent Entity	(4 371)	(5 012)	(999)	(1 198)
VI.	(Loss)/profit for the period attributable to non-controlling interest	(78)	3	(18)	1
VII.	Other comprehensive net income	239	686	55	164
VIII.	Total comprehensive income	(4 210)	(4 323)	(962)	(1 033)
IX.	Total comprehensive income attributable to shareholders of the Parent Entity	(4 142)	(4 326)	(946)	(1 034)
X.	Total comprehensive income attributable to non-controlling interest	(68)	3	(16)	1
XI.	Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
XII.	Earnings per ordinary share (in PLN/EUR) attributable to shareholders of the Parent Entity	(21.86)	(25.06)	(5.00)	(5.99)
XIII.	Net cash generated from operating activities	4 212	4 163	963	995
XIV.	Net cash used in investing activities	(3 948)	(4 906)	(902)	(1 172)
XV.	Net cash generated from financing activities	133	864	30	206
XVI.	Total net cash flow	397	121	91	29
XVII.	Non-current assets	27 202	30 448	6 149	7 145
XVIII.	Current assets	6 240	6 316	1 410	1 482
XIX.	Total assets	33 442	36 764	7 559	8 627
XX.	Non-current liabilities	11 665	10 153	2 637	2 382
XXI.	Current liabilities	5 866	6 197	1 326	1 454
XXII.	Equity	15 911	20 414	3 596	4 791
XXIII.	Equity attributable to shareholders of the Parent Entity	15 772	20 211	3 565	4 743
XXIV.	Equity attributable to non-controlling interest	139	203	31	48

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

	2016	2015
Average exchange rate for the period*	4.3757	4.1848
Exchange rate at the end of the period	4.4240	4.2615

**Exchange rates are arithmetical average of the current average exchange rates announced by the National Bank of Poland on the last day of each month respectively of 2016 and 2015*

Polish Financial Supervision Authority

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.

CONSOLIDATED ANNUAL REPORT RS 2016 COMPRISES:

1. PRESIDENT'S LETTER

2. AUDITOR'S OPINION AND REPORT ON ITS AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

3. DECLARATIONS BY THE MANAGEMENT BOARD

4. CONSOLIDATED FINANCIAL STATEMENTS

5. THE MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES OF KGHM POLSKA MIEDŹ S.A. AND KGHM POLSKA MIEDŹ S.A. GROUP IN 2016

Lubin, March 2017

PRESIDENT’S LETTER

Lubin, March 2017

Dear Stakeholders,

2016 was a unique year for us, a round jubilee number, just to mention the most important anniversary: on 1st May 1961 KGHM (from the full Polish name *Kombinat Górniczo-Hutniczy Miedzi*) was founded. After 55 years of operating we are proud of our achievements and recognise our responsibility to our current and future stakeholders and shareholders to rationally grow the Company even further.

It was another year full of challenges on the international commodities market. Copper prices were low for the first three quarters, until the final quarter of 2016 brought a decisive improvement in prices. Improved economic sentiment, related to recognition of demand in China and the plans of the US economy, allow us to think that this positive growth trend will be sustained.

In 2016 the KGHM Group continued its investment program. The most spectacular event took place at the Głogów I Copper Smelter and Refinery, where the world's largest flash furnace and electrical furnace complex was brought online, thereby creating the most modern metallurgical production line for copper. This unique technology is presently in use in only three places in the world – one of these is the facility in Głogów (comprised of the existing Głogów II Copper Smelter and Refinery and the new production line at the Głogów I Copper Smelter and Refinery).
Work also continues on the mining project Głogów Głęboki-Przemysłowy (a.k.a. Deep Głogów). Last year a further 36 km of tunnels were excavated, increasing the share of extraction from this area in total production by KGHM Polska Miedź S.A. to 5 percent.

In 2016 the share price of KGHM on the Warsaw Stock Exchange experienced substantial volatility, but within a rising trend. On 4th January 2016 the share price of KGHM amounted to PLN 59.51 per share, while on 30 December 2016 the shareholders of KGHM held shares of the Company valued at PLN 92.48. Last year the Company paid a dividend, based on a resolution of the Ordinary General Meeting of KGHM Polska Miedź S.A., for financial year 2015 in the total amount of PLN 300 000 000, representing PLN 1.50 per share. At the same time the Company maintained its long-established practice and carried out its adopted dividend policy.

The consolidated sales revenues of the KGHM Group fell by 4 percent as compared to 2015, as the average copper price was lower by more than 600 USD/t (yoy), although EBITDA remained stable, with the fourth quarter bringing a clear improvement, thanks to maintained cost discipline strengthened by the increase in revenues.
The Company's financial position remains heavily impacted by the minerals extraction tax, which last year amounted to over PLN 1.3 billion.
The lower production of electrolytic copper as compared to the results obtained in 2015 was mainly due to the shutdown at the Głogów I Copper Smelter and Refinery in the third quarter and to the process of starting up the flash furnace in the fourth quarter. This was however accompanied by higher sales of payable copper as compared to 2015, which was due to the use of stored concentrate by KGHM Polska Miedź and to higher production by the Sierra Gorda mine.

The financial results of the Company and the KGHM Polska Miedź Group for 2016 were substantially impacted by the announced review of the technical and economic assumptions for the international mining assets. As a result of this review the parameters for these assets in terms of mine life, metals production volume, assumed operating costs and the level of capital expenditures for the life of a given mine were significantly modified. This change in parameters and the updated macroeconomic assumptions led to the need to reassess the value of these assets. This recognised accounting impairment loss did not affect the liquidity or the stable financial position of the KGHM Group, due to its non-cash nature. After excluding the impact of the impairment losses on the non-current assets, a net profit of the Group would amount to PLN 1 228 million.

In 2016, the Management Board of KGHM commenced work on a revision of the Company's strategy adopted in 2015 for the years 2015–2040. During the process of revising the strategy the Management Board in particular is focusing on adapting the Company's investment plans, both domestic and international, to its anticipated financial capabilities, taking into consideration market conditions and the need to optimise costs. Approval and publication of the strategy for the years 2017-2021 will take place by the end of April 2017.

In 2017 we are celebrating the 60th anniversary of the discovery of the copper deposit in Lower Silesia which is being excavated by KGHM Polska Miedź S.A. as well as the 20th anniversary of the Company's stock exchange debut.

I wish to thank our employees for their dedication, our shareholders for their trust and our customers for being loyal to our brand.

I invite you to go through the financial results of the Company and the KGHM Polska Miedź Group.

Respectfully yours,

Radosław Domagalski-Łabędzki
President of the Management Board
of KGHM Polska Miedź S.A.

Lubin, 15 March 2017

KGHM POLSKA MIEDŹ

AUDITOR'S OPINION AND REPORT ON ITS AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2016

Lubin, March 2017

TABLE OF CONTENTS

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

AUDITOR'S OPINION

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

Auditor's report

We have audited the attached consolidated financial statements of the KGHM Polska Miedź S.A. Capital Group (hereinafter: the "Capital Group"), for which KGHM Polska Miedź S.A. (hereinafter: the "Parent") with its registered office in Lubin, at ul. Marii Skłodowskiej-Curie 48 is the Parent. These consolidated financial statements include: the consolidated statement of financial position prepared as at 31 December 2016, consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the financial year from 1 January 2016 to 31 December 2016 and notes.

Responsibility of the Company's manager and those charged with governance for the financial statements

The Management Board of the Parent is responsible for the preparation of the consolidated financial statements, based on properly kept accounting records, and their fair presentation in accordance with the International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and applicable laws. It is also obliged to ensure internal control as it determines necessary for the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Under the Accounting Act of 29 September 1994 (Journal of Laws of 2016 item 1047 as amended), hereinafter referred to as the "Accounting Act" the Management Board of the Parent and members of its Supervisory Board are obliged to ensure that the consolidated financial statements meet the requirements of the Accounting Act.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit works.

We conducted our audit in accordance with Section 7 of the Accounting Act and the National Auditing Standards in line with the wording of the International Standards on Auditing adopted by Resolution No. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 as amended. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Sąd Rejonowy m. st. Warszawy, KRS 0000446833, NIP: 527-020-07-86, REGON: 010076870

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

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

Opinion on consolidated financial statements

In our opinion the attached consolidated financial statements:

- give a true and fair view of the economic and financial position of the Capital Group as at 31 December 2016 and its financial performance for the financial year from 1 January 2016 to 31 December 2016 in accordance with the International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and the adopted accounting principles (policies) of the Parent,
- comply, with respect to their form and content, with the provisions of law applicable to the Capital Group and the articles of association of the Parent.

The consolidated financial statements for the prior financial year ended 31 December 2015 were audited by another certified auditor who issued an opinion on those consolidated financial statements on 15 March 2016.

Report on other legal and regulatory requirements

Opinion on the report on the activities

We do not express an opinion on the report on the activities of the Capital Group.

It is the responsibility of the Management Board of the Parent to prepare the report on the activities of the Capital Group in accordance with the Accounting Act and other applicable laws. Moreover, the Management Board of the Parent and members of the Supervisory Board are obliged to ensure that the financial statements and the report on the activities meet the requirements of the Accounting Act.

When auditing the consolidated financial statements we were obliged to examine the report on the activities and indicate whether the information contained therein complies with Article 49 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133 as amended) and is consistent with underlying information disclosed in the attached financial statements. Additionally, it was our responsibility to indicate whether we have detected any material misstatement in the report on the activities based on our knowledge of the Capital Group and its business environment obtained in the course of the audit.

In our opinion, the information contained in the report on the activities of the Capital Group complies with Article 49 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133 as amended) and is consistent with underlying information disclosed in the attached financial statements. Moreover, based on our knowledge of the Capital Group and its business environment obtained in the course of the audit, we have not detected any material misstatements in the report on the activities.

Statement of compliance with corporate governance principles

In relation to our audit of the consolidated financial statements, it was our responsibility to examine the Parent's statement of compliance with corporate governance principles, which constitutes a separate part of the report on the activities of the Capital Group. In our opinion, the Parent's statement provides all information required by the secondary legislation issued under Article 60.2 of the Act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies of 29 July 2005 (Journal of Laws of 2016 item 1639 as amended) and regulations issued under Article 61 thereof. The information is compliant with the applicable laws and information presented in the consolidated financial statements.

Adrian Karaś
Key certified auditor
conducting the audit
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, 15 March 2017

The above audit opinion together with audit 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.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS OF THE KGHM POLSKA MIEDŹ S.A. CAPITAL GROUP FOR THE 2016 FINANCIAL YEAR

I. GENERAL INFORMATION

1. Details of the audited Parent

The Parent of the Capital Group operates under the name KGHM Polska Miedź S.A. (hereinafter: the "Parent"). The Company's registered office is located in Lubin, ul. Marii Skłodowskiej-Curie 48.

The Parent operates as a joint stock company. The Parent is recorded in the Register of Entrepreneurs kept by the District Court in Wrocław, IX Commercial Division of National Court Register under KRS number 0000023302. The Parent's tax identification number NIP assigned by Tax Office on 14 June 1993 is: 692-00-00-013. The Parent's REGON number assigned by the Statistical Office on 13 August 2003 is: 390021764.

The Parent operates based on the provisions of the Code of Commercial Companies.

As of 31 December 2016, the Parent's share capital equaled PLN 2,000 million and was divided into 200,000,000 shares with a face value of PLN 10.00 each.

Composition of the Management Board of the Parent as at the date of the opinion:
- Radosław Domagalski-Łabędzki – President of the Management Board,
- Michał Jezioro – Vice-President of the Management Board,
- Rafał Pawełczak – Vice-President of the Management Board,
- Stefan Świątkowski – Vice-President of the Management Board,
- Piotr Walczak – Vice-President of the Management Board.

Changes in the composition of the Management Board of the Parent during the audited period and until the date of the opinion:
- on 3 February 2016 the Supervisory Board dismissed Mr. Herbert Wirth from the position of the President of the Management Board and Mr. Jaroslaw Romanowski, Mr. Marcin Chmielewski and Mr. Jacek Kardela from the positions of Vice-Presidents of the Management Board,
- on 3 February 2016 the Supervisory Board appointed Mr. Krzysztof Skóra to the position of the President of the Management Board and appointed Mr. Stanisław Biliński and Mr. Jacek Rawecki to the positions of Vice-Presidents of the Management Board,
- on 23 February 2016 the Supervisory Board appointed Mr. Stefan Świątkowski to the position of Vice-President of the Management Board,
- on 15 March 2016 the Supervisory Board dismissed Mr. Mirosław Laskowski from the position of Vice-President of the Management Board and appointed Mr. Piotr Walczak to the position of Vice-President of the Management Board,
- on 17 May 2016 the Supervisory Board appointed Mr. Jacek Rawecki First Vice-President of the Management Board,
- on 2 September 2016 Mr. Mirosław Biliński resigned from his position of a Vice-President of the Management Board,
- on 5 September 2016 the Supervisory Board designated its member, Mr. Dominik Hunek, to act as Vice-President of the Management Board for Development in the period from 6 September to 6 December 2016,
- on 28 October 2016 Mr. Dominik Hunek resigned from his temporary position as Vice-President of the Management Board for Development,

- on 28 October 2016 the Supervisory Board dismised Mr. Krzysztof Skóra from the position of the President of the Management Board and appointed Mr. Radosław Domagalski-Łabędzki to the position of President of the Management Board,
- on 9 November 2016 the Supervisory Board appointed Mr. Michał Jezioro to the position of Vice-President of the Management Board,
- on 3 February 2017 Mr. Jacek Rawecki resigned from his position of First Vice-President of the Management Board,
- on 3 February 2017 the Supervisory Board appointed Mr. Rafał Pawełczak to the position of Vice-President of the Management Board.

As of 7 December 2016 (the date of the last Shareholders' Meeting) the Parent's shareholders included:

- State Treasury – 31.79% shares.
- Nationale-Nederlanden Otwarty Fundusz Emerytalny – 5.1% shares.
- Otwarty Fundusz Emerytalny Złota Jesień - 3.50% shares.
- Other shareholders – 59.61% shares.

During the financial year there were no changes in the share capital of the Parent.

During the audited period, in the shareholding structure of the Parent's share capital there was one change resulting in exceeding the shareholder threshold of 5% of shares. As a result of a transaction made on 11 August 2016 Nationale-Nederlanden Otwarty Fundusz Emerytalny (Open-Ended Pension Fund) became the owner of 5.05% of the Parent's shares.

After the balance-sheet date there were no changes in the Parent's share capital.

As of 31 December 2016, the Parent's equity amounted to PLN 15,900 million.

2. Structure of the Capital Group

Information about subsidiaries of the KGHM Polska Miedź S.A. Capital Group as at 31 December 2016:

Name, legal form of the company	Address of Company's registered office	Actual core business of the company	Equity as at the balance sheet date (PLN million)	Ownership structure in 2016	Ownership structure in 2015
KGHM Polska Miedź S.A.	Lubin	mining of copper ore, excavation of salt, production of copper and precious metals	2,000.00	Parent	Parent
Capital Group of KGHM INTERNATIONAL LTD. *, with KGHM INTERNATIONAL LTD. being the Parent	Vancouver, Canada BC	mining of copper ore and non-ferrous metals, production of copper and precious metals	7,381.36	100	100
BIPROMET S.A.	Katowice	design services, consulting, technical conceptual work; general realization of investment projects	58	100	100
CBJ sp. z o.o.	Lubin	research and chemical-physical analysis; measurement of imissions and emissions; industrial research	41.76	100	100
CENTROZŁOM WROCŁAW S.A.	Wrocław	recovery of raw materials from segregated materials – purchase and sale of metal scrap, waste recycling, sale of steel and aluminum and production of reinforcing building materials	111.76	99.65	99.65
CUPRUM Nieruchomości sp. z o.o.	Wrocław	activities related to real estate market services, construction services, design work and financing	18,06	100	100
CUPRUM DEVELOPMENT sp. z o.o.	Wrocław	activities related to real estate market services, construction services, design work and financing	6.6	100	100
"Energetyka" sp. z o.o.	Lubin	generation, transmission and distribution of electrical and heating energy, water-sewage management; trade in oil-based products	560.38	100	100
Fundusz Hotele 01 Sp. z o.o.	Wrocław	SPVs operating in KGHM I FIZAN's structure	2.26	100	100
Fundusz Hotele 01 Sp. z o.o. S.K.A.	Wrocław		44.45	100	100
Polska Grupa Uzdrowisk Sp. z o.o.	Wrocław		0.28	100	100
INOVA Spółka z o.o.	Lubin	design and production – innovative solutions in electrical engineering, control engineering and communication systems; certification and attestation of machinery and equipment	30.03	100	100
INTERFERIE S.A.	Legnica	hotel services combining active recreation with sanatorium-healing, rehabilitation, SPA and wellness services	117.16	68.25	67.71

Name, legal form of the company	Address of Company's registered office	Actual core business of the company	Equity as at the balance sheet date (PLN million)	Ownership structure in 2016	Ownership structure in 2015
Interferie Medical SPA Sp. z o.o.	Legnica	hotel, recreation, rehabilitation, health tourism and wellness services	67.26	89.64	89.46
KGHM CUPRUM sp. z o.o. - CBR	Wrocław	design and R&D activities	34.86	100	100
KGHM Kupfer AG	Berlin	exploration for and evaluation of deposits of copper and other minerals	9.16	100	100
KGHM I FIZAN	Wrocław	closed-end, non-public investment funds – investing cash	480.62	100	100
KGHM IV FIZAN	Wrocław		31.74	100	100
KGHM V FIZAN	Wrocław		0.97	100	100
KGHM Metraco S.A.	Legnica	trade and processing of non-ferrous metals scrap; rhenium recovery from acidic industrial waste; processing of shaft slag into road-building material and sale of such; trading in salt; recovery of copper and silver from smelter tiles; trading in chemical factors	365	100	100
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	Shanghai	commercial activities involving copper/silicon merchandise, mine products (copper/silicon) and other related services	2.16	100	100
KGHM TFI S.A.	Wrocław	creation and management of investment funds	4.19	100	100
KGHM ZANAM S.A.	Polkowice	production of mining machinery and equipment, construction machinery; machinery repairs; production maintenance services; steel construction services; roadway cargo transport	109.79	100	100
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	hospital services; medical practice; activities related to protecting human health; occupational medicine	81.23	100	100
NITROERG S.A.	Bieruń	production of explosives, Nitrocet 50 and initiating systems	201.98	87.12	85
NITROERG SERWIS Sp. z o.o.	Wilków	complex drilling and blasting service in open pit mines, sale of explosives and initiating systems	0.96	87.12	85
PeBeKa S.A.	Lubin	mine construction (construction of shafts and drifts), construction of roadway/railway tunnels; specialist construction, drilling services (geological-exploration drilling)	193.32	100	100
PeBeKa Canada Inc.	Vancouver	the realization of mining projects in Canada area, including support of Victoria project advanced by KGHM INTERNATIONAL LTD.	0.26	100	100

Name, legal form of the company	Address of Company's registered office	Actual core business of the company	Equity as at the balance sheet date (PLN million)	Ownership structure in 2016	Ownership structure in 2015
MERCUS Logistyka sp. z o.o.	Polkowice	materials logistics; trade in consumer goods; production of bundled electrical cables and hydraulic cables; passenger roadway transport	96.78	100	100
PHU "Lubinpex" Sp. z o.o.	Lubin	gastronomic, commercial and catering services	24.11	100	100
Staropolanka Sp. z o.o.	Polanica Zdrój	production and sale of mineral water	0.005	100	100
PMT Linie Kolejowe 2 Sp. z o.o.	Owczary	management of railway infrastructure	23.72	100	100
Future 1 Sp. z o.o.	Lubin	management and control of other companies, including the KGHM INTERNATIONAL LTD. Group	555.72	100	100
Future 2 Sp. z o.o.	Lubin	special purpose companies founded due to the creation of the KGHM Polska Miedź S.A. Tax Group (in 2016 these companies were not in active operation)	0.04	100	100
Future 3 Sp. z o.o.	Lubin		0.04	100	100
Future 4 Sp. z o.o.	Lubin		0.04	100	100
Future 5 Sp. z o.o.	Lubin		0.04	100	100
Future 6 Sp. z o.o.	Lubin		0.04	100	100
Future 7 Sp. z o.o.	Lubin		0.04	100	100
PMT Linie Kolejowe Sp. z o.o.	Owczary	maintenance of railway infrastructure, repair services, management of railway infrastructure	4.91	100	100
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	railway cargo transport	211.31	100	100
"Uzdrowisko Cieplice" Sp. z o.o.- Grupa PGU	Jelenia Góra	services in the following areas: spa-healing, sanatorium, preventative medicine, rehabilitation, biological renewal, recreation based on natural healing materials bioclimatic conditions	13.86	98.48	98.29
Uzdrowiska Kłodzkie S.A. – PGU Group	Polanica Zdrój		88.42	100	100
Uzdrowisko Połczyn Grupa PGU S.A.	Połczyn Zdrój		33.76	100	100
Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o.- PGU Group	Świeradów Zdrój		13.41	98.98	98.95
WMN "ŁABĘDY" S.A.	Gliwice	production of pressed goods from copper and its alloys; rolling services	33.88	84.96	84.96
WPEC w Legnicy S.A.	Legnica	production of heat from its own sources, transmission and distribution of heat, servicing	139.37	100	100

Name, legal form of the company	Address of Company's registered office	Actual core business of the company	Equity as at the balance sheet date (PLN million)	Ownership structure in 2016	Ownership structure in 2015
Zagłębie Lubin S.A.	Lubin	management of a football club, organization of professional sporting events	51.28	100	100
ZANAM VOSTOK, OOO	Russian Federation	sale and after-sales service of mining machinery produced by KGHM ZANAM S.A.	0.02	100	-

* The composition of the KGHM International Ltd. Capital Group has been presented in note 12.12 to the consolidated financial statements

The consolidated financial statements as of 31 December 2016 included the following entities:

a) Parent – KGHM Polska Miedź S.A.

We have audited the financial statements of the Parent for the period from 1 January to 31 December 2016. As a result of our audit, on 15 March 2017 we issued an unqualified opinion.

b) Companies subject to full consolidation:

Name and address of the Company	Interest in share capital (%)	Name of entity that audited the financial statements and type of opinion issued	Opinion issued	Balance sheet date
KGHM INTERNATIONAL LTD., Vancouver	100	Deloitte Ltd., Canada	Audit in progress	2016-12-31
BIPROMET S.A., Katowice	100	EY Audyt Polska sp. z o.o. sp.k.	Unqualified opinion	2016-12-31
CENTROZŁOM WROCŁAW S.A., Wrocław	99.65	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Unqualified opinion	2016-12-31
CBJ Sp. z o.o., Lubin	100	Grant Thornton Frąckowiak Spółka z o.o. Sp. k.	Unqualified opinion	2016-12-31
CUPRUM DEVELOPMENT sp. z o.o., Wrocław	100	AVANTA AUDIT Sp. z o.o. Sp. k.	Unqualified opinion	2016-12-31
CUPRUM Nieruchomości sp. z o.o., Wrocław	100	Not audited		2016-12-31
„Energetyka" Sp. z o.o., Lubin	100	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Unqualified opinion	2016-12-31
Fundusz Hotele 01 Sp. z o.o. SKA, Wrocław	100	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Audit in progress	2016-12-31
Fundusz Hotele 01 Sp. z o.o., Wrocław	100	Not audited		2016-12-31
Future 1 Sp. z o.o., Lubin	100	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Audit in progress	2016-12-31

Name and address of the Company	Interest in share capital (%)	Name of entity that audited the financial statements and type of opinion issued	Opinion issued	Balance sheet date
Future 2 Sp. z o.o., Lubin	100	AVANTA AUDIT Sp. z o.o. Sp. k.	Unqualified opinion	2016-12-31
Future 3 Sp. z o.o., Lubin	100	AVANTA AUDIT Sp. z o.o. Sp. k.	Unqualified opinion	2016-12-31
Future 4 Sp. z o.o., Lubin	100	AVANTA AUDIT Sp. z o.o. Sp. k.	Unqualified opinion	2016-12-31
Future 5 Sp. z o.o., Lubin	100	AVANTA AUDIT Sp. z o.o. Sp. k.	Unqualified opinion	2016-12-31
Future 6 Sp. z o.o., Lubin	100	AVANTA AUDIT Sp. z o.o. Sp. k.	Unqualified opinion	2016-12-31
Future 7 Sp. z o.o., Lubin	100	AVANTA AUDIT Sp. z o.o. Sp. k.	Unqualified opinion	2016-12-31
INOVA Sp. z o.o., Lubin	100	Instytut Studiów Podatkowych Modzelewski i Wspólnicy sp. z o.o.	Unqualified opinion	2016-12-31
Interferie Medical SPA Sp. z o.o., Lubin	89.64	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Unqualified opinion	2016-12-31
INTERFERIE S.A., Lubin	68.25	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Unqualified opinion	2016-12-31
KGHM (SHANGHAI) COPPER TRADING CO., LTD., Shanghai	100	Orient Best Certified Public Accountants	Unqualified opinion	2016-12-31
KGHM CUPRUM Sp. z o.o. CBR, Wrocław	100	Grant Thornton Frąckowiak Spółka z o.o. Sp. k.	Unqualified opinion	2016-12-31
KGHM I FIZAN, Wrocław	100	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Audit in progress	2016-12-31
KGHM IV FIZAN, Wrocław	100	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Audit in progress	2016-12-31
KGHM Kupfer AG, Berlin	100	Not audited		2016-12-31
KGHM Metraco S.A., Legnica	100	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Unqualified opinion	2016-12-31
KGHM TFI S.A., Wrocław	100	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Audit in progress	2016-12-31
KGHM V FIZAN, Wrocław	100	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Audit in progress	2016-12-31
KGHM ZANAM S.A., Polkowice	100	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Unqualified opinion	2016-12-31
Mercus Logistyka Sp. z o.o., Polkowice	100	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Unqualified opinion	2016-12-31
„MIEDZIOWE CENTRUM ZDROWIA" S.A., Lubin	100	Grupa Audyt Sp. z o.o.	Unqualified opinion	2016-12-31
NITROERG S.A., Bieruń	87.12	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Unqualified opinion	2016-12-31
NITROERG SERWIS Sp. z o.o., Wilków	87.12	PKF Consult Sp. z o.o. Sp. k.	Unqualified opinion	2016-12-31

Name and registered office of the company	Interest in share capital (%)	Auditor	Opinion issued	Balance sheet date
ZANAM VOSTOK, OOO Gaj (Russia)	100	Not audited		2016-12-31
PeBeKa Canada Inc., Vancouver	100	Not audited		2016-12-31
PeBeKa S.A., Lubin	100	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Unqualified opinion	2016-12-31
PHU Lubinpex Sp. z o.o., Lubin	100	Grant Thornton Frąckowiak Spółka z o.o. Sp. k.	Unqualified opinion	2016-12-31
PMT Linie Kolejowe 2 Sp. z o.o., Owczary	100	UHY ECA Audyt Spółka z o.o.	Unqualified opinion	2016-12-31
PMT Linie Kolejowe sp. z o.o., Owczary	100	Kancelaria Biegłego Rewidenta Bronisława Dydyna	Unqualified opinion	2016-12-31
POL - MIEDŹ TRANS Sp. z o.o., Lubin	100	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Unqualified opinion	2016-12-31
Polska Grupa Uzdrowisk Sp. z o.o., Wrocław	100	Not audited		2016-12-31
Staropolanka Sp. z o.o., Polanica Zdrój	100	Not audited		2016-12-31
Uzdrowiska Kłodzkie S.A. - Grupa PGU, Polanica Zdrój	100	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Unqualified opinion	2016-12-31
Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o. - Grupa PGU, Świeradów Zdrój	98,98	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Unqualified opinion	2016-12-31
Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU, Jelenia Góra	98,48	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Unqualified opinion	2016-12-31
Uzdrowisko Połczyn S.A. - Grupa PGU, Połczyn Zdrój	100	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Unqualified opinion	2016-12-31
WMN "ŁABĘDY" S.A., Gliwice	84,96	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Unqualified opinion	2016-12-31
WPEC S.A. w Legnicy	100	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Unqualified opinion	2016-12-31
Zagłębie Lubin S.A., Lubin	100	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.	Unqualified opinion with emphasis of matter	2016-12-31

Changes in the structure of the audited Capital Group and consolidated companies for which the Parent prepared the audited consolidated financial statements have been presented in Note 2.3 of the Management Board’s report on the activities of the Company and the Capital Group.

3. Information about the consolidated financial statements for the prior financial year

The activities of the Capital Group in 2015 resulted in a net loss of PLN 5,009 million. The consolidated financial statements of the Capital Group for 2015 were audited by a certified auditor. The audit was performed by authorized entity PricewaterhouseCoopers Sp. z o. o. The certified auditor issued an unqualified opinion on those financial statements.

The General Shareholders' Meeting which approved the consolidated financial statements for the 2015 financial year was held on 28 June 2016.

In accordance with applicable laws, the consolidated financial statements for the 2015 financial year were submitted to the National Court Register (KRS) on 1 July 2016.

4. Details of the authorized entity and the key certified auditor acting on its behalf

The entity authorized to audit the financial statements was appointed by the Supervisory Board. The audit of the consolidated financial statements was performed based on the agreement of 7 April 2016 concluded between the Parent and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered office in Warsaw, al. Jana Pawła II 22, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the consolidated financial statements was conducted under the supervision of Adrian Karaś, key certified auditor (No. 12194) in the registered office of the Parent from 23 January to 17 February 2017 as well as outside the Company's premises until the date of this opinion.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor conducting audit confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on certified auditors and their self-government, entities authorized to audit financial statements and public supervision (Journal of Laws of 2016 item 1000 as amended) to express an unbiased and independent opinion on the consolidated financial statements of the Capital Group.

5. Availability of data and management's representations

The scope of our audit was not limited.

During the audit, necessary documents and data as well as detailed information and explanations were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Management Board of the Parent of 15 March 2017.

II. ECONOMIC AND FINANCIAL POSITION OF THE CAPITAL GROUP

Presented below are the main items from the consolidated statement of profit or loss, consolidated statement of financial position as well as financial ratios describing the financial performance of the Capital Group and its economic and financial position compared to the prior year.

Main financial data from consolidated statement of profit or loss (PLN '000.000)	2016	2015
Sales revenue	19 156	20 008
Operating expenses	(16 612)	(19 502)
Operating profit (loss)	(3 219)	(4 816)
Net profit (loss)	(4 449)	(5 009)
Main financial data from consolidated statement of financial position (PLN '000.000)		
Inventory	3 497	3 382
Trade receivables	1 292	1 541
Current assets	6 240	6 316
Total assets	33 442	36 764
Equity	15 911	20 414
Short-term liabilities	5 866	6 197
Trade liabilities	1 433	1 418
Total liabilities and provisions	17 531	16 350

Profitability and efficiency ratios	2016	2015
– return on sales	-17%	-24%
– net return on equity	-22%	-20%
– assets turnover ratio	0.57	0.54
– receivables turnover in days	27	31
– liabilities turnover in days	31	24
– inventory turnover in days	75	62
Liquidity/Net working capital		
– debt ratio	52%	44%
– equity to fixed assets ratio	48%	56%
– net working capital (PLN '000.000)	375	119
– current ratio	4.36	4.45
– quick ratio	1.92	2.07

An analysis of the above figures and ratios indicated the following trends in 2016:

- an increase in return on sales and decrease in the net return on equity;
- an increase in assets turnover ratio;
- a decrease in receivables turnover ratio and an increase in liabilities and inventory turnover ratios;
- an increase in debt ratio;
- an increase in net working capital;
- a decrease in current and quick ratios.

III. DETAILED INFORMATION

1. Information about the audited consolidated financial statements

The audited consolidated financial statements were prepared as at 31 December 2016 and include:

- consolidated statement of financial position prepared as of 31 December 2016, with total assets and liabilities plus equity of PLN 33,442 million,
- consolidated statement of profit or loss for the period from 1 January 2016 to 31 December 2016, with a net loss of PLN 4,449 million,
- consolidated statement of comprehensive income for the period from 1 January 2016 to 31 December 2016, with a total negative comprehensive income of PLN 4,210 million,
- consolidated statement of changes in equity for the period from 1 January 2016 to 31 December 2016, disclosing a decrease in equity of PLN 4,503 million
- consolidated statement of cash flows for the period from 1 January 2016 to 31 December 2016, showing a cash inflow of PLN 397 million,
- notes, comprising a summary of significant accounting policies and other explanatory information.

The audit covered the period from 1 January 2016 to 31 December 2016 and focused mainly on:

- verification of the correctness and fairness of the consolidated financial statements prepared by the Management Board of the Parent;
- verification of the consolidation documentation;
- evaluation of the correctness of the consolidation methods and procedures applied during consolidation;
- review of opinions and reports on audits of financial statements of subsidiaries and associated companies included in consolidation, prepared by other certified auditors.

2. Consolidation documentation

The Parent presented the consolidation documentation including:

- financial statements of entities included in the consolidated financial statements;
- financial statements of controlled entities, adjusted to the accounting principles (policy) applied during consolidation;
- financial statements of controlled entities translated into the Polish currency;
- consolidation adjustments and eliminations necessary for preparation of the consolidated financial statements;
- calculation of the fair value of the net assets of controlled entities;
- calculation of non-controlling interests;
- calculation of exchange differences arising from translation of the financial statements of controlled entities denominated in foreign currencies.

The financial statements of the subsidiaries were consolidated using the full method, i.e. full amounts of all relevant items of the financial statements of the Parent and the subsidiaries included in consolidation were summed up.

The equity method was applied with respect to associated entities. The value of the Parent's interest in the associated company was adjusted by increases or decreases in the equity of the associated company attributable to the Parent, which occurred in the period covered by consolidation, and decreased by dividends due from such companies.

The Parent preparing the consolidated financial statements has not applied any material simplifications and exceptions to the consolidation principles with respect to the controlled entities

3. Completeness and correctness of drawing up consolidated cash flow statement, consolidated statement of changes in equity, notes and explanations and the report on the activities of the Capital Group

The Parent confirmed the validity of the going concern basis in preparation of the consolidated financial statements. The notes and explanations to the consolidated financial statements gives a description of measurement principles regarding assets, equity, liabilities, financial performance and principles of preparation of the consolidated financial statements.

The Parent prepared notes in the form of tables to individual items of the consolidated statement of financial position and consolidated statement of profit or loss and consolidated statement of comprehensive income as well as narrative descriptions in line with the requirement of IFRS.

The Parent prepared the consolidated cash flow statement and consolidated statement of changes in equity in accordance with the requirements of IFRS.

The Management Board of the Parent prepared and supplemented the consolidated financial statements with a report on the activities of the Capital Group in the 2016 financial year. The report contains information determined by Article 49 of the Accounting Act and the Ordinance of the Minister of Finance Ordinance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133 as amended). We have audited the report with respect to the disclosed information derived directly from the audited consolidated financial statements.

IV. FINAL NOTES

Management Board's Representations

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor received a representation letter from the Parent's Management Board, in which the Board stated that the Capital Group complied with the laws in force.

Adrian Karaś
Key certified auditor
conducting the audit
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, 15 March 2017

DECLARATIONS BY THE MANAGEMENT BOARD

Lubin, March 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 the annual consolidated financial statements for 2016 and the comparative data have been prepared in accordance with accounting principles currently in force, and give a true, fair and clear view of the financial position of the KGHM Polska Miedź S.A. Group and the loss for the period of the Group.
The Management Board's report on the activities of KGHM Polska Miedź S.A. and KGHM Polska Miedź S.A. Group in 2016 presents a true picture of the development and achievements, as well as the condition, of KGHM Polska Miedź S.A. and 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 audited the annual consolidated financial statements for 2016, was selected in compliance with legal provisions. This entity, as well as the certified auditors who have carried out this audit, have met the conditions for issuing an impartial and independent audit opinion, in compliance with appropriate legal provisions and professional standards.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

Date	First, Last Name	Position / Function	Signature
15 March 2017	Radosław Domagalski-Łabędzki	President of the Management Board	
15 March 2017	Michał Jezioro	Vice President of the Management Board	
15 March 2017	Rafał Pawełczak	Vice President of the Management Board	
15 March 2017	Stefan Świątkowski	Vice President of the Management Board	
15 March 2017	Piotr Walczak	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING

Date	First, Last Name	Position / Function	Signature
15 March 2017	Łukasz Stelmach	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A	

CONSOLIDATED
FINANCIAL STATEMENTS
FOR 2016

Lubin, March 2017

Table of contents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		2016	2015
Note 2.3	Sales revenue	19 156	20 008
Note 4.1	Cost of sales	(15 242)	(18 159)
	Gross profit	**3 914**	**1 849**
Note 4.1	Selling costs and administrative expenses	(1 370)	(1 343)
	Profit on sales	**2 544**	**506**
Note 6.1	Share of losses of joint ventures accounted for using the equity method	(1 200)	(4 457)
Note 6.1	Impairment loss on interest in a joint venture	-	(671)
Note 6.2	Allowance for impairment of loans granted to joint ventures	(4 394)	-
Note 6.2	Interest on loans granted to joint ventures	633	466
	Profit or loss on involvement in joint ventures	(4 961)	(4 662)
Note 4.2	Other operating income/(costs)	(802)	(660)
Note 4.3	Finance income and (costs)	(582)	(306)
	Loss before income tax	**(3 801)**	**(5 122)**
Note 5.1	Income tax expense	(648)	113
	LOSS FOR THE PERIOD	**(4 449)**	**(5 009)**
	Loss for the period attributable to:		
	Shareholders of the Parent Entity	(4 371)	(5 012)
	Non-controlling interest	(78)	3
	Weighted average number of ordinary shares (million)	**200**	**200**
	Basic/diluted earnings per share (in PLN)	**(21.86)**	**(25.06)**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		2016	2015
	Loss for the period	**(4 449)**	**(5 009)**
Note 8.2.2	Measurement of hedging instruments net of the tax effect	(134)	(362)
Note 8.2.2	Measurement of available-for-sale financial assets net of the tax effect	15	(79)
	Exchange differences from translation of foreign operations statements	268	1 070
	Other comprehensive income (net of the tax effect), which will be reclassified to profit or loss	**149**	**629**
	Actuarial gains net of the tax effect	90	57
	Other comprehensive income which will not be reclassified to profit or loss	**90**	**57**
	Total other comprehensive net income	**239**	**686**
	TOTAL COMPREHENSIVE INCOME	**(4 210)**	**(4 323)**
	Total comprehensive income attributable to:		
	Shareholders of the Parent Entity	(4 142)	(4 326)
	Non-controlling interest	(68)	3

in PLN millions, unless otherwise stated

CONSOLIDATED STATEMENT OF CASH FLOWS

		2016	2015
	Cash flow from operating activities		
	Loss before income tax	(3 801)	(5 122)
Note 9.3	Depreciation/amortisation recognised in profit or loss	1 698	1 943
Note 6.1	Share of losses of joint ventures accounted for using the equity method	1 200	4 457
Note 6.1	Impairment loss on interest in a joint venture	-	671
Note 4.4	Allowance for impairment of loans granted to joint ventures	4 394	-
Note 6.2	Interest on loans granted to joint ventures	(633)	(466)
	Interest and other costs of borrowings	152	201
Note 4.4	Other impairment losses/(reversal) of impairment loss on non-current assets	1 532	2 970
Note 12.9	Other adjustments to profit before income tax	(205)	(132)
	Exclusions of income and costs, total	8 138	9 644
	Income tax paid	(451)	(925)
Note 10.4	Changes in working capital	326	566
	Net cash generated from operating activities	**4 212**	**4 163**
	Cash flow from investing activities		
Note 9.1.3	Expenditures on mining and metallurgical assets	(3 032)	(3 553)
	Expenditures on other property, plant and equipment and intangible assets	(219)	(386)
Note 6.1	Acquisition of newly-issued shares of joint ventures	(671)	(928)
	Other expenses	(72)	(114)
	Total expenses	(3 994)	(4 981)
	Proceeds	46	75
	Net cash used in investing activities	**(3 948)**	**(4 906)**
	Cash flow from financing activities		
Note 8.4.2	Proceeds from borrowings	3 266	4 988
	Other proceeds	21	33
	Total proceeds	3 287	5 021
Note 8.4.2	Repayments of borrowings	(2 701)	(3 096)
Note 12.2	Dividends paid to shareholders of the Parent Entity	(300)	(800)
	Interest paid and other costs of borrowings	(144)	(232)
	Other	(9)	(29)
	Total expenses	(3 154)	(4 157)
	Net cash generated from financing activities	**133**	**864**
	TOTAL NET CASH FLOW	**397**	**121**
	Cash and cash equivalents at beginning of the period	**461**	**475**
	Exchange gains/(losses) on cash and cash equivalents	2	(135)
Note 8.5	**Cash and cash equivalents at end of the period**	**860**	**461**

in PLN millions, unless otherwise stated

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		2016	2015
	ASSETS		
	Mining and metallurgical property, plant and equipment	15 217	14 273
	Mining and metallurgical intangible assets	2 474	3 130
Note 9.1	Mining and metallurgical property, plant and equipment and intangible assets	17 691	17 403
	Other property, plant and equipment	2 591	2 653
	Other intangible assets	208	241
Note 9.2	Other property, plant and equipment and intangible assets	2 799	2 894
Note 6.1	Joint ventures accounted for using the equity method	27	562
Note 6.2	Loans granted to joint ventures	4 313	7 504
	Total involvement in joint ventures	4 340	8 066
Note 7.1	Derivatives	237	117
Note 7.1	Other financial instruments measured at fair value	577	579
Note 7.4	Other financial assets	930	735
	Financial instruments, total	1 744	1 431
Note 5.1.1	Deferred tax assets	511	557
Note 12.3	Other assets	117	97
	Non-current assets	**27 202**	**30 448**
Note 10.1	Inventories	3 497	3 382
Note 10.2	Trade receivables	1 292	1 541
Note 5.3	Tax assets	267	542
Note 7.1	Derivatives	72	7
Note 12.3	Other assets	252	383
Note 8.5	Cash and cash equivalents	860	461
	Current assets	**6 240**	**6 316**
		33 442	**36 764**
	EQUITY AND LIABILITIES		
Note 8.2.1	Share capital	2 000	2 000
Note 8.2.2	Other reserves from measurement of financial instruments	(183)	(64)
Note 8.2.2	Accumulated other comprehensive income	855	1 868
Note 8.2.2	Retained earnings	13 100	16 407
	Equity attributable to shareholders of the Parent Entity	15 772	20 211
	Equity attributable to non-controlling interest	139	203
	Equity	**15 911**	**20 414**
Note 8.4.1	Borrowings	6 539	4 870
Note 7.1	Derivatives	256	159
Note 11.1	Employee benefits liabilities	1 860	1 979
Note 9.4	Provisions for decommissioning costs of mines and other facilities	1 487	1 466
Note 5.1.1	Deferred tax liabilities	563	714
Note 12.4	Other liabilities	960	965
	Non-current liabilities	11 665	10 153
Note 8.4.1	Borrowings	1 559	2 145
Note 7.1	Derivatives	215	48
Note 10.3	Trade payables	1 433	1 418
Note 11.1	Employee benefits liabilities	787	760
Note 5.3	Tax liabilities	786	762
Note 12.4	Other liabilities	1 086	1 064
	Current liabilities	5 866	6 197
	Non-current and current liabilities	**17 531**	**16 350**
		33 442	**36 764**

in PLN millions, unless otherwise stated

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Equity attributable to shareholders of the Parent Entity						
		Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings	Total	Equity attributable to non-controlling interest	Total equity
	As at 1 January 2015	**2 000**	**377**	**741**	**22 184**	**25 302**	**228**	**25 530**
Note 12.2	Dividend	-	-	-	(800)	**(800)**	-	**(800)**
	Transactions with non-controlling interest	-	-	-	35	**35**	(28)	**7**
	Transactions with owners	-	-	-	(765)	(765)	(28)	(793)
	Loss for the period	-	-	-	(5 012)	**(5 012)**	3	**(5 009)**
Note 8.2.2	Other comprehensive income	-	(441)	1 127	-	**686**	-	**686**
	Total comprehensive income	-	(441)	1 127	(5 012)	(4 326)	3	(4 323)
	As at 31 December 2015	**2 000**	**(64)**	**1 868**	**16 407**	**20 211**	**203**	**20 414**
Note 12.2	Dividend	-	-	-	(300)	**(300)**	-	**(300)**
	Transactions with non-controlling interest	-	-	-	3	**3**	4	**7**
	Transactions with owners	-	-	-	(297)	(297)	4	(293)
	Settlement of exchange differences from the translation of statements of subsidiaries with USD as a functional currency, acquired by a subsidiary with a functional currency of PLN as part of the cross-border merger	-	-	(1 361)	1 361	-	-	-
	Loss for the period	-	-	-	(4 371)	**(4 371)**	(78)	**(4 449)**
Note 8.2.2	Other comprehensive income	-	(119)	348	-	**229**	10	**239**
	Total comprehensive income	**-**	**(119)**	**348**	**(4 371)**	**(4 142)**	**(68)**	**(4 210)**
	As at 31 December 2016	**2 000**	**(183)**	**855**	**13 100**	**15 772**	**139**	**15 911**

in PLN millions, unless otherwise stated

Part 1 – General information

Note 1.1 Corporate information

KGHM Polska Miedź S.A. ("the Parent Entity") with its registered office in Lubin at 48 M.Skłodowskiej-Curie Street is a joint stock company registered at the 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.

In addition, the Group conducts other activities, which are described in the Management Board's report on the activities of KGHM Polska Miedź S.A and KGHM Polska Miedź S.A. Group in 2016 (appendix 4).

The consolidated financial statements were prepared under the assumption that the Group companies will continue as a going concern during a period of at least 12 months from the end of the reporting period in an unaltered form and business scope, and there are no reasons to suspect any intentional or forced discontinuation or significant limitation of its current activities. As at the date of signing of the consolidated financial statements the Management Board of the Parent Entity was not aware of any facts or circumstances that may cast doubt about the going concern in the foreseeable future. Impairment losses on assets recognised in the current period, settled in financial result before taxation in the amount of PLN (6 022) million, generated a loss for 2016, but they did not impact the net cash generated from operating activities which amounted to PLN 4 212 million, and therefore they do not pose a threat to the going concern.

The KGHM Polska Miedź S.A. Group carries out exploration and mining of copper, nickel and precious metals based on concessions given for Polish deposits to KGHM Polska Miedź S.A., and also based on legal titles held by KGHM INTERNATIONAL LTD. and KGHM AJAX MINING INC. for the exploration for and mining of these resources in the USA, Canada, and Chile. Detailed information is presented in the Management Board's report on the activities of KGHM Polska Miedź S.A and KGHM Polska Miedź S.A. Group in 2016 (point 2.4) and in Information on segments (Part 2).

In 2016, the Parent Entity of the Group 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 changes to the Group's structure are presented in the Consolidated financial statements, in Note 1.5.

The consolidated financial statements were authorised for issue and signed by the Management Board of the Parent Entity on 15 March 2017.

Note 1.2 Basis of preparation and presentation

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

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

Topic	Accounting policies	Significant estimates
Consolidation principles	The consolidated financial statements include the financial statements of the parent entity and its subsidiaries. Subsidiaries are understood as entities which are either directly controlled by the Parent Entity or indirectly through its subsidiaries. Obtaining control of a subsidiary, which is a business, is accounted for using the acquisition method. Subsidiaries are fully consolidated from the date on which control is obtained to the date on which control ceases. Balances, income, expenses and unrealised gains from intra-group transactions, recognised in assets, are eliminated.	Determining whether the parent entity has control over a company requires an assessment whether it has rights to direct relevant activities of the company. Determining what constitutes relevant activities of the company and by which investor it is controlled requires a judgement. The following factors are taken into consideration when assessing the situation and determining the nature of relationships: voting rights, relative voting power, dilution of voting rights of other investors and their ability to appoint members of key management personnel or members of the supervisory board.
Fair value measurement	Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For financial reporting purposes, a fair value hierarchy was established that categorises the inputs into three levels. The fair value hierarchy levels are as follows: Level 1 Value is based on inputs from active markets, as they are seen as the most reliable source of data.	Fair value presents current estimates which may be subject to change in subsequent reporting periods due to changes in market conditions or due to other factors. There are many methods of measuring fair value, which may result in differences in fair values.

in PLN millions, unless otherwise stated

	Level 2 Value is based on inputs other than from active markets, which are nevertheless observable (unbiased, measurable). Level 3 Value is based on unobservable inputs, used when it is not possible to acquire data from the first two measurement levels. It includes all measurements based on subjective inputs.	Moreover, assumptions constituting the basis of fair value measurement may require estimating the changes in costs/prices over time, the discount rate, inflation rate or other significant variables. Certain assumptions and estimates are necessary to determine to which level of fair value hierarchy a given instrument should be classified.
Financial statements of subsidiaries, presented in a functional currency other than PLN	For purposes of preparing the consolidated financial statements in the presentation currency of the KGHM Polska Miedź S.A. Group, i.e. in PLN, individual items of financial statements of foreign operations whose functional currencies are other than PLN are translated in the following manner: (i) assets and liabilities – at the closing rate, i.e. at the average exchange rate for that currency announced by the NBP at the end of the reporting period, (ii) items of the statement of profit or loss, the statement of comprehensive income and the statement of cash flows - at the arithmetical average of average exchange rates announced for a given currency by the NBP at the end of each month of a given reporting period. If there is a significant volatility of exchange rates in a given period, revenues and costs in the statement of profit or loss and the statement of comprehensive income are translated using the exchange rates as at the transaction date. Exchange differences from the translation of foreign operations statements are recognised in other comprehensive income of a given period.	The consolidated financial statements are presented in PLN, which is also the functional currency of the Parent Entity and the Group's subsidiaries, with the exception of subsidiaries of a subgroup KGHM INTERNATIONAL LTD. in which the US dollar (USD) is the functional currency. Exchange differences from the translation of financial statements of KGHM INTERNATIONAL LTD. amount to: • 2016 – PLN 1 137 million, • 2015 – PLN 2 241 million,

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

Note	Title	amount recognised in the financial statements		Accounting policies	Important estimates and judgements
		2016	2015		
2.3	Sales revenue	19 156	20 008	X	
3	Impairment of assets	(6 022)	(7 609)	X	X
5.1	Income tax presented in the consolidated statement of profit or loss	(648)	113	X	
5.1.1	Deferred income tax presented in the consolidated statement of profit or loss	125	1 008	X	X
5.3	Tax assets	267	542	X	
5.3	Tax liabilities	(786)	(762)	X	
6.1	Joint ventures accounted for using the equity method	27	562	X	X
6.2	Loans granted to joint ventures	4 313	7 504	X	X
7.2	Derivatives	(162)	(83)	X	
7.3	Other financial instruments measured at fair value	633	663	X	X
7.4	Other non-current financial assets	930	735	X	X
8.2	Equity	(15 911)	(20 414)	X	
8.4	Borrowings	(8 098)	(7 015)	X	
8.5	Cash and cash equivalents	860	461	X	
9.1	Mining and metallurgical property, plant and equipment and intangible assets	17 691	17 403	X	X
9.2	Other property, plant and equipment and intangible assets	2 799	2 894	X	
9.4	Provisions for decommissioning costs of mines and other facilities*	(1 500)	(1 496)	X	X
10.1	Inventories	3 497	3 382	X	X
10.2	Trade receivables	1 292	1 541	X	
10.3	Trade payables	(1 613)	(1 598)	X	
11.1	Employee benefits liabilities	(2 647)	(2 739)	X	X
12.3	Other assets	369	480	X	
12.4	Other liabilities	(2 046)	(2 029)	X	

* In the statement of financial position, current provisions for decommissioning costs of mines and other technological facilities are recognised in the item "other liabilities".

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

Note 1.3 Impact of new and amended standards and interpretations

New and amended standards which were applied by the Group and which came into force in the financial year beginning on 1 January 2016, did not have a material impact on the Group's accounting policy, with the exception of applying, in order to prepare the consolidated financial statements for the year ended 31 December 2015 and before their effective dates, of amendments to IAS 1 Presentation of Financial Statements – the disclosure initiative and IFRS 8 Operating segments (Annual improvements to IFRS, 2010-2012 Cycle) – with respect to disclosing information on judgments made by management when combining the operating segments.

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

In these consolidated financial statements, the Group did not decide for earlier application of the following published standards, interpretations or amendments to already existing standards prior to their effective date. Apart from the following new standards, other changes are not applicable to the Group's activities nor will they impact the consolidated financial statements.

IFRS 9 "Financial Instruments"

On 24 July 2014, the IASB published a new IFRS 9 Financial Instruments, effective for annual periods beginning on or after 1 January 2018, which will replace the current IAS 39 Financial Instruments: Recognition and Measurement. The European Commission, in its Regulation No 2016/2067 of 22 November 2016, adopted the version of IFRS 9 Financial Instruments which was published by IASB on 24 July 2014.

In the fourth quarter of 2016, the Group commenced a two-stage IFRS 9 implementation project ("the project"):

- stage I: gap analysis and preliminary estimates of impact
- stage II: implementation of IFRS9 on the basis of the developed concept.

The project engages different organisational units responsible for financial accounting and reporting, as well as business units and market and credit risk management units. At the moment of preparation of the Consolidated financial statements, the first stage was completed and the preparations for the second stage have begun.

Recognition and measurement

IFRS 9 removes categories of financial assets currently found in IAS 39. In accordance with IFRS 9, the classification of financial assets depends on the business model for managing financial assets and characteristics of contractual cash flows. Pursuant to the standard, financial assets may be classified only to the following three categories:

- financial assets measured at fair value, with an option to recognise changes in measurement in profit or loss;
- financial assets measured at fair value, with an option to recognise changes in measurement in other comprehensive income; or to
- financial assets measured at amortised cost.

The Group has completed the initial assessment of financial assets regarding their classification under the requirements of IFRS 9. Based on this initial assessment, in the Group's opinion the majority of financial assets currently classified to loans and receivables (including trade receivables) and cash will meet the criteria of the business model whose objective is to hold assets in order to collect contractual cash flows, which results in a measurement at amortised cost if the cash flows test is passed. The Group is analysing the appropriateness of identifying another business model for receivables due to factoring agreements, which may result in the necessity to measure these receivables at fair value through profit or loss. Due to the short-term character of these assets, this change should not have a significant impact on the measurement of the portfolio of receivables at the initial application of IFRS 9.

Moreover, the Group preliminarily assessed the characteristics of contractual cash flows in its financial debt assets agreements and did not identify any financial instruments for which cash flows were anything more than the repayment of the principal amount and interest. Due to the above, the majority of assets meeting the current definition of loans and receivables will still be able to be measured at amortised cost. Moreover, the Group modified terms of inter-group loans agreements, which resulted in a necessity to conduct an analysis of impact of these changes on their carrying amounts. Due to the aforementioned changes to terms of agreements, this impact on the profit or loss will be immaterial.

Pursuant to the new standard's requirements, the equity instruments will have to be measured at fair value, while the Group will be able to classify them as financial assets measured at fair value through profit or loss or make an irrevocable choice to measure them at fair value in other comprehensive income. If the Group chooses to recognise equity instruments at fair value in other comprehensive income, the result of measurement at fair value will be recognised in other comprehensive income, the impairment loss will not be recognised in profit or loss, and in the case of sale of a given instrument, profit/loss will not be reclassified to profit or loss, which constitutes a significant change as compared to the current requirements of IAS 39 concerning available-for-sale instruments. At the moment of preparing the financial statements, the Group has not yet made a decision in this regard. A decision on how to recognise the measurement of equity instruments (i.e. in other comprehensive income or in profit or loss) will concern shares held, and therefore, in the Group's opinion, this decision may have a significant impact on the financial statements from the impact analysis of IFRS 9's point of view. Moreover, the Group will have to perform a re-measurement of shares which are currently recognised in the accounting books at cost.

In the Group's opinion, this standard will not have an impact on the measurement of derivatives or of financial liabilities.

Impairment

IFRS 9 introduces a new approach for the estimation of losses on financial assets measured at amortised cost. This approach will be based on estimating expected losses, unlike in the current model from IAS 39 which is based on the concept of incurred losses. In the Group's opinion, this change in concept – from the incurred losses to expected losses will have significant consequences for modelling parameters of credit risk and the final amount of impairment allowances on receivables (including receivables due to loans granted).

Currently, the Group only recognises incurred losses, mainly on the basis of individual analysis. The implementation of IFRS 9 will result in the necessity to estimate, after taking into account the macroeconomic data, of risk parameters for several scenarios. Moreover, the Group contemplates the idea of applying practical solutions for trade receivables by using payment delay matrixes, which would base on historical data taking into account the standard's requirements concerning the current and forecasted future economic conditions.

From the consolidated financial statement's point of view, the most significant group of financial assets subject to requirements to estimate the allowance for impairment are loans granted to a joint venture. Following the initial estimation of impact as at 31 December 2016, the assumed carrying amounts of loans, estimated pursuant to IFRS 9 (and for which, pursuant to IAS 39, no allowance for impairment was identified) would be immaterial. The impact analysis was conducted using an estimate of probability of failure of investments on the basis of comparable market data. In case of loans with impairment recognised as at 31 December 2016, the Group does not predict any significant changes to the amount of impairment allowances as compared to the amounts disclosed in Part 3, mainly due to small differences in methodology between IAS 39 and IFRS 9 with respect to the portfolio of impaired receivables.

The next significant category of financial assets falling under the requirement of assessing the impairment are trade receivables not subjected to factoring agreements and measured at amortised cost. The Group plans to apply simplified approach, which is allowed for this group of assets under IFRS 9 and the measurement of impairment allowance on the basis of lifetime expected credit losses.
According to the conducted analysis of IFRS 9's impact on the financial statements, the impact of new principles concerning the impairment on measurement of trade receivables not subjected to factoring would be negligible.

Hedge accounting
IFRS 9 has new guidelines concerning hedge accounting, aiming to simplify current solutions and to better reflect principles of risk management. These guidelines increase the number of items which may be designated as hedged items. The additional disclosures required by this standard will provide the information on the impact of hedge accounting on the financial statements and on the risk management strategy. According to IFRS 9, on the day of implementing IFRS 9 the Company may make a decision, which would be a part of the accounting policy, to continue to apply the existing accounting requirements of IAS 39 and therefore to not implement hedge accounting requirements of IFRS 9.

The Group has completed its analysis of the IFRS 9's impact on hedge accounting. In the Group's opinion, current hedging relations may be continued after implementing the new standard, nevertheless the hedge accounting's documentation and efficiency testing requirements will have to be changed. In the Group's opinion, the application of IFRS 9 would make it possible to designate new hedging relations. After completing the analysis of risks and gains related to adopting solutions for hedge accounting introduced by IFRS 9, the Company will make a decision whether it will apply IFRS 9 on the day of implementation of IFRS 9 or if it will stay with the requirements of IAS 39 with respect to hedge accounting.

Implementation status
The Group has completed work related to the assessment of the new standard's impact (the project's first stage). A preliminary assessment of business models and cash flows was completed, and therefore assets were identified for which the measurement method must be changed to the one used for fair value measurement. The Group assessed the standard's impact on hedge accounting and will make a decision in 2017 as to its adoption date. In 2017, the Group will put an emphasis on work related to assessing the expected impairment. In the later stage, the Group will take care of the scope of disclosures required by the standard. In the Group's opinion, changes arising from adopting IFRS 9 will have an impact on policies and procedures, which will have to be adjusted to new requirements, and that will be the goal of the project's second stage. In the Group's opinion, the adoption of IFRS 9 will not make it necessary to significantly change the current IT systems.

IFRS 15 "Revenue from contracts with customers" and Amendments to IFRS 15, clarifying some of the standard's requirements
IFRS 15 was adopted for use by the European Union and is effective for annual periods beginning on or after 1 January 2018. Amendments to IFRS 15 are still pending their adoption by the European Union. The new standard will replace the current standards IAS 11 and 18, as well as the following interpretations: IFRIC 13, 15, 18 and SIC 31. The Group will apply IFRS 15 from 1 January 2018.
The standard applies to all contracts resulting in revenues. A fundamental principle of the new standard is recognising revenues at the amount of the transaction price, at the moment when a given good is delivered or service is rendered to a customer, which is when the customer obtains control over these assets. All goods and services which are sold in bundles and which may be separately identifiable should be recognised separately. Moreover, all discounts and rebates influencing the transaction price should, as a rule, be allocated to individual parts of a bundle. If the amount of revenue is variable, the variable amounts are recognised as revenues if it is highly probable that a reversal in the amount of revenue will not occur as a result of a revaluation. In addition, in accordance with IFRS 15, costs incurred to obtain and fulfil a contract with a customer should be capitalised and amortised when benefits of this contract are consumed.
The Group analysed the impact of applying IFRS 15 on recognising revenues from contracts concluded by the Group. The first phase of work concerned the analysis of differences between IFRS 15 and current principles governing the recognition of revenues. In the next step, the Group aggregated contracts concluded with its customers in 2016 by bundling them and adopting, as the primary criteria of bundling them, the moment of transferring control over promised goods or services to a customer. The KGHM Polska Miedź S.A. Group mainly concludes sales contracts for produced copper, precious metals and other by-products of copper production, which constitutes approx. 98% of its total revenues from sales. These contracts make use of International Commercial Terms ("Incoterms") to determine the terms of delivery. Therefore, the moment of transferring control to the client was determined by analysing these terms.
The bundles created from aggregated contracts were analysed in order to identify the performance obligations towards the clients in these contracts, and to identify all goods or services (or a bundle of goods or services) or a bundle of distinct goods or services, the transfer of which to the customer has identical characteristics. Based on the aforementioned analyses and taking into account the fact that the moment of transferring control over the promised goods and services to a client is precisely described in the delivery conditions, it was determined that:

- in the case of most contracts, control is transferred to the customer after delivery of the goods. It applies to sales concluded on the basis of the following INCOTERMS: DAP, FCA, EX WORKS and FOB. In these cases, pursuant to IFRS 15, all goods and services promised in the contract (e.g. transport, customs clearance) should be considered to be a single performance obligation and recognise revenues once, in a given moment,
- in the case of other contracts, control over goods is transferred to the customer before the delivery is made, i.e. transport services, and the Group is obliged to organise the completion of this service. It applies to sales concluded on the basis of the following INCOTERMS: CFR, CIF, CPT and CIP. In such a case, the obligation to sale goods and obligation to perform a transport service should be considered to be different services promised in the contract and properly allocate to them the transaction price arising from the contract and separately recognise their revenues. Pursuant to IFRS 15, revenues from sales of goods should be recognised once in a given moment, while revenues from services rendered should be recognised over time, proportionally to the progress towards complete satisfaction of that performance obligation. However, due to the relatively immaterial share of transport services' costs and services associated with it as compared to the revenues from sales and that the time of delivery of such shipments does not exceed 7 weeks, in the Group's opinion the impact on current method of recognising revenues will be immaterial.

Based on the conducted analysis, the Group determined that there are no further differences between IFRS 15 and IAS 11 and 18 and interpretations IFRIC 13, 15 and 18 and SIC 31 that may result in a significant change in the current method of recognising revenues from contracts concluded with customers.
With respect to disclosures required by IFRS 15, in the Group's opinion, due to the relatively homogenous character of the Group's operating activities, the impact of IFRS 15 will not be significant. However, it is possible that the current scope of disclosures will be modified if the change will allow the financial statements' users to have better understanding of the character, amounts, date of obtaining and the uncertainty related to revenues and cash flows arising from contracts with customers.
At the same time, the Group plans to implement a procedure aimed at ensuring continuous analysis and assessment of impact of terms and conditions of new or renegotiated contracts, to recognise revenues from sales.
Moreover, the Group will update its Accounting Policy with respect to recognising revenues, mainly in order to adjust its terminology to IFRS 15.

IFRS 16 „Leases"

IFRS 16 will be effective for annual periods beginning on or after 1 January 2019 and its awaiting the adoption by the European Union.
The Group will apply IFRS 16 from 1 January 2019. The new standard provides a single model for recognising leases in the lessee's accounting books. According to initial estimates, the application of IFRS 16 will result in recognition in the statement of financial position of the Group of agreements currently classified as operating leases and perpetual usufruct agreements not recognised in the statement of financial position. Nevertheless, the Group has not yet finished the detailed impact analysis, which is planned to be conducted in 2017/2018.

Other standards and interpretations published, but not yet in force are not applicable to the Group's activities nor will they have an impact. These are as follows:

- Amendments to IFRS 10 and IAS 28 with respect to the sale or contribution of assets between an investor and its associate or joint venture;
- Amendments to IAS 12 with respect to recognising deferred tax assets arising from unused tax losses;
- Amendments to IAS 7 – the disclosure initiative – this change will not have an impact on the consolidated financial statements because the Group currently presents a reconciliation of net debt;
- Amendments to IFRS 2 in relation to the classification and measurement of share-based payment transactions;
- Amendments to IFRS 4 with respect to applying IFRS 9 with IFRS 4;
- Amendments to IAS 40 regarding transfers of investment property;
- IFRIC 22 Interpretation on foreign currency transactions and advance consideration;
- Annual improvements to IFRS Standards, 2014-2016 Cycle.

The aforementioned standards are awaiting the adoption by the European Union, and the Group aims to apply all of the amendments at their effective dates.

Note 1.5 Significant changes in the structure of the KGHM Polska Miedź S.A. Group

On 20 December 2016 ("merger date"), there was a merger of three Luxembourg subsidiaries: Fermat 1 S.á r.l., Fermat 2 S.á r.l. and Fermat 3 S.á r.l. ("acquired companies") with the Polish subsidiary Future 1 Sp. z o.o. ("acquiring company"). The mergers took place in the following order:

1st merger: Fermat 1 S.á r.l. was merged with Future 1 Sp. z o.o. ("1st merger"). After finalising the 1st merger, Future 1 Sp. z o.o. became a direct shareholder in the companies Fermat 2 S.á r.l and Fermat 3 S.á r.l.,

2nd merger: Fermat 3 S.á r.l merged with Future 1 Sp. z o.o.,

3rd merger: Fermat 2 S.á r.l merged with Future 1 Sp. z o.o.

All of the mergers took place on the same day.

Pursuant to the accounting policy chosen by Future 1 Sp. z o.o., the transaction of merging the jointly-controlled companies was recognised by applying the purchase price method.
As part of the 1st merger, Future 1 Sp. z o.o. increased its share capital by PLN 2 401 million, which was acquired by KGHM Polska Miedź S.A. in exchange for the net assets of the company Fermat 1 S.á r.l.

Other changes to the Group structure in 2016 were described in detail in the Management Board's report on the activities of KGHM Polska Miedź S.A and KGHM Polska Miedź S.A. Group (point 2.3).

Part 2 – Information on segments and revenues

Note 2.1 Operating segments

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

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

Reporting segment	Operating segments aggregated in a given reporting segment	Indications of similarity of economic characteristics of segments, taken into account in aggregations
KGHM Polska Miedź S.A.	KGHM Polska Miedź S.A.	Not applicable (it is a single operating and reporting segment)
KGHM INTERNATIONAL LTD.	Companies of the KGHM INTERNATIONAL LTD. Group, where the following mines, deposits or mining areas constitute the operating segments: Sudbury Basin, Robinson, Carlota, Franke and Ajax.	Operating segments within the KGHM INTERNATIONAL LTD. Group are located in North and South America. The Management Board analyses the results of the following operating segments: Sudbury Basin, Robinson, Carlota, Franke, Ajax and other. In addition, the Management Board receives and analyses reports on the whole KGHM INTERNATIONAL LTD. Group. Operating segments are engaged in exploration and assessment of deposits of copper, molybdenum, silver, gold and nickel. The operating segments were aggregated based on the similarity of long term margins achieved by individual segments, and the similarity of products, processes and production methods
Sierra Gorda S.C.M.	Sierra Gorda 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 as a result of merging with the companies Fermat 1 S. á r. l., Fermat 2 S. á r. l. and Fermat 3 S. á r. l. – took over their functions within the holding structure founded to acquire KGHM INTERNATIONAL LTD.
- Future 2 Sp. z o.o., Future 3 Sp. z o.o., Future 4 Sp. z o.o., Future 5 Sp. z o.o., Future 6 Sp. z o.o. and Future 7 Sp. z o.o., which operate in the structure related to the establishment of a Tax Group.

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

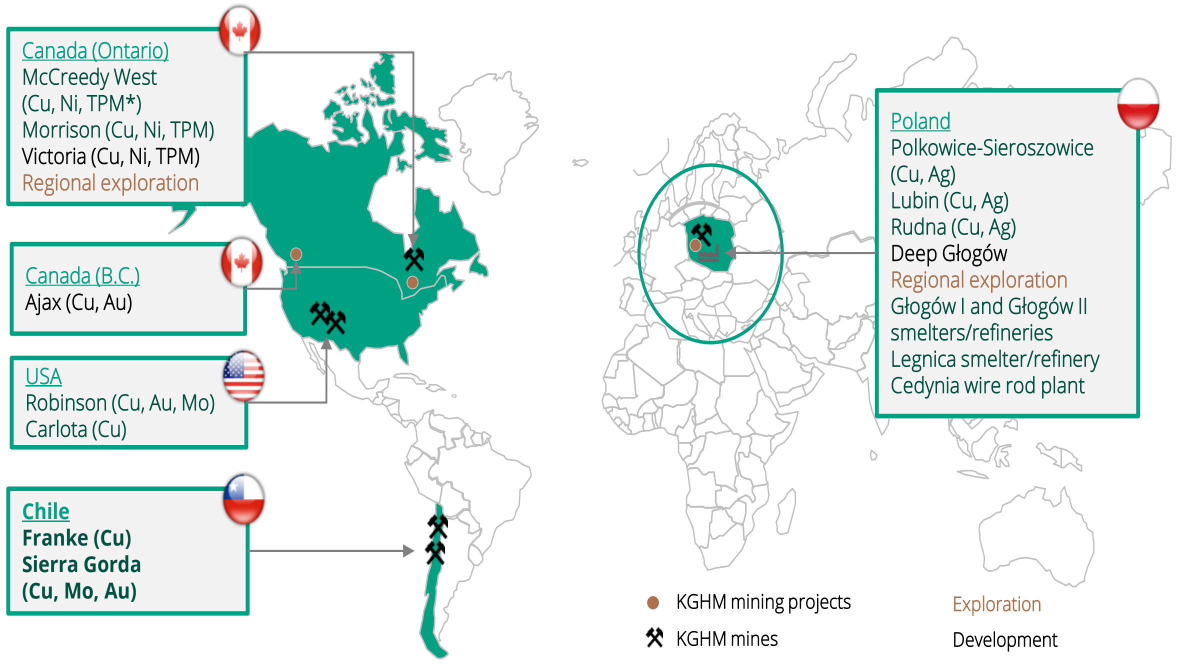
Each of the segments KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M. have their own Management Board, which reports the results of their business activities directly to the President of the Management Board of the Parent Entity.

The segment KGHM Polska Miedź S.A. is composed only of the Parent Entity, and the segment Sierra Gorda S.C.M. is composed only of the 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., 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

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



**** TPM – precious metals***

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

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

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

- The segment KGHM Polska Miedź S.A. - comprises data from the separate financial statements of the Parent Entity prepared in accordance with IFRSs. In the separate financial statements, investments in subsidiaries (including investment in KGHM INTERNATIONAL LTD.) are measured at cost.
- The segment KGHM INTERNATIONAL LTD. – comprises consolidated data of the KGHM INTERNATIONAL LTD. Group prepared in accordance with IFRSs and including fair value adjustments from the settlement of the acquisition of this Group by KGHM Polska Miedź S.A. in 2012. 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 after fair value adjustments of assets and liabilities of this venture, determined when accounting for the acquisition of the KGHM INTERNATIONAL LTD. Group in 2012.
- Other segments – comprises aggregated data of individual subsidiaries 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/(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. Since adjusted EBITDA is not a measure defined by IFRS, it 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 and trade receivables. 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

		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	Consolidation adjustments	Consolidated financial statements
Note 2.3	**Sales revenue**	**15 112**	**2 535**	**1 394**	**6 409**	(1 394)	(4 900)	19 156
	Inter-segment sales revenue	260	-	29	4 665	(29)	(4 925)	-
	External sales revenue	14 852	2 535	1 365	1 744	(1 365)	25	19 156
	Segment result	**(4 085)**	**(6 828)**	**(6 015)**	**(235)**	**6 015**	**6 699**	**(4 449)**
	Additional information on significant revenue/cost items of the segment							
	Depreciation/amortisation recognised in profit or loss	(956)	(517)	(843)	(236)	843	11	(1 698)
	Recognition/reversal of impairment loss on non-current assets, including:	(6 197)	(5 718)	(6 728)	(89)	6 728	6 078	(5 926)
	Impairment loss on investments in subsidiaries	(4 856)	-	-	(91)	-	4 947	-
	Allowance for impairment of loans granted	(1 130)	(4 394)	-	-	-	1 130	(4 394)
	Share of losses of joint ventures accounted for using the equity method	-	(1 199)	-	-	-	(1)	(1 200)
	Deferred tax due to impairment losses on non-current assets	69	183	1 854	-	(1 854)	-	252
		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
	Liabilities, including:	**14 200**	**16 853**	**12 880**	**1 943**	**(12 880)**	**(15 465)**	**17 531**
	Segment liabilities	14 200	16 853	12 880	1 943	(12 880)	(15 651)	17 345
	Liabilities unallocated to segments							186
	Other information	2016						
	Cash expenditures on property, plant and equipment and intangible assets	2 604	430	586	209	(586)	8	3 251
	Production and cost data	2016						
	Payable copper (kt)	535.6	89.8	51.5				
	Molybdenum (million pounds)	-	0.8	12.2				
	Silver (t)	1 191.1	1.7	14.1				
	TPM (koz t)	113.8	92.1	22.9				
	C1 cash cost of producing copper in concentrate (USD/lb)**	1.30	1.63	1.96				
	Adjusted EBITDA	**3 551**	**614**	**189**	**312**	**-**	**-**	**4 666**

* 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.

Financial results of reporting segments for the comparable period

		2015						
						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	Consolidation adjustments	Consolidated financial statements
Note 2.3	**Sales revenue**	**15 939**	**2 577**	**608**	**6 594**	**(608)**	**(5 102)**	**20 008**
	Inter-segment sales revenue	262	-	38	4 863	(38)	(5 125)	-
	External sales revenue	15 677	2 577	570	1 731	(570)	23	20 008
	Segment result	**(2 788)**	**(7 731)**	**(4 455)**	**(49)**	**4 455**	**5 559**	**(5 009)**
	Additional information on significant revenue/cost items of the segment							
	Depreciation/amortisation recognised in profit or loss	(875)	(850)	(369)	(228)	369	10	(1 943)
	Recognition/reversal of impairment loss on non-current assets, including:	(5 272)	(2 562)	(4 399)	(88)	4 399	4 952	(2 970)
	Impairment loss on investments in subsidiaries	(4 928)	-	-	(23)	-	4 951	-
	Share of losses of joint ventures accounted for using the equity method	-	(4 455)	-	-	-	(2)	(4 457)
	Impairment loss on interest in a joint venture	-	(671)	-	-	-	-	(671)
	Deferred tax due to impairment losses on non-current assets	52	479	609	18	(609)	-	549
		2015						
	Assets, including:	**33 120**	**14 071**	**12 568**	**5 327**	**(12 568)**	**(15 754)**	**36 764**
	Segment assets	33 120	13 537	12 568	5 327	(12 568)	(15 783)	36 201
	Joint ventures accounted for using the equity method	-	534	-	-	-	28	562
	Assets unallocated to segments							1
	Liabilities, including:	**12 841**	**14 937**	**11 253**	**1 825**	**(11 253)**	**(13 253)**	**16 350**
	Segment liabilities	12 841	14 937	11 253	1 825	(11 253)	(13 387)	16 216
	Liabilities unallocated to segments							134
	Other information	2015						
	Cash expenditures on property, plant and equipment and intangible assets	2 481	1 101	1 119	327	(1 119)	30	3 939
	Production and cost data	2015						
	Payable copper (kt)	574.3	97.6	25.2				
	Molybdenum (million pounds)	-	1.0	6.2				
	Silver (t)	1 283.2	1.6	7.7				
	TPM (koz t)	86.9	95.3	12.8				
	C1 cash cost of producing copper in concentrate (USD/lb)**	1.47	1.87	2.58				
	Adjusted EBITDA	**4 163**	**369**	**(101)**	**279**	**-**	**-**	**4 710**

* 55% of the Group's share in Sierra Gorda S.C.M.'s financial and production data. Comprising the period from the start of commercial production, i.e. July 2015.
** unit cash cost of payable copper production, reflecting ore mining and processing costs, transport costs, the minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value.

in PLN millions, unless otherwise stated

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

Reconciliation of adjusted EBITDA	2016 KGHM Polska Miedź S.A.	2016 KGHM INTERNATIONAL LTD.	2016 Sierra Gorda S.C.M.*	2016 Other segments
(Loss) for the period	**(4 085)**	**(6 828)**	**(6 015)**	**(235)**
[-] Share of losses of joint ventures accounted for using the equity method	**-**	**(1 199)**	**-**	**-**
[-] Current and deferred income tax	(710)	137	2 259	(33)
[-] Depreciation/amortisation recognised in profit or loss	(956)	(517)	(843)	(236)
[-] Finance income / (costs)	(541)	(657)	(805)	(15)
[-] Other operating income and (costs)	(5 429)	(4 938)	(153)	(264)
[=] EBITDA	3 551	346	(6 473)	313
[-] (Recognition)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	(268)	(6 662)	1
Adjusted EBITDA	**3 551**	**614**	**189**	**312**

	2016 KGHM Polska Miedź S.A.	2016 KGHM INTERNATIONAL LTD.	2016 Sierra Gorda S.C.M.*	2016 Other segments
Profit/(loss) on sales (EBIT)	**2 595**	**(171)**	**(7 316)**	**77**
[-] Depreciation/amortisation recognised in profit or loss	(956)	(517)	(843)	(236)
[=] EBITDA	3 551	346	(6 473)	313
[-] (Recognition)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	(268)	(6 662)	1
[=] Adjusted EBITDA	**3 551**	**614**	**189**	**312**

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

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

	2015 KGHM Polska Miedź S.A.	2015 KGHM INTERNATIONAL LTD.	2015 Sierra Gorda S.C.M.*	2015 Other segments
Profit/(loss) on sales (EBIT)	**3 284**	**(2 892)**	**(4 855)**	**53**
[-] Depreciation/amortisation recognised in profit or loss	(875)	(850)	(369)	(228)
[=] EBITDA	4 159	(2 042)	(4 486)	281
[-] (Recognition)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	(4)	(2 411)	(4 385)	2
[=] Adjusted EBITDA	**4 163**	**369**	**(101)**	**279**

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

in PLN millions, unless otherwise stated

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

Accounting policies

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

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	Consolidation adjustments	Consolidated data
Copper	10 490	1 791	1 036	6	(1 036)	(351)	**11 936**
Silver	2 596	17	33	-	(33)	-	**2 613**
Gold	556	275	120	-	(120)	-	**831**
Services	93	493	-	2 259	-	(1 858)	**987**
Other	1 377	240	348	4 144	(348)	(2 691)	**3 070**
TC/RC**	-	(281)	(143)	-	143	-	**(281)**
TOTAL	**15 112**	**2 535**	**1 394**	**6 409**	**(1 394)**	**(4 900)**	**19 156**

2015

					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	Consolidation adjustments	Consolidated data
Copper	12 498	1 904	500	1	(500)	419	**14 822**
Silver	2 394	19	15	-	(15)	15	**2 428**
Gold	373	247	60	-	(60)	60	**680**
Services	86	467	-	2 391	-	(1 940)	**1 004**
Other	588	213	101	4 202	(101)	(3 656)	**1 347**
TC/RC**	-	(273)	(68)	-	68	-	**(273)**
TOTAL	**15 939**	**2 577**	**608**	**6 594**	**(608)**	**(5 102)**	**20 008**

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

in PLN millions, unless otherwise stated

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

		2016	2015
Europe			
	Poland	5 031	4 912
	Germany	2 335	2 885
	The United Kingdom	1 623	1 444
	Czechia	1 207	1 347
	Switzerland	616	481
	France	601	619
	Hungary	504	656
	Italy	476	726
	Austria	206	271
	Spain	154	2
	Bulgaria	85	14
	Slovakia	83	101
	Romania	62	92
	Belgium	55	138
	Other countries (dispersed sale)	222	310
North and South America			
	The United States of America	1 262	1 721
	Canada	758	691
	Chile	102	76
	Other countries (dispersed sale)	4	7
Australia			
	Australia	128	115
Asia			
	China	2 170	2 847
	Singapore	676	93
	South Korea	324	137
	India	159	74
	Turkey	140	181
	Taiwan	101	4
	Japan	52	45
	Other countries (dispersed sale)	11	16
Africa		9	3
TOTAL		**19 156**	**20 008**

Note 2.5 Main customers

In the period from 1 January 2016 to 31 December 2016 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	
	2016	2015
Poland	17 413	16 154
Canada	2 275	3 210
The United States of America	557	557
Chile	323	437
TOTAL	**20 568**	**20 358**

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

Note 2.7 Information on segments' results

The segment KGHM Polska Miedź S.A.

In 2016, the adjusted EBITDA of the segment KGHM Polska Miedź S.A. amounted to PLN 3 551 million, which represents a decrease of 15% as compared to the level recorded in the previous year (EBITDA in the amount of PLN 4 163 million).

The decrease in the operating result is mainly the result of lower copper prices, which were partially offset by a USD/PLN exchange rate more favourable for the Parent Entity. The temporary limitation of production related to bringing the flash furnace on-line, which replaced the shaft furnace at the Głogów I Copper Smelter and Refinery, was also of significance as it contributed to the decrease in sales volume, and therefore sales revenue of copper and silver. This decrease was, to a certain degree, offset by selling copper concentrate (132 thousand tonnes of dry weight). Moreover, in 2016 the adjustments due to settlement of hedging transactions which increased revenues was lower, by PLN 479 million, than the amount recorded in the comparable prior year period. As a result of the aforementioned factors, revenues from sales were lower by PLN 827 million as compared to 2015.
Cost of sales, selling costs and administrative expenses did not change significantly and amounted to PLN 12 517 million.

In 2016, the Parent Entity's financial result was mainly impacted by impairment losses on non-current assets in the amount of PLN 6 197 million, including PLN 4 856 million on investments in subsidiaries, and PLN 1 130 million on loans granted. As a result, this segment's loss for the period amounted to PLN 4 085 million, which is a decrease in the financial result as compared to 2015 by PLN 1 297 million.
The production and financial results of KGHM Polska Miedź S.A. are described in more detail in section 7 of the Management Board's report on the activities of KGHM Polska Miedź S.A and KGHM Polska Miedź S.A. Group in 2016.

The segment KGHM INTERNATIONAL LTD.

In 2016, the adjusted EBITDA of the segment KGHM INTERNATIONAL LTD. amounted to PLN 614 million, which represents an increase by PLN 245 million as compared to the previous year.
The increase in the segment's operating results was impacted by a decrease in costs of sales, selling costs and administrative expenses, i.e. as a result of undertaken saving initiatives.
In 2016, the segment's loss for the period in the amount of PLN 6 828 million was mainly impacted by recognising impairment losses on non-current assets and share of losses of Sierra Gorda S.C.M. accounted for using the equity method in the total net amount of PLN 6 734 million.
The production and financial results of the KGHM INTERNATIONAL LTD. Group are described in more detail in section 8 of the Management Board's report on the activities of KGHM Polska Miedź S.A and KGHM Polska Miedź S.A. Group in 2016.

The segment Sierra Gorda S.C.M.

The adjusted EBITDA of the segment Sierra Gorda (55% share) amounted to PLN 189 million, which represents a significant increase as compared to the negative EBITDA recorded in 2015 in the amount of PLN 101 million. It should be noted however, that the results for 2015 concern the second half of that year, i.e. since commercial production started. Moreover, in 2016 the company continued activities aimed at improving the stability of the technological parameters of ore processing and concentrate production, most of all of molybdenum, the recovery of which is below our expectations.

The segment recorded a loss for the period in the amount of PLN 6 015 million, which represents a 55% share of losses of Sierra Gorda S.C.M.
The main factor responsible for the negative net result is the impairment loss on non-current assets. Proportionally to the share in the company, the impairment loss amounted to PLN 6 728 million before taxation and PLN 4 874 million net of tax. The next significant factor was accrued interest on the owner loan granted to finance the mine's construction.
The production and financial results of Sierra Gorda S.C.M. are described in more detail in section 9 of the Management Board's report on the activities of KGHM Polska Miedź S.A and KGHM Polska Miedź S.A. Group in 2016.

Part 3 – Impairment of assets

Note 3.1. Impairment testing of the KGHM INTERNATIONAL LTD. Group's assets

The business of the KGHM INTERNATIONAL LTD. Group's companies is the mining production of metals (including copper, gold, nickel and platinum) in mines operating in the USA, Canada and Chile, the largest of which are the Sierra Gorda, Robinson, Morrison, Franke and Carlota mines as well as mining projects at the pre-operational stage, of which the most significant are Victoria and Ajax in Canada.

In the current period, due to the identification of indications of the impairment of assets, the Group tested the international mining assets for impairment. A key indication to perform impairment testing was the significant change in parameters of mining assets of the KGHM INTERNATIONAL LTD. Group, such as mine lives, copper production volumes, assumed operating costs and the level of capital expenditures during a mine's life.

The following CGUs have been selected for the purpose of assessment of recoverable amount of the assets of the KGHM INTERNATIONAL LTD. Group:

- Robinson mine,
- Sudbury Basin, comprising the operating Morrison mine, the McCreedy mine which is in the process of closure and the pre-operational Victoria project,
- Franke mine,
- Carlota mine,
- Involvement in the joint venture Sierra Gorda, and
- the Ajax project.

To determine the recoverable amount of assets in individual CGUs during the testing, their fair value was calculated (less costs to sell), using the DCF method, i.e. the method of discounted cash flows of CGUs: Sudbury, KGHM AJAX, involvement in Sierra Gorda and the value in use of CGUs Robinson, Carlota and Franke.

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

BASIC MACROECONOMIC ASSUMPTIONS ADOPTED IN THE IMPAIRMENT TESTING	
Assumption	**Level adopted for testing**
Copper price	The copper price curve was adopted based on internal macroeconomic assumptions which were prepared based on available multi-year forecasts of financial and analytical institutions. A detailed forecast was prepared for the period 2017 – 2021, while the forecast for subsequent years was estimated, based on a long-term copper price, at the level of 6 614 USD/t.

OTHER KEY ASSUMPTIONS USED FOR RECOVERABLE AMOUNT ESTIMATION OF ASSETS OF CGUs						
Assumption	**Robinson**	**Sudbury**	**Franke**	**Carlota**	**Sierra Gorda**	**KGHM AJAX**
Mine life / forecast period	6 years	19 years	5 years	4 years	24 years	19 years
Level of copper production during mine life [kt]	257	305	88	9	4 352	1 005
Average operating margin during mine life	31%	61%	7%	24%	36%	39%
Capital expenditures to be incurred during mine life [USD million]	316	1 616	6	1	2 040 (to be incurred mainly in the years 2017-2019)	1 635
Applied discount rate after taxation for assets in the operational phase	9%	8%	11%	10%	8%	-
Applied discount rate after taxation for assets in the pre-operational phase	-	11%	-	-	-	8%
Costs to sell	2%					

Results of the test performed as at 31 December 2016 are presented in the following table:

CGUs	Segment (Part 2)	Carrying amount		Recoverable amount		Impairment loss	
		USD mn	PLN mn	USD mn	PLN mn	USD mn	PLN mn
Robinson	KGHM INTERNATIONAL LTD.	161	673	127	532	34	141
Sudbury		426	1 780	341	1 424	85	356
Franke		-	-	13	54	-	-
Carlota		-	-	-	-	-	-
KGHM AJAX MINING INC.		183	764	80	334	103	430
Involvement in Sierra Gorda		2 083	8 707	1 032	4 313	1 051	4 394
Total						**1 273**	**5 321**

in PLN millions, unless otherwise stated

Impairment losses were recognised in the following items of the consolidated statement of profit or loss:

Cost of sales	242
Allowances for impairment of loans granted to joint ventures	4 394
Other operating costs	854
Income tax on recognised impairment losses	(169)
Total impairment losses, net	**5 321**

Note 3.2 Impairment testing of exploration and evaluation assets

Pursuant to IFRS 6, in the current reporting period the Group conducted an analysis aimed at identifying indications of impairment of exploration and evaluation assets (intangible assets not yet available for use).

As a result of the analysis conducted for projects:

- „Exploration and economic assessment of copper mineralisation in the Synklina Grodziecka region" – carrying amount of PLN 118 million,
- „Production of synthetic gas through the underground gasification of brown coal in the Copper Belt (LGOM)"– carrying amount of PLN 18 million,

In the Group's opinion, work on these projects did not result in identifying mineral reserves and resources that would be commercially significant, which provides the basis to recognise an impairment loss. The identified impairment loss amounted to PLN 136 million,

- for the Kirkwood project (advanced by the KGHM INTERNATIONAL LTD. Group) the conducted analyses have shown that the carrying amount of the project will not be fully recovered, and therefore an impairment loss was recognised in the amount of PLN 53 million.

Note 3.3 Impairment testing of intangible assets with an indefinite useful life

In 2016, the Group recognised an impairment loss in the amount of PLN 148 million on water rights as limitations arose concerning the amount of water which could be obtained from water sources held in Chile.

Note 3.4 Other impairment losses on assets

Other impairment losses on assets concern:

- available-for-sale financial assets – PLN 57 million (Note 7.3),
- fixed assets under construction and other intangible assets not yet available for use – PLN 18 million,
- other property, plant and equipment and intangible assets – PLN 27 million,
- write-down of inventories – PLN 83 million.
- allowance for impairment of receivables – PLN 10 million.

Information on where impairment losses were recognised in the consolidated statement of profit or loss may be found in note 4.4.

in PLN millions, unless otherwise stated

Part 4 - Explanatory notes to the statement of profit or loss

Note 4.1 Expenses by nature

		2016	2015
Note 9.3	Depreciation of property, plant and equipment and amortisation of intangible assets	1 718	2 015
Note 11.1	Employee benefits expenses	4 672	4 706
	Materials and energy	7 035	7 264
	External services	2 192	2 110
Note 5.2	Minerals extraction tax	1 338	1 439
	Other taxes and charges	499	504
	Advertising costs and representation expenses	61	75
	Property and personal insurance	30	31
Part 3, Note 4.4	Impairment losses on non-current and intangible assets	269	2 417
	Other costs	183	265
	Total expenses by nature	**17 997**	**20 826**
	Cost of merchandise and materials sold (+)	436	505
	Change in inventories of finished goods and work in progress (+/-)	(225)	(4)
	Cost of manufacturing products for internal use of the Group (-) (mainly stripping costs of surface mines)	(1 596)	(1 825)
	Costs of sales, selling costs and administrative expenses, including:	**16 612**	**19 502**
	Cost of sales	15 242	18 159
	Selling costs	410	413
	Administrative expenses	960	930

Note 4.2 Other operating income and (costs)

		2016	2015
Note 7.1	Measurement and realisation of derivatives	167	121
Note 7.1	Foreign exchange gains on assets and liabilities other than borrowings	511	143
	Write-off of the not yet due tax liability	185	-
	Other	212	216
	Total other operating income	**1 075**	**480**
Note 7.1	Measurement and realisation of derivatives	(371)	(361)
Part 3, Note 4.4, Note 7.3	Impairment loss on available-for-sale assets	(57)	(265)
Part 3, Note 4.4,	Impairment loss on fixed assets under construction and intangible assets not yet available for use	(1 209)	(292)
	Other	(240)	(222)
	Total other operating costs	**(1 877)**	**(1 140)**
	Other operating income and (costs)	**(802)**	**(660)**

in PLN millions, unless otherwise stated

Note 4.3 Finance income and (costs)

		2016	2015
Note 7.1	Measurement of derivatives	26	1
	Other	-	6
	Total income	**26**	**7**
Note 7.1	Interest on borrowings	(85)	(156)
Note 7.1	Foreign exchange losses on borrowings	(401)	(29)
Note 7.1	Measurement of derivatives	(9)	(13)
	Unwinding of the discount effect	(46)	(52)
	Other	(67)	(63)
	Total costs	**(608)**	**(313)**
	Finance income and (costs)	**(582)**	**(306)**

Note 4.4 Recognition/ reversal of impairment losses on assets recognised in the statement of profit or loss

		2016	2015
Part 3	**Impairment losses on assets recognised in:**		
	cost of sales, of which:	**357**	**2 589**
	impairment loss on property, plant and equipment and intangible assets	269	2 417
	write-down of inventories	83	163
	allowance for impairment of trade receivables	5	9
	share of losses of joint ventures accounted for using the equity method	**-**	**3 790**
	impairment loss on interest in a joint venture	**-**	**671**
Note 6.2	**allowance for impairment of loans granted to joint ventures**	**4 394**	**-**
Part 3	**other operating costs, of which:**	**1 271**	**559**
	impairment losses on available-for-sale financial assets	57	265
	impairment losses on fixed assets under construction and intangible assets not yet available for use	1 209	292
	allowance for impairment of other receivables	5	2
	Impairment losses, total	**6 022**	**7 609**
	Reversal of impairment losses on assets, recognised in:		
	cost of sales, of which:	**11**	**8**
	impairment loss on property, plant and equipment and intangible assets	2	4
	write-down of inventories	7	2
	allowance for impairment of trade receivables	2	2
	other operating income, of which:	**3**	**3**
	impairment losses on available-for-sale financial assets	1	-
	allowance for impairment of other receivables	2	3
	Reversal of impairment losses, total	**14**	**11**

in PLN millions, unless otherwise stated

Part 5 - Taxation

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

Accounting policies

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

Income tax

		2016	2015
	Current income tax	810	895
Note 5.1.1	Deferred income tax	(125)	(1 008)
	Tax adjustments for prior periods	(37)	-
	Income tax	**648**	**(113)**

In 2016, the Group entities paid income tax in the amount of PLN 451 million (in 2015: PLN 925 million) to appropriate tax offices.

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

Reconciliation of effective tax rate

	2016	2015
Loss before tax	**(3 801)**	**(5 122)**
Tax calculated using the Parent Entity's rate (2016: 19%, 2015: 19%)	(722)	(973)
Effect of applying other tax rates abroad	(470)	(430)
Tax effect of non-taxable income	(140)	(364)
Tax effect of expenses not deductible for tax purposes:	**1 359**	**1 210**
impairment losses on the KGHM INTERNATIONAL LTD. Group's assets	1 105	936
minerals extraction tax, which is not deductible for corporate income tax purposes	254	274
Deductible temporary differences on which deferred tax assets were not recognised	619	770
Utilisation of previously-unrecognised tax losses	(2)	(275)
Other	4	(51)
Income tax in profit or loss [effective tax rate amounted to (17.1)% (in 2015: 2.2%) of loss before tax]	**648**	**(113)**

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

in PLN millions, unless otherwise stated

Note 5.1.1 Deferred income tax

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

	2016	2015
Net deferred tax liabilities at the beginning of the period, of which:	**(157)**	**(1 141)**
Deferred tax assets	557	535
Deferred tax liabilities	(714)	(1 676)
Recognised in profit or loss	125	1 008
Recognised in other comprehensive income, due to:	**(20)**	**(24)**
deferred income tax	1	96
exchange differences from translation of deferred income tax of foreign operations	(21)	(120)
Net deferred tax liabilities at the end of the period, of which:	**(52)**	**(157)**
Deferred tax assets	511	557
Deferred tax liabilities	(563)	(714)

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

	Deferred tax assets		Deferred tax liabilities	
	2016	2015	2016	2015
Maturity over the 12 months from the end of the reporting period	200	384	543	698
Maturity of up to 12 months from the end of the reporting period	311	173	20	16
Total	**511**	**557**	**563**	**714**

in PLN millions, unless otherwise stated

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

	2016				2015			
	Unused tax losses	Expiry date	Unused tax credits	Expiry date	Unused tax losses	Expiry date	Unused tax credits	Expiry date
Luxembourg	-	-	-	-	708	2020	-	-
Chile	1 197	undefined	-	-	1 042	undefined	-	-
Canada	1 206	2032-2036	53	2015-2021	990	2032-2035	55	2015-2021
Other	258	-	116	-	291	-	108	-
Total	**2 661**		**169**		**3 031**		**163**	

As at 31 December 2016, the Parent Entity did not recognise the deferred tax liabilities on taxable temporary differences in the amount of PLN 1 116 million (as at 31 December 2015: PLN 1 215 million) related to investments in subsidiaries and interest in joint ventures, as the conditions stipulated in IAS 12.39 were met.

in PLN millions, unless otherwise stated

Deferred tax assets

	1 January 2015	Credited/(Charged) profit or loss	Credited/(Charged) other comprehensive income	Credited/(Charged) exchange differences from translation of foreign operations	31 December 2015	Credited/(Charged) profit or loss	Credited/(Charged) other comprehensive income	Credited/(Charged) exchange differences from translation of foreign operations	31 December 2016
Provision for decommissioning of mines and other technological facilities	198	(21)	-	-	177	(21)	-	-	156
Measurement of forward transactions	211	(120)	-	-	91	(7)	-	-	84
Difference between the depreciation rates of property, plant and equipment for accounting and tax purposes	238	(204)	-	16	50	29	-	-	79
Future employee benefits	406	8	(14)	(2)	398	2	(21)	-	379
Measurement of available-for-sale financial assets	49	50	-	-	99	11	-	-	110
Other	381	120	28	77	606	36	31	17	690
Total	**1 483**	**(167)**	**14**	**91**	**1 421**	**50**	**10**	**17**	**1 498**

Deferred tax liabilities

	1 January 2015	(Credited)/Charged profit or loss	(Credited)/Charged other comprehensive income	(Credited)/Charged exchange differences from translation of foreign operations	31 December 2015	(Credited)/Charged profit or loss	(Credited)/Charged other comprehensive income	(Credited)/Charged exchange differences from translation of foreign operations	31 December 2016
Measurement of forward transactions	93	(60)	-	-	33	9	-	-	42
Re-measurement of hedging instruments	63	-	(63)	-	-	-	-	-	-
Difference between the depreciation rates for accounting and tax purposes	920	(110)	9	294	1 113	(109)	-	20	1 024
Adjustments due to fair value measurement of KGHM INTERNATIONAL LTD. and realisation of adjustments to the end of the reporting period	753	(472)	-	-	281	(125)	-	11	167
Temporary differences from dividends income from the Sierra Gorda investment*	511	(515)	-	4	-	-	-	-	-
Other	284	(18)	(28)	(87)	151	150	9	7	317
Total	**2 624**	**(1 175)**	**(82)**	**211**	**1 578**	**(75)**	**9**	**38**	**1 550**

*As a result of the decrease in value of the Sierra Gorda investment, the financial result for 2015 was increased by PLN 515 million (USD 126 million at the average exchange rate announced by the NBP as at 31 December 2015) due to temporary differences from dividends income from the Sierra Gorda investment.

in PLN millions, unless otherwise stated

Note 5.2 Other taxes

The following table presents all of the minerals extraction taxes with which the Parent Entity is charged.

	2016	2015	Basis for calculating tax	Tax rate	Presentation in the consolidated statement of profit or loss
Minerals extraction tax, of which:	**1 338**	**1 439**			
- copper	964	1 135	Amount of copper in produced concentrate, expressed in tonnes	Weighted average tax rate calculated for every reporting period *	Taxes and charges in expenses by nature (note 4.1.)
- silver	374	304	Amount of silver in produced concentrate, expressed in kilogrammes		

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

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

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

	2016	2015
Poland	**446**	**450**
Real estate tax	178	169
Royalties	111	108
Excise tax	40	48
Environmental fees	29	36
Other taxes and charges	88	89
Other countries	**67**	**54**
Total	**513**	**504**

Note 5.3 Tax assets and liabilities

Accounting policies

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

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

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

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

	2016	2015
Current corporate income tax assets	47	137
Assets due to taxes, social and health insurance and other benefits	220	405
Tax assets	**267**	**542**

	2016	2015
Current corporate income tax liabilities	243	184
Liabilities due to taxes, social and health insurance and other benefits	543	578
Tax liabilities	**786**	**762**

Part 6 – Involvement in joint ventures

Accounting policies

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

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

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

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

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

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

Significant estimates and assumptions

Joint control

The Group classifies the agreement "JV Sierra Gorda" as a joint venture under IFRS 11, in which KGHM INTERNATIONAL LTD's share equals 55%, and which was entered into in order to mine copper and molybdenum in the Sierra Gorda area (Chile).
Classification of Sierra Gorda S.C.M. as a joint venture, despite the 55% share of the Group, was made based on analysis of the terms of the agreements between the parties and contractual stipulations which indicated joint control. Pursuant to the terms of the agreements, all relevant activities of Sierra Gorda S.C.M. require the unanimous consent of both owners. The Group and other owners have three members each in the appointed Owners Council. The Owners Council makes strategic decisions and is responsible for overseeing their execution. Moreover, it approves the appointment of senior management. In the reporting period, there were no changes to provisions that were the basis of classifying the investment as a joint venture.

Valuation of involvement in joint venture Sierra Gorda S.C.M.

At the end of the reporting period, the Group performed a valuation of its involvement in Sierra Gorda, firstly by performing a valuation of the interest in Sierra Gorda S.C.M. using the equity method. The Group's share (55%) of losses of Sierra Gorda amounted to PLN (6 015) million and was higher than the carrying amount of the joint venture by PLN 4 816 million. After recognising the share of losses in the amount of PLN (1 199) million, the carrying amount of the interest in Sierra Gorda amounts to 0. In accordance with the accounting policies, the Group ceases to recognise its share of further losses of Sierra Gorda S.C.M.
However, due to operating results of Sierra Gorda and a significant change in parameters of international mining assets, such as mine lives, metals production volumes, assumed operating costs and the level of capital expenditures during a mine's life the Group performed an impairment testing of involvement in joint venture Sierra Gorda, the carrying amount of which amounted to USD 2 083 million (PLN 8 707 million at the average exchange rate as at 30 December 2016 announced by the NBP) and was the value of loan granted to the joint venture.
To determine the recoverable amount in the performed test, the fair value measurement of the tested asset was made (less costs to sell) making use of the DCF method, i.e. the method of discounted cash flows.

As a result of the performed test, the loan's fair value was determined to be at the level of USD 1 032 million (PLN 4 313 million at the average exchange rate as at 30 December 2016 announced by the NBP). The carrying amount was higher than the fair value of a loan granted, and therefore an impairment allowance was recognised in the amount of USD 1 051 million (PLN 4 394 million at the average exchange rate as at 30 December 2016). Assumptions concerning the price curves were adopted while taking into account the professional judgment of the Parent Entity's Management Board with respect to the future fluctuations of these amounts which was reflected in the calculation of the recoverable amount. Assumptions adopted for testing were described in Part 3.

The loan granted to Sierra Gorda is not a net investment in the joint venture Sierra Gorda S.C.M. (as defined in IAS 21.15) because settling the loan is expected by the Group and planned to take place in the foreseeable future.

in PLN millions, unless otherwise stated

Note 6.1 Joint ventures accounted for using the equity method

	2016			2015		
	Sierra Gorda S.C.M.	Other entities	Total	Sierra Gorda S.C.M.	Other entities	Total
At the beginning of the financial year	**534**	**28**	**562**	**4 333**	**30**	**4 363**
Acquisition of shares	671	-	671	928	-	928
Share of losses of joint ventures accounted for using the equity method	(1 199)	(1)	(1 200)	(4 455)	(2)	(4 457)
Impairment loss on interest in a joint venture	-	-	-	(671)	-	(671)
Elimination of unrealised gains between the investor and the joint venture	-	-	-	(110)	-	(110)
Exchange differences from the translation of a foreign operation	(6)	-	(6)	509	-	509
At the end of the financial year	**-**	**27**	**27**	**534**	**28**	**562**

Information on entities accounted for using the equity method

		Main place of business	% of share capital held by the Group	% of voting power	Value of the investment in the consolidated statement of financial position	
	Jointly controlled entities				**2016**	**2015**
	Sierra Gorda S.C.M.	Chile	55	50	-	534
	Other	Poland			27	28
Note 6.1	**Total**				**27**	**562**

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

	2016	2015
Non-current assets	**15 348**	**21 774**
Current assets, including:	**1 352**	**1 076**
Cash and cash equivalents	382	183
Non-current liabilities, including:	**21 011**	**18 762**
Liabilities due to bank loans	2 967	3 160
Liabilities due to loans granted by jointly-controlling entities	15 795	13 616
Current liabilities, including:	**2 408**	**1 698**
Liabilities due to bank loans	374	330
Fair value of net assets	**(6 719)**	**2 390**
The Group's share in net assets (55%)	(3 695)	1 315
Value of unrecognised losses from Sierra Gorda S.C.M. investment	4 816	-
Impairment loss on interest in Sierra Gorda S.C.M.	(671)	(671)
Adjustment by the value of unrealised gains	(110)	(110)
Exchange differences from the translation of changes of investment in Sierra Gorda S.C.M. using exchange rates from prior periods	(340)	-
Value of the investment in the consolidated statement of financial position	**-**	**534**
Sales revenue	2 534	1 105
Depreciation/amortisation	(1 533)	(671)
Impairment loss on property, plant and equipment	(12 233)	(7 999)
Interest costs	(1 464)	(644)
Other incomes/(costs)	(2 347)	(1 331)
Loss before income tax	**(15 043)**	**(9 540)**
Income tax	4 107	1 440
Loss for the period	**(10 936)**	**(8 100)**
Total comprehensive income	**(10 936)**	**(8 100)**

in PLN millions, unless otherwise stated

		2016	2015
	The Group's share (55%) in loss for the period, of which:	**(6 015)**	**(4 455)**
	recognised share of joint ventures' losses	(1 199)	(4 455)
	not recognised share of joint ventures' losses	(4 816)	-

		Other information on the Group's involvement in the joint venture Sierra Gorda S.C.M.	
		2016	2015
	Group's share in commitments (investment and operating)	2 579	2 510
	Group's share in the total amount of future minimal payments due to leasing agreements for mining equipment	1 044	1 094
Note 12.5	Guarantees granted by the Group	1 289	855

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

Accounting policies	Significant estimates and assumptions
Assets included, in accordance with IAS 39, in the category "loans and receivables" are initially recognised at fair value and measured at the reporting date at amortised cost using the effective interest rate, reflecting impairment.	The terms of repayment of loans granted to finance operations abroad, including planned repayment dates, were set in individual agreements. Pursuant to the schedule, the principal amount and interest are paid on demand, but not later than 15 December 2024. The start of repayment of loans by Sierra Gorda S.C.M. will depend on the company's financial standing. It is assumed in the long-term plans of Sierra Gorda S.C.M. that the loans will be repaid with interest. Due to the fact that settling the loan is planned and probable in the foreseeable future, the loan is not a net investment under IAS 21.15

		2016	2015
	At the beginning of the financial year	**7 504**	**6 231**
	Accrued interest	633	466
Note 4.4	Allowance for impairment of loans granted	(4 394)	-
	Exchange differences from the translation of a foreign operation	570	807
	At the end of the financial year	**4 313**	**7 504**

Credit risk related to the loans granted depends on the risk related to realisation of the mining joint venture in Chile (Sierra Gorda S.C.M.). Due to the identified indications, the Group performed impairment testing of mining assets and recognised an allowance for impairment of loans granted in the amount of PLN 4 394 million (Part 3).

Loans are granted to Sierra Gorda S.C.M. in the functional currency of the KGHM INTERNATIONAL LTD. Group and therefore they are not associated with the **currency risk**.

These loans' interest rates are fixed and therefore they are exposed to changes in fair value due to interest rates volatility. As the loans are measured at amortised cost, changes in their fair values are not recognised in the consolidated financial statements of the Group.

in PLN millions, unless otherwise stated

Part 7 – Financial instruments and financial risk management

Note 7.1. Financial Instruments

Categories of financial assets in accordance with IAS 39		2016 Available-for-sale	2016 At fair value through profit or loss	2016 Loans and financial receivables	2016 Hedging instruments	2016 Total	2015 Available-for-sale	2015 At fair value through profit or loss	2015 Loans and financial receivables	2015 Hedging instruments	2015 Total
	Non-current	577	41	5 243	196	**6 057**	579	11	8 239	106	**8 935**
Note 6.2	Loans granted to joint ventures	-	-	4 313	-	**4 313**	-	-	7 504	-	**7 504**
Note 7.2	Derivatives	-	41	-	196	**237**	-	11	-	106	**117**
Note 7.3	Other financial instruments measured at fair value	577	-	-	-	**577**	579	-	-	-	**579**
Note 7.4	Other financial assets	-	-	930	-	**930**	-	-	735	-	**735**
	Current	56	-	2 295	72	**2 423**	84	1	2 203	6	**2 294**
Note 10.2	Trade receivables	-	-	1 292	-	**1 292**	-	-	1 541	-	**1 541**
Note 7.2	Derivatives	-	-	-	72	**72**	-	1	-	6	**7**
Note 8.5	Cash and cash equivalents	-	-	860	-	**860**	-	-	461	-	**461**
Note 12.3	Other financial assets	56	-	143	-	**199**	84	-	201	-	**285**
	Total	**633**	**41**	**7 538**	**268**	**8 480**	**663**	**12**	**10 442**	**112**	**11 229**

Categories of financial liabilities in accordance with IAS 39		2016 At fair value through profit or loss	2016 At amortised cost	2016 Hedging instruments	2016 Total	2015 At fair value through profit or loss	2015 At amortised cost	2015 Hedging instruments	2015 Total
	Non-current	**129**	**5 538**	**1 347**	**7 014**	1	3 894	1 328	**5 223**
Note 8.4.1	Borrowings	-	5 319	1 220	**6 539**	-	3 700	1 170	**4 870**
Note 7.2	Derivatives	129	-	127	**256**	1	-	158	**159**
	Other financial liabilities	-	219	-	**219**	-	194	-	**194**
	Current	31	3 084	218	**3 333**	-	3 666	48	**3 714**
Note 8.4.1	Borrowings	-	1 525	34	**1 559**	-	2 145	-	**2 145**
Note 7.2	Derivatives	31	-	184	**215**	-	-	48	**48**
	Trade payables	-	1 433	-	**1 433**	-	1 418	-	**1 418**
	Other financial liabilities	-	126	-	**126**	-	103	-	**103**
	Total	160	8 622	1 565	**10 347**	**1**	**7 560**	**1 376**	8 937

in PLN millions, unless otherwise stated

Gains/(losses) on financial instruments in accordance with IAS 39 categories

	2016	Available-for-sale financial assets	Financial assets/liabilities measured at fair value through profit or loss	Loans and financial receivables	Financial liabilities measured at amortised cost	Hedging instruments	Total
	Dividends income	1	-	-	-	-	**1**
	Interest income	-	-	645	-	-	**645**
Note 4.3	Interest costs	-	-	-	(85)	-	**(85)**
Note 4.2	Foreign exchange gains/(losses)	-	-	613	(102)	-	**511**
Note 4.3	Foreign exchange losses	-	-	-	(401)	-	**(401)**
Note 4.4	Impairment losses (recognised)/reversed	(57)	-	(4 402)	-	-	**(4 459)**
Note 7.2	Adjustment to sales due to hedging transactions	-	-	-	-	3	**3**
Note 4.2	Gains on measurement and realisation of derivatives	-	167	-	-	-	**167**
Note 4.3	Gains on measurement of derivatives	-	26	-	-	-	**26**
Note 4.2	Losses on measurement and realisation of derivatives	-	(371)	-	-	-	**(371)**
Note 4.3	Losses on measurement of derivatives	-	(9)	-	-	-	**(9)**
	Fees and charges on bank loans drawn	-	-	-	(61)	-	**(61)**
	Total net gain/(loss)	**(56)**	**(187)**	**(3 144)**	**(649)**	**3**	**(4 033)**

	2015	Available-for-sale financial assets	Financial assets/liabilities measured at fair value through profit or loss	Loans and financial receivables	Financial liabilities measured at amortised cost	Hedging instruments	Total
	Dividends income	27	-	-	-	-	**27**
	Interest income	-	-	484	-	-	**484**
Note 4.3	Interest costs	-	-	-	(156)	-	**(156)**
Note 4.2	Foreign exchange gains/(losses)	(21)	-	317	(153)	-	**143**
Note 4.3	Foreign exchange losses	-	-	-	(29)	-	**(29)**
Note 4.4	Impairment losses recognised	-	-	(10)	-	-	**(10)**
Note 4.2	Impairment losses recognised	(265)	-	-	-	-	**(265)**
Note 7.2	Adjustment to sales due to hedging transactions	-	-	-	-	482	**482**
Note 4.2	Gains on measurement and realisation of derivatives	-	121	-	-	-	**121**
Note 4.3	Gains on measurement of derivatives	-	1	-	-	-	**1**
Note 4.2	Losses on measurement and realisation of derivatives	-	(361)	-	-	-	**(361)**
Note 4.3	Losses on measurement of derivatives	-	(13)	-	-	-	**(13)**
	Fees and charges on bank loans drawn	-	-	-	(63)	-	**(63)**
	Total net gain/(loss)	**(259)**	**(252)**	**791**	**(401)**	**482**	**361**

in PLN millions, unless otherwise stated

The fair value hierarchy of financial instruments

Classes of financial instruments	2016 level 1	2016 level 2	2015 level 1	2015 level 2
Listed shares	577	-	611	-
Other financial assets	-	58	-	96
Derivatives, including:	-	(162)	-	(83)
Assets	-	309	-	124
Liabilities	-	(471)	-	(207)

Note 7.2 Derivatives

Accounting policies

Derivatives are classified as financial assets/liabilities held for sale, unless they have not been designated as hedging instruments.

Regular way purchases or sales of derivatives are recognised at the trade date.

Derivatives not designated as hedges are initially recognised at fair value and are measured at fair value at the end of the reporting period, with recognition of the gains/losses on measurement in profit or loss.

The Group applies hedge accounting for cash flows. Hedge accounting aims at reducing volatility in the Group's profit or loss for the period, arising from periodic changes in the measurement of transactions hedging individual types of market risk to which the Group is exposed. Hedging instruments are derivatives as well as bank loans in foreign currencies.

The designated hedges relate to the future sales transactions forecasted as assumed in the Sales Plan for a given year. These plans are prepared based on the production capacities for a given period. The Group estimates that the probability that these transactions will occur is very high, as in the past sales were always realised at the levels assumed in Sales Plans.

The Group may use natural currency risk hedging through the use of hedge accounting for bank loans denominated in USD, and designates them as positions hedging foreign currency risk, which relates to future revenues of the Group from sales of copper, silver and other metals, denominated in USD.

Gains and losses arising from changes in the fair value of the cash flow hedging instrument are recognised in other comprehensive income, to the extent by which the change in fair value represents an effective hedge of the associated hedged item. The portion which is ineffective is recognised in profit or loss as other operating income or costs. Gains or losses arising from the cash flow hedging instrument are recognised in profit or loss as a reclassification adjustment, in the same period or periods in which the hedged item affects profit or loss.

The Group ceases to account for derivatives as hedging instruments when they expire, are sold, terminated or settled, or when the Group revokes the designation of a given instrument as a hedging instrument.

The Group may designate a new hedging relationship for a given derivative, change the intended use of the derivative, or designate it to hedge another type of risk. In such a case, for cash flow hedges, gains or losses which arose in the periods in which the hedge was effective are retained in accumulated other comprehensive income until the hedged item affects profit or loss.

If the hedge of a forecasted transaction ceases to exist because it is probable that the forecasted transaction will not occur, then the net gain or loss recognised in other comprehensive income is transferred to profit or loss as a reclassification adjustment.

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

Type of derivative	2016 Financial assets Current	2016 Financial assets Non-current	2016 Financial liabilities Current	2016 Financial liabilities Non-current	2016 Net total	2015 Financial assets Current	2015 Financial assets Non-current	2015 Financial liabilities Current	2015 Financial liabilities Non-current	2015 Net total
Derivatives – Commodity contracts - Metals - Copper										
Options										
Purchased put options	15	-	-	-	15	-	-	-	-	-
Seagull	26	100	(4)	(30)	92	-	-	-	-	-
TOTAL	**41**	**100**	**(4)**	**(30)**	**107**	-	-	-	-	-
Derivatives – Commodity contracts - Metals - Silver										
Options - put spread	22	3	-	-	25	-	-	-	-	-
TOTAL	**22**	**3**	**-**	**-**	**25**	-	-	-	-	-
Derivatives – Currency contracts										
Options USD - Collar	9	93	(180)	(97)	**(175)**	6	106	(48)	(158)	**(94)**
TOTAL	**9**	**93**	**(180)**	**(97)**	**(175)**	**6**	**106**	**(48)**	**(158)**	**(94)**
TOTAL HEDGING INSTRUMENTS	**72**	**196**	**(184)**	**(127)**	**(43)**	**6**	**106**	**(48)**	**(158)**	**(94)**

Hedging derivatives	Notional Copper [t] Silver [oz t million] 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	52 500	4 991	Jan 17	Jun 17	Feb 17	Jul 17
Copper – seagull	63 000	5 400 – 7 200	Jul 17	Dec 18	Aug 17	Jan 19
Silver – put spread	2.70	14.00 - 18.00	Jan 17	Dec 17	Feb 17	Jan 18
Currency - collar	1 800	3.6050 - 4.4312	Jan 17	Jun 19	Feb 17	Jul 19

in PLN millions, unless otherwise stated

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

Type of derivative	2016					2015				
	Financial assets		Financial liabilities		Net total	Financial assets		Financial liabilities		Net total
	Current	Non-current	Current	Non-current		Current	Non-current	Current	Non-current	
Derivatives – Commodity contracts - Metals - Copper										
Options - Seagull	-	-	(2)	(21)	(23)	-	-	-	-	-
TOTAL	**-**	**-**	**(2)**	**(21)**	**(23)**	**-**	**-**	**-**	**-**	**-**
Derivatives – Commodity contracts - Metals - Silver										
Options - put spread	-	-	(3)	(1)	(4)	-	-	-	-	-
TOTAL	**-**	**-**	**(3)**	**(1)**	**(4)**	**-**	**-**	**-**	**-**	**-**
Derivatives – Currency contracts										
Options and forward/swap	-	-	(1)	-	(1)	1	-	(1)	-	-
TOTAL	**-**	**-**	**(1)**	**-**	**(1)**	**1**	**-**	(1)	**-**	**-**
Derivatives – interest rate										
Options - purchased interest rate cap	-	41	-	-	41	-	11	-	-	11
TOTAL	**-**	**41**	**-**	**-**	**41**	**-**	**11**	**-**	**-**	**11**
Embedded derivatives										
Acid and water supply contracts*	-	-	(25)	(107)	(132)	-	-	-	-	-
TOTAL	**-**	**-**	**(25)**	**(107)**	**(132)**	**-**	**-**	**-**	**-**	**-**
TOTAL TRADE INSTRUMENTS	**-**	**41**	**(31)**	**(129)**	**(119)**	**1**	**11**	**(1)**	**-**	**11**

**As at the end of 2015, the liabilities in this item were adjusted to zero as a result of PPA adjustment – (purchase price allocation) due to the accounting for the acquisition price of KGHM INTERNATIONAL LTD.*

in PLN millions, unless otherwise stated

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

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

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

		Impact of derivatives and hedging transactions	
	Statement of profit or loss	**2016**	**2015**
	Sales revenue	3	482
	Other operating and finance income/costs:	(187)	(252)
	On realisation of derivatives	(19)	(105)
	On measurement of derivatives	(168)	(147)
	Impact of derivatives on profit or loss for the period	**(184)**	**230**
	Statement of comprehensive income in the part concerning other comprehensive income		
	Impact of hedging transactions	(165)	(447)
Note 8.2.2	Impact of measurement of hedging transactions (effective portion)	(162)	35
Note 8.2.2	Reclassification to sales revenues due to realisation of a hedged item	(3)	(482)
	TOTAL COMPREHENSIVE INCOME	**(349)**	**(217)**

Note 7.3 Other financial instruments measured at fair value

Accounting policies	Major estimates
The item "financial instruments measured at fair value" includes financial assets classified, in accordance with IAS 39, to "available-for-sale financial assets". This category mainly includes shares not available for sale in the short term. Available-for-sale financial assets are initially measured at fair value plus transaction costs, and at the end of the reporting period they are measured at fair value with gains/losses on measurement recognised in other comprehensive income, up to the moment when impairment occurs, which is recognised in profit or loss. Listed shares are measured based on the closing price as at the end of the reporting period. The translation of shares expressed in a foreign currency is performed according to the accounting policies described in Note 1.3. If there are indications that an impairment has occurred (in particular a significant or prolonged decrease in the fair value of an equity instrument below cost) then the total amount of losses incurred to date which are recognised in other comprehensive income are transferred to profit or loss. An impairment loss is reversed through other comprehensive income.	Assessment of market value of available-for-sale assets as compared to their purchase price is performed at the end of the reporting period. In accordance with the adopted accounting policy, the Group recognises an impairment loss on the carrying amount of assets if there is a significant decrease in fair value (by 20%) or if there is a prolonged decline of fair value (a period of 12 months) when compared to the carrying amount of assets. The most significant item of available-for-sale financial assets are the shares of Tauron Polska Energia S.A., listed on the Warsaw Stock Exchange. As at 31 December 2016 the value of the shares of Tauron Polska Energia S.A. amounted to PLN 519 million and was lower by PLN 6 million as compared to the previous year. Due to share price movements during 2016, this change was reflected respectively in the financial result as the amount of the impairment loss of PLN 57 million and PLN 51 million increased other comprehensive income.

in PLN millions, unless otherwise stated

	2016	2015
Shares in companies listed on a stock exchange (Warsaw Stock Exchange and TSX Venture Exchange)	577	611
Other	56	52
Financial assets measured at fair value	**633**	**663**

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

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

The following table presents the sensitivity analysis of listed companies shares to price changes based on historical quotations from the 12 months of the reporting period (as at 31 December of each year):

	2016	Percentage change of share price		2015	Percentage change of share price	
		19%	-17%		74%	-20%
	Carrying amount	Other comprehensive income	Profit or loss	Carrying amount	Other comprehensive income	Profit or loss
Listed shares	**577**	108	(97)	**611**	454	(124)

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

Potential movements in share prices at the end of the reporting period were determined at the level of maximum deviations in a given year.

Note 7.4 Other non-current financial assets

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

		2016	2015
	Non-current financial assets designated for decommissioning mines and restoring tailings storage facilities	**408**	**371**
	Cash held in the Mine Closure Fund and Tailings Storage Facility Restoration Fund	336	303
	Debt instruments	72	68
	Other non-current financial receivables, including:	**522**	**364**
	Management fee for Sierra Gorda S.C.M.	339	219
	Other loans granted	38	23
Note 7.1	**Total**	**930**	**735**

As at 31 December 2016, non-current financial assets for decommissioning mines and restoration of tailings storage facilities were presented by cash and debt securities in the amount of PLN 408 million (2015: PLN 371 million) collected by the Parent Entity and the KGHM INTERNATIONAL LTD. Group based on obligations resulting among others from the Law on Geology and Mining, and the Waste Act as well as from laws applicable in the United States of America and Canada.
Other non-current financial assets designated for decommissioning mines and restoring tailings storage facilities are exposed to the credit risk described in Note 7.5.2.4.
Details regarding measurement of the provision for the decommissioning costs of mines and other technological facilities is described in Note 9.4.

in PLN millions, unless otherwise stated

Note 7.5 Financial risk management

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

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

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

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

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

Note 7.5.1 Market risk

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

Note 7.5.1.1 Principles and techniques of market risk management

In market risk management (especially commodity and currency risk) the scale and profile of activities of the Parent Entity and of mining companies of the KGHM INTERNATIONAL LTD. is of the greatest significance and impact on the results of the KGHM Polska Miedź S.A. Group.
The Parent Entity actively manages market risk by taking actions and making decisions in this regard within the context of the KGHM Polska Miedź S.A. Group's global exposure as a whole.
In accordance with the adopted policy, the goals of the market risk management process in the Group are as follows:

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

The objectives of market risk management should be considered as a whole, and their realisation is determined mainly by the Group's internal situation and market conditions.
The goals of market risk management at the Group level are achieved through their realisation in individual mining companies of the Group, with the coordination of these activities at the Parent Entity's level, in which key tasks related to the process of market risk management in the Group were centralised (such as coordination of the identification of sources of exposure to market risk, proposing hedging strategies, contacting financial institutions in order to sign, confirm and settle derivative transactions, and calculating measurements to fair value).
The primary technique used by the Parent Entity in market risk management is the utilisation of hedging strategies involving derivatives. Natural hedging is also used. Some other domestic companies of the Group make use of derivatives. However, only the Parent Entity applies hedging strategies, as understood by hedge accounting.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 7.5.1.2 Commodity risk

The Parent Entity is exposed to the risk of changes in the prices of the metals it sells: copper, silver, gold and lead. Furthermore, the KGHM INTERNATIONAL LTD. Group is exposed to the risk of changes in the prices of copper, gold, nickel, molybdenum, platinum and palladium.
In the Parent Entity and the KGHM INTERNATIONAL LTD. Group, the price formulas used in physical delivery contracts are mainly based on average monthly quotations from the London Metal Exchange for copper and other common metals and from the London Bullion Market for precious metals. Within the commercial policy, the Parent Entity and KGHM INTERNATIONAL LTD. set the price base for physical delivery contracts as the average price of the appropriate future month.
The permanent and direct link between sales proceeds and metals prices, without similar relationships on the expenditures side, results in a strategic exposure. In turn, operating exposure is a result of possible mismatches in the pricing of physical contracts with respect to the Group's benchmark profile, in particular in terms of the reference prices and the quotation periods.
On the metals market, the Group has a so-called long position, which means it has higher sales than purchases. The analysis of the Group's strategic exposure to market risk should be performed by deducting from the volume of metals sold the amount of metal in purchased materials.

in PLN millions, unless otherwise stated

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

	2016			2015		
	Net	Sales	Purchases	Net	Sales	Purchases
Copper [t]	477 303	649 936	172 633	504 308	668 887	164 579
Silver [t]	1 253	1 279	26	1 218	1 245	27

The notional amount of copper price hedging strategies settled in 2016 represented approx. 10% (in 2015: 8%) of the total sales of this metal realised by the Parent Entity. Moreover, the notional amount of silver price hedging strategies settled in 2016 represented approx. 3% of the total sales of this metal realised by the Parent Entity in this period (in 2015 revenues from silver sales were not hedged by derivatives).

With respect to managing risk in 2016, the Parent Entity implemented copper price hedging transactions with a total notional amount of 171.5 thousand tonnes and a hedging horizon falling from March 2016 to December 2018 (where 56 thousand tonnes hedged revenues from copper sales in 2016). Put options were purchased (Asian options) and complex seagull options strategies were implemented (purchase of put options was partially financed by writing a put option with a lower strike price, and writing a call option with a higher strike price, for the same notional amount and for the same period).

Moreover, in 2016 the Parent Entity implemented silver price hedging transactions with a total notional amount of 4.05 million troy ounces and a hedging horizon falling from July 2016 to December 2017 (where 1.35 million ounces hedged revenues from silver sales in 2016). Put options were purchased (Asian options) and complex p*ut spread* options strategies were implemented (purchase of put options was partially financed by writing a put option with a lower strike price for the same notional amount and for the same period).

As the result, as at 31 December 2016 the Parent Entity held open derivatives transactions on the metals market (for 115.5 thousand tonnes of copper and 2.70 million ounces of silver) for the years 2017-2018.

The condensed tables of open derivatives transactions held by the Parent Entity on the copper and silver markets as at 31 December 2016 are presented below (the hedged notional in the presented periods is allocated evenly on a monthly basis).

COPPER MARKET

	Instrument	Notional [tonnes]	Option strike price: Sold put option [USD/t]	Option strike price: Purchased put option [USD/t]	Option strike price: Sold call option [USD/t]	Average weighted premium [USD/t]	Effective hedge price [USD/t]	Hedge limited to [USD/t]	Participation limited to [USD/t]
1st quarter	Put option	16 500		4 800		-198	4 602		
	Put option	4 500		4 700		-189	4 511		
	Put option	10 500		5 300		-194	5 106		
2nd quarter	Put option	10 500		4 800		-198	4 602		
	Put option	10 500		5 300		-194	5 106		
3rd quarter	Seagull	10 500	4 200	5 400	7 200	-230	5 170	4 200	7 200
4th quarter	Seagull	10 500	4 200	5 400	7 200	-230	5 170	4 200	7 200
	TOTAL 2017	**73 500**							
1st half	Seagull	21 000	4 200	5 400	7 200	-230	5 170	4 200	7 200
2nd half	Seagull	21 000	4 200	5 400	7 200	-230	5 170	4 200	7 200
	TOTAL 2018	**42 000**							

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]	Participation limited to [USD/oz t]
1st half	Put spread	1.35	14.00	18.00	-1.48	16.52	14.00
2nd half	Put spread	1.35	14.00	18.00	-1.48	16.52	14.00
	TOTAL 2017	**2.70**					

In 2016, neither KGHM INTERNATIONAL LTD. nor any of selected mining companies implemented any forward transactions on the commodity market. As at 31 December 2016, the risk of changes in metals prices was related also to derivatives embedded in the long-term contracts for supply of sulphuric acid and water.

The table below presents a sensitivity analysis of the Group to the risk of changes in copper prices, as at 31 December 2016:

Financial assets and liabilities	Value at risk [PLN million]	Carrying amount 31.12.2016 [PLN million]	Change in COPPER price [USD/t]: 7 046 +28%: profit or loss	7 046 +28%: other comprehensive income	4 105 -26%: profit or loss	4 105 -26%: other comprehensive income
Derivatives – Commodity contracts - copper	83	83	(222)	-	(178)	519
Embedded derivatives	(132)	(132)	(36)	-	72	-
		Impact on profit or loss	**(258)**	-	**(106)**	
		Impact on other comprehensive income		-		**519**

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

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

The table below presents a sensitivity analysis of the Group to the risk of changes in silver prices, as at 31 December 2016:

Financial assets and liabilities	Value at risk [PLN million]	Carrying amount 31.12.2016 [PLN million]	Change in SILVER price [USD/oz t]: 22.57 +39%: profit or loss	22.57 +39%: other comprehensive income	11.10 -32%: profit or loss	11.10 -32%: other comprehensive income
Derivatives – Commodity contracts - Silver	22	22	(1)	(18)	(38)	58

As at 31 December 2015 the Group did not have any open position in derivatives on the silver market.

In order to determine the potential movements in metals prices for purposes of sensitivity analysis of commodity risk factors (copper, silver), the mean reverting Schwarz model (the geometrical Ornstein-Uhlenbeck process) was used.

Note 7.5.1.3 Risk of changes in foreign exchange rates

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

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

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

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

The key source of exposure to currency risk in the Parent Entity's business operations are the proceeds from sales of products (with respect to metals prices, processing and producer margins).

The exposure to currency risk derives also from items in the consolidated statement of financial position denominated in foreign currencies, which under the existing accounting regulations must be, upon settlement or periodic valuation, including due to the translation of foreign operations statements, translated by applying the current exchange rate of the foreign currencies versus the base (functional) currency. Changes in the carrying amounts of such items between valuation dates result in the volatility of profit or loss for the period or of other comprehensive income.

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

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

The notional amount of settled in 2016 transactions hedging Parent Entity's revenues from metals sales amounted to approx. 40% (in 2015: 29%) of the total revenues from metals sales (copper and silver) realised by the Parent Entity during this period.

With respect to managing risk in 2016, the Parent Entity implemented transactions hedging against a change in the USD/PLN exchange rate for the total notional amount of USD 900 million. Put options were purchased as part of hedging (European options) with maturity dates falling from January to December 2016 (for USD 360 million) and complex *collar* options were implemented (i.e. simultaneous purchase of put options and selling call options for the same notional amount and for the same period) hedging revenues from sales from January 2018 to June 2019.

As at 31 December 2016, the Parent Entity held an open hedging position in derivatives for USD 1 800 million of planned revenues from sales of metals. Moreover, the first instalment of the loan from the European Investment Bank (in the amount of USD 300 million) hedges revenues from sales against the risk of changes in foreign exchange rates for the period from October 2017 to October 2026.

As for managing currency risk which may arise from bank loans, the Parent Entity applies natural hedging by borrowing in currencies in which it has revenues. As at 31 December 2016, following their translation to PLN, the bank loans and the investment loan which were drawn in USD amounted to PLN 7 932 million (as at 31 December 2015: PLN 6 411 million).

Some of the Group's Polish companies managed the currency risk related to their core business (for example trade) by opening transactions in derivatives, among others on the USD/PLN and EUR/PLN markets. The table of open transactions as at 31 December 2016 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 currency market as at 31 December 2016 are presented below (the hedged notional in the presented periods is allocated evenly on a monthly basis).

	Instrument	Notional	Option strike price		Average weighted premium	Effective hedge price	Participation limited to
			Purchased put option	Sold call option			
		[USD million]	[USD/PLN]	[USD/PLN]	[PLN for USD 1]	[USD/PLN]	[USD/PLN]
1st half	Collar	270	3.3500	4.0000	-0.0523	3.2977	4.0000
	Collar	180	3.5500	4.4000	-0.0477	3.5023	4.4000
	Collar	60	3.7500	4.5000	-0.0300	3.7200	4.5000
2nd half	Collar	270	3.3500	4.0000	-0.0524	3.2976	4.0000
	Collar	180	3.5500	4.4000	-0.0487	3.5013	4.4000
	Collar	60	3.7500	4.5000	-0.0330	3.7170	4.5000
	TOTAL 2017	**1 020**					
1st half	Collar	120	3.7500	4.5000	-0.0375	3.7125	4.5000
	Collar	180	3.8000	4.8370	-	3.8000	4.8370
2nd half	Collar	120	3.7500	4.5000	-0.0342	3.7158	4.5000
	Collar	180	3.8000	4.8370	-	3.8000	4.8370
	TOTAL 2018	**600**					
1st half	Collar	180	3.8000	4.8370	-	3.8000	4.8370
	TOTAL I-VI 2019	**180**					

The currency structure of financial instruments exposed to currency risk (change in the USD/PLN, EUR/PLN and CAD/PLN exchange rates) is presented in the table below:

Financial instruments	Value at risk as at 31 December 2016				Value at risk as at 31 December 2015			
	total PLN million	USD million	EUR million	CAD million	total PLN million	USD million	EUR million	CAD million
Shares	**8**	-	-	3	**4**	-	-	1
Trade receivables	**944**	172	27	34	**1 098**	235	42	-
Cash and cash equivalents	**640**	109	25	24	**272**	61	10	(4)
Loans granted to joint ventures	**4 313**	1 032	-	-	**7 504**	1 923	-	-
Other financial assets	**689**	143	1	28	**571**	146	-	-
Derivatives*	**(162)**	3	-	-	**(83)**	3	-	-
Trade payables	**(441)**	(55)	(28)	(28)	**(349)**	(44)	(31)	(16)
Borrowings	**(7 974)**	(1 896)	(11)	-	**(6 867)**	(1 640)	(110)	-
Other financial liabilities	**(28)**	(4)	(1)	(2)	**(28)**	(6)	(1)	-

An analysis for other currencies is not presented, due to its immateriality.

*Transactions on the commodities and interest rate markets which are denominated in USD and translated to PLN at the exchange rate as at the end of the reporting period are presented in the item "derivatives", in the column "USD million", while the column "total PLN million" also includes the fair value of derivatives on the currency market which are denominated solely in PLN.

The sensitivity analysis of the Group for currency risk as at 31 December 2016 is presented in the table below:

Financial assets and liabilities	Value at risk	Carrying amount 31.12.2016	Change in the USD/PLN exchange rate				Change in the EUR/PLN exchange rate		Change in the CAD/PLN exchange rate	
			4.89 (+17%)		3.54 (-15%)		4.92 (+11%)	4.04 (-9%)	3.55 (+14%)	
	[PLN million]	[PLN million]	profit or loss	other comprehensive income	profit or loss	other comprehensive income	profit or loss	profit or loss	profit or loss	profit or loss
Shares	8	577	-	-	-	-	-	-	1	(1)
Trade receivables	944	1 292	98	-	(89)	-	11	(8)	12	(11)
Cash and cash equivalents	640	860	62	-	(57)	-	10	(8)	9	(8)
Loans granted to joint ventures	4 313	4 313	591	-	(538)	-	-	-	-	-
Other financial assets	689	1 129	82	-	(75)	-	-	-	10	(9)
Derivatives	(162)	(162)	(134)	(744)	262	293	(6)	5	-	-
Trade payables	(441)	(1 433)	(31)	-	29	-	(11)	9	(10)	9
Borrowings	(7 974)	(8 098)	(915)	(172)	784	156	(5)	4	-	-
Other financial liabilities	(28)	(345)	(2)	-	2	-	-	-	(1)	1
		Impact on profit or loss	**(249)**		**318**		**(1)**	**2**	**21**	**(19)**
		Impact on other comprehensive income		**(916)**		**449**				

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

Financial assets and liabilities	Value at risk	Carrying amount 31.12.2015	Change in the USD/PLN exchange rate				Change in the EUR/PLN exchange rate		Change in the CAD/PLN exchange rate	
			4.57 (+17%)		3.30 (-16%)		4.74 (+11%)	3.88 (-9%)	3.19 (+14%)	2.47 (-12%)
	[PLN million]	[PLN million]	profit or loss	other comprehensive income	profit or loss	other comprehensive income	profit or loss	profit or loss	profit or loss	profit or loss
Shares	4	611	-	-	-	-	-	-	-	-
Trade receivables	1 098	1 541	127	-	(115)	-	17	(13)	-	-
Cash and cash equivalents	272	461	33	-	(30)	-	4	(3)	(1)	1
Loans granted to joint ventures	7 504	7 504	1 042	-	(942)	-	-	-		
Other financial assets	571	1 020	79	-	(71)	-	-	-		
Derivatives	(83)	(83)	(92)	(839)	299	288	(10)	8	-	-
Trade payables	(349)	(1 418)	(24)	-	22	-	-	-	(5)	4
Borrowings	(6 867)	(7 015)	(726)	(201)	656	181	(43)	34	-	-
Other financial liabilities	(28)	(297)	(3)	-	3	-	-	-	-	-
		Impact on profit or loss	**436**		**(178)**		**(32)**	**26**	**(6)**	**5**
		Impact on other comprehensive income		**(1 040)**		**469**				

In order to determine the potential movements in USD/PLN, EUR/PLN and CAD/PLN exchange rates for sensitivity analysis purposes, the Black-Scholes model (the geometrical Brownian motion) was used.

Note 7.5.1.4 Interest rate risk

In 2016 the Group was exposed to the risk of changes in interest rates due to loans granted to joint ventures, investing cash and using borrowings.

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

	2016			2015		
	Cash flow risk	Fair value risk	Total	Cash flow risk	Fair value risk	Total
Cash and cash equivalents	1 195*	-	1 195	772*	-	772
Loans granted	-	4 351	4 351	-	7 527	7 527
Borrowings	(6 391)**	(1 684)	(8 075)	(5 798)**	(1 182)	(6 980)

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

With respect to managing risk in 2016, transactions hedging the Parent Entity against an increase of the interest rate were implemented (LIBOR USD) by purchasing call options (interest rate CAP) with a 2.50% interest rate for the years 2019-2020 and with an average quarterly notional amount of USD 1 000 million.

As the result, as at 31 December 2016 the Parent Entity held open derivatives transactions on the interest rate market for the years 2017-2020.
The condensed table of open transactions in derivatives on the interest rate market as at 31 December 2016 is presented below (maturity dates of options fall are at the end of subsequent quarters):

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

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

	2016		2015	
	+2.0%	-0.5%	+1.5%	-0.5%
Cash and cash equivalents	17	(4)	12	(4)
Borrowings	(128)	32	(87)	29
Derivatives – interest rate	172	(16)	53	(7)
Total impact on profit/loss	**61**	**12**	**(22)**	**18**

Note 7.5.2 Credit risk

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

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

in PLN millions, unless otherwise stated

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

- cash and cash equivalents and bank deposits;
- derivatives;
- trade receivables;
- loans granted (Note 6.2);
- guarantees granted (Note 8.6); and
- other financial assets.

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

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

All entities with which deposit transactions are entered into by the Group, operate in the financial sector. Analysis of exposure to this type of risk, conducted on 31 December 2016 for the amount of PLN 847 million comprising 99% of the Group's cash, indicated that these are solely banks with the highest, medium-high and medium ratings, and which have an appropriate level of equity and a strong, stable market position. In the Parent Entity and KGHM INTERNATIONAL LTD., the credit risk in this regard is monitored through the on-going review of their financial standing and by maintaining an appropriately low concentration levels in individual financial institutions.

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

Rating level		2016	2015
Highest	AAA to AA- according to S&P and Fitch, and from Aaa to Aa3 according to Moody's	20%	21%
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	46%	25%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	34%	54%

* *Weighed by amount of deposits.*

As at 31 December 2016, the maximum share of one bank in relation to the level of cash allocated by the Group amounted to 32% (as at 31 December 2015: 29%).

Note 7.5.2.2 Credit risk related to derivative transactions

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

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

Rating level		2016	2015
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	100%	97%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	-	3%

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

Taking into consideration the fair value of open derivative transactions entered into by the Group and the fair value of unsettled derivatives, as at 31 December 2016 the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 32%, i.e. PLN 47 million (as at 31 December 2015: 58%, i.e. PLN 43 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.

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

	2016			2015		
	Financial receivables	Financial liabilities	Net	Financial receivables	Financial liabilities	Net
Counterparty 1	73	(35)	**38**	11	(9)	**2**
Counterparty 2	59	(33)	**26**	11	(13)	**(2)**
Counterparty 3	39	(16)	**23**	-	-	**-**
Counterparty 4	47	(26)	**21**	11	(21)	**(10)**
Other	92	(228)	**(136)**	134	(164)	**(30)**
Total	**310**	**(338)**	**(28)**	**167**	**(207)**	**(40)**
open derivatives	309	(338)	**(29)**	124	(207)	**(83)**
unsettled derivatives	1	-	**1**	43	-	**43**

in PLN millions, unless otherwise stated

Note 7.5.2.3 Credit risk related to trade receivables

The following Group companies have significant trade receivables: KGHM Polska Miedź S.A. PLN 644 million, the KGHM INTERNATIONAL LTD. Group PLN 413 million, CENTROZŁOM WROCŁAW S.A. PLN 63 million, WPEC w Legnicy S.A. PLN 37 million, NITROERG S.A. PLN 26 million, KGHM ZANAM S.A. PLN 23 million, KGHM Metraco S.A. PLN 18 million, and „MIEDZIOWE CENTRUM ZDROWIA" S.A. PLN 16 million.

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

Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are mostly based on prepayments or trade financing instruments which wholly transfer the credit risk to financial institutions.

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

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

Taking into account the above forms of collateral and the credit limits received from the insurance company, as at 31 December 2016 the Parent Entity had secured 92% of its trade receivables (as at 31 December 2015, 95%).

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

Assessment of concentration of credit risk in the Group:

Sector concentration	While KGHM Polska Miedź S.A. and KGHM INTERNATIONAL LTD. operate in the same sector, these two companies are different both in terms of their portfolios of products as well as in terms of the geographic location and nature of their customers, and consequently this sector concentration of credit risk is considered to be acceptable. Other companies of the Group operate in various economic sectors, such as transport, construction, commerce, industrial production and energy. As a consequence, in the case of most Group companies, in terms of sectors, there is no concentration of credit risk.
Clients concentration	As at 31 December 2016 the balance of receivables from the 7 largest clients represents 45% of the trade receivables balance (2015: 56%). Despite the concentration of this type of risk, it is believed that due to the availability of historical data and the many years of experience cooperating with its clients, as well as to the hedging used, the level of credit risk is low.
Geographical concentration	Companies of the Group have been cooperating for many years with a large number of customers, which affects the geographical diversification of trade receivables. Geographical concentration of credit risk for trade receivables is presented in the table below:

Trade receivables (net)	2016	2015
Poland	33%	39%
European Union (excluding Poland)	8%	10%
Asia	27%	26%
Other countries	32%	25%

Note 7.5.2.4 Credit risk related to other financial assets

The most significant item in other financial assets is cash accumulated on bank deposits in the special purpose funds: Mine Closure Fund and Tailings Storage Facility Restoration Fund in the amount of PLN 336 million.

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

The table below presents the level of cash concentration within special purpose funds dedicated to the collection of cash by the Group for future decommissioning costs of mines and other technological facilities and restoration of tailing storage facilities, according to the credit ratings of financial institutions holding special purpose deposits (as at 31 December 2016):

Rating level		2016	2015
Highest	AAA to AA- according to S&P and Fitch, and from Aaa to Aa3 according to Moody's	22%	23%
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	78%	77%

in PLN millions, unless otherwise stated

Part 8 - Borrowings and the management of liquidity and capital

Note 8.1 Capital management policy

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

Ratios:	Calculations:	2016	2015
Net Debt/EBITDA	relation of net debt to EBITDA	**1.6**	**1.4**
Net Debt	borrowings, and finance lease liabilities less free cash and short term investments with a maturity of up to 1 year	7 262	6 554
EBITDA*	profit on sales plus depreciation/amortisation recognised in profit or loss and impairment losses on non-current assets	4 477	4 811
Equity ratio	relation of equity less intangible assets to total assets	**0.4**	**0.5**
Equity	assets of the Group after deducting all of its liabilities	15 911	20 414
Intangible assets	identifiable non-cash items of assets without a physical form	2 682	3 371
Equity less intangible assets		13 229	17 043
Total assets	sum of non-current and current assets	33 442	36 764

** adjusted EBITDA for the period of 12 months ended on the last day of the reporting period and does not include the EBITDA of the joint venture Sierra Gorda S.C.M.*

In the management of liquidity and capital, the Group pays also 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:

	2016	2015
Profit on sales	2 544	506
Interest on loans granted to joint ventures	633	466
Other operating income and (costs)	(802)	(660)
Adjusted operating profit*	**2 375**	**312**

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

Note 8.2 Equity

Accounting policies

Share capital is recognised at nominal value.

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

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

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

Note 8.2.1 Share capital

As at 31 December 2016 and at the date of authorisation of these financial statements, the Parent Entity's share capital, in accordance with the entry in the National Court Register, amounted to PLN 2 000 million and was divided into 200 000 000 shares, series A, fully paid, each having a face value of PLN 10. All of the shares are bearer shares. The Parent Entity has not issued preference shares. Each share grants the right to one vote at the general meeting. The Parent Entity does not have treasury shares. Subsidiaries and joint ventures do not have shares of KGHM Polska Miedź S.A.

As far as the Parent Entity is aware, as at 31 December 2016 and as at the date of authorisation of these financial statements, the Parent Entity's shareholder structure was as follows:

shareholder	number of shares/votes	total nominal value of shares	percentage held in share capital/total number of votes
State Treasury	63 589 900	635 899 000	31.79%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	10 104 354	101 043 540	5.05%
Other shareholders	126 305 746	1 263 057 460	63.16%
Total	200 000 000	2 000 000 000	100.00%

in PLN millions, unless otherwise stated

Note 8.2.2 Changes of other equity items during the period

		Other reserves from measurement of financial instruments				
		Other reserves from measurement of available-for-sale financial assets	Other reserves from measurement of future cash flow hedging financial instruments	Other reserves from measurement of financial instruments, total	Accumulated other comprehensive income	Retained earnings
	As at 1 January 2015	**124**	**253**	**377**	**741**	**22 184**
	Dividends paid	-	-	-	-	(800)
	Transactions with non-controlling interest	-	-	-	-	35
	Transactions with owners:	-	-	-	-	(765)
	Loss for the period	-	-	-	-	(5 012)
	Losses from changes in fair value of available-for-sale financial assets	(186)	-	(186)	-	-
	Profit from measurement of available-for-sale financial assets after prior impairment	82	-	82	-	-
Note 7.2	Impact of effective cash flow hedging transactions entered into	-	35	35	-	-
Note 7.2	Amount transferred to profit or loss - due to the settlement of hedging instruments	-	(482)	(482)	-	-
Note 11.2	Actuarial gains on post-employment benefits	-	-	-	71	-
	Exchange differences from the translation of subsidiaries	-	-	-	561	-
Note 6.1	Exchange differences from the translation of investment in joint ventures	-	-	-	509	-
Note 5.1.1	Deferred income tax	25	85	110	(14)	-
	Other comprehensive income	(79)	(362)	(441)	1 127	-
	Total comprehensive income	(79)	(362)	(441)	1 127	(5 012)
	As at 31 December 2015	**45**	**(109)**	**(64)**	**1 868**	**16 407**
	Dividends paid	-	-	-	-	(300)
	Transactions with non-controlling interest	-	-	-	-	3
	Transactions with owners	-	-	-	-	(297)
	Settlement of exchange differences due to cross-border merger of the Group companies	-	-	-	(1 361)	1 361
	Loss for the period	-	-	-	-	(4 371)
	Losses from changes in fair value of available-for-sale financial assets	(27)	-	(27)	-	-
	Profit from measurement of available-for-sale financial assets after prior impairment	51	-	51	-	-
Note 7.2	Impact of effective cash flow hedging transactions entered into	-	(162)	(162)	-	-
Note 7.2	Amount transferred to profit or loss - due to the settlement of hedging instruments	-	(3)	(3)	-	-
Note 11.2	Actuarial gains on post-employment benefits	-	-	-	111	-
	Exchange differences from the translation of foreign operations statements	-	-	-	258	-
Note 5.1.1	Deferred income tax	(9)	31	22	(21)	-
	Other comprehensive income	15	(134)	(119)	348	-
	Total comprehensive income	15	(134)	(119)	348	(4 371)
	As at 31 December 2016	**60**	**(243)**	**(183)**	**855**	**13 100**

in PLN millions, unless otherwise stated

Based on the Act of 15 September 2000, the Commercial Partnerships and Companies Code, the Parent Entity is required to create reserve capital for any potential (future) or existing losses, to which no less than 8% of a given financial year's profit is transferred until the reserve capital has been built up to no less than one-third of the registered share capital. The reserve capital created in this manner may not be employed otherwise than in covering the loss reported in the financial statements.
As at 31 December 2016 the statutory reserve capital in the Group's entities amounts to PLN 784 million, of which PLN 660 million relates to the Parent Entity.

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

Note 8.3 Liquidity management policy

The Management Board of the Parent Entity is responsible for financial liquidity management in the Group and compliance with adopted policy. The Financial Liquidity Committee 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. These documents describe the process of managing the Group's financial liquidity, indicating the best practice procedures and instruments. The basic principles resulting from this 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. The Cash Pool service is aimed at optimising the management of cash resources, enabling control of interest costs, the effective financing of current working capital needs and the support of short-term financial liquidity in the Group.

Note 8.3.1 Contractual maturities for financial liabilities

Financial liabilities – as at 31 December 2016

Financial liabilities	Contractual maturities from the end of the reporting period: up to 12 months	1-3 years	over 3 years	Total (without discounting)	Carrying amount
Borrowings	1 600	455	6 319	**8 374**	**8 098**
Trade payables	1 433	33	351	**1 817**	**1 613**
Derivatives – Currency contracts*	102	-	-	**102**	**278**
Derivatives – Commodity contracts – Metals*	-	-	-	**-**	**61**
Embedded derivatives	33	78	98	**209**	**132**
Other financial liabilities	126	19	29	**174**	**165**
Total financial liabilities by maturity	**3 294**	**585**	**6 797**	**10 676**	

Financial liabilities – as at 31 December 2015

Financial liabilities	Contractual maturities from the end of the reporting period: up to 12 months	1-3 years	over 3 years	Total (without discounting)	Carrying amount
Borrowings	2 175	1 146	3 920	**7 241**	**7 015**
Trade payables	1 418	18	382	**1 818**	**1 598**
Derivatives – Currency contracts*	1	-	-	**1**	**207**
Other financial liabilities	117	27	7	**151**	**117**
Total financial liabilities by maturity	**3 711**	**1 191**	**4 309**	**9 211**	

*Financial liabilities arising from derivatives are calculated at their intrinsic values excluding the discount effect.

in PLN millions, unless otherwise stated

Note 8.4 Borrowings

Accounting policies

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

Note 8.4.1 Net debt

		2016	2015
	Bank loans *	4 889	3 674
	Loans	1 642	1 176
	Other	8	20
Note 7.1	**Non-current liabilities due to borrowings**	**6 539**	**4 870**
	Bank loans	1 502	2 123
	Loans	42	7
	Other	15	15
Note 7.1	**Current liabilities due to borrowings**	**1 559**	**2 145**
	Total borrowings	**8 098**	**7 015**
Note 8.5	Free cash and cash equivalents	836	461
	Net debt	**7 262**	**6 554**

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

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

	2016	2015
PLN/WIBOR	88	94
EUR/EURIBOR	50	470
USD/LIBOR*	6 280	5 267
PLN/fixed	5	6
USD/fixed	1 679	1 176
Total	**8 102**	**7 013**

* *Presented amounts do not include the preparation fee paid which decreases financial liabilities due to bank loans*

In 2016, liabilities due to borrowing increased, the structure of debt has changed, i.e. the amount of non-current liabilities has increased, while the amount of current liabilities has decreased. In the current part, under bilateral agreements signed with banks, the Group makes use of working capital facilities and overdraft facilities with maturities of up to 2 years. As a result of the fact that these bilateral agreements are successively extended for subsequent periods, the Group considers the liquidity risk connected to the received short-term bank loans as low.

Note 8.4.2 Net debt changes

As at 1 January 2015	**4 335**
Net cash flow on borrowings	3 788
Exchange differences due to borrowings in foreign currencies	192
Exchange differences designated as a hedging instrument	118
Redemption of debt securities	(1 896)
Other non-cash changes	3
Changes in free cash and cash equivalents	14
As at 31 December 2015	**6 554**
Net cash flow on borrowings	565
Exchange differences due to borrowings in foreign currencies	401
Exchange differences designated as a hedging instrument	83
Redemption of debt securities	-
Other non-cash changes	34
Changes in free cash and cash equivalents	(375)
As at 31 December 2016	**7 262**

Currency risk and interest rate risk are related to borrowings. A description of exposures to financial risks may be found in Note 7.5.

in PLN millions, unless otherwise stated

The fair value of liabilities due to borrowings amounts to PLN 8 102 million (2015: PLN 6 957 million). The fair value was set based on discounted cash flows and was classified to level 2 of the fair value hierarchy.

Note 8.4.3 Detailed information concerning main sources of borrowings

As at 31 December 2016, the Group had open credit lines and loans with a total balance of available financing in the amount of PLN 15 784 million, out of which PLN 8 075 million had been drawn.
The structure of financing sources is presented below.

	2016		2015
	Amount available	Amount drawn	Amount drawn
1. Unsecured, revolving **syndicated credit facility** in the amount of USD 2 500 million, obtained by the Parent Entity on the basis of a financing agreement concluded with a syndicate of banks in 2014 with a 5 year tenor (with the voluntary option of extending for another 2 years after a one year period and a two years period from the date of the agreement's conclusion). In 2016, the Parent Entity used an option to extend the loan's maturity by another year. The new maturity expires on 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 and for refinancing of the debt of KGHM INTERNATIONAL LTD. Interest on the credit facility is based on LIBOR plus a margin, depending on the net debt/EBITDA ratio. The credit facility agreement obliges the Parent Entity to comply with the financial covenant and non-financial covenants. As at 31 December 2016, during the reporting period and up to the date of authorising the financial statements for issue, there were no instances of violation of the covenants stipulated in the aforementioned agreement.	10 448	4 809*	3 126*
2. **Loans,** including **an investment loan** from the **European Investment Bank** for PLN 2 000 million with a financing period of 12 years. This loan can be used in the form of non-revolving instalments drawn in PLN, EUR or USD, with either a fixed or variable interest rate of WIBOR, LIBOR or EURIBOR plus a margin. The remaining period of the instalments' availability is 5 months as at the reporting date. The payback period of drawn instalments expires on 30 October 2026 and 30 August 2028. 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. The loan agreement obliges the Parent Entity to comply with the financial and non-financial covenants. As at 31 December 2016, during the reporting period and up to the date of authorising the financial statements for issue, there were no instances of violation of the covenants stipulated in the aforementioned agreement.	2 006	1 684	1 182
3. **Bilateral bank loans** in the total amount of PLN 3 330 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. The funds obtained under open lines of credit are available in PLN, USD and EUR, with interest based on variable WIBOR, LIBOR and EURIBOR plus a margin.	3 330	1 609	2 705
	15 784	**8 102**	**7 013**

* *Presented amounts do not include the preparation fee paid which decreases financial liabilities due to bank loans*

These sources fully cover the current, medium and long-term liquidity needs of the Group.
The syndicated credit in the amount of USD 2 500 million, the investment loan in the amount of PLN 2 000 million, as well as other bilateral bank loans granted to the Parent Entity in the amount of PLN 3 035 million are unsecured.
Repayment of other liabilities of the Group due to bilateral bank loans and other loans in the amount of PLN 300 million are secured amongst others by proxy rights to bank accounts, statements on submitting to an enforcement regime, contractual mortgages, registered pledges or the assignment of receivables.

in PLN millions, unless otherwise stated

Note 8.5 Cash and cash equivalents

Accounting policies

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

	2016	2015
Cash in bank accounts	329	179
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits	519	280
Other cash	12	2
Total	**860**	**461**

Note 8.6 Contingent liabilities due to guarantees granted

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

As at 31 December 2016, the Group held contingent liabilities due to guarantees and letters of credit granted in the total amount of PLN 1 787 million and due to promissory note liabilities in the amount of PLN 256 million.
The most significant items are contingent liabilities of the Parent Entity aimed at securing liabilities of:

a) Sierra Gorda S.C.M. – securing the performance of concluded agreements in the amount of PLN 1 289 million:
- a letter of credit of PLN 575 million granted as security for the proper performance of a long-term contract for the supply of electricity,
- PLN 277 million as corporate guarantees set as security on the payment of concluded lease agreements,
- PLN 437 million as corporate guarantees securing repayment of short-term working capital facilities of Sierra Gorda S.C.M.

b) 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 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 in the total amount of PLN 320 million (a bank guarantee of PLN 96 million and an own promissory note of 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 moderate low,
- other entities of the Group - as low.

in PLN millions, unless otherwise stated

Part 9 – Non-current assets and related liabilities

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

Accounting policies – property, plant and equipment

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

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

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

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

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

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

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

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

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

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

Accounting policies – intangible assets

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

Exploration and evaluation assets

The following expenditures are classified as exploration and evaluation assets:

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

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

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

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

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

Water rights in Chile

Due to the specific nature of this asset, i.e. the inexhaustibility of the source, the Group adopted an indefinite period of use for these rights and does not amortise this asset. Pursuant to IAS 36, annual testing for impairment is performed and its results were described in Note 3.

Significant estimates and assumptions

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

Net value of mining and metallurgical property, plant and equipment which are subject to depreciation using the natural method as at 31 December 2016 amounted to PLN 1 484 million (as at 31 December 2015, PLN 1 983 million).

in PLN millions, unless otherwise stated

Mining and metallurgical property, plant and equipment and intangible assets

		Property, plant and equipment			Intangible assets			
		Buildings and land	Technical equipment, machines, motor vehicles and other fixed assets	Fixed assets under construction	Water rights	Exploration and evaluation assets	Other	Total
	As at 1 January 2015							
	Gross carrying amount	12 752	9 996	3 281	218	2 105	733	29 085
	Accumulated depreciation/amortisation	(5 810)	(4 916)	(5)	-	-	(301)	(11 032)
	Impairment losses	(358)	(62)	(2)	-	-	(55)	(477)
	Net carrying amount	**6 584**	**5 018**	**3 274**	**218**	**2 105**	**377**	**17 576**
	Changes in 2015 net							
	Settlement of fixed assets under construction	475	779	(1 254)	-	-	-	-
	Purchases	-	-	1 444	-	470	19	1 933
	Stripping cost in surface mines	462	-	-	-	-	-	462
	Self-constructed	-	-	1 126	-	1	57	1 184
Note 9.4	Change in provisions for decommissioning costs	(131)	-	-	-	-	-	(131)
Note 4.1	Depreciation/Amortisation	(884)	(813)	-	-	-	(48)	(1 745)
Note 4.4	Impairment losses	(2 077)	(332)	(8)	-	(208)	(2)	(2 627)
	Exchange differences from the translation of foreign operations	314	70	18	27	214	(73)	570
	Other changes	314	(154)	48	(2)	(87)	62	181
	As at 31 December 2015							
	Gross carrying amount	14 590	10 674	4 648	243	2 706	694	33 555
	Accumulated depreciation/amortisation	(6 856)	(5 648)	-	-	-	(301)	(12 805)
	Impairment losses	(2 677)	(458)	-	-	(211)	(1)	(3 347)
	Net carrying amount	**5 057**	**4 568**	**4 648**	**243**	**2 495**	**392**	**17 403**
	Changes in 2016 net							
	Settlement of fixed assets under construction	834	1 815	(2 649)	-	-	-	-
	Purchases	-	-	1 730	1	142	18	1 891
	Stripping cost in surface mines	150	-	-	-	-	-	150
	Self-constructed	-	-	775	-	1	68	844
Note 9.4	Change in provisions for decommissioning costs	(53)	-	-	-	-	-	(53)
Note 4.1	Depreciation/Amortisation	(623)	(802)	-	-	-	(19)	(1 444)
Note 4.4	Impairment losses	(268)	(48)	(17)	(148)	(898)	(27)	(1 406)
	Exchange differences from the translation of foreign operations	67	20	7	17	189	3	303
	Other changes	(52)	112	(54)	(1)	13	(15)	3
	As at 31 December 2016							
	Gross carrying amount	15 669	12 422	4 447	260	3 001	698	36 497
	Accumulated depreciation/amortisation	(7 550)	(5 974)	-	-	-	(251)	(13 775)
	Impairment losses	(3 007)	(783)	(7)	(148)	(1 059)	(27)	(5 031)
	Net carrying amount	**5 112**	**5 665**	**4 440**	**112**	**1 942**	**420**	**17 691**

in PLN millions, unless otherwise stated

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

	2016	2015
Pyrometallurgy Modernisation Program	1 240	1 537
Deep Głogów (Głogów Głęboki – Przemysłowy)	1 084	976
Metallurgy Development Program	753	312
Construction of the SW-4 shaft	546	609
Investment activity related to development and operation of Żelazny Most Tailings Storage Facility	236	212
Investments related to mining region infrastructural development in mines	146	271

Note 9.1.2 Exploration and evaluation assets

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

Operating segment	Description	Total expenditures incurred as at	
		31 December 2016	31 December 2015
KGHM INTERNATIONAL LTD.	Expenditures related to exploratory work, mainly within the Victoria project located in the Sudbury Basin in Canada	1 590	1 489
KGHM INTERNATIONAL LTD.	Expenditures related to exploratory work within the Ajax project	598	573

Note 9.1.3 Expenses related to mining and metallurgical assets

	2016	2015
Purchases	(1 891)	(2 078)
Self-constructed fixed assets	(844)	(1 184)
Stripping costs of surface mines	(150)	(462)
Change in liabilities due to purchases	(135)	109
Other	(12)	62
Total	**(3 032)**	**(3 553)**

Note 9.2 Other property, plant and equipment and intangible assets

Accounting policies

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

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

The useful lives of main groups of intangible assets are as follows:
- acquired property rights not related to mining activities: 5 – 50 years;
- software: 2 – 5 years; and
- other intangible assets: 40 - 50 years.

in PLN millions, unless otherwise stated

Other property, plant and equipment and intangible assets

		Property, plant and equipment				
		Buildings and land	Technical equipment, machines, motor vehicles and other fixed assets	Fixed assets under construction	Intangible assets	Total
	As at 1 January 2015					
	Gross carrying amount	2 101	1 983	60	345	4 489
	Accumulated depreciation/amortisation	(415)	(852)	5	(127)	(1 389)
	Impairment losses	(123)	(14)	-	-	(137)
	Net carrying amount	**1 563**	**1 117**	**65**	**218**	**2 963**
	Changes in 2015 net					
	Settlement of fixed assets under construction	212	194	(406)	-	-
	Purchases	-	-	271	31	302
	Self-constructed	-	-	42	7	49
Note 4.1	Depreciation/amortisation	(67)	(190)	-	(13)	(270)
Note 4.4	(Recognition)/reversal of impairment losses	-	(7)	(1)	(70)	(78)
	Other changes	(451)	260	51	68	(72)
	As at 31 December 2015					
	Gross carrying amount	1 855	2 267	23	443	4 588
	Accumulated depreciation/amortisation	(475)	(879)	-	(78)	(1 432)
	Impairment losses	(123)	(14)	(1)	(124)	(262)
	Net carrying amount	**1 257**	**1 374**	**22**	**241**	**2 894**
	Changes in 2016 net					
	Settlement of fixed assets under construction	111	179	(290)	-	-
	Purchases	-	-	160	15	175
	Self-constructed	-	-	49	-	49
Note 4.1	Depreciation/amortisation	(57)	(198)	-	(19)	(274)
Note 4.4	(Recognition)/reversal of impairment losses	(70)	-	-	-	(70)
	Other changes	239	(303)	118	(29)	25
	As at 31 December 2016					
	Gross carrying amount	2 252	2 187	60	504	5 003
	Accumulated depreciation/amortisation	(559)	(1 123)	-	(177)	(1 859)
	Impairment losses	(213)	(12)	(1)	(119)	(345)
	Net carrying amount	**1 480**	**1 052**	**59**	**208**	**2 799**

in PLN millions, unless otherwise stated

Note 9.3 Depreciation/amortisation

		Property, plant and equipment		Intangible assets	
		2016	2015	2016	2015
Note 4.1	**Total**	**1 680**	**1 954**	**38**	**61**
	settled in profit or loss	1 665	1 888	33	55
	cost of manufacturing products	1 626	1 850	26	49
	administrative expenses	28	25	6	5
	selling costs	11	11	1	1
	other operating costs	-	2	-	-
	being part of the manufacturing cost of assets	15	66	5	6

Note 9.4 Provision for decommissioning costs of mines and other facilities

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

	2016	2015
- in Poland	3.5 %	2.75 %
- in the United States	2.25% - 2.62%	1.8% - 2.5%
- in Canada	2.31%	2.3% - 2.9%

		2016	2015
	Provisions at the beginning of the reporting period	**1 496**	**1 555**
Note 9.1	Changes in estimates recognised in fixed assets	(53)	(131)
	Other	57	72
	Provisions at the end of the reporting period including:	**1 500**	**1 496**
	- non-current provisions	**1 487**	**1 466**
	- current provisions	**24**	**30**

Note 9.5 Capitalised costs of external financing

In 2016, the Group recognised PLN 90 million of external financing costs in property, plant and equipment and intangible assets. Applied capitalisation rate due to loan from European Investment Bank amounted to 100% and from Bank Syndicate 45.12%. In 2015, the Group recognised PLN 70 million of external financing costs in property, plant and equipment and intangible assets and applied the following capitalisation rates: 96.12% due to loan from European Investment Bank, 27.61% due to a loan granted by a Bank Syndicate and 18.41% due to loans granted by other banks.

in PLN millions, unless otherwise stated

Part 10 – Working capital

Note 10.1 Inventories

Accounting policies	Significant estimates and assumptions
The Group measures inventories at cost, not higher than the sales price less costs of completing production and costs to sale. Inventory disposals are measured at weighted average cost.	In the consolidated financial statements the amount of those inventories of the KGHM INTERNATIONAL LTD. Group which arise from the leaching process, is determined based on the estimated recovery of metal from ore. The nature of the process of leaching copper from ore limits the precision of monitoring the level of inventories arising during this process. In subsequent reporting periods, adjustments are made to the estimated recovery of copper from the leaching of ore in a given reporting period to the level of production achieved in the subsequent period. As at 31 December 2016 the provisionally-set value of inventories amounted to PLN 131 million (as at 31 December 2015, PLN 196 million). In 2016 there was an adjustment of inventories arising from the leaching process whose value was provisionally set in the previous reporting periods, in the amount of PLN 18 million (in 2015, PLN 107 million).

	2016	2015
Materials	650	787
Half-finished goods and work in progress	2 012	1 870
Finished products	541	560
Merchandise	294	165
Total net carrying amount of inventories	**3 497**	**3 382**

Note 4.4	Write-down of inventories during the reporting period	2016	2015
	Write-down recognised in cost of sales	(83)	(163)
	Write-down reversed in cost of sales	7	2

Maturities of inventories

	2016	2015
Maturity over the 12 months from the end of the reporting period	180	268
Maturity of up to 12 months from the end of the reporting period	3 317	3 114

Note 10.2 Trade receivables

Accounting policies
Trade receivables are initially recognised at fair value. After initial recognition, these receivables are measured at amortised cost while taking into account impairment allowance. Trade receivables with maturity dates of less than 12 moths are not discounted.

	2016	2015
Current trade receivables	1 292	1 541

As at 31 December 2016 as well as 2015, there were no significant amounts of overdue trade receivables. Impairment allowances on trade receivables (cumulatively and recognised in a given period) are immaterial for the current and comparable reporting periods. The impairment allowance in 2016 on trade receivables amounted to PLN 5 million (in 2015, PLN 9 million).
The Group is exposed to the credit risk and currency risk arising from trade receivables. Credit risk management and assessment of the credit quality of receivables is presented in Note 7.5.2.3. Information on currency risk is presented in Note 7.5.1.3
The fair value of trade receivables approximates the carrying amount.

Note 10.3 Trade payables

Accounting policies
Trade payables are initially recognised at fair value and are measured at amortised cost at the end of the reporting period. Trade payables with maturity dates of less than 12 moths are not discounted.

	2016	2015
Non-current trade payables	180	180
Current trade payables	1 433	1 418
Trade payables	**1 613**	**1 598**

in PLN millions, unless otherwise stated

The item trade payables contains payables due to the purchase and construction of fixed assets and intangible assets which, as at 31 December 2016, amounted to PLN 170 million in the non-current part and PLN 350 million in the current part (as at 31 December 2015, respectively PLN 172 million and PLN 521 million).
The Group is exposed to currency risk arising from trade payables and liquidity risk. Information on currency risk is presented in Note 7.5.1.3 and the liquidity risk in Note 8.3.1.
The fair value of trade payables approximates the carrying amount.

Note 10.4 Changes in working capital

	Inventories	Trade receivables	Trade payables	Total working capital
As at 31 December 2015	(3 382)	(1 541)	1 598	**(3 325)**
As at 31 December 2016	(3 497)	(1 292)	1 613	**(3 176)**
Change in the statement of financial position	(115)	249	15	**149**
Adjustments	30	27	120	**177**
Change in the statement of cash flows	(85)	276	135	**326**

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

The highest amount of adjustments to changes in working capital is due to a difference resulting from a change in liabilities due to the purchase of property, plant and equipment and intangible assets in the amount of PLN 138 million in 2016, and PLN (92) million in 2015.

in PLN millions, unless otherwise stated

Part 11 – Employee benefits

Accounting policies

The Group is obliged to pay specified benefits following the period of employment (retirement benefits due to one-off retirement-disability rights, post-mortem benefits and the coal equivalent) and other long-term benefits (jubilee bonuses), in accordance with the Collective Labour Agreement.
The amount of the liabilities due to both of these benefits is estimated at the end of the reporting period by an independent actuary using the projected unit credit method.
The present value of liabilities from these benefits is determined by discounting estimated future cash outflow using the interest rates on treasury bonds expressed in the currency of the future benefits payments, with maturities similar to the date of settlement for liabilities.
Actuarial gains and losses from the measurement of specified benefits following the period of employment are recognised in other comprehensive income in the period in which they arose. Actuarial gains/losses from the measurement of other benefits (for example benefits due to jubilee bonuses) are recognised in profit or loss.

Significant estimates and assumptions

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

Other macroeconomic assumptions used to measure liabilities due to future employee benefits, such as the inflation rate or the minimum salary, are based on current market conditions. The assumptions used to measure liabilities as at 31 December 2016 are presented in Note 11.2.

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

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

	2016	2015
an increase in the discount rate by 1%	(219)	(248)
a decrease in the discount rate by 1%	285	328
an increase in coal price rate and increase in salary rate by 1%	300	324
an decrease in coal price rate and decrease in salary rate by 1%	(222)	(250)

in PLN millions, unless otherwise stated

Note 11.1 Employee benefits liabilities

Components of the item: employee benefits liabilities

		2016	2015
	Non-current	1 860	1 979
	Current	147	126
Note 11.2	**Total liabilities due to future employee benefits programs**	**2 007**	**2 105**
	Employee remuneration liabilities	230	219
	Accruals (unused annual leave, bonuses, other)	410	415
	Employee liabilities	**640**	**634**
	Total employee benefits liabilities	**2 647**	**2 739**

Employee benefits expenses

		2016	2015
	Remuneration	3 463	3 475
	Costs of social security and other benefits	1 079	1 078
	Costs of future benefits	130	153
Note 4.1	**Employee benefits expenses**	**4 672**	**4 706**

in PLN millions, unless otherwise stated

Note 11.2 Changes in liabilities related to future employee benefits programs

		TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
	As at 1 January 2015	**2 146**	**379**	**293**	**1 393**	**81**
Note 11.1	Total costs recognised in profit or loss	**153**	59	25	62	7
	Interest costs	**61**	10	8	38	5
	Current service costs	**69**	27	16	24	2
	Past service costs	**4**	3	1	-	-
	Actuarial losses recognised in profit or loss	**19**	19	-	-	-
Note 8.2.2	Actuarial (gains)/losses recognised in other comprehensive income	**(71)**	-	7	(75)	(3)
	Benefits paid	**(123)**	(54)	(25)	(41)	(3)
	As at 31 December 2015	**2 105**	**384**	**300**	**1 339**	**82**
Note 11.1	Total costs recognised in profit or loss	**130**	29	31	65	5
	Interest costs	**64**	11	**9**	40	4
	Current service costs	**70**	24	19	26	1
	Past service costs	**(2)**	(4)	3	(1)	-
	Actuarial gains recognised in profit or loss	**(2)**	(2)	**-**	-	-
Note 8.2.2	Actuarial (gains)/losses recognised in other comprehensive income	**(111)**	-	11	(125)	3
	Benefits paid	**(117)**	(46)	(27)	(40)	(4)
	As at 31 December 2016	**2 007**	**367**	**315**	**1 239**	**86**

As at 31 December	2016	2015	2014	2013	2012
Present value of liabilities due to employee benefits	**2 007**	2 105	2 146	1 694	1 748

in PLN millions, unless otherwise stated

Main actuarial assumptions as at 31 December 2016:

	2017	2018	2019	2020	2021 and beyond
- discount rate	3.50%	3.50%	3.50%	3.50%	3.50%
- rate of increase in coal prices	0.00%	2.00%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	0.00%	3.00%	4.00%	4.00%	4.00%
- expected inflation	1.30%	1.50%	2.50%	2.50%	2.50%
- future expected increase in salary	3.30%	1.50%	2.50%	2.50%	2.50%

Main actuarial assumptions as at 31 December 2015:

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

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

Actuarial (gains)/losses as at 31 December 2016 versus assumptions adopted as at 31 December 2015

Change in financial assumptions	(141)
Change in demographic assumptions	(8)
Other changes	36
Total actuarial (gains)/losses	**(113)**

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

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

Maturity profile of employee benefits liabilities

Year of maturity:	**TOTAL liabilities**	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
2017	**147**	47	50	44	6
2018	**161**	38	69	50	4
2019	**99**	31	15	49	4
2020	**91**	27	13	47	4
2021	**89**	25	14	46	4
Other years	**1 420**	199	154	1 003	64
Total liabilities in the statement of financial position as at 31 December 2016	**2 007**	**367**	**315**	**1 239**	**86**

Year of maturity:	**TOTAL liabilities**	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
2016	**129**	41	36	44	8
2017	**160**	36	70	49	5
2018	**98**	29	17	48	4
2019	**93**	26	15	48	4
2020	**88**	26	12	46	4
Other years	**1 537**	226	150	1 104	57
Total liabilities in the statement of financial position as at 31 December 2015	**2 105**	**384**	**300**	**1 339**	**82**

in PLN millions, unless otherwise stated

Part 12 – Other notes

Note 12.1 Related party transactions

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

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

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

Operating income from related parties

	2016	2015
Revenues from sales of products, merchandise and materials to a joint venture	100	17
Interest income on a loan granted to a joint venture	633	466
Revenues from other transactions with a joint venture	41	104
Revenues from other transactions with other related parties	14	11
	788	**598**

Purchases from related parties

	2016	2015
Purchase of services, merchandise and materials from joint ventures	53	70
Purchase of services, merchandise and materials from other related parties	15	15
Other purchase transactions from other related parties	2	2
	70	**87**

Trade and other receivables from related parties

	2016	2015
From the joint venture Sierra Gorda S.C.M. (loans)	4 313	7 504
From the joint venture Sierra Gorda S.C.M. (other)	492	312
From other related parties	2	2
	4 807	**7 818**

Trade and other payables towards related parties

	2016	2015
Towards joint ventures	51	75
Towards other related parties	1	1

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

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

- the purchase of materials and services to meet the needs of current operating activities (fuel, energy, transport services). In the period from 1 January 2016 to 31 December 2016, the turnover from these transactions amounted to PLN 616 million (from 1 January 2015 to 31 December 2015: PLN 645 million), and, as at 31 December 2016, the unsettled balance of liabilities from these transactions amounted to PLN 294 million (as at 31 December 2015: PLN 241 million),
- sales to Polish State Treasury Companies. In the period from 1 January 2016 to 31 December 2016, the turnover from these sales amounted to PLN 71 million (from 1 January 2015 to 31 December 2015: PLN 119 million), and, as at 31 December 2016, the unsettled balance of receivables from these transactions amounted to PLN 8 million (as at 31 December 2015: PLN 8 million),
- dividends received from Polish State Treasury Companies in the period from 1 January 2016 to 31 December 2016 in the amount of PLN 1 million (from 1 January 2015 to 31 December 2015, PLN 27 million).

Note 12.2 Dividends paid

In accordance with Resolution No. 6/2016 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 28 June 2016 regarding the dividend payout from prior years' profits, setting the dividend date and the dividend payment date, the amount of PLN 300 million was allocated as a shareholder dividend, amounting to PLN 1.50 per share.
The dividend date (the day on which the right to dividend is set) was set at 15 July 2016 with the dividend being paid in two instalments: 18 August 2016 – the amount of PLN 150 million (equal to PLN 0.75 per share) and 17 November 2016 – the amount of PLN 150 million (equal to PLN 0.75 per share). All shares of the Parent Entity are ordinary shares.

In accordance with Resolution No. 5/2015 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 29 April 2015 regarding the appropriation of the Parent Entity's profit for financial year 2014, the amount of PLN 800 million was allocated as a shareholder dividend, amounting to PLN 4.00 per share.

in PLN millions, unless otherwise stated

The dividend date (the day on which the right to dividend is set) was set at 27 May 2015 with the dividend being paid in two instalments: 18 June 2015 – PLN 2.00 per share and 19 October 2015 – PLN 2.00 per share. All shares of the Parent Entity are ordinary shares.

Note 12.3 Other assets

Accounting policies
Receivables not constituting financial assets are initially recognised at nominal value, and at the end of the reporting period they are measured in the amount due. Accounting policies concerning financial assets were described in Part 7.

	2016	2015
Other non-current non-financial assets	**117**	**97**
Investment property	78	61
Prepayments	26	32
Other	13	4
Other current assets	**252**	**383**
Other current financial assets	**199**	**239**
Available-for-sale financial assets	56	84
Amounts retained (collateral) due to long-term construction contracts	48	38
Other	95	117
Other current non-financial assets	**53**	**144**
Non-financial prepayments	31	85
Other	22	59
Other non-current and current assets, total	**369**	**480**

Note 12.4 Other liabilities

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

	2016	2015
Liabilities due to Franco Nevada streaming contract	638	670
Trade payables	180	180
Other accruals	103	100
Other financial liabilities	39	15
Other liabilities – non-current	**960**	**965**
Special funds	288	269
Provision for decommissioning costs of mines, other technological facilities and fixed assets - current	28	35
Provision for disputed issues and court proceedings, and other provisions	128	77
Deferred income	137	129
Accruals*	318	319
Other financial liabilities	126	103
Other	61	132
Other liabilities - current	**1 086**	**1 064**

*These accruals are due to purchase costs of property rights due to cogeneration related to used electricity, charge for discharging of gases and dusts to the air and other recognised operating costs

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

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

in PLN millions, unless otherwise stated

	2016	2015
Contingent assets	**554**	**635**
guarantees received	252	310
promissory notes receivables	108	168
other	194	157
Contingent liabilities	**2 346**	**1 780**
guarantees, including:	1 787	1 281
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.	575	536
guarantees granted to additionally secure the proper performance of leasing agreements entered into by the joint venture Sierra Gorda S.C.M.	277	319
a guarantee securing the proper performance of future environmental obligations of the Parent Entity to restore the area following the conclusion of operations of the Żelazny Most tailings storage facility	96	64
guarantees granted to additionally secure the repayment of short-term working capital facility obtained by the joint venture Sierra Gorda S.C.M.	437	-
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	387	324
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	224	256
liabilities due to implementation of projects and inventions	91	91
other	244	152
Other liabilities not recognised in the statement of financial position	**178**	**172**
liabilities towards local government entities due to expansion of the tailings storage facility	120	118
liabilities due to operating leases	58	54

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

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

	2016	2015
Capital commitments due to the purchase of:		
property, plant and equipment	2 420	2 111
intangible assets	90	29
Total capital commitments	**2 510**	**2 140**

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

Note 12.7 The right of perpetual usufruct of land

The Parent Entity and the Group's Polish subsidiaries obtained the right of perpetual usufruct of land mostly free of charge on the basis of laws in force. The land subject to perpetual usufruct is industrial area related to the core business activities, which also includes protective zones in which environmental quality standards have been exceeded as a result of the activities carried out.
Due to the nature of the use of the above-mentioned land, the Group has not determined fair values for these perpetual usufruct rights.
The table below contains information on future payments due to the right of perpetual usufruct of land.

	2016	2015
Under one year	14	14
From one to five years	57	57
Over five years	782	732
Total value of future contingent payments due to the right of perpetual usufruct of land	**853**	**803**

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

in PLN millions, unless otherwise stated

Note 12.8 Employment structure

	2016	2015
White-collar employees	10 062	10 285
Blue-collar employees	23 308	23 313
Total (full-time equivalent)	**33 370**	**33 598**

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

	2016	2015
Change in assets/liabilities due to derivatives	(6)	509
Change in other receivables and liabilities	21	(98)
Reclassification of other comprehensive income to profit or loss as a result of realisation of hedging derivatives	(3)	(482)
Exchange differences	(138)	(190)
Write-off of the not yet due tax liability in other operating income	(185)	-
Change in provisions	69	41
Other	37	88
Total	**(205)**	**(132)**

Note 12.10 Remuneration of key managers

Remuneration of members of the Management Board (in PLN thousands)	Period when function served in 2016	Period when function served in 2015	Current employee benefits 2016	Current employee benefits 2015	Benefits due to termination of employment 2016	Benefits due to termination of employment 2015	Total earnings in 2016	Total earnings in 2015
Members of the Management Board serving in the function								
Radosław Domagalski - Łabędzki	28.10-31.12	-	243	-	-	-	**243**	-
Jacek Rawecki	03.02-31.12	-	1 300	-	-	-	**1 300**	-
Michał Jezioro	09.11-31.12	-	177	-	-	-	**177**	-
Stefan Świątkowski	23.02-31.12	-	1 194	-	-	-	**1 194**	-
Piotr Walczak	15.03-31.12	-	1 112	-	-	-	**1 112**	-
Other Members of the Management Board								
Krzysztof Skóra	03.02-28.10	-	1 225	-	117	-	**1 342**	-
Mirosław Biliński	03.02-05.09	-	887	-	189	-	**1 076**	-
Dominik Hunek	06.09-27.10	-	171	-		-	**171**	-
Herbert Wirth	01.01-03.02	01.01-31.12	1 372*	2 438	206	-	**1 578**	**2 438**
Jarosław Romanowski	01.01-03.02	01.01-31.12	1 307*	2 198	185	-	**1 492**	**2 198**
Marcin Chmielewski	01.01-03.02	01.01-31.12	1 247*	1 903	164	-	**1 411**	**1 903**
Jacek Kardela	01.01-03.02	01.01-31.12	1 268*	1 924	164	-	**1 432**	**1 924**
Mirosław Laskowski	01.01-15.03	01.02-31.12	1 728*	1 277	123	-	**1 851**	**1 277**
Wojciech Kędzia	-	01.01-31.01	30	856	-	-	**30**	**856**
			13 261	**10 596**	**1 148**	**-**	**14 409**	**10 596**

* The amounts include remuneration during the period of employment termination.

Remuneration of members of the Supervisory Board (in PLN thousands)	Period when function served in 2016	Period when function served in 2015	Current employee benefits 2016	Current employee benefits 2015	Current benefits due to service in 2016	Current benefits due to service in 2015	Total earnings in 2016	Total earnings in 2015
Members of the Supervisory Board serving in the function								
Dominik Hunek	18.01-31.12	-	-	-	105	-	**105**	**-**
Michał Czarnik	18.01-31.12	-	-	-	106	-	**106**	**-**
Bogusław Szarek	01.01-31.12	01.01-31.12	199	202	144	138	**343**	**340**
Wojciech Andrzej Myślecki	07.12-31.12	-	-	-	9	-	**9**	**-**
Marek Pietrzak	07.12-31.12	-	-	-	9	-	**9**	**-**
Agnieszka Winnik -Kalemba	07.12-31.12	-	-	-	9	-	**9**	**-**
Jarosław Witkowski	18.01-31.12	-	-	-	103	-	**103**	**-**
Józef Czyczerski	01.01-31.12	01.01-31.12	110	108	107	100	**217**	**208**
Leszek Hajdacki	01.01-31.12	01.01-31.12	184	171	107	104	**291**	**275**
Other Members of the Supervisory Board								
Cezary Godziuk	18.01-07.12	-	-	-	93	-	**93**	**-**
Miłosz Stanisławski	18.01-06.12	-	-	-	93	-	**93**	**-**
Radosław Barszcz	18.01-07.12	-	-	-	99	-	**99**	**-**
Jacek Poświata	01.01-18.01	01.01-31.12	-	-	5	101	**5**	**101**
Andrzej Kidyba	01.01-18.01	01.01-31.12	-	-	6	511	**6**	**511**
Tomasz Cyran	01.01-18.01	01.01-31.12	-	-	6	114	**6**	**114**
Barbara Wertelecka-Kwater	01.01-18.01	01.01-31.12	-	-	5	100	**5**	**100**
Marcin Moryń	01.01-18.01	01.01-31.12	-	-	7	125	**7**	**125**
Bogusław Stanisław Fiedor	01.01-18.01	01.01-31.12	-	-	5	102	**5**	**102**
			493	**481**	**1 018**	**1 395**	**1 511**	**1 876**

	2016	2015
Current employee benefits of other key managers (in PLN thousands)	3 675	6 806

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

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

	2016	2015
Companies of the PricewaterhouseCoopers Group	**-**	**8 739**
From the contract for the review and audit of financial statements, including due to:	-	4 366
audit of annual financial statements	-	3 741
review of financial statements	-	625
From other contracts	-	4 373
Companies of the Deloitte Group	**5 070**	**-**
From the contract for the review and audit of financial statements, including due to:	**3 258**	-
audit of annual financial statements	2 667	-
review of financial statements	581	-
other assurance services	10	-
From other contracts	1 812	-

in PLN millions, unless otherwise stated

Note 12.12 Composition of the Group

Company name	Head office	% of Group's share 2016	2015
BIPROMET S.A.	Katowice	100	100
CBJ sp. z o.o.	Lubin	100	100
CENTROZŁOM WROCŁAW S.A.	Wrocław	99.65	99.65
CUPRUM Nieruchomości sp. z o.o.	Wrocław	100	100
"Energetyka" sp. z o.o.	Lubin	100	100
Fermat 1 S. à r. l.	Luxembourg	-	100
Fermat 2 S. à r. l.	Luxembourg	-	100
Fermat 3 S. à r. l.	Luxembourg	-	100
Fundusz Hotele 01 Sp. z o.o.	Wrocław	100	100
Fundusz Hotele 01 Sp. z o.o. S.K.A.	Wrocław	100	100
INOVA Spółka z o.o.	Lubin	100	100
INTERFERIE S.A.	Lubin	68.25	67.71
Interferie Medical SPA Sp. z o.o.	Lubin	89.64	89.46
KGHM CUPRUM sp. z o.o. - CBR	Wrocław	100	100
CUPRUM DEVELOPMENT sp. z o.o.	Wrocław	100	100
KGHM Kupfer AG	Berlin	100	100
KGHM I FIZAN	Wrocław	100	100
KGHM III FIZAN	Wrocław	-	100
KGHM IV FIZAN	Wrocław	100	100
KGHM V FIZAN	Wrocław	100	100
KGHM Metraco S.A.	Legnica	100	100
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	Shanghai	100	100
KGHM TFI S.A.	Wrocław	100	100
KGHM ZANAM S.A.	Polkowice	100	100
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	100	100
NITROERG S.A.	Bieruń	87.12	85
NITROERG SERWIS Sp. z o.o.	Wilków	87.12	85
PeBeKa S.A.	Lubin	100	100
PeBeKa Canada Inc.	Vancouver	100	100
PB Katowice S.A. in liquidation	Katowice	-	88.09
MERCUS Logistyka sp. z o.o.	Polkowice	100	100
PHU "Lubinpex" Sp. z o.o.	Lubin	100	100
Staropolanka Sp. z o.o.	Polanica Zdrój	100	100
PMT Linie Kolejowe 2 Sp. z o.o.	Owczary	100	100
Future 1 Sp. z o.o.	Lubin	100	100
Future 2 Sp. z o.o.	Lubin	100	100
Future 3 Sp. z o.o.	Lubin	100	100
Future 4 Sp. z o.o.	Lubin	100	100
Future 5 Sp. z o.o.	Lubin	100	100
Future 6 Sp. z o.o.	Lubin	100	100
Future 7 Sp. z o.o.	Lubin	100	100
PMT Linie Kolejowe Sp. z o.o.	Owczary	100	100
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	100	100
Polska Grupa Uzdrowisk Sp. z o.o.	Wrocław	100	100
Polska Grupa Uzdrowisk Sp. z o.o. S.K.A. in liquidation	Warsaw	-	100
"Uzdrowisko Cieplice" Sp. z o.o.-Grupa PGU	Jelenia Góra	98.48	98.29
Uzdrowiska Kłodzkie S.A. - Grupa PGU	Polanica Zdrój	100	100
Uzdrowisko Połczyn Grupa PGU S.A.	Połczyn Zdrój	100	100
Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o.-Grupa PGU	Świeradów Zdrój	98.98	98.95
WFP Hefra S.A.	Warsaw	-	100
WMN "ŁABĘDY" S.A.	Gliwice	84.96	84.96
WPEC w Legnicy S.A.	Legnica	100	100
Zagłębie Lubin S.A.	Lubin	100	100
OOO ZANAM VOSTOK	Gay (Russia)	100	-

in PLN millions, unless otherwise stated

Company name	Head office	% of Group's share 2016	% of Group's share 2015
KGHM INTERNATIONAL LTD. Group			
KGHM INTERNATIONAL LTD.	Vancouver	100	100
KGHM AJAX MINING INC.	Vancouver	80	80
Sugarloaf Ranches Limited	Vancouver	100*	100*
Malmbjerg Molybdenum A/S	Greenland	100	100
KGHMI Holdings Ltd.	Canada	100	100
Quadra FNX Chile Ltd.	Canada	-	100
Quadra FNX Holdings Chile Limitada	Chile	100	100
Quadra FNX SG Ltd.	Canada	-	100
Aguas de la Sierra Limitada	Chile	100	100
Quadra FNX FFI S. à r. l. (formerly Quadra FNX FFI Ltd.)	Luxembourg	100	100
Robinson Holdings (USA) Ltd.	Nevada, USA	100	100
Wendover Bulk Transhipment Company	Nevada, USA	100	100
Robinson Nevada Mining Company	Nevada, USA	100	100
Carlota Holdings Company	Arizona, USA	100	100
Carlota Copper Company	Arizona, USA	100	100
FNX Mining Company Inc.	Ontario, Canada	100	100
DMC Mining Services Ltd.	Ontario, Canada	100	100
Quadra FNX Holdings Partnership	British Columbia, Canada	100	100
Raise Boring Mining Services, S.A. de C.V.	Mexico	100	100
FNX Mining Company USA Inc.	USA	100	100
DMC Mining Services Corporation	USA	100	100
Centenario Holdings Ltd.	British Virgin Islands	100	100
Minera Carrizalillo Limitada	Chile	100	100
Mineria y Exploraciones KGHM International SpA	Chile	100	100
Franke Holdings Ltd. (formerly Frankie (BVI) Ltd.)	British Virgin Islands	100	100
Sociedad Contractual Minera Franke	Chile	100	100
0899196 B.C. Ltd.	British Columbia, Canada	100	100

Note 12.13 Subsequent events after the reporting period

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

On 3 February 2017, Jacek Rawecki submitted his resignation from the function of First Vice President of KGHM Polska Miedź S.A. The Supervisory Board of KGHM Polska Miedź S.A., following its meeting on 3 February 2017, adopted a resolution on the appointment of Rafał Pawełczak as a Vice President of the Management Board of KGHM Polska Miedź S.A.

Increase in the amount of available overdraft facility

On 1 February 2017, pursuant to the annex to the credit agreement with Bank Handlowy S.A. in Warsaw, the amount available from the overdraft facility was increased from PLN 80 million to PLN 100 million. Interest on the facility is based on WIBOR/LIBOR plus a margin. The facility's maturity date expires on 12 October 2018.

Repayment of the credit

On 30 January 2017, the Parent Entity repaid an instalment in the amount of USD 100 million, which was drawn under the Unsecured, Revolving Syndicated Credit Facility.

Extension of the deadline for repayment of the working capital facility

On 4 January 2017, the Parent Entity extended the period of availability of the USD 80 million credit line in ING Bank Śląski S.A. to 24 January 2018. Interest on the facility is based on LIBOR/EURIBOR plus a margin.

On 23 January 2017, the Parent Entity extended the deadline for repayment of the working capital facility in the amount of USD 100 million in Bank Gospodarstwa Krajowego to 2 February 2018. Interest on the facility is based on LIBOR plus a margin.

On 14 February 2017, the Parent Entity extended the period of availability of the credit line of USD 50 million in Bank Zachodni WBK S.A. to 28 February 2018. Interest on the credit line is based on LIBOR plus a margin.

Extension of a corporate guarantee

On 13 February 2017, the Parent Entity extended the period of validity of a corporate guarantee in the amount of USD 63 million, which secures repayment of a short-term working capital facility granted by a bank to Sierra Gorda S.C.M. The guarantee expires on 18 February 2018.

Obtaining a permit for an open-pit mine development

On 4 March 2017, Stk'emlúpsemc te Secwépemc Nation announced their rejection of the publicly-reviewed development plan of KGHM AJAX MINING INC. to build a mine. In the opinion of the Parent Entity's Management Board, despite the rejection it is possible, at the current stage of the project, to continue the process of obtaining the relevant permits aimed at developing the open-pit mine. The projected cash flows, which were taken into account in the impairment testing of the Ajax project as at 31 December 2016, are realistic and are the best reflection of the achievable plans.

2016 targets versus achievements and expected economic situation of the Parent Entity in 2017

On 15 March 2017, the Supervisory Board of the Parent Entity approved KGHM Polska Miedź S.A.'s Budget for 2017 as presented by the Management Board (detailed information on the adopted budget may be found in the Management Board's Report on the Activities of KGHM Polska Miedź S.A. and KGHM Polska Miedź S.A. Group in 2016, in section 7.5).

Part 13 – Quarterly financial information of the Group

CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS

		4th quarter of 2016	4th quarter of 2015	4 quarters of 2016	4 quarters of 2015
Note 2.3	Sales revenue	6 015	5 148	19 156	20 008
Note 4.1	Cost of sales	(4 887)	(6 550)	(15 242)	(18 159)
	Gross profit/(loss)	**1 128**	**(1 402)**	**3 914**	**1 849**
Note 4.1	Selling costs and administrative expenses	(397)	(366)	(1 370)	(1 343)
	Profit/(loss) on sales	**731**	**(1 768)**	**2 544**	**506**
Note 6.1	Share of losses of joint ventures accounted for using the equity method	(373)	(4 144)	(1 200)	(4 457)
Note 6.1	Impairment loss on interest in a joint venture	-	(671)	-	(671)
Note 6.2	Allowance for impairment of loans granted to joint ventures	(4 394)	-	(4 394)	-
Note 6.2	Interest on loans granted to joint ventures	168	147	633	466
	Profit or loss on involvement in joint ventures	(4 599)	(4 668)	(4 961)	(4 662)
Note 4.2	Other operating income and (costs)	(532)	(444)	(802)	(660)
Note 4.3	Finance income and (costs)	(615)	(82)	(582)	(306)
	Loss before income tax	**(5 015)**	**(6 962)**	**(3 801)**	**(5 122)**
Note 5.1	Income tax expense	(63)	725	(648)	113
	LOSS FOR THE PERIOD	**(5 078)**	**(6 237)**	**(4 449)**	**(5 009)**
	Loss for the period attributable to:				
	Shareholders of the Parent Entity	(4 996)	(6 237)	(4 371)	(5 012)
	Non-controlling interest	(82)	-	(78)	3
	Weighted average number of ordinary shares (million)	**200**	**200**	**200**	**200**
	Basic/diluted earnings per share (in PLN)	**(24.98)**	**(31.19)**	**(21.86)**	**(25.06)**

in PLN millions, unless otherwise stated

Explanatory notes to the consolidated statement of profit or loss

Note 13.1 Expenses by nature

	4th quarter of 2016	4th quarter of 2015	4 quarters of 2016	4 quarters of 2015
Depreciation of property, plant and equipment and amortisation of intangible assets	454	449	1 718	2 015
Employee benefits expenses	1 214	1 237	4 672	4 706
Materials and energy	1 886	1 887	7 035	7 264
External services	639	615	2 192	2 110
Minerals extraction tax	396	304	1 338	1 439
Other taxes and charges	125	123	499	504
Advertising costs and representation expenses	21	32	61	75
Property and personal insurance	7	7	30	31
Impairment losses on property, plant and equipment and intangible assets	269	2 391	269	2 417
Other costs	44	76	183	265
Total expenses by nature	**5 055**	**7 121**	**17 997**	**20 826**
Cost of merchandise and materials sold (+)	119	116	436	505
Change in inventories of finished goods and work in progress (+/-)	556	300	(225)	(4)
Cost of manufacturing products for internal use of the Group (-) (mainly stripping costs of surface mines)	(446)	(621)	(1 596)	(1 825)
Cost of sales, selling costs and administrative expenses, including:	**5 284**	**6 916**	**16 612**	**19 502**
Cost of sales	4 887	6 550	15 242	18 159
Selling costs	114	107	410	413
Administrative expenses	283	259	960	930

Note 13.2 Other operating income and (costs)

	4th quarter of 2016	4th quarter of 2015	4 quarters of 2016	4 quarters of 2015
Measurement and realisation of derivatives	18	-	167	121
Foreign exchange gains on assets and liabilities other than borrowings	666	106	511	143
Write-off of the not yet due tax liability	185	-	185	-
Other	61	54	212	216
Total other operating income	**930**	**160**	**1 075**	**480**
Measurement and realisation of derivatives	(139)	(119)	(371)	(361)
Impairment losses on available-for-sale assets	-	(81)	(57)	(265)
Impairment losses on fixed assets under construction and intangible assets not yet available for use	(1 209)	(292)	(1 209)	(292)
Other	(114)	(112)	(240)	(222)
Total other operating costs	**(1 462)**	**(604)**	**(1 877)**	**(1 140)**
Other operating income/(costs)	**(532)**	**(444)**	**(802)**	**(660)**

in PLN millions, unless otherwise stated

Note 13.3 Finance income/(costs)

	4th quarter of 2016	4th quarter of 2015	4 quarters of 2016	4 quarters of 2015
Gains on the measurement of derivatives	28	1	**26**	**1**
Other	17	6	**-**	**6**
Total finance income	**45**	**7**	**26**	**7**
Interest on borrowings	(36)	(18)	(85)	(156)
Foreign exchange losses on borrowings	(578)	(44)	(401)	(29)
Losses on the measurement of derivatives	-	-	(9)	(13)
Unwinding of the discount effect	(46)	(20)	(46)	(52)
Other	-	(7)	(67)	(63)
Total finance costs	**(660)**	**(89)**	**(608)**	**(313)**
Finance income and (costs)	**(615)**	**(82)**	**(582)**	**(306)**

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

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

THE MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES OF KGHM POLSKA MIEDŹ S.A. AND KGHM POLSKA MIEDŹ S.A. GROUP IN 2016

Lubin, March 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.
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 or 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 less free cash and cash equivalents.
OFE rod	Oxygen-free copper wire rod produced at the Cedynia wire rod plant 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 - regulation of the European Parliament of 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 Dore'a 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 (oz t)	A unit of measure mainly used in English-speaking countries. The troy ounce (abbreviated as oz t) is universally used in jewelry 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

Aggregated data of the Company and Group for the years 2009-2016

(data for the years 2009-2014 according to annual reports for these periods)

		2016	2015	2014	2013	2012	2011	2010	2009
Basic items of the consolidated statements									
Sales revenue	PLN mn	**19 156**	20 008	20 492	24 110	26 705	22 107	17 293	12 120
Profit/(loss) for the period	PLN mn	**(4 449)**	(5 009)	2 451	3 033	4 803	11 064	4 715	2 359
Total assets	PLN mn	**33 442**	36 764	40 374	34 465	33 616	30 554	21 177	14 897
Liabilities and provisions	PLN mn	**17 531**	16 350	14 844	11 401	11 906	7 172	6 286	4 274
Earnings per share (EPS)[1]	PLN	**(21.86)**	(25.06)	12.25	15.18	24.01	55.02	23.54	11.79
Share price of the Company[2]	PLN	**92.48**	63.49	108.85	118.00	190.00	110.60	173.00	106.00
Net debt/EBITDA[3]	x	**1.6**	1.4	0.9	0.4	0.0	-	-	-
Payable copper production[4]	kt	**677**	718	663	666	676	571	547	503
Payable silver production[4]	t	**1 207**	1 299	1 258	1 164	1 274	1 260	1 161	1 203
Concentrate production cost C1[4]	USD/lb	**1.41**	1.59	1.89	1.85	1.59	0.63	1.07	1.12
Cash expenditures on property, plant and equipment and intangible assets	PLN mn	3 251	3 939	3 434	3 188	2 402	1 859	1 401	1 466
Basic items of the separate statements									
Sales revenue	PLN mn	**15 112**	15 939	16 633	18 579	20 737	20 097	15 945	11 061
Profit/(loss) for the period	PLN mn	**(4 085)**	(2 788)	2 414	3 058	4 868	11 335	4 569	2 540
Total assets	PLN mn	**30 100**	33 120	32 312	29 038	28 177	29 253	19 829	13 953
Liabilities and provisions	PLN mn	**14 200**	12 841	8 035	5 740	6 254	6 118	5 373	3 549
Earnings per share (EPS)	PLN	**(20.42)**	(13.94)	12.07	15.29	24.34	56.68	22.85	12.70
Electrolytic copper production	kt	**536**	574	577	565	566	571	547	503
Metallic silver production	t	**1 191**	1 283	1 256	1 161	1 274	1 260	1 161	1 203
Concentrate production cost C1	USD/lb	**1.30**	1.47	1.82	1.78	1.34	0.63	1.07	1.12
Cash expenditures on property, plant and equipment and intangible assets	PLN mn	2 604	2 481	2 203	2 174	1 647	1 406	1 157	1 162
Macroeconomic data (average annual)									
Copper prices on LME	USD/t	**4 863**	5 495	6 862	7 322	7 950	8 811	7 539	5 164
Silver prices on LBMA	USD/oz t	**17.14**	15.68	19.08	23.79	31.15	35.12	20.19	14.67
Exchange rate	USD/PLN	**3.94**	3.77	3.15	3.17	3.26	2.96	3.02	3.12

1) Attributable to shareholders of the Parent Entity
2) At the end of period
3) Adjusted EBITDA for the year, without EBITDA of a joint venture Sierra Gorda S.C.M.
4) Comprises Sierra Gorda S.C.M. accordingly to interest held (55%)

in PLN millions, unless otherwise stated

Significant events in 2016 and to the date of preparation of this report

Change in macroeconomic conditions		
2016	Decrease in average annual prices of copper, molybdenum and nickel respectively by 12%, 3% and 19% alongside an increase in silver price by 9%.	4.3
	Changes in average annual exchange rates: USD/PLN by 5%, USD/CAD by 3% and USD/CLP by 3%.	4.3
KGHM Polska Miedź S.A. on the Stock Exchange		
2016	Increase in the share price of KGHM Polska Miedź S.A. by 46% from PLN 63.49 to PLN 92.48.	11.1
19 August 2016	Regulatory filing on exceeding the 5% threshold in the total number of votes by Nationale-Nederlanden Otwarty Fundusz Emerytalny managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.	11.4
Changes in the composition of KGHM Polska Miedź S.A.'s governing bodies		
18 January 2016	Changes in the composition of the Supervisory Board - dismissal and appointment of 6 Supervisory Board members.	17.2
3 February 2016	Changes in the composition of the Management Board – appointment of Krzysztof Skóra as a President of the Management Board and Jacek Rawecki and Mirosław Biliński as a Vice Presidents of the Management Board, and Election of the Chairman and Deputy Chairman of the Supervisory Board.	17.2
23 February 2016	Appointment of Stefan Świątkowski as a Vice President of the Management Board.	17.2
15 March 2016	Change in the composition of the Management Board - appointment of Piotr Walczak as a Vice President of the Management Board in lieu of Mirosław Laskowski.	17.2
17 May 2016	Appointment of Jacek Rawecki to the function of 1st Vice President of the Management Board.	17.2
11 August 2016	Delegation of two members of the Supervisory Board: to independently carry out supervisory activities regarding the foreign investments.	17.2
2 September 2016	Resignation of Mirosław Biliński from the function of Vice President of the Management Board, effective as of 5 September 2016.	17.2
5 September 2016	Change of the Chairman of the Supervisory Board and delegation of member of the Supervisory Board Dominik Hunek to temporarily carry out the duties of a member of the Management Board.	17.2
29 September 2016	Delegation of a member of the Supervisory Board: to independently carry out supervisory activities regarding the foreign investments.	17.2
28 October 2016	Resignation of Dominik Hunek from temporarily carrying out the duties of a member of the Management Board Change in the composition of the Management Board - appointment of Radosław Domagalski-Łabędzki as a President of the Management Board in lieu of Krzysztof Skóra.	17.2
9 November 2016	Appointment of Michał Jezioro as Vice President of the Management Board.	17.2
6 December 2016	Resignation of Miłosz Stanisławski from the function of Member of the Supervisory Board.	17.2
7 December 2016	Changes in the composition of the Supervisory Board – dismissal of Radosław Barszcz and Cezary Godziuk and appointment of Wojciech Andrzej Myślecki, Marek Pietrzak and Agnieszka Winnik-Kalemba.	17.2
3 February 2017	Change in the composition of the Management Board – resignation of Jacek Rawecki and appointment of Rafał Pawełczak as a Vice President of the Management Board.	17.2
Advancement of projects		
13 January 2016	Regulatory filing presenting the results of the updated Feasibility Study for the Ajax project in Canada.	2.3
28 July 2016	Discontinuance of the Project to build a gas-steam block in "Elektrownia Blachownia Nowa" sp. z o.o.	2.5
Changes in the Group's structure		
30 June 2016	Opening of proceedings to liquidate the closed-end non-public investment fund KGHM III Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych.	2.5
Impairment of assets		
8 February 2016	Regulatory filing announcing that primary work related to the testing for impairment of assets has been completed.	6.7
2 March 2016	Regulatory filing announcing on an update to the conducted tests for impairment of assets.	6.7
13 December 2016	Regulatory filing announcing change in the parameters for key international mining assets belonging to the KGHM Polska Miedź S.A. Group.	6.7
14 February 2017	Regulatory filing announcing that primary work related to the testing for impairment of assets has been completed.	6.7
Dividend paid		
17 May 2016	The Management Board's recommendation regarding coverage of the loss for 2015 and the dividend payout in 2016.	11.3
28 June 2016	The decision of the Ordinary General Meeting of KGHM Polska Miedź S.A. on a dividend payout in the amount of PLN 300 million for 2015.	11.3
15 July 2016	Dividend date (the date on which the right to dividend is set)	11.3
18 August 2016 17 November 2016	Dates of payout of the 1st and 2nd instalment on the dividend.	11.3
Significant agreements		
11 March 2016	Signing of an annex to the contract dated 28 April 2014 for the sale of copper wire rod between the Company and nkt cables group GmbH.	14
15 March 2016	Selection of the firm Deloitte Polska Sp. z o.o. Sp. k. with its registered head office in Warsaw as the entity with which a contract will be entered into for the review and audit of the separate and consolidated statements of the Company for the years 2016-2018.	14.2
12 May 2016	Signing of an Annex to the loan agreement with the European Investment Bank.	14
20 June 2016	Signing of a framework contract for the sale of copper cathodes in the years 2017 - 2021 between KGHM Polska Miedź S.A. and China Minmetals Corporation.	14
Other		
25 November 2016	Filing of a suit requesting that resolutions of the Ordinary General Meeting regarding approval of the performance of duties of a member of the Supervisory Board be repealed.	

in PLN millions, unless otherwise stated

1. Introduction

KGHM Polska Miedź S.A. is the Parent Entity of a Group which is a world-class producer of copper and silver with nearly 60 years of experience in the copper ore mining and processing sector. In Poland, KGHM Polska Miedź S.A. operates one of the world's largest copper ore deposits, guaranteeing continuous production in Poland for the next several decades. KGHM Polska Miedź S.A. also produces among others gold, molybdenum, lead and rock salt, as well as being one of the leading exporters in the country and one of the largest companies in Poland.

KGHM Polska Miedź S.A. as a leader actively impacts the future of copper ore mining, taking advantage of new technology. The Company successively implements modern solutions, thanks to which machines will be able to work in the most hazardous regions, which will realistically increase employee safety.

Protection of the natural environment and minimisation of the impact of its operations is a priority of KGHM Polska Miedź S.A. The ecological policy applied assumes that equipment designed to protect the environment will be maintained in full technical efficiency, waste management techniques will be developed, on-going cooperation with local communities and authorities for the sake of environment will be maintained, cooperation with the Ministry of the Environment in implementing domestic ecological policy and cooperation with the European mining industry and non-ferrous metals industry.

KGHM actively supports the realms of science, the arts and sport. KGHM Polska Miedź is engaged in charitable activities through its Foundation, founded in 2003.

The KGHM Group includes over 70 entities. It employs over 33 thousand employees. Uniformity in such a complex organisation is ensured by KGHM's values – zero harm, teamwork, results-driven, accountability and courage. For nearly 60 years they have been the Company's business compass, indicating the direction of development and the means of operation on the international market.

On 10 July 2017 the Company will celebrate the 20th anniversary of its debut on the Warsaw Stock Exchange. The Company's quotations are included in the WIG20 and WIG30 indices.

2. Group structure

2.1. Group structure

As at 31 December 2016, the Group was composed of KGHM Polska Miedź S.A. – the Parent Entity – and 72 subsidiaries (including three closed-end, non-public investment funds), located on three continents: Europe, North America and South America.

Some of these subsidiaries form their own groups. The largest of these, in terms both of the number of entities as well as the value of equity, was the KGHM INTERNATIONAL LTD. Group, whose main assets are located in Canada, the USA and Chile. It was comprised of 25 subsidiaries (including KGHM INTERNATIONAL LTD.). As at the end of the reporting period the KGHM Polska Miedź S.A. Group owned shares in three joint ventures - Sierra Gorda S.C.M., "Elektrownia Blachownia Nowa" sp. z o.o. in liquidation and NANO CARBON Sp. z o.o.

The detailed structure of the KGHM Polska Miedź S.A. Group presenting the relationships between entities may be found in Appendices 2 and 3 to this report.

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

The below diagram presents the significant production assets and advanced projects within the reporting segments.

Table 1. Main reporting segments of the KGHM Polska Miedź S.A. Group

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.
Type of activities	– mined and metallurgical metals production - Cu, Ag, Au	– mined metals production - Cu, Ni, Au, Pt, Pd	– mined metals production - Cu, Mo, Au, Ag
Main production assets	– underground mines – Lubin – Polkowice-Sieroszowice – Rudna – Copper smelters and refineries – Legnica – Głogów I and Głogów II – Copper wire rod plant Cedynia	– Robinson mine in the USA (open-pit) – Morrison mine (underground) in the Sudbury Basin in Canada	– Sierra Gorda mine in Chile (open-pit)
Main development projects	– Deep Głogów – pre-production and exploration projects in south-west Poland	– Victoria project in the Sudbury Basin in Canada - construction of an underground copper and nickel mine – Ajax project in Canada – construction of an open-pit copper and gold mine, processing plant and associated infrastructure	

Other companies, excluding Future 1 Sp. z o.o., Future 2 Sp. z o.o., Future 3 Sp. z o.o., Future 4 Sp. z o.o., Future 5 Sp. z o.o., Future 6 Sp. z o.o. and Future 7 Sp. z o.o., which operate within the structure related to the establishment of a Tax Group, are part of the segment called "Other segments".

Within the "Other segments", several main groups of entities may be identified:

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

There were no changes in the basic principles for managing the Group in 2016.

2.2. Organisational structure of KGHM Polska Miedź S.A.

In 2016, the multi-divisional organisational structure of the Company, acting under the name KGHM Polska Miedź S.A., comprised the Head Office of the Company and 10 Divisions.

Diagram 1. Organisational structure of the Company as at 31 December 2016

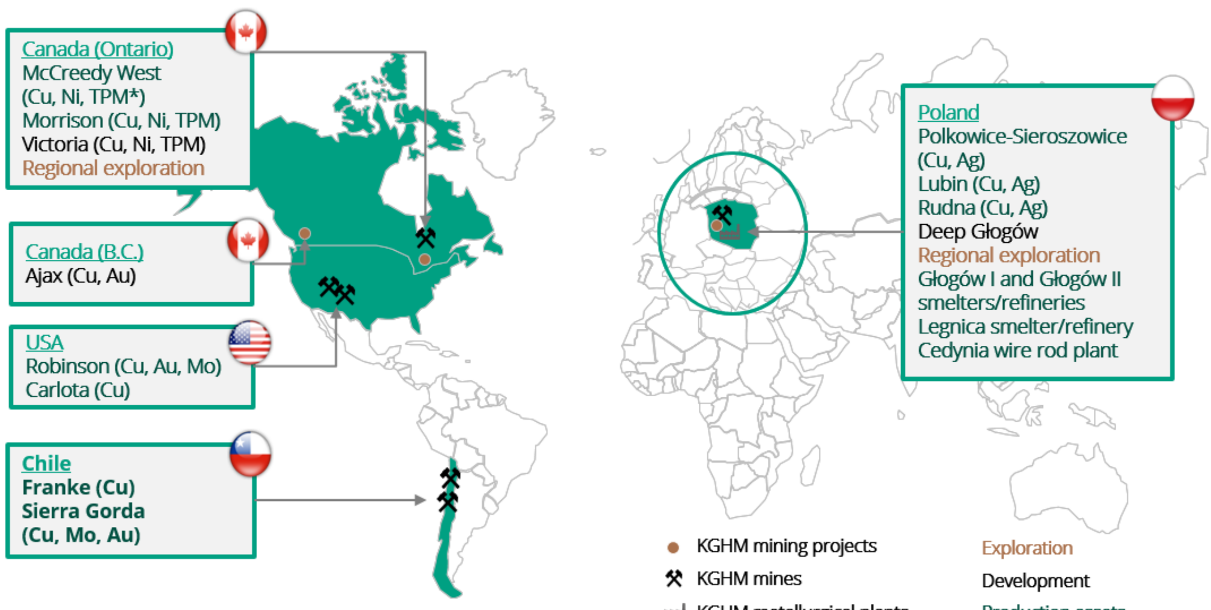
Divisions of KGHM Polska Miedź S.A.			
Mining		Metallurgy	Other
Lubin Mine Division	Concentrators Division	Głogów Smelter/refinery Division	Head Office
Polkowice-Sieroszowice Mine Division	Tailings Division	Legnica Smelter/refinery Division	Mine-Smelter Emergency Rescue Division
Rudna Mine Division		Cedynia Wire Rod Division	Data Center Division

2.3. Major assets

The KGHM Polska Miedź S.A. Group holds geographically diversified mining assets located in low-risk countries. The copper, silver, molybdenum, nickel and precious metals mines of the Group are located in Poland, USA, Chile and Canada. The key international asset – the Sierra Gorda mine, which is a joint venture between KGHM INTERNATIONAL LTD. and Sumitomo Group companies, is located in Chile. In addition, the KGHM Polska Miedź S.A. Group has mine projects which are at the preproduction phase (Victoria, Sierra Gorda Oxide), as well as exploration projects.

The major assets of the KGHM Polska Miedź S.A. Group are presented in the diagram below:

Diagram 2. Location of mining assets of the KGHM Polska Miedź S.A. Group



*** TPM – precious metals**

in PLN millions, unless otherwise stated

Poland:

Polkowice-Sieroszowice mine

Location	Lower Silesia, Poland
Ownership	KGHM Polska Miedź S.A. Division
Type of mine	underground
Main ore type	copper ore
Associated metals	silver, lead, rock salt, gold
Type of orebody	stratiform
End product	copper ore
Copper in extracted ore	207.5 thousand tonnes

The Polkowice-Sieroszowice mine is located in Lower Silesia, to the west of the town of Polkowice. Currently, it conducts mining works in four mining areas: "Polkowice", "Radwanice Wschodnie", "Sieroszowice" and in a part of the "Głogów Głęboki – Przemysłowy" (Deep Głogów) deposit.
Within the "Sieroszowice" deposit, there are also rich deposits of rock salt above the copper-bearing horizon.
Mining is conducted using blasting technology together with various room-and-pillar methods with natural room settlement. The Polkowice Sieroszowice mine's current production capacity is around 12 million tonnes of ore per year.

Rudna mine

Location	Lower Silesia, Poland
Ownership	KGHM Polska Miedź S.A. Division
Type of mine	underground
Main ore type	copper ore
Associated metals	silver, lead, gold
Type of orebody	stratiform
End product	copper ore
Copper in extracted ore	203.5 thousand tonnes

The Rudna mine is located in Lower Silesia, to the north of the town of Polkowice. First and foremost, it mines the "Rudna" deposit, but it also develops and operates in the "Sieroszowice" and "Głogów Głęboki – Przemysłowy" (Deep Głogów) deposits.
The copper orebody in the Rudna deposit ranges from 844 meters to 1250 meters, and in the Deep Głogów deposit is up to 1385 meters. The current average production capacity is approx. 12 million tonnes of ore per year.

Lubin mine

Location	Lower Silesia, Poland
Ownership	KGHM Polska Miedź S.A. Division
Type of mine	underground
Main ore type	copper ore
Associated metals	silver, lead, gold
Type of orebody	stratiform
End product	copper ore
Copper in extracted ore	69.1 thousand tonnes

The Lubin mine is located in Lower Silesia, Poland, to the north of the town of Lubin. The Lubin-Małomice copper orebody lies at a depth from 368 meters to 1006 meters.
The deposit is mined by blasting technology using the room-and-pillar method with natural roof settlement as well as the room-and-pillar method with hydraulic backfill in the vicinity of the support pillar of the town of Lubin. The mine's current production capacity is around 8 million tonnes of ore per year.

Głogów Copper Smelter and Refinery

Location	Lower Silesia, Poland
Ownership	KGHM Polska Miedź S.A. Division
Type of metallurgical plant	smelter/refinery
End product	electrolytic copper
Electrolytic copper production in 2016	424.5 thousand tonnes

This complex of metallurgical plants located in Głogów comprises two copper concentrate smelting lines based on the one-stage smelting of concentrate in a flash furnace directly into blister copper. Apart from electrolytic copper, the Głogów Copper Smelter and Refinery produces crude lead (around 30 thousand tonnes annually), silver (around 1200 tonnes), Pt-Pd slime (around 80 kg), gold (around 2.7 tonnes) and sulphuric acid (over 570 thousand tonnes). The most recent investments underway at the Głogów Copper Smelter and Refinery complex are a steam drier at Głogów II Copper Smelter and Refinery and a concentrate fluidized bed roaster at Głogów I Copper Smelter and Refinery.

Legnica Copper Smelter and Refinery

Location	Lower Silesia, Poland
Ownership	KGHM Polska Miedź S.A. Division
Type of metallurgical plant	smelter/refinery
End product	electrolytic copper
Electrolytic copper production in 2016	111.1 thousand tonnes

The copper smelter and refinery located in Legnica has a current production capacity of 110 thousand tonnes of electrolytic copper. In operation since the 1950s based on shaft furnace technology. Apart from electrolytic copper, the plant also produces round billets, around 30 thousand tonnes annually of refined lead and also 122 thousand tonnes of sulphuric acid, as well as copper sulphate and nickel sulphate. Plans to intensify production by the Legnica Copper Smelter and Refinery to 160 thousand tonnes of electrolytic copper annually include the construction, on the grounds of the Legnica Copper Smelter and Refinery, of a scrap smelting installation and modification of the copper electrorefining process (to a one-stage process).

in PLN millions, unless otherwise stated

Cedynia Wire Rod Plant	
Location	Lower Silesia, Poland
Ownership	KGHM Polska Miedź S.A. Division
Type of metallurgical plant	processing
End product	copper wire rod and OFE rod
Production in 2016	251.0 thousand tonnes of copper wire rod and 16.4 thousand tonnes of OFE rod

Production at the Cedynia Wire Rod Plant located in the vicinity of Orsk is based on the use of copper cathodes, 75% of which come from the Głogów Copper Smelter and Refinery and 25% from the Legnica Copper Smelter and Refinery. The basic product of the Cedynia Wire Rod Plant is copper wire rod produced in a Contirod line amounting to over 250 thousand tonnes annually and more than 16 thousand tonnes annually of oxygen-free copper wire rod (OFE) produced in a UPCAST line, including oxygen-free, silver-bearing copper wire rod.

The United States:

Robinson mine	
Location	Nevada, USA
Ownership	100% KGHM INTERNATIONAL LTD.
Type of mine	open pit
Main ore type	copper ore
Associated metals	gold and molybdenum
Type of orebody	porphyry/skarn
End product	copper and gold concentrate, molybdenum concentrate
Payable copper production in 2016	53.7 thousand tonnes

The mine is located in White Pine county, Nevada, USA, around 11 km west of Ely (approx. 400 km north of Las Vegas), in the Egan range, at an average altitude of 2130 meters a.s.l., near highway no. 50.

The mine is comprised of 3 large pits: Liberty, Tripp- Veteran and Ruth. Currently, Ruth is in operation. The ore is extracted by conventional open-pit methods, and is then processed into a copper and gold concentrate, and separately into molybdenum concentrate in a concentrating plant.

Canada:

Morrison mine	
Location	Sudbury Basin, Ontario, Canada
Ownership	100% KGHM INTERNATIONAL LTD.
Type of mine	underground
Main ore type	copper, nickel, platinum, palladium and gold ore
Type of orebody	footwall/contact Ni
End product	copper and nickel ore
Payable copper production in 2016	14.4 thousand tonnes

The mine is located at the edge of the town of Sudbury (Ontario Province, Canada).

The ore is accessed and mined with the aid of leased infrastructure of the Craig mine owned by Xstrata Nickel. Mineralisation in the Morrison deposit most commonly occurs in the form of ore veins. Mining is carried out at the level of approx. 1300 meters using mining techniques adapted to the deposit's geometry – this is mainly a mechanised method of selective extraction using undercutting of successive levels from bottom to top. All of the ore extracted from the mine is processed in the Clarabelle plant in Sudbury, owned by Vale.

Victoria project	
Location	Sudbury Basin, Ontario, Canada
Ownership	100% KGHM INTERNATIONAL LTD.
Type of mine	underground
Main ore type	copper-nickel ore
Associated metals	gold, platinum and palladium
Mine life	14 years
End product	copper, nickel and precious metals ore
Forecasted annual production	16 thousand tonnes of Ni, 18 thousand tonnes of Cu

This project is located in the Canadian province of Ontario, around 35 km west of the town of Sudbury. In 2002 rights were acquired to the Victoria mineral deposit and a campaign of exploration in this terrain commenced. All of the ore extracted from the mine will be processed in the Clarabelle plant in Sudbury, owned by Vale. The current development scenario for the project calls for the sinking of 2 shafts to access the deposit (a production shaft and a ventilation shaft). Exploration work performed thus far confirmed the continuity and characteristics of the mineralisation to the level of approximately 2200 meters below the surface. As part of the work conducted, the basic infrastructure was developed in order to enable access to utilities (electricity, gas).

In 2016, a decision was made to review the project's technical and economic assumptions by independent consultants. Due to the current macroeconomic environment, the Management Board of KGHM Polska Miedź S.A. decided to modify the adopted schedule for the project.

in PLN millions, unless otherwise stated

Ajax project

Location	Kamloops, British Columbia, Canada
Ownership	KGHM INTERNATIONAL LTD. 80%; Abacus Mining and Exploration Inc. 20%
Type of mine	open pit
Main ore type	copper ore
Associated metals	precious metals (gold and silver)
Mine life	19 years
End product	copper concentrate
Forecasted annual production	53 thousand tonnes of Cu, 114 thousand ounces of Au

The Ajax project is located in British Columbia, Canada, 400 km north-east of Vancouver near the town of Kamloops. The project assumes the construction and operation of an open-pit copper and gold mine and an ore processing plant, with associated infrastructure. In January 2012, the company Abacus Mining and Exploration Inc. prepared a feasibility study, based on which the preliminary economic parameters of this project were described. Due to the substantial risk of not receiving environmental permit based on the assumed technological parameters of the project, including the siting of basic mine plant infrastructure, the assumptions of the feasibility study from 2012 were reviewed in terms of identifying risk factors and the potential for increasing the project's value. On 13 January 2016, an Updated Feasibility Study was published, replacing the earlier version dated 6 January 2012.

The Updated Feasibility Study reflects changes to the project, under which the mine's infrastructure was moved farther from the nearest buildings in the town of Kamloops, technology improvements were incorporated and the processing facility's throughput capacity was increased from 60 to 65 thousand tonnes of ore per day.

Currently, KGHM AJAX MINING INC. is focused on obtaining the necessary environmental permit and on continuing to build good relationships with First Nations as well as with the citizens of the town of Kamloops.

In 2016, a decision was made to review the technical and economic assumptions of the feasibility study by independent consultants. Simultaneously, under current optimising activities, the employment structure was adjusted to the scope and schedule of the work on the Ajax project.

On 4 March 2017, Stk'emlúpsemc te Secwépemc Nation announced their rejection of the publicly-reviewed development plan by KGHM AJAX MINING INC. to build a mine. In the opinion of the Company's Management Board, despite the rejection it is possible, at the current stage of the project, to continue the process of obtaining the relevant permits aimed at developing the open-pit mine. The projected cash flows, which were taken into account in the impairment testing of the Ajax project as at 31 December 2016, are realistic and are the best reflection of the achievable plans.

Chile:

Sierra Gorda mine and project

Location	Region II , Chile
Ownership	55% KGHM INTERNATIONAL LTD, 45% Sumitomo group companies: - Sumitomo Metal Mining Co., Ltd. (31.5%) - Sumitomo Corporation (13.5%)
Type of mine	open pit
Main ore type	copper ore
Associated metals	molybdenum, gold
Mine life	24 years for the current deposit based on phase I of the investment, including actions to remove bottlenecks. Moreover, there is a possibility to extend the mine's life using new deposits
End product	copper concentrate, molybdenum concentrate
Payable production in 2016	93.7 thousand tonnes of copper, 22.1 million pounds of molybdenum in concentrate

The Sierra Gorda mine is located in the Atacama desert, in the Sierra Gorda administrative area in the Antofagasta region, in northern Chile, approx. 60 km south-west of the city of Calama. The mine is situated at an altitude of 1 700 meters a.s.l. and 4 km from the town of Sierra Gorda.

The ore mined in the Sierra Gorda mine is processed into copper and molybdenum concentrates.

In April 2015 the molybdenum installation commenced production, and from 1 July 2015 the Sierra Gorda mine has commenced commercial production (since then it has prepared operational statements of profit or loss). In 2016 Sierra Gorda, with the support of teams of specialists employed by the partners and the support of external companies, took actions aimed at improving the stability of the installation as well as improving its quality and efficiency parameters. Moreover, the long-term mine operating plan was reviewed.

The Sierra Gorda Oxide project aims to process the oxide ore. Under consideration is the recovery of metal in an installation using SX/EW technology. The oxide ore is currently stored separately for later heap leaching. In 2016, analyses were conducted related to alternative scenarios for developing the project.

Franke mine

Location	Antofagasta Region, Chile
Ownership	100% KGHM INTERNATIONAL LTD.
Type of mine	open pit
Type of orebody	IOCG (iron oxide, copper, gold)
End product	copper cathodes
Payable copper production in 2016	17.8 thousand tonnes

The mine is located in a desert area of northern Chile, in the Altamira region, near the southern boundary of the Antofagasta region, near a public road connecting the mine with the Pan-American highway.

Mining is conducted by conventional open-pit methods from two orebodies: China and Franke. Due to the nature of the ore, it is processed using the heap leach, solvent-extraction and electrowinning method. The end product is electrolytic copper in the form of cathodes.

Other assets

In terms of assuring the operations of the core business of KGHM Polska Miedź S.A., also of significance are investments in domestic companies acting on its behalf, such as:

- PeBeKa S.A. – mining work contractor,
- KGHM ZANAM S.A. – a supplier and service provider for mining machinery, and also provides production maintenance services in selected areas and participates in investment tasks,
- KGHM Metraco S.A. – a supplier of copper scrap,
- „Energetyka" sp. z o.o. – this company secures part of the energy needs of KGHM Polska Miedź S.A.

In addition, amongst the international companies is a group of companies under the DMC Mining Services brand: FNX Mining Company Inc., Raise Boring Mining Services S.A. de C.V. and DMC Mining Services Corporation which provide services in shaft sinking, development work, above-ground and underground mine facilities, mine drilling, tunnel drilling for general construction purposes and engineering services.

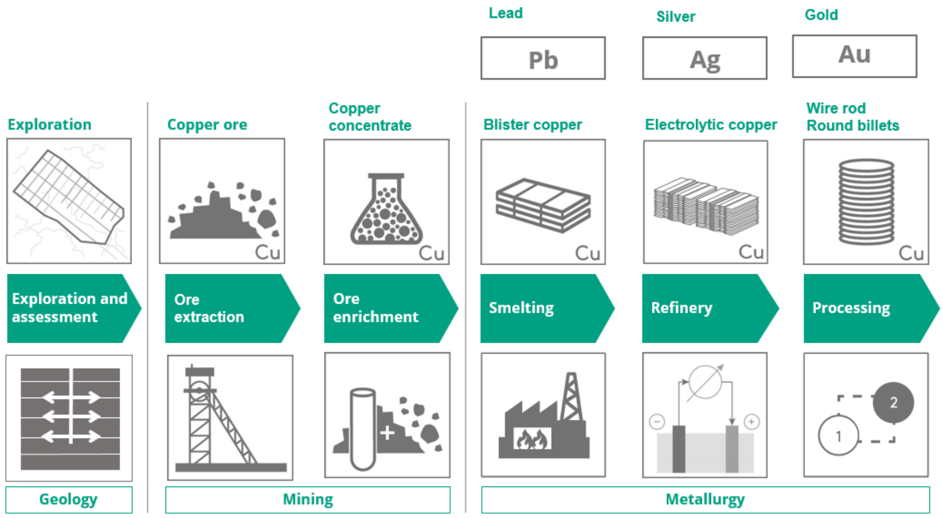
In terms of the amount of capital committed, an important equity investment are also the shares of TAURON Polska Energia S.A., a company listed on the Warsaw Stock Exchange.

Investments in closed-end investment funds are a tool used to diversify the investment risk for KGHM Polska Miedź S.A. In following the strategy of the Group, they fill a role in the management of selected non-core assets and are a tool in the advancement of projects aimed at increasing value. The funds concentrate on investments in the fields of health, real estate and new technology.

2.4. Production process

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

Diagram 3. Integrated mining, processing, smelting and refining processes in KGHM Polska Miedź S.A.



Production in KGHM Polska Miedź S.A. is a fully integrated process, in which the end product of one technological phase is the starting material (half-finished product) used in the next phase. Mining in KGHM Polska Miedź S.A. is performed by three mining Divisions: Lubin, Rudna and Polkowice-Sieroszowice; the Concentrators Division, which prepares concentrate for the smelters and refineries, and the Tailings Division, responsible for storing and managing the tailings generated by the production process. The organisational structure of KGHM includes two metallurgical facilities: the Legnica Copper Smelter and Refinery and the Głogów Copper Smelter and Refinery, as well as the Cedynia copper wire rod plant.

Domestic mining

The technology of mining the copper ore in all 3 mines is based on the room-and-pillar system with the use of blasting technology for ore extraction. This involves preparatory development work, comprised of the excavation of a drift network on all sides of the site to be mined, cutting of the unmined rock mass with rooms and drifts separating a number of operating pillars, as well as extraction of the ore followed by the transport of the ore to underground dumping stations. Here the large rocks are crushed and sifted through a grate, and then the crushed ore is transported to the storage areas near the shafts, from which it is transported to the surface by skip hoisting shafts.

The work related to mining of the copper ore is fully mechanized, in a 4-shift labour system, with the use of motorised mining rigs, most of which are equipped with air-conditioned cabins and systems supporting the work of the operators. Mining work is conducted in the following cycle: drilling the blasting holes with the support of motorised drilling rigs, loading blasting material into drilled holes by drilling rigs, group blasting in mining divisions, followed by the ventilation of the areas blasted (from 30 minutes to 2 hours; in seismically-sensitive areas this time is longer). The next stage involves the loading of the ore using motorised loaders into haulage vehicles and its transport to dumping stations, along with protection of the exposed face by roof anchor bolts using bolting rigs. The crushed ore is transported by conveyor belts or mine rail trolleys to the storage sites near the shafts, and is then transported to the surface. After the ore is unloaded at the shaft top, it is transported by conveyor belts or railway to the ore concentrators located at each of the three mines.

The operations and processes applied at each of the three ore concentrators are similar. However, due to the varied lithological and mineralogical composition of the ore from individual mines, the production layout of each facility differs. The enrichment technologies applied include the following individual operations: screening and crushing, milling and classification, flotation and drying of the concentrate.

The flotation process results in concentrate with an average copper content of approx. 22-23%, and flotation waste. The Rudna mine concentrator produces concentrate with the highest copper content (approx. 26%), while the lowest is at the Lubin mine concentrator (approx. 13.5%). The Polkowice mine concentrator produces concentrate of approx. 25% copper content.

The dried concentrate of approx. 8.5% water content is transported by rail to the following smelter/refineries: Legnica Copper Smelter and Refinery located in Legnica, Głogów I Copper Smelter and Refinery and Głogów II Copper Smelter and Refinery, located in Głogów (Głogów I and Głogów II comprising one large facility).

The flotation waste, in the form of slimes, are transported through pipelines to the Żelazny Most Tailings Storage Facility, where the sedimentation of the solid particles takes place and the clarified water is collected and redirected to the ore concentrators. The storage site also serves as a retention-dosage reservoir for excess mine water. Excess water is hydrotechnically discharged (periodically) to the Odra River. This method was developed and implemented in partnership with research institutions, and it has been officially approved for use under the provisions of the Water Law. Studies demonstrate that the discharging of mine and process water to the Odra River cannot result in any changes that would make the proper functioning of water ecosystems impossible or prevent conformance with the applicable water quality requirements.

Domestic metallurgy

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

The Legnica Copper Smelter and Refinery uses a multi-stage process whose main stages include: preparation of the charge material, its reduction smelting in shaft furnaces to the form of matte copper, conversion to the form of raw copper with approx. 98.5% Cu content; fire refining in anode furnaces to produce anodes of 99.2% Cu content; and electrorefining. The final product is electrolytic copper cathodes with 99.99% Cu content.

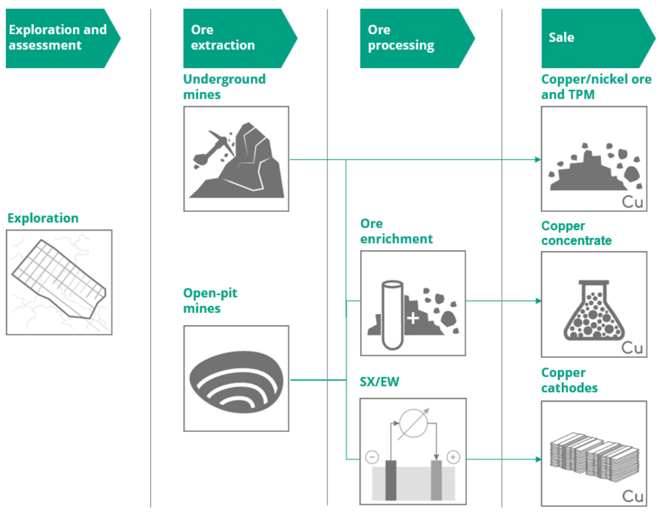
The Głogów Copper Smelter and Refinery applies one-stage flash furnace technology based on a license from the Finnish company Outokumpu. The dried concentrate is smelted in a flash furnace into blister copper containing around 99% Cu, which is subject to fire refining and then further refined in anode furnaces. The slag, which still contains on approximately14% copper, is sent to an electric furnace, where the copper is removed while the alloy obtained is sent to the convertors, from which the resulting copper is sent for refining in anode furnaces. The refined copper anodes produced are then sent for electrorefining, and the end product is electrolytic copper in the form of cathodes containing 99.99% Cu.

Approx. 45% of the electrolytic copper produced by KGHM's smelters and refineries are further processed in the Cedynia Copper Wire Rod Division, where copper wire rod is produced by a continuous smelting, casting and rolling process as well as oxygen-free copper rod (Cu-OFE) and oxygen-free, silver-bearing copper rod based on UPCAST technology are produced.

The anode slime produced during the electrorefining process at KGHM's smelters and refineries contains precious metals. The anode slime is further processed at the Precious Metals Plant at the Głogów Copper Smelter and Refinery to obtain refined silver, gold, palladium-platinum concentrate and selenium. The electrolyte in the Tank and Electrolite Decopperisation Hall, once the copper is removed, is removed from circulation and is used to produce crude nickel sulphate.

The leaden dust and slimes collected as a result of the removal of dust from technological exhaust gases at the smelters and refineries are smelted together with decopperised convertor slag in Dörschel furnaces at the Lead Section of the Głogów Copper Smelter and Refinery into crude lead. This crude lead is then refined at the Legnica Copper Smelter and Refinery to obtain the end product - refined lead.

Diagram 4. Simplified flowchart of core business of the KGHM INTERNATIONAL LTD. Group



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

2.5. Changes in Group structure, equity investments and their financing

In 2016, the next stage of reorganising the KGHM Polska Miedź S.A. Group began, which is first and foremost aimed at simplifying the Group's structure and making it more transparent (one result of activities carried out in 2015 was, among others the merger of the company KGHM INTERNATIONAL LTD. with the company 0929260 B.C U.L.C. by founding a new entity with the name of KGHM INTERNATIONAL LTD.). As a result of continuing the reorganisation in 2016 (the reorganisation will end in 2017), the number of the Group's international entities decreased by 5 and KGHM INTERNATIONAL LTD. became a subsidiary (100%) of Future 1 Sp. z o.o. Companies mergers as well as increases and decreases in the share capital of KGHM Polska Miedź S.A's subsidiaries were undertaken within this stage. These actions were marked with an "*" symbol in all of the subsequent tables in this section.

in PLN millions, unless otherwise stated

Moreover, on 16 November 2016, as part of the restructuring of the international part of the KGHM Polska Miedź S.A. Group, the registered office of the company Quadra FNX FFI Ltd. was transferred from Barbados to Luxembourg. The company changed its name to Quadra FNX FFI S.à r.l.

Table 2. Changes in the Group's structure and organisation in 2016

Acquisitions/disposals of entities	
Przedsiębiorstwo Budowlane Katowice S.A. in liquidation	In January 2016, BIPROMET S.A. disposed of all of the shares it held, i.e. 88% in the share capital of the company Przedsiębiorstwo Budowlane Katowice S.A. in liquidation.
WFP Hefra S.A.	In April 2016, KGHM V FIZAN (a fund in which the sole participant is KGHM Polska Miedź S.A.) disposed of all of the shares it held, i.e. 100% in the company WFP Hefra S.A. to an entity outside the Group. The sale of this company's shares was a result of advancement of the fund's strategy, which assumes among others the disposal, following restructurisation, of assets which are unrelated to the Group's core business.
NITROERG S.A.	In May 2016, KGHM Polska Miedź S.A. acquired from the State Treasury 2.12% of the shares of NITROERG S.A. which had not been acquired by entitled employees free of charge. This transaction was in execution of obligations arising from a privatisation agreement with the State Treasury signed in 2011, based on which KGHM Polska Miedź S.A. acquired 85% of the shares of the company NITROERG S.A. As a result of this transaction, the interest held by KGHM Polska Miedź S.A. in the share capital of the company NITROERG S.A. increased to 87.12%.
INTERFERIE S.A.	In August 2016, the company Fundusz Hotele 01 Sp. z o.o. (a special purpose company within KGHM I FIZAN) acquired 0.54% of the shares of INTERFERIE S.A. As a result of this transaction, the interest held by the KGHM Group in INTERFERIE S.A. (through the Funds) amounts to 68.25%.
Founding of entities	
OOO ZANAM VOSTOK	In March 2016, a company was founded in the Russian Federation with a share capital of RUB 1 million (PLN 0.05 million). The interest in the share capital was acquired by KGHM ZANAM S.A. (99% of the shares) and Przedsiębiorstwo Budowy Kopalń PeBeKa S.A. (1% of the shares). The company was founded to advance KGHM ZANAM S.A.'s business development strategy on the Russian market.
Mergers	
Future 1 Sp. z o.o.*	On 20 December 2016, three successive cross-border mergers of companies within the KGHM Polska Miedź S.A. Group were registered, i.e. Future 1 Sp. z o.o. with its registered office in Poland through acquisition of the Luxembourg company Fermat 1 S.á r.l. and its subsidiary companies in Luxembourg Fermat 2 S.á r.l. and Fermat 3 S.á r.l., which operated within the holding structure founded in order to acquire KGHM INTERNATIONAL LTD.
KGHMI Holdings Ltd.*	On 31 December 2016, Quadra FNX Chile Ltd., Quadra FNX SG Ltd. and KGHMI Holdings Ltd. were merged and a new company was founded with a name of KGHMI Holdings Ltd.
Liquidations	
Polska Grupa Uzdrowisk Sp. z o.o. S.K.A. in liquidation	In August 2016 the process of liquidation of the special purpose company held in KGHM I FIZAN's portfolio - Polska Grupa Uzdrowisk Sp. z o.o. S.K.A. in liquidation, which started in 2015, was finalised and the company was deregistered. The liquidation was a result of transferring the company's assets to another entity, i.e. Polska Grupa Uzdrowisk Sp. z o.o., which is managed by the same fund.
„Elektrownia Blachownia Nowa" sp. z o.o. in liquidation (joint venture of KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A.)	On 11 October 2016 the Extraordinary Meeting of Shareholders resolved to dissolve and liquidate the company due to the discontinuance of the project to build a gas-steam block in "Elektrownia Blachownia Nowa" sp. z o.o.
Changes in the funds managed by KGHM TFI S.A.	
KGHM III FIZAN **KGHM V FIZAN**	To achieve an appropriate structure of the funds managed by KGHM TFI S.A., pursuant to the guidelines of the Act on investment funds, in 2016 the process of consolidating the funds' assets was carried out. With respect to preparations regarding this process and its execution: – the KGHM V FIZAN fund acquired from the company KGHM Metraco S.A. (a direct subsidiary) 7.6% of its investment certificates followed by their retirement, as a result of which KGHM Polska Miedź S.A. became the sole participant of this fund, – the investments of the KGHM III FIZAN and KGHM V FIZAN funds were transferred to the KGHM I FIZAN fund in the form of a donation, – as a result of the lack of any investment plans for the KGHM III FIZAN fund, in June 2016 the General Meeting of Investors resolved to dissolve the fund; the Fund was deregistered in October 2016.

**Actions undertaken under the 2016 phase of reorganisation of the international part of the Group*

in PLN millions, unless otherwise stated

Acquisition of employees' shares

In execution of obligations arising from a sales agreement with the State Treasury to submit an irrevocable purchase offer for all remaining shares acquired by employees during the privatisation process, employees' shares of spa companies and in CENTROZŁOM WROCŁAW S.A. were acquired.

Acquisition by KGHM I FIZAN of employees' shares of spa companies	KGHM I FIZAN acquired employees' shares of spa companies, increasing its interest in their share capital in the following manner: – an increase to 98.48% (or by 0.19%) – an increase to 98.98% (or by 0.026%).
Acquisition by KGHM Metraco S.A. of employees' shares of CENTROZŁOM WROCŁAW S.A.	In 2016, KGHM Metraco S.A. acquired employees' shares of CENTROZŁOM WROCŁAW S.A. representing 0.04% in the share capital of this company (interest in the share capital at the end of 2016 amounted to 99.91%). In February 2017, KGHM Metraco S.A. acquired the remainder of shares reaching 100% in capital of CENTROZŁOM WROCŁAW S.A.

Decreases in share capital

Decreases in the share capital of indirect subsidiaries which took place in 2016 are presented in the table below. These decreases were realised as a part of the aforementioned phase of reorganising the international part of the KGHM Polska Miedź S.A. Group and are an element of reorganising the current financing structure of Sierra Gorda S.C.M. in Chile and other international entities of the Group, in order to consolidate financing in Future 1 sp. z o.o.

KGHMI Holdings Ltd.*	On 29 November 2016, there was a decrease in the share capital of the company KGHMI Holdings Ltd. by the acquisition of 685 148 860 treasury shares from KGHM INTERNATIONAL LTD. in order to redeem them for the total amount of USD 501 million (PLN 2 094 million at the average exchange rate of the NBP from 30 December 2016). This transaction was of a non-cash nature – a tripartite settlement took place through an institution for transfer and payment between the companies KGHMI Holdings Ltd., Quadra FNX FFI S.a r.l. and KGHM INTERNATIONAL LTD.
Quadra FNX FFI S.á r.l.*	On 30 November 2016 there was a decrease in the share capital of Quadra FNX FFI S.á r.l. by the acquisition of 240 300 000 treasury shares by this company from KGHMI Holdings Ltd. for the total amount of USD 501 million (PLN 2 094 million at the average exchange rate of the NBP from 30 December 2016). This transaction was of a non-cash nature - a tripartite settlement took place through an institution for transfer and payment between the companies KGHMI Holdings Ltd., Quadra FNX FFI S.a r.l. and KGHM INTERNATIONAL LTD.

**Actions undertaken under the 2016 phase of reorganisation of the international part of the Group*

Financing of international production and development assets in 2016

International production and development assets in 2016 were financed by granting loans and/or by increasing share capital.

In 2016, in order to finance international production and development assets (Sierra Gorda S.C.M. and the projects: Sierra Gorda Oxide, Victoria and Ajax), KGHM Polska Miedź S.A. granted loans to the companies Quadra FNX Holdings Chile Limitada and KGHM INTERNATIONAL LTD. (indirect subsidiaries) in the total amount of USD 202 million (PLN 843 million at the average exchange rate of the NBP from 30 December 2016). After that, these funds were transferred as loans and/or increases in the share capital of the Group's subsidiaries to companies carrying out individual projects.

Sierra Gorda S.C.M.	In 2016, financing for the company Sierra Gorda S.C.M. amounted to USD 165 million (PLN 690 million).
Victoria project	Financing for the Victoria project amounted to USD 20 million (PLN 84 million).
Ajax project	Financing for the Ajax project, proportionally to the interest held by the KGHM Polska Miedź S.A. Group in the share capital of company KGHM AJAX MINING INC. (80%), by KGHM Polska Miedź S.A. amounted to USD 12 million (PLN 51 million).
Sierra Gorda Oxide project	In 2016, financing for the Sierra Gorda Oxide project amounted to USD 4 million (PLN 18 million).

The aforementioned projects were financed solely from the resources of KGHM Polska Miedź S.A., amounts in PLN at the average exchange rate of the NBP from 30 December 2016

Increases in the share capital

The increases in the share capital of Group's companies aimed at, among others, financing the international production and development assets are described in the following table.

Future 1 Sp. z o.o.*	Due to the three successive cross-border mergers of companies of the KGHM Polska Miedź S.A. Group described below, i.e. the Polish company Future 1 Sp. z o.o. (the acquiring company) with Luxembourg-based companies: Fermat 1 S.á.r.l., Fermat 2 S.á.r.l., Fermat 3 S.á.r.l. (acquired companies), the share capital of Future 1 Sp. z o.o. was increased by PLN 2 401 million. All of the shares in the increased share capital, granted by the management board of the company Future 1 Sp. z o.o. pursuant to the merger plan of the aforementioned companies, were acquired by KGHM Polska Miedź S.A.
Quadra FNX Holdings Chile Limitada*	In order to maintain the minimal number of two shareholders in the company due to the merger of the companies Quadra FNX Chile Ltd., Quadra FNX SG Ltd. (former shareholders of Quadra FNX Holdings Chile Limitada) and the aforementioned KGHMI Holdings Ltd., KGHM INTERNATIONAL LTD. acquired shares in the increased share capital of the company for the amount of USD 10 thousand.
Sierra Gorda S.C.M.	In order to finance the company in 2016, the share capital was increased by the total amount of USD 155 million (PLN 648 million at the average exchange rate of the NBP from 30 December 2016). Proportionally to its interest in the share capital of company Sierra Gorda S.C.M., the company Quadra FNX Holdings Chile Limitada acquired 55% of the shares in the increased share capital, while 45% were acquired by SMM SIERRA GORDA INVERSIONES LIMITADA (a Sumitomo Group company). Moreover, the shareholders contributed cash (proportionally to the interest) in the total amount of USD 145 million (PLN 606 million at the average exchange rate of the NBP from 30 December 2016) to be used to increase the share capital, which will be registered in 2017.

in PLN millions, unless otherwise stated

Aguas de la Sierra Limitada*	In order to maintain the minimal number of two shareholders in the company due to the aforementioned merger of the companies Quadra FNX Chile Ltd., Quadra FNX SG Ltd. and KGHMI Holdings Ltd. (former shareholders in Aguas de la Sierra Limitada), KGHM INTERNATIONAL LTD. acquired shares in the increased share capital of the company for the amount of USD 10 thousand.
KGHM AJAX MINING INC.	In order to finance the Ajax project in 2016, the share capital was increased by the total amount of CAD 17 million (PLN 52 million at the average exchange rate of the NBP from 30 December 2016). Proportionally to its interest in the share capital, the company KGHM INTERNATIONAL LTD. acquired 80% of the shares in the increased share capital, and the remaining 20% were acquired by Abacus Mining & Exploration Corp.

**Actions undertaken under the 2016 phase of reorganisation of the international part of the Group*

Other equity investments

Apart from the aforementioned equity investments (as part of changes in the structure), the following events took place in 2016:

- KGHM Polska Miedź S.A. acquired shares in the increased share capital of PGE EJ 1 sp. z o.o. (a special purpose company responsible for the preparation and execution of an investment aimed at building and operating the first Polish nuclear power plant), proportionally to the interest held in the share capital of company, i.e. 10%, for the amount of PLN 3.5 million, and
- KGHM Polska Miedź S.A. acquired investment certificates of KGHM V FIZAN for the amount of PLN 0.4 million, to be used for the planned restructurisation of investments. KGHM Polska Miedź S.A. is the sole participant of the fund.

3. Primary Group products

Copper cathodes

Copper cathodes made from electrolytic copper with a minimum copper content of 99.99% are the basic product of KGHM Polska Miedź S.A. They meet the highest quality requirements and are registered as Grade „A" on the London Metal Exchange (LME) under three brands: HMG-S, HMG-B and HML and on the Futures Contracts Exchange in Shanghai. Copper cathodes are also the primary product of the Carlota mine in the USA and the Franke mine in Chile, both part of the KGHM INTERNATIONAL LTD. Group. The main customers for the cathodes are producers of wire rod, other rods, flat bars, pipes, sheets and belts.

Copper wire rod

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

Silver

Electrolytic silver is produced by KGHM Polska Miedź S.A. in the form of bars (bars, billets) and grains containing 99.99% silver. Silver bars (weighing approx. 32 kg) hold certificates registered on NYMEX in New York as well as Good Delivery certificates issued by the London Bullion Market Association. Granule silver is packed in bags weighing 25 kg or 500 kg. The main customers for silver are financial institutions, the jewelry industry, photographic industry, and the electronics and electrical industries as well as producers of coins and medallions.

Copper concentrate

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

Molybdenum concentrate

Production of molybdenum concentrate was commenced in 2015 at the Sierra Gorda Mine in Chile. This concentrate, containing around 48 % molybdenum, is enriched, and then in the form of an oxide is sold for further processing. Molybdenum is used in the aircraft, defense, oil, nuclear and electronics industries.

Gold

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

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

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

Oxygen-free copper rod

KGHM Polska Miedź S.A. produces two types of rod: Cu-OFE oxygen-free rod and CuAg(OF) oxygen-free, silver-bearing rod. Rod is produced using UPCAST® technology, in diameters from 8 mm to 25 mm (8 mm, 12.7 mm, 16 mm, 20 mm, 22 mm, 24 mm and 25 mm). Customers for this product are in the cable industry, with application in the form of thin wires, enameled wires and fire-resistant cables, as well as cables for transmitting audio and video signals. In addition, oxygen-free, silver-bearing rod is used in the manufacture of trolleys and commutators.

Round copper billets

Round copper billets produced from copper cathodes cast in the classification Cu-ETP1 and Cu-ETP, and from oxygen-free phosphorus-containing copper cathodes in the classification Cu-HCP, Cu-PHC, Cu-DLP and Cu-DHP are used in the construction industry (to manufacture pipes) and the electrotechnical industry (to manufacture belts, rods and profiles).

Refined lead

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

4. Analysis of the global market for the Group's primary products

The primary products of the KGHM Polska Miedź S.A. Group, i.e. cathodes and copper wire rod, silver in the form of bars and grains, as well as copper and molybdenum concentrates are traded on the commodities markets. However, individual markets for the products offered by KGHM have varied rules and customs concerning trading and standard prices. Their incomparability is also due to the characteristics of individual products, which impacts their usage and the diversification of market participants.

4.1. Copper market

The primary copper products offered by the companies of the KGHM Group are: cathodes, copper wire rod and copper concentrates. In practice, these are products of individual stages of copper processing. For all of these products, the price benchmark (i.e. the global benchmark of copper prices for physical delivery contracts of copper materials and products) is stock quotations, with the "cash settlement" of the London Metal Exchange being most commonly used. Less commonly used are alternative quotations of copper on stock exchanges in New York (COMEX) and Shanghai (Shanghai Futures Exchange). Grade "A" type, with a copper content of at least 99% (standard BS:EN 1978:1998) are quoted on the LME. In order to be able to apply stock exchange prices to purchase/sale transactions of the products to which this quality standard is not applicable (i.e. all types of copper-rich materials like copper concentrates, copper scrap or more processed products like copper wire rod), market participants have developed a premium and discount system, which adjusts stock quotations. It allows setting of a market price for a product which takes into account its processing stage, its physical state and chemical makeup, as well as costs of insurance and transport to an agreed delivery destination and the current availability of the metal in a given location.

Copper cathodes

Refined copper in the form of copper cathodes is the end product of the smelting and refining processes, to which the copper-rich materials are subjected (including concentrates, copper blister, anodes and copper scrap). Primary commodities exchanges (including the LME and SHFE) enable cathodes to be registered (Grade A type, with a copper content of at least 99.99% under the BS:EN 1978:1998 standard), and therefore their trading on exchanges and through LME-approved warehouses. The copper cathodes produced by KGHM are registered on the LME as well as on SHFE, under the brands: HML, HMG-B and HMG-S. Unregistered cathodes are also traded on the physical market (for example those that do not meet quality parameters or the minimal yearly production conditions set by exchanges). One example of unregistered cathodes produced by KGHM are those from Carlota and Franke mines. The main participants in the cathodes market are mining and smelting companies producing copper in the form of cathodes and wire rod plants and other companies engaged in copper processing, which use cathodes to produce wire rod, other rods, flat bars, pipes, sheets and belts. Trading companies and financial institutions intermediating in the copper cathodes trade are also important participants in the market. The total global production of refined copper is estimated by CRU at 22.7 million tonnes in 2016.

It is a standard practice on the Grade "A"' copper cathodes market to add a producer's premium to the prices set by global exchanges. Its level allows the producer to cover the cost of insurance and transport to the agreed delivery destination, and it also includes the premium for quality (of a given cathodes brand) and supply-demand situation on a given market.

The companies of the KGHM Group participate on the cathodes market mainly by selling cathodes from the Group's Polish assets. The Głogów Copper Smelter and Refinery produces cathodes of the HMG-S and HMG-B brands, while the Legnica Copper Smelter and Refinery produces cathodes of the HML brand, which are registered on the exchanges in London (LME) and Shanghai (SHFE). Moreover, the KGHM Group offers cathodes produced through the leaching and electrowinning process (SX/EW) in the Franke mine in Chile and in the Carlota mine in the United States. Production of refined copper in the companies of the KGHM Group amounted to 557.4 thousand tonnes, which represents approx. 2.5% of global production.

Chart 1. Geographical breakdown of refined copper production in 2016 (source: CRU)

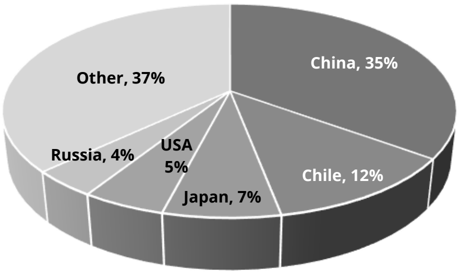
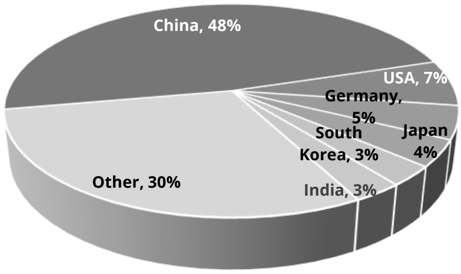


Chart 2. Geographical breakdown of refined copper consumption in 2016 (source: CRU)



Copper wire rod

Copper wire rod is manufactured in the continuous process of melting, casting and drawing in plants processing refined copper in the form of cathodes (although higher-grade copper scrap is also used). Wire rod is also a half-finished product used in the production of single wires and multiple wires used to produce conducting vines in cables and electric cables (for example: enamelled cable, car cables, power cords etc.). Similarly as for copper cathodes, trading companies are also involved in the physical trading of copper wire rod, apart from companies with wire rod plants and cable-producing companies. The copper wire rod market, due to the quality characteristics of the product, is more of a local market than the cathodes or copper concentrate markets. The total global production of copper in the form of copper wire rod is estimated by CRU at 17.0 million tonnes in 2016.

Copper wire rod price structure, apart from the copper quotations on the London Metals Exchange, also includes a producer's fee (added to cathodes) and the refining charges due to the costs of processing cathodes into wire rod. KGHM produces wire rod in the Cedynia wire rod plant in Orsk.

Chart 3. Geographical breakdown of copper wire rod production in 2016 (source: CRU, KGHM)

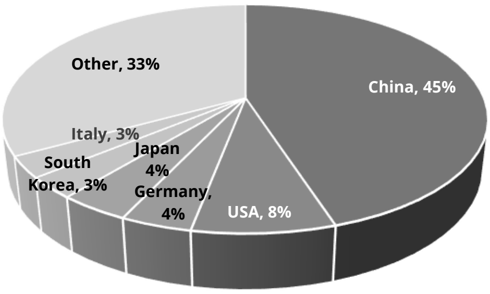
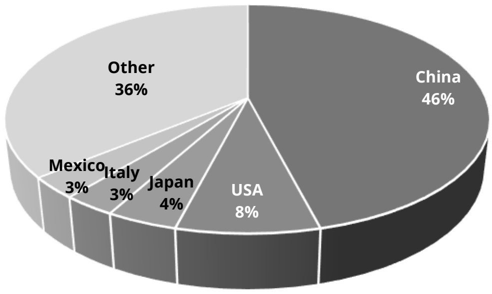


Chart 4. Geographical breakdown of global wire rod consumption in 2016 (source: CRU, KGHM)



Copper concentrates

Copper concentrate is a product made by processing copper ore, which usually has a relatively low metal content and is not suitable for direct metallurgical processing. Usually, copper content in concentrate is between 20% to 40%, and therefore it is suitable for further processing in copper smelters and refineries. The cost of transporting products with a lower copper content basically eliminates them from trade in the global market (with certain exceptions), therefore it may be assumed that copper concentrate is the first product of processing copper ore that may be freely traded. The main participants of the concentrate markets are copper mines supplying the product on the market and smelters and refineries, for which the concentrates are materials for the production of copper and by-products of processing (mainly precious metals). It should be stressed that trading companies intermediating in the purchase/sale transactions also play a significant role on this market. In 2016, the total global production of copper concentrates is estimated at 15.6 million tonnes (according to CRU).

Copper concentrates require processing into refined copper, which leads to incurring processing costs and the incomplete recovery of metals in individual production stages. Therefore, the transaction price should have a set of discounts as compared to quoted prices for refined copper. The benchmark of these discounts (for TC/RC) is determined during negotiations with the main producers of concentrates (Freeport McMoRan, Antofagasta, BHP Billiton) and their customers (mainly Chinese and Japanese smelters and refineries).

Companies of the KGHM Group participate in the copper concentrate markets mainly by selling concentrate from Sierra Gorda in Chile and from Robinson in the USA. Simultaneously, KGHM Polska Miedź S.A. acquires from the market copper concentrates with characteristics suitable for more efficient utilisation of the production capabilities of the smelters and refineries in Poland. Year 2016 was an exception to this rule, as there was a production shutdown in the Głogów I Copper Smelter and Refinery and above-average inventories of concentrates were accumulated, and therefore KGHM sold also Polish concentrates to the market. In total, the companies of the KGHM Group produced 529 thousand tonnes of copper in concentrate, representing approx. 3.4% of estimated global production in 2016.

Chart 5. Geographical breakdown of copper concentrates production in 2016 (source: CRU)

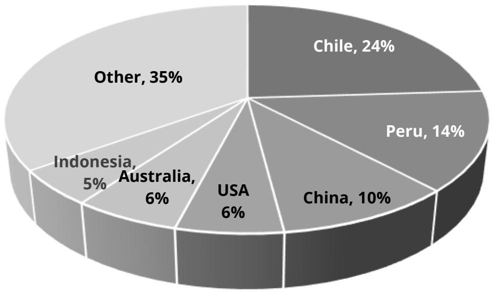
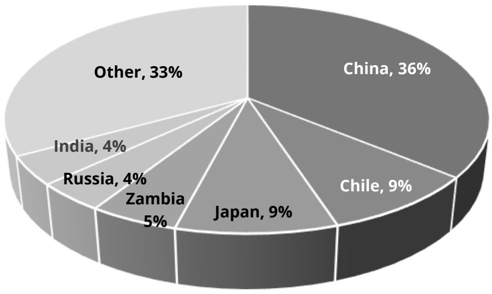


Chart 6. Geographical breakdown of copper blister production from copper concentrates in 2016 (source: CRU)



4.2. Silver market

Approx. 75% of global metallic silver production is a by-product of mining ores of other metals. Silver, due to its unique physical characteristics, is used in the jewelry, electronics and electrical industries, as well as in medicine, optics, the energy industry, the automotive industry and many others. In total, industry utilises approx. 40% of global silver production. It is also a valued investment metal. According to CRU estimates, the global production of mined silver amounted to 26.8 thousand tonnes in 2016.

Usually, participants in the silver market make use of London Bullion Market Association quotations when setting the price for silver in physical transactions. In the case of high quality products and depending on the current market situation, a premium is added to the quotations from the LBMA.

KGHM sells silver in the form of bars and grains (produced at the Głogów Copper Smelter and Refinery) and is one of the largest producers of metallic silver. Yearly, the Company produces approx. 1.2 thousand tonnes of this precious metal. Silver in the form of bars is registered under the brand KGHM HG and has a registered certificate on the New York Mercantile Exchange (NYMEX) as well as Good Delivery certificates issued by the London Bullion Market Association. Silver is supplied in the form of grains to the photographic, jewelry and metals industries, which produce alloys containing silver. Silver in the form of bars is mainly purchased by financial institutions. In 2016, the companies of the KGHM Group produced in total 1.28 thousand tonnes of silver in concentrate, which represents approx. 4.8% of global mined production of this metal.

Chart 7. Geographical breakdown of global mined silver production in 2016 (source: CRU, KGHM)

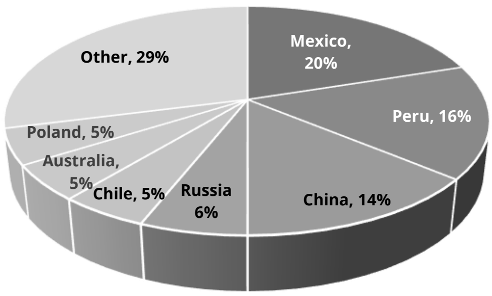
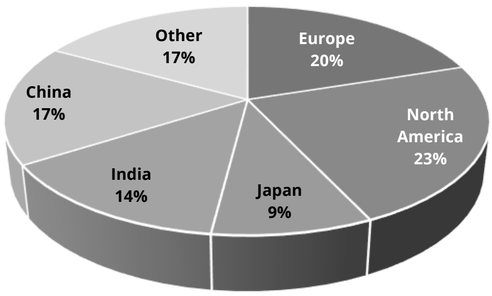


Chart 8. Geographical breakdown of global silver consumption in 2016 (source: CRU, KGHM)



4.3. 2016 macroeconomic environment

The International Monetary Fund (IMF) estimated that global economic growth was at the level of 3.1% YoY in 2016, which is slightly lower as compared to 2015 (3.2% YoY). World economic growth was at its slowest since 2009. However, it is worth pointing out that the economic recovery in the second half of the previous year, in particular in developed countries and China, provides the basis for change in the trend anticipated by IMF analysts and faster economic growth in subsequent years.

Developed countries recorded a decrease in their economic growth rate in 2016 year-on-year (1.6% in 2016 as compared to 2.1% in 2015). The performance of a key global economy (the USA) over the course of 2016 is estimated at 1.6% YoY, which was significantly lower than in the previous year (2.5%). After a significant slowdown in the growth rate in the first half of the year, the US economy accelerated due to increased optimism on the markets, mainly as a result of the promises of the new administration (an increase in infrastructure expenditures, pro-growth reforms and lower taxes). The unemployment rate amounted to 4.7% in December 2016, which means in practice almost full employment. Other key developed economies continued to search for solutions to their structural problems. The Euro zone increased by 1.7% YoY, which is significantly lower than its growth potential, as it is struggling with low inflation and the problem of immigrants and terrorist attacks. Japanese GDP only grew by 0.9% YoY.

There were also continuing problems in developing economies in 2016, which recorded estimated growth of 4.1%, similar to 2015. The lower growth rate was affected by those economies in recession (mainly Russia and Brazil). Among emerging markets countries the greatest fears were raised by the situation in China. The Chinese economy is going through a period of transformation, aimed at modernising its industry and developing an economy largely based on internal services and consumption. There was a slight decrease in GDP growth to the level of 6.7% in 2016 (as compared to 6.9% in the previous year), which deepened fears about the Chinese economy entering the so-called „middle income trap". Positive signals include an accelerated rate of growth in the fourth quarter of the year (6.8%) and the long expected stabilisation or improvement in certain macroeconomic indicators (including growth of manufacturing PMI and stabilisation of capital market indicators).

Among key factors impacting the global economy in 2016 were the changes in the political environment including the election of Donald Trump as president of the United States and the decision of the United Kingdom's citizens to leave the European Union (so-called "Brexit"). Due to the crucial role of monetary and fiscal policy of individual countries, as well as the scale of governmental stabilization and growth oriented programs, political factors played a key role in the global economy in the previous year. In terms of monetary policy tools, another increase in interest rates in the United States and the declaration of Fed members that this trend will be continued in subsequent periods should be noted.

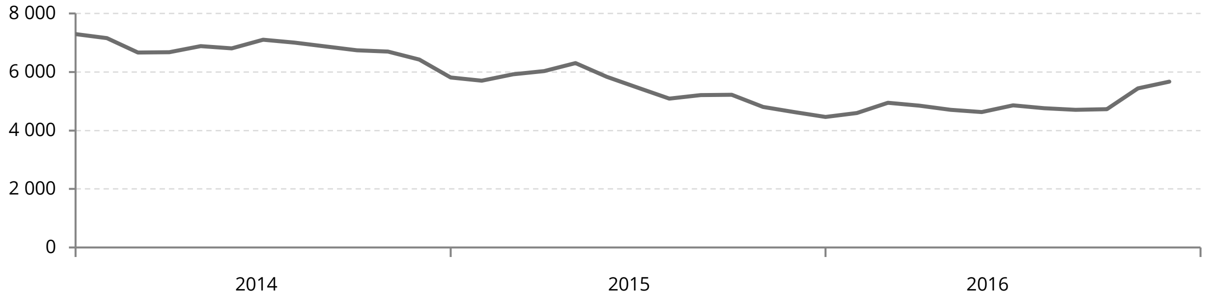
After a bear market lasting several years, 2016 brought a recovery to commodities prices. While the start of the year mainly saw a reaction by oil and precious metals, subsequent months were more favourable to many other commodities. The last quarter brought a decisive improvement in sentiment. Over the course of the year the Bloomberg Commodity Index (BCOM) increased by 11%, mainly due to the prices of energy commodities (+16%) and industrial commodities (+20%). The positive change in market sentiment in the last months of the year, as a result of improved macroeconomic indicators and positive fundamental factors with respect to specific market commodities, provides a basis for considering whether the increases observed are only a growth correction or the start of a new trend.

In the first 3 quarters of 2016 the cash settlement price of copper on the LME ranged from 4 311 – 5 103 USD/t with distinct continuation of the downward trend from previous years. Due to positive data concerning the whole commodities basket (including oil), better data concerning copper consumption in China (an increase by 4.5% with expectations at the level of 2.8% in January 2016 according to CRU) and anticipations concerning limitations in the supply of copper in the short and medium terms with stable growth of demand, the copper price increased to 5 935.5 USD/t at the end of November 2016 and stabilised at levels close to 6 000 USD/t by the end of 2016. As a result, the price of copper in USD at the end of 2016 was 22% higher than at the beginning of the year.

The consensus of estimates of key market analysts assumes a surplus of copper at the level of approximately 160 thousand tonnes in 2016. Official exchange inventories of copper increased from 482 thousand tonnes to 549 thousand tonnes, while material in duty-free Chinese warehouses increased from approximately 460 thousand tonnes to approximately 520 thousand tonnes.

The average annual price of copper on the London Metal Exchange (LME) in 2016 was 4 863 USD/t, 12% below the average price in 2015 (5 495 USD/t).

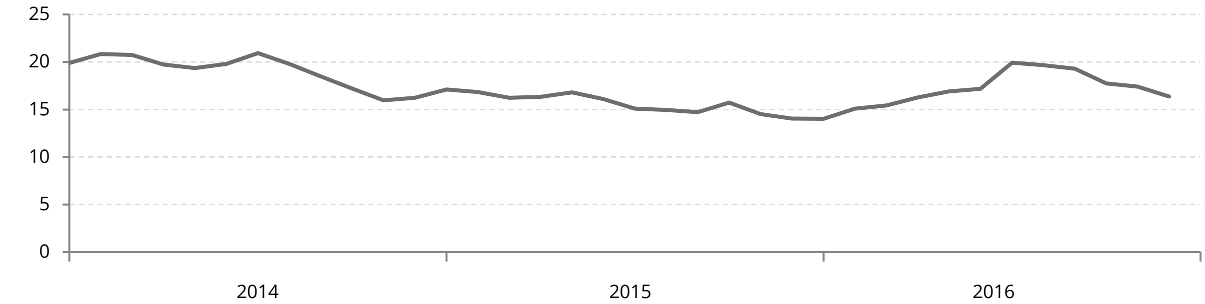
Chart 9. Copper price per the LME (USD/t)



Silver recorded the highest growth in average annual price (+9%) among precious metals in 2016, while the Gold/Silver ratio, which shows the relation of the price of this metal to gold remained at a relatively high level – on average 73. The silver price increased in the first three quarters of 2016 and ranged from 13.58 – 20.71 USD/ounce, while the higher prices were mainly the result of increased risk aversion (fears of consequences related to changes in the political environment, mainly "Brexit"). The last quarter of 2016 was difficult for precious metals, mainly due to the achieved and planned increases in interest rates in the USA and greater investor optimism and trust in the stock markets. At the end of 2016, the silver price decreased to the level of 16.24 USD/ounce.

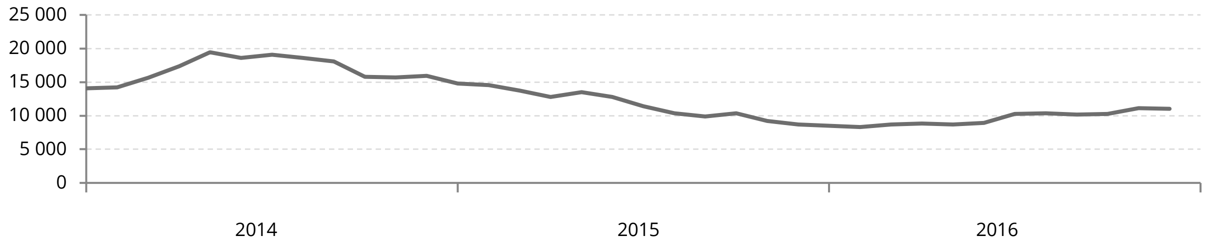
The average price of silver according to the London Bullion Market Association (LBMA) increased in 2016 by 9% and averaged on 17.14 USD/ounce as compared to 15.68 USD/ounce in 2015.

Chart 10. Silver price per the LBMA (USD/oz t)



The average annual price of nickel on the LME in 2016 amounted to 9 609 USD/t and was almost 19% lower than the average price recorded in 2015 (11 807 USD/t). Nickel remained in a downward trend in the first half of the year, mainly due to surplus supply in the market and the high level of inventories. However, the last months of the year saw a reversal of the price trend, mainly due to the renewed interest of investors in this class of assets and improving market fundamentals. Increased demand for nickel by the steel industry accompanied signals of limited supply increases, which is the result of cuts in producer investment plans during a long-lasting period of low prices.

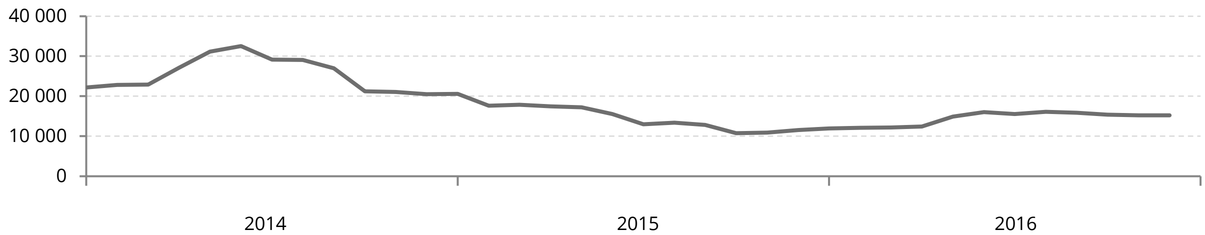
Chart 11. Nickel price per the LME (USD/t)



In the first half of 2016, the price of molybdenum was characterised by a stable growth trend, which was the effect of higher than expected growth in molybdenum consumption in China (higher demand from the construction and automotive sectors) and limitation of global mining production of molybdenum (-4.8% YoY). As a result, the market balance between demand and supply recorded a deficit of 26.8 Mlbs in 2016 (according to CRU). However, the increase in price was offset by the high level of global molybdenum inventories and the second half of 2016 brought stability. The price of molybdenum during 2016 ranged from 11 750 USD/t (January 2016) to 17 000 USD/t (June 2016), closing the year at the level of 15 250 USD/t.

As a result, the average price of this metal in 2016 amounted to 14 453 USD/t and was almost 3% lower than the average price in 2015 (14 837 USD/t).

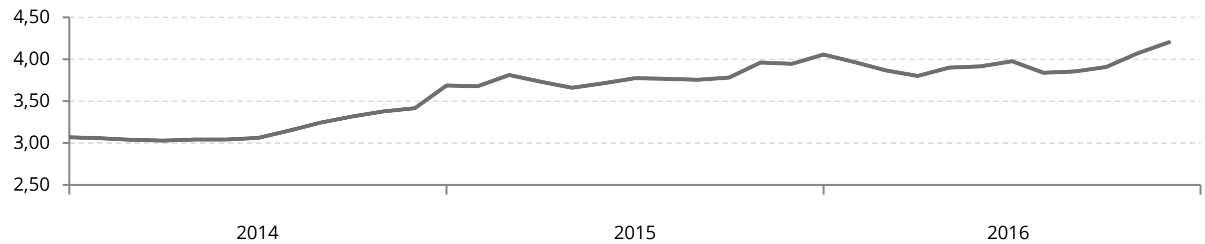
Chart 12. Molybdenum price per the LME (USD/t)



In 2016 the American dollar remained stable at a relatively high level as compared to other world currencies – the value of the USD as compared to the currency basket (the so-called dollar index) increased by almost 1%. During this time the PLN slightly depreciated as compared to the euro and US dollar, mainly due to the overall aversion of investors towards developing economies and the weaker perception of Polish creditworthiness by international rating agencies.

The average USD/PLN exchange rate (NBP) in 2016 amounted to 3.94 USD/PLN and was 4.5% higher than the rate in 2015. The minimum USD/PLN exchange rate was recorded in April 2016 at the level of 3.72 USD/PLN, while the maximum level was recorded in December 2016 – 4.25 USD/PLN.

Chart 13. USD/PLN exchange rate per the NBP

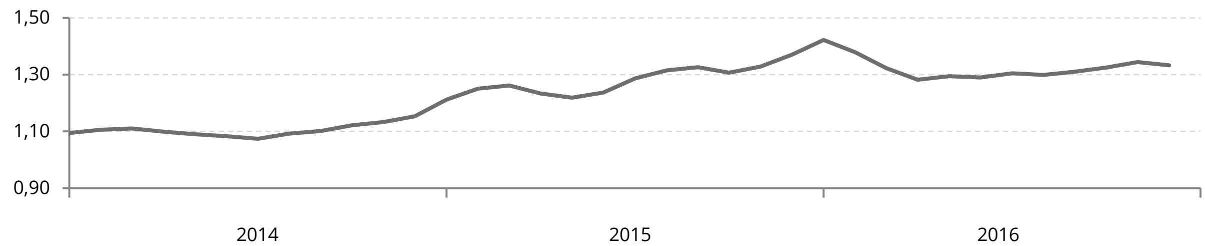


Both the Canadian dollar and the Chilean peso, after months of depreciation as compared to the American dollar, experienced a dynamic reversal of this trend in the first quarter of 2016. The increase of prices on the commodities market was one of the major reasons. The subsequent months were stable for these exchange rates.

Despite the reversal of trend, the average USD/CAD exchange rate (per the Bank of Canada) in 2016 amounted to 1.32 and was 3.6% higher than in 2015 (1.28). The highest USD/CAD exchange rate in 2016 of 1.46 was recorded in January, while the lowest rate of 1.25 came in April.

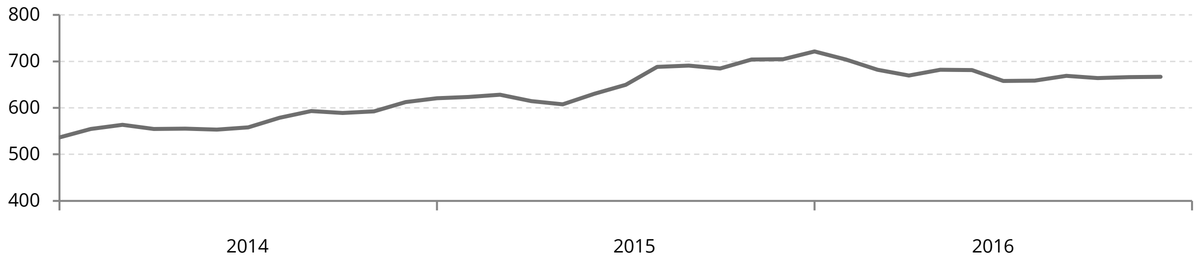
The average annual USD/CLP exchange rate (per the Bank of Chile) in 2016 was 677, meaning a depreciation of the local currency as compared to the USD by 3.4%. The maximum of the exchange rate was recorded in November 2016 – 730, while the peso in 2016 was at its strongest in August – 645.

Chart 14. USD/CAD exchange rate per the Bank of Canada



in PLN millions, unless otherwise stated

Chart 15. USD/CLP exchange rate per the Bank of Chile



The macroeconomic factors of the greatest significance for the operations of the Company are presented in the following table.

Table 3. Macroeconomic factors significant for the operations of the KGHM Polska Miedź S.A. Group – average prices

	Unit	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Copper price on the LME	USD/t	4 863	5 495	-11.5%	5 277	4 772	4 729	4 672
Silver price on the LBMA	USD/oz t	17.14	15.68	+9.3%	17.19	19.61	16.78	14.85
Nickel price on the LME	USD/t	9 609	11 807	-18.6%	10 810	10 265	8 823	8 499
Molybdenum price on the LME	USD/t	14 453	14 837	-2.6%	15 290	15 845	15 510	12 083
USD/PLN exchange rate per the NBP		3.94	3.77	+4.5%	4.06	3.89	3.87	3.96
USD/CAD exchange rate per the Bank of Canada		1.32	1.28	+3.1%	1.33	1.31	1.29	1.37
USD/CLP exchange rate per the Bank of Chile		677	655	+3.4%	666	662	678	702

5. Strategy of KGHM Polska Miedź S.A.

5.1. Strategy for the years 2015-2020

In January 2015, KGHM Polska Miedź S.A. adopted the „Strategy for the years 2015-2020 with an outlook to 2040". It was aimed at the achievement by the KGHM Polska Miedź S.A. Group by the year 2020 of production capacity of 1 million tonnes of equivalent copper. The main factor in achieving this goal was the portfolio of investment projects increasing the production capacity of KGHM Polska Miedź S.A. Achievement of the investment targets of KGHM Polska Miedź S.A.'s Strategy assumed carrying out projects with a total value of PLN 27 billion.

The Strategy was developed based on three Executory Strategies:

- Resource Base Development,
- Assets Development,
- Production,

and four Supporting Strategies:

- Financial Stability,
- Corporate Social Responsibility,
- Global Organisation and Skills Development, and
- Energy Security.

Additionally, Efficiency and Innovation was indicated as the foundation for all three Executory Strategies.

In 2016, the Management Board of KGHM Polska Miedź S.A. decided to undertake work on a fundamental revision of the Company's Strategy. This revision of the Strategy is focused on adapting the Company's goals to its anticipated financial capabilities, taking into consideration market conditions and the need to optimise costs.

The main factors indicating a need to revise the adopted 2015 strategy were:

- a decrease in the prices of key commodities versus the prices assumed in approved long-term strategic plans of Group companies for the years 2015-2020,
- higher-than-assumed capital expenditures on advancing international investment projects, and
- lower-than-assumed operating and efficiency parameters in the international assets.

Work related to revising the Company's strategy was not completed in 2016 and will be continued in 2017.

5.2. Directions regarding equity investments

In 2016 work commenced aimed at conducting audit of the international projects and reviewing their future development plans. The results of this audit were analysed and current work is aimed at updating the Strategy of KGHM Polska Miedź S.A. in this regard. Once this work is completed it will be possible to decide on future development plans and equity investments policy, and it will be reflected in the updated Strategy.

5.3. Directions regarding capital investments

The investment policy of KGHM Polska Miedź S.A. is determined by the Company's financial condition and the nature of its macroeconomic environment (copper price and USD exchange rate). In KGHM Polska Miedź S.A.'s investment policy, of primary significance is the execution of the Company's five-year investment plan which is consistent with KGHM's development Strategy and achievement of the long-term production plan.

in PLN millions, unless otherwise stated

Decisions regarding the assessment and selection of investment projects are amongst the most important, from the point of view of the company's finances, and have a key impact on the Company's long-term results and value. Decisions regarding the allocation of investment funds are made by the Investment Committee in KGHM Polska Miedź S.A.'s Head Office.

During the process of balancing its investment plans, the Company utilises portfolio mechanisms which provide flexibility in managing its portfolio of investment projects, taking into account the need to ensure achievement of production plans. By applying specific assessment criteria and prioritising the projects in its portfolio, the Company is able to prepare balanced investment plans in terms of selecting the most profitable investments for KGHM Polska Miedź S.A., and in certain cases is able to quickly identify the lowest priority projects, the postponement of which does not threaten achievement of the Company's production plans.

Due to the continued unfavourable situation on the copper market since mid-2015, expenditures on capital investments in domestic production assets in the years 2017-2021 were estimated based on a budgetary crisis scenario for the years 2016-2020, during which expenditures were reduced to the absolute minimum required to carry out the production plan adopted by KGHM Polska Miedź S.A. for Poland. The crisis budget carried out for 2016 assumed a decrease, in a short time, of investment funds mainly designated for replacing equipment and maintaining production while at the same time maintaining the planned production level as well as advancing key development projects.

Planned expenditures on capital investments in Poland in the years 2017-2018 amount to approx. PLN 2 billion annually. After 2018 average capital expenditures should not exceed PLN 2 billion annually. Following completion of the project of Pyrometallurgy Modernisation Program at the Głogów I Copper Smelter and Refinery, capital expenditures in the years 2017-2021 will mainly concentrate on mining (the Mining Divisions and Tailings Division), which will represent approx. 70% of total planned expenditures on capital investments in Poland.

The crisis budget projection for the years 2017-2021 assumes:

- continued advancement of key projects:
  - The Deposit Access Program (Deep Głogów along with access and development tunnels),
  - The Pyrometallurgy Modernisation Program (PMP),
  - The Metallurgy Development Program (MDP),
  - Development of the Żelazny Most Tailings Storage Facility,
- creation of a special purpose provision to advance new projects:
  - Development of the Żelazny Most Tailings Storage Facility - phase II, and
  - Increasing production capacity to 160 thousand tonnes of copper cathode annually at the Legnica Copper Smelter and Refinery (TCR) – the project includes construction of a tilting-casting-refining furnace and modernisation of the Copper Electrorefining Section (change to ISA Process electrorefining technology based on permanent starter plates).

The breakdown of investments in the core business by category assumes a balanced allocation of funds between the replacement of equipment, maintaining mine production and development.

Investment category	Share of expenditures in the budget 2017-2021
Replacement of equipment aimed at maintaining production equipment in an unchanged condition, of which:	33%, of which:
– Purchase of mining machinery	32%
– Modernisation of the Tank Hall at the Głogów I Copper Smelter and Refinery under the Metallurgy Development Program	7%
– Replacement of mining and metallurgical infrastructure as well as infrastructure in other divisions	61%
Maintaining mine production aimed at maintaining mine production at the level set forth in the approved Production Plan (development of infrastructure to match mine advancement), of which:	34%, of which:
– Installing equipment in the mines	38%
– Projects related to ensuring the ability to store flotation tailings, including the Development of Żelazny Most Tailings Storage Facility	47%
– Other projects	15%
Development aimed at implementing technical and technological actions optimising the usage of existing infrastructure, controlling production costs and adapting the company's operations to changes in standards, laws and regulations (conformatory projects and projects related to environmental protection), of which:	33%, of which:
– The Deposit Access Program	44%
– Continuation of PMP and MDP and commencement of TCR	20%
– Other projects being advanced in the Mines, Processing Plants and Tailings Division aimed at reducing costs and ensuring occupational safety	36%

in PLN millions, unless otherwise stated

5.4. Implementation of the strategy in 2016

The following actions were carried out in 2016, based on the existing Strategy from 2015.

Pillar – Resource Base Development

(Regional exploration program of KGHM Polska Miedź S.A. regarding the exploration and documentation of copper ore 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 2016, within the Radwanice-Gaworzyce deposit which has been documented in the categories C1+C2, geological work was carried out under the concession to explore the copper ore deposit using the underground method within the "Dankowice" region. In August 2016 an application was submitted to acquire a concession to mine copper ore from the "Gaworzyce" region of the "Radwanice-Gaworzyce" deposit.
Synklina Grodziecka and Konrad	In 2016, drilling was performed aimed at obtaining precise information regarding hydrogeological conditions as well as surface-based seismic research. Based on data obtained during exploratory work in the years 2011-2016, work under a project titled „Development and parameterization of preliminary, scenario-based technical models for mining the "Niecka Grodziecka" deposit for purposes of economic assessment" was carried out, which was then reviewed in terms of standards prevailing in mining projects around the world. In 2016, on the basis of information held, an impairment loss was recognised, but no final decision made on the future of the project. Additional expertises are still being developed to properly assess the deposit.
Retków-Ścinawa and Głogów	In 2016 another 3 holes were drilled within the "Retków-Ścinawa" concession and work commenced related to developing a concept for mining the ore within the concession. In July 2016, an application was submitted to the Ministry of the Environment for a change in concession no. 7/2013/p for the exploration and evaluation of copper ore deposits within the "Retków-Ścinawa" concession. The application includes a new schedule, work scope and geological work, including the construction of underground chambers in the projected region of "Grodziszcze", which is directly adjacent to the mine regions "Rudna" and "Deep Głogów". Within the "Głogów" concession work was completed on drilling 4 holes under the first stage of the exploratory work. In September 2016, an application was submitted to change the concession for the exploration and evaluation of the copper ore deposit within the "Głogów" region. The application includes a modified schedule, work scope and geological work for subsequent stages of the project.
Exploration projects in the preparatory phase:	
Bytom Odrzański, **Kulów-Luboszyce**	In 2016, judicial and administrative proceedings were carried out with respect to concessions being pursued: Bytom Odrzański and Kulów-Luboszyce (KGHM Polska Miedź S.A.) and Bytom Odrzański, Kotla and Niechlów (Leszno Copper). The Company is awaiting the setting of a date for a hearing by the Supreme Administrative Court (SAC).
Other concessions:	
Puck region	In 2016, drilling of the Mieroszyno IG-9 borehole within the concession was completed. Detailed analysis and interpretation of the data is performed based on achieved results and archival data.

Pillar II – Production Assets Development

Key development projects in terms of the Core Business in Poland:	
The Deposit Access Program **Deep Głogów**	In 2016, work continued on the sinking of the GG-1 ventilation (input) shaft and on developing primary tunneling in the Rudna and Polkowice–Sieroszowice Mines together with necessary technical infrastructure. Construction of the Surface-based Ventilation Station at the R-XI shaft was completed. Work under stage II was also completed, which enabled an increase in the production of cooled air to the mine below the level of 1200 meters to 25 MW. Consultations with and gathering opinions from the major stakeholders is underway with respect to establishing a Project to Build a Central Air Conditioning System at the GG-1 Shaft. In order to improve coordination of work related to accessing new mining areas based on updated long-term mining plans and economic analyses of scenarios for the development of the Core Business on the terrain of the Legnica-Głogów Copper Belt, a Deposit Access Program has been developed. The entire scope of the Program will be expanded in subsequent years to include projects related to excavating a network of access and development tunnels as well as the development of the infrastructure of these tunnels along with the opening of subsequent mining areas in the Rudna and Polkowice-Sieroszowice Mine Divisions. By 2020 around PLN 340 million is expected to be spent annually on carrying out this program.

in PLN millions, unless otherwise stated

Mechanical mining program	Excavation of drift tunnels using a combine team In 2016, work in the Polkowice-Sieroszowice Mine Division involving the development of drifts using a combine team was completed. The experience gained during work on this project enabled the development of an alternative technology for mechanically excavating drifts in the mining conditions of KGHM Polska Miedź S.A. as compared to the current technology based on blasting. It was confirmed that substantial benefits could be obtained in such areas as the rate of progress in excavating drifts with particular regard to work in areas containing geological faults, decreasing accident rates and enhancing occupational safety, including a substantial decrease in the types and amounts of mining machinery necessary to carry out drift work. In 2017, work will be conducted related to the closing phase of the project, involving the disassembly of equipment and overall settlement and summation of the results of the assessed technology, as a basis for making a decision as to the further directions of work with respect to implementing technology for mechanically excavating drifts in the mines of KGHM Polska Miedź S.A.
Pyrometallurgy Modernisation Program at the Głogów Copper Smelter and Refinery	In 2016, the newly-constructed flash furnace production line at the Głogów I Copper Smelter and Refinery was brought on line, as an element of the comprehensive Pyrometallurgy Modernisation Program. The main modifications and improvements under this project involved a change in concentrate casting technology in the shaft furnaces into modern flash furnace technology with a concentrate smelting capacity of 1050 thousand tonnes annually. The goal of the project is to create a functionally-integrated, cost-effective and environmentally-friendly metallurgical structure in KGHM Polska Miedź S.A. as well as technology which will ensure the capacity to continue processing both our own as well as imported concentrates to remain a functioning copper producer for at least the next several decades, among others by eliminating risk associated with shaft furnace technology. Primary benefits of the change in technology: – increased revenues for the KGHM Polska Miedź S.A. Group from the sale of additional amounts of silver, rhenium and refined lead, – lower expenditures on replacing assets as well as lower maintenance and labour costs, – the fulfilment of BAT standards, – improved working conditions thanks to the elimination of hazardous shaft furnace technology worksites, – improved process energy efficiency, and – enhancement of the metallurgical competitiveness of KGHM Polska Miedź S.A.
Metallurgy Development Program	Under the Metallurgy Development Program work continued on the following projects: – construction of a steam drier at the Głogów II Copper Smelter and Refinery, – construction of a concentrate roasting installation at the Głogów I Copper Smelter and Refinery, – modernisation of the Tank and Electrolite Decopperisation Hall at the Legnica Copper Smelter and Refinery, and – adaptation of technical infrastructure to the change in technology at the Głogów I Copper Smelter and Refinery.
Development of the "Żelazny Most" Tailings Storage Facility	In 2016, a permit to develop the Main Facility to a crown height of 195 meters a.s.l. and a permit to operate the Tailings Storage Facility were obtained. The dam is built up successively as part of the on-going operations of the Parent Entity (the Tailings Division). In 2016, formal administrative activities aimed at further development of the Żelazny Most tailings storage facility in future were continued – construction of the Southern Quarter. An application was submitted aimed at receiving a decision on the environmental conditions of the investment involving construction of the Southern Quarter. Work was carried out aimed at selecting technology for the construction of a station for the segregation, thickening and storage of tailings in the planned Southern Quarter. As a result of this work a recommendation was made as to the means of depositing tailings in the Southern Quarter as well as the means and scope of construction of a station for the thickening and segregation of tailings, which was brought into execution. An agreement was signed with the Forest District Lubin unit to carry out a construction and execution project to build the Southern Quarter as well as a property leasing agreement for the future Southern Quarter.
Construction of the SW-4 Shaft	Within the construction of the SW-4 shaft in 2016, disassembly work involving the sinking of the shaft was performed. During the year work was also carried out related to outfitting the shaft for the target period. The area around the shaft was developed. The assembly of shaft sump equipment at the 1213.0 meters level as well as necessary infrastructure was performed. In addition, design work is underway for target facilities of the SW-4 shaft.
International development projects	
Victoria project (Sudbury Basin, Canada) KGHM INTERNATIONAL LTD.100%	Exploration work carried out in the years 2015-2016 confirms the continuity as well as the nature of mineralisation to a depth of approx. 2 200 meters. As part of the work performed in 2016, basic infrastructure was developed to ensure access to utilities (power and natural gas). At the same time the decision was made to have the project's technical and economic assumptions reviewed by independent specialists. The results of this work will enable a decision to be made regarding future actions on this project.

in PLN millions, unless otherwise stated

Development of the Sierra Gorda project (Chile)	Phase 2 of the Project – taking into consideration actual molybdenum and copper price levels and the current level of Sierra Gorda's operational efficiency, phase 2 of the project is currently not expected to be advanced. Sierra Gorda Oxide (project for processing of the oxide ore) – in 2016 work continued on reviewing and optimising the project's technical and economic assumptions. Possible scenarios for developing the project are being reviewed.
Ajax project (British Columbia, Canada) KGHM Polska Miedź S.A. Group 80%, Abacus Mining and Exploration Corp. 20%	In 2016 an Updated Feasibility Study was published which replaced the prior version from 2012. The Updated Feasibility Study reflects changes to the project, pursuant to which the mine's infrastructure was moved away from the nearest buildings of the town of Kamloops. Improvements were introduced to the technological solutions and the daily processing capacity of the plant was increased from 60 to 65 thousand tonnes. The Feasibility Study was reviewed by independent specialists. At the same time, as part of the actions taken there was a reduction of employment, adapting its size and structure to the scope and schedule of work on the Ajax project. Currently, design work of KGHM AJAX MINING INC. is concentrated on obtaining an environmental permit and building good relations with First Nations as well as with the people of the town of Kamloops.
Initiatives aimed at enhancing knowledge and innovation in KGHM Polska Miedź S.A.	
Systemic organisation of the innovation management process	In 2016 actions aimed at enhancing integration between industry and academia were continued. In addition: – implementation commenced on a new model for the functioning of R&D and innovation activities within the KGHM Group, based on internal resources and available public funds – domestic and EU. This enables engagement of the skills of KGHM Group's entities operating in the field of research and innovations, optimisation of scopes of activity, the use of research infrastructure and also regulation of the question of intellectual property. – strategic research directions were updated, and new principles of cooperation with academic partners and research organisations were defined and prepared for implementation, securing not only the path to commercialisation of developed solutions but also the complete security of intellectual property rights created by the KGHM Group and at its request. – principles of cooperation were developed with respect to supporting new, innovative enterprises in the areas of activity of the KGHM Group by assisting in the commercialisation and accelerating the development of Start ups' technology as part of participation in the Scale Up program – the first competition under the auspices of the government's Start In Poland program. The goal of this activity is to combine the potential of new, creative entrepreneurs with the infrastructure, experience and resources of large corporations, including KGHM. – implementation of the knowledge management system with respect to research, development and innovation in the KGHM Group commenced, based on a defined concept containing a list of mechanisms and informational solutions enabling the effective utilisation of the potential of resources of the KGHM Polska Miedź S.A. Group.
Main R&D initiatives	In 2016, over 170 R&D projects and academic/scientific papers were carried out, in the total amount of over PLN 44 million. The main R&D projects were concentrated on the development of innovative solutions aimed at meeting the needs of the Core Production Business of KGHM Polska Miedź S.A., in terms of automation, improved technological parameters and optimisation of costs as well as enhanced employee safety. These goals were achieved by seeking new, and developing already existing, innovative technical and organisational solutions enabling the continuity and efficiency of production to be secured.
CuBR Program	12 R&D projects were continued, representing joint ventures with sector partners and scientific and R&D institutions, co-financed by domestic and international public funds, under the first and second CuBR competitions. The first projects will be completed in the second quarter of 2017. As part of the third CuBR competition, 11 projects received positive recommendations. Their substantive scope comprises among others underground mine communications systems, technology for assessing the technical condition of mine shaft lifts, designing blasting metrics, anti-corrosion protection of processing plant installation, reducing odours emanating from mine outlet shafts, floatation reagents, the training of mining machinery operators and means for securing and utilising process gases.
Horyzont 2020	Projects were continued under the auspices of the Horizon 2020 program: BioMOre, DISIRE and IntMet.
KIC RawMaterials	KGHM Polska Miedź S.A. resigned from membership in the Knowledge and Innovation Community KIC RawMaterials and serving as a Core Partner at the end of the financial year 2016. From 2017, KGHM Polska Miedź S.A. will participate in KIC RM as a Task Partner and will advance the "Automated microscopic characterization of ores" (a.k.a. AMCO) Project.

in PLN millions, unless otherwise stated

Pillar III – Production

Sierra Gorda mine in Chile – Phase 1 KGHM INTERNATIONAL LTD. 55% Sumitomo Metal Mining and Sumitomo Corporation 45%	The production of copper in concentrate in 2016 amounted to approx. 94 thousand tonnes, and production of molybdenum in concentrate amounted to approx. 22.1 million pounds. In 2016: – actions were undertaken related to improving processing plant stability as well as the processing plant's quality and efficiency parameters, – the mine's long-term operating plan was reviewed, – modernisation of the tailings storage facility commenced, and – work continued on implementing savings initiatives, such as renegotiating significant long-term financing contracts as well as the supply of power to the mine. Cooperation continues with Chile's Environmental Enforcement Agency (SMA). In April 2016, Sierra Gorda submitted a program of compliance by the plant with the regulator's requirements. In the second half of 2016, SMA finally approved the compliance plan presented by Sierra Gorda S.C.M.
Maintaining production from own concentrate	In 2016 preparatory work continued on commencing mining in new areas of the deposits as part of the Deposit Access Program (previously the Deep Głogów Project) as well as actions related to acquiring a concession to mine the copper ore from the "Radwanice-Gaworzyce" deposit in the "Gaworzyce" mining area. Under the Deposit Access Program, work continued on sinking the GG-1 (inlet) ventilation shaft. Construction of the Surface-based Ventilation Station at the R-XI shaft with a cooling capacity of 25 MW was completed. Procedures commenced related to commencing construction of a Central Air Conditioning System at the GG-1 Shaft – with a cooling capacity of 25 MW. Mine tunnels were developed in the Rudna and Polkowice-Sieroszowice Mines together with necessary technical infrastructure. Their primary purpose is to provide access to and prepare new areas for mining as well as to connect the GG-1 shaft to the ventilation network, which will substantially improve operating conditions for the 1 200 meters level. In terms of actions aimed at acquiring a concession to mine copper ore from the "Gaworzyce" region of the "Radwanice-Gaworzyce" deposit, in 2016 an application was submitted to acquire a concession to mine copper ore. As at the date of preparation of this Report, the Company had not received a decision in this matter.
Improving efficiency in the core business in Poland	In 2016, 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, and – optimising employment.
Program to improve occupational health and safety	2016 was a particularly difficult year in terms of Occupational Health and Safety. Due to the significant number of accidents involving groups of individuals resulting from natural causes, including large numbers of injured, for the first time in many years the Company recorded a year-on-year increase in the total number of workplace accidents. These accidents were related in particular with the substantial threat posed by working in an underground rock mass, associated with the mining of copper ore in KGHM Polska Miedź S.A. The Lost Time Injury Frequency Rate (LTIRF), being the number of accidents per million hours worked for the entire core business of KGHM Polska Miedź S.A. amounted to 12.7 in 2016 (in 2015 LTIFR = 10.2). In 2016, work was carried out on implementing the Occupational Health and Safety Program in KGHM Polska Miedź S.A. to the year 2020, in the area of attitude. Schedules and the scopes of implementation of other components of the program (health, education, working environment) were updated, reflecting the Company's actual operating conditions. Organisational solutions which were implemented under the Occupational Health and Safety Program in KGHM Polska Miedź S.A. to the year 2020 - Vortal Occupational Health and Safety – were honoured in the 44th Polish Competition to Improve Working Conditions, organised by the Ministry of Family, Labour and Social Policy. In 2016, KGHM also received the prestigious Gold Card as a Leader of Workplace Safety for the results obtained in Occupational Health and Safety in the years 2014 – 2015.

in PLN millions, unless otherwise stated

Other important initiatives supporting the core business

Global Organisation and Skills Development	
Improving efficiency and effectiveness in managing a global organisation	In 2016, work continued on developing management systems. Intensive work was carried out related to implementing an ISO 50001:2012-compliant energy management system (EMS) at the Head Office and in the Divisions of KGHM Polska Miedź S.A. An energy policy was adopted by KGHM Polska Miedź S.A. In terms of supporting and overseeing the functioning of the management systems in the Divisions of the Legnica Copper Smelter and Refinery, the Głogów Copper Smelter and Refinery, the Cedynia Wire Rod Plant, the Tailings Division and Ore Enrichment Division, in 2016 work began aimed at adapting the existing management systems to the requirements of new standards - quality management in accordance with ISO 9001: 2015 and environmental management in accordance with ISO 14001:2015. Documentation was analysed and a report was developed with recommendations to introduce changes and supplementation in existing systems in the Divisions, the Cedynia Wire Rod Plant, the Tailings Division and the Ore Enrichment Division, as these Divisions will be the first to undergo recertification under the new standards. Work in the remaining Divisions will last to the first half of 2018.
Human Resources Management	Work continued on initiatives focused on ensuring an appropriately motivated and competent staff resource required to accomplish the goals. Actions in this regard primarily comprised: – educational programs to develop professional, managerial and specialist skills, – development of a system of management by results for the management staff and an evaluation system encompassing all employees, – updating of the staff mobility policy in the KGHM Group, and – improvement and modification of existing tools to support the acquisition of the highest quality staff.
Corporate Social Responsibility	
	In 2016, KGHM Polska Miedź S.A. advanced a global CSR strategy, in accordance with the Company's existing business strategy for the years 2015-2020. The actions of the KGHM Group related to corporate social responsibility were carried out based on international standards. In 2016, KGHM Polska Miedź S.A. became subject to new clauses introduced in the Act on Accounting aimed at implementing directive 2014/95/EU of the European Parliament and Council dated 22 October 2014. Well in advance of the deadline, KGHM Polska Miedź S.A. undertook effective actions to meet its reporting requirements. KGHM Polska Miedź S.A. reports its activities with respect to corporate social responsibility based on reporting guidelines for sustainable development (the Global Reporting Initiative). GRI is currently the most frequently applied CSR reporting standard in the world. On 25 July 2016, the Integrated Report for 2015 was published. Additional disclosures are aimed among others at increasing the confidence of investors and local communities in the Company as well as ensuring tools to control the degree of achievement of the goals introduced by the directives. In 2016, both in Poland and international assets of KGHM Polska Miedź S.A., the tasks assigned to individual pillars of the CSR strategy were successively advanced. In addition, the process of evaluating the degree of accomplishment of the guidelines of this strategy in each of the Company's international assets commenced.
Ensuring the energy security of the KGHM Polska Miedź S.A. Group	
	In order to establish, maintain and improve energy standards in KGHM Polska Miedź S.A., in 2016 work began on implementing an Energy Management System compliant with PN-EN ISO 50001:2012. The main goal in implementing this system is to constantly improve energy efficiency. A key document, which at the same time sets forth the goal of rational energy use, is the „Energy Policy of KGHM Polska Miedź S.A." which was published in the fourth quarter of 2016. Thanks to the implementation of the Energy Management System, it is expected that measureable financial benefits will accrue from lower costs of purchasing energy, limiting CO_2 emissions and increasing the competence and awareness of employees through their active participation in energy reviews and audits.

6. Economic performance of the Group

6.1. Production

The decrease in production of payable copper and of silver in 2016 as compared to 2015 was due to the lower production of cathodes by KGHM Polska Miedź S.A. due to the shutdown at the Głogów I Copper Smelter and Refinery in the third quarter of 2016 (replacement of the shaft furnace with a flash furnace) and lower production in KGHM INTERNATIONAL LTD. mainly due to lower processing of ore by the Robinson mine. Detailed information on production may be found in the sections describing individual segments. The Group's production is shown below.

Table 4. Production in the Group

	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Copper equivalent (kt)							
Group	**742.0**	**748.6**	-0.9%	**182.6**	**196.7**	**181.9**	**180.7**
- KGHM Polska Miedź S.A.	552.1	566.8	-2.6%	136.7	150.9	135.8	128.8
- KGHM INTERNATIONAL LTD.	114.8	121.5	-5.5%	26.2	29.3	29.8	29.4
- Sierra Gorda S.C.M.*	75.1	60.3	+24.5%	19.7	16.5	16.4	22.4
Payable copper (kt)							
Group	**677.0**	**718.2**	**-5.7%**	**169.6**	**171.1**	**170.2**	**166.2**
- KGHM Polska Miedź S.A.	535.6	574.3	-6.7%	135.0	137.7	134.9	128.1
- KGHM INTERNATIONAL LTD.	89.8	97.6	-8.0%	20.9	22.1	23.1	23.7
- Sierra Gorda S.C.M.*	51.5	46.3	+11.2%	13.7	11.3	12.1	14.5
TPM – precious metals (koz t)							
Group	**228.8**	**205.0**	**+11.6%**	**57.7**	**59.4**	**56.0**	**55.7**
- KGHM Polska Miedź S.A.	113.8	86.9	+31.0%	29.6	30.7	27.3	26.2
- KGHM INTERNATIONAL LTD.	92.1	95.3	-3.4%	20.6	24.7	24.6	22.4
- Sierra Gorda S.C.M.*	22.9	22.8	+0.4%	7.5	4.0	4.2	7.1
Silver (t)							
Group	**1 207**	**1 299**	**-7.1%**	**307**	**325**	**276**	**299**
- KGHM Polska Miedź S.A.	1 191	1 283	-7.2%	303	321	272	295
- KGHM INTERNATIONAL LTD.	2	2	-	0.4	0.5	0.5	0.3
- Sierra Gorda S.C.M.*	14	14	-	4	3	3	4
Molybdenum (million pounds)							
Group	**13.0**	**9.3**	**+39.8%**	**2.9**	**2.8**	**2.2**	**5.1**
- KGHM Polska Miedź S.A.	-	-	×	-	-	-	-
- KGHM INTERNATIONAL LTD.	0.8	1.0	-20.0%	0.1	0.3	0.2	0.2
- Sierra Gorda S.C.M.*	12.2	8.3	+47.0%	2.9	2.5	2.0	4.9

** 55% share of the Group*

6.2. Structure of consolidated sales revenue

The geographic and product structure of the consolidated sales revenue of the Group are presented in the following charts. In accordance with the adopted principle of consolidation by the equity method, sales revenue do not include revenues of the segment Sierra Gorda. Detailed information on segment sales is presented in the sections devoted to the results of individual segments.

Chart 16. Geographic structure of Group sales

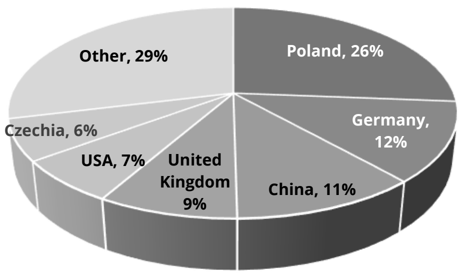
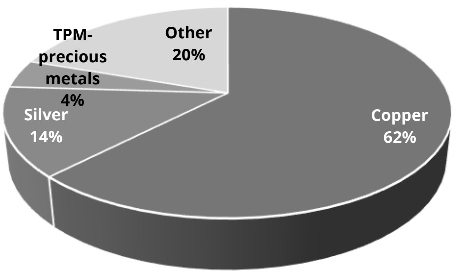


Chart 17. Product structure of Group sales



6.3. C1 cost in the Group

Unit costs by Group segments are presented in the table below. Detailed descriptions of individual items are presented in the sections devoted to individual segments.

Table 5. C1 cost of producing copper in concentrate* in the Group (USD/lb)

	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Group	**1.41**	**1.59**	**-11.3%**	**1.49**	**1.36**	**1.40**	**1.39**
- KGHM Polska Miedź S.A.	1.30	1.47	-11.6%	1.34	1.18	1.32	1.33
- KGHM INTERNATIONAL LTD.	1.63	1.87	-12.8%	1.72	1.73	1.59	1.48
- Sierra Gorda S.C.M.	1.96	2.58	-24.0%	2.11	2.19	1.77	1.73

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

6.4. Financial results

Statement of profit or loss

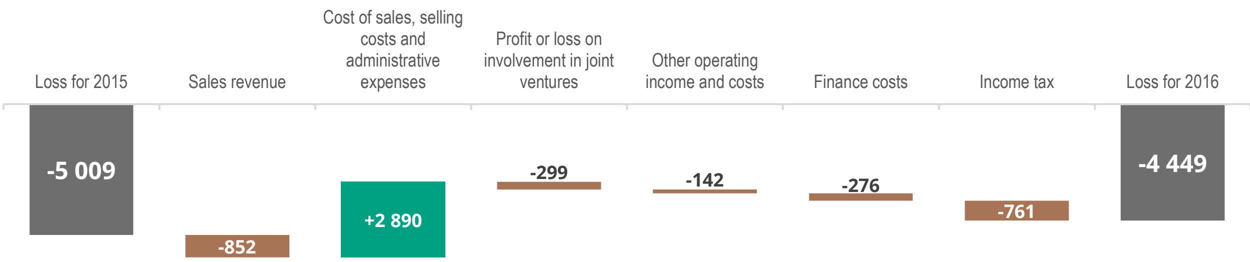
Table 6. Financial results of the Group (PLN million)

	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Sales revenue	19 156	20 008	-4.3%	6 015	4 685	4 544	3 912
Cost of sales, selling costs and administrative expenses	(16 612)	(19 502)	-14.8%	(5 284)	(3 990)	(3 916)	(3 422)
Profit on sales	**2 544**	**506**	**×5.0**	**731**	**695**	**628**	**490**
Profit or loss on involvement in joint ventures	(4 961)	(4 662)	+6.4%	(4 599)	(192)	(102)	(68)
Other operating income and (costs)	(802)	(660)	+21.5%	(532)	(164)	203	(309)
Finance income / (costs)	(582)	(306)	+90.2%	(615)	192	(389)	230
(Loss) / profit before taxation	**(3 801)**	**(5 122)**	**-25.8%**	**(5 015)**	**531**	**340**	**343**
Income tax	(648)	113	×	(63)	(200)	(205)	(180)
(Loss) / profit for the period	**(4 449)**	**(5 009)**	**-11.2%**	**(5 078)**	**331**	**135**	**163**
Adjusted EBITDA*	**4 666**	**4 710**	**-0.9%**	**1 515**	**1 089**	**1 075**	**987**

** 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) according to part 2 of the consolidated financial statements – together with Sierra Gorda S.C.M.*

Item	Impact on change of profit or loss (in PLN million)	Description
Sales revenue	(852)	The decrease in sales revenue mainly relates to: – KGHM Polska Miedź S.A.: PLN (827) million, including PLN (794) million due to a decrease in revenues due to a lower copper price (-632 USD/t, -12%) alongside an increase in silver (+1.46 USD/oz t, +9%) and gold prices (+90 USD/oz t, +8%), and – KGHM INTERNATIONAL LTD. (PLN (42) million). Detailed reasons for the decrease in revenues in aforementioned segments are described in points 7 and 8 of this report.
Cost of sales, selling costs and administrative expenses	+2 890	A decrease in cost of sales, selling costs and administrative expenses in the consolidated result was mainly due to lower costs in KGHM Polska Miedź S.A. (by PLN 138 million) and in KGHM INTERNATIONAL LTD. (by PLN 2 763 million, including PLN 2 143 million relating to impairment losses on non-current assets). Detailed reasons for the decrease in costs in both segments are described in points 7 and 8 of this report.
Profit or loss on involvement in joint ventures	(299)	An increase in the loss on involvement in joint ventures from PLN 4 662 million to PLN 4 961 million due to: – a lower share of losses of joint ventures accounted for using the equity method by PLN 3 257 million, – no impairment loss on the interest in a joint venture (PLN 671 million in 2015), – impairment allowance on loans of PLN 4 394 million, and – higher interest income on a loan granted to a joint venture by PLN 167 million.
Other operating income and costs	(142)	An increase in the loss on other operating activities by PLN 142 million mainly due to: an increase in impairment losses by PLN 709 million, an increase in foreign exchange gains by PLN 368 million and income on write-off of tax liability of PLN 185 million.
Finance income / (costs)	(276)	An increase in finance costs by PLN 276 million mainly due to: an increase in foreign exchange losses by PLN 372 million and a decrease in interest costs due to borrowings by PLN 71 million.
Income tax	(761)	An increase in income tax by PLN 761 million mainly due to a decrease in current income tax by PLN 85 million and a change in adjustment to deferred income tax by PLN 883 million, which is described in detail in part 5 of the consolidated financial statements.

Chart 18. Change in profit/loss for the period of the Group in 2016 (PLN million)



Cash flow

Table 7. Cash flow of the Group (PLN million)

	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Profit or loss before income tax	(3 801)	(5 122)	-25.8%	(5 015)	531	340	343
Depreciation/amortisation recognised in profit or loss	1 698	1 943	-12.6%	457	431	413	397
Share of losses of joint ventures accounted for using the equity method	1 200	4 457	-73.1%	373	351	255	221
Impairment loss on interest in a joint venture	-	671	-100.0%	-	-	-	-
Impairment allowance on loans granted to joint ventures	4 394	-	×	4 394	-	-	-
Interest on loans granted to joint ventures	(633)	(466)	+35.8%	(168)	(159)	(153)	(153)
Interest and other costs of borrowings	152	201	-24.4%	49	44	30	29
Other impairment losses on non-current assets	1 532	2 970	-48.4%	1 461	5	9	57
Other adjustments to profit or loss before income tax	(205)	(132)	+55.3%	(18)	(96)	163	(254)
Exclusions of income and costs, total	8 138	9 644	-15.6%	6 548	576	717	297
Income tax paid	(451)	(925)	-51.2%	(116)	(208)	(65)	(62)
Change in working capital	326	566	-42.4%	515	50	(245)	6
Net cash generated from operating activities	**4 212**	**4 163**	**+1.2%**	**1 932**	**949**	**747**	**584**
Expenditures on mining and metallurgical assets	(3 032)	(3 553)	-14.7%	(712)	(640)	(802)	(878)
Expenditures on other property, plant and equipment and intangible assets	(219)	(386)	-43.3%	(56)	(57)	(14)	(92)
Acquisition of newly – issued shares of a joint venture	(671)	(928)	-27.7%	(336)	(97)	(65)	(173)
Other expenses	(72)	(114)	-36.8%	2	(31)	(1)	(42)
Total expenses	(3 994)	(4 981)	-19.8%	(1 102)	(825)	(882)	(1 185)
Proceeds	46	75	-38.7%	12	18	9	7
Net cash used in investing activities	**(3 948)**	**(4 906)**	**-19.5%**	**(1 090)**	**(807)**	**(873)**	**(1 178)**
Proceeds from borrowings	3 266	4 988	-34.5%	370	916	932	1 048
Other proceeds	21	33	-36.4%	3	-	18	-
Total proceeds	3 287	5 021	-34.5%	373	916	950	1 048
Repayments of borrowings	(2 701)	(3 096)	-12.8%	(880)	(825)	(661)	(335)
Dividends paid to shareholders of the Parent Entity	(300)	(800)	-62.5%	(150)	(150)	-	-
Interest paid and other costs of borrowings	(144)	(232)	-37.9%	(46)	(43)	(27)	(28)
Other expenses	(9)	(29)	-69.0%	-	-	(6)	(3)
Total expenses	(3 154)	(4 157)	-24.1%	(1 076)	(1 018)	(694)	(366)
Net cash generated from/(used in) financing activities	**133**	**864**	**-84.6%**	**(703)**	**(102)**	**256**	**682**
Total net cash flow	**397**	**121**	**×3.3**	**139**	**40**	**130**	**88**
Cash and cash equivalents at beginning of the period	461	475	-2.9%	731	698	589	461
Exchange gains/(losses) on cash and cash equivalents	2	(135)	×	(10)	(7)	(21)	40
Cash and cash equivalents at end of the period	**860**	**461**	**+86.6%**	**860**	**731**	**698**	**589**

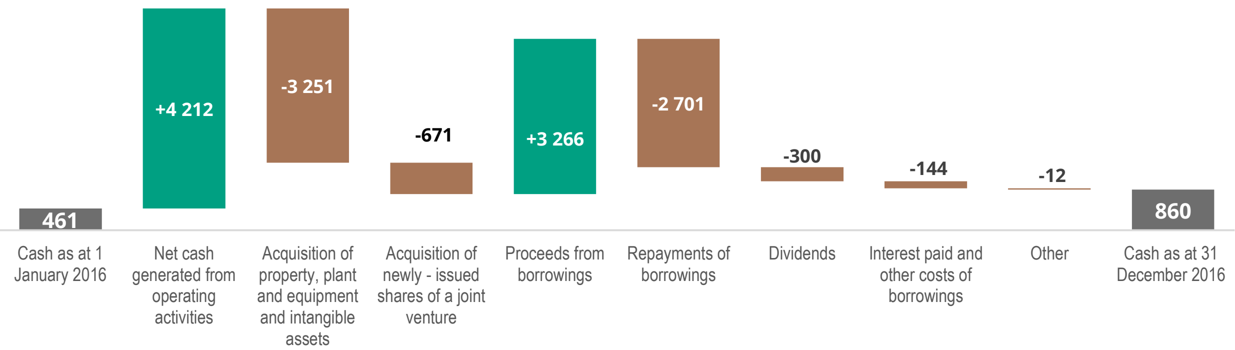
Net cash generated from operating activities in 2016 amounted to +PLN 4 212 million and mainly comprised a pre-tax loss in the amount of -PLN 3 801 million adjusted by depreciation/amortisation in the amount of +PLN 1 698 million, a share of losses of joint ventures in the amount of +PLN 1 200 million, an impairment allowance on loans granted to joint ventures of +PLN 4 394 million, interest on loans granted to joint ventures of -PLN 633 million, other impairment losses on non-current assets of +PLN 1 532 million, income tax paid in the amount of -PLN 451 million and a change in working capital in the amount of +PLN 326 million.

Net cash used in investing activities in 2016 amounted to -PLN 3 948 million and mainly comprised net expenditures on mining and metallurgical property, plant and equipment and intangible assets in the amount of -PLN 3 251 million and expenditures on the acquisition of newly-issued shares of a joint venture in the amount of -PLN 671 million.

Net cash generated from financing activities in 2016 amounted to +PLN 133 million and mainly comprised proceeds from borrowings in the amount of +PLN 3 266 million and repayments of borrowings in the amount of -PLN 2 701 million, dividends paid to shareholders of the Parent Entity in the amount of -PLN 300 million and interest paid and other costs of borrowings in the amount of -PLN 144 million.

After reflecting exchange gains on cash, in 2016 cash and cash equivalents increased by PLN 399 million and amounts to PLN 860 million.

Chart 19. Cash flow of the Group in 2016 (PLN million)



Assets and equity and liabilities

Table 8. Consolidated assets (PLN million)

	31.12.2016	31.12.2015	Change (%)	30.09.2016	30.06.2016	31.03.2016
Mining and metallurgical property, plant and equipment	15 217	14 273	+6.6%	15 098	14 821	14 421
Mining and metallurgical intangible assets	2 474	3 130	-21.0%	3 298	3 301	3 199
Other property, plant and equipment	2 591	2 653	-2.3%	2 707	2 828	2 776
Other intangible assets	208	241	-13.7%	197	236	202
Joint ventures accounted for using the equity method	27	562	-95.2%	73	333	498
Loans granted to joint ventures	4 313	7 504	-42.5%	7 874	7 966	7 377
Derivatives	237	117	×2.0	58	67	133
Other financial instruments measured at fair value	577	579	-0.3%	528	571	602
Other financial assets	930	735	+26.5%	826	859	787
Deferred tax assets	511	557	-8.3%	512	608	562
Other assets	117	97	+20.6%	125	125	123
Non-current assets	**27 202**	**30 448**	**-10.7%**	**31 296**	**31 715**	**30 680**
Inventories	3 497	3 382	+3.4%	4 225	4 066	3 935
Trade receivables	1 292	1 541	-16.2%	955	1 146	1 077
Tax assets	267	542	-50.7%	288	336	334
Derivatives	72	7	×10.3	56	33	80
Other assets	252	383	-34.2%	340	417	403
Cash and cash equivalents	860	461	+86.6%	731	698	589
Current assets	**6 240**	**6 316**	**-1.2%**	**6 595**	**6 696**	**6 418**
Total assets	**33 442**	**36 764**	**-9.0%**	**37 891**	**38 411**	**37 098**

As at 31 December 2016, assets in the consolidated statement of financial position amounted to PLN 33 442 million and were lower as compared to 31 December 2015 by PLN 3 322 million.

Non-current assets as at 31 December 2016 amounted to PLN 27 202 million and were lower by PLN 3 246 million as compared to the end of 2015, mainly due to recognised impairment allowances on loans granted to joint ventures and mining and metallurgical intangible assets. Detailed specification of impairment losses and reversal of impairment losses may be found in note 4.4. of the consolidated financial statements.

The increase in mining and metallurgical property, plant and equipment was mainly due to the cash expenditures of individual segments, which in 2016 amounted in total to PLN 3 251 million as well as depreciation recognised in expenses by nature in the amount of PLN 1 718 million.

The decrease in current assets by PLN 76 million was mainly due to a trade receivables by PLN 249 million and tax assets by PLN 275 million, alongside an increase in cash and cash equivalents by PLN 399 million and of inventories of PLN 115 million.

Chart 20. Change in assets of the Group in 2016 (PLN million)

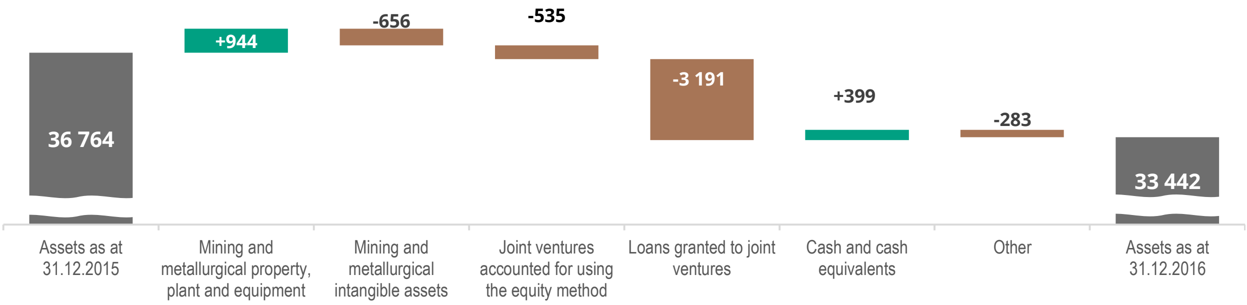


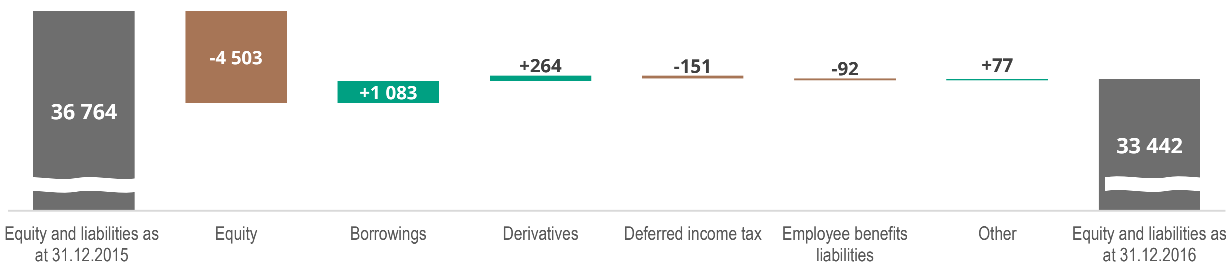
Table 9. Consolidated equity and liabilities (PLN million)

	31.12.2016	31.12.2015	Change (%)	30.09.2016	30.06.2016	31.03.2016
Share capital	2 000	2 000	-	2 000	2 000	2 000
Other reserves from measurement of financial instruments	(183)	(64)	×2.9	(75)	(64)	48
Accumulated other comprehensive income	855	1 868	-54.2%	1 869	1 917	1 704
Retained earnings	13 100	16 407	-20.2%	16 735	16 405	16 569
Equity attributable to shareholders of the Parent Entity	**15 772**	**20 211**	**-22.0%**	**20 529**	**20 258**	**20 321**
Equity attributable to non-controlling interest	**139**	**203**	**-31.5%**	**215**	**218**	**218**
Equity	**15 911**	**20 414**	**-22.1%**	**20 744**	**20 476**	**20 539**
Borrowings	6 539	4 870	+34.3%	6 469	5 816	4 412
Derivatives	256	159	+61.0%	125	211	154
Employee benefits liabilities	1 860	1 979	-6.0%	2 012	2 071	2 033
Provisions for decommissioning costs of mines and other facilities	1 487	1 466	+1.4%	1 554	1 583	1 585
Deferred tax liabilities	563	714	-21.1%	679	692	689
Other liabilities	960	965	-0.5%	910	953	919
Non-current liabilities	11 665	**10 153**	**+14.9%**	**11 749**	**11 326**	**9 792**
Borrowings	1 559	2 145	-27.3%	1 460	2 295	3 006
Derivatives	215	48	×4.5	59	86	34
Trade payables	1 433	1 418	+1.1%	1 234	1 199	1 265
Employee benefits liabilities	787	760	+3.6%	761	952	817
Tax liabilities	786	762	+3.1%	719	837	626
Other liabilities	1 086	1 064	+2.1%	1 165	1 240	1 019
Current liabilities	**5 866**	**6 197**	**-5.3%**	**5 398**	**6 609**	**6 767**
Non-current and current liabilities	**17 531**	**16 350**	**+7.2%**	**17 147**	**17 935**	**16 559**
Total equity and liabilities	**33 442**	**36 764**	**-9.0%**	**37 891**	**38 411**	**37 098**

Equity as at 31 December 2016 amounted to PLN 15 911 million and was lower by PLN 4 503 million than at the end of 2015, mainly due to the loss for 2016 in the amount of PLN 4 449 million and to the appropriation of profit for 2015 and its allocation as a dividend for the shareholders of the Parent Entity in the amount of PLN 300 million, and to an increase in other comprehensive income by PLN 239 million.

Liabilities of the KGHM Polska Miedź S.A. Group as at 31 December 2016 amounted to PLN 17 531 million and were higher by PLN 1 181 million as compared to the end of 2015, mainly due to an increase in borrowings by PLN 1 083 million and in liabilities due to derivatives by PLN 264 million alongside a decrease in deferred tax liabilities by PLN 151 million, and a decrease in employee benefits liabilities by PLN 92 million.

Chart 21. Change in equity and liabilities of the Group in 2016 (PLN million)



Contingent assets and liabilities

At the end of 2016, contingent assets amounted to PLN 554 million and related mainly to guarantees received by the Group with respect to the proper performance of agreements in the amount of PLN 252 million and promissory notes receivables in the amount of PLN 108 million.

At the end of 2016, contingent liabilities amounted to PLN 2 346 million and mainly concerned:

- guarantees in the amount of PLN 1 787 million, including:
  - a letter of credit in the amount of PLN 575 million, granted to secure the obligations due to a long-term contract for the supply of electricity to Sierra Gorda S.C.M.,
  - corporate guarantees in the amount of PLN 277 million, granted to secure the payments from leasing agreements entered into by Sierra Gorda S.C.M.,
  - a guarantee in the amount of PLN 96 million, securing the proper performance of future environmental obligations of the Parent Entity to restore the area, following the conclusion of operations of the Żelazny Most tailings storage facility,
  - a letter of credit in the amount of PLN 387 million, securing the proper performance of future environmental obligations of KGHM INTERNATIONAL LTD. to restore the area following the conclusion of operations of the Robinson mine, Podolsky mine and the Victoria project,
  - corporate guarantees in the amount of PLN 437 million, securing the repayment of short term working capital facilities of Sierra Gorda S.C.M.,
- promissory note granted securing the proper performance of future environmental obligations of KGHM Polska Miedź S.A. to restore the area, following the conclusion of operations of the Żelazny Most tailings storage facility – in the amount of PLN 224 million,

– liabilities due to inventions and the implementation agreements – in the amount of PLN 91 million, and
– other contingent liabilities in the amount of PLN 244 million.

Other liabilities not recognised in the statement of financial position in the amount of PLN 178 million, comprises of:
– liabilities towards local government entities due to expansion of the tailings storage facility by KGHM Polska Miedź S.A. in the amount of PLN 120 million, and
– liabilities due to operating leases in the amount of PLN 58 million.

6.5. Financing in the Group

The Parent Entity manages financial resources based on the approved "Financial Liquidity Management Policy". Its primary goal is to ensure continuous operations 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. The Financial Liquidity Committee supports the Management Board of the Parent Entity in carrying out this Policy.

Net debt in the Group

Total debt of the Group due to borrowings and debt instruments at the end of 2016 amounted to PLN 8 098 million and increased as compared to the end of 2015 by PLN 1 083 million (15%). This increase was due to an increase in the Parent Entity of liabilities due to borrowings drawn for financing domestic investment projects and mining projects in Chile and Canada.

The Group's cash and cash equivalents are of a short term nature. In 2016 these resources were held primarily in overdraft facilities under the Cash Pool services, which enables the Group to optimise interest income and costs.

As at 31 December 2016, out of total cash and cash equivalents in the amount of PLN 860 million, companies of the Group held PLN 848 million in bank accounts and as short term investments, which were classified as free and with restricted disposability cash and cash equivalents. Detailed structure of cash and cash equivalents is presented in note 8.5 of the separate and consolidated financial statements.

Table 10. Net debt structure of the Group (PLN million)

	31.12.16	31.12.15	Change (%)	30.09.16	30.06.16	31.03.16
Liabilities due to:	**8 098**	**7 015**	**+15.4%**	**7 929**	**8 111**	**7 418**
Bank loans*	6 391	5 798	+10.2%	6 351	6 877	6 248
Other loans	1 684	1 182	+42.5%	1 554	1 206	1 139
Other	23	35	-34.3%	24	28	31
Free cash and cash equivalents	**836**	**461**	**+81.3%**	**715**	**683**	**589**
Net debt	**7 262**	**6 554**	**+10.8%**	**7 214**	**7 428**	**6 829**

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

Table 11. Net debt structure of the Company (PLN million)

	31.12.16	31.12.15	Change (%)	30.09.16	30.06.16	31.03.16
Liabilities due to:	**7 932**	**6 822**	**+16.3%**	**7 758**	**7 928**	**7 230**
Bank loans*	6 253	5 646	+10.8%	6 209	6 728	6 097
Other loans	1 679	1 176	+42.8%	1 549	1 200	1 133
Free cash and cash equivalents	**481**	**156**	**×3.1**	**358**	**390**	**260**
Net debt	**7 451**	**6 666**	**+11.8%**	**7 400**	**7 538**	**6 970**

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

Source of financing in the Group

As at 31 December 2016, the Group held open lines of credit and loans with total available amount of PLN 15 784 million, out of which PLN 8 075 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. In 2016, the Parent Entity obtained permission of the syndicate banks group to extend the maturity of the credit facility by 1 year. The new maturity is 9 July 2021. The funds drawn were used to finance general corporate goals, including the continuation of investment projects and to refinance the debt of KGHM INTERNATIONAL LTD.
Investment loan from the European Investment Bank in the amount of PLN 2.0 billion with a financing period of 12 years	This financing agreement was signed 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 the reporting date the instalments had a remaining period of availability of 5 months. The deadline for repaying the instalments drawn is 30 October 2026 and 30 August 2028. 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 3.3 billion	Group companies have open lines of credit in the form of bilateral agreements in the total amount of PLN 3.3 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.

Detailed information on the above loans is presented in notes 8.4.3 of the financial statements.

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

In 2016, the Group made use of borrowings which were available from all of the above pillars.

In addition, the Parent Entity continued actions aimed at optimising the effectiveness of the process of managing working capital and therefore successively extended its payment periods for supplies or services rendered within new agreements, following the trends observed in the mining sector. At the same time, during 2016 a Supplier Financing Program was developed aimed at ensuring that the Parent Entity's suppliers receive payment prior to the contractual deadlines.

Debt position as at 31 December 2016

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

Table 12. Amount available and drawn by the Group (PLN million)

	Amount drawn as at 31.12.16	Amount drawn as at 31.12.15	Change (%)	Amount available as at 31.12.16	Utilisation (%)
Unsecured, revolving syndicated credit facility	4 809	3 126	+53.8%	10 448	46.0%
Loans	1 684	1 182	+42.5%	2 006	83.9%
Bilateral bank loans	1 609	2 705	-40.5%	3 330	48.3%
Total	**8 102**	**7 013**	**+15.5%**	**15 784**	**51.3%**

* *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 7 959 million as at 31 December 2016 were drawn in USD. The bank loans of other Group companies were drawn in PLN and EUR.

Evaluation of financial resources management

In 2016, the KGHM Polska Miedź S.A. Group was fully capable of meeting its obligations with respect to liabilities drawn from other entities. The cash and cash equivalents held by the Group along with the external financing obtained ensure that liquidity will be maintained and enables the achievement of investment goals.

As at 31 December 2016, the Group held PLN 836 million of free cash and cash equivalents and had open credit lines for total available financing of PLN 15 784 million, out of which PLN 8 075 million had been drawn. In 2016, the Group engaged in bank loans in the form of overdraft facilities, working capital facilities and investment loans.

With respect to the unsecured syndicate credit facility and the investment loan from the European Investment Bank, the Group is obliged to maintain financial covenants on determined levels.

Moreover, in order to maintain financial liquidity, the Group aims to maintain the net debt/EBITDA ratio at a level of up to 2.0 in the long term.

Table 13. Net debt / EBITDA of the Group

	31.12.16	31.12.15	Change (%)	30.09.16	30.06.16	31.03.16
Net debt / EBITDA*	**1.6**	**1.4**	**+14.3%**	**1.8**	**1.8**	**1.4**

** adjusted EBITDA for the year, excluding EBITDA of a joint venture Sierra Gorda S.C.M.*

Loans granted by Group companies

In 2016, KGHM Polska Miedź S.A. granted the following loans:

- to Quadra FNX Holdings Chile Limitada in the total amount of USD 169 million (PLN 708 million at the average exchange rate announced by the NBP as at 30 December 2016),
- to KGHM INTERNATIONAL LTD. in the total amount of USD 32 million (PLN 135 million, at the average exchange rate announced by the NBP as at 30 December 2016),
- to Future 1 Sp. z o.o. (the legal successor of company Fermat 1 S.a r.l.) in the total amount of USD 0.3 million (PLN 1.4 million at the average exchange rate announced by the NBP as at 30 December 2016).

Mostly these loans were designated to be used to finance of production and development international assets of Sierra Gorda S.C.M. and of the projects: Sierra Gorda Oxide, Victoria and Ajax. Interest on loans granted is based on fixed interest rates, with maturity of 31 December 2024. The amount of financing of individual projects in 2016 was presented in Section 2.3.

Moreover, in 2016 KGHM Polska Miedź S.A. granted a loan to the company Walcownia Metali Nieżelaznych „ŁABĘDY" S.A. in the amount of PLN 13.5 million with maturity of 30 June 2017. Interest on the loan is based on the variable interest rate WIBOR plus a margin.

in PLN millions, unless otherwise stated

The below table presents the major loans granted between Group companies together with balance of liabilities as at the end of 2016 (including accrued interest).

Table 14. Loans granted by companies of the Group as at 31 December 2016

Borrower	Year granted	Total loans granted	Total balance as at 31.12.2016		Maturity
Loans granted within the Group					
Loans granted by KGHM Polska Miedź S.A.					
„Energetyka" sp. z o.o.	2009	PLN 50 mn		PLN 15 mn	31.12.2019
Zagłębie Lubin S.A.	2014-2016	PLN 19 mn		PLN 19 mn	08.01.2023 31.12.2026
Walcownia Metali Nieżelaznych „ŁABĘDY"	2016	PLN 13 mn		PLN 13 mn	30.06.2017
KGHM INTERNATIONAL LTD.	2014-2016	USD 663 mn	USD 714 mn	PLN 2 985 mn	31.12.2019 31.12.2021 31.12.2024
Future 1 Sp. z o.o. (the legal successor of company Fermat 1 S.à r.l.)*	2013-2016	USD 874 mn	USD 973 mn	PLN 4 066 mn	31.12.2024
Quadra FNX Holdings Chile Limitada	2015-2016	USD 315 mn	USD 336 mn	PLN 1 403 mn	31.12.2024
Mineria y Exploraciones KGHM International SpA	2015	USD 3 mn	USD 4 mn	PLN 15 mn	31.12.2024
Loans granted by Future 1 Sp. z o.o. (the legal successor of Fermat 2 S.à r.l.)*					
KGHM INTERNATIONAL LTD.	2012	USD 1 873 mn	USD 2 311 mn	PLN 9 660 mn	5.03.2020
Loans granted by KGHM INTERNATIONAL LTD.					
Sociedad Contractual Minera Franke	2010-2012	USD 130 mn	USD 102 mn	PLN 427 mn	on demand
Malmbjerget Molybdenum A/S	2011	USD 20 mn	USD 5 mn	PLN 20 mn	on demand
Quadra FNX FFI S.à r.l. **	2012-2016	USD 1 790 mn	USD 2 064 mn	PLN 8 625 mn	on demand 29.11.2020
FNX Mining Company Inc.	2015	USD 140 mn	USD 78 mn	PLN 324 mn	on demand
Loans granted by FNX Mining Company Inc.					
Minera Exploraciones KGHM International SpA	2012	USD 55 mn	USD 60 mn	PLN 250 mn	on demand
KGHM INTERNATIONAL LTD.	2014	USD 200 mn	USD 117 mn	PLN 487 mn	on demand, no later than to 30.06.2025
Quadra FNX Holdings Chile Limitada	2015	USD 3 mn	USD 2 mn	PLN 8 mn	on demand
Loans granted by KGHM AJAX MINING INC.					
Sugarloaf Ranches Ltd.	2012	CAD 6 mn	CAD 3 mn	PLN 10 mn	on demand
Loans granted by ROBINSON HOLDINGS USA LTD.					
Carlota Copper Company	2016	USD 10 mn	USD 2 mn	USD 10 mn	on demand
Robinson Nevada Mining Company	2016	USD 200 mn	USD 139 mn	PLN 580 mn	on demand
Wendover Bulk Transhipment Company	2016	USD 10 mn	USD 2 mn	PLN 7 mn	on demand
Loans granted by QUADRA FNX HOLDINGS CHILE LIMITADA					
Minera y Exploraciones KGHM International SpA	2016	USD 4 mn	USD 5 mn	PLN 19 mn	2024
Loans granted to other entities					
Loans granted by Quadra FNX FFI S.à r.l.					
Sierra Gorda S.C.M.	2012	USD 1 700 mn	USD 2 083 mn	PLN 8 707 mn	2024
Loans granted by KGHM INTERNATIONAL LTD.					
Abacus Mining & Exploration Corporation	2015	CAD 11 mn	CAD 12 mn	PLN 38 mn	31.12.2020

** the trans-border merger of the company Future 1 Sp. z o.o. (acquirer) with the companies Fermat 1 S.à r.l., Fermat 2 S.à r.l. and Fermat 3 S.à r.l. (acquired companies) is described in detail in section 2.3*

*** on 29 November 2016 the indirect subsidiary of KGHM INTERNATIONAL LTD. granted a loan to its indirect subsidiary, Quadra FNX FFI S.à r.l., under arm's-length conditions in the amount of USD 501 million. This transaction was of a non-cash nature – a tripartite settlement took place through an institution for transfer and payment between the companies KGHMI Holdings Ltd., Quadra FNX FFI S.a r.l. and KGHM International Ltd. under mutual liabilities as a result of decreases in the share capital of KGHMI Holdings Ltd. and Quadra FNX FFI S.a r.l., as described in section 2.3*

The above table presents loans granted by the Company as well as by the Group. As at 31 December 2016, the balance of loans granted by the Company, after recognition of impairment allowance, amounted to PLN 7 330 million, and balance of loans granted by the Group, after recognition of impairment allowance, amounted to PLN 4 351 million.

Cash pool in the Group

In managing its financial liquidity, KGHM Polska Miedź S.A. utilises tools which support its efficiency. One of the basic instruments used by the Company is the cash pool management system - domestically in PLN, USD and EUR and abroad in USD. The cash pool system is aimed at optimising cash management, limiting interest costs, the effective financing of current needs in terms of working capital and supporting short term financial liquidity in the Group.

in PLN millions, unless otherwise stated

7. Operating results of KGHM Polska Miedź S.A.

7.1. Production

The main goals set by the Management Board in terms of production and occupational health and safety for 2016 were:

- optimal utilisation of the resource base and of the production capacity of the Company, and
- optimisation of Cu content in ore and concentrate.

The goals set required completion or continuation of the following actions:

in mining	– expanding mining operations within the Deep Głogów (Głogów Głęboki-Przemysłowy) area,
	– improvement of the ore selection technology, greater mining efficiency and improved occupational health and safety, by:
	  – adapting the geometry of mining systems to local geological and mining conditions,
	  – improving the efficiency of technological and active methods of limiting the threat of rock bursts and of other associated natural threats, and
	  – optimisation of barren rock management in mining areas (selective extraction, siting of rock, mechanical ore mining),
	– a greater scope of work with respect to identifying gas-related threats (hydrogen sulphide and methane) and the use of new technical solutions and means of prevention to counteract this threat,
	– opening of the new G-51 mining section in the Polkowice-Sieroszowice mine, organised on the basis of employees transferred from the Lubin mine,
	– continuation of work aimed at achieving a ventilation connection between the near-shaft zone of the SW-4 shaft and the E declines T/W-359 drifts as well as a ventilation connection between SG-2 shaft with the T/W-145 drifts in the salt deposit of the Polkowice-Sieroszowice mine, and
	– completion of the planned scope of mine development and access work using the commissioning system (which amounted to 47.5 thousand meters, or a decrease by 4% as compared to 49.5 thousand meters completed in 2015).

in ore processing	– adapting the production capacity of individual Concentrators Division Areas to the amount and quality of ore supplied, – maintaining the production of concentrates in an amount and quality necessary for optimal use of the production capacity of the furnace sections of the smelters and refineries, and – continuation at the Rudna Concentrator Division of separating the concentrate produced into two concentrates with varied organic carbon content.

in metallurgy	– continued modernisation of technology at the Głogów I Copper Smelter and Refinery as part of the Pyrometallurgy Modernisation Program,
	– advancement of the Metallurgy Development Program (MDP), with respect to:
	  – construction of a steam drier at the Głogów II Copper Smelter and Refinery,
	  – construction of a concentrate roasting installation at the Głogów I Copper Smelter and Refinery,
	  – modernisation of the Tank and Electrolite Decopperisation Hall at the Legnica Copper Smelter and Refinery, and
	  – adapting technical infrastructure to the change in metallurgical technology at the Głogów I Copper Smelter and Refinery,
	– increasing copper recovery in the flash furnace production line by implementing new technological solutions, such as improving the process of decopperising convertor slag,
	– increasing the availability of revolving–reverbaratory furnaces at the Lead Section, resulting in high lead recovery alongside lower Pb content in charge materials,
	– commencing sales of rhenium from production by the Legnica Copper Smelter and Refinery, and
	– improving the energy efficiency of the machinery park (ventilators at the OGSz).

in occupational health and safety	– advancement of the adopted Program to improve occupational safety in KGHM Polska Miedź S.A., – constant monitoring of occupational hazards and achievement of organisational and technical goals aimed at limiting occupational risks and accidents, and – continuous improvement of the occupational safety and hygiene management system by the Divisions of KGHM Polska Miedź S.A.

Mine production

In 2016 the Company extracted 32.0 million tonnes of ore (dry weight), which was 0.4 million tonnes more than in 2015. The increase in extraction in 2016 was due to intensified work on statutorily free days.

Average copper content in extracted ore amounted to 1.50% and was lower than that achieved in 2015 (1.52%) due to work being performed in areas of lower copper content. In the case of silver in ore, content was higher and amounted to 46.3 g/t.

As a result the amount of copper in extracted ore was higher than in 2015 by 1.3 thousand tonnes of Cu and amounted to 480.0 thousand tonnes. The volume of silver in ore increased by 74 tonnes and amounted to 1 482 tonnes.

In 2016, 31.7 million tonnes of ore (dry weight) were processed (or 243.6 thousand tonnes more than in 2015) and was the highest result in the history of the Concentrators Division. The lower amount of Cu in processed ore directly affected the amount of copper in concentrate and amounted to 424.3 thousand tonnes.

in PLN millions, unless otherwise stated

The production of concentrate (dry weight) increased as compared to 2015 by 7 thousand tonnes (an increase from 1 859 thousand tonnes to 1 866 thousand tonnes).

The amount of silver in concentrate was higher than the amount produced in 2015 by 4.6% (an increase from 1 209 tonnes to 1 265 tonnes).

Table 15. Mine production of KGHM Polska Miedź S.A.

	Unit	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Mined ore (wet weight)	mn t	33.6	32.2	+4.3%	8.1	8.5	8.6	8.4
Mined ore (dry weight)	mn t	32.0	31.6	+1.3%	7.7	8.1	8.2	8.0
Copper grade	%	1.50	1.52	-1.3%	1.49	1.51	1.50	1.50
Copper in ore	kt	480.0	478.7	+0.3%	115.2	121.6	123.6	119.7
Silver grade	g/t	46.3	44.6	+3.9%	46.8	46.7	46.4	45.5
Silver in ore	t	1 482	1 407	+5.3%	361	376	381	363
Production of concentrate (dry weight)	kt	1 866	1 859	+0.4%	454	483	472	457
Copper in concentrate	kt	424.3	425.9	-0.4%	101.7	109.7	108.1	104.8
Silver in concentrate	t	1 265	1 209	+4.6%	308	326	323	307

Metallurgical production

The production of electrolytic copper as compared to 2015 decreased by 38.7 thousand tonnes, or by 6.7%. The lower production of electrolytic copper was the result of the 3-month shutdown at the Głogów I Copper Smelter and Refinery, during which time production switched from shaft furnace technology to flash furnace technology. By supplementing own concentrate with purchased metal-bearing materials in the form of scrap, copper blister and imported concentrate, existing technological capacity was effectively used.

The production of other metallurgical products (silver, wire rod, OFE rod and round billets) is mainly dependent on market demand and the level of electrolytic copper production, and in the case of silver also depends on the amount of this metal in own concentrates processed and in purchased metal-bearing materials.

In comparison to 2015, the production of metallic gold increased by 837 kg, or by 31% and for the first time in KGHM's history reached the level of 3 540 kg. Metallic silver production was lower by 92 tonnes, closing the year at 1 191 tonnes.

Table 16. Metallurgical production of KGHM Polska Miedź S.A.

	Unit	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Electrolytic copper, including:	kt	535.6	574.3	-6.7%	135.0	137.7	134.9	128.1
- from own concentrates	kt	376.0	420.5	-10.6%	95.1	97.3	94.4	89.1
-from purchased metal-bearing materials	kt	159.6	153.8	+3.8%	39.9	40.3	40.5	39.0
Wire rod, OFE and CuAg rod	kt	267.4	263.7	+1.4%	55.1	73.3	72.3	66.7
Round billets	kt	13.0	12.7	+2.4%	3.1	3.6	2.8	3.4
Metallic silver	t	1 191	1 283	-7.2%	303	321	272	295
Metallic gold	koz t	113.8	86.9	+31.0%	29.6	30.7	27.3	26.2
Refined lead	kt	30.1	29.3	+2.7%	8.0	6.3	7.8	8.0

Main production goals

The main goals set by the Management Board in terms of production and occupational health and safety for 2017 are a continuation of actions taken in 2016, i.e.:

- optimal utilisation of the resource base and of the production capacity of the Company, and
- optimisation of Cu content in ore and concentrate.

Key actions in 2017 are:

in mining	– continuing access and development work to intersect the ore in the "Deep Głogów" area, – commencing work related to exploration of the "Radwanice-Gaworzyce" copper ore deposit in the "Dankowice" area, – continuing work related to prevention of gas-related threats (hydrogen sulphide and methane) and the use of new technical solutions and means of prevention to counteract this threat, – continuing work related to utilising the capacity of the input and output ventilation shafts in the interconnected mine ventilation system, by continuing work aimed at achieving a ventilation connection between the near-shaft zone of the SW-4 shaft and the E declines T/W-359 drifts as well as a ventilation connection between SG-2 shaft with the T/W-145 drifts in the salt deposit of the Polkowice-Sieroszowice mine, – limiting dilution of extracted ore, and – advancing the planned scope of mine development and access work using the commissioning system in 2017, set at 56.5 thousand meters, (an increase by 19% as compared to 2016).
in ore processing	– modernising the classification units, – improving the energy performance of the machinery park at the Concentrators Division, – optimising the concentration process in terms of decreasing the impact of changes in quantity-quality parameters by applying the FloVis system, – testing and application of new flotation reagent mixtures,

	– continued separation of concentrate produced into two products with varied calorific values at the Rudna Concentrator Division, – optimising control of the milling units based on visual product parameters and sound and vibration characteristics at the Concentrators Division (using the MillVis and ConVis systems), – modernising the carbonate removal installation in the flotation process of the Polkowice Concentrator Division; and – optimising the milling, classification and flotation process.
in metallurgy	– achieving of 80% of copper production from concentrate based on one-stage flash furnace technology, – minimising environmental impact – commencing actions directed towards improving the effectiveness of dedusting, balancing of hazardous substances and deciding on means to hermetically seal these processes to decrease fugitive emissions, – improving the recoverability and availability of metallurgical equipment, – implementing changes in technology to improve occupational health and safety conditions, intensifying the production of lead and copper and reducing environmental impact, and – executing tasks of the Metallurgy Development Program (MDP) associated with the construction of a steam drier at the Głogów II Copper Smelter and Refinery, a concentrate roasting installation and modernising the Tank and Electrolite Decopperisation Hall at the Legnica Copper Smelter and Refinery.
in occupational health and safety	– monitoring occupational hazards and achieving organisational, technical and investment goals aimed at limiting occupational risks and accidents, – advancing the adopted training program to optimise the knowledge and skills of KGHM Polska Miedź S.A.'s employees, – continued advancement of the adopted Program to improve occupational safety, – assessing the current state of occupational safety culture in the Divisions of KGHM Polska Miedź S.A. and developing solutions to achieve further improvement in this regard, and – optimising health care for KGHM Polska Miedź S.A.'s employees, in particular after accidents at work.

Pyrometallurgy Modernisation Program

On 15 October 2016, the newly-constructed flash furnace production line at the Głogów I Copper Smelter and Refinery was brought on line, as an element of the comprehensive Pyrometallurgy Modernisation Program. The main modifications and improvements under this project involved a change in concentrate casting technology in the shaft furnaces into modern flash furnace technology with a concentrate smelting capacity of 1 050 thousand tonnes annually. The goal of the project is to create a functionally-integrated, cost-effective and environmentally-friendly metallurgical structure in KGHM as well as technology which will ensure the capacity to continue processing both our own as well as imported concentrates to remain a functioning copper producer for at least the next several decades, among others by eliminating risk factors associated with shaft furnace technology.

The primary benefits of ceasing to smelt concentrates using shaft furnace technology are:

- avoidance of the risk of incurring further capital expenditures on additional necessary modernisations of the shaft furnace technology in order for it to conform to environmental laws,
- avoidance of the risk associated with obtaining black liquor, which is a by-product of the outdated, environmentally unfriendly process of producing cellulose via the sulfite method, and
- a decrease in the environmental impact of smelting by decreasing dust and gas emissions as well as decrease the amount of stored tailings.

The main benefits of this change in technology are:

- increased revenues for the KGHM Polska Miedź S.A. Group from the sale of additional amounts of silver, rhenium and refined lead,
- lower expenditures on replacing assets as well as lower maintenance and labour costs,
- the fulfilment of BAT standards,
- improved working conditions thanks to the elimination of hazardous shaft furnace technology worksites,
- improved process energy efficiency, and
- enhancement of the metallurgical competitiveness of KGHM.

7.2. Sales

KGHM Polska Miedź S.A. recorded a decrease in the sales volume of copper products by 46.8 thousand tonnes (8%) in 2016 as compared to 2015, as a result of lower electrolytic copper production. Due to the shutdown in the Głogów I Copper Smelter and Refinery related to change in production technology, the Company recorded an additional sale of 168.6 thousand tonnes of copper concentrate (35.2 thousand tonnes of Cu and 90.6 tonnes of Ag) in 2016. The products sales structure changed – there was an increase in sales volume of copper wire rod and OFE rod by 0.1% (298 tonnes) alongside a lower sale of cathodes by 16% (48 thousand tonnes).

Silver sales amounted to 1 189 tonnes and were lower by 4.5% (56 tonnes) as compared to 2015. Gold sales increased by 32% (27.0 thousand troy ounces) and amounted to 112.5 thousand troy ounces. The increase in gold sales was due to the 31% (26.9 thousand troy ounces) higher production of this metal as a result of processing purchased copper-bearing materials containing among others a high amount of gold.

Table 17. Sales volume of basic products of KGHM Polska Miedź S.A.

	Unit	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Cathodes and cathode parts	kt	246.4	294.4	-16.3%	80.5	56.7	58.5	50.6
Copper wire rod and OFE rod	kt	265.1	264.8	+0.1%	56.0	69.8	73.6	65.6
Other copper products	kt	13.1	12.2	+7.4%	2.8	3.5	3.4	3.3
Total copper and copper products	**kt**	**524.6**	**571.4**	**-8.2%**	**139.3**	**130.1**	**135.6**	**119.5**
Metallic silver	t	1 189	1 245	-4.5%	343	301	328	216
Metallic gold	koz t	112.5	85.5	+31.6%	27.6	33.2	24.1	27.6
Refined lead	kt	29.7	30.4	-2.3%	7.8	6.2	8.2	7.4
Copper concentrate (dry weight), including:	kt	168.6	-	×	132.2	36.4	-	-
– *payable copper*	*kt*	*35.2*	-	×	*27.1*	*8.0*	-	-
– *payable silver*	*t*	*90.6*	-	×	*72.0*	*18.7*	-	-

Total sales revenue of KGHM Polska Miedź S.A. in 2016 amounted to PLN 15 112 million and were lower by 5% than revenues achieved in 2015, mainly due to the fall in copper prices expressed in the Polish zloty and to a lower volume of copper sales.

The production shutdown at the Głogów I Copper Smelter and Refinery in 2016 led to a decrease in the production of electrolytic cathodes, which in turn resulted in a decrease in revenues from the sale of copper and copper products by 16% as compared to 2015. This decrease was partially offset by the sale of copper concentrate in the amount of approximately PLN 776 million.

Revenues from silver sales were higher by 8% as compared to their level in 2015, while revenues from gold sales were higher by approximately 49%. The increase in revenues from gold sales was both due to the increase in the price of this metal expressed in the Polish zloty as well as to an increase in sales and production volumes as compared to 2015.

The value of sales revenue in 2016 reflects the positive result from the settlement of hedging instruments in the amount of PLN 3 million (in 2015: PLN 482 million).

Table 18. Sales revenue of KGHM Polska Miedź S.A. (PLN million)

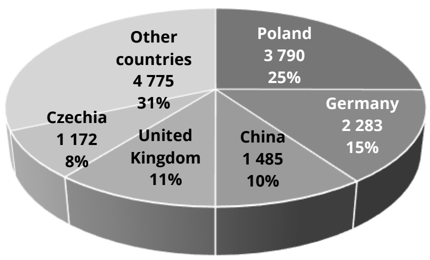
	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Cathodes and cathode parts	4 937	6 255	-21.1%	1 811	1 085	1 096	944
Copper wire rod and OFE rod	5 293	5 982	-11.5%	1 234	1 364	1 423	1 271
Other copper products	260	261	-0.4%	63	68	66	64
Total copper and copper products	**10 490**	**12 498**	**-16.1%**	**3 108**	**2 517**	**2 585**	**2 280**
Metallic silver	2 596	2 394	+8.4%	771	739	677	410
Metallic gold	556	373	+49.1%	136	172	120	128
Refined lead	230	219	+5.0%	69	48	59	54
Copper concentrate	776	-	x	616	160	-	-
Other goods and services	316	306	+3.3%	89	81	72	74
Merchandise and materials	148	149	-0.7%	40	27	48	34
Total sales revenue	**15 112**	**15 939**	**-5.2%**	**4 828**	**3 744**	**3 561**	**2 979**

Geographical breakdown of sales

In 2016 the largest proportion of KGHM Polska Miedź S.A.'s sales revenue (25%) was from the Polish market. The largest remaining recipients of the products, merchandise and services offered by the Company were: Germany, China, United Kingdom and Czechia.

The Company's revenues from sales to customers outside the Company is broken down geographically in the following table. Sales revenue include the result from the settlement of hedging instruments.

Chart 22. Sales revenue breakdown of KGHM Polska Miedź S.A. by market (PLN million)



7.3. Costs of KGHM Polska Miedź S.A.

The Company's cost of sales, selling costs and administrative expenses (cost of products, merchandise and materials sold plus selling costs and administrative expenses) in 2016 amounted to PLN 12 517 million and were 1% lower as compared to 2015, mainly due to the lower costs of the minerals extraction tax.

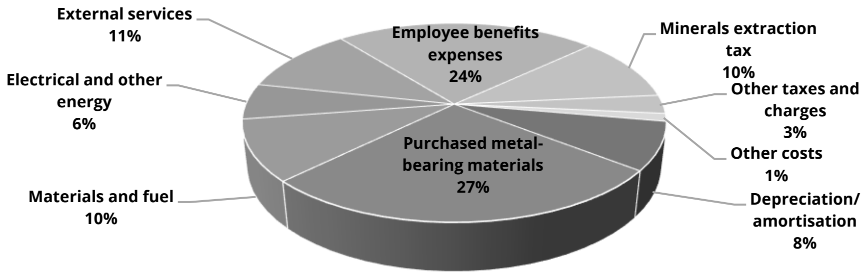
Expenses by nature in 2016 were at the level recorded in 2015 and had a similar structure.

Table 19. Expenses by nature of KGHM Polska Miedź S.A. (PLN million)

	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Depreciation/amortisation of property, plant and equipment and intangible assets	993	910	+9.1%	257	246	247	243
Employee benefits expenses	3 023	2 992	+1.0%	805	760	760	698
Materials and energy, including:	5 482	5 481	+0.02%	1 487	1 178	1 416	1 400
- purchased metal-bearing materials	3 469	3 352	+3.5%	975	706	903	885
- electrical and other energy	745	735	+1.4%	186	172	190	198
External services	1 392	1 420	-2.0%	390	324	349	329
Taxes and charges, including:	1 725	1 824	-5.4%	486	429	420	390
- minerals extraction tax	1 338	1 439	-7.0%	396	335	314	293
Other costs	161	155	+3.9%	54	62	25	19
Total expenses by nature	**12 776**	**12 782**	**-0.05%**	**3 479**	**2 999**	**3 219**	**3 079**

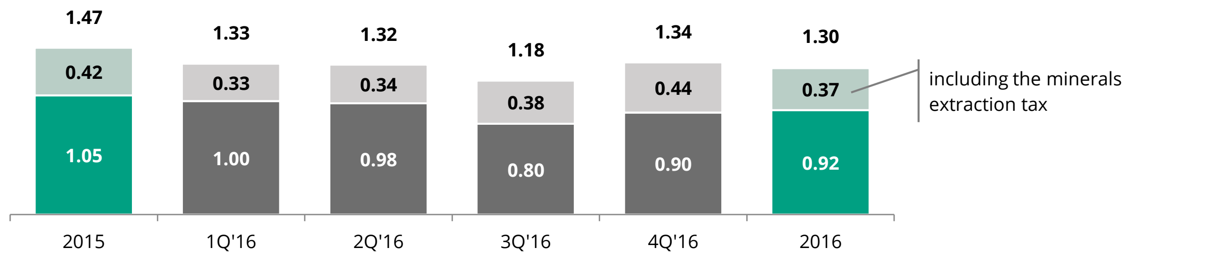
The structure of expenses by nature in 2016 is presented below. As compared to the prior year, they were at a very similar level.

Chart 23. Structure of expenses by nature in 2016



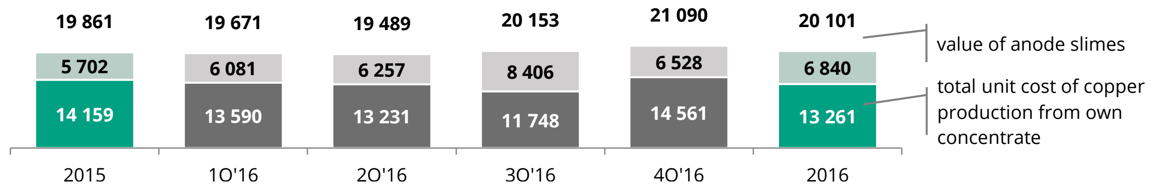
The Company's operating costs are decisively impacted by the costs of electrolytic copper production (prior to decrease by the value of by-products), whose share is about 88%.

Chart 24. Cost of producing copper in concentrate – C1 (USD/lb)



Cost of producing copper in concentrate - C1 *(unit cash cost of producing payable copper in concentrate, reflecting costs of ore extraction and processing, transport costs, the minerals extraction tax, administrative costs during the mining stage, and smelter treatment and refining charges (TC/RC), less the value of by-products)* was as follows: in 2015: 1.47 USD/lb and in 2016: 1.30 USD/lb. C1 cost was impacted by a weakening in the PLN as compared to the USD (C1 cost achieved in 2016, using the USD/PLN exchange rate and metals prices from 2015, would have amounted to 1.50 USD/lb) and higher content of silver in own concentrate by 4.6%.

Chart 25. Pre-precious metals credit unit cost of electrolytic copper production – from own concentrate (PLN/t)



The pre-precious metals credit unit cost of copper production from own concentrate *(unit cost prior to decrease by the value of anode slimes containing among others silver and gold)* was higher than that recorded in 2015 by 240 PLN/t (1.2%), alongside a lower minerals extraction tax ((410) PLN/t). The higher cost was due to the lower production of electrolytic copper from own concentrate by 44.5 thousand tonnes of copper (-11%) due to the shutdown at the Głogów I Copper Smelter and Refinery in the third quarter of 2016.

7.4. Financial results of KGHM Polska Miedź S.A.

Statement of profit or loss

The Company recorded loss for 2016 in the amount of PLN (4 085) million, which resulted from impairment losses on assets in the amount of PLN 6 256 million.

Table 20. Basic items of the statement of profit or loss of KGHM Polska Miedź S.A. (PLN million)

	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Sales revenue	15 112	15 939	-5.2%	4 828	3 744	3 561	2 979
- including adjustment to revenues due to hedging transactions	3	482	-99.4%	(9)	6	10	(4)
Cost of sales, selling costs and administrative expenses	(12 517)	(12 655)	-1.1%	(3 927)	(3 062)	(3 008)	(2 520)
- including the minerals extraction tax	(1 325)	(1 442)	-8.1%	(460)	(314)	(274)	(276)
Profit on sales (EBIT)	**2 595**	**3 284**	**-21.0%**	**901**	**682**	**553**	**459**
Other operating income / (costs)	**(5 429)**	**(5 064)**	**+7.2%**	**(5 509)**	**(81)**	**323**	**(162)**
- impairment losses on assets	(6 197)	(5 268)	+17.6%	(6 140)	-	-	(57)
- foreign exchange gains/(losses)	482	159	×3.0	645	(256)	399	(306)
- interest on loans granted	376	226	+66.4%	122	84	91	79
- measurement and realisation of derivatives	(76)	(202)	-62.4%	(102)	82	(186)	130
- other	(14)	21	X	(34)	9	19	(8)
Finance income / (costs)	**(541)**	**(158)**	**×3.4**	**(599)**	**199**	**(376)**	**235**
- foreign exchange gains/(losses)	(398)	(29)	×13.7	(576)	246	(344)	276
- interest on borrowings	(76)	(31)	×2.5	(33)	(16)	(15)	(12)
- fees and commissions on bank and other loans	(45)	(48)	-6.3%	(8)	(20)	(7)	(10)
- measurement of derivatives	17	(12)	×	28	(1)	(2)	(8)
- other	(39)	(38)	+2.6%	(10)	(10)	(8)	(11)
Profit / (loss) before taxation	**(3 375)**	**(1 938)**	**+74,1%**	**(5 207)**	**800**	**500**	**532**
Income tax	(710)	(850)	-16,5%	(160)	(186)	(202)	(162)
Profit / (loss) for the period	**(4 085)**	**(2 788)**	**+46,5%**	**(5 367)**	**614**	**298**	**370**
Depreciation/amortisation recognised in profit or loss	956	875	+9.3%	256	249	237	214
EBITDA* (EBIT + depreciation/amortisation)	3 551	4 159	-14.6%	1 157	931	790	673
Adjusted EBITDA*	**3 551**	**4 163**	**-14.7%**	**1 157**	**931**	**790**	**673**

** 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)*

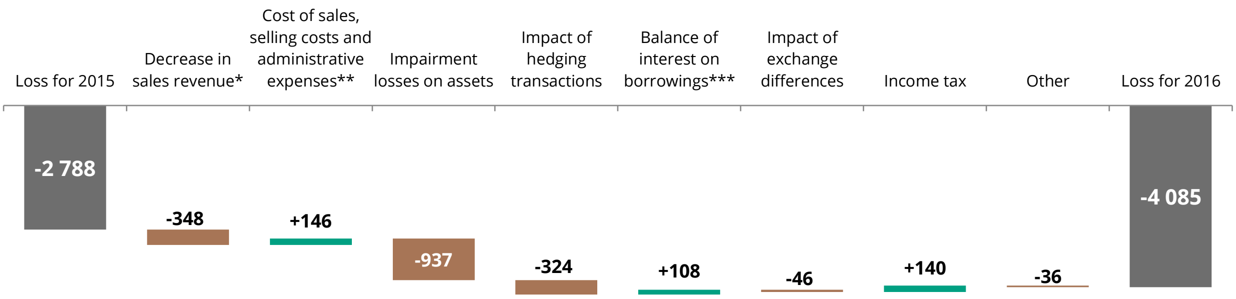
Table 21. Key factors impacting the change in financial result of KGHM Polska Miedź S.A.

Item	Impact on change of profit or loss (PLN million)	Description
Lower sales revenue by PLN 348 million (excluding the impact of hedging transactions)	(975)	A decrease in revenues due to a lower copper sales (-46.7 thousand tonnes, -8%) and silver sales volume (-57 tonnes, -5%) alongside a higher volume of gold sales (27.0 thousand troy ounces, +32%).
	(794)	A decrease in revenues due to lower copper price (-632 USD/t, -12%) alongside an increase in silver (+1.46 USD/oz t, +9%) and gold prices (+90 USD/oz t, +8%).
	+776	Revenues from the sale of copper concentrate (169 thousand tonnes of dry weight) from inventories created due to the shutdown at the Głogów I Copper Smelter and Refinery related to a change in production technology.
	+624	An increase in revenues from the sale of basic products (Cu, Ag, Au) due to a more favourable average annual USD/PLN exchange rate (from 3.77 to 3.94 USD/PLN).
	+21	An increase in revenues from the sale of merchandise and other goods and services, including refined lead (+PLN 11 million).
A decrease in cost of sales, selling costs and administrative expenses* by PLN 146 million (excluding impairment losses of PLN (8) million)	+117	A decrease in the minerals extraction tax from PLN 1 442 million in 2015 to PLN 1 325 million in 2016, due to lower copper prices expressed in PLN.
	+29	A decrease in other costs, mainly due to an increase in the value of half-finished products inventories and work in progress (a decrease of costs by PLN 130 million) alongside an increase in the cost of purchased metal-bearing materials consumed by PLN 116 million.

Impairment losses on assets (PLN (937) million) The detailed information concerning recognised impairment losses is presented in Part 3 of the Financial Statements.	(1 130)	An impairment allowance on loans granted to subsidiaries (in the KGHM INTERNATIONAL LTD. Group) decreasing the result for 2016.
	+205	A decrease in the impairment losses on available-for-sale assets – shares of Tauron Polska Energia S.A. from PLN (262) million to PLN (57) million).
	(76)	An increase in the impairment losses on fixed assets under construction and intangible assets not yet available for use. In 2016, impairment losses mainly relates to the following projects: „Exploration and economic assessment of copper mineralisation in the Synklina Grodziecka region" (PLN (118) million) and „Production of synthetic gas through the underground gasification of brown coal in the Copper Belt (LGOM)" (PLN (18) million).
	+72	A decrease in the impairment loss on shares in subsidiaries from PLN (4 928) million in 2015 to PLN (4 856) million in 2016. Impairment losses in both periods mainly relate to shares in a holding company owning indirectly 100% of shares in the KGHM INTERNATIONAL LTD.
	(12)	An increase in the write-down of inventories.
	+4	An impairment loss on property, plant and equipment and intangible assets in 2015 – recognised in cost of products, merchandise and materials sold.
Impact of hedging transactions (PLN (324) million)	(479)	A change in adjustments to revenues due to settlement of hedging transactions from PLN 482 million to PLN 3 million.
	+154	A change in the result due to the measurement of derivatives from PLN (195) million to PLN (41) million.
	+1	A change in the result due to the realisation of derivatives from PLN (19) million to PLN (18) million.
A change in the balance of income and costs due to interest on borrowings, including fees and commissions (+PLN 108 million)	+150	An increase in income due to interest on loans granted.
	(45)	Higher interest costs on borrowings.
	+3	A decrease in costs of fees and commissions on bank loans drawn.
Impact of exchange differences (PLN (46) million)	+323	A change in the result due to exchange differences from measurement of assets and liabilities other than borrowings - in other operating activities.
	(369)	A change in the result due to exchange differences on measurement of borrowings (presented in finance costs).
A decrease in income tax	+140	The lower tax results from the lower tax base.

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

Chart 26. Change in profit or loss for the period of KGHM Polska Miedź S.A. (PLN million)



** excluding adjustments due to hedging transactions*
*** excluding impairment losses recognised in cost of sales, selling costs and administrative expenses*
**** including fees and commissions*

Cash flows

Table 22. Statement of cash flows of KGHM Polska Miedź S.A. (PLN million)

	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Profit / (loss) before taxation	(3 375)	(1 938)	+74.1%	(5 207)	800	500	532
Depreciation/amortisation recognised in profit or loss	956	875	+9.3%	256	249	237	214
Interest and other costs of borrowings	128	85	+50.6%	43	38	24	23
Impairment losses on non-current assets	6 197	5 272	+17.5%	6 127	5	8	57
Other adjustments to profit or loss before income tax	(193)	(430)	-55.1%	238	(204)	213	(440)
Exclusions of income and costs, total, including:	7 088	5 802	+22.2%	6 664	88	482	(146)
Income tax paid	(468)	(880)	-46.8%	(117)	(204)	(72)	(75)
Change in working capital	352	295	+19.3%	394	137	(306)	127
Net cash generated from operating activities	**3 597**	**3 279**	**+9.7%**	**1 734**	**821**	**604**	**438**
Expenditures on mining and metallurgical assets	(2 585)	(2 442)	+5.9%	(590)	(573)	(610)	(812)
Expenditures on other property, plant and equipment and intangible assets	(19)	(39)	-51.3%	(7)	(3)	(1)	(8)
Loans granted	(834)	(4 245)	-80.4%	(377)	(132)	(127)	(198)
Other expenses	(85)	(196)	-56.6%	20	(53)	(13)	(39)
Proceeds	33	50	-34.0%	8	14	7	4
Net cash used in investing activities	**(3 490)**	**(6 872)**	**-49.2%**	**(946)**	**(747)**	**(744)**	**(1 053)**
Proceeds from borrowings	3 198	4 956	-35.5%	369	915	870	1 044
Repayments of borrowings	(2 601)	(375)	×6.9	(870)	(813)	(593)	(325)
Dividends paid	(300)	(800)	-62.5%	(150)	(150)	-	-
Interest paid and other costs of borrowings	(119)	(75)	+58.7%	(39)	(37)	(21)	(22)
Other	8	(23)	×	-	-	8	-
Net cash generated from/(used in) financing activities	**186**	**3 683**	**-94.9%**	**(690)**	**(85)**	**264**	**697**
Total net cash flows	**293**	**90**	**×3.3**	**98**	**(11)**	**124**	**82**
Cash and cash equivalents at beginning of the period	158	85	+85.9%	359	392	261	158
Exchange gains/(losses) on cash and cash equivalents	31	(17)	×	25	(22)	7	21
Cash and cash equivalents at end of the period	**482**	**158**	**×3.1**	**482**	**359**	**392**	**261**

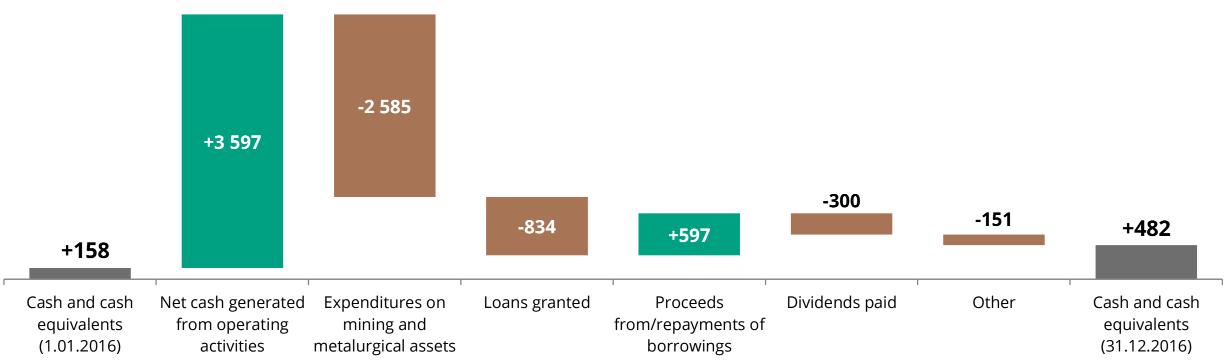
Net cash generated from operating activities in 2016 amounted to +PLN 3 597 million and mainly comprised a pre-tax loss in the amount of -PLN 3 375 million adjusted by depreciation/amortisation in the amount of +PLN 956 million, an impairment losses on non-current assets of +PLN 6 197 million, income tax paid in the amount of -PLN 468 million and a change in working capital in the amount of +PLN 352 million.

Net cash used in investing activities in 2016 amounted to -PLN 3 490 million and mainly comprised net expenditures on mining and metallurgical property, plant and equipment and intangible assets in the amount of -PLN 2 585 million and loans granted of -PLN 834 million.

Net cash generated from financing activities in 2016 amounted to +PLN 186 million and mainly comprised proceeds from borrowings in the amount of +PLN 3 198 million and repayments of borrowings in the amount of -PLN 2 601 million, dividends paid to shareholders in the amount of -PLN 300 million and interest paid and other costs of borrowings in the amount of -PLN 119 million.

After reflecting exchange gains on cash, balance of cash in 2016 increased by PLN 324 million and amounts to PLN 482 million.

Chart 27. Statement of cash flows of KGHM Polska Miedź S.A. (PLN million)



Assets and equity and liabilities

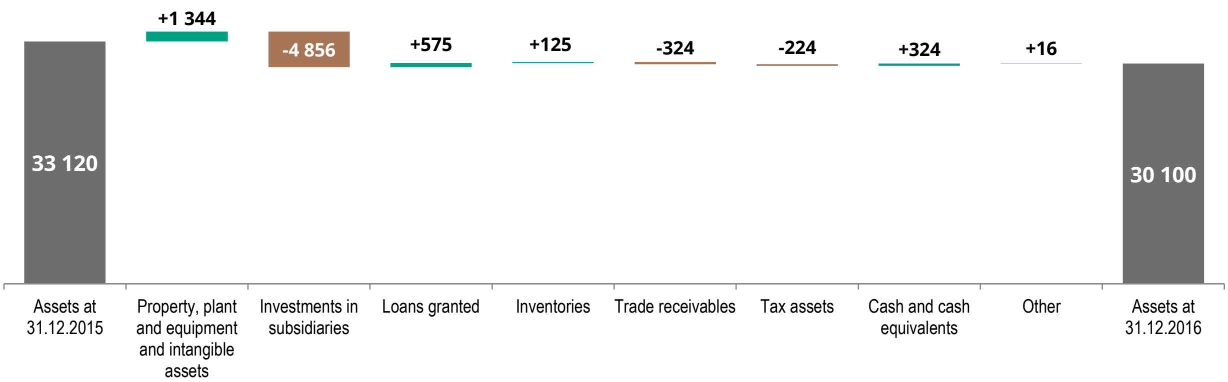
Table 23. Assets of KGHM Polska Miedź S.A. (PLN million)

	31.12.16	31.12.15	Change (%)	30.09.16	30.06.16	31.03.16
Mining and metallurgical property, plant and equipment	14 379	12 845	+11.9%	13 893	13 602	13 219
Mining and metallurgical intangible assets	507	541	-6.3%	601	564	563
Other property, plant and equipment	77	233	-67.0%	226	225	228
Other intangible assets	24	24	-	20	22	22
Investments in subsidiaries and joint ventures	2 002	6 858	-70.8%	6 858	6 863	6 859
Financial instruments, total, including:	8 443	7 737	+9.1%	8 265	8 331	7 817
- Loans granted	7 310	6 750	+8.3%	7 362	7 375	6 766
- Derivatives	237	117	×2.0	57	67	132
- Other financial instruments measured at fair value	576	579	-0.5%	527	571	602
- Other financial assets	320	291	+10.0%	319	318	317
Other non-financial assets	22	27	-18.5%	23	20	19
Deferred tax assets	140	141	-0.7%	108	197	145
Non-current assets	**25 594**	**28 406**	**-9.9%**	**29 994**	**29 824**	**28 872**
Inventories	2 726	2 601	+4.8%	3 408	3 261	3 156
Trade receivables	676	1 000	-32.4%	450	629	511
Tax assets	188	412	-54.4%	204	256	264
Derivatives	72	6	×12.0	56	33	80
Other assets	362	537	-32.6%	595	618	680
Cash and cash equivalents	482	158	×3.1	359	392	261
Current assets	**4 506**	**4 714**	**-4.4%**	**5 072**	**5 189**	**4 952**
Total assets	**30 100**	**33 120**	**-9.1%**	**35 066**	**35 013**	**33 824**

As at 31 December 2016, total assets amounted to PLN 30 100 million, or a decrease as compared to the end of 2015 by PLN 3 020 million, or by 9%, mainly due to:

- a decrease in **investments in subsidiaries and joint ventures** (PLN (4 856) million) due to impairment losses on shares in subsidiaries: Future 1 Sp. z o.o. (PLN (4 770) million) and Metraco S.A. (PLN (86) million). Detailed information on the impairment tests conducted may be found in Part 3 of the financial statements of KGHM Polska Miedź S.A.,
- an increase in **property, plant and equipment and intangible assets** by PLN 1 344 million from investments made - expenditures on property, plant and equipment and intangible assets in 2016 amounted to PLN 2 630 million, and
- an increase in **receivables due to loans granted** by PLN 575 million, mainly due to: cash transferred of +PLN 834 million; exchange differences of +PLN 506 million and accrued interest of +PLN 374 million alongside an impairment allowance on a loan in the amount of PLN (1 130) million.

Chart 28. Change in assets of KGHM Polska Miedź S.A. in 2016 r. (PLN million)



The carrying amounts of equity and liabilities as at 31 December 2016 are presented below.

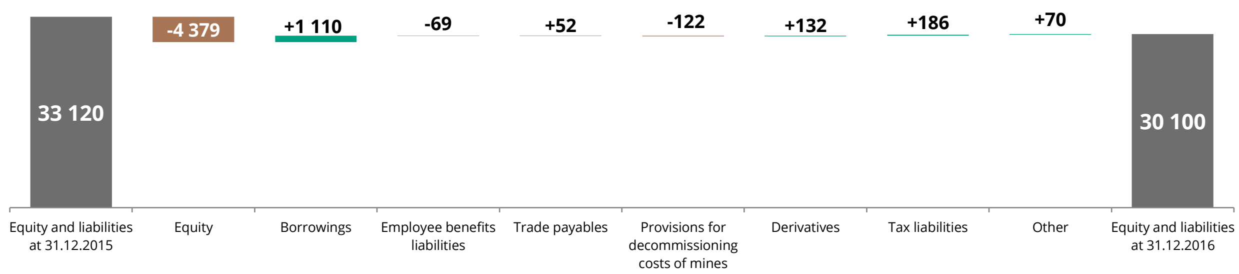
Table 24. Equity and liabilities of KGHM Polska Miedź S.A. (PLN million)

	31.12.16	31.12.15	Change (%)	30.09.16	30.06.16	31.03.16
Share capital	2 000	2 000	-	2 000	2 000	2 000
Other reserves from measurement of financial instruments	(196)	(103)	+90.3%	(88)	(83)	9
Accumulated other comprehensive income	(243)	(342)	-28.9%	(323)	(409)	(382)
Retained earnings	14 339	18 724	-23.4%	19 706	19 092	19 094
Equity	**15 900**	**20 279**	**-21.6%**	**21 295**	**20 600**	**20 721**
Borrowings	6 423	4 724	+36.0%	6 339	5 678	4 268
Derivatives	149	158	-5.7%	37	108	88
Employee benefits liabilities	1 683	1 803	-6.7%	1 818	1 879	1 840
Provisions for decommissioning costs of mines and other technological facilities	761	873	-12.8%	889	917	951
Other liabilities	229	198	+15.7%	208	191	192
Non-current liabilities	**9 245**	**7 756**	**+19.2%**	**9 291**	**8 773**	**7 339**
Borrowings	1 509	2 098	-28.1%	1 419	2 250	2 962
Derivatives	189	48	×3.9	39	75	25
Trade payables	1 372	1 318	+4.1%	1 271	1 151	1 192
Employee benefits liabilities	628	577	+8.8%	588	769	640
Tax liabilities	636	450	+41.3%	418	542	341
Other liabilities	621	594	+4.5%	745	853	604
Current liabilities	**4 955**	**5 085**	**-2.6%**	**4 480**	**5 640**	**5 764**
Non-current and current liabilities	**14 200**	**12 841**	**+10.6%**	**13 771**	**14 413**	**13 103**
Total equity and liabilities	**30 100**	**33 120**	**-9.1%**	**35 066**	**35 013**	**33 824**

There was a decrease in equity and liabilities mainly due to:

- a decrease in **equity** by PLN 4 379 million, including with respect to the loss for 2016 in the amount of PLN (4 085) million,
- an increase in **borrowings** by PLN 1 110 million, due to net proceeds on borrowings (PLN 597 million), exchange rate differences on borrowings in foreign currencies (PLN 398 million), exchange rate differences designated as a hedging instrument (PLN 83 million) and other non-cash changes (PLN 32 million), and
- an increase in **tax liabilities** by PLN 186 million.

Chart 29. Change in equity and liabilities of KGHM Polska Miedź S.A. in 2016 (PLN million)



Significant off-balance sheet items

At the end of 2016, contingent assets amounted to PLN 582 million and related mainly to guarantees received by the Company with respect to the proper performance of agreements in the amount of PLN 160 million and promissory notes receivables in the amount of PLN 268 million.

At the end of 2016, contingent liabilities amounted to PLN 2 260 million and mainly concerned:

- guarantees in the amount of PLN 1 773 million, including:
  - a letter of credit in the amount of PLN 575 million, granted to secure the obligations due to a long-term contract for the supply of electricity to Sierra Gorda S.C.M.,
  - corporate guarantees in the amount of PLN 277 million, granted to secure payments from leasing agreements entered into by Sierra Gorda S.C.M.,
  - a guarantee in the amount of PLN 96 million, securing the proper performance of future environmental obligations of KGHM Polska Miedź S.A. to restore the area, following the conclusion of operations of the Żelazny Most tailings storage facility,
  - a letter of credit in the amount of PLN 387 million, securing the proper performance of future environmental obligations of KGHM INTERNATIONAL LTD. to restore the area following the conclusion of operations of the Robinson mine, Podolsky mine, the Victoria project and obligations related to the proper performance of concluded agreements, and
  - corporate guarantees in the amount of PLN 437 million, securing the repayment of short term working capital facilities of Sierra Gorda S.C.M.,

- promissory notes securing the proper performance of future environmental obligations of KGHM Polska Miedź S.A. to restore the area, following the conclusion of operations of the Żelazny Most tailings storage facility – in the amount of PLN 224 million,
- liabilities due to inventions and the implementation agreements – in the amount of PLN 91 million, and
- other contingent liabilities in the amount of PLN 172 million.

Other liabilities not recognised in the statement of financial position in the amount of PLN 126 million, comprised of:

- liabilities towards local government entities due to expansion of the tailings storage facility by KGHM Polska Miedź S.A. in the amount of PLN 120 million, and
- liabilities due to operating leases in the amount of PLN 6 million.

7.5. 2016 targets versus achievements and expected economic situation of the Company in 2017

KGHM Polska Miedź S.A. did not publish a forecast of financial results for 2016. In its annual report for 2015 the Company announced its targets in the 2016 Budget. The achievement of targets for 2016 and expected economic situation of the Company in 2017 are presented in the table below.

Table 25. 2016 targets versus achievements and expected economic situation of the Company in 2017

	Unit	2016	Budget 2016	Execution (%)	Budget 2017	Change (%)
Production of copper in concentrate	kt	424.3	426.8	99.4%	425.3	+0.2%
Production of silver in concentrate	t	1 265	1 188	106.5%	1 221	-3.5%
Electrolytic copper production, including:	kt	535.6	525.4	101.9%	549.2	+2.5%
- from own concentrate	kt	376.0	375.6	100.1%	400.9	+6.6%
- from purchased metal-bearing materials	kt	159.6	149.8	106.5%	148.3	-7.1%
Metallic silver production	t	1 191	1 010	117.9%	1 203	+1.0%
Sales volume of copper*	kt	559.8	575.7	97.2%	535.7	-4.3%
Sales volume of silver*	t	1 280	1 134	112.9%	1 155	-9.8%
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate	PLN/t	20 101	21 030	95.6%	21 269	+5.8%
Total unit cost of electrolytic copper production from own concentrate	PLN/t	13 261	16 345	81.1%	14 590	+10.0%
C1 cash cost of producing copper in concentrate	USD/lb	1.30	1.45	89.7%	1.37	+5%
Capital expenditures**	PLN mn	2 624	2 530	103.7%	2 090	-20.4%
Equity investments ***	PLN mn	842	1 488	56.6%	1 022	+21.4%

** Together with the sale of copper and silver in concentrate*

*** Excluding expenditures on development work - uncompleted*

**** Acquisition of shares and investment certificates of subsidiaries and loans granted and acquisition of available-for-sale financial assets*

2016 targets versus achievements

In 2016 the production of electrolytic copper achieved by the Company was higher by 10 thousand tonnes (+2%) than the target in the 2016 Budget. The higher production was mainly the result of purchased metal-bearing materials. Silver production was also finally higher by 181 tonnes (+18%) than the target, mainly due to the higher by 6% silver content in ore than the target.

Achievement of the planned sales volume to a large extent reflects the production results – copper sales were lower by 3% than planned, while silver sales were higher by 13%.

The unit cost of electrolytic copper production from own concentrate was lower, mainly due to slightly higher production and to lower than planned expenses by nature. At the same time the C1 cash cost of producing copper in concentrate was lower than planned, mainly due to a higher silver content in own concentrate.

In 2016, the Company's capital expenditures were at a level similar to that planned in the Budget. In 2016, the Company's equity investments were substantially below the level assumed in the Budget (-43%), mainly due to the lower level of support provided to the operating activities of the Sierra Gorda S.C.M. mine as well as to the mining assets of KGHM INTERNATIONAL LTD.

Expected economic situation of the Company in 2017

In 2017 the Company expects that mined copper production will be similar to the prior year's level, while production of silver in concentrate will be lower by 4%. We expect an increase in metallurgical production – electrolytic copper by 3% and silver by 1%, as a result of the relatively low level of production in 2016 caused by the change in production technology at the Głogów Smelter and Refinery.

The planned volume of copper and silver sales is lower than that achieved in 2016 respectively by 4% and 10% due to the need deliver of 15 thousand tonnes of cathodes and 47 tonnes of silver to customers under purchased concentrate processing services. The lower production of these products was partially offset by the planned restriction at the end of 2017 of the level of finished copper products to 15 thousand tonnes of Cu, i.e. by 7 thousand tonnes as compared to the end of 2016.

The cost of producing electrolytic copper increases mainly due to a higher minerals extraction tax and higher costs of labour, depreciation/amortisation, production materials and external services.

The Company expects a decrease in capital expenditures in 2017 by 20% due to a decrease in expenditures on development (mainly in respect of the Pyrometallurgy Modernisation Program). Planned equity expenditures in 2017 are mainly related to the continued financial support of the international companies (KGHMI INTERNATIONAL LTD. and Sierra Gorda S.C.M.).

7.6. Capital expenditures

In 2016, capital expenditures amounted to PLN 2 624 million and were lower than in the previous year by 1%. Together with expenditures incurred on uncompleted development work, capital expenditures amounted to PLN 2 630 million.

Table 26. Structure of expenditures on property, plant and equipment and intangible assets of KGHM Polska Miedź S.A. (in PLN million)

	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Mining	1 164	1 479	-21.3%	353	291	285	235
Metallurgy	1 435	1 115	+28.7%	413	310	399	313
Other activities	25	61	-59.0%	14	6	3	2
Development work - uncompleted	6	18	-66.7%	2	3	1	-
Total	**2 630**	**2 673**	**-1.6%**	**782**	**610**	**688**	**550**
including cost of debt	90	57	+57.9%	7	33	29	21

Investment activities were aimed at carrying out projects related to the replacement of equipment and maintaining mine production, as well as development projects.

Projects related to the replacement of equipment - aimed at maintaining production equipment in an unchanged condition, represent 18% of total expenditures incurred.

Projects related to maintaining mine production – aimed at maintaining mine production on the level set in approved Production Plan (development of infrastructure to match mine advancement) represent 12% of total expenditures incurred.

Development projects - aimed at increasing production volume of the core business, implementation of technical and technological activities optimizing use of existing infrastructure, maintaining production costs and adaptation of the company's operations to changes in standards, laws and regulations (conformatory projects and those related to environmental protection) represent 70% of total expenditures incurred.

Table 27. Major objectives and investments of KGHM Polska Miedź S.A. in 2016

Replacement (PLN 483 million)	
Mining machinery replacement	With respect to modernisation and replacement of mining machinery, 149 pieces of mining equipment were purchased. Expenditures incurred in 2016: PLN 160 million.
Infrastructure replacement - other	Investments aimed at the replacement of infrastructure in the Divisions in order to maintain it in an unchanged condition. Expenditures incurred in 2016: PLN 290 million.
Maintaining mine production (PLN 325 million)	
Mine infrastructure development	Investments were made in the mines related to developing mine infrastructure, ventilation and air cooling equipment, conveyor belts and piping. Expenditures incurred in 2016: PLN 174 million.
Purchase of machines for VCP Program	Establishment of additional mining section G-51 – purchase of 32 machines (Polkowice-Sieroszowice Mine). Up to 31 December 2016, 22 machines had been purchased and expenditures incurred in the amount of PLN 34 million, including PLN 33 million in 2016.
Construction of the SW-4 shaft	Work continues on target infrastructure such as: the administration-social building, squares and roads. Assembly of shaft infrastructure continues. Up to 31 December 2016, expenditures were incurred in the amount of PLN 846 million, including PLN 18 million in 2016.
Żelazny Most project ensuring the ability to store flotation tailings after 2016	Readiness to develop the Main Facility to a crown height of 195 meters a.s.l. was achieved. The process of receiving a decision on the environmental conditions of the investment continued - construction of the Southern Quarter. Up to 31 December 2016, expenditures were incurred in the amount of PLN 73 million, including PLN 14 million in 2016.
Mining Development (PLN 488 million)	
The Deposit Access Program	Work continued on the sinking of the GG-1 shaft. The shaft reached a depth of 846.6 meters. Till the end of 2016, 88 kilometers of primary tunnelling, which were financed by investment funds, have been excavated together with necessary technical infrastructure (water pipes, power cables, electrical switching stations, conveyor belts, retention dams, pipes and air cooling equipment and communications equipment) was completed. In 2016, 13 kilometers of primary tunneling in the Rudna and Polkowice–Sieroszowice Mines were excavated. Construction of the Surface-based Ventilation Station at the R-XI shaft was completed, which enabled an increase in the production of cooled air to the mine below the level of 1200 meters to 25 MW. Up to 31 December 2016, expenditures were incurred in the amount of PLN 2 286 million, including PLN 371 million in 2016.
Change in the L-VI shaft's function to a material – transport shaft	Work on this project comprised construction of the L-VI shaft building for a transitory period, a water treatment station, a building for the heating network for heating inlet and shaft building air, the heating network for the L-VI shaft , the main transformer station building, and work ensuring that the steel construction of the shaft tower remains corrosion-free. Up to 31 December 2016, expenditures were incurred in the amount of PLN 44 million, including PLN 44 million in 2016.
Drilling of drift tunnels using a combines team	14 189 meters have been excavated (including 3 114 meters in 2016), representing 74% of the plan. Due to completion of the project in December 2016, work ended on the development of preparatory drifts using a combines team. Summation of the results of the assessed technology, as a basis for making a decision as to the further directions of work with respect to implementing technology for mechanically excavating drifts in the mines of KGHM Polska Miedź S.A., will be done in 2017. Up to 31 December 2016, expenditures were incurred in the amount of PLN 58 million, including PLN 46 million in 2016.

in PLN millions, unless otherwise stated

Modernisation of classification units in the Concentrators Division	In 2016, 36 hydrocyclone batteries were built and brought on line. Design work continues as regards the construction of classification units for part 2 of stage 1 and for stage 2. Up to 31 December 2016, expenditures were incurred in the amount of PLN 61 million, including PLN 25 million in 2016.
Metallurgy Development (PLN 1 267 million)	
Pyrometallurgy Modernisation Program (PMP)	On 16 July 2016 the shaft furnaces were extinguished, on 1 October 2016 the process of firing up the flash furnace commenced, and on 15 October 2016 the first kilograms of concentrate were fed to the furnace, commencing the PMP production line. Up to 31 December 2016, expenditures were incurred in the amount of PLN 2 201 million, including PLN 629 million in 2016.
Metallurgy Development Program (MDP)	The Program was commenced in 2015 under which the following projects were advanced: – Modernisation of the Electrorefining installation at the Głogów I Copper Smelter and Refinery, – The steam drier at the Głogów II Copper Smelter and Refinery, – Cu concentrate roasting installation, – Conformatory investments, – The scrap charging installation for the Flash Furnaces, and – Modernisation of the Tank and Electrolite Decopperisation Hall at the Legnica Copper Smelter and Refinery. Work continued on the advancement of projects aimed at adapting production infrastructure to the change in smelting technology at the Głogów I Copper Smelter and Refinery involving the implementation of technical and technological actions aimed at optimising the use of the modernised metallurgical infrastructure in terms of the investment projects currently being advanced at the Głogów Copper Smelter and Refinery. The Metallurgy Development Program ensures the processing of all of the Company's own concentrates in installations at the Głogów I Copper Smelter and Refinery, the Głogów II Copper Smelter and Refinery and the Legnica Copper Smelter and Refinery in the years 2017-2033, alongside higher extraction and increasing organic carbon content. At the same time it, opens the possibility to increase copper production based on imported concentrate. Up to 31 December 2016, expenditures were incurred in the amount of PLN 829 million, including PLN 518 million in 2016.
Other Development (PLN 14 million)	
Modernisation of the 6kV GSE switching station at the Głogów Copper Smelter and Refinery GSE+	On 30 December 2016 the project „Modernisation of the 6kV GSE switching station at the Głogów Copper Smelter and Refinery together with the Głogów Copper Smelter and Refinery (GSE) related to the power system" was completed. Up to 31 December 2016, expenditures were incurred in the amount of PLN 57 million, including PLN 14 million in 2016.
Exploration Development (PLN 47 million)	
Exploration projects	**Gaworzyce-Radwanice** – within the "Radwanice-Gaworzyce" deposit geological work was carried out under the concession to explore the copper ore deposit using the underground method within the "Dankowice" region. In August 2016 an application was submitted to acquire a concession to mine copper ore from the "Gaworzyce" region of the "Radwanice-Gaworzyce" deposit. **Synklina Grodziecka, Konrad -** in 2016, drilling was performed aimed at obtaining precise information regarding hydrogeological conditions as well as surface-based seismic research. Based on data obtained during exploratory work in the years 2011-2016, work under a project titled „Development and parameterisation of preliminary, scenario-based technical models for mining the "Niecka Grodziecka" deposit for purposes of economic assessment" was carried out. In January 2017, a resolution was adopted on recognising in the accounting books an impairment loss on expenditures incurred under the exploration project „Exploration for and economic assessment of the copper mineralisation in the area of "Synklina Grodziecka". **Retków-Ścinawa and Głogów** – in 2016 another 3 holes were drilled under the "Retków-Ścinawa" concession and work commenced related to developing a concept for mining the ore under the concession. In July 2016, an application was submitted to the Ministry of the Environment for a change in the concession for exploration and evaluation of copper ore deposits within the "Retków-Ścinawa" area. Under the "Głogów" concession work was completed on drilling 4 holes under the first stage of the exploratory work. In September 2016, an application was submitted to change the concession to search for and explore the copper ore deposit within the "Głogów" area. **Bytom Odrzański, Kulów–Luboszyce** – judicial and administrative proceedings were carried out with respect to concessions being pursued. The setting of a date for a hearing is expected. **Zatoka Pucka** – drilling of the Mieroszyno IG-9 borehole under the concession was completed. Detailed analysis and interpretation of the data was performed. Up to 31 December 2016, expenditures on Exploration projects were incurred in the amount of PLN 322 million, including PLN 47 million in 2016.

8. Operating results of KGHM INTERNATIONAL LTD.

Below information on the financial results of KGHM INTERNATIONAL LTD. for 2015 were restated to the comparable conditions of 2016 and reflects impacts of the merger of KGHM INTERNATIONAL LTD. with the company 0929260 B.C U.L.C. on 31 December 2015. Due to this merger, data for 2015 reflect the Ajax project, which since the start of 2016 is included in the segment KGHM INTERNATIONAL LTD.

8.1. Production

Table 28. Production of KGHM INTERNATIONAL LTD.

	Unit	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Payable copper, including:	**kt**	**89.8**	**97.6**	**-8.0%**	**20.9**	**22.1**	**23.1**	**23.7**
- Robinson mine (USA)	kt	*53.7*	*56.8*	*-5.5%*	*12.4*	*12.6*	*14.0*	*14.7*
- Sudbury Basin mines (CANADA) *	kt	*14.4*	*14.1*	*+2.1%*	*3.3*	*4.1*	*3.8*	*3.2*
Payable nickel	**kt**	**2.1**	**2.2**	**-4.5%**	**0.5**	**0.5**	**0.6**	**0.5**
TPM – precious metals, including:	**koz t**	**92.1**	**95.3**	**-3.4%**	**20.6**	**24.6**	**24.5**	**22.4**
- Robinson mine (USA)	koz t	*46.2*	*56.8*	*-18.7%*	*9.9*	*11.4*	*12.1*	*12.8*
- Sudbury Basin mines (CANADA) *	koz t	*46.0*	*38.5*	*+19.5%*	*10.7*	*13.3*	*12.5*	*9.5*
Production of copper equivalent **	**kt**	**114.8**	**121.5**	**-5.5%**	**26.2**	**29.3**	**29.8**	**29.4**

** Mines: Morrison and McCreedy West in the Sudbury Basin*
*** Value of production volume of all metals calculated as a copper equivalent, based on market prices – from own concentrate*

Copper production in the segment KGHM INTERNATIONAL LTD. in 2016 amounted to 89.8 thousand tonnes, or a decrease by 7.8 thousand tonnes (-8%) as compared to 2015.

The Robinson mine recorded a decrease in copper production by 3.1 thousand tonnes (-6%) and gold production by 10.6 thousand troy ounces (-19%) as compared to 2015 due to the lower amount of ore processed (caused by the unplanned maintenance shutdown of the flotation thickening unit), which was partially limited by an increase in metal content in processed ore and higher recoveries.

The increase in copper production in the mines of the Sudbury Basin in 2016 as compared to 2015 by 0.3 thousand tonnes (+2%) was due to the extraction of ore with a higher grade of this metal (an increase from 6.1% in 2015 to 7.1% in 2016). As a result of extracting better quality ore there was also an increase in TPM production by 7.5 thousand troy ounces (+20%).

8.2. Sales revenue

Table 29. Volume and sales revenue of KGHM INTERNATIONAL LTD. (USD million)

	Unit	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Sales revenue, including:	**USD mn**	**639**	**679**	**-5.9%**	**189**	**146**	**155**	**149**
- copper	USD mn	451	502	-10.2%	140	100	104	107
- nickel	USD mn	21	24	-12.5%	6	5	6	4
- TPM – precious metals	USD mn	103	93	+10.8%	27	24	27	25
Copper sales volume	kt	90.2	98.9	-8.8%	24.6	21.1	22.0	22.6
Nickel sales volume	kt	2.1	2.2	-4.5%	0.5	0.5	0.6	0.5
TPM sales volume	koz t	94.3	97.0	-2.8%	25.0	21.7	24.7	23.0

Table 30. Volume and sales revenue of KGHM INTERNATIONAL LTD. (PLN million)

	Unit	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Sales revenue, including:	**PLN mn**	**2 535**	**2 577**	**-1.6%**	**771**	**566**	**610**	**588**
- copper	PLN mn	1 790	1 904	-6.0%	568	393	409	420
- nickel	PLN mn	83	91	-8.8%	24	21	21	17
- TPM - precious metals	PLN mn	409	353	+15.9%	113	91	106	99

The sales revenue of the segment KGHM INTERNATIONAL LTD. in 2016 amounted to USD 639 million, or a decrease by USD 40 million (-6%) as compared to 2015 due to lower sales volumes of basic metals as well as to unfavourable macroeconomic conditions, reflected in the lower achieved sales prices of copper and nickel.

Revenues from the sale of copper decreased by USD 51 million (-10%) mainly due to a decrease in the sales volume of this metal by 8.7 thousand tonnes (-9%). Revenues from the sale of copper were also negatively impacted by the lower achieved sale price, which in 2016 amounted to 5 004 USD/t as compared to 5 071 USD/t in 2015.

The increase in revenues from the sale of precious metals by USD 10 million (+11%) is the result of the higher achieved sale prices of gold (+14%), palladium (+13%) and platinum (+8%).

8.3. Costs

Table 31. C1 unit cost of KGHM INTERNATIONAL LTD.

	Unit	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
C1 unit cost*	USD/lb	1.63	1.87	-13%	1.72	1.73	1.59	1.48

** 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 weighted average unit cash cost of copper production for all operations in the segment KGHM INTERNATIONAL LTD. in 2016 amounted to 1.63 USD/lb, or a decrease by 13% as compared to 2015. The decrease in C1 cost is due to a decrease in production costs as a result of savings initiatives undertaken, which was partially limited by the lower volume of copper sales.

8.4. Financial results of KGHM INTERNATIONAL LTD.

Table 32. Financial results of KGHM INTERNATIONAL LTD. (USD million)

	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Sales revenue	639	679	-5.9%	189	146	155	149
Cost of sales, selling costs and administrative expenses, including: *	(678)	(1 424)	-52.4%	(233)	(147)	(152)	(146)
- impairment losses on non-current assets	(64)	(618)	-89.6%	(64)	-	-	-
Profit/(loss) on sales (EBIT)	**(39)**	**(745)**	**-94.8%**	**(44)**	**(1)**	**3**	**3**
Profit/(loss) before taxation, including:	**(1 682)**	**(2 157)**	**-22.0%**	**(1 451)**	**(90)**	**(70)**	**(71)**
- share of losses and impairment loss on investments accounted for using the equity method	(302)	(1 315)	-77.0%	(91)	(90)	(65)	(56)
Income tax	32	170	-81.2%	27	1	4	-
Profit/(loss) for the period	**(1 650)**	**(1 987)**	**-17.0%**	**(1 424)**	**(89)**	**(67)**	**(70)**
Depreciation/amortisation recognised in profit or loss	130	224	-42.0%	35	32	31	32
EBITDA**	**91**	**(521)**	**x**	**(9)**	**31**	**34**	**35**
Adjusted EBITDA***	**155**	**97**	**+59.8%**	**55**	**31**	**34**	**35**

Table 33. Financial results of KGHM INTERNATIONAL LTD. (PLN million)

	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Sales revenue	2 535	2 577	-1.6%	771	566	610	588
Cost of sales, selling costs and administrative expenses, including: *	(2 706)	(5 469)	-50.5%	(962)	(570)	(597)	(577)
- impairment losses on non-current assets	(268)	(2 411)	-88.9%	(268)	-	-	-
Profit/(loss) on sales (EBIT)	**(171)**	**(2 892)**	**-94.1%**	**(191)**	**(4)**	**13**	**11**
Profit/(loss) before taxation, including:	**(6 965)**	**(8 392)**	**-17.0%**	**(6 060)**	**(350)**	**(276)**	**(279)**
- share of losses, impairment loss on investments accounted for using the equity method	(1 199)	(5 126)	-76.6%	(373)	(350)	(255)	(221)
Income tax	137	661	-79.3%	117	(1)	19	2
Profit/(loss) for the period	**(6 828)**	**(7 731)**	**-11.7%**	**(5 943)**	**(352)**	**(256)**	**(277)**
Depreciation/amortisation recognised in profit or loss	517	850	-39.2%	144	125	120	128
EBITDA**	**346**	**(2 042)**	**x**	**(47)**	**121**	**133**	**139**
Adjusted EBITDA***	**614**	**369**	**+66.4%**	**221**	**121**	**133**	**139**

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

Table 34. Key factors impacting the change in financial result of KGHM INTERNATIONAL LTD.

Item	Impact on change of profit or loss (USD million)	Description
Decrease in sales revenue by USD 40 million, including:	(48)	A decrease in revenues due to the lower sales volume mainly of copper (USD (43) million) and precious metals (USD (4) million).
	+5	An increase in revenues due to higher precious metals prices (+USD 14 million), limited by the decrease in prices of copper (USD (7) million) and nickel (USD (2) million).
Decrease in cost of sales, selling costs and administrative expenses by USD 746 million, including:	+555	A lower level of impairment losses on assets as compared to 2015, including a lower impairment loss on the Sudbury Basin mines (+USD 311 million), the Robinson mine (+USD 191 million) and no impairment loss on the Franke mine (+USD 59 million) in 2016.
	+97	A lower level of depreciation/amortisation due to impairment losses on assets recognised in the fourth quarter of 2015.
	+42	A decrease in costs due to undertaken savings initiatives and a lower scope of work performed by the company DMC, including a decrease in costs of external services (+USD 20 million), materials and energy (+USD 14 million), administrative expenses (+USD 7 million) and labour costs (+USD 1 million).
	+30	A change in inventories.
	+16	A lower write-down of copper inventories in the Carlota mine.
	+5	A lower selling costs due to lower sales volumes.
Impact on other operating activities and finance activities (USD (1 243) million), including:	(1 051)	An impairment allowance on the loan granted to Sierra Gorda S.C.M.
	(188)	Higher impairment losses on the projects Ajax and Victoria.
	+37	Higher income due to interest on loans granted to Sierra Gorda S.C.M.
Share of losses and impairment loss on investments accounted for using the equity method (+USD 1 013 million)	+1 013	A lower share of losses and lower impairment loss on Sierra Gorda S.C.M.
Income tax	(138)	Mainly due to a decrease in deferred tax assets assumed in 2015.

8.5. Cash expenditures on property, plant and equipment

Table 35. Cash expenditures on property, plant and equipment of KGHM INTERNATIONAL LTD. (USD million)

	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Victoria project	21	62	-66.1%	1	2	2	16
Sierra Gorda Oxide project	8	17	-52.9%	1	0	2	5
Pre-stripping and other	72	167	-56.9%	12	14	25	21
Ajax project	8	44	-81.8%	1	1	3	3
Total	**108**	**290**	**-62.8%**	**14**	**16**	**33**	**45**
Financing for Sierra Gorda S.C.M.	165	245	-32.7%	80	24	17	44

Table 36. Cash expenditures on property, plant and equipment of KGHM INTERNATIONAL LTD. (PLN million)

	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Victoria project	84	235	-64.3%	7	5	9	63
Sierra Gorda Oxide project	30	64	-53.1%	2	2	8	18
Pre-stripping and other	284	633	-55.1%	46	55	100	83
Ajax project	31	169	-81.7%	5	4	10	12
Total	**430**	**1 101**	**-60.9%**	**60**	**67**	**127**	**176**
Financing for Sierra Gorda S.C.M.	655	929	-29.5%	320	97	65	173

Cash expenditures by the segment KGHM INTERNATIONAL LTD. in 2016 amounted to USD 108 million, or decreased by USD 182 million (-63%) as compared to 2015.

Around 50% of cash expenditures were incurred by the Robinson mine and were mainly due to pre-stripping work, development of the tailings storage facility, maintaining infrastructure and environmental projects. These cash expenditures were lower as compared to 2015, mainly due to a decrease in the scope of work related to pre-stripping of areas currently under operation. At present, work is underway on optimisation of the long-term development scenario for this mine.

In 2016, the segment KGHM INTERNATIONAL LTD. incurred USD 37 million on its projects, of which USD 21 million was related to the Victoria project, USD 8 million to the Ajax project and USD 8 million were incurred on the Sierra Gorda Oxide project. Analyses necessary to make a decision regarding advancement of these projects are continued.

Financing provided to the Sierra Gorda mine in the amount of USD 165 million in 2016 in the form of increases in share capital was aimed at ensuring its liquidity during the continued unfavourable macroeconomic conditions.

9. Operating results of 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 below 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%), pursuant to the methodology of presentation of data in note 2.2 of the consolidated financial statements.

In the first half of 2015, the Sierra Gorda S.C.M. mine was under construction, while production at the commercial level was achieved at the end of June 2015. The completion of construction was a necessary condition to cease capitalisation of expenditures and proceeds, and at the same time to recognise the first financial result. Consequently, the financial data presented below with respect to the corresponding period of 2015 only comprise the second half of 2015.

This does not apply however to production and investments, which in 2015 also comprise the period prior to the commencement of commercial production.

9.1. Production

In 2016, production was higher than in 2015, due to the fact that in the first half of 2015 the mine and processing plant remained in the ramp-up phase. In particular, there was a substantial increase in molybdenum output, the production of which commenced only in the second quarter of 2015.

Table 37. Production* of copper, molybdenum and precious metals (2015 – values for the full year) in Sierra Gorda S.C.M.

		2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Copper production	kt	93.7	84.2	+11.3%	24.9	20.5	22.0	26.3
Copper production – segment (55%)	kt	51.5	46.3	+11.3%	13.6	11.3	12.1	14.5
Molybdenum production	mn lbs	22.1	14.6	+51.4%	5.2	4.5	3.6	8.9
Molybdenum production – segment (55%)	mn lbs	12.2	8.1	+51.4%	2.9	2.5	2.0	4.9
TPM production - gold	koz t	41.7	41.5	+0.5%	13.5	7.3	7.7	13
TPM production – gold - segment (55%)	koz t	22.9	22.8	+0.5%	7.5	4.0	4.2	7.1
Production of copper equivalent**	kt	136.5	109.7	+24.4%	35.8	30.1	29.8	40.8
Production of copper equivalent – segment (55%)	kt	75.1	60.3	+24.4%	19.8	16.5	16.4	22.4

** Payable metal in concentrate.*
*** The value of production volume of all metals converted into copper based on market prices – from own concentrate*

In the fourth quarter of 2016, Sierra Gorda S.C.M. improved its production (as compared to the third quarter of 2016) by 21% in terms of copper and by 16% in terms of molybdenum production. In both cases the improvement in production was the result of higher amounts of ore processed, characterised by higher metals content. It should be noted that the technological parameters of the molybdenum installation in the last quarter of 2016 remained below target levels. Sierra Gorda S.C.M. is working to improve this situation.

9.2. Sales

In 2016 revenues from the sale of products less treatment and refining charges (TC/RC) amounted to USD 639 million (PLN 2 534 million), of which 74% represented copper sales revenue, and 25% molybdenum sales revenue.

Table 38. Sales volume and revenue of Sierra Gorda S.C.M. (USD million)

		2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Sales revenue, including:	**USD mn**	639	**286**	×2.2	**190**	**134**	**169**	**146**
– Copper	USD mn	475	236	×2.0	147	117	98	113
– Molybdenum	USD mn	159	48	×3.3	40	16	72	31
Copper sales volume	kt	94.6	51.2	+84.8%	26.2	24.8	20.7	22.9
Molybdenum sales volume	mn lbs	24.2	4.3	×5.6	6.2	3.6	8.7	5.7

Table 39. Sales volume and revenue of Sierra Gorda S.C.M. (PLN million)

		2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Sales revenue, including:	**PLN mn**	**2 534**	**1 105**	**×2.3**	**771**	**522**	**666**	**575**
– copper	PLN mn	1 884	908	×2.1	598	456	385	445
– molybdenum	PLN mn	632	183	×3.5	165	62	283	122
Sales revenue – segment (55% share)	**PLN mn**	**1 394**	**608**	**×2.3**	**424**	**288**	**366**	**316**

In the last quarter of 2016 Sierra Gorda S.C.M. achieved its highest level of sales revenue as compared to the previous quarters of 2016. The increase by 42% as compared to sales revenue achieved in the third quarter of 2016 (in USD) was mainly the result of higher prices achieved from copper and molybdenum sales. Also important was an increase in sales volume resulting from the higher production of copper and molybdenum, as well as the sale on the local market of inventories of lower quality copper concentrate.

9.3. Costs

The cost of sales, selling costs and administrative expenses prior to the impairment loss on non-current assets amounted in 2016 to USD 938 million (PLN 2 048 million; 55%), including selling costs of USD 48 million, and administrative expenses of USD 76 million.

Table 40. Costs (prior to the impairment loss on non-current assets) and unit production cost of copper (C1) of Sierra Gorda S.C.M.

		2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Cost of sales, selling costs and administrative expenses	USD mn	938	471	+99.2%	267	253	233	185
Cost of sales, selling costs and administrative expenses – segment (55% share)	PLN mn	2 048	1 078	×1.9	601	541	504	402
C1 unit cost*	**USD/lb**	**1.96**	**2.58**	**-24.0%**	**2.11**	**2.19**	**1.77**	**1.73**

** 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.*

In the fourth quarter of 2016, the cost of sales, selling costs and administrative expenses increased by 6% as compared to the third quarter, mainly due to a higher production and sales volume mentioned in the previous subsections.

The main items of expenses by nature, which significantly changed in the last quarter (the fourth quarter of 2016 compared to the third quarter of 2016) are presented below:

- cost of external services – an increase by 16%, due to their greater scope of work arising from downtime incidents and the need to ensure stable operations by the molybdenum installation,
- depreciation/amortisation – an increase by 3%, mainly in respect of amortisation of expenditures on accessing the deposit (pre-stripping),
- cost of materials, energy and fuel – an increase by 16%, mainly due to higher production and higher prices of fuel, flotation reagents, materials and fixed cost of energy,
- costs of external processing of molybdenum concentrate – an increase by 73% due to higher production, and
- other costs – an increase due to the write-down of material inventories.

The aforementioned factors had a significant impact on the increase in unit costs in the fourth quarter as compared to the previous quarter. This increase related to cost of mine (per tonne of processed ore) and processing costs (per tonne of processed ore). At the same time, the unit cash cost of copper production (C1) decreased slightly, from 2.19 USD/lb in the third quarter to 2.11 USD/lb in the fourth quarter of 2016, mainly due to a higher volume of molybdenum sales and an increase in this metal price (revenues from the sale of by-product are deducted when calculating C1 cost). The higher level of copper sale also had a positive impact.

9.4. Financial results of Sierra Gorda S.C.M.

Statement of profit or loss

In 2016, adjusted EBITDA amounted to USD 87 million i.e. PLN 344 million, of which proportionally to the interest held (55%), PLN 189 million relates to the KGHM Group.

Sierra Gorda S.C.M. increased adjusted EBITDA from the negative level of USD (13) million in the third quarter to USD 29 million in the last quarter of 2016. This improvement resulted mainly from an increase in revenues, described in subsection 9.2.

Table 41. Results of Sierra Gorda S.C.M. in USD million (100% interest held)

	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Sales revenue	639	286	×2.2	190	134	169	146
Cost of sales, selling costs and administrative expenses, including:	(3 836)	(1 399)	×2.7	(3 165)	(253)	(233)	(185)
impairment loss on non-current assets	(2 898)	(928)	×3.1	(2 898)	-	-	-
Profit/(loss) on sales (EBIT)	**(3 198)**	**(1 113)**	**×2.9**	**(2 977)**	**(118)**	**(64)**	**(39)**
Profit/(loss) for the period	**(2 643)**	**(927)**	**×2.9**	**(2 257)**	**(164)**	**(119)**	**(103)**
Depreciation/amortisation recognised in profit or loss	386	137	×2.8	107	105	96	78
EBITDA*	**(2 811)**	**(976)**	**×2.9**	**(2 869)**	**(13)**	**32**	**39**
Adjusted EBITDA **	**87**	**(48)**	**×**	**29**	**(13)**	**32**	**39**

Table 42. Results of Sierra Gorda S.C.M. in PLN million (55% interest held)

	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Sales revenue	1 394	608	×2.3	424	287	367	316
Cost of sales, selling costs and administrative expenses, including:	(8 710)	(5 463)	+59.4%	(7 263)	(542)	(504)	(401)
impairment loss on non-current assets	(6 662)	(4 385)	+51.9%	(6 662)	-	-	-
Profit/(loss) on sales (EBIT)	**(7 316)**	**(4 855)**	**+50.7%**	**(6 839)**	**(256)**	**(137)**	**(85)**
Profit/(loss) for the period	**(6 015)**	**(4 455)**	**+35.0%**	**(5 181)**	**(353)**	**(257)**	**(224)**
Depreciation/amortisation recognised in profit or loss	843	369	×2.3	242	225	207	169
EBITDA*	**(6 473)**	**(4 486)**	**+44.3%**	**(6 597)**	**(30)**	**70**	**84**
Adjusted EBITDA **	**189**	**(101)**	**×**	**65**	**(30)**	**70**	**84**

** 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)*

Based on identified indicators, Sierra Gorda S.C.M. conducted testing for the impairment of its non-current assets, as a result of which an impairment loss was recognised as at 31 December 2016. As a result, profit/loss on sales of Sierra Gorda S.C.M. was charged by an impairment loss in the amount of USD 2 898 million in respect of the company Sierra Gorda S.C.M. (Table 41) and PLN 6 662 million respectively to the owner's interest held by KGHM Polska Miedź S.A. (the segment Sierra Gorda - Table 42). Altogether, including the tax effect, the impairment loss on non-current assets recognised in the profit or loss for the period amounted respectively to USD 2 121 million (the company Sierra Gorda S.C.M.) and PLN 4 874 million (the segment Sierra Gorda).

Impacts of these impairment losses were the main factor in the loss for 2016. The loss for the period at the level of the company Sierra Gorda S.C.M. prior to the impairment loss amounted to USD 523 million and USD 2 643 million following its recognition. In addition, the profit or loss for the period was also impacted by the interest costs related to financing construction of the mine from bank loans and the owner's loan.

Cash expenditures on property, plant and equipment and intangible assets

In 2016, cash expenditures on property, plant and equipment and intangible assets amounted to USD 268 million, of which 70% were cash expenditures incurred on pre-stripping to gain access to further areas of the deposit. The significant decrease as compared to the corresponding period in 2015 results from the fact that in the first half of 2015 the mine was under construction. In 2015 there was also a higher amount of pre-stripping to access the ore.

Table 43. Cash expenditures (for the full year 2015) of Sierra Gorda S.C.M.

		2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Cash expenditures on property, plant and equipment	USD mn	268	527	-49.1%	57	49	49	113
Cash expenditures on property, plant and equipment	PLN mn	1 065	2 034	-47.6%	234	193	191	447
Cash expenditures on property, plant and equipment – segment (55% share)	PLN mn	586	1 119	-47.6%	129	106	105	246

Investments and cash expenditures, including repayment of bank loan drawn on mine construction (Project Finance) were mainly financed by increases in share capital in the amount of USD 300 million, of which USD 165 million was provided by the KGHM Polska Miedź S.A. Group. Moreover in 2016, the company drew a working capital facility in the amount of USD 186 million.

As at 30 December 2016, the carrying amount of the owner's loan amounted to USD 3 779 million, while its increase by USD 289 million as compared to the level at the end of 2015 was mainly due to accrued interest (in 2016 there was no owner's loan financing).

in PLN millions, unless otherwise stated

10. Financial results of other segments

Companies in the remaining segments are very diversified in their operations. Among others they are of an equity investment nature, as well as they play an important role in fulfilling policy of corporate social responsibility. This segment also includes companies which are to be restructured and divested. The segment also includes closed-end non-public investment funds and their portfolio companies (including those forming the Polska Grupa Uzdrowisk (Polish Spa Group)).

Table 44. Financial results of other segments (prior to consolidation adjustments)

	2016	2015	Change (%)	4Q'16	3Q'16	2Q'16	1Q'16
Sales revenue	6 409	6 594	-2.8%	1 685	1 518	1 665	1 541
- including from external clients	1 744	1 731	+0.8%	478	428	423	415
Profit/(loss) on sales (EBIT)	**77**	**53**	**+45.3%**	**12**	**9**	**23**	**33**
Profit/(loss) for the period	**(235)**	**(49)**	**×4.8**	**(228)**	**10**	**(40)**	**23**
Depreciation/amortisation recognised in profit or loss	(236)	(228)	+3.5%	(61)	(58)	(59)	(58)
EBITDA*	**313**	**281**	**+11.4%**	**73**	**67**	**82**	**91**
Adjusted EBITDA **	**312**	**279**	**+11.8%**	**72**	**67**	**82**	**91**

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

***Adjusted EBITDA = EBIT (profit/(loss) on sales) + 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 2016, other segments earned a profit on sales, prior to recognition of consolidation adjustments, in the amount of PLN 77 million, which was an improvement as compared to 2015 by PLN 24 million. At the level of profit or loss for the period, a loss for the period was recorded in the amount of PLN (235) million versus PLN (49) million in 2015.

The loss for 2016 was mainly due to the drop in value of investments of KGHM I FIZAN, mainly due to a higher discount in the valuation model (macro indicators) and to an increase in costs of remuneration (mainly an increase in the minimum wage), as well as to the impairment loss on assets recognised in KGHM Metraco S.A.

11. Ownership structure and share price of the Company KGHM Polska Miedź S.A. on the Stock Exchange

11.1. Company on the stock exchange

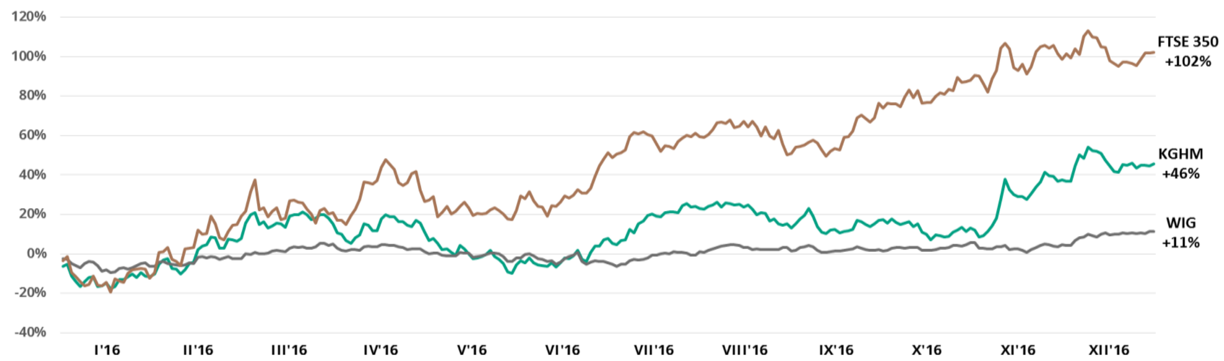
KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange (WSE) in July 1997. The Company's shares are traded on the primary market of the WSE in the continuous trading system and are a component of the WIG, WIG20 and WIG30 indices. Continuously since 2009, the Company has participated in the group of socially responsible companies, quoted within the RESPECT Index. The Company's shares are included in the WIG-mining ("WIG-GÓRNICTWO") sector index and the WIGdiv index.

In 2016, the share price of KGHM Polska Miedź S.A. was mainly impacted by the rapid changes in commodities prices and appreciation of the US dollar versus the Polish zloty. In the first 10 months of 2016, share price of KGHM Polska Miedź S.A. increased by approximately 12%. This increase may be mostly related to the rapid increase in silver prices, which increased by over 28% during this period – at the same time the change of both copper prices and the US dollar exchange rate amounted respectively to approximately 2.5% and just over 1%. The most rapid increase in the share price of KGHM Polska Miedź S.A. - over 30% as compared to the share price recorded at the end of October 2016, was in the last two months of 2016. In turn during this period, the share price was mainly impacted by the rapid increase in the copper price and the USD/PLN exchange rate – an increase respectively by almost 14% and almost 6% alongside a correction of prices on the silver market.

During 2016, KGHM Polska Miedź S.A.'s share price increased by 45.66%, from a closing price of PLN 63.49 on 30 December 2015 to PLN 92.48 on the last trading day of 2016. During the same period the market indices WIG, WIG20 and WIG30 increased respectively by 11.38%, 4.77% and 8.08%.

On 8 December 2016 the Company's shares reached their annual highest closing price of PLN 97.95. The lowest closing price amounted to PLN 52.29 and was recorded on 20 January 2016.

Chart 30. Share price of KGHM Polska Miedź S.A. versus WIG index i FTSE 350 mining index



Key share price data of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange in the years 2015-2016 are presented in the following table.

Table 45. Key share price data of the Company on Warsaw Stock Exchange

Ticker: KGH, ISIN: PLKGHM000017	Unit	2016	2015
Number of shares issued		200 000 000	200 000 000
Market capitalisation of the Company at year's end	PLN billion	18.5	12.7
Average trading volume per session		1 089 209	948 323
Turnover value	PLN million	19 662.30	23 069.24
Change in share price from the end of the prior year	%	+45.66	-41.67
Highest closing price during the year	PLN	97.95	131.00
Lowest closing price during the year	PLN	52.29	59.07
Closing price from the last day of trading in the year	PLN	92.48	63.49

Source: Own work based on WSE Statistic Bulletin for 2015 and 2016

11.2. Investor relations

The dialogue with stakeholders, among whom shareholders are of particular significance, is for us a key aspect of the Company's operations. For KGHM Polska Miedź S.A., as a global company operating on three continents, it is a priority to ensure equal access to information to all members of the global capital markets. KGHM Polska Miedź S.A.'s actions are aimed at maintaining regular communication and transparent dialogue with investors and analysts as well as at ensuring conformance with our regulatory legal obligations.

We maintain an active dialogue with shareholders and market participants through meetings with investors and analysts both in Poland and abroad. At the same time the Company fulfils its informational obligations by publishing regulatory filings and periodic reports via the official reporting system (ESPI).

Publication of the Company's financial results is accompanied by a conference open to all stakeholders, which is webcast live in Polish and English. A playback of the conference is available on the Company's website at www.kghm.com in the Investors section. The Investors section is continuously updated with the latest information and documents. This section also includes regulatory filings and periodic financial statements and reports, information on the shareholder structure, documents related to general meetings and corporate governance, as well as presentations and videos for investors.

Sell-side reports on KGHM Polska Miedź S.A. were published by 14 analysts based in Poland and 7 based abroad.

Table 46. Financial institutions which prepare reports on KGHM Polska Miedź S.A.

Poland			
Deutsche Bank	DM Banku Handlowego	DM BOŚ	DM BZ WBK
DM mBank	Erste Group	Haitong Bank	IPOPEMA Securities
JP Morgan	Pekao Investment Banking	PKO Dom Maklerski	Societe Generale
Trigon Dom Maklerski	Vestor Dom Maklerski		
Abroad			
Bank of America Merrill Lynch	BMO	Goldman Sachs	Morgan Stanley
Raiffeisen	UBS	WOOD & Company	

11.3. Dividend

In accordance with Resolution No. 6/2016 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 28 June 2016 regarding the dividend payout from prior years' profits, setting the dividend date and the dividend payment date, the amount of PLN 300 million was allocated as a shareholder dividend, amounting to PLN 1.50 per share. The dividend date (the day on which the right to dividend is set) was set at 15 July 2016 with the dividend being paid in two instalments: 18 August 2016 – the amount of PLN 0.75 per share and 17 November 2016 – the amount of PLN 0.75 per share.

Table 47. Dividend paid in 2015-2016

Ticker: KGH, ISIN: PLKGHM000017	Unit	2016	2015
Dividend paid in the financial year from the appropriation of profit for the previous year	PLN million	300	800
	PLN/share	1.50	4.00
Dividend yield *	%	1.6	6.3

** dividend per share paid in the given financial year divided by the closing price in the last trading day in the given financial year*

The final decision regarding the amount of dividends paid is made by the General Meeting of KGHM Polska Miedź S.A.

11.4. Ownership structure and the Company's outstanding shares

As at 31 December 2016, 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 2016 there was no change in either registered share capital or in the number of outstanding shares issued. During the same period, the ownership structure of significant blocks of shares of KGHM Polska Miedź S.A. has changed. In 2016, KGHM Polska Miedź S.A. received notification, dated 18 August 2016, from Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. that Nationale-Nederlanden Otwarty Fundusz Emerytalny had exceeded the 5% threshold in the total number of votes at the General Meeting of KGHM Polska Miedź S.A.

in PLN millions, unless otherwise stated

The Company's shareholder structure as at 31 December 2016 and at the date this report was signed was as follows:

Table 48. Shareholder structure as at 31 December 2016 and at the date this report was signed

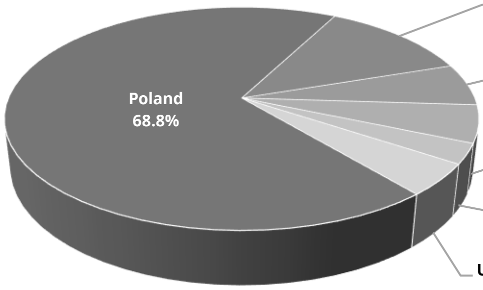
shareholder	number of shares/votes	% of share capital/total number of votes
State Treasury*	63 589 900	31.79%
Nationale-Nederlanden Otwarty Fundusz Emerytalny**	10 104 354	5.05%
Other shareholders	126 305 746	63.16%
Total	**200 000 000**	**100.00%**

** 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 data is based on research into the Company's shareholder structure performed in 2016.

Chart 31. Geographic shareholder structure of KGHM Polska Miedź S.A. (%)



The Company does not hold any treasury shares.

The Management Board of the Company is unaware of any agreements which could result in changes in the proportion of shares held by present shareholders in the future.

Based on information held by KGHM Polska Miedź S.A., as at 31 December 2016 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 the Company's Members of the Supervisory Board as at 31 December 2016 and as at the date of signing this report was as follows:

Table 49. Shares of KGHM Polska Miedź S.A. held by Members of the Supervisory Board of KGHM Polska Miedź S.A. as at 31 December 2016 and at the date this report was signed

Position/function	Name and surname	Number of shares as at 31 December 2016 and at the date this report was signed	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.

As far as the Company is aware, Members of the Management Board and Supervisory Board did not hold shares of the related entities of KGHM Polska Miedź S.A. as at 31 December 2016 and at the date this report was signed.

The Company did not have an employee share incentive program in 2016.

12. Risk management in the Group

12.1. Comprehensive Risk Management System in the KGHM Polska Miedź S.A. Group

The KGHM Polska Miedź S.A. Group defines risk as uncertainty, being an integral part of the activities conducted and having the potential to result in both opportunities and threats to achievement of the business goals. The current, future, actual and potential impact of risk on the KGHM Polska Miedź S.A. Group's activities is assessed. Based on this assessment, management practices are reviewed and adjusted in terms of responses to individual risk factors.

Under the Corporate Risk Management Policy and Procedure and the Rules of the Corporate Risk Committee approved in 2013, the process of corporate risk management in the Group is consistently performed. The companies of the Group have implemented rules and procedures to regulate the management of corporate risk which are consistent with those of the Parent Entity. KGHM Polska Miedź S.A. oversees the process of managing corporate risk in the Group. In 2016 the Enterprise Risk Management and Governance Unit commenced work on updating the Corporate Risk Management Policy and Procedure and the Rules of the Corporate Risk Committee.

In addition, in December 2016 the corporate risk management system in the KGHM Polska Miedź S.A. Group underwent an external audit by Deloitte Advisory Sp. z o. o. This audit of the efficiency of the risk management process (compliant with the guidelines of Best Practice for WSE Listed Companies 2016) indicated that the process functions properly.

Risk factors in various areas of the Group's operations are continuously identified, assessed and analysed in terms of their possible limitation.

Key risk factors in the Group undergo in-depth analysis in order to develop a Risk Response Plan and Corrective Actions. Other risk factors undergo constant monitoring by the Enterprise Risk Management and Governance Unit, 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 the strategic goals. In 2016 the process of revising risks associated with advancement of the strategic goals contained in the Main Strategy and in Executory and Supporting Strategies commenced.

Presented below is the organisational structure of risk management in the Parent Entity. The breakdown of rights and responsibilities applies best practice principles for Corporate Governance and the generally recognised model of three lines of defense.

Diagram 5. Organisational structure of risk management in KGHM Polska Miedź S.A

Supervisory Board (Audit Committee)

Performs annual assessment of the effectiveness of the risk management process and monitors the level of key risk factors and ways to address them.

Management Board

Has ultimate responsibility for the risk management system and supervision of its individual elements.

1st line of defense

Management

Managers are responsible for identifying, assessing and analysing risk factors and for the implementation, within their daily duties, of responses to risk. The task of the management staff is ongoing supervision of the application of appropriate responses to risk within the tasks realised, to ensure the expected level of risk is not exceeded.

2nd line of defense

Risk Committees

Support effective risk management and ongoing supervision of key risk factors.

Corporate Risk Committee	Market Risk Committee	Credit Risk Committee	Financial Liquidity Committee
Manages corporate risk and continuously monitors key risk factors	Manages risk of changes in metals prices (e.g.: copper and silver) as well as exchange and interest rates	Manages risk of failure of debtors to meet their obligations	Manages risk of loss of liquidity, understood as the ability to pay financial liabilities on time and to obtain financing for operations
Corporate Risk Management Policy	*Market Risk Management Policy*	*Credit Risk Management Policy*	*Liquidity Management Policy*
Enterprise Risk Management and Governance Unit	Executive Director, Director for Finance and Risk Management		
Reports to the President of the Management Board	***Reports to the Vice President of the Management Board (Finance)***		

3rd line of defense

Audit

The Internal Audit Plan is based on assessing risk and subordinated business goals, assessed is the current level of individual risk factors and the degree of efficiency with which they are managed.

Internal Audit Rules

Audit and Internal Control Department

Reports to the President of the Management Board

12.2. Corporate risk – key risk factors and their mitigation

A key tool used in identifying risk factors in the KGHM Polska Miedź S.A. Group is the Risk Factors Model. Its structure is based on a given risk's source and is divided into the following 5 categories: Technological, Values chain, Market, External and Internal. Several dozen sub-categories have been identified and defined covering particular areas of the operations or management.

Following are the key risk factors in the KGHM Polska Miedź S.A. Group (with separate identification of Parent Entity and KGHM INTERNATIONAL LTD. Group risk factors).

Risk factor	Risk - description	Mitigation
Technology		
Technology	(Parent Entity) Technological risk related to the mining of deep underground copper ore deposits, under conditions associated with natural hazards.	R&D work and trials of alternate mining methods to currently-used copper ore mining technology.
	(Parent Entity) Risk of geological-mining changes in the mines and the associated increase in the calorific value of the copper concentrate produced in the Concentrator plants, resulting in a decrease in the amount of concentrates smelted in the pyrometallurgy process.	Construction of a concentrate roasting installation at the Głogów I smelter, together with associated infrastructure, is aimed at reducing the calorific value of smelted concentrates by eliminating excess organic elements in the concentrate produced.
Value chain		
Planning	(KGHM Group) Risk related to using inappropriate economic parameters related to production, investments, macroeconomics and finance, for forecasts of company results.	Forecasts related to specific areas of the operations are prepared by appropriate specialised units.
	(KGHM INTERNATIONAL Group) Risk related to the accuracy of estimating decommissioning costs of certain mines.	
Logistics and supply chain	(KGHM Group) The risk of restricted access to transportation infrastructure, which affects the steady flow of resources and materials required in production and the delivery of finished products.	Supply flow management and maintenance of minimum levels of resources and materials inventories required in production.
Resources and reserves	(KGHM Group) Risk related to insufficient knowledge of the parameters and characteristics of a deposit, both for exploration projects (estimated input data for orebody evaluation models), as well as for on-going mining operations.	Additional expenditures on exploratory work to enhance the precision of estimated resources and the level of knowledge of geological-mining conditions, optimisation of the drilling network, geological research, knowledge gained through access drifts, consultations with external experts.
Waste management	(Parent Entity) Risk of the inability to store mine tailings.	Operation, construction and development of the tailings storage facility pursuant to the operating instructions. Cooperation with a Team of International Experts (TIE) and the General Designer, introduction of Observation Methods during development recommended by the TIE, based on the evaluation of geotechnical parameters obtained from the results of monitoring performed, which allow conclusions to be made regarding the behaviour of the constructed/operated facility.
Availability of materials and utilities	(KGHM Group) Risk related to the lack of availability of utilities (electricity, gas, water).	Ensure back-up systems for key utilities and on-going evaluation of the security of power systems. Conduct a variety of investments aimed at strengthening energy security.
Production and infrastructure	(KGHM Group) Risk related to industrial emergencies resulting in a shut-down of production lines, both as a result of natural hazards as well as internal factors related to the applied technology.	Preventative management of key elements of infrastructure which impact the smooth flow of operations. On-going analysis of geotechnical risks and reviews of planned recoveries.
	(KGHM INTERNATIONAL Group) Geotechnical risks in open-pit mines (wall stability) and in underground mines. Risk of not achieving targeted leach recovery parameters.	
Efficiency and costs	(KGHM Group) Risk related to the cost effectiveness of the production process, mining projects and the processing of copper-bearing materials, including the risk of significant increases in the prices of materials, services and utilities and of restoration costs.	Monitoring trends on the copper-bearing materials market and maintaining costs at the planned levels. Creating multi-year plans and budgets to achieve profitability under the given market conditions.
Market		
Market Risk	(KGHM Group) Risk related to volatility in commodity prices (copper, silver and other metals), exchange rates, interest rates, value of debt securities and share prices of listed companies.	This risk is actively managed (in the Parent Entity, in accordance with the Market Risk Management Policy currently in force). A basic technique for managing market risk resulting from changes in metals prices, exchange rates and interest rates in the Parent Entity are hedging strategies utilising derivative instruments. Natural hedging is also applied.

Credit Risk	(KGHM Group) Risk related to the lack of paid receivables by commercial customers or financial institutions.	This risk is actively managed (in the Parent Entity, in accordance with the Credit Risk Management Policy currently in force). Exposure to credit risk is limited by evaluating and monitoring the financial condition of customers, setting credit limits and applying creditor security.
Liquidity Risk	(KGHM Group) Risk related to the loss of liquidity, understood as a loss of the ability to pay liabilities on time and to obtain financing for operations.	This risk is actively managed (in the Parent Entity, in accordance with the Financial Liquidity Management Policy).
Equity investments and divestments	(KGHM Group) The risk of not receiving the expected return on an equity investment. Risk of loss of company value, the failure to achieve assumed synergies, the loss of alternative profits, a fall in the price of shares of listed companies.	Detailed analysis of the effectiveness and justification of equity investment plans; feasibility studies of investment projects and on-going monitoring of the value of assets owned.
Financial risk	(KGHM Group) Risk of impairment of the carrying amount of assets.	On-going analysis of the possibility of indications to conduct impairment tests of the carrying amount of assets.

External		
Administrative proceedings	(KGHM Group) The risk of restricting or suspending operations as a result of administrative and/or legal proceedings: administrative decisions not received, withdrawn or which undergo unfavourable changes.	The process of obtaining administrative decisions is conducted with an appropriate level of prudence and care. Deadlines are met. Being proactive (initiating procedures at an early stage and executing decisions with a margin of safety in terms of time). Legal counsel is employed when the company is engaged in administrative proceedings. Appeals procedures are followed. The opinions of external experts are sought.
Natural hazards	(KGHM Group) The risk of employees' loss of life or health. Disruptions or restrictions in production as a result of seismic events and associated roof collapses, or destressings of the rock mass and the occurrence of uncontrolled rock bursts.	A wide variety of technological and organisational solutions and other active and passive methods are applied to prevent roof collapses enabling restriction of the effects of dynamic events (roof collapses or rock mass destressings) in the mines. Preparation of reserve fields in the orebody which could handle reduced production.
	(Parent Entity) Risk related to gas hazards (methane and hydrogen sulphide).	The risk of gas hazards occurring is being assessed and principles are being developed for working under the risk of such hazards. Individual employee safety measures are applied as well as equipment and means for reducing concentrations of hydrogen sulphides and neutralising oppressive odours.
	(Parent Entity) Risk related to underground climate risk, which increases in tandem with increasing mine depth.	The construction of additional ventilation shafts, the use of centralised, workplace and individual air cooling systems as well as reduced working time.
Natural environment and climate change	(KGHM Group) The extraction and processing of copper ore at all stages has an unavoidable impact on various parts of the natural environment. Risk related to pricing and the placing of limits on CO_2 emissions.	Compliance with rigorous environmental standards imposed by law is possible thanks to the systematic modernisation of environmental protection installations, both those built in the past as well as new investments in this regard. (In the Parent Entity a CO_2 Emissions Management System has been implemented as well as environmental management standards ISO 14001).
	(Parent Entity) Risk related to evaluating air quality in Lower Silesia (exceeding the average annual target level of arsenic in suspended dusts PM10).	Carrying out the list of actions arising from Air Protection Programs.
Law and regulations	(KGHM Group) The risk of changes in the regulatory environment in areas such as geological-mining law, environmental protection and energy.	Monitoring of legal changes in individual jurisdictions and active participation in legislative processes. Taking pre-emptive actions to adapt to organisational, infrastructural and technological changes. Carrying out activities related to the implementation of an ISO 50001-compliant energy management system in KGHM Polska Miedź S.A.
	(Parent Entity) The risk of there being no change in the royalty formula (the minerals extraction tax) and the risk of taxation arising from other regulations.	
Internal		
Occupational health and safety	(KGHM Group) The risk of serious accidents or industrial illnesses caused by improper workplace organisation, the failure to follow procedures or the use of improper safety devices. The risk of temporary work stoppages caused by serious accidents.	(In the Parent Entity, occupational health and safety standards are in force (18001/OHSAS); regular training in occupational health and safety standards, programs to identify potential accidents.
Information policy	(KGHM Group) The risk of the unintended disclosure of sensitive or inside information.	Internal procedures for managing inside information, being information of a confidential and secret nature as regards the company, information security; confidentiality clauses and limits on the number of persons having access to sensitive information.

Global corporation	(KGHM Group) Risk related to the process of integrating and creating a global organisation, with the potential to cause interruptions in the operations as a result of changes in the structure and business model.	An appropriate governance and management structure, elimination of barriers which might arise, assurance of a mobile and experienced staff for a model international organisation, systematic reviews of the results of integration and the strengthening of changes already introduced. Compliance with the Code of Ethics for the KGHM Group with associated global policies (e.g. an anticorruption policy, competition law, responsible supply chain).
Stakeholders	(KGHM Group) The risk of negative ad campaigns and the risk of lack of acceptance by the public, local governments or other stakeholders for the conduct of development and exploration work.	Execution of the CSR Strategy, close cooperation with government bodies; meetings and negotiations with stakeholders, informational campaigns, conferences, publications.
Human resources	(KGHM Group) The risk of not being able to acquire and keep human resources, for example in order to properly support development projects.	Programs aimed for example at raising the effectiveness of the processes of recruitment, finding successors and maintaining key positions. Employee mobility program.
Security, IT and data protection	(KGHM Group) The risk of theft of assets of significant value, physical attacks, intentional unauthorised disclosures, unauthorised changes to or destruction of key data and information.	Strict adherence to and application of the principles, among others, of the Information Security Policy and Facility Protection Plans.
Project management	(KGHM Group) The risk of exceeding project/program budgets and schedules, exceeding defined scopes and failing to meet defined quality parameters as a result of the improper management of portfolios and projects.	Project Management in accordance with the KGHM Step Methodology as well as on-going monitoring and updating of schedules. On-going evaluation of the economic effectiveness of existing and anticipated development projects.
	(KGHM INTERNATIONAL Group) Risk related to the operational management and development of key mining projects, including issues related to costs incurred, permitting and infrastructural requirements.	

The following abbreviations were used in the table above: for the KGHM Polska Miedź S.A. Group – the KGHM Group; for the KGHM INTERNATIONAL LTD. Group – the KGHM INTERNATIONAL Group.

12.3. Market, credit and liquidity risk

The goal of market, credit and liquidity risk management in the KGHM Polska Miedź S.A. Group is to restrict the undesired impact of financial factors on cash flow and financial results in the short and medium terms and to enhance the Group's value over the long term. The management of these risk factors includes both the processes of risk identification and measurement as well as its restriction to acceptable levels. The process of risk management is supported by an appropriate policy, organisational structure and procedures. In the Parent Entity these issues are covered in the following documents:

- Market Risk Management Policy and the Rules of the Market Risk Committee,
- Credit Risk Management Policy and the Rules of the Credit Risk Committee, and
- Financial Liquidity Management Policy and the Rules of the Financial Liquidity Committee.

The „Market Risk Management Policy in the KGHM Polska Miedź S.A. Group" covers selected mining companies in the Group (KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD., FNX Mining Company Inc., Robinson Nevada Mining Company, KGHM AJAX MINING Inc. and Sociedad Contractual Minera Franke), with representatives of the Parent Entity and KGHM INTERNATIONAL LTD. serving as members of the Market Risk Committee.

Financial liquidity management in the Parent Entity is carried out in accordance with the Management Board-approved „Financial Liquidity Management Policy". In KGHM INTERNATIONAL LTD. the principles of liquidity management have been set forth in the "Investment Policy". The Parent Entity oversees the process of liquidity management and borrowing in the Group.

Credit risk management in the Parent Entity is carried out in accordance with the Management Board-approved Credit Risk Management Policy. The Parent Entity serves as an advisor to the Group's companies with respect to managing credit risk. In 2015, a „Credit Risk Management Policy in the KGHM Polska Miedź S.A. Group" was adopted, the goal of which is to introduce a comprehensive, joint approach and the most important elements of the credit risk management process in selected Group companies.

12.4. Market risk management

Market risk is understood as the possible negative impact on the Group's results arising from changes in the market prices of commodities, exchange rates and interest rates, as well as from changes in the value of debt securities and share prices of listed companies.

In terms of market risk management (in particular the risk of changes in metals prices and exchange rates) of greatest significance and impact on the results of the Group are the scale and nature of the activities of the Parent Entity and the mining companies of KGHM INTERNATIONAL LTD.

The Parent Entity actively manages the market risk, undertaking actions and decisions in this regard within the context of the global exposure throughout the KGHM Polska Miedź S.A. Group.

The Management Board is responsible for market risk management in the Parent Entity and for adherence to policy in this regard. The main body involved in performing market risk management is the Market Risk Committee, which makes recommendations to the Management Board in this area.

in PLN millions, unless otherwise stated

Commodity risk, currency risk	In 2016, the Group was mainly exposed to the risk of the changes in the prices of metals it sells: copper and silver. Of major significance for the Parent Entity was the risk of changes in currency rates, in particular the USD/PLN exchange rate. The Group's companies are additionally exposed to the risk of volatility in the prices of lead, gold, molybdenum, platinum and palladium. Market risk related to changes in metals prices arises from the formula for setting prices in physical metals sales contracts, which are usually based on the average monthly market prices for the relevant future month. In accordance with the Market Risk Management Policy, in 2016 the Parent Entity continuously identified and measured market risk related to changes in metals prices, exchange rates and interest rates (analysis of the impact of market risk factors on the Parent Entity's activities – profit or loss, statement of financial position, statement of cash flow), and also analysed the metals and currencies markets. These analyses, along with assessment of the internal situation of the Parent Entity and Group, represented the basis for taking decisions on the application of hedging strategies on the metals, currency and interest rates markets. With respect to managing risk in 2016, the Parent Entity implemented copper price hedging transactions with a total notional amount of 171.5 thousand tonnes and a hedging horizon falling from March 2016 to December 2018 (where 56 thousand tonnes hedged revenues from copper sales in 2016). Moreover in 2016, silver price hedging transactions were implemented, with a total notional amount of 4.05 million troy ounces and a hedging horizon falling from July 2016 to December 2017 (where 1.35 million ounces hedged revenues from silver sales in 2016). As a result, as at 31 December 2016 the Parent Entity held open derivatives transactions on the metals market (for 115.5 thousand tonnes of copper and 2.70 million ounces of silver) for the years 2017-2018. Moreover, in 2016 the Parent Entity implemented transactions hedging against a change in the USD/PLN exchange rate for the total notional amount of USD 900 million (where USD 360 million hedged revenues from sales in 2016). As for managing currency risk which may arise from bank loans, the Parent Entity applies natural hedging by borrowing in currencies in which it has revenues. As at 31 December 2016, following their translation to PLN, the Parent Entity's balance of bank loans and a loan which were drawn in USD amounted to PLN 7 932 million. As at 31 December 2016, the Parent Entity held an open hedging position in derivatives for USD 1 800 million of planned revenues from sales of metals. Moreover, the first instalment of the loan from the European Investment Bank (in the amount of USD 300 million) hedges revenues from sales against the risk of a change in the exchange rate in the period from October 2017 to October 2026. As at 31 December 2016, KGHM INTERNATIONAL LTD. did not hold open hedging positions on the metals and currency markets. Some of the Group's Polish companies managed the currency risk related to their core businesses by opening hedging positions on the EUR/PLN and USD/PLN markets.
Interest rate risk	Interest rate risk is the possibility of the negative impact of changes in interest rates on the Group's situation and results. In 2016, the Group was exposed to such risk due to loans granted, free cash invested on deposits and borrowings. As at 31 December 2016, the following positions were exposed to interest rate risk by impacting the amount of interest costs and income: - cash and cash equivalents: PLN 1 195 million, including the deposits of special purpose funds: the Mine Closure Fund and the Tailings Storage Facility Restoration Fund, - liabilities due to bank loans drawn: PLN 6 391 million. As at 31 December 2016, 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 4 351 million, including due to loans granted by KGHM INTERNATIONAL LTD. for the financing of a joint mining venture in Chile: PLN 4 313 million (USD 1 032 million), - liabilities due to loans drawn with fixed interest rates: PLN 1 684 million, including a loan received by the Parent Entity from the European Investment Bank in the amount of PLN 1 679 million (or USD 402 million). Financial liabilities denominated in USD and EUR, based on LIBOR or EURIBOR, exposes the Group to the risk of higher interest rates which would result in higher interest costs. As a result, taking into consideration the global exposure of the Group to interest rate risk, the Parent Entity decided to exercise its right to draw loans from the European Investment Bank based on a fixed interest rate. With respect to managing risk in 2016, transactions hedging the Parent Entity against an increase of the interest rate were implemented (LIBOR USD) by purchasing call options (interest rate CAP) with a 2.50% interest rate for the years 2019-2020 and with an average quarterly notional amount of USD 1 000 million. As a result, as at 31 December 2016 the Parent Entity held open derivatives transactions on the interest rate market for the years 2017-2020.

in PLN millions, unless otherwise stated

Price risk related to the change in share prices of listed companies	Price risk related to the shares of listed companies held by the Group is understood as the change in their fair value due to changes in their quoted share prices. As at 31 December 2016, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Venture Exchange was PLN 577 million.
Result on derivatives and hedging transactions	The total impact of derivatives (transactions on the copper, silver, exchange rate, interest rate and embedded derivatives markets) on the Group's profit or loss for 2016 amounted to PLN (184) million, of which: - PLN 3 million was recognised in sales revenue, - PLN 204 million decreased the result on other operating activities (wherein: the loss from the realisation of derivatives amounted to PLN 19 million, and the loss from the measurement of derivatives amounted to PLN 185 million), - PLN 17 million increased the result on financing activities (net costs and income on the measurement and realisation of derivatives on the interest rate market). Moreover in 2016, other comprehensive income decreased by PLN 165 million (impact of hedging instruments, including: the first loan's tranche from the European Investment Bank being a hedge for sales revenue). As at 31 December 2016, the negative fair value of open positions in derivatives of the Group (on the metals, currency, interest rate and embedded derivatives markets) amounted to PLN 162 million.

12.5. Credit risk management

Credit risk is defined as the risk that counterparties will not be able to meet their contractual obligations.

The Management Board is responsible for credit risk management in the Parent Entity and for compliance with policy in this regard. The main body involved in realising credit risk management is the Credit Risk Committee.

In 2016, the KGHM Polska Miedź S.A. Group was exposed to this risk, mainly in four areas:

Credit risk related to trade receivables	The Group's companies have been cooperating for many years with a large number of customers, which affects the geographical diversification of trade receivables. The Parent Entity limits its exposure to credit risk related to trade receivables by evaluating and monitoring the financial standing of its customers, setting credit limits and using debtor security. An inseparable element of the credit risk management process realised by the Parent Entity is the on-going monitoring of receivables and the internal reporting system. Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are mostly based on prepayments or commercial financing instruments which transfer all of the credit risk to financial institutions. In 2016, the Parent Entity secured the majority of its receivables by promissory notes, frozen funds on bank accounts, registered pledges, bank guarantees, corporate guarantees, mortgages and documentary collection. Additionally, the majority of customers who hold buyer's credit on contracts have ownership rights confirmed by a date certain. To reduce the risk of insolvency by its customers, the Parent Entity has a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables. Taking into account the collateral held and the credit limits received from the insurance company, as at 31 December 2016 the Parent Entity had secured 92% of its trade receivables (as at 31 December 2015: 95%). The concentration of credit risk in the Group is related to the terms of payment granted to key clients. Consequently, as at 31 December 2016 the balance of receivables from 7 of the Group's largest clients, in terms of trade receivables at the end of the reporting period, represented 45% of the trade receivables balance (as at 31 December 2015: 56%). Despite the concentration of this type of risk, it is considered that due to the availability of historical data and the many years of experience cooperating with clients, as well as above all due to the hedging used, the level of credit risk is low.
Credit risk related to cash and cash equivalents and bank deposits	The Group 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 limitation of the level of concentration in individual institutions.
Credit risk related to derivatives transactions	All of the entities with which the Group enters into derivative transactions (with the exception of embedded derivatives) operate in the financial sector. These are mainly financial institutions, with medium-high and medium ratings. According to fair value as at 31 December 2016, the maximum share of a single entity with respect to credit risk arising from open derivative transactions entered into by the Group and from unsettled derivatives amounted to 32%. Due to diversification of risk in terms both of the nature of individual entities and of their geographical location, as well as taking into consideration the fair value of assets and liabilities arising from derivative transactions, the Group is not materially exposed to credit risk as a result of derivative transactions entered into.
Credit risk related to loans granted	As at 31 December 2016, the balance of loans granted by the Group amounted to PLN 4 351 million. The most important of these are long-term loans in the total amount of PLN 4 313 million, or USD 1 032 million, granted by the KGHM INTERNATIONAL LTD. Group for the financing of a mining joint venture in Chile. Credit risk related to the loans granted is dependent on the risk related to mine project advancement. Due to identification of indications, the Group conducted test for impairment of mining assets and recognised an impairment allowance on loans granted in the amount of PLN 4 394 million.

in PLN millions, unless otherwise stated

12.6. Financial liquidity risk and management of capital

The management of capital in the Group aims at providing both relevant funding capabilities for business development and at securing relevant liquidity.

Financial liquidity management	Financial liquidity is managed in the Parent Entity in accordance with the Management Board-approved „Financial Liquidity Management Policy". In KGHM INTERNATIONAL LTD., the principles of liquidity management have been set forth in the Investment Policy. These documents describe the process of financial liquidity management considering the nature of the Group's companies, indicating best practice procedures and instruments. The basic principles resulting from these documents are: – the need to ensure stable and effective financing for the Group's operations, – placement of surplus cash in safe instruments, – limits for individual financial investment categories, – limits for the concentration of resources held in financial institutions, and – effective management of working capital. Borrowing by the Group is based on three pillars: - an unsecured, revolving syndicated credit facility, obtained by the Parent Entity and which is for the amount of USD 2 500 million with a maturity of 9 July 2021, - an investment loan granted to the Parent Entity by the European Investment Bank in the amount of PLN 2 000 million with a financing period of 12 years, and - bilateral bank loans in the amount of PLN 3 300 million, to support the management of current liquidity in companies, to support financing of working capital, as well as to finance the continued advancement of investments. Detailed information regarding available sources of financing and their utilisation in 2016 may be found in Section 6.4 of this report. These sources of financing fully cover the Group's liquidity needs. During 2016, the Group made use of borrowing which was available from all of the above pillars. As at 31 December 2016, liabilities of the Group due to bank and other loans drawn amounted to PLN 8 098 million.
Management of capital	In order to maintain the ability to operate, taking into consideration the execution of planned investments, the Group manages capital so as to be able to generate returns for shareholders and provide benefits for other stakeholders. The Group aims to maintain the equity ratio, in the long-term, at a level of not less than 0.5, and the ratio of Net Debt/EBITDA at a level of up to 2.0.

in PLN millions, unless otherwise stated

13. Human resources in the Company and Group

13.1. Employment and remuneration

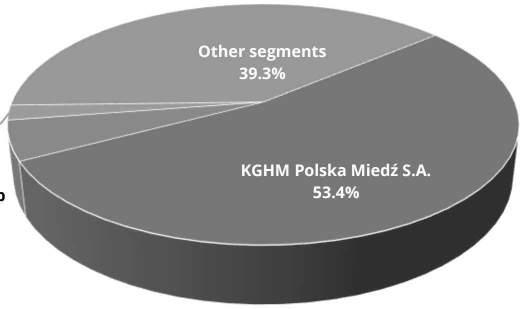
Group

In 2016, the companies of the Group (including 55% of the employees at Sierra Gorda S.C.M.) employed 33 370 people, or a decrease by 0.7%. The employment structure is shown in the following table and chart.

Table 50. Average employment in the Group

	2016	2015	Change (%)
white collar	10 062	10 285	-2.2%
blue collar	23 308	23 313	-0.02%
Total	**33 370**	**33 598**	**-0.7%**

Chart 32. Employment structure in the Group by segment in 2016



** Sierra Gorda S.C.M. –employment proportional to share in the company (55%)*

In 2016, average employment in the domestic companies of the KGHM Polska Miedź S.A. Group increased as compared to 2015 by 139 positions (or by 1%) due to an increase in employment in blue collar positions. The largest increases in employment were in:

- KGHM ZANAM S.A. - due to an increase in the scope of existing work and to development projects underway and planned,
- Uzdrowiska Kłodzkie S.A. - Grupa PGU and Uzdrowisko Połczyn PGU S.A. - due to changes in the form of employment, from civil contracts to labour contracts, and
- NITROERG S.A. - due to an increase in sales orders and higher demand for the company's products.

During this same period the companies of the KGHM INTERNATIONAL LTD. Group recorded a decrease in average employment as compared to 2015 by 344 positions (or by 16%) due to the implementation of actions aimed at reducing costs and adapting the size and structure of employment to the scope and schedule of work of the projects being advanced by KGHM INTERNATIONAL LTD.

KGHM Polska Miedź S.A.

Employment in KGHM Polska Miedź S.A. at the end of 2016 amounted to 18 266 people, and was 0.2% higher than at the end of the prior year. Average annual employment in KGHM Polska Miedź S.A. amounted to 18 176 and was higher than the level of employment in 2015 by 21 people. The change in employment was due to natural movements in staff.

Table 51. End-of-period employment

	2016	2015	Change (%)
Mines	12 470	12 421	+0.4%
Metallurgical plants	3 530	3 555	-0.7%
Other divisions	2 266	2 250	+0.7%
KGHM Polska Miedź S.A.	**18 266**	**18 226**	**+0.2%**

Table 52. Total average monthly remuneration (PLN)

	2016	2015	Change (%)
Mines	10 005	9 937	+0.7%
Metallurgical plants	8 150	8 050	+1.2%
KGHM Polska Miedź S.A.	**9 731**	**9 617**	**+1.2%**

The following factors impacted remuneration in 2016:

- an increase in the table of basic wage rates by PLN 74 from 1 January 2016,
- individual promotions and category raises for 22.0% of employees, and
- a decrease in the amount of the advance paid on the annual bonus from 17.5% to 13.5% of remuneration.

In 2016, average remuneration, excluding the annual bonus from profit earned, amounted to PLN 8 456, representing a statistical increase of 3.4% as compared to 2015.

Human Resources projects

In June 2015 a centralised project called „System for managing by results and managing talent" was initiated, which assumes that the Company and Group will take advantage of a coherent, uniform system of Managing by Results and Managing Talent. The project was completed in October 2016, and presently it awaits a decision on implementation.

In 2016 a draft uniform Company employee evaluation system was developed. The goal of this system is to evaluate employee competence in terms of development-related actions. This project is presently awaiting a decision on implementation.

In 2016 the companies of the Group were provided with the Parent Entity's newly implemented recruiting principles, together with the recommendation that, based on them, these companies establish their own principles. At the same time, these companies were also given the opportunity to make use of the „e-Rekrutacja" system in use in KGHM Polska Miedź S.A. Taking into consideration internal conditions, during the year some companies implemented the aforementioned regulations.

13.2. Relations with the trade unions

Group

In 2016, the domestic companies of the Group engaged in negotiations with the trade unions regarding questions of remuneration, employment conditions and social matters. In most cases they were conducted civilly and concluded with the signing of additional protocols to the Collective Labour Agreements and other Agreements. Two of the Group's companies remain in collective disputes initiated and suspended in prior years („MCZ" S.A. and PeBeKa S.A.). In 2016, new collective disputes were initiated in two entities („MCZ" S.A. and Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU), mainly regarding remuneration, which during the year were concluded by the signing of agreements.

„MCZ" S.A. – this company remains in four collective disputes announced in 2007 mainly involving the question of wage raises. At present these disputes have been suspended, with the company's Management Board and the trade unions basing their relations on annual protocols of settlements or agreements reached. Based on them, resources for remuneration in the company were increased. Each instance of the signing by the parties of these types of protocols was equivalent to a decision by all of the trade unions active in „MCZ" S.A., to refrain from the commencement of „strike procedures". Up to 31 August 2016, agreements were in force in the company which set forth the principles for wage raises for the company's employees, which primarily dealt with the principles for allocating resources distributed by the national health fund (NFZ) based on Decrees of the Minister of Health in 2015. In September 2016 discussions recommenced with the trade unions regarding the principles for wage raises in the company after 1 September 2016, which concluded with the commencement on 30 September 2016 of a new collective dispute, as the Management Board of the company was unable to comply with the demands of the trade unions. As a result of negotiations between the parties, during the year an agreement was signed which concluded the dispute.

Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU – on 18 April 2016 a collective dispute was initiated involving wage demands. Negotiations conducted during the year with the trade unions involved an increase in remuneration from 2017 and the question of payment of pension and disability benefits. On 20 October 2016, the trade unions adopted the proposal of the company's Management Board and signed agreements which concluded the dispute.

PeBeKa S.A. – since March 2010 the company has been in a collective dispute with the trade union Związek Zawodowy Pracowników Dołowych, which since 12 August 2010 has been suspended for an indefinite period of time.

KGHM Polska Miedź S.A.

On 29 January 2016, Additional Protocol No. 17 to the Collective Labour Agreement (CLA) for the Employees of KGHM Polska Miedź S.A. was signed. It introduces changes in the principles for calculating the annual bonus on profit earned. The Protocol states that the annual bonus starting from 2015 will no longer be calculated from profit for the period, but from the positive financial result as defined in this protocol, which is understood as profit/loss for the period excluding the impact of any impairment losses on non-current assets.

On 23 March 2016, Additional Protocol No. 18 to the CLA was signed, based on which, the additional contribution to the social fund was increased by 4.5%.

On 13 April 2016, the Parties to the CLA entered into an agreement, based on which Additional Protocol No. 19 to the CLA was signed. It changed Annex No. 2, i.e. the table of monthly basic wage rates.

13.3. Occupational health and safety

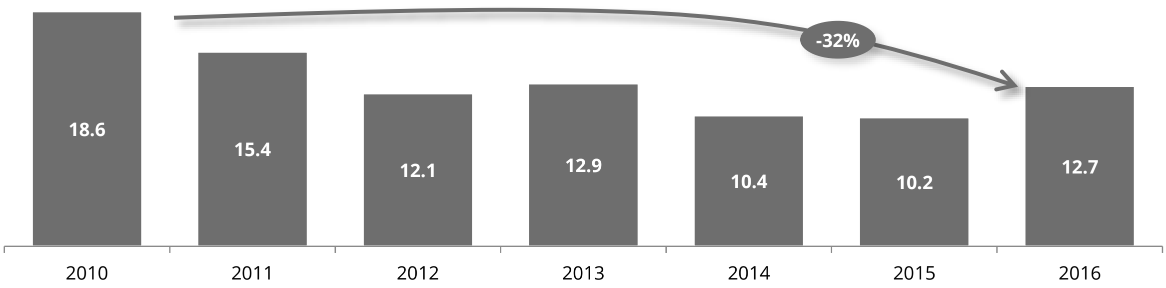
The life and health of employees and workplace safety in general is the chief priority in the hierarchy of values of the KGHM Polska Miedź S.A. Group. The Company applies high OHS standards, both towards its own employees as well as towards those providing services on the grounds of KGHM Polska Miedź S.A. Each of the Company's Divisions has implemented a safety management system which is compliant with standards in force. Every work station has identified threats and professional risk assessments and are appropriately prepared in terms of occupational safety. Working environments are continually monitored and periodic reviews and potential threat assessments are conducted, as well as reviews of equipment and required technical checks and approvals. Employees undergo systematic training and continually enhance their qualifications. In 2014, a uniform occupational health and safety policy was implemented and a „Program to improve workplace safety in KGHM Polska Miedź S.A. to the year 2020" is being implemented, making use of the Company's experience to date, enriched by new solutions to enhance OHS. This Program includes the optimisation of key areas for safety: employee attitudes (behaviour), education (skills), work environment and employee health. The Program is particularly aimed at:

- decreasing the LTIFR ratio (the number of accidents per million worked hours),
- improving safety culture,
- raising employees' skills,
- higher involvement of employees in efforts to improve safety,
- implementing a coordinated program to promote health,
- further improvement of workplace environment, and
- optimising costs related to occupational health and safety.

Amongst the most hazardous and life-threatening events involving employees in the mines of KGHM Polska Miedź S.A. are the natural hazards associated with the underground mining of copper ore. In particular, hazards related to mining tremors and their potential effects in the form of roof and wall collapses are considered as particularly important from the safety point of view, as their occurrence can lead to serious or even fatal injuries as well as damage to underground machinery, equipment and infrastructure, along with production downtimes. KGHM Polska Miedź S.A. maintains on-going seismic observations in its mines based on a well-developed network of underground and surface-based seismic monitoring stations, encompassing all of the company's active mining areas. Preventive actions are also undertaken to limit the threat of tremors and roof collapses. These include on-going assessment of the rock mass; marking off areas of particular threat of roof collapse; selecting the size, shape and number of chambers and inter-chamber pillars; selecting the size of protective pillars; determining the most advantageous direction of mine work advance and the optimum order of ore selection to minimise local concentrations of stress in the rock mass; provoking dynamic events through mass blasting of mining faces and through blasting to release stress in the orebody or its roof.

Despite these actions, in 2016 the mines of KGHM Polska Miedź S.A. experienced a substantial number of mass accidents resulting from natural causes, in which a large number of people were injured. As a result, the total number of work-related accidents in 2016 increased from 298 in 2015 to 370. It should however be pointed out that in the long term perspective, i.e. since 2010, the number of work-related injuries in KGHM Polska Miedź S.A. decreased from 541 to 370, or by 31.6%, as reflected in the Lost Time Injury Frequency Rate (LTIFR), i.e. the number of accidents per million worked hours.

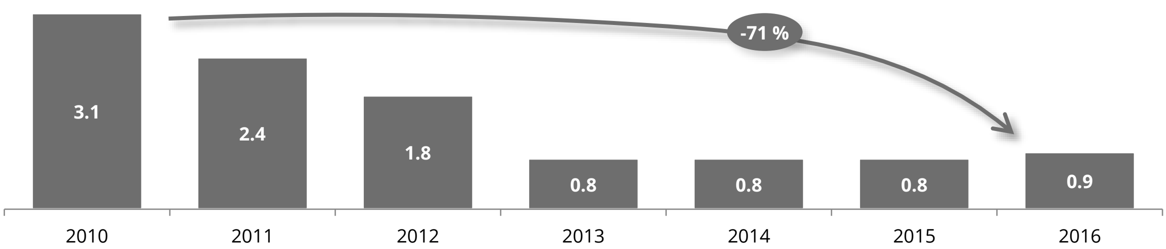
Chart 33. LTIFR in the Parent Entity



In the KGHM INTERNATIONAL LTD. Group, the management of occupational health and safety is based on the identification, assessment, elimination and/or control of hazards and risks related to advancing and continuously improving the organisational culture of Zero Harm, which at the same time represents one of the company's values. Management of OHS comprises all of the companies which are fully owned by KGHM INTERNATIONAL LTD. or in which KGHM INTERNATIONAL LTD. is a managing partner. The policy of Zero Harm encompasses employees, contractors and local communities, and is identified as an on-going tool in preventing OHS hazards as well as in terms of environmental protection.

The impact of these activities is reflected in the maintenance of the TRIR ratio (Total Recordable Incident Rate), or the number of accidents per 200 thousand worked hours, at a low level in the recent years. In the long-term period, i.e. since 2010 the TRIR decreased by 71% amounting to 0.9 in 2016.

Chart 34. TRIR in KGHM INTERNATIONAL LTD.



**In comparison to last year's information regarding occupational safety in the Company and Group, the TRIR ratio for 2011 was normalised due to a change in the reporting standard in KGHM International Ltd. to the ICMM standard (International Council on Mining & Metals) in 2012. In comparison to last year's information regarding occupational safety, also normalised was the TRIR ratio for 2012 due to a change in the manner of presenting rounded-off figures.*

in PLN millions, unless otherwise stated

14. Significant contracts for the Company and Group

In 2016, Group companies entered into the following significant contracts.

Date	Description
11 March 2016	Annex to the contract dated 28 April 2014 signed between KGHM Polska Miedź S.A and nkt cables group GmbH for the sale of copper wire rod. The signed annex relates to the sale of copper wire rod in 2016. The value of the contract for the years 2014-2016 amounted to PLN 3 371 million. In accordance with the agreed option, the contract is prolonged for 2017.
12 May 2016	Annex to the agreement for an unsecured loan in the amount of PLN 2 billion, which was signed on 1 August 2014 with the European Investment Bank, extending the loan's period of availability by 12 months. Other terms of the Agreement have not materially changed.
20 June 2016	Contract for the sale of copper cathodes in the years 2017 - 2021 signed between KGHM Polska Miedź S.A. and China Minmetals Corporation. This is a framework contract. The value of this contract depends on the volume of options used and is estimated to be from USD 1 178 million, or PLN 4 562 million, to USD 2 828 million, or PLN 10 949 million (the USD/PLN exchange rate announced by the National Bank of Poland as at 20 June 2016).

14.1. Related party transactions under other than arm's length conditions

In 2016, neither the Parent Entity nor its subsidiaries entered into related party transactions under other than arm's length conditions.

14.2. Information on contracts for the audit or review of the financial statements

The entity entitled to audit the separate financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the KGHM Polska Miedź S.A. Group is Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered head office in Warsaw, Al. Jana Pawła II 22.

On 7 April 2016, KGHM Polska Miedź S.A. signed a contract with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. for the review of the half-year financial statements and for the audit of the annual financial statements for the years 2016, 2017 and 2018.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. was also selected to audit the financial statements of twenty-seven subsidiaries of the KGHM Polska Miedź S.A. Group and the financial statements of a joint venture - Sierra Gorda S.C.M.

Detailed information on remuneration of the entity entitled to audit the financial statements for the review and audit of financial statements and other remuneration is presented in notes 12.11 of the separate and consolidated financial statements.

14.3. Information about suppliers and customers

The copper smelters/refineries of KGHM Polska Miedź S.A. produce electrolytic copper from concentrates produced from its own mined ores as well as from purchased copper-bearing material (concentrates, copper scrap and blister copper). In 2016, the production of electrolytic copper from purchased copper-bearing material amounted to 159.6 thousand tonnes, and represented 29.8 % of total electrolytic copper production.

For the most part, this production came from copper scrap (82.2 thousand tonnes of Cu; 15.3% of total electrolytic copper production), which is supplied to the metallurgical plants of KGHM by KGHM Metraco S.A. - a 100%-owned subsidiary of KGHM Polska Miedź S.A.

KGHM Metraco S.A., due to its specialisation and familiarity with the scrap market, as well as to its equity relationship with KGHM Polska Miedź S.A., supplies scrap to the metallurgical plants of KGHM based on exclusivity and is the only counterparty, which turnover with the Company and Group exceeds 10% of KGHM Polska Miedź S.A.'s sales revenue.

In 2016, as in the previous years, there were no significant changes in the sources of supply of materials, merchandise and services to KGHM Polska Miedź S.A. There was no recorded dependence on a single or multiple customers or suppliers.

15. Litigation and claims

At the end of 2016, the total value of on-going disputed issues both by and against KGHM Polska Miedź S.A. and its subsidiaries amounted to PLN 302 million, including receivables of PLN 141 million and liabilities of PLN 161 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 2016:

- proceedings by KGHM Polska Miedź S.A. amounted to PLN 49 million,
- proceedings by subsidiaries amounted to PLN 92 million.

Value of proceedings involving liabilities at the end of 2016:

- proceedings against KGHM Polska Miedź S.A. amounted to PLN 63 million,
- proceedings against subsidiaries amounted to PLN 98 million.

16. Environmental protection

16.1. KGHM Polska Miedź S.A.

Activities of the Company related to environmental protection

KGHM Polska Miedź S.A. as one of the most important and socially responsible companies in Lower Silesia, cannot and does not want to avoid its responsibility for the environment in which it operates. The idea of sustainable growth, and in particular respect for the natural environment, is one of the most important value of the Company. The extraction of copper ore, followed by its processing at all stages of production, is inextricably linked to its impact on various aspects of the natural environment. Adherence to strict environmental standards, mandated by law, is possible thanks to the systematic modernisation of installations protecting the environment, both those built in the past as well as new investments in this area. In 2016 the Company spent PLN 631 million on investments related to environmental protection, of which the largest expenditure, in the amount of PLN 616 million, was incurred on the Pyrometallurgy Modernisation Program at the Głogów I Copper Smelter and Refinery.

In accordance with the agreement on sustainable development signed in 2013 between Głogów County (Powiat Głogowski) and the Management Board of KGHM Polska Miedź S.A., in 2016 the liming of soil was performed in the rural municipality of Głogów. By a resolution of the Management Board of KGHM Polska Miedź S.A., financial resources were provided to the rural municipality of Głogów, which enabled the liming of agricultural soil over an area of 786 ha, wherever it was necessary and required.

Environmental fees

Total environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2016 amounted to PLN 24 million. The amount of fees paid was over PLN 7 million lower than in 2015. The decrease in fees was due to the implementation in 2016 of a system in the mines for monitoring chlorides and sulphides volumes, which enables calculation of the fee for the emission of excess water from the Żelazny Most tailings storage facility less the measured amount of chlorides and sulphides pumped from the mines.

In 2016 the highest fees paid by the Company were for the emission of substances in excess water from the Żelazny Most tailings storage facility: PLN 14 million. Another item of costs is the fee for atmospheric emissions in the amount of PLN 6 million.

Legal status and future actions

KGHM Polska Miedź S.A. operates ten installations whose functioning, in accordance with the Act on Environmental Protection, requires integrated permits. As a result of the coming into force of Implementing Decision 2016/1032 of the European Commission establishing best available techniques (BAT) conclusions for the non-ferrous metals industries, we reviewed the integrated permits held in terms of their compliance with existing law.

In addition the Tailings Division holds permits for the operation of the Żelazny Most tailings storage facilities, and sector permits required by law. The remaining Divisions of the Company possess environmental sector administrative decisions.

Metallurgical installations at the Głogów and Legnica Copper Smelters and Refineries as well as the gas-steam blocks in Polkowice and Głogów also hold permits to participate in the CO_2 emissions trading system, as since 2013 KGHM Polska Miedź S.A. has been participating in the obligatory European Union Emissions Trading System (EU ETS).

In 2016, emissions in the previous year in the amount of 637 thousand tonnes of CO_2 were settled by freely-acquired rights (550 thousand tonnes of CO_2) supplemented by purchases of rights (EUAs or European Emission Allowances and CERs - certified emission reduction).

It is expected that 2016 emissions at the level of approx. 740 thousand tonnes of CO_2 will be settled thanks to freely-acquired rights for the Głogów and Legnica Copper Smelters and Refineries as well as additional rights received for the Polkowice gas-steam block for 2015 and 2016 (altogether 597 thousand tonnes of CO_2) as well as purchases of rights (EUA and CER) in the amount of PLN 3 million.

The most important planned undertakings related to environmental protection in the near term are as follows:

- completion of the process of bringing constructed aggregates on line related to the modernisation of pyrometallurgy at the Głogów smelter/refinery,
- adaptation of administrative decisions held to BAT conclusions,
- overseeing the system for trading CO_2 emissions,
- work related to ensuring the security of the "Żelazny Most" tailings storage facility, such as strengthening the containment dam,
- continuation of a program to promote health and prevent environmental threats – aimed at the people living in former protective zones, and
- development of the "Żelazny Most" tailings storage facility by the so-called southern quarter.

Activities to meet REACH Regulation requirements

KGHM is a member of six international consortia created to meet the requirements of EC Regulation No. 1907/2006, the so-called REACH Regulation. In 2016, cooperation with the consortia involved adaptation to changes in REACH requirements as regards registration documentation, the classification of substances, assessment and authorisation. These changes are to be introduced smoothly, which is why the REACH consortia will continue to function.

In 2016, costs incurred by KGHM due to cooperation with the consortia amounted to EUR 117.3 thousand and GBP 3.7 thousand. The main item was the fee paid to the Copper Consortium related to the updating of registration documentation.

In 2016, KGHM registered gold and bismuth (which is present in the lead-bismuth alloy produced). These were the last planned REACH registrations in KGHM Polska Miedź S.A. It is predicted that the current cooperation with the REACH consortia will amount to around EUR 100 thousand per year.

Updating of BREF documentation

BREF documents are required by the EU and comprise descriptions of techniques applied in various industries with an emphasis on best available ecological techniques, for use by Member States as a starting point for the issuance of environmental permits.

Work is being conducted by the Joint Research Centre – Institute of Prospective Technological Studies (JRC-IPTS) in Seville in cooperation with Technical Working Groups (TWGs), composed of representatives of Member States, organisations and industry (including KGHM).

In the years 2007-2014 work was carried out on updating the BREF document NFM BREF for the non-ferrous metals industry. Based on this document the European Commission prepared BAT conclusions, which in 2016 were confirmed by the Member State Committee and published in the form of an Implementing Decision of the Commission on 13 June 2016.

Since 2013 work is being conducted on the BREF update (Best available techniques Reference document) to deal with mining tailings and waste. In 2016, based on the information it was provided, JRC-IPTS developed a working version of the MWEI BREF document, which it forwarded to the TWGs for their opinion. The TWGs presented approx. 2000 comments to this document. At present these comments are being assessed.

In 2016, work began on a new BREF document, Common Waste Gas Treatment in the Chemical Sector. This document discusses the question of sulphuric acid production. At present work is underway on setting the scope of this document.

16.2. KGHM INTERNATIONAL LTD. Group

In 2016, entities of the KGHM INTERNATIONAL LTD. Group also engaged in activities related to environmental protection. Activities at the Robinson mine in the USA were aimed at monitoring air and water quality, waste management and the restoration of mining areas - total expenditures amounted to approx. PLN 23 million, including PLN 2.5 million due to environmental permits held, of which PLN 0.04 million were in the form of an emission fee.

At the Carlota mine in the USA, activities were mainly related to closure of the mine and environmental monitoring - total expenditures for this purpose amounted to approx. PLN 11 million, including PLN 0.24 million in the form of an emission fee.

In addition, actions are underway at the Franke mine in Chile with respect to controlling dust, managing waste and monitoring environmental impact - total expenditures amounted to approx. PLN 3 million. Expenditures in remaining operations amounted to approx. PLN 0.8 million.

In Chile there is no system of fees for environmental emissions.

Financial resources for mine closure and restoration of mining areas

Pursuant to laws in force in the United States and Canada, the KGHM INTERNATIONAL LTD. Group is obligated to purchase government environmental bonds at the amount of the estimated provision for decommissioning of mines and technological facilities.

As at 31 December 2016, the value of assets to cover the costs of decommissioning the mines of KGHM INTERNATIONAL LTD. (cash and debt instruments) amounted to PLN 189 million (as at 31 December 2015 – PLN 140 million). In addition, as at 31 December 2016, KGHM Polska Miedź S.A. had issued letters of credit to secure liabilities related to covering the costs of decommissioning mines and restoring terrain in the amount of PLN 348 million (as at 31 December 2015 – PLN 324 million).

16.3. Other Group companies in Poland

All of the domestic companies of the Group operate in compliance with environmental laws, and valid environmental permits are held by companies which are required to do so. Amongst the Polish companies of the Group, the largest environmental impact comes from the activities of the company „Energetyka" sp. z o.o. In 2016, this company incurred the highest environmental fees. They amounted to almost PLN 3 million and were mainly comprised of payments for water intake and waste discharge (over PLN 2.0 million) and for emission of contaminants to the atmosphere (PLN 0.7 million). In 2016 this company completed the modernisation of stoker-fired boiler no. 1 in the E1-Lubin power plant using sealed wall technology, based on increasing heating capacity and equipment efficiency, as well as the efficiency of dedusting units to the level of 20 mg/m^3.

17. The Management Board and the Supervisory Board of the Parent Entity

17.1. Photos and biographies of the Management Board and Supervisory Board

Radosław Domagalski-Łabędzki – President of the Management Board of KGHM Polska Miedź S.A.

Graduate of the University of Łódź (master of law). He graduated Executive MBA studies at Rutgers University in New Jersey. He studied under a scholarship at the University of Műnster and in Mannheim, Germany.

A manager with extensive experience in managing complex international business projects. He prepared and implemented a development strategy in one of Poland's largest capital groups in Asia.

In the years 2006 – 2013 he was President of the Management Board of Magellan Trading Shanghai Co. Ltd in China. Earlier he worked as a lawyer in GSP Group Sp. z o.o. in Łódź and also in the American Enterprise Institute in Washington, one of America's largest think tanks.

From December 2015 to October 2016 he was Undersecretary of State in the Ministry of Development, responsible among others for promoting the Polish economy, and was a Member of the Polish Financial Supervision Authority.

Co-founder of the Polish – Chinese Chamber of Commerce in Shanghai. Author of numerous publications on business.

Michał Jezioro – Vice President of the Management Board of KGHM Polska Miedź S.A. (Development)

Graduate of the University of Wrocław (Faculty of Law and Administration, major: Management, and Faculty of Philology, major: German studies). He graduated from the National School of Public Administration in Warsaw majoring in Public Administration.

A manager with practical experience in managing on international markets, he has been associated with the KGHM Polska Miedź S.A. Group for many years.

In the years 2010-2016, he was the President of the Management Board of KGHM Shanghai Copper Trading Co. Ltd. Earlier, he was President of the Management Board of KGHM Kupferhandelsges.m.b.H. In the years 2000-2006, he was posted as the Vice Consul at the Consulate General of the Republic of Poland in Cologne.

Rafał Pawełczak – Vice President of the Management Board of KGHM Polska Miedź S.A.

Graduate of the Faculty of Chemistry at the University of Opole and Internal Audit, Oversight and Management Control post-graduate studies at the Faculty of Computer Science and Management of Wrocław University of Science and Technology. Certified Project Manager (CSM, PRINCE).

He has many years of experience in management. In the years 2008-2016 he was the head of the key projects management department of Wrocław University of Science and Technology (acquisition and settlement of investment, infrastructure and research and development projects).

Since 2009, he has served as an expert in bodies supporting Ministries in the process of coordinating the use of EU funds.

From May 2016, he served as an Executive Director for Research and Innovation in KGHM Polska Miedź S.A.

Stefan Świątkowski – Vice President of the Management Board of KGHM Polska Miedź S.A. (Finance)

Graduate of Łódź University of Technology (Master's Degree in mathematics), the University of Leeds in the United Kingdom (Master of Science in mathematics), and INSEAD in France (MBA).
He has many years of experience in financial management, risk management, and strategic management. Most recently he was a co-founder of Bizon Capital sp. z o.o. Earlier he served as a Vice President of the Management Board of FM Bank/Polski Bank Przedsiębiorczości and the bank Powszechna Kasa Oszczędności Bank Polski S.A. responsible for risk management. He was also the Finance Director at Europejski Fundusz Leasingowy S.A. and the ALCO Director at Lukas Bank S.A. He also worked in Bank Handlowy S.A. and in McKinsey & Company Poland sp. z o.o. as a consultant.

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

He was awarded the Złoty Krzyż Zasługi (Gold Cross of Merit) in March 2010.

Piotr Walczak – Vice President of the Management Board of KGHM Polska Miedź S.A. (Production)

Graduate of Wrocław University of Science and Technology, Faculty of Mining, with completion of post-graduate studies in „Finance Management" at the University of Economics in Wrocław.
He has been associated with KGHM and the Group since 1987. He started his career at the Polkowice-Sieroszowice Mine. He has worked at every level of the career lader in KGHM, from senior miner, foreman and mining work manager. He is also a mine rescuer. He became the Technical Director of the Polkowice-Sieroszowice Mine in 1999. In the years 2006-2007 and 2008-2010 he served as the Director of the Rudna Mine and Plenipotentiary of the Management Board. In the years 2007-2008 and 2010-2016 he was Director of the Mine-Smelter Emergency Rescue Division.

Since 2011 he has been a Member of the Council of Jan Wyżykowski University in Lubin (formerly Copper Belt Technical College).

17.2. Changes in the Parent Entity's bodies

Supervisory Board of the Company

In accordance with the Statutes of the Company the members of the Supervisory Board are appointed and dismissed by the General Meeting. As at 1 January 2016, the composition of the 9th-term Supervisory Board of KGHM Polska Miedź S.A. was as follows:

- Marcin Moryń Chairman,
- Tomasz Cyran Deputy Chairman,
- Bogusław Szarek Secretary,
- Bogusław Stanisław Fiedor,
- Jacek Poświata,
- Andrzej Kidyba,
- Barbara Wertelecka-Kwater,
- Józef Czyczerski,
- Leszek Hajdacki.

in PLN millions, unless otherwise stated

Changes in the composition and division of duties of the Supervisory Board in 2016:

Date	Description of changes
18 January 2016	– The Extraordinary General Meeting dismissed the following members of the Supervisory Board: Marcin Moryń, Tomasz Cyran, Bogusław Stanisław Fiedor, Jacek Poświata, Andrzej Kidyba, Barbara Wertelecka-Kwater. Radosław Barszcz, Michał Czarnik, Cezary Godziuk, Miłosz Stanisławski, Dominik Hunek and Jarosław Witkowski were appointed to the Supervisory Board.
3 February 2016	– The Supervisory Board appointed Dominik Hunek as a chairman and Radosław Barszcz as a deputy chairman.
11 August 2016	– The Supervisory Board adopted resolutions on the delegation for the period from 12 August to 30 October 2016 of two members of the Supervisory Board: Dominik Hunek and Michał Czarnik, to independently carry out supervisory activities regarding the Company with respect to the Company's investments outside of the Republic of Poland, including companies with their registered office outside of the Republic of Poland, for which KGHM Polska Miedź S.A. is a shareholder, as well as for which subsidiaries of KGHM Polska Miedź S.A are shareholders.
5 September 2016	– As a result of Radosław Barszcz submitting his resignation from the function of Deputy Chairman, the Supervisory Board appointed Michał Czarnik as Deputy Chairman of the Supervisory Board. – Moreover, the Supervisory Board delegated Member of the Supervisory Board Dominik Hunek to temporarily carry out the duties of a member of the management board – Vice President of the Management Board (Development), from 6 September to 6 December 2016.
29 September 2016	– The Supervisory Board adopted a resolution on the delegation for the period from 30 September to 30 October 2016 of member of the Supervisory Board Miłosz Stanisławski, to independently carry out supervisory activities regarding the Company with respect to the Company's investments outside of the Republic of Poland, including companies with their registered office outside of the Republic of Poland, for which KGHM Polska Miedź S.A. is a shareholder, as well as for which subsidiaries of KGHM Polska Miedź S.A are shareholders.
28 October 2016	– Dominik Hunek submitted his resignation to temporarily carry out the duties of a member of the management board – Vice President of the Management Board (Development).
6 December 2016	– Miłosz Stanisławski submitted his resignation from the function of a Member of the Supervisory Board.
7 December 2016	– The Extraordinary General Meeting of KGHM Polska Miedź S.A. dismissed from the composition of the Supervisory Board of the Company: Radosław Barszcz and Cezary Godziuk and appointed to the composition of the Supervisory Board – Wojciech Andrzej Myślecki, Marek Pietrzak and Agnieszka Winnik-Kalemba.

As at 31 December 2016, the composition of the Supervisory Board was as follows:

- Dominik Hunek – Chairman of the Supervisory Board,
- Michał Czarnik – Deputy Chairman,
- Wojciech Andrzej Myślecki,
- Marek Pietrzak,
- Agnieszka Winnik-Kalemba,
- Jarosław Witkowski,

along with the following employee-elected members

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

Management Board of the Company

In accordance with the Statutes of KGHM Polska Miedź S.A. the members of the Management Board are appointed and dismissed by the Supervisory Board. As at 1 January 2016, the composition of the 9th-term Management Board of KGHM Polska Miedź S.A. was as follows:

- Herbert Wirth – President of the Management Board,
- Jarosław Romanowski – First Vice President of the Management Board (Finance),
- Marcin Chmielewski – Vice President of the Management Board (Corporate Affairs),
- Jacek Kardela – Vice President of the Management Board (Development),
- Mirosław Laskowski – Vice President of the Management Board (Production).

Changes in the composition and division of duties of the Management Board in 2016:

Date	Description of changes
3 February 2016	– The Supervisory Board dismissed the President of the Management Board as well as Vice Presidents of the Management Board: Herbert Wirth, Jarosław Romanowski, Marcin Chmielewski and Jacek Kardela. – The Supervisory Board appointed Krzysztof Skóra as President of the Management Board, Jacek Rawecki and Mirosław Biliński as a Vice Presidents of the Management Board.
23 February 2016	– The Supervisory Board appointed Stefan Świątkowski as a Vice President of the Management Board.
15 March 2016	– The Supervisory Board dismissed Mirosław Laskowski from the function of Vice President of the Management Board and appointed Piotr Walczak as a Vice President of the Management Board.
17 May 2016	– The Supervisory Board appointed Jacek Rawecki as 1st Vice President of the Management Board.

2 September 2016	– Mirosław Biliński submitted his resignation from the function of Vice President of the Management Board effective as of 5 September 2016.
5 September 2016	– The Supervisory Board delegated Member of the Supervisory Board Dominik Hunek to temporarily carry out the duties of a member of the Management Board – Vice President of the Management Board (Development), from 6 September to 6 December 2016.
28 October 2016	– Dominik Hunek submitted his resignation from temporarily carrying out the duties of a member of the Management Board - Vice President of the Management Board (Development). – The Supervisory Board dismissed President of the Management Board Krzysztof Skóra and appointed Radosław Domagalski-Łabędzki as President of the Management Board.
9 November 2016	– The Supervisory Board appointed Michał Jezioro as a Vice President of the Management Board.

As at 31 December 2016, the composition of the Management Board was as follows:

- Radosław Domagalski-Łabędzki — President of the Management Board,
- Jacek Rawecki — 1st Vice President of the Management Board (Supply Chain Management),
- Michał Jezioro — Vice President of the Management Board (Development),
- Stefan Świątkowski — Vice President of the Management Board (Finance),
- Piotr Walczak — Vice President of the Management Board (Production).

The President of the Management Board was responsible for overseeing:

- the initiation, development, implementation, monitoring and updating of the Main Strategy,
- activities related to overall risk management at the corporate level as well as internal auditing and controlling within the Group,
- corporate supervision standards and the Company's compliance with corporate governance standards,
- overall corporate oversight over the Group's Polish subsidiaries,
- the development, updating and monitoring of the Group's equity investment plan,
- compliance with formal reporting and publishing obligations within the scope required by law,
- advancement of R&D and innovation policy,
- activities related to communications and corporate image-building within the Group,
- on the Founder's behalf - the functioning of the KGHM Polish Copper Foundation as well as other organisations serving the public, which support achievement of the Group's business goals, and
- activities related to human resources management.

The 1st Vice President of the Management Board (Supply Chain Management) was responsible for overseeing:

- work of the Central Procurement Office,
- the shaping of the Company's commercial and logistics policy,
- the shaping of the Company's portfolio of products and services,
- the initiation, development and implementation of governance standards in the supply chain, and
- the realisation of projects related to integrating the supply chain.

The Vice President of the Management Board (Finance) was responsible for overseeing:

- the shaping of the Group's financial policy,
- review of the Main Strategy's projects in terms of their financial feasibility,
- finances in all of the Group's operations and activities, and
- the creation of Group tax policy.

The Vice President of the Management Board (Development) was responsible for overseeing:

- the preparation and implementation of strategy for international assets,
- activities related to obtaining and developing the International resource base,
- analysis, assessment and preparation of new international exploration projects,
- preparation of studies and expert opinions concerning international resource base projects,
- corporate governance over international companies, and coordination of tasks with respect to the plan of the Company's equity investments in international subsidiaries, and
- the creation and implementation of budgets and production plans in international production subsidiaries belonging to the Group.

The Vice President of the Management Board (Production) was responsible for managing the process of manufacturing the Company's products and services and oversees production operations in the Group's subsidiaries, and is also responsible for acquiring, building and maintaining in readiness the production assets, in particular with respect to the tasks of occupational health and safety and control of environmental risk.

Vice President of the Management Board (Production) was responsible for overseeing:

- integrated planning, optimisation of production and development of the core business,
- occupational health and safety and control of environmental risk,
- management of real estate,
- activities with respect to acquiring, building and maintaining in readiness the production and non-production assets and achievement of the main goals of the Energy Strategy,
- planning and coordinating investment processes and development projects, and
- activities with respect to manufacturing products and services and development of the primary mine and metallurgical production.

Additional information

On 3 February 2017, Jacek Rawecki submitted his resignation from the function of First Vice President of the Management Board (Supply Chain Management). On the same day, the Supervisory Board appointed Rafał Pawełczak as a Vice President of the Management Board.

At the date of preparation of this report, the composition of the Management Board was as follows:

– Radosław Domagalski-Łabędzki	President of the Management Board,
– Michał Jezioro	Vice President of the Management Board (Development),
– Rafał Pawełczak	Vice President of the Management Board,
– Stefan Świątkowski	Vice President of the Management Board (Finance),
– Piotr Walczak	Vice President of the Management Board (Production).

Moreover, the division of duties between the President of the Management Board and the Vice President of the Management Board – as at the date of preparation of the report, had been changed and is as follows:

President of the Management Board is responsible for overseeing:

- activities related to overall risk management at the corporate level as well as internal auditing and controlling within the Group,
- corporate supervision standards and the Company's compliance with corporate governance standards,
- overall corporate oversight over the Group's Polish subsidiaries,
- the development, updating and monitoring of the Group's equity investment plan,
- compliance with formal reporting and publishing obligations within the scope required by law,
- organisational and legal servicing of the Company's bodies,
- activities related to communications and corporate image-building within the Group,
- the means used to shape relations with the external business environment,
- work of the Central Procurement Office,
- on the Founder's behalf - the functioning of the KGHM Polish Copper Foundation as well as other organisations serving the public, which support achievement of the Group's business goals,
- appointing a Strategy and Development Council and oversight of its work, and
- activities related to human resource management.

Vice President of the Management Board is responsible for overseeing:

- the initiation, development, implementation, monitoring and updating of the Main Strategy,
- advancement of R&D and innovation policy,
- the shaping of the Company's commercial and logistics policy,
- the shaping of the Company's portfolio of products and services,
- the initiation, development and implementation of governance standards in the supply chain, and
- the realisation of projects related to integrating the supply chain.

17.3. Remuneration of the Parent Entity's bodies and of other key managers of the Group

Information on the Management Board's remuneration

The employment contracts with Members of the Management Board are signed for the period of serving in the function. The remuneration is composed of the basic monthly salary and variable salary. The basic monthly salary is set as a multiple of the average monthly remuneration in the industrial sector, excluding payments from profit, in the fourth quarter of the previous year, announced by the President of the Chief Statistical Office. Payment of the variable salary is contingent on the fulfilment of criteria (tasks) set by the Supervisory Board, and is contingent upon achievement by the Members of the Management Board of key performance indicators (KPI) and amounts to up to 30% of the annual basic salary.

Additionally, the Supervisory Board, based on assessment of the work of the Management Board, may grant the members of the Management Board up to 20% of the annual basic salary.

The Supervisory Board may permit the Members of the Management Board to be members of the supervisory bodies of entities in which KGHM Polska Miedź S.A. has shares, under the restriction that they may not receive additional remuneration from any source, and will serve in the function as part of the aforementioned employment contract.

The employment contract with the Management Board Members also regulate the following matters:

- coverage by the Company of costs required for the proper performance of the employment contracts (travel, flights, room, board, travel insurance and representation costs, incurred by Management Board Members pursuant to the approved budget),
- the rental of a flat for Management Board member (the costs of a flat are defined by a separate contracts),
- medical benefits (in each calendar year of the life of the contract the Company purchases a medical packet for Management Board Members worth up to PLN 10 thousand), and
- life insurance premiums (once each year the Company covers or reimburses Management Board members the amount of the premiums to an amount up to one basic monthly salary).

The employment contracts do not provide for benefits and compensation due to the termination of the contracts before the dates they were entered into.

in PLN millions, unless otherwise stated

Table 53. Potentially-due remuneration for 2016 (with bonuses)

First, last name	Position	Potentially-due remuneration for 2016 (with bonuses) in PLN*
Radosław Domagalski-Łabędzki	Member of the Management Board – President of the Management Board	116 589.67
Stefan Świątkowski	Member of the Management Board - Vice President of the Management Board	503 964.97
Jacek Rawecki	Member of the Management Board – 1st Vice President of the Management Board	552 832.75
Piotr Walczak	Member of the Management Board - Vice President of the Management Board	469 870.08
Michał Jezioro	Member of the Management Board - Vice President of the Management Board	86 142.85
Krzysztof Skóra	Member of the Management Board - President of the Management Board	492 856.33
Mirosław Biliński	Member of the Management Board – Vice President of the Management Board	346 595.78
TOTAL		**2 568 852.43**

** Potentially-due remuneration due to the variable part of remuneration for 2016 (with additional 20%), payment of which is determined by the Supervisory Board.*

The contracts signed with Members of the Management Board forbidding any activities which would represent a conflict of interest with KGHM stipulate that, for adherence to such contracts, within a period of 9 months from the date of termination of employment in KGHM – regardless of the cause of termination – KGHM shall pay the Management Board Member, for each month during this period, compensation in the amount of 50% of the basic salary resulting from the employment contract. A Management Board Member who violates the stipulations of the aforementioned contract shall be obligated to return the full amount of compensation received. The aforementioned contract enters into force the day after the third full month of employment as a Member of the Management Board of the Company.

Detailed information regarding the remuneration, bonuses and benefits of managing persons is presented in notes 12.10 of the separate and consolidated financial statements.

Information on the Supervisory Board Members' remuneration

The remuneration of members of the Supervisory Board till 6 December 2016 was regulated by Resolution No. 15/2003 regarding changes in the principles of remuneration of the Supervisory Board Members, adopted by the Ordinary General Meeting on 29 May 2003. On 7 December 2016 the Extraordinary General Meeting of the Company, by adopting the Resolution No. 9/2016 changed the terms of setting the remuneration of Members of the Supervisory Board. This change was the effect of applying to instructions resulting from the Act of 9 June 2016 on the terms of setting the remuneration of individuals managing certain companies (Journal of Laws of 2016, item 1202). The amount of monthly remuneration of individual members of the Supervisory Board depends on the function served and is set as a multiple of the gross average monthly remuneration in the corporate sector excluding payments from profit in the fourth quarter of the previous year.

The Company also covers or reimburses costs related to participation in the work of the Supervisory Board, and in particular to travel costs from the place of residence to the site of Supervisory Board meetings and back, as well as room and board.

Detailed information on the amount of remuneration, bonuses or benefits for supervisory personnel may be found in notes 12.10 of the separate and consolidated financial statements.

According to it, the monthly remuneration of individual members of the Supervisory Board was based on function served in it and was set as multiplication of the average monthly gross remuneration in the corporate sector, excluding payments from profit, for the last month of previous quarter.

Information on bonus systems of key managers

As a result of the cascading of tasks and objectives of the Management Board on key managers, in KGHM Polska Miedź S.A. the following rules/regulations, based on two pillars, are applied:

- **STIP - Short-Term Incentive Plan** – principles for setting and granting annual bonuses for executive directors of the Divisions and for directors assigned to specific matters in the Divisions, as well as for executive directors and directors of departments in the Head Office of KGHM Polska Miedź S.A. This system is based on collective, individual and task-related KPIs which were derived from the priorities of the Management Board for 2016 as set by the Supervisory Board, as well as on goals arising from the Company's strategy. The STIP System comprises a group of 117 managers in the Company.
- **LTIP - Long-Term Incentive Plan** – a long-term incentive program for executive directors in the Divisions and for directors responsible for individual matters in the Divisions, as well as for executive directors in the Head Office of KGHM Polska Miedź S.A. for the years 2013-2016. The main purpose of the program is to directly link the main long-term strategic goal of increasing the Company's value with the system of remunerating key managing directors. This concept assumes setting target amounts under the market indicator TRS (Total Return to Shareholders) and individual indicators related to long-term strategic goals. The LTIP System was comprised of 56 directors during the period from 1 July 2013 to 30 June 2016.

18. Ethics and Corporate Governance

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

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

Additionally, in order to enable effective implementation of the principles and values set forth in the Code of Ethics across the KGHM Polska Miedź S.A. Group other appropriate policies and procedures are in force. Their implementation meets world corporate governance standards as well as the increasing demands of stakeholders, including above all customers and financial institutions.

Based on best practices in corporate governance, the following policies are in force, introducing global, unified standards which have been adapted to the laws applicable in all of the jurisdictions in which the KGHM Polska Miedź S.A. Group operates:

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

In 2016 the Company fully implemented an internal system for managing a responsible gold supply chain, comprised of a Responsible Supply Chain Policy in the KGHM Group and a Procedure for Assessing a Responsible Supply Chain for Gold in KGHM Polska Miedź S.A. This system is subject to an independent, external audit to ensure compliance with the guidelines of the LBMA's Responsible Gold Guidance as well as to obtain certification by the LBMA (The London Bullion Market Association).

Work supporting the Code of Ethics of the KGHM Group will be continued in 2017.

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

Appendix 1 Corporate Governance Statement

In accordance with §91 sec. 5 point 4 of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of recognising information as equivalent as required by the laws of a non-member state and the Bylaws of the Warsaw Stock Exchange, the Management Board of KGHM Polska Miedź S.A. herein presents the Corporate governance statement for 2016.

KGHM Polska Miedź S.A., whose shares are listed on the Warsaw Stock Exchange, in 2016 was subject to the corporate governance principles described in the document „Code of Best Practice for WSE Listed Companies 2016" which was adopted by Resolution No. 26/1413/2015 of the Warsaw Stock Exchange Supervisory Board on 13 October 2015. These principles are available at the official website of the Warsaw Stock Exchange devoted to this subject (https://www.gpw.pl/WSE_corporate_governance), as well as at the website of KGHM Polska Miedź S.A. under the section devoted to corporate governance (http://kghm.com/en/investors/corporate-governance/governance-compliance).

KGHM Polska Miedź S.A. has endeavoured at every stage of its operations to carry out the recommendations and principles respecting "Best Practice" for listed companies.

In 2016, KGHM Polska Miedź S.A. did not comply with recommendation IV.R.2 from „Best Practice…", according to which, if justified, the company should enable its shareholders to participate in general meetings using electronic means of communication, in particular through the real-time broadcast of general meetings, real-time bilateral communication whereby shareholders may take the floor during a general meeting from a location other than the general meeting, and also exercise the right to vote during a general meeting either in person or through a plenipotentiary.

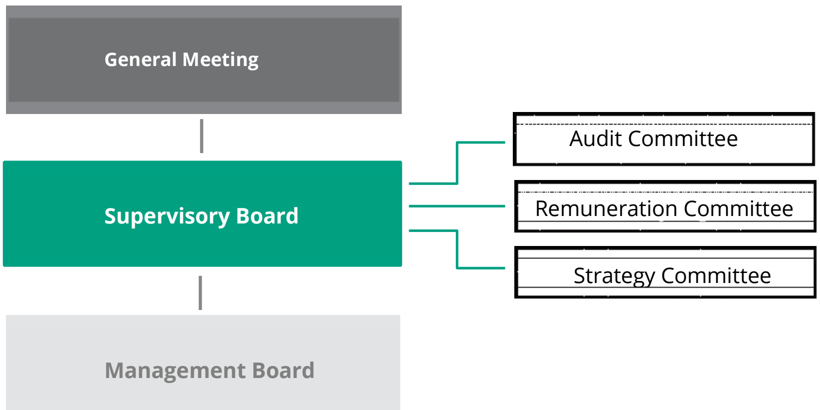
In the company's opinion, introduction of the possibility of participation in General Meetings using electronic means of communication may carry risk factors of a legal and technical nature leading to interference with the efficient conduct of General Meetings, and as a result to the possible questioning of any resolutions adopted. In the company's opinion, current principles of participation in the General Meetings of KGHM Polska Miedź S.A. enable all shareholders to exercise the rights attached to owning the shares and protect the interests of all shareholders. The company is considering introducing the aforementioned recommendation in situations when their technical and legal aspect no longer raises any doubts, and when such introduction will be justified by a real need for this form of communication with shareholders. Since 2016 KGHM Polska Miedź S.A. has been providing real-time streaming webcasts of its General Meetings.

The company also did not apply recommendation VI.R.3 from „Best Practice…", regarding the application of principle II.Z.7, i.e. meeting the independence criteria, in respect of the Remuneration Committee which operates within the structure of the Supervisory Board.

In its activities the Company tries to ensure rational diversity both in the selection of personnel for its bodies as well as in the process of recruiting employees. Representatives of the Company's bodies recognise real benefits from ensuring diversity, in particular with respect to the criteria of age, experience and gender. However a basic criteria in the selection both of the composition of the Supervisory Board as well as the Management Board, management staff and employees of the Company, remains substantive competence and social skills. Practical realisation of indicated assumptions leads to ensuring adequacy in the selection of personnel while fully respecting diversity, in particular with respect to equal opportunity. In 2016 the Company developed principles of diversity management, which will be formally adopted in 2017.

The Remuneration Committee is composed of one Member meeting the independence criteria and three trade union representatives. This guarantees true, fair and transparent realisation of the Committee's tasks.

Diagram 6. Corporate governance structure in KGHM Polska Miedź S.A.



General Meeting

The General Meeting (GM) of KGHM Polska Miedź S.A. is the company's highest authority. It meets in either ordinary or extraordinary form, based on generally prevailing law, the Statutes of the company and the "Bylaws of the General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin". GMs are convened by the company's Management Board. In situations defined by the Commercial Partnerships and Companies Code, General Meetings may be convened by the Supervisory Board or by shareholders. The Statutes of KGHM Polska Miedź S.A. also authorise the Polish State Treasury to convene a GM. The GM of the company is convened by an announcement published on the company website and in the manner set forth in the Act dated 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organised trading, and on public companies. A GM may adopt resolutions if at least one-fourth of the share capital is represented. Resolutions are adopted by a simple majority of votes cast, unless the law or the company's Statutes state otherwise. The principles for conducting a GM are set forth by the Commercial Partnerships and Companies Code and the Company's Statutes. Additional issues related to the functioning of the GM are regulated by the "Bylaws of the General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin" adopted by the GM on 17 May 2010, which are available on the company's website, www.kghm.com.

The duties of the General Meeting include in particular:

1. examining and approving the report of the Management Board on the company's activity and the financial statements, including the financial statements of the company and consolidated financial statements of the group,
2. adopting resolutions on the distribution of profits or coverage of losses,
3. acknowledging the fulfilment of duties performed by members of the bodies of the company,
4. changing the subject of the company's activity,
5. changes in the company Statutes,
6. increasing or decreasing the share capital,
7. the manner and conditions for retiring shares,
8. merging, splitting and transforming the company,
9. dissolving and liquidating the company,
10. issuing convertible bonds or senior bonds,
11. consenting to the disposal and lease of an enterprise or of an organised part thereof, as well as the attachment of limited property rights to same,
12. all decisions relating to claims for redress of damage suffered during the foundation of the company, or from management or supervisory activities,
13. purchase of the company's own shares, which are to be offered to employees or persons who were employed by the company or by related companies for a period of at least three years, and
14. establishing principles of the remuneration of members of the Supervisory Board.

The schedule of work on organising the General Meetings of the company is planned in such a way as to ensure that the obligations towards shareholders are properly met and to enable them to exercise their rights.

The introduction of changes to the company Statutes requires a resolution by the General Meeting and an entry in the National Court Register. Changes in the company Statutes are made by the General Meeting in accordance with generally prevailing laws, in the manner and form prescribed by the Commercial Partnerships and Companies Code, i.e. by a majority three-fourths of the votes cast in the presence of persons representing at least half of the share capital.

Amongst the regulations of the Commercial Partnerships and Companies Code, in respect of the organisation of General Meetings and shareholder rights, the company applies only those regulations which are obligatory, i.e. those which require the publication of announcements and relevant materials for the General Meeting on the company website and the use of electronic forms of contact with shareholders. Regulations enabling shareholders to participate in General Meetings using electronic means of communication are not applied.

Shareholders and their rights

Detailed information on the ownership structure is presented in Section 11.4 of this report.

Shareholders of the company exercise their rights in a manner and within the limits prescribed by prevailing law, the Statutes of the company and the Bylaws of the General Meeting of KGHM Polska Miedź S.A.

Shareholders are entitled to exercise their voting rights either personally or through a proxy. The authority to participate in a General Meeting and to exercise voting rights should be granted in writing or in electronic form. All of the shares are bearer shares. Each share represents one vote.

There is no limitation to the transfer of ownership rights to the shares of the company or with respect to the execution of voting rights on the shares of the company, other than those generally prescribed by laws in force.

The Company has not issued securities which would grant special control rights in respect of the company.

A shareholder is entitled in particular to the following:

1. to convene an Extraordinary General Meeting if the said shareholder represents at least half of the share capital or has been authorised by a court of registration and represents at least one-twentieth of the share capital,
2. to announce draft resolutions during a General Meeting which are in regard to matters introduced to the agenda,
3. in accordance with the Statutes, the Polish State Treasury as a shareholder may convene an Ordinary General Meeting if the Management Board does not do so in the statutory timeframe as well as an Extraordinary General Meeting if it considers its convening as warranted,
4. to request that a matter included in the agenda be removed or not considered,
5. to order the convening of an Extraordinary General Meeting and to include specified matters on the agenda of this General Meeting, if the shareholder or shareholders represent at least one-twentieth of the share capital, and
6. to order the inclusion of specified matters on the agenda of the next General Meeting, if the shareholder or shareholders represent at least one-twentieth of the share capital.

Supervisory Board

The Supervisory Board of KGHM Polska Miedź S.A. is the permanent supervisory authority of KGHM Polska Miedź S.A., in all of the company’s functional areas. According to the Statutes of the Company, the Supervisory Board is composed of 7 to 10 members appointed by the General Meeting, 3 of whom are elected by the company’s employees. The Members of the Supervisory Board are appointed for a mutual term in the office, which lasts three years. The Supervisory Board selects from among its members a Chairman of the Supervisory Board, his Deputy and a Secretary. The Supervisory Board should meet at least once a quarter. For resolutions of the Supervisory Board to be valid all of the members of the Supervisory Board must be invited to attend and resolutions must be adopted by an absolute majority of votes in the presence of at least one-half of the members.

in PLN millions, unless otherwise stated

The duties of the Supervisory Board include in particular the following:

1. evaluating the consolidated financial statements and the report of the Management Board on the activity of the company and the Group for the given financial year,
2. evaluating the proposals of the Management Board with respect to the distribution of profits or coverage of losses,
3. submitting to the General Meeting an annual written report on the results of the evaluation of the documents referred to in the first two points above,
4. submitting to the General Meeting annual requests for granting approval of the Management Board's members with respect to their activities,
5. examining and controlling the activity and financial condition of the company, and submitting to the Ordinary General Meeting an annual, brief assessment of the standing of the Company,
6. choosing an auditor to audit the statements referred to in point 1,
7. suspending from their duties for important reasons some or all of the members of the Management Board,
8. temporarily delegating a member or members of the Supervisory Board to carry out the duties of members of the Management Board who are unable to carry out their duties,
9. establishing the remuneration of members of the Management Board, as well as the other conditions of agreements or contracts concluded with them,
10. approving the Bylaws of the Management Board of the company,
11. approving the company's annual and multi-year operating plans,
12. stating its opinion on any request of the Management Board addressed to the General Meeting,
13. at the request of the Management Board, expressing its consent to:
    a. the purchase and sale of real estate, of perpetual usufruct or of a stake in real estate (this does not require a resolution of the General Meeting),
    b. the granting of guarantees and loans to commercial entities in which the company owns less than 1/3 of the voting rights at the General Meeting of such entities,
    c. establishing and acceding to commercial partnerships and companies,
    d. disposing of shares in subsidiaries of the company,
    e. establishing branches, companies, representative offices and other organisational or economic entities abroad,
    f. obtaining or acquiring shares of another company, and
    g. the establishment and liquidation of foundations,
14. appointing and recalling members of the Management Board, with due regard being given to § 12 of the Statutes of the company,
15. expressing an opinion on investments by the Company in fixed assets, which meet one of the following conditions:
    a. investments having a value of more than 10% of the budget for expenditures on investments in tangible assets of the company for a given financial year,
    b. investments of more than 5% of the budget for expenditures on investments in tangible assets of the company for a given financial year, if the investment does not meet the criteria for planned effectiveness in comparison to the accepted rate of return on equity in the company.

The Supervisory Board operates on the basis of generally prevailing law, the Statutes of the company and the Bylaws of the Supervisory Board. The Bylaws and Statutes of the company are available on the company's website, www.kghm.com.

The composition of the Supervisory Board and its changes in 2016 are presented in the Section 17.2 of this report.

The following members of the Supervisory Board of KGHM Polska Miedź S.A submitted declarations on meeting independence criteria, specified in principle no. II.Z.4. of "Best Practice of GPW Listed Companies 2016": Dominik Hunek, Jarosław Witkowski, Michał Czarnik, Wojciech Andrzej Myślecki, Marek Pietrzak and Agnieszka Winnik- Kalemba.

Supervisory Board Committees

Within the structure of the Supervisory Board are three committees which serve in an auxiliary role to the Supervisory Board in the preparation of assessments, opinions and other actions aimed at reaching decisions which must be made by the Supervisory Board.

Audit Committee	The Audit Committee is responsible for supervision in the areas of financial reporting, the internal control system, risk management and internal and external audits. In accordance with the Bylaws of the Supervisory Board the tasks of the Audit Committee are as follows: – supervision on behalf of the Supervisory Board of the process of financial reporting in the company, including the process of reporting to the Supervisory Board, – analysis and/or evaluation of the accounting principles adopted by the company, – review of transactions carried out by the company which the Audit Committee regards as important for the company, – analysis and monitoring of the conclusions resulting from control of the risk management processes in the company, – conduct of the process of selection of independent auditors to audit the financial statements of the company in order to recommend the choice made to the Supervisory Board, and participation in the commercial negotiations held prior to the company's signing of the agreement with the auditor, – on-going cooperation with the independent auditor of the company during the audit, analysis, drawing of conclusions from the audit and opinion of the auditor regarding the financial statements, the auditor's letter to the Management Board and/or the Supervisory Board, and the preparation of draft reports and assessments required under the regulations for the company's bodies or other administrative institutions, – issuing an opinion on the company's internal audit plan and on the rules of the internal audit, and on any changes in the position of the internal audit director, – analysis of the conclusions and recommendations of the company's internal audit including the monitoring of the degree of implementation of recommendations by the company's Management Board, – monitoring of the rules applied in the company in the areas of accounting, finances and hedging against the trade and financial risk factors and the risk of exposing the company to serious harm, and – other tasks ordered by the Supervisory Board.

The composition of the Audit Committee in 2016:

	1 January – 3 February	3 February – 21 December	21 December – 31 December
Radosław Barszcz		x	
Tomasz Cyran	x		
Michał Czarnik		x (Chairman)	x (Chairman)
Bogusław Fiedor	x (Chairman)		
Cezary Godziuk		x	
Leszek Hajdacki	x	x	x
Dominik Hunek		x	x
Wojciech Myślecki			x
Marek Pietrzak			x
Miłosz Stanisławski		x	
Bogusław Szarek	x	x	x
Agnieszka Winnik-Kalemba			x
Jarosław Witkowski		x	x

Remuneration Committee

The Remuneration Committee is responsible for supervising the performance of the duties set forth in the contracts signed with the Management Board, the remuneration system and benefits paid out in KGHM Polska Miedź S.A. and the Group, training and other benefits provided by the Company, as well as audits performed by the Supervisory Board in this regard.

In accordance with the Bylaws of the Supervisory Board the tasks of the Remuneration Committee are as follows:

– management of the affairs associated with the recruitment and employment of Management Board members by preparing and arranging the draft documents and processes to be submitted for the acceptance by the Supervisory Board,
– preparation of the draft agreements and other model documents in relation to the employment relationship established with the Management Board members and supervision of the execution of contractual obligations of the parties,
– supervision of implementation of the Management Board remuneration system, specifically the preparation of payment documents as regards variable elements and bonus-based remuneration in order to submit recommendations to the Supervisory Board,
– monitoring and periodic analyses of the remuneration system of senior management of the Company and, if necessary, the preparation of recommendations for the Supervisory Board,
– supervision of the proper execution of additional benefits for the Management Board resulting from employment contracts, such as insurance, company cars, apartments, etc., and
– other tasks ordered by the Supervisory Board.

The composition of the Remuneration Committee in 2016:

	1 January – 3 February	3 February – 21 December	21 December – 31 December
Radosław Barszcz		x (Chairman)	
Tomasz Cyran	x (Chairman)		
Józef Czyczerski	x	x	x
Leszek Hajdacki	x	x	x
Dominik Hunek		x	x (Chairman)
Marcin Moryń	x		
Miłosz Stanisławski		x	
Bogusław Szarek			x
Barbara Wertelecka-Kwater	x		

Strategy Committee

The Strategy Committee supervises the realisation of company strategy, the company's annual and multi-year operating plans, supervising the coherence of these documents, and also provides its opinion to the Supervisory Board on the strategic projects presented by the Management Board of the company and any changes thereto, as well as on the company's annual and multi-year operating plans.

In accordance with the Bylaws of the Supervisory Board the tasks of the Strategy Committee are as follows:

– on behalf of the Parent Entity's Supervisory Board, performing tasks related to the supervision of issues associated with the company's strategy and with the annual and multi-year operating plans of the company,
– monitoring implementation of the company's strategy by the Management Board and issuing opinions on the degree to which the existing strategy is able to deal with changes in the actual situation,
– monitoring implementation of the company's annual and multi-year operating plans by the Management Board, and assessment of whether these plans need to be modified,
– assessment of the conformity of the annual and multi-year operating plans of the company to the company's strategy as implemented by the Management Board, and the presentation of any proposed changes in all such company documents,
– submission to the company's Supervisory Board of its opinions regarding the draft strategies of the company and any changes thereto, and regarding the annual and multi-year operating plans of the company as presented by the company's Management Board, and
– other tasks ordered by the Supervisory Board.

in PLN millions, unless otherwise stated

The composition of the Strategy Committee in 2016:

	1 January – 3 February	3 February – 21 December	21 December – 31 December
Michał Czarnik		x	x
Józef Czyczerski	x	x	x
Cezary Godziuk		x	
Leszek Hajdacki	x	x	x
Andrzej Kidyba	x (Vice Chairman)		
Marcin Moryń	x		
Wojciech Myślecki			x
Marek Pietrzak			x
Jacek Poświata	x		
Miłosz Stanisławski		x	
Bogusław Szarek	x	x	x
Barbara Wertelecka-Kwater	x (Chairwoman)		
Agnieszka Winnik-Kalemba			x
Jarosław Witkowski		x (Chairman)	x (Chairman)

The detailed rights, scope of activities and manner of work of these Committees are described by bylaws approved by the Supervisory Board. After the end of the year the Audit, Remuneration and Strategy Committees submit reports on their activities to the Supervisory Board.

Management Board

The duties of the Management Board include all matters pertaining to the functioning of the company which have not been reserved by the Commercial Partnerships and Companies Code and the Statutes of the company to the duties of General Meeting and Supervisory Board. The detailed description of the Management Board's scope of duties and obligations and the manner in which it functions may be found in the Regulations of the Management Board.

According to the Statutes of the KGHM Polska Miedź S.A. the Management Board is may be composed of 1 to 7 persons, appointed for a mutual term of office. The term of office of the Management Board lasts three consecutive years. The number of members of the Management Board is set by the Supervisory Board, which appoints and dismisses the President of the Management Board, and at his request appoints and dismisses the remaining members of the Management Board, including those serving as First Vice President and as the Vice Presidents of the Management Board, with due regard to §12 sec. 5 and sec. 7 to 12 of the company Statutes, regarding the appointment and dismissal of an employee-elected member of the Management Board. Members of the Management Board, including any employee-elected member of the Management Board, may be dismissed by the Supervisory Board prior to the completion of their term of office, which does not impair their rights resulting from employment contracts or other legal relationships involving fulfilling their functions as members of the Management Board. The result of elections for an employee-elected member of the Management Board, or the result of voting in the matter of his dismissal, is binding for the Supervisory Board, if at least 50% of the company's employees took part in the voting for his election or dismissal. The election and dismissal of an employee-elected member of the Management Board requires an absolute majority of the votes cast.

The Management Board operates based on generally prevailing law, the Statutes of the company and the Regulations of the Management Board of KGHM Polska Miedź S.A. For resolutions of the Management Board to be valid at least two-thirds of the members of the Management Board must be present. Resolutions of the Management Board are usually approved by a simple majority of the votes cast. In the case of a tie vote being cast for a given resolution either for or against, the President of the Management Board casts the deciding vote.

A detailed list of the matters requiring a resolution of the Management Board is included in the Regulations of the Management Board of KGHM Polska Miedź S.A. approved by the Supervisory Board.

The authority of the Management Board to pass decisions on the issuance or redemption of shares is statutorily limited. The shares of the company may be redeemed given shareholder consent through their acquisition by the company. A resolution of the General Meeting on the redemption of shares may be preceded by an agreement entered into with a shareholder. In accordance with §29 sec. 1 point 6 of the Statutes of the Company, any increase in share capital or issuance of shares requires the approval of the General Meeting. The same holds true for the issuance of bonds (§29 sec. 1 point 10 of the Statutes of the Company). The Management Board of the company does not have the authority to increase the share capital or issue the shares of the company under conditions specified in art. 444-446 of the Commercial Partnerships and Companies Code.

The delegation of duties, the composition of the Management Board and its changes in 2016 are presented in Section 17.2 of this report.

Main characteristics of internal control and risk management systems as applied by the Company in the process of preparing separate and consolidated financial statements

The system of internal control and risk management of KGHM Polska Miedź S.A. in the process of preparing financial statements is performed in the following manner:

Supervision of the application of uniform accounting principles by the Parent Entity and the companies of the KGHM Polska Miedź S.A. Group during the process of preparing reporting packets to prepare the consolidated financial statements of the KGHM Polska Miedź S.A. Group	In order to ensure reliability and accuracy in the keeping of the accounting records of the Parent Entity and the uniformity of the accounting principles applied when preparing the financial statements of Group subsidiaries, the Management Board of the Parent Entity has introduced for continuous use an Accounting Policy for the Group in accordance with International Financial Reporting Standards approved by the European Union which is regularly updated in compliance with new regulations. Control over the accounting policies applied in the process of preparing the financial statements of KGHM Polska Miedź S.A. and of Group subsidiaries is based on the control mechanisms embedded in the functioning of the reporting systems. The reporting packets of subsidiaries are also reviewed by appropriate units in the Parent Entity as well as by an independent auditor during the process of reviewing and auditing the consolidated financial statements of the Group.

Centralised financial and accounting services	KGHM Polska Miedź S.A. performs its accounting activities within a centralised financial and accounting services structure. Bookkeeping in the Parent Entity is performed by the Accounting Services Center under the Head Office of KGHM Polska Miedź S.A. The centralisation of accounting services under a model which provides for the transparent breakdown of duties and responsibilities ensures minimisation of the risk of bookkeeping errors and high-quality financial statements. The accuracy and security of the accounting procedures was confirmed by an external audit aimed at „Assessment of the functioning of the financial and accounting control procedures as a result of the centralisation of these processes". Further actions are being taken aimed at optimising the functioning of the accounting services and enhancing the security of the process of bookkeeping accounting services.
Finance and accounting systems	KGHM Polska Miedź S.A. keeps accounting records in an integrated IT system. The modular structure of this system ensures a transparent segregation of processes and duties, coherence of accounting records and control over ledgers: special purpose ledger, general ledger and subledgers. Access to this data at various levels and in various units is available via a well-developed reporting system. The Parent Entity continuously adapts the IT information system to changing accounting principles or other legal standards. The Parent Entity's solutions are implemented in the systems of Group entities. To ensure the legitimate utilisation and protection of systems, data, secure access to data and computer equipment, appropriate organisational and systemic solutions have been introduced. Access to the resources of the financial and accounting system, as well as accounting during the process of financial reporting, is limited to the respective entitlements of authorised employees solely with respect to the duties which they carry out. These entitlements are subject to regular review and audits. Control over this access is carried out at each stage of financial statements preparation, beginning with the entering of source data, through the processing of data, to the generation of output information. A key element in limiting the risk of errors and misstatements in accounting for economic activities are the actions taken which are aimed at increasing the use of IT tools to automate control over and the settlement of purchases by the Company. These actions include: – on-going expansion of the scope of the Workflow system of electronic document settlement and approval, – implementation of the EDI system for the electronic transmission of data between the system in the Parent Entity and IT systems in Group companies; and – customer settlement based on e-invoices for procurement and sales.
Corporate risk management	Under the Corporate Risk Management Policy adopted in 2013 and Procedures and the Corporate Risk Committee Rules, corporate risk management is an on-going process in the KGHM Polska Miedź S.A. Group. Risk factors associated with the Group's various operations are continuously identified, assessed and analysed in terms of their possible limitation. The Enterprise Risk Management and Governance Unit is responsible for coordination of the entire corporate risk management process and for developing the methods and tools used by managers in the Parent Entity, its subsidiaries and projects. This Unit is responsible for risk monitoring and escalation, and for reporting incidents. These activities also comprise risk management with respect to the process of preparing the consolidated financial statements of the Group. In 2016 the Enterprise Risk Management and Governance Unit began work on updating the „Corporate Risk Management Policy and Procedures" and the "Bylaws of the Corporate Risk Management Committee". In addition in December 2016, the corporate risk management system in the KGHM Polska Miedź S.A. Group was audited by Deloitte Advisory Sp. z o. o. The audit of operational efficiency of the risk process (according to the principles contained in Best Practice for WSE Listed Companies 2016) showed that the process operates correctly.
Internal audit	A fundamental element of risk management with respect to the functioning of control mechanisms and the existence of risk in the operations of KGHM Polska Miedź S.A. is the work carried out by the Audit and Internal Control Department. Consequently this work indirectly augments the process of preparing financial statements as well as their accuracy. The Audit and Internal Control Department carries out its tasks based on the "Integrated Audit and Internal Control Plan" for the given calendar year. This document was developed in conformity with the International Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors and positively opinioned by the Audit Committee of KGHM Polska Miedź S.A. The goal of internal auditing and internal control is to provide the Management Board and the Audit Committee of the Supervisory Board of KGHM Polska Miedź S.A. with independent and objective information on internal control and risk management systems as well as with analyses of business processes within KGHM Polska Miedź S.A. and in the Group's companies. Independently from internal audit and institutional control, the obligation fully remains in KGHM Polska Miedź S.A. for each employee to exercise self-control in respect of their duties and for every level of management staff to exercise their control as part of their supervisory duties.
External audit	In accordance with prevailing law, KGHM Polska Miedź S.A. submits its consolidated financial statements for half-year review and annual auditing by a certified auditor. The Supervisory Board selects the certified auditor through a tender process, based on the recommendations of the Audit Committee and the report on the tender conducted by the Committee. The appropriate entity to audit the financial statements of KGHM Polska Miedź S.A. for the years 2016-2018 is Deloitte Polska Sp. z o.o. Sp.k. As part of the audit work performed the certified auditor performs an independent evaluation of the accounting principles applied by Parent Entity in preparing the financial statements and the accuracy and reliability of the consolidated financial statements. The effectiveness of the internal control system and the risk management system in the process of preparing the

	financial statements is confirmed by the unqualified opinions issued by the certified auditor from its audit of the consolidated financial statements of KGHM Polska Miedź S.A.
Supervision over the process of financial reporting	The body which supervises the process of financial reporting in KGHM Polska Miedź S.A. and which cooperates with the independent auditor is the Audit Committee, which is appointed by the Supervisory Board of the Parent Entity. The Audit Committee, in accordance with its duties as set forth in the Act dated 7 May 2009 on certified auditors and their self-governing body, entities entitled to audit financial statements and on public supervision (Journal of Laws 2009.77.649), in particular: – monitors the process of financial reporting in terms of compliance with the Accounting Policy approved by the KGHM Polska Miedź S.A. Group and prevailing laws, – monitors the effectiveness of internal control systems, internal audit and risk management, – monitors the independence of the certified auditor and of the entity entitled to audit financial statements, and – conducts the process of selecting the entity entitled to audit financial statements of the Parent Entity to provide a recommendation to the Supervisory Board. Monitoring of the process of financial reporting and assessment of the financial statements by the Supervisory Board is the final step of the review and control carried out by an independent body, ensuring the reliability and accuracy of the data presented in the consolidated financial statements of KGHM Polska Miedź S.A. Proper management of the process of keeping records and preparing financial statements ensures the security of the data and the high quality of the information provided.

Appendix 2 Structure of the KGHM Polska Miedź S.A. Group

KGHM Polska Miedź S.A.

- **KGHM V FIZAN** 100%
- **KGHM I FIZAN** 100%
  - Polska Grupa Uzdrowisk Sp. z o.o. 100%
  - Fundusz Hotele 01 Sp. z o.o. 100%
  - Uzdrowiska Kłodzkie S.A. - Grupa PGU 100%
  - Uzdrowisko Połczyn Grupa PGU S.A. 100%
  - Staropolanka Spółka z o.o. 100%
  - Uzdrowisko Świeradów -Czerniawa Sp. z o.o. 99%
  - Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU 98%
  - Interferie Medical SPA Sp. z o.o. 89%
  - Fundusz Hotele 01 Sp. z o.o. S.K.A. 100%
    - INTERFERIE S.A. 68%
  - NANO CARBON Sp. z o.o. /1 49%
- **Cuprum Nieruchomości sp. z o.o.** 100%
  - KGHM IV FIZAN 100%
    - Cuprum Development sp. z o.o. 100%
- **KGHM TFI S.A.** 100%
- **KGHM CUPRUM sp. z o.o. – CBR** 100%
- **CBJ sp. z o.o.** 100%
- **INOVA Spółka z o.o.** 100%
- **KGHM ZANAM S.A.** 100%
- **POL-MIEDŹ TRANS Sp. z o.o.** 100%
- **PMT Linie Kolejowe 2 Sp. z o.o.** 100%
  - PMT Linie Kolejowe Sp. z o.o. 100%
- **BIPROMET S.A.** 100%
- **„Energetyka" sp. z o.o.** 100%
  - WPEC w Legnicy S.A. 100%
- **KGHM Metraco S.A./2** 100%
  - CENTROZŁOM WROCŁAW S.A. 99,9%
  - Walcownia Metali Nieżelaznych „ŁABĘDY" S.A. 85%
- **Future 1** 100%
  - **KGHM INTERNATIONAL LTD. Group** 100%
- **KGHM (SHANGHAI) COPPER TRADING CO., LTD.** 100%
- **KGHM Kupfer AG** 100%
- **Zagłębie Lubin S.A.** 100%
- **„MCZ" S.A.** 100%
- **TUW-CUPRUM /3** 100%
- **Future 2 Sp. z o.o.** 100%
- **Future 3 Sp. z o.o.** 100%
- **Future 4 Sp. z o.o.** 100%
- **Future 5 Sp. z o.o.** 100%
- **Future 6 Sp. z o.o.** 100%
- **Future 7 Sp. z o.o.** 100%
- **PeBeKa S.A.** 100%
  - PeBeKa Canada Inc. 100%
- **MERCUS Logistyka sp. z o.o.** 100%
  - PHU „Lubinpex" Sp. z o.o. 100%
- **NITROERG S.A.** 87%
  - NITROERG SERWIS Sp. z o.o. 87%
- **„Elektrownia Blachownia Nowa" Sp. z o.o. w** 50%

Group structure presented in Appendix 3

1/ *joint venture accounted for using the equity method*
2/ *name change (formerly Metraco S.A.)*
3/ *unconsolidated subsidiary*

Appendix 3 Structure of the KGHM INTERNATIONAL LTD. Group

KGHM INTERNATIONAL LTD.

- **FNX Mining Company Inc.** 100%
  - DMC Mining Services Ltd. 100%
  - Quadra FNX Holdings Partnership 100%
    - Raise Boring Mining Services S.A. de C.V. 100%
    - FNX Mining Company USA Inc. 100%
      - DMC Mining Services Corporation 100%
  - Centenario Holdings Ltd. 100%
    - Minera Carrizalillo Limitada 100%
    - Mineria y Exploraciones KGHM International SpA 100%
    - FRANKE HOLDINGS LTD. 100%
      - Sociedad Contractual Minera Franke 100%
- **0899196 B.C. Ltd.** 100%
- **KGHMI HOLDINGS LTD.** 100%
  - Malmbjerg Molybdenum A/S 100%
  - Quadra FNX FFI S.à r.l /3 100%
  - Aguas de la Sierra Limitada 100%
  - Quadra FNX Holdings Chile Limitada 100%
    - Sierra Gorda S.C.M. /1 55%
- **KGHM AJAX MINING INC.** 80%
  - Sugarloaf Ranches Ltd. /2 100%
- **Robinson Holdings (USA) Ltd.** 100%
  - Wendover Bulk Transhipment Company 100%
  - Robinson Nevada Mining Company 100%
  - Carlota Holdings Company 100%
    - Carlota Copper Company 100%

1/ joint venture accounted for using the equity method
2/ actual Group share
3/ name change due to the transfer of the head office from Barbados to Luxembourg - former name Quadra FNX FFI Ltd.

Appendix 4 Activities of subsidiaries and joint ventures of KGHM Polska Miedź S.A.

Domestic companies

Entity	Head Office	Activities
KGHM Polska Miedź S.A.	Poland	mining of copper ore, excavation of salt, production of copper and precious metals
„Energetyka" sp. z o.o.	Poland	generation, transmission and distribution of electrical and heating energy, water-sewage management; trade in oil-based products
PeBeKa S.A.	Poland	mine construction (construction of shafts and drifts), construction of roadway/railway tunnels; specialist construction, drilling services (geological-exploration drilling)
KGHM ZANAM S.A.	Poland	production of mining machinery and equipment, construction machinery; machinery repairs; production maintenance services; steel construction services; roadway cargo transport
KGHM CUPRUM sp. z o.o. - CBR	Poland	design and R&D activities
CBJ sp. z o.o.	Poland	research and chemical-physical analysis; measurement of imissions and emissions; industrial research
INOVA Spółka z o.o.	Poland	design and production – innovative solutions in electrical engineering, control engineering and communication systems; certification and attestation of machinery and equipment
KGHM Metraco S.A. *formerly Metraco S.A.*	Poland	trade and processing of non-ferrous metals scrap; rhenium recovery from acidic industrial waste; processing of shaft slag into road-building material and sale of such; trading in salt; recovery of copper and silver from smelter tiles; trading in chemical factors
POL-MIEDŹ TRANS Sp. z o.o.	Poland	railway cargo transport
NITROERG S.A.	Poland	production of explosives, Nitrocet 50 and initiating systems
MERCUS Logistyka sp. z o.o.	Poland	materials logistics; trade in consumer goods; production of bundled electrical cables and hydraulic cables; passenger roadway transport
NITROERG SERWIS Sp. z o.o.	Poland	complex drilling and blasting service in open pit mines, sale of explosives and initiating systems
CENTROZŁOM WROCŁAW S.A.	Poland	recovery of raw materials from segregated materials – purchase and sale of metal scrap, waste recycling, sale of steel and aluminium and production of reinforcing building materials
Walcownia Metali Nieżelaznych „ŁABĘDY" S.A.	Poland	production of pressed goods from copper and its alloys; rolling services
PHU „Lubinpex" Sp. z o.o.	Poland	gastronomic, commercial and catering services
PMT Linie Kolejowe Sp. z o.o.	Poland	maintenance of railway infrastructure, repair services, management of railway infrastructure
PMT Linie Kolejowe 2 Sp. z o.o.	Poland	management of railway infrastructure
KGHM TFI S.A.	Poland	creation and management of investment funds
INTERFERIE S.A.	Poland	hotel services combining active recreation with sanatorium-healing, rehabilitation, SPA and wellness services
Interferie Medical SPA Sp. z o.o.	Poland	hotel, recreation, rehabilitation, health tourism and wellness services
WPEC w Legnicy S.A.	Poland	production of heat from its own sources, transmission and distribution of heat, servicing
Uzdrowiska Kłodzkie S.A. – Grupa PGU Uzdrowisko Połczyn Grupa PGU S.A. Uzdrowisko Cieplice sp. z o.o. – Grupa PGU Uzdrowisko Świeradów-Czerniawa Sp. z o.o. - Grupa PGU	Poland	services in the following areas: spa-healing, sanatorium, preventative medicine, rehabilitation, biological renewal, recreation based on natural healing materials bioclimatic conditions
Staropolanka Spółka z o.o.	Poland	production and sale of mineral water *(the company has not commenced operations)*
Fundusz Hotele 01 Sp. z o.o. Fundusz Hotele 01 Sp. z o.o. S.K.A. Polska Grupa Uzdrowisk Sp. z o.o.	Poland	special-purpose companies operating within the structures of the KGHM I FIZAN investment fund
KGHM I FIZAN KGHM IV FIZAN KGHM V FIZAN	Poland	closed-end, non-public investment funds – investing cash
„MCZ" S.A.	Poland	hospital services; medical practice; activities related to protecting human health; occupational medicine
Zagłębie Lubin S.A.	Poland	management of a football club, organisation of professional sporting events

Entity	Head Office	Activities
BIPROMET S.A.	Poland	design services, consulting, technical conceptual work; general realisation of investments
Cuprum Nieruchomości sp. z o.o.	Poland	activities related to real estate market services, construction services, design work and financing
Cuprum Development sp. z o.o.	Poland	
„Elektrownia Blachownia Nowa" sp. z o.o. in liquidation	Poland	special purpose company founded to advance a project to build and operate a gas-steam power block
Future 2 Sp. z o.o.	Poland	special purpose companies founded due to the creation of the KGHM Polska Miedź S.A. Tax Group (in 2016 these companies were not in active operation)
Future 3 Sp. z o.o.		
Future 4 Sp. z o.o.		
Future 5 Sp. z o.o.		
Future 6 Sp. z o.o.		
Future 7 Sp. z o.o.		
NANO CARBON Sp. z o.o.	Poland	production of epitaxial graphene

International companies

Entity	Head Office	Activities
DIRECT SUBSIDIARIES		
Future 1 Sp. z o.o. (legal successor of companies: Fermat 1 S.á r.l., Fermat 2 S.á r.l., Fermat 3 S.á r.l.)	Poland	management and control of other companies, including the KGHM INTERNATIONAL LTD. Group
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	China	commercial activities involving copper/silicon merchandise, mine products (copper/silicon) and other related services
KGHM Kupfer AG	Germany	exploration for and evaluation of deposits of copper and other minerals
INDIRECT SUBSIDIARIES		
COMPANY BELONGING TO Future 1 Sp. z o.o.		
KGHM INTERNATIONAL LTD.	Canada	the founding, development, management or control of companies in the KGHM INTERNATIONAL LTD. Group
COMPANIES BELONGING TO KGHM INTERNATIONAL LTD.		
KGHM Ajax Mining Inc.	Canada	exploration for and assessment of mineral deposits
Sugarloaf Ranches Ltd.	Canada	agricultural activities (this company owns assets in the form of land designated for future mining activities related to the Ajax project)
Robinson Nevada Mining Company	USA	copper ore mining, production and sale of copper
Carlota Copper Company	USA	copper ore leaching, production and sale of copper
FNX Mining Company Inc.	Canada	mining of copper and nickel ore, production and sale of copper and nickel
Sociedad Contractual Minera Franke	Chile	copper ore leaching, production and sale of copper
Aguas de la Sierra Limitada	Chile	the ownership and exercise of water rights in Chile
Robinson Holdings (USA) Ltd.	USA	technical and management services
DMC Mining Services Corporation	USA	contract mining services
Mineria y Exploraciones KGHM International SpA	Chile	exploration services for among others, the Sierra Gorda mine
Minera Carrizalillo Limitada	Chile	the ownership of water and deposits rights
Wendover Bulk Transhipment Company	USA	shipment services
Malmbjerg Molybdenum A/S	Greenland	exploration and mining in Greenland
Raise Boring Mining Services S.A. de C.V	Mexico	mine drilling services
KGHMI Holdings Ltd. (legal successor of companies: Quadra FNXChile Ltd., Quadra FNX SG Ltd., KGHMI Holdings Ltd.)	Canada	the management and control of other companies
Carlota Holdings Company	USA	the management and control of other companies
Quadra FNX FFI S.á r.l. (formerly Quadra FNX FFI Ltd.)	Luxembourg (formerly Barbados)	financial services
Centenario Holdings Ltd.	Canada	the management and control of other companies
Franke Holdings Ltd.	Canada	the management and control of other companies
Quadra FNX Holdings Chile Limitada	Chile	the management and control of other companies
FNX Mining Company USA Inc.	USA	the management and control of other companies
Quadra FNX Holdings Partnership	Canada	the management and control of other companies
0899196 B.C. Ltd.	Canada	the management and control of other companies
DMC Mining Services Ltd.	Canada	contract mining services
Sierra Gorda S.C.M.	Chile	the construction and operation of an open-pit copper and molybdenum mine
COMPANY BELONGING TO Przedsiębiorstwo Budowy Kopalń PeBeKa Spółka Akcyjna		
PEBEKA CANADA INC.	Canada	the realisation of mining projects in Canada area, including support of Victoria project advanced by KGHM INTERNATIONAL LTD.
COMPANY BELONGING TO KGHM ZANAM S.A. (99%) and Przedsiębiorstwo Budowy Kopalń PeBeKa S.A. (1%)		
Obszczestwo s ogranicziennoj otwietstwiennostju ZANAM VOSTOK	Russian Federation	sale and after-sales service of mining machinery produced by KGHM ZANAM S.A.

List of tables, charts and diagrams

Tables

Charts

Diagrams

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