

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated half-year report PSr 2016

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

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

For the first half of financial year **2016** from **1 January 2016** to **30 June 2016** containing the half-year condensed consolidated financial statements prepared under International Accounting Standard 34 in PLN and half-year condensed financial statements under International Accounting Standard 34 in PLN.

publication date: 2016-08-17

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

KGHM Polska Miedź S.A.

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

SELECTED FINANCIAL DATA**data concerning the half-year condensed consolidated financial statements of KGHM Polska Miedź S.A.**

	in PLN mn		in EUR mn	
	first half of 2016	first half of 2015	first half of 2016	first half of 2015
I. Sales revenue	8 456	10 060	1 930	2 433
II. Profit on sales	1 118	1 766	255	427
III. Profit before income tax	683	1 693	156	410
IV. Profit for the period	298	1 194	68	289
V. Profit for the period attributable to shareholders of the Parent Entity	296	1 192	68	289
VI. Profit for the period attributable to non-controlling interest	2	2	-	-
VII. Other comprehensive net income	61	627	14	152
VIII. Total comprehensive income	359	1 821	82	441
IX. Total comprehensive income attributable to the shareholders of the Parent Entity	345	1 819	79	441
X. Total comprehensive income attributable to non-controlling interest	14	2	3	-
XI. Number of shares issued (million)	200	200	200	200
XII. Earnings per ordinary share (in PLN/EUR) attributable to the shareholders of the Parent Entity	1.48	5.96	0.34	1.45
XIII. Net cash generated from operating activities	1 331	2 429	304	588
XIV. Net cash used in investing activities	(2 051)	(2 174)	(468)	(526)
XV. Net cash generated from financing activities	938	206	214	50
XVI. Total net cash flow	218	461	50	112
	first half of 2016	2015	first half of 2016	2015
XVII. Non-current assets	31 715	30 448	7 166	7 145
XVIII. Current assets	6 696	6 316	1 513	1 482
XIX. Total assets	38 411	36 764	8 679	8 627
XX. Non-current liabilities	11 326	10 153	2 559	2 382
XXI. Current liabilities	6 609	6 197	1 493	1 454
XXII. Equity	20 476	20 414	4 627	4 791
XXIII. Equity attributable to shareholders of the Parent Entity	20 258	20 211	4 578	4 743
XXIV. Equity attributable to non-controlling interest	218	203	49	48

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

	in PLN mn		in EUR mn	
	first half of 2016	first half of 2015	first half of 2016	first half of 2015
I. Sales revenue	6 540	8 092	1 493	1 957
II. Profit on sales	1 012	1 935	231	468
III. Profit before income tax	1 032	1 881	236	455
IV. Profit for the period	668	1 321	152	320
V. Other comprehensive net income	(47)	(121)	(11)	(29)
VI. Total comprehensive income	621	1 200	141	291
VII. Number of shares issued (million)	200	200	200	200
VIII. Earnings per ordinary share (in PLN/EUR)	3.34	6.60	0.76	1.60
IX. Net cash generated from operating activities	1 042	2 122	238	513
X. Net cash used in investing activities	(1 797)	(4 739)	(410)	(1 146)
XI. Net cash generated from financing activities	961	2 970	219	718
XII. Total net cash flow	206	353	47	85
	first half of 2016	2015	first half of 2016	2015
XIII. Non-current assets	29 824	28 406	6 739	6 666
XIV. Current assets	5 189	4 714	1 173	1 106
XV. Total assets	35 013	33 120	7 912	7 772
XVI. Non-current liabilities	8 773	7 756	1 982	1 821
XVII. Current liabilities	5 640	5 085	1 275	1 193
XVIII. Equity	20 600	20 279	4 655	4 758



CONSOLIDATED HALF-YEAR REPORT PSr 2016 COMPRISES:

- 1. AUDITOR'S REVIEW REPORT ON THE HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
- 2. AUDITOR'S REVIEW REPORT ON THE HALF-YEAR CONDENSED FINANCIAL STATEMENTS**
- 3. DECLARATIONS BY THE MANAGEMENT BOARD**
- 4. HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
- 5. HALF-YEAR CONDENSED FINANCIAL STATEMENTS OF KGHM POLSKA MIEDŹ S.A.**
- 6. THE MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES OF THE GROUP IN THE FIRST HALF OF 2016**



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

Lubin, August 2016

**AUDITOR'S REPORT ON THE REVIEW OF THE HALF-YEAR CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JANUARY 2016 TO 30 JUNE 2016**

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

We have reviewed the attached half-year condensed consolidated financial statements of the **KGHM Polska Miedź S.A. Capital Group** with **KGHM Polska Miedź S.A.**, as the Parent Company, a half-year consolidated statement of profit or loss for the period from 1 January 2016 to 30 June 2016, half-year consolidated statement of comprehensive income for the period from 1 January 2016 to 30 June 2016, half-year consolidated statement of cash flows for the period from 1 January 2016 to 30 June 2016, half-year consolidated statement of financial position as at 30 June 2016, half-year consolidated statement of changes in equity as at 30 June 2016 and notes, comprising a summary of significant accounting policies and other explanatory information.

Compliance of these half-year condensed consolidated financial statements with the requirements laid down in IAS 34 "Interim Financial Reporting" as endorsed by the European Union ("MSR 34") and with other regulations in force is the responsibility of the Management Board and Supervisory Board of the Parent Company. Our responsibility was to review the financial statements.

Our review has been conducted in accordance with the national auditing standards issued by the National Council of Statutory Auditors. These Standards require that we plan and conduct the review in such a way as to obtain reasonable assurance that the half-year condensed consolidated financial statements are free from material misstatement.

Our review has been conducted mainly based on an analysis of data included in the financial statements, examination of the accounting records as well as information provided by the management and the financial and accounting personnel of the Group.

The scope and methodology of a review of half-year condensed consolidated financial statements differ significantly from an audit, which serves as the basis for expressing an opinion on compliance of annual consolidated financial statements with the applicable accounting principles (policy) and an opinion on their fairness and clarity. Therefore, no such opinion on the attached financial statements may be issued.

Based on our review, we have not identified any issues which would prevent us from concluding that the half-year condensed consolidated financial statements have been prepared, in all material respects, in compliance with the requirements laid down in IAS 34 “Interim Financial Reporting” as endorsed by the European Union.

.....
Adrian Karaś
Key certified auditor
conducting the review
No. 12194

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

.....
Adrian Karaś – [President/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.

Wrocław, 17th of August 2016

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



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

Lubin, August 2016



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**AUDITOR'S REPORT ON THE REVIEW OF THE HALF-YEAR CONDENSED
FINANCIAL STATEMENTS OF
KGHM POLSKA MIEDŹ S.A.
FOR THE PERIOD FROM 1 JANUARY 2016 TO 30 JUNE 2016**

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

We have reviewed the attached half-year condensed financial statements of **KGHM Polska Miedź S.A.** with its registered office in Lubin at Marii Skłodowskiej-Curie 48 Street, including a half-year statement of profit or loss for the period from 1 January 2016 to 30 June 2016, half-year statement of comprehensive income for the period from 1 January 2016 to 30 June 2016, half-year statement of cash flows for the period from 1 January 2016 to 30 June 2016, half-year statement of financial position as at 30 June 2016, half-year statement of changes in equity as at 30 June 2016 and notes, comprising a summary of significant accounting policies and other explanatory information.

Compliance of half-year condensed financial statements of KGHM Polska Miedź S.A. with the requirements laid down in IAS 34 "Interim Financial Reporting" as endorsed by the European Union ("IAS 34") and with other regulations in force is the responsibility of the Management Board and Supervisory Board of the Company. Our responsibility was to review the financial statements.

Our review has been conducted in accordance with the national auditing standards issued by the National Council of Statutory Auditors. These Standards require that we plan and conduct the review in such a way as to obtain reasonable assurance that the half-year condensed financial statements of KGHM Polska Miedź S.A. are free from material misstatement.

Our review has been conducted mainly based on an analysis of data included in the half-year condensed financial statements of KGHM Polska Miedź S.A., examination of the accounting records as well as information provided by the management and the financial and accounting personnel of the Company.

The scope and methodology of a review of half-year condensed financial statements differ significantly from an audit, which serves as the basis for expressing an opinion on compliance of annual financial statements with the applicable accounting principles (policy) and an opinion on their fairness and clarity. Therefore, no such opinion on the attached financial statements may be issued.

Based on our review, we have not identified any issues which would prevent us from concluding that the half-year condensed financial statements of KGHM Polska Miedź S.A. have been prepared, in all material respects, in compliance with the requirements laid down in IAS 34 “Interim Financial Reporting” as endorsed by the European Union.

.....
Adrian Karaś
Key certified auditor
conducting the review
No. 12194

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

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

Wrocław, 17th of August 2016

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



**DECLARATIONS
BY THE MANAGEMENT BOARD**

Lubin, August 2016

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:

- half-year condensed consolidated financial statements for the first half of 2016 and comparative data have been prepared in accordance with accounting principles currently in force, and give a true, fair and clear view of the financial position of the KGHM Polska Miedź S.A. Group and the profit for the period of the Group,
- half-year condensed financial statements of KGHM Polska Miedź S.A. for the first half of 2016 and comparative data have been prepared in accordance with accounting principles currently in force, and give a true, fair and clear view of the financial position of KGHM Polska Miedź S.A. and the profit for the period of KGHM Polska Miedź S.A.,
- the Management Board's report on the activities of the Group presents a true picture of the development and achievements, as well as the condition, of the KGHM Polska Miedź S.A. Group, including a description of the basic exposures and risks.

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

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

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	First, Last Name	Position / Function	Signature
17 August 2016	Krzysztof Skóra	President of the Management Board	
17 August 2016	Jacek Rawecki	First Vice President of the Management Board	
17 August 2016	Mirosław Biliński	Vice President of the Management Board	
17 August 2016	Stefan Świątkowski	Vice President of the Management Board	
17 August 2016	Piotr Walczak	Vice President of the Management Board	

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



**HALF-YEAR CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

Lubin, August 2016

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Half-year condensed consolidated financial statements

HALF-YEAR CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		first half of 2016	first half of 2015
Note 2.3	Sales revenue	8 456	10 060
Note 3.1	Cost of sales	(6 704)	(7 681)
	Gross profit	1 752	2 379
Note 3.1	Selling costs and administrative expenses	(634)	(613)
	Profit on sales	1 118	1 766
	Share of losses of joint ventures accounted for using the equity method	(476)	(1)
	Interest income on a loan granted to joint ventures	306	177
	Profit or loss on involvement in joint ventures	(170)	176
Note 3.2	Other operating income/(costs)	(106)	(78)
Note 3.3	Finance costs	(159)	(171)
	Profit before income tax	683	1 693
	Income tax expense	(385)	(499)
	PROFIT FOR THE PERIOD	298	1 194
	Profit for the period attributable to:		
	Shareholders of the Parent Entity	296	1 192
	Non-controlling interest	2	2
	Weighted average number of ordinary shares (million)	200	200
	Basic/diluted earnings per share (in PLN)	1.48	5.96

HALF-YEAR CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		first half of 2016	first half of 2015
	Profit for the period	298	1 194
	Measurement of hedging instruments net of the tax effect	(19)	(166)
	Measurement of available-for-sale financial assets net of the tax effect	19	(82)
	Exchange differences from translation of foreign operations statements	134	728
	Other comprehensive income which will be reclassified to profit or loss	134	480
	Actuarial (losses)/gains net of the tax effect	(73)	147
	Other comprehensive income, which will not be reclassified to profit or loss	(73)	147
	Total other comprehensive net income	61	627
	TOTAL COMPREHENSIVE INCOME	359	1 821
	Total comprehensive income attributable to:		
	Shareholders of the Parent Entity	345	1 819
	Non-controlling interest	14	2

HALF-YEAR CONSOLIDATED STATEMENT OF CASH FLOWS

	first half of 2016	first half of 2015
Cash flow from operating activities		
Profit before income tax	683	1 693
Depreciation/amortisation recognised in profit or loss	810	944
Share of losses of joint ventures accounted for using the equity method	476	1
Interest on a loan granted to joint ventures	(306)	(177)
Interest and other costs of borrowings	59	141
Impairment losses on non-current assets	66	3
Other adjustments to profit before income tax	(91)	(206)
Exclusions of income and costs, total	1 014	706
Income tax paid	(127)	(456)
Note 4.10 Changes in working capital	(239)	486
Net cash generated from operating activities	1 331	2 429
Cash flow from investing activities		
Expenditures on mining and metallurgical assets	(1 680)	(1 604)
Expenditures on other property, plant and equipment and intangible assets	(106)	(143)
Acquisition of newly-issued shares of a joint venture	(238)	(369)
Other expenses	(43)	(104)
Total expenses	(2 067)	(2 220)
Proceeds	16	46
Net cash used in investing activities	(2 051)	(2 174)
Cash flow from financing activities		
Proceeds from borrowings	1 980	3 411
Other proceeds	18	34
Total proceeds	1 998	3 445
Repayments of borrowings	(996)	(2 636)
Dividends paid to the shareholders of the Parent Entity	-	(400)
Interest paid	(55)	(179)
Other payments	(9)	(24)
Total expenses	(1 060)	(3 239)
Net cash generated from financing activities	938	206
TOTAL NET CASH FLOW	218	461
Cash and cash equivalents at beginning of the period	461	475
Exchange gains/(losses) on cash and cash equivalents	19	(156)
Cash and cash equivalents at end of the period	698	780

HALF-YEAR CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	first half of 2016	2015
ASSETS		
Mining and metallurgical property, plant and equipment	14 821	14 273
Mining and metallurgical intangible assets	3 301	3 130
Mining and metallurgical property, plant and equipment and intangible assets	18 122	17 403
Other property, plant and equipment	2 828	2 653
Other intangible assets	236	241
Other property, plant and equipment and intangible assets	3 064	2 894
Joint ventures accounted for using the equity method	333	562
Loans granted to joint ventures	7 966	7 504
Note 4.2 Total involvement in joint ventures	8 299	8 066
Derivatives	67	117
Other financial instruments measured at fair value	571	579
Other financial assets	859	735
Financial instruments, total	1 497	1 431
Deferred tax assets	608	557
Other assets	125	97
Non-current assets	31 715	30 448
Inventories	4 066	3 382
Trade receivables	1 146	1 541
Tax assets	336	542
Derivatives	33	7
Other assets	417	383
Note 4.5 Cash and cash equivalents	698	461
Current assets	6 696	6 316
	38 411	36 764
EQUITY AND LIABILITIES		
Share capital	2 000	2 000
Other reserves from measurement of financial instruments	(64)	(64)
Accumulated other comprehensive income	1 917	1 868
Retained earnings	16 405	16 407
Equity attributable to shareholders of the Parent Entity	20 258	20 211
Equity attributable to non-controlling interest	218	203
Equity	20 476	20 414
Note 4.5 Borrowings	5 816	4 870
Derivatives	211	159
Note 4.6 Employee benefits liabilities	2 071	1 979
Note 4.7 Provisions for decommissioning costs of mines and other facilities	1 583	1 466
Deferred tax liabilities	692	714
Other liabilities	953	965
Non-current liabilities	11 326	10 153
Note 4.5 Borrowings	2 295	2 145
Derivatives	86	48
Trade payables	1 199	1 418
Note 4.6 Employee benefits liabilities	952	760
Tax liabilities	837	762
Other liabilities	1 240	1 064
Current liabilities	6 609	6 197
Non-current and current liabilities	17 935	16 350
	38 411	36 764

HALF-YEAR CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to shareholders of the Parent Entity				Total	Equity attributable to non-controlling interest	Total equity
	Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings			
As at 1 January 2015	2 000	377	741	22 184	25 302	228	25 530
Dividend	-	-	-	(800)	(800)	-	(800)
Transactions with non-controlling interest	-	-	-	25	25	(19)	6
Transactions with owners	-	-	-	(775)	(775)	(19)	(794)
Profit for the period	-	-	-	1 192	1 192	2	1 194
Other comprehensive income	-	(248)	875	-	627	-	627
Total comprehensive income	-	(248)	875	1 192	1 819	2	1 821
As at 30 June 2015	2 000	129	1 616	22 601	26 346	211	26 557
As at 1 January 2016	2 000	(64)	1 868	16 407	20 211	203	20 414
Dividend	-	-	-	(300)	(300)	-	(300)
Transactions with non-controlling interest	-	-	-	2	2	1	3
Transactions with owners	-	-	-	(298)	(298)	1	(297)
Profit for the period	-	-	-	296	296	2	298
Other comprehensive income	-	-	49	-	49	12	61
Total comprehensive income	-	-	49	296	345	14	359
As at 30 June 2016	2 000	(64)	1 917	16 405	20 258	218	20 476

Note 5.4

Part 1 – General information

Note 1.1 Corporate information

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

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

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

The Parent Entity's principal activities include:

- the mining of copper and non-ferrous metals ores; and
- the production of copper, precious and non-ferrous metals.

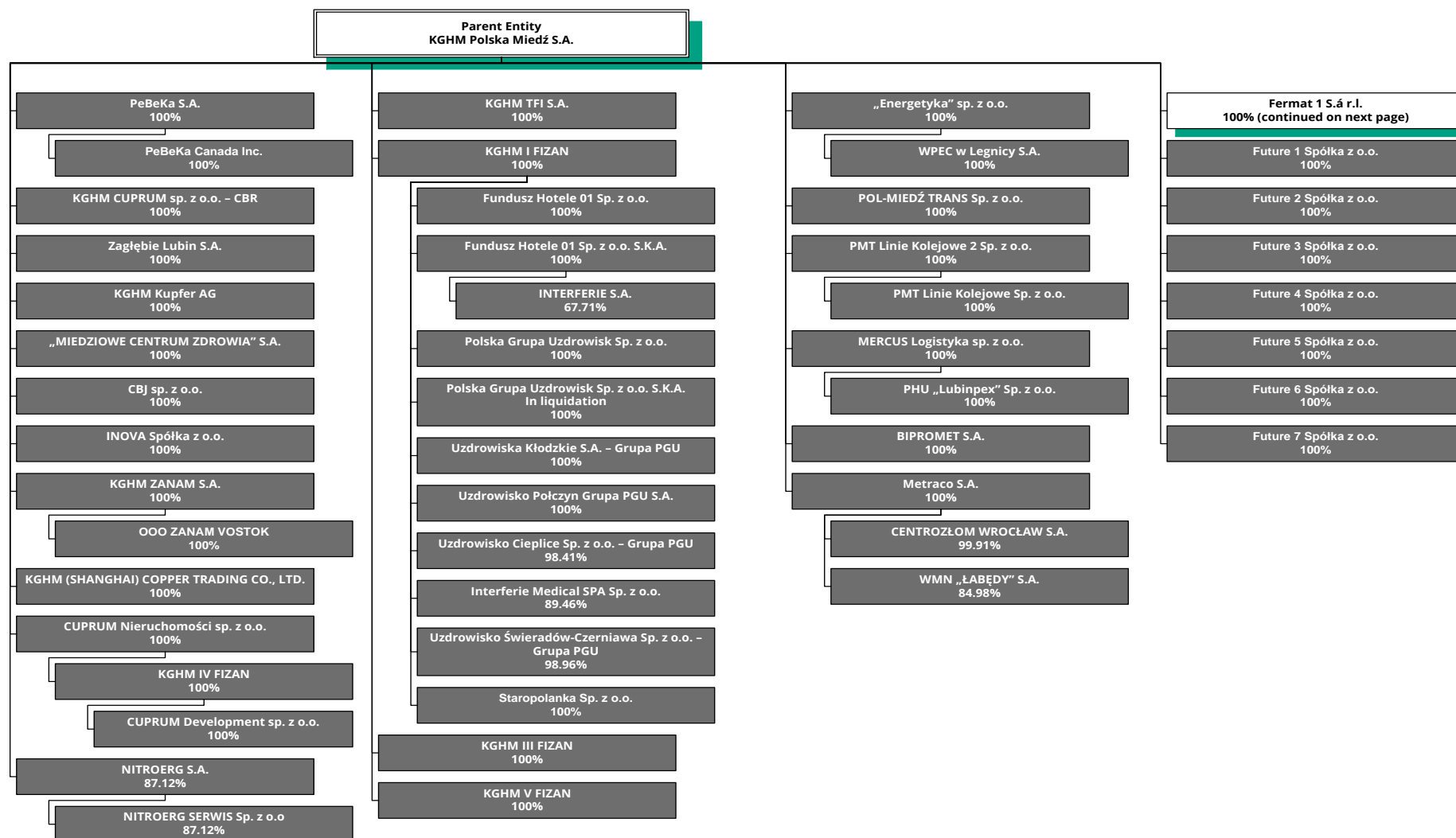
The business activities of the Group include:

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

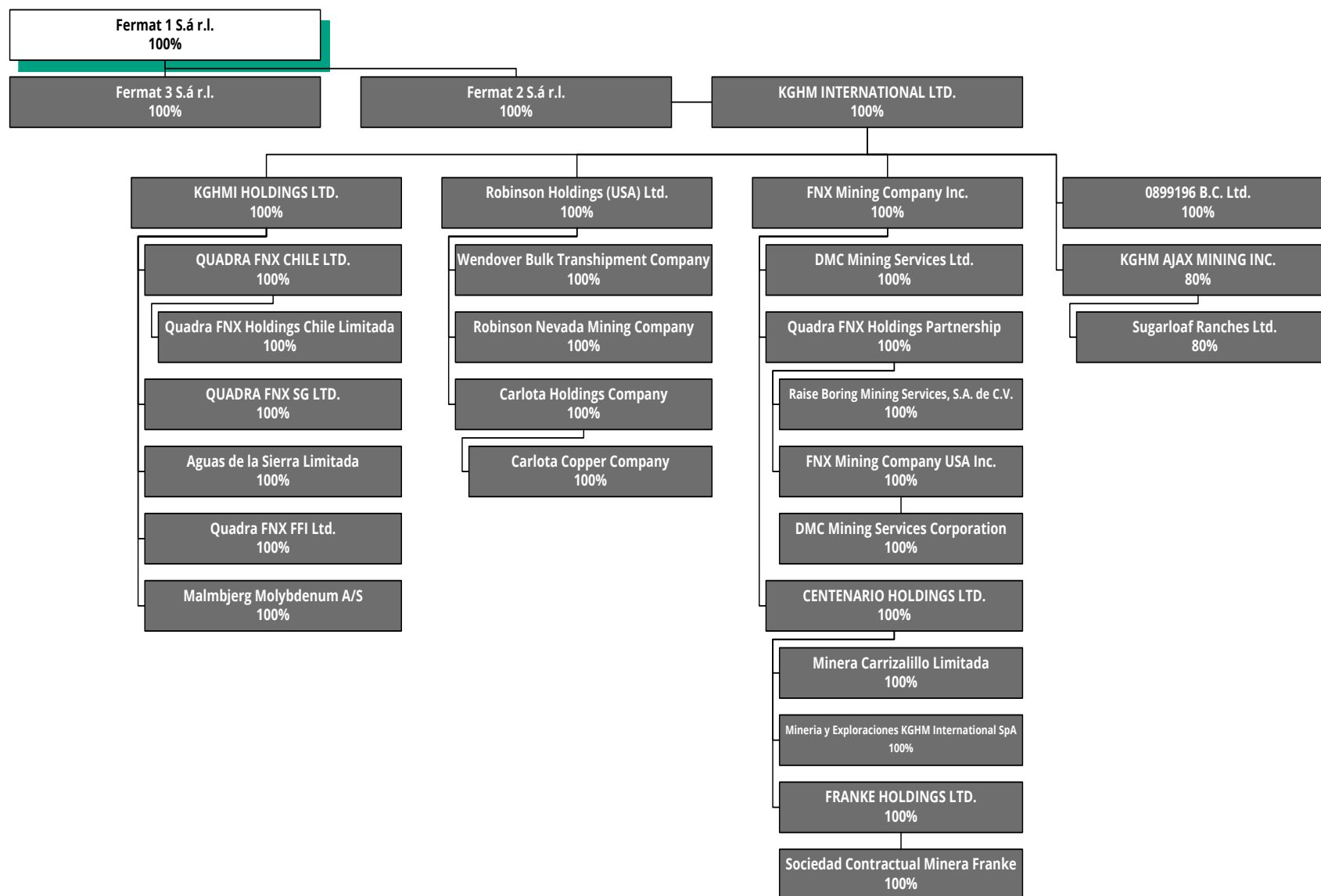
The KGHM Polska Miedź S.A. Group carries out exploration and mining of copper, nickel and precious metals based on concessions for Polish deposits given to KGHM Polska Miedź S.A., and also based on legal titles held by the KGHM INTERNATIONAL LTD. Group for the exploration for and mining of these resources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

Note 1.2 Structure of the KGHM Polska Miedź S.A. Group as at 30 June 2016

In the current half-year, KGHM Polska Miedź S.A. consolidated 79 subsidiaries and used the equity method to account for the shares of three joint ventures (Sierra Gorda S.C.M., "Elektrownia Blachownia Nowa" sp. z o.o. and NANO CARBON Sp. z o.o.).



The percentage share represents the total share of the Group.



Note 1.3 Exchange rates applied

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

- for the conversion of turnover, profit or loss and cash flow for the current period, the rate of **4.3805 PLNEUR***,
- for the conversion of turnover, profit or loss and cash flow for the comparable period, the rate of **4.1341 PLNEUR***,
- for the conversion of assets, equity and liabilities at 30 June 2016, applying the current average exchange rate announced by the National Bank of Poland (NBP) as at 30 June 2016, the rate of **4.4255 PLNEUR**,
- for the conversion of assets, equity and liabilities at 31 December 2015, applying the current average exchange rate announced by the NBP as at 31 December 2015, the rate of **4.2615 PLNEUR**.

**the rates represent the arithmetic average of current average exchange rates announced by the NBP on the last day of each month during the period from January to June respectively of 2016 and 2015.*

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

The following half-year report includes:

- half-year condensed consolidated financial statements of the KGHM Polska Miedź S.A. Group for the period from 1 January to 30 June 2016 and the comparable period from 1 January to 30 June 2015, together with selected explanatory information;
- half-year condensed financial statements of KGHM Polska Miedź S.A. for the period from 1 January to 30 June 2016 and the comparable period from 1 January to 30 June 2015;
- the Management Board's report on the activities of the Group in the first half of 2016.

The half-year consolidated financial statements as at 30 June 2016 as well half-year financial statements as at 30 June 2016 were reviewed by a certified auditor.

The condensed consolidated financial report for the period from 1 January 2016 to 30 June 2016 was prepared in accordance with IAS 34 Interim Financial Reporting as approved by the European Union and for a full understanding of the financial position and operating results of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group, should be read jointly with the Annual report R 2015 and the Consolidated annual report RS 2015.

This half-year report's financial statements were prepared using the same accounting policies and valuation methods for the current and comparable periods and principles applied in annual financial statements (consolidated and separate), prepared as at 31 December 2015.

Impact of new and amended standards and interpretations

From 1 January 2016, the following amendments to standards are binding for the Group:

- Amendments to IAS 1 Presentation of Financial Statements – the disclosure initiative;
- Defined benefit plans: Employee contributions – amendments to IAS 19;
- Amendments to IFRS 11 with respect to acquisitions of interest in joint operations;
- Amendments to IAS 16 and IAS 38 with respect to amortisation/depreciation;
- Amendments to IAS 16 and IAS 41 with respect to bearer plants;
- Amendments to IAS 27 with respect to the equity method in separate financial statements;
- Annual improvements to IFRS, 2012-2014 Cycle;
- Annual improvements to IFRS, 2010-2012 Cycle.

In order to prepare the consolidated financial statements for the year ended 31 December 2015, the Group applied the following amendments before their effective date:

- IAS 1 *Presentation of Financial Statements* – the disclosure initiative;
- 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.

Application of other changes to standards did not have an impact on the Group's accounting policy with respect to the Group's assets and liabilities at the end of the reporting and comparable periods, transactions realised by the Group during the reporting and comparable periods or to these financial statements.

Up to the date of publication of these financial statements, the above changes to standards were adopted for use by the European Union.

Note 1.5 Analysis of assumptions adopted for testing as at 31 December 2015

In accordance with International Financial Reporting Standards, the Management Board of the Parent Entity conducted an analysis of eventual changes in key assumptions adopted for impairment testing of assets, conducted as at 31 December 2015, and their impact on the recoverable amount of assets as at the reporting date.

The analysis concerned the following issues:

Issue	Description
Market capitalisation of KGHM Polska Miedź S.A.	In the first half of 2016, the market capitalisation of KGHM Polska Miedź S.A. increased by 3.95%. The share price increased from 63.49 PLN/share as at 30 December 2015 to 66.00 PLN/share as at 30 June 2016. The latest analysts' reports indicate that the Company is positively viewed by investors and analysts.
Macroeconomic assumptions – copper and silver price curves, discount rate	At the end of the first half of 2016, the Company analysed price fluctuations and concluded that price curves adopted for impairment testing did not differ significantly from current market consensus.
Operating assumptions for individual Cash Generating Units (CGUs) – production forecasts, mine lives, level of capital expenditures, C1 cost	
CGU KGHM Polska Miedź S.A.	In the reporting period, there were no changes in the long-term production forecasts, mine lives or in the level of cash expenditures. Moreover, in the first half of 2016, there were no indications necessitating a revision of the long-term C1 cash cost forecast. Based on the forecast which takes into account the actual results achieved in the first half of 2016, it is assumed that the basic production and economic targets for 2016, which were adopted for testing, will be reached.
KGHM INTERNATIONAL LTD. (CGU Robinson, CGU Sudbury, CGU Franke, CGU Carlota)	In the reporting period, there were no changes in the long-term production forecasts, mine lives or in the level of expenditures. Based on the forecast which takes into account the actual results achieved in the first half of 2016, it is assumed that the basic production and economic targets for 2016, which were adopted for testing, will be reached.
CGU Sierra Gorda	In the reporting period, there were no changes in the long-term production forecasts, mine lives or in the level of expenditures. Based on the actual results for the first half of 2016, it is assumed that Sierra Gorda will achieve results for 2016 that will be slightly below the values adopted for impairment testing as at 31 December 2015.

The results of the conducted analysis confirmed that none of the factors that could have an impact on the recoverable amount of assets occurred, and therefore there were no indicators necessitating an update of the tests for impairment conducted as at 31 December 2015.

In the first half of 2016, the Management Board of KGHM Polska Miedź S.A. decided to undertake work on a fundamental revision of the Company's strategy. The need to revise the strategy arose due to the decrease in prices of key commodities, which are lower than prices initially assumed in the previously approved, long-term strategic plans of the Group's companies for the years 2015-2020, the higher-than-initially-planned investment expenditures required to advance international investment projects and the lower-than-anticipated operating and efficiency parameters of international assets. The aforementioned factors indicating the necessity of revising the strategy were already present on 31 December 2015 and were reflected in the impairment loss on assets, recognised as at 31 December 2015.

During the process of revising the strategy, the Management Board is focusing in particular on aligning the Company's investment plans with its current financial capabilities, taking into consideration market conditions and the need to optimise costs.

In particular, as part of the revision of the strategy, the financing models for individual assets will be updated, which will be the basis for re-assessment of occurrence of indications to perform impairment testing of assets.

Economic and technical assumptions related to the operating activities and development of individual assets of KGHM International are being reviewed. On the basis of this technical review, development plans for individual assets will be prepared aimed at maximising their economic value.

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.

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

Reporting segment	Operating segments aggregated in a given reporting segment	Indications of similarity of economic characteristics of segments, taken into account in aggregations
KGHM Polska Miedź S.A.	KGHM Polska Miedź S.A.	Not applicable (it is a single operating and reporting segment)
KGHM INTERNATIONAL LTD.	Companies of the KGHM INTERNATIONAL LTD. Group, in which the following mines, deposits or mining areas constitute operating segments: Sudbury Basin, Robinson, Carlota, Franke and Ajax.	Operating segments within the KGHM INTERNATIONAL LTD. Group are located in North and South America. The Management Board analyses the results of the following operating segments: Sudbury Basin, Robinson, Carlota, Franke, Ajax and other. Moreover, it receives and analyses reports of the whole KGHM INTERNATIONAL LTD. Group. Operating segments are engaged in the exploration and mining 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. (a joint venture)	Not applicable (it is a single operating and reporting segment)
Other segments	This item includes other Group companies (every individual company is a separate operating segment).	Aggregation was carried out as a result of not meeting the criteria necessitating the identification of a separate additional reporting segment.

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

- Fermat 1 S. á r. l., Fermat 2 S. á r. l. and Fermat 3 S. á r. l., which operate in the holding structure founded to acquire KGHM INTERNATIONAL LTD.,
- Future 1 Sp. z o.o., Future 2 Sp. z o.o., Future 3 Sp. z o.o., Future 4 Sp. z o.o., Future 5 Sp. z o.o., Future 6 Sp. z o.o., 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 following segments: KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M. have their own Management Boards, which report the results of their business activities directly to the President of the Management Board of the Parent Entity.

The segment KGHM Polska Miedź S.A. is composed only of the Parent Entity, and the segment Sierra Gorda S.C.M. is composed only of the joint venture Sierra Gorda S.C.M. 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 Transshipment Company
Chile	Aguas de la Sierra Limitada
	Minera Carrizalillo Limitada
	Minera y Exploraciones KGHM International SpA
	Quadra FNX Holdings Chile Limitada
	Sociedad Contractual Minera Franke
Canada	KGHM INTERNATIONAL LTD.
	0899196 B.C. Ltd.
	CENTENARIO HOLDINGS LTD.
	DMC Mining Services Ltd.
	FNX Mining Company Inc.
	FRANKE HOLDINGS LTD.
	KGHM AJAX MINING INC.
	KGHMI HOLDINGS LTD.
	QUADRA FNX CHILE LTD.
	Quadra FNX Holdings Partnership
	QUADRA FNX SG LTD.
	Sugarloaf Ranches Ltd.
Greenland	Malmbjerg Molybdenum A/S
Mexico	Raise Boring Mining Services S.A. de C.V.
Barbados	Quadra FNX FFI Ltd.

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

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

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

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

- The segment KGHM Polska Miedź S.A. – comprises data from the separate financial statements of the Parent Entity prepared in accordance with IFRSs. In the separate financial statements, investments in subsidiaries (including the 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 accounting for 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. after fair value adjustments of assets and liabilities of this venture, determined when accounting for the acquisition of the KGHM INTERNATIONAL LTD. Group in 2012.
- Other segments – comprises aggregated data of individual subsidiaries before excluding transactions and balances between them.

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

The Group defines adjusted EBITDA as profit/loss for the period pursuant to IFRS, excluding income tax (current and deferred), finance income and costs, other operating income and costs, the share of losses of joint ventures accounted for using the equity method, impairment losses on interest in a joint venture, depreciation/amortisation, impairment losses on property, plant and equipment included in the cost of sales, selling costs and administrative expenses. Adjusted EBITDA – as a financial indicator that is not defined by IFRSs, is not a standardised measure and its 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.

Assets and liabilities which have not been allocated are related to companies which have not been classified to any other 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 payables and current tax liabilities.

Note 2.2 Financial results of reporting segments

		first half of 2016					Reconciliation items to consolidated data		
		KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments	Consolidated financial statements	
Note 2.3	Sales revenue	6 540	1 198	683	3 206	(683)	(2 488)	8 456	
	Inter-segment sales revenue	130	-	30	2 368	(30)	(2 498)	-	
	External sales revenue	6 410	1 198	653	838	(653)	10	8 456	
	Segment result	668	(533)	(481)	(17)	481	180	298	
	Additional information on significant costs/revenue items of the segment								
	Depreciation/amortisation recognised in profit or loss	(451)	(248)	(376)	(117)	376	6	(810)	
	Share of losses of joint ventures accounted for using the equity method	-	(476)	-	-	-	-	(476)	
	Assets, including:	35 013	14 552	13 335	5 361	(13 335)	(16 515)	38 411	
	Segment assets	35 013	14 247	13 335	5 361	(13 335)	(16 545)	38 076	
	Joint ventures accounted for using the equity method	-	305	-	-	-	28	333	
	Assets unallocated to segments							2	
	Liabilities, including:	14 413	15 527	11 970	1 841	(11 970)	(13 846)	17 935	
	Segment liabilities	14 413	15 527	11 970	1 841	(11 970)	(14 002)	17 779	
	Liabilities unallocated to segments							156	
	Other information	first half of 2016							
	Cash expenditures on property, plant and equipment and intangible assets	1 431	303	351	96	(351)	(44)	1 786	
	Production and cost data	first half of 2016							
	Payable copper (kt)	263.0	46.8	26.6					
	Molybdenum (million pounds)	-	0.4	6.9					
	Silver (t)	567.0	0.8	7.2					
	TPM (koz t)	53.5	46.9	11.4					
	C1 cash cost of producing copper in concentrate (USD/lb)**	1.33	1.53	1.75					
	Adjusted EBITDA	1 463	272	154	173	-	-	2 062	

* 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.

Consolidation eliminations arise from consolidation adjustments, from the financial data of companies not assigned to any segment and from the financial data of the Sierra Gorda S.C.M. joint venture, 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

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

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

Financial results of reporting segments for the comparable period

		first half of 2015					Reconciliation items to consolidated data		Consolidated financial statements
		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		
Note 2.3	Sales revenue	8 092	1 224	-	3 370	-	(2 626)	10 060	
	Inter-segment sales revenue	140	-	-	2 481	-	(2 621)	-	
	External sales revenue	7 952	1 224	-	889	-	(5)	10 060	
	Segment result	1 321	(295)	-	(4)	-	172	1 194	
	Additional information on significant costs/revenue items of the segment								
	Depreciation/amortisation recognised in profit or loss	(429)	(408)	-	(113)	-	6	(944)	
					2015				
	Assets, including:	33 120	14 071	12 568	5 327	(12 568)	(15 754)	36 764	
	Segment assets	33 120	14 071	12 568	5 327	(12 568)	(15 754)	36 764	
	Joint ventures accounted for using the equity method	-	534	-	-	-	28	562	
	Assets unallocated to segments							1	
	Liabilities, including:	12 841	14 937	11 253	1 825	(11 253)	(13 253)	16 350	
	Segment liabilities	12 841	14 937	11 253	1 825	(11 253)	(13 253)	16 350	
	Liabilities unallocated to segments							134	
					first half of 2015				
	Other information								
	Cash expenditures on property, plant and equipment and intangible assets	1 146	510	633	139	(633)	(48)	1 747	
					first half of 2015				
	Production and cost data								
	Payable copper (kt)	286.2	45.0						
	Molybdenum (million pounds)	-	0.5						
	Silver (t)	612.2	0.8						
	TPM (koz t)	36.5	41.9						
	C1 cash cost of producing copper in concentrate (USD/lb)**	1.50	2.03						
	Adjusted EBITDA	2 364	182	-	146	-	-	2 692	

*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.

Reconciliation of adjusted EBITDA	first half of 2015			
	KGHM Polska Miedz S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.	Other segments
Profit/(loss) for the period	1 321	(295)	-	(4)
[-] Current and deferred income tax	(560)	91	-	(19)
[-] Depreciation/amortisation recognised in profit or loss	(429)	(408)	-	(113)
[-] Other operating income/(costs)	(12)	192	-	(13)
[-] Finance costs	(42)	(352)	-	(5)
[=] EBITDA	2 364	182	-	146
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
Adjusted EBITDA	2 364	182	-	146
	first half of 2015			
Profit/(loss) on sales (EBIT)	1 935	(226)	-	33
[-] Depreciation/amortisation recognised in profit or loss	(429)	(408)	-	(113)
[=] EBITDA	2 364	182	-	146
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
[=] Adjusted EBITDA	2 364	182	-	146

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

first half of 2016								
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data		Consolidated data	
					Elimination of data of the segment Sierra Gorda S.C.M.	Consolidation adjustments		
Copper	4 865	829	455	4	(455)	(4)	5 694	
Silver	1 086	9	13	-	(13)	-	1 095	
Gold	248	150	54	-	(54)	-	398	
Services	45	249	-	1 104	-	(871)	527	
Other	296	101	224	2 098	(224)	(1 613)	882	
TC/RC**	-	(140)	(63)	-	63	-	(140)	
TOTAL	6 540	1 198	683	3 206	(683)	(2 488)	8 456	

first half of 2015								
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data		Consolidated data	
					Elimination of data of the segment Sierra Gorda S.C.M.	Consolidation adjustments		
Copper	6 468	925	-	3	-	(3)	7 393	
Silver	1 129	5	-	-	-	-	1 134	
Gold	146	100	-	-	-	-	246	
Services	41	201	-	912	-	(698)	456	
Other	308	116	-	2 455	-	(1 925)	954	
TC/RC**	-	(123)	-	-	-	-	(123)	
TOTAL	8 092	1 224	-	3 370	-	(2 626)	10 060	

* 55% of the Group's share in revenues of Sierra Gorda S.C.M.

** Smelter treatment and refining charges.

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

	first half of 2016	first half of 2015
Europe		
Poland	2 330	2 504
Germany	1 118	1 593
Czechia	617	774
The United Kingdom	535	732
France	333	380
Hungary	277	357
Switzerland	251	208
Italy	225	408
Austria	97	144
Belgium	46	108
Slovakia	42	53
Romania	38	63
Other countries (dispersed sale)	125	157
North and South America		
The United States of America	850	900
Canada	353	330
Chile	51	28
Other countries (dispersed sale)	2	6
Australia		
Australia	79	-
Asia		
China	733	1 109
India	159	-
Singapore	95	11
Turkey	63	103
South Korea	27	36
Japan	3	48
Other countries (dispersed sale)	3	8
Africa	4	-
TOTAL	8 456	10 060

Note 2.5 Main customers

In the period from 1 January 2016 to 30 June 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	
	first half of 2016	2015
Poland	16 853	16 154
Canada	3 270	3 210
The United States of America	688	557
Chile	464	437
TOTAL	21 275	20 358

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

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

Note 3.1 Expenses by nature

	first half of 2016	first half of 2015
Depreciation of property, plant and equipment and amortisation of intangible assets	829	1 080
Employee benefits expenses	2 306	2 297
Materials and energy	3 599	3 704
External services	1 029	950
Minerals extraction tax	606	810
Other taxes and charges	255	249
Other costs	107	176
Total expenses by nature	8 731	9 266
Cost of merchandise and materials sold (+)	212	243
Change in inventories of finished goods and work in progress (+/-)	(799)	(445)
Cost of manufacturing products for internal use of the Group (-)	(806)	(770)
Cost of sales, selling costs and administrative expenses, including:	7 338	8 294
Cost of sales	6 704	7 681
Selling costs	192	163
Administrative expenses	442	450

Note 3.2 Other operating income/(costs)

	first half of 2016	first half of 2015
Measurement and realisation of derivatives	46	80
Foreign exchange gains on assets and liabilities other than borrowings	110	36
Other	114	138
Total other income	270	254
Measurement and realisation of derivatives	(215)	(253)
Impairment loss on available-for-sale assets	(57)	(1)
Other	(104)	(78)
Total other costs	(376)	(332)
Other operating income/(costs)	(106)	(78)

Note 3.3 Finance costs

	first half of 2016	first half of 2015
Interest on borrowings	(31)	(127)
Exchange differences on borrowings	(70)	13
Other	(58)	(57)
Total finance costs	(159)	(171)

Part 4 – Other explanatory notes

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

Purchase of property, plant and equipment and intangible assets

	first half of 2016	first half of 2015
Purchase of property, plant and equipment	1 449	1 384
Purchase of intangible assets	116	247

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

	first half of 2016	2015
Payables due to the purchase of property, plant and equipment and intangible assets	362	693

Capital commitments not recognised in the consolidated statement of financial position

	first half of 2016	2015
Purchase of property, plant and equipment	2 603	2 111
Purchase of intangible assets	37	29
Capital commitments, total:	2 640	2 140

Note 4.2 Involvement in joint ventures

Joint ventures accounted for using the equity method

	first half of 2016		2015	
	Sierra Gorda S.C.M.	Other	Sierra Gorda S.C.M.	Other
As at the beginning of the period	534	28	4 333	30
Acquisition of shares	238	-	928	-
Share of losses of joint ventures accounted for using the equity method	(476)	-	(4 455)	(2)
Impairment loss on interest in a joint venture	-	-	(671)	-
Elimination of unrealised gains between the investor and the joint venture	-	-	(110)	-
Exchange differences from the translation of a foreign operation	9	-	509	-
At the end of the period	305	28	534	28

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

	first half of 2016	2015
At the beginning of the period	7 504	6 231
Accrued interest	306	466
Exchange differences from the translation of a foreign operation	156	807
At the end of the period	7 966	7 504

Note 4.3 Financial instruments

Categories of financial assets in accordance with IAS 39	first half of 2016					2015				
	Available- for-sale	At fair value through profit or loss	Loans and financial receivables	Hedging instruments	Total	Available- for-sale	At fair value through profit or loss	Loans and financial receivables	Hedging instruments	Total
Non-current	571	1	8 825	66	9 463	579	11	8 239	106	8 935
Loans granted to joint ventures	-	-	7 966	-	7 966	-	-	7 504	-	7 504
Derivatives	-	1	-	66	67	-	11	-	106	117
Other financial instruments measured at fair value	571	-	-	-	571	579	-	-	-	579
Other financial assets	-	-	859	-	859	-	-	735	-	735
Current	63		1 977	33	2 073	84	1	2 203	6	2 294
Trade receivables	-	-	1 146	-	1 146	-	-	1 541	-	1 541
Derivatives	-	-	-	33	33	-	1	-	6	7
Cash and cash equivalents	-	-	698	-	698	-	-	461	-	461
Other financial assets	63	-	133	-	166	84	-	201	-	285
Total	634	1	10 802	99	11 536	663	12	10 442	112	11 229

Categories of financial liabilities in accordance with IAS 39	first half of 2016				2015			
	At fair value through profit or loss	At amortised cost	Hedging instruments	Total	At fair value through profit or loss	At amortised cost	Hedging instruments	Total
Non-current	105	4 810	1 300	6 215	1	3 894	1 328	5 223
Borrowings	-	4 622	1 194	5 816	-	3 700	1 170	4 870
Derivatives	105	-	106	211	1	-	158	159
Other financial liabilities	-	188	-	188	-	194	-	194
Current	12	3 889	74	3 975	-	3 666	48	3 714
Borrowings	-	2 295	-	2 295	-	2 145	-	2 145
Derivatives	12	-	74	86	-	-	48	48
Trade payables	-	1 199	-	1 199	-	1 418	-	1 418
Other financial liabilities	-	395	-	395	-	103	-	103
Total	117	8 699	1 374	10 190	1	7 560	1 376	8 937

The fair value hierarchy of financial instruments

Classes of financial instruments	first half of 2016		2015	
	level 1	level 2	level 1	level 2
Listed shares	582	-	611	-
Other financial assets	-	57	-	95
Derivatives, including:	-	(197)	-	(83)
Assets	-	100	-	124
Liabilities	-	(297)	-	(207)

The manner and technique for measuring financial instruments to fair value have not changed in comparison to the manner and technique for measurement as at 31 December 2015.

There was no transfer in the Group of financial instruments between individual levels of the fair value hierarchy, in either the reporting or the comparable periods, nor was there any change in the classification of instruments as a result of a change in the purpose or use of these instruments.

Note 4.4 Commodity, currency and interest rate risk management

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

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

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

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

	Impact of derivatives and hedging transactions	
	first half of 2016	first half of 2015
Statement of profit or loss		
Sales revenue	6	221
Other operating and finance income and costs:	(179)	(175)
On realisation of derivatives	(8)	(3)
On measurement of derivatives	(171)	(172)
Impact of derivatives on the financial result	(173)	46
Statement of comprehensive income in that part concerning other comprehensive income		
Impact of hedging transactions	(24)	(205)
Impact of measurement of hedging transactions (effective portion)	(18)	16
Reclassification to sales revenues due to realisation of a hedged item	(6)	(221)
TOTAL COMPREHENSIVE INCOME	(197)	(159)

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

The notional amount of copper price hedging strategies settled in the first half of 2016 represented approx. 10% of the total sales of this metal realised by the Parent Entity. In the case of currency transactions, approx. 53% of total revenues from metals sales realised by the Parent Entity during the period were hedged.

In the first half of 2016 the Parent Entity implemented copper price hedging transactions with a total notional amount of 35 thousand tonnes and a hedging horizon falling from March to September 2016. Moreover, 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. Put options were purchased (Asian options). Transactions on the silver market, hedging sales revenue for 2017, were partially financed by writing a put option with a lower strike price, and for the same notional amount (2.7 million troy ounces) and for the same period (put spread option strategy).

Moreover, on the currency market in the first half of 2016, the Parent Entity implemented transactions hedging against a change in the USD/PLN exchange rate for the total notional amount of USD 360 million. Put options were purchased as part of hedging (European options) with maturity dates falling from January to December 2016.

With respect to managing currency risk, which arises from borrowings, the Parent Entity uses natural hedging by borrowing in currencies in which it has revenues. As at 30 June 2016, following their translation to PLN, the bank loans and the investment loan which were drawn in USD amounted to PLN 7 928 million.

As at 30 June 2016, the Parent Entity held a hedging position in derivatives for 10.5 thousand tonnes of copper (for the period from July to September 2016), 4.05 million ounces of silver (for the period from July 2016 to December 2017) as well as for the planned revenues from sales of metals in the amount of USD 1 920 million, including: USD 660 million for the period from July to December 2016, USD 1 020 million for 2017 and USD 240 million for 2018. Moreover, the Parent Entity held open derivatives' transactions on the interest rate market for the third and fourth quarters of 2016 (average quarterly notional amount of USD 650 million), for 2017 (average quarterly notional amount of USD 700 million) and for 2018 (average quarterly notional amount of USD 900 million). In addition, the first instalment of the loan granted by the European Investment Bank (in the amount of USD 300 million) hedges revenues from sales against the risk of changes in foreign exchange rates for the period from October 2017 to October 2026.

Some of the Group's Polish companies managed the currency risk related to their core business by opening transactions in derivatives on the currency market. The table of open transactions as at 30 June 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 copper, silver, currency and interest rate markets are presented below:

COPPER MARKET

Instrument	Notional [tonnes]	Option strike price		Average weighted premium [USD/t]	Effective hedge price [USD/t]	Participation limited to [USD/t]
		Purchased put option [USD/t]				
3rd quarter						
Purchased put option	6 000	4 900		-200	4 700	
Purchased put option	4 500	5 000		-200	4 800	
TOTAL VII-IX 2016	10 500					

SILVER MARKET

Instrument	Notional [million oz t]	Option strike price		Average weighted premium [USD/oz t]	Effective hedge price [USD/oz t]	Participation limited to [USD/oz t]
		Sold put option [USD/oz t]	Purchased put option [USD/oz t]			
2nd half						
Purchased put option	1.35		18.00	-1.24	16.76	
TOTAL VII-XII 2016	1.35					
2nd 1st half						
Put spread	1.35	14.00	18.00	-1.48	16.52	14.00
Put spread	1.35	14.00	18.00	-1.48	16.52	14.00
TOTAL 2017	2.70					

CURRENCY MARKET

Instrument	Notional [million USD]	Option strike price		Average weighted premium [PLN for USD 1]	Effective hedge price [USD/PLN]	Participation limited to [USD/PLN]
		Sold call option [USD/PLN]	Purchased put option [USD/PLN]			
2nd half						
Collar	180	4.0000	3.2000	-0.0553	3.1447	4.0000
Collar	180	4.2000	3.3000	-0.0473	3.2527	4.2000
Collar	120	4.4000	3.5500	-0.0468	3.5032	4.4000
Purchased put option	180		3.8000	-0.0656	3.7344	
TOTAL VII-XII 2016	660					
1st half						
Collar	270	4.0000	3.3500	-0.0523	3.2977	4.0000
Collar	180	4.4000	3.5500	-0.0477	3.5023	4.4000
Collar	60	4.5000	3.7500	-0.0300	3.7200	4.5000
Collar	270	4.0000	3.3500	-0.0524	3.2976	4.0000
2nd half						
Collar	180	4.4000	3.5500	-0.0487	3.5013	4.4000
Collar	60	4.5000	3.7500	-0.0330	3.7170	4.5000
TOTAL 2017	1 020					

1st half	Collar	120	4.5000	3.7500	-0.0375	3.7125	4.5000
2nd half	Collar	120	4.5000	3.7500	-0.0342	3.7158	4.5000
TOTAL 2018		240					

INTEREST RATE MARKET

Instrument	Notional	Option strike price	Average weighted premium		Effective hedge price
	[million USD]	[LIBOR 3M]	[USD for USD 1 million hedged]	[%]	[LIBOR 3M]
Purchase of interest rate cap options, 3rd quarter	600	2.50%	-734	0.29%	2.79%
Purchase of interest rate cap options, 4th quarter	700	2.50%	-734	0.29%	2.79%
AVERAGE IN 2nd half of 2016	650				
Purchase of interest rate cap options, 1st quarter	700	2.50%	-734	0.29%	2.79%
Purchase of interest rate cap options, 2nd quarter	700	2.50%	-734	0.29%	2.79%
Purchase of interest rate cap options, 3rd quarter	700	2.50%	-734	0.29%	2.79%
Purchase of interest rate cap options, 4th quarter	700	2.50%	-734	0.29%	2.79%
AVERAGE IN 2017	700				
Purchase of interest rate cap options, 1st quarter	900	2.50%	-734	0.29%	2.79%
Purchase of interest rate cap options, 2nd quarter	900	2.50%	-734	0.29%	2.79%
Purchase of interest rate cap options, 3rd quarter	900	2.50%	-734	0.29%	2.79%
Purchase of interest rate cap options, 4th quarter	900	2.50%	-734	0.29%	2.79%
AVERAGE IN 2018	900				

As at 30 June 2016, the net fair value of open positions in derivatives of the Group (hedging, trade and embedded transactions) was negative and amounted to PLN 197 million (it was negative as at 31 December 2015 and amounted to PLN 83 million).

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

Type of derivative	first half of 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 - Copper										
Options										
Purchased put options	8	-	-	-	8	-	-	-	-	-
TOTAL	8	-	-	-	8	-	-	-	-	-
Derivatives – Commodity contracts - Silver										
Options										
Purchased put options	3	-	-	-	3	-	-	-	-	-
Put spread	6	11	-	-	17	-	-	-	-	-
TOTAL	9	11	-	-	20	-	-	-	-	-
Derivatives – Currency contracts										
Options USD										
Purchased put options	5	-	-	-	5	-	-	-	-	-
Collars*	11	55	(75)	(106)	(115)	6	106	(48)	(158)	(94)
TOTAL	16	55	(75)	(106)	(110)	6	106	(48)	(158)	(94)
TOTAL HEDGING INSTRUMENTS	33	66	(75)	(106)	(82)	6	106	(48)	(158)	(94)

Hedging derivatives	first half of 2016					
	Notional	Avg. weighted price/exchange rate	Maturity/ settlement period		Period of profit/loss impact	
			From	To	From	To
	Copper [t] Silver [million oz t] Currencies [USD million]	USD/t USD/oz t [USD/PLN]				
Copper – purchased put options	10 500	4 943	Jul 16	Sep 16	Aug 16	Oct 16
Silver – purchased put options	1.35	18.00	Jul 16	Dec 16	Aug 16	Jan 17
Silver – put spread	2.70	14.00-18.00	Jan 17	Dec 17	Feb 17	Jan 18
Currency – purchased put options	180	3.8000	Jul 16	Dec 16	Jul 16	Dec 16
Currency - collars	1 740	3.4672-4.2345	Jul 16	Dec 18	Jul 16	Dec 18

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 the end of the reporting period):

Rating level		first half of 2016	2015
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	95%	97%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	5%	3%

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

Taking into consideration the fair value of open derivatives' transactions entered into by the Group and the fair value of unsettled derivatives, as at 30 June 2016 the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 52%, or PLN 20 million (as at 31 December 2015: 58%, or PLN 43 million).

In order to both reduce cash flows and 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 on-going 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.

Note 4.5 Liquidity risk and capital management

Capital management policy

Capital management in the Group is aimed at securing funds for business development and maintaining the appropriate level of liquidity.

In order to maintain financial liquidity and the creditworthiness to acquire external financing at an optimum cost, 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.

Ratio	Calculation	first half of 2016	2015
Net debt/EBITDA	ratio of net debt to EBITDA	1.8	1.4
Net debt	borrowings, debt instruments and finance lease liabilities less free cash and short term investments with a maturity of up to 1 year	7 428	6 554
EBITDA*	profit on sales plus depreciation/amortisation recognised in profit or loss and impairment losses on non-current assets	4 027	4 811
Equity	relation of equity less intangible assets to total assets	0.44	0.5
Equity	assets of the Group after deducting all of its liabilities	20 476	20 414
Intangible assets	identifiable non-cash items of assets without a physical form	3 537	3 371
Equity less intangible assets		16 939	17 043
Total assets	sum of non-current and current assets	38 411	36 764

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

In managing capital, the Group also takes into account the amount of adjusted operating profit for the period of 12 months ending on the last day of the reporting period, which is the basis of calculating the financial covenants, and which is comprised of the following items:

	first half of 2016	2015
Profit on sales	(142)	506
Interest income on loans granted to joint ventures	595	466
Other operating incomes and costs	(688)	(660)
Adjusted operating profit	(235)*	312*

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

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 an entity supporting the Management Board in this regard.

The management of financial liquidity in the Parent Entity is performed in accordance with the Financial Liquidity Management Policy approved by the Management Board. In KGHM INTERNATIONAL LTD., liquidity management principles are described in the Investment Policy. The basic principles resulting from these documents are:

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

In managing financial liquidity, the Group utilises tools which support its efficiency. One of the basic instruments used by the Group is the cash pool management system – local Cash Pool in PLN, USD and EUR and international one in USD.

Details on sources of borrowings

As at 30 June 2016, the Group had open credit lines and loans with a total balance of available financing in the amount of PLN 15 520 million, out of which PLN 8 113 million had been drawn.

The following table presents the structure of sources of financing.

	first half of 2016	2015
	Amount available	Amount drawn
<p>1. Unsecured, revolving syndicated credit facility in the amount of USD 2 500 million, obtained on the basis of a financing agreement concluded with a syndicate of banks in 2014 with a maturity date falling on 10 July 2020. In July 2016, the Parent Entity obtained the approval of banks to extend the maturity date by one year. The new maturity date expires on 9 July 2021.</p> <p>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.</p> <p>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 Group to comply with the financial covenant and non-financial covenants. As at 30 June 2016, during the reporting period and up to the date of authorising the financial statements for publication, there were no instances of violation of the covenants stipulated in the aforementioned agreement.</p>	9 951	4 384*
<p>2. Loans, including the 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. 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 11 months as at the reporting date. The payback period for the drawn instalments expires on 30 October 2026.</p> <p>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.</p> <p>The loan agreement obliges the Parent Entity to comply with the financial and non-financial covenants. As at 30 June 2016, during the reporting period and up to the date of authorising the financial statements for publication, there were no instances of violation of the covenants stipulated in the aforementioned agreement.</p>	2 007	1 206
<p>3. Bilateral bank loans in the total amount of PLN 3 562 million, used for financing working capital and supporting the management of current financial liquidity of the Group. They are also used to support the financing of the Group's investment projects.</p> <p>The funds obtained under the open lines of credit are available in PLN, USD and EUR, with interest based on variable WIBOR, LIBOR and EURIBOR plus a margin.</p>	3 562	2 523
	15 520	8 113

* The amount drawn, not reduced by costs associated with signing the syndicated credit facility agreement, which were recognised in the initial value of the liability due to this credit.

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

Cash and cash equivalents

	first half of 2016	2015
Cash in bank accounts	270	179
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits	422	280
Other cash	6	2
Total	698	461

Contingent liabilities due to guarantees granted

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

As at 30 June 2016, the Group held contingent liabilities due to guarantees and letters of credit granted in the total amount of PLN 1 733 million and due to promissory notes liabilities in the amount of PLN 256 million.

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

- securing the performance of agreements concluded by Sierra Gorda S.C.M. in the amount of PLN 1 258 million:
 - a letter of credit of PLN 547 million, granted as security for the proper performance of a long-term contract for the supply of electricity;
 - corporate guarantees of PLN 295 million, set as security on the payment of concluded lease agreements;
 - a corporate guarantee of PLN 416 million, securing the repayment of short-term working capital facilities of Sierra Gorda S.C.M., which were granted by Banco de Chile and Banco del Estado de Chile;
- securing restoration costs of the Robinson mine, the Podolsky mine and the Victoria project and obligations related to the proper performance of contracts entered into in the amount of PLN 371 million by the Group,
- securing the proper execution of future environmental obligations of the Parent Entity related to the obligation to restore terrain around the Żelazny Most tailings storage facility following the conclusion of its operations in the total amount of PLN 320 million (a bank guarantee of PLN 96 million and an own promissory note of PLN 224 million).

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

Note 4.6 Employee benefits liabilities

Components of the employee benefits liabilities

	first half of 2016	2015
Non-current	2 071	1 979
Current	134	126
Total liabilities due to future employee benefits programs	2 205	2 105
Remuneration liabilities	124	219
Accruals (unused annual leave, bonuses, other)	694	415
Total employee benefits	818	634

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

	first half of 2016	2015
Provisions as at the beginning of the reporting period	1 496	1 555
Changes in estimates recognised in fixed assets	84	(131)
Other	32	72
Provisions as at the end of the reporting period, including:	1 612	1 496
- non-current provisions	1 583	1 466
- current provisions	29	30

Note 4.8 Related party transactions**Operating income from related parties**

	first half of 2016	first half of 2015
Revenues from sales to the joint venture Sierra Gorda S.C.M.	58	44
Interest income on a loan granted to the joint venture Sierra Gorda S.C.M.	306	177
Revenues from sales to other related parties	11	10
	375	231

Purchases from related parties

	first half of 2016	first half of 2015
Purchases from the joint venture Sierra Gorda S.C.M.	54	-
Purchases from other related parties	15	15
	69	15

Trade and other receivables from related parties

	first half of 2016	2015
From the joint venture Sierra Gorda S.C.M. - loans	7 966	7 504
From the joint venture Sierra Gorda S.C.M. - other	393	312
From other related parties	11	2
	8 370	7 818

Trade and other payables towards related parties

	first half of 2016	2015
Towards joint ventures	50	75
Towards other related parties	7	1
	57	76

In the current half-year, 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 Polish 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 Polish Government has significant influence, were within the scope of normal, daily economic operations, carried out at arm's length. These transactions concerned 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 30 June 2016, the turnover from these transactions amounted to PLN 323 million (from 1 January 2015 to 30 June 2015: PLN 322 million), and, as at 30 June 2016, the unsettled balance of liabilities from these transactions amounted to PLN 528 million (as at 31 December 2015: PLN 241 million).

Remuneration of the Supervisory Board of the Parent Entity (in PLN thousands)

	first half of 2016	first half of 2015
Remuneration due to service in the Supervisory Board, salaries and other current employee benefits	826	945

Remuneration of the Management Board of the Parent Entity (in PLN thousands)

	first half of 2016	first half of 2015
Salaries and other current employee benefits, of which:	6 825	6 730
Members of the Management Board serving in the function as at 30 June 2016	2 978	-
other Members of the Management Board*	3 847	6 730
Benefits due to termination of employment	-	249
Total	6 825	6 979

* amount for the first half of 2016 includes remuneration during the employment termination period

Remuneration of other key managers (in PLN thousands)

	first half of 2016	first half of 2015
Salaries and other current employee benefits	1 884	3 641

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

Note 4.9 Assets and liabilities not recognised in the statement of financial position

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

	first half of 2016	2015
Contingent assets		
Guarantees received	315	310
Promissory notes receivables	99	168
Property tax on underground mine facilities	88	88
Other	82	69
Total contingent assets	584	635
Contingent liabilities		
Guarantees, including:	1 733	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.	547	536
corporate guarantees granted to secure repayment of short-term working capital facilities of the joint venture Sierra Gorda S.C.M.	416	-
a letter of credit granted to secure the proper performance of future environmental obligations by KGHM INTERNATIONAL LTD. to restore the area following the conclusion of operations of the Robinson mine, Podolsky mine and the Victoria project and obligations related to the proper performance of contracts entered into	371	353
guarantees granted to secure the proper performance of lease agreements entered into by the joint venture Sierra Gorda S.C.M.	295	319
a guarantee granted to secure the proper performance of future environmental obligations of the Parent Entity to restore the area following the conclusion of operations of the Żelazny Most tailings storage facility	96	64
A promissory note liability 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	224	256
Liabilities due to implementation of projects and inventions	92	91
Property tax on underground mine facilities	117	101
Other	105	51
Total contingent liabilities	2 271	1 780
Other liabilities not recognised in the statement of financial position		
Liabilities towards local government entities due to expansion of the tailings storage facility	119	118
Liabilities due to operating leases	80	54
Total other liabilities not recognised in the statement of financial position	199	172

Note 4.10 Changes in working capital

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

	Inventories	Trade receivables	Trade payables	Working capital
As at 31 December 2014	(3 362)	(1 890)	1 384	(3 868)
As at 30 June 2015	(3 890)	(1 281)	1 463	(3 708)
Change in the statement of financial position	(528)	609	79	160
Adjustments	166	(38)	198	326
Change recognised in the statement of cash flows	(362)	571	277	486

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

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

There were no significant changes in the Group's structure in the first half of 2016.

Note 5.2 Seasonal or cyclical activities

The Group is not affected by seasonal or cyclical activities.

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

There was no issuance, redemption or repayment of debt and equity securities in the Group in the first half of 2016.

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

In accordance with Resolution No. 6/2016 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 28 June 2016 regarding the payout of a dividend from prior years' profits and setting the dividend date as well as the dividend payment dates, the amount of PLN 300 million was allocated as a dividend, representing PLN 1.50 per share.

The dividend date (the date on which the right to dividend is set) was set on 15 July 2016. Moreover, it was decided that the dividend will be paid in two instalments: on 18 August 2016 – the amount of PLN 150 million (representing PLN 0.75 per share) and on 17 November 2016 – the amount of PLN 150 million (representing PLN 0.75 per share).

All shares of the Parent Entity are ordinary shares.

Note 5.5 Subsequent events after the reporting period

An instalment drawn under revolving syndicate credit facility

On 11 July 2016, the Parent Entity drawn an instalment under revolving syndicate credit facility in the amount of USD 150 million to secure the financing of general corporate goals.

Extension of loan maturities

On 18 July 2016, the Parent Entity received confirmation that the maturity of the working capital facility in the amount of USD 100 million, which was granted by Bank Gospodarstwa Krajowego, was extended by 3 months. The maturity date falls on 4 November 2016.

On 29 July 2016, the Parent Entity received confirmation that the maturity date of the bank loan in the amount of PLN 600 million, which was granted by Bank PEKAO S.A., was extended and falls on 8 August 2017.

In July 2016, the Parent Entity used, for the second time, the option to extend the availability of the financing under the unsecured revolving credit facility agreement for the amount of USD 2 500 million, granted by an international syndicate of banks financing KGHM Polska Miedź S.A., and received confirmation from these banks as to the extension of the availability of the credit facility by 12 months. The new maturity date falls on 9 July 2021. Other terms of the agreement did not change.

Discontinuance of the Project to build a gas-steam block in "Elektrownia Blachownia Nowa" sp. z o.o.

On 28 July 2016, the Management Board of KGHM Polska Miedź S.A., TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A. signed an agreement, in which they agreed to discontinue the project to build a gas-steam block in "Elektrownia Blachownia Nowa" sp. z o.o. and to terminate the Shareholders Agreement between KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A., resulting in an extinguishment of all obligations stipulated in the Shareholders Agreement and termination of all work stipulated in it.

KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. agreed to liquidate the company "Elektrownia Blachownia Nowa" sp. z o.o. The liquidation will be carried out in accordance with the stipulations of the Company's Articles of Association and laws in force.

The companies will cooperate with each other and with "Elektrownia Blachownia Nowa" sp. z o.o., to ensure the execution of the Agreement. They agreed to terminate their agreement dated 30 December 2013, based on which it was decided to temporarily suspend the realisation of the Project to build a gas-steam block in the company "Elektrownia Blachownia Nowa" sp. z o.o.

The impact of the liquidation of the company "Elektrownia Blachownia Nowa" sp. z o.o. will not be significant for the consolidated financial statements of the KGHM Polska Miedź S.A. Group.

Delegation of two members of the Supervisory Board of KGHM Polska Miedź S.A. to independently carry out supervisory activities

On 11 August 2016 the Supervisory Board of KGHM Polska Miedź S.A. adopted resolutions on the delegation of two members of the Supervisory Board of the Parent Entity: Dominik Hunek and Michał Czarnik, to independently carry out supervisory activities regarding the Parent Entity with respect to the Parent Entity's investments outside of the Republic of Poland. The main goal of the actions undertaken by the Supervisory Board of the Parent Entity is to support the Management Board of KGHM Polska Miedź S.A. in its present work and to enhance oversight of the key international assets.

It was decided that the period of independent supervision will be carried out from 12 August 2016 to 30 October 2016.



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

Lubin, August 2016

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

HALF-YEAR STATEMENT OF PROFIT OR LOSS

		first half of 2016	first half of 2015
	Sales revenue	6 540	8 092
Note 2.1	Cost of sales	(5 140)	(5 782)
	Gross profit	1 400	2 310
Note 2.1	Selling costs and administrative expenses	(388)	(375)
	Profit on sales	1 012	1 935
Note 2.2	Other operating income/(costs)	161	(12)
Note 2.3	Finance costs	(141)	(42)
	Profit before income tax	1 032	1 881
	Income tax expense	(364)	(560)
	PROFIT FOR THE PERIOD	668	1 321
	Weighted average number of ordinary shares (million)	200	200
	Basic/diluted earnings per share (in PLN)	3.34	6.60

HALF-YEAR STATEMENT OF COMPREHENSIVE INCOME

		first half of 2016	first half of 2015
	Profit for the period	668	1 321
	Measurement of hedging instruments net of the tax effect	(20)	(166)
	Measurement of available-for-sale financial assets net of the tax effect	40	(98)
	Other comprehensive income which will be reclassified to profit or loss	20	(264)
	Actuarial (losses)/gains net of the tax effect	(67)	143
	Other comprehensive income which will not be reclassified to profit or loss	(67)	143
	Total other comprehensive net income	(47)	(121)
	TOTAL COMPREHENSIVE INCOME	621	1 200

HALF-YEAR STATEMENT OF CASH FLOWS

	first half of 2016	first half of 2015
Cash flow from operating activities		
Profit before income tax	1 032	1 881
Depreciation/amortisation recognised in profit or loss	451	429
Interest and other costs of borrowings	47	34
Impairment loss on non-current assets	65	-
Other adjustments to profit before income tax	(227)	(230)
Exclusions of income and costs, total	336	233
Income tax paid	(147)	(431)
Note 3.8 Changes in working capital	(179)	439
Net cash generated from operating activities	1 042	2 122
Cash flow from investing activities		
Expenditures on mining and metallurgical assets	(1 422)	(1 127)
Expenditures on other property, plant and equipment and intangible assets	(9)	(19)
Loans granted	(325)	(3 453)
Other expenses	(52)	(150)
Total expenses	(1 808)	(4 749)
Proceeds	11	10
Net cash used in investing activities	(1 797)	(4 739)
Cash flow from financing activities		
Proceeds from borrowings	1 914	3 398
Other proceeds	8	-
Total proceeds	1 922	3 398
Repayments of borrowings	(918)	-
Dividends paid	-	(400)
Interest paid	(43)	(28)
Total expenses	(961)	(428)
Net cash generated from financing activities	961	2 970
TOTAL NET CASH FLOW	206	353
Cash and cash equivalents at the beginning of the period	158	85
Exchange gains/(losses) on cash and cash equivalents	28	(15)
Cash and cash equivalents at the end of the period	392	423

HALF-YEAR STATEMENT OF FINANCIAL POSITION

	first half of 2016	2015
ASSETS		
Mining and metallurgical property, plant and equipment	13 602	12 845
Mining and metallurgical intangible assets	564	541
Mining and metallurgical property, plant and equipment and intangible assets	14 166	13 386
Other property, plant and equipment	225	233
Other intangible assets	22	24
Other property, plant and equipment and intangible assets	247	257
Investments in subsidiaries and joint ventures	6 863	6 858
Loans granted	7 375	6 750
Derivatives	67	117
Other financial instruments measured at fair value	571	579
Other financial assets	318	291
Financial instruments, total	8 331	7 737
Other non-financial assets	20	27
Deferred tax assets	197	141
Non-current assets	29 824	28 406
Inventories	3 261	2 601
Trade receivables	629	1 000
Tax assets	256	412
Derivatives	33	6
Other assets	618	537
Cash and cash equivalents	392	158
Current assets	5 189	4 714
	35 013	33 120
EQUITY AND LIABILITIES		
Share capital	2 000	2 000
Other reserves from measurement of financial instruments	(83)	(103)
Accumulated other comprehensive income	(409)	(342)
Retained earnings	19 092	18 724
Equity	20 600	20 279
Note 3.3 Borrowings	5 678	4 724
Derivatives	108	158
Note 3.4 Employee benefits liabilities	1 879	1 803
Note 3.5 Provisions for decommissioning costs of mines and other technological facilities	917	873
Other liabilities	191	198
Non-current liabilities	8 773	7 756
Note 3.3 Borrowings	2 250	2 098
Derivatives	75	48
Trade payables	1 151	1 318
Note 3.4 Employee benefits liabilities	769	577
Tax liabilities	542	450
Other liabilities	853	594
Current liabilities	5 640	5 085
Non-current and current liabilities	14 413	12 841
	35 013	33 120

HALF-YEAR STATEMENT OF CHANGES IN EQUITY

	Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings	Total equity
As at 1 January 2015	2 000	366	(401)	22 312	24 277
Dividend	-	-	-	(800)	(800)
Profit for the period	-	-	-	1 321	1 321
Other comprehensive income	-	(264)	143	-	(121)
Total comprehensive income	-	(264)	143	1 321	1 200
As at 30 June 2015	2 000	102	(258)	22 833	24 677
As at 1 January 2016	2 000	(103)	(342)	18 724	20 279
Dividend	-	-	-	(300)	(300)
Profit for the period	-	-	-	668	668
Other comprehensive income	-	20	(67)	-	(47)
Total comprehensive income	-	20	(67)	668	621
As at 30 June 2016	2 000	(83)	(409)	19 092	20 600

Part 1 – General information

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

The analysis of assumptions adopted for the impairment testing of assets, conducted as at 31 December 2015, was presented in part 1, note 1.5 of this report's half-year condensed consolidated financial statements.

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

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

Note 2.1 Expenses by nature

	first half of 2016	first half of 2015
Depreciation of property, plant and equipment and amortisation of intangible assets	490	454
Employee benefits expenses	1 458	1 452
Materials and energy, including:	2 816	2 808
Purchased metal-bearing materials	1 787	1 771
Electrical and other energy	387	352
External services, including:	678	672
Transport	103	110
Repairs, maintenance and servicing	173	183
Mine preparatory work	207	185
Minerals extraction tax	606	810
Other taxes and charges	205	190
Other costs	45	89
Total expenses by nature	6 298	6 475
Cost of merchandise and materials sold (+)	81	63
Change in inventories of finished goods and work in progress (+/-)	(774)	(328)
Cost of manufacturing products for internal use (-)	(77)	(53)
Cost of sales, selling costs and administrative expenses, including:	5 528	6 157
Cost of sales	5 140	5 782
Selling costs	51	58
Administrative expenses	337	317

Note 2.2 Other operating income/(costs)

	first half of 2016	first half of 2015
Measurement and realisation of derivatives	46	59
Interest on loans granted	170	79
Foreign exchange gains on assets and liabilities other than borrowings	93	52
Fees and charges on re-invoicing costs of bank guarantees securing liabilities	19	17
Dividends received	2	27
Other	46	65
Total other income	376	299
Measurement and realisation of derivatives	(102)	(252)
Impairment loss on available-for-sale assets	(57)	-
Other	(56)	(59)
Total other costs	(215)	(311)
Other operating income/(costs)	161	(12)

Note 2.3 Finance costs

	first half of 2016	first half of 2015
Interest on borrowings	(27)	(11)
Exchange differences on borrowings	(68)	12
Other	(46)	(43)
Total finance costs	(141)	(42)

Part 3 – Other explanatory notes

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

Purchase of property, plant and equipment and intangible assets

	first half of 2016	first half of 2015
Purchase of property, plant and equipment	1 204	937
Purchase of intangible assets	36	54

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

	first half of 2016	2015
Payables due to the purchase of property, plant and equipment and intangible assets	591	903

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

	first half of 2016	2015
Capital commitments due to the purchase of:		
Property, plant and equipment	5 045	4 036
Intangible assets	68	58

Note 3.2 Financial instruments

Categories of financial assets in accordance with IAS 39	first half of 2016					2015				
	Available- for-sale	At fair value through profit or loss	Loans and financial receivables	Hedging instruments	Total	Available- for-sale	At fair value through profit or loss	Loans and financial receivables	Hedging instruments	Total
Non-current	571	1	7 693	66	8 331	579	11	7 041	106	7 737
Loans granted	-	-	7 375	-	7 375	-	-	6 750	-	6 750
Derivatives	-	1	-	66	67	-	11	-	106	117
Other financial instruments measured at fair value	571	-	-	-	571	579	-	-	-	579
Other financial assets	-	-	318	-	318	-	-	291	-	291
Current	-	-	1 451	33	1 484	-	-	1 584	6	1 590
Trade receivables	-	-	629	-	629	-	-	1 000	-	1 000
Derivatives	-	-	-	33	33	-	-	-	6	6
Cash and cash equivalents	-	-	392	-	392	-	-	158	-	158
Other financial assets	-	-	430	-	430	-	-	426	-	426
Total	571	1	9 144	99	9 815	579	11	8 625	112	9 327

Categories of financial liabilities in accordance with IAS 39	first half of 2016				2015		
	At fair value through profit or loss	At amortised cost	Hedging instruments	Total	At amortised cost	Hedging instruments	Total
Non-current	2	4 491	1 299	5 792	3 733	1 328	5 061
Borrowings	-	4 484	1 194	5 678	3 554	1 170	4 724
Derivatives	2	-	105	108	-	158	158
Other financial liabilities	-	7	-	7	179	-	179
Current	1	3 769	74	3 844	3 498	48	3 546
Borrowings	-	2 250	-	2 250	2 098	-	2 098
Derivatives	1	-	74	75	-	48	48
Trade payables	-	1 151	-	1 151	1 318	-	1 318
Other financial liabilities	-	368	-	368	82	-	82
Total	3	8 260	1 373	9 636	7 231	1 376	8 607

The fair value hierarchy of financial instruments

Classes of financial instruments	first half of 2016		2015	
	level 1	level 2	level 1	level 2
Listed shares	519	-	527	-
Other financial assets	-	57	-	95
Derivatives, including:	-	(83)	-	(83)
Assets	-	100	-	123
Liabilities	-	(183)	-	(206)

The manner and technique for measuring financial instruments to fair value have not changed in comparison to the manner and technique for measurement as at 31 December 2015.

There was no transfer in the Group of financial instruments between individual levels of the fair value hierarchy, in either the reporting or the comparable periods, nor was there any change in the classification of instruments as a result of a change in the purpose or use of these instruments.

Note 3.3 Net debt

	first half of 2016	2015
Bank loans	4 484	3 554
Other loans	1 194	1 170
Total non-current liabilities due to borrowings	5 678	4 724
Bank loans	2 244	2 092
Other loans	6	6
Total current liabilities due to borrowings	2 250	2 098
Total borrowings	7 928	6 822
Free cash and cash equivalents	390	156
Net debt	7 538	6 666

Note 3.4 Employee benefits liabilities

Components of the employee benefits liabilities

	first half of 2016	2015
Non-current	1 879	1 803
Current	111	102
Total liabilities due to future employee benefits programs	1 990	1 905
Remuneration liabilities	77	160
Accruals (unused annual leave, bonuses, other)	581	315
Total employee benefits	658	475

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

	first half of 2016	2015
Provisions as at the beginning of the reporting period	892	1 005
Changes in estimates recognised in fixed assets	43	(131)
Other	1	18
Provisions as at the end of the reporting period, including:	936	892
- non-current provisions	917	873
- current provisions	19	19

Note 3.6 Related party transactions**Operating income from related parties**

	first half of 2016	first half of 2015
Revenues from the disposal of products, merchandise and materials	130	141
Revenues from other transactions	206	111
Total	336	252

Purchases from related parties

including purchases of fixed assets and intangible assets

	first half of 2016	first half of 2015
	2 263	2 464
	631	525

Receivables from related parties

including receivables due to loans granted

	first half of 2016	2015
	7 917	7 245
	7 381	6 755

Payables towards related parties

	first half of 2016	2015
	587	603

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

In the current reporting period, no individual transactions were identified between the Company and the Polish Government and entities controlled or jointly controlled by the Polish Government, or over which the Polish 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 Company and the Polish Government and with entities controlled or jointly controlled by the Polish Government, or over which the Polish Government has significant influence, were within the scope of normal, daily economic operations, carried out at arm's length. These transactions concerned the 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 30 June 2016, the turnover from these transactions amounted to PLN 297 million (from 1 January 2015 to 30 June 2015: PLN 309 million), and, as at 30 June 2016, the unsettled balance of liabilities from these transactions amounted to PLN 523 million (as at 31 December 2015: PLN 235 million).

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

	first half of 2016	2015
Contingent assets		
Guarantees received	225	232
Promissory notes receivables	243	270
Property tax on underground mine facilities	88	88
Other	51	60
Total contingent assets	607	650
Contingent liabilities		
Guarantees, including:	1 726	1 275
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.	547	536
corporate guarantees granted to secure repayment of short-term working capital facilities of the joint venture Sierra Gorda S.C.M.	416	-
letters of credit granted to secure the proper performance of future environmental obligations by KGHM INTERNATIONAL LTD. to restore the area following the conclusion of operations of the Robinson mine, Podolsky mine and the Victoria project and obligations related to the proper performance of contracts entered into	371	353
guarantees granted to secure the proper performance of lease agreements entered into by the joint venture Sierra Gorda S.C.M.	295	319
a guarantee granted to secure the proper performance of future environmental obligations of the Company to restore the area following the conclusion of operations of the Żelazny Most tailings storage facility	96	64
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	92	91
Property tax on underground mine facilities	117	101
Other	33	18
Total contingent liabilities	2 192	1 741
Other liabilities not recognised in the statement of financial position		
Liabilities towards local government entities due to expansion of the tailings storage facility	119	118
Liabilities due to operating leases	9	12
Total other liabilities not recognised in the statement of financial position	128	130

Note 3.8 Changes in working capital

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

	Inventories	Trade receivables	Trade payables	Working capital
As at 31 December 2014	(2 377)	(1 407)	1 277	(2 507)
As at 30 June 2015	(2 805)	(803)	1 337	(2 271)
Change in the statement of financial position	(428)	604	60	236
Adjustments	21	-	182	203
Change recognised in the statement of cash flows	(407)	604	242	439



**THE MANAGEMENT BOARD'S REPORT
ON THE ACTIVITIES OF THE GROUP
IN THE FIRST HALF OF 2016**

Lubin, August 2016

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1. Implementation of Strategy

In the first half of 2016, the Management Board of KGHM Polska Miedź S.A. decided to undertake work on a fundamental revision of the Company's strategy. The need to revise the strategy arose due to the decrease in prices of key commodities, which are lower than prices initially assumed in the previously approved, long-term strategic plans of the Group's companies for the years 2015-2020, the higher than-initially-planned investment expenditures required to advance international investment projects and the lower-than-anticipated operating and efficiency parameters of international assets. The aforementioned factors indicating the necessity of revising the strategy were already present on 31 December 2015 and were reflected in the impairment loss on assets, recognised as at 31 December 2015.

During the process of revising the strategy, the Management Board is focusing in particular on aligning the Company's investment plans with its current financial capabilities taking into consideration market conditions and the need to optimise costs.

In particular, as a part of the revision of the strategy, the current financing models for individual assets will be updated, which will be the basis for re-assessment of occurrence of indications to perform impairment testing of assets.

Economic and technical assumptions related to the operating activities and development of individual assets of KGHM International are being reviewed. On the basis of this technical review, development plans for individual assets will be prepared aimed at maximising their economic value.

With respect to the previous strategy the following projects in individual pillars were advanced:

1.1. RESOURCE BASE DEVELOPMENT

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

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

Radwanice-Gaworzyce	Exploration work was completed with the documentation of the Radwanice-Gaworzyce deposit. In August 2016 the Company applied for a concession to extract copper ore from the Radwanice-Gaworzyce deposit in the area of Gaworzyce.
Synklina Grodziecka and Konrad	The drilling of two holes in the Synklina Grodziecka concession area and one hole in the Konrad concession area was completed in the second quarter of 2016. Moreover, preparatory work related to surface-based geophysical measurements was initiated. At the same time, work on preparing the project's initial feasibility study was initiated, using the data acquired during exploratory work conducted between 2011 and 2016.
Retków-Ścinawa and Głogów	In the second quarter of 2016, geological work under the first stage was continued in the Retków-Ścinawa area. The drilling of two holes was completed and work is underway on the next three holes. The first stage's drilling in the Głogów concession area was completed.

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

Stojanów	In the first quarter of 2016, the project was formally terminated, while in the second quarter of 2016 the concession body's decision confirming the expiration of the concession was received.
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Exploration projects in the preparatory phase:

Bytom Odrzański Kulów-Luboszyce	In July 2015 a hearing was conducted with regard to the disputed concessions: Bytom Odrzański, Kulów-Luboszyce, Bytom Odrzański (Leszno Copper), Kotla and Niechlów. Detailed information in this matter may be found in part 7.6 of this report.
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Other concessions

Zatoka Pucka	In 2015 geophysical surface research in the concession area was completed. Reinterpretation of archival data and the analysis of newly-performed geophysical research was completed, thanks to which more detailed information on the geological structure of the concession area was obtained and siting of planned drilling was verified. In the second quarter of 2016, the contractor selection procedure for drilling was conducted. KGHM Polska Miedź S.A. is the sole owner of the project; the potential investment partner, Grupa Azoty S.A., informed the Parent Entity that it is not interested in joining this project as an equity partner.
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1.2. DEVELOPMENT OF PRODUCTION ASSETS IN POLAND

Key development projects in terms of the Core Business in Poland

Program to access the Deep Głogów Deposit	Work continued on the sinking of the GG-1 ventilation (input) shaft using concrete lining. As at 30 June 2016 the shaft was 785 meters deep in concrete lining (the shaft's target depth is 1 340 meters with a diameter of 7.5 meters). A cascade drainage system, together with research holes, was completed. Since 2006, 77.9 kilometers of primary tunnelling, which were financed by investment funds, have been excavated along with 25.0 kilometers of primary tunneling financed by operating funds (in total - 102.9 kilometers) together with necessary technical infrastructure (water pipes, power cables, electrical switching stations, conveyor belts, retention reservoirs, pipes and climate control equipment and communications equipment).
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	Work continued on the second stage of the construction of the Surface-based Ventilation Station at the R-XI shaft, which will enable an increase in the production of cooled air to the mine below the level of 1200 meters to 25 MW. The planned date of completion of this work is the second half of 2016.
Construction of the SW-4 shaft	Work continues on target infrastructure such as: squares and roads. The administration-social building is in the process of handover. Supports were constructed for the assembly of power and communications cables in the SW-4 shaft. Assembly of SW-4 shaft infrastructure for the target period has begun.
Pyrometallurgy Modernisation Program at the Głogów smelter/refinery	<p>The start-up of electrical switching stations was initiated, and the installation is being brought on-line. Programming work is underway. The assembly of equipment and installation continued with respect to the Flash Furnace, Electrical Furnace, Power Building and elements of the Charge Preparation Section at the Głogów I smelter/refinery.</p> <p>Start-up of the drier is underway, the pressure testing of the recovery boiler was completed and mechanical movement testing of the conveyor belts and other completed installations of the production line is underway.</p> <p>The current state of technical agreements and building permits allows the on-going work to be continued. Due to the specific nature of work in an operating plant, the process of obtaining building permits and substitute building permits will continue until completion of the investment.</p> <p>Start-up of the Flash Furnace installation at the Głogów I smelter/refinery is planned in the fourth quarter of 2016.</p>
Adaptation of technical infrastructure to the change in smelting technology at the Głogów I smelter/refinery	With respect to adjustment projects, work continued on the advancement of projects aimed at adapting metallurgical production infrastructure to the change in smelting technology at the Głogów I smelter/refinery as well as the modernisation of selected elements of the metallurgical production line of KGHM Polska Miedź S.A.
Metallurgy Development Program (MDP)	<p>The Program's definition was developed, which foresees the realisation of projects aimed at adapting the metallurgical production infrastructure to the change in smelting technology at the Głogów I smelter/refinery and the modernisation of selected elements of the metallurgical production line of KGHM Polska Miedź S.A. The Metallurgy Development Program ensures the processing of all of the Company's own concentrates in installations at the Głogów I smelter/refinery, the Głogów II smelter/refinery and the Legnica smelter/refinery after 2017, and offers the potential for higher copper production from imported concentrates.</p> <p>As part of this program work has commenced on the following projects:</p> <ul style="list-style-type: none"> - construction of a steam drier at the Głogów II smelter/refinery, - construction of a concentrate roasting installation at the Głogów I smelter/refinery, - modernisation of the Tank and Electrolite Decopperisation Hall at the Legnica smelter/refinery. <p>Additional projects of the MDP are currently at the stage of preparing documentation aimed at obtaining decisions as to their execution.</p>
Development of the Żelazny Most tailings storage facility	The Program to Manage the Tailings of the Żelazny Most tailings storage facility was approved (by a decision of the Marshal of the Lower Silesia Voivodeship dated 6 April 2016). An environmental decision required to obtain a permit to develop the entire Żelazny Most tailings storage facility to a crown height of 195 m a.s.l. was obtained. On 16 June 2016, the application for granting the right to develop the Żelazny Most tailings storage facility to a crown height of 195 m a.s.l. was submitted. On 28 June 2016, an application for a Construction Permit was submitted. The estimated date of receiving all of the permits is the second half of 2016.

1.3. DEVELOPMENT OF INTERNATIONAL ASSETS

While the financial and economic situation of KGHM INTERNATIONAL LTD. remains stable, the Management Board of KGHM Polska Miedź S.A. is aware that the actual level of operating cash flow is insufficient to enable it to independently (without the support of KGHM Polska Miedź S.A.) advance the projects Ajax, Victoria and Sierra Gorda Oxide.

Victoria project (Sudbury Basin, Canada) <i>KGHM Polska Miedź S.A.</i> <i>Group 100%</i>	<p>A review of technical assumptions and risk factors associated with the realisation of the project is underway due to the low level of recognition of the orebody (in the category Inferred).</p> <p>As a part of the optimisation work carried out to date the employment structure was adjusted to the scope and schedule of the work on this project.</p>
Development of the Sierra Gorda (Chile) <i>KGHM Polska Miedź S.A.</i> <i>Group 100%*</i>	<p>Phase 2 (KGHM INTERNATIONAL LTD. Group 55%, Sumitomo Metal Mining and Sumitomo Corporation 45%) - The process of reviewing and optimising technical assumptions of the second phase is underway.</p> <p>Taking into consideration actual molybdenum and copper price levels and the current level of Sierra Gorda's operational efficiency, it is not possible at present to make a decision as to the commencement of the project's second phase.</p> <p>Sierra Gorda Oxide (project for processing of the oxide ore) – engineering and design work continued on selecting a project concept which will maximise its economic value. As part of the optimisation work carried out to date, the employment structure was adjusted to the scope and schedule of the work on the Sierra Gorda Oxide project.</p>

<p>Ajax project (British Columbia, Canada) KGHM Polska Miedź S.A. Group 80%, Abacus Mining and Exploration Corp. 20%</p>	<p>Work continues on obtaining the environmental permit necessary to start the construction of the mine. KGHM INTERNATIONAL LTD. is closely cooperating with representatives of First Nations as well as with those from the governmental administration, and aims at full transparency of the process of assessing the environmental impact of the Ajax mine.</p> <p>It was decided that the assumptions of the project's feasibility study will be reviewed by independent consultants.</p> <p>As a part of the optimisation work carried out to date, the employment structure was adjusted to the scope and schedule of the work on the Ajax project.</p>
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* in the case of Sierra Gorda Oxide, Sumitomo has an option to acquire a 45% interest in the project

1.4. INITIATIVES AIMED AT ENHANCING KNOWLEDGE AND INNOVATION IN KGHM POLSKA MIEDŹ S.A.

<p>Main R&D initiatives</p>	<p>The main R&D projects are concentrated on developing innovative solutions aimed at realisation of innovative technological and organisational solutions enabling an improvement in efficiency, occupational health and safety and ensuring production continuity. The Management Board has decided to withdraw from the combination of KGHM CUPRUM sp. z o.o. - CBR and CBJ sp. z o.o. The R&D activities of these companies will be pursued independently, but KGHM Polska Miedź S.A. will coordinate these activities.</p>
<p>CuBR Program</p>	<p>Work continued on the advancement of R&D projects which are joint ventures with sector partners, academic and R&D institutions.</p> <p>With respect to the joint venture with the National Centre for Research and Development involving support for academic research and development work for the non-ferrous metals industry, the third edition of the competition is currently underway, in which 45 applications were submitted, in 20 subjects related to the core production business. The budget for advancement of these projects of the third edition of this competition is PLN 108 million. First stage of content related assessment has been completed – 39 applications have advanced to subsequent stages.</p>

1.5. PRODUCTION

<p>Sierra Gorda mine in Chile – Phase 1 KGHM INTERNATIONAL LTD. Group 55%, Sumitomo Metal Mining and Sumitomo Corporation 45%</p>	<p>Work continued to increase processing capacity under Phase 1 of the Sierra Gorda. Key challenges involve the achievement of Phase 1 production volumes, including target recoveries and processing plant stability. The level of recovery achieved by the molybdenum plant, as well as the functioning of the plant itself, are impacted by the high pyrite content in ore. The intensive work being carried out by employees of Sierra Gorda, KGHM and Sumitomo is supported by world-class experts.</p> <p>With respect to the process of achieving target production capacity, technical assumptions for the existing infrastructure are being optimised and reviewed.</p> <p>The production of copper in concentrate from the Sierra Gorda mine in the first half of 2016 amounted to 48.4 thousand tonnes, and molybdenum in concentrate to 12.5 million pounds.</p> <p>In June 2016, Mr. Robert Wunder was appointed General Manager of Sierra Gorda.</p> <p>Due to the macroeconomic situation and to the lower than assumed production results, work was continued on implementing savings initiatives, such as renegotiating contracts to reduce contracted prices, optimising inventories levels and reducing employment.</p> <p>An international team of experts responsible for overseeing Sierra Gorda's tailings storage facility was appointed.</p> <p>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. Following numerous meetings with SMA, in July 2016, Sierra Gorda submitted an updated plan. At present its formal approval by SMA is awaited. In the first half of 2016 a review of the Life of Mine operating plan commenced. A more robust plan is being implemented to reduce costs and to enhance operational efficiency.</p>
<p>Maintaining production from own concentrate</p>	<p>Preparatory work was carried out on commencing mining in new areas of the deposits as part of the ore access program (previously the GG-P project) as well as actions related to gaining a concession to mine the copper ore from the Radwanice-Gaworzyce deposit in the Gaworzyce mining area.</p>
<p>Improving efficiency in the core business in Poland</p>	<p>With respect to the mining and metallurgical activities of KGHM Polska Miedź S.A., among others those related to the VCP (Value Creation Plan) Program, initiatives aimed at improving resource management effectiveness were continued, at the same time enabling limitation of cost increases by:</p> <ul style="list-style-type: none"> – more efficient utilisation of resources (3D deposit modeling), – increasing the mining and production of copper in concentrate, – optimising management of underground machines (purchasing and servicing, availability), – automation of production lines in the mines and concentrators, – more efficient management and optimisation of production infrastructure, – implementation of an energy savings program, and – optimising employment levels.

2. Macroeconomic environment

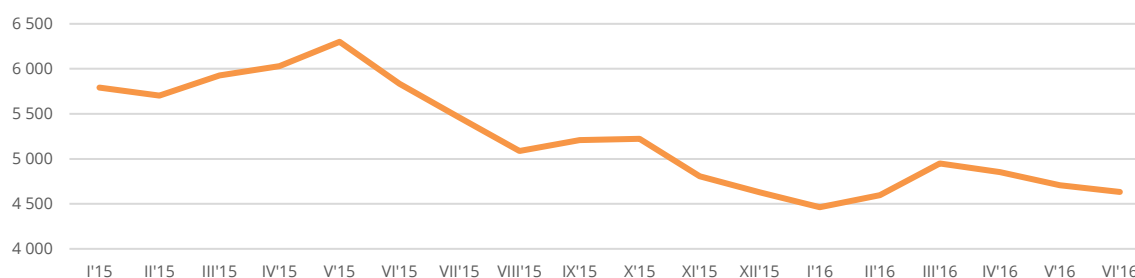
	Unit	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Average copper price on the LME	USD/t	4 701	5 929	79.3	4 729	4 672
Average silver price on the LBM	USD/oz t	15.82	16.55	95.6	16.78	14.85
Average nickel price on the LME	USD/t	8 662	13 684	63.3	8 823	8 499
Average molybdenum price on the LME	USD/lb	6.04	8.04	75.1	6.58	5.48
Average USD/PLN exchange rate per the NBP	PLN/USD	3.91	3.71	105.4	3.87	3.96
Average USD/CAD exchange rate per the Bank of Canada	CAD/USD	1.33	1.24	107.3	1.29	1.37
Average USD/CLP exchange rate per the Bank of Chile	CLP/USD	690	621	111.1	678	702

Although the International Monetary Fund, in its April analysis of the state of the global economy, reduced its outlook for economic growth as compared to the situation described in its October report, in the first half of 2016 many macroeconomic indicators suggested a slight improvement in most of the world's regions. Thanks to the recovery in the oil price, the condition of oil producing developing countries also improved. There was no evident recovery in the developed economies, with data for the EU being slightly better than forecasts and data for the United States slightly worse.

In March, the European Central Bank once again reduced interest rates, and in addition increased its assets purchase program to EUR 80 billion monthly (from EUR 60 billion). Investor sentiment was clearly impacted negatively by the referendum planned in the United Kingdom for 27 June 2016 on that country's continued membership in the EU. Decisions regarding monetary policy in the US were also affected by uncertainty in this regard, which was reflected in the announcement after the June meeting by the FED.

Apart from the aforementioned referendum, the increased aversion to risk by market participants was also affected by among others, the deferral of an interest rate hike in the USA, the continued problem of immigration in Europe and the slowdown of growth by the Chinese economy. This was reflected in higher precious metals prices, which are generally considered to be safe assets. The result of the referendum in the United Kingdom was a surprise to financial markets and clearly exacerbated economic, political and institutional uncertainty. As a consequence there was enhanced interest not only in gold and silver but also in currencies which are more sought after in times of uncertainty, such as the USD, JPY and CHF.

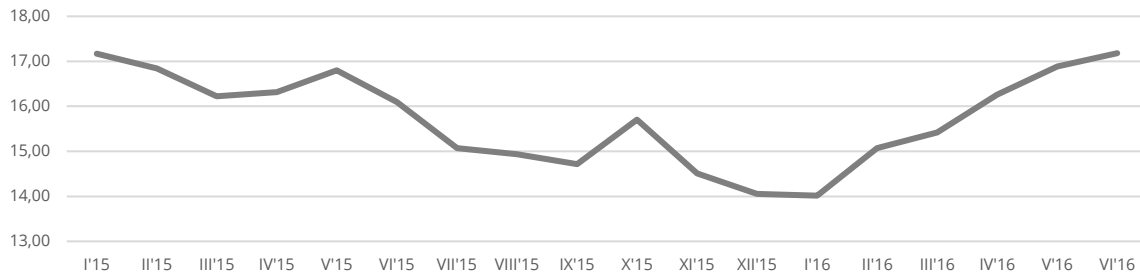
Chart 1. Copper price on the London Metal Exchange (USD/t)



In the first half of 2016 the *cash settlement price of copper* on the London Metal Exchange (LME) ranged from approx. 4 310 – 5 103 USD/t. The beginning of the year saw a continuation of the next falling trend in place since the second quarter of 2015, as a result of which copper reached 4 310.50 USD/t, its lowest price since 2009. The main reason for this was the negative investor sentiment toward the commodities markets, caused among others by the on-going slowdown in the Chinese economy and by other factors related to uncertainty in the global economy, such as the Brexit referendum.

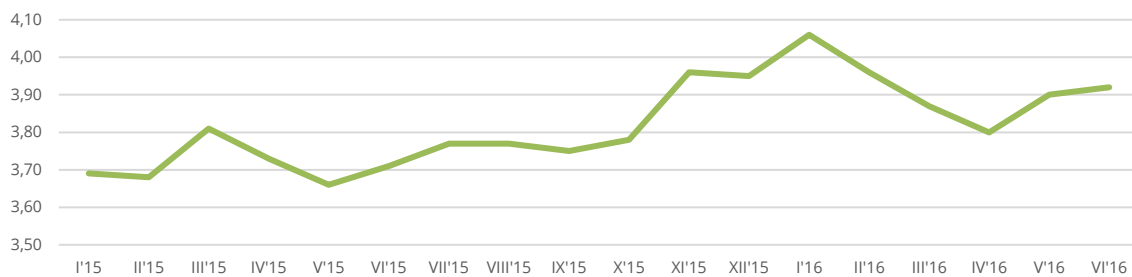
The average *cash settlement price* of copper on the LME in the first half of 2016 amounted to 4 701 USD/t and was nearly 21% lower than in the comparable period of 2015, when it reached on average 5 929 USD/t.

Chart 2. Silver price per the London Bullion Market (USD/oz t)



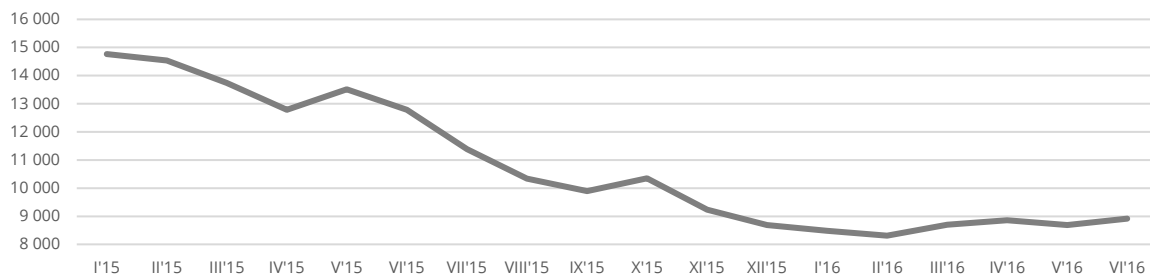
According to the London Bullion Market (LBM) in the first half of 2016, the average **price of silver** amounted to 15.82 USD/oz t (508.6 USD/kg), meaning a drop by 4.4% as compared to that in the first half of 2015 – 16.55 USD/oz t. A rising trend has been observed since the beginning of the year. After reaching in January 2016 its lowest price since 2009 at the level of 13.58 USD/oz t, the price of silver has risen, mainly due to increasing investors' aversion to risk. This sentiment was mainly due to the deferral of further increases in interest rates in the USA, the tense geopolitical situation and to uncertainty related to the Brexit referendum. The average price of silver in the first half of 2016 expressed in PLN was the highest since 2013.

Chart 3. USD/PLN exchange rate per the NBP



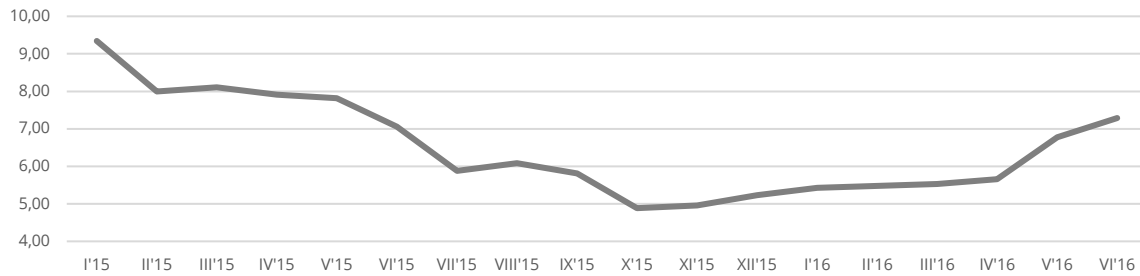
The average **USD/PLN exchange rate** (per the NBP) in the first half of 2016 amounted to 3.9142 and was higher compared to the corresponding period of 2015 by 5.4% (3.7150). The beginning of the year saw a continued weakening of the PLN versus the USD, which has been going on since September 2015. In mid-January the rating agency S&P reduced the credit rating of Poland from (A-) to (BBB+), and also reduced the rating perspective from positive to negative. This information contributed to a further sell-off of the Polish currency. The agency's announcement indicates that the lowered rating was not directly caused by macroeconomic factors, but by political ones. Subsequent months saw a more stable situation and an appreciation of the Polish currency. In the last weeks of the first half of 2016 the currencies of developing countries, including the PLN, came under pressure as a result of the Brexit referendum set for the 27th of June.

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



In the first half of 2016, the average **price of nickel** amounted to 8 662 USD/t, meaning a drop by nearly 37% as compared to the corresponding period of 2015 (13 684 USD/t). The market for this commodity was mainly under pressure from the weak condition of the steel industry, from inventories accumulated in prior periods and from the substitution of nickel from Indonesia with material from the Philippines. Also of significance were political decisions regarding the functioning of the mining sector in Indonesia, which is a major producer of this metal.

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



The price of molybdenum reached its minimum in October 2015. Since that time this metal has systematically appreciated in value, partially a reaction to the deep falls of previous quarters, but also to the recovery in the price of oil. Market participants are also taking into account the possibility of production cutbacks by projects which are unprofitable at current prices as well as the lower number of mine projects under construction which include this metal. The average price of molybdenum on the LME in the first half of 2016 amounted to 6.04 USD/lb, meaning a drop by 25% versus the comparable period of 2015 (8.04 USD/lb).

Chart 6. USD/CAD exchange rate per the Bank of Canada

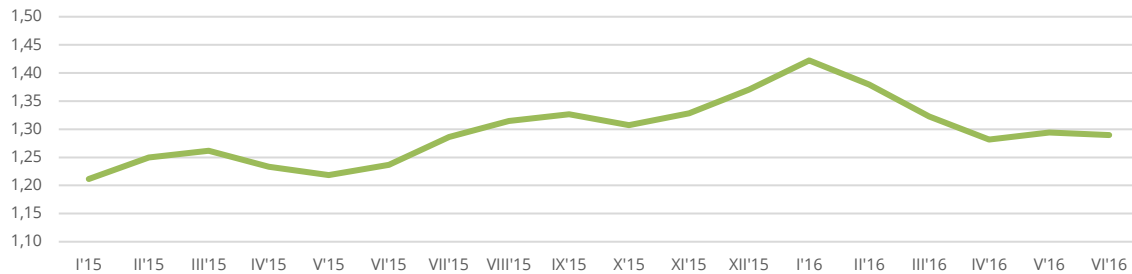
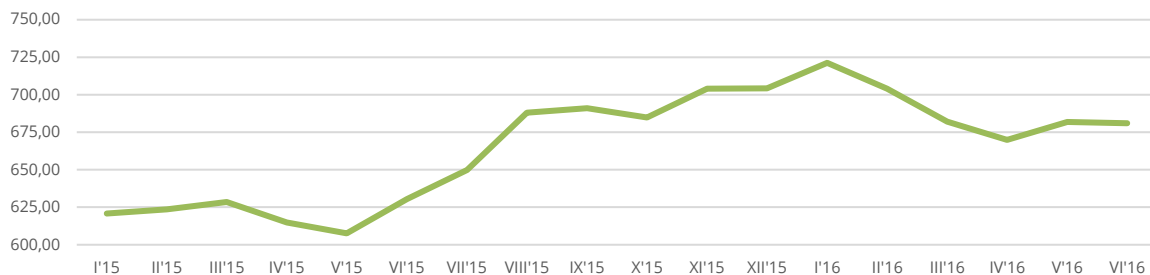


Chart 7. USD/CLP exchange rate per the Bank of Chile



Both the **Canadian dollar** as well as the **Chilean peso** depreciated at the turn of 2015 and 2016 as a result of the strengthening of the USD and the fall in commodities prices. Subsequent months of 2016 stabilised the situation, while the increase in the oil price seen during this period led to, above all, a strengthening of the Canadian currency due to the significance of this commodity for the Canadian economy. The Chilean peso also appreciated versus the USD, though this was more because of the weakening of the USD than to the change in the copper price during this period.

The average USD/CLP exchange rate (per the Bank of Chile) in the first half of 2016 amounted to 690 and was 11% higher than in the first half of 2015 (621). The average USD/CAD exchange rate (per the Bank of Canada) in the first half of 2016 amounted to 1.3302 and was 7.7% higher than in the first half of 2015 (1.2354).

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

3.1. PRODUCTION

	Unit	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Mined ore (dry weight)	mn t	16.2	15.7	103.2	8.2	8.0
Copper content in ore	%	1.50	1.54	97.4	1.50	1.50
Production of copper in concentrate	kt	212.9	214.9	99.1	108.1	104.8
Production of silver in concentrate	t	630.0	608.7	103.5	322.9	307.1
Production of electrolytic copper	kt	263.0	286.2	91.9	134.9	128.1
- including from own concentrate	kt	183.5	209.7	87.5	94.4	89.1
Production of metallic silver	t	567.0	612.2	92.6	272.1	294.9
Production of gold	koz t	53.5	36.5	146.6	27.3	26.2
Production of copper equivalent *	kt	264.6	276.8	95.6	135.8	128.8

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

In the first half of 2016 there was an increase in ore extraction (dry weight) versus the comparable period of 2015. Copper content in ore decreased from 1.54% to 1.50%, due to the lower content and thickness of the mined deposit. As a result of higher extraction of ore, the production of copper in ore increased by 863 t (0.4%).

Production of copper in concentrate decreased by around 2 thousand tonnes as compared to the first 6 months of 2015 and was due to the lower copper content in ore.

The production of electrolytic copper as compared to the corresponding period of 2015 was lower by 23.3 thousand tonnes (8%) and is the result of setting aside half-finished products as inventory, which will be used in the second half of 2016 during the three-month shutdown of the Głogów I smelter/refinery. The lower production of metallic silver in the first half of 2016 was the result of the lower electrolytic copper production.

The aforementioned factors were responsible for the lower copper equivalent production from own concentrate by 4%, despite the more favourable relation of silver to copper prices.

On 16 July 2016 the planned three-month shutdown of the Głogów I smelter/refinery began, during which the shaft furnace technology will be switched to flash furnace technology.

3.2. SALES REVENUE

	Unit	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Sales revenue, including:	mn PLN	6 540	8 092	80.8	3 561	2 979
- copper	mn PLN	4 865	6 468	75.2	2 585	2 280
- silver	mn PLN	1 086	1 129	96.2	676	410
Volume of copper sales	kt	255.2	277.6	91.9	135.6	119.6
Volume of silver sales	t	544.5	562.7	96.8	328.1	216.4

Sales revenue in the first half of 2016 amounted to PLN 6 540 million and was lower than in the comparable period of 2015 by 19%. The main reasons for the decrease in sales revenue were lower:

- metals prices on the commodities markets (of copper by 21% and silver by 4%),
- copper and silver sales volumes (respectively by 8% and 3%), the result of setting aside half-finished products as inventory due to the planned maintenance shutdown of the Głogów I smelter/refinery, and
- positive adjustment of revenues due to hedging transactions, from PLN 221 million to PLN 6 million,

alongside a more favourable USD/PLN exchange rate.

3.3. COSTS

	Unit	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Cost of sales, selling costs and administrative expenses	mn PLN	5 528	6 157	89.8	3 008	2 520
Expenses by nature	mn PLN	6 298	6 475	97.3	3 219	3 079
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate *	PLN/t	19 575	20 135	97.2	19 489	19 671
Total unit cost of electrolytic copper production from own concentrate	PLN/t	13 404	14 113	95.0	13 231	13 590
- including the mineral extraction tax	PLN/t	2 943	3 781	77.8	2 968	2 916
C1 cost**	USD/lb	1.33	1.50	88.7	1.32	1.33

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

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

The Parent Entity's cost of sales, selling costs and administrative expenses (total cost of products, merchandise and materials sold, selling costs and administrative expenses) in the first half of 2016 amounted to PLN 5 528 million and was lower by PLN 629 million as compared to the corresponding period in 2015 due to lower expenses by nature by 2.7% and to a lower volume of copper and silver sales. The lower sales, which were the result of lower production, was due to the increase in half-finished products (copper anode) stored due to the shutdown of the Głogów I smelter/refinery – planned in the third quarter of 2016.

In the first half of 2016, expenses by nature were lower by PLN 177 million as compared to the first half of 2015, mainly due to a lower minerals extraction tax by PLN 204 million alongside higher costs of consumption of purchased metal-bearing materials by PLN 16 million (due to the higher volume of consumption by 10 thousand tonnes of Cu and alongside a 10% lower purchase price).

C1 cost was as follows: in the first half of 2015, 1.50 USD/lb; in the first half of 2016, 1.33 USD/lb. The decrease in C1 cost (by 0.17 USD/lb) was mainly caused by the weakening of the Polish zloty versus the US dollar by 5%. C1 cost for the first half of 2016, calculated using the prices of associated metals and exchange rates for the first half of 2015, amounts to 1.53 USD/lb and is slightly higher than last year's level due to lower production of own concentrate by 1%.

The pre-precious metals credit unit cost of electrolytic copper production from own concentrate (unit cost prior to decrease by the value of anode slimes containing, among others, silver and gold) amounted to 19 575 PLN/t (in the comparable period of 2015: 20 135 PLN/t) and was lower by 2.8% mainly due to the lower minerals extraction tax by 838 PLN/t alongside lower production from own concentrate by 12.5%. The total unit cost of electrolytic copper production from own concentrate amounted to 13 404 PLN/t (in the first half of 2015: 14 113 PLN/t).

3.4. FINANCIAL PERFORMANCE

<i>in mn PLN</i>	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Sales revenue, including:	6 540	8 092	80.8	3 561	2 979
- adjustment to revenues due to hedging transactions	6	221	2.7	10	(4)
Cost of sales, selling costs and administrative expenses	(5 528)	(6 157)	89.8	(3 008)	(2 520)
- including the minerals extraction tax	(550)	(775)	71.0	(274)	(276)
Profit on sales (EBIT)	1 012	1 935	52.3	553	459
Result on other operating activities, including:	161	(12)	x	323	(162)
- measurement and realisation of derivatives	(56)	(193)	29.0	(186)	130
- interest on loans granted	170	79	x2.2	91	79
- exchange differences	93	52	178.8	399	(306)
- impairment loss on available-for-sale assets	(57)	-	x	-	(57)
- other	11	50	22.0	19	(8)
Net finance income/(costs), including:	(141)	(42)	x3.4	(376)	235
- foreign exchange gains/(losses)	(68)	12	x	(344)	276
- interest costs on borrowings	(27)	(11)	x2.5	(15)	(12)
- measurement of derivatives	(10)	(2)	x4.8	(2)	(8)
- other	(36)	(41)	87.8	(16)	(20)
Profit before income tax	1 032	1 881	54.9	500	532
Income tax expense	(364)	(560)	65.0	(202)	(162)
Profit for the period	668	1 321	50.6	298	370
Depreciation/amortisation recognised in profit or loss	451	429	105.1	237	214
EBITDA*	1 463	2 364	61.9	790	673
Adjusted EBITDA**	1 463	2 364	61.9	790	673

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

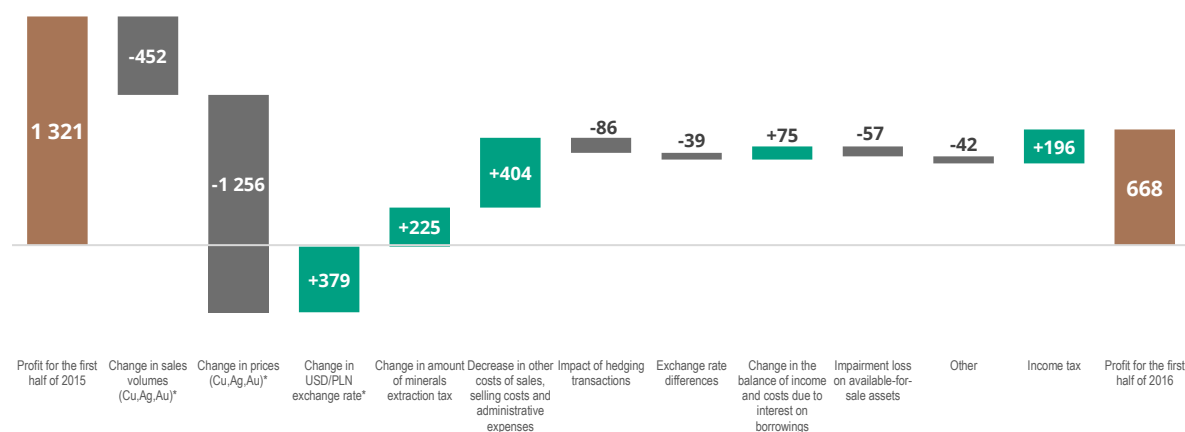
** Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)

Main reasons for the change in the financial result

Item	Impact on change of result (mn PLN)	Description
	(452)	A decrease in revenues due to a lower volume of copper sales (-8%) and silver sales (-3%) alongside a higher volume of gold sales.
Decrease in sales revenue (excluding the impact of hedging transactions) by PLN 1 337 million	(1 256)	A decrease in revenues due to lower prices of basic products – copper by 21%, silver by 4% alongside slightly higher (+1%) gold prices
	+379	An increase in revenues from sales of basic products (Cu, Ag, Au) due to a more favourable average annual USD/PLN exchange rate (a change from 3.71 to 3.91 USD/PLN)
	(7)	A decrease in revenues from sales of merchandise, materials and other products and services, including of sulphuric acid (-PLN 12 mn)
Decrease in cost of sales, selling costs and administrative expenses* by PLN 629 million	+225	A decrease in the minerals extraction tax from PLN 775 mn in the first half of 2015 to PLN 550 mn in the first half of 2016, due to lower copper prices expressed in PLN
	+404	A decrease in other costs, mainly due to the increase in inventories of half-finished products (copper anode) related to the planned shut-down of the Głogów I smelter/refinery in the third quarter of 2016.
Impact of hedging transactions (-PLN 86 million)	(215)	A lower positive adjustment of revenues due to the settlement of hedging transactions from PLN 221 mn to PLN 6 mn
	+132	A change in the result due to the measurement of derivatives from -PLN 191 mn to -PLN 59 mn
	(3)	A change in the result due to the realisation of derivatives (from -PLN 5 mn to -PLN 8 mn)
Impact of exchange rate differences (-PLN 39 million)	+41	A change in the result due to exchange rate differences presented in other operating activities
	(80)	A change in the result due to net exchange rate differences on borrowings (presented in finance costs)
Change in the balance of income and costs due to interest on borrowings (+PLN 75 million)	+91	An increase in interest income on loans granted
	(16)	Higher interest costs on borrowings
Impairment loss on available-for-sale assets (- PLN 57 million)	(57)	Relates mainly to the shares of TAURON Polska Energia S.A.
Income tax decrease	+196	A lower value of tax due to the decrease in the tax base

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

Chart 8. Change in profit for the period (in mn PLN)



* Impact on sales revenue

3.5. CAPITAL EXPENDITURES

In the first half of 2016, cash expenditures on property, plant and equipment and intangible assets amounted to PLN 1 431 million and were higher than in the comparable period of 2015 by 25%.

At the same time, in the first half of 2016 expenditures on property, plant and equipment and intangible assets amounted to PLN 1 240 million and were higher than in the first half of 2015 by 25%.

The higher level of cash expenditures incurred as compared to capital expenditures in the first half of 2016 was due to outstanding investment liabilities of 2015 and of the current period, pursuant to contractual payment dates.

Structure of expenditures on property, plant and equipment and intangible assets by Division

<i>in mn PLN</i>	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Mining	520	621	83.7	285	235
Metallurgy	711	338	x2.1	398	313
Other activities	6	23	26.1	4	2
Development work - uncompleted	3	9	33.3	3	0
Total	1 240	991	125.1	690	550

Structure of expenditures on property, plant and equipment and intangible assets by type

<i>in mn PLN</i>	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Replacement	193	249	77.5	124	69
Maintaining mine production	176	133	132.3	77	99
Development	868	600	144.7	486	382
Development work - uncompleted	3	9	33.3	3	0
Total	1 240	991	125.1	690	550

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

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

- **Development projects** aimed at increasing production volume of core business, maintaining production costs and adaptation projects aimed at adapting the company's operations to changes in standards, laws and regulations (including those related to environmental protection) represent 70% of total expenditures,
- **Projects related to the replacement of equipment** aimed at maintaining production equipment in an unchanged condition which guarantees the achievement of on-going production tasks represent 16% of total expenditures,
- **Projects related to maintaining mine production** ensuring necessary infrastructure to match mine advancement and the continuous removal of waste to ensure mine production at the level set forth in the mine advancement plan represent 14% of total expenditures.

Information on the advancement of key investment projects may be found in part 1 of this report (Implementation of Strategy).

4. Operating results of the segment KGHM INTERNATIONAL LTD.

The following information concerning the financial results of KGHM INTERNATIONAL LTD. for the first half of 2015 was adjusted to the comparable period of 2016 and includes the effects of the combination of KGHM INTERNATIONAL LTD. with the company 0929260 B.C U.L.C. which took place on 31 December 2015. As a result of this combination, data for the first half of 2015 includes the Ajax project, which has been in the segment KGHM INTERNATIONAL LTD. since the beginning of 2016.

4.1. PRODUCTION

	Unit	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Payable copper, including:	kt	46.8	45.0	104.0	23.1	23.7
- Robinson mine (USA)	kt	28.7	25.9	110.8	14.0	14.7
- Sudbury Basin mines (CANADA) *	kt	7.0	6.3	111.1	3.8	3.2
Payable nickel	kt	1.1	1.1	100.0	0.6	0.5
Precious metals (TPM)**, including:	koz t	46.9	41.9	111.9	24.5	22.4
- Robinson mine (USA)	koz t	24.9	24.1	103.3	12.1	12.8
- Sudbury Basin mines (CANADA) *	koz t	22.0	17.9	122.9	12.5	9.5
Production of copper equivalent***	kt	59.3	56.0	105.9	29.8	29.4

* Morrison mine in the Sudbury Basin and, up to the fourth quarter of 2015, McCreedy West mine in the Sudbury Basin

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

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

In the first half of 2016, copper production in the segment KGHM INTERNATIONAL LTD. amounted to 46.8 thousand tonnes and was higher by 1.8 thousand tonnes (+4%) as compared to the first half of 2015. The Robinson mine contributed the most to the increase in production volume with copper production higher by 2.8 thousand tonnes (+11%) thanks to extracting ore from the lower levels of the Ruth East pit. In comparison to the ore extracted from the higher levels of this pit during the first 6 months of 2015, the copper ore extracted during the current period was of a higher quality (an increase in copper grade from 0.49% to 0.53%), which resulted in an improvement in technological parameters. The Morrison mine also contributed to the increase in the volume of copper production, in which ore with higher copper grade was extracted in the first half of 2016 (7.30% as compared to 5.70% in the first half of 2015).

The increase in the production of precious metals in the Sudbury Basin mines (Morrison) as well as in the Robinson mine was due to the higher grade of these metals in the extracted ore.

4.2. SALES REVENUE

	Unit	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Sales revenue, including:	mn USD	304	329	92.4	155	149
- copper	mn USD	211	248	85.1	104	107
- nickel	mn USD	10	14	71.4	6	4
- precious metals (TPM)*	mn USD	52	40	130.0	27	25
Copper sales volume	kt	44.6	44.1	101.1	22.0	22.6
Nickel sales volume	kt	1.1	1.1	100.0	0.6	0.5
Precious metals (TPM)* sales volume	koz t	47.7	40.4	118.1	24.7	23.0

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

	Unit	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Sales revenue, including:	mn PLN	1 198	1 224	97.9	610	588
- copper	mn PLN	829	924	89.7	409	420
- nickel	mn PLN	38	52	73.1	21	17
- precious metals (TPM)*	mn PLN	205	149	137.6	106	99

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

The sales revenue of the segment KGHM INTERNATIONAL LTD. in the first half of 2016 amounted to USD 304 million, and was lower by USD 25 million (-8%) as a result of unfavourable macroeconomic conditions, reflected in the lower achieved sales prices of copper and nickel. This sales revenue was partially offset by the higher sales volumes of precious metals and copper.

The decrease in revenues from copper sales by USD 37 million (-15%), alongside a higher sales volume by 0.5 thousand tonnes, is due to the lower achieved sales price of this metal, which amounted to 4 718 USD/t in the first half of 2016 as compared to 5 644 USD/t in the first 6 months of 2015 (-16%).

The increase in revenues from precious metals sales by USD 12 million (+30%) is the result of higher level of production and sales of these metals by the Robinson and Morrison mines, as well as a higher achieved gold price, from 1 251 USD/oz t to 1 395 USD/oz t (+12%).

4.3. COSTS

	Unit	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
C1 unit cost*	USD/lb	1.53	2.03	75.4	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

In the first half of 2016, the unit cash cost of copper production for all operations in the segment KGHM INTERNATIONAL LTD. amounted to 1.53 USD/lb, or a decrease by 25% as compared to the first half of 2015. The decrease in C1 cost is due to a decrease in production costs as a result of savings initiatives undertaken as well as to an increase in revenues from sales of precious metals, which are deducted from C1 cost.

4.4. FINANCIAL PERFORMANCE

<i>in mn USD</i>	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Sales revenue	304	329	92.4	155	149
Cost of sales, selling costs and administrative expenses	(298)	(389)	76.6	(152)	(146)
Profit/(loss) on sales (EBIT)	6	(60)	x	3	3
Profit/(loss) before taxation, including:	(141)	(103)	136.9	(70)	(71)
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	(121)	-	x	(65)	(56)
Income tax	5	24	20.8	4	0
Profit/(loss) for the period	(136)	(79)	172.2	(67)	(70)
Depreciation/amortisation recognised in profit or loss	(63)	(110)	57.3	(31)	(32)
EBITDA*	69	50	138.0	34	35
Adjusted EBITDA**	69	50	138.0	34	35

* 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)

<i>in mn PLN</i>	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Sales revenue	1 198	1 224	97.9	610	588
Cost of sales, selling costs and administrative expenses	(1 174)	(1 450)	81.0	(597)	(577)
Profit/(loss) on sales (EBIT)	24	(226)	x	13	11
Profit/(loss) before taxation, including:	(555)	(386)	143.8	(276)	(279)
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	(476)	-	x	(255)	(221)
Income tax	21	91	23.1	19	2
Profit/(loss) for the period	(533)	(295)	180.7	(256)	(277)
Depreciation/amortisation recognised in profit or loss	(248)	(408)	60.8	(120)	(128)
EBITDA*	272	182	149.5	133	139
Adjusted EBITDA**	272	182	149.5	133	139

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

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

Main reasons for the change in the financial result:

Item	Impact on change in result (mn USD)	Description
	(46)	A decrease in revenues due to lower prices of basic products, mainly copper (-USD 42 million) and nickel (-USD 5 million).
Decrease in sales revenue by USD 25 million, including:	+14	An increase in revenues due to higher sales volume, mainly copper (+USD 5 million) and TPM (+USD 10 million).
	+4	An increase in revenues of the company DMC related to the schedule of projects underway.
Decrease in cost of sales, selling costs and administrative expenses* by USD 91 million, including:	+76	A decrease in depreciation/amortisation due to impairment losses on assets recognised in the fourth quarter of 2015.
	+36	A decrease in costs due to undertaken savings initiatives, including reduction in costs of materials and energy (+USD 18 million), external services (+USD 12 million), labour costs (+USD 3 million) and administrative expenses (+USD 3 million).
	(23)	A change in inventories.
Impact on other operating activities and finance activities (+USD 17 million), including:	+11	An increase in net income due to interest, mainly related to financing of Sierra Gorda S.C.M.
Share of losses of joint ventures accounted for using the equity method (-USD 121 million)	(121)	Share of losses of Sierra Gorda S.C.M.
Income tax	(19)	A decrease in deferred tax assets assumed in 2015

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

4.5. CAPITAL EXPENDITURES

<i>in mn USD</i>	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Victoria project	18	25	72.0	2	16
Sierra Gorda Oxide project	7	7	100.0	2	5
Pre-stripping and other	46	85	54.1	25	21
Ajax project	6	20	30.0	3	3
Total	77	137	55.3	33	45
Financing for Sierra Gorda S.C.M.	61	99	61.6	17	44

<i>in mn PLN</i>	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Victoria project	72	92	78.3	9	63
Sierra Gorda Oxide project	26	25	104.0	8	18
Pre-stripping and other	183	320	57.2	100	83
Ajax project	22	73	30.1	10	12
Total	303	510	60.4	127	176
Financing for Sierra Gorda S.C.M.	238	369	64.5	65	173

In the first half of 2016, capital expenditures by the segment KGHM INTERNATIONAL LTD. amounted to USD 77 million, and were lower by USD 60 million (-44%) as compared to the first half of 2015.

Around 50% of the expenditures were incurred by the Robinson mine and were mainly due to pre-stripping work. Their decrease as compared to the first half of 2015 was due to a limitation 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.

Expenditures related to the Victoria project in the first 6 months of 2016 amounted to USD 18 million (including USD 5 million related to work carried out in 2015) and mainly comprised construction of infrastructure, including a power substation and a drilling program. Currently, work is underway on reviewing the project's assumptions.

Work related to the Sierra Gorda Oxide project involved analysing the project's possible development concepts to maximise its economic value.

Expenditures for the Ajax project in the amount of USD 6 million were related to preparing an environmental permit application as well as the review of basic technical documentation by independent consultants.

In the first half of 2016, KGHM INTERNATIONAL LTD. continued to finance the Sierra Gorda mine in the amount of USD 61 million, in order to maintain its liquidity given the continuation of unfavourable macroeconomic conditions.

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

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

The following production and financial data are presented on a 100% basis for the joint venture and proportionally to the interest in the company Sierra Gorda S.C.M. (55%), pursuant to the note on segments presented in part 2 of the condensed consolidated financial statements.

5.1. PRODUCTION

The following information presents production in the first half of 2015 which is not presented in the segment note in part 2 of the condensed consolidated financial statements, which only provides data from the commencement of commercial production, i.e. from 1 July 2015.

	Unit	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Copper production*	kt	48.4	38.3	126.2	22.0	26.3
Copper production – segment (55%)	kt	26.6	21.1	126.2	12.1	14.5
Molybdenum production*	mn lbs	12.5	3.3	x3.7	3.6	8.9
Molybdenum production – segment (55%)	mn lbs	6.9	1.8	x3.7	2.0	4.9
TPM production **	koz t	20.7	18.2	113.3	7.7	13.0
TPM production – segment (55%)	koz t	11.4	10.0	113.3	4.2	7.1
Production of copper equivalent***	kt	70.6	46.1	153.1	29.8	40.8
Production of copper equivalent – segment (55%)	kt	38.8	25.4	153.1	16.4	22.4

* Payable metal in concentrate.

** TPM – precious metals (gold in case of Sierra Gorda S.C.M.)

*** The value of production volume of all metals converted into copper based on market prices – from own concentrate

In comparison to the production results achieved in the comparable period of 2015, copper production increased by 26% and molybdenum production by almost 4-times. This significant increase in production results from the fact that in the first half of 2015 the mine was under construction, while molybdenum production was commenced in April 2015.

The decrease in copper production during the second quarter was mainly caused by processing ore from a transition zone, which is characterised by greater hardness and the content of undesired elements, having a negative impact on technological processing parameters. Molybdenum production was lower due to the high content of iron in the ore, mainly affecting molybdenum recovery, which was below the expected level.

In the first half of 2016 work was aimed at increasing production capacity and decreasing operating costs, mainly including:

- improvements and modernisations aimed at remediation of defects arising at the stage of design and construction of the mine,
- optimising maintenance, resulting in shorter maintenance cycles,
- increasing coordination of actions between the mine and processing plant aimed at reducing volatility in the quality of processed ore,
- tests of new floatation reagents, aimed at improving the quality of concentrate produced from the ore mined in the transition zone, and
- updating and verifying planning assumptions to increase production predictability and forecasts accuracy.

5.2. SALES REVENUE

Sierra Gorda S.C.M. prepares a statement of profit or loss since the start of commercial production, i.e. from 1 July 2015, and therefore the tables presented below do not include revenues for the first half of 2015, which were capitalised as capital expenditures related to mine construction. This note also relates to other financial information within the statement of profit or loss of Sierra Gorda S.C.M.

	Unit	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Sales revenue, including:	mn USD	315	-	x	169	146
– copper	mn USD	211	-	x	97	114
– molybdenum	mn USD	103	-	x	73	30
Copper sales volume	kt	43.6	-	x	20.7	22.9
Molybdenum sales volume	mn lbs	14.4	-	x	8.7	5.7

	Unit	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Sales revenue, including:	mn PLN	1 241	-	x	666	575
- copper	mn PLN	828	-	x	379	449
- molybdenum	mn PLN	406	-	x	288	118
Sales revenue – segment (55% share)	mn PLN	683	-	x	366	316

In the first half of 2016 revenues from sales of products less treatment and refining charges (TC/RC) amounted to USD 315 million (PLN 1 241 million). The increase in revenues in the second quarter is mainly caused by a higher molybdenum sales volumes (in June some of the stored molybdenum concentrate was sold). There was also a positive impact from significant increase in the achieved sale price of this metal in the first half of 2016.

The decrease in copper sales volume was mainly caused by unfavourable weather, which prevented timely shipments from the port of Antofagasta. The average achieved copper sale price was also lower.

5.3. COSTS

The cost of sales, selling costs and administrative expenses incurred by company Sierra Gorda S.C.M. amounted to USD 418 million (PLN 1 646 million), including cost of sales of USD 27 million (PLN 107 million), and administrative expenses of USD 40 million (PLN 158 million).

	Unit	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Cost of sales, selling costs and administrative expenses	mn USD	418	-	x	233	185
Cost of sales, selling costs and administrative expenses	mn PLN	1 646	-	x	916	730
Cost of sales, selling costs and administrative expenses – segment (55% share)	mn PLN	905	-	x	504	402
C1 unit cost*	USD/lb	1.75	-	x	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.

The following expenses by nature were significant:

- cost of external services, mainly contracts related to providing services for the mine and ore processing facility,
- depreciation/amortisation, including amortisation of expenditures on accessing the deposit (pre-stripping),
- cost of materials, energy and fuel, and
- remuneration costs.

The aforementioned costs represented in total nearly 80% of total costs prior to decrease by capitalised pre-stripping costs as well as to the change in inventories.

In the second quarter, the cost of sales, selling costs and administrative expenses increased by 26%, mainly due to an increase in sales of molybdenum from inventories and higher fixed costs related to contracts for energy supplies (in June the power plant dedicated to the mine was opened).

It should be noted that in the same period there was an improvement in mine operating costs (before adjustment by the change in inventories and by capitalised pre-stripping costs), resulting in a decrease in unit cost calculated per tonne mined by 9%. The unit operating cost of the ore processing facility increased by 3%, mainly due to the aforementioned increase in energy costs.

The company is continuing the program of saving initiatives, resulting in a decrease in some operating costs, including mainly external services and materials.

The unit cash cost of copper production (C1) amounted to 1.75 USD/lb. The increase of this cost during the second quarter was caused mainly by lower copper sales volumes and the previously mentioned factors affecting the level of costs.

5.4. FINANCIAL PERFORMANCE

The following results of the company Sierra Gorda S.C.M. (100%) were presented on the basis of this company's statutory financial statements and the segment's results in PLN proportionally to the interest held (55%).

Results of Sierra Gorda S.C.M. on the basis of statutory financial statements (100%)	Unit	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Sales revenue	mn USD	315	-	x	169	146
Cost of sales, selling costs and administrative expenses	mn USD	(418)	-	x	(233)	(185)
Profit/(loss) on sales (EBIT)	mn USD	(103)	-	x	(64)	(39)
Profit/(loss) for the period	mn USD	(222)	-	x	(119)	(103)
Depreciation/amortisation recognised in profit or loss	mn USD	174	-	x	96	78
EBITDA*	mn USD	71	-	x	32	39
Adjusted EBITDA **	mn USD	71	-	x	32	39

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

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

In the first half of 2016 EBITDA amounted to USD 71 million, or PLN 279 million. The decrease in EBITDA from USD 39 million in the first quarter to USD 32 million in the second quarter was caused by the increase in costs referred to in the previous section.

Results of Sierra Gorda S.C.M. on the basis of statutory financial statements (100%)	Unit	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Sales revenue	mn PLN	1 241	-	x	666	575
Cost of sales, selling costs and administrative expenses	mn PLN	(1 646)	-	x	(916)	(730)
Profit/(loss) on sales (EBIT)	mn PLN	(405)	-	x	(251)	(154)
Profit/(loss) for the period	mn PLN	(875)	-	x	(468)	(407)
Depreciation/amortisation recognised in profit or loss	mn PLN	684	-	x	377	307
EBITDA*	mn PLN	279	-	x	126	153
Adjusted EBITDA **	mn PLN	279	-	x	126	153

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

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

Results of the segment Sierra Gorda S.C.M. proportionally to the interest held (55%)	Unit	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Sales revenue	mn PLN	683	-	x	367	316
Cost of sales, selling costs and administrative expenses	mn PLN	(905)	-	x	(504)	(401)
Profit/(loss) on sales (EBIT)	mn PLN	(222)	-	x	(137)	(85)
Profit/(loss) for the period	mn PLN	(481)	-	x	(257)	(224)
Depreciation/amortisation recognised in profit or loss	mn PLN	376	-	x	207	169
EBITDA*	mn PLN	154	-	x	70	84
Adjusted EBITDA **	mn PLN	154	-	x	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)

5.5. CAPITAL EXPENDITURES

In the first half of 2016, expenditures on property, plant and equipment and intangible assets recognised in the statement of cash flows amounted to USD 162 million (PLN 638 million), of which 55% were 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.

	Unit	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Expenditures on property, plant and equipment	mn USD	162	309	52.4	49	113
Expenditures on property, plant and equipment	mn PLN	638	1 150	55.5	191	447
Expenditures on property, plant and equipment – segment (55% share)	mn PLN	351	633	55.5	105	246

The main source of financing investments were the short-term bank loan (USD 186 million) and increases in share capital in the amount of USD 110 million, of which USD 61 million was provided by the KGHM Polska Miedź S.A. Group. As at 30 June 2016, the carrying amount of the owner loan amounted to USD 3 631 million, while its increase of USD 141 million as compared to the level at the end of 2015 was mainly due to accrued interest (in the first half of 2016 there was no owner loan financing).

6. Review of consolidated financial performance

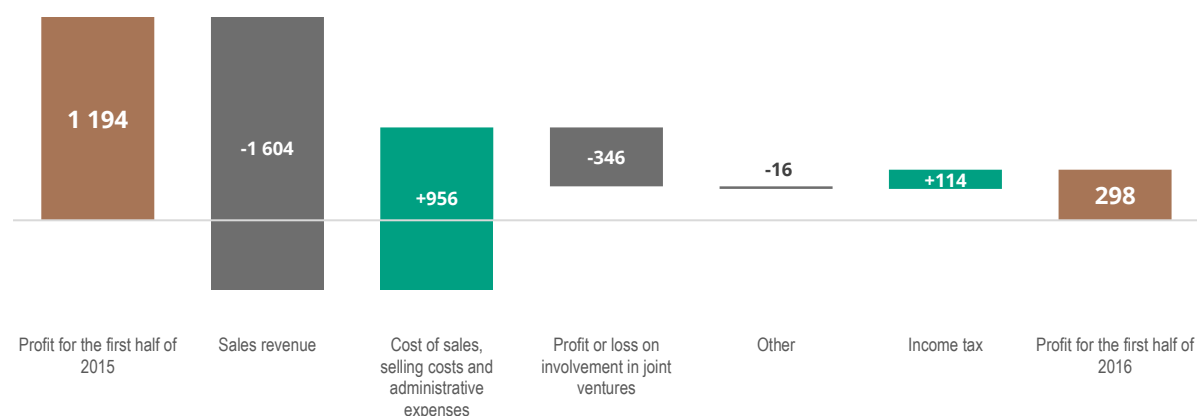
6.1. FINANCIAL RESULTS

<i>in mn PLN</i>	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Sales revenue	8 456	10 060	84.1	4 544	3 912
Cost of sales, selling costs and administrative expenses	(7 338)	(8 294)	88.5	(3 916)	(3 422)
Profit on sales (EBIT)	1 118	1 766	63.3	628	490
Profit or loss on involvement in joint ventures	(170)	176	x	(102)	(68)
Other operating income/(costs)	(106)	(78)	135.9	203	(309)
Net finance income/(costs), including:	(159)	(171)	93.0	(389)	230
Profit before income tax	683	1 693	40.3	340	343
Income tax	(385)	(499)	77.2	(205)	(180)
Profit for the period	298	1 194	25.0	135	163
Adjusted EBITDA*	2 062	2 692	76.6	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) pursuant to the data in part 2 of the condensed consolidated financial statements – together with Sierra Gorda S.C.M.

Item	Impact on change in result (mn PLN)	Description
Sales revenue	(1 604)	A decrease in revenues mainly with respect to KGHM Polska Miedź S.A. (-PLN 1 552 million, including -PLN 215 million as an adjustment to revenues due to hedging transactions) and KGHM INTERNATIONAL LTD. (-PLN 26 million). The detailed reasons for the decrease in revenues in both segments are described in parts 3 and 4 of this report.
Cost of sales, selling costs and administrative expenses	+956	A decrease in costs in the consolidated result was mainly due to lower costs in KGHM Polska Miedź S.A. (by PLN 629 million) and KGHM INTERNATIONAL LTD. (by USD 91 million), described in greater detail in parts 3 and 4 of this report.
Profit or loss on involvement in joint ventures	(346)	A change in the result on involvement in joint ventures with respect to Sierra Gorda S.C.M. from PLN 176 million to -PLN 170 million was due to: <ul style="list-style-type: none"> - a higher share of losses of a joint venture accounted for using the equity method by PLN 475 million, and - higher interest income on loans granted to a joint venture by PLN 129 million.
Income tax	+114	A lower income tax by PLN 114 million was mainly due to: a decrease by PLN 196 million of tax expense in KGHM Polska Miedź S.A. alongside a smaller tax shield impact in KGHM INTERNATIONAL LTD. by PLN 70 million.

Change in profit or loss for the first half of 2016 (*in mn PLN*)



6.2. ASSETS

Assets

<i>in mn PLN</i>	30.06.2016	31.03.2016	31.12.2015	Change 31.12.2015=100
Non-current assets	31 715	30 680	30 448	104.2
Mining and metallurgical property, plant and equipment	14 821	14 421	14 273	103.8
Mining and metallurgical intangible assets	3 301	3 199	3 130	105.5
Other property, plant and equipment	2 828	2 776	2 653	106.6
Other intangible assets	236	202	241	97.9
Joint ventures accounted for using the equity method	333	498	562	59.3
Loans granted to joint ventures	7 966	7 377	7 504	106.2
Derivatives	67	133	117	57.3
Other financial instruments measured at fair value	571	602	579	98.6
Other financial assets	859	787	735	116.9
Deferred tax assets	608	562	557	109.2
Other assets	125	123	97	128.9
Current assets	6 696	6 418	6 316	106.0
Inventories	4 066	3 935	3 382	120.2
Trade receivables	1 146	1 077	1 541	74.4
Tax assets	336	334	542	62.0
Derivatives	33	80	7	x4.7
Other assets	417	403	383	108.9
Cash and cash equivalents	698	589	461	151.4
Total assets	38 411	37 098	36 764	104.5

As at 30 June 2016, value of assets in the consolidated statement of financial position amounted to PLN 38 411 million and were higher as compared to 31 December 2015 by PLN 1 647 million.

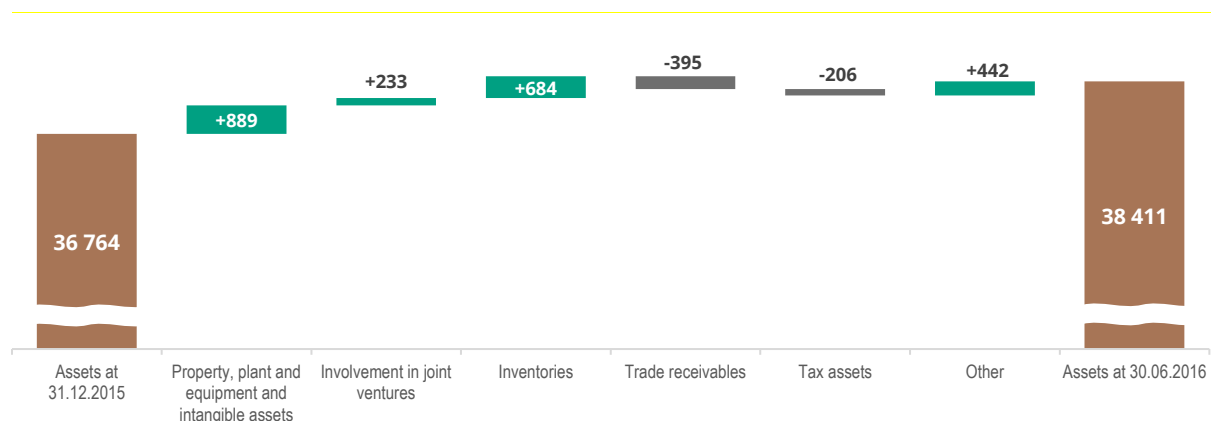
The value of non-current assets as at 30 June 2016 amounted to PLN 31 715 million and were higher by PLN 1 267 million as compared to the end of 2015, mainly due to an increase in the value of property, plant and equipment and intangible assets by PLN 889 million and in assets involved in joint ventures by PLN 233 million.

The change in the value of property, plant and equipment and intangible assets was mainly due to capital expenditures incurred in the first six months of 2016 in the amount of PLN 1 565 million and depreciation/amortisation in the amount of PLN 829 million.

The increase in the value of assets involved in joint ventures by PLN 233 million was due to a decrease in the value of joint ventures accounted for using the equity method by PLN 229 million alongside an increase in the value of loans granted to joint ventures by PLN 462 million.

The value of current assets increased by PLN 380 million, mainly due to an increase in the value of inventories by PLN 684 million and cash and cash equivalents by PLN 237 million alongside a decrease in trade receivables by PLN 395 million and tax assets by PLN 206 million.

Change in value of assets in the first half of 2016 (*in mn PLN*)

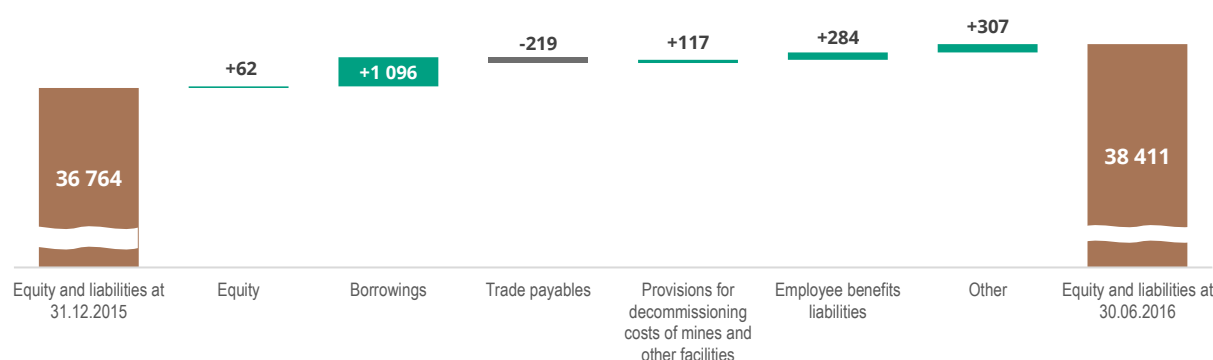


Equity and liabilities

<i>in mn PLN</i>	30.06.2016	31.03.2016	31.12.2015	Change 31.12.2015=100
Equity	20 476	20 539	20 414	100.3
Share capital	2 000	2 000	2 000	100.0
Other reserves from measurement of financial instruments	(64)	48	(64)	100.0
Accumulated other comprehensive income	1 917	1 704	1 868	102.6
Retained earnings	16 405	16 569	16 407	100.0
Equity attributable to shareholders of the Parent Entity	20 258	20 321	20 211	100.2
Equity attributable to non-controlling interest	218	218	203	107.4
Liabilities	17 935	16 559	16 350	109.7
Non-current liabilities	11 326	9 792	10 153	111.6
Borrowings	5 816	4 412	4 870	119.4
Derivatives	211	154	159	132.7
Employee benefits liabilities	2 071	2 033	1 979	104.6
Provisions for decommissioning costs of mines and other facilities	1 583	1 585	1 466	108.0
Deferred tax liabilities	692	689	714	96.9
Other liabilities	953	919	965	98.8
Current liabilities	6 609	6 767	6 197	106.6
Borrowings	2 295	3 006	2 145	107.0
Derivatives	86	34	48	179.2
Trade payables	1 199	1 265	1 418	84.6
Employee benefits liabilities	952	817	760	125.3
Tax liabilities	837	626	762	109.8
Other liabilities	1 240	1 019	1 064	116.5
Total liabilities and equity	38 411	37 098	36 764	104.5

Equity as at 30 June 2016 amounted to PLN 20 476 million and was higher by PLN 62 million than at the end of 2015, mainly due to profit for the first half of 2016 in the amount of PLN 298 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.

Liabilities of the KGHM Polska Miedź S.A. Group as at 30 June 2016 amounted to PLN 17 935 million and were higher by PLN 1 585 million as compared to the end of 2015, mainly due to an increase in the value of borrowings by PLN 1 096 million, an increase in the value of non-current provisions for decommissioning costs of mines and other facilities by PLN 117 million and an increase in the value of employee benefits liabilities by PLN 284 million, alongside a decrease in current trade payables by PLN 219 million.

Change in equity and liabilities in the first half of 2016 (*in mn PLN*)

Cash flow

<i>in mn PLN</i>	1st half 2016	1st half 2015	Change 1st half 2015=100	2Q'16	1Q'16
Profit before income tax	683	1 693	40.3	340	343
Depreciation/amortisation recognised in profit for the period	810	944	85.8	413	397
Share of losses of joint ventures accounted for using the equity method	476	1	x476.0	255	221
Interest on a loan granted to joint ventures	(306)	(177)	172.9	(153)	(153)
Interest and other costs of borrowings	59	141	41.8	30	29
Impairment losses on non-current assets	66	3	x22.0	9	57
Other adjustments to profit before income tax	(91)	(206)	44.2	163	(254)
Exclusions of income and costs, total	1 014	706	143.6	717	297
Income tax paid	(127)	(456)	27.9	(65)	(62)
Changes in working capital	(239)	486	x	(245)	6
Net cash generated from operating activities	1 331	2 429	54.8	747	584
Expenditures on mining and metallurgical assets	(1 680)	(1 604)	104.7	(802)	(878)
Expenditures on other property, plant and equipment and intangible assets	(106)	(143)	74.1	(14)	(92)
Acquisition of newly-issued shares of a joint venture	(238)	(369)	64.5	(65)	(173)
Other expenses	(43)	(104)	41.3	(1)	(42)
Total expenses	(2 067)	(2 220)	93.1	(882)	(1 185)
Proceeds	16	46	34.8	9	7
Net cash used in investing activities	(2 051)	(2 174)	94.3	(873)	(1 178)
Proceeds from borrowings	1 980	3 411	58.0	932	1 048
Other proceeds	18	34	52.9	18	-
Total proceeds	1 998	3 445	58.0	950	1 048
Repayments of borrowings	(996)	(2 636)	37.8	(661)	(335)
Dividends paid to shareholders of the Parent Entity	-	(400)	x	-	-
Interest paid	(55)	(179)	30.7	(27)	(28)
Other expenses	(9)	(24)	37.5	(6)	(3)
Total expenses	(1 060)	(3 239)	32.7	(694)	(366)
Net cash generated from financing activities	938	206	x4.6	256	682
TOTAL NET CASH FLOW	218	461	47.3	130	88
Cash and cash equivalents at beginning of the period	461	475	97.1	589	461
Exchange gains/(losses) on cash and cash equivalents	19	(156)	x	(21)	40
Cash and cash equivalents at end of the period	698	780	89.5	698	589

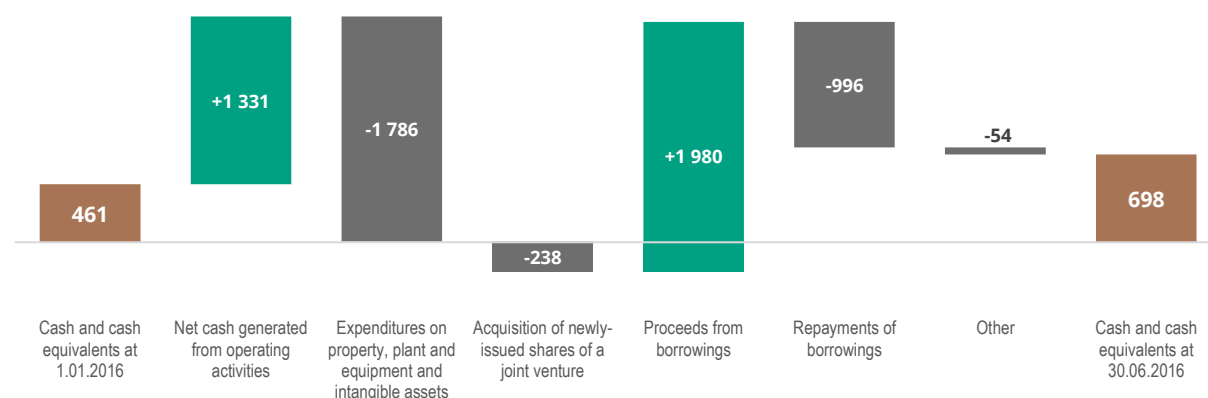
Net cash generated from operating activities in the period of 6 months of 2016 amounted to PLN 1 331 million and was mainly comprised of profit before income tax in the amount of PLN 683 million plus depreciation/amortisation in the amount of PLN 810 million and a share of losses of joint ventures accounted for using the equity method in the amount of PLN 476 million, less interest on a loan granted to joint ventures in the amount of PLN 306 million, income tax paid in the amount of PLN 127 million and a change in working capital in the amount of PLN 239 million.

Net cash used in investing activities in the period of 6 months of 2016 amounted to PLN 2 051 million and was mainly comprised of net expenditures on mining and metallurgical property, plant and equipment in the amount of PLN 1 680 million and the acquisition of newly-issued shares of a joint venture in the amount of PLN 238 million.

Net cash generated from financing activities in the period of 6 months of 2016 amounted to PLN 938 million and was mainly comprised of proceeds from borrowings in the amount of PLN 1 980 million and repayments of borrowings in the amount of PLN 996 million as well as interest paid in the amount of PLN 55 million.

After accounting for exchange gains/(losses) on cash and cash equivalents, in the period of 6 months of 2016 cash and cash equivalents increased by PLN 237 million and amounts to PLN 698 million.

Cash flow in the first half of 2016 (in mn PLN)



Contingencies and commitments

As at 30 June 2016, the value of contingent assets amounted to PLN 584 million and were lower than the value at the end of 2015 by PLN 51 million. The decrease in the value of contingent assets was mainly due to a decrease in promissory notes receivables by PLN 69 million.

As at 30 June 2016, contingent liabilities amounted to PLN 2 271 million and were higher than the value at the end of 2015 by PLN 491 million. This increase in value was mainly due to guarantees to secure repayment of short-term working capital facilities of the joint venture Sierra Gorda S.C.M. in the amount of PLN 416 million.

6.3. FINANCING OF GROUP ACTIVITIES

General principles of financial resource management

The primary goal of the process of financial resource management in the Group is to ensure the ability to maintain continuous operations and to carry out investments by securing the availability of the 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.

To increase the transparency and effectiveness of the Group's financing structure and strengthen financial control over strategic investments, debt has been consolidated at the Parent Entity's level. The consolidation of debt conforms with the best market practice for large international groups. As at 30 June 2016, 98% of debt remained at the Parent Entity's level.

In the first half of 2016, the Group used external sources of financing based on 3 pillars.

Source of external debt

Unsecured, revolving syndicated credit facility in the amount of USD 2.5 billion with maturity of 10 July 2020* (with the option to extend for another year)

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 2015, the Parent Entity obtained permission of the syndicate banks group to extend the maturity of the credit facility by 1 year.*

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 11 months. The deadline for repaying the instalments drawn is 30 October 2026.

The funds acquired through this loan are being used to finance the Parent Entity's investment projects related to modernisation of metallurgy and development of the Źelazny Most tailings storage facility.

Bilateral bank loans in the amount of PLN 3.6 billion

Group companies have open lines of credit in the form of bilateral agreements in the total amount of PLN 3.6 billion. These are working capital facilities and overdraft facilities with availability of up to 2 years 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.

* In July 2016 the Parent Entity obtained the banks' permission to extend the maturity of the credit facility by another year. The new deadline for repayment is 9 July 2021.

The aforementioned sources ensure the availability of PLN 15 520 million in external financing and fully cover the medium- and long-term liquidity needs of the Group.

Available financing and loans drawn as at 30 June 2016

in mn PLN	30.06.2016		31.12.2015
	Amount available	Amount drawn *	Amount drawn*
Unsecured, revolving syndicated credit facility	9 951	4 384	3 126
Other loans	2 007	1 206	1 182
Bilateral bank loans	3 562	2 523	2 705
Total	15 520	8 113	7 013

* The amount drawn includes accrued interest unpaid as at the reporting date and does not include costs related to signing the syndicated credit facility agreement, which decrease the initial value of liabilities due to the credit facility.

The Group's net debt structure (liabilities due to borrowings less free cash and cash equivalents) is presented below:

in mn PLN	30.06.2016	31.12.2015	Change 31.12.2015=100
Bank loans	6 877	5 798	118.6
Other loans	1 206	1 182	102.0
Other	28	35	80.0
Total debt	8 111	7 015	115.6
Free cash and cash equivalents	683	461	148.2
Net debt	7 428	6 554	113.3

Cash pool in the Group

In managing its financial liquidity, the Group utilises tools which support its efficiency. One of the basic instruments used by the Group is the cash pool management system, local cash pool in PLN, USD and EUR and international in USD. The cash pool system is aimed at optimising cash management and limiting interest costs, the effective financing of current needs in terms of working capital and supporting short term financial liquidity in the Group.

Loans granted

As at 30 June 2016, the balance of loans granted by the Group amounted to PLN 7 988 million, or USD 2 009 million. This item comprises long-term loans with interest based on a fixed interest rate, granted by the KGHM INTERNATIONAL LTD. Group to finance mining projects in Chile and Canada.

Contingent liabilities due to guarantees granted

As at 30 June 2016, the Group held contingent liabilities due to guarantees and letters of credit granted in the total amount of PLN 1 733 million and liabilities due to promissory notes in the amount of PLN 256 million.

Detailed information regarding the amount and nature of contingent liabilities due to guarantees granted may be found in part 4.9 of the half-year condensed consolidated financial statements – Assets and liabilities not recognised in the statement of financial position.

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

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

7. Other information

7.1. DESCRIPTION OF BASIC THREATS AND RISK FACTORS ASSOCIATED WITH THE SUBSEQUENT REPORTING MONTHS

Comprehensive Risk Management System in the KGHM Polska Miedź S.A. Group

The KGHM Polska Miedź S.A. Group defines risk as uncertainty, being an integral part of the activities conducted and having the potential to result in both opportunities and threats to achievement of the business goals. The current and future, actual and potential impact of risk on the KGHM Polska Miedź S.A. Group's activities is assessed. Based on this assessment, management practices are reviewed and adjusted in terms of responses to individual risk factors.

Under the Corporate Risk Management Policy and Procedure and the Rules of the Corporate Risk Committee approved in 2013, the process of corporate risk management in the Group is consistently performed. The companies of the Group have implemented rules and procedures to regulate the management of corporate risk which are consistent with those of the Parent Entity. KGHM Polska Miedź S.A. oversees the process of managing corporate risk in the Group.

Risk factors in various areas of the Group's operations are continuously identified, assessed and analysed in terms of their possible limitation. Key risk factors in the Group undergo in-depth analysis in order to develop a Risk Response Plan and Corrective Actions. Other risk factors undergo constant monitoring by the Corporate Risk Management and Supervisory Standards Department, and in terms of financial risk factors by the Executive Director of the Finance and Risk Management Department.

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

Key risk factors and their mitigation

A detailed description of key risk factors of the KGHM Polska Miedź S.A. Group, together with mitigating actions and with an indication of specific risk factors for the Parent Entity and KGHM INTERNATIONAL LTD. Group, was presented in the Management Board's Report on the Activities of the Group in 2015, available at the Company's website www.kghm.com (Section 6.4. Key risk factors and risk management).

Market risk management

Commodity risk, currency risk

In the first half of 2016, the Parent Entity implemented strategies hedging revenues from the sale of silver and copper. Hedging strategies were also implemented on the currency market.

As at 30 June 2016, the Parent Entity held an open hedging position on the copper and silver markets. Copper sales revenues were secured for the period from July 2016 to September 2016 covering 3 500 tonnes monthly, while 225 000 troy ounces monthly of revenues from sales of silver were secured for the period from July 2016 to December 2017.

As at 30 June 2016, the Parent Entity held an open hedging position on the currency market covering USD 1 920 million of planned revenues from sales for the period from July 2016 to December 2018. In addition, the first instalment 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.

In terms of managing currency risk deriving from bank loans, the Parent Entity applies natural hedging, based on the drawing of credit in those currencies in which it earns revenues. Liabilities which comprised the balance of bank and other loans as at 30 June 2016 were drawn in USD, which following their translation to the Polish zloty amounted to PLN 7 928 million.

As at 30 June 2016, the KGHM INTERNATIONAL LTD. Group did not hold open hedging positions in derivatives on the metals and currency markets.

Interest rate risk

As at 30 June 2016, the following positions were exposed to interest rate risk by impacting the amount of interest costs and income:

- cash and cash equivalents: PLN 1 101 million, including deposits of special purpose funds: the Mine Closure Fund and the Tailings Storage Facility Restoration Fund and Social Benefits Fund,
- liabilities due to bank loans drawn: PLN 6 877 million.

As at 30 June 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 7 998 million, including loans granted by KGHM INTERNATIONAL LTD. for the financing of a joint mining venture in Chile: PLN 7 966 million (USD 2 001 million),
- liabilities due to loans drawn with fixed interest rates: PLN 1 206 million, including loan received by the Parent Entity from the European Investment Bank in the amount of PLN 1 200 million (or USD 302 million).

Holding financial liabilities within available borrowings, denominated in USD and based on LIBOR, exposes the Group to the risk of higher interest rates which would result in higher interest costs. As a result, taking into consideration the global exposure of the Group to interest rate risk, the Parent Entity decided to exercise its right to draw loans from the European Investment Bank based on a fixed interest rate. In addition, the Parent Entity remains hedged against an increase in the interest rate (LIBOR USD) by purchasing call options (interest rate CAP) with a 2.50 % interest rate, for the period to December 2018, and an average quarterly notional amount of USD 770 million.

Price risk related to changes in the share prices of listed companies	<p>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.</p> <p>As at 30 June 2016, the carrying amount of shares of companies listed on the Warsaw Stock Exchange and on the TSX Venture Exchange amounted to PLN 582 million.</p>
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Other important information regarding market risk management is presented in part 4 of the condensed consolidated financial statements.

Credit risk management

Credit risk related to trade receivables	<p>To reduce the risk of insolvency by its customers, the Parent Entity has entered into a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables. Taking into account the collateral held and the credit limits received from the insurance company, as at 30 June 2016, the Parent Entity had secured 91% of its trade receivables (as at 31 December 2015: 95%).</p>
Credit risk related to cash and cash equivalents and bank deposits	<p>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.</p> <p>Credit risk related to bank deposits is continuously monitored by the on-going review of the credit ratings of those financial institutions with which the Group cooperates, and by maintaining an appropriately low level of concentration in individual financial institutions.</p>
Credit risk related to derivatives transactions	<p>Detailed information may be found in part 4 of the condensed consolidated financial statements.</p>
Credit risk related to loans granted	<p>As at 30 June 2016, the balance of loans granted by the Group amounted to PLN 7 998 million.</p> <p>This item is primarily comprised of long-term loans in the total amount of PLN 7 966 million, or USD 2 001 million, granted by the KGHM INTERNATIONAL LTD. Group for the financing of a joint mining venture in Chile (loan to Sierra Gorda S.C.M.).</p> <p>Credit risk related to the loans granted is dependent on the risk related to mine project advancement and is considered by the Group to be moderate.</p> <p>To limit risk due to loans granted, the Group continuously monitors the financial standing and financial results of its borrower.</p>

Financial liquidity risk and capital management

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

7.2. FACTORS WHICH, IN THE ISSUER'S OPINION, WILL IMPACT ITS RESULTS OVER AT LEAST THE FOLLOWING QUARTER

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

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

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

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

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

7.3. POSITION OF THE MANAGEMENT BOARD WITH RESPECT TO THE POSSIBILITY OF ACHIEVING PREVIOUSLY-PUBLISHED FORECASTS OF RESULTS

KGHM Polska Miedź S.A. has not published a forecast of financial results for 2016.

7.4. SIGNIFICANT CONTRACTS FOR THE GROUP

<p>Annex to the contract between KGHM Polska Miedź S.A. and nkt cables group GmbH signed on 28 April 2014 for the sale of copper wire rod (11 March 2016)</p>	<p>The annex signed is in respect of the sale of copper wire rod in 2016. The value of the contract in the period 2014-2016 is estimated to be from PLN 3 342 million to PLN 3 441 million, depending on the volume of options used.</p> <p>The value of the contract was calculated based on actual deliveries in the years 2014 and 2015, as well as on the forward copper price curve from 10 March 2016 and the average USD/PLN and EUR/USD exchange rates announced by the NBP as at 10 March 2016 with respect to deliveries for 2016.</p> <p>The contract includes the possibility of being prolonged for the year 2017.</p>
<p>Signing of an Annex to the loan with the European Investment Bank (12 May 2016)</p>	<p>On 12 May 2016, KGHM Polska Miedź S.A. signed an Annex to the agreement for an unsecured loan which was signed on 1 August 2014 in the amount of PLN 2 billion with the European Investment Bank.</p> <p>The Annex extends the loan's period of availability by 12 months. After signing the Annex, the loan's period of availability is 34 months long, counting from 1 August 2014, which is the date on which the loan agreement was signed. The remaining contractual conditions remain unchanged.</p>
<p>Contract signed between KGHM Polska Miedź S.A. and China Minmetals Corporation for the sale of copper cathodes in the years 2017-2021 (20 June 2016)</p>	<p>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.</p> <p>The value was estimated based on the forward copper price curve from 17 June 2016 and the USD/PLN exchange rate announced by the National Bank of Poland on 20 June 2016. The contract foresees contractual penalties for delays in delivery.</p>

7.5. INFORMATION ON TRANSACTIONS ENTERED INTO BETWEEN RELATED PARTIES, UNDER OTHER THAN ARM'S LENGTH CONDITIONS

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

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

Acting in compliance with the aforementioned rules and regulations, during the first half of 2016 neither the Parent Entity nor its subsidiaries entered into significant transactions with related parties under other than arm's length conditions.

7.6. LITIGATION AND CLAIMS

At the end of the first half of 2016, the total value of on-going disputed issues both by and against KGHM Polska Miedź S.A. and its subsidiaries amounted to PLN 259 million, including receivables of PLN 124 million and liabilities of PLN 135 million. The total value of the above disputes did not exceed 10% of the equity of the Parent Entity.

Value of proceedings involving receivables at the end of the first half of 2016:

- proceedings by KGHM Polska Miedź S.A. amounted to PLN 30 million,
- proceedings by subsidiaries amounted to PLN 94 million.

Value of proceedings involving liabilities at the end of the first half of 2016:

- proceedings against KGHM Polska Miedź S.A. amounted to PLN 62 million,
- proceedings against subsidiaries amounted to PLN 73 million.

Administrative proceedings regarding the granting of concessions for exploration and assessment of the Bytom Odrzański copper ore deposit

The Minister of the Environment on 29 July 2014 reversed the following decisions in entirety:

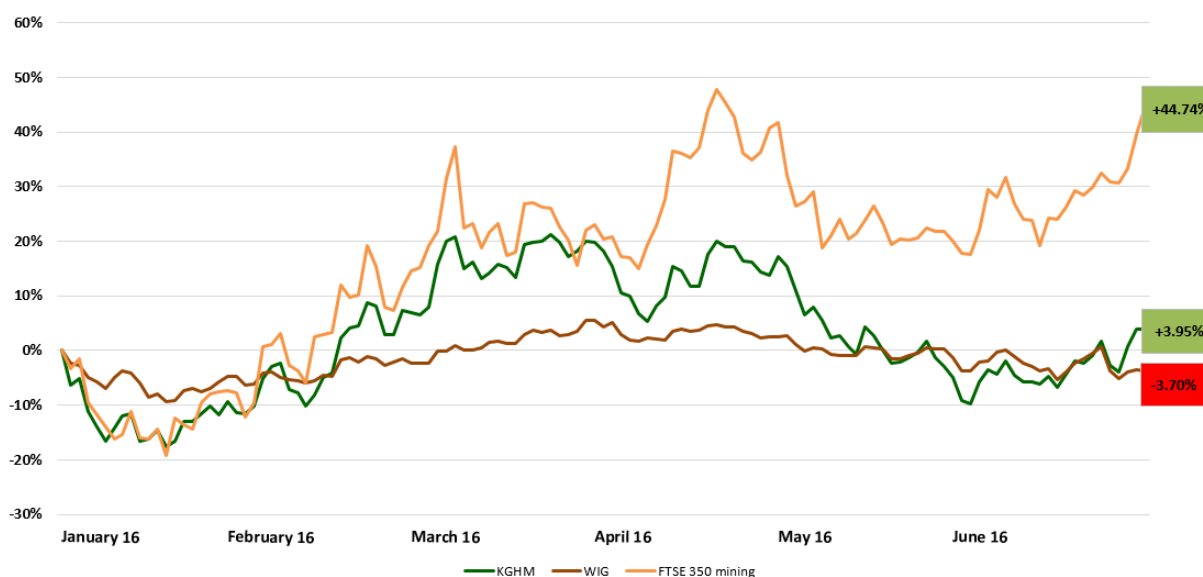
- a decision dated 28 January 2014 declining to grant a concession to KGHM Polska Miedź S.A. for the exploration and evaluation of the Bytom Odrzański copper ore deposit,
- Concession no. 3/2014/p dated 28 January 2014 granted to the Leszno Copper Spółka z o.o. for the exploration and evaluation of the Bytom Odrzański copper and silver ore deposit.

Leszno Copper filed claims against the decisions with the regional administrative court.

The Regional Administrative Court in Warsaw, in a judgment dated 10 July 2015, overturned the disputed decisions. On 28 October 2015, KGHM submitted a cassation appeal to the Supreme Administrative Court in the case of Bytom Odrzański. The Company is awaiting a hearing date.

7.7. COMPANY'S SHARE PRICE PERFORMANCE IN THE FIRST HALF OF 2016

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



Source: GPWInfoStrefa, Bloomberg

In the first half of 2016 the share price of KGHM Polska Miedź S.A. increased by +3.95% while the closing price on 30 June 2016 amounted to PLN 66.00. During the same period the price of copper – the main product of KGHM Polska Miedź S.A. – increased by +2.40%. At the same time the main WSE indices decreased: WIG by -3.70%, WIG20 by -5.83% and WIG30 by -5.77%, while the percentage change of the FTSE 350 mining index – an index comprised of companies from the mining sector, listed on the London Stock Exchange – amounted to +44.74%.

The Company's shares reached their half-year maximum closing price of PLN 77.00 on 22 March 2016. The minimum closing price of PLN 52.29 was recorded on 20 January 2016.

7.8. OWNERSHIP STRUCTURE OF KGHM POLSKA MIEDŹ S.A. AND THE SHARES OF KGHM POLSKA MIEDŹ S.A. HELD BY MEMBERS OF THE COMPANY'S MANAGEMENT BOARD AND SUPERVISORY BOARD

As at 30 June 2016, the share capital of the Parent Entity, in accordance with the entry in the National Court Register, amounted to PLN 2 billion and was divided into 200 million shares, series A, having a face value of PLN 10 each. All shares are bearer shares. Each share grants the right to one vote at the General Meeting. The Company has not issued preference shares. In the first half of 2016, there was no change in either registered share capital or in the number of outstanding shares issued.

As far as the Parent Entity's Management Board is aware, there was also no change in the ownership structure of significant blocks of shares of KGHM Polska Miedź S.A. during the same period. The only shareholder who as at 31 December 2015 as well as at 30 June 2016 held a number of shares granting the right to 5% or more of the total number of votes at the General Meeting of KGHM Polska Miedź S.A. was the Polish State Treasury, which held (according to an announcement dated 12 January 2010) 63 589 900 shares representing 31.79% of the share capital and of the total number of votes.

Other shareholders, whose total ownership of the share capital and share in the total number of votes amounts to 68.21%, are mainly institutional investors, both domestic and international.

The Parent Entity does not hold any treasury shares. The Management Board of the Parent Entity is unaware of any agreements which could result in changes in the proportion of shares held by present shareholders in the future.

Based on the information held by KGHM Polska Miedź S.A., the number of KGHM Polska Miedź S.A.'s shares or rights to them owned by the Members of the Management Board and by the Members of the Supervisory Board of KGHM Polska Miedź S.A. did not change in the period since the date of publication of the consolidated report for the first quarter of 2016 and as at 30 June 2016 was as follows:

KGHM Polska Miedź S.A. shares held by the Members of the Management Board and Supervisory Board of KGHM Polska Miedź S.A. as at 30 June 2016

Function	Name	Shares held as at 30 June 2016	Nominal value of shares in PLN
President of the Management Board	Krzysztof Skóra	5	50
Member of the Supervisory Board	Józef Czyczerski	10	100
Member of the Supervisory Board	Leszek Hajdacki	1	10

The remaining Members of the Management Board and the Supervisory Board of KGHM Polska Miedź S.A. did not hold shares of KGHM Polska Miedź S.A. or any rights to them. As far as KGHM Polska Miedź S.A. is aware, this situation remained unchanged to the date of signing of this report.

7.9. CHANGES IN THE GROUP'S ORGANISATION

Founding of the company OOO ZANAM VOSTOK	In March 2016 a company was founded in the Russian Federation by two direct subsidiaries: KGHM ZANAM S.A. (99%) and PeBeKa S.A. (1%) under the name OOO ZANAM VOSTOK with share capital of RUB 1 million (PLN 0.05 million). The shares were acquired and paid for in cash at their nominal value.
Disposal of shares of the company WFP Hefra S.A.	In April 2016, KGHM V FIZAN (a fund in which the sole shareholder is KGHM Polska Miedź S.A.), disposed of all of the shares it held in the company WFP Hefra S.A. (representing 100% of this company's shares) to an entity outside the Group. The subject of activities of this company was the production and sale of rust-proof, silver-plated and semi-silver-plated table settings. The sale of this company's shares was a result of advancement of the fund's strategy, which foresees among others the disposal, following restructurisation, of assets which are unrelated to the Group's core business.
Disposal of shares of the company Przedsiębiorstwo Budowlane Katowice S.A. in liquidation	In January 2016, the direct subsidiary BIPROMET S.A. disposed of all of the shares it held, i.e. 88% of the interest in share capital of the company Przedsiębiorstwo Budowlane Katowice S.A. in liquidation.
Acquisition of shares of the company NITROERG S.A.	In May 2016, KGHM Polska Miedź S.A. acquired from the State Treasury 2.12% of the shares of the company NITROERG S.A. which had not been acquired by entitled employees free of charge. This was in execution of obligations arising from a sales 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 the above, at the end of the first half of 2016 the interest held by KGHM Polska Miedź S.A. in the share capital of NITROERG S.A. increased to 87.12%.
Acquisition of Investment Certificates of the fund KGHM V FIZAN	In February 2016, KGHM Polska Miedź S.A. acquired Investment Certificates of the fund KGHM V FIZAN for the amount of PLN 0.4 million, to be used for the planned restructurisation of bank deposits.
Changes in the funds managed by KGHM TFI S.A. (a direct subsidiary)	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 the first half of 2016 the process of consolidating the fund's assets was carried out. With respect to preparations regarding this process and its execution: <ul style="list-style-type: none"> - the KGHM V FIZAN fund acquired from the company 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 (including 49% of the shares of the company Nano Carbon Sp. z o.o.), as a result of which these funds no longer hold any investments, - as a result of the lack of any investment plans for the KGHM III FIZAN fund, in June 2016 the General Shareholders Meeting resolved to dissolve the fund. The process of liquidation of the fund is in progress.
Acquisition of employees' shares in Group companies	In the first half of 2016, the acquisition of employees' shares continued in the following Group companies: <ul style="list-style-type: none"> - KGHM I FIZAN acquired employees' shares of spa companies: <ul style="list-style-type: none"> - Uzdrowisko Cieplice Sp. z o.o. – Grupa PGU: 0.12% of the shares were acquired (98.41% of the share capital is held), - Uzdrowisko Świeradów-Czerniawa Sp. z o.o. – Grupa PGU: 0.007% of the shares were acquired (98.96% of the share capital is held). - Metraco S.A. (a direct subsidiary) acquired employees' shares of the company CENTROZŁOM WROCŁAW S.A. representing 0.04% of the share capital (at the end of the period 99.9% of the share capital is held).

7.10. OTHER SIGNIFICANT EVENTS

Recommendation of the Management Board regarding the coverage of loss and dividend payout	On 17 May 2016 the Management Board of KGHM Polska Miedź S.A. adopted a resolution in which it resolved that it will recommend to the Ordinary General Meeting of KGHM Polska Miedź S.A. to cover the loss for financial year 2015 in the amount of PLN 2 788 million from the Parent Entity's reserve capital and to pay out a dividend in the amount of PLN 300 million (PLN 1.50 per share), from the Company's reserve capital in that part arising from profit.
Resolution of the Ordinary General Meeting of KGHM Polska Miedź S.A. on a dividend payout	On 28 June 2016 the Ordinary General Meeting of KGHM Polska Miedź S.A. adopted a resolution regarding the payout of a dividend in the amount of PLN 300 million, representing PLN 1.50 per share, from the reserve capital of KGHM Polska Miedź S.A. in that part arising from profit. On 28 June 2016 the Ordinary General Meeting of KGHM Polska Miedź S.A. set the dividend date (the date on which the right to dividend is set) as 15 July 2016 and the following dividend payment dates: 18 August 2016 – 1st instalment in the amount of PLN 150 million (PLN 0.75 per share) and 17 November 2016 – 2nd instalment in the amount of PLN 150 million (PLN 0.75 per share).
Information on the results of the conducted tests for impairment	On 8 February the Parent Entity announced in a regulatory filing that primary work related to testing for impairment of the carrying amount of assets in accordance with IAS 36 was completed. Detailed information on the impact of the conducted tests was provided in the aforementioned regulatory filing and in the annual report for 2015.
Information on the update of conducted tests for impairment	On 2 March 2016 the Parent Entity published a regulatory filing announcing that impairment tests performed on the carrying amount of assets in accordance with IAS 36, in reference to the regulatory filing dated 8 February 2016, were updated. Detailed information on the impact of the conducted tests was provided in the aforementioned regulatory filing and in the annual report for 2015.
Annex to the commercial contract with nkt cables group GmbH	On 11 March 2016 an annex to the contract dated 28 April 2014 was entered into between KGHM Polska Miedź S.A. and nkt cables group GmbH for the sale of copper wire rod – detailed information may be found in part 7.4 of this report.
Signing of an Annex to the loan agreement with the European Investment Bank	On 12 May 2016, KGHM Polska Miedź S.A. signed an 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. The Annex extends the loan's period of availability by 12 months. After signing the Annex, the loan's period of availability is 34 months long, counting from 1 August 2014, which is the date on which the loan agreement was signed. Other terms of the agreement have not materially changed.
Commercial contract with China Minmetals Corporation	On 20 June 2016 a framework contract was signed for the sale of copper cathodes in the years 2017-2021 – detailed information may be found in part 7.4 of this report.
Results of the Feasibility Study update on the Ajax project in Canada	On 13 January 2016 the Parent Entity announced in a regulatory filing that work on the updated Feasibility Study for the Ajax project, owned by the joint venture company KGHM Ajax Mining Inc., in which 80% of the shares are held by the KGHM INTERNATIONAL LTD. Group and 20% are held by Abacus Mining & Exploration had been completed. The aforementioned document describes the specific technical and economic conditions related to the construction and operation of the future copper, gold and silver mine in the vicinity of the town of Kamloops, in British Columbia in Canada.
Opening of proceedings to liquidate the fund KGHM III Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	On 28 June 2016 the General Shareholders Meeting of the closed end non-public investment fund KGHM III Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, resolved to liquidate the Fund. The Fund's liquidator is KGHM Towarzystwo Funduszy Inwestycyjnych S.A. with its registered head office in Wrocław. The process of liquidation is expected to be completed by 30 September 2016. On 29 June 2016, as a result of commencing the liquidation process, an application was submitted requesting a change in the entry in the Registry of Investments Funds maintained by the Regional Court in Warsaw, Section VII Civil Registrations.
Selection of the entity entitled to audit the financial statements	The Supervisory Board of KGHM Polska Miedź S.A., on 15 March 2016, acting in accordance with its rights arising from the Statutes of KGHM Polska Miedź Spółka Akcyjna, selected 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 Parent Entity for the years 2016-2018.

Changes in boards of the Parent Entity

Changes in the composition of the Supervisory Board of the Parent Entity	The Extraordinary General Meeting of KGHM Polska Miedź S.A., on 18 January 2016, dismissed the following persons from the composition of the Supervisory Board of KGHM Polska Miedź S.A.: Tomasz Cyran, Bogusław Fiedor, Andrzej Kidyba, Marcin Moryń, Jacek Poświata, Barbara Wertelecka-Kwater. At the same time, the Extraordinary General Meeting appointed the following persons to the composition of the Supervisory Board of KGHM Polska Miedź S.A.: Radosław Barszcz, Michał Czarnik, Cezary Godziuk, Dominik Hunek, Miłosz Stanisławski, Jarosław Witkowski.
Changes in the composition of the Management Board of the Parent Entity	The Supervisory Board of the Parent Entity, following its meeting on 3 February 2016, dismissed the following persons from the Management Board of KGHM Polska Miedź S.A.: President of the Management Board Herbert Wirth, First Vice President of the Management Board Jarosław Romanowski, Vice President of the Management Board Marcin Chmielewski, Vice President of the Management Board Jacek Kardela. Moreover, on 3 February 2016, the Supervisory Board of the Parent Entity appointed the following persons to the composition of Management Board of KGHM Polska Miedź S.A.: as President of the Management Board – Krzysztof Skóra, as Vice President of the Management Board (Development) – Mirosław Stanisław Biliński and as Vice President of the Management Board (Corporate Affairs) – Jacek Rawecki.

Changes in the composition of the Management Board of the Parent Entity	<p>The Supervisory Board of the Parent Entity, following its meeting on 23 February 2016, appointed Stefan Świątkowski to the composition of Management Board of KGHM Polska Miedź S.A. as a Vice President (Finance).</p> <p>In addition, the Supervisory Board changed the area of responsibility of Jacek Rawecki, who was appointed on 3 February 2016 as a Vice President of KGHM Polska Miedź S.A. (Corporate Affairs), from "Corporate Affairs" to "Supply Chain Management".</p>
Changes in the composition of the Management Board of the Parent Entity	<p>The Supervisory Board of the Parent Entity, following its meeting on 15 March 2016, dismissed Vice President of the Management Board Mirosław Laskowski from the composition of Management Board of KGHM Polska Miedź S.A. At the same time, the Supervisory Board appointed Piotr Walczak to the composition of Management Board of KGHM Polska Miedź S.A. as a Vice President of the Management Board (Production).</p>
Appointment of the function of First Vice President of the Management Board	<p>The Supervisory Board of KGHM Polska Miedź S.A. on 17 May 2016 appointed Jacek Rawecki, Vice President of the Management Board (Supply Chain Management), to the function of First Vice President of the Management Board.</p>
Delegation of two members of the Supervisory Board of KGHM Polska Miedź S.A. to independently carry out supervisory activities	<p>On 11 August 2016 the Supervisory Board of KGHM Polska Miedź S.A. adopted resolutions on the delegation of two members of the Supervisory Board of the Company: 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.</p> <p>The main goal of the actions undertaken by the Supervisory Board of the Company is to support the Management Board of KGHM Polska Miedź S.A. in its present work and to enhance oversight of the key international assets.</p> <p>It was decided that the period of independent supervision will be carried out from 12 August 2016 to 30 October 2016.</p>
Subsequent events after the reporting period	
Instalment drawn under the revolving syndicated credit facility	<p>On 11 July 2016, the Parent Entity drew an instalment under the revolving syndicated credit facility in the amount of USD 150 million to secure the financing of general corporate goals.</p>
Extension of loan maturities	<p>On 18 July 2016, the Parent Entity received confirmation that the maturity of the working capital facility in the amount of USD 100 million, which was granted by Bank Gospodarstwa Krajowego, was extended by 3 months. The maturity date falls on 4 November 2016.</p> <p>On 29 July 2016, the Parent Entity received confirmation that the maturity date of the bank loan in the amount of PLN 600 million, which was granted by Bank PEKAO S.A., was extended and falls on 8 August 2017.</p> <p>In July 2016, the Parent Entity used, for the second time, the option to extend the availability of the financing under the unsecured revolving credit facility agreement for the amount of USD 2 500 million, granted by an international syndicate of banks financing the Company, and received confirmation from these banks as to the extension of the availability of the credit facility by 12 months. The new maturity date falls on 9 July 2021. Other terms of the agreement did not change.</p>
Discontinuance of the Project to build a gas-steam block in „Elektrownia Blachownia Nowa” sp. z o.o.	<p>On 28 July 2016, KGHM Polska Miedź S.A., TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A. signed an agreement, in which they agreed to discontinue the project to build a gas-steam block in "Elektrownia Blachownia Nowa" sp. z o. o. and to terminate the Shareholders Agreement between KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A., resulting in the extinguishment of all obligations stipulated in the Shareholders Agreement and termination of all work stipulated in it, in particular those stipulated in the provisional schedule for the realisation of Project, as well as those in subsequent agreements and arrangements.</p>

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF PARENT ENTITY			
Data	First, Last name	Position /Function	Signature
17 August 2016	Krzysztof Skóra	President of the Management Board	
17 August 2016	Jacek Rawecki	First Vice President of the Management Board	
17 August 2016	Mirosław Biliński	Vice President of the Management Board	
17 August 2016	Stefan Świątkowski	Vice President of the Management Board	
17 August 2016	Piotr Walczak	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Data	First, Last name	Position /Function	Signature
17 August 2016	Łukasz Stelmach	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	