

**Report of the Supervisory Board of KGHM Polska Miedź S.A.
on the results of its evaluation of the financial statements
of KGHM Polska Miedź S.A. for financial year 2016, the consolidated financial statements of the
KGHM Polska Miedź S.A. Group for financial year 2016 and the Management Board's report on the
activities of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group for financial year 2016,
and on its evaluation of the proposal of the Management Board of KGHM Polska Miedź S.A. on
covering the loss for financial year 2016 and of a dividend payout.**

***(Approved by Resolution No. 17/IX/17 of the Supervisory Board of KGHM Polska Miedź S.A.
dated 11 May 2017)***

March 2017

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1. Introduction

In accordance with §20 sec. 2 points 1) and 3) of the Statutes of KGHM Polska Miedź S.A. and based on art. 382 §3 of the Commercial Partnerships and Companies Code, on 15 March 2017 the Supervisory Board of KGHM Polska Miedź S.A. carried out an evaluation of the financial statements of KGHM Polska Miedź S.A. for financial year 2016, the consolidated financial statements of the KGHM Polska Miedź S.A. Group for financial year 2016 and of the Management Board's report on the activities of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group in financial year 2016.

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

- the financial statements of KGHM Polska Miedź S.A. for financial year 2016;
- the consolidated financial statements of the KGHM Polska Miedź S.A. Group for financial year 2016;
- the Management Board's report on the activities of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group in financial year 2016;
- the auditor's opinion and report on its audit of the financial statements for 2016; and
- the auditor's opinion and report on its audit of the consolidated financial statements for 2016.

The auditing of the financial statements of the KGHM Polska Miedź S.A., compliant with national standards of auditing for the year ended 31 December 2016, was carried out by the Certified Auditor, Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered head office in Warsaw, which issued an opinion and report on the audit on 15 March 2017. The audit included a review of the documentation which formed the basis for the amounts and information presented in the financial statements (of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group) for financial year 2016, as well as an assessment of the propriety of the accounting principles and significant estimates approved and applied in the Company and the Group.

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

2. Evaluation of the financial statements for financial year 2016 (from 1 January to 31 December 2016)

The Supervisory Board reviewed and analysed the financial statements of KGHM Polska Miedź S.A. prepared in accordance with International Financial Reporting Standards, as adopted by the European Union for the year ended 31 December 2016, containing:

- the statement of profit or loss showing a loss for the period of PLN 4 085 million
- the statement of comprehensive income with a total negative comprehensive income of PLN 4 079 million
- the statement of cash flows showing an increase in net cash flow of PLN 293 million
- the statement of financial position showing total assets and total equity and liabilities of PLN 30 100 million
- the statement of changes in equity showing a decrease in equity of PLN 4 379 million
- explanatory notes to the financial statements.

2.1 Statement of profit or loss for the period from 1 January to 31 December 2016

In financial year 2016, the amounts of individual items of revenues and results were as follows:

1) sales revenue	PLN 15 112 million,
2) gross profit	PLN 3 482 million,
3) profit on sales	PLN 2 595 million,
4) loss before income tax	PLN 3 375 million,
5) loss for the period	PLN 4 085 million.

The loss for the period of PLN 4 085 million was set following obligatory deductions.

2.2 Statement of comprehensive income for the period from 1 January to 31 December 2016

The statement of comprehensive income for the year ended 31 December 2016 shows a total negative comprehensive income of PLN 4 079 million, resulting from:

1) loss for the period	PLN 4 085 million,
2) other comprehensive income which will be reclassified to profit or loss - measurement of financial instruments – net loss	PLN 93 million,
3) other comprehensive income which will not be reclassified to profit or loss – actuarial gains net of the tax effect	PLN 99 million.

2.3. Statement of cash flows for the period from 1 January to 31 December 2016

Cash and cash equivalents at the beginning of the year amounted to PLN 158 million.

Net cash flows in 2016 of PLN 293 million were as follows:

1) net cash generated by KGHM Polska Miedź S.A. from operating activities of	PLN 3 597 million,
2) net cash used by the KGHM Polska Miedź S.A. in investing activities of	PLN 3 490 million,
3) net cash generated by KGHM Polska Miedź S.A. from financing activities of	PLN 186 million.

The impact of exchange rates related to cash and cash equivalents for the period was an increase in cash and cash equivalents of PLN 31 million.

Cash and cash equivalents at the end of the reporting period amounted to PLN 482 million.

2.4 Statement of financial position as at 31 December 2016.

The statement of financial position prepared as at 31 December 2016 shows total assets and total equity and liabilities of PLN 30 100 million.

In terms of assets the above amount is comprised of:

1) non-current assets	PLN 25 594 million,
2) current assets	PLN 4 506 million.

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

1) equity	PLN 15 900 million,
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2)	non-current liabilities	PLN 9 245 million,
3)	current liabilities	PLN 4 955 million.

When compared to the situation as at 31 December 2015, the following changes occurred in the assets structure and in the sources of financing structure:

In assets:

- 1) non-current assets – a decrease by PLN 2 812 million, including:
 - an increase in property, plant and equipment and intangible assets by PLN 1 500 million, mainly due to expenditures on the Metallurgy Development Program, the Smelting Modernisation Program and the Program to Access the „Głogów Głęboki Przemysłowy” (Deep Głogów) Deposit,
 - a decrease in investments in subsidiaries in the amount of PLN 4 856 million, caused mainly by an impairment loss on the investment in Future 1 Sp. z o.o. in the amount of PLN 4 770 million,
 - a decrease in receivables due to loans granted in the amount of PLN 1 130 million, mainly due to an allowance for impairment of receivables due to loans granted to the KGHM International Ltd Group.
- 1) current assets – a decrease of PLN 208 million.

In equity and liabilities:

- 1) equity – a decrease of PLN 4 379 million,
- 2) non-current liabilities – an increase of PLN 1 489 million, including due to borrowings of PLN 1 699 million
- 3) current liabilities – a decrease of PLN 130 million.

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

2.5 Statement of changes in equity for the period from 1 January to 31 December 2016

The statement of changes in equity for the year ended 31 December 2016 shows a decrease in equity by PLN 4 379 million. Equity at the end of the reporting period amounts to PLN 15 900 million.

The data presented in the statement of changes in equity for the year ended 31 December 2016 are complete and factually compliant.

2.6 Summary

The Supervisory Board hereby finds that the financial statements of KGHM Polska Miedź S.A. for the year ended 31 December 2016 were prepared within the statutory deadline and in accordance with International Financial Reporting Standards as adopted by the European Union.

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

The propriety of the preparation of the financial statements of KGHM Polska Miedź S.A. for the year ended 31 December 2016, in terms of compliance with the accounts, documents and factual state, raise no reservations and is confirmed by the positive opinion of the certified auditor.

By confirming the compliance of the financial statements with the accounts and documents of the Company and with International Financial Reporting Standards and the factual state, the Supervisory Board evaluates them positively and recommends that the Ordinary General Meeting approve the presented financial statements of KGHM Polska Miedź S.A. for the year ended 31 December 2016.

3. Evaluation of the consolidated financial statements for financial year 2016 (from 1 January to 31 December 2016)

The Supervisory Board reviewed and analysed the consolidated financial statements of the KGHM Polska Miedź S.A. Group prepared in accordance with International Financial Reporting Standards, as adopted by the European Union for the year ended 31 December 2016, containing:

- the consolidated statement of profit or loss, showing a loss for the period of PLN 4 449 million
- the consolidated statement of comprehensive income with a total negative comprehensive income of: PLN 4 210 million
- the consolidated statement of cash flows, showing an increase in net cash and cash equivalents of PLN 397 million
- the consolidated statement of financial position, showing total assets and total equity and liabilities of PLN 33 442 million
- the consolidated statement of changes in equity, showing a decrease in equity of PLN 4 503 million
- explanatory notes to the consolidated financial statements.

3.1 Consolidated statement of profit or loss for the period from 1 January to 31 December 2016

In 2016, the amounts of individual items of consolidated revenues and results were as follows:

- | | |
|---------------------------|---------------------|
| 1) sales revenue | PLN 19 156 million, |
| 2) gross profit | PLN 3 914 million, |
| 3) profit on sales | PLN 2 544 million, |
| 4) loss before income tax | PLN 3 801 million, |
| 5) loss for the period | PLN 4 449 million. |

The loss for the period of PLN 4 449 million was set following obligatory deductions.

3.2 Consolidated statement of comprehensive income for the period from 1 January to 31 December 2016

The consolidated statement of comprehensive income for the year ended 31 December 2016 shows a total comprehensive loss of PLN 4 210 million.

- | | |
|---|--------------------------------------|
| 1) Loss for the period | PLN 4 449 million, |
| 2) Other comprehensive income which will be reclassified to profit or loss - net profit of including exchange rate differences from foreign subsidiaries' reports - a profit of | PLN 149 million,
PLN 268 million. |
| 3) Other comprehensive which will not be reclassified to profit or loss - actuarial gains net of the tax effect of | PLN 90 million. |

3.3 Consolidated statement of cash flows for the period from 1 January to 31 December 2016

Cash and cash equivalents at the beginning of the year amounted to PLN 461 million.

Net cash flows in 2016 of PLN 397 million were as follows:

- 1) net cash generated by the KGHM Polska Miedź S.A. Group from operating activities of PLN 4 212 million,
- 2) net cash used by the KGHM Polska Miedź S.A. Group in investing activities of PLN 3 948 million,
- 3) net cash generated by the KGHM Polska Miedź S.A. Group from financing activities of PLN 133 million.

The impact of exchange rates related to cash and cash equivalents for 2016 was an increase in cash and cash equivalents of PLN 2 million.

Cash and cash equivalents at the end of the reporting period amounted to PLN 860 million.

3.4 Consolidated statement of financial position as at 31 December 2016

The consolidated statement of financial position prepared as at 31 December 2016 shows total assets and total equity and liabilities of PLN 33 442 million.

In terms of assets the above amount is comprised of:

- | | |
|-----------------------|---------------------|
| 1) non-current assets | PLN 27 202 million, |
| 2) current assets | PLN 6 240 million. |

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

- | | |
|----------------------------|---------------------|
| 1) equity | PLN 15 911 million, |
| 2) non-current liabilities | PLN 11 655 million, |
| 3) current liabilities | PLN 5 866 million. |

When compared to the situation as at 31 December 2015, the following changes occurred in the assets structure and in the sources of financing structure:

In assets:

- 2) non-current assets – a decrease of PLN 3 246 million,
including mainly an allowance for impairment of receivables due to loans granted to joint ventures in the amount of PLN 4 394 million
- 3) current assets – a decrease of PLN 76 million.

In equity and liabilities:

- 1) equity – a decrease of PLN 4 503 million,
- 2) non-current liabilities – an increase of PLN 1 512 million,
including due to borrowings in the amount of PLN 1 681 million,
- 3) current liabilities – a decrease of PLN 331 million.

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

3.5 Consolidated statement of changes in equity for the period from 1 January to 31 December 2016

The consolidated statement of changes in equity for the year ended 31 December 2016 shows a decrease in equity of PLN 4 503 million. Equity at the end of the period amounted to PLN 15 911 million.

*Translation from the original Polish version. In the event of differences resulting from the translation,
reference should be made to the official Polish version.*

The data presented in the consolidated statement of changes in equity for the year ended 31 December 2016 are complete and factually compliant.

3.6 Summary

The Supervisory Board declares that the consolidated financial statements of the KGHM Polska Miedź S.A. Group for the year ended 31 December 2016 were prepared within the statutory deadline and in accordance with International Financial Reporting Standards as adopted by the European Union.

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

The propriety of the preparation of the consolidated financial statements of the KGHM Polska Miedź S.A. Group for the year ended 31 December 2016, in terms of compliance with the accounts, documents and factual state, raise no reservations and is confirmed by the positive opinion of the certified auditor.

By confirming the compliance of the consolidated financial statements with the accounts and documents of the KGHM Group and with International Financial Reporting Standards and the factual state, the Supervisory Board evaluates them positively and recommends that the Ordinary General Meeting approve the presented consolidated financial statements of the KGHM Polska Miedź S.A. Group for the year ended 31 December 2016.

4. Evaluation of the Management Board's report on the activities of the Group in financial year 2016

The Supervisory Board declares that the Management Board's Report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in financial year 2016 were prepared in accordance with the *Accounting Act dated 29 September 1994* and with the *Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of recognising information as equivalent as required by the laws of a non-member state (Journal of Laws from 2014, item 133, unified text)*.

The report in question gives a fair and clear view of the assets, economic and financial position, as well as of the development of the Company and the KGHM Polska Miedź S.A. Group. The completeness of the Management Board's report on the activities of the KGHM Polska Miedź S.A. Group in financial year 2016, and the correctness of the disclosed information, was confirmed by the certified auditor.

Consequently, the Supervisory Board positively evaluates the Management Board's report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in financial year 2016, and recommends its approval by the Ordinary General Meeting.

5. Evaluation of the proposal of the Management Board of KGHM Polska Miedź S.A. regarding covering the loss in financial year 2016 and of a dividend payout.

The Supervisory Board of KGHM Polska Miedź S.A. positively reviewed the proposal of the Management Board on covering the loss for financial year 2016 and of a dividend payout.

6. Declaration

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

- were prepared accurately, objectively and in accordance with the accounts and documents, as well as with the factual state,
- correctly and accurately reflect the results of the business activities for the year 2016 as well as the financial position and assets of the Company and the KGHM Group as at 31 December 2016, and
- are compliant with the laws regulating the preparation of financial statements in form and content, as well as with the International Financial Reporting Standards approved by the EU.

Based on the results of this evaluation and on the positive opinion of the Certified Auditor – Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered head office in Warsaw, issued on 15 March 2017, the Supervisory Board hereby recommends that the Ordinary General Meeting approve the following:

- the financial statements of KGHM Polska Miedź S.A. prepared as at 31 December 2016,
- the consolidated financial statements of the KGHM Polska Miedź S.A. Group prepared as at 31 December 2016, and
- the Management Board's Report on the activities of the KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group in financial year 2016,

Signatures of the members of the Supervisory Board

Michał Czarnik
Józef Czaczerski
Leszek Hajdacki
Dominik Hunek
Wojciech Andrzej Myślecki
Marek Pietrzak
Bogusław Szarek
Agnieszka Winnik - Kalemba
Jarosław Witkowski