

**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 2017**

March 2018

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

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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 13 March 2018 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 2017, the consolidated financial statements of the KGHM Polska Miedź S.A. Group for financial year 2017, the Management Board's report on the activities of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group in 2017 and the non-financial report of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group for 2017.

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 2017;
- the consolidated financial statements of the KGHM Polska Miedź S.A. Group for financial year 2017;
- the Management Board's report on the activities of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group in 2017;
- the non-financial report of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group for 2017;
- the independent auditor's opinion and report on its audit of the financial statements for 2017; and
- the independent auditor's opinion and report on its audit of the consolidated financial statements for 2017.

The auditing of the financial statements of the KGHM Polska Miedź S.A., compliant with the National Standards of Auditing for the year ended 31 December 2017, was carried out by the Certified Auditor, Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered head office in Warsaw, which issued a report on the audit dated 13 March 2018. 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 2017, as well as an assessment of the propriety of the accounting policies and significant estimates approved and applied in the Company and the KGHM Polska Miedź S.A. 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 2017 (from 1 January to 31 December 2017)

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 2017, containing:

- | | |
|--|--------------------|
| - the statement of profit or loss showing a profit for the period of | PLN 1 323 million |
| - the statement of comprehensive income with a total comprehensive income of | PLN 1 556 million |
| - the statement of cash flows showing a decrease in net cash flows of | PLN 224 million |
| - the statement of financial position showing total assets and total equity and liabilities of | PLN 30 947 million |
| - the statement of changes in equity showing an increase in equity of | PLN 1 356 million |
| - explanatory notes to the financial statements. | |

2.1 Statement of profit or loss for the period from 1 January to 31 December 2017

In financial year 2017, the amounts of individual items of revenues and results were as follows:

1) sales revenue	PLN 16 024 million,
2) gross profit	PLN 4 002 million,
3) profit on sales	PLN 3 125 million,
4) profit before income tax	PLN 2 154 million,
5) profit for the period	PLN 1 323 million.

The financial result - profit for the period of PLN 1 323 million was set following obligatory deductions.

2.2 Statement of comprehensive income for the period from 1 January to 31 December 2017

The statement of comprehensive income for the year ended 31 December 2017 shows a total comprehensive income of PLN 1 556 million, comprised of:

1) Profit for the period	PLN 1 323 million,
2) other comprehensive income which will be reclassified to profit or loss	
- measurement of financial instruments - net profit	PLN 338 million,
3) other comprehensive income which will not be reclassified to profit or loss	
- net actuarial losses	PLN 105 million.

2.3 Statement of cash flows for the period from 1 January to 31 December 2017

Cash and cash equivalents at the beginning of the year amounted to PLN 482 million.

Net cash flows in 2017 of minus PLN 224 million were as follows:

1) net cash generated by KGHM Polska Miedź S.A. from operating activities of	PLN 2 080 million,
2) net cash used by the KGHM Polska Miedź S.A. in investing activities of	PLN 2 512 million ,
3) net cash generated by KGHM Polska Miedź S.A. from financing activities of	PLN 208 million.

The exchange differences on cash and cash equivalents for the period influenced the decrease in cash of PLN 24 million.

Cash and cash equivalents at the end of the reporting period amounted to PLN 234 million.

2.4 Statement of financial position as at 31 December 2017

The statement of financial position prepared as at 31 December 2017 shows total assets and total equity and liabilities of PLN 30 947 million.

In terms of assets the above amount is comprised of:

1) non-current assets	PLN 25 071 million,
2) current assets	PLN 5 876 million.

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

1) equity	PLN 17 256 million,
2) non-current liabilities	PLN 9 052 million,
3) current liabilities	PLN 4 639 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 2017

The statement of changes in equity for the year ended 31 December 2017 shows an increase in equity by PLN 1 356 million. Equity at the end of the reporting period amounted to PLN 17 256 million.

The data presented in the statement of changes in equity for the year ended 31 December 2017 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 2017 were prepared within the statutory deadline and in accordance with International Financial Reporting Standards adopted by the European Union.

The financial statements of KGHM Polska Miedź S.A., pursuant to the report 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 2017, in terms of compliance with the accounts, documents and factual state, raise no reservations and is confirmed by the opinion of the certified auditor, representing an element of the report of the independent certified auditor from its audit of the financial statements for 2017.

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 2017.

3. Evaluation of the consolidated financial statements for financial year 2017 (from 1 January to 31 December 2017)

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 2017, containing:

- the consolidated statement of profit or loss, showing a profit for the period of PLN 1 525 million
- the consolidated statement of comprehensive income with a total comprehensive income of PLN 2 073 million
- the consolidated statement of cash flows, showing a decrease in net cash flows of PLN 268 million
- the consolidated statement of financial position, showing total assets and total equity and liabilities of PLN 34 122 million
- the consolidated statement of changes in equity, showing an increase in equity of PLN 1 874 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 2017

In 2017, the amounts of individual items of consolidated revenues and results were as follows:

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|----|--------------------------|---------------------|
| 1) | sales revenue | PLN 20 358 million, |
| 2) | gross profit | PLN 5 154 million, |
| 3) | profit on sales | PLN 3 811 million, |
| 4) | profit before income tax | PLN 2 299 million, |
| 5) | profit for the period | PLN 1 525 million. |

The financial result - profit for the period of PLN 1 525 million was set following obligatory deductions.

3.2 Consolidated statement of comprehensive income for the period from 1 January to 31 December 2017

The consolidated statement of comprehensive income for the year ended 31 December 2017 shows a total comprehensive income of PLN 2 073 million.

- | | | |
|----|--|--------------------------------------|
| 1) | Profit for the period | PLN 1 525 million, |
| 2) | Other comprehensive income which will be reclassified to profit or loss – net profit including: exchange differences from translation of foreign operations statements - a profit of | PLN 657 million,
PLN 316 million, |
| 3) | Other comprehensive which will not be reclassified to profit or loss – net actuarial losses of | PLN 109 million. |

3.3 Consolidated statement of cash flows for the period from 1 January to 31 December 2017

Cash and cash equivalents at the beginning of the year amounted to PLN 860 million.

Net cash flows in 2017 of minus PLN 268 million were as follows:

- 1) net cash generated by the KGHM Polska Miedź S.A. Group from operating activities of PLN 3 054 million,
- 2) net cash used by the KGHM Polska Miedź S.A. Group in investing activities of PLN 3 340 million,
- 3) net cash generated by the KGHM Polska Miedź S.A. Group from financing activities of PLN 18 million.

The exchange differences on cash and cash equivalents for the period influenced the decrease in cash of PLN 6 million.

Cash and cash equivalents at the end of the reporting period amounted to PLN 586 million.

3.4 Consolidated statement of financial position as at 31 December 2017

The consolidated statement of financial position prepared as at 31 December 2017 shows total assets and total equity and liabilities of PLN 34 122 million.

In terms of assets the above amount is comprised of:

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|-----------------------|---------------------|
| 1) non-current assets | PLN 26 515 million, |
| 2) current assets | PLN 7 607 million. |

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

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|----------------------------|---------------------|
| 1) equity | PLN 17 785 million, |
| 2) non-current liabilities | PLN 10 878 million, |
| 3) current liabilities | PLN 5 459 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 2017

The consolidated statement of changes in equity for the year ended 31 December 2017 shows an increase in equity of PLN 1 874 million. Equity at the end of the period amounted to PLN 17 785 million.

The data presented in the consolidated statement of changes in equity for the year ended 31 December 2017 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 2017 were prepared within the statutory deadline and in accordance with International Financial Reporting Standards adopted by the European Union.

The consolidated financial statements of the KGHM Polska Miedź S.A. Group, pursuant to the report 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 Polska Miedź S.A. 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 2017, in terms of compliance with the accounts, documents and factual state, raise no reservations and is confirmed by the opinion of the certified auditor, representing an

element of the report of the independent certified auditor from its audit of the consolidated financial statements for 2017.

By confirming the compliance of the consolidated financial statements with the accounts and documents of the KGHM Polska Miedź S.A. 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 2017.

4. Evaluation of the Management Board's report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2017 and of the non-financial report of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group.

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 2017 and the non-financial report of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group were prepared in accordance with the prevailing law - 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, with subsequent amendments)*.

The Management Board's Report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group 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 KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2017, 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 2017 and the non-financial report of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group, 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 the distribution of profit for financial year 2017

The Supervisory Board of KGHM Polska Miedź S.A. positively reviewed the proposal of the Management Board regarding the distribution of profit for financial year 2017 by transferring the total amount of profit earned to the Company's reserve capital.

6. Declaration

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

- 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 2017 as well as the financial position and assets of the Company and the Group as at 31 December 2017, 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 13 March 2018, 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 2017,

- the consolidated financial statements of the KGHM Polska Miedź S.A. Group prepared as at 31 December 2017,
- the Management Board's Report on the activities of the KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group in 2017, and
- the non-financial report of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group.