

**Report of the Supervisory Board of KGHM Polska Miedź S.A.  
on the results of its evaluation of the consolidated financial statements  
of the KGHM Polska Miedź S.A. Group for financial year 2015  
and the Management Board's report on the activities of the Group in  
financial year 2015**

*(Approved by Resolution No. 39/IX/16 of the Supervisory Board of KGHM Polska Miedź S.A.  
dated 17 May 2016)*

May, 2016

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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 2016 the Supervisory Board of KGHM Polska Miedź S.A. carried out an evaluation of the consolidated financial statements of the KGHM Polska Miedź S.A. Group for financial year 2015 and of the Management Board's report on the activities of the Group in financial year 2015.

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

- the consolidated financial statements of the KGHM Polska Miedź S.A. Group for financial year 2015;
- the Management Board's report on the activities of the KGHM Polska Miedź S.A. Group in financial year 2015;
- the auditor's opinion and report on its audit of the consolidated financial statements for 2015.

The auditing of the consolidated financial statements of the KGHM Polska Miedź S.A. Group compliant with national standards of auditing for the year ended 31 December 2015, was carried out by the Certified Auditor, PricewaterhouseCoopers Sp. z o.o. with its registered head office in Warsaw. The audit included a review of the documentation which formed the basis for the amounts and information presented in the consolidated financial statements of the KGHM Polska Miedź S.A. Group for financial year 2015, as well as an assessment of the propriety of the accounting principles and significant estimates approved and applied in the Group.

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

## **2. Evaluation of the consolidated financial statements for financial year 2015 (from 1 January to 31 December 2015)**

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 2015, containing:

- the consolidated statement of profit or loss showing a loss for the period of PLN 5 009 million
- the consolidated statement of comprehensive income showing a total comprehensive loss of PLN 4 323 million
- the consolidated statement of cash flows showing an increase in net cash and cash equivalents of PLN 121 million
- the consolidated statement of financial position showing total assets and total equity and liabilities of PLN 36 764 million
- the consolidated statement of changes in equity showing a decrease in equity of PLN 5 116 million
- explanatory notes to the consolidated financial statements.

### **2.1 Consolidated statement of profit or loss for the period from 1 January to 31 December 2015**

In 2015, the amounts of individual items of consolidated revenues and results were as follows:

- 1) sales revenue PLN 20 008 million,

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2)	gross profit	PLN 1 849 million,
3)	profit on sales	PLN 506 million,
4)	loss before income tax	PLN 5 122 million,
5)	loss for the period	PLN 5 009 million.

The loss for the period of PLN 5 009 million was set following obligatory deductions.

## **2.2 Consolidated statement of comprehensive income for the period from 1 January to 31 December 2015**

The consolidated statement of comprehensive income for the year ended 31 December 2015 shows a total comprehensive loss of PLN 4 323 million.

## **2.3 Consolidated statement of cash flows for the period from 1 January to 31 December 2015**

Cash and cash equivalents at the beginning of the year amounted to PLN 475 million.

Net cash flows in 2015 of PLN 121 million were as follows:

- 1) net cash generated by the KGHM Polska Miedź S.A. Group from operating activities of PLN 4 163 million,
- 2) net cash used by the KGHM Polska Miedź S.A. Group in investing activities of PLN 4 906 million,
- 3) net cash generated by the KGHM Polska Miedź S.A. Group from financing activities of PLN 864 million.

The impact of exchange rates related to cash and cash equivalents for 2015 was a decrease in cash and cash equivalents of PLN 135 million.

Cash and cash equivalents at the end of the reporting period amounted to PLN 461 million.

## **2.4 Consolidated statement of financial position as at 31 December 2015**

The consolidated statement of financial position prepared as at 31 December 2015 shows total assets and total equity and liabilities of PLN 36 764 million.

In terms of assets the above amount is comprised of:

- 1) non-current assets PLN 30 448 million,
- 2) current assets PLN 6 316 million.

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

- 1) equity PLN 20 414 million,
- 2) non-current liabilities PLN 10 153 million,
- 3) current liabilities PLN 6 197 million.

When compared to the situation as at 31 December 2014, the following changes occurred in the assets structure and in the sources of financing structure:

In assets:

- 1) non-current assets – a decrease of PLN 3 121 million,
- 2) current assets – a decrease of PLN 489 million.

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In equity and liabilities:

- 1) equity – a decrease of PLN 5 116 million,
- 2) non-current liabilities – an increase of PLN 861 million,
- 3) current liabilities – an increase of PLN 645 million.

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

## **2.5 Consolidated statement of changes in equity for the period from 1 January to 31 December 2015**

The consolidated statement of changes in equity for the year ended 31 December 2015 shows a decrease in equity of PLN 5 116 million. Equity at the end of the period amounted to PLN 20 414 million.

The data presented in the consolidated statement of changes in equity for the year ended 31 December 2015 are complete and factually compliant.

The Supervisory Board declares that the consolidated financial statements of the KGHM Polska Miedź S.A. Group for the year ended 31 December 2015 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 2015, 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 approves the presented consolidated financial statements of the KGHM Polska Miedź S.A. Group for the year ended 31 December 2015.

## **3. Evaluation of the Management Board's report on the activities of the Group in financial year 2015**

The Supervisory Board declares that the Management Board's Report on the activities of the KGHM Polska Miedź S.A. Group in financial year 2015 was 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 KGHM Group. The completeness of the Management Board's report on the activities of the KGHM Polska Miedź S.A. Group in financial year 2015, 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 the KGHM Polska Miedź S.A. Group in financial year 2015, and recommends its approval by the Ordinary General Meeting.

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#### **4. Summary**

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 2015 as well as the financial position and assets of the Group as at 31 December 2015, 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 – PricewaterhouseCoopers Sp. z o.o., issued on 15 March 2016, the Supervisory Board hereby recommends that the Ordinary General Meeting approve the consolidated financial statements of the KGHM Polska Miedź S.A. Group prepared as at 31 December 2015 and the Management Board's Report on the activities of the KGHM Polska Miedź S.A. Group in financial year 2015.