Annual report R 2015

(In accordance with § 82, section 1, point 3 of the Decree of the Minister of Finance dated 19 February 2009 – Journal of Laws No. 33, point 259, with subsequent amendments)

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

for the financial year **2015** comprising the period from **1 January 2015** to **31 December 2015** containing the financial statements according to International Financial Reporting Standards in PLN.

publication date: 17 March 2016

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

KGHM Polska Miedź S.A.
(name of issuer in brief)

Basic materials
(issuer branch title per the Warsaw Stock Exchange)

59 – 301
(postal code)

LUBIN
(city)

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(street)

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390021764
(REGON)

PricewaterhouseCoopers Sp. z o.o.
(entity entitled to audit financial statements)

SELECTED FINANCIAL DATA		in PLN mn		in EUR mn	
		2015	2014	2015	2014
I.	Sales revenue	15 939	16 633	3 809	3 970
II.	Profit on sales	3 284	3 513	785	839
III.	Profit/(loss) before income tax	(1 938)	3 362	(463)	803
IV.	Profit/(loss) for the period	(2 788)	2 414	(666)	576
V.	Other comprehensive income	(410)	(435)	(98)	(104)
VI.	Total comprehensive income	(3 198)	1 979	(764)	472
VII.	Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
VIII.	Earnings per ordinary share (in PLN/EUR)	(13.94)	12.07	(3.33)	2.88
IX.	Net cash generated from operating activities	3 279	4 000	784	955
X.	Net cash used in investing activities	(6 872)	(3 828)	(1 642)	(914)
XI.	Net cash generated from/(used) in financing activities	3 683	(222)	880	(53)
XII.	Total net cash flow	90	(50)	22	(12)
XIII.	Non-current assets	28 406	27 439	6 666	6 438
XIV.	Current assets	4 714	4 873	1 106	1 143
XV.	Total assets	33 120	32 312	7 772	7 581
XVI.	Non-current liabilities	7 756	4 195	1 821	984
XVII.	Current liabilities	5 085	3 840	1 193	901
XVIII.	Equity	20 279	24 277	4 758	5 696

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

	2015	2014
Average exchange rate for the period*	4.1848	4.1893
Exchange rate at the end of the period	4.2615	4.2623

**Exchange rates are the arithmetical average of the current average exchange rates announced by the National Bank of Poland on the last day of each month respectively of 2015 and 2014*

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.

ANNUAL REPORT R 2015 COMPRISES:

1. PRESIDENT'S LETTER

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

3. DECLARATION BY THE MANAGEMENT BOARD ON THE ACCURACY OF THE PREPARED FINANCIAL STATEMENTS

4. DECLARATION BY THE MANAGEMENT BOARD REGARDING THE ENTITY ENTITLED TO AUDIT FINANCIAL STATEMENTS

5. FINANCIAL STATEMENTS

6. THE MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES OF THE COMPANY

Lubin, March 2016

PRESIDENT'S LETTER

Lubin, March 2016

Dear Stakeholders,

I am pleased to present you with the annual report of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group for 2015.

The past year was a period of increasing challenges on the international commodities market. These challenges were largely due to falling commodities prices caused by unfavourable macroeconomic conditions. Also of significance was, among others, the economic slowdown in China and the record low oil prices. The average annual copper price on the London Metal Exchange (LME) amounted to 5 495 USD/t, or a nearly 20-percent decrease as compared to 2014. The average silver price according to the London Bullion Market Association (LBMA) decreased in 2015 by nearly 18 percent and amounted to 15.68 USD/ounce. The prices of the remaining commodities produced by the KGHM Group – such as gold, molybdenum and nickel – also ended the year 2015 at a substantially lower level than in 2014. For KGHM it was also of significance that during this same time the USD strengthened versus the PLN by almost 20%, which helped to mitigate the impact of the fall in the prices of our basic products.

Thanks to the increased production and despite such difficult macroeconomic conditions, the Group achieved revenues of over PLN 20 billion, which is comparable to the level achieved in the prior year The minerals extraction tax, which in 2015 amounted to over PLN 1.4 billion, continues to have a substantial impact on the Company's financial condition. During 2015 there was an increase in the production of copper equivalent, which nearly amounted to the level of 750 thousand tonnes, while C1 copper production costs decreased by 16%. In 2015 we paid shareholders a dividend of PLN 800 million, or PLN 4 per share.

The low commodities prices also impacted the carrying amount of our assets. In accordance with International Financial Reporting Standards, the carrying amounts of certain assets, which, for mining companies, fluctuate together with changes in commodities prices, must be periodically reviewed. Pursuant to this requirement, impairment tests were performed on the value of our investment in Sierra Gorda SCM in Chile, as well as on the mines in the Sudbury Basin in Canada, the Robinson mine in the USA and the Franke mine in Chile. As a result of these tests, total impairment losses were recognised in the consolidated financial statements for 2015 which, after accounting for the tax effect, amounted to USD 1 294 million (or PLN 5 048 million). Impairment tests were also performed on the domestic production assets, but these tests did not indicate the need to revise their value. A positive factor impacting the value of the Polish assets is the substantial weakening of the Polish zloty as compared to the American dollar. It is important to point out that during the recent period many other companies in the mining sector in Poland and abroad have also recognised similar impairment losses. These impairment losses are of a non-cash nature. Our response to macroeconomic forecasts is in conformance with the reaction of other world leaders in the non-ferrous metals sector as well as with market expectations.

Given the difficult market conditions in which the Company currently finds itself, the Management Board's objective is above all to preserve the Company's value over the long term to enable shareholders to achieve the expected rate of return on their investment. To achieve this goal, we are conducting a detailed review and analysis of our assumptions and investment plans for the Group in the short and medium terms. This will allow us to properly prioritise investments, and in turn steadily pursue the path of growth, while maintaining operational profitability. We will advance key investments, while the schedules and budgets of individual projects will be even better adapted to market conditions. Our ultimate goal is to increase our cost competitiveness, develop modern technological solutions and optimise management of our projects pipeline.

In response to the challenges arising from the current market situation, we have also adopted new, more stringent macroeconomic assumptions, in particular as regards the price of copper over the next four years. This is further evidence of our continuing dialogue with the market. At the same time – to meet shareholder expectations – we are striving to further reduce costs in our assets. All of this demonstrates that we are well prepared for hard times. The Group's financial condition is stable, based on predictable levels of production, cost discipline and more rational investment expenditures. This allows us to simultaneously enhance efficiency and continue moving to a more competitive position on the cost curve. The current recession on the commodities market is a substantial challenge requiring significant efforts to further enhance our Company's efficiency and competitiveness, but it also presents the opportunity to strengthen our fundamentals to prepare for and take advantage of the next upturn in the economic cycle. We want to come out of this period stronger than ever before, achieving a permanent competitive advantage.

Dear Stakeholders,

I want to thank all of the KGHM Group's employees for their commitment and hard work in building the Company's value in 2015 – a year full of challenges. I would also like to thank our shareholders for the trust they extended to KGHM in 2015. I wish to extend my special thanks to our customers for choosing KGHM as a supplier and for their many years of cooperation.

I am counting on the same level of cooperation in 2016 and subsequent years.

President of the Management Board

Krzysztof Skóra

Lubin, 15 March 2016

AUDITOR'S OPINION AND REPORT ON ITS AUDIT OF THE FINANCIAL STATEMENTS FOR 2015

Lubin, March 2016

Independent Registered Auditor's Opinion
to the Shareholders' Meeting and the Supervisory Board
of KGHM Polska Miedź Spółka Akcyjna

Opinion on the financial statements

We have audited the accompanying financial statements of KGHM Polska Miedź S.A. (hereinafter called "the Company"), Marii Sklodowskiej-Curie 48 Street, Lubin, which comprise the statement of profit or loss for the year from 1 January to 31 December 2015, the statement of comprehensive income, the statement of cash flows for the financial year, the statement of financial position as at 31 December 2015, the statement of changes in equity for financial year from 1 January to 31 December 2015 and other explanatory notes including regulatory financial information containing disclosure defined by regulations of article 44 of the Act on Energy Law of 10 April 1997 ("Energy Law" - " – Journal of Laws of 2012, item 1059 as amended).

The Company's Management Board and Supervisory Board's responsibility

The Company's Management Board is responsible for preparing the financial statements and the Management Board's Report on the activities of the Company, and for the correctness of the accounting records comply with the requirements of the Accounting Act of 29 September 1994 ("the Accounting Act" – Journal of Laws of 2013, item 330 as amended). The Company's Management Board is also responsible for internal controls as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Members of the Management Board and Members of the Supervisory Board of the Company are obliged to ensure that the financial statements and the Management Board's Report on the activities of the Company meet the requirements of the Accounting Act.

Auditor's Responsibility

Our responsibility was to perform an audit of the accompanying financial statements and to express an opinion and the report on whether the financial statements present, in all material respects, a true and fair view of the Company's financial position and its financial results, in accordance with the applicable regulations and adopted accounting policies, and whether the accounting records constituting the basis for their preparation are properly maintained and also if the disclosures presented by Company fulfill requirements of article 44 of the Act on Energy Law.

We conducted our audit in accordance with section 7 of the Accounting Act and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Audit and Assurance. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Independent Registered Auditor's Opinion
to the Shareholders' Meeting and the Supervisory Board
of KGHM Polska Miedź Spółka Akcyjna (cont.)

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

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

Opinion

In our opinion, the accompanying financial statements in all material respects:

a. give a true and fair view of the Company's financial position as at 31 December 2015 and its financial performance and its cash flows for the year from 1 January to 31 December 2015, in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and the adopted accounting policies;

b. comply in terms of form and content with the applicable laws, including of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions of recognizing as equal information required by the law of other state, which is not a member state ("*the Decree*" – Journal of Laws of 2014, item 133) and the Company's Memorandum of Association;

c. have been prepared on the basis of properly maintained books of account.

Report on Other Legal and Regulatory Requirements

Opinion on fulfilling requiraments of article 44 of Energy Law

In our opinion, Company's regulatory financial information included in explanatory note no. 12.12 of the financial statement presented the statements of financial position as at 31 December 2015 and statement of profit and loss for financial year from 1 January to 31

Translation note:
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December 2015, separately for each performed activity, in all essential aspects, in accordance with the requirements of article 44 of the Act on Energy Law.

The scope of regulatory financial information is determined by regulations of article 44 of Energy Law. Our audit did not include assessment,whether the information required to be disclosure under that act are sufficient to provide equal treatment of recivers and eliminating cross subsidy between activities.

Opinion on the Management Board's Report on the activities of the Company

The information contained in the Management Board's Report on the activities of the Company for the period from 1 January to 31 December 2015 accommodates the requirements of article 49 paragraph 2 of the Accounting Act and The Decree and are consistent with the information contained in audited financial statements.

Based on the knowledge of the Company and its enviroment obtained during our audit we have not identified any material misstatements in the Management Board's Report on the activities of the Company.

In the Statement of Corporate Governance, which is a separate part of the Management Board's Report on the activities of the Company, the Company included information in accordance with the scope defined in the Decree. This information complies with the applicable regulations and is consistent with the information contained in the financial statements.

Auditor conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Marta Ratajczyk

Key Registered Auditor
No. 13125

Wrocław, 15 March 2016

Registered auditor's report on the audit of the financial statements for the year from 1 January to 31 December 2015 to the Shareholders' Meeting and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna

This report contains 11 consecutively numbered pages and consists of:

Page:

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I. General information about the Company

a. KGHM Polska Miedź Spółka Akcyjna („The Company") was founded as a result of transformation of a state-owned enterprise, Kombinat Górniczo-Hutniczy Miedzi on the basis of art. 5 of the Act dated 13 July 1990 concerning the privatisation of state-owned enterprises (*Journal of Laws* No. 51, item 298, with subsequent amendments). The Notarial Deed was drawn up on 9 September 1991 at the Notary public's Office No. 18 in Warsaw and registered with Rep. no. 8648/91. On 29 June 2001 the District Court Register decided to enter the Company in the Commercial Register with the reference number KRS 0000023302.

b. The Company has its seat in Lubin, Marii Skłodowskiej-Curie 48 street.

c. During the year the Company operated on the basis of a concession granted by the Minister of the Environmental Protection, Natural Resources and Forestry.

d. On 14 June 1993 The Company was assigned a tax identification number (NIP) 692-000-00-13 for the purpose of making tax settlements and on 13 August 2003 a REGON number 390021764 for statistical purposes.

e. As at 31 December 2015 and the date of signing of this Report the Company's share capital amounted to PLN 2.000 million and consisted of 200.000.000 shares, with a nominal value of PLN 10,00 each. Total equity as at 31 December 2015 was positive and amounted to 20.279 million PLN.

f. As at 31 December 2015 and the date of signing of this Report, the Company's shareholders were:

Shareholder's name	Number of shares held	Par value of shares held (PLN)	Type of shares held	Votes (%)
The Polish State Tresury	63.589.900	635.899.000	ordinary	31.79
Other shareholders	136.410.100	1.364.101.000	ordinary	68.21
	200.000.000	**2.000.000.000**		**100.00**

g. During the year the Company's operations mainly comprised:

- copper ore and non-ferrous metals mining,
- production of copper, non-ferrous metals, precious metals and extraction of salts,
- casting of light metals and non-ferrous metals,
- waste management,
- wholesale trading on the basis of direct payment or contract,
- geological and exploratory activities, research and technical analyses.

I. General information about the Company (cont.)

h. During the year the Management Board of the Company comprised:

- Herbert Wirth President;
- Jarosław Romanowski I Vice President (Finance);
- Jacek Kardela Vice President (Development);
- Marcin Chmielewski Vice President (Corporate);
- Wojciech Kędzia Vice President (Production) till 31 January 2015;
- Mirosław Laskowski Vice President (Production) since 1 February 2015.

On 3 February 2016 Supervisory Board dismissed from possition of President and Vice Presidents respectively: Herbert Wirth, Jarosław Romanowski, Marcin Chmielewski and Jacek Kardela. Supervisory Board appointed Krzysztof Skóra as a President of Management Board and Jacek Rawecki, Mirosław Biliński as Vice Presidents of Management Board. On 23 February Supervisory Board appointed Stefan Świątkowski as Vice President of Management Board. Since 23 February 2016 and as at the day of signing this Report Management Board of the Company comprised:

- Krzysztof Skóra President;
- Mirosław Biliński Vice President (Development);
- Mirosław Laskowski Vice President (Production);
- Jacek Rawecki Vice President (Supply Chain Management);
- Stefan Świątkowski Vice President (Finance).

i. The Company has the following related entities:

- The Polish State Treasury (an entity with significant influence in accordance with IFRS 28) and its subsidiaries,
- entities incorporated into the capital group of KGHM Polska Miedź S.A in which the Company is the parent entity together with their associates,
- members of the key management personnel of the Company.

Transactions with related parties have been described in explanatory note 12.1 to the financial statements.

j. The Company is the issuer of securities admitted for trading on the Warsaw Stock Exchange. In accordance with the choice of selecting accounting policies permitted by the Accounting Act since 2007, the Company has decided to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union .

I. General information about the Company (cont.)

The decision to prepare the Company's financial statements in accordance with these standards was made by the Shareholders' Meeting in their Resolution No. 26/2006 passed on June 14th 2006.

k. As the parent company of the KGHM Polska Miedź S.A. Group, the Company has also prepared consolidated financial statements according to IFRS as at March 15th 2016. To better understand the Company's financial position and its results of operations as the Parent Company, the financial statements should be read in conjunction with the consolidated financial statements.

II. Information about the audit

a. The audit of the financial statements for the year from 1 January to 31 December 2015 was conducted by PricewaterhouseCoopers Sp. z o.o. with its seat in Warsaw, Al. Armii Ludowej 14, registered audit company no. 144. The audit was conducted on behalf of the registered audit company under the supervision of the key registered auditor Marta Ratajczyk (no. 13125).

b. PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Company by Resolution No. 17/VIII/2013 of the the Supervisory Board dated 27th March 2013 in accordance with paragraph 20, point 2 of the Company's Articles of Association.

c. PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the audited entity within the meaning of art. 56, clauses 2-4 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (Journal of Laws 2015, item 1011).

The audit was conducted in accordance with an agreement dated 4 April 2013, in the following periods:

- interim audit from 2 November to 10 November 2015;
- final audit from 19 January to 15 March 2016.

III. The Company's results, financial position and significant items of financial statements

STATEMENT OF FINANCIAL POSITION
as at 31 December 2015 (selected lines)

	31.12.2015 PLN million	31.12.2014 PLN million	Change PLN million	Change (%)	Structure 31.12.2015 (%)	Structure 31.12.2014 (%)
ASSETS						
Non-current assets	28.406	27.439	967	3.5	85.8	84.9
Current assets	4.714	4.873	(159)	(3.3)	14.2	15.1
Total assets	**33.120**	**32.312**	**808**	**2.5**	**100.0**	**100.0**
LIABILITIES AND EQUITY						
Equity	20.279	24.277	(3.998)	(16.5)	61.2	75.1
Long-term liabilities	7.756	4.195	3.561	84.9	23.4	13.0
Short-term liabilities	5.085	3.840	1.245	32.4	15.	11.9
Total liabilities and equity	**33.120**	**32.312**	**808**	**2.5**	**100.0**	**100.0**

STATEMENT OF PROFIT OR LOSS
for the year from 1 January to 31 December 2015 (selected lines)

	2015 PLN million	2014 PLN million	Change PLN million	Change (%)	(%) of revenue 2015 (%)	(%) of revenue 2014 (%)
Revenue	15.939	16.633	(694)	(4.2)	100.0	100.0
Cost of sales	(11.809)	(12.265)	456	(3.7)	(74.1)	(73.7)
Gross profit on sales	**4.130**	**4.368**	**(238)**	**(5.4)**	**25.9**	**26.3**
(Loss) / Net profit	**(2.788)**	**2 414**	**(5.202)**	**>(100.0)**	**(17.5)**	**14.5**

STATEMENT OF COMPREHENSIVE INCOME
for the year from 1 January to 31 December 2015 (selected lines)

	2015 PLN million	2014 PLN million	Change PLN million	Change (%)	(%) of revenue 2015 (%)	(%) of revenue 2014 (%)
(Loss) / Net profit	**(2.788)**	**2.414**	**(5.202)**	**>(100.0)**	**(17.5)**	**14.5**
Other net comprehensive income	(410)	(435)	25	(5.7)	(2.6)	(2.6)
Total net comprehensive income	**(3.198)**	**1.979**	**(5.177)**	**>(100.0)**	**(20.1)**	**11.9**

III. The Company's results, financial position and significant items of financial statements (cont.)

Selected ratios characterising the Company's financial position and results

The following ratios characterise the Company's operating activities, financial results during the year and its financial position as at the balance sheet date compared with previous years:

	2015	**2014**	**2013**
Asset ratios			
- receivables turnover	22 days	27 days	22 days
- inventory turnover	76 days	71 days	103 days
Profitability ratios			
- net profit/(loss) margin	(17)%	15%	16%
- gross margin	21%	21%	25%
- return on capital employed	(13)%	10%	14%
Liability ratios			
- gearing	39%	25%	20%
- payables turnover	30 days	29 days	34 days

	31.12.2015	**31.12.2014**	**31.12.2013**
Liquidity ratios			
- current ratio	0,9	1,3	1,5
- quick ratio	0,4	0,7	0,8

The above ratios have been calculated on the basis of the financial statements.

It was not the purpose of the audit to present the Company in the context of the results of operations and ratios achieved. A detailed interpretation of the ratios requires an in-depth analysis of the Company's operations and its circumstances.

III. The Company's results, financial position and significant items of financial statements (cont.)

The financial statements do not take into account the effects of deflation. The consumer price index (on a December to December basis) amounted to -0,5% in the audited year (inflation of -1,0% in 2014).

The following comments are based on information obtained during the audit of the financial statements.

- At the end of the financial year, the Company's total assets amounted to PLN 33.120 million. During the year total assets increased by PLN 808 million (i.e. by 2,5%). This increase was mainly financed by an increase in borrowings of PLN 4.714 million in comparison with previous financial year the net loss amounted to PLN 2.788 million. In audit year, the Company paid out dividend of PLN 800 million.

- Investments in subsidiaries and affiliates as at 31 December 2015 amounted to PLN 6.858 milion and decreased by PLN 4.920 million (i.e. 41.8%) compared to previous year. The main cause of change was booking of impairment loss of investments in subsidiary Fermat 1 S.a.r.l. (Holding company with shares in KGHM International Ltd. and KGHM Ajax Mining Inc.).

- Balance of long-term financial instruments as at 31 December 2015 amounted to PLN 7.737 millionand consisted mainly of loans in the amount of PLN 6.750 million. The increase in the value of financial instruments compared with the previous year by PLN 4.308 million resulted mainly from loans granted during financial year to Group`s companies in amount of PLN 4.245 million, including the refinancing of KGHM International Ltd's debt.

- The Company's liability ratios and the debt structure have changed. The debt ratio increased from 25% at the end of the previous year to 39% at the end of the current year, mostly due to increase of debt liabilities caused by refinancing of KGHM International Ltd's liabilities. The payables turnover ratio increased from 29 days to 30 days.

- Revenue amounted to PLN 15.939 million and decreased by PLN 694 mln. (4,2%) when compared to the previous year. The Company's core activities in the current financial year consisted of production and sale of copper, precious metals and smelter by-products. The main factor for the decrease of revenue was average price of copper and silver which as compared to 2014 decreased respectively by 20% and 18%, while the average exchange rate of US Dollar increase compared with the prior year by 19,5%.

- The operating expenses (the sum of the cost of goods and materials sold, the selling expenses and the administrative expenses) decreased by PLN 465 million (by 3,5%) as compared to 2014. The main factor for the decrease of operating expenses was reduction of purchase costs of external batch and lower charge from extraction tax compared to previous year.

III. The Company's results, financial position and significant items of financial statements (cont.)

- Profitability of revenue measured with gross profit amounted to 21% has not changed as compared to previous year. Decrease of profitability measured by net profit from 15% in previous year to (17%) in current year was mainly due to the recognition of impairment loss of investemts in subsidiaries.

- The Company's liquidity has changed. In the audited year, the current and quick ratios, which amounted to 0,9 (2014 : 1,3) and 0,4 (2014 : 0,7) respectively, decreased mainly due to higher amount of interest- bearing loans and borrowings compared with the previous year.

IV. The independent registered auditor's statement

a. The Management Board of the Company provided all the information, explanations, and representations requested in the course of the audit and provided a representation letter confirming the completeness of the data included in the accounting records and the disclosure of all contingent liabilities and post balance-sheet events which occurred up to the date on which that letter was signed.

b. The scope of the audit was not limited.

c. The financial statements of the Company for the year from 1 January to 31 December 2014 were approved by Resolution No. 5/2015 passed by the General Shareholders' Meeting on 29 April 2015 and filed with the National Court Register on 8 May 2015.

d. We have assessed the operation of the accounting system. Our assessment covered in particular:
   - the accuracy of the documentation relating to business transactions;
   - the fairness, accuracy and verifiability of the books of account, including computerised books of account;
   - the methods used for controlling access to data and the computerised data processing system;
   - the safeguarding of the accounting documentation, books of account, and financial statements.

   This assessment, together with our verification of individual items of the financial statements, provides the basis for expressing an overall and comprehensive opinion on these financial statements. The audit was not intended to provide a comprehensive opinion on the operations of the said system.

e. The notes to the financial statements present all significant information required by IFRS as adopted by the European Union.

f. The information in the the Management Board's Report on the activities of the Company for the period from 1 January to 31 December 2015 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws of 2014, item 133) and is consistent with that presented in the financial statements.

V. Final information

This report has been prepared in connection with our audit of the financial statements of KGHM Polska Miedź Spółka Akcyjna, Marii Skłodowskiej-Curie 48 Street, Lubin. The financial statements were signed by the Company's Management Board and the person entrusted with maintaining the books of account on 15 March 2016.

This report should be read in conjunction with the Independent Registered Auditor's unqualified Opinion to the Shareholders' Meeting and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna dated 15 March 2016, concerning the said financial statements. The opinion on the financial statements expresses a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the financial statements as a whole.

Person conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Marta Ratajczyk

Key Registered Auditor
No. 13125

Wrocław, 15 March 2016

DECLARATION BY THE MANAGEMENT BOARD
ON THE ACCURACY OF THE PREPARED FINANCIAL STATEMENTS

Lubin, March 2016

DECLARATION BY THE MANAGEMENT BOARD ON THE ACCURACY OF THE PREPARED ANNUAL FINANCIAL STATEMENTS

According to our best judgement the annual financial statements for 2015 and the comparative data have been prepared in accordance with accounting principles currently in force, and give a true, fair and clear view of the financial position of KGHM Polska Miedź S.A. and the loss for the period of the Company. The annual report on the Company's activities for 2015 presents a true picture of the development and achievements, as well as the condition, of KGHM Polska Miedź S.A., including a description of the basic exposures and risks.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last Name**	**Position / Function**	**Signature**
15 March 2016	Krzysztof Skóra	President of the Management Board	
15 March 2016	Mirosław Biliński	Vice President of the Management Board	
15 March 2016	Mirosław Laskowski	Vice President of the Management Board	
15 March 2016	Jacek Rawecki	Vice President of the Management Board	
15 March 2016	Stefan Świątkowski	Vice President of the Management Board	

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

DECLARATION BY THE MANAGEMENT BOARD REGARDING THE ENTITY ENTITLED TO AUDIT FINANCIAL STATEMENTS

Lubin, March 2016

DECLARATION BY THE MANAGEMENT BOARD REGARDING THE ENTITY ENTITLED TO AUDIT FINANCIAL STATEMENTS

The entity entitled to audit financial statements, and which has audited the annual financial statements for 2015, was selected in compliance with legal provisions. This entity, as well as the certified auditors who have carried out this audit, have met the conditions for issuing an impartial and independent audit opinion, in compliance with appropriate legal provisions and professional standards.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last Name**	**Position / Function**	**Signature**
15 March 2016	Krzysztof Skóra	President of the Management Board	
15 March 2016	Mirosław Biliński	Vice President of the Management Board	
15 March 2016	Mirosław Laskowski	Vice President of the Management Board	
15 March 2016	Jacek Rawecki	Vice President of the Management Board	
15 March 2016	Stefan Świątkowski	Vice President of the Management Board	

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

FINANCIAL STATEMENTS FOR 2015

Lubin, March 2016

FINANCIAL STATEMENTS

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STATEMENT OF PROFIT OR LOSS

		2015	2014
Part 2	Sales revenue	15 939	16 633
Note 4.1	Cost of sales	(11 809)	(12 265)
	Gross profit	**4 130**	**4 368**
Note 4.1	Selling costs and administrative expenses	(846)	(855)
	Profit on sales	**3 284**	**3 513**
Note 4.2	Other operating income and costs	(5 064)	32
Note 4.3	Finance costs	(158)	(183)
	Profit/(loss) before income tax	**(1 938)**	**3 362**
Note 5.1	Income tax expense	(850)	(948)
	PROFIT/(LOSS) FOR THE PERIOD	**(2 788)**	**2 414**
	Weighted average number of ordinary shares (million)	**200**	**200**
	Basic/diluted earnings per share (in PLN)	**(13.94)**	**12.07**

STATEMENT OF COMPREHENSIVE INCOME

		2015	2014
Note 8.2.2	**Profit/(loss) for the period**	**(2 788)**	**2 414**
Note 8.2.2	Measurement of hedging instruments net of the tax effect	(362)	(247)
	Measurement of available-for-sale financial assets net of the tax effect	(107)	101
	Other comprehensive income, which will be reclassified to profit or loss	**(469)**	**(146)**
Note 8.2.2	Actuarial gains /(losses) net of the tax effect	59	(289)
	Other comprehensive income, which will not be reclassified to profit or loss	**59**	**(289)**
	Total other comprehensive net income	**(410)**	**(435)**
	TOTAL COMPREHENSIVE INCOME	**(3 198)**	**1 979**

amounts in PLN millions, unless otherwise stated

STATEMENT OF CASH FLOWS

		2015	2014
	Cash flow from operating activities		
	Profit/(Loss) before income tax	(1 938)	3 362
	Depreciation/amortisation recognised in profit or loss	875	818
	Interest and commissions on borrowings	85	29
Part 3	Impairment loss recognised/reversal of impairment loss on non-current assets	5 272	32
Note 12.9	Other adjustments to profit before income tax	(430)	390
	Exclusions of incomes and costs, total	5 802	1 269
Note 5.1	Income tax paid	(880)	(853)
Note 10.4	Changes in working capital	295	222
	Net cash generated from operating activities	**3 279**	**4 000**
	Cash flow from investing activities		
	Proceeds	50	65
Note 9.1.2	Expenditures on mining and metallurgical assets	(2 442)	(2 179)
	Expenditures on other property, plant and equipment and intangible assets	(39)	(24)
Note 6.2	Loans granted	(4 245)	(1 597)
	Other expenses	(196)	(93)
	Total expenses	(6 922)	(3 893)
	Net cash used in investing activities	**(6 872)**	**(3 828)**
	Cash flow from financing activities		
Note 8.4.2	Proceeds from borrowings	4 956	1 974
Note 8.4.2	Repayments of borrowings	(375)	(1 135)
Note 12.2	Dividends paid	(800)	(1 000)
	Interest paid	(75)	(21)
	Other expenses	(23)	(40)
	Total expenses	(1 273)	(2 196)
	Net cash generated from/(used in) financing activities	**3 683**	**(222)**
	TOTAL NET CASH FLOW	**90**	**(50)**
	Cash and cash equivalents at beginning of the period	85	123
	Exchange gains/(losses) on cash and cash equivalents	(17)	12
Note 8.5	**Cash and cash equivalents at end of the period**	**158**	**85**

amounts in PLN millions, unless otherwise stated

STATEMENT OF FINANCIAL POSITION

		2015	2014
	ASSETS		
	Mining and metallurgical property, plant and equipment	12 845	11 335
	Mining and metallurgical intangible assets	541	490
Note 9.1	Mining and metallurgical property, plant and equipment and intangible assets	13 386	11 825
	Other property, plant and equipment	233	227
	Other intangible assets	24	21
Note 9.2	Other property, plant and equipment and intangible assets	257	248
Note 6.1	Investments in subsidiaries	6 858	11 778
Note 6.2	Loans granted	6 750	2 042
Note 7.2	Derivatives	117	190
Note 7.3	Other financial instruments measured at fair value	579	931
Note 7.4	Other financial assets	291	266
	Financial instruments, total	7 737	3 429
	Other non-financial assets	27	48
Note 5.1.1	Deferred tax assets	141	111
	Non-current assets	**28 406**	**27 439**
Note 10.1	Inventories	2 601	2 377
Note 10.2	Trade receivables	1 000	1 407
Note 5.3	Tax assets	412	312
Note 7.2	Derivatives	6	267
Note 12.3	Other assets	537	425
Note 8.5	Cash and cash equivalents	158	85
	Current assets	**4 714**	**4 873**
		33 120	**32 312**
	EQUITY AND LIABILITIES		
Note 8.2.1	Share capital	2 000	2 000
Note 8.2.2	Other reserves from measurement of financial instruments	(103)	366
Note 8.2.2	Accumulated other comprehensive income	(342)	(401)
Note 8.2.2	Retained earnings	18 724	22 312
	Equity	**20 279**	**24 277**
Note 8.4.1	Borrowings	4 724	1 052
Note 7.2	Derivatives	158	122
Note 11.1	Employee benefits liabilities	1 803	1 842
Note 9.4	Provisions for decommissioning costs of mines and other facilities	873	992
Note 12.4	Other liabilities	198	187
	Non-current liabilities	7 756	4 195
Note 8.4.1	Borrowings	2 098	1 056
Note 7.2	Derivatives	48	36
Note 10.3	Trade payables	1 318	1 109
Note 11.1	Employee benefits liabilities	577	584
Note 5.3	Tax liabilities	450	522
Note 12.4	Other liabilities	594	533
	Current liabilities	5 085	3 840
	Non-current and current liabilities	**12 841**	**8 035**
		33 120	**32 312**

amounts in PLN millions, unless otherwise stated

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 2014	**2 000**	**512**	**(112)**	**20 898**	**23 298**
Note 12.2	Dividends	-	-	-	(1 000)	**(1 000)**
	Profit for the period	-	-	-	2 414	**2 414**
Note 8.2.2	Other comprehensive income	-	(146)	(289)	-	**(435)**
	Total comprehensive income	-	(146)	(289)	2 414	**1 979**
	As at 31 December 2014	**2 000**	**366**	**(401)**	**22 312**	**24 277**
	Dividends	-	-	-	(800)	**(800)**
	Loss for the period	-	-	-	(2 788)	**(2 788)**
Note 8.2.2	Other comprehensive income	-	(469)	59	-	**(410)**
	Total comprehensive income	-	(469)	59	(2 788)	**(3 198)**
	As at 31 December 2015	**2 000**	**(103)**	**(342)**	**18 724**	**20 279**

amounts in PLN millions, unless otherwise stated

Part 1 – General information

Note 1.1 Corporate information

KGHM Polska Miedź S.A. ("the Company") 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 Company's principal activities include:
- the mining of copper and non-ferrous metals ores; and
- the production of copper, precious and non-ferrous metals.

In addition, the Company conducts other activities, which are described in the Management Board's report on the activities of the Company (Section 1).

KGHM Polska Miedź S.A. carries out copper mining activities based on concessions given for specific mine deposits, and also based on mining usufruct agreements and mine operating plans.

The financial statements were authorised for issue and signed by the Management Board of the Company on 15 March 2016.

Note 1.2 Basis of preparation

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

The accounting policies of the Company, described in subsequent notes, were applied in a continuous manner to all presented periods. The accounting policies and important estimates and judgements for significant items of the financial statements were presented in individual notes of these financial statements.

Note	Title	Amount recognised in the financial statements		Accounting policies	Important estimates and judgements
		2015	2014		
2	Sales revenue	15 939	16 633	x	
5.1	Income tax in the statement of profit or loss	850	948	x	
5.1.1	Deferred income tax	66	89	x	x
5.3	Tax assets	412	312	x	
5.3	Tax liabilities	450	522	x	
3	Impairment of non-current non-financial assets, and of investments in subsidiaries	5 010	30	x	x
6.1	Investments in subsidiaries	6 858	11 778	x	
6.2	Loans granted	6 755	2 046	x	x
7.2	Derivatives	(83)	299	x	
7.3	Other financial instruments measured at fair value	579	931	x	x
7.4	Other non-current financial assets	291	266	x	x
8.2	Equity	20 279	24 277	x	
8.4	Borrowings	6 822	2 108	x	
8.5	Cash and cash equivalents	158	85	x	
9.1	Mining and metallurgical property, plant and equipment and intangible assets	13 386	11 825	x	x
9.2	Other property, plant and equipment and intangible assets	257	248	x	x
9.4	Provision for decommissioning costs of mines and other facilities	892	1 010	x	x
11.1	Employee benefits	2 380	2 426	x	x

Note 1.3 Foreign currency transactions and the measurement of items denominated in foreign currencies

The financial statements are presented in Polish zloty (PLN), which is both the functional and presentation currency of the Company.

At the moment of initial recognition, foreign currency transactions are translated into the functional currency:

- at the actual exchange rate applied, i.e. at the buy or sell exchange rate applied by the bank in which the transaction occurs, in the case of the sale or purchase of currencies and the payment of receivables or liabilities;
- at the average exchange rate set for a given currency, prevailing on the date of the transaction for other transactions. The exchange rate prevailing on the date of the transaction is the average NBP rate announced on the last working day preceding the transaction date.

At the end of each reporting period, foreign currency monetary items are translated at the closing rate prevailing on that date.

Foreign exchange gains or losses on the settlement of foreign currency transactions, and on the measurement of foreign currency monetary assets and liabilities (other than derivatives), are recognised in profit or loss.

Foreign exchange gains or losses on the measurement of foreign currency derivatives are recognised in profit or loss as a fair value measurement, provided they do not represent a change in the fair value of the effective cash flow hedge. In such a case, in accordance with hedge accounting policies, they are recognised in other comprehensive income.

Note 1.4 Impact of new and amended standards and interpretations

New and amended standards which were applied by the Company and which came into force in the financial year beginning on 1 January 2015, did not have a material impact on the Company's accounting policy. The Company has decided for earlier application of the amendments to IAS 1, which were published in December 2014, with respect to presentation. These amendments, published by the International Accounting Standards Board, aim at clarifying the concept of materiality and they clarify that if an entity considers certain information to be immaterial, then it should not disclose it, even if, as a general rule, such a disclosure is required by another IFRS. Amended IAS 1 clarifies that items presented in the statement of financial position and the statement of profit or loss and other comprehensive income may, depending on their materiality, be aggregated or disaggregated. Moreover, additional guidance was added on presenting subtotals in these statements.

Aiming at improving the utility of financial statements for their users and meeting the criteria of the amended IAS 1, the Company optimised the disclosure of information in the financial statements by changing the presentation method, the scope and the amount of disclosures, as well as the method of aggregating financial data used thus far. According to transitional rules of IAS 1, there is no obligation to disclose these changes.

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

In these financial statements, the Company did not decide for earlier application of the following published standards, interpretations or amendments to already existing standards prior to their effective date. Apart from the following new and amended standards, other changes are not applicable to the Company's activities or will not impact the financial statements of the Company.

- **IFRS 9 Financial Instruments**

IFRS 9 will be effective for annual periods beginning on or after 1 January 2018. The Company will apply IFRS 9 after its adoption by the European Union. However, as at the date of preparation of these financial statements, IFRS 9 has not yet been adopted by the European Union.

The standard introduces one model with two categories of classifying financial assets: those measured at fair value and those measured at amortised cost. The classification is made at initial recognition and depends on the financial instruments management model adopted by an entity, and on contractual cash flow characteristics of these instruments.

IFRS 9 introduces a new model of measuring impairment losses – a model of expected credit losses.

The majority of requirements of IAS 39 concerning the classification and measurement of financial liabilities was transferred unchanged to IFRS 9. A key change is an obligation put on entities to present in other comprehensive income the impact of changes in their own credit risk due to financial liabilities designated at fair value through profit or loss.

Changes concerning hedge accounting were aimed at more closely aligning hedge accounting with risk management.
The Company is analysing the impact of IFRS 9 on the financial statements. It was initially estimated that IFRS 9 will have an impact on the financial statements, in the area of hedge accounting and measuring impairment allowances on receivables using a model of expected credit losses. It is not expected that the amount of impairment allowances on receivables will change significantly; the impact on hedge accounting has not yet been estimated. The Company plans to conduct an in-depth analysis of the impact in 2016-2017.

- **IFRS 15 Revenue from contracts with customers**

IFRS 15 will be effective for annual periods beginning on or after 1 January 2018. The new standard replaces IAS 11 and IAS 18, as well as the following interpretations: IFRIC 13, 15 and 18 and SIC 31.

The Company will apply IFRS 15 from 1 January 2018. IFRS 15 has not yet been adopted by the European Union.

Principles stated in IFRS 15 will concern all agreements resulting in revenues. A fundamental principle of the new standard is recognising revenues at the amount of the transaction price, at the moment when a given good is delivered or service rendered to a customer. All goods and services which are sold in bundles and which may be separately identifiable should be recognised separately, and moreover, all discounts and rebates influencing the transaction price should, as a rule, be allocated to individual parts of a bundle. If the amount of revenue is variable, then in accordance with the new standard variable amounts are recognised as revenues if it is highly probable that a reversal in the amount of revenue will not occur as a result of a revaluation. In addition, in accordance with IFRS 15, costs incurred to obtain and fulfil a contract with a customer should be capitalised and amortised when benefits of this contract are consumed. The Company initially estimates that IFRS 15's impact on the financial statements will be immaterial.

- **IFRS 16 Leases**

IFRS 16 will be effective for annual periods beginning on or after 1 January 2019.

The Company will apply IFRS 16 from 1 January 2019. The standard has not yet been adopted by the European Union.
The new standard replaces IAS 17 as well as the following interpretations: IFRIC 4, SIC 15 and SIC 27. It also provides a single lessee accounting model, requiring lessees to recognise, in the statement of financial position, assets and liabilities for all leases unless the lease term is 12 months or more or the underlying asset has a low value. In accordance with the new standard, a lessee recognises, in the statement of financial position, the right to use assets and liabilities due to leases. The manner of recognition of leases in a lessor's accounting books will not change.
According to initial estimates IFRS 16 will not have a significant impact on the financial statements of the Company, as the Company does not lease a significant amount of assets using operating leases, but nevertheless the Company has not yet finished analysing the impact. An in-depth analysis will be conducted in 2018-2019.

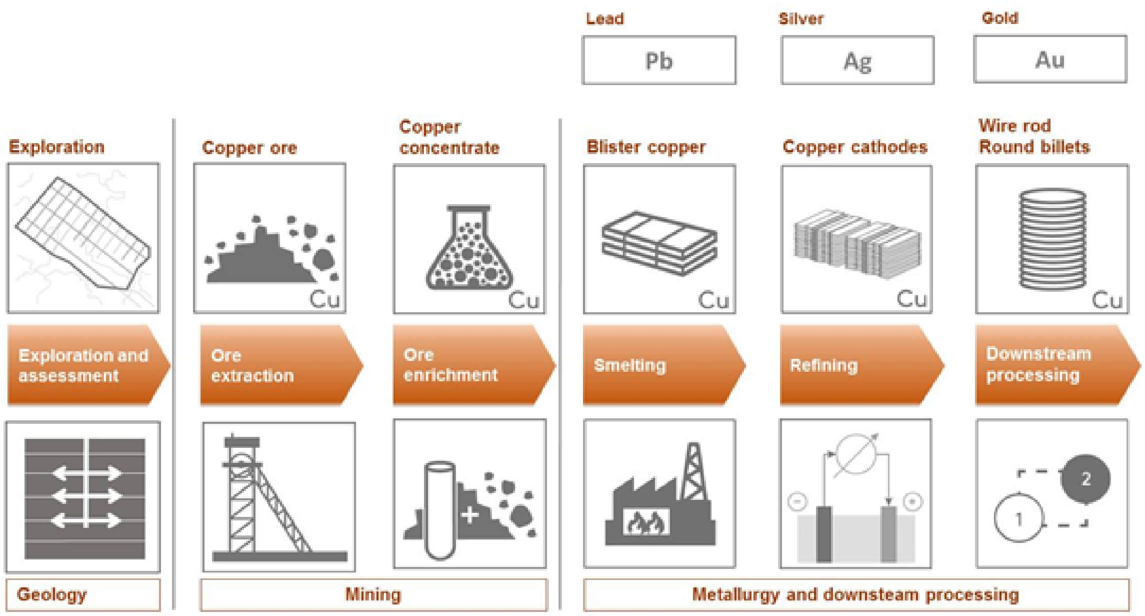
Other standards and interpretations published, but not yet in force are not applicable to the Company's activities or will not have an impact. These are as follows:
- Defined benefit plans: Employee contributions – amendments to IAS 19
- IFRS 14 Regulatory Deferral Accounts
- Amendments to IFRS 11 with respect to acquisitions of interest in joint operations
- Amendments to IAS 16 and to 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
- Amendments to IFRS 10 and IAS 28 with respect to the sale or contribution of assets between an investor and its associate or joint venture
- Annual improvements to IFRS, 2012-2014 Cycle
- Amendments to IFRS 10, IFRS 12 and IAS 28 with respect to applying the consolidation exception to investment entities
- Amendments to IAS 12 with respect to recognising deferred tax assets arising from unused tax losses
- Amendments to IAS 7 – the disclosure initiative – this change will not have an impact on the financial statements because the Company currently presents a reconciliation of net debt.

PART 2 – Segment Information

Operating segments

Based on the analysis of the Company's organisational structure, its system of internal reporting and the applied management model, it was determined that the Company's activity constitutes a single operating and reporting segment, which may be defined as "Production of copper, precious metals and other metallurgical products".

The core business of the Company is the production of copper and silver. Production is a fully integrated process, in which the end-product of one stage is the half-finished product used in the next stage. Copper ore extracted in the mines is transported to concentrators where the enrichment process is carried out. As a result of this process, copper concentrate is produced, which is then supplied to the metallurgical plants where it is smelted and fire refined into copper anodes, which is then subjected to electrolytic refining into copper cathodes. From these cathodes wire rod and round billets are produced. Anode slimes, which arise from the process of copper electrorefining, is a raw material used to produce precious metals. Lead-bearing dust which is generated from the smelting processes is used to produce lead. Nickel sulphate and copper sulphate are recovered from the processing of used electrolyte. Gases generated from the smelting furnaces are used to produce sulphuric acid. Economic use is also made of smelter slags, which are sold as road-building materials.



Settlements between organisational units are carried out based on measurement of production at cost , and as a result the internal organisational units (i.e. mines, concentrators, metallurgical plants) in the production cycle do not generate profit on sales.

The financial data prepared for management accounting purposes is based on the same accounting policies which are used to prepare the financial statements. The Management Board of the Company – being responsible for allocating resources and for the financial results of the Company, regularly reviews internal financial reports for purposes of making major operational decisions.

The organisational structure of KGHM Polska Miedź S.A. has 11 Divisions, including: mines, concentrators, metallurgical plants and the Head Office. The Head Office carries out sales of the Company's basic products, i.e. electrolytic copper cathodes, round billets, wire rod and silver, and support functions, particularly including the management of financial assets, centralised finance and accounting services, marketing, legal and other services.

The Management Board of the Company assesses a segment's performance based on Adjusted EBITDA and the profit or loss for the period. The manner of calculating Adjusted EBITDA and EBITDA is presented in the table "Reconciliation of Adjusted EBITDA".

PART 2 – Segment Information amounts in PLN millions, unless otherwise stated

Production of main products

	2015	2014
Electrolytic copper (kt), of which:	574.3	576.9
- electrolytic copper from own concentrates (kt)	420.5	420.4
Silver (t)	1 283.2	1 256.2
C1 unit cash cost of payable copper production from own concentrate (USD/lb)*	1.47	1.82

*C1 cost reflects 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.

Segment financial results

	2015	2014
Sales revenue	15 939	16 633
Cost of sales, selling costs and administrative expenses**	(12 655)	(13 120)
Depreciation/amortisation recognised in profit or loss	(875)	(818)
Adjusted EBITDA	4 163	4 331
Profit/(loss) for the period	(2 788)	2 414
including:		
(impairment loss recognised)/reversal of impairment losses on non-current assets	(5 272)	(32)

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

Reconciliation of "EBITDA" and "Adjusted EBITDA" (which are not defined in IFRSs) with "Profit/(loss) for the period" (which is defined in IFRSs) and "Profit on sales" is presented in the following tables:

Reconciliation of Adjusted EBITDA

	2015	2014
Profit/(loss) for the period	(2 788)	2 414
[–] Current and deferred income tax	(850)	(948)
[–] Depreciation/amortisation recognised in profit or loss	(875)	(818)
[–] Finance costs	(158)	(183)
[–] Other operating income and costs	(5 064)	32
[=] EBITDA	4 159	4 331
[–] (Impairment loss recognised)/reversal of impairment loss on non-current assets recognised in cost of sales, selling costs and administrative expenses	(4)	-
[=] **Adjusted EBITDA**	4 163	4 331

	2015	2014
Profit on sales	3 284	3 513
[–] Depreciation/amortisation recognised in profit or loss	(875)	(818)
[=] EBITDA	4 159	4 331
[–] (Impairment loss recognised)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	(4)	-
[=] **Adjusted EBITDA**	4 163	4 331

Segment assets and liabilities

	2015	2014
Assets	33 120	32 312
Liabilities	12 841	8 035

PART 2 – Segment Information amounts in PLN millions, unless otherwise stated

Accounting policies

Sales revenue is recognised at the fair value of the consideration received or receivable less VAT. In the case of metals sales, mainly copper products and silver, for which the price is set after the date of recognition of a given sale in the accounts, revenues are accounted for based on the forward prices from the date of sale. Sales revenue is adjusted by the gain or loss on the settlement of derivatives hedging future cash flows.

The Company recognises sales revenue when:

- the significant risk and rewards of ownership of the merchandise, finished goods and materials have been transferred to the buyer;
- the Company ceases to be permanently involved in the management of the sold products to the extent associated with this function for inventories to which it has ownership rights, nor has effective control over those items;
- the amount of revenue can be measured reliably;
- it is probable that the Company will obtain economic benefits associated with the transaction; and
- the costs incurred or to be incurred by the Company in connection with the transaction can be measured reliably.

Revenue is recognised when the risks and rewards of ownership of the products have been transferred, and this moment is agreed with a counterparty in the sales agreement, usually by choosing an Incoterm that is agreed upon by both parties and which applies to a given transaction. Incoterms are a set of international rules governing terms of sale and their application is widely accepted in the world. For example, they define the moment of transfer of the risk for the condition of products at different locations within the transport process. The most frequently used Incoterms by the Company for individual assortments are:

copper concentrate:
CIF; maritime transport; recognition of revenues takes place when merchandise is loaded on a ship chosen by the seller;
DAP; land transport; recognition of revenues takes place when merchandise is delivered to an agreed destination to be at the buyer's disposal for unloading, in the transportation vehicle that delivered the merchandise;

copper cathodes:
CIF, CFR; maritime transport; recognition of revenues takes place when merchandise is loaded on a ship chosen by the seller;
DAP; land transport; recognition of revenues takes place when merchandise is delivered to an agreed destination to be at the buyer's disposal for unloading, in the transportation vehicle that delivered the merchandise;

copper products:
DAP; recognition of revenues takes place when merchandise is delivered to an agreed destination to be at the buyer's disposal, in the transportation vehicle that delivered the merchandise;
FCA; recognition of revenues takes place when merchandise is loaded on the buyer's transportation vehicle;

precious metals:
FCA; recognition of revenues takes place when merchandise is loaded on the buyer's transportation vehicle.

Sales revenue – breakdown by products

	2015	2014
Copper	12 498	13 217
Silver	2 394	2 471
Gold	373	327
Services	86	83
Other	588	535
TOTAL	15 939	16 633

PART 2 – Segment Information amounts in PLN millions, unless otherwise stated

Sales revenue – geographical breakdown reflecting the location of end clients

	2015	2014
Europe		
Poland	3 677	3 490
Germany	2 827	3 470
The United Kingdom	1 426	1 622
The Czech Republic	1 319	1 394
France	617	710
Italy	525	595
Hungary	650	591
Switzerland	480	452
Austria	672	235
Other countries (dispersed sale)	69	572
North America		
The United States of America	651	181
Other countries (dispersed sale)	1	-
Asia		
China	2 496	2 397
Turkey	176	493
Other countries (dispersed sale)	236	26
Australia	115	400
Africa	2	5
Total	**15 939**	**16 633**

Main customers

In the period from 1 January 2015 to 31 December 2015 and in the comparable period the revenues from no single contractor exceeded 10% of sales revenue of the Company.

Non-current assets – geographical breakdown

The property, plant and equipment of KGHM Polska Miedź S.A. are located in Poland.

Expenditures on property, plant and equipment and intangible assets

	2015	2014
Expenditures on mining and metallurgical assets	2 442	2 179
Expenditures on other property, plant and equipment and intangible assets	39	24

amounts in PLN millions, unless otherwise stated

PART 3 – Impairment of non-current non-financial assets, and of investments in subsidiaries

Assessment of the risk of impairment of assets in terms of market capitalisation

In accordance with the adopted accounting policies, KGHM Polska Miedź S.A. considers a significant (i.e. over 20%) or a prolonged (i.e. maintained over at least a 12 months period) decrease in market capitalisation, when compared to the carrying amount of net assets, as a prerequisite for carrying out tests for impairment.

The Company's market capitalisation in 2015 was below the carrying amount of the Company's net assets, and the decrease in share price between 31 December 2014 and 31 December 2015 was significant and amounted to 42%. As at 31 December 2015, the market capitalisation was significantly below the carrying amount of net assets of the Company and amounted to 43% of net assets.

KGHM Polska Miedź S.A.'s Management Board analysed the factors which contributed the most to the decrease in market capitalisation. One of the key factors that impacted negatively the Company's market capitalisation was the decrease in commodities prices. The following factors may be pointed out from the analysed ones that impact positively the profitability of the activities, and therefore the Company's assets: weakening of the Polish zloty (PLN) versus the American dollar (USD) that accompanies the decrease in commodities prices, stable production level, and the large ore deposits held by KGHM Polska Miedź S.A.

Taking into account the aforementioned factors, the Company's Management Board performed impairment testing of the following assets which are presented in the separate financial statements and which are exposed to decreasing commodities prices.

Tested assets	Recoverable amount	Carrying amount as at 31 December 2015	Recoverable amount as at 31 December 2015	Impairment loss
Mining and metallurgical assets of KGHM Polska Miedź S.A.	Value in use	12 517	Recoverable amount higher than the carrying amount	0
Share in a subsidiary Fermat 1 S.a.r.l.	Fair value less costs to sell	9 624	4 770	4 854

BASIC MACROECONOMIC ASSUMPTIONS ADOPTED FOR IMPAIRMENT TESTING OF CASH GENERATING UNITS (CGUs) – MINING AND METALLURGICAL ASSETS	
Assumption	**Level adopted for testing**
Copper price	The copper price curve was adopted on the basis of internal macroeconomic assumptions which were prepared on the basis of available multi-year forecasts of financial and analytical institutions. A detailed forecast for 2016 – 2020 is being prepared, however, the price for 2021 and onwards is assumed to be, according to a long-term stable forecast, 7 075 USD/t.
Silver price	The silver price curve was adopted on the basis of internal macroeconomic assumptions which were prepared on the basis of available multi-year forecasts of financial and analytical institutions. A detailed forecast for 2016-2018 is being prepared, however, the price for 2019 and onwards is assumed to be, according to a long-term stable forecast, 16 USD/oz t.
Discount rate	7.5% - this is the real discount rate before taxation, due to the fact that cash flows adopted in the model were in real terms.

BASIC OPERATING ASSUMPTIONS IN THE FORECAST PERIOD	
Assumption	**Level adopted for testing**
Forecast period	A detailed forecast period of 5 years was adopted for the years 2016-2020, on the basis of Budget assumptions of KGHM Polska Miedź S.A. for 2016 and production assumptions till 2020.
Average cash cost of producing copper in concentrate - C1*	1.66 USD/lb (average in a detailed forecast period in the years 2016-2020).
Level of replacement expenditures	Total level of replacement expenditures adopted for testing in a detailed forecast period (years 2016-2020) amounts to PLN 6 246 million.
Rate of increase/decrease after the forecast period	-2%, resulting from a planned decrease in copper production from own concentrate during mine life (to 2055).

* unit cash cost of producing payable copper, 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)

As a result of a test conducted on the mining and metallurgical assets of KGHM Polska Miedź S.A., the determined value in use exceeded the carrying amount of tested assets, and therefore there was no basis to recognise an impairment loss.

The performed sensitivity analysis of the recoverable amount of KGHM Polska Miedź S.A.'s operating assets shows that the key assumptions adopted for impairment testing are the adopted price curves and the discount rate. Assumptions concerning the price curves and the discount rate were adopted while taking into account the professional judgment of the Management Board with respect to the future fluctuations of these amounts, which was reflected in the calculation of the recoverable amount.

For the purposes of monitoring the risk of impairment of operating assets in subsequent reporting periods, it was determined that the recoverable amount would be equal to the carrying amount of assets if the discount rate was to increase by approximately 3.5 percentage points as compared to the adopted assumptions, or if the copper price, both during the period as well as beyond the specific forecast period, was to be lower by around 8% as compared to the adopted assumptions.

Impairment testing of shares in subsidiaries

In order to determine the recoverable amount of shares, the Management Board prepared an estimate of fair value on the basis of projected discounted cash flows which are expected due to the continuance of investments.

In the current period, due to the identification of indications of the impairment of shares, the Company tested the investments in subsidiaries for impairment. The fair value measurement was classified to level 3 of the fair value hierarchy.

The tests for impairment performed as at the reporting date concerned:

- Shares in the company Fermat 1 S.a.r.l. (a holding owning shares of KGHM INTERNATIONAL LTD. and KGHM Ajax Mining Inc.),
- Shares in the company Energetyka Sp. z o.o.,
- Shares in the company METRACO S.A.

Impairment testing of shares in Fermat 1 S.a.r.l. („Fermat 1")

The company Fermat 1 was founded in 2011 as a result of the process of creating a holding structure related to the acquisition of the company Quadra FNX Mining. In 2012 the shares of Quadra FNX Mining (today KGHM INTERNATIONAL LTD.) were acquired. The business of the acquired group of companies is mining production of metals (including copper, gold, nickel and platinum) in mines operating in the USA, Canada and Chile the largest of which are the Robinson, Morrison, Franke and Carlota mines, as well as mining projects at the pre-operational stage, of which the most significant are Sierra Gorda in Chile and Victoria in Canada. Apart from this, the structure of the Fermat 1 Group includes a project in the pre-operational phase - Ajax, which is being advanced by KGHM AJAX MINING INC. As a result of the merger of the companies 0929260 B.C U.L.C. and KGHM INTERNATIONAL LTD. on 31 December 2015, the KGHM INTERNATIONAL LTD. Group included mines and projects in the pre-operational phase of the previously functioning company KGHM INTERNATIONAL LTD., the joint venture Sierra Gorda and the company KGHM AJAX MINING INC.

A key indication to perform impairment testing of shares in Fermat 1 was the decrease in the market price of copper, silver, molybdenum and other commodities.

In order to assess the risk of impairment of shares in Fermat 1, the fair value of the investment in KGHM INTERNATIONAL LTD. was estimated based on the sum of the fair values of individual CGUs within KGHM INTERNATIONAL LTD., decreased by liabilities and increased by other assets.

The value of the share in Fermat 1 is recognised at cost and as at 31 December 2015 amounted to PLN 9 624 million.

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

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

To determine the recoverable amount of assets in individual CGUs during the testing, their fair value was measured (less costs to sell), using the DCF method, i.e. the method of discounted cash flows.

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

BASIC MACROECONOMIC ASSUMPTIONS ADOPTED IN THE IMPAIRMENT TESTING	
Assumption	**Level adopted for testing**
Copper price	The copper price curve was adopted based on internal macroeconomic assumptions which were prepared based on available multi-year forecasts of financial and analytical institutions. A detailed forecast is being prepared for the period 2016 – 2020, however, the price for 2021 and onwards is assumed to be, according to a long-term stable forecast, 7 075 USD/t.

OTHER KEY ASSUMPTIONS USED FOR FAIR VALUE ESTIMATION OF ASSETS OF CGUs						
Assumption	**Robinson**	**Sudbury**	**Franke**	**Carlota**	**Sierra Gorda**	**KGHM AJAX**
Mine life/forecast period	11 years	19 years	4 years	5 years	40 years	21 years
Level of copper production during mine life [thousand tonnes]	531	378	66	14	10 750	1 090
Average operating margin during mine life	33.6%	62.3%	-9.1%	27.4%	41.8%	41.9%
Capital expenditures to be incurred during mine life [USD million]	805	1 446	5	-	5 623 (mainly to be incurred in the years 2017-2020)	1 544
Applied discount rate after taxation for assets in the operational phase	9%	8%	11%	10%	8%	-
Applied discount rate after taxation for assets in the pre-operational phase	-	12%	-	-	11%	9%
Costs to sell	2%					

Results of the test performed as at 31 December 2015 are presented in the following table:

Test elements	USD million	PLN million
Fair value of CGUs of the KGHM INTERNATIONAL LTD. Group	1 160	4 525
Cash and cash equivalents	28	109
Other current assets	247	963
Other non-current assets	2 075	8 095
(A) Total fair value of assets of the KGHM INTERNATIONAL LTD. Group	**3 510**	**13 692**
Fair value of liabilities due to borrowings of the KGHM INTERNATIONAL LTD. Group	3 121	12 175
Other current liabilities	129	503
Other non-current liabilities	271	1 057
(B) Total fair value of liabilities of the KGHM INTERNATIONAL LTD. Group	**3 521**	**13 735**
(A-B) Fair value of net assets in KGHM INTERNATIONAL LTD.	**(11)**	**(43)**
Estimated costs to sell	25	97
Recoverable amount of investment in KGHM INTERNATIONAL LTD.		**4 770**
Carrying amount of investment in Fermat 1		9 624
Impairment losses on shares in Fermat 1		**4 854**

The impairment loss was recognised in the item *other operating costs* of the statement of profit or loss (Note 4.2).

The sensitivity analysis performed on the fair value of the investment in KGHM INTERNATIONAL LTD. shows that the key assumptions used in testing for impairment are the adopted price curves and the discount rate. Assumptions concerning the price curves and the discount rate were adopted while taking into account the professional judgment of the Management Board with respect to the future fluctuations of these amounts, which was reflected in the calculation of the recoverable amount. For the purposes of monitoring the risk of impairment of the operational assets in subsequent reporting periods it was determined that adopting discount rates higher, on average, by 1 percentage point, would result in an impairment loss on shares in Fermat 1 in the amount of PLN 6 128 million, while adopting lower price curves (on average - by 1%) would result in an impairment loss on shares in Fermat 1 in the amount of PLN 5 463 million.

PART 3 – Impairment of non-current non-financial assets amounts in PLN millions, unless otherwise stated

Impairment testing of shares in Metraco S.A.
In the current reporting period a negative change in operating cash flows of Metraco S.A. formed the basis for performing a test for impairment of the company's shares, whose carrying amount as at 31 December 2015 amounted to PLN 420 million. For purposes of estimating the recoverable amount during this testing a fair value measurement of these shares was made, using the DCF (discounted cash flow) method.

BASIC ASSUMPTIONS USED IN THE IMPAIRMENT TESTING	
Assumption	**Level adopted for testing**
Forecast period	A detailed forecast period of 5 years was adopted for the years 2016-2020, on the basis of the assumptions of Metraco S.A. plan approved by the Supervisory Board of the company.
Average operating margin in the forecast period	0.56%
Capital expenditures during the forecast period	PLN 62 million
Discount rate	5.04%- this is the real discount rate, due to the fact that cash flows adopted in the model were in real terms.
Rate of increase after the forecast period	1%

As a result of impairment testing of the shares in Metraco S.A., the determined recoverable amount exceeded the carrying amount of the tested assets, and therefore there was no basis to recognise an impairment loss.

The performed sensitivity analysis of the recoverable amount of shares in Metraco S.A. shows that the key assumptions used in testing for impairment are: the operating result achieved during the forecast period and the discount rate. For the purposes of monitoring the risk of impairment of the shares in Metraco S.A. in subsequent reporting periods, it was determined that the recoverable amount would be lower than the carrying amount if the average operating margin in the forecast period were to decrease by over 55% as compared to the adopted assumptions, or if the discount rate were to increase by approximately 4.5 percentage points as compared to the adopted assumptions.

Impairment testing of shares in Energetyka Sp. z o.o.
In the current reporting period changes to the business model impacting the future operating cash flows formed the basis for performing a test for impairment of the shares in the company, the carrying amount of which as at 31 December 2015 amounted to PLN 505 million. For purposes of estimating the recoverable amount during this testing a fair value measurement of these shares was made, using the DCF (discounted cash flow) method.

BASIC ASSUMPTIONS USED IN THE IMPAIRMENT TESTING	
Assumption	**Level adopted for testing**
Forecast period	A detailed forecast period of 5 years was adopted for the years 2016-2020, on the basis of the strategic assumptions of Energetyka Sp. z o.o. plan approved by the Supervisory Board of the company.
Average operating margin during the forecast period	3.96 %
Capital expenditures during the forecast period	PLN 250 million
Discount rate	3.51% - this is the real discount rate, due to the fact that cash flows adopted in the model were in real terms.
Rate of increase after the forecast period	2%

As a result of impairment testing of the shares in Energetyka Sp. z.o.o., the determined recoverable amount exceeded the carrying amount of tested assets, and therefore there was no basis to recognise an impairment loss.

The performed sensitivity analysis of the recoverable amount of shares in Energetyka Sp. z.o.o. shows that the key assumptions used in testing for impairment are: the average EBIT margin and the discount rate.

For the purposes of monitoring the risk of impairment of shares in Energetyka Sp. z o.o. in subsequent reporting periods, it was determined that the recoverable amount would be equal to the carrying amount if the discount rate was to increase by approximately 1.84 percentage point as compared to the adopted assumptions, or if the average operating margin was to decrease in the forecast period by approximately 1.91 percentage point as compared to the adopted assumptions.

amounts in PLN millions, unless otherwise stated

PART 4 – Explanatory notes to the statement of profit or loss and the statement of comprehensive income

Note 4.1. Expenses by nature

		2015	2014
Note 9.3	Depreciation of property, plant and equipment and amortisation of intangible assets*	910	818
Note 11.1	Employee benefits expenses	2 992	3 022
	Materials and energy, including:	5 481	5 870
	Purchased metal-bearing materials	3 352	3 688
	Electrical and other energy	735	782
	External services, including:	1 420	1 378
	Transport	233	234
	Repairs, maintenance and servicing	409	398
	Mine preparatory work	388	360
Note 5.2	Minerals extraction tax	1 439	1 520
Note 5.2	Other taxes and charges	385	376
	Advertising costs and representation expenses	49	51
	Property and personal insurance	21	21
	Other costs	85	37
	Total expenses by nature	**12 782**	**13 093**
	Cost of merchandise and materials sold (+)	147	136
	Change in inventories of finished goods and work in progress (+/-)	(156)	34
	Cost of manufacturing products for internal use (-)	(118)	(143)
	Cost of sales, selling costs and administrative expenses, including:	**12 655**	**13 120**
	Cost of sales	11 809	12 265
	Selling costs	115	120
	Administrative expenses	731	735

*Depreciation of property, plant and equipment and amortisation of intangible assets recognised in expenses by nature in the amount of PLN 910 million was settled in profit or loss in the amount of PLN 875 million. The remaining amount was recognised in inventories, property, plant and equipment and intangible assets.

amounts in PLN millions, unless otherwise stated

Note 4.2. Other operating income and costs

		2015	2014
Note 7.2	Gains on the measurement and realisation of derivatives	117	241
	Foreign exchange gains on liabilities other than borrowings	159	157
	Interest on loans granted	226	48
	Dividends received	32	45
	Fees and charges on re-invoicing costs of bank guarantees securing liabilities	35	23
	Other	110	59
	Total other operating income	**679**	**573**
Note 7.2	Losses on the measurement and realisation of derivatives	319	420
Note 7.3	Impairment loss on available-for-sale assets	262	2
Part 3	Impairment loss on shares in subsidiaries	4 928	30
	Other	234	89
	Total other operating costs	**5 743**	**541**
	Result on other operating activities	**(5 064)**	**32**

Note 4.3. Finance costs

	2015	2014
Interest on borrowings	31	8
Exchange differences on borrowings	29	124
Other finance costs	98	51
Total finance costs	**158**	**183**

amounts in PLN millions, unless otherwise stated

PART 5 – Taxation

Note 5.1 Income tax in the statement of profit or loss

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

	2015	2014
Current income tax	**784**	859
Deferred income tax	**66**	89
Income tax	**850**	948

In 2015, KGHM Polska Miedź S.A. paid income tax in the amount of PLN 880 million (in 2014: PLN 853 million) to the appropriate tax office.

The table below presents identification of differences between income tax from profit before tax and the income tax calculated according to the principles resulting from the Corporate Income Tax Act:

Reconciliation of effective tax rate

	2015	2014
Profit/(loss) before tax	**(1 938)**	**3 362**
Tax calculated using the rate (2015: 19%, 2014: 19%)	(368)	639
Tax effect of non-taxable income	(14)	(20)
Tax effect of expenses not deductible for tax purposes including:	1 233	339
impairment losses on investment in subsidiaries	936	6
the minerals extraction tax	274	289
Tax adjustments for prior periods	(1)	(10)
Income tax in profit or loss (effective tax rate amounted to: (43.86)% (in 2014: 28.20%) of profit/(loss) before tax)	**850**	**948**

PART 5 – Taxation amounts in PLN millions, unless otherwise stated

Note 5.1.1 Deferred income tax

Accounting policies	Important estimates and assumptions
Deferred tax is determined using tax rates and laws that are expected to be applicable when the asset is realised or the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period. Deferred tax liabilities and deferred tax assets are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the exception of temporary differences arising from initial recognition of assets or liabilities in transactions other than business combinations. Deferred tax assets are recognised if it is probable that taxable profit will be available against which the temporary differences and unused tax losses can be utilised. Deferred tax assets and liabilities are offset if the Company has a legally enforceable right to set off current tax assets and current tax liabilities, and if the deferred tax assets and deferred tax liabilities relate to income taxes levied on a given entity by the same taxation authority.	The probability of realising the deferred tax assets with future tax income is based on the Company's budget. The Company recognises deferred tax assets in its accounting books to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

	2015	2014
Net deferred tax assets at the beginning of the period, of which:	**111**	**98**
deferred tax assets at the beginning of the period	989	892
deferred tax liabilities at the beginning of the period	(878)	(794)
Recognised in profit or loss	(66)	(89)
Recognised in other comprehensive income	96	102
Net deferred tax assets at the end of the period, of which:	**141**	**111**
deferred tax assets at the end of the period	**934**	**989**
deferred tax liabilities at the end of the period	**(793)**	**(878)**

Maturities of deferred tax assets and deferred tax liabilities:

	2015	2014
Maturity over the 12 months from the end of the reporting period	(5)	(60)
Maturity of up to 12 months from the end of the reporting period	146	171
Total	**141**	**111**

PART 5 - Taxation amounts in PLN millions, unless otherwise stated

Changes in deferred tax assets and liabilities

Deferred tax assets	1 January 2014	Credited/(Charged) profit or loss	Credited/(Charged) other comprehensive income	31 December 2014	Credited/(Charged) profit or loss	Credited/(Charged) other comprehensive income	31 December 2015
Provision for decommissioning of mines and other technological facilities	106	92	-	198	(21)	-	177
Measurement of forward transactions	309	(98)	-	211	(121)	-	90
Difference between the depreciation rates of property, plant and equipment for accounting and tax purposes	35	(6)	-	29	10	-	39
Future employee benefits	290	13	68	371	4	(14)	361
Other	152	25	3	180	64	23	267
Total	**892**	**26**	**71**	**989**	**(64)**	**9**	**934**

Deferred tax liabilities	1 January 2014	(Credited)/Charged profit or loss	(Credited)/Charged other comprehensive income	31 December 2014	(Credited)/Charged profit or loss	(Credited)/Charged other comprehensive income	31 December 2015
Measurement of forward transactions	157	(66)	-	91	(61)	-	30
Re-measurement of hedging instruments	118	-	(54)	64	-	(64)	-
Difference between the depreciation rates of property, plant and equipment for accounting and tax purposes	514	176	-	690	46	-	736
Other	5	5	23	33	17	(23)	27
Total	**794**	**115**	**(31)**	**878**	**2**	**(87)**	**793**

PART 5 – Taxation amounts in PLN millions, unless otherwise stated

Note 5.2 Other taxes and charges

The following table presents the Minerals extraction tax with which the Company is charged.

	2015	2014	Basis for calculating tax	Tax rate	Presentation in the statement of profit or loss
Minerals extraction tax, of which:	**1 439**	**1 520**			
- copper	1 135	1 218	Amount of copper in produced concentrate, expressed in tonnes	Weighted average tax rate calculated for every reporting period*	Minerals extraction tax in expenses by nature, presented in note 4.1.
- silver	304	302	Amount of silver in produced concentrate, expressed in kilogrammes		

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

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

Other taxes and charges were as follows:

	2015	2014
Royalties	107	103
Excise tax	47	51
Real estate tax	136	130
Other taxes and charges	95	92
Total	**385**	**376**

Note 5.3 Tax assets and liabilities

Accounting policies

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

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

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

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

	2015	2014
Current corporate income tax assets	45	-
Assets due to taxes, social and health insurance and other benefits	367	312
Tax assets	412	**312**

	2015	2014
Current corporate income tax liabilities	-	56
Liabilities due to taxes, social and health insurance and other benefits	450	466
Tax liabilities	450	**522**

amounts in PLN millions, unless otherwise stated

PART 6 – Investments in subsidiaries

Note 6. 1 Subsidiaries

Accounting policies

In the financial statements of the Company, subsidiaries are those entities which are directly controlled by the Company. In the financial statements, investments in subsidiaries, which are not classified as available for sale, are measured at cost plus any granted non-returnable payments, including for the coverage of losses presented in the financial statements of a subsidiary, less any impairment losses. Impairment is measured by comparing the carrying amount with the higher of the following amounts:

- fair value, less costs to sell; and
- value in use.

	Shares and investment certificates in subsidiaries
As at 1 January 2014	**11 777**
Acquisition of shares or of newly-issued shares	27
Recognition of impairment losses	(30)
Other	4
As at 31 December 2014	**11 778**
Acquisition of shares or of newly-issued shares	61
Recognition of impairment losses	(4 928)
Other	(53)
As at 31 December 2015	**6 858**

The most significant investments in subsidiaries (direct share)

Entity	Head Office	Scope of activities	2015 Carrying amount of shares/investment certificates	2014 Carrying amount of shares/investment certificates
Fermat 1 S.á r.l.	Luxembourg	holding activities related to the KGHM INTERNATIONAL LTD. Group	4 770	9 624
"Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	505	488
Metraco S.A. (formerly KGHM Metraco S.A.)	Legnica	trade, agency and representative services	421	421
KGHM I FIZAN	Wrocław	cash investing in securities, money market instruments and other property rights	377	377

As at 31 December 2015 and as at 31 December 2014, the % of share capital held as well as the % of voting power in the above-mentioned subsidiaries was 100%

PART 6 – Investments in subsidiaries amounts in PLN millions, unless otherwise stated

Note 6. 2 Receivables due to loans granted

Accounting policies	Important estimates and assumptions
Assets classified, in accordance with IAS 39, in the category of "loans and receivables" are initially recognised at fair value and are measured at the end of the reporting period at amortised cost using the effective interest rate method, including impairment	Terms of repayment of loans granted to finance non-Polish operations, including the due dates of repayment were described in individual agreements. In accordance with the schedule, the repayment of most of the loans (USD 1 580 million, or 96% of the total amount of receivables) was set at 2024, while the repayment of the remaining loans in the amount of USD 72 million was set at 2018. The start of repayment of loans by entities which are the final beneficiaries of loans - Sierra Gorda S. C. M., KGHM INTERNATIONAL LTD. and KGHM AJAX MINING INC. - will depend on their financial standing. The long-term plans of these entities assume the repayment of these loans, together with interest, in the total amount of USD 4 192 million.

	2015	2014
As at 1 January	**2 046**	**257**
Loans granted – cash transferred	**4 245**	1 597
Capitalised interest	133	18
Accrued interest	93	30
Exchange differences	251	153
Other	(13)	(9)
Total changes	**4 709**	**1 789**
As at 31 December	**6 755**	**2 046**
of which:		
Non-current receivables	6 750	2 042
Current receivables	5	4

The most significant items are loans granted to the companies of the KGHM Polska Miedź S.A. Group, connected with the realisation of mining projects executed by indirect subsidiaries of KGHM Polska Miedź S.A.: KGHM INTERNATIONAL LTD. and KGHM AJAX Mining Inc.

The credit risk due to loans granted depends on the risk related to the execution of mining projects and was determined by the Company to be moderate.
The loans' interest rate is fixed and therefore they are exposed to changes in fair value. In the financial statements the loans are measured at amortised cost, however, as at 31 December 2015 as well as at 31 December 2014 the fair value of loans granted was equal to their carrying amounts.

Interest income on loans granted in 2015 amounted to PLN 226 million (in 2014: PLN 48 million) and was recognised in other operating income (Note 4.2).
To reduce the credit risk due to loans granted, the Company continuously monitors the financial standing and financial results of the borrowers.

amounts in PLN millions, unless otherwise stated

PART 7 – Financial instruments and financial risk management

Note 7.1 Financial Instruments

	Categories of financial assets in accordance with IAS 39	2015 Available-for-sale	2015 At fair value through profit or loss	2015 Loans and financial receivables	2015 Hedging instruments	2015 Total	2014 Available-for-sale	2014 At fair value through profit or loss	2014 Loans and financial receivables	2014 Hedging instruments	2014 Total
	Non-current	**579**	**11**	**7 041**	**106**	**7 737**	**931**	**-**	**2 308**	**190**	**3 429**
Note 6.2	Loans granted	-	-	6 750	-	6 750	-	-	2 042	-	2 042
Note 7.2	Derivatives	-	11	-	106	117	-	-	-	190	190
Note 7.3	Other financial instruments measured at fair value	579	-	-	-	579	931	-	-	-	931
Note 7.4	Other financial assets	-	-	291	-	291	-	-	266	-	266
	Current	**-**	**-**	**1 584**	**6**	**1 590**	**-**	**24**	**1 825**	**243**	**2 092**
Note 10.2	Trade receivables	-	-	1 000	-	1 000	-	-	1 407	-	1 407
Note 7.2	Derivatives	-	-	-	6	6	-	24	-	243	267
Note 8.5	Cash and cash equivalents	-	-	158	-	158	-	-	85	-	85
	Other financial assets	-	-	426	-	426	-	-	333	-	333
	Total	**579**	**11**	**8 625**	**112**	**9 327**	**931**	**24**	**4 133**	**433**	**5 521**

	Categories of financial liabilities in accordance with IAS 39	2015 At amortised cost	2015 Hedging instruments	2015 Total	2014 At fair value through profit or loss	2014 At amortised cost	2014 Hedging instruments	2014 Total
	Non-current	**3 733**	**1 328**	**5 061**	**-**	**174**	**1 174**	**1 348**
Note 8.4	Borrowings	3 554	1 170	4 724	-	-	1 052	1 052
Note 7.2	Derivatives	-	158	158	-	-	122	122
Note 12.4	Other financial liabilities	179	-	179	-	174	-	174
	Current	**3 498**	**48**	**3 546**	**26**	**2 244**	**10**	**2 280**
Note 8.4	Borrowings	2 098	-	2 098	-	1 056	-	1 056
Note 7.2	Derivatives	-	48	48	26	-	10	36
Note 10.3	Trade payables	1 318	-	1 318	-	1 109	-	1 109
Note 12.4	Other financial liabilities	82	-	82	-	79	-	79
	Total	**7 231**	**1 376**	**8 607**	**26**	**2 418**	**1 184**	**3 628**

Note 7.2 Derivatives

Accounting policies
Derivatives are classified as financial assets/liabilities held for sale, unless they have not been designated as hedging instruments. Regular way purchases or sales of derivatives are recognised at the trade date. Derivatives not designated as hedges are initially recognised at fair value and are measured at fair value at the end of the reporting period, with recognition of the gains/losses on measurement in profit or loss. The Company applies hedge accounting for cash flows. Hedge accounting aims at reducing volatility in the Company's net result, arising from periodic changes in the measurement of transactions hedging individual types of market risk to which the Company is exposed. Hedging instruments are derivatives as well as bank loans in foreign currencies. The designated hedges relate to the future sales transactions forecasted as assumed in the Sales Plan for a given year. These plans are prepared based on the production capacities for a given period. The Company estimates that the probability that transactions included in the production plan will occur is very high, as from a historical point of view, sales were always realised at the levels assumed in Sales Plans. The Company may use natural currency risk hedging through the use of hedge accounting for bank loans denominated in USD, and designates them as positions hedging foreign currency risk, which relates to future revenues of the Company from sales of copper, silver and other metals, denominated in USD. Gains and losses arising from changes in the fair value of the cash flow hedging instrument are recognised in other comprehensive income, to the extent by which the change in fair value represents an effective hedge of the associated hedged item. The portion which is ineffective is recognised in profit or loss as other operating income or costs. Gains or losses arising from the cash flow hedging instrument are recognised in profit or loss as a reclassification adjustment, in the same period or periods in which the hedged item affects profit or loss. The Company ceases to account for derivatives as hedging instruments when they expire, are sold, terminated or settled, or when the Company revokes the designation of a given instrument as a hedging instrument. The Company may designate a new hedging relationship for a given derivative, change the intended use of the derivative, or designate it to hedge another type of risk. In such a case, for cash flow hedges, gains or losses which arose in the periods in which the hedge was effective are retained in accumulated other comprehensive income until the hedged item affects profit or loss. If the hedge of a forecasted transaction ceases to exist because it is probable that the forecasted transaction will not occur, then the net gain or loss recognised in other comprehensive income is immediately transferred to profit or loss as a reclassification adjustment.

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

Type of derivative	2015 Financial assets Current	2015 Financial assets Non-current	2015 Financial liabilities Current	2015 Financial liabilities Non-current	2015 Net total	2014 Financial assets Current	2014 Financial assets Non-current	2014 Financial liabilities Current	2014 Financial liabilities Non-current	2014 Net total
Derivatives – Commodity contracts - Metals - Copper										
Options										
Purchased put options	-	-	-	-	-	20	-	-	-	20
Seagull	-	-	-	-	-	205	20	-	-	225
TOTAL	**-**	**-**	**-**	**-**	**-**	**225**	**20**	**-**	**-**	**245**
Derivatives – Currency contracts										
Options USD										
Purchased put options	-	-	-	-	-	2	-	-	-	2
Collar*	6	106	(48)	(158)	**(94)**	16	170	(10)	(122)	54
TOTAL	**6**	**106**	**(48)**	**(158)**	**(94)**	**18**	**170**	**(10)**	**(122)**	**56**
TOTAL HEDGING INSTRUMENTS	**6**	**106**	**(48)**	**(158)**	**(94)**	**243**	**190**	**(10)**	**(122)**	**301**

*

Derivatives – currency contracts Collar - 2015	Notional Currency [USD thousands]	Avg. weighted exchange rate [USD/PLN]	Maturity/ settlement period From	Maturity/ settlement period Till	Period of profit/loss impact From	Period of profit/loss impact Till
	2 200	3.4365-4.2216	Jan 16	Dec 18	Jan 16	Dec 18

PART 7 – Financial Instruments and financial risk management amounts in PLN millions, unless otherwise stated

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

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

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

		Impact of derivatives and hedging transactions	
	Statement of profit or loss	**2015**	**2014**
	Sales revenue	482	531
	Other operating and finance income/costs:	(215)	(179)
	On realisation of derivatives	(19)	(61)
	On measurement of derivatives	(196)	(118)
	Impact of derivatives on profit or loss for the period	**267**	**352**
	Statement of comprehensive income in the part concerning other comprehensive income		
	Impact of hedging transactions	**(447)**	**(304)**
Note 8.2.2	Impact of measurement of hedging transactions (effective portion)	35	227
Note 8.2.2	Reclassification to sales revenues due to realisation of a hedged item	(482)	(531)
	TOTAL COMPREHENSIVE INCOME	**(180)**	**48**

PART 7 – Financial Instruments and financial risk management amounts in PLN millions, unless otherwise stated

Note 7.3 Other financial instruments measured at fair value

Accounting policies	Major estimates
The item "financial instruments measured at fair value" includes financial assets classified, in accordance with IAS 39, to "available-for-sale financial assets". Available-for-sale financial assets are initially measured at fair value plus transaction costs, and at the reporting date they are measured at fair value with gains and losses on measurement recognised in other comprehensive income, up to the moment when impairment occurs, which is recognised in profit or loss. Listed shares are measured based on the closing price as at the end of the reporting period. The translation of shares expressed in a foreign currency is performed according to the accounting policies described in Note 1.3. If there are indications that an impairment has occurred (in particular a significant or prolonged decrease in the fair value of an equity instrument below cost) then the total amount of losses incurred to date which are recognised in other comprehensive income are transferred to profit or loss. An impairment loss is reversed through other comprehensive income.	Analysis of the market value of available-for-sale assets compared to their purchase price is performed at the end of each month. In accordance with the adopted accounting policy, KGHM Polska Miedź S.A. recognises, as indications to perform impairment testing of the carrying amount of assets, a significant decrease in fair value (by 20%) or a prolonged decline of fair value (a period of 12 months) when compared to the carrying amount of assets. The most significant item of available-for-sale financial assets are the shares of Tauron Polska Energia S.A., listed on the Warsaw Stock Exchange. During the year, the fair value of shares fluctuated, and as at 31 December 2015 it achieved a level lower than their carrying amount. As a result, in 2015 an impairment loss was recognised in the amount of PLN 395 million, which decreased other comprehensive income by PLN 133 million and decreased the financial result by PLN 262 million. As at 31 December 2015 the carrying amount of the shares of Tauron Polska Energia S.A. amounted to PLN 524 million (as at 31 December 2014, PLN 920 million).

	2015	2014
Shares in companies listed on a stock exchange (Warsaw Stock Exchange and TSX Venture Exchange)	527	921
Other	52	10
Non-current financial assets measured at fair value	**579**	**931**

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

Due to investments in listed companies, the Company is exposed to price risk. Changes in the share prices of these companies, resulting from current macroeconomic conditions, may impact significantly on the amount of other comprehensive income and the accumulated amount recognised in equity. In the case of a decrease in the fair value of these shares compared to their purchase price by at least 20%, or a prolonged decrease in fair value, i.e. over the period of 12 months, when compared to the carrying amount of assets, the Company is exposed to the risk of a change in the profit or loss arising from the recognition of an impairment loss (transfer of the amount of the loss from other comprehensive income to the profit or loss).

The following table presents the sensitivity analysis of listed companies shares to price changes (as at 31 December):

	2015	Percentage change of share price		2014	Percentage change of share price	
		84%	-18%		12%	-20%
	Carrying amount	Other comprehensive income	Profit or loss	Carrying amount	Other comprehensive income	Profit or loss
Listed shares	**527**	443	(95)	**921**	111	(184)

PART 7 – Financial Instruments and financial risk management amounts in PLN millions, unless otherwise stated

Note 7.4. Other non-current financial assets

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

	2015	2014
Cash held in the Mine Closure Fund and Tailings Storage Facility Restoration Fund on separate bank accounts	231	206
Other financial receivables	60	60
Total	**291**	**266**

Details regarding measurement of the provision for the decommissioning costs of mines and other technological facilities is described in Note 9.3.

Note 7.5. Financial risk management

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

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

The Company's Management Board manages identified financial risk factors in a conscious and responsible manner, using the adopted Market Risk Management Policy, the Financial Liquidity Management Policy and the Credit Risk Management Policy. Understanding the threats arising from the Company's exposure to risk and maintaining an appropriate organisational structure and procedures enable an effective achievement of tasks. The Company identifies and measures financial risk on an ongoing basis, and also takes actions aimed at minimising their impact on the financial position.

The process of financial risk management in the Company is supported by the work of the Market Risk Committee, the Financial Liquidity Committee and the Credit Risk Committee.

Note 7.5.1. Market risk

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

Note 7.5.1.1. Principles and techniques of market risk management

The Company actively manages the market risk to which it is exposed.

In accordance with the adopted policy, the goals of the market risk management process are as follows:

- limit volatility in the financial result;
- increase the probability of meeting budget targets;
- decrease the probability of losing financial liquidity;

- maintain the financial health of the Company; and
- support the process of strategic decision making related to investing, including financing sources.

The objectives of market risk management should be considered as a whole, and their realisation is determined mainly by the Company's internal situation and market conditions. Actions and decisions concerning market risk management in the Company should be analysed in the context of the KGHM Polska Miedź S.A. Group's global exposure to market risk.

The primary technique used in market risk management is the utilisation of hedging strategies involving derivatives. Natural hedging is also used.

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

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

The Company manages market risk by applying various approaches to particular, identified exposure groups.

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

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

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

The Company's internal policy, which regulates market risk management principles, permits the use of the following types of instruments:

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

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

PART 7 – Financial Instruments and financial risk management amounts in PLN millions, unless otherwise stated

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

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

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

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

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

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

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

Note 7.5.1.2. Commodity risk

The Company is exposed to the risk of changes in the prices of the metals it sells: copper, silver, gold and lead. The price formulas used in physical delivery contracts are mainly based on average monthly quotations from the London Metal Exchange for copper and lead and from the London Bullion Market Association for silver and gold. The Company's commercial policy is to set the price base for physical delivery contracts as the average price of the appropriate future month.

The permanent and direct link between sales proceeds and metals prices, without similar relationships on the expenditures side, results in a strategic exposure. In turn, operating exposure is a result of possible mismatches in the pricing of physical contracts with respect to the Company's benchmark profile, in particular in terms of the reference prices and the quotation periods.

On the metals market, the Company has a so-called long position, which means it has higher sales than purchases. The analysis of the Company's exposure to market risk should be performed by deducting from the volume of metals sold the amount of metal in purchased materials.

In the reporting and comparable periods the Company's strategic exposure to the risk of changes in the price of copper and silver is presented below:

	2015			2014		
	Net	**Sales**	**Purchases**	**Net**	**Sales**	**Purchases**
Copper [t]	**414 408**	571 374	156 966	**412 099**	573 310	161 211
Silver [t]	**1 205**	1 245	40	**1 216**	1 262	46

The notional amount of copper price hedging strategies settled in 2015 represented approx. 8% (in 2014: 15%) of the total sales of this metal realised by the Company. In 2015 and in 2014, the revenues from sales of silver were not hedged by derivatives.

In 2015 the Company did not implement any copper price or silver price hedging strategies. As a result as at 31 December 2015 the Company did not hold any open hedging transactions on the commodity market. However, during the comparable period it held a position on the copper market. As at 31 December 2014, the carrying amount of derivatives on the copper market amounted to PLN 244 million.

Note 7.5.1.3. Risk of changes in foreign exchange rates

Regarding the risk of changes in foreign exchange rates, the following types of exposures were identified:

- transaction exposure related to the volatility of cash flows in the base currency; and
- exposure related to the volatility of selected items of the statement of financial position in the base (functional) currency.

The transaction exposure to currency risk stems from cash flow-generating contracts, whose values expressed in the base (functional) currency depend on future levels of exchange rates of the foreign currencies with respect to the base currency (for KGHM Polska Miedź S.A. it is the Polish zloty). Cash flows exposed to currency risk may possess the following characteristics:

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

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

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

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

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

In 2015, transactions hedging sales revenues for the total notional amount of USD 1 095 million and a time horizon falling from April 2015 to December 2018 (including USD 135 million for 2015) were implemented for the currency market. The Company made use of put options (European options) and collar option strategies (i.e. purchased put options and sold call options). In the case of the currency market, hedged revenues from sales represented approx. 29% (in 2014: 26%) of total revenues from metals sales realised by the Company.

With respect to currency risk management whose source is borrowing, the Company uses natural hedging by borrowing in currencies in which it has revenues. As at 31 December 2015, bank loans and the investment loan which were drawn in USD, and following their translation to PLN they amounted to PLN 6 411 million.

As a result, as at 31 December 2015, the Company held a hedging position in derivatives for the planned revenues from sales of metals in the amount of USD 2 220 million, including: USD 960 million for 2016 and USD 1 020 million for 2017 and USD 240 million for 2018. 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.
The condensed table of open transactions in derivatives on the currency market is presented below:

	Instrument	Notional [USD million]	Option strike price [USD/PLN] Sold call option	Option strike price [USD/PLN] Purchased put option	Average weighted premium [PLN for USD 1]	Effective hedge price [USD/PLN]	Participation limited to [USD/PLN]
I half	Collar	180	4.0000	3.2000	-0.0525	3.1475	4.0000
	Collar	180	4.2000	3.3000	-0.0460	3.2540	4.2000
	Collar	120	4.4000	3.5500	-0.0448	3.5052	4.4000
	Total	**480**					
II 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
	Total	**480**					
	TOTAL 2016	**960**					
I 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
	Total	**510**					
II half	Collar	270	4.0000	3.3500	-0.0524	3.2976	4.0000
	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	**510**					
	TOTAL 2017	**1 020**					
I half	Collar	120	4.5000	3.7500	-0.0375	3.7125	4.5000
II half	Collar	120	4.5000	3.7500	-0.0342	3.7158	4.5000
	TOTAL 2018	**240**					

The currency structure of financial instruments exposed to currency risk is presented in the table below:

Financial instruments	Value at risk as at 31 December 2015 total PLN million	Value at risk as at 31 December 2015 USD million	Value at risk as at 31 December 2015 EUR million	Value at risk as at 31 December 2014 total PLN million	Value at risk as at 31 December 2014 USD million	Value at risk as at 31 December 2014 EUR million
Trade receivables	**717**	145	35	**1 135**	279	37
Cash and cash equivalents	**78**	13	6	**25**	3	4
Loans granted	**6 721**	1 723	-	**2 011**	573	-
Other financial assets	**95**	24	-	**57**	16	-
Derivatives	**(83)**	3	-	**299**	69	-
Trade payables	**(208)**	(26)	(25)	**(168)**	(21)	(23)
Borrowings	**(6 815)**	(1 641)	(97)	**(2 108)**	(601)	-
Other financial liabilities	**(6)**	(1)	-	**(8)**	(1)	(1)

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

Financial assets and liabilities	Value at risk [PLN million]	Carrying amount 31.12.2015 [PLN million]	USD/PLN 4.57 +17% profit or loss	USD/PLN 4.57 +17% other comprehensive income	USD/PLN 3.30 -16% profit or loss	USD/PLN 3.30 -16% other comprehensive income	EUR/PLN 4.74 +11% profit or loss	EUR/PLN 3.88 -9% profit or loss
Trade receivables	717	1 000	79	-	(71)	-	14	(11)
Cash and cash equivalents	78	158	7	-	(7)	-	2	(2)
Loans granted	6 721	6 755	933	-	(844)	-	-	-
Other financial assets	95	712	13	-	(12)	-	-	-
Derivatives	(83)	(83)	(92)	(839)	299	288	-	-
Trade payables	(208)	(1 490)	(14)	-	13	-	(10)	8
Borrowings	(6 815)	(6 822)	(842)	(201)	762	181	(38)	30
Other financial liabilities	(6)	(89)	(1)	-	1	-	-	-
		Impact on profit or loss	**83**		**141**		**(32)**	**25**
		Impact on other comprehensive income		**(1 040)**		**469**		

The sensitivity analysis of the Company for currency risk as at 31 December 2014 is presented in the table below:

Financial assets and liabilities	Value at risk [PLN million]	Carrying amount 31.12.2014 [PLN million]	USD/PLN 4.07 +16% profit or loss	USD/PLN 4.07 +16% other comprehensive income	USD/PLN 2.98 -15% profit or loss	USD/PLN 2.98 -15% other comprehensive income	EUR/PLN 4.72 3.88 profit or loss	EUR/PLN +11% -9% profit or loss
Trade receivables	1 135	1 407	127	-	(119)	-	14	(11)
Cash and cash equivalents	25	293	1	-	(1)	-	1	(1)
Loans granted	2 011	2046	262	-	(245)	-	-	-
Other financial assets	57	387	7	-	(7)	-	-	-
Derivatives	299	299	(365)	(120)	94	431	-	-
Trade payables	(168)	(1 277)	(9)	-	9	-	-	-
Borrowings	(2 108)	(2 108)	(137)	(169)	129	158	-	-
Other financial liabilities	(8)	(85)	(1)	-	1	-	-	-
		Impact on profit or loss	**(115)**		**(139)**		**15**	**(12)**
		Impact on other comprehensive income		**(289)**		**589**		

Note 7.5.1.4. Interest rate risk

In 2015 the Company was exposed to the risk of changes in interest rates due to loans granted to joint ventures, investing free cash, participating in a cash-pool service and borrowing.

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

The main items which are exposed to interest rate risk are presented below:

		2015			2014		
		Cash flow risk	Fair value risk	Total	Cash flow risk	Fair value risk	Total
Note 8.5	Cash and cash equivalents	418	-	**418***	318	-	**318***
Note 6.2	Loans granted	34	6 721	**6 755**	35	2 011	**2 046**
Note 7.1	Borrowings	5 646**	1 176	**6 822**	1 050	1 058	**2 108**
	Cash pool receivables	264***	-	**264**	206***	-	**206**

** Presented amounts include cash accumulated in special purpose funds: Mine Closure Fund, Tailings Storage Facility Restoration Fund and Social Fund*
*** Presented amounts include the preparation fee paid which decreases financial liabilities due to bank loans*
**** Presented in the net amount (receivables due to participation in cash pool services less liabilities)*

Transactions hedging the Company against an increase in the interest rate (LIBOR USD) were implemented in the first quarter of 2015 by purchasing call options (interest rate cap) with a 2.50 % interest rate, for the period from January 2016 to December 2018 and an average quarterly notional amount of USD 717 million. As a result as at 31 December 2015 the Company held open derivative transactions on the interest rate market for 2016 (average quarterly notional amount of USD 550 million), for 2017 (average quarterly notional amount of USD 700 million) and for 2018 (average quarterly notional amount of USD 900 million).

The condensed table of open transactions in derivatives on the interest rate market is presented below:

Instrument	Notional [USD million]	Option strike price [LIBOR 3M]	Average weighted premium [USD for USD 1 million hedged]	Average weighted premium [%]	Effective hedge level [LIBOR 3M]
Purchase of interest rate cap options, I quarter	400	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options, II quarter	500	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options, III quarter	600	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options, IV quarter	700	2.50%	734	0.29%	2.79%
AVERAGE IN 2016	**550**				
Purchase of interest rate cap options, I quarter	700	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options, II quarter	700	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options, III quarter	700	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options, IV quarter	700	2.50%	734	0.29%	2.79%
AVERAGE IN 2017	**700**				

PART 7 – Financial Instruments and financial risk management amounts in PLN millions, unless otherwise stated

Purchase of interest rate cap options, I quarter	900	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options, II quarter	900	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options, III quarter	900	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options, IV quarter	900	2.50%	734	0.29%	2.79%
AVERAGE IN 2018	**900**				

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

	2015		**2014**	
	1.5%	**-0.5%**	**1.5%**	**-0.5%**
Cash and cash equivalents	6	(2)	5	(2)
Borrowings	(85)	28	(16)	5
Derivatives – interest rate	53	(7)	-	-
Cash pool	4	(1)	3	(1)
Total impact on profit/loss	**(22)**	**18**	**(8)**	**2**

Note 7.5.2. Credit risk

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

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

In particular, the Company is exposed to credit risk due to:

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

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

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

All entities with which deposit transactions are entered into by the Company, including cash and cash equivalents accumulated in the following special purpose funds: Mine Closure Fund, Tailings Storage Facilities Restoration Fund and Social Fund, operate in the financial sector. These are solely banks registered in Poland or operating in Poland as branches of foreign banks, which belong to European and American financial institutions with the highest, medium-high and medium ratings, an appropriate level of equity and a strong, stable market position. Credit risk in this regard is continuously monitored through the on-going review of the financial standing and by maintaining an appropriately low level of concentration of resources in individual financial institutions.

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

PART 7 – Financial Instruments and financial risk management amounts in PLN millions, unless otherwise stated

Rating level		2015	2014
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	66%	67%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	34%	33%

* *Weighed by amount of deposits.*

Note 7.5.2.2. Credit risk related to derivative transactions

All entities with which derivative transactions are entered into by the Company operate in the financial sector.

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

Rating level		2015	2014
Highest	AAA to AA- according to S&P and Fitch, and from Aaa to Aa3 according to Moody's	-	1%
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	97%	93%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	3%	6%

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

Taking into consideration the fair value of open derivative transactions entered into by the Company and the fair value of unsettled derivatives, as at 31 December 2015 the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 58% (as at 31 December 2014: 44%).

Due to diversification of risk in terms both of the nature of individual entities and of their geographical location, as well as to cooperation with medium-high and medium-rated financial institutions, the Company is not materially exposed to credit risk arising from derivative transactions entered into.

In order to reduce cash flows and at the same time to limit credit risk, the Company 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.

The fair value of open derivatives of the Company and receivables due to unsettled derivatives are presented by main counterparties in the table below.

	2015			2014		
	Financial receivables	Financial payables	Net	Financial receivables	Financial payables	Net
Counterparty 1	43	0	**43**	154	(1)	**153**
Counterparty 2	39	(19)	**20**	-	-	**-**
Counterparty 3	11	(9)	**2**	-	(8)	**(8)**
Other	73	(178)	**(105)**	337	(149)	**188**
Total	**166**	**(206)**	**(40)**	**491**	**(158)**	**333**
open derivatives	123	(206)	**(83)**	457	(158)	**299**
unsettled derivatives	43	-	**43**	34	-	**34**

PART 7 – Financial Instruments and financial risk management amounts in PLN millions, unless otherwise stated

Note 7.5.2.3. Credit risk related to trade receivables

For many years, the Company has been cooperating with a large number of customers, which affects the geographical diversification of trade receivables. The majority of sales go to EU countries.

	2015			2014		
	Poland	EU (excl. Poland)	Other countries	Poland	EU (excl. Poland)	Other countries
Net trade receivables	38%	15%	47%	27%	38%	35%

The Company limits its exposure to credit risk related to trade receivables by evaluating and monitoring the financial condition of its customers, setting credit limits and requiring collateral. An inseparable element of the credit risk management process performed by the Company is the continuous monitoring of receivables and the internal reporting system.
Buyer's credit is only provided to proven, long-term customers (as at 31 December 2015, receivables from this group represented approx. 90% of trade receivables), while sales of products to new customers are mostly based on prepayments or trade financing instruments which wholly transfer the credit risk to financial institutions.

The Company makes use of the following forms of collateral:

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

Taking into account the above forms of collateral and the credit limits received from the insurance company, as at 31 December 2015 the Company had secured 95% of its trade receivables (as at 31 December 2014, 95%).

The total value of the Company's net trade receivables as at 31 December 2015, without the fair value of collaterals, to the value of which the Company may be exposed to credit risk, amounts to PLN 999 million (as at 31 December 2014: PLN 1 407 million).

The concentration of credit risk in the Company is related to the terms of payment allowed to key clients. Consequently, as at 31 December 2015 the balance of receivables from the Company's 7 largest clients, in terms of trade receivables at the end of the reporting period, represented 85% of the balance of trade receivables (as at 31 December 2014: 75%). Despite the concentration of this type of risk, the Company believes that due to the available historical data and the many years of experience in cooperating with its clients, as well as to securities used, the level of credit risk is low.

Note 7.5.2.4. Credit risk related to other financial assets

Major items in other financial assets are:

- cash accumulated in the special purpose funds: Mine Closure Fund and Tailings Storage Facility Restoration Fund in the amount of PLN 239 million (credit risk is described in Note 7.5.2.1).

- net receivables due to the cash pool in the amount of PLN 264 million. Credit risk in this regard is continuously monitored through the on-going review of the financial standing and assets of the companies participating in the cash pool.

amounts in PLN millions, unless otherwise stated

PART 8 – Borrowings and the management of liquidity and capital

Note 8.1 Capital management policy

Capital management in the Company is aimed at securing funds for business development and maintaining the appropriate level of liquidity. To this end, the Management Board analyses ratios calculated on the basis of consolidated financial data.

In accordance with market practice, the Company monitors the Group's capital, among others using ratios presented in the table below, which were calculated on the basis of data presented in the Consolidated Financial Statements of the KGHM Group for 2015:

Ratios:	Calculations:	2015	2014
Net Debt/EBITDA	relation of net debt to EBITDA	**1.4**	**0.9**
Net Debt	borrowings, debt instruments and finance lease liabilities less free cash and short term investments with a maturity of up to 1 year	6 554	4 335
EBITDA*	profit on sales plus depreciation/amortisation recognised in profit or loss and impairment losses on non-current assets	4 811	4 890
Equity ratio	relation of equity less intangible assets to total assets	**0.5**	**0.6**
Equity	assets of the Group after deducting all of its liabilities	20 414	25 530
Intangible assets	identifiable non-cash items of assets without a physical form	3 371	2 918
Equity less intangible assets		17 043	22 612
Total assets	sum of non-current and current assets	36 764	40 374

** this amount represents the adjusted EBITDA, and does not include the joint venture Sierra Gorda S.C.M.*

In the management of liquidity and capital, the Group pays also attention to adjusted operating profit, which is the basis for calculating the financial covenants and which is comprised of the following items:

	2015	2014
Profit on sales	506	3 353
Interest income on loans granted to joint ventures	466	282
Other operating income and costs	(660)	56
Adjusted operating profit	**312***	**3 691***

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

In order to maintain financial liquidity and the creditworthiness to acquire external financing at an optimum cost, the Group assumes that the *equity ratio* shall be maintained at a level of not less than 0.5, and the *ratio of Net Debt/EBITDA* at a level of up to 2.0.

PART 8 – Borrowings and the management of liquidity and capital amounts in PLN millions, unless otherwise stated

Note 8.2 Equity

Accounting policies
Share capital is recognised at nominal value.
Other reserves from measurement of financial instruments (Note 7.2 of accounting policies) arises from the measurement of cash flow hedging instruments and the measurement of available-for-sale financial assets less any deferred tax effect.
Accumulated other comprehensive income consists of actuarial gains/losses on post-employment benefits less any deferred tax effect (Note 11 of the accounting policies).
Retained earnings are a sum of profit for the current year and accumulated profits from previous years, which has not been paid out as dividends, but increased the reserve capital or was not distributed.

Note 8.2.1 Share capital

As at 31 December 2015 and at the date of signing of these financial statements, the Company's share capital, in accordance with the entry in the National Court Register, amounted to PLN 2 000 million and was divided into 200 000 000 shares, series A, fully paid, each having a face value of PLN 10. All of the shares are bearer shares. The Company has not issued preference shares. Each share grants the right to one vote at the general meeting. The Company does not have treasury shares. Subsidiaries and joint ventures do not have shares of KGHM Polska Miedź S.A.

In the years ended 31 December 2015 and 31 December 2014 there were no changes in either registered share capital or in the number of issued shares.

In 2015 and 2014 there were no changes in the ownership of significant blocks of shares of KGHM Polska Miedź S.A. In these years, the State Treasury was the only shareholder of the Company with a stake granting the right to at least 5% of the share capital and of the total number of votes.

As far as the Company's is aware, as at 31 December 2015 and as at the date of signing of these financial statements, the Company's shareholder structure was as follows:

shareholder	number of shares/votes	total nominal value of shares (PLN)	percentage held in share capital/total number of votes
State Treasury	63 589 900	635 899 000	31.79%
Other shareholders	136 410 100	1 364 101 000	68.21%
Total	200 000 000	2 000 000 000	100.00%

PART 8 – Borrowings and the management of liquidity and capital amounts in PLN millions, unless otherwise stated

Note 8.2.2 Changes of other equity items

		Other reserves from measurement of financial instruments			Retained earnings		
		Other reserves from measurement of available-for-sale financial assets	Other reserves from measurement of cash flow hedging financial instruments	Accumulated other comprehensive income	Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396	Reserve capital created from profit in accordance with the Company's Statutes	Profit/(loss) from previous years
	As at 1 January 2015	**114**	**252**	**(401)**	**660**	**19 238**	**2 414**
Note 12.2	Dividends paid	-	-	-	-	-	(800)
	Transfer to reserve capital	-	-	-	-	1 614	(1 614)
	Total comprehensive income, of which:	**(107)**	**(362)**	**59**	**-**	**-**	**(2 788)**
	Loss for the year	-	-	-	-	-	(2 788)
	Other comprehensive income	**(107)**	**(362)**	**59**	**-**	**-**	**-**
	Losses from changes in the fair value of available-for-sale financial assets	(215)	-	-	-	-	-
	Fair value gains after prior impairments	83	-	-	-	-	-
Note 7.2	Impact of effective cash flow hedging transactions entered into	-	35	-	-	-	-
Note 7.2	Amount transferred to profit or loss - adjustment due to the reclassification of hedging instruments	-	(482)	-	-	-	-
Note 11.2	Actuarial gains/(losses) on post-employment benefits	-	-	73	-	-	-
Note 5.1.1	Deferred income tax	25	85	(14)	-	-	-
	As at 31 December 2015	**7**	**(110)**	**(342)**	**660**	**20 852**	**(2 788)**

PART 8 – Borrowings and the management of liquidity and capital amounts in PLN millions, unless otherwise stated

		Other reserves from measurement of financial instruments			Retained earnings		
		Other reserves from measurement of available-for-sale financial assets	Other reserves from measurement of cash flow hedging financial instruments	Accumulated other comprehensive income	Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396	Reserve capital created from profit in accordance with the Company's Statutes	Profit/(loss) from previous years
	As at 1 January 2014	**13**	**499**	**(112)**	**660**	**17 180**	**3 058**
	Dividends paid	-	-	-	-	-	(1 000)
	Transfer of profit for 2014 to reserve capital	-	-	-	-	2 058	(2 058)
	Total comprehensive income, of which:	**101**	**(247)**	**(289)**	**-**	**-**	**2 414**
	Profit for the year	-	-	-	-	-	2 414
	Other comprehensive income	**101**	**(247)**	**(289)**	**-**	**-**	**-**
	Fair value gains after prior impairments	124	-	-	-	-	-
Note 7.2	Impact of effective cash flow hedging transactions entered into	-	227	-	-	-	-
Note 7.2	Amount transferred to profit or loss - adjustment due to the reclassification of hedging instruments	-	(531)	-	-	-	-
Note 11.2	Actuarial gains/(losses) on post-employment benefits	-	-	(357)	-	-	-
Note 5.1.1	Deferred income tax	(23)	57	68	-	-	-
	As at 31 December 2014	**114**	**252**	**(401)**	**660**	**19 238**	**2 414**

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

As at 31 December 2015 the statutory reserve capital in the Company amounts to PLN 660 million, and is recognised in retained earnings in reserve capital item created in accordance with the art. 396 of Commercial Partnerships and Companies Code.

PART 8 – Borrowings and the management of liquidity and capital amounts in PLN millions, unless otherwise stated

Note 8.2.3 Other information related to capital

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

Note 8.3 Liquidity management policy

The Management Board is responsible for financial liquidity management in the Company and compliance with adopted policy. The Financial Liquidity Committee, which was created in 2015, is an entity supporting the Management Board in this regard.

The management of financial liquidity is performed in accordance with the Financial Liquidity Management Policy (*Policy*) approved by the Management Board. This document describes in a comprehensive way the process of managing the Company's financial liquidity, indicating the best practice procedures and instruments. The basic principles resulting from this document are:

- assuring the stable and effective financing of the Company's activities,
- investment of financial surpluses in safe financial instruments,
- limits for individual financial investment categories,
- limits for the concentration of funds in financial institutions,
- the investment level rating for banks, in which the funds are deposited, and
- effective management of working capital.

Under the process of liquidity management, the Company utilises instruments which enhance its effectiveness. One of the primary instruments used by the Company is the Cash Pool service, managed both locally in PLN, USD and EUR and internationally in USD. The Cash Pool service is aimed at optimising the management of cash resources, enabling control of interest costs, the effective financing of current working capital needs and the support of short-term financial liquidity in the Group.

Note 8.3.1 Contractual maturities for financial liabilities

Financial liabilities – as at 31 December 2015

	Contractual maturities from the end of the reporting period			Total (without discounting)	Carrying amount
	up to 12 months	1-3 years	over 3 years		
Borrowings	2 128	1 077	3 842	**7 047**	**6 822**
Trade payables	1 318	16	376	**1 710**	**1 490**
Derivatives – currency contracts	-	-	-	**-**	**206**
Other financial liabilities	82	7	-	**89**	**89**
Total financial liabilities by maturity	**3 528**	**1 100**	**4 218**	**8 846**	

Financial liabilities – as at 31 December 2014

	Contractual maturities from the end of the reporting period			Total (without discounting	Carrying amount
	up to 12 months	1-3 years	over 3 years		
Borrowings	1 082	92	1 168	**2 342**	**2 108**
Trade payables	1 109	16	379	**1 504**	**1 276**
Derivatives – Currency contracts	-	-	-	**-**	**157**
Derivatives – Commodity contracts - metals	-	-	-	**-**	**1**
Other financial liabilities	79	5	1	**85**	**85**
Total financial liabilities by maturity	**2 270**	**113**	**1 548**	**3 931**	

PART 8 – Borrowings and the management of liquidity and capital amounts in PLN millions, unless otherwise stated

Note 8.4 Borrowings

Accounting policies

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

Note 8.4.1 Net debt

	2015	2014
Bank loans	3 554*	-
Other loans	1 170	1 052
Total non-current liabilities due to borrowings	4 724	1 052
Bank loans	2 092	1 050
Other loans	6	6
Total current liabilities due to borrowings	2 098	1 056
Total borrowings	**6 822**	**2 108**
Free cash and cash equivalents	156	85
Net debt	**6 666**	**2 023**

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

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

	2015	2014
USD/LIBOR	6 443*	2 108
EUR/EURIBOR	412	-
Total	**6 855**	**2 108**

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

In 2015, liabilities due to borrowing increased, including an increase in current liabilities. As a result, as at 31 December 2015 current liabilities amounted to PLN 5 085 million and this amount was higher than the amount of current assets by PLN 371 million. Under bilateral agreements signed with banks, the Company makes use of working capital facilities and overdraft facilities with maturities of up to 2 years. As a result of the above, and that these bilateral agreements are successively extended for subsequent periods, the Company considers the liquidity risk connected to the received short-term bank loans as low.

Note 8.4.2 Net debt changes

As at 1 January 2014	**1 000**
Net cash flow on borrowings	839
Exchange differences due to borrowings in foreign currencies	124
Other non-cash changes	22
Changes in free cash and cash equivalents	38
As at 31 December 2014	**2 023**
Net cash flow on borrowings	4 581
Exchange differences due to borrowings in foreign currencies	29
Other non-cash changes	104
Changes in free cash and cash equivalents	(71)
As at 31 December 2015	**6 666**

PART 8 – Borrowings and the management of liquidity and capital amounts in PLN millions, unless otherwise stated

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

Note 8.4.3 Detailed information concerning main sources of borrowings

As at 31 December 2015, the Company had open credit lines and an investment loan with a total balance of available financing in the amount of PLN 15 571 million, out of which PLN 6 855 million had been drawn. The structure of financing sources is presented below.

	2015		2014
	Amount available	Amount drawn	Amount drawn
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 5 year tenor (with the voluntary option of extending for another 2 years after a one year period and a two years period from the date of the agreement's conclusion). In 2015, the Company received permission from a syndicate of banks for extending the loan's maturity by 1 year. The new maturity expires on 10 July 2020. The funds acquired through this credit facility will be used to finance general corporate purposes, including expenditures related to the continued advancement of investment projects and for refinancing of the debt of KGHM INTERNATIONAL LTD. Interest on the credit facility is based on LIBOR plus a margin, depending on the net debt/EBITDA ratio. The credit facility agreement obliges the Company to comply with the financial covenant and non-financial covenants. As at 31 December 2015, during the reporting period and up to the date of authorising the financial statements for issue, there were no instances of violation of the covenants stipulated in the aforementioned agreement.	9 753	3 126	-
2. **Investment loan** from the European Investment Bank for PLN 2 000 million with a financing period of 12 years. This loan can be used in the form of non-revolving instalments drawn in PLN, EUR or USD, with either a fixed or variable interest rate of WIBOR, LIBOR or EURIBOR plus a margin. The remaining period of the instalments' availability is 5 months as at the reporting date. The payback period of drawn instalments expires on 30 October 2026. The funds acquired through this loan will be used to finance Company investment projects related to modernisation of metallurgy and development of the Żelazny Most tailings storage facility. The loan agreement obliges the Company to comply with the financial and non-financial covenants. As at 31 December 2015, during the reporting period and up to the date of authorising the financial statements for issue, there were no instances of violation of the covenants stipulated in the aforementioned agreement.	2 000	1 176	1 058
3. **Other bank loans** in the total amount of PLN 3 818 million, used for financing working capital and supporting the management of current financial liquidity. The Company holds lines of credit in the form of short-term and long-term credit agreements. These are working capital facilities and overdraft facilities with availability of up to 2 years. The maturities of these agreements are successively extended for subsequent periods. The funds obtained under open lines of credit are available in PLN, USD and EUR, with interest based on variable WIBOR, LIBOR and EURIBOR plus a margin.	3 818	2 553	1 050
	15 571	**6 855**	**2 108**

PART 8 – Borrowings and the management of liquidity and capital amounts in PLN millions, unless otherwise stated

These sources ensure the availability of external financing in the amount of PLN 15 571 million. Funds available for use from these sources in the amount of PLN 8 716 million fully cover the medium and long-term liquidity needs of the Company and the Group.

The syndicated credit in the amount of USD 2 500 million, the investment loan in the amount of PLN 2 000 million, as well as other bank loans in the amount of PLN 3 818 million are unsecured.

Note 8.5 Cash and cash equivalents

Accounting policies

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

	2015	2014
Cash in bank accounts	6	3
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits	152	82
Total cash and cash equivalents	**158**	**85**

Note 8.6 Contingent liabilities due to guarantees granted

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

As at 31 December 2015, the Company held contingent liabilities due to guarantees and letters of credit granted in the total amount of PLN 1 275 million and due to promissory note liability in the amount of PLN 256 million.

The most significant items are contingent liabilities aimed at:

- securing the performance of agreements concluded by Sierra Gorda S.C.M. in the amount of PLN 855 million (a letter of credit of PLN 536 million granted as security for the proper performance of a long-term contract for the supply of electricity and PLN 319 million as corporate guarantees set as security on the payment of concluded lease agreements),
- securing the restoration costs of the Robinson mine, the Podolsky mine and the Victoria project in the amount of PLN 324 million,
- securing the proper execution of future environmental obligations of the Company 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 64 million and an own promissory note of PLN 256 million).

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

amounts in PLN millions, unless otherwise stated

PART 9 – Non-current assets and related liabilities

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

Accounting policies – property, plant and equipment

The most important property, plant and equipment of the Company is property, plant and equipment related to the mining and metallurgical operations, comprised of land, buildings, water and civil engineering structures, such as: primary mine tunnels (including shafts, wells, galleries, drifts, primary chambers), backfilling, drainage and firefighting pipelines, piezometric holes and electricity, signal and optical fiber cables. Machines, technical equipment, motor vehicles and other movable fixed assets are also included in mining and metallurgical property, plant and equipment.
Property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses.

In the initial cost of items of property, plant and equipment the Company includes discounted decommissioning costs of fixed assets related to underground and open-pit mining, as well as of other facilities which, in accordance with binding laws, must be decommissioned upon the conclusion of activities. Principles of recognition and measurement of decommissioning costs are presented in Note 9.4.
The asset's carrying amount includes costs of necessary regular major overhauls, including costs of overhauls for the purpose of certification.
The initial cost is increased by borrowing costs (i.e. interest and exchange differences representing an adjustment to interest cost) that were incurred for the purchase or construction of a qualifying item of property, plant and equipment.
Items of property, plant and equipment (excluding land) are depreciated by the Company, pursuant to the model of consuming the economic benefits from the given item of property, plant and equipment:

- using the straight-line method**,** for items which are used in production at an equal level throughout the period of their usage,
- using the units of production method**,** for items in respect of which the consumption of economic benefits is directly related to the quantity of extracted ore from a deposit or of units produced, and this extraction or production is not spread evenly through the period of their usage. In particular it relates to buildings, as well as machines and mining equipment in gas-steam blocks.

The useful lives, and therefore the depreciation rates of fixed assets used in the production of copper, are adapted to the plans for the closure of operations.
For individual groups of fixed assets, the following useful lives have been adopted, estimated based on the anticipated useful lives of mines, which takes into consideration deposit content:

Group	Fixed assets type	Total useful lives
Buildings and land	Land	Not subject to depreciation
	Buildings	25-90 years
	Primary mine tunnels	22-90 years
	Backfilling, drainage and firefighting pipelines	6-90 years
	Electricity, signal and optical fiber cables	10-70 years
Technical equipment, machines, motor vehicles and other fixed assets	Technical equipment, machines	4-15 years
	Motor vehicles	3-14 years
	Other fixed assets, including tools and equipment	5-10 years

The Company performs regular reviews of its property, plant and equipment in terms of the adequacy of applied useful lives to current operating conditions.

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

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

An impairment loss is recognised as the amount by which the carrying amount of the given asset or cash-generating unit exceeds its recoverable amount.

For the purpose of impairment analysis, assets are grouped at the lowest level at which they generate cash inflows, independently from other assets (cash-generating units). Cash-generating units are determined separately, each time an impairment test is to be performed.

If an impairment test indicates that the recoverable amount (i.e. the higher of: fair value less costs to sell and its value in use) of a given asset or cash-generating unit is lower than its carrying amount, an impairment loss is recognised as the difference between the recoverable amount and the carrying amount of a given asset or cash-generating unit. The impairment loss is allocated to individual assets within the cash-generating units, proportionally to the share of an individual asset's carrying amount in the carrying amount of the entire unit. If such an allocation is made, the carrying amount of the asset may not be lower than the highest of the following values: fair value less costs to sell, value in use and zero.

Accounting policies – intangible assets

Mining and metallurgical intangible assets are mainly comprised of exploration and evaluation assets.
Exploration and evaluation assets

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

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

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

The Company is required to test an individual entity (project) for impairment when:
- the technical feasibility and commercial viability of extracting mineral resources is demonstrable; and
- the facts and circumstances indicate that the carrying amount of exploration and evaluation assets may exceed their recoverable amount.

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

Important estimates and assumptions

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

amounts in PLN millions, unless otherwise stated

		Property, plant and equipment			Intangible assets		
		Buildings and land	Technical equipment, machines, motor vehicles and other fixed assets	Fixed assets under construction	Exploration and evaluation assets	Other	Total
	As at 1 January 2014						
	Gross carrying amount	7 036	7 850	2 890	111	168	18 055
	Accumulated depreciation/amortisation	(4 032)	(4 216)	-	-	(29)	(8 277)
	Impairment losses	-	(1)	(2)	-	-	(3)
	Net carrying amount	**3 004**	**3 633**	**2 888**	**111**	**139**	**9 775**
	Changes in 2014 net						
	Settlement of fixed assets under construction	471	1 272	(1 743)	-	-	-
	Purchases	-	-	2 100	55	178	2 333
	Self-constructed	-	-	38	-	10	48
Note 9.3	Change in provisions for decommissioning costs of mines and tailings storage facilities	471	-	-	-	-	471
Note 4.1	Depreciation/Amortisation	(166)	(622)	-	-	(7)	(795)
	Other changes	(2)	(12)	3	-	4	(7)
	As at 31 December 2014						-
	Gross carrying amount	7 961	8 747	3 288	166	357	20 519
	Accumulated depreciation/amortisation	(4 183)	(4 475)	-	-	(33)	(8 691)
	Impairment losses	-	(1)	(2)	-	-	(3)
	Net carrying amount	**3 778**	**4 271**	**3 286**	**166**	**324**	**11 825**
	Changes in 2015 net						
	Settlement of fixed assets under construction	473	716	(1 189)	-	-	-
	Purchases	-	-	2 411	89	20	2 520
	Self-constructed	-	-	44	-	10	54
Note 9.3	Change in provisions for decommissioning costs of mines and tailings storage facilities	(131)	-	-	-	-	(131)
Note 4.1	Depreciation/Amortisation	(192)	(681)	-	-	(11)	(884)
	Impairment losses	-	(5)	-	-	(66)	(71)
	Other changes	23	(4)	45	(1)	10	73
	As at 31 December 2015						
	Gross carrying amount	8 277	9 138	4 599	254	396	22 664
	Accumulated depreciation/amortisation	(4 326)	(4 838)	-	-	(43)	(9 207)
	Impairment losses	-	(3)	(2)		(66)	(71)
	Net carrying amount	**3 951**	**4 297**	**4 597**	**254**	**287**	**13 386**

PART 9 – Non-current assets and related liabilities amounts in PLN millions, unless otherwise stated

The amount of collateral for the repayment of liabilities of KGHM Polska Miedź S.A. established on property, plant and equipment was presented in Note 8.4.3. Detailed information concerning main sources of borrowings.

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

	2015	2014
Pyrometallurgy Modernisation Program	1 537	956
Deep Głogów (Głogów Głęboki – Przemysłowy)	976	821
Construction of the SW-4 shaft	609	574
Investment activity related to development and operation of Żelazny Most Tailings Storage Facility	212	234
Investments related to mining region infrastructural development in mines	271	167

Note 9.1.2 Expenses related to mining and metallurgical assets

	2015	2014
Purchases	(2 520)	(2 333)
Change in liabilities due to purchases	126	126
Other	(48)	28
Total	**(2 442)**	**(2 179)**

PART 9 – Non-current assets and related liabilities amounts in PLN millions, unless otherwise stated

Note 9.2 Other property, plant and equipment and intangible assets

Accounting policies

Other property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses. The policy regarding impairment is presented in Note 9.1 Depreciation is done using the straight-line method.

For individual groups of fixed assets, the following useful lives have been adopted:

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

Intangible assets presented as "other intangible assets" include in particular: acquired property rights not related to mining operations and software. These assets are measured at cost less any accumulated amortisation and impairment losses.
Intangible assets are amortised using the straight-line method over their anticipated useful lives. The useful lives of main groups of intangible assets are as follows:

- acquired property rights not related to mining activities: 5 – 50 years;
- software: 2 – 5 years; and
- other intangible assets: 40 - 50 years.

PART 9 – Non-current assets and related liabilities amounts in PLN millions, unless otherwise stated

	Property, plant and equipment			Intangible assets	
	Buildings and land	Technical equipment, machines, motor vehicles and other fixed assets	Fixed assets under construction	Other	Total
As at 1 January 2014					
Gross carrying amount	122	220	3	101	446
Accumulated depreciation/amortisation	(27)	(98)	-	(80)	(205)
Net carrying amount	**95**	**122**	**3**	**21**	**241**
As at 31 December 2014					-
Gross carrying amount	123	229	10	108	470
Accumulated depreciation/amortisation	(28)	(107)	-	(87)	(222)
Net carrying amount	**95**	**122**	**10**	**21**	**248**
As at 31 December 2015					
Gross carrying amount	126	246	5	112	489
Accumulated depreciation/amortisation	(30)	(114)	-	(88)	(232)
Net carrying amount	**96**	**132**	**5**	**24**	**257**

PART 9 – Non-current assets and related liabilities amounts in PLN millions, unless otherwise stated

Note 9.3. Depreciation of property, plant and equipment and amortisation of intangible assets

		2015	2014
	settled in profit or loss	875	818
	being part of the manufacturing cost of other assets	35	-
Note 4.1	Total	910	818

Note 9.4 Provision for decommissioning costs of mines and other facilities

Accounting policies	Important estimates and assumptions
The provision for future decommissioning costs of mines and other technological facilities is recognised based on the estimated expected costs of decommissioning of such facilities and of restoring the sites to their original condition. Estimation of this provision is based on specially-prepared studies using ore extraction forecasts (for mining facilities), and technical-economic studies prepared either by specialist firms or by the Company. A change in the discount rate or in the estimated decommissioning cost adjusts the value of the relevant item of a fixed asset, unless it exceeds the carrying amount of the item of a fixed asset (any surplus above this amount is recognised in other operating income).	These provisions represent the estimated future decommissioning costs of mines and other technological facilities discounted to present value. Revaluation of this provision at the end of the reporting period in the Company is affected by the following indicators: a) the index of changes in prices in the construction-assembly sector published by the Central Statistical Office (GUS), b) the forecasted discount rate calculated based on the yield on treasury bonds with maturities nearest to the planned financial outflow. The yield on treasury bonds and the inflation rate are set separately for future periods, i.e. for the first, second and third years, and jointly for periods from the fourth year. In order to estimate the provision for future decommissioning costs of mines and other technological facilities in the Company, a discount rate of 3% has been applied as at 31 December 2015 (in 2014, 2.75%).

		2015	2014
	Provisions at the beginning of the reporting period	1 005	524
Note 9.1	Changes in estimates recognised in fixed assets	(131)	471
	Other	18	10
	Provisions at the end of the reporting period including:	**892**	**1 005**
	- non-current provisions	873	992
	- current provisions	19	13

amounts in PLN millions, unless otherwise stated

PART 10 – Working capital

Note 10.1 Inventories

Accounting policies
The Company measures inventories at cost, not higher than the sales price less costs of completing production and costs necessary to make the sale. Inventory disposals are measured at weighted average cost.

	2015	2014
Materials	477	370
Half-finished goods and work in progress	1 613	1 561
Finished goods	438	379
Merchandise	73	67
Total net carrying amount of inventories	**2 601**	**2 377**

Write-down of inventories amounted to PLN 45 million (in 2014: PLN 4 million).

Note 10.2 Trade receivables

Accounting policies
Trade receivables are initially recognised at fair value. After initial recognition, these receivables are measured at amortised cost while taking into account impairment allowance. Receivables not representing financial assets are initially recognised at their nominal value and measured at the end of the reporting period at the amount due.

	2015	2014
Current trade receivables	1 000	1 407

As at 31 December 2015 as well as in 2014, there were no significant amounts of overdue trade receivables and for which no impairment has been identified. Impairment allowances on trade receivables (cumulatively and recognised in a given period) are immaterial for the current and comparable reporting periods. The Company is exposed to the credit risk and currency risk arising from trade receivables. Credit risk management and assessment of the credit quality of receivables is presented in Note 7.5.2.3. Information on risk of changes in foreign exchange rates is presented in Note 7.5.1.3.
The fair value of trade receivables approximates the carrying amount.

PART 10 – Working capital amounts in PLN millions, unless otherwise stated

Note 10.3 Trade payables

Accounting policies
Trade payables are initially recognised at fair value and are measured at amortised cost at the end of the reporting period.

	2015	2014
Non-current trade payables	172	168
Current trade payables	1 318	1 109
Trade payables	**1 490**	**1 277**

The item trade payables contains payables due to the purchase and construction of property, plant and equipment and intangible assets which, as at 31 December 2015, amounted to PLN 172 million in the non-current part and PLN 731 million in the current part (as at 31 December 2014, respectively PLN 168 million and PLN 577 million).
The Company is exposed to currency risk arising from trade payables, and to liquidity risk. Information on currency risk is presented in Note 7.5.1.3 and on liquidity risk in Note 8.3.
The fair value of trade payables approximates the carrying amount.

Note 10.4 Changes in working capital

	Inventories	Trade receivables	Trade payables	Total working capital
As at 31 December 2014	(2 377)	(1 407)	1 277	**(2 507)**
As at 31 December 2015	(2 601)	(1 000)	1 490	**(2 111)**
Change in the statement of financial position	(224)	407	213	**396**
Adjustments	23	-	(124)	**(101)**
Change recognised in the statement of cash flows	(201)	407	89	**295**

	Inventories	Trade receivables	Trade payables	Total working capital
As at 31 December 2013	(2 432)	(1 594)	1 166	**(2 860)**
As at 31 December 2014	(2 377)	(1 407)	1 277	**(2 507)**
Change in the statement of financial position	55	187	111	**353**
Adjustments	-	-	(131)	**(131)**
Change recognised in the statement of cash flows	55	187	(20)	**222**

amounts in PLN millions, unless otherwise stated

PART 11 – Employee benefits

Accounting policies

The Company is obliged to pay specified benefits following the period of employment (retirement benefits due to one-off retirement-disability rights, post-mortem benefits and the coal equivalent) and other long-term benefits (jubilee bonuses), in accordance with the Collective Labour Agreement.

The amount of the liabilities due to both of these benefits is estimated at the end of the reporting period by an independent actuary using the projected unit credit method.

The present value of liabilities from these benefits is determined by discounting estimated future cash outflow using the interest rates on treasury bonds expressed in the currency of the future benefits payments, with maturities similar to those of the liabilities due to be paid.
Actuarial gains and losses from the measurement of specified benefits following the period of employment are recognised in other comprehensive income in the period in which they arose. Actuarial gains/losses from the measurement of other benefits (for example benefits due to jubilee bonuses) are recognised in profit or loss.

Important estimates and assumptions

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

Other macroeconomic assumptions used to measure liabilities due to future employee benefits, such as the inflation rate or the minimum salary, are based in part on current market conditions. The assumptions used to measure liabilities as at 31 December 2015 are presented in Note 11.2.

Impact of changes in the indicators on the balance of liabilities

	2015	2014
an increase in the discount rate by 1%	**(248)**	(260)
a decrease in the discount rate by 1%	**328**	348
an increase in the coal price rate and the salary increase rate by 1%	**324**	335
a decrease in the coal price rate and the salary increase rate by 1%	**(250)**	(261)

Note 11.1 Employee benefits liabilities

Components of the item: employee benefits liabilities

	2015	2014
Non-current	1 803	1 842
Current	102	114
Total liabilities due to future employee benefits programs	**1 905**	**1 956**
Employee benefits liabilities	160	163
Accruals (unused annual leave, bonuses, other)	315	307
Total employee benefits	**475**	**470**

PART 11 – Employee benefits amounts in PLN millions, unless otherwise stated

Employee benefits expenses

		2015	2014
	Remuneration	2 107	2 097
	Costs of social security	864	859
	Costs of future benefits	21	66
Note 4.1	**Employee benefits expenses**	**2 992**	**3 022**

Note 11.2 Changes in liabilities related to future employee benefits programs

		TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
	As at 1 January 2014	**1 533**	**241**	**213**	**1 051**	**28**
Note 11.1	Total costs recognised in profit or loss	**160**	75	20	63	2
	Interest costs	**69**	11	10	47	1
	Current service costs	**42**	15	10	16	1
	Actuarial losses recognised in profit or loss	**49**	49	-	-	-
Note 8.2.2	Actuarial losses recognised in other comprehensive income	**357**	-	35	319	3
	Benefits paid	**(94)**	(36)	(17)	(40)	(1)
	As at 31 December 2014	**1 956**	280	251	1 393	32
Note 11.1	Total costs recognised in profit or loss	**124**	**40**	**20**	**62**	**2**
	Interest costs	**54**	8	7	38	1
	Current service costs	**56**	18	13	24	1
	Actuarial losses recognised in profit or loss	**14**	14	-	-	-
Note 8.2.2	Actuarial (gains)/losses recognised in other comprehensive income	**(72)**	-	5	(75)	(2)
	Benefits paid	**(103)**	(41)	(21)	(40)	(1)
	As at 31 December 2015	**1 905**	**279**	**255**	**1 340**	**31**

As at 31 December	2015	2014	2013	2012	2011
Present value of liabilities due to employee benefits	**1 905**	1 956	1 533	1 581	1 323

Main actuarial assumptions as at 31 December 2015:

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

PART 11 – Employee benefits amounts in PLN millions, unless otherwise stated

Main actuarial assumptions as at 31 December 2014:

	2015	2016	2017	2018	2019 and beyond
- discount rate	2.75%	2.75%	2.75%	2.75%	2.75%
- rate of increase in coal prices	0.00%	2.80%	2.60%	3.00%	3.00%
- rate of increase in the lowest salary	0.00%	3.80%	3.60%	4.00%	4.00%
- expected inflation	1.20%	2.30%	2.10%	2.50%	2.50%
- future expected increase in salary	1.50%	2.30%	2.10%	2.50%	2.50%

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

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

Change in financial assumptions	(200)
Change in demographic assumptions	17
Other changes	124
Total actuarial (gains)/losses	**(59)**

Maturity profile of future employee benefits liabilities

Year of maturity:	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
2016	**102**	29	27	44	2
2017	**145**	28	66	49	2
2018	**84**	21	13	48	2
2019	**80**	19	11	48	2
2020	**75**	19	8	46	2
Other years	**1 419**	163	130	1 105	21
Total liabilities in the statement of financial position as at 31 December 2015	**1 905**	**279**	**255**	**1 340**	**31**

amounts in PLN millions, unless otherwise stated

PART 12 – Other notes

Note 12.1 Related party transactions

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

Revenues from sales to related parties	2015	2014
Revenues from sales of products, merchandise and materials	262	264
Revenues from other transactions	285	79
Total	**547**	**343**

	2015	2014
Receivables from related parties	**7 245**	**2 440**
Including receivables due to loans granted	6 755	2 046
Payables towards related parties	**603**	**499**
Purchases from related parties	**4 643**	**4 973**
Including purchases of property, plant and equipment and intangible assets	1 275	1 091

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 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 government and with entities controlled or jointly controlled by the government, or on which the government has significant influence, were within the scope of normal, daily economic operations, carried out at arm's length. These transactions concerned the purchase of materials and services to meet the needs of current operating activities (fuel, energy, transport services). In 2015, the turnover from these transactions amounted to PLN 593 million (in 2014: PLN 709 million), and, as at 31 December 2015, the unsettled balance of liabilities from these transactions amounted to PLN 235 million (as at 31 December 2014: PLN 238 million).

Note 12.2. Dividends paid

In accordance with Resolution No. 5/2015 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 29 April 2015 regarding the appropriation of the Company's profit for financial year 2014, the amount of PLN 800 million was allocated as a shareholder dividend, amounting to PLN 4.00 per share. The dividend date (the day on which the right to dividend is set) was set at 27 May 2015 with the dividend being paid in two instalments: 18 June 2015 – PLN 2.00 per share (paid) and 19 October 2015 – PLN 2.00 per share. All shares of the Company are ordinary shares.

In accordance with Resolution No. 5/2014 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 23 June 2014 regarding the appropriation of the Company's profit for financial year 2013, the amount of PLN 1 000 million, representing PLN 5 per share, was allocated from 2013 profit as a shareholder dividend.

Note 12.3 Other assets

Accounting policies

Receivables not constituting financial assets are initially recognised at nominal value, and at the end of the reporting period they are measured in the amount due.

Accounting policies concerning financial assets were described in Note 7.

PART 12 – Other notes amounts in PLN millions, unless otherwise stated

		2015	2014
Note 7.1	Other financial assets	717	599
	Cash pool receivables	302	242
	Financial assets for mine closure and restoration of tailings storage facilities	239	208
	Payments to capital	61	73
	Other	115	76
	Non-financial prepayments	117	78
	Other	21	62
	Other assets	**855**	**739**

Note 12.4. Other liabilities

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

		2015	2014
	Trade and other payables	172	168
	Other financial liabilities	7	6
Note 7.1	Total other financial liabilities	179	174
	Other non-financial liabilities	19	13
	Other liabilities – non-current	**198**	**187**
	Special funds	263	235
	Provision for decommissioning costs of mines and other technological facilities	19	13
	Provision for disputed issues and court proceedings, and other provisions	50	29
	Other	262	256
	Other liabilities - current	**594**	**533**
	Other liabilities	**792**	**721**

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

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

	2015	2014
Contingent assets	**650**	**467**
Guarantees received	232	178
Promissory notes receivables	270	154
Other	148	135
Contingent liabilities	**1 741**	**1 647**
Guarantees, including:	1 275	1 420
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.	536	482
guarantees granted to additionally secure the proper performance of leasing agreements entered into by the joint venture Sierra Gorda S.C.M.	319	341
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	64	320
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	324	272

PART 12 – Other notes amounts in PLN millions, unless otherwise stated

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	256	-
liabilities due to implementation of projects and inventions	91	138
Other	119	89
Liabilities not recognised in the statement of financial position	**130**	**136**
Liabilities towards local government entities due to expansion of the tailings storage facility	118	120
Liabilities due to operating leases	12	16

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

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

	2015	2014
Capital commitments due to the purchase of:		
Property, plant and equipment	4 036	4 821
Intangible assets	58	45
Total capital commitments	**4 094**	**4 866**

Note 12.7 The right of perpetual usufruct of land

The Company obtained the right of perpetual usufruct of land mostly free of charge on the basis of laws in force. The land subject to perpetual usufruct is industrial area related to the core business activities, which also includes protective zones in which environmental quality standards have been exceeded as a result of the activities carried out.
Due to the nature of the use of the above-mentioned land, as at 31 December 2015 the Company has not determined fair values for these perpetual usufruct rights.
The table below contains information on future payments due to the right of perpetual usufruct of land.

	2015	2014
Under one year	9	9
From one to five years	36	34
Over five years	397	395
Total value of future contingent payments due to the right of perpetual usufruct of land	**442**	**438**

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

Note 12.8 Employment structure

	2015	2014
White-collar employees	4 712	4 724
Blue-collar employees	13 443	13 562
Total (full-time equivalent)	**18 155**	**18 286**

PART 12 – Other notes amounts in PLN millions, unless otherwise stated

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

	2015	2014
Change in assets/liabilities due to derivatives	558	736
Reclassification of other comprehensive income to profit or loss as a result of realisation of hedging derivatives	(482)	(531)
Interest on investment activity	(224)	(47)
Foreign exchange gains	(194)	(31)
Other	(88)	263
Total	**(430)**	**390**

Note 12.10 Remuneration of key managers (in PLN thousands)

	Period when function served in 2015	Period when function served in 2014	Fixed part of remuneration for 2015	Fixed part of remuneration for 2014	Other for 2015	Other for 2014	Total earnings in 2015	Total earnings in 2014
Members of the Management Board serving in the function in the period								
Herbert Wirth	01.01-31.12	01.01-31.12	1 490	1 442	948	835	**2 438**	**2 277**
Jarosław Romanowski	01.01-31.12	01.01-31.12	1 340	1 297	858	426	**2 198**	**1 723**
Wojciech Kędzia	01.01-31.01	01.01-31.12	99	1 153	757	670	**856**	**1 823**
Jacek Kardela	01.01-31.12	01.01-31.12	1 192	1 153	732	349	**1 924**	**1 502**
Marcin Chmielewski	01.01-31.12	01.01-31.12	1 185	1 154	718	368	**1 903**	**1 522**
Mirosław Laskowski	01.02-31.12	-	1 093	-	184	-	**1 277**	**-**
other Members of the Management Board*								
Włodzimierz Kiciński	-	-	-	324	-	611	-	**935**
Adam Sawicki	-	-	-	288	-	403	-	**691**
Dorota Włoch	-	-	-	288	-	381	-	**669**
			6 399	**7 099**	**4 197**	**4 043**	**10 596**	**11 142**

* The amounts in the " Fixed part of remuneration" and " Other" columns include remuneration during the period of employment termination.

Remuneration of Members of the Supervisory Board (in PLN thousands)

	Period when function served in 2015	Period when function served in 2014	Remuneration for service in the Supervisory Board for 2015	Remuneration for service in the Supervisory Board for 2014	Other for 2015	Other for 2014	Total earnings in 2015	Total earnings in 2014
Members of the Supervisory Board serving in the function								
Krzysztof Kaczmarczyk	-	01.01-23.06	-	52	-	4	**-**	**56**
Aleksandra Magaczewska	-	01.01-23.06	-	59	-	2	**-**	**61**
Jacek Poświata	01.01-31.12	01.01-31.12	100	97	1	2	**101**	**99**
Bogusław Szarek	01.01-31.12	01.01-31.12	100	96	240	226	**340**	**322**
Andrzej Kidyba	01.01-31.12	01.01-31.12	100	96	411	356	**511**	**452**
Iwona Zatorska-Pańtak	-	01.01-23.06	-	48	-	-	**-**	**48**
Marek Panfil	-	01.01-23.06	-	48	-	23	**-**	**71**
Tomasz Cyran	-	23.06-31.12	110	54	4	10	**114**	**64**
Barbara Wertelecka-Kwater	01.01-31.12	23.06-31.12	100	49	-	3	**100**	**52**
Marcin Moryń	01.01-31.12	23.06-31.12	125	60	-	3	**125**	**63**
Józef Czyczerski	01.01-31.12	23.06-31.12	100	49	108	76	**208**	**125**
Bogusław Stanisław Fiedor	01.01-31.12	23.06-31.12	100	49	2	3	**102**	**52**
Leszek Hajdacki	01.01-31.12	23.06-31.12	100	49	175	90	**275**	**139**
			935	**806**	**941**	**798**	**1 876**	**1 604**

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

	2015	2014
PricewaterhouseCoopers	**3 400**	**1 965**
From the contract for the review and audit of financial statements, including due to:	**970**	**864**
- audit of annual financial statements	618	510
- review of financial statements	352	354
From other contracts	**2 430**	**1 101**
Other companies of the PricewaterhouseCoopers Group in Poland – from other contracts	33	404

Note 12.12 Disclosure of information on the Company's activities regulated by the Act on Energy

Note 12.12.1. Introduction

KGHM Polska Miedź S.A. meets the definition of an "energy enterprise" under the Act on Energy.

Pursuant to article 44 of the Act on Energy, the Company is required to prepare, on the basis of the Company's accounting records, information about its regulated activities. The scope of information concerning regulated activities, pursuant to article 44 of the aforementioned Act, constitute the Company's business activities in:

- distribution of electricity;
- distribution of gaseous fuels; and
- trade in gaseous fuels.

The scope of disclosures for 2014 was adjusted to comparable conditions, i.e. information concerning trade in electricity and heat, distribution of heat, generation of gaseous fuels, generation of heat and the generation of electricity was eliminated. These changes were introduced due to amendments from 2015 to article 44.

Information prepared by the Company on its regulated activities concerns:

- a description of regulated activities, including a breakdown by type of activity;
- adopted accounting policies, especially those concerning the adopted allocation methods; and
- a statement of financial position and a statement of profit or loss, for both the current and comparable reporting periods, separately for the individual types of regulated business activities carried out.

Note 12.12.2 Description of regulated activities

KGHM Polska Miedź S.A. conducts the following types of energy-related activities:

- **Distribution of electricity** – an activity which consists of distributing the electricity, used to meet the needs of clients conducting business activities;
- **Trade in gaseous fuels** – an activity which consists of trading in nitrogen-enriched natural gas and is conducted to meet the needs of clients conducting business activities; and
- **Distribution of gaseous fuels** – an activity which consists of distributing nitrogen-enriched natural gas by utilising the distribution grids located in the Legnica and Głogów municipalities in order to meet the needs of clients conducting business activities.

Note 12.12.3 Basic principles of regulatory accounting

Regulatory accounting is a specific type of accounting, if compared to the accounting carried out in accordance with the Accounting Act of 29 September 1994, conducted by an entrepreneur for its regulated activities including energy activities.

In addition to the accounting policies which were described in the financial statements and were the basis for the keeping of the accounting records and for preparation of the Company's financial statements, KGHM Polska Miedź S.A. applies the following accounting policies for the purposes of regulatory accounting:

Causality principle

The allocation of particular revenue and costs is made in accordance with a given assets' intended purpose and utilisation of assets to meet the needs of a specified type of activity or service, with the causality principle governing the recognition of items of revenue and costs in specified types of activity and with the principle of consistency between recognition by types of activity of items of revenue and costs, which stems from the fact that these items reflect different aspects of the same events.

Objectivity and non-discrimination principle
The allocation of assets, liabilities, equity, revenue and costs is done objectively and is not aimed at making profits or incurring losses.

Continuation and comparability principle
The methods and principles used in preparing the report on regulatory accounting are applied in a continuous manner. This report was prepared using the same principles for the current and comparable periods. Information on changes introduced in 2014 was presented in the introduction to the information on regulatory accounting.

Transparency and consistency principle
The methods applied in preparing the report on regulatory accounting are transparent and consistent with the methods and principles applied in other calculations performed for regulatory purposes and with the methods and principles applied in preparing the financial statements.

Materiality principle (feasibility principle)
The Company permits certain simplifications in measurement, recognition and allocation of items of assets, liabilities, equity, revenue and costs as long as it does not significantly distort the true picture of the financial position and assets presented in the financial statements on regulated activities.

Note 12.12.4 Detailed principles of regulatory policy – methods and principles governing the allocation of assets, liabilities, equity, costs and revenues

The Company prepares financial information on its regulated activities by overlapping the regulated activities' structure with the Company's organisational structure. The Company applies, in a continuous manner, various methods for the allocation of revenue, costs, assets and liabilities to specific types of regulated activities.
The following methods were used:

- specific (direct) identification method – applied if a direct identification of value is possible, for example the level of revenue from certain activities,

- direct allocation method (e.g. the purchase cost of production fuel) – this method is applied if there is a direct cause-and-effect relationship between the consumed resource and the corresponding cost,

- indirect allocation method on the basis of a predetermined allocation key, this method is used among others, to allocate cost in a situation where no direct cause-and-effect relationship between the utilised resource and the cost item exists and there is a need to use a cost driver (an allocation key) which enables linkage of items with their respective cost. The most commonly used allocation keys are:

- revenue key – value of revenue is the allocation key;
- production key – production units are the allocation key;
- power key – the installed power of machines and equipment is used for the allocation of indirect costs;
- cost key – the value of costs is the allocation key;
- mixed keys, which combine elements of several different keys; and
- other keys appropriate for a specific case.

Assets

In the statement of financial position of KGHM Polska Miedź S.A. for the current and comparable periods, the following items of assets of regulated activities were recognised:

Non-current assets:
1.Fixed assets;
2.Fixed assets under construction;

Current assets:

1. Trade receivables.

Other items of assets in the Company's statement of financial position were allocated to other activities due to the lack of a link between these items and regulated activities, or because the share of these items in regulated activities is immaterial.

Fixed assets

The identification and allocation of specific items of fixed assets to regulated activities takes place when these items of fixed assets are brought into use. Based on the key consumption for energy carriers, being the quantitative share in sales of the energy carrier in the total volume of the purchased energy carrier less losses, the percentage in the carrying amount of fixed assets used in the energy activities is established.

$$\text{Share} = \frac{\text{Volume of energy carriers sold in the reporting period x 100\%}}{\text{Total volume of purchased energy carrier for the reporting period – losses}}$$

Fixed assets under construction

The allocation of fixed assets under construction to regulated activities is achieved by the direct identification of expenditures on fixed assets under construction which are related to regulated activities, based on the analysis of accounting records. The remaining expenditures on fixed assets are recognised in other activities of the Company.
The Company recognises the full amount of deferred tax assets due to other deductible temporary differences under other activities, due to their immaterial share in regulated activities.

Trade receivables

Allocation of receivables in specific types of regulated activities is done on the basis of direct identification of revenues from specific types of regulated activities, by analysing the Company's accounting records with respect to unsettled sales invoices. The remaining amount of trade receivables is recognised in other activities. The Company recognises the full amount of other receivables (i.e. apart from trade receivables) in other activities due to their immaterial share in regulated activities.

Equity and liabilities

In the statement of financial position, the following items were recognised in equity and liabilities for the current and comparable periods with respect to regulated activities:

Equity

Liabilities

I. Non-current liabilities:
   1. Deferred tax liabilities;
   2. Future employee benefits liabilities.

II. Current liabilities:
   1. Future employee benefits liabilities.

Other items of liabilities were recognised by the Company in other activities, due to their immaterial share in regulated activities.

Equity

The Company allocates equity to regulated activities as an item offsetting the assets and liabilities.

Deferred tax liabilities

With respect to regulated activities, deferred tax liabilities were identified arising from taxable temporary differences between the depreciation of property, plant and equipment and intangible assets for tax purposes and their carrying amount.

The allocation of deferred tax liabilities due to the depreciation of property, plant and equipment and the amortisation of intangible assets, with respect to regulated activities, is performed through the use of indicators set for property, plant and equipment and intangible assets. The Company allocates all deferred tax liabilities arising from other taxable temporary differences to other operating activities.

Non-current and current liabilities due to future employee benefits

Liabilities due to future employee benefits are allocated to individual types of regulated activities using a revenue key through the indirect allocation method.

Revenues from sales

Following an analysis of revenues in terms of their allocation to individual types of regulated activities, the Company identified groups of operations which met the following conditions:

- revenues from the sale of electricity – distribution;
- revenues from the sale of nitrogen-enriched natural gas – distribution; and
- revenues from the sale of nitrogen-enriched natural gas – trade.

Revenues from sales are allocated to individual types of regulated activities using the individual identification method.

Operating costs

Following an analysis of costs in terms of their allocation to individual types of regulated activities, the following types of operating costs were identified:

- costs of electricity distribution services and the distribution of natural gas;
- the value of the sold merchandise related to trade in natural gas; and
- administrative expenses associated with electricity sold.

Costs of sales, selling costs and administrative expenses are allocated to separate types of regulated activities based on the Company's account of the actual costs.

Income tax

The amount of income tax presented in the statement of profit or loss for individual types of regulated activities is set as a multiple of the financial result and the effective tax rate. The amount of current income tax decreases or increases deferred income tax, which is calculated from the difference between the carrying amount and the taxable amount of the respective assets of regulated activities.

PART 12 – Other notes amounts in PLN millions, unless otherwise stated

Statement of financial position pursuant to article 44 of the Act on Energy

2015	Company in total	Principal activities	Energy activities, of which:	Electricity		Gas
				Distribution	Trade	Distribution
ASSETS						
Non-current assets						
Property, plant and equipment	13 078	13 047	31	30	-	1
Intangible assets	565	565	-	-	-	-
Deferred tax assets	141	141	-	-	-	-
Other non-current assets	14 622	14 622	-	-	-	-
	28 406	**28 375**	**31**	**30**	**-**	**1**
Current assets						
Inventories	2 601	2 601	-	-	-	-
Trade receivables	1 000	998	2	1	1	-
Other current assets	1 113	1 113	-	-	-	-
	4 714	**4 712**	**2**	**1**	**1**	**-**
TOTAL ASSETS	**33 120**	**33 087**	**33**	**31**	**1**	**1**
EQUITY AND LIABILITIES						
Equity	**20 279**	**20 249**	**30**	**28**	**1**	**1**
Non-current liabilities						
Deferred tax liabilities	-	(2)	2	2	-	-
Employee benefits liabilities	1 803	1 802	1	1	-	-
Provisions for decommissioning costs of mines and other technological facilities	880	880	-	-	-	-
Other non-current liabilities	5 073	5 073	-	-	-	-
	7 756	**7 753**	**3**	**3**	**-**	**-**
Current liabilities						
Employee benefits liabilities	577	577	-	-	-	-
Other current liabilities	4 508	4 508	-	-	-	-
	5 085	**5 085**	**-**	**-**	**-**	**-**
TOTAL LIABILITIES	**12 841**	**12 838**	**3**	**3**	**-**	**-**
TOTAL EQUITY AND LIABILITIES	**33 120**	**33 087**	**33**	**31**	**1**	**1**

PART 12 – Other notes amounts in PLN millions, unless otherwise stated

2014	Company in total	Principal activities	Energy activities, of which:	Electricity		Gas
				Distribution	Trade	Distribution
ASSETS						
Non-current assets						
Property, plant and equipment	11 562	11 531	31	30	-	1
Intangible assets	511	511	-	-	-	-
Deferred tax assets	111	111	-	-	-	-
Other non-current assets	15 255	15 255	-	-	-	-
	27 439	**27 408**	**31**	**30**	**-**	**1**
Current assets						
Inventories	2 377	2 377	-	-	-	-
Trade receivables	1 407	1 404	3	2	1	-
Other current assets	1 089	1 089	-	-	-	-
	4 873	**4 870**	**3**	**2**	**1**	**-**
TOTAL ASSETS	**32 312**	**32 278**	**34**	**32**	**1**	**1**
EQUITY AND LIABILITIES						
Equity	**24 277**	**24 246**	**31**	**29**	**1**	**1**
Non-current liabilities						
Deferred tax liabilities	-	(2)	2	2	-	-
Employee benefits liabilities	1 842	1 842	-	-	-	-
Provisions for decommissioning costs of mines and other technological facilities	992	992	-	-	-	-
Other non-current liabilities	1 361	1 361	-	-	-	-
	4 195	**4 193**	**2**	**2**	**-**	**-**
Current liabilities						
Trade payables	1 109	1 109	-	-	-	-
Tax liabilities	522	522	-	-	-	-
Employee benefits liabilities	114	113	1	1	-	-
Other current liabilities	2 095	2 095	-	-	-	-
	3 840	**3 839**	**1**	**1**	**-**	**-**
TOTAL LIABILITIES	**8 035**	**8 032**	**3**	**3**	**-**	**-**
TOTAL EQUITY AND LIABILITIES	**32 312**	**32 278**	**34**	**32**	**1**	**1**

PART 12 – Other notes amounts in PLN millions, unless otherwise stated

Statement of profit or loss pursuant to article 44 of the Act on Energy

2015	Company in total	Principal activities	Energy activities, of which:	Electricity	Gas	
				Distribution	Trade	Distribution
Sales revenue	15 939	15 918	21	8	11	2
Cost of sales	(11 809)	(11 792)	(17)	(6)	(11)	-
Gross profit	**4 130**	**4 126**	**4**	**2**	**-**	**2**
Selling costs and administrative expenses	(846)	(846)	-	-	-	-
Profit on sales	**3 284**	**3 280**	**4**	**2**	**-**	**2**
Other operating income and costs	(5 064)	(5 064)	-	-	-	-
Finance costs	(158)	(158)	-	-	-	-
Profit/(Loss) before income tax	**(1 938)**	**(1 942)**	**4**	**2**	**-**	**2**
Income tax expense	(850)	(847)	(3)	(2)	-	(1)
Profit/(loss) for the period	**(2 788)**	**(2 789)**	**1**	**-**	**-**	**1**

2014	Company in total	Principal activities	Energy activities, of which:	Electricity	Gas	
				Distribution	Trade	Distribution
Sales revenue	16 633	16 608	25	9	13	3
Cost of sales	(12 265)	(12 247)	(18)	(5)	(13)	-
Gross profit	**4 368**	**4 361**	**7**	**4**	**-**	**3**
Selling costs and administrative expenses	(855)	(855)	-	-	-	-
Profit on sales	**3 513**	**3 506**	**7**	**4**	**-**	**3**
Other operating income and costs	32	32	-	-	-	-
Finance costs	(183)	(183)	-	-	-	-
Profit before income tax	**3 362**	**3 355**	**7**	**4**	**-**	**3**
Income tax expense	(948)	(945)	(3)	(2)	-	(1)
Profit for the period	**2 414**	**2 410**	**4**	**2**	**-**	**2**

12.13. Subsequent events after the reporting period

KGHM Tax Group

The first fiscal year of the KGHM Tax Group commenced on 1 January 2016.
The agreement creating the KGHM Tax Group, as understood by the Act on CIT, was signed on 18 September 2015. The agreement was registered by the Head of the Lower Silesia Tax Office by a decision issued on 22 October 2015. KGHM Polska Miedź S.A. acts as the representative of the Tax Group.

The Tax Group comprises the following companies:
KGHM Polska Miedz S.A,
INOVA Centrum Innowacji Technicznych Spółka z o.o.
„Energetyka" sp. z o.o.,
KGHM CUPRUM sp. z o.o. - Centrum Badawczo Rozwojowe,
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.,
PMT Linie Kolejowe 2 sp. z o.o.,
Przedsiębiorstwo Budowy Kopalń PeBeKa S.A.,
KGHM ZANAM S.A.,
„MIEDZIOWE CENTRUM ZDROWIA" S.A.,
Zagłębie Lubin S.A,
Metraco S.A.

Changes in the composition of the Supervisory Board of the Company

The Extraordinary General Meeting of KGHM Polska Miedź S.A. changed the composition of the Supervisory Board of KGHM Polska Miedź S.A. on 18 January 2016. Detailed information was presented in section 1.4 of the Management Board's Report on the Activities of the Company.

Changes in the composition of the Management Board of the Company

The Supervisory Board of KGHM Polska Miedź S.A., on its meeting on 3 February 2016, changed the composition of the Management Board of the Company. Detailed information was presented in section 1.4 of the Management Board's Report on the Activities of the Company.

Decrease in the amount of available credit

On 21 January 2016 the Company signed an annex to a credit agreement with Bank Handlowy S.A. in Warsaw, and on its basis the amount available on overdraft was decreased from PLN 280 million to PLN 250 million. The interest is based on WIBOR/LIBOR plus a margin. The credit's maturity date expires on 12 October 2018.

Signing of a financing agreement

On 5 February 2016 the Company entered into a credit agreement in the amount of USD 100 million with Bank Gospodarstwa Krajowego in Warsaw. The interest is based on LIBOR plus a margin. The agreement was concluded for a defined period of 3 months with the possibility to extend the financing periods for subsequent 3 month periods.
On 29 February 2016 the Company entered into an overdraft credit agreement with Bank Zachodni WBK S.A. in Warsaw for the amount of USD 50 million. The agreement dated 29 February 2016 supersedes the current financing agreement with BZ WBK S.A. The interest is based on LIBOR plus a margin. The credit's period of availability expires on 28 February 2017.

Corporate guarantee granted

On 12 February 2016 the Company granted a corporate guarantee to Banco de Chile in the amount of USD 63 million. The guarantee secures repayments of a short-term working capital facility granted to Sierra Gorda S.C.M. by Banco de Chile. The guarantee expires on 12 February 2017.

Extension of repayment of the credit

On 29 February 2016 the Company extended the repayment period of the overdraft credit in HSBC Bank Polska S.A. in the amount of PLN 100 million. The credit's interest is based on WIBOR/LIBOR plus a margin. The credit's maturity date expires on 29 August 2017.

Concerns of Chilean environmental enforcement agency

On 8 March 2016, the Chilean Environmental Enforcement Agency, in a public announcement, indicated areas in which there may have occurred breaches in the scope of the environmental permit issued to the Sierra Gorda mine. Work is currently underway on analysing the published document.

Significant commercial contract

On 11 March 2016, the Company signed an annex to the contract dated 28 April 2014 with the nkt cables group GmbH for the sale of copper wire rod. As a result of signing this annex, the total estimated value of contract for the sale of copper wire rod in years 2014-2016 amounts from PLN 3 342 million to PLN 3 441 million depending on the usage of quantitative option. The contract provides the possibility of prolonging it for year 2017.

Results forecast for 2016

On 15 March 2016, the Supervisory Board of the Company approved KGHM Polska Miedź S.A.'s Budget for 2016 as presented by the Management Board (detailed information on the adopted budget may be found in the Management Board's Report on the Activities of the Company in section 3.10).

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last Name**	**Position / Function**	**Signature**
15 March 2016	Krzysztof Skóra	President of the Management Board	
15 March 2016	Mirosław Biliński	Vice President of the Management Board	
15 March 2016	Mirosław Laskowski	Vice President of the Management Board	
15 March 2016	Jacek Rawecki	Vice President of the Management Board	
15 March 2016	Stefan Świątkowski	Vice President of the Management Board	

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

THE MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES OF THE COMPANY IN 2015

Lubin, March 2016

Table of Contents to the Management Board's Report on the Activities of the Company

Table 1. Aggregated data regarding KGHM Polska Miedź S.A. for the years 2007-2015

(data for the years 2007-2013 per published annual reports for these periods)

		2015	2014	2013	2012	2011	2010	2009	2008	2007
Statement of comprehensive income										
Sales revenue	mn PLN	15 939	16 633	18 579	20 737	20 097	15 945	11 061	11 303	12 183
Profit on sales	mn PLN	3 284	3 513	4 609	7 135	9 364	6 657	3 197	3 392	4 880
Profit/(loss) before income tax	mn PLN	(1 938)	3 362	4 196	6 417	13 654	5 606	3 067	3 554	4 656
Profit/(loss) for the period	mn PLN	(2 788)	2 414	3 058	4 868	11 335	4 569	2 540	2 920	3 799
Statement of financial position										
Total assets	mn PLN	33 120	32 312	29 038	28 177	29 253	19 829	13 953	13 901	12 424
Non-current assets	mn PLN	28 406	27 439	23 535	22 410	11 697	12 125	9 509	8 704	7 431
Current assets	mn PLN	4 714	4 873	5 503	5 767	17 556	7 704	4 444	5 174	4 992
Equity	mn PLN	20 279	24 277	23 298	21 923	23 136	14 456	10 404	10 591	8 966
Liabilities and provisions	mn PLN	12 841	8 035	5 740	6 254	6 118	5 373	3 549	3 309	3 458
Financial ratios										
Earnings per share (EPS)	PLN	(13.94)	12.07	15.29	24.34	56.67	22.84	12.70	14.60	18.99
Dividend per share (DPS)*	PLN	x	4.00	5.00	9.80	28.34	14.90	3.00	11.68	9.00
Price per share/ earnings per share (P/E)	x	x	9.0	7.7	7.8	2.0	7.6	8.3	1.9	5.6
Current liquidity	x	0.9	1.3	1.5	1.5	4.5	2.6	2.4	3.1	2.5
Quick liquidity	x	0.4	0.6	0.8	0.7	3.9	1.9	1.4	2.2	1.7
Return on assets (ROA)	%	(8.4)	7.5	10.5	17.3	38.7	23.0	18.2	21.0	30.6
Return on equity (ROE)	%	(13.7)	9.9	13.1	22.2	49.0	31.6	24.4	27.6	42.4
Debt ratio	%	38.8	24.9	19.8	22.2	20.9	27.1	25.4	23.8	27.8
Durability of financing structure	%	84.6	88.1	87.1	86.5	86.8	84.9	86.8	88.0	83.8
Production results										
Electrolytic copper production	kt	574.3	576.9	565.2	565.8	571.0	547.1	502.5	526.8	533.0
Metallic silver production	t	1 283	1 256	1 161	1 274	1 260	1 161	1 203	1 193	1 215
Macroeconomic data (average annual)										
Copper prices on LME	USD/t	5 495	6 862	7 322	7 950	8 811	7 539	5 164	6 952	7 126
Silver prices on LBMA	USD/oz t	15.68	19.08	23.79	31.15	35.12	20.19	14.67	14.99	13.38
Exchange rate	USD/PLN	3.77	3.15	3.17	3.26	2.96	3.02	3.12	2.41	2.77
Other data										
Share price, end of period	PLN/share	63.49	108.85	118.00	190.00	110.60	173.00	106.00	28.12	105.80
Capital expenditures	mn PLN	2 673	2 416	2 357	1 766	1 514	1 263	1 070	1 140	828
Equity investments **	mn PLN	76	27	87	9 637	643	1 321	170	793	155
Electrolytic copper production cost ***	PLN/t	15 730	16 466	16 758	17 496	13 566	12 983	11 170	11 736	11 160
	USD/t	4 172	5 227	5 286	5 370	4 578	4 302	3 582	4 878	4 031
Concentrate production cost C1	USD/lb	1.47	1.82	1.78	1.34	0.63	1.07	1.12	1.58	1.13

* *dividend for the financial year*

** *acquisition of shares or newly-issued shares and investment certificates*

*** *since 2013 based on changed methodology for measuring by-products in the unit cost of electrolytic copper production*

1. Company profile

KGHM Polska Miedź S.A. („the Company") is the parent entity of a Group which is a world-class producer of copper and silver with over half a century of experience. The KGHM Polska Miedź S.A. Group is one of the world's largest producers of copper and is aiming to increase its production to over 1 million tonnes of copper equivalent from its own concentrates annually and improve productivity while at the same time respecting business ethics, environmental protection and social responsibility.

KGHM Polska Miedź S.A. owns one of the largest copper ore deposits in the world, guaranteeing continuity of production in Poland for the next 40 years. The Group owns development projects in Poland, Canada and Chile. Thanks to the friendly takeover of the Canadian company Quadra FNX Ltd., today KGHM INTERNATIONAL LTD., the KGHM Polska Miedź S.A. Group has become a global company, whose brand is recognised around the world.

1.1. Production processes

Production process

Production in KGHM Polska Miedź S.A. is a fully integrated process, in which the end product of one phase is the starting material (half-finished product) used in the next phase. Ore extraction in KGHM Polska Miedź S.A. is performed by three mining divisions: Lubin, Rudna and Polkowice-Sieroszowice; the Concentrators Division, which prepares concentrate for the smelters, and the Tailings Division, responsible for storing and managing the tailings generated by the production process. The organisational structure of KGHM includes three metallurgical plants: the Legnica smelter and refinery, the Głogów smelter and refinery and the Cedynia copper wire rod plant.

Mining

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

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

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

The flotation process results in concentrate with an average copper content of approx. 22-23%, and flotation waste. The Rudna mine concentrator produces the highest copper content concentrate (approx. 26%), while the lowest is at the Lubin mine concentrator (approx. 14%). The Polkowice mine concentrator produces concentrate of approx. 24% copper content.

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

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

Metallurgy

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

The Legnica and Głogów I smelter/refineries (in the latter case to the end of June 2016) use a multi-stage process whose main stages include: preparation of the charge material, its smelting in shaft furnaces to the form of matte copper, conversion to the form of raw copper with approx. 98.5% Cu content; fire refining in anode furnaces to produce anodes of 99.2% Cu content; and electrorefining. The final product is refined electrolytic copper cathodes with 99.99% Cu content.

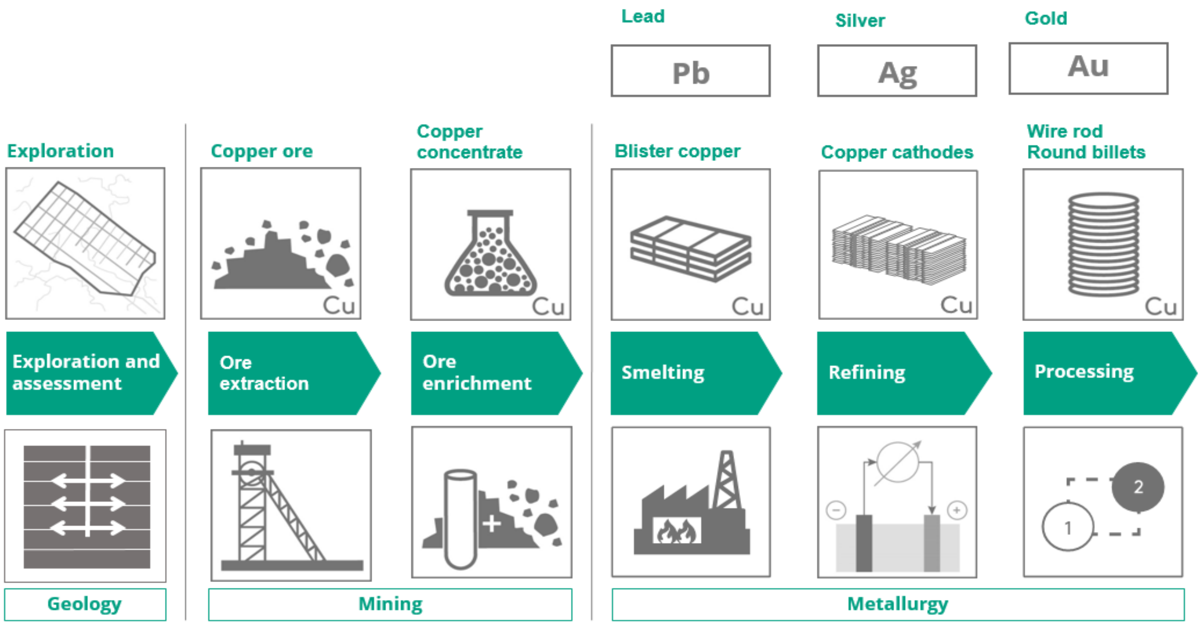
The Głogów II smelter/refinery applies flash furnace technology based on a modified license from the Finnish company Outokumpu. This technology combines three stages into one: drying of the concentrate, smelting of the matte copper and converting. The dried concentrate is smelted in a flash furnace into blister copper containing around 99% Cu, which is refined in an anode furnaces. The slag, which still contains on average 14% copper, is sent to an electric furnace, where the copper is removed while the alloy obtained is sent to the convertors, from which copper is sent for refining in anode furncaces. Copper anodes are sent for electrorefining. The end product is copper cathodes containing 99.99% Cu.

Approx. 40% of the refined copper produced by all three smelters (mainly from the Głogów smelter/refineries) is transported to the Cedynia Copper Wire Rod Division in Orsk, where copper wire rod is produced by a continuous smelting, casting and rolling process as well as oxygen-free copper rod (Cu-OFE) and oxygen-free, silver-bearing copper rod based on UPCAST technology.

The anode slime produced during the electrorefining process at all three smelter/refineries contains precious metals. The anode slime is further processed at the Precious Metals Plant at the Głogów smelter/refinery to obtain refined silver, gold, palladium-platinum concentrate and selenium. The remaining electrolyte, once the copper is removed, is used to produce crude nickel sulphate.

The dust and slimes collected as a result of the removal of dust from technological exhaust gases at the smelters are mainly smelted in Dörschel furnaces at the Lead Section of the Głogów smelter/refinery into crude lead. This crude lead is then refined at the Legnica smelter/refinery to obtain the final product - refined lead.

Diagram 1. Integrated Company processes for geological, mining and metallurgical operations



2015 Business Objectives

The main objectives set forth by the Management Board with respect to production and occupational health and safety in 2015 were:

- optimal utilisation of the resource base and of the production capacity of the Company,
- optimisation of the Cu content in ore and concentrate,
- maximum utilisation of the production capacity of the metallurgical divisions, and
- a decrease in the number of accidents.

The goals set required completion or continuation of the following actions:

in mining	– expanding mining operations within the Deep Głogów (Głogów Głęboki-Przemysłowy) area,
	– improvement of the ore selection system, greater mining efficiency and improved occupational health and safety, by:
	  – adapting the geometry of mining systems to local geological and mining conditions,
	  – improving the efficiency of technological and active methods of limiting the threat of rock bursts and of other associated natural threats, and
	  – optimisation of barren rock management in mining areas (selective extraction, siting of rock, mechanical ore mining),
	– a greater scope of work with respect to identifying gas-related threats (hydrogen sulphide and methane) and the use of new technical solutions and means of prevention to counteract these threats,
	– continuation of work aimed at achieving a ventilation connection between the near-shaft zone of the SW-4 shaft and the E declines as well as shaft SG-2 (through the salt mineralisation) with the T/W-145 drifts in the Polkowice-Sieroszowice mine,
	– completion in 2015 of the planned scope of mine development and access work using the commissioning system (which amounted to 49.5 km, or an increase by 3.3% as compared to 47.9 km completed in 2014).

in ore processing	– adapting the production capacity of individual concentrators to the amount and quality of ore supplied, – maintaining the production of concentrates in an amount and quality necessary for optimal use of the production capacity of the furnace sections of the smelters, – continuation at the Rudna concentrator of separating the concentrate produced into concentrate with varied organic carbon content. Concentrate with organic carbon content of above 9% is sent to the shaft furnaces, while concentrate with organic carbon content of below 8% is processed by the flash furnace. The separation of concentrate increases the efficiency of the flash furnace and decreases consumption of energy-generating materials in the shaft furnaces.
in metallurgy	– continued modernisation of technology at the Głogów I smelter as part of the Pyrometallurgy Modernisation Program, – commencement of a Metallurgy Development Program, comprising: – maintaining production capacity by utilising an organic carbon roasting installation and modernising electrorefining at the Głogów and Legnica smelter/refineries, – reducing natural gas consumption and reducing CO_2 emissions from using natural gas.
in occupational health and safety	– implementation of a uniform occupational health and safety policy for KGHM Polska Miedź S.A., – reducing the number of accidents from 304 in 2014 to 298 in 2015. – decreasing the LTIFR ratio (the number of accidents per million worked hours) to 10.23 in 2015, while the 5-year average amounted to 13.85 Continuous improvement in the occupational health and safety management system by the Divisions of KGHM Polska Miedź S.A. resulted once again in the granting of an Occupational Health and Safety Management System Certificate PN-N 18001 and, to a large extent, in a decrease in the number of accidents in recent years.

In 2015 the Company extracted 31.6 million tonnes of ore (dry weight), which was 0.6 million tonnes more than in 2014. The increase in extraction in 2015 was due to an increase in daily extraction on working days, and to intensified work on statutorily free days.

Average copper content in extracted ore amounted to 1.52% and was lower than that achieved in 2014 (1.53%) due to work being performed in areas of lower copper content. In the case of silver in ore, content was stable and amounted to 44.6 g/t, similar to that in 2014.

As a result of the above the amount of copper in extracted ore was higher than in 2014 by 5.5 thousand tonnes of Cu and amounted to 478.7 thousand tonnes. The volume of silver in ore increased by 23 tonnes and amounted to 1 407 tonnes.

In 2015, 31.5 million tonnes of ore (dry weight) were processed (or 507.5 thousand tonnes more than in 2014) and was the highest result in the history of the Concentrators Division. The production of concentrate, dry weight, increased as compared to 2014 by 16.7 thousand tonnes (an increase from 1 842 thousand tonnes to 1 859 thousand tonnes). The increase in copper content in processed ore directly impacted the amount of copper in concentrate produced and amounted to 425.9 thousand tonnes. The amount of silver in concentrate was higher than the amount produced in 2014 by 1.9% (an increase from 1 186 tonnes to 1 209 tonnes).

Table 2. Mine production

	Unit	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Mined ore (wet weight)	mn t	33.2	32.6	101.8	8.1	8.6	8.2	8.3
Mined ore (dry weight)	mn t	31.6	31.0	101.9	7.7	8.1	7.8	7.9
Copper grade	%	1.52	1.53	99.3	1.48	1.51	1.54	1.54
Copper in ore	kt	478.7	473.3	101.1	113.7	122.6	120.3	122.1
Silver grade	g/t	44.6	44.6	100.0	45.0	43.5	45.0	44.9
Silver in ore	t	1 407	1 384	101.7	346	354	352	355
Copper concentrate (dry weight)	kt	1 859	1 842	100.9	451	468	471	468
Copper in concentrate	kt	425.9	421.3	101.1	102.9	108.1	107.7	107.2
Silver in concentrate	t	1 209	1 186	101.9	300	301	304	305

Review of metallurgical operations

The production of electrolytic copper as compared to 2014 decreased by 2.6 thousand tonnes, or by 0.4% and was the second highest result in the history of the Company – 574.3 thousand tonnes – while maintaining the production of copper from own concentrate at over 420 thousand tonnes. Production was maintained thanks to processing a higher amount of own concentrate as well as purchased metal-bearing materials in the form of scrap, blister copper and imported concentrate. Supplementing our own concentrate with purchased metal-bearing materials enabled the efficient utilisation of existing technology.

The production of other metallurgical products (silver, wire rod, OFE rod and round billets) is directly connected to the level of electrolytic copper production, and depends on the type of raw materials used and on market demand.

In comparison to 2014, the production of metallic gold increased by 128 kg, or by 5.0% and for the first time in KGHM's history reached the level of 2 703 kg. Metallic silver production was higher by 27 tonnes, closing the year at 1 283 tonnes.

Table 3. Metallurgical production

	Unit	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Electrolytic copper, of which:	kt	574.3	576.9	99.5	142.2	145.8	143.8	142.4
- from own concentrates	kt	420.5	420.4	100.0	99.7	111.1	104.2	105.5
- from purchased metal-bearing materials	kt	153.8	156.5	98.3	42.5	34.8	39.7	36.9
Wire rod, OFE and CuAg rod	kt	263.7	257.9	102.2	52.8	70.3	71.1	69.5
Round billets	kt	12.7	8.8	144.3	3.4	3.2	2.5	3.6
Metallic silver	t	1 283	1 256	102.1	367	304	314	298
Metallic gold	kg	2 703	2 575	105.0	1 020	547	575	560
Refined lead	kt	29.3	26.1	112.3	7.6	6.3	7.5	7.8

Chart 1. Electrolytic copper production *(kt)*

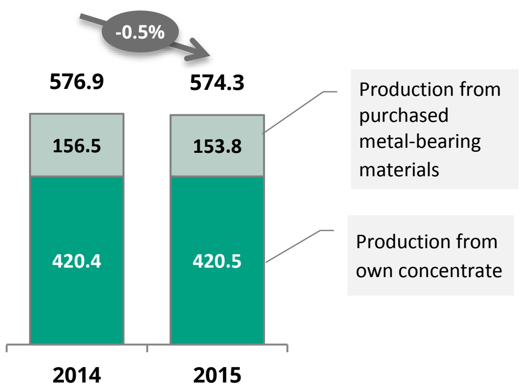
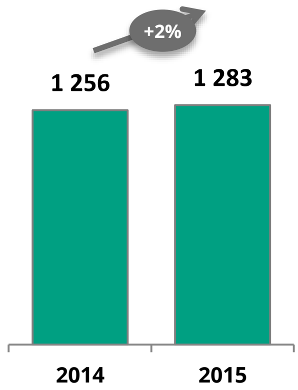


Chart 2. Metallic silver production *(t)*



Main production goals

The main goals set by the Management Board in terms of production and occupational health and safety for 2016 are a continuation of actions taken in 2015: optimal utilisation of the resource base and of the production capacity of the Company, and optimisation of Cu content in ore and concentrate.

Key goals in 2016:

in mining

- continuing access and development work to intersect the ore in the Deep Głogów area;
- commencing work related to exploration of the Radwanice-Gaworzyce copper ore deposit in the Dankowice area;
- opening a new mining area (G-51) in the Polkowice-Sieroszowice mine, utilising the staff of the Lubin mine;
- expanding the use of drift development technology using drift combines;
- continuing work related to gathering information on gas-related threats (hydrogen sulphide and methane) and the use of new technical solutions and means of prevention to counteract these threats;
- continuing work related to utilising the capacity of the input and output ventilation shafts in the interconnected mine ventilation system;
- reducing dilution of extracted ore;
- continuing the long term plan of developing KGHM's copper ore deposit by the planned, systematic development of drifts; and
- the planned scope of mine development and access work using the commissioning system in 2016 is set at 50.6 km, or at the level carried out in 2015.

in ore processing	– modernising the classification units; – improving the energy performance of the machinery park at the concentrators; – optimisation of the concentration process in terms of decreasing the impact of reduced quantity-quality parameters by applying the FloVis system at all flotation stages; – testing and application of new flotation reagent mixtures; – continued separation of concentrate produced into two products with varied calorific values at the Rudna concentrator; – optimising control of the milling units based on visual product parameters and sound and vibration characteristics at the concentrators (using the MillVis and ConVis systems); – modernising the carbonate removal installation in the flotation process of the Polkowice concentrator; and – optimising the milling, classification and flotation process at the Lubin and Rudna concentrators.
in metallurgy	– commencing production based on copper concentrate smelting technology using a flash furnace whilst at the same time ceasing production based on shaft furnace technology at the Głogów I smelter/refinery as part of the Pyrometallurgy Modernisation Program; – minimising environmental impact – commencing actions directed towards improving the effectiveness of dedusting, balancing of hazardous substances and deciding on means to hermetically seal these processes to decrease fugitive emissions; – maximum utilisation of equipment and charge materials to produce copper prior to the shutdown at the Głogów I smelter/refinery; – improving the recoverability and availability of smelter equipment; – implementing the convertor slag decopperisation process; – executing tasks of the Metallurgy Development Program associated with the construction of a steam drier at the Głogów II smelter/refinery, a concentrate roasting installation and modernising the Tank and Electrolite Decopperisation Hall at the Legnica smelter/refinery; and – intensifying the production of refined lead at the Legnica smelter/refinery to 30 thousand tonnes per year.
in occupational health and safety	– continuing implementation of a uniform occupational health and safety policy for KGHM Polska Miedź S.A.; – reducing the number of accidents, decreasing the LTIFR ratio to below 12.97 (5-year average); – improving the safety culture to the degree that safety gains first place in the hierarchy of values; and – implementing a comprehensive program to promote health amongst KGHM's employees.

Pyrometallurgy Modernisation Program

The newly-constructed flash furnace production line at the Głogów I smelter/refinery is planned to be brought online in the fourth quarter of 2016, as part of the comprehensive Pyrometallurgy Modernisation Program. The main modifications and improvements under this project involve replacing the shaft furnace technology currently in use by the Głogów I smelter/refinery with modern flash furnace technology with a processing capacity of 1050 thousand tonnes of concentrate per year. The goal of this project is to create a functionally integrated, cost effective and environmentally friendly smelting structure for KGHM as well as technology which will ensure the capacity to continue processing both our own as well as imported concentrates to remain a functioning copper producer over the coming decades, among others by eliminating the risk factors associated with shaft furnace technology. The Company expects that the four-month shutdown of the Głogów I smelter/refinery, due to the change in technology, will result in a decrease of 49 thousand tonnes of electrolytic copper as compared to 2015 production, mainly from own concentrate.

By discontinuing the smelting of concentrate using shaft furnace technology the Company will be able to:

- avoid the necessity of incurring further capital expenditures on additional modernisation of the shaft furnace technology in order for it to meet environmental standards;
- avoid the risk associated with obtaining black liquor, which is a byproduct of the outdated, environmentally unfriendly process of producing cellulose via the sulfite method;
- decrease the environmental impact of smelting by decreasing dust emissions by approx. 55% and gas by approx. 58% as well as decrease the amount of stored tailings.

The main benefits of this change in technology are:

- increased revenues for the KGHM Polska Miedź S.A. Group from the sale of additional amounts of silver, rhenium and refined lead;
- lower expenditures on replacing assets as well as lower maintenance and labour costs;
- the fulfillment of BAT standards;
- improved working conditions – the elimination of hazardous shaft furnace technology worksites;
- improved process energy efficiency and the recovery of chemical energy in the form of useable heat;
- a substantial decrease in the environmental impact of metallurgy; and
- enhancement of the metallurgical competitiveness of KGHM.

1.2. Significant contracts entered into by the Company

In 2015, the Company entered into the following significant contracts:

8 May 2015 **Contract for the sale of copper wire rod in 2016 - 2018 (with the option to extend for a subsequent two years) signed between KGHM Polska Miedź S.A. and Tele-Fonika Kable S.A.**	The estimated value of the contract during the first three years ranges from PLN 3 913 million to PLN 4 246 million, depending on the volume of options used and the relocation of material between plants of Tele-Fonika Kable S.A. The value of the Contract was calculated based on the forward copper price curve and the average USD/PLN and EUR/PLN exchange rates announced by the NBP as at 7 May 2015. The condition under which the contract came into force was the receipt by Tele-Fonika Kable S.A. necessary financing for the repayment of financial liabilities as specified in the Contract, but no sooner than on 1 January 2016 (condition precedent). If the condition precedent is not met by 30 June 2016 the Contract will expire. On 11 December 2015, the Company received confirmation from Tele-Fonika Kable S.A. that the condition precedent set forth in the Contract, i.e. the receipt of necessary financing by Tele-Fonika Kable S.A. for the repayment of financial liabilities as set forth in the Contract, had been met. As a result of meeting the Condition Precedent set forth in the Contract, the Contract came into force on 1 January 2016, and as at this date KGHM Polska Miedź S.A. commenced sales of copper wire rod under the terms set forth in the Contract.
14 January 2015 **Loan agreement between KGHM Polska Miedź S.A. and its indirect subsidiary 0929260 B.C. UNLIMITED LIABILITY COMPANY**	KGHM Polska Miedź S.A. granted company 0929260 B.C. UNLIMITED LIABILITY COMPANY a loan in the amount of USD 200 million (the equivalent of PLN 731 million at the average exchange rate for USD/PLN, announced by the NBP on 14 January 2015) with a maturity date of 31 December 2019. Funds from the loan were used to refinance the debt of KGHM INTERNATIONAL LTD. in the form of a bank loan.
25 May 2015 **Loan agreement between KGHM Polska Miedź S.A. and its direct subsidiary Fermat 1 S.à r.l.**	KGHM Polska Miedź S.A. granted Fermat 1 S.à r.l. a cash loan in the amount of USD 210 million (the equivalent of PLN 788 million at the average exchange rate for USD/PLN, announced by the NBP on 25 May 2015) with a maturity date of 31 December 2021. Funds from the loan were transferred through the special purpose companies to 0929260 B.C. UNLIMITED LIABILITY COMPANY for the purpose of refinancing the debt of KGHM INTERNATIONAL LTD. in the form of senior notes issued by KGHM INTERNATIONAL LTD. in 2011.
3 June 2015 **Loan agreement between KGHM Polska Miedź S.A. and its indirect subsidiary 0929260 B.C. UNLIMITED LIABILITY COMPANY**	KGHM Polska Miedź S.A. granted company 0929260 B.C. UNLIMITED LIABILITY COMPANY a loan in the amount of USD 309 million (the equivalent of PLN 1 148 million at the average exchange rate for USD/PLN, announced by the NBP on 3 June 2015) with a maturity date of 31 December 2021. Funds from the loan were used to refinance the debt of KGHM INTERNATIONAL LTD. in the form of senior notes issued by KGHM INTERNATIONAL LTD. in 2011.
8 June 2015 **Loan agreement between the indirect subsidiaries 0929260 B.C. UNLIMITED LIABILITY COMPANY and KGHM INTERNATIONAL LTD.**	The loan agreement, pursuant to which the indirect subsidiary 0929260 B.C. UNLIMITED LIABILITY COMPANY granted a loan in the amount of USD 519 million (the equivalent of PLN 1 941 million, at the average exchange rate for USD/PLN, announced by the NBP on 8 June 2015) to its wholly-owned subsidiary KGHM INTERNATIONAL LTD. for the early redemption of the senior notes issued in 2011. The funds for this loan were transferred by KGHM Polska Miedź S.A. under the financing described above (loan agreement dated 25 May 2015 and loan agreement dated 3 June 2015). The repayment of loan, which has a maturity date of 31 December 2021, is secured by a demand promissory note issued by KGHM INTERNATIONAL LTD.

Detailed information regarding the process of optimising the Group's financing, which includes the aforementioned agreements from 25 May 2015, 3 June 2015 and 8 June 2015, may be found in part 3.5 of this report.

In 2015, there was no instance of dependence on a single or multiple customers or suppliers. Similarly as in 2014, the share of no customer exceeded 10% of the revenues from sales of the Company.

The only supplier whose share of supply exceeded 10% of the revenues from sales of KGHM Polska Miedź S.A. is the subsidiary Metraco S.A. in Legnica, whose sales to KGHM Polska Miedź S.A. amounted to PLN 1 915 million, representing 12% of the revenues from sales of KGHM Polska Miedź S.A.

The high level of supplies from this company is related to the operating model of the Group, based on which a business goal of Metraco S.A. is the comprehensive servicing of KGHM Polska Miedź S.A., with respect to the supply of specific raw materials and products ensuring continuity of the production line of KGHM Polska Miedź S.A., based on its own logistical and expediting operations.

Information on contracts for the audit or review of the separate financial statements or consolidated financial statements

The entity entitled to audit the separate financial statements of the Company and the consolidated financial statements of the KGHM Polska Miedź S.A. Group is PricewaterhouseCoopers Sp. z o.o. with its registered head office in Warsaw, Al. Armii Ludowej 14, 00-638 Warsaw.

The contract which was signed on 4 April 2013 is in force for review of the half-year financial statements and for the audit of the annual financial statements for the years 2013, 2014 and 2015.

Detailed information on the amount of remuneration of the entity entitled to audit the financial statements for the review and audit of the financial statements, and remuneration from other contracts is presented in Note 12.11 of the Financial Statements.

1.3. Litigation and claims

As at 31 December 2015, the total value of on-going disputed issues both by and against KGHM Polska Miedź S.A. amounted to PLN 150 million, including receivables of PLN 51 million and liabilities of PLN 99 million. The total value of the above disputes did not exceed 10% of the equity of the Company.

The largest on-going proceedings involving the receivables and liabilities of KGHM Polska Miedź S.A. are presented in the following table.

Table 4. Largest on-going proceedings of KGHM Polska Miedż S.A.

Proceedings related to liabilities:	
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 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 these 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.
royalties for use of invention project no. 1/97/KGHM	Value of amount under dispute: PLN 42 million. The claim was filed with the District Court in Legnica on 26 September 2007 by 14 co-authors of invention project no. 1/97/KGHM. KGHM Polska Miedź S.A. received the suit on 14 January 2008. Each of the plaintiffs in this suit is demanding royalties equivalent to the given plaintiff's share in the economic effects achieved for the 8th period of the project's application (calendar year 2006). In the Company's opinion the royalties being pursued through the Court are undue, as KGHM Polska Miedź S.A. covered the amounts due to the authors of the project resulting from use of an invention project. Proceedings are in progress.
return of costs related to protection against mining damages	Value of amount under dispute: PLN 16 million. A claim was filed against KGHM Polska Miedź S.A. with the District Court in Legnica by the company Prestiż MGC Inwest Sp. z o. o. Sp. k. in August 2009 for payment of the amount of PLN 16 million due to the return of costs of protecting against mine damages incurred during construction of the Centrum Handlowo-Usługowe „CUPRUM ARENA" in Lubin. The District Court, by a judgment dated 26 February 2013, ordered KGHM Polska Miedź S.A. to pay the amount of PLN 307 thousand. Both parties filed appeals: the defendant in respect of the amount of PLN 305 thousand, and the plaintiff in respect of the amount of PLN 16 million. The Appeals Court appointed a court expert. In the Company's opinion the claim is unfounded and should be dismissed. However, due to the complex nature of the matter and the judgment made by the District Court, it is difficult to foresee the final resolution. Appeal proceedings are in progress.
Proceedings related to receivables:	
return of undue royalties for use of invention project no. 1/97/KGHM	In January 2008 the Company filed a counter claim against 14 project co-authors for payment of undue royalties paid in the amount of PLN 25 million for use of invention project no. 1/97/KGHM in the 6th and 7th periods (calendar years 2004 – 2005). The court has combined both these matters: the claims of 14 co-authors for the payment of royalties for use of invention project no. 1/97/KGHM in the amount of PLN 42 million, with the claims of the Company for the payment of undue royalties paid for use of invention project no. 1/97/KGHM in the amount of PLN 25 million, for joint hearing. Proceedings are in progress. In the Company's opinion the payment of royalties to the project's authors was unfounded.

In addition, there are ongoing disputes with tax authorities and tax bodies as well as with administrative courts regarding property tax on underground mines for the period 2006-2012. These matters are being pursued by Divisions of the Company: the Lubin mine, the Polkowice-Sieroszowice mine and the Rudna mine – with the support of tax advisors from the firm EY.

The amount of the disputes is PLN 106 million, including receivables (concerning the overpayment of property tax by the Company) of PLN 88 million, while the amount of disputed liabilities assessed by decisions of tax bodies, for which a provision has been created, amounts to PLN 18 million.

1.4. Company structure

In 2015, the multi-divisional organisational structure of the Company, acting under the name KGHM Polska Miedź S.A., comprised a Head Office and 10 Divisions.

Diagram 2. Organisational structure of the Company as at 31 December 2015

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

Supervisory Board

In accordance with the Statutes of the Company the members of the Supervisory Board are appointed and dismissed by the General Meeting. As at 1 January 2015, the composition of the 9th-term Supervisory Board of KGHM Polska Miedź S.A. was as follows:

– Marcin Moryń Chairman,
– Tomasz Cyran Deputy Chairman,
– Bogusław Stanisław Fiedor,
– Andrzej Kidyba,
– Jacek Poświata,
– Barbara Wertelecka-Kwater

along with the following employee-elected members:

– Józef Czyczerski,
– Leszek Hajdacki,
– Bogusław Szarek Secretary.

From 1 January to 31 December 2015 there were no changes in the composition of the Supervisory Board of KGHM Polska Miedź S.A.

On 18 January 2016 the Extraordinary General Meeting adopted resolutions regarding changes in the composition of the Supervisory Board of KGHM Polska Miedź S.A.:

– the following persons were dismissed from the composition of the Supervisory Board: Tomasz Cyran, Bogusław Stanisław Fiedor, Andrzej Kidyba, Marcin Moryń, Jacek Poświata, Barbara Wertelecka-Kwater,
– the following persons were appointed to the composition of the Supervisory Board: Radosław Barszcz, Michał Czarnik, Cezary Godziuk, Miłosz Stanisławski, Dominik Hunek, Jarosław Witkowski.

From 18 January 2016 the composition of the Supervisory Board is as follows:

– Dominik Hunek Chairman,
– Radosław Barszcz Deputy Chairman,
– Michał Czarnik,
– Cezary Godziuk,
– Miłosz Stanisławski,
– Jarosław Witkowski

along with the following employee-elected members:

– Józef Czyczerski,
– Leszek Hajdacki,
– Bogusław Szarek Secretary.

Remuneration of Members of the Supervisory Board of KGHM Polska Miedź S.A.

The remuneration of members of the Supervisory Board is regulated by a resolution adopted by the Ordinary General Meeting on 29 May 2003 regarding changes in principles of remuneration of members of the Supervisory Board. The amount of monthly remuneration of individual members of the Supervisory Board depends on the function served and is set as a multiple of the gross average monthly remuneration in the industrial sector excluding payments from profit, for the last month of the previous quarter.

The Company also covers or reimburses costs related to participation in the work of the Supervisory Board, and in particular to travel costs from the place of residence to the site of Supervisory Board meetings and back, as well as room and board.

Detailed information on the amount of remuneration, bonuses or benefits for supervisory personnel may be found in Note No. 12.10 of the Financial Statements.

Management Board

In accordance with the Statutes of KGHM Polska Miedź S.A. the members of the Management Board are appointed and dismissed by the Supervisory Board. As at 1 January 2015, the composition of the 8th-term Management Board of KGHM Polska Miedź S.A. was as follows:

- Herbert Wirth – President of the Management Board,
- Jarosław Romanowski – First Vice President of the Management Board (Finance),
- Marcin Chmielewski – Vice President of the Management Board (Corporate Affairs),
- Jacek Kardela – Vice President of the Management Board (Development),
- Wojciech Kędzia – Vice President of the Management Board (Production).

On 18 December 2014, Wojciech Kędzia submitted his resignation from the function of Member of the Management Board, effective as at 31 January 2015.

On 18 December 2014, the Supervisory Board appointed, with an effective date of 1 February 2015, Mirosław Laskowski as a Member of the Management Board of KGHM Polska Miedź S.A. in the function of Vice President of the Management Board.

From 1 February 2015, the composition of the Management Board was as follows:

- Herbert Wirth – President of the Management Board,
- Jarosław Romanowski – First Vice President of the Management Board (Finance),
- Marcin Chmielewski – Vice President of the Management Board (Corporate Affairs),
- Jacek Kardela – Vice President of the Management Board (Development),
- Mirosław Laskowski – Vice President of the Management Board (Production).

As a result of the conclusion of the 8th-term Management Board, on 17 March 2015 the Supervisory Board appointed the 9th-term Management Board without changing its composition. From 17 March to 31 December 2015 there were no changes in the composition of the Management Board of KGHM Polska Miedź S.A.

In 2015, the Supervisory Board assigned specific duties to individual members of the Management Board as follows:

The **President of the Management Board** was responsible for overseeing:
- the initiation, development and updating of the Main Strategy,
- activities related to overall risk management at the corporate level as well as internal auditing and controlling within the Group,
- activities related to communications and corporate image-building within the Group,
- on the Founder's behalf - the functioning of the KGHM Polish Copper Foundation as well as other organisations serving the public (as defined by Polish law) which support achievement of the Group's business goals,
- the shaping of human resources policy within the Group; and
- activities related to developing the Company's resource base and advancement of the innovation policy.

The **First Vice President of the Management Board (Finance)** was responsible for overseeing:
- the shaping of Group financial policy;
- finances in all of the Group's operations and activities;
- the creation of Group tax policy;
- the Company's accounting services;
- the shaping of the Company's portfolio of products and services;
- the shaping of the Company's commercial policy; and
- review of the Main Strategy's projects in terms of their financial feasibility.

The **Vice President of the Management Board (Corporate Affairs)** was responsible for managing business relations and tasks related to corporate governance in the Group.

The Vice President of the Management Board (Corporate Affairs) was responsible for overseeing:
- the shaping of the portfolio of production and equity assets, as well as overall corporate oversight over the Group's subsidiaries;
- compliance with corporate governance standards;

- analytical support with respect to equity investments;
- the means used to shape relations with the Company's external business environment (with current and potential investors);
- compliance with formal reporting and publishing obligations within the scope required by law;
- the restructurisation and transformation of the Group;
- the integration of acquired entities with other entities in the Group; and
- the development, updating and monitoring of the Group's equity investment plan.

The **Vice President of the Management Board (Development)** was responsible for overseeing:
- the development and implementation of management standards related to carrying out the Main Strategy;
- development projects related to investments in property, plant and equipment;
- progress in projects other than R&D and investments in property, plant and equipment;
- management of the Company's property and real estate; and
- work of the Central Procurement Office.

The **Vice President of the Management Board (Production)** was responsible for managing the process of manufacturing the Company's products and services and oversees production operations in the Group's subsidiaries, and is also responsible for acquiring, building and maintaining in readiness the production assets, in particular with respect to the tasks of occupational health and safety and control of environmental risk.

The Vice President of the Management Board (Production) was responsible for overseeing:

- activities involving the optimisation of production processes, occupational health and safety and control of environmental risk;
- activities with respect to acquiring, building and maintaining in readiness the production and non-production assets and achievement of the main goals of the Energy Strategy; and
- activities with respect to manufacturing products and services (primary mine and metallurgical production).

On 3 February 2016, the Supervisory Board dismissed the following persons from the functions of President of the Management Board and Vice Presidents of the Management Board: Herbert Wirth, Jarosław Romanowski, Marcin Chmielewski and Jacek Kardela. The Supervisory Board appointed Krzysztof Skóra as President of the Management Board, Jacek Rawecki and Mirosław Biliński as Vice Presidents of the Management Board.

On 23 February 2016, the Supervisory Board appointed Stefan Świątkowski as Vice President of the Management Board.

From 23 February 2016, the composition of the Management Board is as follows:

- Krzysztof Skóra — President of the Management Board,
- Mirosław Biliński — Vice President of the Management Board (Development),
- Mirosław Laskowski — Vice President of the Management Board (Production),
- Jacek Rawecki — Vice President of the Management Board (Supply Chain Management),
- Stefan Świątkowski — Vice President of the Management Board (Finance).

The preliminary breakdown of duties within the Management Board of KGHM Polska Miedź S.A. following the change in its composition, prior to the adoption by the Supervisory Board of the specific scope of duties of individual Members of the Management Board, is as follows.

The **President of the Management Board** is responsible for overseeing:
- activities related to overall risk management at the corporate level as well as internal auditing and controlling within the Group;
- overall corporate oversight over the Group's subsidiaries;
- the preparation, actualisation and monitoring of the Group's equity investments;
- compliance with formal reporting and publishing obligations within the scope required by law;
- activities related to communications and corporate image-building within the Group; and
- the shaping of relations with the Company's external business environment.

The **Vice President of the Management Board (Finance)** is responsible for overseeing:
- the shaping of Group financial policy;
- finances in all of the Group's operations and activities;
- the creation of Group tax policy;
- the Company's accounting services; and
- review of the Main Strategy's projects in terms of their financial feasibility.

The **Vice President of the Management Board (Supply Chain Management)** is responsible for overseeing:
- the work of the Central Procurement Office;
- the shaping of the Company's commercial policy; and
- the shaping of the portfolio of products and services of the Company.

The **Vice President of the Management Board (Development)** is responsible for overseeing:

- the initiation, development and updating of the Main Strategy;
- the development and implementation of management standards related to carrying out the Main Strategy;
- development projects related to investments in property, plant and equipment;
- progress in projects other than R&D and investments in property, plant and equipment;
- activities related to development of resource base of the Company and realisation of innovation policy; and
- management of the Company's property and real estate.

The **Vice President of the Management Board (Production)** is responsible for managing the process of manufacturing the Company's products and services and overseeing production operations in the Group's subsidiaries, and is also responsible for acquiring, building and maintaining in readiness the production assets, in particular with respect to the tasks of occupational health and safety and control of environmental risk. He is also responsible for overseeing:

- activities involving the optimisation of production processes, occupational health and safety and control of environmental risk;
- activities with respect to acquiring, building and maintaining in readiness the production and non-production assets and achievement of the main goals of the Energy Strategy; and
- activities with respect to manufacturing products and services (primary mine and metallurgical production).

The Management Board's employment contracts and remuneration

The employment contracts which are signed with Members of the Management Board provide for the payment of remuneration, composed of the basic monthly salary and variable salary. The basic monthly salary is set as a multiple of the average monthly remuneration in the industrial sector, excluding payments from profit, in the fourth quarter of the previous year, announced by the President of the Chief Statistical Office. Payment of the variable salary is contingent on the fulfilment of criteria (tasks) set by the Supervisory Board, and is contingent upon achievement by the Members of the Management Board of key performance indicators (KPI) and amounts to up to 40% of the annual basic salary.

Additionally, the Supervisory Board, based on assessment of the work of the Management Board, may grant the members of the Management Board up to 10% of the annual basic salary.

Table 5. Potentially-due remuneration for Members of the Management Board of KGHM Polska Miedź S.A. for 2015

	Position	Potentially-due remuneration for 2015 (thousand PLN)
Herbert Wirth	Member of the Management Board - President of the Management Board	745
Jarosław Romanowski	Member of the Management Board - First Vice President of the Management Board	671
Jacek Kardela	Member of the Management Board - Vice President of the Management Board	596
Marcin Chmielewski	Member of the Management Board - Vice President of the Management Board	593
Wojciech Kędzia	Member of the Management Board - Vice President of the Management Board	50
Mirosław Laskowski	Member of the Management Board - Vice President of the Management Board	546
Total		**3 200**

Potentially-due remuneration due to variable remuneration for 2015 (with additional 10%), payment of which is determined by the Supervisory Board.

Detailed information on the amount of remuneration, bonuses or benefits for management personnel may be found in Note No. 12.10 of the Financial Statements.

The employment contracts with Management Board Members also regulate the following matters:

- coverage by the Company of costs required for the proper performance of the employment contracts (travel, flights, room, board, travel insurance and representation costs, incurred by Management Board Members pursuant to the approved budget),
- the use of business cars and rental of a flat for Management Board Members (the costs associated with the use of a business car and flat are defined by a separate contract),
- medical benefits (in each calendar year of the life of the contract the Company purchases a medical packet for Management Board Members worth up to PLN 10 thousand); and
- life insurance premiums (once each year the Company covers or reimburses Management Board Members the amount of the premiums to an amount up to one basic monthly salary).

The employment contracts do not provide for compensation due to the termination of the contracts prior to the dates in respect of which they were entered into.

The contracts signed with Members of the Management Board forbidding any activities which would represent a conflict of interest with KGHM stipulate that, for adherence to such contracts, within a period of 12 months from the date of termination of employment in KGHM – regardless of the cause of termination – the KGHM shall pay the Management Board Member, for each month during this period, compensation in the amount of 40% of the basic salary resulting from the employment contract. A Management Board Member who violates the stipulations of the aforementioned contract shall be obligated to return the full amount of compensation received.

On 23 February 2016, the Supervisory Board of KGHM Polska Miedź S.A. adopted a resolution on introducing new wording to the employment contracts, contracts on forbidding competition with the contracts signed and contracts forbidding conflicts of interest following termination of employment signed with Members of the Management Board.

The main changes as compared to the previous contracts involve:

- variable remuneration, granted by the Supervisory Board based on assessments of the work of individual Management Board Members and of the Management Board, which may represent up to 30% of the basic annual salary as well as additional remuneration – which may represent up to 20% of the aforementioned basis for measurement,
- the clauses on the contractual termination periods were removed,
- a clause was introduced providing for the possibility to terminate an employment contract based on agreement by the parties,
- with respect to the clause forbidding conflicts of interest following termination of employment, the qualifying period for compensation was reduced to 9 months, and was set at 50% of the basic salary,
- a clause was introduced stating that the contract forbidding conflicts of interest following termination of employment would come into force on the condition that the given Management Board Member had worked a full three months in the position of Management Board Member.

Information on bonus systems of key managers

As a result of cascading tasks and objectives of the Management Board on key managers, in KGHM Polska Miedź S.A. the following rules/regulations, based on two pillars, are applied:

STIP - Short-Term Incentive Plan – principles for setting and granting annual bonuses for executive directors of the Divisions and for directors assigned to specific matters in the Divisions, as well as for executive directors and directors of departments in the Head Office of KGHM Polska Miedź S.A.	This system is based on collective, individual and task-related KPIs which were derived from the priorities of the Management Board for 2015 as set by the Supervisory Board, as well as on goals arising from the Company's strategy. The STIP System comprises a group of 85 managers in the Company.
LTIP - Long-Term Incentive Plan – a long-term incentive program for executive directors in the Divisions and for directors responsible for individual matters in the Divisions, as well as for executive directors in the Head Office of KGHM Polska Miedź S.A. for the years 2013-2016	The main assumption of the program is to directly link the main long-term strategic goal of increasing the Company's value with the system of remunerating key managing directors. This concept assumes setting target amounts under the market indicator TRS (Total Return to Shareholders) and individual indicators related to long-term strategic goals. The LTIP System comprises 56 directors, during the period from 1 July 2013 to 30 June 2016.

The aforementioned bonus systems are included in the process of Management by Objectives, which will gradually be cascaded to the lower levels of the organisation, creating in this way a dialogue between the Management Board and managing staff.

1.5. Employment and remuneration

Employment structure

Employment in KGHM Polska Miedź S.A. at the end of 2015 amounted to 18 226 people, and was 0.3% higher than at the end of the prior year. Average annual employment in KGHM Polska Miedź S.A. amounted to 18 155 and was lower than the level of employment in 2014 by 131 people. The change in employment was due to natural movements in staff.

Table 6. End-of-period employment

	31.12.2015	31.12.2014	31.12.2013	Change 31.12.2014=100
Mines	12 421	12 356	12 636	100.5
Metallurgical plants	3 555	3 559	3 663	99.9
Other divisions	2 250	2 253	2 271	99.9
Total	**18 226**	**18 168**	**18 570**	**100.3**

Remuneration in the Company

Average monthly remuneration in the Company in 2015 amounted to PLN 9 617, representing an increase by 1.1%. The following factors impacted remuneration in 2015:

- an increase in the table of basic wage rates by PLN 50 from 1 January,
- individual promotions and category raises for 16.8% of employees, and
- a decrease in the amount of the advance paid on the annual bonus from 18.5% to 17.5% of remuneration.

In 2015, average remuneration, excluding the annual bonus from profit earned, amounted to PLN 8 177, representing a statistical increase of 2.1% as compared to 2014.

Table 7. Total average monthly remuneration *(PLN/person)*

	31.12.2015	31.12.2014	31.12.2013	Change 31.12.2014=100
Mines	9 937	9 831	9 735	101.1
Metallurgical plants	8 050	8 081	7 742	99.6
Total	**9 617**	**9 522**	**9 380**	**101.0**

Human Resources projects

Based on a modified HR function developed in the project „Transformation of HR in KGHM Polska Miedź S.A. based on developed HR strategy models and the developed organisational culture" key processes were identified: Strategic Planning of Human Resources, Management by Results, Recruitment, Learning and Development and Managing Talent. These processes are consistently being implemented and/or modified by their owners.

In June 2015 a centralised project called **„Managing by Results and Managing the Talent System"** was initiated. The aim of this project is to enable both the Company and the Group in 2016 to jointly take advantage of and utilise a uniform system of Managing by Results and Managing Talent. The project is divided into four stages, and currently the system is in stage three – testing. Completion of the project is planned for 31 March 2016.

In May 2015 work commenced on a **uniform Company employee evaluation system**. The goal of this system will be to evaluate an employee's work and skills in connection with development activities. In 2015, a work evaluation concept was developed along with project regulations. Work is currently in progress on the IT tools which will support the evaluation process.

In the second half of 2015 work was carried out aimed at **adapting professional courses programs** (involving among others geological, mining and technological skills) to the requirements of laws, applied technology, organisational solutions and processes.

Key development programs begun in prior years were continued:

- the second edition of the **Talent Mine** program was completed and selections were made to the third edition. The goal of the program is to stimulate the interest of the best students and graduates of higher education with offers to work at KGHM Polska Miedź S.A., to gain and maintain staff with high potential and to strengthen the exchange of knowledge and experience between the company's employees,
- another edition of the **Leadership Academy** program was commenced, whose goal is to distinguish and raise the skills of employees in leadership positions based on the adopted Skills Model. The new edition of the program was aimed at employees working in the Head Office and in the Mining Divisions. By the end of 2016 the program will involve approx. 1 000 employees.

As a result of the start of intensive work on unifying the implementation of the Lean Management tools in the Company's Divisions, actions were taken aimed at **strengthening employees' skills in the use of this method**.

Relations with the trade unions

On 6 February 2015, the parties to the Collective Labour Agreement (CLA) signed an agreement with respect to wages and employee benefits in 2015. Based on this agreement, on 9 February Additional Protocol No. 16 to the CLA for the Employees of KGHM Polska Miedź S.A. was signed, based on which, apart from the aforementioned increase in basic wages, a clause was introduced which provided for a 4.5% increase in the additional contribution to the social fund.

On 9 July 2015, an agreement was signed between KGHM Polska Miedź S.A. and the trade unions regarding the granting of one-category raises – the clause involved blue-collar underground mine employees, raised from category 7 or category 8, which are also the lowest categories for a given position.

On 29 January 2016, Additional Protocol No. 17 to the CLA was signed. It introduces changes in the principles for calculating the annual bonus on profit earned. The Protocol states that the annual bonus starting from 2015 will no longer be calculated from profit for the period, but from the positive financial result as defined in this protocol, which is understood as profit/loss for the period excluding the impact of any impairment losses on non-current assets.

1.6. Ethics and corporate governance

The Company developed a Code of Ethics for the KGHM Group, which was approved by the Management Board of KGHM and implemented in September 2015. The Code is the main tool, in the Group's corporate culture, which assists in defining priorities and in establishing a collection of principles which are binding for all employees in their daily work.

Global organisations require a joint approach to the principles of functioning. The commitment of KGHM to upholding the highest standards of business ethics in such a diversified environment is exceptionally important for the Company and the Group.

The objective of the Code of Ethics is to ensure that behavior of KGHM employees conforms to the highest standards based on the values which guide us in KGHM: zero harm, teamwork, results-driven, accountability and courage. The Code of Ethics is a guidepost for proper behavior at work and assists in making daily decisions. It strengthens employees as a team. It also builds KGHM's image as a company which is stable, responsible and socially engaged.

In parallel to the work on the creation of the Code of Ethics of the KGHM Polska Miedź S.A. Group, work was carried out aimed at developing appropriate policies and procedures, which will enable effective implementation of the principles and values set forth in the Code of Ethics across the global KGHM Polska Miedź S.A. Group. In addition, their implementation meets world corporate governance standards as well as the increasing demands of stakeholders, including above all customers and financial institutions.

As a result, based on best practices in corporate governance in 2015, the following policies were developed and implemented, introducing global, unified standards which have been adapted to the laws applicable in all of the jurisdictions in which the KGHM Group operates:

Competition Law Policy in the KGHM Polska Miedź S.A. Group	The goal of the Competition Law Policy is to create a functional systems framework which will enable the KGHM Group to remain in conformity with the competition laws which are applicable in all of the countries in which the KGHM Group operates.
Anticorruption Policy in the KGHM Polska Miedź S.A. Group	The Anticorruption Policy establishes basic principles and standards, whose goal is to prevent any breaches of the anticorruption laws in the jurisdictions in which the KGHM Group operates. The KGHM Group applies a zero tolerance policy towards corruption and bribery, which is defined among others as offering, promising or providing material or other benefits as well as accepting or demanding such benefits.
Responsible Supply Chain Policy in the KGHM Polska Miedź S.A. Group	The Responsible Supply Chain Policy is aimed at securing the selection of only responsible suppliers, especially in the case of acquiring so-called conflict minerals (gold, zinc, wolframite and tantalum) and at ensuring that the merchandise and services purchased by the KGHM Group are not utilised to finance terrorism, and are manufactured or provided in accordance with laws respecting basic human rights, labour standards, protecting the environment and counteracting corruption.

In 2016 work on further policies and procedures supporting the Code of Ethics of the KGHM Group will be continued.

In addition, continuously since 2009, KGHM Polska Miedź S.A. has been amongst the group of companies on the Warsaw Stock Exchange which comprise the prestigious RESPECT Index – the first such index of socially-responsible companies in Central-Eastern Europe.

2. Company Strategy

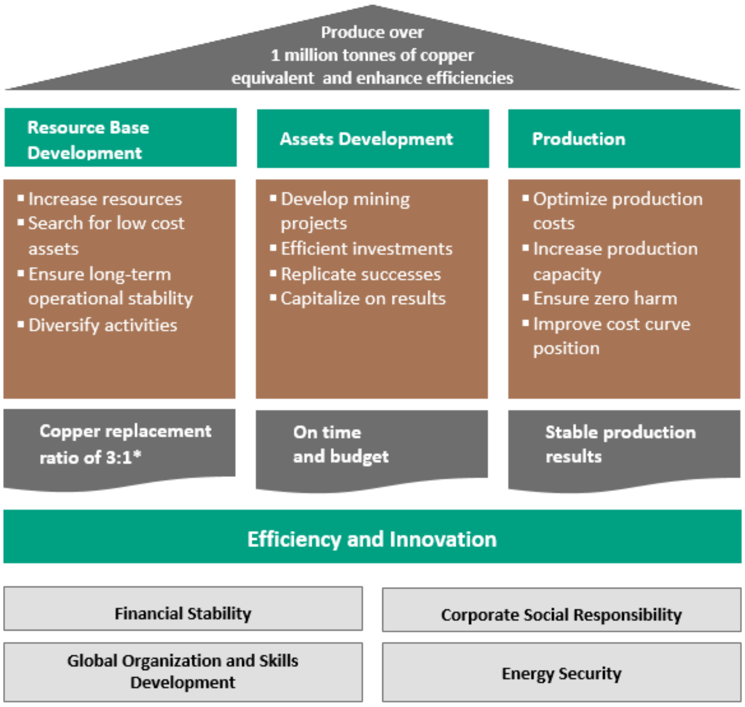
2.1. Strategy for the years 2015-2020

On 26 January 2015 the Company's Supervisory Board adopted the Strategy of KGHM Polska Miedź S.A. for the years 2015-2020 with an outlook to 2040 as submitted by the Management Board. Adoption of the Strategy is connected with the early completion of key provisions of the previous Strategy of the Company, which was approved on 23 February 2009.

The mission of KGHM Polska Miedź S.A. is the development of a global resources Group, created by people with passion and skills. The long-term vision of KGHM Polska Miedź S.A. assumes that the Company will continuously strive to achieve a competitive advantage through the development and introduction on an industrial scale of new technologies that will create an opportunity for a technological breakthrough in the industry. The strategic objective of KGHM Polska Miedź S.A. is to develop and implement on an industrial scale modern technologies which are critical to developing the world's first intelligent mine based on neural networks.

The main objective of the new strategic outlook for the years 2015-2020 is to achieve annual production capacity of over 1 million tonnes of copper equivalent and to continue work aimed at improving mine operating efficiency.

The Strategy for the years 2015 – 2020 with an outlook to 2040 is based on 3 main pillars:



*replacement of each tonne of mined copper with three tonnes of newly-documented resources of this metal

Pillar I. **Resource Base Development**	As part of its exploration and acquisition activities, the Company plans to replace every mined tonne of copper with three tonnes of copper in new resources. This will ensure the long-term operational prospects of the Company and an enhanced position on the cost curve. The Company will concentrate on exploration in areas near the Company's current operations and on the search for low-cost assets in geopolitically-stable regions. The planned development of KGHM Polska Miedź S.A.'s resource base will ensure long-term mining activities and higher production volume.
Pillar II. **Production Assets Development**	According to the Strategy for the years 2015-2020, the Company plans to invest PLN 27 billion. These funds will be allocated to developing the current portfolio of investment projects, mainly including programs to develop the core business in Poland and those leading to the operational commissioning of resource projects in Poland and abroad. Completion of its investments projects will lead to a substantial increase in Group production capacity and enhance its position on the global cost curve of copper producers. KGHM Polska Miedź S.A. is committed to efficiently allocating financial resources and developing resource investment projects which have the highest rate of return.
Pillar III. **Production**	KGHM Polska Miedź S.A. aims to ensure stable production levels while optimising production costs and maintaining the highest safety level. Under the Strategy for the years 2015-2020 the Company plans to increase the annual volume of mined ore from the mines of KGHM Polska Miedź S.A. in Poland.

The three pillars of KGHM's activities in the years 2015–2020 are based on four **supporting strategies**:

Global organisation and skills development strategy	Achievement of an optimum model for the management and oversight of business processes within the global KGHM Group.
Financial strategy	Ensure stable financing for the activities of the KGHM Group, enhance the ability to operate in challenging economic conditions, support development and increase efficiency.
Corporate social responsibility strategy	Strengthen the position of KGHM Polska Miedź S.A. as a stable, growing and trustworthy partner, caring for the common good and the sustainable management of resources.
Energy strategy	Secure long-term energy prices and stable energy supplies by ensuring sources of energy for production purposes, including from renewable resources. The strategy assumes the centralisation of energy efficiency initiatives, ensuring the possibility of purchasing energy for key companies of the Group in Poland and global power purchases at below-market prices.

Basic production and economic targets for the Group (reflecting the 55% share in the Sierra Gorda project) assumed in the Strategy adopted for the years 2015 – 2020:

Production	over 1 million tonnes of copper equivalent from our own concentrates by the year 2020
Share of copper equivalent production from international assets	an increase from 17% to 40% in 2020
Capital Expenditures (CAPEX)	PLN 27 billion in total capex, of which around 65% will be allocated for development projects; over half of the capital expenditures will be invested in Poland
EBITDA	expected increase by 2020 of 70% as compared to 2014
C1 cost	planned decrease by 2020 of C1 cash cost of around 10 % as compared to 2014
Net debt /EBITDA	will be maintained at a safe level in the range of 1-2

KGHM analyses risk at every organisational level. This comprehensive approach to analysis encompasses both the identification of risk factors associated with achieving strategic goals as well as corporate risk factors (more in Section 2.5 Key Risk Factors and Risk Management).

Achievement of the goals and of the production and economic targets adopted in the Strategy for the years 2015-2020 for the Group is associated with a variety of risk factors, which have been identified and assessed under Executory and Supporting Strategies. Among the most important of these are:

- The risk of unfavourable changes in metals prices and exchange rates,
- The risk of delays in completing resource and development projects,
- The risk of obtaining lower-than-expected economic parameters in resource and development projects,
- The risk of an unchanged taxation formula (minerals extraction tax),
- The risk of not being able to achieve planned production given environmental threats.

The process of analysing risk associated with achieving planned strategic goals is the basis for reviewing the adopted Strategy, and at the same time enhances the possibility of achieving planned goals. In accordance with the Strategic Management Procedure adopted by KGHM Polska Miedź S.A., the risk maps of the Executory and Supporting Strategies are updated annually.

Company Strategy – current situation

The Strategy of KGHM Polska Miedź S.A. for the years 2015-2020 with an outlook to 2040 adopted by the Company's Supervisory Board was aimed in the medium term at the achievement by KGHM Polska Miedź S.A. of production capacity of 1 million tonnes of copper equivalent. The basic factors determining achievement of this medium term goal arise from the diversified portfolio of investment projects which will increase the production capacity of KGHM Polska Miedź S.A. Achievement of the investment targets of KGHM Polska Miedź S.A.'s Strategy involves the execution of investment projects totalling PLN 27 billion. Financing of this investment program is based on the internal resources of KGHM Polska Miedź S.A. and borrowing.

In 2015 the mining sector experienced a substantial decrease in the prices of the entire basket of commodities. The predominant reason for this trend was the global uncertainty about the sustainability of economic growth, in particular as concerns the People's Republic of China, which is the main consumer of commodities. Another factor weighing on the depreciation of most commodities is the substantial drop in the price of oil, with which commodities prices are strongly correlated. The substantial drop in the prices of the primary commercial products of KGHM Polska Miedź S.A. and the uncertainty as to the short and medium term outlook for the commodities markets signifcantly reduced the ability of KGHM Polska Miedź S.A. to generate free cash flow.

Due to current challenges of the mining sector, KGHM Polska Miedź S.A. is reviewing its strategic assumptions and prioritising investment portolio in order to ensure a stable long-term increase in the company's value for its stakeholders and to ensure the security of the company's operations in a challenging macroeconomic environment.

Implementation of the Company's Strategy in 2015

In 2015, work was performed on defining the Strategy Implementation Plan of KGHM Polska Miedź S.A. for the years 2015-2020 with an outlook to 2040 as adopted on 26 January 2015 by the Supervisory Board of the Company. The Strategy Implementation Plan is the operational expression of the strategic goals, containing a list of operational goals including strategic initiatives under the Strategic Pillars (the so-called Executive Strategies) and Supporting Strategies. For each operational goal, success measures have been defined, as well as the path for carrying out projects and strategic actions along with the allocation of required resources. The Strategy Implementation Plan is monitored and periodically assessed in terms of the degree of implementation of its tasks, which is one of the basic elements in evaluating achievement of the strategy.

Key achievements with respect to progress on strategic projects in individual areas of the Strategy in 2015:

Pillar I. 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 and Lusatia (Saxony in Germany)

Advanced exploration projects, with defined copper mineralisation, for which geological exploration is underway throughout or in part of the given concession area	
Gaworzyce – Radwanice	– Work continued on preparing the deposit mining plan. The first action planned is to develop the northern part of the Radwanice-Gaworzyce copper ore deposit.
Synklina Grodziecka and Konrad	– In April 2015, a decision was received on a change in the Synklina-Grodziecka concession, among others with respect to extending its validity to July 2017, i.e. to match the period of validity of the concession for the Konrad deposit. This action will enable the development of joint geological documentation for both the Synklina Grodziecka and Konrad deposits. – Surface-based geophysical surveys were completed in the concessioned areas, which will provide more detailed knowledge of the geological structure in order to determine geological-mining conditions. The next step in this work involves drilling which is aimed at detailed evaluation of hydrogeological conditions.
Retków – Ścinawa and Głogów	– Drilling continued as part of stage I, and by the end of December 2015, seven holes had been drilled in the Retków - Ścinawa area, while a further three are underway. In the Głogów concession another four holes are being drilled. – The first stage of work on this project involves the sinking of 15 drillholes in both concessioned areas.
Projects at the early exploration stage, without defined copper mineralisation	
Weisswasser (Saxony in Germany)	– Work continued on the second phase of the second stage of the project, comprising the sinking of a single exploratory drillhole. In the third quarter of 2015, drilling was completed and laboratory research was performed on the core sample from the deposit zone. – In the fourth quarter of 2015, a geological report was prepared on the transborder exploration for Zechstein-type copper ore deposits in the concessioned areas Weisswasser and Weisswasser II in Germany and in the Stojanów concession on the Polish side. The results of the report showed there was no geological justification to continue exploration. The company KGHM Kupfer AG, which advance the project, decided to discontinue exploratory work.
Stojanów	– In the third quarter of 2015, work was carried out on reinterpreting archival geological and geophysical data. Work was simultaneously performed on reviewing and identifying the seismic profile of geophysical and geoelectrical measurements. – In the fourth quarter of 2015, based on a prepared geological report on the transborder exploration for Zechstein-type copper ore deposits in the concessioned areas Weisswasser and Weisswasser II in Germany and in the Stojanów concession on the Polish side, it was determined that there was no justification to continue exploration in this area, and the decision was made to discontinue exploratory work in the concessioned area.
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. The Regional Administrative Court in Warsaw overturned, based on formal reasons, the decision of the Minister of the Environment from 29 July 2014 regarding reversal of the decision dated 28 January 2014. At the turn of October and November 2015, KGHM Polska Miedź S.A. filed cassation appeals with the Supreme Administrative Court regarding Bytom Odrzański and Kulów-Luboszyce. A hearing date has not yet been determined.

Other concessions

Zatoka Pucka	– In the fourth quarter of 2015, surface-based geophysical surveys in the concessioned area were completed. Data acquired from the reinterpretation of archival data and newly-performed geophysical research is undergoing detailed analysis and interpretation, based on which it will be possible to more precisely evaluate the geological structure of the concessioned area as well as verify the siting of planned drilling.

Pillar II. Production Assets Development

Key development projects in terms of the Core Business in Poland

Accessing the Deep Głogów deposit	– Work continued on the sinking of the GG-1 ventilation (input) shaft using tubing construction and on developing primary tunneling in the Rudna and Polkowice–Sieroszowice mines together with necessary technical infrastructure. – With respect to construction of the Surface-based Ventilation Station at the R-XI shaft, work is underway on stage 2 of the investment, as a result of which it will be possible to increase the production of cooled air to the mine below the level of 1200 m to 25 MW. The planned date of completion of this work is the second half of 2016. – In order to improve coordination of work related to accessing new mining areas based on updated long term mining plans and economic analyses of scenarios for the development of the core business on the terrain of the Legnica-Głogów Copper Belt, a comprehensive Deposit Access Program has been developed. The entire scope of the Program will be expanded in subsequent years to include projects related to excavating a network of access and development tunnels as well as the development of the infrastructure of these tunnels along with the opening of subsequent mining areas in the Rudna and Polkowice-Sieroszowice mines. By 2020 around PLN 250 million is expected to be spent on carrying out this program annually.
Mechanical mining program	– **Excavation of drift tunnels using a combine team** – Project work performed in the underground conditions of the Polkowice-Sieroszowice mine confirmed the technical possibility of mechanically mining the copper ore deposits, as a technological alternative to the current method based on blasting technology. During work to improve the researched technology, elements which could potentially improve the production parameters of mechanically mining the ore were identified, with particular attention to work currently underway in areas of mining faults. Further project work will focus on quickening the rate of excavation to match current geological-mining conditions. – **Development of mechanised mining technology** - In cooperation with the company Caterpillar Global Mining Europe GmbH, work was performed on the implementation of required modifications in the components of the prototype machine which will enable completion of the final stage of mining trials using the ACT (Active Cutting Technology) mining complex in a pilot section of the Polkowice-Sieroszowice mine. Final verification of the assumed technical and productivity parameters of the researched technology is planned to be completed in the first half of 2016.
Pyrometallurgy Modernisation Program at the Głogów smelter/refinery	– Construction was completed on the Flash Furnace and Electrical Furnace hall. – Assembly of equipment and installations continued with respect to the Flash Furnace, Electrical Furnace, Recovery Boiler and elements of the Charge Preparation Section at the Głogów I smelter/refinery. – The current state of technical agreements and building permits allows the work to be completed on time. 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. – Start-up of the Flash Furnace installation at the Głogów I smelter/refinery is planned in the fourth quarter of 2016.

Metallurgy Development Program	– 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 SA. The Metallurgy Development Program is aimed at being able to process all of the concentrate produced by the Company in its 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.
	– As part of this program work has commenced on the following projects:
	  – 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,
	Additional projects of the MDP are currently at the stage of preparing documentation aimed at obtaining decisions as to their execution.

Development of the Żelazny Most tailings storage facility	– In the second quarter of 2015, legally binding changes were received in the Municipal Area Management Plans within the municipality of Polkowice, enabling development of the Żelazny Most tailings storage facility, – On 20 October 2015, permission was received to develop the Żelazny Most tailings storage facility to a crown height of 185 m a.s.l. within the borders of the Rudna and Grębocice municipalities, – Complete documentation was developed which is required to obtain permits to develop the Żelazny Most tailings storage facility to a crown height of 195 m a.s.l. across the entire area of the facility, and the procedure commenced of obtaining an environmental decision for this stage of the investment. – Work was performed whose goal is to select technology to construct and store tailings in the new planned Southern Quarter.

International development projects

Victoria project (Sudbury Basin, Canada) *KGHM INTERNATIONAL LTD.100%*	– In 2015, work was carried out on preparing surface infrastructure, among others construction of the transformer station was completed. – Additional exploration was carried out aimed at confirming the potential for continuous mineralisation below the currently-identified orebody. As part of the work conducted, two multilateral drillholes were sunk at a level below 2000 meters to a depth of around 2200 meters below the surface. Analysis of the core samples thus obtained gave positive results. – Due to current macroeconomic environment, the Management Board of KGHM Polska Miedź S.A. decided to modify the previously adopted schedule for the project.

Development of the Sierra Gorda project (Chile)	– Phase 2 (KGHM INTERNATIONAL LTD. 55%, Sumitomo Metal Mining and Sumitomo Corporation 45%) – – The process of optimising project assumptions was carried out, aimed at reducing capital expenditures and improving plant efficiency after the completion of Phase 2. – In 2015, work commenced on developing basic technical documentation, assuming an increase in the plant's processing capacity. Based on analytical work carried out to date, it is planned to increase processing capacity from 110 thousand tonnes to at least 220 thousand tonnes of ore per day. In addition, it is expected that the life of the mine will be extended as a result of developing the mineralised areas Pampa Lina and Salvadora which are adjacent to the Sierra Gorda mine, using the infrastructure developed during the second phase of the investment. – Sierra Gorda Oxide (project for processing of the oxide ore) – Advanced engineering work was carried out aimed at preparing the project's feasibility study. Engineering and design work continued on selecting a project concept which will maximise its economic value. On current stage the project is advanced by KGHM INTERNATIONAL LTD. The base case scenario for this investment foresees inclusion of the Sierra Gorda Oxide project within the structure of Sierra Gorda S.C.M. and its joint advancement with Sumitomo.
Ajax project (British Columbia, Canada) *KGHM Polska Miedź S.A. Group 80%,* *Abacus Mining and Exploration Corp. 20%*	– On 10 September 2015, an application was submitted for an environmental permit for construction of the Ajax open pit copper and gold mine. On 20 November 2015, the appropriate administrative body formally concluded its assessment of the environmental application with a positive result, and at the same time forwarded the document for further substantive assessment. On 18 January 2016, the updated application was submitted to the appropriate administrative body, which simultaneously commenced a 75-day social consultation period, with the citizens of the town of Kamloops as well as First Nations participating. – In 2015, 35% of the basic engineering work required to prepare for construction of the mine plant was completed. The project's feasibility study was updated, under which the mine's infrastructure was moved away from the nearest buildings of the town of Kamloops. At the same time, as part of the engineering work carried out, improvements were made to the technological solutions and the daily processing capacity of the plant was increased from 60 to 65 thousand tonnes. – Currently, KGHM Ajax is focused on obtaining all necessary permits and on continuing to build good relationships with First Nations, as well as with the citizens of the town of Kamloops.

Initiatives aimed at enhancing knowledge and innovation in KGHM Polska Miedź S.A.

Systemic organisation of the innovation management process	– As a result of the following actions, KGHM Polska Miedź S.A. became a leader in innovation amongst Polish companies and is recognised as a model example of cooperation between academia and industry in Poland. – for the first time a Strategic Research Agenda (SRA) was defined which sets out key directions and innovation initiatives supporting achievement of the Company's Strategy. The SRA describes the research space between prepared technological solutions available on the market and the vision of a production line expected by an organisation in individual technological areas. In addition, the SRA represents the basis for initiating joint projects and enterprises aimed at developing new, innovative technology and solutions and identifies projects which could be financed by public funds, both domestic and EU. – a target model for the functioning of R&D and innovation activities in the KGHM Group was defined – including international entities, based on internal resources and available public funds, both domestic and EU. The above is aimed at consolidating the skills of the KGHM Group's entities operating in the fields of research and innovation, eliminating the duplication of operating scopes, optimising the use of research infrastructure and regulating the questions of intellectual property rights and knowledge management. – a model for managing innovations was developed based on the stage gate process for KGHM Polska Miedź S.A. and the Company's international assets, together with defined threshold criteria between specific stages, enabling active portfolio management and effective implementation of the results of R&D work in the core business as well as the international commercialisation of Polish technology. Work is underway to prepare for implementation of the model. – implementation of the knowledge management system with respect to research, development and innovation in the KGHM Group was prepared, based on a defined concept containing a list of mechanisms enabling the effective utilisation of the potential of knowledge resources, both visible and hidden, within the Company. – with respect to work on the creation of a Knowledge Center, the entity which is integrating the R&D skills of key companies in the KGHM Group has developed a business model which takes into account the identified expectations of the main stakeholders.
Main R&D initiatives	– In 2015 over 200 R&D projects and academic/scientific papers were performed, in the total amount of over PLN 51 million. The main R&D projects are concentrated on the development of innovative solutions aimed at achieving the vision of an Intelligent Production Line, as well as on seeking innovative technical and organisational solutions enabling an improvement in efficiency and safety and ensuring production continuity. – Work continued on R&D projects in the form of joint ventures with industry partners and scientific and R&D institutions along with co-financing from domestic and international public funds, including:
CuBR Program	– with respect to the first bilateral CuBR Sector Program in Poland, carried out in cooperation with the National Centre for Research and Development, 12 projects selected during the first two editions of the competition were supervised and 20 new tasks for the third edition of the competition announced in December 2015 were prepared.
Horizon 2020	– R&D projects under grants by the European Union research program Horizon 2020, i.e. „DISIRE", „BioMOre" and „INTMET", whose total amount of co-financing amounts to EUR 1 220 thousand.
KIC RawMaterials	– KGHM Polska Miedź S.A. actively participates in the International Steering Committee of the Knowledge and Innovation Community with respect to KIC RawMaterials. The result of these activities was the siting of one of the six branches of KIC RawMaterials in Wrocław, Poland, and the presence of a Company representative on the seven-person European Executive Board. The budget for this

	enterprise is approx. EUR 1.6 billion, and as a result of the Community's actions 10 thousand jobs are to be created in the European commodities industry as well as several dozen innovative enterprises in the small-to-medium enterprise sector.

Pillar III. Production

Sierra Gorda mine in Chile – Phase 1 *KGHM INTERNATIONAL LTD. 55%* *Sumitomo Metal Mining and Sumitomo Corporation 45%*	– Work continued to increase processing capacity under Phase 1 of the Sierra Gorda project. The achievement of target Phase 1 processing capacity, enabling the production of 120 thousand tonnes of copper annually (the processing of 110 thousand tonnes of ore per day), is planned in the first half of 2016. – With respect to the process of achieving target production capacity, technical assumptions for the existing infrastructure are being optimised and reviewed. As a result of these actions, at year's end the maximum daily processing amount was recorded of over 130 thousand tonnes of ore daily. – The production of copper in concentrate from the Sierra Gorda mine in 2015 amounted to around 84 thousand tonnes. The production of molybdenum in concentrate from the Sierra Gorda mine in 2015 amounted to around 7 thousand tonnes. – Since May 2015 the Sierra Gorda mine has been supplying molybdenum concentrate to the processing plants for further processing. In July 2015 the export of molybdenum concentrate began. – On 22 June 2015 the transport of copper concentrate from the mine to a warehouse dedicated to Sierra Gorda at the port of Antofagasta commenced. – On 1 July 2015, the Sierra Gorda mine commenced commercial production. – Due to the macroeconomic situation and to the lower than expected production results, work was carried out on implementing savings initiatives, such as renegotiating contracts to reduce contracted prices, optimising inventories levels and reducing internal employment as well as contracted employment.
Maintaining production from own concentrate	– Preparatory work was carried out on commencing mining in new areas of the deposits as part of the Deep Głogów 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: – preparatory work is underway in the G-51 region of the Polkowice-Sieroszowice mine, – on 20 August 2015, the Minister of the Environment granted KGHM a concession to explore the Radwanice-Gaworzyce copper ore deposit in the Dankowice area using the underground method, which will enable mining to be carried out in this area.
Improving efficiency in the core business in Poland	– 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: – more efficient utilisation of resources (3D deposit modeling), – optimising management of underground machines (purchasing and servicing, availability), – automation of production lines in the mines and concentrators, – more efficient management of production infrastructure, – implementation of an energy savings program, and – optimising employment levels.
Program to improve occupational health and safety	– A schedule for the implementation of individual components of the program was defined, under which further initiatives are being implemented aimed at making changes to motivation and behaviors and increasing the knowledge and skills of employees in terms of occupational health and safety, as well as raising the level of health care and the overall health of employees. In 2015 the average Lost Time Injury Frequency Rate (LTIRF), which is the number of accidents per million hours worked, throughout the core production business of KGHM Polska Miedź S.A. amounted to 10.23 (as compared to 10.4 in 2014).

Other important initiatives supporting the core business

Global Organisation and Skills Development

Improving efficiency and effectiveness in managing a global organisation	– Business analysis was carried out aimed at developing a management model for the global KGHM Group taking into account among others the centralisation of selected business processes. – Work is underway on implementing an Integrated Quality Management System comprising all of the processes occuring in the organisation. In 2015, work concentrated on preparing to implement the system with respect to international standards for energy management (ISO 50001) and information security (ISO 27001).
Human Resources Management	– Work continued on initiatives focused on ensuring an appropriately motivated and competent staff resource required to accomplish the goals of a global organisation. Actions in this regard primarily comprise: – educational programs to develop professional, managerial and specialist skills. – development of a system of management by results for the management staff and an evaluation system encompassing all employees, – implementation of a staff mobility policy in the KGHM Group, and – improvement of existing and implementation of new tools to support the acquisition of the highest quality staff from outside the Company.

Corporate Social Responsibility

	– In the fourth quarter of 2015, KGHM Polska Miedź S.A. adopted a new global CSR strategy, in accordance with the Company's existing business strategy for the years 2015-2020. This strategy is focused on strengthening KGHM's position as a stable, developing, global leader which cares about the common good. The initiatives undertaken by KGHM assume among others the development and maintenence of its position as a responsible employer, building its image as an environmentally friendly company and improving cooperation with local communities.

Ensuring the energy security of the KGHM Group

Preparation for the construction and operation of the first Polish nuclear power plant	– KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A. and ENEA S.A. continued work on the project to prepare for the construction of a nuclear power plant in Poland. – On 15 April 2015, these companies signed an agreement for the acquisition of shares in PGE EJ 1 sp. z o.o. („PGE EJ 1"), the special purpose company which is responsible for the preparation and execution of the investment to build and operate the first Polish nuclear power plant with a capacity of approx. 3 GWe (the Project). KGHM Polska Miedź S.A., TAURON Polska Energia S.A. and ENEA S.A. each acquired from PGE Polska Grupa Energetyczna S.A. 10% of the shares in PGE EJ 1 sp. z o.o. (a total of 30% of the shares). KGHM Polska Miedź S.A. paid the amount of PLN 16 million for the acquired shares. The transaction was financed by internal funds. – According to the Shareholders Agreement dated 3 September 2014, the parties will jointly, proportionally to their interest, fund activities of the initial phase of the Project. The objective of the initial phase of the Project is to determine such elements as potential partners, including the strategic partner, technology suppliers, EPC (Engineering, Procurement, Construction) contractors, nuclear fuel suppliers and acquiring funds for the Project, as well as preparing PGE EJ 1 organisationally and in terms of the skills required for its role as the nuclear power plant's future operator, responsible for its safe and efficient operation („Integrated Proceedings"). – On 29 July 2015, the Shareholders Meeting of PGE EJ 1 adopted a resolution to increase the share capital of PGE EJ 1 by PLN 70 million. Pursuant to the shares held, KGHM Polska Miedź S.A. acquired shares, paid for in cash, worth PLN 7 million in the increased share capital. – The Parties to the Shareholders Agreement expect that subsequent decisions concerning the Project, including a decision on the further participation of each Party in the next stage of the Project, will be made after the end of the initial phase and directly before the conclusion of the Integrated Proceedings.
Development of small-scale photovoltaics	– In its search for new, innovative methods of generating electricity, Energetyka sp. z o.o. is developing projects related to the construction of pilot photovoltaic farms. In the first half of 2015 another pilot installation using thin-layer CIGS (Copper Indium Gallium Selenide) technology was opened. The photovoltaic farms in use to date in Legnica and Głogów use three different photovoltaic technology modules: CIGS, monocrystalline and polycrystalline. The goal of the project is to determine which of the three applied technologies is the most suitable for local atmospheric conditions.

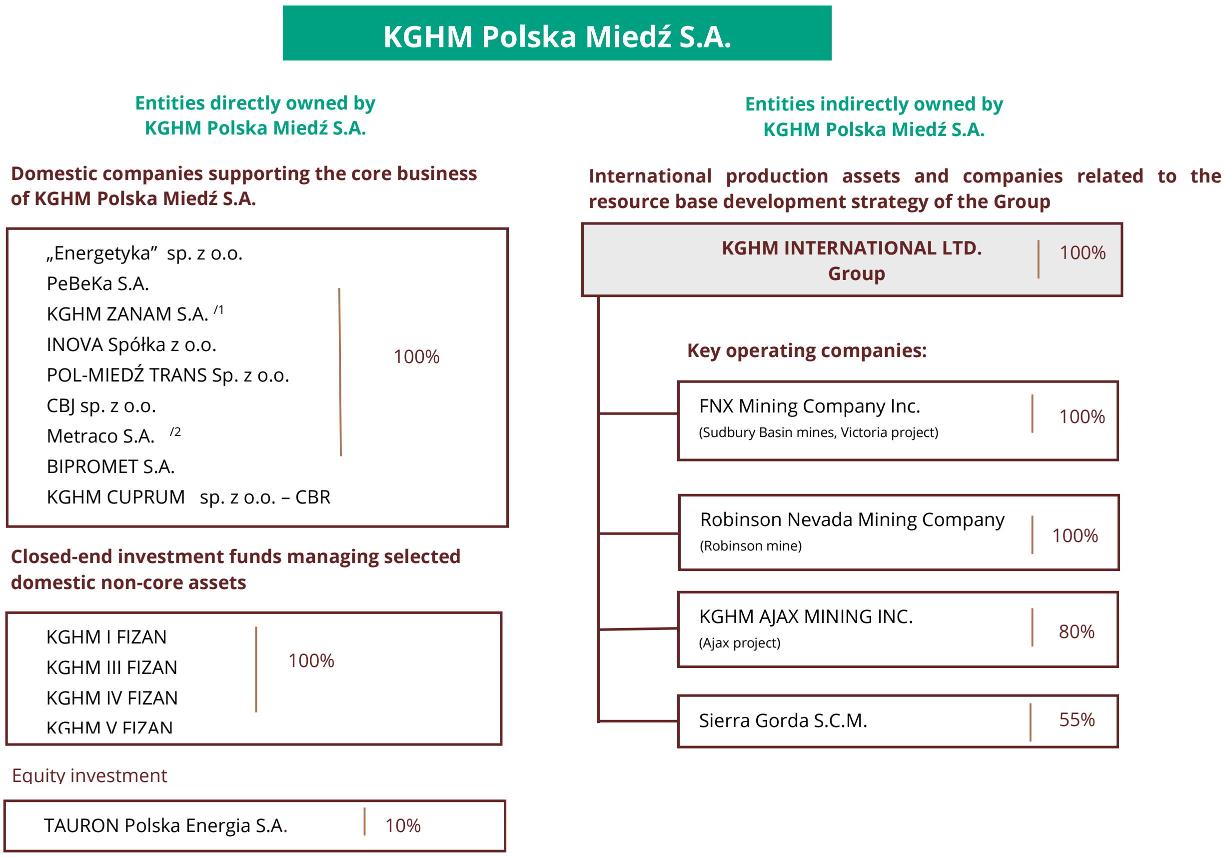
2.2. Equity investments

KGHM Polska Miedź S.A. is the Parent Entity of the Group, which at the end of 2015 comprised 81 subsidiaries. The Company directly held shares in 27 subsidiaries and certificates of 4 closed-end investment funds managed by the subsidiary KGHM TFI S.A.

Below is a diagram presenting groups of entities which play a significant role in the Group and represent significant investments in terms of the capital committed.

In 2015 there were no changes in the basic principles for managing the Group. The internal structures and the tools used in the management process are developed and adapted to needs arising from the process of Group integration and project development.

Diagram 3. Entities in which KGHM Polska Miedź S.A. held shares as at 31 December 2015



1) Company transformed from a spółka z o.o. (limited liability company) to a spółka akcyjna (joint stock company)
2) Name change (formerly KGHM Metraco S.A.)

Amongst the main equity investments advancing the Company's main strategy are the KGHM INTERNATIONAL LTD. Group together with the mine project Sierra Gorda in Chile, in which an open-pit mine was built on one of the world's largest deposits of copper ore, molybdenum and gold. This mine, following a ramp-up phase which will be completed in 2016, will annually produce, in its first years of operation, 120 thousand tonnes of copper and 40-50 million pounds of molybdenum. Sierra Gorda is a joint venture between KGHM INTERNATIONAL LTD. and companies of the Sumitomo Group. A description of the most important production assets and projects carried out under the KGHM INTERNATIONAL LTD. Group may be found later in this section.

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

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

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

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

Other companies which are not presented in the diagram include entities serving the important role of corporate social responsibility, special purpose companies in the holding structure and other equity investments (including those designated to be restructured and disposed of).

KGHM INTERNATIONAL LTD. Group major production assets and projects

Robinson mine

Location	Nevada, USA
Ownership	100% Robinson Nevada Mining Company –100% owned by KGHM INTERNATIONAL LTD.
Type of mine	open pit
Main ore type	copper ore
Associated metals	gold
Type of orebody	porphyry skarn
End product	copper concentrate
Production (2015)	56.8 kt Cu; 56.8 koz TPM*
Employment (31.12.2015)	568

**TPM – total precious metals: gold, platinum, palladium*

The mine is located in White Pine County, Nevada, and is comprised of 3 mining areas: Liberty, Tripp-Veteran and Ruth, which is currently in operation. The ore is extracted by conventional open-pit methods, and is then processed into a copper and gold concentrate in a concentrating plant.

Morrison mine (one of the Sudbury Basin mines)

Location	Sudbury Basin, Ontario, Canada
Ownership	100% FNX Mining Company –100% owned by KGHM INTERNATIONAL LTD.
Type of mine	underground
Main ore type	copper ore
Associated metals	nickel, platinum, palladium, gold
Type of orebody	footwall/contact Ni
End product	copper ore
Production (2015)	13.4 kt Cu, 2.1 kt Ni, 35.5 koz TPM*
Employment (31.12.2015)	263

**TPM – total precious metals: gold, platinum, palladium*

The mine is located at the edge of the town of Sudbury (Ontario Province, Canada), on the western border of the richly-mineralised North Range complex of the Sudbury Igneous Complex (SIC) in the Sudbury Basin. This is an elliptical structure 60 km long and 30 km wide, which is related to substantial economic resources of nickel, copper, platinum, palladium, gold, and other metals.

The ore is accessed and mined with the aid of leased infrastructure belonging to the Craig mine owned by Xstrata Nickel. Mineralisation in the Morrison deposit most commonly occurs in the form of ore veins. Mining is carried out at the 4030 level (approx. 1228 m) using mining techniques adapted to the deposit's geometry. Drilling is being carried out to define the lower portions of the orebody above the 4700 level (approx. 1433 m).

All of the ore extracted from the mine is processed by Vale's Clarabelle plant in Sudbury.

DMC – mining services

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

Currently the most important assets of KGHM Polska Miedź S.A. at the development stage are the Sierra Gorda and Victoria projects.

Sierra Gorda project

Location	Region II, Chile
Ownership	55% KGHM INTERNATIONAL LTD, 45% companies of the Sumitomo Group – Sumitomo Metal Mining Co., Ltd. (31.5%) and Sumitomo Corporation (13.5%)
Type of mine	open pit
Main ore type	copper ore
Associated metals	molybdenum, gold
Mine life	19 years for the current deposit, with the possibility to prolong to 40 years, taking into account new deposits
End product	copper concentrate, molybdenum concentrate
Forecasted production	around 220 kt Cu, 11 kt Mo, 2 t Au per year
Start of production	2014, commercial production commenced on 1 July 2015

KGHM INTERNATIONAL LTD. acquired the project in 2008. Since September 2011 the Sierra Gorda project has been a joint venture (under the company JV Sierra Gorda S.C.M.) of KGHM INTERNATIONAL LTD. (55%) and companies of the Sumitomo Group. This is a key development project in the KGHM Polska Miedź S.A. Group due to its scale – construction of one of the world's largest mines of copper, molybdenum and gold on one of the largest deposits of copper and molybdenum in the world, comprising both sulphide copper ore as well as oxide copper ore located above the sulphide level.

The Sierra Gorda project assumes two investment stages. The first stage comprised the construction of a conventional open-pit mine (extraction using blasting materials and dump trucks, loading and ore transport to a processing plant), development of infrastructure (among others a tailings pond, power line, salt water pipeline) and a processing plant with an installation to separate the molybdenum concentrate (high-pressure crushers, ball mills and conventional flotation) with processing capacity of 110 thousand tonnes of ore per day. Phase two involves an increase in the processing plant's production capacity to at least 220 thousand tonnes of ore per day.

The Sierra Gorda mine, which commenced copper production on 30 July 2014, is located in the Atacama desert, in the Sierra Gorda administrative area in the Antofagasta region, in northern Chile, approx. 60 km south-west of the city of Calama. The mine is situated at an altitude of 1 700 m a.s.l. and 4 km from the town of Sierra Gorda. The copper and molybdenum concentrates produced are transported to the port of Antofagasta, and from there by sea to smelters around the world.

In April 2015 the molybdenum installation commenced production, and on 1 July 2015 the Sierra Gorda mine commenced commercial production (since then it has prepared operational income statements). The mine is still in the ramp-up phase to achieving target processing capacity, during which work is underway to optimise and verify the technical assumptions of the existing infrastructure. As a result of these actions, at the end of 2015 the maximum daily amount of ore processed was recorded at the level of over 130 thousand tonnes of ore daily. Following the ramp-up phase, which due to the process of optimisation will be completed in 2016, the mine will have annual production of 120 thousand tonnes of copper and 40 - 50 million pounds of molybdenum in its first years of operation.

In 2015, the process of optimising project assumptions was carried out aimed at reducing capital expenditures and improving the functional efficiency of the plant following completion of the project's second phase, and work commenced on developing basic technical documentation for phase two. In addition, it is expected that the life of the mine will be extended as a result of developing the mineralised areas Pampa Lina and Salvadora which are adjacent to the Sierra Gorda mine, using the infrastructure developed during the second phase of the investment.

The goal of the Sierra Gorda Oxide project is to process the oxide ore obtained during construction and development of the Sierra Gorda mine. Under consideration is the recovery of metal in an installation using SX/EW technology. The oxide ore is currently being stored separately for later heap leaching. In 2015, advanced engineering and design work aimed at providing alternatives to maximise the project's economic value was performed. On the current stage the project is advanced by KGHM INTERNATIONAL LTD. The base case scenario for this investment foresees inclusion of the Sierra Gorda Oxide project within the structure of Sierra Gorda S.C.M. and its joint advancement with Sumitomo. All of the expenditures related to the project, until Sumitomo joins the project, are incurred by KGHM INTERNATIONAL LTD.

Victoria project

Location	Sudbury Basin, Ontario, Canada
Ownership	100% KGHM INTERNATIONAL LTD.
Type of mine	underground
Main ore type	copper-nickel ore
Associated metals	precious metals (gold) and platinum group metals (platinum, palladium)
Mine life	13 years
End product	copper concentrate, nickel concentrate
Forecasted production	16 kt Ni, 15 kt Cu
Start of production	start of mining in 2021, full production capacity in 2023

This project is located in the Canadian province of Ontario, around 35 km west of the town of Sudbury. In 2002 rights were acquired to the Victoria mineral deposit and a campaign of exploration in this terrain commenced. Measured, indicated and inferred mineral resources are estimated at 13.6 million tonnes of ore, with average grade of 2.6% Cu, 2.7% Ni and 8.3 g/t of all associated metals. All of the ore extracted from the mine will be processed in the Clarabelle plant in Sudbury, owned by Vale.

The current development scenario for the project calls for the sinking of 2 shafts to access the deposit (a production shaft and a ventilation shaft).

In 2015, work on the mine's detailed technical documentation describing the process of constructing the mine was completed. As previously declared by the Company's Management Board, in 2015 additional exploration work was performed on the terrain of the Victoria project aimed at confirming the potential continuity of the mineralisation below the currently identified orebody. As part of the work conducted, aimed at documenting economic copper mineralisation at a level below 2000 meters, two multilateral drillholes were sunk (throughout the entire program of work a total of six ore intersections will be taken) to a depth of around 2200 meters below the surface. Analysis of the results obtained from this drilling for core samples gave positive results. Among others, a core was obtained with a length of over 30 meters demonstrating mineralisation of over 6.5% Cu, 2.2% Ni and 33.9g/t TPM.

In addition in 2015 work was carried out aimed at preparing surface infrastructure, among others construction of the transformer station was completed. Work is currently underway aimed at connecting it to the high-voltage network.

Due to current macroecnomic environment, the Management Board of KGHM Polska Miedź S.A. decided to modify the previously adopted schedule for the project.

Ajax project

Location	Kamloops, British Columbia, Canada
Ownership	KGHM INTERNATIONAL LTD. 80%; Abacus Mining and Exploration Inc. 20%
Type of mine	open pit
Main ore type	copper ore
Associated metals	precious metals (gold and silver)
Mine life	18 years
End product	copper concentrate
Forecasted production	58 kt Cu, 125 koz Au
Start of production	The construction schedule and date of first production of copper concentrate will be determined following receipt of requisite permits.

The Ajax project is located in British Columbia, Canada, 400 km north-east of Vancouver near the town of Kamloops. The project assumes the construction and operation of an open-pit copper and gold mine and an ore processing plant, with associated infrastructure. In January 2012, the company Abacus Mining and Exploration Inc. prepared a feasibility study, based on which the preliminary economic parameters of this project were described. Due to the substantial risk of not receiving environmental permits based on the assumed technological parameters of the project, including the siting of basic mine plant infrastructure, the assumptions on which the feasibility study from 2012 were based were reviewed in terms of identifying risk factors and the potential for increasing the project's value. On 13 January 2016, an Updated Feasibility Study was published, replacing the earlier version dated 6 January 2012. The Updated Feasibility Study reflects changes to the project, under which the mine's infrastructure was moved farther from the nearest buildings in the town of Kamloops, technology improvements were incorporated and the processing facility's throughput capacity was increased from 60 to 65 thousand tonnes per day.

Based on drilling conducted to date, Measured and Indicated resources increased compared to the 2012 feasibility study to 568 million tonnes of ore containing 0.26% of copper, 0.18 g/t of gold and 0.35 g/t of silver as compared to 512 million tonnes of ore containing 0.31% of copper and 0.19 g/t of gold in the 2012 feasibility study. Proven & probable mineral reserves were estimated at 426 million tonnes of ore containing 0.29% of copper, 0.19 g/t of gold and 0.39 g/t of silver, as compared to the 503 million tonnes of reserves containing 0.27% of copper and 0.17 g/t of gold reported in the 2012 feasibility study.

The project's pre-tax investment parameters are as follows: USD 429 million NPV @ 8% discount rate, 13.4% IRR. Under the base case scenario, the investment payback period is approximately six and one half years.

Initial capital expenditures are estimated at USD 1 307 million and reflect the introduction into the project of several important technological changes, aimed at increasing metals recovery during processing, decreasing operating costs, and reducing environmental impact (such as changes in preliminary milling and ore transport systems as well as technological solutions at the processing plant, and in the tailing storage system). The C1 cash-cost has been calculated at 1.37 USD/pound. Mine construction will last two and one half years once it commences.

The construction schedule and date of first production of copper concentrate will be determined following receipt of requisite permits. Currently, KGHM Ajax is focused on obtaining all necessary permits and on continuing to build good relationships with First Nations as well as with the citizens of the town of Kamloops. On 10 September 2015, an application was submitted for an environmental permit. On 20 November 2015, the appropriate administrative body formally concluded its assessment of the environmental application with a positive result, while on 18 January 2016, a period of substantive assessment of the application began, comprising a 75-day social consultation period, with the citizens of the town of Kamloops as well as First Nations participating.

Equity investments in 2015

Financing of international development projects

In 2015, to finance the international resource base development projects, including the key project Sierra Gorda, and the projects Sierra Gorda Oxide, Victoria and Ajax, KGHM Polska Miedź S.A. granted loans to the company Fermat 1 S.à r.l. (a direct subsidiary) and to the companies 0929260 B.C. Unlimited Liability Company, Quadra FNX Holdings Chile Limitada and Mineria y Exploraciones KGHM International SpA (indirect subsidiaries) in the total amount of USD 374.6 million (PLN 1 461.2 million at the average exchange rate of the NBP from 31 December 2015). Subsequently these funds were transferred as loans and/or increases in the share capital of special purpose companies within the holding structure to companies carrying out individual projects.

Sierra Gorda project	Financing for the Sierra Gorda project, proportionally to the interest held in the share capital of Sierra Gorda S.C.M. (55%), amounted in 2015 to USD 244.8 million, all of which came from funds supplied by KGHM Polska Miedź S.A. (PLN 954.8 million at the average exchange rate of the NBP from 31 December 2015).
Victoria project	Financing for the Victoria project amounted to USD 71.9 million (PLN 280.5 million at the average exchange rate of the NBP from 31 December 2015) all of which came from funds supplied by KGHM Polska Miedź S.A.
Ajax project	Financing for the Ajax project, proportionally to the interest held by the KGHM Polska Miedź S.A. Group in the share capital of KGHM AJAX MINING INC. (80%), from KGHM Polska Miedź S.A. amounted to USD 41.1 million (PLN 160.4 million at the average exchange rate of the NBP from 31 December 2015), including USD 6 million (PLN 23.4 million at the average exchange rate of the NBP from 31 December 2015) under a loan granted to the partner in this company pursuant to the Partners Agreement.
Sierra Gorda Oxide project	Financing for the Sierra Gorda Oxide project from KGHM Polska Miedź S.A. amounted to USD 16.8 million (PLN 65.5 million at the average exchange rate of the NBP from 31 December 2015).

Equity investments and changes in the Group's structure

In 2015, KGHM Polska Miedź S.A. incurred expenditures on equity investments in the total amount of PLN 76 million, as follows:

- 10% of the shares in the special purpose company **PGE EJ 1 sp. z o.o.** were purchased, which is responsible for the preparation and execution of the investment to build and operate the first Polish nuclear power plant,
- 34% of the shares of the subsidiary **BIPROMET S.A.** (including 25.23% as a result of a tender offer and 8.77% as a result of mandatory purchase) were purchased, reaching the target of 100% of the share capital of this company,
- share capital was increased in two subsidiaries (**KGHM CUPRUM sp. z o.o. - CBR and KGHM ZANAM S.A.**) and also the investment certificates of **KGHM IV FIZAN** (a fund managed by KGHM TFI S.A.) were purchased, the allocated funds being used to carry out planned investments,
- the share capital of the subsidiary **KGHM Kupfer AG** was increased, the allocated funds being used to carry out the second phase of research under stage II of the Weisswasser project.

In addition, in 2015 the following changes were made in the Group's structure and its organisation:

- the domestic subsidiary PeBeKa S.A. founded the company PeBeKa Canada Inc. in Canada with its registered head office in Vancouver, and acquired 100% of the shares with a total value of CAD 100 000; the founding of this company is related to the mine projects being advanced by the Group in Canada, including the Victoria project;
- KGHM Polska Miedź S.A. founded 7 special purpose subsidiaries: 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., with a share capital of PLN 50 thousand each, which were included in the KGHM Polska Miedź S.A. Tax Group founded in 2015 (effective from 1 January 2016). The creation of these entities is aimed at shaping the Tax Group in the future;
- a new entity was founded within the KGHM I FIZAN fund - Staropolanka Spółka z o.o.; its creation is related to the process of dividing the company Uzdrowiska Kłodzkie S.A. – Grupa PGU, which is an element in the restructurisation of the company Polska Grupa Uzdrowisk aimed at enhancing its efficiency, among others by separating out other than spa-related activities; the mineral water production business, separated as an organised part of the company, will be added to the newly-created company;
- KGHM Polska Miedź S.A. sold all of the shares it had held in LETIA S.A. (85%) by transferring them as a non-cash contribution to cover the acquisition of shares of the company Legnicka Specjalna Strefa Ekonomiczna S.A. (LSSE). At the end of 2015, KGHM Polska Miedź S.A. did not hold any shares of LETIA S.A. while its stake in LSSE amounted to 12.24% of the share capital and 7.8% of the votes at the company's general meeting;
- „Energetyka" sp. z o.o. purchased shares from employees of the subsidiary WPEC w Legnicy S.A., becoming its sole owner; the shares purchased represent 14.8% of the share capital (including 4.3% through a mandatory purchase);

- the direct subsidiary POL-MIEDŹ TRANS Sp. z o.o. was divided, aimed at separation of those areas of the company's activities unrelated to its core business which is railway transport; the separated business areas in the form of an organised part of the company were transferred to the following Group subsidiaries (acquirees): MERCUS Logistyka sp. z o.o. (vehicular passenger transport), KGHM ZANAM S.A. (commodity transport and spedition), „Energetyka" sp. z o.o. (trade in oil products) as well as to the newly-founded company PMT Linie Kolejowe 2 Sp. z o.o. (railway infrastructure). As a result of this division the share capital of POL-MIEDŹ TRANS Sp. z o.o. was decreased by PLN 61 million (from PLN 124 million to PLN 63 million);
- as at 31 December 2015, two Canadian companies were merged: KGHM INTERNATIONAL LTD. and 0929260 B.C. Unlimited Liability Company by founding a new company; the newly-founded entity with share capital in the amount of that of the company 0929260 B.C. Unlimited Liability Company as at 31 December 2015 (USD 2 080 million) acquired the company and statutes of KGHM INTERNATIONAL LTD. as well as all of the assets and liabilities of both companies.

  As a result of the above, the company KGHM AJAX MINING INC., advancing the Ajax project in British Columbia, Canada, which is building an open-pit copper and gold mine along with an ore processing plant with associated infrastructure, has joined the composition of the KGHM INTERNATIONAL LTD. Group.

During the analysed period, actions were continued to organise and simplify the Group's structure. Within the framework of these actions, the liquidation of two subsidiaries was initiated: in the domestic company Polska Grupa Uzdrowisk Spółka z ograniczoną odpowiedzialnością S.K.A. and in the non-domestic company International Molybdenum Ltd., in respect of which during the year the liquidation process was completed. The process of liquidating the subsidiary „BIOWIND" sp. z o.o. (the company had not commenced operations) which began in 2013 was also completed.

As at 31 December 2015 the statutory and actual head offices of the following companies of the KGHM INTERNATIONAL LTD. Group, which are not engaged in operations, were transferred to Canada:

- KGHMI (Barbados) Holdings Ltd.,
- Quadra FNX Chile (Barbados) Ltd.,
- Quadra FNX SG (Barbados) Ltd.,
- Centenario Holdings Ltd. (BVI), and
- Frankie (BVI) Ltd.

Future equity investments considerations

Future equity investments are based on the main goals of the Strategy of KGHM Polska Miedź S.A. for the years 2015-2020 with an outlook to 2040 adopted in January 2015.

In accordance with the adopted Strategy, the Group will be focused in the coming years on advancing the projects in its portfolio – above all Sierra Gorda (phase 2 of the project as well as the Sierra Gorda Oxide project, involving utilisation of the oxide ore), Victoria and Ajax.

On the basis of results obtained from exploratory and assessment work and analysis related to the exploration projects Weisswasser (Germany) and Malmbjerg (Greenland) it was determined, that neither project demonstrates economic feasibility which would justify further work. Consquently, the decision was made to discontinue these projects.

With respect to domestic equity investments involved in resource base development, KGHM Polska Miedź S.A. intends to pursue exploration activities related to the exploration and evaluation of deposits of potassium-magnesium salt, phosphorous resources, rock salt and non-ferrous metals in the Zatoka Pucka region. The potential partners in the project are companies of the Azoty Group (Grupa Azoty).

KGHM Polska Miedź S.A., as one of the largest consumers of electricity in Poland, plans to take an active role in projects in the energy sector which will enable the company to secure its power needs, reduce its exposure to changes in fuel and electricity prices and reduce the impact of its climate-related obligations. KGHM Polska Miedź S.A. is participating in the project to prepare for the construction of Poland's first nuclear power plant. The Company's partners in the project are ENEA S.A., PGE Polska Grupa Energetyczna S.A. and TAURON Polska Energia S.A.

Information regarding progress on the above projects may be found in part 2.1 of this report.

In addition, actions aimed at optimising the structure of the KGHM Polska Miedź S.A. Group will be continued, through the processes of restructuring and liquidation.

Related party transactions under other than arm's length conditions

In 2015, neither KGHM Polska Miedź S.A. nor its subsidiaries entered into related party transactions under other than arm's length conditions.

2.3. Capital expenditures

In 2015, capital expenditures amounted to PLN 2 655 million and were higher than in the prior year by 11%. Together with expenditures incurred on uncompleted development work, capital expenditures amounted to PLN 2 673 million.

Table 8. Structure of expenditures on property, plant and equipment and intangible assets - by division *(in mn PLN)*

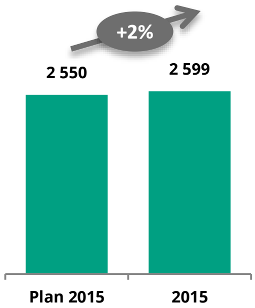
	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Mining	1 479	1 620	91.3	538	320	335	286
Metallurgy	1 115	696	160.2	500	277	213	125
Other activities	61	79	77.2	20	18	17	6
Development work - uncompleted	18	21	85.7	6	3	6	3
Total	**2 673**	**2 416**	**110.6**	**1 064**	**618**	**571**	**420**
including borrowing costs	57	4					

Table 9. Structure of expenditures on property, plant and equipment and intangible assets - by type *(in mn PLN)*

	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Replacement	597	650	91.8	229	120	136	112
Maintaining mine production	454	309	146.9	211	110	84.00	49.00
Development	1 604	1 436	111.7	618	385	345.00	256.00
Development work - uncompleted	18	21	85.7	6	3	6.00	3.00
Total	**2 673**	**2 416**	**110.6**	**1 064**	**618**	**571.00**	**420.00**
including borrowing costs	57	4					

Investment activities were comprised of projects involving replacement of equipment, maintaining mine production and development:

Chart 3. Expenditures incurred on planned investments in 2015* *(in mn PLN)*



** planned expenditures do not reflect borrowing costs (PLN 57 million) and costs of development work in progress (PLN 18 million)*

Replacement of equipment – aimed at maintaining production equipment in an unchanged condition, represents 23% of total expenditures.

Maintaining mine production - aimed at maintaining mine production at the level set forth in the approved Production Plan (development of infrastructure to match mine advancement) represents 17% of total expenditures.

Reasons for changes in projects for maintaining mine production as compared to the Plan's targets:

– a delay in the start of phase II of the project to Develop the Żelazny Most tailings storage facility to ensure the ability to store flotation tailings after 2016. As a result, a changes were introduced to the project budget in 2015.

Development – aimed at increasing production volume, implementing technical and technological optimisations using existing infrastructure, controlling production costs and adapting the company's operations to changes in standards, laws and regulations (conformatory projects and projects related to environmental protection) represents 60% of total planned expenditures.

The main causes of changes in development projects as compared to the Plan's targets:

– There was an accumulation of work under the Pyrometallurgy Modernisation Program, i.e. work planned for 2016 was accelerated (with respect to the Flash Furnace, Electrical Furnace, Energy packet, Electrical Furnace Dedusting Installation) and work postponed in 2014 due to a malfunction of the transformer at the Głogów smelter/refinery was performed.
– The Metallurgy Development Program was commenced at the Głogów and Legnica smelter/refineries.
– An investment related to the adaptation of existing infrastructure to legal and technical-technological requirements, aimed at optimising utilisation of the modernised smelting infrastructure with respect to investment projects currently underway at the Głogów smelter/refinery, was commenced.

Major objectives and investments in 2015

Replacement (PLN 597 million)

Mining machinery replacement	With respect to modernisation and replacement of the machine park in the mines, 178 pieces of mining machinery were purchased. Expenditures incurred in 2015: **PLN 203 million**.
Infrastructure replacement - other	Investments aimed at maintaining production infrastructure in an unchanged state in the Divisions (replacement or modernisation of electrical power equipment, transportation installations, auxiliary installations for primary production, mine skip lifting equipment). Expenditures incurred in 2015: **PLN 394 million**.

Maintaining mine production (PLN 454 million)

Mine infrastructure development	Investments were made in the mines related to developing mining infrastructure, ventilation and air cooling equipment and developing conveyor belts and piping. Expenditures incurred in 2015: **PLN 313 million**.
Żelazny Most project ensuring the ability to store flotation tailings after 2016	Readiness was achieved to develop the Main Facility to a crown height of 185 m a.s.l. within the borders of the Rudna and Grębocice municipalities. By 31 December 2015 expenditures incurred amounted to **PLN 66 million**, including PLN 19 million in 2015.

Mine development (PLN 491 million)

Construction of the SW-4 shaft	Construction of a temporary inlet air warming station was completed. Work continues on target facilities: an administration–social building, squares and roads. Preparations were completed on rebuilding the section of the shaft in the area of the salt layer – a total of 195 arch support sections were installed. By 31 December 2015 expenditures incurred amounted to: **PLN 828 million**, including PLN 35 million in 2015.
Deep Głogów	Work continues on the sinking of the GG-1 ventilation (input) shaft using tubing lining. As at 31 December 2015 the shaft had reached a depth of 687.2 meters using tubing lining (shaft target depth: 1 340 meters, diameter 7.5 meters). A cascading dewatering system was installed together with research openings. Since 2006, 71.4 km of mine tunnels were financed from investment funds and 22.0 kilometers of mine tunnels were financed from operating funds (altogether 93.4 kilometers) together with needed technical infrastructure (water pipes, power cables, electrical switching stations, conveyor belts, retention dams, air cooling pipes and equipment, communications equipment). In 2015, 14.0 km of primary mine tunnels were constructed in the Rudna and Polkowice-Sieroszowice mines. Stage 1 of building the Surface-based Ventilation Station at the R-XI shaft was completed. Work continued on stage 2, which will enable an increase in the production of chilled air to mining areas below 1200 m to 25 MW. Completion of this work is planned for the second half of 2016. By 31 December 2015 expenditures incurred amounted to **PLN 1 666 million**, including PLN 366 million in 2015.
Change in the L-VI shaft's function to a material – transport shaft	Conceptual documentation was prepared for the surface technical infrastructure of the L-VI shaft region. A contract was signed for the shaft complex along with transportation logistics. The appropriate notary acts were signed regarding proxy authority to purchase real estate.
Development of mining technology for using the ACT mining complex by KGHM	In cooperation with the company Caterpillar Global Mining Europe GmbH, work was performed on the implementation of required modifications in the components of the ACT mining complex, which should enable realisation of the final stage of mining trials using the ACT (Active Cutting Technology) mining complex in a pilot section of the Polkowice-Sieroszowice mine. Work was completed on the preparation of a new mining field and assembly commenced of the improved ACT mining complex in the pilot section. Adjustments were made in the technical-operational documentation. The ACT mining complex was prepared for a Pre-Test. Due to substantial uncertainty about whether the project will attain the expected technical results and the insufficient probability of achieving economic benefits over the next several years, impairment losses were recognised on the assets associated with this project. By 31 December 2015 expenditures incurred amounted to **PLN 56 million** (PLN 4 million in 2015), including PLN 38 million on uncompleted development work (PLN 4 million in 2015)
Drilling of drifts using combines team	In the Polkowice-Sieroszowice mine, work begun in 2013 continued on mine production trials using a team of three combines to perform preparatory drift work. In 2015, in the Deep Głogów deposit in the TW 357 drift hub, 3.5 km of drifts were built (11.1 km since the start of drilling) using combine technology, representing nearly 71% of the planned scope of work. The delay in executing planned work was due to work being performed in more challenging geological-mining conditions (flexsures, water and gas hazards). At the same time experience was also gained along with technical and economic assessments of the implemented technology, as well as work related to optimising the technical and organisational structure of the combine section. By 31 December 2015 expenditures incurred amounted to **PLN 12 million**, including PLN 4 million in 2015.

Modernisation of classification units in the Concentrators	A 1 and 2-part technological concept was developed for all regions of the Concentrators Division. Complete project documentation was prepared for the Polkowice region concentrator as well as a construction project for the Lubin and Rudna regions. Hydrocyclone batteries were supplied to all regions of the Concentrators Division for part 1 and 3 hydrocyclone batteries for part 2 for the Rudna region. By 31 December 2015 expenditures incurred amounted to **PLN 36 million**, including PLN 9 million in 2015.

Metallurgy development (PLN 998 million)

Pyrometallurgy Modernisation Program (PMP)	Work was performed on the main technological elements of the PMP: the Electrical Furnace and Flash Furnace. Assembly was completed of the Electrical Furnace, Flash Furnace and Recovery Boiler hall. Assembly work was performed on installations and equipment in the furnaces hall and the Power Building. Assembly work was performed on electrical equipment for the main switching stations: OSR11, OSR1 NOWA; station GST-1. Work was performed on the charge preparation sections, and assembly of the concentrate transport gallery and charge additives was completed. By 31 December 2015 expenditures incurred amounted to **PLN 1 572 million**, including PLN 616 million in 2015.
Metallurgy Development Program	This Program was commenced in 2015, with respect to which the following component projects are being carried out: construction of a roasting installation, construction of a steam drier and Modernisation of Electrorefining at the Legnica smelter/refinery. The decision was made to carry out projects related to adapting technical infrastructure to the change in smelting technology at the Głogów I smelter/refinery, based on taking technical-technological actions aimed at optimising the utilisation of the modernised metallurgical infrastructure in terms of investment projects currently underway at the Głogów smelter/refinery. Funds have been set aside in the budget for the Tank Hall at the Głogów smelter/refinery and for other associated projects – analyses are being conducted which will allow a decision to be made on the final scenario for the development of metallurgy. The Metallurgy Development Program will assure the ability to process all of the concentrate produced by the Company in its installations at the Głogów I smelter/refinery, the Głogów II smelter/refinery and the Legnica smelter/refinery in the years 2017-2033, given higher mined volumes and growing organic carbon content. At the same time it opens the possibility for higher copper production from imported concentrates. By 31 December 2015 expenditures incurred amounted to **PLN 311 million**.
Intensification of smelting at the Głogów II smelter/refinery	On 30 June 2015 the project was completed. By 31 December 2015 expenditures incurred amounted to **PLN 194 million**, including PLN 0.5 million in 2015.

Exploration development (PLN 90 million)

Exploration projects	**Gaworzyce-Radwanice** – work continued on preparing the deposit mining plan, in the northern part of the Radwanice-Gaworzyce copper ore deposit. **Synklina Grodziecka, Konrad** – in April 2015, a decision was received on a change in the concession, among others with respect to extending its validity to July 2017, i.e. to match the period of validity of the concession for the Konrad deposit. This action will enable the development in the future of joint geological documentation for both the Synklina Grodziecka and Konrad deposits. Surface-based geophysical surveys were completed in the concessioned areas. The next step in this work involves drilling which is aimed at assessing hydrogeological conditions. **Retków-Ścinawa and Głogów** –7 holes were drilled, while a further 3 are underway. In the Głogów concession 4 holes are being drilled. **Bytom Odrzański, Kulów–Luboszyce** – KGHM filed cassation appeals with the Supreme Administrative Court regarding Bytom Odrzański and Kulów-Luboszyce. A hearing date has not yet been determined. **Stojanów** – based on a geological report prepared in the fourth quarter on the transborder exploration for copper mineralisation in Germany and Poland (the Stojanów concession) it was determined that there was no justification to continue exploration in this area. **Zatoka Pucka** – surface-based geophysical surveys in the concessioned area were completed. Data acquired from the reinterpretation of archival data and newly-performed geophysical research is undergoing detailed analysis and interpretation. By 31 December 2015 expenditures incurred on exploration projects amounted to **PLN 275 million**, including PLN 90 million in 2015.

Other development (PLN 25 million)

Modernisation of the 6kV GSE switching station at the Głogów smelter/refinery GSE+	The physical scope of the project is on schedule. Work was completed on constructing a new building for the 6kV GSE - R2 switching station, and work continues on the building for the 6kV GSE – R1 switching station. Work was completed on the trestle bridge for the 110 kV power lines leading from the GIS T4 transformer to the GST - 1 switching station, and advanced work continues on modernisation of the power unit, the EC3 control and visualisation unit, and modernisation of the 6kV field in GST-2. By 31 December 2015 expenditures incurred amounted to PLN 44 million, including PLN 15 million in 2015.

2.4. Environmental protection

Activities related to environmental protection

KGHM Polska Miedź S.A., as one of the most important and socially responsible companies in Lower Silesia, cannot and does not want to avoid its responsibility for the environment in which it operates. The idea of sustainable growth, and in particular respect for the natural environment, is one of the Company's most important values. The extraction of copper ore, followed by its processing at all stages of production, is inextricably linked to its impact on various aspects of the natural environment. Adherence to strict environmental standards, mandated by law, is possible thanks to the systematic modernisation of installations protecting the environment, both those built in the past as well as new investments in this area. In 2015, the Company spent PLN 631 million on investments related to environmental protection, of which the largest expenditure, in the amount of PLN 616 million, was incurred on the Pyrometallurgy Modernisation Program at the Głogów I smelter/refinery.

In addition, KGHM Polska Miedź S.A., taking into consideration its corporate social responsibility, in the previous year continued a Program to Promote Health and Prevent Environmental Threats. This program is aimed mainly at children from ages 1 to 16 who live in the vicinity of our metallurgical facilities, and was comprised, among others, of blood testing for lead content, trips to „Green schools", pool-related activities and education related to ecology and health. In 2015 this program covered 756 children and 98 adults.

In accordance with the agreement on sustainable development signed in 2013 between the Głogów County (Powiat Głogowski) and the Management Board of KGHM Polska Miedź S.A., in 2015 the liming of soil was performed in the municipality of Jerzmanowa. By a resolution of the Management Board of KGHM Polska Miedź S.A., financial resources were provided to the municipality of Jerzmanowa, which enabled the liming of agricultural soil over an area of 1 652 ha, wherever it was necessary and required, while in the municipality of Pęcław, 2 032 ha of soil were analysed.

Environmental fees and fines

Total environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2015 amounted to PLN 32 million. The amount of fees paid was PLN 2 million higher than in 2014. The increase in fees was mainly due to an increase in individual environmental fees.

In 2015 the highest fees paid by the Company were for emission of substances in excess water from the Żelazny Most tailings storage facility: PLN 21 million. Another item of costs is the fee for air emissions in the amount of PLN 6 million.

Legal status and future actions

KGHM Polska Miedź S.A. operates ten installations whose functioning, in accordance with the Act on Environmental Protection, requires integrated permits.

In addition the Tailings Division holds permits for the operation of the Żelazny Most tailings storage facility, while the integrated permits which are still valid will be successively terminated as required sector permits are received. The remaining Divisions of the Company possess environmental sector administrative decisions.

Metallurgical installations at the Głogów and Legnica smelter/refineries as well as the gas-steam blocks in Polkowice and Głogów also hold permits to participate in the CO_2 emissions trading system, as since 2013 KGHM Polska Miedź S.A. has been participating in the obligatory European Union Emissions Trading System (ETS). In 2015, CO_2 emissions from the installations in the ETS system in 2014 were settled. Total CO_2 emissions from these installations, in the amount of 543 thousand tonnes, were covered by freely-acquired rights to generate these emissions. It is expected that emissions in 2015 will be settled mainly thanks to freely-acquired rights and partially based on excess rights and purchases of CER (certified emission reduction) certificates from prior periods.

Due to changes in environmental law introduced in 2015, the environmental permits held by the Company were updated on an on-going basis.

The most important planned environmental undertakings in the near term are as follows:

- completion of work related to the modernisation of pyrometallurgy at the Głogów smelter/refinery,
- adaptation of administrative decisions held to legal changes,
- overseeing the system for trading CO_2 emissions,
- work related to ensuring the security of the Żelazny Most tailings storage facility, such as strengthening the containment dam,
- continuation of a program to promote health and prevent environmental threats – aimed at the people living in former protective zones, and
- development of the Żelazny Most tailings storage facility by the so-called southern quarter.

Activities to meet REACH requirements

KGHM is a member of six international consortia created to meet the requirements of the European Union's REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) decree. In 2015, cooperation with the consortia involved adaptation to changes in REACH requirements as regards registration documentation, the classification of substances, assessment and authorisation. These changes are to be introduced smoothly, which is why the REACH consortia will continue to function.

In 2015, costs incurred by KGHM due to cooperation with the consortia amounted to EUR 114 thousand. The main item was the assessment of silver, conducted by order of the European Chemicals Agency.

In 2016, KGHM plans to register gold and bizmuth (which is present in the lead-bismuth alloy produced). The cost of these two registrations is EUR 33 thousand, while current cooperation with the consortia will amount to around EUR 50-100 thousand per year.

Updating of BREF documentation

At the end of 2013 the European Commission decided it was necessary to update the BREF (Best available techniques Reference document) to deal with mining tailings and waste. (BREF documents are required by the EU and comprise descriptions of techniques applied in various industries with an emphasis on best available ecological techniques, for the use of Member States as a starting point for the issuance of environmental permits.)

Work is being conducted by the Joint Research Centre – Institute of Prospective Technological Studies (JRC-IPTS) in Seville in cooperation with a Technical Working Group (TWG), composed of representatives of Member States, organisations and industry (including KGHM).

In 2015, a variety of data was collected based on questionnaires prepared by JRC-IPTS. Currently JRC-IPTS is compiling this information and creating a working BREF draft, which will then be discussed and amended.

2.5. Key risk factors and risk management

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

The KGHM Polska Miedź S.A. Group defines risk as uncertainty, being an integral part of the activities conducted and having the potential to result in both opportunities and threats to achievement of the business goals. The current, future, actual and potential impact of risk on the 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 KGHM Polska Miedź S.A. Group is consistently performed. 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 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 Compliance Department, and in terms of financial risk by the Executive Director for Finance and the Market and Credit Risk Management Department.

This comprehensive approach to risk analysis also comprises the identification of risk factors related to achieving postulated strategic goals (more in Section 2.1. Strategy for the years 2015-2020).

The organisational structure of risk management in the Company was modified as a result of the creation of a Financial Liquidity Committee. The breakdown of rights and responsibilities applies best practice principles for Corporate Governance and the generally recognised model of three lines of defense, according to the chart below.

Diagram 4. Organisational structure of risk management in KGHM Polska Miedź S.A.

Supervisory Board (Audit Committee)
Performs annual assessment of the effectiveness of the risk management process and monitors the level of key risk factors and ways to address them.

Management Board
Has ultimate responsibility for the risk management system and supervision of its individual elements.

1st line of defense	**2nd line of defense**				**3rd line of defense**
Management	**Risk Committees**				**Internal Audit**
Management staff is responsible for identifying, assessing and analysing risk factors and for the implementation, within their daily duties, of responses to risk. The task of the management staff is ongoing supervision of the application of appropriate responses to risk within the tasks realised, to ensure the expected level of risk is not exceeded.	Support effective risk management and ongoing supervision of key risk factors.				The Internal Audit Plan is based on assessing risk and subordinated business goals, assessed is the current level of individual risk factors and the degree of efficiency with which they are managed.
	Market Risk Committee	**Credit Risk Committee**	**Corporate Risk Committee**	**Financial Liquidity Committee**	
	Manages risk of changes in metals prices (e.g.: copper and silver) as well as exchange and interest rates	Manages risk of failure of debtors to meet their obligations	Manages corporate risk and continuously monitors key risk factors	Manages risk of loss of liquidity, understood as the ability to pay financial liabilities on time and to obtain financing for operations	
	Market Risk Management Policy	Credit Risk Management Policy	Corporate Risk Management Policy	Liquidity Management Policy	Internal Audit Rules
	Market and Credit Risk Management Department *Reports to the First Vice President of the Management Board (Finance)*		Corporate Risk Management and Compliance Department *Reports to the President of the Management Board*	Executive Director, Finance Reports to the First Vice President of the Management Board (Finance)	Audit and Internal Control Department *Reports to the President of the Management Board*

Corporate risk – key risk factors and their mitigation

A key tool used in identifying risk factors is the Risk Factors Model. Its construction is based on a given risk's source and is divided into the following 5 categories: Technological, Values chain, Market, External and Internal. Several dozen sub-categories have been identified and defined covering particular areas of the operations or management.

Following are the key risk factors in KGHM Polska Miedź S.A.

Risk factor	Risk - description	Mitigation
Technology		
Technology	Technological risk related to the mining of deep underground copper ore deposits, under conditions associated with natural hazards.	R&D work and trials of alternate mining methods to currently-used copper ore mining technology, including among others projects involving alternative mining methods: longwall and room-and-pillar systems using mechanical extraction systems. *More in section 2.1. Implementation of the Company's Strategy in 2015 (Pillar II. Production Assets Development and Pillar III. Production)*
	Risk of geological-mining changes in the mines and the associated increase in the calorific value of the copper concentrate produced in the Concentrator plants, resulting in a decrease in the amount of concentrates smelted in the pyrometallurgy process.	Construction of a concentrate roasting installation at the Głogów I smelter, together with associated infrastructure, is aimed at reducing the calorific value of smelted concentrates by eliminating excess organic elements in the concentrate produced. *More in section 2.1. Implementation of the Company's Strategy in 2015 (Pillar II. Production Assets Development and Pillar III. Production)*
Value chain		
Planning	Risk related to using inappropriate economic parameters related to production, investments, macroeconomics and finance, for preparing forecasts of Company results.	Forecasts related to specific areas of the Company's operations are prepared by appropriate specialised units.
Logistics and supply chain	The risk of restricted access to transportation (railway) infrastructure, among others due to the following: to extreme weather conditions (low temperatures, flooded tracks); strikes by managers of railway infrastructure or carriers; railway infrastructure emergencies which effect the steady flow of resources and materials required in production.	Supply flow management and maintenance of minimum levels of resources and materials inventories required in production. Key railway transportation services are performed by a company from the KGHM Group- Pol-Miedź-Trans Sp. z o.o.
Resources and reserves	Risk related to insufficient knowledge of the parameters and characteristics of a deposit, both for exploration projects (estimated input data for orebody evaluation models), as well as for on-going mining operations.	Additional expenditures on exploratory work to enhance the precision of estimated resources and the level of knowledge of geological-mining conditions, optimisation of the drilling network, geological research, knowledge gained through access drifts, consultations with external experts. *More in section 2.1. Implementation of the Company's Strategy in 2015 (Pillar I. Resource Base Development)*
Waste management	Risk of the inability to store mine tailings, e.g.: due to an emergency at the Żelazny Most tailings storage facility or in the industrial lines used in their transportation.	Operation, construction and development of the tailings pond pursuant to the operating rules. Coopperation with a Team of International Experts (TIE) and the General Designer, introduction of Observation Methods during development recommended by the TIE, based on the evaluation of geotechnical parameters obtained from the results of monitoring performed, which allow conclusions to be made regarding the behavior of the facility. *More in section 2.1. Implementation of the Company's Strategy in 2015 (Pillar II. Production Assets Development)*
Availability of materials and utilities	Risk related to the lack of availability of utilities (electricity, gas, water).	Ensure back-up systems for key utilities and ongoing evaluation of the security of KGHM's power system. Conduct a variety of investments aimed at strengthening energy security (completion of projects aimed at improving energy security such as the Gas-Steam Blocks in Polkowice and Głogów, the gas engine in Legnica). *More in section 2.1. Implementation of the Company's Strategy in 2015 (Other important initiatives supporting the core business)*
Production and infrastructure	Risk related to industrial emergencies resulting in a shut-down of the main production line, both as a result of natural hazards as well as internal factors related to the applied technology.	Operating-Emergency Plans, Reports on Safety, Emergency Prevention Program, Fire Safety Instructions, documents related to preventing workplace explosions. Emergency drills. Cooperation with units of the Emergency Mine-Smelter Rescue Services and with State Fire Fighting Services. The Company undertakes a variety of on-going and systematic actions aimed at the identification, estimation and management of potential events of a Force Majeure nature, in accordance with the „Principles for identification of the risk of events of a Force Majeure nature and for assuring adequate insurance within the KGHM Polska Miedź S.A. Group"

Efficiency and costs	Risk related to the cost effectiveness of processing copper-bearing materials and cost conditions in the production process, including variable charge material parameters and the risk of significant increases in the prices of materials, services and utilities.	Monitoring trends on the copper-bearing materials market and maintaining costs at the planned levels. Creating multi-year plans and budgets to achieve profitability under the given market conditions. *More in section 2.1. Implementation of the Company's Strategy in 2015 (Pillar III. Production)*
Market		
Market Risk	Risk related to volatility in commodity prices (copper, silver and other metals), exchange rates and interest rates.	This risk is actively managed in accordance with the Market Risk Management Policy currently in force in the Company. A basic technique for managing market risk in the Company are hedging strategies utilising derivative instruments. Natural hedging is also applied. *More in section 2.5. Key risk factors and risk management (Market, credit and liquidity risk)*
Credit Risk	Risk related to the lack of paid receivables by commercial customers or financial institutions.	This risk is actively managed in accordance with the Credit Risk Management Policy currently in force in the Company. The Company limits its exposure to credit risk by evaluating and monitoring the financial condition of its customers, setting credit limits and applying creditor security. *More in section 2.5. Key risk factors and risk management (Market, credit and liquidity risk)*
Liquidity Risk	Risk related to the loss of liquidity, understood as a loss of the ability to pay liabilities on time and to obtain financing for operations.	This risk is actively managed in accordance with the updated Financial Liquidity Management Policy currently in force in the Company. *More in section 2.5. Key risk factors and risk management (Market, credit and liquidity risk)*
Equity investments and divestments	The risk of not receiving the expected return on an equity investment. Risk of loss of Company value, the failure to achieve assumed synergies, the loss of alternative profits, a decrease in the price of shares of listed companies.	The Company maintains on-going analysis of the effectiveness and justification of equity investment plans; feasibility studies of investment projects and on-going monitoring of the value of assets owned. *More in section 2.2. (Equity investments)*
Financial risk	Risk of impairment of the carrying amount of assets.	On-going analysis of the possibility of indications to conduct impairment tests of the carrying amount of assets.
External		
Administrative proceedings	The risk of restricting or suspending the Company's operations as a result of administrative and/or legal proceedings: administrative decisions not received, withdrawn or which undergo unfavourable changes.	The process of obtaining administrative decisions is conducted with an appropriate level of prudence and care. Deadlines are met. Being proactive (initiating procedures at an early stage and executing decisions with a margin of safety in terms of time). Legal counsel is employed when the Company is engaged in administrative proceedings. Appeals procedures are followed. The opinions of external experts are sought. *More in section 2.1. Implementation of the Company's Strategy in 2015 (Pillar I. Resource Base Development) and in section 1.3. Litigation and claims*
Natural hazards	The risk of employees' loss of life or health. Disruptions or restrictions in production as a result of seismic events and associated roof collapses, or destressings of the rock mass and the occurance of uncontrolled rock bursts.	Introduction of a wide variety of technological and organisational solutions and other active and passive methods to prevent roof collapses enabling restriction of the effects of dynamic events (roof collapses or rock mass destressings) in the mines. Preparation of reserve fields, capable of handling limited production. *More in section 1.1. Production processes (2015 Business Objectives)*
	Risk related to gas hazards (methane and hydrogen sulphide).	The risk of gas hazards occuring is being assessed and principles are being developed for working under the risk of such hazards. Individual employee safety measures are applied as well as equipment and means for reducing concentrations of hydrogen sulphides and neutralising oppressive odors. *More in section 1.1. Production processes (2015 Business Objectives)*
	Risk related to underground climate risk, which increases in tandem with increasing mine depth.	The construction of additional ventilation shafts, the use of centralised, workplace and individual air cooling systems as well as reduced working time.

Natural environment and climate change	The extraction and processing of copper ore at all stages of production has an unavoidable impact on various parts of the natural environment. Risk related to pricing and the placing of limits on CO_2 emissions.	Compliance with rigorous environmental standards imposed by law is possible thanks to the systematic modernisation of environmental protection installations, both those built in the past as well as new investments in this regard. Environmental management standards (ISO 14001) have been implemented. A CO_2 Emissions Management Sysytem has been implemented. *More in section 2.4. Environmental protection*
	Risk related to evaluating air quality in Lower Silesia (exceeding the average annual target level of arsenic in suspended dusts PM10).	Carrying out the list of actions arising from Air Protection Programs.
Law and regulations	The risk of changes in the regulatory environment in areas such as geological-mining law, environmental protection and energy.	On-going monitoring of changes in the regulatory environment in Poland and the European Union as well as active participation in legislative processes. Taking preemptive actions to adapt the Company to organisational, infrastructural and technological changes.
Taxes	The risk of there being no change in the royalty formula (the minerals extraction tax) and the risk of taxation arising from other regulations.	
Internal		
Occupational health and safety	The risk of serious accidents or industrial illnesses caused by improper workplace organisation, the failure to follow procedures or the use of improper safety devices. The risk of temporary work stoppages caused by serious accidents.	Occupational health and safety standards are in force (18001/OHSAS); regular training in occupational health and safety standards, programs to identify potential accidents. *More in section 1.1. Production processes (2015 Business Objectives)*
Information policy	The risk of the unintended disclosure of sensitive or inside information.	Internal procedures for managing inside information, being information of a confidential and secret nature as regards the Company, information security; confidentiality clauses and limits on the number of persons having access to sensitive information.
Global corporation	Risk related to the process of integrating and creating a global organisation, with the potential to cause interruptions in the Company's operations as a result of changes in the structure and business model.	An appropriate governance and management structure, elimination of barriers which might arise, assurance of a mobile and experienced staff for a model international organisation, systematic reviews of the results of integration and the strengthening of changes already introduced. The goal of meeting international corporate governance standards was met by introducing a Code of Ethics for the KGHM Group with associated global policies (eg. an anticorruption policy, competition law, responsible supply chain). *More in section 1.6. Ethics and corporate governance*
Stakeholders	The risk of negative ad campaigns and the risk of lack of acceptance by the public, local governments or other stakeholders for the conduct of development and exploration work.	Execution of the CSR Strategy, close cooperation with government bodies; meetings and negotiations with stakeholders, informational campaigns, conferences, publications. *More in section 2.1. Implementation of the Company's Strategy in 2015 (Other important initiatives supporting the core business)*
Human resources	The risk of not being able to acquire and keep human resources, for example in order to properly support development projects.	Programs aimed for example at raising the effectiveness of the processes of recruitment, finding successors and maintaining key positions. Employee mobility program. *More in section 1.5. Employment and remuneration (Human Resources projects)*
Security, IT and data protection	The risk of theft of assets of significant value, physical attacks, intentional unauthorised disclosures, unauthorised changes to or destruction of key data and information.	Strict adherance to and application of the principles, among others, of the Information Security Policy and Facility Protection Plans.
Project management	The risk of exceeding project/program budgets and schedules, exceeding defined scopes and failing to meet defined quality parameters as a result of the improper management of portfolios and projects.	Project Management in accordance with the KGHM Step Methodology as well as on-going monitoring and updating of schedules. On-going evaluation of the economic effectiveness of existing and anticipated development projects.

Market, credit and liquidity risk

The goal of market, credit and liquidity risk management in KGHM Polska Miedź S.A. is to restrict the undesired impact of financial factors on cash flow and Company results in the short and medium terms and to build Company value over the long term.

Market risk management

Market risk is understood as the possible negative impact on the Company's results arising from changes in the market prices of commodities, exchange rates and interest rates, as well as the share prices of listed companies.

The Management Board is responsible for market risk management in the Company and for adherence to policy in this regard. The main body involved in performing market risk management is the Market Risk Committee, which makes recommendations to the Management Board in this area. The primary technique for market risk management is the use of hedging strategies involving derivatives. Apart from this, natural hedging is also used.

Commodity risk, Currency risk	In 2015, the Company was mainly exposed to the risk of changes in the prices of metals it sells: copper and silver. In addition, of major significance for KGHM Polska Miedź S.A. was the risk of changes in currency rates, in particular the USD/PLN exchange rate. In accordance with the Market Risk Management Policy, in 2015 the Company continuously identified and measured market risk related to changes in metals prices, exchange rates and interest rates (analysis of the impact of market risk factors on the Company's activities – profit or loss, statement of financial position, statement of cash flow), and also analysed the metals and currencies markets. These analyses, along with assessment of the internal situation of the Company and Group, represented the basis for taking decisions on the application of hedging strategies on the metals, currency and interest rates markets. In 2015, the Company did not implement any copper or silver price hedging strategies. However, on the currency market transactions were entered into to hedge revenues from sales in the total notional amount of USD 1 095 million and a time horizon covering the period from April 2015 to December 2018. The Company made use of put options (European options) as well as collar options strategies. In terms of managing currency risk deriving from bank loans, the Company applies natural hedging, based on the drawing of credit in those currencies in which it earns revenues. Liabilities which comprised the balance of bank loans as at 31 December 2015 were drawn in USD and partially in EUR, and following their translation to PLN they amounted to PLN 6 855 million. *Liabilities due to bank loans and an investment loan in the statement of financial position amount to PLN 6 822 million, being the amount of loans drawn of PLN 6 855 million, reduced by the cost associated with the conclusion of the syndicated credit facility agreement, which was included in the initial amount of the liability.* As at 31 December 2015, the Company held an open hedging position on the currency market totalling USD 2 220 million of planned revenues from sales. 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.
Interest rate risk	Interest rate risk is the possibility of the negative impact of changes in interest rates on the Company's situation and results. In 2015, the Company was exposed to such risk due to loans granted, free cash invested on deposits, participating in zero-balance cash-pool services and borrowings. As at 31 December 2015, the following positions were exposed to interest rate risk by impacting the amount of interest costs and income: – liabilities due to drawn instalments of the unsecured, revolving syndicated credit facility: PLN 3 126 million (i.e. USD 801 million), – liabilities due to working capital and overdraft loans drawn: PLN 2 553 million (i.e. USD 549 million and EUR 97 million), – bank deposits: PLN 414 million, including deposits of the Social Fund, Mine Closure Fund and the Tailings Storage Facility Restoration Fund, – receivables due to participation in a Cash Pool service: PLN 302 million, – liabilities due to participation in a Cash Pool service: PLN 38 million, – loans granted to subsidiaries with a variable interest rate for the total amount of PLN 34 million. As at 31 December 2015, positions exposed to interest rate risk due to a change in the fair value measurement of a financial instrument with a fixed interest rate were as follows: – loans granted with a fixed interest rate to Group companies (subsidiaries) in the total amount of PLN 6 721 million (i.e. USD 1 723 million), – payables due to a loan drawn with a fixed interest rate from the European Investment Bank: PLN 1 176 million (i.e. USD 302 million). Holding financial liabilities denominated in USD and EUR, based on LIBOR, exposes the Company 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 Company to interest rate risk, the Company decided to exercise its right to draw loans from the European Investment Bank based on a fixed interest rate. In addition, in 2015 transactions were entered into hedging the Company 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 from January 2016 to December 2018 and an average quarterly notional amount of USD 717 million.

Risk related to the change of share prices of listed companies	Price risk related to the shares of listed companies held by the Company is understood as the change in their fair value due to changes in their quoted share prices. As at 31 December 2015, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Venture Exchange was PLN 527 million.
Result on derivatives	The total impact of derivatives on the Company's profit or loss for 2015 amounted to PLN 267 million, of which: – PLN 482 million was recognised in revenues from sales, – PLN 203 million decreased the result on other operating activities (wherein: the loss from the measurement of derivatives amounted to PLN 183 million, and the loss from the realisation of derivatives amounted to PLN 19 million), – PLN 12 million decreased the result on financing activities (a loss in total from the measurement of derivatives). As at 31 December 2015, the fair value of open positions in derivatives (on the currency and interest rate markets) amounted to PLN (83) million.

Credit risk management

Credit risk is defined as the risk that counterparties of the Company will not be able to meet their contractual obligations. The Management Board is responsible for credit risk management in the Company and for compliance with policy in this regard. The main body involved in realising credit risk management is the Credit Risk Committee.

In 2015, KGHM Polska Miedź S.A. was exposed to this risk, mainly in four areas:

Credit risk related to trade receivables	The Company limits its exposure to credit risk related to trade receivables by evaluating and monitoring the financial standing of its customers, setting credit limits and using collateral. An inseparable element of the credit risk management process realised by the Company is the ongoing monitoring of receivables and the internal reporting system. Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are mostly based on prepayments or trade financing instruments which wholly transfer the credit risk to financial institutions. In 2015, the Company secured the majority of its receivables by promissory notes, frozen funds on bank accounts, registered pledges, bank guarantees, corporate guarantees, mortgages, documentary collection and letters of credit. Additionally, the majority of customers who hold buyer's credit on contracts have ownership rights confirmed by a date certain. To reduce the risk of insolvency by its customers, the Company 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 31 December 2015 the Company had secured 95% of its trade receivables (as at 31 December 2014: 95%). The concentration of credit risk in the Company is related to the terms of payment granted to key clients. Consequently, as at 31 December 2015 the balance of receivables from 7 of the Company's largest clients, in terms of trade receivables at the end of the reporting period, represented 85% of the trade receivables balance (as at 31 December 2014: 75%). Despite the concentration of this type of risk, the Company considers that due to the availability of historical data and the many years of experience cooperating with its clients, as well as above all due to the hedging used, the level of credit risk is low.
Credit risk related to cash and cash equivalents and bank deposits	The Company 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. Credit risk related to bank deposits is continuously monitored by the on-going review of the credit ratings of those financial institutions with which it cooperates, and by maintaining an appropriately low level of concentration in individual financial institutions.
Credit risk related to derivatives transactions	All of the entities with which the Company enters into derivative transactions operate in the financial sector. These are mainly financial institutions, with the highest and medium-high ratings. According to fair value as at 31 December 2015, the maximum share of a single entity with respect to credit risk arising from open derivative transactions entered into by the Company and from unsettled derivatives amounted to 58%. Due to diversification of risk in terms both of the nature of individual entities and of their geographical location, as well as taking into consideration the value of assets and liabilities arising from derivative transactions, the Company is not materially exposed to credit risk as a result of derivative transactions entered into.
Credit risk related to loans granted	As at 31 December 2015, the balance of loans granted by KGHM Polska Miedź S.A. amounted to PLN 6 755 million, of which PLN 6 750 million were long-term loans, and PLN 5 million were short-term loans. The most important items are loans granted to companies of the KGHM Polska Miedź S.A. Group related to mining projects and to refinancing the debt of KGHM INTERNATIONAL LTD. Credit risk related to the loans granted depends on the risk related to the advancement of projects, and is estimated by the Company to be moderate. To limit risk due to loans granted, the Company continuously monitors the financial standing and financial results of its borrowers.

Financial liquidity risk and management of capital

The Company's management of capital aims at providing both relevant funding capabilities for business development and at securing relevant liquidity.

Financial liquidity management	Financial liquidity is managed in accordance with the Management Board-approved „Financial Liquidity Management Policy". This document describes in a comprehensive manner the process of managing financial liquidity in the Company, indicating best practice procedures and instruments. The basic principles resulting from this document are: – the need to ensure stable and effective financing for the Company's operations. – placement of surplus cash in safe financial instruments, – limits for individual financial investment categories, – limits for the concentration of resources for financial institutions, – required investment – level rating for banks in which funds are deposited, and – effective management of working capital. Detailed information regarding available sources of financing and their utilisation in 2015 may be found in section 3.5 of this report.
Management of capital	In order to maintain the ability to operate, taking into consideration the execution of planned investments, the Company manages capital so as to be able to generate returns for shareholders and provide benefits for other stakeholders. The Company assumes that the equity ratio shall be maintained at a level of not less than 0.5, and the ratio of Net Debt/EBITDA at a level of up to 2.0.

3. Review of financial performance

3.1. Assets

As at 31 December 2015, total assets amounted to PLN 33 120 million, an increase by PLN 808 million (+2.5%) as compared to the end of 2014.

Table 10. Current and non-current assets *(in mn PLN)*

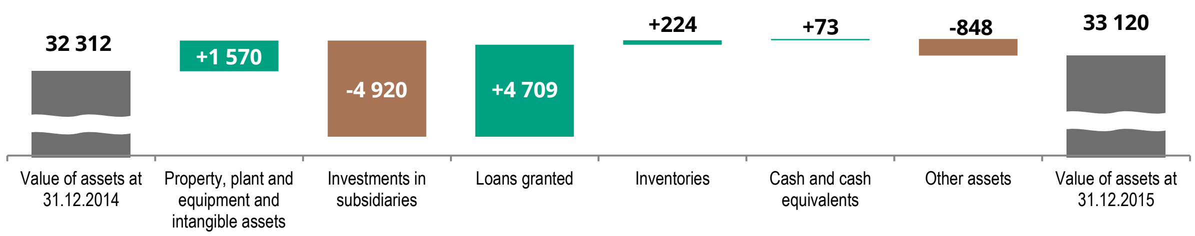
	31.12.15	31.12.14	Change 31.12.14=100	30.09.15	30.06.15	31.03.15
Property, plant and equipment and intangible assets	13 643	12 073	113.0	12 950	12 380	12 369
Investments in subsidiaries	6 858	11 778	58.2	11 781	11 792	11 808
Loans granted	6 755	2 046	x3.3	6 034	5 621	3 379
Inventories	2 601	2 377	109.4	2 877	2 806	2 623
Cash and cash equivalents	158	85	185.9	578	423	466
Other assets	3 105	3 953	78.5	2 782	3 092	3 550
Total assets	**33 120**	**32 312**	**102.5**	**37 002**	**36 114**	**34 195**

Following are the major changes in assets in 2015:

Table 11. Major changes in assets *(in mn PLN)*

Property, plant and equipment and intangible assets (+PLN 1 570 mn)	The increase is due to investments made – expenditures on property, plant and equipment and intangible assets in 2015 amounted to PLN 2 673 million. Detailed information regarding investments may be found in part 2.3 of this report.
Investments in subsidiaries (-PLN 4 920 mn)	This amount mainly relates to the decrease by PLN 4 854 million in the carrying amount of interest in the holding company Fermat 1 S. á r.l. which indirectly owns 100% shares of KGHM INTERNATIONAL LTD. Detailed information on impairment loss may be found in Part 3 of the Financial Statements.
Loans granted (+PLN 4 709 mn)	The increase in the value of loans granted was due to refinancing of the debt of KGHM INTERNATIONAL LTD., financing of the Victoria and Ajax projects and of the Sierra Gorda mine. Detailed information regarding loans granted may be found in Section 3.5.
Inventories (+PLN 224 mn)	The increase in inventories by PLN 224 million concerned materials (+PLN 107 million), finished products (+PLN 59 million) as well as half-finished products and work in progress (+PLN 52 million) and merchandise (+PLN 6 million). The change in inventories was mainly due to preparing metallurgical operations for the planned, four-month shutdown in 2016 related to the change in technology at the Głogów smelter/refinery.
Cash and cash equivalents (+PLN 73 mn)	The increase in cash and cash equivalents by PLN 73 million was due to the higher cash inflows from operating activities and bank and other loans received than cash outflows from investments.
Other assets (-PLN 848 mn)	The decrease in the value of other assets by PLN 848 million was mainly due to trade receivables (-PLN 407 million), the fair value measurement of financial instruments (-PLN 352 million) and derivatives (-PLN 334 million) alongside an increase in the value of other assets by PLN 245 million.

Chart 4. Changes in assets in 2015 *(in mn PLN)*

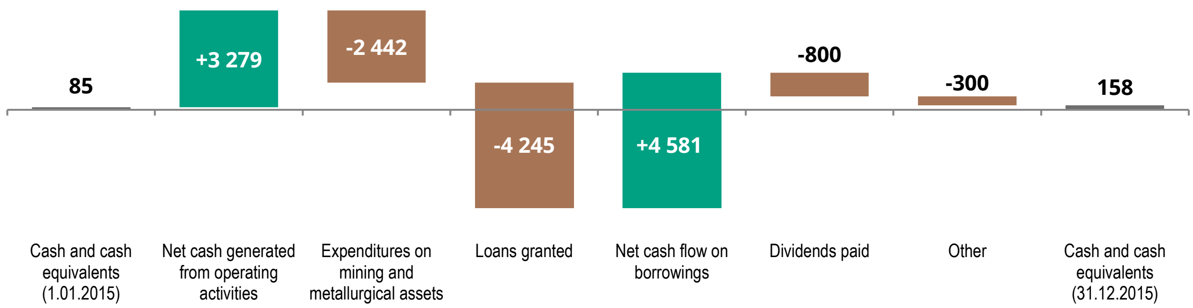


3.2. Cash flow

Table 12. Cash flow in 2015 *(in mn PLN)*

	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Profit/(loss) before income tax	**(1 938)**	**3 362**	**x**	**(4 340)**	**521**	**1 176**	**705**
Depreciation/amortisation recognised in profit or loss	875	818	107.0	220	226	203	226
Interest and commissions on borrowings	85	29	×2.9	22	29	20	14
Impairment loss/reversal of impairment loss	5 272	32	×164.8	5 078	194	-	-
Other adjustments to profit/(loss) before income tax	(430)	390	×	(157)	(43)	(449)	219
Exclusions of incomes and expenses, total	5 802	1 269	x4.6	5 163	406	(226)	459
Income tax paid	(880)	(853)	103.2	(224)	(225)	(206)	(225)
Changes in working capital	295	222	132.9	(131)	(13)	221	218
Net cash generated from operating activities	**3 279**	**4 000**	**82.0**	**468**	**689**	**965**	**1 157**
Expenditures on mining and metallurgical assets	(2 442)	(2 179)	112.1	(727)	(588)	(479)	(648)
Loans granted	(4 245)	(1 597)	×2.7	(460)	(332)	(2 298)	(1 155)
Other	(185)	(52)	×3.6	(9)	(17)	(78)	(81)
Net cash used in investing activities	**(6 872)**	**(3 828)**	**179.5**	**(1 196)**	**(937)**	**(2 855)**	**(1 884)**
Net cash flow on borrowings	4 581	839	×5.5	749	434	2 261	1 137
Dividends paid	(800)	(1 000)	80.0	(400)	-	(400)	-
Interest paid	(75)	(21)	×3.6	(19)	(28)	(15)	(13)
Other	(23)	(40)	57.7	(23)	-	-	-
Net cash generated from/used in financing activities	**3 683**	**(222)**	**×**	**307**	**406**	**1 846**	**1 124**
Net cash flow	**90**	**(50)**	**×**	**(421)**	**158**	**(44)**	**397**
Exchange gains/(losses) on cash and cash equivalents	(17)	12	×	1	(3)	1	(16)
Cash and cash equivalents at beginning of the period	85	123	69.1	578	423	466	85
Cash and cash equivalents at end of the period	**158**	**85**	**185.9**	**158**	**578**	**423**	**466**

Chart 5. Cash flow in 2015 *(in mn PLN)*



3.3. Equity and liabilities

The table below presents the carrying amounts as at 31 December 2015 of equity and current and non-current liabilities, while the subsequent table presents in brief the changes with regard to the end of 2014.

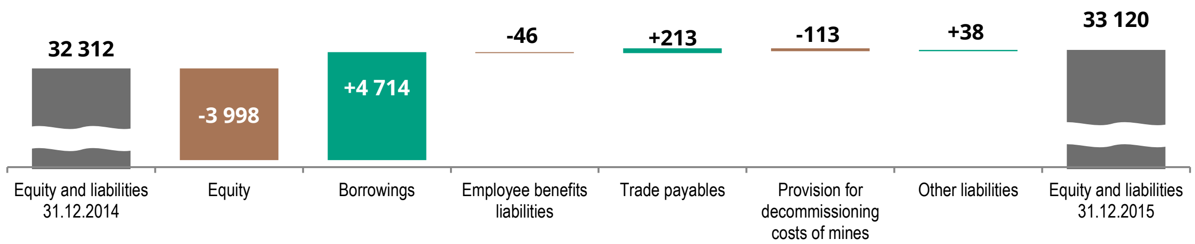
Table 13. Equity and liabilities *(in mn PLN)*

	31.12.15	31.12.14	Change 31.12.14=100	30.09.15	30.06.15	31.03.15
Equity	**20 279**	**24 277**	**83.5**	**24 836**	**24 677**	**24 480**
Share capital	2 000	2 000	100.0	2 000	2 000	2 000
Other capital	(445)	(35)	x12.7	(351)	(156)	(329)
Retained earnings	18 724	22 312	83.9	23 187	22 833	22 809
Current and non-current liabilities	**12 841**	**8 035**	**159.8**	**12 166**	**11 437**	**9 715**
Borrowings	6 822	2 108	x3.2	5 976	5 539	3 363
Employee benefits liabilities	2 380	2 426	98.1	2 446	2 191	2 628
Trade payables	1 490	1 277	116.7	1 297	1 337	1 079
Provision for decommissioning costs of mines and other facilities	892	1 005	88.8	936	743	1 115
Other liabilities	1 257	1 219	103.1	1 511	1 627	1 530
Total equity and liabilities	**33 120**	**32 312**	**102.5**	**37 002**	**36 114**	**34 195**

Table 14. Major changes in equity and liabilities *(in mn PLN)*

Equity (-PLN 3 998 mn)	The decrease in equity by PLN 3 998 million was caused by the following: – the loss for the period of -PLN 2 788 million – the dividend from profit for 2014 in the amount of -PLN 800 million – other comprehensive income -PLN 410 million
Borrowings (+PLN 4 714 mn)	The increase in the level of borrowings by PLN 4 714 million was caused by the debt consolidation in the Group at the Parent Entity level, about which more information may be found in part 3.5 of this report.
Employee benefits liabilities (-PLN 46 mn)	The decrease in employee benefits liabilities was mainly due to the coal equivalent liabilities (by PLN 53 million). This amount comprises of: – an increase in interest costs (+PLN 38 million) and in current employment costs (+PLN 24 million), – less actuarial gains (-PLN 75 million) and paid benefits (-PLN 40 million).
Trade payables (+PLN 213 mn)	The increase in trade payables by PLN 213 million concerns mainly liabilities due to the purchase and construction of fixed assets (+PLN 158 million).
Provision for decommissioning costs of mines (-PLN 113 mn)	The decrease in the provision for decommissioning costs of mines by PLN 113 million was mainly due to changes in estimates. A detailed description of the principles for creating the provision for future decommissioning costs of mines and other technological facilities may be found in note 9.4 of the Financial Statements.
Other liabilities (+PLN 38 mn)	The increase in other liabilities concerned derivatives (+PLN 48 million) and other liabilities (+PLN 62 million) alongside a simultaneous decrease in tax liabilities (-PLN 72 million).

Chart 6. Change in equity and liabilities in 2015 *(in mn PLN)*



In 2015, equity remained the basic source of financing assets. However, it should be stressed that there was a percentage decrease in the share of equity in total equity and liabilities from 75% at the end of 2014 to 61% as at 31 December 2015.

3.4. Contingencies and commitments

As at 31 December 2015, contingent assets of the Company amounted to PLN 650 million and related mainly to promissory notes receivable of PLN 270 million and to guarantees received of PLN 232 million, to cover potential claims by the Company resulting from the non-execution or improper execution of agreements by contractors.

Contingent liabilities as at the end of 2015 amounted to PLN 1 741 million, including PLN 1 275 million due to guarantees granted. The most significant items are:

- a letter of credit in the amount of PLN 536 million granted to secure the proper performance of a long-term contract for the supply of electricity to the joint venture Sierra Gorda S.C.M.,
- guarantees in the amount of PLN 319 million, granted to additionally secure the proper performance of leasing agreements signed by the joint venture Sierra Gorda S.C.M.,
- a guarantee in the amount of PLN 64 million and a promissory note liability in the amount of PLN 256 million 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,
- letters of credit in the amount of PLN 324 million, 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
- liabilities due to implementation of projects and inventions (PLN 91 million).

In addition, as at 31 December 2015, the Company held other liabilities not recognised in the statement of financial position in the amount of PLN 130 million, including PLN 118 million towards local government units related to development of the Żelazny Most Tailings Storage Facility.

3.5. Financial resources

Principles of financial resource management

KGHM Polska Miedź S.A. manages its financial resources in accordance with the „Financial Liquidity Management Policy" (Policy).

The primary goal of the Policy is to ensure the ability to maintain continuous operations by securing the availability of the financial resources required to achieve the Company's business goals, while optimising incurred costs. Financial liquidity management involves securing an appropriate amount of cash resources and available lines of credit in the short, medium and long term.

The Management Board is responsible for managing financial liquidity in the Company and for adherence to policy in this regard. The Financial Liquidity Committee, which was created in 2015, supports the Management Board in carrying out this Policy.

In 2015, the Company used external sources of financing based on 3 pillars.

Unsecured, revolving syndicated credit facility in the amount of USD 2.5 billion with maturity of 10 July 2020 (with an option to extend for another year)	This financing agreement was signed 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 Company obtained permission of the syndicate banks group to extend the maturity of the credit facility by 1 year. The new maturity date is now 10 July 2020. The funds drawn are 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 for PLN 2.0 billion with a financing period of 12 years	This financing agreement was signed with the European Investment Bank in 2014 for PLN 2 billion, with the possibility of drawing loan instalments in PLN, EUR and USD. As at the reporting date the instalments had a remaining period of availability of 5 months. The deadline for repaying the instalments drawn is 30 October 2026. The funds acquired through this loan are being used to finance the Company's investment projects related to modernisation of metallurgy and development of the Żelazny Most tailings storage facility.
Short-term bilateral bank loans in the amount of up to PLN 3.8 billion with availability up to 2 years	The Company has open lines of credit in the form of bilateral agreements in the total amount of PLN 3.8 billion. These are working capital facilities and overdraft facilities with availability up to 2 years. The maturities of the aforementioned agreement are successively extended for subsequent periods. The funds obtained under the aforementioned agreements are used to finance working capital and are a tool in managing current financial liquidity.

The aforementioned three sources ensure the availability of PLN 15.6 billion and fully cover the medium and long-term liquidity needs of the Company and Group. In 2015, the Company made use of borrowings which were available from all of the above pillars.

Moreover, on 5 February 2016 the Company entered into a credit agreement in the amount of USD 100 million with Bank Gospodarstwa Krajowego in Warsaw. The interest is based on LIBOR plus a margin. The agreement was concluded for defined period of 3 months with the possibility to extend the financing periods for subsequent 3 month periods.

The Company manages working capital in terms of receivables, inventories and liabilities. In 2015, the Company undertook actions aimed at optimising the process of managing capital by extending its payment periods for supplies or services rendered, in accordance with the trends observed in the mining sector. At the same time, to ensure that the Company's suppliers receive payment prior to the contractual deadlines, a Supplier Financing Program was prepared by the banks cooperating with the Company.

Debt position as at 31 December 2015

As at 31 December 2015, the Company held open lines of credit and an investment loan with total available borrowing of PLN 15 571 million, out of which PLN 6 855 million had been drawn. The following table presents a breakdown of these sources of financing.

Table 15. Available financing and loans drawn as at 31 December 2015 *(in mn PLN)*

Type of bank and other loan	2015 Amount available	2015 Amount drawn*	2014 Amount drawn*	Change 31.12.2014=100
Unsecured, revolving syndicated credit facility	9 753	3 126	-	x
Investment loan	2 000	1 176	1 058	111.2
Working capital facility and overdraft facility	3 818	2 553	1 050	×2.4
Total	**15 571**	**6 855**	**2 108**	**×3.3**

** Amount drawn includes accrued interest unpaid as at the reporting date*

The borrowings in the amount of PLN 6 855 million as at 31 December 2015 were drawn in USD (i.e. PLN 6 443 million) and partially in EUR (i.e. PLN 412 million).

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

Table 16. Company net debt structure *(in mn PLN)*

	31.12.2015	31.12.2014	Change 31.12.2014=100	31.09.2015	30.06.2015	31.03.2015
Bank loans	*5 646	1 050	×5.4	4 837	4 404	2 214
Other loans	1 176	1 058	111.2	1 139	1 135	1 149
Total debt	**6 822**	**2 108**	**×3.2**	**5 976**	**5 539**	**3 363**
Free cash and cash equivalents	156	85	183.5	575	417	450
Net debt	**6 666**	**2 023**	**×3.3**	**5 401**	**5 122**	**2 913**

** presented amounts include the preparation fee paid, which decreases financial liabilities due to bank loans received*

In the process of managing liquidity, the Company utilises instruments which enhance its effectiveness. One of the primary instruments used by the Company is the cash pool service, managed both locally in PLN, USD and EUR and internationally in USD. The cash pool is aimed at optimising the management of cash, the limiting of interest costs, the effective financing of current working capital needs and supporting short-term financial liquidity in the Group.

In 2015, the Company continued the process of debt consolidation in the Group at the Parent Entity level by refinancing the USD 700 million debt of KGHM INTERNATIONAL LTD. (a bank loan of USD 200 million and USD 500 million in senior notes). The consolidation of debt is the basic tenet of the Group's financing strategy and conforms with best market practice for large international groups. The adoption of such a financial strategy results in:

- lower borrowing costs of the Group,
- more efficient use of cash,
- enhanced transparency in the Group's borrowing structure,
- optimisation of the Group's financial and non-financial covenants, and
- the elimination of collateral established on the assets of KGHM INTERNATIONAL LTD.

Loans granted

As at 31 December 2015, KGHM Polska Miedź S.A. had granted the following loans to Group companies, the balance of which is presented below:

Table 17. Loans granted to Group companies as at 31 December 2015 *(in millions)*

Company	Loan balances*	Currency	Interest	Repayment date
Energetyka Sp. z o.o.	19.3	PLN	variable	31.12.2019
Zagłębie Lubin S.A.	5	PLN	variable	31.12.2022
Zagłębie Lubin S.A.	9.6	PLN	variable	31.12.2026
Cuprum Nieruchomości Sp. z o.o.	0.1	PLN	variable	31.12.2016
Fermat 1 S.a r.l.	80.6	USD	fixed	28.02.2018
Fermat 1 S.a r.l.	215.4	USD	fixed	31.12.2021
Fermat 1 S.a r.l.	623.9	USD	fixed	31.12.2024
0929260 B.C. U.L.C	209.1	USD	fixed	31.12.2019
0929260 B.C. U.L.C	316.4	USD	fixed	31.12.2021
0929260 B.C. U.L.C	126	USD	fixed	31.12.2024
Quadra FNX Holdings Chile Limitada	148.2	USD	fixed	31.12.2024
Mineria y Exploraciones KGHM International SpA	3.2	USD	fixed	31.12.2024

** Loan balances presented in issue currency together with accrued interest, unpaid as at the reporting date*

Interest on these loans is based on either fixed or variable WIBOR plus a margin.

Loans granted in 2015

In 2015, KGHM Polska Miedź S.A. granted the following loans:

- to Fermat 1 S.a r.l. in the total amount of USD 381 million (PLN 1 486 million, at the exchange rate from 31 December 2015),
- to 0929260 B.C. Unlimited Liability Company in the total amount of USD 564 million (PLN 2 201 million, at the exchange rate from 31 December 2015),
- to Quadra FNX Holdings Chile Limitada in the total amount of USD 146 million (PLN 569 million, at the exchange rate from 31 December 2015), and
- to Mineria y Exploraciones KGHM International SpA in the amount of USD 3 million (PLN 13 million, at the exchange rate from 31 December 2015).

These loans were used to refinance the debt of KGHM INTERNATIONAL LTD. as well as to finance development projects being advanced by the KGHM INTERNATIONAL LTD. Group: Sierra Gorda, Victoria, Ajax (since 31 December 2015, KGHM AJAX MINING INC. has been a direct subsidiary of KGHM INTERNATIONAL LTD.) and Sierra Gorda Oxide. As at 31 December 2015, the balance of loans granted amounted to USD 1 125 mln (PLN 4 387 million, at the exchange rate from 31 December 2015).

In 2015, KGHM Polska Miedź S.A. granted a loan to Zagłębie Lubin S.A. of PLN 6.5 million to be used for an investment project related to development of the KGHM Zagłębie Football Academy. As at 31 December 2015, the loan's balance amounted to PLN 2 million.

In 2015, KGHM Polska Miedź S.A. granted a loan to Cuprum Nieruchomości Sp. z o.o. in the amount of PLN 0.1 million to be used for the financing of tax liabilities related to the purchase of investment certificates of KGHM IV FIZAN and for the company's operating costs. As at 31 December 2015, the loan's balance amounted to PLN 0.1 million.

Loans granted in prior years

In 2014, KGHM Polska Miedź S.A. granted a loan to Fermat 1 S.a r.l. in the total amount of USD 421 million (PLN 1 641 million, at the exchange rate from 31 December 2015) and to 0929260 B.C. Unlimited Liability Company in the amount of USD 66 million (PLN 257.5 million, at the exchange rate from 31 December 2015). These loans were used to finance the development projects Sierra Gorda and Victoria advanced by the KGHM INTERNATIONAL LTD. Group as well as the Ajax project being advanced by KGHM AJAX MINING INC. The balance of loans as at 31 December 2015 amounted to USD 517.7 million (PLN 2 019.7 million, at the exchange rate from 31 December 2015).

In 2014, KGHM Polska Miedź S.A. granted a loan to Zagłębie Lubin S.A. of PLN 7.5 million to be used for an investment project related to the development of the KGHM Zagłębie Football Academy. As at 31 December 2015, the loan's balance amounted to PLN 7.6 million.

In 2013, KGHM Polska Miedź S.A. granted a loan to Fermat 1 S.a r.l. in the total amount of USD 72 million (PLN 280 million, at the exchange rate from 31 December 2015). Repayment is by 28 February 2018. Interest is capitalised annually. The loan's balance as at 31 December 2015 amounted to USD 81 million (PLN 314 million, at the exchange rate from 31 December 2015).

In 2013, KGHM Polska Miedź S.A. granted a loan to Zagłębie Lubin S.A. in the amount of PLN 5 million. Repayment will be made in equal quarterly capital instalments, starting from 31 March 2016. As at 31 December 2015, the loan's balance amounted to PLN 5 million.

In 2009, KGHM Polska Miedź S.A. granted a loan to Energetyka Sp. z o. o. in the amount of PLN 50 million. Repayment will be made in equal quarterly capital instalments. As at 31 December 2015, the loan's balance amounted to PLN 19 million.

Contingent liabilities due to financial guarantees granted

As at 31 December 2015, the Company held contingent liabilities due to financial guarantees granted in the total amount of PLN 1 275 million and liabilities due to promissory notes in the amount of PLN 256 million.

These contingent liabilities are mainly to secure leasing agreements payments of Sierra Gorda S.C.M, agreements to ensure the proper performance of contracts signed by both Sierra Gorda S.C.M. and by the KGHM INTERNATIONAL LTD. Group, guarantees and an own promissory note along with a promissory note declaration to ensure the proper performance of the Group's future environmental obligations.

Moreover, on 12 February 2016 the Company granted a corporate guarantee to Banco de Chile in the amount of USD 63 million. The guarantee secures repayments of a short-term working capital facility granted to Sierra Gorda S.C.M. by Banco de Chile. The guarantee expires on 12 February 2017.

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 Company 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.

3.6. Financial performance

The Company recorded a loss for 2015 in the amount of -PLN 2 788 million. The decrease by PLN 5 202 million as compared to earned profit for 2014 was mainly due to the impact of impairment losses on assets.

Table 18. Basic items in the statement of profit or loss *(in mn PLN)*

	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Sales revenue	15 939	16 633	95.8	4 166	3 681	4 325	3 767
- including adjustment to revenues due to hedging transactions	482	531	90.8	139	122	103	118
Cost of sales, selling costs and administrative expenses*	(12 655)	(13 120)	96.5	(3 479)	(3 019)	(3 259)	(2 898)
- including the minerals extraction tax	(1 442)	(1 585)	91.0	(331)	(336)	(403)	(372)
Profit on sales (EBIT)	**3 284**	**3 513**	**93.5**	**687**	**662**	**1 066**	**869**
Result on other operating activities, including:	**(5 064)**	**32**	**×**	**(4 957)**	**(95)**	**67**	**(79)**
- Measurement and realisation of derivatives	(202)	(179)	112.8	(36)	27	59	(252)
- Interest on loans granted	226	48	×4.7	82	65	46	33
- Exchange differences	159	157	101.3	99	8	(96)	148
- Dividends	32	45	71.1	-	4	27	-
- Impairment losses on available-for-sale assets	(262)	(2)	×131.0	(80)	(182)	-	-
- Impairment losses on shares in subsidiaries	(4 928)	(30)	×164.3	(4 916)	(12)	-	-
- Other impairment losses on non-current assets	(78)	-	x	(78)	-	-	-
- Other	(11)	(7)	157.1	(29)	(5)	31	(8)
Net finance costs, including:	**(158)**	**(183)**	**86.3**	**(70)**	**(46)**	**43**	**(85)**
- Exchange gains/(losses)	(29)	(124)	23.4	(44)	3	74	(62)
- Interest on borrowings	(31)	(8)	×3.9	(11)	(9)	(8)	(3)
- Fees and commisions on bank loans drawn	(48)	(14)	×3.4	(7)	(19)	(11)	(11)
- Measurement of derivatives	(14)	-	×	(1)	(11)	(2)	-
- Other	(36)	(37)	97.3	(7)	(10)	(10)	(9)
Profit/(loss) before taxation	**(1 938)**	**3 362**	**x**	**(4 340)**	**521**	**1 176**	**705**
Income tax	(850)	(948)	89.7	(123)	(167)	(352)	(208)
Profit/(loss) for the period	**(2 788)**	**2 414**	**x**	**(4 463)**	**354**	**824**	**497**
EBITDA (EBIT + depreciation/amortisation)	**4 159**	**4 331**	**96.0**	**907**	**888**	**1 269**	**1 095**
[-] Impairment losses recognised/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	(4)	-	×	(4)	-	-	-
Adjusted EBITDA	**4 163**	**4 331**	**96.1**	**911**	**888**	**1 269**	**1 095**

** Cost of products, merchandise and materials sold plus selling costs and administrative expenses (including a –PLN 4 million impairment loss on non-current assets in 2015)*

The main reasons for the change in financial result between 2015 and 2014 are presented below.

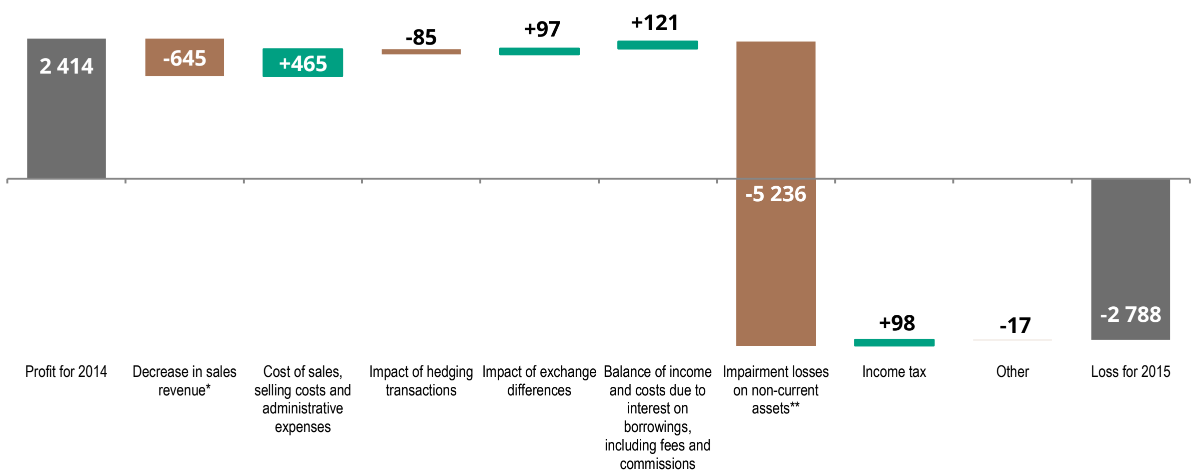
Table 19. Main factors impacting the change of profit or loss

Item	Impact on change of profit or loss (in mn PLN)	Description
Lower sales revenue (excluding the impact of hedging transactions) by PLN 645 million	+3 029	An increase in revenues from sales of basic products (Cu, Ag, Au) due to a more favourable average annual USD/PLN exchange rate (from 3.15 to 3.77 USD/PLN)
	-3 670	A decrease in revenues due to lower prices of basic products – copper by 20%, silver by 18% and gold by 8%
	-59	A decrease in revenues due to a lower sales volume of silver (-1.4%) and copper (-0.3%) alongside a higher volume of gold sales (+5%)
	+55	An increase in revenues from sales of merchandise and other goods and services, including refined lead (+PLN 36 million)
A decrease in cost of sales, selling costs and administrative expenses* by PLN 465 million	+143	A decrease in the minerals extraction tax from PLN 1 585 million in 2014 to PLN 1 442 million in 2015, due to lower metals prices expressed in PLN
	+322	A decrease in other costs mainly due to a lower cost of purchased metal-bearing materials consumed (+PLN 336 million) due to a 6% lower purchase price and to a 4% lower amount of consumption, mainly for processing into wire rod
Impact of hedging transactions (-PLN 85 million)	-49	A change in adjustments to revenues due to settlement of hedging transactions
	+42	A change in the result due to realisation of derivatives (from -PLN 61 million to -PLN 20 million)
	-78	A change in the result due to the measurement of derivatives from -PLN 118 million to -PLN 196 million
Impact of exchange differences (+PLN 97 million)	+2	A change in the result due to exchange differences in other operating activities
	+95	A change in the result due to net exchange differences on borrowing (presented in finance costs)

A change in the balance of income and costs due to interest on borrowings, including fees and commissions (+PLN 121 million)	+178	An increase in revenues due to interest on loans granted
	-23	Higher interest costs on borrowings
	-34	An increase in costs of fees and commissions on bank loans drawn
Impairment losses on non-current assets (-PLN 5 236 million)	-4 898	Impairment loss on shares in subsidiaries, including mainly shares in a holding company which indirectly owns 100% of shares in KGHM INTERNATIONAL LTD. (-PLN 4 854 million). Detailed information on the impairment losses may be found in Part 3 of the Financial Statements.
	-260	Impairment loss on available-for-sale assets, including Tauron Polska Energia S.A. (-PLN 262 million)
	-78	Impairment losses on property, plant and equipment and fixed assets under construction recognised in other operating activity (additionally cost of sales, selling costs and administrative expenses in 2015 were decreased by an impairment loss in the amount of PLN 4 million)
A decrease in income tax	+98	The lower tax results from the lower tax base

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

Chart 7. Change in profit/loss for the period *(in mn PLN)*

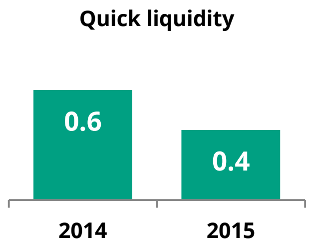


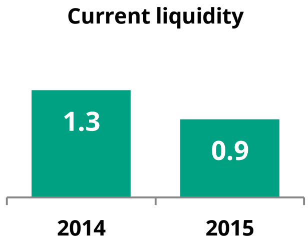
** excluding adjustments due to hedging transactions*
*** excluding impairment losses recognised in cost of sales, selling costs and administrative expenses (PLN 4 million in 2015)*

3.7. Financial ratios

Basic ratios describing financial liquidity, the profitability of assets and equity and financing are presented in the following charts (*calculaction methodology is presented on page 147 of this report*).

Chart 8. Liquidity ratios





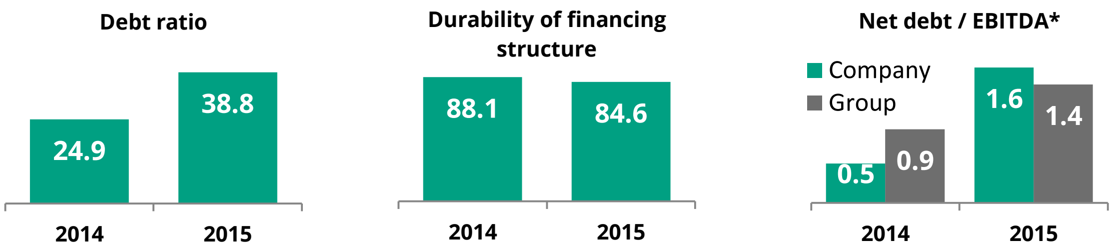
Liquidity ratios show the relationship of current assets, or their more liquid part, to current liabilities. The decrease in these ratios as compared to 2014 is caused by an increase in current liabilities due to borrowing. The liquidity ratios are currently at a safe level.

In 2015, there was an increase in debt due to borrowings drawn, as well as an increase of current liabilities. As a result, as at 31 December 2015 current liabilities amounted to PLN 5 085 million and were higher than current assets by PLN 371 million. With respect to bilateral agreements concluded with banks, the Company uses working capital facilities and overdraft facilities with maturities of up to 2 years. As a result of above, as well as of the successive extension of the financing available under these bilateral agreements for subsequent periods, the Company considers the liquidity risk related to short-term bank loans received as low.

Chart 9. Profitability ratios

The loss in 2015, whose causes were described above, was the main reason for the deterioration in the ratios describing the return on assets (ROA) and the return on equity (ROE).

Chart 10. Financing ratios



** adjusted EBITDA, without JV Sierra Gorda SCM*

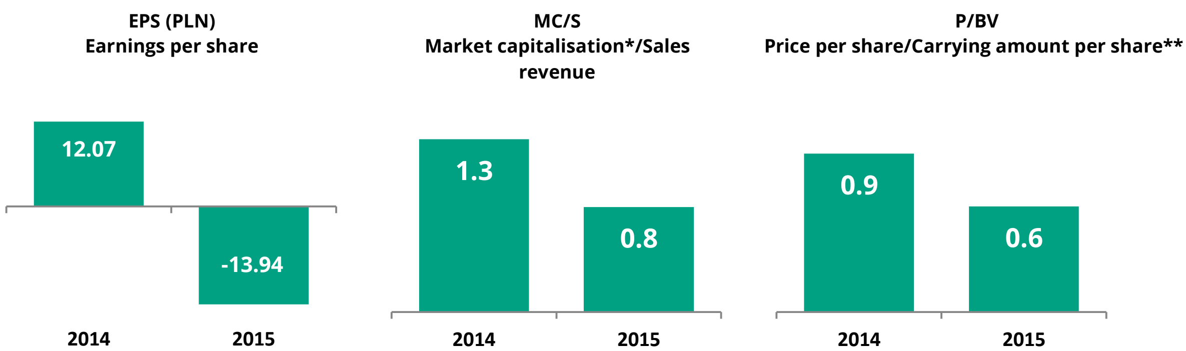
The increase in the debt ratio at the unconsolidated level reflects the increase in the use of leverage due to the consolidation of debt in KGHM Polska Miedź S.A., which is the basic tenet of the Group's financing strategy and conforms to best market practice for large international groups. Analysis of the Net debt/EBITDA should primarily be based on the level of this ratio for the Group. The level of debt still remains lower than the average for the sector.

The durability of the financing structure ratio, which remains at a similar, high level, confirms the long-term nature of the Company's borrowing.

The Net debt/adjusted EBITDA, both for the Company and the Group, demonstrates the safe financial condition of KGHM Polska Miedź S.A. – in accordance with the Company's Financial Liquidity Management Policy, it is assumed that this ratio will remain below the level 2.0.

The activities of the Company are also described by the following capital market ratios:

Chart 11. Capital market ratios



** Market capitalisation represents total shares outstanding times share price from the last day of the reporting period (200 million shares x PLN 108.85 in 2014; PLN 63.49 in 2015)*
*** Carrying amount (book value) of equity at the end of the reporting period*

In 2015, the main capital market ratios for KGHM Polska Miedź S.A. as well as for the entire non-ferrous metals sector remained under strong pressure from falling metals prices on global markets. These falling metals prices had a direct impact on the profitability of companies operating in this sector, and consequently, an indirect impact on their market capitalisation. The key factors impacting the level of capital market ratios as regards KGHM's shares were: the lower profit/(loss) for the period recorded by the Company and the decrease in KGHM's share price from PLN 108.85 at the end of 2014 to PLN 63.49 at the end of 2015.

3.8. Sales

In 2015, the Company recorded a slight decrease in the volume of copper sales by 1.9 thousand tonnes (-0.3%) as compared to the prior year, due to a slight decrease in electrolytic copper production. There was a change in the sales structure – an increase in sales of copper wire rod and OFE rod by 2.8% (7.3 thousand tonnes) alongside a decrease in cathode sales by 3.1% (9.5 thousand tonnes).

Silver sales amounted to 1 245 tonnes and were lower by 1.4% (17 tonnes) as compared to the prior year, while gold sales increased by 5.1% (130 kg) and amounted to 2 660 kg. The increase in gold sales was due to the higher production of this metal by 5.0% (128 kg) due to the processing of purchased metal-bearing materials which among others contained a high level of gold.

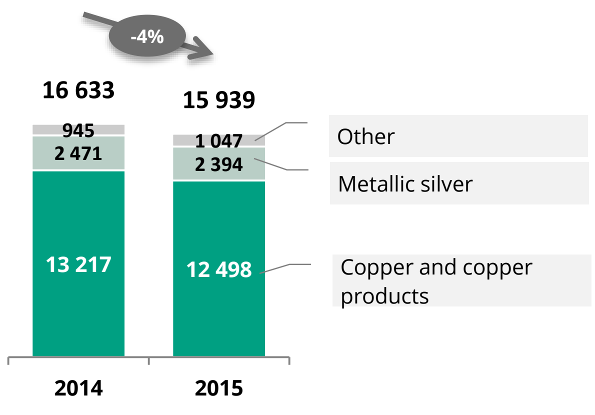
Table 20. Sales volume of main products

	Unit	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Cathodes and cathode parts	kt	294.4	303.9	96.9	93.1	67.8	72.1	61.3
Copper wire rod and OFE rod	kt	264.8	257.5	102.8	59.5	66.7	70.7	68.0
Other copper products	kt	12.2	11.9	102.5	3.4	3.3	2.8	2.7
Total copper and copper products	**kt**	**571.4**	**573.3**	**99.7**	**156.0**	**137.8**	**145.5**	**132.1**
Metallic silver	t	1 245	1 263	98.6	376	307	317	245
Metallic gold	kg	2 660	2 530	105.1	974	687	388	612
Refined lead	kt	30.4	25.8	117.8	7.8	6.3	8.5	7.7

Table 21. Sales revenue *(in mn PLN)*

	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Cathodes and cathode parts	6 255	6 966	89.8	1 827	1 358	1 713	1 357
Copper wire rod and OFE rod	5 982	5 990	99.9	1 267	1 443	1 697	1 575
Other copper products	261	261	100.0	67	68	64	62
Total copper and copper products	**12 498**	**13 217**	**94.6**	**3 161**	**2 869**	**3 474**	**2 994**
Metallic silver	2 394	2 471	96.9	704	561	628	501
Metallic gold	373	327	114.1	134	94	56	90
Refined lead	219	183	119.7	54	45	65	55
Other goods and services	306	294	104.1	69	73	71	93
Merchandise and materials	149	141	105.7	44	40	32	33
Total revenues from the sale of products	**15 939**	**16 633**	**95.8**	**4 166**	**3 681**	**4 325**	**3 767**

Chart 12. Structure of sales *(in mn PLN)*



Total revenues from sales of KGHM Polska Miedź S.A. in 2015 amounted to PLN 15 939 million and were lower by 4.2% than revenues achieved in 2014, mainly as a result of the decrease in metals prices expressed in the Polish zloty and to a decrease in copper sales by 1.9 thousand tonnes.

Revenues from sales of copper and copper products were lower by 5.4%. Revenues from silver sales were lower by 3.1% as compared to their level in 2014, while revenues from gold sales were higher by over 14%. The increase in revenues from gold sales was due both to the increase in the price of this metal as expressed in PLN as well as the increase in sales volume as compared to 2014.

The value of revenues from sales in 2015 reflects the positive result from the settlement of hedging instruments in the amount of nearly PLN 482 million (in the prior year PLN 531 million).

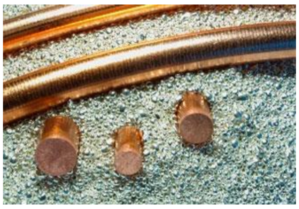
Geographical breakdown of product sales

In 2015, 76% of the volume of sales of copper and copper products and over 99% of total silver sales were exported from Poland and to the European Union. During this period, the largest foreign customers for copper produced by KGHM Polska Miedź S.A. were Germany, China, the Czech Republic and Hungary, while for silver they were the United Kingdom, the USA and Australia.

Information on the main products

The main products of the Company are electrolytic copper cathodes with a minimum copper content of 99.99%. These cathodes meet the highest demands for quality and are registered as Grade „A" on the London Metal Exchange (LME) under three brands: HMG-S, HMG-B and HML and on the Futures Contracts Exchange in Shanghai. The main customers for the cathodes are producers of wire rod, other rods, flat bars, pipes, sheets and belts.

The second-most important copper product in terms of volume is 8 mm copper wire rod manufactured through the Contirod® continuous process of melting, casting and drawing. The charge materials for the production of wire rod are copper cathodes, mainly those produced by the Company. Depending on the needs of the customer, wire rod is produced in various classes of quality. The main customers for wire rod are the cable, electrical goods and electrotechnical industries.



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

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

Electrolytic silver is produced in the form of cast metal (bars, billets) and grains containing 99.99% silver. Silver bars (weighing approx. 32 kg) hold certificates registered on NYMEX in New York as well as Good Delivery certificates issued by the London Bullion Market Association and by the Dubai Multi Commodities Centre. Granule silver is packed in bags weighing 25 kg or 500 kg. The main customers for silver are banks, investment funds, the jewelery industry, photographic industry, and the electronics and electrical industries as well as producers of coins and medallions.

Gold in the form of bars weighing 0.5 kg, 1 kg, 4 kg, 6 kg and 12 kg containing 99.99% gold are used in the jewelery industry, by banks and in the electrical industry.

2015 macroeconomic environment

Global economic growth in 2015 slowed down slightly as compared to the prior year and, according to estimates of the International Monetary Fund (IMF), amounted to 3.1% YoY, which was the lowest rate of growth since 2009. The engine of global economic growth in 2015 continued to be the United States, where the rate of growth increased to 2.5% YoY, while the unemployment rate fell to 5.0%.

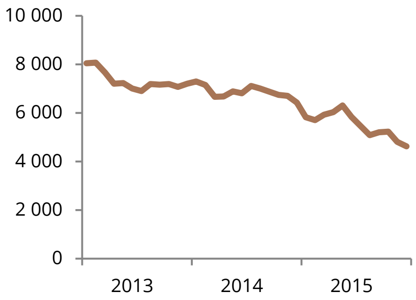
Other key economies continued to search for solutions to their structural problems. The eurozone grew by 1.5% YoY (accelerating from 0.9% YoY in 2014), mainly thanks to recovery in France and Italy, but the European Central Bank was still unable to clearly stimulate inflation. Japan meanwhile emerged from the minimal recession of 2014, although in 2015 GDP in this country only grew by 0.6% YoY. More substantial problems were experienced by developing economies, where the entire segment grew by 4.0% as compared to an increase by 4.6% in 2014, among others due to recession in Russia and Brazil.

Among emerging markets countries the greatest fears were raised by the situation in China. The Chinese economy is going through a period of transformation, aimed at modernising its industry and an economy largely based on internal services and consumption. Fears exist about the effectiveness of China's authorities in implementing this new model, with these fears supported by the ongoing deterioration in macroeconomic parameters – 2015 saw a continuation of this downward trend, such as in industrial production, the level of investments in non-current assets, and also GDP, which in 2015 grew by 6.9%. Investor faith was also shaken by the precipitous crash in share prices on China's Shanghai stock exchange in June and July.

2015 saw the first increase in interest rates in the United States in almost 10 years. Following the conclusion of the assets buying program by the Fed at the end of 2014, for most of 2015 the market expected an increase in the cost of money in the USA, but global economic volatility, especially in China, resulted in this decision being postponed until December. During this time other large central banks continued their expansive monetary policies, led by the ECB with its „quantitative easing" program in the eurozone.

In 2015 commodities markets continued their downward trend, although, similarly as in 2014, the second half of the year brought a substantial deterioration in sentiment. By the end of June the Bloomberg Commodity Index (BCOM) had weakened by only 1.6%, while the energy commodities index grew by 1.8%. The only clear loss – by 10% – was in industrial commodities. In the second half of the year, the growing aversion to risk, caused by the fear of a global slowdown, led to sharp losses by all of the main commodities. The main BCOM index lost 24%, the commodities index 19%, and the energy index 40%.

Chart 13. Copper price on the London Metal Exchange *(USD/t)*

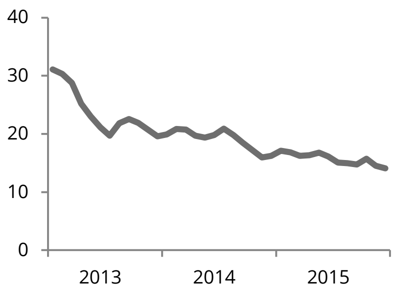


In the first half of 2015 the cash settlement price of copper on the London Metal Exchange (LME) ranged from 5 391 – 6 448 USD/t. The lowest copper price was recorded at the end of January, when increased activity by Chinese investment funds, playing on price drops, led to a sharp fall in the copper price. The following months, similarly as in 2014, brought however an improvement in sentiment, along with higher copper prices. The bursting of a speculative bubble on Chinese stock markets, the deterioration of macroeconomic data and devaluation of the yuan brought on another wave of losses in the copper price, additionally pushed by the drop in the price of oil. As a result, the price of copper in USD at the end of 2015 was 26% lower than at the beginning of the year, and in PLN by 19%.

According to estimates by CRU International, global consumption of refined copper in 2015 rose by 0.4%, while supply increased by 1.6%. As a result, copper's market balance moved from a deficit of 188 thousand tonnes in 2014 to a surplus of 63 thousand tonnes in 2015. Official exchange inventories of copper increased from 287 thousand tonnes to 453 thousand tonnes, while material in duty-free Chinese warehouses decreased from 650 thousand tonnes to 460 thousand tonnes.

The average annual price of copper on the London Metal Exchange (LME) in 2015 was 5 495 USD/t, 20% below the level from 2014 (6 862 USD/t).

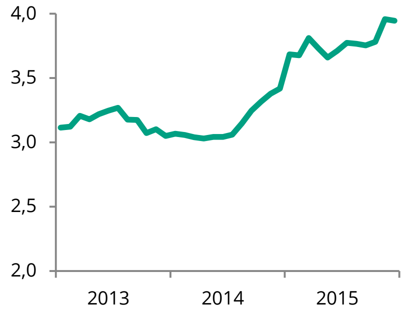
Chart 14. Silver price per the London Bullion Market Association *(USD/oz t)*



Silver in 2015 continued its downward march from prior years, and the proportion of silver prices to gold prices remained at a relatively high level – on average 1:74. The silver price in the first half of 2015 ranged from 15.47 – 18.23 USD/ounce, while the higher prices were mainly the result of increased risk aversion. The second half of 2015, similarly as in the case of other metals, saw a drop in prices, and silver ended the year at 13.82 USD/ounce. Apart from investor aversion to commodities, the lower prices were due to expectations of higher interest rates in the USA, as well as to falling energy commodities prices, which brought on deflationary pressures.

The average price of silver according to the London Bullion Market Association (LBMA) fell in 2015 by nearly 18% and averaged 15.68 USD/ounce as compared to 19.08 USD/ounce in 2014.

Chart 15. USD/PLN exchange rate per the NBP



In 2015 the American dollar continued its strengthening trend as compared to other world currencies, although less dynamically than in the prior period – the value of the USD (the so-called dollar index) increased by over 9% – mainly thanks to the relative strength of the US economy as compared to its trading partners. During this time the PLN remained relatively stable as compared to the euro, while the increase in the USD/PLN rate was mainly due to the decrease in the EUR/USD rate, as well as increased political risk due to presidential and parliamentary elections, and also general investor aversion to developing economies.

The average annual USD/PLN exchange rate (per the NBP) in 2015 amounted to 3.77 USD/PLN and was nearly 20% higher than the rate in 2014. The minimum USD/PLN exchange rate, similar to that recorded at the beginning of the year, was recorded in May at the level of 3.550 USD/PLN, while the maximum level was recorded in December – 4.040 USD/PLN.

Chart 16. Copper price on the London Metal Exchange expressed in PLN *(PLN/t)*

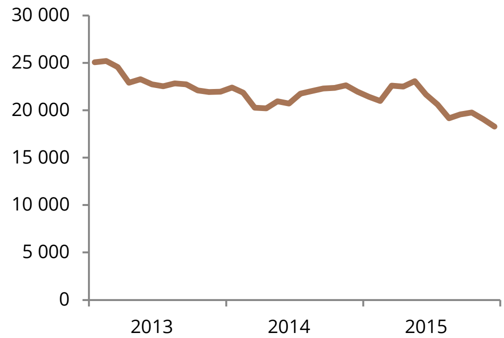
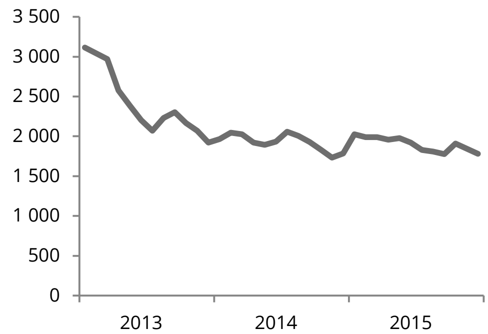


Chart 17. Silver price per the London Bullion Market Association expressed in PLN *(PLN/kg)*



The most significant macroeconomic factors for the Company's operations are presented in the following table.

Table 22. The most significant macroeconomic factors for the Company's operations

	Unit	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Average copper price on the LME	USD/t	5 495	6 862	80.1	4 892	5 259	6 043	5 818
Average silver price on the LBM	USD/oz t	15.68	19.08	82.2	14.77	14.91	16.39	16.71
Average USD/PLN exchange rate per the NBP	PLN/USD	3.77	3.15	119.7	3.89	3.77	3.70	3.73

The Company's market position

According to estimates by CRU International, global copper mine production in 2015 amounted to 19 121 thousand tonnes. During the same period KGHM produced 425.9 thousand tonnes of copper in concentrate, representing 2.2% of global production. Global production of refined copper, according to forecasts by CRU, amounted to 22 035 thousand tonnes. Production of refined copper in the Company amounted to 574.3 thousand tonnes, representing 2.6% of global production.

In 2015, global mine production of silver amounted to 867 million ounces (estimated data from CRU International). KGHM during this period produced 38.9 million ounces of silver in concentrate, representing 4.5% of the global production of this metal.

3.9. Cost of sales, selling costs and administrative expenses

The Company's cost of sales, selling costs and administrative expenses (cost of products, merchandise and materials sold plus selling costs and administrative expenses) in 2015 amounted to PLN 12 655 million and were 3.5% lower as compared to 2014, mainly due to the fall in metals prices, which resulted in lower costs of purchased metal-bearing materials and a lower minerals extraction tax.

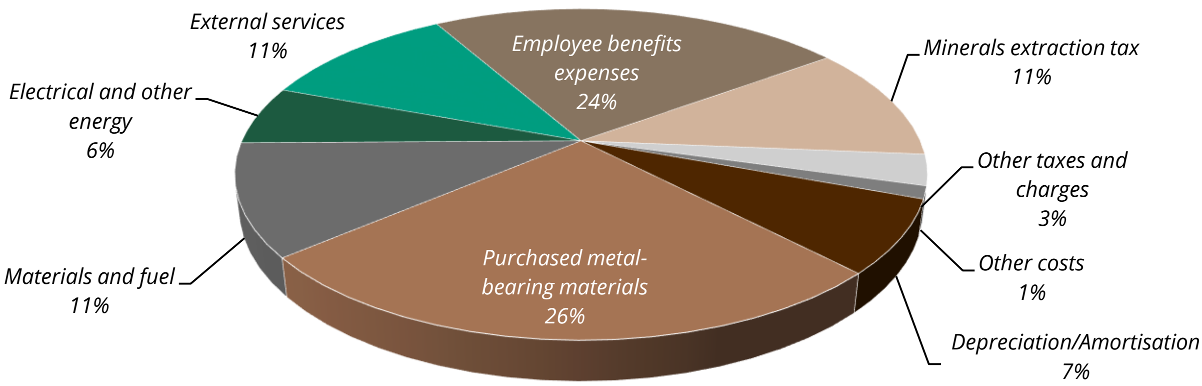
Expenses by nature in 2015 as compared to 2014 were lower by 2.4% (-PLN 310 million) and had a similar structure.

Table 23. Expenses by nature *(in mn PLN)*

	2015	2014	Change 2014=100	4Q'15	3Q'15	2Q'15	1Q'15
Depreciation/amortisation of property, plant and equipment and intangible assets	910	818	111.2	222	233	228	226
Employee benefits expenses	2 992	3 022	99.0	780	760	711	741
Materials and energy, including:	5 481	5 870	93.4	1 433	1 239	1 488	1 320
- purchased metal-bearing materials	3 352	3 688	90.9	868	713	972	799
- electrical and other energy	735	782	94.0	200	183	174	178
External services	1 420	1 378	103.0	403	346	352	320
Taxes and charges, including:	1 824	1 896	96.2	402	422	507	493
- minerals extraction tax	1 439	1 520	94.7	304	325	417	393
Other costs	155	109	142.2	50	16	71	18
Total expenses by nature	**12 782**	**13 093**	**97.6**	**3 290**	**3 017**	**3 357**	**3 118**

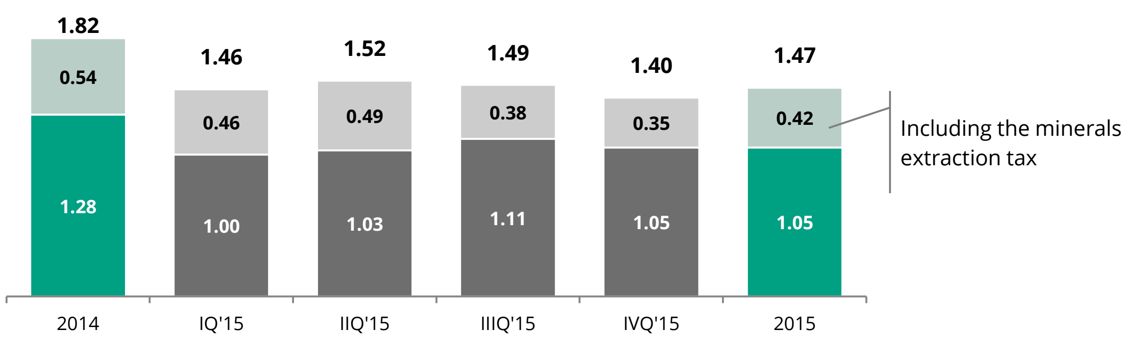
The structure of expenses by nature in 2015 is presented below. As compared to the prior year, they were at a very similar level.

Chart 18. Structure of expenses by nature in 2015



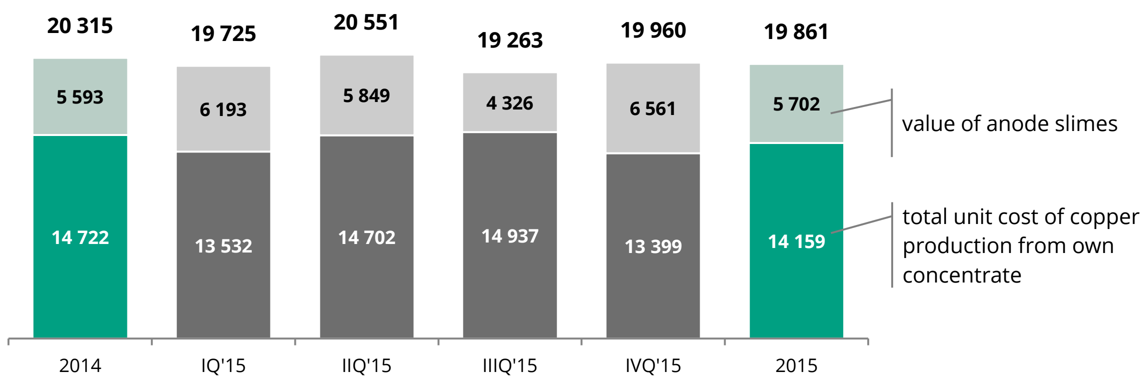
The Company's operating costs are decisively impacted by the costs of electrolytic copper production (prior to decrease by the value of by-products), whose share is about 94%.

Chart 19. Cost of producing copper in concentrate – C1 *(USD/lb)*



Cost of producing copper in concentrate - C1 (*unit cash cost of producing payable copper in concentrate, reflecting costs of ore extraction and processing, transport costs, the minerals extraction tax, administrative costs during the mining stage, and smelter treatment and refining charges (TC/RC), less the value of by-products*) was as follows: in 2014: 1.82 USD/lb and in 2015: 1.47 USD/lb. C1 cost was impacted by a weakening in the PLN as compared to the USD (C1 cost achieved in 2015, using the USD/PLN rate and metals prices from 2014, would have amounted to 1.75 USD/lb), higher production of copper in concentrate by 1.2% and higher content of silver in own concentrate by 2.1%.

Chart 20. Pre-precious metals credit unit cost of electrolytic copper production – from own concentrate *(PLN/t)*



The pre-precious metals credit unit cost of copper production from own concentrate *(unit cost prior to decrease by the value of anode slimes containing among others silver and gold)* was lower than that recorded in 2014 by 454 PLN/t (-2.2%), mainly due to a lower minerals extraction tax (-312 PLN/t) alongside a similar level of own concentrate production to that of the prior year.

3.10. 2015 targets versus achievements and expected Company economic situation in 2016

KGHM Polska Miedź S.A. did not publish a forecast of financial results for 2015. In its annual financial statements for 2014 the Company announced its targets for 2015. The progress made in achieving these assumptions and expected Company economic situation in 2016 is shown below.

Table 24. Achievement of Company targets in 2015 and expected Company economic situation in 2016

	Unit	Execution 2015	Target 2015	Execution (%)	Target 2016	Change 2015=100
Average annual copper price	USD/t	5 495	6 800	80.8	5 000	91.0
Average annual silver price	USD/oz t	15.68	18.00	87.1	14.00	89.3
Exchange rate	USD/PLN	3.77	3.30	114.2	3.95	104.8
Production of copper in concentrate	kt	425.9	421.4	101.1	426.8	100.2
Production of silver in concentrate	t	1 209	1 138	106.2	1 188	98.3
Electrolytic copper production, of which:	kt	574.3	567.5	101.2	525.4	91.5
– from own concentrate	kt	420.5	415.1	101.3	375.6	89.3
– from purchased metal-bearing materials	kt	153.8	152.4	100.9	149.8	97.4
Metallic silver production	t	1 283	1 160	110.6	1 010	78.7
Sales volume of copper products	kt	571.4	564.7	101.2	575.7	100.8
Sales volume of silver products	t	1 245	1 158	107.5	1 134	91.1
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate	PLN/t	19 861	21 077	94.2	21 030	105.9
Total unit cost of electrolytic copper production from own concentrate	PLN/t	14 159	15 940	88.8	16 345	115.4
C1 cash cost of producing copper in concentrate	USD/lb	1.47	1.86	79.0	1.45	98.6
Capital expenditures	mn PLN	2 673	2 550	104.8	2 530	94.7
Equity investments *	mn PLN	1 505	1 651	91.2	1 488	98.9

** Acquisition of shares and investment certificates of subsidiaries and loans granted (without refinance of debt of KGHM INTERNATIONAL LTD.)*

2015 targets versus achievements

The lower-than-expected metals prices were partially offset by a more favourable exchange rate. The copper price expressed in PLN was 8% lower than planned, while silver was at the planned level.

The production and sales volume of copper achieved in 2015 were at levels similar to the planned amounts, while in the case of silver, production and sales volume were respectively 11% and 8% higher than planned.

The unit cost of electrolytic copper production from own concentrate was lower than planned mainly due to higher-than-planned copper production. Meanwhile the C1 cash cost of producing copper in concentrate was substantially lower than planned, mainly due to the weakening in the PLN versus the USD, but also due to the higher content of silver in own concentrate.

Expected Company economic situation in 2016

The Company expects a further deterioration of metals prices in 2016, including copper by 9% and silver by 11%, whose negative impact will be partially offset by a weakening in the PLN versus the USD by 5%. As a result, copper and silver prices expressed in PLN are expected to be lower respectively by 5% and 6%.

In 2016, KGHM Polska Miedź plans to maintain stable production of copper in concentrate at the level of 426.8 thousand tonnes and to achieve C1 production cost at a level 1.4% lower than that achieved in 2015.

With regard to the planned, four-month shutdown at the Głogów I smelter/refinery related to the change from shaft furnace to flash furnace technology, the Company also expects a decrease in electrolytic copper production in 2016 by 9% and silver by 21%. The decrease in production volume will result in an increase in the unit cost of electrolytic copper production from own concentrate: pre-precious metals credit unit cost by 6% and total cost by 15%.

The sales volumes of copper and silver in 2016 include planned sales of own concentrate: 215 thousand tonnes dry weight (47 thousand tonnes of copper and 106 tonnes of payable silver), which will not be used by KGHM Polska Miedź S.A. due to the smelter shutdown.

In 2016, the Company expects capital expenditures in the amount of PLN 2 530 million and equity investments in the amount of PLN 1 488 million. The high level of investment expenditures is mainly due to the need to complete investments related to the change in metallurgical technology and to provide support in the form of owner loans for the operations of the Sierra Gorda mine as well as the mine assets of KGHM International given the current unfavourable macroeconomic conditions. In addition, in 2016 KGHM has set aside equity investment funds for its international resource base development projects (Ajax, Victoria and Sierra Gorda Oxide) related to obtaining required permits and conducting analyses.

In light of the aforementioned factors - the deterioration in macroeconomic conditions and lower production - the Management Board has decided to commence the process of reviewing the assumptions contained in the strategy for the years 2015–2020, including reviewing and prioritising investment projects throughout the Group in order to substantially reduce capital needs in the short and medium terms.

The Company is also implementing advanced cost efficiency programs for its mining operations, based among others on optimising technological processes, employment and renegotiating contracts for the supply of materials and services.

4. The Company's shareholders and share prices

4.1. The Company on the Warsaw Stock Exchange (WSE)

KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange (WSE) in July 1997. The Company's shares are traded on the primary market in the continuous trading system and are a component of the WIG, WIG20 and WIG30 indices. The Company's shares are included in the WIG-basic materials ("WIG-SUROWCE") sector index and the WIGdiv index.

In 2015 the shares of KGHM Polska Miedź S.A. were once again amongst the selected group of 23 companies listed on the Warsaw Stock Exchange which comprise the RESPECT Index. The Company has participated in this index continuously since 2009, which confirms its conformance with the highest standards of social responsibility.

The Respect Index, which has been published since 19 November 2009, is an index of socially-responsible companies listed on the Warsaw Stock Exchange. The Index includes companies from the Warsaw Stock Exchange which conform to Corporate Social Responsibility (CSR) standards.

The RESPECT Index highlights those companies which are managed in a sustainable and responsible manner, and also points out their investment attractiveness. Inclusion in the index is determined by a company's quality of reporting, its level of investor relations and its adherance to Corporate Governance principles.

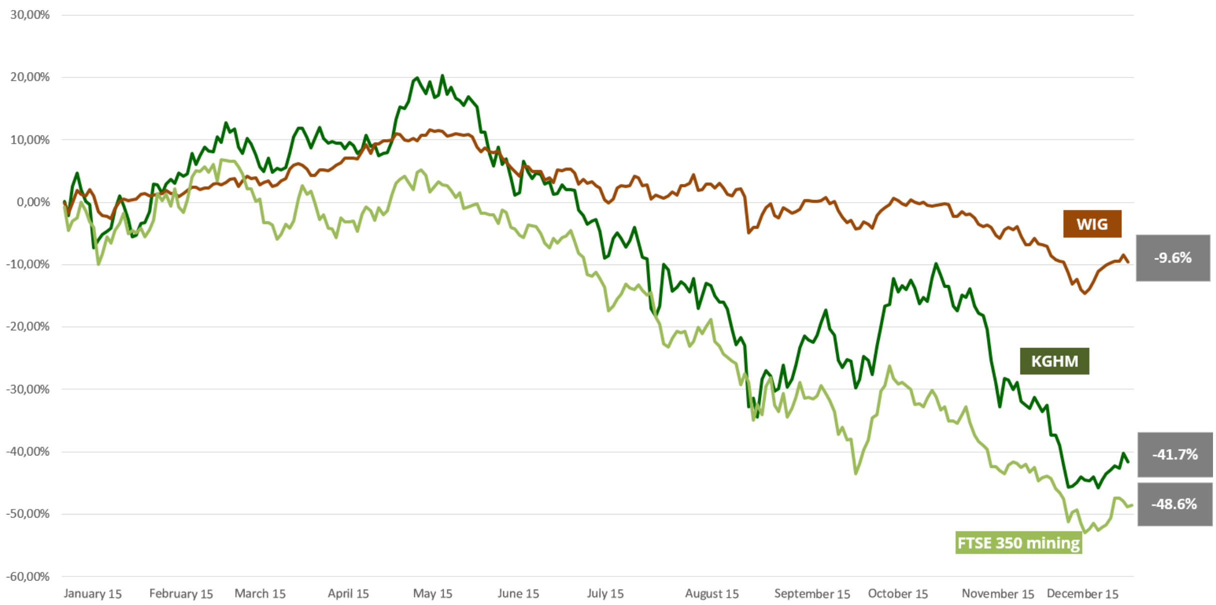
In 2015 companies operating in the mining sector, including KGHM Polska Miedź S.A., were under substantial pressure from macroeconomic factors related primarily to the slowing rate of economic growth in Asian markets (mainly China), the rapid decrease in commodities prices and the global geopolitical situation (the Middle East). The result of this led to a trend to sell-off the shares of mining companies by investors. The FTSE 350 mining index fell in 2015 by 48.56%. The FTSE 350 Mining index is an index of companies listed on the London Stock Exchange (LSE). Amongst the 350 largest companies in terms of market capitalisation are companies in the mining sector. The index includes companies such as Anglo-American, Antofagasta, BHP Billiton and Rio Tinto.

Despite such strong pressure, the decrease in KGHM Polska Miedź S.A.'s share price in 2015 was lower than the average decrease for all companies in the peer group (the largest global companies in the mining sector), which amounted to approx. 50%.

In 2015 KGHM Polska Miedź S.A.'s share price fell by 41.67%, from a closing price of PLN 108.85 on 30 December 2014 to PLN 63.49 on the last trading day of 2015. During the same period the market indices WIG, WIG20 and WIG30 fell respectively by 9.62%, 19.72% and 16.56%.

On 13 May the Company's shares reached their highest closing price of PLN 131.00. The lowest closing price amounted to PLN 59.07 and was recorded on 17 December 2015.

Chart 21. Change in share price of KGHM Polska Miedź S.A. versus the WIG index and FTSE 350 mining index



Key share price data of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange in the years 2014-2015 are presented in the following table:

Table 25. Key share price data of the Company on the Warsaw Stock Exchange

Symbol: KGH ISIN: PLKGHM000017	Unit	2015	2014
Number of shares issued	mn	200	200
Market capitalisation of the Company at year's end	bn PLN	12.7	21.8
Average trading volume per session		948 323	883 361
Change in share price from the end of the prior year	%	(41.67)	(7.75)
Highest closing price during the year	PLN	131.00	138.00
Lowest closing price during the year	PLN	59.07	99.90
Closing price from the last day of trading in the year	PLN	63.49	108.85

Source: WSE

4.2. Investor relations

The dialogue with stakeholders, among whom shareholders are of particular significance, is for us a key aspect of the Company's operations. For KGHM, as a global company operating on three continents, it is a priority to ensure equal access to information to all members of the global capital markets. KGHM's actions are aimed at maintaining regular communication and transparent dialogue with investors and analysts as well as at ensuring conformance with our regulatory legal obligations.

We maintain an active dialogue with shareholders and market participants through meetings with investors and analysts both in Poland and abroad. In 2015 the Investor Relations team participated in numerous regional and sector conferences, meeting with investors and analysts. At the same time the Company fulfils its regulatory obligations by publishing regulatory filings and periodic reports via the official reporting system (ESPI).

Publication of KGHM's quarterly financial results is accompanied by a conference open to all stakeholders, which is webcast live in Polish and English. A playback of the conference is available on the Company's website at www.kghm.com in the Investors section. The Investors section is continuously updated with the latest information and documents. This section also includes regulatory filings and periodic financial statements and reports, information on the shareholder structure, documents related to general meetings and corporate governance, as well as presentations and videos for investors.

In 2015, sell-side reports on KGHM were published by 16 analysts based in Poland and 8 based abroad.

Table 26. Financial institutions which issue recommendations and prepare research reports on KGHM Polska Miedź S.A.

Based in Poland:		
Deutsche Bank	DM Banku Handlowego	DI mBank
DI Investors	Haitong Bank	DM BZ WBK
Erste Group	ING Securities	IPOPEMA Securities
JP Morgan	PKO Dom Maklerski	Trigon Dom Maklerski
UBS	Pekao Investment Banking	DM BOŚ
Societe Generale		
Based abroad:		
Morgan Stanley	Raiffeisen	Bank of America Merrill Lynch
BMO	Credit Suisse	Goldman Sachs
WOOD & Company	Haitong	

4.3. Dividend paid

In accordance with Resolution No. 5/2015 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 29 April 2015 regarding the appropriation of the Company's profit for financial year 2014, the amount of PLN 800 million was allocated as a shareholder dividend, amounting to PLN 4.00 per share. The dividend date (the day on which the right to dividend is set) was set at 27 May 2015 with the dividend being paid in two instalments: 18 June 2015 – PLN 2.00 per share and 19 October 2015 – PLN 2.00 per share.

Table 27. Dividend paid in 2014 - 2015

Symbol: KGH ISIN: PLKGHM000017	Unit	2015	2014
Dividend paid in the financial year from the appropriation of profit for the previous year	mn PLN	800	1 000
	PLN/share	4.00	5.00
Dividend yield*	%	6.3	4.6

** dividend per share paid in the given financial year divided by the closing price in the last trading day in the given financial year*

On 26 January 2015, the Management Board of KGHM Polska Miedź S.A. resolved to adopt a Dividend Policy for KGHM Polska Miedź S.A. The Dividend Policy is part of its on-going efforts to ensure a balance between dividends paid out to shareholders and opportunities to efficiently invest the Company's funds.

The Dividend Policy assumes that the Management Board will recommend allocation of up to one-third of the profit for the period of KGHM Polska Miedź S.A. for the previous financial year as a dividend, while taking into account the current and anticipated financial situation of the Company and the Group. In particular, in making its recommendation the Management Board will take into account the Company's anticipated requirements for capital to complete the Company's development program as well as a safe debt level for the Group.

The final decision regarding the amount of dividends paid is made by the General Meeting of KGHM Polska Miedź S.A.

4.4. Ownership structure and Company's outstanding shares

As at 31 December 2015, the share capital of the Company, 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 2015 there was no change in either registered share capital or in the number of outstanding shares issued.

As far as the Company'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 1 January 2015 as well as at 31 December 2015 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. The Company's shareholder structure as at 31 December 2015 and at the date this report was signed was as follows:

Table 28. Shareholder structure as at 31 December 2015 and at the date this report was signed

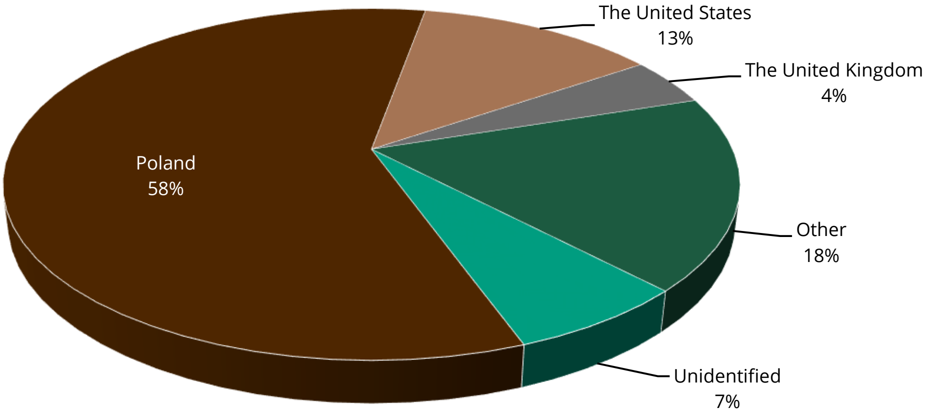
Shareholder	Number of shares/votes	% of share capital/total number of votes
State Treasury *	63 589 900	31.79%
Other shareholders	136 410 100	68.21%
Total	200 000 000	100.00%

** based on an announcement received by the Company dated 12 January 2010*

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.

Following is the geographic distribution of the Company's shareholder structure. The data is based on research into the Company's shareholder structure performed in 2015.

Chart 22. Geographic distribution of the shareholder structure of KGHM Polska Miedź S.A.



The Company does not hold any treasury shares.

The Management Board of the Company is unaware of any agreements which could result in changes in the proportion of shares held by present shareholders in the future.

Based on the information held by KGHM Polska Miedź S.A., as at 31 December 2015, the following Members of the Management Board and the Supervisory Board of KGHM Polska Miedź S.A. held the Company's shares:

Table 29. 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 31 December 2015

Name	Position /function	Shares held as at 31 December 2015	Nominal value of shares in PLN
Herbert Wirth	President of the Management Board	3 639	36 390
Jarosław Romanowski	First Vice President of the Management Board	3 650	36 500
Marcin Chmielewski	Vice President of the Management Board	3 743	37 430
Jacek Kardela	Vice President of the Management Board	3 664	36 640
Mirosław Laskowski	Vice President of the Management Board	1 715	17 150
Józef Czyczerski	Member of the Supervisory Board	10	100
Leszek Hajdacki	Member of the Supervisory Board	1	10

On 18 January 2016, the Extraordinary General Meeting of KGHM Polska Miedź S.A. carried out changes to the composition of the Supervisory Board of KGHM Polska Miedź S.A., and on 3 February 2016 and 23 February 2016 the Supervisory Board of KGHM Polska Miedź S.A. changed the composition of the Management Board of KGHM Polska Miedź S.A.

Based on the information held by KGHM Polska Miedź S.A., as at the date this report was signed the following Members of the Management Board and the Supervisory Board of KGHM Polska Miedź S.A. held the Company's shares:

Table 30. KGHM Polska Miedź S.A. shares held by the Members of the Management Board and the Supervisory Board of KGHM Polska Miedź S.A. as at the date this report was signed

Name	Position /function	Shares held as at the date this report was signed	Nominal value of shares in PLN
Krzysztof Skóra	President of the Management Board	5	50
Mirosław Laskowski	Vice President of the Management Board	1 715	17 150
Józef Czyczerski	Member of the Supervisory Board	10	100
Leszek Hajdacki	Member of the Supervisory Board	1	10

Based on information held by KGHM Polska Miedź S.A., Members of the Company's Management Board and Supervisory Board did not hold shares of the related entities of KGHM Polska Miedź S.A.

The Company did not have an employee share incentive program in 2015.

Corporate governance statement

In accordance with §91 sec. 5 point 4 of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of recognising information as equivalent as required by the laws of a non-member state and the Bylaws of the Warsaw Stock Exchange, the Management Board of KGHM Polska Miedź S.A. herein presents the Corporate governance statement for 2015.

KGHM Polska Miedź S.A., whose shares are listed on the Warsaw Stock Exchange, in 2015 was subject to the corporate governance principles described in the document „Code of Best Practice for WSE Listed Companies" (an appendix to Resolution No. 19/1307/2012 of the Warsaw Stock Exchange Supervisory Board dated 21 November 2012). These principles are available at the official website of the Warsaw Stock Exchange devoted to this subject (https://www.gpw.pl/WSE_corporate_governance), as well as at the website of KGHM Polska Miedź S.A. under the section devoted to corporate governance (http://kghm.com/en/investors/corporate-governance/governance-compliance).

Since 2016 the Company has been subject to the principle adopted on 13 October 2015 by the Warsaw Stock Exchange Supervisory Board in resolution No. 26/1413/2015 regarding the adoption of a new collection of corporate governance principles called „Best Practice of GPW Listed Companies 2016".

The Company has endeavoured at every stage of its operations to carry out the recommendations and principles respecting "Best Practice" for listed companies.

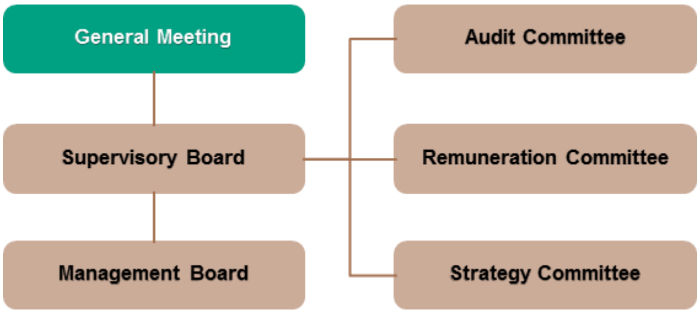
In 2015, KGHM Polska Miedź S.A. did not comply with the recommendation described in chapter I point 12 of „Best Practice…", regarding providing assurance by the Company that its shareholders will have the possibility to personally, or through a proxy, exercise their voting rights during General Meetings from a location other than that of the Meeting, using electronic means of communication.

The Company also refrained from application of the principle set forth in Section IV point 10 of „Best Practice…", according to which the Company should provide its shareholders with the possibility to participate in General Meetings using electronic means of communication, based on real-time webcasts of General Meetings as well as real-time bilateral communication, based on which shareholders may take the floor during a General Meeting from a location other than that of the Meeting.

In the Company's opinion, introduction of the possibility of participation in General Meetings using electronic means of communication may carry risk factors of a legal and technical nature leading to interference with the efficient conduct of General Meetings, and as a result to the possible questioning of any resolutions adopted. In the Company's opinion, current principles of participation in the General Meetings of KGHM Polska Miedź S.A. enable all shareholders to exercise the rights attached to owning the shares and protect the interests of all shareholders. The Company is considering introducing the aforementioned principle and recommendation in situations when their technical and legal aspect no longer raises any doubts, and when such introduction will be justified by a real need for this form of communication with shareholders.

Starting from 2016 the Company provides live webcasts of General Meetings.

Diagram 5. Corporate governance structure in KGHM Polska Miedź S.A.



General Meeting

The General Meeting of KGHM Polska Miedź S.A. is the Company's highest authority. It meets in either ordinary or extraordinary form, based on generally prevailing law, the Statutes of the Company and the Bylaws of the General Meeting of KGHM Polska Miedź S.A. General Meetings are convened by the Company's Management Board. In situations defined by the Commercial Partnerships and Companies Code, General Meetings may be convened by the Supervisory Board or by shareholders. The Statutes of KGHM Polska Miedź S.A. also authorise the Polish State Treasury to convene a General Meeting. The General Meeting of the Company is convened by an announcement published on the Company website and in the manner set forth in the Act dated 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organised trading, and on public companies. A General Meeting may adopt resolutions if at least one-fourth of the share capital is represented. Resolutions are adopted by a simple majority of votes cast, unless the law or the Company's Statutes state otherwise. The principles for conducting a General Meeting are set forth by the Commercial Partnerships and Companies Code and the Company's Statutes. Additional issues related to the functioning of the General Meeting are regulated by the "Bylaws of the General Meeting of KGHM Polska Miedź S.A." adopted by the General Meeting of KGHM Polska Miedź S.A. on 17 May 2010, which are available on the Company's website, www.kghm.com.

The duties of the General Meeting include in particular:

- examining and approving the report of the Management Board on the Company's activity and the financial statements, including the consolidated financial statements of the Company Group, for the prior financial year,
- adopting resolutions on the distribution of profits or coverage of losses,
- acknowledging the fulfilment of duties performed by members of the bodies of the Company,
- changing the subject of the Company's activity,
- changes in the Company Statutes,
- increasing or decreasing the share capital,
- the manner and conditions for retiring shares,
- merging, splitting and transforming the Company,
- dissolving and liquidating the Company,
- issuing convertible bonds or senior bonds,
- consenting to the disposal and lease of an enterprise or of an organised part thereof, as well as the attachment of limited property rights to same,
- all decisions relating to claims for redress of damage suffered during the foundation of the Company, or from management or supervisory activities,
- purchase of the Company's own shares, which are to be offered to employees or persons who were employed by the Company or by related companies for a period of at least three years, and
- establishing principles of the remuneration of members of the Supervisory Board.

The schedule of work on organising the General Meetings of the Company is planned in such a way as to ensure that the obligations towards shareholders are properly met and to enable them to exercise their rights.

The introduction of changes to the Company Statutes requires a resolution by the General Meeting and an entry in the National Court Register. Changes in the Company Statutes are made by the General Meeting in accordance with generally prevailing laws, in the manner and form prescribed by the Commercial Partnerships and Companies Code, i.e. by a majority three-fourths of the votes cast in the presence of persons representing at least half of the share capital.

Amongst the regulations of the Commercial Partnerships and Companies Code, in respect of the organisation of General Meetings and shareholder rights, the Company applies only those regulations which are obligatory, i.e. those which require the publication of announcements and relevant materials for the General Meeting on the Company website and the use of electronic forms of contact with shareholders. Regulations enabling shareholders to participate in General Meetings using electronic means of communication are not applied.

Shareholders and their rights

The only shareholder of KGHM Polska Miedź S.A. holding at least 5% of the share capital and simultaneously granting the right to the same number of votes at the General Meeting on both 1 January 2015 and 31 December 2015 was the Polish State Treasury.

This shareholder held 63 589 900 shares of KGHM Polska Miedź S.A. and the same number of votes at the General Meeting, representing 31.79% of the share capital and of the total number of votes. 136 410 100 shares and votes, or 68.21% of the share capital and of the total number of votes, belonged to other institutional and individual investors.

Shareholders of the Company exercise their rights in a manner and within the limits prescribed by prevailing law, the Statutes of the Company and the Bylaws of the General Meeting of KGHM Polska Miedź S.A. Shareholder is entitled to exercise its voting rights either personally or through a proxy. The authority to participate in a General Meeting and to exercise voting rights should be granted in writing or in electronic form. All of the shares are bearer shares. Each share represents one vote.

There is no limitation to the transfer of ownership rights to the shares of the Company or with respect to the execution of voting rights on the shares of the Company, other than those generally prescribed by laws in force.

The Company has not issued securities which would grant special control rights in respect of the Company.

A shareholder is entitled in particular to the following:

- to convene an Extraordinary General Meeting if the said shareholder represents at least half of the share capital or has been authorised by a court of registration and represents at least one-twentieth of the share capital,
- to announce draft resolutions during a General Meeting which are in regard to matters introduced to the agenda,
- in accordance with the Statutes, the Polish State Treasury as a shareholder may convene an Ordinary General Meeting if the Management Board does not do so in the statutory timeframe as well as an Extraordinary General Meeting if it considers its convening as warranted,
- to request that a matter included in the agenda be removed or not considered,

- to order the convening of an Extraordinary General Meeting and to include specified matters on the agenda of this General Meeting, if the shareholder or shareholders represent at least one-twentieth of the share capital, and
- to order the inclusion of specified matters on the agenda of the next General Meeting, if the shareholder or shareholders represent at least one-twentieth of the share capital.

Supervisory Board

The Supervisory Board of KGHM Polska Miedź S.A. is the permanent supervisory authority of KGHM Polska Miedź S.A., in all of the Company's functional areas. According to the Statutes of the Company, the Supervisory Board is composed of 7 to 10 members appointed by the General Meeting, 3 of whom are elected by the Company's employees. The Members of the Supervisory Board are appointed for a mutual term in the office, which lasts three years. The Supervisory Board selects from among its members a Chairman of the Supervisory Board, his Deputy and a Secretary. The Supervisory Board should meet at least once a quarter. For resolutions of the Supervisory Board to be valid all of the members of the Supervisory Board must be invited to attend and resolutions must be adopted by an absolute majority of votes in the presence of at least one-half of the members.

The duties of the Supervisory Board include in particular the following:

- evaluating the separate and consolidated financial statements and the report of the Management Board on the activity of the Company and the Group for the given financial year,
- evaluating the proposals of the Management Board with respect to the distribution of profits or coverage of losses,
- submitting to the General Meeting an annual written report on the results of the evaluation of the documents referred to in the first two points above,
- submitting to the General Meeting annual requests for granting approval of the Management Board's members with respect to their activities,
- examining and controlling the activity and financial condition of the Company, and submitting to the Ordinary General Meeting an annual, brief assessment of the standing of the Company,
- choosing an auditor to audit the statements referred to in point 1,
- suspending from their duties for important reasons some or all of the members of the Management Board,
- temporarily delegating a member or members of the Supervisory Board to carry out the duties of members of the Management Board who are unable to carry out their duties,
- establishing the remuneration of members of the Management Board, as well as the other conditions of agreements or contracts concluded with them,
- approving the Bylaws of the Management Board of the Company,
- approving the Company's annual and multi-year operating plans,
- stating its opinion on any request of the Management Board addressed to the General Meeting,
- at the request of the Management Board, expressing its consent to:
  - the purchase and sale of real estate, of perpetual usufruct or of a stake in real estate (this does not require a resolution of the General Meeting),
  - the granting of guarantees and loans to commercial entities in which the Company owns less than 1/3 of the voting rights at the General Meeting of such entities,
  - establishing and acceding to commercial partnerships and companies,
  - disposing of shares in subsidiaries of the Company,
  - establishing branches, companies, representative offices and other organizational or economic entities abroad,
  - obtaining or acquiring shares of another company, and
  - the establishment and liquidation of foundations,
- appointing and recalling members of the Management Board, with due regard being given to § 12 of the Statutes of the Company,
- expressing an opinion on investments by the Company in fixed assets, which meet one of the following conditions:
  - investments having a value of more than 10% of the budget for expenditures on investments in tangible assets of the Company for a given financial year,
  - investments of more than 5% of the budget for expenditures on investments in tangible assets of the Company for a given financial year, if the investment does not meet the criteria for planned effectiveness in comparison to the accepted rate of return on equity in the Company.

The Supervisory Board operates on the basis of generally prevailing law, the Statutes of the Company and the Bylaws of the Supervisory Board. The Bylaws and Statutes of the Company are available on the Company's website, www.kghm.com.

As at 1 January 2015 the composition of the 9th-term Supervisory Board was as follows:

- Marcin Moryń Chairman,
- Tomasz Cyran Deputy Chairman,
- Bogusław Stanisław Fiedor,
- Andrzej Kidyba,
- Jacek Poświata,
- Barbara Wertelecka-Kwater

along with the following employee-elected members:

- Józef Czyczerski,
- Leszek Hajdacki,
- Bogusław Szarek Secretary.

Bogusław Stanisław Fiedor, Jacek Poświata, Andrzej Kidyba and Tomasz Cyran have submitted declarations on the fulfilment of independence criteria described in Principle III. 6 of the „Best Practice of GPW Listed Companies".

From 1 January to 31 December 2015 there were no changes in the composition of the Supervisory Board of KGHM Polska Miedź S.A.

On 18 January 2016 the Extraordinary General Meeting passed resolutions regarding changes in the composition of the Supervisory Board of KGHM Polska Miedź S.A.:

- the following persons were dismissed from the composition of the Supervisory Board: Tomasz Cyran, Bogusław Stanisław Fiedor, Andrzej Kidyba, Marcin Moryń, Jacek Poświata, Barbara Wertelecka-Kwater,
- the following persons were appointed to the composition of the Supervisory Board: Radosław Barszcz, Michał Czarnik, Cezary Godziuk, Miłosz Stanisławski, Dominik Hunek, Jarosław Witkowski.

From 18 January 2016 the composition of the Supervisory Board is as follows:

- Dominik Hunek Chairman (since 3 February 2016),
- Radosław Barszcz Deputy Chairman (since 3 February 2016),
- Michał Czarnik,
- Cezary Godziuk,
- Miłosz Stanisławski,
- Jarosław Witkowski

along with the following employee-elected members:

- Józef Czyczerski,
- Leszek Hajdacki,
- Bogusław Szarek Secretary.

The following members of the Supervisory Board of KGHM Polska Miedź S.A submitted declarations on meeting independence criteria, specified in principle no. II.Z.4. of "Best Practice of GPW Listed Companies 2016": Dominik Hunek, Jarosław Witkowski and Michał Czarnik.

Supervisory Board Committees

Within the structure of the Supervisory Board are three committees: the Audit Committee, the Remuneration Committee and the Strategy Committee. The Committees serve in an auxiliary role to the Supervisory Board in the preparation of assessments, opinions and other actions aimed at reaching decisions which must be made by the Supervisory Board.

The Audit Committee is responsible for supervision in the areas of financial reporting, the internal control system, risk management and internal and external audits.

In accordance with the Bylaws of the Supervisory Board the tasks of the Audit Committee are as follows:
- supervision on behalf of the Supervisory Board of the process of financial reporting in the Company, including the process of reporting to the Supervisory Board,
- analysis and/or evaluation of the accounting principles adopted by the Company,
- review of transactions carried out by the Company which the Audit Committee regards as important for the Company,
- analysis and monitoring of the conclusions resulting from control of the risk management processes in the Company,
- conduct of the process of selection of independent auditors to audit the financial statements of the Company in order to recommend the choice made to the Supervisory Board, and participation in the commercial negotiations held prior to the Company's signing of the agreement with the auditor,
- on-going cooperation with the independent auditor of the Company during the audit, analysis, drawing of conclusions from the audit and opinion of the auditor regarding the financial statements, the auditor's letter to the Management Board and/or the Supervisory Board, and the preparation of draft reports and assessments required under the regulations for the Company's bodies or other administrative institutions,
- issuing an opinion on the Company's internal audit plan and on the rules of the internal audit, and on any changes in the position of the internal audit director,
- analysis of the conclusions and recommendations of the Company's internal audit including the monitoring of the degree of implementation of recommendations by the Company's Management Board,
- monitoring of the rules applied in the Company in the areas of accounting, finances and hedging against the trade and financial risk factors and the risk of exposing the Company to serious harm, and
- other tasks ordered by the Supervisory Board.

The following Members of the Supervisory Board served on the Audit Committee of the Supervisory Board of KGHM Polska Miedź S.A. in 2015:

- Bogusław Stanisław Fiedor Committee Chairman,
- Bogusław Szarek Deputy Committee Chairman,
- Tomasz Cyran,
- Leszek Hajdacki.

Since 3 February 2016 the Audit Committee of the Supervisory Board has been composed of the following persons:

- Michał Czarnik Committee Chairman,
- Radosław Barszcz,
- Cezary Godziuk,
- Dominik Hunek,
- Leszek Hajdacki,
- Miłosz Stanisławski,
- Bogusław Szarek,
- Jarosław Witkowski.

The Remuneration Committee is responsible for supervising the performance of the duties set forth in the contracts signed with the Management Board, the remuneration system and benefits paid out in KGHM Polska Miedź S.A. and the Group, training and other benefits provided by the Company, as well as audits performed by the Supervisory Board in this regard.

In accordance with the Bylaws of the Supervisory Board the tasks of the Remuneration Committee are as follows:

- management of the affairs associated with the recruitment and employment of Management Board members by preparing and arranging the draft documents and processes to be submitted for the acceptance by the Supervisory Board,
- preparation of the draft agreements and other model documents in relation to the employment relationship established with the Management Board members and supervision of the execution of contractual obligations of the parties,
- supervision of implementation of the Management Board remuneration system, specifically the preparation of payment documents as regards variable elements and bonus-based remuneration in order to submit recommendations to the Supervisory Board,
- monitoring and periodic analyses of the remuneration system of senior management of the Company and, if necessary, the preparation of recommendations for the Supervisory Board,
- supervision of the proper execution of additional benefits for the Management Board resulting from employment contracts, such as insurance, company cars, apartments, etc., and
- other tasks ordered by the Supervisory Board.

The following Members of the Supervisory Board served on the Remuneration Committee of the Supervisory Board of KGHM Polska Miedź S.A. in 2015:

- Tomasz Cyran Committee Chairman,
- Leszek Hajdacki Deputy Committee Chairman,
- Józef Czyczerski,
- Marcin Moryń,
- Barbara Wertelecka-Kwater.

Since 3 February 2016 the Remuneration Committee of the Supervisory Board has been composed of the following persons:

- Radosław Barszcz Chairman,
- Józef Czyczerski,
- Leszek Hajdacki,
- Dominik Hunek,
- Miłosz Stanisławski.

The Strategy Committee supervises the realisation of Company strategy, the Company's annual and multi-year operating plans, supervising the coherence of these documents, and also provides its opinion to the Supervisory Board on the strategic projects presented by the Management Board of the Company and any changes thereto, as well as on the Company's annual and multi-year operating plans.

In accordance with the Bylaws of the Supervisory Board the tasks of the Strategy Committee are as follows:

- on behalf of the Parent Entity's Supervisory Board, performing tasks related to the supervision of issues associated with the Company's strategy and with the annual and multi-year operating plans of the Company,
- monitoring implementation of the Company's strategy by the Management Board and issuing opinions on the degree to which the existing strategy is able to deal with changes in the actual situation,
- monitoring implementation of the Company's annual and multi-year operating plans by the Management Board, and assessment of whether these plans need to be modified,
- assessment of the conformity of the annual and multi-year operating plans of the Company to the Company's strategy as implemented by the Management Board, and the presentation of any proposed changes in all such Company documents,

- submission to the Company's Supervisory Board of its opinions regarding the draft strategies of the Company and any changes thereto, and regarding the annual and multi-year operating plans of the Company as presented by the Company's Management Board, and
- other tasks ordered by the Supervisory Board.

The following Members of the Supervisory Board served on the Strategy Committee of the Supervisory Board of KGHM Polska Miedź S.A. in 2015:

- Barbara Wertelecka-Kwater Committee Chairwoman,
- Andrzej Kidyba Deputy Committee Chairman,
- Józef Czyczerski,
- Leszek Hajdacki,
- Marcin Moryń,
- Jacek Poświata,
- Bogusław Szarek.

Since 3 February 2016 the Strategy Committee has been composed of the following persons:

- Jarosław Witkowski Chairman,
- Michał Czarnik,
- Józef Czyczerski,
- Cezary Godziuk,
- Leszek Hajdacki,
- Miłosz Stanisławski,
- Bogusław Szarek.

The detailed rights, scope of activities and manner of work of these Committees are described by bylaws approved by the Supervisory Board.

After the end of the year the Audit, Remuneration and Strategy Committees submit reports on their activities to the Supervisory Board.

Management Board

The duties of the Management Board include all matters pertaining to the functioning of the Company which have not been reserved by the Commercial Partnerships and Companies Code and the Statutes of the Company to the duties of General Meeting and Supervisory Board. The detailed description of the Management Board's scope of duties and obligations and the manner in which it functions may be found in the Regulations of the Management Board.

According to the Statutes of the KGHM Polska Miedź S.A. the Management Board is may be composed of 1 to 7 persons, appointed for a mutual term of office. The term of office of the Management Board lasts three consecutive years. The number of members of the Management Board is set by the Supervisory Board, which appoints and dismisses the President of the Management Board, and at his request appoints and dismisses the remaining members of the Management Board, including those serving as First Vice President and as the Vice Presidents of the Management Board, with due regard to §12 sec. 5 and sec. 7 to 12 of the Company Statutes, regarding the appointment and dismissal of an employee-elected member of the Management Board. Members of the Management Board, including any employee-elected member of the Management Board, may be dismissed by the Supervisory Board prior to the completion of their term of office, which does not impair their rights resulting from employment contracts or other legal relationships involving fulfilling their functions as members of the Management Board. The result of elections for an employee-elected member of the Management Board, or the result of voting in the matter of his dismissal, is binding for the Supervisory Board, if at least 50% of the Company's employees took part in the voting for his election or dismissal. The election and dismissal of an employee-elected member of the Management Board requires an absolute majority of the votes cast.

The Management Board operates based on generally prevailing law, the Statutes of the Company and the Regulations of the Management Board of KGHM Polska Miedź S.A. For resolutions of the Management Board to be valid at least two-thirds of the members of the Management Board must be present. Resolutions of the Management Board are usually approved by a simple majority of the votes cast. In the case of a tie vote being cast for a given resolution either for or against, the President of the Management Board casts the deciding vote. A detailed list of the matters requiring a resolution of the Management Board is included in the Regulations of the Management Board of KGHM Polska Miedź S.A. approved by the Supervisory Board.

The authority of the Management Board to pass decisions on the issuance or redemption of shares is statutorily limited. The shares of the Company may be redeemed given shareholder consent through their acquisition by the Company. A resolution of the General Meeting on the redemption of shares may be preceeded by an agreement entered into with a shareholder. In accordance with §29 sec. 1 point 6 of the Statutes of the Company, any increase in share capital or issuance of shares requires the approval of the General Meeting. The same holds true for the issuance of bonds (§29 sec. 1 point 10 of the Statutes of the Company). The Management Board of the Company does not have the authority to increase the share capital or issue the shares of the Company under conditions specified in art. 444-446 of the Commercial Partnerships and Companies Code.

The composition of the 8th-term Management Board and the delegation of duties amongst its Members as at 1 January 2015 was as follows:

- Herbert Wirth President of the Management Board ,

- Jarosław Romanowski First Vice President of the Management Board (Finance),
- Wojciech Kędzia Vice President of the Management Board (Production),
- Jacek Kardela Vice President of the Management Board (Development),
- Marcin Chmielewski Vice President of the Management Board (Corporate Affairs).

On 18 December 2014, Wojciech Kędzia submitted his resignation from the function of Member of the Management Board, effective as at 31 January 2015.

On 18 December 2014, the Supervisory Board appointed, with an effective date of 1 February 2015, Mirosław Laskowski as a Member of the Management Board of KGHM Polska Miedź S.A. in the function of Vice President of the Management Board.

From 1 February the composition of the Management Board was as follows:
- Herbert Wirth President of the Management Board,
- Jarosław Romanowski First Vice President of the Management Board (Finance),
- Marcin Chmielewski Vice President of the Management Board (Corporate Affairs),
- Jacek Kardela Vice President of the Management Board (Development),
- Mirosław Laskowski Vice President of the Management Board (Production).

Due to the conclusion of the 8th-term Management Board, the Supervisory Board appointed as at 17 March 2015 the 9th-term Management Board in the following composition:
- Herbert Wirth President of the Management Board,
- Jarosław Romanowski First Vice President of the Management Board (Finance),
- Marcin Chmielewski Vice President of the Management Board (Corporate Affairs),
- Jacek Kardela Vice President of the Management Board (Development),
- Mirosław Laskowski Vice President of the Management Board (Production).

From 17 March to 31 December 2015 there were no changes in the composition of the Management Board of KGHM Polska Miedź S.A. On 3 February 2016 the Supervisory Board of KGHM Polska Miedź S.A. adopted resolutions regarding changes in the composition of the Management Board of KGHM Polska Miedź S.A.:

- the following persons were dismissed from the Management Board: Herbert Wirth, Jarosław Romanowski, Marcin Chmielewski and Jacek Kardela,
- the following persons were appointed to the Management Board: Krzysztof Skóra, Mirosław Biliński and Jacek Rawecki.

From 3 February 2016 the composition of the Management Board was as follows:
- Krzysztof Skóra –President of the Management Board,
- Mirosław Biliński – Vice President of the Management Board (Development),
- Mirosław Laskowski – Vice President of the Management Board (Production),
- Jacek Rawecki – Vice President of the Management Board (Corporate Affairs).

Subsequently, the Supervisory Board of KGHM Polska Miedź S.A., during the meeting held on 23 February 2016 adopted a resolution appointing Stefan Świątkowski to the composition of the Management Board of KGHM Polska Miedź S.A) as Vice President of the Management Board (Finance).

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".

From 23 February 2016 up to the date of signing this report, the composition of the Management Board was as follows:
- Krzysztof Skóra President of the Management Board,
- Mirosław Biliński Vice President of the Management Board (Development),
- Mirosław Laskowski Vice President of the Management Board (Production),
- Jacek Rawecki Vice President of the Management Board (Supply Chain Management),
- Stefan Świątkowski Vice President of the Management Board (Finance).

Main characteristics of internal control and risk management systems as applied by the Company in the process of preparing separate and consolidated financial statements

The system of internal control and risk management of KGHM Polska Miedź S.A. in the process of preparing financial statements is performed in the following manner:

Supervision of the application of uniform accounting principles by the Parent Entity and the companies of the KGHM Polska Miedź S.A. Group during the process of preparing reporting packets to prepare the consolidated financial statements of the KGHM Polska Miedź S.A. Group.

In order to ensure reliability and accuracy in the keeping of the accounting records of the Parent Entity and the uniformity of the accounting principles applied when preparing the financial statements of Group subsidiaries, the Management Board of the Parent Entity has introduced for continuous use an Accounting Policy for the Group in accordance with International Financial Reporting Standards approved by the European Union which is regularly updated in compliance with new regulations.

Control over the accounting policies applied in the process of preparing the financial statements of KGHM Polska Miedź S.A. and of Group subsidiaries is based on the control mechanisms embedded in the functioning of the reporting systems.

The reporting packets of subsidiaries are also reviewed by appropriate units in the Parent Entity as well as by an independent auditor during the process of reviewing and auditing the consolidated financial statements of the Group.

Centralised financial and accounting services

KGHM Polska Miedź S.A. performs its accounting activities within a centralised financial and accounting services structure. Bookkeeping in the Parent Entity is performed by the Accounting Services Center under the Head Office of KGHM Polska Miedź S.A. The centralisation of accounting services under a model which provides for the transparent breakdown of duties and responsibilities ensures minimisation of the risk of bookkeeping errors and high-quality financial statements.

The accuracy and security of the accounting procedures was confirmed by an external audit aimed at „Assessment of the functioning of the financial and accounting control procedures as a result of the centralisation of these processes". Further actions are being taken aimed at optimising the functioning of the accounting services and enhancing the security of the process of bookkeeping accounting services.

Finance and accounting systems

KGHM Polska Miedź S.A. keeps accounting records in an integrated IT system. The modular structure of this system ensures a transparent segregation of processes and duties, coherence of accounting records and control over ledgers: special purpose ledger, general ledger and subledgers. Access to this data at various levels and in various units is available via a well-developed reporting system. The Parent Entity continuously adapts the IT information system to changing accounting principles or other legal standards. The Parent Entity's solutions are implemented in the systems of Group entities.

To ensure the legitimate utilisation and protection of systems, data, secure access to data and computer equipment, appropriate organisational and systemic solutions have been introduced. Access to the resources of the financial and accounting system, as well as accounting during the process of separate and consolidated financial reporting, is limited to the respective entitlements of authorised employees solely with respect to the duties which they carry out. These entitlements are subject to regular review and audits. As a result of the centralisation of financial and accounting services, an external audit was performed called the „Review of the delegation of responsibilities under the SAP system", which was aimed at eliminating the potential risk of improper delegation of responsibilities and the potential for conflicts between authorised persons. Control over this access is carried out at each stage of financial statements preparation, beginning with the entering of source data, through the processing of data, to the generation of output information.

A key element in limiting the risk of errors and misstatements in accounting for economic activities are the actions taken which are aimed at increasing the use of IT tools to automate control over and the settlement of purchases by the Company. These actions include:

- on-going expansion of the scope of the Workflow system of electronic document settlement and approval,
- implementation of the EDI system for the electronic transmission of data between the system in the Parent Entity and IT systems in Group companies; and
- customer settlement based on e-invoices for procurement and sales.

Corporate risk management

Under the Corporate Risk Management Policy adopted in 2013 and Procedures and the Corporate Risk Committee Rules, corporate risk management is an on-going process in the KGHM Polska Miedź S.A. Group. Risk factors associated with the Group's various operations are continuously identified, assessed and analysed in terms of their possible restriction.

The Corporate Risk Management and Compliance Department is responsible for coordination of the entire corporate risk management process and for developing the methods and tools used by managers in the Parent Entity, its subsidiaries and projects. This Department is responsible for risk monitoring and escalation, and for reporting incidents.

These activities also comprise risk management with respect to the process of preparing the separate financial statements of the Parent Entity and the consolidated financial statements of the Group.

Internal audit

A fundamental element of risk management with respect to the functioning of control mechanisms and the existence of risk in the operations of KGHM Polska Miedź S.A. is the work carried out by the Audit and Internal Control Department. Consequently this work indirectly augments the process of preparing financial statements as well as their accuracy.

The Audit and Internal Control Department carries out its tasks based on the "Integrated Audit and Internal Control Plan" for the given calendar year. This document was developed in conformity with the International Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors and positively opinioned by the Audit Committee of KGHM Polska Miedź S.A.

The goal of internal auditing and internal control is to provide the Management Board and the Audit Committee of the Supervisory Board of KGHM Polska Miedź S.A. with independent and objective information on internal control and risk management systems as well as with analyses of business processes within KGHM Polska Miedź S.A.

Indepedently from internal audit and institutional control, the obligation fully remains in KGHM Polska Miedź S.A. for each employee to exercise selfcontrol in respect of their duties and for every level of management staff to exercise their control as part of their supervisory duties.

External audit

In accordance with prevailing law, KGHM Polska Miedź S.A. submits its separate financial statements and consolidated financial statements for review and auditing by a certified auditor. The Supervisory Board selects the certified auditor through a tender process, based on the recommendations of the Audit Committee and the report on the tender conducted by the Committee. The appropriate entity to audit the separate and consolidated financial statements of KGHM Polska Miedź S.A. for the years 2013-2015 is PricewaterhouseCoopers Sp. z o.o. As part of the audit work performed the certified auditor performs an independent evaluation of the accounting principles applied by Parent Entity in preparing the financial statements and the accuracy and reliability of the separate and consolidated financial statements. The effectiveness of the internal control system and the risk management system in the process of preparing the financial statements is confirmed by the unqualified opinions issued by the certified auditor from its audit of the separate and consolidated financial statements of KGHM Polska Miedź S.A.

Supervision over the process of financial reporting

The body which supervises the process of financial reporting in KGHM Polska Miedź S.A. and which cooperates with the independent auditor is the Audit Committee, which is appointed by the Supervisory Board of the Parent Entity. The Audit Committee, in accordance with its duties as set forth in the Act dated 7 May 2009 on certified auditors and their self-governing body, entities entitled to audit financial statements and on public supervision (Journal of Laws 2009.77.649), in particular:

- monitors the process of financial reporting in terms of compliance with the Accounting Policy approved by the KGHM Polska Miedź S.A. Group and prevailing laws,
- monitors the effectiveness of internal control systems, internal audit and risk management,
- monitors the independence of the certified auditor and of the entity entitled to audit financial statements, and
- conducts the process of selecting the entity entitled to audit financial statements of the Paren Entity to provide a recommedation to the Supervisory Board.

Monitoring of the process of financial reporting and assessment of the financial statements by the Supervisory Board is the final step of the review and control carried out by an independent body, ensuring the reliability and accuracy of the data presented in the separate and consolidated financial statements of KGHM Polska Miedź S.A.

Proper management of the process of keeping records and preparing financial statements ensures the security of the data and the high quality of the information provided.

Information on regulatory filings published after the end of the reporting period – to the date of signing of the annual financial statements

Results of the Feasibility Study update on the Ajax project in Canada (13 January 2016)

On 13 January 2016, the Company announced the completion of work on the updated Feasibility Study for the Ajax project, owned by the joint venture company KGHM Ajax Mining Inc. The updated Feasibility Study supersedes the earlier version dated 6 January 2012, the results of which were announced by the Company in regulatory filing no. 45/2011 dated 21 December 2011. Detailed information on this project may by found in section 2.3.

Changes in the Supervisory Board of the Company (18 January 2016)

On 18 January 2016, the Extraordinary General Meeting of KGHM Polska Miedź S.A. 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 and 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 and Jarosław Witkowski.

Changes in the composition of the Management Board of the Company (3 February 2016)

On 3 February 2016, the Supervisory Board of KGHM Polska Miedź S.A. 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 and Vice President of the Management Board Jacek Kardela.

Simultaneously, on the same day, the Supervisory Board of KGHM Polska Miedź S.A. appointed the following persons to the 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 Biliński;
- as Vice President of the Management Board (Corporate Affairs) – Jacek Rawecki.

Information on the results of the conducted tests for impairment (8 February 2016, 2 March 2016)

On 8 February 2016, the Company announced that primary work related to testing for impairment of the carrying amount of assets in accordance with IAS 36 had been completed and subsequently, on 2 March 2016 that the testing performed had been updated. Detailed information on this subject may by found in part 3 of the Financial Statements.

Changes in the composition of the Management Board of the Company (23 February 2016)

On 23 February 2016, the Supervisory Board of KGHM Polska Miedź S.A. appointed Stefan Świątkowski to the Management Board of the KGHM Polska Miedź S.A. as a Vice President of the Management Board (Finance).

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 the Management Board of KGHM Polska Miedź S.A. (Corporate Affairs), from "Corporate Affairs" to "Supply Chain Management".

Significant commercial contract (11 March 2016)

On 11 March 2016, the Company signed an annex to the contract dated 28 April 2014 with the nkt cables group GmbH for the sale of copper wire rod. The signed annex relates to the sale of copper wire rod in 2016.

As a result of signing this annex, the total estimated value of contract for the sale of copper wire rod in years 2014-2016 exceeds 10% of the Company's equity and amounts from PLN 3 342 million to PLN 3 441 million depending on the usage of quantitative option. The value of contract was calculated based on the actual realisation of supplies in years 2014-2015, and on the forward copper prices curve from 10 March 2016 and the average USD/PLN and EUR/USD exchange rates according to NBP from 10 March 2016 in relation to supplies for 2016. The contract provides the possibility of prolonging it for year 2017.

The following regulatory filings were also published:

- publication dates for periodic reports in 2016 (8 January 2016),
- resolutions adopted by the Extraordinary General Meeting of KGHM Polska Miedź S.A. (18 January 2016),
- shareholders holding at least 5% of the votes at the Extraordinary General Meeting on 18 January 2016 (19 January 2016),
- information on Members of the Supervisory Board appointed on 18 January 2016 (22 January 2016),
- information on Members of the Management Board of KGHM Polska Miedź S.A. appointed by the Supervisory Board of the Company on 3 February 2016 and 23 February 2016 (11 February 2016 and 26 February 2016)

Methodology of calculating ratios

Liquidity ratios

$$\text{Current liquidity} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Quick liquidity} = \frac{\text{Current assets - Inventories}}{\text{Current liabilities}}$$

Profitability ratios

$$\text{Return on assets (ROA)} = \frac{\text{Profit/(loss) for the period}}{\text{Total assets}} \times 100$$

$$\text{Return on equity (ROE)} = \frac{\text{Profit/(loss) for the period}}{\text{Equity}} \times 100$$

Financing ratios

$$\text{Debt ratio} = \frac{\text{Long and short term liabilities}}{\text{Equity and liabilities}} \times 100$$

$$\text{Durability of financing structure} = \frac{\text{Equity + Long term liabilities}}{\text{Equity and liabilities}} \times 100$$

$$\text{Net debt / Adjusted EBITDA} = \frac{\text{Liabilities due to borrowings – Free cash and cash equivalents}}{\text{Profit/(loss) on sales + Depreciation/amortisation + Impairment loss recognised/reversal of impairment losses on non-current assets}}$$

Capital market ratios

$$\text{EPS} = \frac{\text{Profit/(loss) for the period}}{\text{Number of issued shares}}$$

$$\text{MC/S} = \frac{\text{Price per share} \times \text{Number of issued shares}}{\text{Sales revenue}}$$

$$\text{P/BV} = \frac{\text{Price per share}}{\text{Equity per share}}$$

List of tables, charts and diagrams

Tables

Charts

Diagrams

Useful terms and abbreviations

Adjusted EBITDA	EBITDA adjusted by Impairment losses/Reversals of impairment losses recognised in cost of sales, selling costs and administrative expenses
Barren rock	Rock which accompanies the extraction of mineral ore and, due to its lack of minerals in sufficient quantities, is not considered as useful.
BAT	Best Available Technique, as defined in Directive 96/61/EC, means the most effective and advanced stage in the development of activities and their methods of operation which indicate the practical suitability of particular techniques for providing in principle the basis for emission limit values designed to prevent and, where that is not practicable, generally to reduce emissions and the impact on the environment as a whole.
BREF	"BAT REFerence document", the reference document of best available techniques (BAT)
Copper cathodes	The basic form of electrolytically-refined copper; the product of electrolytic copper refining.
Copper concentrate	The product of enriching or concentrating low-grade copper ore.
Copper equivalent	Total volume of production of all metals calculated to copper based on market prices.
Copper wire rod	Drawn copper rod, usually with a diameter of 6-12 mm, universally used as a starting material in the cable industry.
Deposit	Natural collection of minerals in the earth, arising as a result of various geological processes.
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization – profit/(loss) on sales plus depreciation/amortisation
Electrolytic copper	The product of electrolytic copper refining.
Electrolytic copper refining technology	A process involving the electrolytic refining of metal, in this case copper. The periodic removal of portions of the electrolite is required to maintain the level of contaminates at an acceptable level, which is the one of decisive factors determining the quality of electrolytically-refined copper. The contaminated electrolyte and slimes are used as the raw material in the recovery of some of the metals accompanying the copper, such as silver, gold, selenium and nickel.
Electrorefining	The process of electrolising dissoluble anodes which are produced from refineable alloys. During this process refined metal is collected on starter sheets under controlled conditions, while contaminants remain in the electrolyte as solids or liquid.
Flotation (ore enrichment)	A stage in the process of breaking down ore into fragments of varying composition of useful elements which exploits differences in the degree of wettability of individual mineral grains. Well-wetted minerals fall to the bottom of the flotation tank, while the poorly-wetted grains (those whose wettability decreases due to the action of so-called collecting agents, e.g. xanthates) collect at the surface of the froth created from froth-inducing agents.
Flotation tailings	Waste remaining after the ore enrichment process; can be utilised or stored.
ISO	International Organization for Standarization.
LTIFR	Lost-time injury frequency rate – number of accidents per million worked hours.
Mine excavation	Open area (above-ground open-pit or underground gallery) left after the excavation of soil, rock and ore from the surface of the earth.
Muck	Rock removed from a mine face. Contains both ore and barren rock.
NBP	National Bank of Poland
Net debt	Borrowings less free cash and cash equivalents
OFE rod	Oxygen-free copper wire rod produced at the Cedynia wire rod plant using UPCAST technology
Ore	Rock which contains one or more useful elements. Ore can be monometallic (containing a single metal) or polymetallic (containing more than one metal).
Pillar (mining)	An unremoved mass of rock in an underground mine used to support the ceiling against collapse.
REACH	Registration, Evaluation, Authorisation and Restriction of Chemicals - decree issued by the European Parliament and the European Council on the safe use of chemicals through their registration and evaluation,

	and in certain cases through the issuance of permits and restrictions in the sale and use of certain chemicals
Silver smelting and electrolytic refining technology	Comprised of: batch preparation (the mixture of batch elements followed by drying); the smelting of Doré metal and the casting of anodes (melting of the batch in a Kaldo furnace to remove slag or gasify impurities followed by casting of the product [99% silver] into anodes); silver electrorefining (forming into cathodes containing a min. 99.99% Ag); melting in an electric induction furnace and the casting of refined silver into commercial form (billets or granules).
Troy ounce (oz t)	A unit of measure mainly used in English-speaking countries. The troy ounce (abbreviated as oz t) is universally used in jewellery and precious metals commerce. 1 troy ounce equals 31.1035 grams.
YoY	year on year, i.e. comparison between one year and the next year

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	First, Last name	Position/Function	Signature
15 March 2016	Krzysztof Skóra	President of the Management Board	
15 March 2016	Mirosław Biliński	Vice President of the Management Board	
15 March 2016	Mirosław Laskowski	Vice President of the Management Board	
15 March 2016	Jacek Rawecki	Vice President of the Management Board	
15 March 2016	Stefan Świątkowski	Vice President of the Management Board	