POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated annual report RS 2017

(in accordance with § 82 sec. 2 of the Decree regarding current and periodic information)

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

for the financial year **2017** comprising the period from **1 January 2017** to **31 December 2017** containing the consolidated financial statements according to International Financial Reporting Standards in PLN.

publication date: 14 March 2018

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

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

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

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(auditing company)

	SELECTED FINANCIAL DATA	in PLN mn		in EUR mn	
		2017	2016	2017	2016
I.	Sales revenue	20 358	19 156	4 796	4 378
II.	Profit on sales	3 811	2 544	898	581
III.	Profit/(loss) before income tax	2 299	(3 801)	542	(869)
IV.	Profit/(loss) for the period	1 525	(4 449)	359	(1 017)
V.	Profit/(loss) for the period attributable to shareholders of the Parent Entity	1 568	(4 371)	369	(999)
VI.	Profit/(loss) for the period attributable to non-controlling interest	(43)	(78)	(10)	(18)
VII.	Other comprehensive net income	548	239	129	55
VIII.	Total comprehensive income	2 073	(4 210)	488	(962)
IX.	Total comprehensive income attributable to shareholders of the Parent Entity	2 120	(4 142)	499	(946)
X.	Total comprehensive income attributable to non-controlling interest	(47)	(68)	(11)	(16)
XI.	Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
XII.	Earnings per ordinary share (in PLN/EUR) attributable to shareholders of the Parent Entity	7.84	(21.86)	1.85	(5.00)
XIII.	Net cash generated from operating activities	3 054	4 212	719	963
XIV.	Net cash used in investing activities	(3 340)	(3 948)	(787)	(902)
XV.	Net cash generated from financing activities	18	133	4	30
XVI.	Total net cash flow	(268)	397	(64)	91
XVII.	Non-current assets	26 515	27 202	6 357	6 149
XVIII.	Current assets	7 607	6 240	1 824	1 410
XIX.	Total assets	34 122	33 442	8 181	7 559
XX.	Non-current liabilities	10 878	11 665	2 608	2 637
XXI.	Current liabilities	5 459	5 866	1 309	1 326
XXII.	Equity	17 785	15 911	4 264	3 596
XXIII.	Equity attributable to shareholders of the Parent Entity	17 694	15 772	4 242	3 565
XXIV.	Equity attributable to non-controlling interest	91	139	22	31

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

	2017	2016
Average exchange rate for the period*	4.2447	4.3757
Exchange rate at the end of the period	4.1709	4.4240

**Exchange rates are arithmetical average of the current average exchange rates announced by the National Bank of Poland on the last day of each month respectively of 2017 and 2016*

Polish Financial Supervision Authority

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.

CONSOLIDATED ANNUAL REPORT RS 2017 COMPRISES:

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Lubin, March 2018

PRESIDENT’S LETTER

Lubin, March 2018

Dear Stakeholders,

The time has come to sum up the past year, which in accordance with the announcements of the Management Board of KGHM Polska Miedź S.A. was a period of strenuous efforts by all employees, regardless of their geographic location.

Although we are an international corporation, we remember the strong roots of KGHM, which grow in Lower Silesia in Poland. In 2017 we celebrated the 60th anniversary of the discovery of the copper ore deposit by the geologist Jan Wyżykowski. This discovery was a historic event for the nation's economy and became an engine driving development of both the region and the country. We are grateful to him not only for the founding of KGHM Polska Miedź S.A., but also for the position which Poland gained amongst copper's giants.

In the past year, we also celebrated the Company's 20th anniversary on the Warsaw Stock Exchange. Our great debut on the WSE was preceded by our unprecedented transformation from an enterprise functioning within a centrally-planned economy to that of a profitable company operating under free market conditions. A single share of KGHM on the opening session cost PLN 23.50, whereas two decades later the value ranged around PLN 110. In the past year the shares of KGHM recorded a nearly +20% increase in value in PLN thanks to more favourable macroeconomic conditions. We are one of the largest companies listed on the WSE and one of the most strategically important for the Polish economy.

Following 2016, which was a difficult year for the mining sector, 2017 brought a substantial upturn to the world's economy, which was also evident in the prices of metals. Under a wave of synchronised economic growth in many regions of the world, the price of copper on the London Metal Exchange in 2017 systematically rose. This rise was aided by the depreciation of the American dollar since the beginning of the previous year. In the end, the metals market recorded an increase in the prices of copper and molybdenum respectively by +27% and +26% yoy. The average price of copper in PLN in 2017 reached its highest level since 2012.

Given the volatile macroeconomic environment, as well as the dynamic changes in the mining–metallurgical non-ferrous metals sector, achievement of the Company's business strategy as outlined in 2015 proved to be impossible. Because of this, the Management Board of KGHM adopted a new Strategy for the years 2017-2021 with an outlook to 2040. We have rationalised the 5-year investment plan. Planned capital and equity expenditures for the whole Group will amount to PLN 15 billion. Our goal is to achieve EBITDA of PLN 7 billion in 2021 and an EBITDA margin for the Group on average above 20%. We want to maintain stable production and costs guaranteeing financial security. The long-term functioning of KGHM and the Group is the priority of this Management Board.

In 2017, production of payable copper by the Group decreased by -3% yoy, from 677 thousand tonnes to 656 thousand tonnes. Amongst the reasons for the decrease in production from own concentrate in Poland by -4.5% were the breakdown at the Głogów 1 Copper Smelter and Refinery and the delay in commissioning the concentrate roasting installation.

Production of payable copper by the segment KGHM International was lower by -10%, while the Sierra Gorda mine recorded an increase by +3.7%. The observable increase in silver production by +2% was mainly thanks to the plants in Poland. Molybdenum production jumped by +61.5%, which in particular was the result of substantial improvement in the process of production by Sierra Gorda.

Despite the weakening of the USD by -4% versus the PLN, sales revenue of the KGHM Group increased by +6%, from PLN 19.2 billion to PLN 20.4 billion thanks to higher copper prices, though sales volumes were lower.

We maintained a stable level of cost of sales, selling costs and administrative expenses. Adjusted EBITDA increased by +23% to PLN 5.8 billion. Profit on sales leaped by 50%, from PLN 2.5 billion to PLN 3.8 billion. Profit for the period amounted to PLN 1.5 billion compared to a loss of PLN 4.4 billion in 2016, which was caused by impairment losses on assets. We achieved higher-than-planned results with respect to KGHMI, including the Sierra Gorda mine, while reducing the level of the Company's equity investments in international assets by half. Net debt to EBITDA was at the safe level of 1.3 at the end of 2017. We maintained a stable balance sheet.

The Management Board of KGHM places particular emphasis on questions related to occupational health and safety. We have introduced high OHS standards, which are binding for the employees of KGHM as well as for entities engaged in work on our premises. We are satisfied with the significant improvement in the LTIFR ratio in KGHM by 18% compared to 2016 and by 44% compared to 2010. Moreover, in KGHMI the TRIR ratio improved by 11% compared to 2016 and by 74% compared to 2010.

Intensive work on the Sierra Gorda mine led to improved production results. We raised the efficiency and stability both of the mine's production process and processing plant. We achieved historic levels of monthly recoveries with respect to molybdenum production. We are working to increase average daily ore processing from the current level of 110 thousand tonnes to around 130 thousand tonnes, and as a result higher copper production in the coming years.

The green light for the Legnica Smelter/Refinery means a new direction for the development of the electrorefining process in KGHM. Thanks to the construction of an RRR (revolving-reverberating-refining) furnace for processing copper scrap, the Plant's production capacity will increase by +40% by the end of 2020. The change in technology will also result in greater efficiency and a lower unit production cost. The two-stage investment amounting to around PLN 240 million will ensure the full production capacity of the Legnica Smelter/Refinery.

KGHM Polska Miedź S.A. is guided by the vision of long-term, stable operations, based on the precepts of sustainable growth. Having access to resources and their sustainable use is a value that will be continuously cultivated in order to ensure the multi-year, uninterrupted operations. Since the beginning of its operations, KGHM Polska Miedź S.A. has contributed to the future of coming generations. The broadly understood development of the region, creation of an attractive labour market and taking care of the environment is the unequivocal testimony of the Company's responsibility towards society. Today, the Company is strongly embedded in the consciousness of several generations and is an integral part of their lives.

I hereby wish to thank our employees for their daily efforts and undiminished commitment to develop the Company and the Group. I also express my thanks to the shareholders of KGHM, as well as to our customers for the trust you have shown in us. I also wish to thank our local communities for their neighbourliness and their mutual care for the good of the regions in which we operate.

I hereby present the Annual Report of the Company and of the KGHM Polska Miedź Group for 2017. I also encourage you to review the Non-Financial Report of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group for 2017.

Respectfully yours

Rafał Pawełczak
President of the Management Board
KGHM Polska Miedź S.A.

Lubin, 13 March 2018

AUDITOR’S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2017

Lubin, March 2018

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AUDITOR'S REPORT

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

Auditor's report

We have audited the attached annual consolidated financial statements of the KGHM Polska Miedź S.A.
Capital Group (hereinafter: "Capital Group"), for which KGHM Polska Miedź S.A. (hereinafter: "Parent Company") is the Parent Company, comprising: a consolidated statement of financial position prepared as at 31 December 2017, consolidated statement of profit and loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows prepared for the financial year from 1 January 2017 to 31 December 2017 and notes comprising a summary of significant accounting policies and other explanatory information (hereinafter: "consolidated financial statements").

Responsibility of the Parent Company's manager and those charged with governance for the consolidated financial statements

The Management Board of the Parent Company is obliged to prepare the consolidated financial statements and to present them fairly in line with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and other applicable laws as well as the Parent Company's articles of association. The Management Board of the Parent Company is also responsible for ensuring internal control necessary for the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Under the Accounting Act, the Management Board of the Parent Company and members of its Supervisory Board are obliged to ensure that the consolidated financial statements meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2018, item 395), hereinafter referred to as the "Accounting Act".

Auditor's responsibility

Our responsibility was to express an opinion whether the consolidated financial statements give a true and fair view of the financial and economic position as well as the financial performance of the Capital Group in line with the applicable International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and the adopted accounting principles (policies).

Our audit of the consolidated financial statements has been performed in accordance with:

1) the Act on statutory auditors, auditing companies and public oversight of 11 May 2017 (Journal of Laws of 2017, item 1089) ("*Act on statutory auditors*");

2) National Auditing Standards in the wording of the International Standards on Auditing adopted by resolution No. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015, as amended;

3) Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (OJ EU L 158, 27 May 2014, p. 77 and OJ EU L 170, 11 June 2014, p. 66) ("*Regulation 537/2014*").

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

The objective of the audit is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the consolidated financial statements.

The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Parent Company's preparation and fair presentation of the consolidated 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management Board of the Parent Company, as well as evaluating the overall presentation of the consolidated financial statements.

The scope of the audit does not include an assurance regarding the future profitability of the audited Capital Group or the effectiveness of the Parent Company's Management Board in managing the Capital Group's affairs at present and in future.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The audit opinion is consistent with the additional report to the Audit Committee issued as of the date of this auditor's report.

Independence

During the audit the key certified auditor and the audit firm remained independent of the audited members of the Capital Group in accordance with the provisions of the Act on statutory auditors, Regulation 537/2014 and the ethical requirements set out in resolution of the National Council of Statutory Auditors.

We certify that, to the best of our knowledge and belief, we have not provided non-audit services, which are prohibited under Article 136 of the Act on statutory auditors and Article 5 sec. 1 of Regulation 537/2014, to the entities that belong to the Capital Group.

Choice of audit firm

We were appointed to audit the consolidated financial statements of the Capital Group by resolution 23/IX/16 of Supervisory Board adopted on 5 April 2016. We have been auditing the consolidated financial statements of the Capital Group for an uninterrupted period beginning with the financial year ended 2016, i.e. for two consecutive financial years.

Most significant risks

During the audit we identified the following, most significant risks of material misstatement, also resulting from fraud, and we designed audit procedures responsive to those risks. Where deemed appropriate for the understanding of the identified risks and the audit procedures performed by the auditor, we also included the most important findings related to those risks.

Risk of material misstatement — description	**Procedures applied by the auditor in response to the identified risk and key observations made on specific types of risk**
Impairment testing of assets In part 3 of the consolidated financial statements for the year 2017 the Capital Group has presented information about the impairment testing of the assets of the KGHM INTERNATIONAL LTD. Group, including the basis macroeconomic assumptions, other key assumptions made to estimate the fair value of assets of cash-generating units (CGU) and the results of the test. The Management Board of the Parent Company, in line with IFRS, evaluates the indications of impairment as at the end of every financial year. If there are indications of impairment, the Management Board of the Parent Company tests assets for impairment. The tests involve judgements as regards e.g. the adopted calculation methods as well as the need for a range of various assumptions. As a result of the tests, the total net impairment loss for Sudbury and KGHM Ajax Mining Inc. CGUs was PLN 645,1 million and for Robinson CGU a reversal of an impairment loss of PLN 341,2 million was recognised. We have analysed the impairment test due to the materiality of the item in the consolidated financial statements and the complexity of the issue and sensitivity of the results of the impairment test on the assumptions.	In particular, our audit procedures included: • an analysis and assessment of the procedure of identification of indications of the impairment of assets and the correctness of the method applied to the test in line with relevant standards of financial reporting; • verification of the mathematical correctness and methodological consistency of the evaluation model adopted by the Management Board of the Parent Company; • a critical assessment of the assumptions and estimates made by the Management Board of the Parent Company. The key assumptions underlying the tests were made as regards the projected prices of raw materials, including copper, as well as the discount rates applied to specific production assets and projects which are not yet operational. The evaluation was made by local internal specialists; • an analysis of the cash flow projections and their comparison with a mine life cycle and available operational plans; • verification of the correctness and completeness of disclosures as regards the impairment tests in the financial statements.

Recognition of sales revenue in a correct reporting period In part 2 of the consolidated financial statements for the year 2017 the Group presented information about sales revenue by the range of products and by the location of end users. The Capital Group sells goods and products using various terms and conditions of deliveries (Incoterms) and resulting various points of transfer risk and rewards on the counterparty. Financial closing involves verification of every open selling position. We have analysed the correctness of recognition of sales revenue over the period due to the materiality of the item in the consolidated financial statements and the exposure to the risk of deliberate misstatement.	• In particular, our audit procedures included: • understanding and evaluation of the internal control environment with respect to the system used to reflect the terms and conditions of transactions (Incoterms) in connection with revenue recognition and identification of the right moment of recognition of the transfer of risk and rewards; • evaluation of the correctness, based on a sample of transactions concluded as at the end of one year and beginning of another year, of recognition of sales in the right reporting period, in line with the transfer of risk and rewards on the counterparty in line with the terms and conditions of the delivery; • evaluation of the disclosures as regards the policy of recognition and presentation of sales revenue.

Opinion

In our opinion, the attached annual consolidated financial statements:

– give a true and fair view of the economic and financial position of the Capital Group as at 31 December 2017 and its financial performance during the financial year from 1 January 2017 to 31 December 2017, in accordance with the applicable International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and the adopted accounting principles (policies);

– comply, with respect to their form and content, with the applicable provisions of law, including the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required under the law of a non-member state (Journal of Laws of 2014, item 133, as amended) and the articles of association of the Parent Company.

Report on other legal and regulatory requirements

Opinion on the report on the activities

We do not express an opinion on the report on the activities of the Capital Group.

It is the responsibility of the Management Board of the Parent Company to prepare the report on the activities of the Capital Group in accordance with the Accounting Act and other applicable laws. The Management Board of the Parent Company and members of the Supervisory Board are also obliged to ensure that the report on the activities of the Capital Group meets the requirements of the Accounting Act.

Under the act on statutory auditors we were obliged to issue an opinion as to whether the report on the activities of the Capital Group complies with the provisions of law and is consistent with underlying information disclosed in the attached consolidated financial statements. Additionally, it was our responsibility to indicate whether we have detected any material misstatement in the report on the activities of the Capital Group based on our knowledge of the Capital Group and its business environment obtained in the course of the audit and to explain the nature of each such material misstatement.

In our opinion, the report on the activities of the Capital Group has been prepared in line with the applicable provisions of law and is consistent with the underlying information disclosed in the attached consolidated financial statements. Furthermore, based on our knowledge of the Capital Group and its business environment obtained in the course of the audit we believe that the report on the activities of the Capital Group is free from material misstatement.

Opinion on the statement of compliance with corporate governance principles

The Management Board of the Parent Company and members of the Supervisory Board are responsible for compliance with corporate governance principles in line with the provisions of law.

As the auditors of the consolidated financial statements we were obliged — under the act on statutory auditors — to issue an opinion as to whether the issuer, required to submit a statement of compliance with corporate governance principles, which constitutes a separate part of the report on the activities, included in such statement the legally required information and — with respect to specific information so required or required by other rules — a declaration whether it complies with applicable regulations and is consistent with the information included in the annual consolidated financial statements.

In our opinion, the statement of compliance with corporate governance principles includes information specified in Article 91 sec. 5 point 4 letters a, b, g, j, k and l of the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required under the law of a non-member state (Journal of Laws of 2014, item 133, as amended) ("Ordinance"). The information specified in Article 91 sec. 5 point 4 letters c-f, h and i of the Ordinance given in the statement of compliance with corporate governance principles is consistent with the applicable provisions of law and the information presented in the annual consolidated financial statements.

Information about the non-financial statement

In accordance with the requirements of the Act on statutory auditors, we would like to inform you that the Parent Company's report on the activities of the Capital Group includes information about preparation of a separate non-financial report, referred to in Article 49b sec. 9 of the Accounting Act, and that the Parent Company has prepared such a separate report.

We have not performed any assurance works as regards the separate non-financial report and we do not express any assurance regarding that statement.

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

Adrian Karaś
Key certified auditor
No. 12194

Warsaw, 13 March 2018

This Report is an English version of the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

DECLARATIONS BY THE MANAGEMENT BOARD

Lubin, March 2018

DECLARATIONS BY THE MANAGEMENT BOARD

DECLARATION BY THE MANAGEMENT BOARD OF KGHM POLSKA MIEDŹ S.A. ON THE ACCURACY OF THE PREPARED FINANCIAL STATEMENTS

The Management Board of KGHM Polska Miedź S.A. declares that according to its best judgement the annual consolidated financial statements for 2017 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 the KGHM Polska Miedź S.A. Group and the profit for the period of the Group.
The Management Board's report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2017 presents a true picture of the development and achievements, as well as the condition, of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group, including a description of the basic exposures and risks.

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

The entity authorised to audit financial statements which audited the annual consolidated financial statements for 2017 was appointed in compliance with the law. The entity as well as the certified auditors performing the audit fulfilled the terms required to issue an audit report, in line with the binding regulations of the law and professional standards.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last Name**	**Position / Function**	**Signature**
13 March 2018	Rafał Pawełczak	President of the Management Board	
13 March 2018	Ryszard Jaśkowski	Vice President of the Management Board	
13 March 2018	Stefan Świątkowski	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last Name**	**Position / Function**	**Signature**
13 March 2018	Łukasz Stelmach	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A	

CONSOLIDATED FINANCIAL STATEMENTS FOR 2017

Lubin, March 2018

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		2017	2016
Note 2.3	Sales revenue	20 358	19 156
Note 4.1	Cost of sales	(15 204)	(15 242)
	Gross profit	**5 154**	**3 914**
Note 4.1	Selling costs and administrative expenses	(1 343)	(1 370)
	Profit on sales	**3 811**	**2 544**
Note 6.1	Share of losses of joint ventures accounted for using the equity method	(474)	(1 200)
Note 6.2	Allowance for impairment of loans granted to joint ventures	-	(4 394)
Note 6.2	Interest on loans granted to joint ventures	319	633
	Profit or loss on involvement in joint ventures	(155)	(4 961)
Note 4.2	Other operating income and (costs)	(2 377)	(802)
Note 4.3	Finance income and (costs)	1 020	(582)
	Profit/(loss) before income tax	**2 299**	**(3 801)**
Note 5.1	Income tax expense	(774)	(648)
	PROFIT/(LOSS) FOR THE PERIOD	**1 525**	**(4 449)**
	Profit/(loss) for the period attributable to:		
	Shareholders of the Parent Entity	1 568	(4 371)
	Non-controlling interest	(43)	(78)
	Weighted average number of ordinary shares (million)	**200**	**200**
	Basic/diluted earnings per share (in PLN)	**7.84**	**(21.86)**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		2017	2016
	Profit/(loss) for the period	**1 525**	**(4 449)**
Note 8.2.2	Measurement of hedging instruments net of the tax effect	308	(134)
Note 8.2.2	Measurement of available-for-sale financial assets net of the tax effect	33	15
	Exchange differences from translation of foreign operations statements with a functional currency other than PLN	316	268
	Other comprehensive income, which will be reclassified to profit or loss	**657**	**149**
	Actuarial (losses)/gains net of the tax effect	(109)	90
	Other comprehensive income which will not be reclassified to profit or loss	**(109)**	**90**
	Total other comprehensive net income	**548**	**239**
	TOTAL COMPREHENSIVE INCOME	**2 073**	**(4 210)**
	Total comprehensive income attributable to:		
	Shareholders of the Parent Entity	2 120	(4 142)
	Non-controlling interest	(47)	(68)

in PLN millions, unless otherwise stated

CONSOLIDATED STATEMENT OF CASH FLOWS

		2017	2016
	Cash flow from operating activities		
	Profit/(loss) before income tax	2 299	(3 801)
Note 9.3	Depreciation/amortisation recognised in profit or loss	1 609	1 698
Note 6.1	Share of losses of joint ventures accounted for using the equity method	474	1 200
Note 4.4	Allowance for impairment of loans granted to joint ventures	-	4 394
Note 6.2	Interest on loans granted to joint ventures	(319)	(633)
	Interest and other costs of borrowings	148	152
Note 4.4	Other impairment losses/(reversal) of impairment loss on non-current assets	503	1 532
	Exchange differences, of which:	210	(138)
	from investment activities and cash	1 461	(539)
	from financing activities	(1 251)	401
	Write-off of unmatured tax liabilities in other operating income	-	(185)
	Change in provisions	(25)	69
	Change in derivatives	202	(6)
Note 12.9	Other adjustments	(68)	55
	Exclusions of income and costs, total	2 734	8 138
	Income tax paid	(983)	(451)
Note 10.4	Changes in working capital	(996)	326
	Net cash generated from operating activities	**3 054**	**4 212**
	Cash flow from investing activities		
Note 9.1.3	Expenditures on mining and metallurgical assets	(2 527)	(3 032)
	Expenditures on other property, plant and equipment and intangible assets	(269)	(219)
Note 6.1	Acquisition of newly-issued shares of joint ventures	(461)	(671)
	Other expenses	(123)	(72)
	Total expenses	(3 380)	(3 994)
	Proceeds	40	46
	Net cash used in investing activities	**(3 340)**	**(3 948)**
	Cash flow from financing activities		
	Proceeds from borrowings	2 442	3 266
	Other proceeds	6	21
	Total proceeds	2 448	3 287
	Repayments of borrowings	(2 072)	(2 701)
Note 12.2	Dividends paid to shareholders of the Parent Entity	(200)	(300)
	Interest paid and other costs of borrowings	(157)	(144)
	Other	(1)	(9)
	Total expenses	(2 430)	(3 154)
	Net cash generated from financing activities	**18**	**133**
	TOTAL NET CASH FLOW	**(268)**	**397**
	Exchange gains/(losses)	(6)	2
	Cash and cash equivalents at beginning of the period	860	**461**
Note 8.5	**Cash and cash equivalents at end of the period**	**586**	**860**

in PLN millions, unless otherwise stated

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		2017	2016
	ASSETS		
	Mining and metallurgical property, plant and equipment	16 296	15 217
	Mining and metallurgical intangible assets	1 447	2 474
Note 9.1	Mining and metallurgical property, plant and equipment and intangible assets	17 743	17 691
	Other property, plant and equipment	2 679	2 591
	Other intangible assets	209	208
Note 9.2	Other property, plant and equipment and intangible assets	2 888	2 799
Note 6.1	Joint ventures accounted for using the equity method	8	27
Note 6.2	Loans granted to joint ventures	3 889	4 313
	Total involvement in joint ventures	3 897	4 340
Note 7.1	Derivatives	110	237
Note 7.1	Other financial instruments measured at fair value	614	577
Note 7.4	Other financial assets	762	930
	Financial instruments, total	1 486	1 744
Note 5.1.1	Deferred tax assets	389	511
Note 12.3	Other assets	112	117
	Non-current assets	**26 515**	**27 202**
Note 10.1	Inventories	4 562	3 497
Note 10.2	Trade receivables	1 522	1 292
Note 5.3	Tax assets	277	267
Note 7.1	Derivatives	196	72
Note 12.3	Other assets	464	252
Note 8.5	Cash and cash equivalents	586	860
	Current assets	**7 607**	**6 240**
	EQUITY AND LIABILITIES	**34 122**	**33 442**
Note 8.2.1	Share capital	2 000	2 000
Note 8.2.2	Other reserves from measurement of financial instruments	158	(183)
Note 8.2.2	Accumulated other comprehensive income	2 427	2 216
Note 8.2.2	Retained earnings	13 109	11 739
	Equity attributable to shareholders of the Parent Entity	17 694	15 772
	Equity attributable to non-controlling interest	91	139
	Equity	**17 785**	**15 911**
Note 8.4.1	Borrowings	6 191	6 539
Note 7.1	Derivatives	208	256
Note 11.1	Employee benefits liabilities	2 063	1 860
Note 9.4	Provisions for decommissioning costs of mines and other facilities	1 351	1 487
Note 5.1.1	Deferred tax liabilities	347	563
Note 12.4	Other liabilities	718	960
	Non-current liabilities	10 878	11 665
Note 8.4.1	Borrowings	965	1 559
Note 7.1	Derivatives	110	215
Note 10.3	Trade payables	1 823	1 433
Note 11.1	Employee benefits liabilities	842	787
Note 5.3	Tax liabilities	630	786
Note 12.4	Other liabilities	1 089	1 086
	Current liabilities	5 459	5 866
	Non-current and current liabilities	**16 337**	**17 531**
		34 122	**33 442**

in PLN millions, unless otherwise stated

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Equity attributable to shareholders of the Parent Entity						
		Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings	Total	Equity attributable to non-controlling interest	Total equity
	As at 1 January 2016	**2 000**	**(64)**	**1 868**	**16 407**	**20 211**	**203**	**20 414**
Note 12.2	Dividend	-	-	-	(300)	**(300)**	-	**(300)**
	Transactions with non-controlling interest	-	-	-	3	**3**	4	**7**
	Transactions with owners	-	-	-	(297)	(297)	4	(293)
	Loss for the period	-	-	-	(4 371)	**(4 371)**	(78)	**(4 449)**
Note 8.2.2	Other comprehensive income	-	(119)	348	-	**229**	10	**239**
	Total comprehensive income	-	(119)	348	(4 371)	(4 142)	(68)	(4 210)
	As at 31 December 2016	**2 000**	**(183)**	**2 216**	**11 739**	**15 772**	**139**	**15 911**
Note 12.2	Dividend	-	-	-	(200)	**(200)**	-	**(200)**
	Transactions with non-controlling interest	-	-	-	2	**2**	(1)	**1**
	Transactions with owners	-	-	-	(198)	(198)	(1)	(199)
	Profit for the period	-	-	-	1 568	**1 568**	(43)	**1 525**
Note 8.2.2	Other comprehensive income	-	341	211	-	**552**	(4)	**548**
	Total comprehensive income	**-**	**341**	**211**	**1 568**	**2 120**	**(47)**	**2 073**
	As at 31 December 2017	**2 000**	**158**	**2 427**	**13 109**	**17 694**	**91**	**17 785**

Part 1 – General information

Note 1.1 Corporate information

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

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

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

The Parent Entity's principal activities include:
- the mining of copper and non-ferrous metals ores; and
- the production of copper, precious and non-ferrous metals.

In addition, the KGHM Polska Miedź S.A. Group ("the Group") conducts other activities, which are described in the Management Board's report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2017 (appendix 4).

The consolidated financial statements were prepared under the assumption that the Group's companies will continue as a going concern during a period of at least 12 months from the end of the reporting period in an unaltered form and business scope, and there are no reasons to suspect any intentional or forced discontinuation or significant limitation of its current activities. As at the date of signing of the consolidated financial statements the Management Board of the Parent Entity is not aware of any facts or circumstances that may cast doubt about the going concern in the foreseeable future.

The KGHM Polska Miedź S.A. Group carries out exploration and the mining of copper, nickel and precious metals based on concessions given for the Polish deposits to KGHM Polska Miedź S.A., and also based on legal titles held by KGHM INTERNATIONAL LTD. and KGHM AJAX MINING INC. for the exploration for and mining of these resources in the USA, Canada, and Chile. Detailed information is presented in the Management Board's report on the activities of KGHM Polska Miedź S.A and of the KGHM Polska Miedź S.A. Group in 2017 (point 2.4).

In 2017, the Parent Entity of the Group consolidated 74 subsidiaries and used the equity method to account for the shares of three joint ventures (Sierra Gorda S.C.M., "Elektrownia Blachownia Nowa" sp. z o.o. in liquidation and NANO CARBON Sp. z o.o.).

The consolidated financial statements were authorised for issue and signed by the Management Board of the Parent Entity on 13 March 2018.

Note 1.2 Basis of preparation and presentation

These consolidated 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.

Impact of a correction of a judgment on the functional currency of a subsidiary

As a result of reassessment of the currency of the basic economic environment in which the subsidiary Future 1 Sp. z o.o. (Future 1) functions, on 27 October 2017 the Management Board of the Parent Entity decided to alter its judgment on the functional currency of Future 1, by changing it from the Polish złoty (PLN) to the US dollar (USD) for purposes of the consolidated financial statements. The correction of the judgment was due to consideration of the following facts:

- on 20 December 2016, the company Future 1 was combined with companies registered in Luxembourg (Fermat 1 S.a.r.l., Fermat 2 S.a.r.l. and Fermat 3 S.a.r.l.), as a result of which the main assets and liabilities of Future 1 are the loans granted to KGHM International Ltd. and the loans received from KGHM Polska Miedź S.A., denominated in USD,
- the activities of Future 1 comprise the takeover of the companies registered in Luxembourg, whose functional currency was the USD.

Amendment of the judgment regarding the functional currency led to a correction of settled exchange rate differences from translation of the financial statements of subsidiaries whose functional currency was the USD, taken over under a trans-border combination by Future 1, as well as the recognition of exchange rate differences arising from the measurement of the assets and liabilities of Future 1 in other comprehensive income, even though prior to the amendment of the judgment, exchange rate differences were recognised in other operating income and costs.

Below we present the condensed impact of the above change on the consolidated financial statements as at 31 December 2016:

– an increase in accumulated other comprehensive income from PLN 855 million to PLN 2 216 million – a change by PLN 1 361 million,

in PLN millions, unless otherwise stated

– a decrease in retained earnings (undistributed profit) from PLN 13 100 million to PLN 11 739 million – a change by PLN (1 361) million,
– no impact on the financial result for 2016.

As a result of the correction of the judgment, on 27 October 2017 an amended periodic report for the first quarter of 2017 (QSr 1/2017) was published, while the amended periodic report for the first half of 2017 (PSr 2017), together with the auditor's review report, was published by the Parent Entity on 9 November 2017.

Accounting policies

The accounting policies of the Group which apply to the consolidated financial statements as a whole, as well as significant estimates and their impact on amounts presented in the consolidated financial statements, are presented in the following note.

Topic	Accounting policies	Significant estimates
Consolidation principles	The consolidated financial statements include the financial statements of the Parent Entity and its subsidiaries. Subsidiaries are understood as being entities which are either directly controlled by the Parent Entity or indirectly through its subsidiaries. Obtaining control of a subsidiary, which is a business, is accounted for using the acquisition method. Subsidiaries are fully consolidated from the date on which control is obtained to the date on which control ceases. Balances, income, expenses and unrealised gains from intra-group transactions, recognised in assets, are eliminated.	Determining whether the Parent Entity has control over a company requires an assessment as to whether it has rights to direct relevant activities of the company. Determining what constitutes relevant activities of the company and by which investor it is controlled requires a judgment. The following factors are taken into consideration when assessing the situation and determining the nature of relationships: voting rights, relative voting power, dilution of voting rights of other investors and their ability to appoint members of key management personnel or members of the supervisory board.
Fair value measurement	Fair value is the price that would be received from selling an asset or would be paid for a transfer of a liability in an orderly transaction between market participants at the measurement date. For financial reporting purposes, a fair value hierarchy was established that categorises the inputs into three levels. The fair value hierarchy levels are as follows: Level 1 Value is based on inputs from active markets, as they are seen as the most reliable source of data. Level 2 Value is based on inputs other than from active markets, which are nevertheless observable (unbiased, measurable). Level 3 Value is based on unobservable inputs, used when it is not possible to acquire data from the first two measurement levels. It includes all measurements based on subjective inputs.	Fair value presents current estimates which may be subject to change in subsequent reporting periods due to market conditions or due to other factors. There are many methods of measuring fair value, which may result in differences in fair values. Moreover, assumptions constituting the basis of fair value measurement may require estimating the changes in costs/prices over time, the discount rate, inflation rate or other significant variables. Certain assumptions and estimates are necessary to determine to which level of fair value hierarchy a given instrument should be classified.
Financial statements of subsidiaries with a functional currency other than PLN	For purposes of preparing the consolidated financial statements in the presentation currency of the KGHM Polska Miedź S.A. Group, i.e. in PLN, individual items of financial statements of foreign operations whose functional currencies are other than PLN are translated in the following manner: (i) assets and liabilities – at the closing rate, i.e. at the average exchange rate for that currency announced by the NBP at the end of the reporting period, (ii) items of the statement of profit or loss, the statement of comprehensive income and the statement of cash flows - at the arithmetical average of average exchange rates	The consolidated financial statements are presented in PLN, which is also the functional currency of the Parent Entity and the Group's subsidiaries, with the exception of: the subsidiary Future 1 Sp. z o.o. and subsidiaries of the subgroup KGHM INTERNATIONAL LTD. in which the US dollar (USD) is the functional currency.

in PLN millions, unless otherwise stated

	announced for a given currency by the NBP at the end of each month of a given reporting period. If there is a significant volatility of exchange rates in a given period, revenues and costs in the statement of profit or loss and the statement of comprehensive income are translated using the exchange rates as at the transaction date. Exchange differences from the translation of foreign operations statements are recognised in other comprehensive income of a given period.	The balance of exchange differences from the translation of financial statements of the aforementioned entities: • 2017 – PLN 2 818 million, • 2016 – PLN 2 498 million,

For a greater understanding of the data presented in the consolidated financial statements, important principles of measurement and accounting policies are presented in individual, detailed notes specified below:

Note	Title	Amount recognised in the financial statements		Accounting policies	Important estimates and judgements
		2017	2016		
2.3	Sales revenue	20 358	19 156	X	
3.1	Impairment testing of the KGHM INTERNATIONAL LTD. Group's assets	(310)	(5 321)	X	X
4.4	(Recognition)/reversal of impairment losses	(553)	(6 008)		
5.1	Income tax	(774)	(648)	X	
5.1.1	Deferred income tax	42	(52)	X	X
5.3	Tax assets	277	267	X	
5.3	Tax liabilities	(630)	(786)	X	
6.1	Joint ventures accounted for using the equity method	8	27	X	X
6.2	Loans granted to joint ventures	3 889	4 313	X	X
7.2	Derivatives	(12)	(162)	X	
7.3	Other financial instruments measured at fair value	673	633	X	X
7.4	Other non-current financial assets	762	930	X	X
8.2	Equity	(17 785)	(15 911)	X	
8.4.1	Borrowings	(7 156)	(8 098)	X	
8.5	Cash and cash equivalents	586	860	X	
9.1	Mining and metallurgical property, plant and equipment and intangible assets	17 743	17 691	X	X
9.2	Other property, plant and equipment and intangible assets	2 888	2 799	X	
9.4	Provisions for decommissioning costs of mines and other facilities*	(1 360)	(1 500)	X	X
10.1	Inventories	4 562	3 497	X	X
10.2	Trade receivables	1 522	1 292	X	
10.3	Trade payables	(1 995)	(1 613)	X	
11.1	Employee benefits liabilities	(2 905)	(2 647)	X	X
12.3	Other assets	576	369	X	
12.4	Other liabilities	(1 807)	(2 046)	X	

* In the statement of financial position, current provisions for decommissioning costs of mines and other technological facilities are recognised in the item "other liabilities".

The accounting policies described in this note and in individual notes were applied by the Group in a continuous manner to all presented periods.

Note 1.3 Impact of new and amended standards and interpretations

As at 1 January 2017 the following amendments to the standards are in force in the Group:

- Amendments to IAS 7 „Statement of Cash Flows" under the Disclosure Initiative,
- Amendments to IAS 12 „Income taxes" concerning the recognition of a deferred tax asset with respect to unrealised losses,
- Annual Improvements to IFRS Standards, 2014-2016 Cycle, clarifying the scope of IFRS 12 "Disclosure of Interests in Other Entities".

The application of the amendments to the standards did not affect the Group's accounting policy nor the following consolidated financial statements.
The above amendments to the standards were adopted by the European Union prior to the publication of these consolidated financial statements.

Note 1.4 Published standards and interpretations, which are not yet in force and were not applied earlier by the Group

In these consolidated financial statements, the Group 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 standards, other changes are not applicable to the Group's activities nor will they impact the consolidated financial statements.

Note 1.4.1 IFRS 9 "Financial Instruments"

Note 1.4.1.1 Basic information about the standard

Date of implementation and transitional rules
On 24 July 2014, the IASB published a new IFRS 9 Financial Instruments, effective for annual periods beginning after 1 January 2018, which will replace the current IAS 39 Financial Instruments: Recognition and Measurement with the possibility of earlier implementation.

Main changes introduced by the standard
IFRS 9 removes categories of financial assets currently found in IAS 39. In accordance with IFRS 9, the classification of financial assets depends on the business model for managing financial assets and characteristics of contractual cash flows. Pursuant to the standard, financial assets may be classified only to the following three categories: • financial assets measured at fair value, with an option to recognise changes in measurement in profit or loss, • financial assets measured at fair value, with an option to recognise changes in measurement in other comprehensive income, or to • financial assets measured at amortised cost. IFRS 9 introduces a new approach for the estimation of losses on financial assets measured at amortised cost. This approach will be based on estimating expected losses, unlike in the current model from IAS 39 which is based on the concept of incurred losses. A key change is the requirement placed upon entities to present in other comprehensive income the impact of changes in own credit risk due to financial liabilities which are to undergo fair value measurement through profit or loss, as well as to make a one-off recognition in profit or loss of the impact of changes in the contractual conditions of bank loan agreements which do not result in derecognition of liabilities. The standard has new guidelines concerning hedge accounting, aiming to simplify current solutions and to better reflect principles of risk management.

Note 1.4.1.2 Impact of IFRS 9 on the consolidated financial statements

As at the moment of preparation of these financial statements, the Group has completed most of its work on implementing the new standard IFRS 9. Already in the fourth quarter of 2016 the Group had commenced a project to implement IFRS 9 (project), which was planned in two stages:
- stage I: gap analysis and preliminary impact assessment,
- stage II: implementation of IFRS 9 based on the concept developed.

Under this project, the Group made the appropriate changes to its accounting policy and operational procedures. Methods for evaluating business models and cash flow analysis were developed and implemented, including identifying assets, in respect of which following 1 January 2018 there will be a change in the valuation method from amortised costs to fair value. With respect to impairment, the Group developed and implemented methods for calculating expected credit losses on trade receivables (simplified approach) and other financial assets (general approach). With respect to hedge accounting, the Parent Entity updated the appropriate IT systems in order to modify the manner of recognising changes in the time value of options.
The Group decided to implement the standard as at 1 January 2018 without correcting comparative data, which means that data concerning 2017 presented in the financial statements for 2018 will not be comparable.

Note 1.4.1.3 Impact on equity

in PLN millions, unless otherwise stated

	Accumulated other comprehensive income	Retained earnings	Total equity	
Reclassification of items measured at amortised cost or at cost to measured at fair value for:	(654)	707	**53**	Note 1.4.1.4 a-b
Receivables	-	16	**16**	Note 1.4.1.4 a (i)
Shares in other entities	(654)	691	**37**	Note 1.4.1.4 a (iii)
Adjustment of impairment allowances for assets measured at amortised cost for:	-	(16)	**(16)**	Note 1.4.1.4 c
Receivables	-	(16)	**(16)**	Note 1.4.1.4 c (i)
Reclassification of the change in the time value of the option	(223)	223	**-**	Note 1.4.1.4 d
Deferred tax on above-mentioned adjustments	167	(174)	**(7)**	
Total	**(710)**	**740**	**30**	

Note 1.4.1.4 Corrections

(a) changes in the classification of financial assets

(i)Debt instruments – trade receivables

The Group, based on factoring agreements, sells receivables which, under the evaluation of assets in terms of classification pursuant to IFRS 9, were classified to the assets sale model in order to recover contractual cash flows, which results in the measurement of these receivables to fair value. With respect to the balance of receivables in the amount of PLN 212 million, which as at 31 December 2017 were not yet transferred to factoring, fair value was set as the carrying amount of these receivables due to the short period between the balance sheet date and the receivables sale date.
Trade receivables applying the M+ pricing formula (the final price will be set after the balance sheet date), pursuant to IFRS 9, do not pass the SPPI (solely payments of principal and interest) test, due to the fact that cash flows which arise from these receivables do not solely represent the repayment of principal and interest, as their volatility arises from an embedded derivative instrument which represents the M+ pricing formula. Trade receivables as at 31 December 2017 applying the M+ pricing formula in the amount of PLN 660 million were measured to fair value as at 1 January 2018 in the amount of PLN 676 million, while the impact of measurement in the amount of PLN 16 million will be recognised in retained earnings.

(ii) Debt instruments – loans granted

The Group has loans granted to a jointly-controlled entity (details regarding loans may be found in Note 6.2). Pursuant to IAS 39, these loans were measured at amortised cost (carrying amount per IAS 39 – PLN 3 889 million). Pursuant to IFRS 9, these loans were classified to impaired financial assets due to the credit risk at the moment of initial recognition. Moreover, the Group granted a loan to other entity in the net amount of PLN 17 million as at 31 December 2017, which as at 1 January 2018 will be classified in the same amount to loans measured at fair value.

(iii) Equity instruments – share in other entities

In accordance with the requirements of the new standard, equity instruments will have to be measured at fair value, though the Group will be able to classify them to financial assets measured at fair value through profit or loss or make an irrevocable choice to measure them at fair value through other comprehensive income. The Group classified all of the equity instruments it holds as being measured at fair value through other comprehensive income and, consequently, the result from measurement to fair value will be recognised in other comprehensive income, the impairment loss will not be recognised in the statement of profit or loss, and in the case of sale of a given instrument, gains/loss will not be reclassified to the statement of profit or loss. The Group has shares of listed companies (carrying amount per IAS 39 – PLN 617 million) and of unlisted companies. Shares of unlisted companies, pursuant to IAS 39, are classified to „available-for-sale financial assets" and are measured at cost (carrying amount PLN 56 million). Pursuant to IFRS 9, shares of other unlisted companies were measured to fair value, and as at 1 January 2018 (as an opening balance sheet for 2018), their carrying amount was PLN 93 million. The difference in the amount of PLN 37 million will be recognised in other comprehensive income. As to the owned shares of listed companies, impairment losses recognised up to 31 December 2017 in retained earnings in the amount of PLN 691 million will be transferred to other comprehensive income.

(b) measurement to fair value - measurement hierarchy

in PLN millions, unless otherwise stated

Information on assets measured to fair value per their hierarchy:

	Fair value hierarchy		
	Level 1	Level 2	Total
Trade receivables	-	888	**888**
Loans granted	-	17	**17**
Shares in other entities	617	93	**710**
	617	**998**	**1 615**

(c) Methodology of evaluating impairment allowances using the expected losses method

Pursuant to IAS 39, in recognising impairment allowances the Group was obliged to assess whether there were indications of impairment and, if determined, to estimate the impairment allowance. IFRS 9 introduces a new approach to estimating losses with respect to financial assets measured at amortised cost. This approach is based on identifying expected losses, regardless of whether or not indications occurred. The standard requires the classification of financial assets in terms of their impairment in three stages:
Stage 1 – the balances for which there was no substantial increase in credit risk from the moment of initial recognition and for which the expected impairment is set based on the probability of insolvency within the next 12 months,
Stage 2 – the balances for which there was a substantial increase in credit risk from the moment of initial recognition and for which the expected impairment is set based on the probability of insolvency within the entire period of credit,
Stage 3 – the impaired balances.

(i) Impairment allowance on trade receivables (simplified approach)

For trade receivables measured at amortised cost, in terms of determining expected impairment, the Group will apply the simplified model and will estimate expected impairment throughout the entire period of life, applying payment provision matrices based on historical data, reflecting the rules of the standard with respect to current and forecasted economic conditions. The impact of the new principles regarding impairment on the measurement of trade receivables measured at amortised cost was estimated in the amount of PLN (16) million.

(d) Hedge accounting - changes in the time value of options

Pursuant to IFRS 9, on the date that IFRS 9 is implemented, the Parent Entity may make the decision, representing an element of the accounting policy, to continue to apply hedge accounting rules pursuant to IAS 39, thereby refraining from the implementation of hedge accounting rules arising from IFRS 9.
However, the Parent Entity decided that it will apply the hedge accounting rules set forth in IFRS 9 for hedging relationships opened as at 1 January 2018 and for relationships which will be established after 1 January 2018. In particular this means a modification of the manner of recognition of changes in the time value of options comprising hedging instruments subject to hedge accounting rules. Until now, changes in the time value of options pursuant to IAS 39 were excluded from measurement of effectiveness and were recognised on an on-going basis in the statement of profit or loss. Pursuant to the new rules of IFRS 9 (par. 6.5.15) changes in the time value of options will be recognised during the life of the hedge relationship in a separate item under equity and reclassified to the statement of profit or loss during the period when the hedged item is realised. IFRS 9 requires that the Parent Entity carry out a retrospective recognition of the time value of options pursuant to the new rules for all hedge relationships continued after 31 December 2017. As a result of the above change, the Parent Entity will reclassify the change in the time value of options in the amount of PLN 233 million (a loss) from retained earnings to other reserves from measurement of financial instruments.

(e) Corporate financial guarantees

As part of the analysis of the impact of IFRS 9 on the consolidated financial statements, the Group determined that it is necessary to recognise the financial guarantees granted to Sierra Gorda, to secure its obligations arising from lease agreements and short-term bank loans, in the accounting books as per paragraph 4.2.1 point c of IFRS 9.
Pursuant to the new regulations, as at 1 January 2018 the Group will recognise receivables, in an amount equal to the present value of future payments due to the guarantees, against the corresponding liabilities, and then it will correct the receivables by the unwinding of the discount effect and will recognise the expected impairment for the full amount of receivables, calculated in accordance with IFRS 9. The impact of the aforementioned change on the consolidated financial statements will be immaterial.

Note 1.4.2 IFRS 15 "Revenue from contracts with customers" and Amendments to IFRS 15, clarifying some of the standard's requirements

Note 1.4.2.1 Basic information about the standard

Date of implementation and transitional rules
IFRS 15 was adopted for use by the European Union and is effective for annual periods beginning on or after 1 January 2018. The new standard will replace the current standards IAS 11 and 18, as well as the following interpretations: IFRIC 13, 15, 18 and SIC 31. The Group will apply IFRS 15 from 1 January 2018, as per paragraph C3 (b) and C7 – retrospectively, with the total effect of the initial application of the standard as an adjustment of the opening balance of retained earnings in 2018.

Summation of main changes introduced by the standard
The standard applies to all contracts 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 is rendered to a customer, which is when the customer obtains control over these assets. All goods and services which are sold in bundles and which may be separately identifiable should be recognised separately. 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, the 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. Costs incurred to obtain and fulfil a contract with a customer should be capitalised and amortised when the benefits of this contract are consumed.

Note 1.4.2.2 Impact of IFRS 15 on the financial statements of the Group

The Group analysed the impact of applying IFRS 15 on recognising revenues from contracts concluded by the Group. The first phase of work concerned the analysis of differences between IFRS 15 and current principles governing the recognition of revenues. In the next step, the Group aggregated contracts concluded with its customers in 2017 by bundling them and adopting, as the primary criteria of bundling them, the moment of transferring control over promised goods or services to a customer. The KGHM Polska Miedź S.A. Group mainly concludes sales contracts for produced copper, precious metals and other by-products of copper production, which constitutes approx. 98% of its total revenues from sales. These contracts make use of International Commercial Terms ("INCOTERMS") to determine the terms of delivery. Therefore, the moment of transferring control to the client was determined by analysing these terms.

The bundles created from aggregated contracts were analysed in order to identify the performance obligations towards the clients in these contracts, and to identify all goods or services (or a bundle of goods or services) or a bundle of distinct goods or services, the transfer of which to the customer has identical characteristics. Based on the aforementioned analyses and taking into account the fact that the moment of transferring control over the promised goods and services to a client is precisely described in the delivery conditions, it was determined that:

- in the case of most contracts, control is transferred to the customer after delivery of the goods. In these cases, pursuant to IFRS 15, all goods and services promised in the contract (e.g. transport, customs clearance) should be considered to be a single performance obligation and recognise revenues once, in a given moment,
- in the case of other contracts, control over goods is transferred to the customer before the delivery is made, i.e. transport services, and the Group is obliged to organise the completion of this service. In such a case, the obligation to sell goods and the obligation to provide a transport service should be considered to be different services promised in the contract, while the transaction price arising from the contract should be properly allocated to them and their revenues separately recognised. Pursuant to IFRS 15, revenues from sales of goods should be recognised once at a specified moment, while revenues from services rendered should be deferred, proportionally to the progress towards complete satisfaction of that performance obligation. However, due to the negligible share of transport services' costs and services associated with them, as compared to the revenues from sales of the goods and the time of delivery of such shipments, which does not exceed 7 weeks, in the Group's opinion the impact on the current method of recognising revenues will be immaterial, and it does not plan to make any corrections as at 1 January 2018 due to the implementation of IFRS 15.

While analysing the impact of IFRS 15 on the consolidated financial statements of the KGHM Polska Miedź S.A. Group, a so-called streaming arrangement agreement was identified containing a significant financing component as understood by IFRS 15. Streaming arrangements are one of the sources of financing available to companies operating in the mining sector.

The agreement (signed in 2008 between Quadra FNX Mining Ltd. and Franco Nevada) concerns the sale of half of the production of gold, platinum and palladium contained in the ore extracted during the lives of the following mines: Morrison, McCreedy West and Podolsky (CGU Sudbury). Pursuant to the agreement, Quadra FNX Mining Ltd. received a prepayment in the amount of CAD 400 million. Moreover, pursuant to the agreement, the selling price for one ounce of gold equivalent is the lower of these two amounts: (a) USD 400, increased by 1% in each year beginning from 2011, or (b) the market price of gold. The received prepayment covers the difference between the market price of ore sold and its fixed selling price.

The effects of financing arising from the agreement with Franco Nevada, pursuant to IFRS 15, will be presented as at 1 January 2018 in an item other than revenues from contracts with clients, in the consolidated statement of comprehensive income. As at 1 January 2018, due to transitioning to IFRS 15, the KGHM Group will recognise the following adjustments:

- a decrease in deferred income by PLN 70 million,
- an increase in deferred tax liabilities by PLN 21 million,
- an increase in retained earnings by PLN 49 million.

In the reporting periods after 1 January 2018, the KGHM Group will recognise interest costs arising from the Franco Nevada agreement. In addition, pursuant to IFRS 15, the Group will modify the current scope of disclosures on judgments with respect to planned ore extraction by the mines specified in the Franco Nevada agreement, and as a result the amounts of raw materials sold, and will amend the transaction price.

Note 1.4.3 IFRS 16 "Leases"

Note 1.4.3.1 Basic information about the standard

Date of implementation and transitional rules
IFRS 16 will be effective for annual periods beginning on or after 1 January 2019 and has been adopted by the European Union. It supersedes the current standard IAS 17, interpretation IFRIC 4 and SIC 15 and 27. The Group will apply IFRS 16 from 1 January 2019.

Summation of main changes introduced by the standard
The new standard introduces a single model for recognising a lease in lessee's accounting books, conforming to the recognition of a finance lease under IAS 17. Pursuant to IFRS 16, an agreement is a lease or contains a lease if it transfers the rights to control the utilisation of an identified asset for a given period in exchange for compensation. In the Group's opinion, the essential element differentiating the definition of a lease from IAS 17 and from IFRS 16 is the requirement to have control over the utilised, specific asset, indicated directly or indirectly in the agreement. Analysis of agreements in terms of their meeting the new lease definition may also lead to recognising some agreements, which at present are treated as services agreements, as agreements containing a lease, as well as to recognition of some agreements which at present are treated as a lease, in particular operating lease, as services agreements.

Note 1.4.3.2 Impact of IFRS 16 on the consolidated financial statements

In 2017, the Group commenced an analysis of all realised agreements involving the purchase of services, regardless of their existing classification. The goal of this analysis was to identify those agreements based on which the Group utilises assets belonging to suppliers, and subsequently to make a preliminary assessment of each such agreement as to whether it meets the criteria to be recognised as a lease pursuant to IFRS 16.
As a result of this analysis it was determined that the following assets belonging to suppliers met the condition of right to use:

- technical equipment,
- railroad cars and tankers, cars and other means of transport,
- offices and premises,
- various types of land.

Pursuant to IFRS 16, an agreement is a lease if a customer designed an asset in a way that determines from the start in what manner and for what purpose the asset will be utilised throughout its life. As a result, in the Group's opinion, pursuant to IFRS 16 the scope of agreements meeting the criteria of containing a lease will be broader than heretofore, in particular with respect to production infrastructure.
Continuing its work on implementing IFRS 16, in 2018 the Group plans to:

- expand its preliminary analysis of the control of utilisation of a given asset, i.e. whether the Group's companies have the right to utilise substantially all of the economic benefits deriving from the use of an identified asset as well as the right to direct the use of the identified asset,
- estimate the lease periods for agreements in which the lease period is not definitely indicated in the terms of the agreement,
- calculate the interest rates for discounting lease payments,
- separate lease payments from agreements containing servicing elements,
- evaluate the possibilities of applying exclusions for short-term leases and whose base asset value is low,
- determine the manner of presenting leases in the statement of financial position,
- introduce necessary changes to the IT systems employed, and
- select the transitional rules of IFRS 16 to be applied as at 1 January 2019.

According to preliminary analysis, the application of IFRS 16 will lead to the recognition in the Group's statement of financial position of assets and corresponding financial liabilities from agreements treated at present as operating leases and services, as well as rights to perpetual usufruct of land which are not currently recognised in the statement of financial position.

Other standards and interpretations published but not yet in force are not applicable to the Group's activities nor will they have an impact on them. These are as follows:

- 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,
- Amendments to IFRS 2 in relation to the classification and measurement of share-based payment transactions,
- Amendments to IFRS 4 with respect to applying IFRS 9 with IFRS 4,
- Amendments to IAS 40 regarding transfers of investment property,
- IFRIC 22 interpretation on foreign currency transactions and advance consideration,
- IFRIC 23 interpretation on uncertainty over income tax treatments,

- IFRS 17 Insurance contracts,
- Amendments to IFRS 9 on debt financial assets with early repayment options, which could lead to the arising of a so-called negative compensation,
- Amendments to IAS 28 on long-term interests that form part of the net investments in associates and joint ventures,
- Annual improvements to IFRS Standards, 2014-2016 cycle, clarifying the scope of IAS 28 and IFRS 1,
- Annual improvements to IFRS Standards, 2015-2017 cycle,
- Amendments to IAS 19 on amendments, curtailments or settlements of plans of specified benefits.

The aforementioned standards, with the exception of amendments to IFRS 4, IFRS 2 and annual improvements to IFRS Standards, 2014-2016 Cycle, are awaiting adoption by the European Union. The Company aims to apply all of the amendments at their effective dates

Part 2 – Information on segments and revenues

Note 2.1 Operating segments

The operating segments identified in the KGHM Polska Miedź S.A. Group reflect the structure of the Group, the manner in which the Group and its individual entities are managed and the regular reporting to the Parent Entity's Management Board.

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

Reporting segment	Operating segments aggregated in a given reporting segment	Indications of similarity of economic characteristics of segments, taken into account in aggregations
KGHM Polska Miedź S.A.	KGHM Polska Miedź S.A.	Not applicable (it is a single operating and reporting segment)
KGHM INTERNATIONAL LTD.	Companies of the KGHM INTERNATIONAL LTD. Group, where the following mines, deposits or mining areas constitute the operating segments: Sudbury Basin, Robinson, Carlota, Franke and Ajax.	Operating segments within the KGHM INTERNATIONAL LTD. Group are located in North and South America. The Management Board analyses the results of the following operating segments: Sudbury Basin, Robinson, Carlota, Franke, Ajax and other. In addition, the Management Board receives and analyses reports on the whole KGHM INTERNATIONAL LTD. Group. Operating segments are engaged in exploration and mining of copper, molybdenum, silver, gold and nickel deposits. The operating segments were aggregated based on the similarity of long term margins achieved by individual segments, and the similarity of products, processes and production methods
Sierra Gorda S.C.M.	Sierra Gorda S.C.M. (joint venture)	Not applicable (it is a single operating and reporting segment)
Other segments	This item includes other Group companies (every individual company is a separate operating segment).	Aggregation was carried out as a result of not meeting the criteria necessitating the identification of a separate additional reporting segment.

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

- Future 1 Sp. z o.o., which acts as a holding company with respect to the KGHM INTERNATIONAL LTD. Group,
- 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. and Future 7 Sp. z o.o., which operate in the structure related to the establishment of a Tax Group.

These companies do not conduct operating activities which could impact the results achieved by individual segments, and as a result their inclusion could distort the data presented in this part of the consolidated financial statements due to significant settlements with other Group companies.

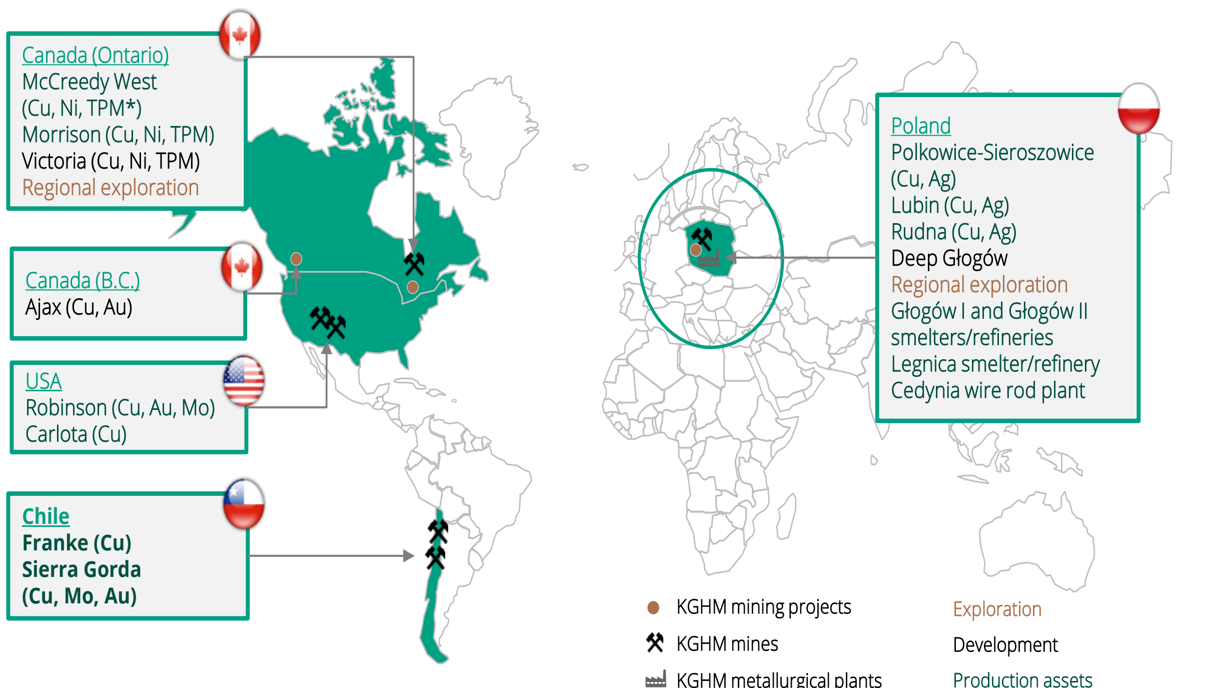
Each of the segments KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M. have their own Management Board, which reports the results of their business activities directly to the President of the Management Board of the Parent Entity.

The segment KGHM Polska Miedź S.A. is composed only of the Parent Entity, and the segment Sierra Gorda S.C.M. is composed only of the joint venture Sierra Gorda. Other companies of the KGHM Polska Miedź S.A. Group are presented below by segment: KGHM INTERNATIONAL LTD. and Other segments.

The SEGMENT KGHM INTERNATIONAL LTD.	
Location	**Company**
The United States of America	Carlota Copper Company, Carlota Holdings Company, DMC Mining Services Corporation, FNX Mining Company USA Inc., Robinson Holdings (USA) Ltd., Robinson Nevada Mining Company, Wendover Bulk Transhipment Company
Chile	Aguas de la Sierra Limitada, Minera Carrizalillo Limitada, KGHM Chile SpA, Quadra FNX Holdings Chile Limitada, Sociedad Contractual Minera Franke
Canada	KGHM INTERNATIONAL LTD., 0899196 B.C. Ltd., Centenario Holdings Ltd., DMC Mining Services Ltd., FNX Mining Company Inc., Franke Holdings Ltd., KGHM AJAX MINING INC., KGHMI HOLDINGS LTD., Quadra FNX Holdings Partnership, Sugarloaf Ranches Ltd.
Greenland	Malmbjerg Molybdenum A/S in liquidation
Mexico	Raise Boring Mining Services S.A. de C.V.
Colombia	DMC Mining Services Colombia SAS
The United Kingdom	DMC Mining Services (UK) Ltd.
Luxembourg	Quadra FNX FFI S.à r.l.

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

Location of mining assets of the KGHM Polska Miedź S.A. Group



**** TPM – precious metals***

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

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

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

- The segment KGHM Polska Miedź S.A. – comprises data from the separate financial statements of the Parent Entity prepared in accordance with IFRSs. In the separate financial statements, investments in subsidiaries (including the investment in KGHM INTERNATIONAL LTD.) are measured at cost.
- The segment KGHM INTERNATIONAL LTD. – comprises consolidated data of the KGHM INTERNATIONAL LTD. Group prepared in accordance with IFRSs. The involvement in Sierra Gorda S.C.M. is accounted for using the equity method,
- The segment Sierra Gorda S.C.M – comprises the 55% share of assets, liabilities, revenues and costs of this venture presented in the separate financial statements of Sierra Gorda S.C.M. prepared in accordance with IFRSs.
- Other segments – comprises aggregated data of individual subsidiaries after excluding transactions and balances between them.

The Management Board of the Parent Entity assesses a segment's performance based on adjusted EBITDA and the profit or loss for the period.
The Group defines adjusted EBITDA as profit/loss for the period pursuant to IFRS, excluding income tax (current and deferred), finance income and (costs), other operating income and costs, the share of losses of joint ventures accounted for using the equity method, impairment losses on interest in a joint venture, depreciation/amortisation and impairment losses on property, plant and equipment included in the cost of sales, selling costs and administrative expenses. Since adjusted EBITDA is not a measure defined by IFRS, it is not a standardised measure and therefore its method of calculation may vary between entities, and consequently the presentation and calculation of adjusted EBITDA applied by the Group may not be comparable to that applied by other market entities.

Unallocated assets and liabilities concern companies which have not been allocated to any segment. Assets which have not been allocated to the segments comprise cash, trade receivables and deferred tax assets. Liabilities which have not been allocated to the segments comprise trade liabilities and current tax liabilities.

Note 2.2 Financial results of reporting segments

		2017						
					Reconciliation items to consolidated data		
		KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments****	Consolidated financial statements
Note 2.3	**Sales revenue**	**16 024**	**2 602**	**1 993**	**6 478**	(1 993)	(4 746)	20 358
	Inter-segment sales revenue	276	-	-	4 465	-	(4 741)	-
	External sales revenue	15 748	2 602	1 993	2 013	(1 993)	(5)	20 358
	Segment result	**1 323**	**(561)**	**(525)**	**38**	**525**	**725**	**1 525**
	Additional information on significant revenue/cost items of the segment							
	Depreciation/amortisation recognised in profit or loss	(1 035)	(351)	(465)	(234)	465	11	(1 609)
	Recognition/reversal of impairment loss on non-current assets, including:	(940)	(495)	-	-	-	932	(503)
	Impairment loss on investments in subsidiaries	(330)	-	-	-	-	330	-
	Allowance for impairment of loans granted	(606)	(23)	-	-	-	606	(23)
	Share of losses of joint ventures accounted for using the equity method	-	(474)	-	-	-	-	(474)
	Deferred tax due to impairment losses on non-current assets	-	168	-	-	-	-	168

	2017						
Assets, including:	**30 947**	**7 807**	**8 114**	**5 400**	**(8 114)**	**(10 032)**	**34 122**
Segment assets	30 947	7 807	8 114	5 400	(8 114)	(10 071)	34 083
Joint ventures accounted for using the equity method	-	-	-	-	-	8	8
Assets unallocated to segments						31	31
Liabilities, including:	**13 691**	**12 701**	**11 240**	**2 007**	**(11 240)**	**(12 062)**	**16 337**
Segment liabilities	13 691	12 701	11 240	2 007	(11 240)	(12 204)	16 195
Liabilities unallocated to segments						142	142

Other information	2017						
Cash expenditures on property, plant and equipment and intangible assets	1 991	549	564	253	(564)	3	2 796

Production and cost data	2017						
Payable copper (kt)	522.0	81.0	53.4				
Molybdenum (million pounds)	-	0.7	19.7				
Silver (t)	1 218.1	1.6	14.4				
TPM (koz t)	117.3	74.0	28.0				
C1 cash cost of producing copper in concentrate (USD/lb)**	1.52	1.92	1.67				
Adjusted EBITDA	**4 160**	**707**	**609**	**277**	-	-	**5 753**
EBITDA margin* **	**26%**	**27%**	**31%**	**4%**	-	-	**26%**

* 55% of the Group's share in Sierra Gorda S.C.M.'s financial and production data.
** unit cash cost of payable copper production, reflecting ore mining and processing costs, transport costs, the minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value.
*** Adjusted EBITDA to sales revenue. For the purposes of calculating the Group's EBITDA margin (26%), the consolidated sales revenue were increased by sales revenues of the segment Sierra Gorda S.C.M.
[5 753 / (20 358 + 1 993) * 100]
**** Adjustments arise from consolidation eliminations and financial data of companies unallocated to any segment.

Financial results of reporting segments for the comparable period

		2016						
						Reconciliation items to consolidated data		
		KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments****	Consolidated financial statements
Note 2.3	**Sales revenue**	**15 112**	**2 535**	**1 394**	**6 409**	**(1 394)**	**(4 900)**	**19 156**
	Inter-segment sales revenue	260	-	29	4 665	(29)	(4 925)	-
	External sales revenue	14 852	2 535	1 365	1 744	(1 365)	25	19 156
	Segment result	**(4 085)**	**(6 828)**	**(6 015)**	**(235)**	**6 015**	**6 699**	**(4 449)**
	Additional information on significant revenue/cost items of the segment							
	Depreciation/amortisation recognised in profit or loss	(956)	(517)	(843)	(236)	843	11	(1 698)
	Recognition/reversal of impairment loss on non-current assets, including:	(6 197)	(5 718)	(6 728)	(89)	6 728	6 078	(5 926)
	Impairment loss on investments in subsidiaries	(4 856)	-	-	(91)	-	4 947	-
	Allowance for impairment of loans granted	(1 130)	(4 394)	-	-	-	1 130	(4 394)
	Share of losses of joint ventures accounted for using the equity method	-	(1 199)	-	-	-	(1)	(1 200)
	Deferred tax due to impairment losses on non-current assets	69	183	1 854	-	(1 854)	-	252
		2016						
	Assets, including:	**30 100**	**9 472**	**9 185**	**5 249**	**(9 185)**	**(11 379)**	**33 442**
	Segment assets	30 100	9 472	9 185	5 249	(9 185)	(11 407)	33 414
	Joint ventures accounted for using the equity method	-	-	-	-	-	27	27
	Assets unallocated to segments						1	1
	Liabilities, including:	**14 200**	**16 853**	**12 880**	**1 943**	**(12 880)**	**(15 465)**	**17 531**
	Segment liabilities	14 200	16 853	12 880	1 943	(12 880)	(15 651)	17 345
	Liabilities unallocated to segments						186	186
	Other information	2016						
	Cash expenditures on property, plant and equipment and intangible assets	2 604	430	586	209	(586)	8	3 251
	Production and cost data	2016						
	Payable copper (kt)	535.6	89.8	51.5				
	Molybdenum (million pounds)	-	0.8	12.2				
	Silver (t)	1 191.1	1.7	14.1				
	TPM (koz t)	113.8	92.1	22.9				
	C1 cash cost of producing copper in concentrate (USD/lb)**	1.30	1.63	1.96				
	Adjusted EBITDA	**3 551**	**614**	**189**	**312**	**-**	**-**	**4 666**
	EBITDA margin* **	**23%**	**24%**	**14%**	**5%**	**-**	**-**	**23%**

* 55% of the Group's share in Sierra Gorda S.C.M.'s financial and production data.
** unit cash cost of payable copper production, reflecting ore mining and processing costs, transport costs, the minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value.
*** Adjusted EBITDA to sales revenue. For the purposes of calculating the Group's EBITDA margin (23%), the consolidated sales revenue were increased by sales revenues of the segment Sierra Gorda S.C.M.
[4 666 / (19 156 + 1 394) * 100]
**** Adjustments arise from consolidation eliminations and financial data of companies unallocated to any segment.

in PLN millions, unless otherwise stated

Reconciliation of adjusted EBITDA	2017			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M. *	Other segments
Profit/(Loss) for the period	**1 323**	**(561)**	**(525)**	**38**
[-] Share of losses of joint ventures accounted for using the equity method	**-**	**(474)**	**-**	**-**
[-] Current and deferred income tax	(831)	670	146	(26)
[-] Depreciation/amortisation recognised in profit or loss	(1 035)	(351)	(465)	(234)
[-] Finance income and (costs)	1 033	(948)	(781)	(7)
[-] Other operating income and (costs)	(2 004)	(422)	(34)	28
[=] EBITDA	4 160	964	609	277
[-] (Recognition)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	257	-	-
Adjusted EBITDA	**4 160**	**707**	**609**	**277**

	2017			
Profit/(loss) on sales (EBIT)	**3 125**	**613**	**144**	**43**
[-] Depreciation/amortisation recognised in profit or loss	(1 035)	(351)	(465)	(234)
[=] EBITDA	4 160	964	609	277
[-] (Recognition)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	257	-	-
[=] Adjusted EBITDA	**4 160**	**707**	**609**	**277**

*55% share of the Group in the financial data of Sierra Gorda S.C.M.

Reconciliation of adjusted EBITDA	2016			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments
(Loss) for the period	**(4 085)**	**(6 828)**	**(6 015)**	**(235)**
[-] Share of losses of joint ventures accounted for using the equity method	**-**	**(1 199)**	**-**	**-**
[-] Current and deferred income tax	(710)	137	2 259	(33)
[-] Depreciation/amortisation recognised in profit or loss	(956)	(517)	(843)	(236)
[-] Finance income and (costs)	(541)	(657)	(805)	(15)
[-] Other operating income and (costs)	(5 429)	(4 938)	(153)	(264)
[=] EBITDA	3 551	346	(6 473)	313
[-] (Recognition)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	(268)	(6 662)	1
Adjusted EBITDA	**3 551**	**614**	**189**	**312**

	2016			
Profit/(loss) on sales (EBIT)	**2 595**	**(171)**	**(7 316)**	**77**
[-] Depreciation/amortisation recognised in profit or loss	(956)	(517)	(843)	(236)
[=] EBITDA	3 551	346	(6 473)	313
[-] (Recognition)/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	(268)	(6 662)	1
[=] Adjusted EBITDA	**3 551**	**614**	**189**	**312**

*55% share of the Group in the financial data of Sierra Gorda S.C.M.

A detailed description of the results of individual segments is presented in the following sections of the Management Board's report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2017:

- the segment KGHM Polska Miedź S.A. – in section 7,
- the segment KGHM INTERNATIONAL LTD. – in section 8,
- the segment Sierra Gorda S.C.M. – in section 9.

in PLN millions, unless otherwise stated

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

Accounting policies

The Group generates revenues mainly from sales of copper, silver and gold. Other, smaller streams of revenues come from services provided and other products, merchandise and materials.
Sales revenue is recognised at the fair value of the consideration received or receivable, less VAT.
In the case of metals sales, mainly copper and silver products, for which the price is set after the date of recognition of a given sale, revenues are accounted for based on the forward prices from the date of sale.
Revenues from the sale of copper are adjusted by the gain or loss from the settlement of derivatives hedging future cash flows from forecasted sales transactions (accounting policies are presented in Note 7.2).
The Group recognises revenues from metal sales, when the significant risk and rewards of ownership have been transferred to the buyer, the amount of revenues and costs can be measured reliably and the receivables collection is probable. In the case of metal sales, the transfer of risk and rewards is usually performed using one of the following formulas: when merchandise is loaded on a ship chosen by the seller (maritime transport) [CIF, CFR], when merchandise is delivered to an agreed destination to be at the buyer's disposal (land transport) [DAP] or when merchandise is loaded on the transportation vehicle arranged by the buyer [FCA].

2017

					Reconciliation items to consolidated data		
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments	Consolidated data
Copper	12 213	1 702	1 182	8	(1 182)	(22)	**13 901**
Silver	2 441	16	29	-	(29)	-	**2 457**
Gold	556	187	134	-	(134)	-	**743**
Services	142	449	-	1 910	-	(1 399)	**1 102**
Other	672	248	648	4 560	(648)	(3 325)	**2 155**
TOTAL	**16 024**	**2 602**	**1 993**	**6 478**	**(1 993)**	**(4 746)**	**20 358**

2016

					Reconciliation items to consolidated data		
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Elimination of data of the segment Sierra Gorda S.C.M	Consolidation adjustments	Consolidated data
Copper	11 064	1 510	895	6	(895)	(19)	**12 561**
Silver	2 798	17	32	-	(32)	-	**2 815**
Gold	556	275	119	-	(119)	-	**831**
Services	93	493	-	2 259	-	(1 858)	**987**
Other	601	240	348	4 144	(348)	(3 023)	**1 962**
TOTAL	**15 112**	**2 535**	**1 394**	**6 409**	**(1 394)**	**(4 900)**	**19 156**

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

in PLN millions, unless otherwise stated

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

		2017	2016
Europe			
	Poland	5 575	5 031
	Germany	2 186	2 335
	The United Kingdom	1 795	1 623
	Czechia	1 383	1 207
	France	992	601
	Switzerland	766	616
	Hungary	657	504
	Italy	437	476
	Austria	278	206
	Romania	103	62
	Slovakia	99	83
	Sweden	74	24
	Denmark	71	6
	Slovenia	69	53
	Finland	48	42
	Bulgaria	26	85
	Belgium	16	55
	Other countries (dispersed sale)	121	251
North and South America			
	The United States of America	1 360	1 262
	Canada	770	758
	Chile	60	102
	Other countries (dispersed sale)	1	4
Australia			
	Australia	3	128
Asia			
	China	2 990	2 170
	Turkey	273	140
	India	156	159
	Taiwan	10	101
	Japan	6	52
	South Korea	4	324
	Singapore	3	676
	Other countries (dispersed sale)	3	11
Africa		23	9
TOTAL		**20 358**	**19 156**

Note 2.5 Main customers

In the period from 1 January 2017 to 31 December 2017 and in the comparable period the revenues from no single contractor exceeded 10% of the sales revenue of the Group.

Note 2.6 Non-current assets – geographical breakdown

	Property, plant and equipment, intangible assets and investment properties	
	2017	2016
Poland	18 430	17 413
Canada	1 055	2 275
The United States of America	989	557
Chile	236	323
TOTAL	**20 710**	**20 568**

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

Part 3 – Impairment of assets

Note 3.1. Impairment testing of the KGHM INTERNATIONAL LTD. Group's assets

The business of the KGHM INTERNATIONAL LTD. Group's companies is the 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 Sierra Gorda, Robinson, Morrison, Franke and Carlota mines as well as mining projects at the pre-operational stage, of which the most significant are Victoria and Ajax in Canada.

In the current period, due to the change – identified as an indication of possible impairment or reversal of an impairment loss – in key assumptions used for estimating the recoverable amount of international mining assets, such as the Robinson mine, the Sudbury Basin, the Franke and Carlota mines and the Ajax project, the Group performed an impairment test. Significant changes in the parameters of these mining assets concerned the mine lives, copper production volumes, assumed operating costs and the level of capital expenditures during a mine's life.

With respect to analysis of the existence of indicators of impairment of the value of Sierra Gorda S.C.M., no indicators were identified, and therefore there was no basis for carrying out impairment testing of assets.

The following CGUs have been selected for the purpose of assessment of the recoverable amount 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, and
- the Ajax project.

To determine the recoverable amount of assets in individual CGUs during the testing, their fair value was calculated (less costs to sell), using the DCF method, i.e. the method of discounted cash flows of CGUs: Sudbury, KGHM Ajax and the value in use of the CGUs Robinson, Carlota and Franke. For the Ajax project, in accordance with the prudent valuation principle, an additional, upper limit was adopted for the measurement which is at the level of the value of real estate of this CGU.

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 was prepared for the period 2018 – 2022, while the forecast for subsequent years was set, based on a long-term copper price, at the level of 6 614 USD/t.

OTHER KEY ASSUMPTIONS USED FOR FAIR VALUE ESTIMATION OF ASSETS OF CGUs					
Assumption	**Robinson**	**Sudbury**	**Franke**	**Carlota**	**KGHM AJAX**
Mine life / forecast period	7 years	18 years	2 years	4 years	19 years
Level of copper production during mine life [kt]	371	282	40	15	1 005
Average operating margin during mine life	39%	57%	28%	24.2%	40%
Capital expenditures to be incurred during mine life [USD million]	557	1 619	14	7	1 629
Applied discount rate after taxation for assets in the operational phase	9%	8%	11%	10%	-
Applied discount rate after taxation for assets in the pre-operational phase	-	11%	-	-	9.5%
Costs to sell	2%				

The results of tests conducted as at 31 December 2017 for the CGUs Franke and Carlota confirmed that the value in use of these assets is equal to their carrying amount.

Results of the test performed for other CGUs as at 31 December 2017 are presented in the following table:

CGUs	Segment (Part 2)	Carrying amount		Recoverable amount		Recognition/(reversal) of an impairment loss	
		USD mn	PLN mn	USD mn	PLN mn	USD mn	PLN mn
Robinson*	KGHM INTERNATIONAL Ltd.	180.6	628.7	278.6	969.9	(98.0)	(341.2)
Sudbury		323.4	1 125.9	202.1	703.6	121.3	422.3
KGHM AJAX MINING INC.		88.3	307.4	24.3	84.6	64.0	222.8
Total						**87.3**	**303.9**

*Increase in the recoverable amount caused mainly by extending the mine's life

Recognitions/(reversals) of impairment loss were recognised in the following items of the consolidated statement of profit or loss:

Cost of sales	(257)
Other operating costs	770
Other operating income	(41)
Income tax on the above amounts	(168)
Total impairment losses, net	**304**

Note 3.2 Water rights – intangible assets not yet available for use

In the Group, water rights in Chile are annually subjected to impairment testing by comparing their carrying amount to the recoverable amount, which is set as fair value less costs to sell. The fair value of water rights is classified under level 2 of the fair value hierarchy, in which fair value measurements are based on significant observable input data, other than market prices.

For the year ended on 31 December 2017, the Group assessed the financial indicators and came to the conclusion that there is no need to recognise an impairment loss, as the estimated amount of water available for extraction did not change compared to the amount estimated as at 31 December 2016.

in PLN millions, unless otherwise stated

Part 4 - Explanatory notes to the statement of profit or loss

Note 4.1 Expenses by nature

		2017	2016
Note 9.3	Depreciation of property, plant and equipment and amortisation of intangible assets	1 684	1 718
Note 11.1	Employee benefits expenses	4 956	4 672
	Materials and energy	7 460	7 035
	External services	2 156	2 192
Note 5.2	Minerals extraction tax	1 765	1 338
	Other taxes and charges	506	499
Note 4.4	Reversal of impairment losses on property, plant and equipment and intangible assets	(344)	(2)
	Advertising costs and representation expenses	57	61
	Property and personal insurance	34	30
Note 4.4	Impairment losses on property, plant and equipment and intangible assets	92	269
	Other costs	157	185
	Total expenses by nature	**18 523**	**17 997**
	Cost of merchandise and materials sold (+)	571	436
	Change in inventories of finished goods and work in progress (+/-)	(1 079)	(225)
	Cost of manufacturing products for internal use of the Group (-) (mainly stripping costs of surface mines)	(1 468)	(1 596)
	Costs of sales, selling costs and administrative expenses, including:	**16 547**	**16 612**
	Cost of sales	15 204	15 242
	Selling costs	371	410
	Administrative expenses	972	960

in PLN millions, unless otherwise stated

Note 4.2 Other operating income and (costs)

		2017	2016
Note 7.1	Measurement and realisation of derivatives	231	167
Note 7.1	Exchange differences on assets and liabilities other than borrowings	-	511
	Write-off of unmatured tax liabilities	-	185
	Release of unused provisions	132	43
	Other	199	169
	Total other operating income	**562**	**1 075**
Note 7.1	Measurement and realisation of derivatives	(492)	(371)
Note 7.1	Exchange differences on assets and liabilities other than borrowings	(1 466)	-
Note 4.4	Impairment loss on available-for-sale assets	-	(57)
Note 4.4	Impairment loss on fixed assets under construction and intangible assets not yet available for use	(773)	(1 209)
	Other	(208)	(240)
	Total other operating costs	**(2 939)**	**(1 877)**
	Other operating income and (costs)	**(2 377)**	**(802)**

Note 4.3 Finance income and (costs)

		2017	2016
Note 7.1	Exchange differences on borrowings	1 251	-
Note 7.1	Measurement of derivatives	-	26
	Total income	**1 251**	**26**
Note 7.1	Interest on borrowings	(96)	(85)
	Unwinding of the discount effect	(50)	(46)
	Bank fees and charges on borrowings	(44)	(61)
Note 7.1	Measurement of derivatives	(30)	(9)
Note 7.1	Exchange differences on borrowings	-	(401)
	Other	(11)	(6)
	Total costs	**(231)**	**(608)**
	Finance income and (costs)	**1 020**	**(582)**

in PLN millions, unless otherwise stated

Note 4.4 Recognition/ reversal of impairment losses on assets recognised in the statement of profit or loss

		2017	2016
	Impairment losses on assets recognised in:		
	cost of sales, of which:	**150**	**357**
	impairment loss on property, plant and equipment and intangible assets	92	269
	write-down of inventories	37	83
	allowance for impairment of trade receivables	21	5
Note 6.2	**allowance for impairment of loans granted to joint ventures**	**-**	**4 394**
	other operating costs, of which:	**798**	**1 271**
	impairment losses on available-for-sale financial assets	-	57
	impairment losses on fixed assets under construction and intangible assets not yet available for use	773	1 209
	allowance for impairment of loans	23	-
	allowance for impairment of other receivables	2	5
	Impairment losses, total	**948**	**6 022**
	Reversal of impairment losses on assets, recognised in:		
	cost of sales, of which:	**351**	**11**
	impairment loss on property, plant and equipment and intangible assets	344	2
	write-down of inventories	5	7
	allowance for impairment of trade receivables	2	2
	other operating income, of which:	**44**	**3**
	impairment losses on fixed assets under construction and intangible assets not yet available for use	41	-
	impairment losses on available-for-sale financial assets	-	1
	allowance for impairment of other receivables	3	2
	Reversal of impairment losses, total	**395**	**14**

in PLN millions, unless otherwise stated

Part 5 - Taxation

Note 5.1 Income tax in the consolidated 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.

Income tax

		2017	2016
	Current income tax	977	810
Note 5.1.1	Deferred income tax	(117)	(125)
	Tax adjustments for prior periods	(86)	(37)
	Income tax	**774**	**648**

In 2017, the Group's entities paid income tax in the amount of PLN 983 million (in 2016: PLN 451 million) to appropriate tax offices.

The table below presents an identification of differences between income tax from profit before tax for the Group and the income tax which could be achieved if the Parent Entity's tax rate was applied:

Reconciliation of effective tax rate

	2017	2016
Profit/(loss) before income tax	**2 299**	**(3 801)**
Tax calculated using the Parent Entity's rate (2017: 19%, 2016: 19%)	437	(722)
Effect of applying other tax rates abroad	(177)	(470)
Tax effect of non-taxable income	(340)	(140)
Tax effect of expenses not deductible for tax purposes, including:	547	1 359
impairment losses on the KGHM INTERNATIONAL LTD. Group's assets	168	1 105
minerals extraction tax, which is not deductible for corporate income tax purposes	335	254
Deductible temporary differences on which deferred tax assets were not recognised	659	619
Utilisation of previously-unrecognised tax losses	(352)	(2)
Other	-	4
Income tax in profit or loss [effective tax rate amounted to 33.7% of profit before income tax (in 2016: 17.0% of loss before income tax]	**774**	**648**

In Poland, tax bodies are empowered to audit tax declarations for a period of five years, although during this period companies may offset tax assets with tax liabilities being the income of the State Treasury (including due to current income tax). In Canada, tax declarations may be audited for a period of three years without the right to offset assets with liabilities due to current income tax.

in PLN millions, unless otherwise stated

Note 5.1.1 Deferred income tax

Accounting policies	Significant estimates and assumptions
Deferred income tax is determined using tax rates and tax 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 deductible temporary differences and unused tax losses can be utilised. Deferred tax assets and deferred tax 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 tax authority.	The probability of realising the deferred tax assets with future tax income is based on the budgets of the companies of the Group. Companies of the Group recognise deferred tax assets in their accounting books to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Companies of the Group which historically have generated losses, and whose financial projections do not foresee the achievement of taxable profit enabling the deduction of deductible temporary differences, do not recognise deferred tax assets in their accounting books.

	2017	2016
Deferred income tax at the beginning of the period, of which:	**(52)**	**(157)**
Deferred tax assets	511	557
Deferred tax liabilities	(563)	(714)
Deferred income tax during the period:		
Recognised in profit or loss	117	125
Recognised in other comprehensive income, due to:	(23)	(20)
deferred income tax	(55)	1
exchange differences from translation of deferred income tax of foreign operations	32	(21)
Deferred income tax at the end of the period, of which:	**42**	**(52)**
Deferred tax assets	389	511
Deferred tax liabilities	(347)	(563)

Maturities of deferred tax assets and deferred tax liabilities were as follows:

	Deferred tax assets		Deferred tax liabilities	
	2017	2016	2017	2016
Maturity over the 12 months from the end of the reporting period	120	200	329	543
Maturity of up to 12 months from the end of the reporting period	269	311	18	20
Total	**389**	**511**	**347**	**563**

in PLN millions, unless otherwise stated

Expiry dates of unused tax losses and tax credits, for which deferred tax assets were not recognised in individual countries are presented in the following table:

	2017				2016			
	Unused tax losses	Expiry date	Unused tax credits	Expiry date	Unused tax losses	Expiry date	Unused tax credits	Expiry date
Luxembourg	3 619	2020	-	-	4 384	2020	-	-
Chile	924	undefined	-	-	1 197	undefined	-	-
Canada	515	2032-2037	44	2015-2021	1 206	2032-2036	53	2015-2021
Other	188	-	132	-	258	-	116	-
Total	**5 246**		**176**		**7 045**		**169**	

As at 31 December 2017, the Parent Entity did not recognise deferred tax liabilities on taxable temporary differences in the amount of PLN 1 185 million (as at 31 December 2016: PLN 1 116 million) related to investments in subsidiaries and shares in joint ventures, as the conditions stipulated in IAS 12.39 were met.

in PLN millions, unless otherwise stated

Deferred tax assets

		Credited/(Charged)				Credited/(Charged)			
	1 January 2016	profit or loss	other comprehensive income	exchange differences from translation of foreign operations statements with a functional currency other than PLN	31 December 2016	profit or loss	other comprehensive income	exchange differences from translation of foreign operations statements with a functional currency other than PLN	31 December 2017
Provision for decommissioning of mines and other technological facilities	177	(21)	-	-	156	6	-	-	162
Measurement of forward transactions	91	(7)	-	-	84	-	-	-	84
Difference between the depreciation rates of property, plant and equipment for accounting and tax purposes	50	29	-	-	79	(10)	-	-	69
Future employee benefits	398	2	(21)	-	379	12	26	-	417
Measurement of available-for-sale financial assets	99	11	-	-	110	(2)	-	-	108
Other	606	36	31	17	690	3	(31)	(23)	639
Total	**1 421**	**50**	**10**	**17**	**1 498**	**9**	**(5)**	**(23)**	**1 479**

Deferred tax liabilities

		(Credited)/Charged				(Credited)/Charged			
	1 January 2016	profit or loss	other comprehensive income	exchange differences from translation of foreign operations statements with a functional currency other than PLN	31 December 2016	profit or loss	other comprehensive income	exchange differences from translation of foreign operations statements with a functional currency other than PLN	31 December 2017
Measurement of forward transactions	33	9	-	-	42	-	-	-	42
Re-measurement of hedging instruments	-	-	-	-	-	-	43	-	43
Difference between the depreciation rates for accounting and tax purposes	1 113	(109)	-	20	1 024	36	-	(44)	1 016
Adjustments due to fair value measurement of KGHM INTERNATIONAL LTD. and realisation of adjustments to the end of the reporting period	281	(125)	-	11	167	(148)	-	(18)	1
Other	151	150	9	7	317	4	7	7	335
Total	**1 578**	**(75)**	**9**	**38**	**1 550**	**(108)**	**50**	**(55)**	**1 437**

in PLN millions, unless otherwise stated

Note 5.2 Other taxes

The following table presents all of the minerals extraction taxes with which the Parent Entity is charged.

	2017	2016	Basis for calculating tax	Tax rate	Presentation in the consolidated statement of profit or loss
Minerals extraction tax, of which:	**1 765**	**1 338**			
- copper	1 407	964	Amount of copper in produced concentrate, expressed in tonnes	Weighted average tax rate calculated for every reporting period *	Taxes and charges in expenses by nature (note 4.1.)
- silver	358	374	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 paid by the Parent Entity 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, with a breakdown by geographical location, were as follows:

	2017	2016
Poland	**456**	**446**
Real estate tax	188	178
Royalties	110	111
Excise tax	41	40
Environmental fees	19	29
Other taxes and charges	98	88
Other countries	**44**	**67**
Total	**500**	**513**

in PLN millions, unless otherwise stated

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 Group's liabilities towards the 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.

	2017	2016
Current corporate income tax assets	41	47
Assets due to taxes, social and health insurance and other benefits	236	220
Tax assets	**277**	**267**

	2017	2016
Current corporate income tax liabilities	88	243
Liabilities due to taxes, social and health insurance and other benefits	542	543
Tax liabilities	**630**	**786**

in PLN millions, unless otherwise stated

Part 6 – Involvement in joint ventures

Accounting policies

The item *involvement in joint ventures* comprises investments in joint ventures accounted for using the equity method and loans granted to a joint venture.

The Group classifies as investments accounted for using the equity method the interest in joint ventures which are joint contractual arrangements, in which the parties sharing control have the right to the net assets of a given entity. Joint control occurs when decisions on the relevant activities of joint ventures require the unanimous consent of the parties sharing control.

Investments are initially recognised at cost. The Group's share in profit or loss of entities accounted for using the equity method (assessed while taking into account the impact of measurements to fair value at the investment's acquisition date) from the acquisition date is recognised in profit or loss, while its share in changes of accumulated other comprehensive income from the acquisition date is recognised in the relevant item of accumulated comprehensive income.

Unrealised gains and losses on transactions between the investor and the joint venture are eliminated in the amount proportional to the investor's share in these profits/losses.

If there are any indications of impairment, an investment is tested for impairment by calculating the recoverable amount in accordance with the policy presented in Part 3.

Loans granted to a joint venture do not meet the criteria of recognition as net investments in a joint venture. Loans are initially recognised at fair value and measured at the reporting date at amortised cost, including allowances for impairment.

Significant estimates and assumptions

Joint control

The Group classifies the agreement "JV Sierra Gorda" as a joint venture under IFRS 11, in which KGHM INTERNATIONAL LTD's share equals 55%, and which was entered into in order to mine copper and molybdenum in the Sierra Gorda area (Chile).

Classification of Sierra Gorda S.C.M. as a joint venture, despite the 55% share of the Group, was made based on analysis of the terms of the agreements between the parties and contractual stipulations which indicated joint control. Pursuant to the terms of the agreements, all relevant activities of Sierra Gorda S.C.M. require the unanimous consent of both owners. The Group and other owners have three members each in the appointed Owners Council. The Owners Council makes strategic decisions and is responsible for overseeing their execution. Moreover, it approves the appointment of senior management. In the reporting period, there were no changes to provisions that were the basis of classifying the investment as a joint venture.

Note 6.1 Joint ventures accounted for using the equity method

	2017			2016		
	Sierra Gorda S.C.M.	Other entities	Total	Sierra Gorda S.C.M.	Other entities	Total
At the beginning of the financial year	**-**	**27**	**27**	**534**	**28**	**562**
Acquisition of shares	461	-	461	671	-	671
Share of losses of joint ventures accounted for using the equity method	(474)	-	(474)	(1 199)	(1)	(1 200)
Liquidation of a joint venture	-	(19)	(19)	-	-	-
Exchange differences from the translation of foreign operation statements with a functional currency other than PLN	13	-	13	(6)	-	(6)
At the end of the financial year	**-**	**8**	**8**	**-**	**27**	**27**

	2017	2016
The Group's share (55%) of loss for the period, of which:	**(525)**	**(6 015)**
recognised share of joint ventures' loss	(474)	(1 199)
unrecognised share of joint ventures' loss	(51)	(4 816)

in PLN millions, unless otherwise stated

Information on entities accounted for using the equity method

	Main place of business	% of share capital held by the Group	% of voting power	Value of the investment in the consolidated statement of financial position	
Jointly controlled entities				2017	2016
Sierra Gorda S.C.M.	Chile	55	50	-	-
Other	Poland			8	27
Total				**8**	**27**

Condensed financial data of Sierra Gorda S.C.M. is presented in the table below

	2017	2016
Non-current assets	**13 524**	**15 348**
Current assets, including:	**1 228**	**1 352**
Cash and cash equivalents	358	382
Non-current liabilities, including:	**17 928**	**21 011**
Liabilities due to bank loans	1 915	2 967
Liabilities due to loans granted by jointly-controlling entities	14 244	15 795
Current liabilities, including:	**2 509**	**2 408**
Liabilities due to bank loans	533	374
Fair value of net assets	**(5 685)**	**(6 719)**
The Group's share in net assets (55%)	(3 126)	(3 695)
Cumulatively unrecognised share of losses of Sierra Gorda S.C.M.	4 867	4 816
Balance of impairment loss on interest in Sierra Gorda S.C.M.	(671)	(671)
Adjustment by the value of unrealised gains	(110)	(110)
Exchange differences from the translation of changes of investment in Sierra Gorda S.C.M. using exchange rates from prior periods	(960)	(340)
Value of the investment in the consolidated statement of financial position	**-**	**-**
Sales revenue	3 623	2 534
Depreciation/amortisation	(845)	(1 533)
Impairment loss on property, plant and equipment	-	(12 233)
Interest costs	(1 419)	(1 464)
Other incomes/(costs)	(2 579)	(2 347)
Loss before income tax	**(1 220)**	**(15 043)**
Income tax	265	4 107
Loss for the period	**(955)**	**(10 936)**
Total comprehensive income	**(955)**	**(10 936)**

		Other information on the Group's involvement in the joint venture Sierra Gorda S.C.M.	
		2017	2016
	Group's share in commitments (investment and operating)	2 248	2 579
	Group's share in the total amount of future minimal payments due to leasing agreements for mining equipment	777	1 044
Note 12.5	Guarantees granted by the Group	1 740	1 289

in PLN millions, unless otherwise stated

Note 6.2 Loans granted to joint ventures (Sierra Gorda S.C.M.)

Accounting policies	Significant estimates and assumptions
Assets included, in accordance with IAS 39, in the category “loans and receivables” are initially recognised at fair value and measured at the reporting date at amortised cost using the effective interest rate, reflecting impairment.	The terms of repayment of loans granted to finance operations abroad, including planned repayment dates, were set in individual agreements. Pursuant to the schedule, the principal amount and interest are paid on demand, but not later than 15 December 2024. The start of repayment of loans by Sierra Gorda S.C.M. will depend on the company’s financial standing. It is assumed in the long-term plans of Sierra Gorda S.C.M. that the loans will be repaid with interest. Due to the fact that settling the loan is planned and probable in the foreseeable future, the loan is not a net investment under IAS 21.15

		2017	2016
	At the beginning of the financial year	**4 313**	**7 504**
	Accrued interest	319	633
Note 4.4	Allowance for impairment of loans granted	-	(4 394)
	Exchange differences from the translation of foreign operation statements with a functional currency other than PLN	(743)	570
	At the end of the financial year	**3 889**	**4 313**

Credit risk related to the loans granted depends on the risk related to realisation of the mining joint venture in Chile (Sierra Gorda S.C.M.). Due to the identified indications, in 2016 the Group performed impairment testing of mining assets and as at 31 December 2016 recognised an allowance for impairment of loans granted in the amount of PLN 4 394 million.

Loans granted to Sierra Gorda S.C.M. are in the functional currency of the KGHM INTERNATIONAL LTD. Group and therefore they are not associated with the **currency risk**.

These loans’ interest rates are fixed and therefore they are exposed to changes in fair value due to interest rates volatility. As the loans are measured at amortised cost, changes in their fair values are not recognised in the consolidated financial statements of the Group.

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		2017 Available-for-sale	2017 At fair value through profit or loss	2017 Loans and financial receivables	2017 Hedging instruments	2017 Total	2016 Available-for-sale	2016 At fair value through profit or loss	2016 Loans and financial receivables	2016 Hedging instruments	2016 Total
	Non-current	614	11	4 651	99	**5 375**	577	41	5 243	196	**6 057**
Note 6.2	Loans granted to joint ventures	-	-	3 889	-	**3 889**	-	-	4 313	-	**4 313**
Note 7.2	Derivatives	-	11	-	99	**110**	-	41	-	196	**237**
Note 7.3	Other financial instruments measured at fair value	614	-	-	-	**614**	577	-	-	-	**577**
Note 7.4	Other financial assets	-	-	762	-	**762**	-	-	930	-	**930**
	Current	59	1	2 314	195	**2 569**	56	-	2 295	72	**2 423**
Note 10.2	Trade receivables	-	-	1 522	-	**1 522**	-	-	1 292	-	**1 292**
Note 7.2	Derivatives	-	1	-	195	**196**	-	-	-	72	**72**
Note 8.5	Cash and cash equivalents	-	-	586	-	**586**	-	-	860	-	**860**
Note 12.3	Other financial assets	59	-	206	-	**265**	56	-	143	-	**199**
	Total	**673**	**12**	**6 965**	**294**	**7 944**	**633**	**41**	**7 538**	**268**	**8 480**

Categories of financial liabilities in accordance with IAS 39		2017 At fair value through profit or loss	2017 At amortised cost	2017 Hedging instruments	2017 Total	2016 At fair value through profit or loss	2016 At amortised cost	2016 Hedging instruments	2016 Total
	Non-current	**137**	**6 398**	**71**	**6 606**	129	5 538	1 347	**7 014**
Note 8.4.1	Borrowings	-	6 191	-	**6 191**	-	5 319	1 220	**6 539**
Note 7.2	Derivatives	137	-	71	**208**	129	-	127	**256**
	Other financial liabilities	-	207	-	**207**	-	219	-	**219**
	Current	48	2 913	62	**3 023**	31	3 088	218	**3 337**
Note 8.4.1	Borrowings	-	965	-	**965**	-	1 525	34	**1 559**
Note 7.2	Derivatives	48	-	62	**110**	31	-	184	**215**
	Trade payables	-	1 823	-	**1 823**	-	1 433	-	**1 433**
	Other financial liabilities	-	125	-	**125**	-	130	-	**130**
	Total	185	9 311	133	**9 629**	**160**	**8 626**	**1 565**	**10 351**

in PLN millions, unless otherwise stated

Gains/(losses) on financial instruments in accordance with IAS 39 categories

	2017	Available-for-sale financial assets	Financial assets/liabilities measured at fair value through profit or loss	Loans and financial receivables	Financial liabilities measured at amortised cost	Hedging instruments	Total
	Dividends income	1	-	-	-	-	1
	Interest income	-	-	331	-	-	331
Note 4.3	Interest costs	-	-	-	(96)	-	(96)
Note 4.2	Foreign exchange losses	-	-	(1 051)	(415)	-	(1 466)
Note 4.3	Foreign exchange gains	-	-	-	1 251	-	1 251
Note 4.4	Impairment losses (recognised)/reversed	-	-	(43)	-	-	(43)
Note 7.2	Adjustment to sales due to hedging transactions	-	-	-	-	16	16
Note 4.2	Gains on measurement and realisation of derivatives	-	231	-	-	-	231
Note 4.2	Losses on measurement and realisation of derivatives	-	(492)	-	-	-	(492)
Note 4.3	Losses on measurement of derivatives	-	(30)	-	-	-	(30)
Note 4.3	Fees and charges on bank loans drawn	-	-	-	(44)	-	(44)
	Other losses	-	-	(20)	(9)	-	(29)
	Total net gain/(loss)	**1**	**(291)**	**(783)**	**687**	**16**	**(370)**

	2016	Available-for-sale financial assets	Financial assets/liabilities measured at fair value through profit or loss	Loans and financial receivables	Financial liabilities measured at amortised cost	Hedging instruments	Total
	Dividends income	1	-	-	-	-	1
	Interest income	-	-	645	-	-	645
Note 4.3	Interest costs	-	-	-	(85)	-	(85)
Note 4.2	Foreign exchange gains/(losses)	-	-	613	(102)	-	511
Note 4.3	Foreign exchange losses	-	-	-	(401)	-	(401)
Note 4.4	Impairment losses (recognised)/reversed	(57)	-	(4 402)	-	-	(4 459)
Note 7.2	Adjustment to sales due to hedging transactions	-	-	-	-	3	3
Note 4.2	Gains on measurement and realisation of derivatives	-	167	-	-	-	167
Note 4.3	Gains on measurement of derivatives	-	26	-	-	-	26
Note 4.2	Losses on measurement and realisation of derivatives	-	(371)	-	-	-	(371)
Note 4.3	Losses on measurement of derivatives	-	(9)	-	-	-	(9)
Note 4.3	Fees and charges on bank loans drawn	-	-	-	(61)	-	(61)
	Other losses	-	-	(16)	(7)	-	(23)
	Total net gain/(loss)	**(56)**	**(187)**	**(3 160)**	**(656)**	**3**	**(4 056)**

in PLN millions, unless otherwise stated

The fair value hierarchy of financial instruments

Classes of financial instruments	2017 Level 1	2017 Level 2	2016 Level 1	2016 Level 2
Listed shares	617	-	577	-
Other financial assets	-	57	-	58
Derivatives	-	(12)	-	(162)
Assets	-	306	-	309
Liabilities	-	(318)	-	(471)

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 Group applies hedge accounting for cash flows. Hedge accounting aims at reducing volatility in the Group's profit or loss for the period, arising from periodic changes in the measurement of transactions hedging individual types of market risk to which the Group 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 Group estimates that the probability that these transactions will occur is very high, as in the past sales were always realised at the levels assumed in Sales Plans.

The Group 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 Group 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 Group ceases to account for derivatives as hedging instruments when they expire, are sold, terminated or settled, or when the Group revokes the designation of a given instrument as a hedging instrument.

The Group 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 transferred to profit or loss as a reclassification adjustment.

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

Type of derivative	2017 Financial assets Current	2017 Financial assets Non-current	2017 Financial liabilities Current	2017 Financial liabilities Non-current	2017 Net total	2016 Financial assets Current	2016 Financial assets Non-current	2016 Financial liabilities Current	2016 Financial liabilities Non-current	2016 Net total
Derivatives – Commodity contracts - Metals - Copper										
Purchased put options	-	-	-	-	-	15	-	-	-	15
Options - seagull*	6	33	(62)	(71)	(94)	26	100	(4)	(30)	92
Derivatives – Commodity contracts - Metals - Silver										
Options - put spread*	-	-	-	-	-	22	3	-	-	25
Derivatives – Currency contracts										
Options - collar	189	66	-	-	255	9	93	(180)	(97)	(175)
TOTAL HEDGING INSTRUMENTS	**195**	**99**	**(62)**	**(71)**	**161**	**72**	**196**	**(184)**	**(127)**	**(43)**

* The table presents only the transactions designated as hedging.

Open hedging derivatives	Notional Copper [t] Currency [USD million]	Avg. weighted price/exchange rate [USD/t] [USD/PLN]	Maturity/ settlement period From	Maturity/ settlement period To	Period of profit/loss impact From	Period of profit/loss impact To
Copper – purchased put options	21 000	5 743	Jan 18	June 18	Feb 18	July 18
Copper – seagull*	105 000	5 880 – 7 680	Jan 18	Dec 19	Feb 18	Jan 20
Currency - collar	780	3.78 – 4.73	Jan 18	June 19	Jan 18	June 19

* The table presents only the transactions designated as hedging.

in PLN millions, unless otherwise stated

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

Type of derivative	2017					2016				
	Financial assets		Financial liabilities		Net total	Financial assets		Financial liabilities		Net total
	Current	Non-current	Current	Non-current		Current	Non-current	Current	Non-current	
Derivatives – Commodity contracts - Metals - Copper										
Options - seagull*	-	-	-	(2)	(2)	-	-	(2)	(21)	(23)
Derivatives – Commodity contracts - Metals - Silver										
Options - put spread*	-	-	-	-	-	-	-	(3)	(1)	(4)
Derivatives – Currency contracts										
Collar and forward/swap USD and EUR	1	1	-	-	2	-	-	(1)	-	(1)
Sold put options USD	-	-	(12)	(11)	(23)					
Derivatives – interest rate										
Options - purchased interest rate cap options	-	10	-	-	10	-	41	-	-	41
Embedded derivatives										
Acid and water supply contracts	-	-	(36)	(124)	(160)	-	-	(25)	(107)	(132)
TOTAL TRADE INSTRUMENTS	**1**	**11**	**(48)**	**(137)**	**(173)**	**-**	**41**	**(31)**	**(129)**	**(119)**

* The table presents only the transactions not designated as hedging.

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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 forward prices from the maturity dates of individual transactions were used to determine their fair value. The forward price for currency exchange rates is calculated on the basis of fixing and appropriate interest rates. Interest rates for currencies and the volatility ratios for exchange rates are taken from Reuters. The standard Garman-Kohlhagen model is used to measure European options on currency markets.
- In the case of forward commodity purchase or sell transactions, the Parent Entity uses forward prices from the maturity dates of individual transactions 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 at the end of the reporting period is used. 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 and hedging transactions on the items of 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	**2017**	**2016**
	Sales revenue	16	3
	Other operating and finance income/costs:	(291)	(187)
	On realisation of derivatives	(8)	(19)
	On measurement of derivatives	(283)	(168)
	Impact of derivatives and hedging instruments on profit or loss for the period	**(275)**	**(184)**
	Statement of comprehensive income in the part concerning other comprehensive income		
	Impact of hedging transactions	**381**	(165)
Note 8.2.2	Impact of measurement of hedging transactions (effective portion)	397	(162)
Note 8.2.2	Reclassification to sales revenues due to realisation of a hedged item	(16)	(3)
	TOTAL COMPREHENSIVE INCOME	**106**	**(349)**

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”. This category mainly includes shares not available for sale in the short term. Available-for-sale financial assets are initially measured at fair value plus transaction costs, and at the end of the reporting period they are measured at fair value with gains/losses on measurement recognised in other comprehensive income, up to the moment when impairment occurs, which is recognised in profit or loss.	Assessment of the market value of available-for-sale assets as compared to their purchase price is performed at the end of the reporting period. In accordance with the adopted accounting policy, the Group recognises impairment of the carrying amount of assets if there is a significant decrease in fair value (by 20%) or if there is 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. As at 31 December 2017 the value of the shares of Tauron Polska Energia S.A. amounted to PLN 555 million and was higher by PLN 36 million as compared to the previous year. The amount of PLN 36 million increased other comprehensive income.

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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.	

	2017	2016
Shares in companies listed on a stock exchange (Warsaw Stock Exchange and TSX Venture Exchange)	617	577
Other	56	56
Financial assets measured at fair value	**673**	**633**

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 Group is exposed to price risk. In accordance with applied principles arising from the requirements of IFRS 9, from 1 January 2018, the Group will classify all equity instruments it has as at 1 January 2018 as assets measured at fair value through other comprehensive income and, pursuant to IFRS 9, changes in fair value (including impairment) will be recognised in other comprehensive income. As a result of the above, the Group will not be exposed to the risk of a change in profit or loss caused by changes in the share prices of these companies. Detailed information is presented in Note 1.4.1.4 (a) (iii).

The following table presents the sensitivity analysis of listed companies shares to price changes based on historical quotations from the 12 months of the reporting period (as at 31 December of each year):

	2017	Percentage change of share price		2016	Percentage change of share price	
		34%	-10%		19%	-17%
	Carrying amount	Other comprehensive income	Profit or loss	Carrying amount	Other comprehensive income	Profit or loss
Listed shares	**617**	211	(61)	**577**	108	(97)

Sensitivity analysis for significant types of market risk, to which the Group is exposed, presents the estimated impact of potential changes in individual risk factors (at the end of the reporting period) on profit or loss and other comprehensive income.

Potential movements in share prices at the end of the reporting period were determined at the level of maximum deviations in a given year.

Note 7.4 Other non-current financial assets

Accounting policies	Major estimates
The item other 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 of the risk of changes in interest rates of cash accumulated on bank accounts of the Mine Closure Fund and Tailings Storage Facility Restoration Fund and of investments in debt instruments is presented in Note 7.5.1.4.

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		2017	2016
	Non-current financial assets designated for decommissioning mines and restoring tailings storage facilities	**403**	**408**
	Cash held in the Mine Closure Fund and Tailings Storage Facility Restoration Fund	342	336
	Debt instruments	61	72
	Other non-current financial receivables, including:	**359**	**522**
	Management fee for Sierra Gorda S.C.M.	308	339
	Other loans granted	20	38
Note 7.1	**Total**	**762**	**930**

As at 31 December 2017, non-current financial assets for decommissioning mines and the restoration of tailings storage facilities were presented by cash and debt securities in the amount of PLN 403 million (2016: PLN 408 million) collected by the Parent Entity and the KGHM INTERNATIONAL LTD. Group based on obligations resulting from law, among others the Law on Geology and Mining and the Waste Act as well as from laws applicable in the United States of America and Canada.

Other non-current financial assets designated for decommissioning mines and restoring tailings storage facilities are exposed to the credit risk described in Note 7.5.2.4.
Details regarding measurement of the provision for the decommissioning costs of mines and other technological facilities are described in Note 9.4.

Note 7.5 Financial risk management

In the course of its business activities the Group is exposed to the following main financial risks:

- market risks:
  - commodity risk,
  - risk of changes in foreign exchange rates,
  - risk of changes in interest rates,
  - price risk related to investments in debt securities,
  - 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 Group identifies and measures financial risk on an ongoing basis, and also takes actions aimed at minimising their impact on the financial position.

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

Financial liquidity management in the Parent Entity is based on the Financial Liquidity Management Policy adopted by the Management Board. In KGHM INTERNATIONAL LTD. liquidity management principles are described in the Investment Policy. These documents describe the process of financial liquidity management while considering the specific character of the Group's companies, indicating procedures and instruments consistent with best practices. The Parent Entity oversees the process of liquidity management and acquiring external financing in the Group.

Note 7.5.1 Market risk

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

Note 7.5.1.1 Principles and techniques of market risk management

In market risk management (especially commodity and currency risk) the scale and profile of activities of the Parent Entity and of mining companies of the KGHM INTERNATIONAL LTD. is of the greatest significance and impact on the results of the KGHM Polska Miedź S.A. Group.

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

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

- limit volatility in the financial result;

- increase the probability of meeting budget targets;
- decrease the probability of losing financial liquidity;
- maintain financial health; and
- support the process of strategic decision making related to investing activities, including financing sources.

The objectives of market risk management should be considered as a whole, and their realisation is determined mainly by the Group's internal situation and market conditions.
The goals of market risk management at the Group level are achieved through their realisation in individual mining companies of the Group, with the coordination of these activities at the Parent Entity's level, in which key tasks related to the process of market risk management in the Group were centralised (such as coordination of the identification of sources of exposure to market risk, proposing hedging strategies, contacting financial institutions in order to sign, confirm and settle derivative transactions, and calculating measurements to fair value).

The primary technique used by the Parent Entity in market risk management is the utilisation of hedging strategies involving derivatives. Natural hedging is also used. Some other domestic companies of the Group make use of derivatives. However, only the Parent Entity applies hedging strategies, as understood by hedge accounting.

Taking into account the potential scope of their impact on the Group'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 Group'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	From the Group's point of view, this group is comprised of less significant risks, although sometimes these risks are significant from individual entities' points of view. Therefore, it is tactically managed - on an ad-hoc basis, taking advantage of favourable market conditions.
Note 7.2		Other exchange rates	
Note 7.2		Interest rates	

In market risk management various approaches are applied for particular, identified exposure groups.
The Parent Entity considers the following factors when selecting hedging strategies or restructuring hedging positions: current and forecasted market conditions, the internal situation of the Entity, the effective level and cost of hedging, and the impact of the minerals extraction tax.

The Parent Entity 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 Parent Entity only executes those derivatives which it has the ability to evaluate 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 Parent Entity uses information obtained from leading information services, banks, and brokers.

The Market Risk Management Policy in the Group 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). The primary instruments 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 Parent Entity in the reporting period is continually monitored and assessed (details in Note 7.2 Accounting policies).

The Parent Entity quantifies its market risk exposure using a consistent and comprehensive measure. Market risk management in the Group 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 to market risk.

One of the measures used as an auxiliary tool in making decisions in the market risk management process in the Parent Entity 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. EBITDA-at-Risk ratio is calculated for both the KGHM INTERNATIONAL LTD. Group and the JV Sierra Gorda S.C.M.

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, limits with respect to commitment in derivatives have been set.

For the Parent Entity limits on metals and currency markets were set at:

- 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 Parent Entity (for financing the hedging strategy), and up to 85% with respect to instruments representing the rights of the Parent Entity,
- 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 the 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.

With respect to the risk of changes in interest rates, the Parent Entity 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.

For selected mining companies in the Group, limits were set for using derivatives on the copper and currency markets at the same levels as those functioning in the Parent Entity, while with respect to transactions on the nickel, silver and gold markets the limits were set as up to 60% of planned, monthly sales volume from own concentrates.

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 Group 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 Group.

Note 7.5.1.2 Commodity risk

The Parent Entity is exposed to the risk of changes in the prices of the metals it sells: copper, silver, gold and lead. Furthermore, the KGHM INTERNATIONAL LTD. Group is exposed to the risk of changes in the prices of copper, gold, nickel, molybdenum, platinum and palladium.

In the Parent Entity and the KGHM INTERNATIONAL LTD. Group, the price formulas used in physical delivery contracts are mainly based on average monthly quotations from the London Metal Exchange for copper and other common metals and from the London Bullion Market for precious metals. Within the commercial policy, the Parent Entity and KGHM INTERNATIONAL LTD. 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 Group's benchmark profile, in particular in terms of the reference prices and the quotation periods.
On the metals market, the Group has a so-called long position, which means it has higher sales than purchases. The analysis of the Group's strategic exposure to market risk should be performed by deducting from the volume of metals sold the amount of metal in purchased materials.

in PLN millions, unless otherwise stated

In the reporting and comparable periods the Group's strategic exposure to the risk of changes in the price of its primary metals is presented below:

	2017			2016		
	Net	**Sales**	**Purchases**	**Net**	**Sales**	**Purchases**
Copper [t]	436 737	586 391	149 654	477 303	649 936	172 633
Silver [t]	1 163	1 185	22	1 253	1 279	26

The notional amount of copper price hedging strategies settled in 2017 represented approx. 23% (in 2016: 10%) of the total sales of this metal realised by the Parent Entity (it represented approx. 32% of net sales in 2017 and 14% in 2016). Moreover, the notional amount of silver price hedging strategies settled in 2017 represented approx. 7% of the total sales of this metal realised by the Parent Entity in this period (in 2016: approximately 3%).

With respect to managing risk in 2017, the Parent Entity implemented copper price hedging transactions with a total notional amount of 126 thousand tonnes and a hedging horizon from April 2017 to December 2019 (where 84 thousand tonnes were in respect of the period from January 2018 to December 2019). Put options were purchased (Asian options) and seagull options structures were implemented (Asian options). In 2017 the Parent Entity did not implement derivatives transactions on the silver market.

As the result, as at 31 December 2017 the Parent Entity held open derivatives transactions on the copper market for 126 thousand tonnes and did not hold open derivatives transactions on the silver market.

The condensed table of open derivatives transactions held by the Parent Entity on the copper market as at 31 December 2017 is presented below (the hedged notional in the presented periods is allocated evenly on a monthly basis).

	Instrument	**Notional**	**Option strike price**			**Average weighted premium**	**Effective hedge price**	**Hedge limited to**	**Participation limited to**
			Sold put option	Purchased put option	Sold call option				
		[tonnes]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]	[USD/t]
1st half	Seagull	21 000	4 200	5 400	7 200	-230	5 170	4 200	7 200
	Put option	9 000		5 800		-250	5 550		
	Put option	12 000		5 700		-235	5 465		
2nd half	Seagull	21 000	4 200	5 400	7 200	-230	5 170	4 200	7 200
	Seagull	21 000	4 700	6 200	8 000	-226	5 974	4 700	8 000
	TOTAL 2018	**84 000**							
1st half	Seagull	21 000	4 700	6 200	8 000	-226	5 974	4 700	8 000
2nd half	Seagull	21 000	4 700	6 200	8 000	-226	5 974	4 700	8 000
	TOTAL 2019	**42 000**							

In 2017, neither KGHM INTERNATIONAL LTD. nor any of the mining companies implemented any forward transactions on the commodity market. As at 31 December 2017, the risk of changes in metals prices was related to derivatives embedded in the long-term contracts for supply of sulphuric acid and water.

The sensitivity analysis of the Group for risk of changes in copper prices as at 31 December 2017 is presented in the table below:

Financial assets and liabilities	Value at risk [PLN million]	Carrying amount 31.12.2017 [PLN million]	Copper price change [USD/t] 7 046 (+28%)		4 105 (-26%)	
			Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income
Derivatives - copper	(96)	(96)	29	(523)	131	190
Embedded derivatives	(160)	(160)	(64)	-	59	-
Impact on profit or loss			**(35)**		**190**	
Impact on other comprehensive income				**(523)**		**190**

The sensitivity analysis of the Company for risk of changes in copper prices as at 31 December 2016 is presented in the table below:

Financial assets and liabilities	Value at risk [PLN million]	Carrying amount 31.12.2016 [PLN million]	Copper price change [USD/t] 7 046 +28%		4 105 -26%	
			Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income
Derivatives - copper	83	83	(222)	-	(178)	519
Embedded derivatives	(132)	(132)	(36)	-	72	-
Impact on profit or loss			**(258)**		**(106)**	
Impact on other comprehensive income				**-**		**519**

In order to determine the potential movements in metals prices for purposes of sensitivity analysis of commodity risk factors (copper), the mean reverting Schwarz model (the geometrical Ornstein-Uhlenbeck process) was used.

Note 7.5.1.3 Risk of changes in foreign exchange rates

Regarding the risk of changes in foreign exchange rates within the KGHM Polska Miedź S.A. Group, the following types of exposures were identified:

- transaction exposure related to the volatility of cash flows in the base currency;
- exposure related to the volatility of selected items of the statement of financial position in the base (functional) currency;
- the exposure to net investments in foreign operations concerning volatility of consolidated equity in the Group's base currency (presentation currency).

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

The exposure to currency risk derives also from items in the consolidated statement of financial position denominated in foreign currencies, which under the existing accounting regulations must be, upon settlement or periodic valuation, including due to the translation of foreign operations statements, 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 consolidated 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;

- cash and cash equivalents in foreign currencies; and
- derivatives.

As for the currency market, the notional amount of settled transactions hedging revenues from metals sales amounted to approx. 26% (in 2016: 40%) of the total revenues from sales of copper and silver realised by the Parent Entity in 2017.

In 2017, the Parent Entity implemented transactions on the currency market as part of the restructurisation of an open position hedging against a change in the USD/PLN exchange rate. Written call options for the period from May to December 2017 with a total notional amount of USD 360 million (entered into in 2014 as part of the purchased collar-type options structures) were repurchased. The repurchase of these call options was financed by the sale of put options with a strike price of around USD/PLN 3.24 for the period from January 2018 to June 2019, i.e. for the period for which the Parent Entity held open collar strategies with a total notional amount of USD 780 million. Therefore, collar options strategies hedging revenues from sales in the period from January 2018 to June 2019 were transformed into seagull strategies.

As at 31 December 2017, the Parent Entity held an open hedging position in derivatives for USD 780 million of planned revenues from sales of metals.

Some of the Group's Polish companies managed the currency risk related to their core business (for example trade) by opening transactions in derivatives, among others on the USD/PLN and EUR/PLN markets. The table of open transactions as at 31 December 2017 is not presented, due to its immateriality for the Group.

As for managing currency risk which may arise from bank loans, the Parent Entity applies natural hedging by borrowing in currencies in which it has revenues. As at 31 December 2017, following their translation to PLN, the bank loans and the investment loan which were drawn in USD amounted to PLN 6 935 million (as at 31 December 2016: PLN 7 932 million).

On 31 March 2017, the Parent Entity ended the hedging relationship of the first instalment of the loan granted by the European Investment Bank (USD 300 million), designated in 2014 to hedge revenues from sales against the risk of changes in USD/PLN exchange rate for the period from October 2017 to October 2026. Pursuant to IAS 39, cumulative losses (PLN 144.8 million as at 31 December 2017) related to a hedging instrument (which are recognised directly in other comprehensive income in the period in which the hedge was effective) are under a separate item in other comprehensive income until the planned transactions occur, i.e. until the loan's principal instalments are repaid.

The condensed table of open transactions in derivatives held by the Parent Entity on the currency market as at 31 December 2017 is presented below (the hedged notional in the presented periods is allocated evenly on a monthly basis).

	Instrument	Notional	Option strike price			Average weighted premium	Effective hedge price	Hedge limited to	Participation limited to
			Sold put option	Purchased put option	Sold call option				
		[USD million]	[USD/PLN]	[USD/PLN]	[USD/PLN]	[PLN for USD 1]	[USD/PLN]	[USD/PLN]	[USD/PLN]
1st half	Seagull	120	3.24	3.75	4.50	-0.03	3.72	3.24	4.50
	Seagull	180	3.24	3.80	4.84	0.01	3.81	3.24	4.84
2nd half	Seagull	120	3.24	3.75	4.50	-0.02	3.73	3.24	4.50
	Seagull	180	3.24	3.80	4.84	0.01	3.81	3.24	4.84
	TOTAL 2018	**600**							
1st half	Seagull	180	3.24	3.80	4.84	0.02	3.82	3.24	4.84
	TOTAL I-VI 2019	**180**							

The currency structure of financial instruments exposed to currency risk (change in the USD/PLN, EUR/PLN, CAD/PLN and GBP/PLN exchange rates) of the KGHM Polska Miedź S.A. Group is presented in the tables below:
An analysis for other currencies is not presented, due to their immateriality.

Financial instruments	Value at risk as at 31 December 2017				
	total PLN million	USD million	EUR million	CAD million	GBP million
Shares	**6**	-	-	2	-
Trade receivables	**1 110**	264	28	16	7
Cash and cash equivalents	**478**	95	22	14	3
Loans granted to joint ventures	**3 889**	1 117	-	-	-
Other financial assets	**547**	119	-	22	2
Derivatives*	**(12)**	(70)	-	-	-
Trade payables	**(604)**	(105)	(45)	(18)	-
Borrowings	**(7 043)**	(1 992)	(26)	-	-
Other financial liabilities	**(8)**	(1)	(1)	-	-

*Transactions on the commodities and interest rate markets which are denominated in USD and translated to PLN at the exchange rate as at the end of the reporting period are presented in the item "derivatives", in the column "USD million", while the column "total PLN million" also includes the fair value of derivatives on the currency market which are denominated solely in PLN.

Financial instruments	Value at risk as at 31 December 2016				
	total PLN million	USD million	EUR million	CAD million	GBP million
Shares	**8**	-	-	3	-
Trade receivables	**960**	172	27	34	3
Cash and cash equivalents	**645**	109	25	24	1
Loans granted to joint ventures	**4 313**	1 032	-	-	-
Other financial assets	**694**	143	1	28	1
Derivatives*	**(162)**	3	-	-	-
Trade payables	**(441)**	(55)	(28)	(28)	-
Borrowings	**(7 974)**	(1 896)	(11)	-	-
Other financial liabilities	**(28)**	(4)	(1)	(2)	-

*Transactions on the commodities and interest rate markets which are denominated in USD and translated to PLN at the exchange rate as at the end of the reporting period are presented in the item "derivatives", in the column "USD million", while the column "total PLN million" also includes the fair value of derivatives on the currency market which are denominated solely in PLN.

The sensitivity analysis of the Group for currency risk as at 31 December of each year is presented in the tables below:

2017	Value at risk	Carrying amount 31.12.2017	Change in the USD/PLN exchange rate				Change in the EUR/PLN exchange rate		Change in the CAD/PLN exchange rate		Change in the GBP/PLN exchange rate	
			4.00 (+15%)		2.99 (-14%)		4.58 (+10%)	3.87 (-7%)	3.16 (+14%)	2.44 (-12%)	5.39 (+15%)	4.15 (-12%)
Financial assets and liabilities	[PLN million]	[PLN million]	profit or loss	other comprehensive income	profit or loss	other comprehensive income	profit or loss	profit or loss	profit or loss	profit or loss	profit or loss	profit or loss
Shares	**6**	**614**	-	-	-	-	-	-	1	(1)	-	-
Trade receivables	**1 100**	**1 522**	110	-	(104)	-	9	(7)	5	(4)	4	(3)
Cash and cash equivalents	**478**	**586**	40	-	(38)	-	7	(5)	4	(4)	2	(1)
Loans granted to joint ventures	**3 889**	**3 889**	467	-	(442)	-	-	-	-	-	-	-
Other financial assets	**547**	**1 027**	**57**	-	(54)	-	-	-	7	(6)	1	(1)
Derivatives	**(12)**	**(12)**	50	(238)	(24)	181	(4)	4	-	-	-	-
Trade payables	**(604)**	**(1 823)**	(44)	-	41	-	(15)	11	(6)	5	-	-
Borrowings	**(7 043)**	**(7 156)**	(833)	-	789	-	(9)	6	-	-	-	-
Other financial liabilities	**(8)**	**(332)**	(1)	-	1	-	-	-	-	-	-	-
		Impact on profit or loss	**(154)**		**169**		**(12)**	**9**	**11**	**(10)**	**7**	**(5)**
		Impact on other comprehensive income		**(238)**		**181**						

2016	Value at risk	Carrying amount 31.12.2016	Change in the USD/PLN exchange rate				Change in the EUR/PLN exchange rate		Change in the CAD/PLN exchange rate		Change in the GBP/PLN exchange rate	
			4.89 (+17%)		3.54 (-15%)		4.92 (+11%)	4.04 (-9%)	3.55 (+14%)	2.69 (-13%)	5.88 (+14%)	4.47 (-13%)
Financial assets and liabilities	[PLN million]	[PLN million]	profit or loss	other comprehensive income	profit or loss	other comprehensive income	profit or loss	profit or loss	profit or loss	profit or loss	profit or loss	profit or loss
Shares	**8**	**577**	-	-	-	-	-	-	1	(1)	-	-
Trade receivables	**960**	**1 292**	98	-	(89)	-	11	(8)	12	(11)	2	(2)
Cash and cash equivalents	**645**	**860**	62	-	(57)	-	10	(8)	9	(8)	1	(1)
Loans granted to joint ventures	**4 313**	**4 313**	591	-	(538)	-	-	-	-	-	-	-
Other financial assets	**694**	**1 129**	82	-	(75)	-	-	-	10	(9)	1	(1)
Derivatives	**(162)**	**(162)**	(134)	(744)	262	293	(6)	5	-	-		
Trade payables	**(441)**	**(1 433)**	(31)	-	29	-	(11)	9	(10)	9		
Borrowings	**(7 974)**	**(8 098)**	(915)	(172)	784	156	(5)	4	-	-		
Other financial liabilities	**(28)**	**(345)**	(2)	-	2	-	-	-	(1)	1		
		Impact on profit or loss	**(249)**		**318**		**(1)**	**2**	**21**	**(19)**	**4**	**(4)**
		Impact on other comprehensive income		**(916)**		**449**						

In order to determine the potential movements in USD/PLN, EUR/PLN, CAD/PLN and GBP/PLN exchange rates for sensitivity analysis purposes, the Black-Scholes model (the geometrical Brownian motion) was used.

Note 7.5.1.4 Interest rate risk

In 2017 the Group was exposed to the risk of changes in interest rates due to loans granted to joint ventures, investing cash and using borrowings.

Positions with variable interest rates expose the Group 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 profit or loss). Positions with fixed interest rates expose the Group 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:

	2017			2016		
	Cash flow risk	Fair value risk	Total	Cash flow risk	Fair value risk	Total
Cash and cash equivalents	923*	-	923	1 195*	-	1 195
Loans granted	-	3 909	3 909	-	4 351	4 351
Borrowings	(5 179)**	(1 967)	(7 146)	(6 391)**	(1 684)	(8 075)

* Presented amounts include cash accumulated in special purpose funds: Mine Closure Fund and Tailings Storage Facility Restoration Fund
** Presented amounts include the preparation fee paid which decreases financial liabilities due to bank loans

Natural hedging against interest rates risk included the third instalment of the loan from the European Investment Bank, which was drawn based on a fixed interest rate.

In 2017, the Parent Entity did not implement any new derivative transactions hedging against an increase of the interest rate (LIBOR USD).

The condensed table of open transactions in derivatives on the interest rate market as at 31 December 2017 is presented below (maturity dates of options fall are at the end of subsequent quarters):

Instrument	Notional	Option strike price	Average weighted premium		Effective hedge level
	[USD million]	[LIBOR 3M]	[USD for USD 1 million hedged]	[%]	[LIBOR 3M]
Purchase of interest rate cap options **QUARTERLY IN 2018**	900	2.50%	734	0.29%	2.79%
Purchase of interest rate cap options **QUARTERLY IN 2019**	1 000	2.50%	381	0.15%	2.65%
Purchase of interest rate cap options **QUARTERLY IN 2020**	1 000	2.50%	381	0.15%	2.65%

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

	2017		2016	
	+2.0%	-0.5%	+2%	-0.5%
Cash and cash equivalents	12	(3)	17	(4)
Borrowings	(104)	26	(128)	32
Derivatives – interest rate	150	(8)	172	(16)
Total impact on profit/loss	**58**	**15**	**61**	**12**

in PLN millions, unless otherwise stated

Note 7.5.2 Credit risk

Credit risk is defined as the risk that the Group's counterparties will not be able to meet their contractual obligations and 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 sources of exposure to credit risk are:

- cash and cash equivalents and bank deposits;
- derivatives;
- trade receivables;
- loans granted (Note 6.2);
- 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 Group allocates periodically 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 Group, operate in the financial sector. Analysis of exposure to this type of risk, conducted on 31 December 2017 for the amount of PLN 573 million comprising 99% of the Group's cash deposited in financial institutions, indicated that these are solely banks with the highest, medium-high and medium ratings, and which have an appropriate level of equity and a strong, stable market position. In the Parent Entity and KGHM INTERNATIONAL LTD., the credit risk in this regard is monitored through the on-going review of their financial standing and by maintaining an appropriately low concentration levels in individual financial institutions.

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

Rating level		2017	2016
Highest	AAA to AA- according to S&P and Fitch, and from Aaa to Aa3 according to Moody's	27%	20%
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	60%	46%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	13%	34%

** Weighed by amount of deposits.*

As at 31 December 2017, the maximum share of one bank in relation to the level of cash allocated by the Group amounted to 36% (as at 31 December 2016: 32%).

Note 7.5.2.2 Credit risk related to derivative transactions

All entities with which derivative transactions (excluding embedded derivatives) are entered into by the Group operate in the financial sector.

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

Rating level		2017	2016
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	100%	100%

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

Taking into consideration the fair value of open derivative transactions entered into by the Group and the fair value of unsettled derivatives, as at 31 December 2017 the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 47%, i.e. PLN 124 million (as at 31 December 2016: 32%, i.e. PLN 47 million).

In order to reduce cash flows and at the same time to limit credit risk, the Parent Entity carries out net settlements (based on framework agreements entered into with its customers) to the level of the positive balance of fair value measurement of transactions in derivatives with a given counterparty. Moreover, the resulting credit risk is continuously monitored by the review of the credit ratings and is limited by striving to diversify the portfolio while implementing hedging strategies.

Despite the concentration of credit risk associated with derivatives' transactions, the Parent Entity has determined that, due to its cooperation only with renowned financial institutions, as well as continuous monitoring of their ratings, it is not materially exposed to credit risk as a result of transactions concluded with them.

in PLN millions, unless otherwise stated

The fair value of open derivatives of the Group (excluding the embedded derivatives) and receivables due to unsettled derivatives are presented by main counterparties in the table below.

	2017			2016		
	Financial receivables	Financial liabilities	Net	Financial receivables	Financial liabilities	Net
Counterparty 1	124	-	**124**	47	(69)	**(22)**
Counterparty 2	77	(27)	**50**	59	(33)	**26**
Counterparty 3	37	-	**37**	23	(52)	**(29)**
Counterparty 4	35	-	**34**	15	(27)	**(12)**
Other	34	(131)	**(99)**	166	(157)	**9**
Total	**307**	**(158)**	**149**	**310**	**(338)**	**(28)**
open derivatives	306	(158)	**148**	309	(338)	**(29)**
unsettled derivatives	1	-	**1**	1	-	**1**

Note 7.5.2.3 Credit risk related to trade receivables

The following Group companies have significant trade receivables: KGHM Polska Miedź S.A. PLN 1 001 million, the KGHM INTERNATIONAL LTD. Group PLN 267 million, CENTROZŁOM WROCŁAW S.A. PLN 80 million, WPEC w Legnicy S.A. PLN 34 million, NITROERG S.A. PLN 31 million, „MIEDZIOWE CENTRUM ZDROWIA" S.A. PLN 18 million, KGHM Metraco S.A. PLN 16 million, KGHM ZANAM S.A. PLN 13 million, Mercus Logistyka Sp. z o.o. PLN 11 million, and WMN "Łabędy" S.A. PLN 10 million.

The Parent Entity 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 Parent Entity is the continuous 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.

The Parent Entity 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 2017 the Parent Entity had secured 95% of its trade receivables (as at 31 December 2016, 92%).

Moreover, the Parent Entity enters into net settlement framework agreements, when it recognises both receivables and liabilities with the same client.

Assessment of concentration of credit risk in the Group:

Sector concentration	While KGHM Polska Miedź S.A. and KGHM INTERNATIONAL LTD. operate in the same sector, these two companies are different both in terms of their portfolios of products as well as in terms of the geographic location and nature of their customers, and consequently this sector concentration of credit risk is considered to be acceptable. Other companies of the Group operate in various economic sectors, such as transport, construction, commerce, industrial production and energy. As a consequence, in the case of most Group companies, in terms of sectors, there is no concentration of credit risk.
Clients concentration	As at 31 December 2017 the balance of receivables from the 7 largest clients represents 63% of trade receivables (2016: 45%). Despite the concentration of this type of risk, it is believed that due to the availability of historical data and the many years of experience cooperating with its clients, as well as to the hedging used, the level of credit risk is low.
Geographical concentration	Companies of the Group have been cooperating for many years with a large number of customers, which affects the geographical diversification of trade receivables. Geographical concentration of credit risk for trade receivables is presented in the table below:

Trade receivables (net)	2017	2016
Poland	31%	33%
European Union (excluding Poland)	10%	8%
Asia	40%	27%
Other countries	19%	32%

Note 7.5.2.4 Credit risk related to other financial assets

The most significant item in other financial assets is cash accumulated on bank deposits in the special purpose funds: Mine Closure Fund and Tailings Storage Facility Restoration Fund in the amount of PLN 342 million.

All special purpose deposits of the Group, which are dedicated to collection of cash for future decommissioning costs of mines and other technological facilities and restoration of tailing storage facilities, are carried out by banks with the highest or medium-high ratings confirming the security of the deposited cash.

The table below presents the level of cash concentration within special purpose funds dedicated to the collection of cash by the Group for future decommissioning costs of mines and other technological facilities and restoration of tailing storage facilities, according to the credit ratings of financial institutions holding special purpose deposits (as at 31 December of the given year):

Rating level		2017	2016
Highest	AAA to AA- according to S&P and Fitch, and from Aaa to Aa3 according to Moody's	16%	22%
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	84%	78%

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 Group is aimed at securing funds for business development and maintaining the appropriate level of liquidity.
In accordance with market practice, the Group monitors its capital, among others on the basis of ratios presented in the table below:

Ratios:	Calculations:	2017	2016
Net Debt/EBITDA	relation of net debt to EBITDA	**1.3**	**1.6**
Net Debt	borrowings and finance lease liabilities less free cash and short term investments with a maturity of up to 1 year	6 577	7 262
EBITDA*	profit on sales plus depreciation/amortisation recognised in profit or loss and impairment losses on non-current assets	5 144	4 477
Equity ratio	relation of equity less intangible assets to total assets	**0.5**	**0.4**
Equity	assets of the Group after deducting all of its liabilities	17 785	15 911
Intangible assets	identifiable non-cash items of assets without a physical form	1 656	2 682
Equity less intangible assets		16 129	13 229
Total assets	sum of non-current and current assets	34 122	33 442

** adjusted EBITDA for the period of 12 months ended on the last day of the reporting period and does not include the EBITDA of the joint venture Sierra Gorda S.C.M.*

In the management of liquidity and capital, the Group also pays attention to adjusted operating profit for the period of 12 months ended on the last day of the reporting period, which is the basis for calculating the financial covenants and which is comprised of the following items:

	2017	2016
Profit on sales	3 811	2 544
Interest on loans granted to joint ventures	319	633
Other operating income and (costs)	(2 377)	(802)
Adjusted operating profit*	**1 753**	**2 375**

** presented amount does not include allowances for impairment of loans granted to joint ventures*

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

Note 8.2 Equity

Accounting policies

Share capital is recognised at nominal value.
Other reserves from measurement of financial instruments arise from the measurement of cash flow hedging instruments (Note 7.2, accounting policies) and the measurement of available-for-sale financial assets (Note 7.3, accounting policies) less any deferred tax effects.
Accumulated other comprehensive income consists of exchange differences from the translation of foreign operations statements with a functional currency other than PLN (Note 1.2) and actuarial gains/losses on post-employment benefits less any deferred tax effect (Part 11, accounting policies).
Retained earnings are a sum of profit for the current financial year and accumulated profits from previous years, which have not been paid out as dividends, but were transferred to the reserve capital or were not distributed.

in PLN millions, unless otherwise stated

Note 8.2.1 Share capital

As at 31 December 2017 and at the date of authorisation of these financial statements, the Parent Entity'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 Parent Entity has not issued preference shares. Each share grants the right to one vote at the general meeting. The Parent Entity does not have treasury shares. Subsidiaries and joint ventures do not have shares of KGHM Polska Miedź S.A.

As at 31 December 2017 and as at 31 December 2016, there were no changes in either registered share capital or in the number of outstanding shares issued.
In 2017 there were no changes in the ownership of significant blocks of shares of KGHM Polska Miedź S.A. In 2016, Nationale-Nederlanden Otwarty Fundusz Emerytalny (managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.) exceeded 5% threshold in the total number of votes at the General Meeting of the Parent Entity.

As far as the Parent Entity is aware, as at 31 December 2017 and as at the date of authorisation of these financial statements, the Parent Entity'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%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	10 104 354	101 043 540	5.05%
Other shareholders	126 305 746	1 263 057 460	63.16%
Total	200 000 000	2 000 000 000	100.00%

in PLN millions, unless otherwise stated

Note 8.2.2 Changes of other equity items

		Other reserves from measurement of financial instruments				
		Other reserves from measurement of available-for-sale financial assets	Other reserves from measurement of future cash flow hedging financial instruments	Other reserves from measurement of financial instruments, total	Accumulated other comprehensive income	Retained earnings
	As at 1 January 2016	**45**	**(109)**	**(64)**	**1 868**	**16 407**
	Dividend	-	-	-	-	(300)
	Transactions with non-controlling interest	-	-	-	-	3
	Transactions with owners	-	-	-	-	(297)
	Loss for the period	-	-	-	-	(4 371)
	Losses from changes in fair value of available-for-sale financial assets	(27)	-	(27)	-	-
	Profit from measurement of available-for-sale financial assets after prior impairment	51	-	51	-	-
Note 7.2	Impact of effective cash flow hedging transactions entered into	-	(162)	(162)	-	-
Note 7.2	Amount transferred to profit or loss - due to the settlement of hedging instruments	-	(3)	(3)	-	-
Note 11.2	Actuarial gains on post-employment benefits	-	-	-	111	-
	Exchange differences from the translation of foreign operations statements with a functional currency other than PLN	-	-	-	258	-
Note 5.1.1	Deferred income tax	(9)	31	22	(21)	-
	Other comprehensive income	15	(134)	(119)	348	-
	Total comprehensive income	15	(134)	(119)	348	(4 371)
	As at 31 December 2016	**60**	**(243)**	**(183)**	**2 216**	**11 739**
	Dividend	-	-	-	-	(200)
	Transactions with non-controlling interest	-	-	-	-	2
	Transactions with owners	-	-	-	-	(198)
	Loss for the period	-	-	-	-	1 568
	Changes due to the settlement of available-for-sale financial assets	(2)	-	(2)	-	-
	Losses from changes in fair value of available-for-sale financial assets	5	-	5	-	-
	Profit from measurement of available-for-sale financial assets after prior impairment	37	-	37	-	-
Note 7.2	Impact of effective cash flow hedging transactions entered into	-	397	397	-	-
Note 7.2	Amount transferred to profit or loss - due to the settlement of hedging instruments	-	(16)	(16)	-	-
Note 11.2	Actuarial losses on post-employment benefits	-	-	-	(134)	-
	Exchange differences from the translation of foreign operations statements with a functional currency other than PLN	-	-	-	320	-
Note 5.1.1	Deferred income tax	(7)	(73)	(80)	25	-
	Other comprehensive income	33	308	341	211	-
	Total comprehensive income	33	308	341	211	1 568
	As at 31 December 2017	**93**	**65**	**158**	**2 427**	**13 109**

in PLN millions, unless otherwise stated

Based on the Act of 15 September 2000, the Commercial Partnerships and Companies Code, the Parent Entity 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 2017 the statutory reserve capital in the Group's entities amounts to PLN 793 million, of which PLN 660 million relates to the Parent Entity.

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

Note 8.3 Liquidity management policy

The Management Board of the Parent Entity is responsible for financial liquidity management in the Group and compliance with adopted policy. The Financial Liquidity Committee is a unit supporting the Management Board in this regard.

The management of financial liquidity in the Parent Entity is performed in accordance with the Financial Liquidity Management Policy approved by the Management Board. In KGHM INTERNATIONAL LTD. liquidity management principles are described in the Investment Policy. These documents describe the process of managing the Group's financial liquidity, indicating the best practice procedures and instruments. The basic principles resulting from these documents are:

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

Under the process of liquidity management, the Group utilises instruments which enhance its effectiveness. One of the primary instruments used by the Group 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 2017

	Contractual maturities from the end of the reporting period				
Financial liabilities	**up to 12 months**	**1-3 years**	**over 3 years**	**Total (without discounting)**	**Carrying amount**
Borrowings	1 012	1 275	5 181	**7 468**	**7 156**
Trade payables	1 823	21	370	**2 214**	**1 995**
Derivatives – Currency contracts*	-	1	-	**1**	**25**
Derivatives – Commodity contracts – Metals*	4	-	-	**4**	**134**
Embedded derivatives	42	85	57	**184**	**160**
Other financial liabilities	126	23	23	**172**	**160**
Total financial liabilities by maturity	**3 007**	**1 405**	**5 631**	**10 043**	

in PLN millions, unless otherwise stated

Financial liabilities – as at 31 December 2016

Financial liabilities	Contractual maturities from the end of the reporting period: up to 12 months	1-3 years	over 3 years	Total (without discounting)	Carrying amount
Borrowings	1 600	455	6 319	**8 374**	**8 098**
Trade payables	1 433	33	351	**1 817**	**1 613**
Derivatives – Currency contracts*	102	-	-	**102**	**278**
Derivatives – Commodity contracts – Metals*	-	-	-	**-**	**61**
Embedded derivatives	33	78	98	**209**	**132**
Other financial liabilities	126	19	29	**174**	**165**
Total financial liabilities by maturity	**3 294**	**585**	**6 797**	**10 676**	

*Financial liabilities arising from derivatives are calculated at their intrinsic values excluding the discount effect.

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 end of the reporting period. 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

		2017	2016
	Bank loans *	4 341	4 889
	Loans	1 845	1 642
	Other	5	8
Note 7.1	**Non-current liabilities due to borrowings**	**6 191**	**6 539**
	Bank loans	838	1 502
	Loans	122	42
	Other	5	15
Note 7.1	**Current liabilities due to borrowings**	**965**	**1 559**
	Total borrowings	**7 156**	**8 098**
Note 8.5	Free cash and cash equivalents	579	836
	Net debt	**6 577**	**7 262**

** 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

	2017	2016
PLN/WIBOR	99	88
EUR/EURIBOR	110	50
USD/LIBOR*	5 016	6 280
PLN/fixed	2	5
USD/fixed	1 940	1 679
Total	**7 167**	**8 102**

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

in PLN millions, unless otherwise stated

In 2017, liabilities due to borrowing decreased, mainly as a result of a lower USD/PLN exchange rate, and there was a further drop in the share of current debt in the Group's total debt. In the current part, under bilateral agreements signed with banks, the Group makes use of working capital facilities and overdraft facilities with maturities of up to 2 years. As a result of the fact that these bilateral agreements are successively extended for subsequent periods, the Group considers the liquidity risk connected to the received short-term bank loans as low.

Note 8.4.2 Net debt changes

Liabilities due to borrowing	As at 31 December 2016	Cash flows	Accrued interest	Exchange differences	Other changes	As at 31 December 2017
Bank loans	6 391	(374)	138	(983)	7	5 179
Loans	1 684	565	56	(338)	-	1 967
Other	23	(14)	-	-	1	10
Total debt	**8 098**	**177**	**194**	**(1 321)**	**8**	**7 156**
Free cash and cash equivalents	836	(257)	-	-	-	579
Net debt	**7 262**					**6 577**

Liabilities due to borrowing	As at 31 December 2015	Cash flows	Accrued interest	Exchange differences	Other changes	As at 31 December 2016
Bank loans	5 798	42	139	409	3	6 391
Loans	1 182	358	42	102	-	1 684
Other	35	(16)	-	-	4	23
Total debt	**7 015**	**384**	**181**	**511**	**7**	**8 098**
Free cash and cash equivalents	461	375	-	-	-	836
Net debt	**6 554**					**7 262**

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

The fair value of liabilities due to borrowings amounts to PLN 7 167 million (2016: PLN 8 102 million). The fair value was set based on discounted cash flows and was classified to level 2 of the fair value hierarchy.

Note 8.4.3 Detailed information concerning the main sources of borrowings

As at 31 December 2017, the Group had open credit lines and loans with a total balance of available financing in the amount of PLN 15 009 million, out of which PLN 7 177 million had been drawn.
The structure of financing sources is presented below.

	2017		2016
	Amount available	Amount drawn	Amount drawn
1. **Unsecured, revolving syndicated credit facility** in the amount of USD 2 500 million, obtained by the Parent Entity on the basis of a financing agreement concluded with a syndicate of banks in 2014 with a maturity of 9 July 2021. The funds acquired through this credit facility are used to finance general corporate purposes, including expenditures related to the continued advancement of investment projects. Interest on the credit facility is based on LIBOR plus a margin, depending on the net debt/EBITDA ratio. The credit facility agreement obliges the Group to comply with the financial covenant and non-financial covenants. As at 31 December 2017, 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.	8 703	3 483*	4 809*

in PLN millions, unless otherwise stated

2. **Loans,** including **Investment loans** granted to the Parent Entity by the **European Investment Bank** for the total amount of PLN 2 900 million. 2.1 The investment loan in the amount of PLN 2 000 million, with three instalments drawn and the payback periods expiring on 30 October 2026, 30 August 2028 and 23 May 2029 and utilised to the maximum available amount. The funds acquired through this loan are used to finance the Parent Entity's investment projects related to modernisation of metallurgy and development of the Żelazny Most tailings storage facility. 2.2 The investment loan in the amount of PLN 900 million granted by the European investment Bank in December 2017 with a financing period of 12 years, and the availability of instalments for a period of 22 months from the date of signing. The loan can be used in the form of non-revolving instalments in PLN, EUR or USD, with either a fixed or variable interest rate of WIBOR, LIBOR or EURIBOR plus a margin. The funds acquired through this loan will be used to finance the Parent Entity's projects related to development and replacement projects at various stages of the production process. The loan agreements oblige the Group to comply with the financial and non-financial covenants. As at 31 December 2017, 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 agreements.	2 906	1 967	1 684
3. **Bilateral bank loans** in the total amount of PLN 3 400 million, used for financing working capital and which are a tool supporting the management of financial liquidity and for financing the investment projects advanced by the Group The funds under open lines of credit are available in PLN, USD and EUR, with interest based on variable WIBOR, LIBOR and EURIBOR plus a margin.	3 400	1 727	1 609
	15 009	**7 177**	**8 102**

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

These sources fully cover the current, medium and long-term liquidity needs of the Group.
The syndicated credit in the amount of USD 2 500 million, the investment loans in the amount of PLN 2 900 million and other bilateral bank loans granted to the Parent Entity in the amount of PLN 3 208 million, are unsecured.
Repayment of other liabilities of the Group due to bilateral bank loans and other loans in the amount of PLN 198 million are secured amongst others by proxy rights to bank accounts, statements on submitting to an enforcement regime, contractual mortgages, registered pledges or the assignment of receivables.

in PLN millions, unless otherwise stated

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.

	2017	2016
Cash in bank accounts	314	329
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits	263	519
Other cash	9	12
Total	**586**	**860**

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's companies do not have to use cash in order to secure their obligations towards other entities.

As at 31 December 2017, the Group held contingent liabilities due to guarantees and letters of credit granted in the total amount of PLN 2 325 million and due to promissory note liabilities in the amount of PLN 173 million.
The most significant items are contingent liabilities of the Parent Entity aimed at securing the following obligations:

Sierra Gorda S.C.M. – securing the performance of concluded agreements in the amount of PLN 1 740 million:

- a letter of credit of PLN 479 million granted as security for the proper performance of a long-term contract for the off-take of electricity,
- PLN 174 million as corporate guarantees set as security on the payment of concluded lease agreements,
- PLN 460 million as corporate guarantees securing repayment of short-term working capital facilities,
- PLN 627 million as a corporate guarantee securing repayment of a specified part of payment to guarantees set by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation, securing repayment of a corporate loan drawn by the joint venture Sierra Gorda S.C.M. (granted in the first half of 2017).

other entities:

- securing the restoration costs of the Robinson mine, the Podolsky mine and the Victoria project and obligations related to proper execution of concluded agreements in the amount of PLN 380 million,
- securing the proper execution of future environmental obligations of the Parent Entity related to the obligation to restore terrain, following the conclusion of operations of the Żelazny Most tailings storage facility in the total amount of PLN 320 million (a bank guarantee of PLN 160 million and own promissory note of PLN 160 million).

Based on knowledge held, at the end of the reporting period the Group assessed the probability of payments resulting from contingent liabilities related to:
- Sierra Gorda S.C.M. - as low,
- other entities of the Group - as low.

As part of the analysis of the impact of IFRS 9 on the financial statements with respect to the financial guarantees granted to Sierra Gorda, in the Company's opinion it is necessary to recognise the aforementioned guarantees in the accounting books as per paragraph 4.2.1 point c of IFRS 9. Detailed information may be found in Note 1.4.1.4 (e).

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 Group 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 in underground mines: shafts, wells, galleries, drifts, primary chambers), backfilling, drainage and firefighting pipelines, piezometric holes and electricity, signal and optical fiber cables. Stripping costs of surface mines and 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 (the policy regarding impairment is presented in Part 3).

In the initial cost of items of property, plant and equipment the Group includes discounted decommissioning costs of fixed assets related to underground and surface 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 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 assets.

Items of property, plant and equipment (excluding land) **are depreciated** by the Group, 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 and mine construction, as well as machines and mining equipment, except for the items of property, plant and equipment used in metallurgical plants, where their usage results from the useful economic life of the given item of property, plant and equipment.

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 with respect to deposit content:

Group	Total useful lives
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
Stripping costs	
Technical equipment, machines	4-15 years
Motor vehicles	3-14 years
Other fixed assets, including tools and equipment	5-10 years

The individual significant parts 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.

Accounting policies – intangible assets

Mining and metallurgical intangible assets are mainly comprised of exploration and evaluation assets, and water rights in Chile.

Exploration and evaluation assets

The following expenditures are classified as exploration and evaluation assets:

- work on 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 Group 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.

Significant estimates and assumptions

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

The net value of mining and metallurgical property, plant and equipment which is subject to depreciation using the natural method as at 31 December 2017 amounted to PLN 1 286 million (as at 31 December 2016, PLN 1 484 million).

in PLN millions, unless otherwise stated

Mining and metallurgical property, plant and equipment and intangible assets

		Property, plant and equipment			Intangible assets			
		Buildings and land	Technical equipment, machines, motor vehicles and other fixed assets	Fixed assets under construction	Water rights	Exploration and evaluation assets	Other	Total
	As at 1 January 2016							
	Gross carrying amount	14 590	10 674	4 648	243	2 706	694	33 555
	Accumulated depreciation/amortisation	(6 856)	(5 648)	-	-	-	(301)	(12 805)
	Impairment losses	(2 677)	(458)	-	-	(211)	(1)	(3 347)
	Net carrying amount	**5 057**	**4 568**	**4 648**	**243**	**2 495**	**392**	**17 403**
	Changes in 2016 net							
	Settlement of fixed assets under construction	834	1 815	(2 649)	-	-	-	-
	Purchases	-	-	1 730	1	142	18	1 891
	Stripping cost in surface mines	150	-	-	-	-	-	150
	Self-constructed	-	-	775	-	1	68	844
Note 9.4	Change in provisions for decommissioning costs	(53)	-	-	-	-	-	(53)
Note 4.1	Depreciation/amortisation	(623)	(802)	-	-	-	(19)	(1 444)
Note 4.4	Impairment losses	(268)	(48)	(17)	(148)	(898)	(27)	(1 406)
	Exchange differences from the translation of foreign operations statements with a functional currency other than PLN	67	20	7	17	189	3	303
	Other changes	(52)	112	(54)	(1)	13	(15)	3
	As at 31 December 2016							
	Gross carrying amount	15 669	12 422	4 447	260	3 001	698	36 497
	Accumulated depreciation/amortisation	(7 550)	(5 974)	-	-	-	(251)	(13 775)
	Impairment losses	(3 007)	(783)	(7)	(148)	(1 059)	(27)	(5 031)
	Net carrying amount	**5 112**	**5 665**	**4 440**	**112**	**1 942**	**420**	**17 691**
	Changes in 2017 net							
	Settlement of fixed assets under construction	1 106	1 573	(2 679)	(1)	-	1	-
	Purchases	-	-	1 252	1	70	43	1 366
	Stripping cost in surface mines	319	-	-	-	-	-	319
	Self-constructed	-	-	790	-	25	4	819
Note 9.4	Change in provisions for decommissioning costs	41	-	-	-	-	-	41
Note 4.1	Depreciation/amortisation	(540)	(837)	-	-	-	(15)	(1 392)
Note 4.4	Impairment losses	(85)	(76)	(1)	-	(695)	(3)	(860)
	Reversal of impairment losses	278	79	-	-	-	-	357
	Exchange differences from the translation of foreign operations statements with a functional currency other than PLN	(102)	(46)	(15)	(14)	(298)	(3)	(478)
	Other changes	(1)	(8)	31	(68)	(73)	(1)	(120)
	As at 31 December 2017							
	Gross carrying amount	15 711	13 014	3 824	50	2 574	700	35 873
	Accumulated depreciation/amortisation	(7 452)	(6 090)	-	-	-	(232)	(13 774)
	Impairment losses	(2 131)	(574)	(6)	(20)	(1 603)	(22)	(4 356)
	Net carrying amount	**6 128**	**6 350**	**3 818**	**30**	**971**	**446**	**17 743**

in PLN millions, unless otherwise stated

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

	2017	2016
Deep Głogów (Głogów Głęboki – Przemysłowy)	1 012	1 084
Metallurgy Development Program	744	753
Construction of the SW-4 shaft	554	546
Investment activity related to development and operation of Żelazny Most Tailings Storage Facility	382	236
Investments related to mining region infrastructural development in mines	197	146
Pyrometallurgy Modernisation Program	194	1 240

Note 9.1.2 Exploration and evaluation assets

Significant expenditures on exploration and evaluation assets are presented in the table below.

Operating segment	Description	Cumulative as at 2017	Cumulative as at 2016
KGHM INTERNATIONAL LTD.	Expenditures related to exploratory work, mainly within the Victoria project located in the Sudbury Basin in Canada	1 476	1 590
KGHM INTERNATIONAL LTD.	Expenditures related to exploratory work within the Ajax project	573	598

Note 9.1.3 Expenses related to mining and metallurgical assets

	2017	2016
Purchases	(1 366)	(1 891)
Self-constructed fixed assets	(819)	(844)
Stripping costs of surface mines	(319)	(150)
Change in liabilities due to purchases	19	(135)
Other	(42)	(12)
Total	**(2 527)**	**(3 032)**

Note 9.2 Other property, plant and equipment and intangible assets

Accounting policies

Other property, plant and equipment and intangible assets are recognised at cost less accumulated depreciation/amortisation and accumulated impairment losses (the policy regarding impairment is presented in Part 3). Depreciation is done using the straight-line method.

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

The 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

The useful lives of the 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.

in PLN millions, unless otherwise stated

Other property, plant and equipment and intangible assets

		Property, plant and equipment				
		Buildings and land	Technical equipment, machines, motor vehicles and other fixed assets	Fixed assets under construction	Intangible assets	Total
	As at 1 January 2016					
	Gross carrying amount	1 855	2 267	23	443	4 588
	Accumulated depreciation/amortisation	(475)	(879)	-	(78)	(1 432)
	Impairment losses	(123)	(14)	(1)	(124)	(262)
	Net carrying amount	**1 257**	**1 374**	**22**	**241**	**2 894**
	Changes in 2016 net					
	Settlement of fixed assets under construction	111	179	(290)	-	-
	Purchases	-	-	160	15	175
	Self-constructed	-	-	49	-	49
Note 4.1	Depreciation/amortisation	(57)	(198)	-	(19)	(274)
Note 4.4	(Recognition)/reversal of impairment losses	(70)	-	-	-	(70)
	Other changes	239	(303)	118	(29)	25
	As at 31 December 2016					
	Gross carrying amount	2 252	2 187	60	504	5 003
	Accumulated depreciation/amortisation	(559)	(1 123)	-	(177)	(1 859)
	Impairment losses	(213)	(12)	(1)	(119)	(345)
	Net carrying amount	**1 480**	**1 052**	**59**	**208**	**2 799**
	Changes in 2017 net					
	Settlement of fixed assets under construction	131	161	(292)	-	-
	Purchases	-	-	240	16	256
	Self-constructed	-	-	46	-	46
Note 4.1	Depreciation/amortisation	(76)	(198)	-	(18)	(292)
Note 4.4	(Recognition)/reversal of impairment losses	28	-	-	(5)	23
	Other changes	(42)	1	89	8	56
	As at 31 December 2017					
	Gross carrying amount	2 292	2 287	141	522	5 242
	Accumulated depreciation/amortisation	(608)	(1 260)	-	(189)	(2 057)
	Impairment losses	(163)	(11)	1	(124)	(297)
	Net carrying amount	**1 521**	**1 016**	**142**	**209**	**2 888**

in PLN millions, unless otherwise stated

Note 9.3 Depreciation/amortisation

		Property, plant and equipment		Intangible assets	
		2017	2016	2017	2016
Note 4.1	**Total**	**1 651**	**1 680**	**33**	**38**
	settled in profit or loss	1 578	1 665	31	33
	cost of manufacturing products	1 550	1 626	26	26
	administrative expenses	18	28	5	6
	selling costs	10	11	-	1
	being part of the manufacturing cost of assets	73	15	2	5

Note 9.4 Provision for decommissioning costs of mines and other facilities

Accounting policies

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, which are made on the basis of ore extraction forecasts (for mining facilities), and technical-economic studies prepared either by specialist firms or by the Parent Entity.

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, and any surplus above this amount is recognised in other operating income.

Important estimates and assumptions

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 is affected by the following indicators:

1) in the Parent Entity:

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.

2) in the KGHM INTERNATIONAL LTD. Group:

a) the rate of return on investments in US 10 and 20 year treasury notes of the Federal Reserve of the United States of America, and

b) the rate of return on investments in 5-year government bonds issued by the governments of Canada and Chile.

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 the KGHM Polska Miedź S.A Group, in order to estimate provisions for the decommissioning costs of mines and other technological facilities located in individual countries, the following discount rates were applied:

	2017	2016
- in Poland	3.5 %	3.5 %
- in the United States	2.33% - 2.58%	2.25%-2.62%
- in Canada	2.04% - 2.26%	2.31%

		2017	2016
	Provisions at the beginning of the reporting period	**1 500**	**1 496**
Note 9.1	Changes in estimates recognised in fixed assets	41	(53)
	Other	(181)	57
	Provisions at the end of the reporting period including:	**1 360**	**1 500**
	- non-current provisions	**1 351**	**1 487**
	- current provisions	**9**	**13**

Note 9.5 Capitalised costs of external financing

In 2017, the Group recognised PLN 80 million of external financing costs in property, plant and equipment and intangible assets. The capitalisation rate applied with respect to the loan from the Syndicate of Banks and with respect to loans from other banks amounted to 36.58%. In 2016, the Group recognised PLN 90 million of external financing costs in property, plant and equipment and intangible assets and applied the following capitalisation rates: 100% with respect to the loan from the European Investment Bank, and 45.12% with respect to a loan granted by the Syndicate of Banks.

in PLN millions, unless otherwise stated

Part 10 – Working capital

Note 10.1 Inventories

Accounting policies	Significant estimates and assumptions
The Group measures inventories at cost, not higher than the sales price less costs of completing production and costs to sale. Inventory disposals are measured at weighted average cost.	In the consolidated financial statements the amount of those inventories of the KGHM INTERNATIONAL LTD. Group which arise from the leaching process, is determined based on the estimated recovery of metal from ore. The nature of the process of leaching copper from ore limits the precision of monitoring the level of inventories arising during this process. In subsequent reporting periods, adjustments are made to the estimated recovery of copper from the leaching of ore in a given reporting period to the level of production achieved in the subsequent period. As at 31 December 2017 the provisionally-set value of inventories amounted to PLN 47 million (as at 31 December 2016, PLN 106 million). In 2017 there was no adjustment of inventories arising from the leaching process whose value was provisionally set in the previous reporting periods (in 2016 an adjustment amounted to PLN 18 million).

	2017	2016
Materials	722	650
Half-finished goods and work in progress	3 104	2 012
Finished products	561	541
Merchandise	175	294
Total net carrying amount of inventories	**4 562**	**3 497**

Note 4.4	**Write-down of inventories during the reporting period**	2017	2016
	Write-down recognised in cost of sales	(37)	(83)
	Write-down reversed in cost of sales	5	7

Maturities of inventories

	2017	2016
Maturity over the 12 months from the end of the reporting period	126	180
Maturity of up to 12 months from the end of the reporting period	4 436	3 317

Note 10.2 Trade receivables

	2017	2016
Current trade receivables	1 522	1 292

As at 31 December 2017 as well as in 2016, there were no significant amounts of overdue trade receivables. Impairment allowances on trade receivables (cumulatively and recognised in a given period) are immaterial for the current and comparable reporting periods. The impairment allowance in 2017 on trade receivables amounted to PLN 21 million (in 2016, PLN 5 million).

The Group 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 currency risk is presented in Note 7.5.1.3.

The fair value of trade receivables approximates the carrying amount.

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. Trade payables with maturity dates of less than 12 moths are not discounted.

	2017	2016
Non-current trade payables	172	180
Current trade payables	1 823	1 433
Trade payables	**1 995**	**1 613**

The item trade payables contains payables due to the purchase and construction of fixed assets and intangible assets which, as at 31 December 2017, amounted to PLN 163 million in the non-current part and PLN 398 million in the current part (as at 31 December 2016, respectively PLN 170 million and PLN 350 million).
The Group is exposed to currency risk arising from trade payables and liquidity risk. Information on currency risk is presented in Note 7.5.1.3 and the liquidity risk in Note 8.3.1.
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 2016	(3 497)	(1 292)	1 613	**(3 176)**
As at 31 December 2017	(4 562)	(1 522)	1 995	**(4 089)**
Change in the statement of financial position	**(1 065)**	**(230)**	**382**	**(913)**
Exchange differences from translation of foreign operations statements with a functional currency other than PLN	(66)	(64)	30	**(100)**
Depreciation/amortisation recognised in inventories	64	-	-	**64**
Liabilities due to purchase of property, plant and equipment and intangible assets	-	-	(39)	**(39)**
Other	-	-	(8)	**(8)**
Adjustments	(2)	(64)	(17)	(83)
Change in the statement of cash flows	**(1 067)**	**(294)**	**365**	**(996)**

	Inventories	Trade receivables	Trade payables	Total working capital
As at 31 December 2015	(3 382)	(1 541)	1 598	**(3 325)**
As at 31 December 2016	(3 497)	(1 292)	1 613	**(3 176)**
Change in the statement of financial position	**(115)**	**249**	**15**	**149**
Exchange differences from translation of foreign operations statements with a functional currency other than PLN	27	27	(12)	**42**
Depreciation/amortisation recognised in inventories	5	-	-	**5**
Liabilities due to purchase of property, plant and equipment and intangible assets	-	-	138	**138**
Other	(2)	-	(6)	**(8)**
Adjustments	**30**	**27**	**120**	**177**
Change in the statement of cash flows	**(85)**	**276**	**135**	**326**

in PLN millions, unless otherwise stated

Part 11 – Employee benefits

Accounting policies

The Group 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 the date of settlement for liabilities.
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 (benefits due to jubilee bonuses) are recognised in profit or loss.

Significant 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 Group's companies is used for setting the present value of estimated future cash outflow due to these benefits. 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 on current market conditions. The assumptions used to measure liabilities as at 31 December 2017 are presented in Note 11.2.

The sensitivity of future employee benefits liabilities to changes in assumptions was set based on the amounts of the Parent Entity's liabilities. In the remaining Group companies, due to the immaterial amounts of liabilities in this regard, the impact of changes of the basic parameters adopted for the calculation of provisions on future employee benefits liabilities in the consolidated financial statements would be immaterial.

Impact of changes in the indicators on the balance of liabilities (Parent Entity)

	2017	2016
an increase in the discount rate by 1 percentage point	(252)	(219)
a decrease in the discount rate by 1 percentage point	331	285
an increase in coal price rate and an increase in salary rate by 1 percentage point	347	300
a decrease in coal price rate and a decrease in salary rate by 1 percentage point	(255)	(222)

in PLN millions, unless otherwise stated

Note 11.1 Employee benefits liabilities

Components of the item: employee benefits liabilities

		2017	2016
	Non-current	2 063	1 860
	Current	141	147
Note 11.2	**Total liabilities due to future employee benefits programs**	**2 204**	**2 007**
	Employee remuneration liabilities	235	230
	Accruals (unused annual leave, bonuses, other)	466	410
	Current employee liabilities	**701**	**640**
	Total employee benefits liabilities	**2 905**	**2 647**

Employee benefits expenses

		2017	2016
	Remuneration	3 568	3 463
	Costs of social security and other benefits	1 205	1 079
	Costs of future benefits	183	130
Note 4.1	**Employee benefits expenses**	**4 956**	**4 672**

in PLN millions, unless otherwise stated

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 2016	**2 105**	**384**	**300**	**1 339**	**82**
Note 11.1	Total costs recognised in profit or loss	**130**	29	31	65	5
	Interest costs	**64**	11	9	40	4
	Current service costs	**70**	24	19	26	1
	Past service costs	**(2)**	(4)	3	(1)	-
	Actuarial gains recognised in profit or loss	**(2)**	(2)	-	-	-
Note 8.2.2	Actuarial (gains)/ losses recognised in other comprehensive income	**(111)**	-	11	(125)	3
	Benefits paid	**(117)**	(46)	(27)	(40)	(4)
	As at 31 December 2016	**2 007**	**367**	**315**	**1 239**	**86**
Note 11.1	Total costs recognised in profit or loss	**183**	79	29	70	5
	Interest costs	**71**	13	11	45	2
	Current service costs	**74**	28	18	25	3
	Past service costs	**-**	-	-	-	-
	Actuarial losses recognised in profit or loss	**38**	38	**-**	-	-
Note 8.2.2	Actuarial (gains)/ losses recognised in other comprehensive income	**134**	-	27	126	(19)
	Benefits paid	**(120)**	(46)	(30)	(41)	(3)
	As at 31 December 2017	**2 204**	**400**	**341**	**1 394**	**69**

As at 31 December	2017	2016	2015	2014	2013
Present value of liabilities due to employee benefits	**2 204**	2 007	2 105	2 146	1 694

in PLN millions, unless otherwise stated

Main actuarial assumptions as at 31 December 2017:

	2018	2019	2020	2021	2022 and beyond
- discount rate	3.35%	3.35%	3.35%	3.35%	3.35%
- rate of increase in coal prices	5.00%	3.20%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	0.00%	4.20%	4.00%	4.00%	4.00%
- expected inflation	2.30%	2.70%	2.50%	2.50%	2.50%
- future expected increase in salary	5.10%	2.70%	2.50%	2.50%	2.50%

Main actuarial assumptions as at 31 December 2016:

	2017	2018	2019	2020	2021 and beyond
- discount rate	3.50%	3.50%	3.50%	3.50%	3.50%
- rate of increase in coal prices	0.00%	2.00%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	0.00%	3.00%	4.00%	4.00%	4.00%
- expected inflation	1.30%	1.50%	2.50%	2.50%	2.50%
- future expected increase in salary	3.30%	1.50%	2.50%	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 increase in coal prices and in the lowest salary, and also based on the anticipated profitability of long-term treasury bonds.

Actuarial (gains)/losses as at 31 December 2017 versus assumptions adopted as at 31 December 2016

Change in financial assumptions	53
Change in demographic assumptions	86
Other changes	33
Total actuarial losses/(gains)	**172**

Actuarial (gains)/losses as at 31 December 2016 versus assumptions adopted as at 31 December 2015

Change in financial assumptions	(141)
Change in demographic assumptions	(8)
Other changes	36
Total actuarial (gains)/losses	**(113)**

Maturity profile of employee benefits liabilities

Year of maturity:	**TOTAL liabilities**	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
2018	**130**	48	34	45	3
2019	**175**	41	80	52	2
2020	**98**	30	15	51	2
2021	**93**	27	14	50	2
2022	**105**	33	20	48	4
Other years	**1 603**	222	179	1 148	54
Total liabilities in the statement of financial position as at 31 December 2017	**2 204**	**401**	**342**	**1 394**	**67**

in PLN millions, unless otherwise stated

Year of maturity:	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
2017	**147**	47	50	44	6
2018	**161**	38	69	50	4
2019	**99**	31	15	49	4
2020	**91**	27	13	47	4
2021	**89**	25	14	46	4
Other years	**1 420**	199	154	1 003	64
Total liabilities in the statement of financial position as at 31 December 2016	**2 007**	**367**	**315**	**1 239**	**86**

in PLN millions, unless otherwise stated

Part 12 – Other notes

Note 12.1 Related party transactions

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

The transactions between the Group and related parties include transactions with:
- the joint venture Sierra Gorda,
- entities controlled or jointly controlled by the State Treasury or over which it has significant influence, and
- the management board and the supervisory board (remuneration) – Note 12.11.

Operating income from related entities

	2017	2016
Revenues from sales of products, merchandise and materials to a joint venture	33	100
Interest income on a loan granted to a joint venture	319	633
Revenues from other transactions with a joint venture	43	41
Revenues from other transactions with other related parties	16	14
	411	**788**

Purchases from related entities

	2017	2016
Purchase of services, merchandise and materials from joint ventures	-	53
Purchase of services, merchandise and materials from other related parties	17	15
Other purchase transactions from other related parties	2	2
	19	**70**

Trade and other receivables from related parties

	2017	2016
From the joint venture Sierra Gorda S.C.M. (loans)	3 889	4 313
From the joint venture Sierra Gorda S.C.M. (other)	461	492
From other related parties	3	2
	4 353	**4 807**

Trade and other payables towards related parties

	2017	2016
Towards joint ventures	13	51
Towards other related parties	1	1

Pursuant to IAS 24, the Group is obliged to disclose unsettled balances, including payables towards the Polish Government and entities controlled or jointly controlled by the Polish Government, or over which the Polish Government has significant influence.

As at 31 December 2017, balances of unsettled payables concerned the mining usufruct agreements necessary to conduct principal operating activities. Pursuant to these agreements, the Parent Entity is obliged to pay for the right to mine the copper and rock salt deposits. As at 31 December 2017, the balance of liabilities due to these agreements amounted to PLN 202 million (as at 31 December 2016: PLN 209 million). In the reporting period, the variable part of the fee for the right to mine, recognised in costs in the amount of PLN 31 million, was set as the equivalent of the 30% of the mining fee due for 2016 (correspondingly, in the period from 1 January to 31 December 2016: PLN 31 million).

In the current and comparable periods, no other individual transactions were identified which would be considered as significant in terms of unusual scope and amount.

The remaining transactions, which were collectively significant, between the Group and the Polish Government and with entities controlled or jointly controlled by the Polish Government, or over which the government has significant influence, were within the scope of normal, daily economic operations, carried out at arm's length. These transactions concerned the following:
- the purchase of goods to meet the needs of current operating activities. In the period from 1 January to 31 December 2017, the turnover from these transactions amounted to PLN 991 million (from 1 January to 31 December 2016: PLN 585 million), and, as at 31 December 2017, the unsettled balance of liabilities from these transactions amounted to PLN 107 million (as at 31 December 2016: PLN 85 million),
- sales to Polish State Treasury Companies. In the period from 1 January to 31 December 2017, the turnover from these sales amounted to PLN 82 million (from 1 January to 31 December 2016: PLN 52 million), and, as at 31 December 2017, the unsettled balance of receivables from these transactions amounted to PLN 7 million (as at 31 December 2016: PLN 8 million).

in PLN millions, unless otherwise stated

Note 12.2 Dividends paid

In accordance with Resolution No. 7/2017 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 21 June 2017 regarding the payout of a dividend from prior years' profits and setting the dividend date as well as the dividend payment dates, the amount of PLN 200 million was allocated as a dividend, representing PLN 1.00 per share.
The dividend date (the date on which the right to dividend is set) was set on 14 July 2017. Moreover, it was decided that the dividend will be paid in two instalments: on 17 August 2017 – the amount of PLN 100 million (representing PLN 0.50 per share) and on 16 November 2017 – the amount of PLN 100 million (representing PLN 0.50 per share).

In accordance with Resolution No. 6/2016 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 28 June 2016 regarding the dividend payout from prior years' profits, setting the dividend date and the dividend payment date, the amount of PLN 300 million was allocated as a shareholder dividend, representing PLN 1.50 per share.
The dividend date (the day on which the right to dividend is set) was set at 15 July 2016 with the dividend being paid in two instalments: 18 August 2016 – the amount of PLN 150 million (representing PLN 0.75 per share) and 17 November 2016 – the amount of PLN 150 million (representing PLN 0.75 per share).

All shares of the Parent Entity are ordinary shares.

Note 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 Part 7.

	2017	2016
Other non-current non-financial assets	**112**	**117**
Investment property	79	78
Prepayments	19	26
Other	14	13
Other current assets	**464**	**252**
Other current financial assets	**265**	**199**
Available-for-sale financial assets	59	56
Amounts retained (collateral) due to long-term construction contracts	42	48
Other	164	95
Other current non-financial assets	**199**	**53**
Non-financial prepayments	47	31
Other	152	22
Other non-current and current assets, total	**576**	**369**

in PLN millions, unless otherwise stated

Note 12.4 Other liabilities

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

	2017	2016
Liabilities due to Franco Nevada streaming contract	410	638
Trade payables	172	180
Other accruals	91	103
Other liabilities	45	39
Other liabilities – non-current	**718**	**960**
Special funds	310	288
Provision for decommissioning costs of mines, other technological facilities and liquidation costs of fixed assets - current	10	28
Provision for disputed issues and court proceedings, and other provisions	106	128
Deferred income	113	137
Accruals*	312	318
Other financial liabilities	125	126
Other	113	61
Other liabilities - current	**1 089**	**1 086**

*These accruals are due to purchase costs of cogeneration property rights of consumed electricity, fees for the discharging of gases and dusts to the atmosphere and other recognised operating costs.

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

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

		2017	2016
	Contingent assets	**529**	**554**
	Guarantees received	215	252
	Promissory notes receivables	121	108
	Other	193	194
	Contingent liabilities	**2 798**	**2 346**
Note 8.6	Guarantees granted	2 325	1 787
Note 8.6	A promissory note	173	256
	Liabilities due to implementation of projects and inventions	117	91
	Other	183	212
	Other liabilities not recognised in the statement of financial position	**143**	**178**
	Liabilities towards local government entities due to expansion of the tailings storage facility	117	120
	Liabilities due to operating leases	26	58

in PLN millions, unless otherwise stated

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

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

	2017	2016
Capital commitments due to the purchase of:		
property, plant and equipment	2 478	2 420
intangible assets	60	90
Total capital commitments	**2 538**	**2 510**

The Group's share in capital commitments of joint ventures accounted for using the equity method (Sierra Gorda S.C.M.) is presented in Note 6.1 [Joint ventures accounted for using the equity method].

Note 12.7 The right of perpetual usufruct of land

The Parent Entity and the Group's Polish subsidiaries 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, the Group 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.

	2017	2016
Under one year	14	14
From one to five years	59	57
Over five years	793	782
Total value of future contingent payments due to the right of perpetual usufruct of land	**866**	**853**

The Group'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

	2017	2016
White-collar employees	10 369	10 062
Blue-collar employees	22 997	23 308
Total (full-time equivalent)	**33 366**	**33 370**

Note 12.9 Other adjustments in the statement of cash flows

	2017	2016
Change in other receivables and liabilities	(78)	21
Reclassification of other comprehensive income to profit or loss as a result of realisation of hedging derivatives	(16)	(3)
Losses on the sale of property, plant and equipment and intangible assets	28	32
Other	(2)	5
Total	**(68)**	**55**

Note 12.10 Remuneration of key managers

Remuneration of members of the Management Board (in PLN thousands)	2017				
	Period when function served	Remuneration for the period of service as a member of the Management Board	Remuneration after the period of service as a member of the Management Board	Benefits due to termination of employment	Total earnings
Members of the Management Board serving in the function as at 31 December 2017					
Radosław Domagalski - Łabędzki	01.01-31.12	1 353	-	-	**1 353**
Michał Jezioro	01.01-31.12	1 223	-	-	**1 223**
Stefan Świątkowski	01.01-31.12	1 695	-	-	**1 695**
Rafał Pawełczak	03.02-31.12	1 167	-	-	**1 167**
Ryszard Jaśkowski	24.07-31.12	348	-	-	**348**
Other Members of the Management Board					
Jacek Rawecki	01.01-03.02	136	420	528	**1 084**
Piotr Walczak	01.01-31.05	703	559	391	**1 653**
Krzysztof Skóra	-	-	316	386	**702**
Mirosław Biliński	-	-	185	256	**441**
Herbert Wirth	-	-	-	411	**411**
Jarosław Romanowski	-	-	-	46	**46**
Marcin Chmielewski	-	-	-	329	**329**
Mirosław Laskowski	-	-	92	-	**92**
Adam Sawicki	-	-	107	-	**107**
Jacek Kardela	-	-	-	329	**329**
TOTAL		**6 625**	**1 679**	**2 676**	**10 980**

Remuneration of members of the Management Board (in PLN thousands)	2016				
	Period when function served	Remuneration for the period of service as a member of the Management Board	Remuneration after the period of service as a member of the Management Board	Benefits due to termination of employment	Total earnings
Members of the Management Board serving in the function as at 31 December 2016					
Radosław Domagalski - Łabędzki	28.10-31.12	243	-	-	**243**
Michał Jezioro	09.11-31.12	177	-	-	**177**
Stefan Świątkowski	23.02-31.12	1 194	-	-	**1 194**
Jacek Rawecki	03.02-31.12	1 300	-	-	**1 300**
Piotr Walczak	15.03-31.12	1 112	-	-	**1 112**
Other Members of the Management Board					
Herbert Wirth	01.01-03.02	166	1 206	206	**1 578**
Jarosław Romanowski	01.01-03.02	178	1 129	185	**1 492**
Marcin Chmielewski	01.01-03.02	158	1 089	164	**1 411**
Jacek Kardela	01.01-03.02	159	1 109	164	**1 432**
Mirosław Laskowski	01.01-15.03	273	1 269	309	**1 851**
Mirosław Biliński	03.02-05.09	850	-	226	**1 076**
Krzysztof Skóra	03.02-28.10	1 183	-	159	**1 342**
Dominik Hunek	06.09-27.10	171	-	-	**171**
Wojciech Kędzia	-	-	30	-	**30**
TOTAL		**7 164**	**5 832**	**1 413**	**14 409**

Remuneration of members of the Supervisory Board (in PLN thousands)	2017			
	Period when function served	Current employee benefits	Current benefits due to service	Total earnings
Members of the Supervisory Board serving in the function as at 31 December 2017				
Dominik Hunek	01.01-31.12	-	138	**138**
Józef Czyczerski	01.01-31.12	129	125	**254**
Leszek Hajdacki	01.01-31.12	237	125	**362**
Bogusław Szarek	01.01-31.12	254	168	**422**
Michał Czarnik	01.01-31.12	-	131	**131**
Jarosław Witkowski	01.01-31.12	-	131	**131**
Wojciech Andrzej Myślecki	01.01-31.12	-	129	**129**
Marek Pietrzak	01.01-31.12	-	129	**129**
Agnieszka Winnik -Kalemba	01.01-31.12	-	126	**126**
Janusz Marcin Kowalski	21.06-31.12	-	56	**56**
		620	**1 258**	**1 878**

Remuneration of members of the Supervisory Board (in PLN thousands)	2016			
	Period when function served	Current employee benefits	Current benefits due to service	Total earnings
Members of the Supervisory Board serving in the function as at 31 December 2016				
Józef Czyczerski	01.01-31.12	110	107	**217**
Leszek Hajdacki	01.01-31.12	184	107	**291**
Bogusław Szarek	01.01-31.12	199	144	**343**
Dominik Hunek	18.01-31.12	-	105	**105**
Michał Czarnik	18.01-31.12	-	106	**106**
Jarosław Witkowski	18.01-31.12	-	103	**103**
Wojciech Andrzej Myślecki	07.12-31.12	-	9	**9**
Marek Pietrzak	07.12-31.12	-	9	**9**
Agnieszka Winnik -Kalemba	07.12-31.12	-	9	**9**
other Members of the Supervisory Board				
Bogusław Stanisław Fiedor	01.01-18.01	-	5	**5**
Jacek Poświata	01.01-18.01	-	5	**5**
Andrzej Kidyba	01.01-18.01	-	6	**6**
Tomasz Cyran	01.01-18.01	-	6	**6**
Barbara Wertelecka-Kwater	01.01-18.01	-	5	**5**
Marcin Moryń	01.01-18.01	-	7	**7**
Miłosz Stanisławski	18.01-06.12	-	93	**93**
Cezary Godziuk	18.01-07.12	-	93	**93**
Radosław Barszcz	18.01-07.12	-	99	**99**
		493	**1 018**	**1 511**

	2017	2016
Current employee benefits of other key managers (in PLN thousands)	4 397	3 675

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

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

	2017	2016
Companies of the Deloitte Group	**5 000**	**5 070**
From the contract for the review and audit of financial statements, including due to:	3 809	3 258
audit of annual financial statements	3 098	2 667
review of financial statements	668	581
other assurance services	43	10
From other contracts	1 191	1 812

in PLN millions, unless otherwise stated

Note 12.12 Composition of the Group

Company	Head office	% of Group's share	
		2017	2016
BIPROMET S.A.	Katowice	100	100
CBJ sp. z o.o.	Lubin	100	100
CENTROZŁOM WROCŁAW S.A.	Wrocław	100	99.65
CUPRUM Nieruchomości sp. z o.o.	Wrocław	100	100
"Energetyka" sp. z o.o.	Lubin	100	100
Fundusz Hotele 01 Sp. z o.o.	Wrocław	100	100
Fundusz Hotele 01 Sp. z o.o. S.K.A.	Wrocław	100	100
INOVA Spółka z o.o.	Lubin	100	100
INTERFERIE S.A.	Legnica	69.5	68.25
Interferie Medical SPA Sp. z o.o.	Legnica	90.05	89.64
KGHM CUPRUM sp. z o.o. - CBR	Wrocław	100	100
CUPRUM DEVELOPMENT sp. z o.o.	Wrocław	100	100
KGHM Kupfer AG	Berlin	100	100
KGHM I FIZAN	Wrocław	100	100
KGHM IV FIZAN	Wrocław	100	100
KGHM V FIZAN	Wrocław	100	100
KGHM Metraco S.A.	Legnica	100	100
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	Shanghai	100	100
KGHM TFI S.A.	Wrocław	100	100
KGHM ZANAM S.A.	Polkowice	100	100
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	100	100
NITROERG S.A.	Bieruń	87.12	87.12
NITROERG SERWIS Sp. z o.o.	Wilków	87.12	87.12
PeBeKa S.A.	Lubin	100	100
PeBeKa Canada Inc.	Vancouver	100	100
MERCUS Logistyka sp. z o.o.	Polkowice	100	100
PHU "Lubinpex" Sp. z o.o.	Lubin	100	100
Staropolanka Sp. z o.o.	Polanica Zdrój	100	100
PMT Linie Kolejowe 2 Sp. z o.o.	Owczary	100	100
Future 1 Sp. z o.o.	Lubin	100	100
Future 2 Sp. z o.o.	Lubin	100	100
Future 3 Sp. z o.o.	Lubin	100	100
Future 4 Sp. z o.o.	Lubin	100	100
Future 5 Sp. z o.o.	Lubin	100	100
Future 6 Sp. z o.o.	Lubin	100	100
Future 7 Sp. z o.o.	Lubin	100	100
PMT Linie Kolejowe Sp. z o.o.	Owczary	100	100
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	100	100
Polska Grupa Uzdrowisk Sp. z o.o.	Wrocław	100	100
"Uzdrowisko Cieplice" Sp. z o.o.-Grupa PGU	Jelenia Góra	98.53	98.48
Uzdrowiska Kłodzkie S.A. - Grupa PGU	Polanica Zdrój	100	100
Uzdrowisko Połczyn Grupa PGU S.A.	Połczyn Zdrój	100	100
Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o.-Grupa PGU	Świeradów Zdrój	99.12	98.98
WMN "ŁABĘDY" S.A.	Gliwice	84.98	84.96
WPEC w Legnicy S.A.	Legnica	100	100
Zagłębie Lubin S.A.	Lubin	100	100
OOO ZANAM VOSTOK	Gay (Russia)	100	100

in PLN millions, unless otherwise stated

Company	Head office	% of Group's share 2017	2016
KGHM INTERNATIONAL LTD. Group			
KGHM INTERNATIONAL LTD.	Vancouver, Canada	100	100
KGHM AJAX MINING INC.	Vancouver, Canada	80	80
Sugarloaf Ranches Ltd.	Vancouver, Canada	80	80
Malmbjerg Molybdenum A/S in liquidation	Greenland	100	100
KGHMI Holdings Ltd.	Vancouver, Canada	100	100
Quadra FNX Holdings Chile Limitada	Chile	100	100
Aguas de la Sierra Limitada	Chile	100	100
Quadra FNX FFI S.à r.l.	Luxembourg	100	100
Robinson Holdings (USA) Ltd.	Nevada, USA	100	100
Wendover Bulk Transhipment Company	Nevada, USA	100	100
Robinson Nevada Mining Company	Nevada, USA	100	100
Carlota Holdings Company	Nevada, USA	100	100
Carlota Copper Company	Nevada, USA	100	100
FNX Mining Company Inc.	Ontario, Canada	100	100
DMC Mining Services Ltd.	Vancouver, Canada	100	100
Quadra FNX Holdings Partnership	Vancouver, Canada	100	100
Raise Boring Mining Services, S.A. de C.V.	Mexico	100	100
FNX Mining Company USA Inc.	Nevada, USA	100	100
DMC Mining Services Corporation	Nevada, USA	100	100
CENTENARIO HOLDINS LTD.	Vancouver, Canada	100	100
Minera Carrizalillo Limitada	Chile	100	100
KGHM Chile SpA (formerly: Mineria y Exploraciones KGHM International SpA)	Chile	100	100
FRANKE HOLDINGS LTD.	Vancouver, Canada	100	100
Sociedad Contractual Minera Franke	Chile	100	100
0899196 B.C. Ltd.	Vancouver, Canada	100	100
DMC Mining Services (UK) Ltd.	The United Kingdom	100	-
DMC Mining Service Colombia SAS	Colombia	100	-

Note 12.13 Subsequent events after the reporting period

Convening of an Extraordinary General Meeting of KGHM Polska Miedź S.A.

On 14 February 2018, the Management Board of KGHM Polska Miedź S.A. convened an Extraordinary General Meeting of KGHM Polska Miedź S.A., which will take place on 15 March 2018 beginning at 11 A.M., at the head office of the Parent Entity in Lubin.

The Extraordinary General Meeting of KGHM Polska Miedź S.A. was convened in order to adopt the following resolutions:

- on changing the subject of the Company's activity and amending the Statutes of KGHM Polska Miedź S.A.,
- on changes to the composition of the Supervisory Board of the Company KGHM Polska Miedź S.A.

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Extension of the deadline for repayment of bank loans

On 2 February 2018, the Parent Entity extended the period of availability of the USD 100 million credit line in Bank Gospodarstwa Krajowego to 2 February 2019. Interest on the bank loan is based on LIBOR plus a margin.

On 27 February 2018, the Parent Entity extended the period of availability of the PLN 170 million credit line in Bank Zachodni WBK S.A. to 28 February 2019. Interest on the bank loan is based on WIBOR/LIBOR plus a margin.

Granting guarantees

On 21 February 2018, the Parent Entity granted a corporate guarantee in the amount of USD 50 million to cover the obligations of DMC due to the contract signed on 13 February 2018 by DMC Mining Services (UK) Ltd. and DMC Mining Services Ltd. ("DMC") to provide design services and to sink 4 shafts as part of the project to mine polyhalite in the United Kingdom.

Changes in the composition of the Management Board of the Parent Entity

On 10 March 2018, the Supervisory Board of the Parent Entity dismissed the following persons from the Management Board of KGHM Polska Miedź S.A.:

- Radosław Domagalski-Łabędzki, President of the Management Board;
- Michał Jezioro, Vice President of the Management Board.

The Supervisory Board set the number of 9th-term Management Board members at 3 Members of the Management Board.

At the same time, the Supervisory Board assigned:

- the duties of President of the Management Board - to Rafał Pawełczak, Vice President of the Management Board (Development), until the appointment of a President of the Management Board of KGHM Polska Miedź S.A. following qualification proceedings;
- the duties of Vice President of the Management Board (International Assets) - to Stefan Świątkowski, Vice President of the Management Board (Finance), until the appointment of a Vice President of the Management Board (International Assets) following qualification proceedings.

Rafał Pawełczak and Stefan Świątkowski will continue to fulfil the functions assigned to them to date on the Management Board of KGHM Polska Miedź S.A.

Part 13 – Quarterly financial information of the Group

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		4th quarter of 2017	4th quarter of 2016	4 quarters of 2017	4 quarters of 2016
Note 2.3	Sales revenue	5 871	6 015	20 358	19 156
Note 4.1	Cost of sales	(4 415)	(4 887)	(15 204)	(15 242)
	Gross profit/(loss)	**1 456**	**1 128**	**5 154**	**3 914**
Note 4.1	Selling costs and administrative expenses	(386)	(397)	(1 343)	(1 370)
	Profit/(loss) on sales	**1 070**	**731**	**3 811**	**2 544**
Note 6.1	Share of losses of joint ventures accounted for using the equity method	(259)	(373)	(474)	(1 200)
Note 6.2	Allowance for impairment of loans granted to joint ventures	-	(4 394)	-	(4 394)
Note 6.2	Interest on loans granted to joint ventures	79	168	319	633
	Profit or loss on involvement in joint ventures	(180)	(4 599)	(155)	(4 961)
Note 4.2	Other operating income and (costs)	(1 315)	(532)	(2 377)	(802)
Note 4.3	Finance income and (costs)	288	(615)	1 020	(582)
	Profit/(Loss) before income tax	**(137)**	**(5 015)**	**2 299**	**(3 801)**
Note 5.1	Income tax expense	3	(63)	(774)	(648)
	PROFIT/(LOSS) FOR THE PERIOD	**(134)**	**(5 078)**	**1 525**	**(4 449)**
	Profit/(Loss) for the period attributable to:				
	Shareholders of the Parent Entity	(87)	(4 996)	1 568	(4 371)
	Non-controlling interest	(47)	(82)	(43)	(78)
	Weighted average number of ordinary shares (million)	**200**	**200**	**200**	**200**
	Basic/diluted earnings per share (in PLN)	**(0.44)**	**(24.98)**	**7.84**	**(21.86)**

in PLN millions, unless otherwise stated

Explanatory notes to the consolidated statement of profit or loss

Note 13.1 Expenses by nature

	4th quarter of 2017	4th quarter of 2016	4 quarters of 2017	4 quarters of 2016
Depreciation of property, plant and equipment and amortisation of intangible assets	447	454	1 684	1 718
Employee benefits expenses	1 338	1 214	4 956	4 672
Materials and energy	1 874	1 886	7 460	7 035
External services	626	639	2 156	2 192
Minerals extraction tax	456	396	1 765	1 338
Other taxes and charges	118	125	506	499
Reversal of impairment losses on property, plant and equipment and intangible assets	(344)	(2)	(344)	(2)
Advertising costs and representation expenses	19	21	57	61
Property and personal insurance	9	7	34	30
Impairment losses on property, plant and equipment and intangible assets	92	269	92	269
Other costs	58	46	157	185
Total expenses by nature	**4 693**	**5 055**	**18 523**	**17 997**
Cost of merchandise and materials sold (+)	134	119	571	436
Change in inventories of finished goods and work in progress (+/-)	379	556	(1 079)	(225)
Cost of manufacturing products for internal use of the Group (-) (mainly stripping costs of surface mines)	(405)	(446)	(1 468)	(1 596)
Cost of sales, selling costs and administrative expenses, including:	**4 801**	**5 284**	**16 547**	**16 612**
Cost of sales	4 415	4 887	15 204	15 242
Selling costs	104	114	371	410
Administrative expenses	282	283	972	960

in PLN millions, unless otherwise stated

Note 13.2 Other operating income and (costs)

	4th quarter of 2017	4th quarter of 2016	4 quarters of 2017	4 quarters of 2016
Measurement and realisation of derivatives	1	18	231	167
Exchange differences on assets and liabilities other than borrowings	-	666	-	511
Write-off of unmatured tax liabilities	-	185	-	185
Release of unused provisions	82	17	132	43
Other	89	45	199	169
Total other operating income	**172**	**931**	**562**	**1 075**
Measurement and realisation of derivatives	(216)	(139)	(492)	(371)
Exchange differences on assets and liabilities other than borrowings	(390)	-	(1 466)	-
Impairment losses on available-for-sale assets	-	-	-	(57)
Impairment losses on fixed assets under construction and intangible assets not yet available for use	(772)	(1 195)	(773)	(1 209)
Other	(109)	(129)	(208)	(240)
Total other operating costs	**(1 487)**	**(1 463)**	**(2 939)**	**(1 877)**
Other operating income/(costs)	**(1 315)**	**(532)**	**(2 377)**	**(802)**

Note 13.3 Finance income/(costs)

	4th quarter of 2017	4th quarter of 2016	4 quarters of 2017	4 quarters of 2016
Exchange differences on borrowings	336	-	1 251	-
Measurement of derivatives	-	28	-	26
Total finance income	**336**	**28**	**1 251**	**26**
Interest on borrowings	(21)	(36)	(96)	(85)
Unwinding of the discount effect	(43)	(11)	(50)	(46)
Bank fees and charges on borrowings	(12)	(17)	(44)	(61)
Measurement of derivatives	-	-	(30)	(9)
Exchange differences on borrowings	-	(578)	-	(401)
Other	28	(1)	(11)	(6)
Total finance costs	**(48)**	**(643)**	**(231)**	**(608)**
Finance income and (costs)	**288**	**(615)**	**1 020**	**(582)**

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY			
Date	**First, Last Name**	**Position/Function**	**Signature**
13 March 2018	Rafał Pawełczak	President of the Management Board	
13 March 2018	Ryszard Jaśkowski	Vice President of the Management Board	
13 March 2018	Stefan Świątkowski	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last Name**	**Position/Function**	**Signature**
13 March 2018	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 KGHM POLSKA MIEDŹ S.A. AND OF THE KGHM POLSKA MIEDŹ S.A. GROUP IN 2017

Lubin, March 2018

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In accordance with Art. 49b point 9 of the Accounting Act, „The Management Board's Report on the activities of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group in 2017" does not contain a declaration on non-financial information, due to the fact that a separate report on non-financial information is being prepared and published.

Useful terms and abbreviations

Adjusted EBITDA	EBITDA adjusted by impairment losses/reversals of impairment losses on non-current assets 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).
Cash cost of producing copper in concentrate (C1)	Unit cash cost of producing payable copper in concentrate, reflecting ore mining and processing costs, transport costs, the minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value
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 Amortisation – 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 left after the mining work.
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).
Payable copper	Volume of copper produced less the amount corresponding to the loss incurred in further processing to pure metal.
Payable metal	Volume of metal produced less the amount corresponding to the loss incurred in further processing to pure metal.
Pillar (mining)	An unremoved mass of rock in an underground mine used to support the ceiling against collapse.
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate	The sum of costs of mining, floatation, smelter processing per cathode and support functions (the Data Center Division, the Mine-Smelter Emergency Rescue Division and the Head Office), together with cathode selling costs, adjusted by the value of inventories of half-finished products and work in progress divided by the volume of electrolytic copper production from own concentrate
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).

Total unit cost of producing copper from own concentrate	The sum of costs of mining, floatation, smelter processing per cathode and support functions (the Data Center Division, the Mine-Smelter Emergency Rescue Division and the Head Office), together with cathode selling costs, adjusted by the value of inventories of half-finished products and work in progress and less the value of anode slimes, divided by the volume of electrolytic copper production from own concentrate.
TPM – Total Precious Metals	Precious metals (gold, platinum, palladium).
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

Aggregated data of the Company and Group for the years 2010-2017

(data for the years 2010-2015 according to annual reports for these periods)

		2017	2016	2015	2014	2013	2012	2011	2010
Basic items of the consolidated financial statements									
Sales revenue	PLN mn	**20 358**	19 156	20 008	20 492	24 110	26 705	22 107	17 293
Profit/(loss) for the period	PLN mn	1 525	(4 449)	(5 009)	2 451	3 033	4 803	11 064	4 715
Total assets	PLN mn	34 122	33 442	36 764	40 374	34 465	33 616	30 554	21 177
Liabilities and provisions	PLN mn	16 337	17 531	16 350	14 844	11 401	11 906	7 172	6 286
Earnings per share (EPS) [1]	PLN	7.84	(21.86)	(25.06)	12.25	15.18	24.01	55.02	23.54
Share price of the Company [2]	PLN	111.20	92.48	63.49	108.85	118.00	190.00	110.60	173.00
Net debt/EBITDA [3]		1.3	1.6	1.4	0.9	0.4	-	-	-
Payable copper production [4]	kt	656	677	718	663	666	676	571	547
Payable silver production [4]	t	1 234	1 207	1 299	1 258	1 164	1 274	1 260	1 161
Concentrate production cost C1 [4]	USD/lb	1.59	1.41	1.59	1.89	1.85	1.59	0.63	1.07
Cash expenditures on property, plant and equipment and intangible assets	PLN mn	2 796	3 251	3 939	3 434	3 188	2 402	1 859	1 401
Basic items of the separate financial statements									
Sales revenue	PLN mn	16 024	15 112	15 939	16 633	18 579	20 737	20 097	15 945
Profit/(loss) for the period	PLN mn	1 323	(4 085)	(2 788)	2 414	3 058	4 868	11 335	4 569
Total assets	PLN mn	30 947	30 100	33 120	32 312	29 038	28 177	29 253	19 829
Liabilities and provisions	PLN mn	13 691	14 200	12 841	8 035	5 740	6 254	6 118	5 373
Earnings per share (EPS)	PLN	6.62	(20.42)	(13.94)	12.07	15.29	24.34	56.68	22.85
Electrolytic copper production	kt	522	536	574	577	565	566	571	547
Metallic silver production	t	1 218	1 191	1 283	1 256	1 161	1 274	1 260	1 161
Concentrate production cost C1	USD/lb	1.52	1.30	1.47	1.82	1.78	1.34	0.63	1.07
Cash expenditures on property, plant and equipment and intangible assets	PLN mn	1 991	2 604	2 481	2 203	2 174	1 647	1 406	1 157
Macroeconomic data (average annual)									
Copper prices on LME	USD/t	6 166	4 863	5 495	6 862	7 322	7 950	8 811	7 539
Silver prices per LBMA	USD/oz t	17.05	17.14	15.68	19.08	23.79	31.15	35.12	20.19
Exchange rate	USD/PLN	3.78	3.94	3.77	3.15	3.17	3.26	2.96	3.02

1) Attributable to shareholders of the Parent Entity
2) At the end of period
3) Adjusted EBITDA for the year, excluding EBITDA of the joint venture Sierra Gorda S.C.M.
4) Comprises Sierra Gorda S.C.M. pursuant to interest held (55%)

in PLN millions, unless otherwise stated

Significant events in 2017 and to the date of preparation of this report

Date	Event	Section
Change in macroeconomic conditions		
2017	An increase in average annual prices of copper, molybdenum and nickel respectively by 27%, 26% and 8% alongside a decrease in the silver price by 0.5%	4.3
2017	Changes in average annual exchange rates: USD/PLN by -4%, USD/CAD by -2% and USD/CLP by -4%	4.3
KGHM Polska Miedź S.A. on the Stock Exchange		
2017	Increase in the share price of KGHM Polska Miedź S.A. by 20% from PLN 92.48 to PLN 111.20	11.1
Changes in the composition of KGHM Polska Miedź S.A.'s governing bodies		
3 February 2017	Change in the composition of the Management Board – Jacek Rawecki resigned and Rafał Pawełczak was appointed as a Vice President of the Management Board	17.3
31 May 2017	Change in the composition of the Management Board – Piotr Walczak resigned from the function of Vice President of the Management Board of KGHM Polska Miedź S.A. (Production) with effect from 13 June 2017	17.3
21 June 2017	Change in the composition of the Supervisory Board – appointment of Janusz Marcin Kowalski	17.3
24 July 2017	Change in the composition of the Management Board – appointment of Ryszard Jaśkowski	17.3
10 March 2018	Change in the composition of the Management Board – dismissal of Radosław Domagalski-Łabędzki, President of the Management Board, and Michał Jezioro, Vice President of the Management Board	17.3
Amendments of financial statements		
27 October 2017	Amendment of the consolidated quarterly report for the 1st quarter of 2017	
9 November 2017	Amendment of the consolidated half-year report for the first half of 2017	
Advancement of projects		
15 December 2017	Receipt of information that an EA Certificate for the copper-gold Ajax project located near Kamloops in British Columbia was not granted	2.3
Impairment of assets		
14 February 2017	Regulatory filing announcing that primary work related to the testing for impairment of assets has been completed.	6 and 7
19 January 2018	Information on the identification of indications to verify the recoverable amount of international mining assets	6 and 7
21 February 2018	Information on the results of the conducted tests for impairment	6 and 7
Dividend paid		
11 May 2017	The Management Board's recommendation regarding coverage of the loss for 2016 and the dividend payout in 2017	11.3
21 June 2017	Decision of the Ordinary General Meeting of KGHM Polska Miedź S.A. on a dividend payout in the amount of PLN 200 million for 2016	11.3
14 July 2017	Dividend date (the date on which the right to dividend is set)	11.3
17 August 2017, 16 November 2017	Dates of payout of the 1st and 2nd instalments on the dividend	11.3
Significant agreements		
30 June 2017	Change in conditions of the loan agreement signed on 8 March 2012 by Sierra Gorda S.C.M.	14
27 July 2017	KGHM Polska Miedź S.A. signed a Framework Agreement for the comprehensive sale of fuel gas as well as bilateral Individual Contracts with the company Polskie Górnictwo Naftowe i Gazownictwo S.A.	14
11 December 2017	KGHM Polska Miedź S.A. signed an unsecured loan agreement for a loan in the amount of PLN 900 million with the European Investment Bank.	14
Other		
11 May 2017	Adoption of the Strategy of KGHM Polska Miedź S.A. for the years 2017-2021 with an outlook to the year 2040 by the Supervisory Board	5
21 June 2017	The Ordinary General Meeting of the Company adopted amendments to the Statutes of KGHM Polska Miedź S.A.	2.2
21 September 2017	Registration by the National Court Register of amendments to the Company's Statutes, adopted by resolutions of the Ordinary General Meeting on 21 June 2017	2.2
October 2017	Breakdown of the recovery boiler at the Głogów I Copper Smelter and Refinery – the breakdown occurred on 3 October 2017, production recommenced on 30 October 2017	7.1
13 October 2017	Information on the impact of the breakdown of the recovery boiler at the Głogów I Copper Smelter and Refinery	7.1

in PLN millions, unless otherwise stated

1. Introduction

KGHM Polska Miedź S.A. is the Parent Entity of a Group which is a world-class producer of copper and silver with nearly 60 years of experience in the copper ore mining and processing sector. In Poland, KGHM Polska Miedź S.A. operates one of the world's largest copper ore deposits, guaranteeing continuous production in Poland for the next several decades. KGHM Polska Miedź S.A. also produces silver, gold, molybdenum, lead and rock salt, as well as being one of the leading exporters in the country and one of the largest companies in Poland.

The KGHM Polska Miedź S.A. Group is a global and innovative organisation, which conducts technologically advanced exploration-mining and metallurgical activities and has a geographically diversified portfolio of mining projects. KGHM's business model is divided into 7 areas, through which the Group ensures a complete chain of value creation, from exploration to the sale of finished products:

Deposits management	Processing	Sales
- exploration and evaluation - mining - restoration	- ore enrichment - smelting and refining - processing	- products sales

KGHM actively supports the realms of science, the arts and sport. Through the KGHM Polska Miedź Foundation founded in 2003, the Company engages in charitable activities.

The KGHM Group includes over 70 entities. It employs over 33 thousand employees. Uniformity in such a complex organisation is ensured by KGHM's values – zero harm, teamwork, results-driven, accountability and courage. For nearly 60 years they have been the Company's business compass, indicating the direction of development and the means of operation on the international market.

On 10 July 2017 the Company celebrated the 20th anniversary of its debut on the Warsaw Stock Exchange. The Company's quotations are included in the WIG20 and WIG30 indices.

2. Group structure

2.1. Group structure

As at 31 December 2017, the Group was composed of KGHM Polska Miedź S.A. – the Parent Entity – and 75 subsidiaries (including three closed-end, non-public investment funds), located on three continents: Europe, North America and South America. Some of these subsidiaries form their own groups. The largest of these, in terms both of the number of entities as well as the value of equity, was the KGHM INTERNATIONAL LTD. Group, whose main assets are located in Canada, the USA and Chile. It was comprised of 26 subsidiaries. As at the end of the reporting period the KGHM Polska Miedź S.A. Group owned shares in three joint ventures - Sierra Gorda S.C.M., "Elektrownia Blachownia Nowa" Sp. z o.o. in liquidation and NANO CARBON Sp. z o.o.

The detailed structure of the KGHM Polska Miedź S.A. Group, together with the relationships between entities, may be found in Appendices 2 and 3 to this report.

The Group's main entities, which are engaged in the mining sector, comprise three primary reporting segments which are independently evaluated by management bodies. These are: KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M. Other companies, excluding 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. and Future 7 Sp. z o.o., which operate within the structure related to the establishment of a Tax Group, are part of the segment called Other segments.

The below diagram presents the significant production assets and projects underway within the reporting segments: KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M.

Diagram 1. Main reporting segments of the KGHM Polska Miedź S.A. Group

	KGHM Polska Miedź S.A.	**KGHM INTERNATIONAL LTD.**	**Sierra Gorda S.C.M.** Joint venture of KGHM INTERNATIONAL LTD. and Sumitomo Group companies
Activities	- mined and metallurgical production of metals – Cu, Ag, Au	- mined production of metals - Cu, Ni, Au, Pt, Pd	- mined production of metals - Cu, Mo, Au, Ag
Main production assets	- underground mines - Lubin mine - Polkowice-Sieroszowice mine - Rudna mine - metallurgical plants - Legnica Copper Smelter and Refinery - Głogów I Copper Smelter and Refinery and Głogów II Copper Smelter and Refinery - Cedynia Wire Rod Plant	- Robinson mine in the USA (open pit) - Morrison mine (underground) in the Sudbury Basin in Canada	- Sierra Gorda mine in Chile (open pit)
Most important development projects	- Głogów Głęboki-Przemysłowy - pre-production projects and exploration projects in south-west Poland	- Victoria project in the Sudbury Basin in Canada - construction of an underground copper and nickel mine - Sierra Gorda Oxide project in Chile	-

Within the segment Other segments, several main groups of entities may be identified:

- companies supporting the core business of KGHM Polska Miedź S.A.,
- closed-end investment funds and portfolio companies,
- companies serving an important role in CSR policy,
- special purpose companies in the holding structure, and
- companies targeted for restructuring or divestment.

Changes in the basic principles for managing the Group

In 2017, with respect to changes in the Principles for Managing the KGHM Polska Miedź S.A. Group, actions were undertaken aimed at strengthening oversight of companies and unifying solutions applied in this regard within the Group. One of these was to incorporate within the Statutes and the Articles of Association of the Group's companies the rules of the Act dated 16 December 2016 on the principles of state assets management and the Act of 9 June 2016 on the terms of setting the remuneration of individuals managing certain companies. The most important changes instituted by these documents involved questions such as: strengthening oversight of the management of assets held by companies, establishing the requirements imposed on members of company bodies and changes in the principles of remunerating members of company bodies. An essential element of these changes is the increase in the role of supervisory boards in the process of overseeing Group companies. The changes in the Statutes and the Articles of Association of the Group's companies introduced at the end of 2017 are currently in the process of being registered. At the same time work is underway on adapting relevant documents.

Another important event involving the shaping of the Principles for Managing the Group was the introduction of the „Code of the KGHM Group" (Code), which was applied by most of the domestic companies of the Group (Group). The Code is a tool enabling the coordination of activities within the Group. Its Members are obliged to cooperate in accomplishing the mutual interests of the Group arising from its Strategy and in achieving long-term benefits. The common interests of the Group are achieved mainly by carrying out coordinated actions aimed at optimising utilisation of market conditions and enhancing the efficiency of management by applying joint corporate governance principles within the Group.

in PLN millions, unless otherwise stated

2.2. Organisational structure of KGHM Polska Miedź S.A.

In 2017, the multi-divisional organisational structure of the Company, acting under the name KGHM Polska Miedź S.A., comprised the Head Office of the Company and 10 Divisions.

Diagram 2. Organisational structure of the Company as at 31 December 2017

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

Amendments in the Company's Statutes

On 21 June 2017, the Company's Ordinary General Meeting adopted resolutions regarding amendments in the Statutes of KGHM Polska Miedź S.A., which come into force on the date they are taken, but following the registration of these changes in the entrepreneur registry of the National Court Register. On 21 September 2017, the National Court Register registered these amendments in the Company's Statutes, adopted by resolutions of the AGM of KGHM Polska Miedź S.A. with its registered head office in Lubin on 21 June 2017.

Major changes in the Company's Statutes involving principles for managing the issuer's enterprise and its group:

- The Supervisory Board appoints and recalls the President of the Management Board and the Vice Presidents. The Supervisory Board appoints the members of the Management Board following the conduct of qualification proceedings, the goal of which is to review and evaluate the qualifications of candidates and to select the best candidate for Member of the Management Board, with due regard being given to the rules concerning the appointment or recall of an employee-elected member of the Management Board. The new wording of the Statutes specifies the general procedure for conducting qualification proceedings.
- Requirements were introduced for candidates for the position of member of the Management Board of the Company arising from the Act of 9 June 2016 on the terms of setting the remuneration of individuals managing certain companies,
- Rights were introduced for the Supervisory Board to determine the manner of voting by a representative of KGHM Polska Miedź S.A. at the General Meetings of companies in respect of which the Company is a parent entity pursuant to art. 4 point 3 of the Act of 16 February 2007 on competition and consumer protection, regarding the founding by a company of another company, amendments in the statutes or articles of association and in the subject of a company's activities, the merger, transformation, splitting, dissolution and liquidation of a company, increasing or decreasing a company's share capital, the disposal and lease of an enterprise or of an organised part thereof, as well as the attachment of limited property rights to same, the retirement of shares, setting the remuneration of members of the management boards and supervisory boards, decisions relating to claims for redress of damage suffered during the founding of the company, or from management or supervisory activities, regarding issues referred to in art. 17 of the Act of 16 December 2016 on the principles of state assets management, with due regard to § 34 sec. 4 of the Statutes.
- The remuneration of Members of the Management Board was set along with other conditions of management services contracts, based on principles for setting the remuneration of Members of the Management Board adopted by the General Meeting, with due regard to the Act of 9 June 2016 on the terms of setting the remuneration of individuals managing certain companies,
- The duties of the Supervisory Board were also amended to include granting consent to the Management Board for the following:
  - agreements for legal services, marketing services, public relations services and social communication services, and advisory services associated with management, if the total expected remuneration for providing such services exceeds the net amount of PLN 500 000 per year,
  - changes in agreements for legal services, marketing services, public relations services and social communication services, and advisory services associated with management which increase the amount of remuneration above the amount referred to in the above point,
  - agreements for legal services, marketing services, public relations services and social communication services, and advisory services associated with management, in which the maximum amount of remuneration is not determined,

in PLN millions, unless otherwise stated

- donations or other agreements with similar implications, with a value exceeding PLN 20 000 or 0.1% of total assets pursuant to the Act of 29 September 1994 on accounting, determined based on the most recently approved financial statements,
- discharge of debt or other agreements with similar implications with a value exceeding PLN 50 000 or 0.1% of total assets pursuant to the Act of 29 September 1994 on accounting, determined based on the most recently approved financial statements.

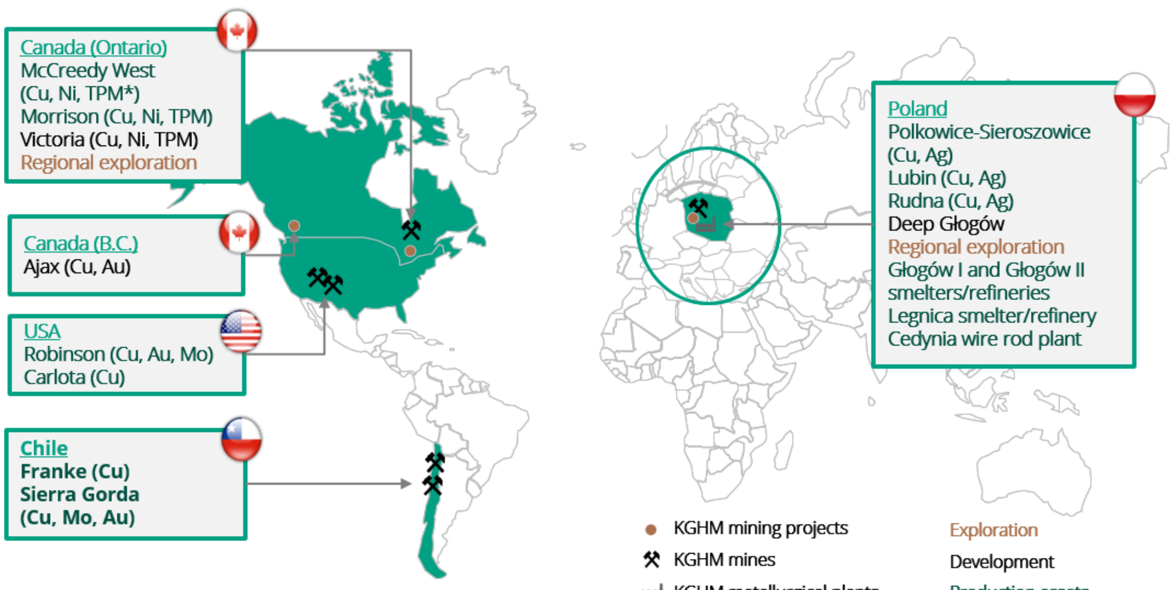
– Principles for the disposal of non-current assets were set in conformance with the Act of 16 December 2016 on the principles of state assets management.

2.3. Major assets

The KGHM Polska Miedź S.A. Group holds geographically diversified mining assets located in low-risk countries. The copper, silver, molybdenum, nickel and precious metals mines of the Group are located in Poland, the USA, Chile and Canada. The key international asset – the Sierra Gorda mine, which is a joint venture between KGHM INTERNATIONAL LTD., Sumitomo Metal Mining and the Sumitomo Corporation – is located in Chile. In addition, the KGHM Polska Miedź S.A. Group has mine projects which are at the preproduction phase (Victoria, Sierra Gorda Oxide), as well as exploration projects.

The major assets of the KGHM Polska Miedź S.A. Group are presented in the diagram below.

Diagram 3. Location of mining assets of the KGHM Polska Miedź S.A. Group



*** TPM – precious metals**

Poland:

Polkowice-Sieroszowice mine

Location	Lower Silesia, Poland
Ownership	KGHM Polska Miedź S.A. Division
Type of mine	underground
Main ore type	copper ore
Associated metals	silver, lead, rock salt, gold
Type of orebody	stratiform
End product	copper ore
Copper in extracted ore in 2017	204.6 thousand tonnes

The Polkowice-Sieroszowice mine is located in Lower Silesia, to the west of the town of Polkowice. Currently, it conducts mining works in four mining areas: Polkowice, Radwanice Wschodnie, Sieroszowice and in a part of the Głogów Głęboki – Przemysłowy (Deep Głogów) deposit.

Within the Sieroszowice deposit, there are also rich deposits of rock salt above the copper-bearing horizon.

Mining is conducted using blasting technology together with various room-and-pillar methods with natural room settlement. The Polkowice-Sieroszowice mine's current production capacity is around 12 million tonnes of ore per year.

in PLN millions, unless otherwise stated

Rudna mine

Location	Lower Silesia, Poland
Ownership	KGHM Polska Miedź S.A. Division
Type of mine	underground
Main ore type	copper ore
Associated metals	silver, lead, gold
Type of orebody	stratiform
End product	copper ore
Copper in extracted ore in 2017	195.3 thousand tonnes

The Rudna mine is located in Lower Silesia, to the north of the town of Polkowice. First and foremost, it mines the Rudna deposit, but it also develops and operates in the Sieroszowice and Głogów Głęboki – Przemysłowy (Deep Głogów) deposits.

The copper orebody in the Rudna deposit ranges from 844 meters to 1250 meters, and in the Deep Głogów deposit is up to 1385 meters. The current average production capacity is approx. 12 million tonnes of ore per year.

Lubin mine

Location	Lower Silesia, Poland
Ownership	KGHM Polska Miedź S.A. Division
Type of mine	underground
Main ore type	copper ore
Associated metals	silver, lead, gold
Type of orebody	stratiform
End product	copper ore
Copper in extracted ore in 2017	66.9 thousand tonnes

The Lubin mine is located in Lower Silesia, Poland, to the north of the town of Lubin. The Lubin-Małomice copper orebody lies at a depth from 368 meters to 1006 meters. The deposit is mined by blasting technology using the room-and-pillar method with natural roof settlement as well as the room-and-pillar method with hydraulic backfill in the vicinity of the support pillar of the town of Lubin. The mine's current production capacity is around 8 million tonnes of ore per year.

Głogów Copper Smelter and Refinery

Location	Lower Silesia, Poland
Ownership	KGHM Polska Miedź S.A. Division
Type of metallurgical plant	smelter/refinery
End product	electrolytic copper
Electrolytic copper production in 2017	406.9 thousand tonnes

This complex of metallurgical plants located in Głogów comprises two copper concentrate smelting lines based on the one-stage smelting of concentrate in a flash furnace directly into blister copper. Apart from electrolytic copper, the Głogów Copper Smelter and Refinery produces crude lead (up to 30 thousand tonnes annually), silver (around 1200 tonnes), Pt-Pd slime (around 80 kg), gold (around 2.7 tonnes) and sulphuric acid (over 570 thousand tonnes).

Legnica Copper Smelter and Refinery

Location	Lower Silesia, Poland
Ownership	KGHM Polska Miedź S.A. Division
Type of metallurgical plant	smelter/refinery
End product	electrolytic copper
Electrolytic copper production in 2017	115.1 thousand tonnes

The copper smelter and refinery located in Legnica has a current production capacity of 110 thousand tonnes of electrolytic copper. In operation since the 1950s based on shaft furnace technology. Apart from electrolytic copper, the plant also produces round billets, around 30 thousand tonnes annually of refined lead and also 122 thousand tonnes of sulphuric acid, as well as copper sulphate and nickel sulphate.

Cedynia Wire Rod Plant

Location	Lower Silesia, Poland
Ownership	KGHM Polska Miedź S.A. Division
Type of metallurgical plant	processing
End product	copper wire rod and Cu-OFE rod
Production in 2017	242.1 thousand tonnes of copper wire rod and 15.8 thousand tonnes of OFE rod

Production at the Cedynia Wire Rod Plant located in the vicinity of Orsk is based on the use of copper cathodes, 75% of which come from the Głogów Copper Smelter and Refinery and 25% from the Legnica Copper Smelter and Refinery. The basic product of the Cedynia Wire Rod Plant is copper wire rod produced in a Contirod line amounting to around 250 thousand tonnes annually and around 16 thousand tonnes annually of oxygen-free copper wire rod (OFE) produced in a UPCAST line, including oxygen-free, silver-bearing copper wire rod.

in PLN millions, unless otherwise stated

The United States:

Robinson mine	
Location	Nevada, USA
Ownership	100% KGHM INTERNATIONAL LTD.
Type of mine	open pit
Main ore type	copper ore
Associated metals	gold and molybdenum
Type of orebody	porphyry/ skarn
End product	copper and gold concentrate, molybdenum concentrate
Payable copper production in 2017	48.8 thousand tonnes

The mine is located in White Pine county, Nevada, USA, around 11 km west of Ely (approx. 400 km north of Las Vegas), in the Egan range, at an average altitude of 2130 meters a.s.l., near highway no. 50.

The mine is comprised of 3 large pits: Liberty, Tripp-Veteran and Ruth. Currently, Ruth is in operation. The ore is extracted by conventional methods, and is then processed into a copper and gold concentrate, and separately into molybdenum concentrate in a concentrating plant.

Moreover, in the Western part of the Miami-Globe mining region, approx. 10 km west of the town of Miami, at the border of Gila and Pinal counties in Eastern Arizona, USA, is the **Carlota** mine. Since 2014, the mine's activities have mainly concentrated on leaching the copper ore mined thus far and the production of copper cathodes in the SX/EW facility. In 2017, there was a variety of technical work performed which enabled the extension of the asset's life by one year alongside an increase in production by the planned mining of the Eder South area.

Canada:

Morrison mine	
Location	Sudbury Basin, Ontario, Canada
Ownership	100% KGHM INTERNATIONAL LTD.
Type of mine	underground
Main ore type	copper, nickel, platinum, palladium and gold ore
Type of orebody	footwall/contact Ni
End product	copper and nickel ore
Payable copper production in 2017	8.5 thousand tonnes

The mine is located at the edge of the town of Sudbury (Ontario Province, Canada).

The ore is accessed and mined with the aid of leased infrastructure of the adjacent 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 level of approx. 1300 meters using mining techniques adapted to the deposit's geometry – this is mainly a mechanised method of selective extraction using undercutting of successive levels from bottom to top. All of the ore extracted from the mine is processed in the Clarabelle plant in Sudbury, owned by Vale.

Victoria project	
Location	Sudbury Basin, Ontario, Canada
Ownership	100% KGHM INTERNATIONAL LTD.
Type of mine	underground
Main ore type	copper-nickel ore
Associated metals	gold, platinum and palladium
Mine life	14 years
End product	copper, nickel and precious metals ore
Forecasted annual production	16 thousand tonnes Ni, 18 thousand tonnes Cu

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 region commenced. 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). Exploration work performed thus far confirmed the continuity and characteristics of the mineralisation to the level of approximately 2200 meters below the surface. In 2017, as part of its design work, the project team continued work on securing existing infrastructure and project terrain. In addition, in 2017 work was carried out to develop the optimal path to realise the investment.

in PLN millions, unless otherwise stated

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	19 years
End product	copper concentrate
Forecasted annual production	53 thousand tonnes Cu, 114 thousand ounces Au

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 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 permit based on the assumed technological parameters of the project, including the siting of basic mine plant infrastructure, the assumptions of the feasibility study from 2012 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 of ore per day.

In December 2017, the Ministers of Environment and of Energy, Mines and Petroleum Resources of British Columbia (provincial authorities) decided against the granting of an Environmental Assessment Certificate for the Ajax project.

The Federal Minister of Environment and Climate Change Strategy expressed the opinion that the project would have significant adverse effects, and forwarded the project to the Canadian Ministry of Fisheries, Oceans and the Ministry of Natural Resources. The respective ministries will review the matter, while the federal government (comprised of various federal ministries) will make the final decision as to whether the project's adverse effects are sufficiently justified to allow the project to go ahead despite the negative impact.

The decisions were made through the environmental impact assessment process, and reflect the substantial engagement of provincial and federal governmental agencies, First Nations and a broad spectrum of stakeholders, including thousands of local citizens.

Once KGHM Ajax Mining Ltd. has reviewed the arguments behind the decisions of the provincial authorities, it will consider further steps, which may include judicial review.

Chile:

Sierra Gorda mine and project

Location	Region II, Chile
Ownership	55% KGHM INTERNATIONAL LTD, 45% Sumitomo Group companies: -Sumitomo Metal Mining Co., Ltd. (31.5%) -Sumitomo Corporation (13.5%)
Type of mine	open pit
Main ore type	copper ore
Associated metals	molybdenum, gold
Mine life	25 years for the current deposit based on phase I of the investment, including actions to remove bottlenecks. Moreover, there is a possibility to extend the mine's life using new deposits
End product	copper concentrate, molybdenum concentrate
Payable production in 2017	97.1 thousand tonnes of copper in concentrate, 35.7 million pounds of molybdenum in concentrate – on a 100% basis, share of KGHM Polska Miedź S.A. is 55%

The Sierra Gorda mine 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 meters a.s.l. and 4 km from the town of Sierra Gorda.

The ore mined in the Sierra Gorda mine is processed into copper and molybdenum concentrates.

In April 2015 the molybdenum installation commenced production, and from 1 July 2015 the Sierra Gorda mine has commenced commercial production (since then it has prepared operational statements of profit or loss). In 2017, work was performed to optimise the processing of the sulphide ore. The actions taken were aimed at stabilising the volume and technological parameters of the sulphide ore processing process, as well as at stabilising the processing installation and increasing metal recovery.

At present work is aimed at developing the mine based on phase I of the investment along with actions aimed at optimising the production line, which should lead to increased production capacity.

The Sierra Gorda Oxide project aims to process the oxide ore. Under consideration is the recovery of metal in an installation using SX/EW technology. The oxide ore is currently stored for later heap leaching. In 2017, work continued on evaluating alternative scenarios for developing the project to limit the amount of equity capital required.

Franke mine

Location	Antofagasta Region, Chile
Ownership	100% KGHM INTERNATIONAL LTD.
Type of mine	open pit
Type of orebody	IOCG (iron oxide, copper, gold)
End product	copper cathodes
Payable copper production in 2017	19.6 kt

The mine is located in a desert area of northern Chile, in the Altamira region, near the southern boundary of the Antofagasta region, near a public road connecting the mine with the Pan-American highway.

Mining is conducted by conventional open-pit methods from two orebodies: China and Franke. Due to the nature of the ore, it is processed using the heap leach, solvent-extraction and electrowinning method. The end product is electrolytic copper in the form of cathodes.

An advanced exploration project is being advanced within the Franke mine, technical analyses are in progress as to the feasibility of extending the asset's life.

Other assets

In terms of assuring the 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,
- KGHM Metraco S.A. – a supplier of copper scrap,
- „Energetyka" sp. z o.o. – this company secures part of the energy needs of KGHM Polska Miedź S.A.

In addition, amongst the international companies is a group of companies under the DMC Mining Services brand: FNX Mining Company Inc., Raise Boring Mining Services S.A. de C.V., DMC Mining Services Corporation, DMC Mining Services Colombia S.A.S. and DMC Mining Services (UK) Ltd., which provide services in shaft sinking, development work, above-ground and underground mine facilities, mine drilling, tunnel drilling for general construction purposes and engineering services.

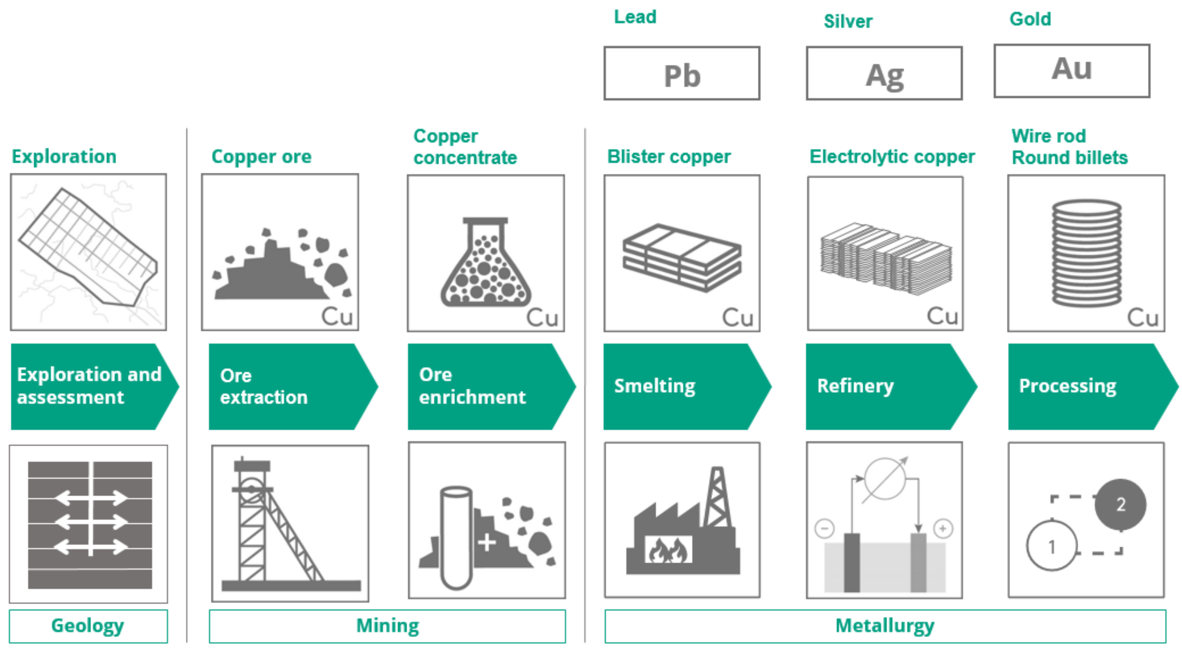
In terms of the amount of capital committed, an important investment are also the shares of TAURON Polska Energia S.A., a company listed on the Warsaw Stock Exchange.

Investments in closed-end investment funds are a tool used to diversify the investment risk for KGHM Polska Miedź S.A. In advancing 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 value. A significant portion of these funds' assets are investments in the general field of health.

2.4. Production process

Production in the Group is based on the processes illustrated in the following two diagrams:

Diagram 4. Integrated mining, processing, smelting and refining processes in KGHM Polska Miedź S.A.



Production in KGHM Polska Miedź S.A. is a fully integrated process, in which the end product of one technological phase is the starting material (half-finished product) used in the next phase. Mining in KGHM Polska Miedź S.A. is performed by three mining Divisions: Lubin, Rudna and Polkowice-Sieroszowice. In the subsequent phase the Concentrators Division prepares concentrate for the smelters and refineries, while the Tailings Division is responsible for storing and managing the tailings generated by the copper ore enrichment process. The organisational structure of KGHM includes two metallurgical facilities: the Legnica Copper Smelter and Refinery and the Głogów Copper Smelter and Refinery, as well as 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 technology for ore extraction. This involves access and development work, comprised of the excavation of a drift network on all 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, where 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 work related to mining of the copper ore is fully mechanised, 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 work 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 in mining divisions, followed by the ventilation of the areas blasted (from 30 minutes 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 transported 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 ore concentrators are the same. 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 concentrate with the highest copper content (approx. 26%), while the lowest is at the Lubin mine concentrator (approx. 13%). The Polkowice mine concentrator produces concentrate of approx. 25% copper content.

The dried concentrate of approx. 8.5% water content is transported by rail to the following smelter/refineries: Legnica Copper Smelter and Refinery located in Legnica, Głogów I Copper Smelter and Refinery and Głogów II Copper Smelter and Refinery, located in Głogów (Głogów I and Głogów II comprising one large facility.

The flotation waste, 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 cannot 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 own concentrates as well as from purchased metal-bearing material (concentrates, copper scrap, blister copper).

The Legnica Copper Smelter and Refinery uses a multi-stage process whose main stages include: preparation of the charge material, its reduction 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 electrolytic copper cathodes with 99.99% Cu content.

The Głogów Copper Smelter and Refinery applies one-stage flash furnace technology based on a license from the Finnish company Outokumpu. The dried concentrate, with a moisture content of 0.3% H_2O, is smelted in a flash furnace into blister copper containing around 98.6% Cu, which is subject to fire refining in anode furnaces. The slag, which still contains on approximately 14% copper, is sent to an electric furnace, where the copper is removed while the CuPbFe alloy obtained is sent to the convertors, from which the resulting copper is sent for refining in anode furnaces. The refined copper anodes produced are then sent for electrorefining, and the end product is electrolytic copper in the form of cathodes containing 99.99% Cu.

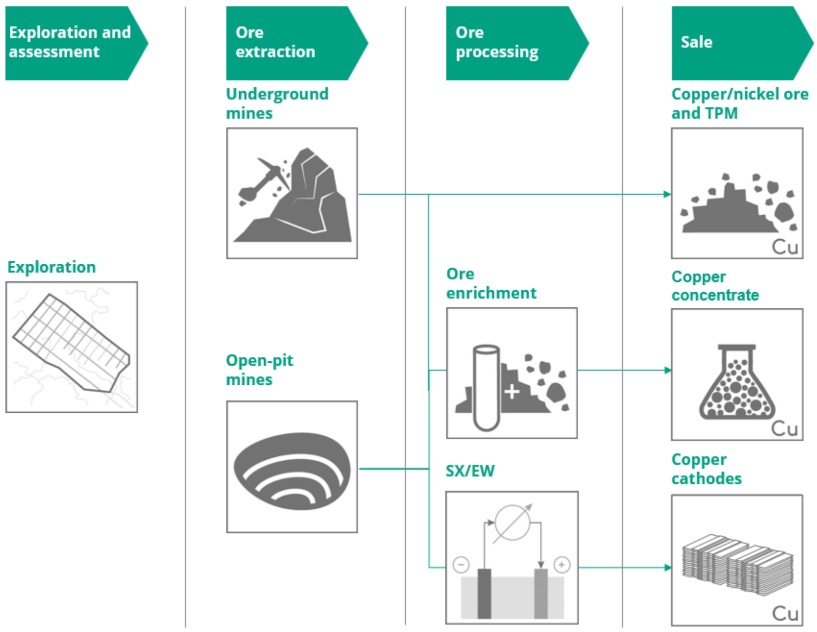
Approx. 45% of the electrolytic copper produced by KGHM's smelters and refineries are further processed in the Cedynia Copper Wire Rod Division, where copper wire rod is produced by a continuous smelting, casting and rolling process as well as oxygen-free copper rod and oxygen-free, low-alloy, silver-bearing copper rod based on UPCAST technology are produced.

The anode slime produced during the electrorefining process at KGHM's smelters and refineries contains precious metals, and is the raw material used by the Precious Metals Plant at the Głogów Copper Smelter and Refinery to produce the following products: refined silver, gold, palladium-platinum concentrate and selenium. The electrolyte in the Tank and Electrolite Decopperisation Hall, once the copper is removed, is used to produce crude nickel sulphate.

The lead-bearing dust and slimes collected as a result of the removal of dust from technological exhaust gases at the smelters and refineries are smelted, together with decopperised convertor slag from the flash furnace production line, in Dörschel furnaces at the Lead Section of the Głogów Copper Smelter and Refinery into crude lead containing 99.3% Pb. This crude lead is then refined at the Legnica Copper Smelter and Refinery to obtain the end product - refined lead containing 99.85 % Pb.

The segment KGHM International LTD.

Diagram 5. Simplified flowchart of core business of the KGHM INTERNATIONAL LTD. Group



The core business of the KGHM INTERNATIONAL LTD. Group of companies is the mined production of metals, such as copper, nickel, gold, platinum and palladium, from both open-pit and underground mines, as well as advancement of mining and exploration projects. The above drawing shows a simplified diagram of the main operations of the KGHM INTERNATIONAL LTD. Group.

2.5. Changes in Group structure, equity investments and their financing

In 2017, work continued on the process of reorganising the international part of the KGHM Polska Miedź S.A. Group, primarily aimed at simplifying the Group's structure and making it more transparent. As a result of continuing the reorganisation, in 2017 KGHM Polska Miedź S.A. sold its shares in the company KGHM Kupfer AG to Future 1 Sp. z o.o., representing a continuation of activities from 2016, aimed at consolidating the international assets of the KGHM Polska Miedź S.A. Group under the holding company Future 1 Sp. z o.o.

On 5 October 2017, with respect to reorganising the international part of the KGHM Polska Miedź S.A. Group, the company Mineria y Exploraciones KGHM International SpA changed its name into KGHM Chile SpA.

In 2017, KGHM Polska Miedź S.A. did not carry out equity investments with respect to its domestic companies. There were likewise no significant changes in the Group's structure in this regard.

KGHM Metraco S.A. increased its interest held in CENTROZŁOM WROCŁAW S.A. to 100%, as a result of acquiring employees' shares (interest in the share capital at the end of 2016 amounted to 99.91%). In addition, as a result of acquiring employees' shares, the interest held by KGHM I FIZAN rose slightly in two spa companies: in Uzdrowisko Cieplice Sp. z o.o. – Grupa PGU – an increase from 98.48% to 98.53%, and in Uzdrowisko Świeradów-Czerniawa Sp. z o.o. – Grupa PGU – an increase from 98.98 % to 99.12%.

In 2017, the indirect subsidiary Fundusz Hotele 01 Spółka z ograniczoną odpowiedzialnością with its registered head office in Wrocław (a portfolio company of KGHM I FIZAN) twice made purchases of the shares of INTERFERIE S.A., increasing its interest held in the company from 0.54% to 1.79%. As a result of this transaction the interest held by KGHM I FIZAN in this company increased to 69.50%.

in PLN millions, unless otherwise stated

Table 1. Changes in the Group's structure and organisation in 2017

Founding of entities	
DMC Mining Services Colombia SAS	On 10 October 2017, this company was founded in Colombia with a share capital of CLP 300 million. The shares were acquired by the company FNX Mining Company Inc. (100%). This company was founded to advance the development strategy of the DMC brand on the Colombian market.
DMC Mining Services (UK) Ltd.	On 29 December 2017, this company was founded in the United Kingdom with share capital of GBP 0.1 million. The shares were acquired by the company FNX Mining Company Inc. (100%). This company was founded to advance the development strategy of the DMC brand on the British market.
Disposals/acquisitions of entities	
KGHM Kupfer AG *	KGHM Polska Miedź S.A. sold all of the shares held, i.e. 100% of the share capital of the company KGHM Kupfer AG, to Future 1 Sp. z o.o.
CENTROZŁOM WROCŁAW S.A.	Acquisition of employees' shares (interest held at the end of 2016 was 99.91%) – an increase in interest held to 100%.
INTERFERIE S.A.	This company, an indirect subsidiary of Fundusz Hotele 01 Spółka z ograniczoną odpowiedzialnością with its registered head office in Wrocław (a portfolio company of KGHM I FIZAN), twice made purchases of the shares of INTERFERIE S.A., increasing its interest held in the company from 0.54% to 1.79%.
Liquidations	
Malmbjerg Molybdenum A/S in liquidation	Due to the lack of economically justified reasons to continue this project located in Greenland, on 10 November 2017 the Extraordinary Partners Meeting adopted a resolution on the liquidation of this company.

**Operation carried out in 2017 under the project to reorganise the international part of the Group*

Equity investments and their financing

Equity investments carried out in 2017, mainly aimed at financing the international production and development assets, were made by granting loans and/or by increasing share capital.

In 2017, in order to finance international production and development assets (Sierra Gorda S.C.M. and the projects: Sierra Gorda Oxide, Victoria and Ajax), KGHM Polska Miedź S.A. granted loans to the companies Quadra FNX Holdings Chile Limitada and KGHM INTERNATIONAL LTD. (indirect subsidiaries) in the total amount of USD 134 million (PLN 467 million at the average exchange rate of the NBP from 29 December 2017). The funds were subsequently transferred as loans and/or increases in the share capital of indirect companies in the Group's structure to companies carrying out individual projects.

Sierra Gorda S.C.M.	In 2017, financing for the company Sierra Gorda S.C.M. amounted to USD 127 million (PLN 440 million at the average exchange rate of the NBP from 29 December 2017) all of which was provided by KGHM Polska Miedź S.A.
Victoria project	Financing for the Victoria project amounted to USD 3.6 million (PLN 13 million at the average exchange rate of the NBP from 29 December 2017) all of which was provided by KGHM Polska Miedź S.A.
Ajax project	Financing for the Ajax project from KGHM Polska Miedź S.A. amounted to USD 3.1 million (PLN 11 million at the average exchange rate of the NBP from 29 December 2017), including USD 0.6 million (PLN 2 million at the average exchange rate of the NBP from 29 December 2017) under the loan granted to Abacus Mining & Exploration Corporation, partner in the company, pursuant to the Partners Agreement.
Sierra Gorda Oxide project	In 2017, financing for the Sierra Gorda Oxide project amounted to USD 0.8 million (PLN 3 million at the average exchange rate of the NBP from 29 December 2017) all of which was provided by KGHM Polska Miedź S.A.

Increases in share capital

The increases in the share capital of the Group's companies aimed at, among others, financing the international production and development assets are described below.

Sierra Gorda S.C.M. USD 230 million (PLN 800.7 million)	In 2017 financing was in the form of increases in share capital in the total amount of USD 100 million (PLN 348 million at the average exchange rate of the NBP from 29 December 2017). Proportionally to the interest held in the share capital of Sierra Gorda S.C.M., the company Quadra FNX Holdings Chile Limitada acquired 55% of the shares in the increased share capital, and 45% were acquired by SMM SIERRA GORDA INVERSIONES LIMITADA (a company of the Sumitomo Group). The shareholders also made payments (proportionally to the interest held) in the total amount of USD 130 million (PLN 453 million at the average exchange rate of the NBP from 29 December 2017) to be used to increase share capital, which will be registered in 2018.
KGHM AJAX MINING INC. CAD 4.1 million (PLN 11.4 million)	In 2017 financing for the Ajax project was in the form of an increase in share capital in the total amount of CAD 4.1 million (PLN 11 million at the average exchange rate of the NBP from 29 December 2017). Proportionally to the interest held in the share capital, KGHM INTERNATIONAL LTD. acquired 80% of the shares in the increased share capital, while the remaining 20% were acquired by Abacus Mining & Exploration Corp.

3. Primary Group products

Copper cathodes

Copper cathodes made from electrolytic copper with a minimum copper content of 99.99% are the basic product of KGHM Polska Miedź S.A. They meet the highest quality requirements 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.

Copper cathodes are also the primary product of the Carlota mine in the USA and the Franke mine in Chile, both part of the KGHM INTERNATIONAL LTD. Group.

The main customers for the cathodes are producers of wire rod, other rods, flat bars, pipes, sheets and belts.

Copper wire rod

The second copper product, in terms of volume, produced by KGHM Polska Miedź S.A. is 8 mm copper wire rod manufactured through the Contirod® continuous process of melting, casting and drawing. 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.

Silver

Electrolytic silver is produced mainly by KGHM Polska Miedź S.A. in the form of bars (ingots, 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. Granule silver is packed in bags weighing 25 kg or 500 kg. The main customers for silver are financial institutions, the jewelry industry, photographic industry, and the electronics and electrical industries as well as producers of coins and medallions.

Copper concentrate

Produced by the Robinson mine in the USA, part of the KGHM INTERNATIONAL LTD. Group, containing over 20% of copper. This product is also produced by the Sierra Gorda mine in Chile (copper content is above 20%). Both of these concentrates also include gold as an additional product. The copper concentrates are sold for further processing as a commercial product.

Molybdenum concentrate

Production of molybdenum concentrate was commenced in 2015 at the Sierra Gorda Mine in Chile. This concentrate, containing around 48 % molybdenum, is enriched, and then in the form of an oxide is sold for further processing. Molybdenum is used in the aircraft, defense, oil, nuclear and electronics industries.

Gold

Gold in the form of bars weighing approximately 0.5 kg, 1 kg, 4 kg, 6 kg and 12 kg containing 99.99% gold are produced by KGHM Polska Miedź S.A. Gold is used in the jewelry industry, by banks and in the electrical industry.

Ore containing copper, nickel and TPM (precious metals - gold, platinum, palladium)

Produced by the Morrison mine in Canada, part of the KGHM INTERNATIONAL LTD. Group. Average metals grade: 7-9% Cu, 1-2% Ni, 0.3 oz/t TPM (platinum, palladium, gold). The ore containing copper, nickel and TPM is sold for further processing to a smelter and refinery in the Sudbury Basin.

Oxygen-free copper rod

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

Round copper billets produced from copper cathodes cast in the classification Cu-ETP1 and Cu-ETP, and from oxygen-free phosphorus-containing copper cathodes in the classification Cu-HCP, Cu-PHC, Cu-DLP and Cu-DHP are used in the construction industry (to manufacture pipes) and the electrotechnical industry (to manufacture belts, rods and profiles).

Refined lead

Refined lead in the form of bars (dimensions: 615 x 95 x 80 mm) has been produced by KGHM Polska Miedź S.A. since 2007. It has been registered on the London Metal Exchange since 2014 under the brand „KGHM". Refined lead is mainly used to produce batteries and lead oxides.

4. Analysis of the global market for the Group's primary products

The primary products of the KGHM Polska Miedź S.A. Group, i.e. copper concentrates, cathodes, copper wire rod and silver in the form of bars and grains are traded on the commodities markets. Individual markets for the products offered by KGHM have varied rules and customs concerning trading and standard prices. Their incomparability is also due to the characteristics of individual products, which impacts their usage and the diversification of market participants.

4.1. Copper

The primary copper products offered by the companies of the KGHM Group are concentrates, cathodes and copper wire rod.
In practice, these are products of individual stages of copper ore processing. For all of these products, the price benchmark (i.e. the global benchmark of copper prices for physical delivery contracts of copper-bearing materials and products) is stock quotations, with the cash settlement of the London Metal Exchange (LME) being most commonly used. Less commonly used are alternative quotations of copper on stock exchanges in New York (COMEX) and Shanghai (Shanghai Futures Exchange). Grade "A" type, with a copper content of at least 99.99% (standard BS:EN 1978:1998) are quoted on the LME. In order to be able to apply stock exchange prices to purchase/sale transactions of the products to which this quality standard is not applicable (i.e. all types of copper-bearing materials like copper concentrates, copper scrap or more processed products like copper wire rod), market participants have developed a premium and discount system, which adjusts stock quotations. It allows setting of a market price for a product which takes into account its processing stage, its physical state and chemical makeup, as well as costs of insurance and transport to an agreed delivery destination and the current availability of the metal in a given location.

Copper concentrates

Copper concentrate is a product made by processing copper ore, which usually has a relatively low metal content and is not suitable for direct metallurgical processing. Usually, copper content in concentrate is between 20% to 40%, and therefore it is suitable for further processing in copper smelters and refineries. The cost of transporting products with a lower copper content basically eliminates them from trade in the global market (with certain exceptions), therefore it may be assumed that copper concentrate is the first product of processing copper ore that may be freely traded. The main participants of the concentrate markets are copper mines supplying the product on the market and smelters and refineries, for which the concentrates are materials for the production of copper and by-products of processing (mainly precious metals). It should be stressed that trading companies intermediating in the purchase/sale transactions also play a significant role on this market. In 2017, the total global production of copper in Cu concentrate is estimated at 16.1 million tonnes (according to CRU).

Chart 1. Geographical breakdown of copper concentrates production in 2017 (source: CRU, KGHM Polska Miedź S.A.)

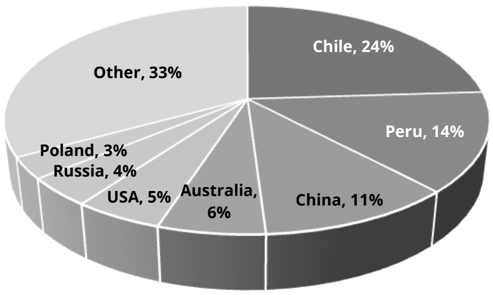
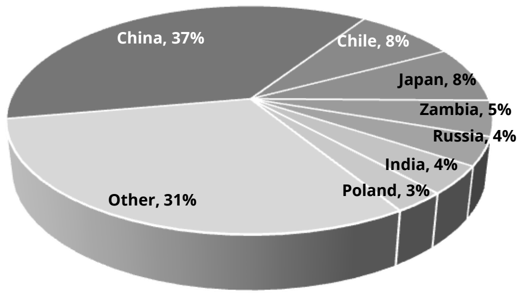


Chart 2.Geographical breakdown of copper blister production from copper concentrates in 2017 (source: CRU, KGHM Polska Miedź S.A.)



Copper concentrates require processing into refined copper, which leads to incurring processing costs and the incomplete recovery of metals in individual production stages. Therefore, the transaction price should have a set of discounts as compared to quoted prices for refined copper. The benchmark of these discounts (for TC/RC) is determined during negotiations with the main producers of concentrates (Freeport McMoRan, Antofagasta, BHP Billiton) and their customers (mainly Chinese and Japanese smelters and refineries).

Companies of the KGHM Group participate in the copper concentrate markets mainly by selling concentrate from Sierra Gorda in Chile and from Robinson in the USA. Simultaneously, KGHM acquires from the market copper concentrates with characteristics suitable for more efficient utilisation of the production capabilities of the smelters and refineries in Poland. In total, the companies of the KGHM Group produced 531 thousand tonnes of copper in concentrate, representing approx. 3.3% of estimated global production in 2017.

Copper cathodes

Refined copper in the form of copper cathodes is the end product of the smelting and refining processes, to which the copper-bearing materials are subjected (including concentrates, copper blister, anodes and copper scrap). Primary commodities exchanges (including the LME and SHFE) enable cathodes to be registered (Grade A type, with a copper content of at least 99.99% under the BS:EN 1978:1998 standard), and therefore their trading on exchanges and through LME-approved warehouses. The copper cathodes produced by KGHM are registered on the LME as well as on SHFE, under the brands: HML, HMG-B and HMG-S. Unregistered cathodes are also traded on the physical market (for example those that do not meet quality parameters or the minimal yearly production conditions set by exchanges). One example of unregistered cathodes produced by KGHM are those from Carlota and Franke mines. The main participants in the cathodes market are mining and smelting companies producing copper in the form of cathodes and wire rod plants and other companies engaged in copper processing, which use cathodes to produce wire rod, other rods, flat bars, pipes, sheets and belts. Trading companies and financial institutions intermediating in the copper cathodes trade are also important participants in the market. In 2017, total global production of refined copper is estimated by CRU at 23.2 million tonnes.

Chart 3. Geographical breakdown of refined copper production in 2017 (source: CRU, KGHM Polska Miedź S.A.)

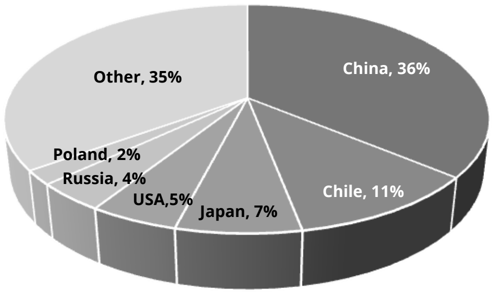
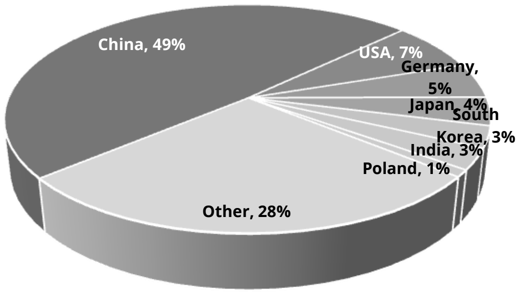


Chart 4. Geographical breakdown of refined copper consumption in 2017 (source: CRU, KGHM Polska Miedź S.A.)



It is a standard practice on the Grade "A" copper cathodes market to add a producer's premium to the prices set by global exchanges. Its level allows the producer to cover the cost of transport and insurance to the agreed delivery destination, and it also includes the premium for quality (of a given cathodes brand) and supply-demand situation on a given market.

The companies of the KGHM Group participate on the cathodes market mainly by selling cathodes from the Group's Polish assets. The Głogów Copper Smelter and Refinery produces cathodes of the HMG-S and HMG-B brands, while the Legnica Copper Smelter and Refinery produces cathodes of the HML brand, which are registered on the exchanges in London (LME) and Shanghai (SHFE). Moreover, the KGHM Group offers cathodes produced through the leaching and electrowinning process (SX/EW) in the Franke mine in Chile and in the Carlota mine in the United States. Production of refined copper in the companies of the KGHM Group amounted to 544.8 thousand tonnes, which represents approx. 2.3% of global production.

Copper wire rod

Copper wire rod is manufactured in the continuous process of melting, casting and drawing in plants processing refined copper in the form of cathodes (although higher-grade copper scrap is also used). Wire rod is a half-finished product used in the production of single wires and multiple wires used to produce conducting vines in cables and electric cables (for example: enamelled cable, car cables, power cords etc.). Similarly as for copper cathodes, trading companies are also involved in the physical trading of copper wire rod, apart from companies with wire rod plants and cable-producing companies. The copper wire rod market, due to the quality characteristics of the product, is more of a local market than the cathodes or copper concentrate markets. In 2017, total global production of copper in the form of copper wire rod is estimated by CRU at 17.4 million tonnes.

Chart 5. Geographical breakdown of copper wire rod production in 2017 (source: CRU, KGHM Polska Miedź S.A.)

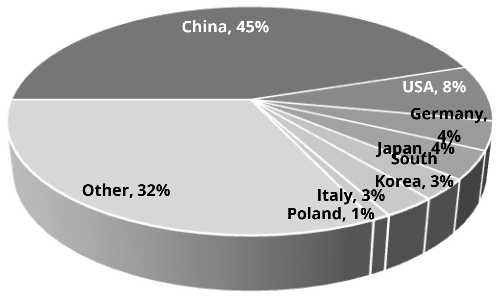
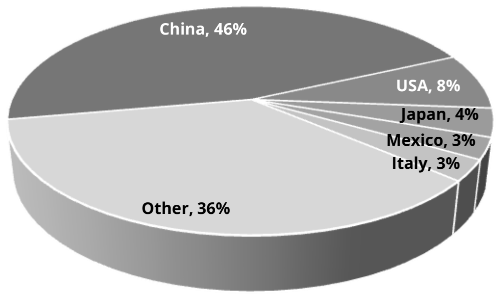


Chart 6. Geographical breakdown of global wire rod consumption in 2017 (source: CRU, KGHM Polska Miedź S.A.)



Copper wire rod's price structure, apart from the copper quotations on the London Metals Exchange, also includes a producer's fee (added to cathodes) and the refining charges due to the costs of processing cathodes into wire rod. KGHM produces wire rod in the Cedynia wire rod plant in Orsk.

4.2. Silver

Approx. 75% of global metallic silver production is a by-product of mining ores of other metals. Silver, due to its unique physical characteristics, is used in the jewelry, electronics and electrical industries, as well as in medicine, optics, the energy industry, the automotive industry and many others. In total, industry utilises approx. 40% of global silver production. It is also a valued investment metal. According to CRU estimates, in 2017 global production of mined silver amounted to 25.6 thousand tonnes.

Chart 7. Geographical breakdown of global mined silver production in 2017 (source: CRU, KGHM Polska Miedź S.A.)

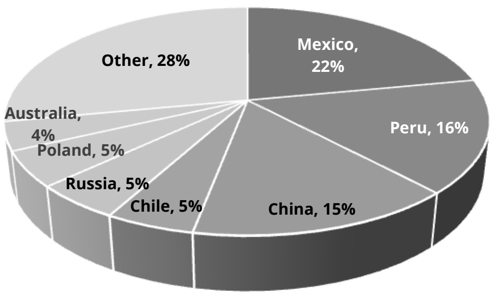
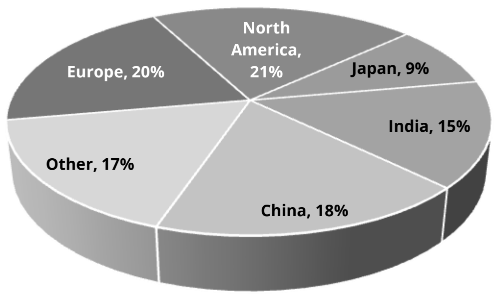


Chart 8. Geographical breakdown of global silver consumption in 2017 (source: CRU, KGHM Polska Miedź S.A.)



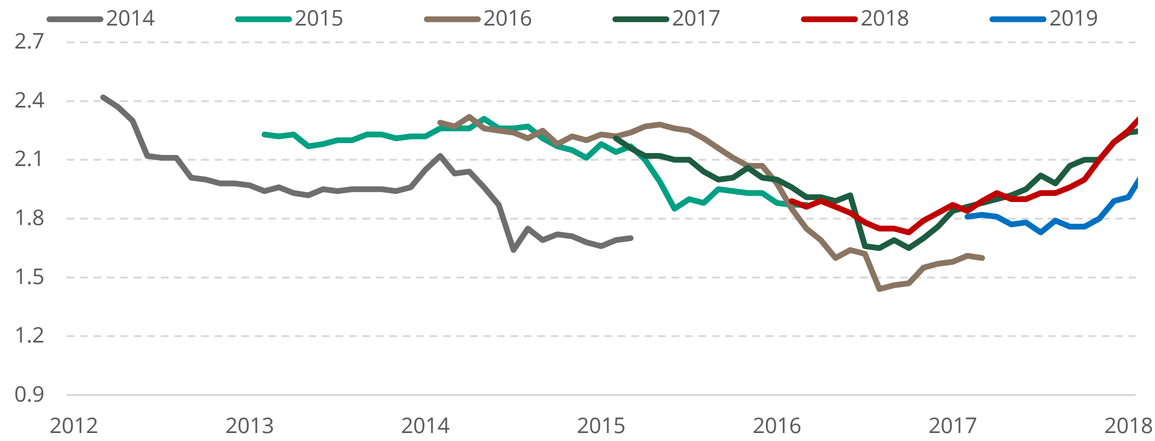
Usually, participants in the silver market make use of London Bullion Market Association quotations when setting the price for silver in physical transactions. In the case of high quality products and depending on the current market situation, a premium is added to the quotations from the LBMA.

KGHM sells silver in the form of bars and grains (produced at the Głogów Copper Smelter and Refinery) and is one of the largest producers of metallic silver. Yearly, the Company produces approx. 1.2 thousand tonnes of this valuable metal. Silver in the form of bars is registered under the brand KGHM HG and has a registered certificate on the New York Mercantile Exchange (NYMEX) as well as Good Delivery certificates issued by the London Bullion Market Association. Silver is supplied in the form of grains to the photographic, jewelry and metals industries, which produce alloys containing silver. Silver in the form of bars (ingots) is mainly purchased by financial institutions. In 2017, the companies of the KGHM Group produced in total 1.51 thousand tonnes of silver in concentrate, which represents approx. 5.9% of global mined production of this metal.

4.3. 2017 macroeconomic environment

The International Monetary Fund (IMF), after years of pessimistic revisions of global economic growth forecasts for the world's main economies, since mid-2016 has assumed in its forecasts a return to a more dynamic path of growth for GDP.

Chart 9. Forecasted GDP growth of G10 countries by year (% yoy)



This trend is confirmed by readings of global GDP growth, which according to the newest estimates increased in 2017 by 3.7% (compared to a 3.2% increase in 2016). What is important, global economic growth had a synchronised character - this dynamic global growth was impacted both by the economic results of emerging or developing nations as well as by the results of developed nations. Around 120 economies, responsible for three-fourths of global GDP, recorded year-on-year growth in 2017. The IMF expects that this more dynamic global economic growth will continue in the years 2018-2019, forecasting an annual growth rate of 3.9%.

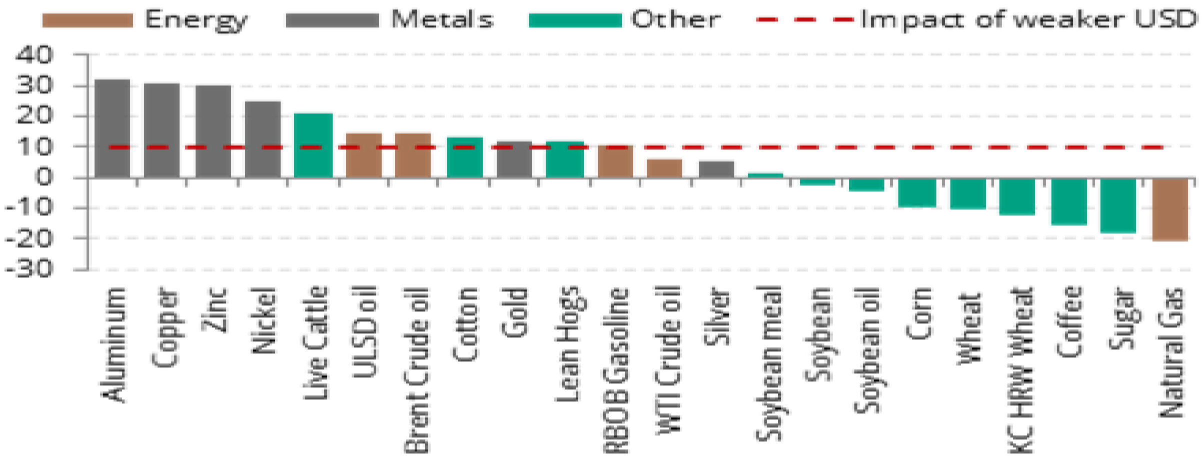
Developed nations recorded a substantial year-on-year acceleration of the economic growth rate in 2017 (2.3% in 2017 compared to 1.7% in 2016), with the key results being those of the United States for all of 2017, estimated at 2.3% yoy (1.5% the previous year). The American economy continued the accelerated rate of growth which began on the wave of market optimism in the second half of 2016. Better investor sentiment was also initially related to announcements, and later with the partial realisation of pro-growth economic reforms, including increases in infrastructure spending and tax reforms which eased fiscal burdens for companies and encouraged capital located abroad to return to the USA. The American economy is approaching full utilisation of its potential, as is shown among others by the rate of unemployment, which in December 2017 was at the very low level of 4.1%. Other developed economies also recorded a similar positive economic growth trend, including the Eurozone (2.4% growth yoy as compared to 1.8% the previous year) and Japan (1.8% in 2017 as compared to 0.9% the previous year).

In 2017 there was also an acceleration of the economic growth rate in developing economies, which recorded estimated growth of 4.7% as compared to 4.4% in 2016. This result was due to continuation of the rate of growth of China (6.8% vs 6.7 the previous year) and the ending of the recession in Russia (1.8% vs -0.2% the previous year) and Brazil (1.1% vs -3.5% the previous year). Amongst developing countries the largest fears were related to the situation in China. China's economy is undergoing a transformation aimed at modernising its industries, greater care for the environment and much greater economic support by internal services and consumption. However, despite these changes in the economy, China continued to experience a relatively high rate of growth, above budgetary targets, throughout 2017, while the main macroeconomic indicators (including manufacturing PMI and capital market indices) recorded positive readings.

The appearance in 2017 of positive data in individual regions of the world was undoubtedly affected by the final phase of expansive monetary policy, which continued to enable businesses to function in an environment of negative real interest rates and increased the amount of assets accumulated by central banks to a record USD 14 billion. The series of elections (presidential and parliamentary) in many countries, which generated fears and uncertainty amongst investors, brought about expected results, which systematically reduced political risk during the year. This led to a greater inclination by investors to take on risk, demonstrated by a heightened interest in classes of investments universally acknowledged as riskier (such as shares or the commodities market). Amongst the fears associated with the continuation of positive trends in the global economy are the low level of growth in productivity, potential inflationary pressures and the need for central banks to tighten monetary policy, as well as uncertainty associated with the plans to gradually reduce the assets accumulated during their so-called quantitative easing programs.

Synchronisation of growth in the global economy and the observed weakening of the American currency had quite varied impact on the prices of individual commodities. On an annual basis the Bloomberg Commodity Index (BCOM) increased by 1%, mainly due to the prices of industrial commodities (+16%) and precious metals (+10%). There was a difference in the situation regarding energy commodities (-5%) and agricultural commodities (-12%).

Chart 10. Change in commodities prices in 2017

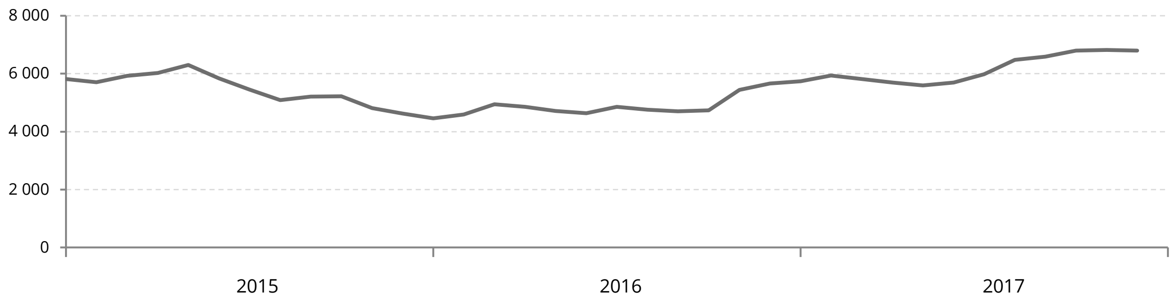


Source: Bloomberg, KGHM Polska Miedź S.A.

Global economic growth, which usually stimulates the consumption of industrial metals, a stable rate of demand in China, delays in mining projects which restrict supply and the hopes of market participants related to potential demand from the electric cars sector, supported the price of copper in 2017. A significant role in the dynamic price increases was played by „macro" type investment funds, which base their investment decisions on macroeconomic readings. After a moment of weakness in the middle of the year, the copper price began to dynamically grow, and in the final months of 2017 stabilised in the vicinity of 7 000 USD/t, substantially above the levels of the previous year. Consequently, the USD copper price at the end of 2017 was 30% higher than at the start of the year.

The average annual price of copper on the London Metal Exchange (LME) in 2017 was 6 165 USD/t, 27% above the average price in 2016 (4 863 USD/t).

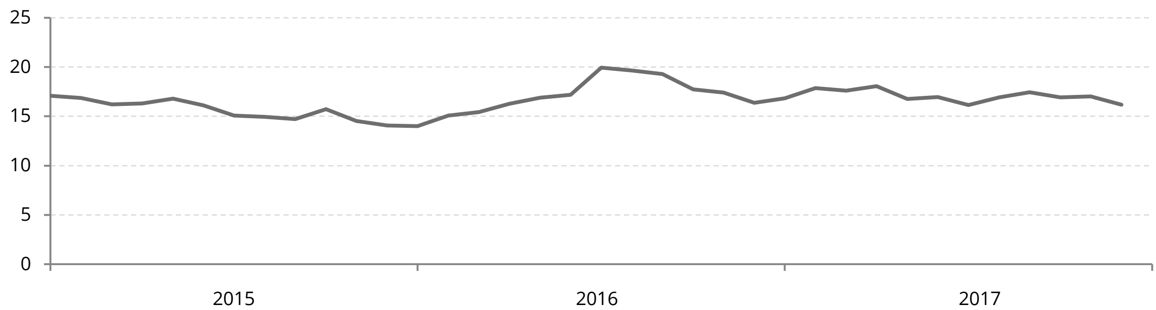
Chart 11. Copper price per the LME (USD/t)



Despite the continued weakness of the USD, the price of silver did not increase. The greater proclivity of investors to take on risk supported assets which are less safe but offer the opportunity for higher returns on investment (cryptocurrencies, commodities and EM currencies) and reduced demand for assets prone to hoarding (including precious metals). In 2017 the price of silver was in a sideways trend and at the end of the year amounted to 16.87 USD/ounce.

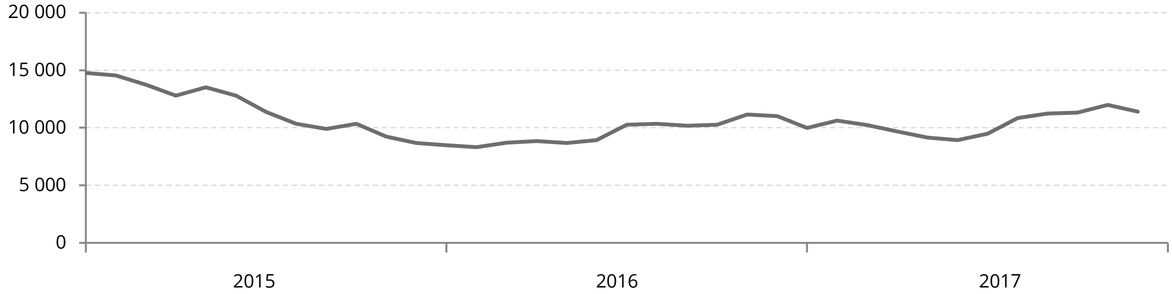
The average price of silver according to the London Bullion Market Association (LBMA) fell slightly in 2017 by 0.5% and averaged 17.05 USD/ounce as compared to 17.14 USD/ounce in 2016.

Chart 12. Silver price per the LBMA (USD/oz t)



The average annual price of nickel on the LME in 2017 amounted to 10 411 USD/t and was 8% higher than the average price recorded in 2016 (9 609 USD/t), and at the end of the year amounted to 12 260 USD/t. The price of nickel benefited from the favourable macroeconomic situation and the weakening of the American currency. On a micro level, investors noticed the lower supply in China (due to reforms supporting environmental protection), rising demand by the steel industry and future potential with respect to consumption related to the production of batteries for electric cars. On the other hand, more dynamic growth in prices was hampered by the substantial global supplies of this metal.

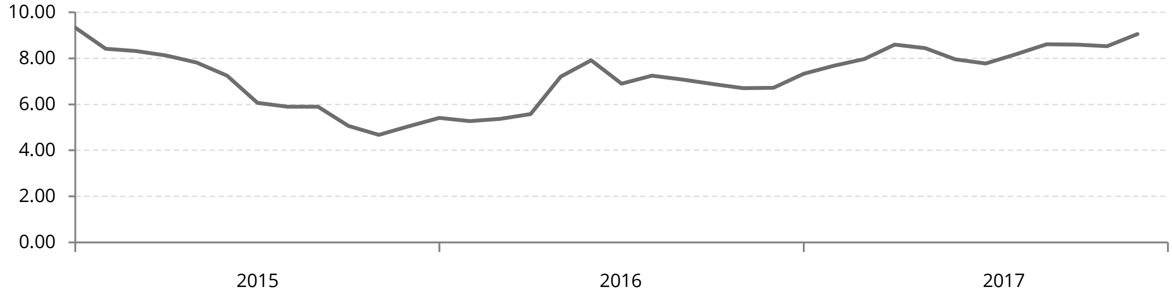
Chart 13. Nickel price per the LME (USD/t)



Since the start of 2017, the molybdenum market has seen a systematic increase in prices, mainly due to an improvement in the fundamental situation on this market. Due to the unexpected shutdown in Chinese smelters in the second and third quarters of 2017, production in China fell substantially. Despite this, losses due to interruptions were offset by higher production in South American countries. There was however important growth seen in demand for molybdenum by the steel industry. The average monthly price of molybdenum during the year ranged between 7.3 USD/lb (January 2017) and 9.0 USD/lb (December 2017).

As a result, the average price of this metal in 2017 amounted to 8.2 USD/lb and was almost 26% higher than the average price in 2016 (6.5 USD/lb).

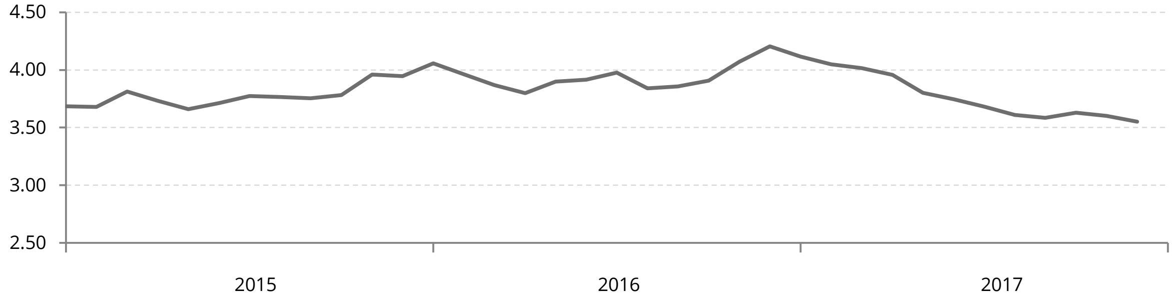
Chart 14. Molybdenum price per the CRU (USD/lb)



In 2017 the USD weakened considerably as compared to other world currencies – the value of the USD as compared to the currency basket (the so-called dollar index) decreased by nearly 9%. The USD depreciated despite factors which ordinarily lead to its strengthening, such as: tightening of the Fed's monetary policy, the growing disparity in interest rates between the USA and the world's main economic zones as well as the pro-growth fiscal reform policy introduced by the administration of President Trump. The USD/PLN exchange rate, after achieving multi-year peaks (approx. 4.25 USD/PLN) at the end of December 2016 fell dynamically, and at the end of 2017 amounted to approx. 3.48 USD/PLN.

The USD/PLN exchange rate (per the NBP) in 2017 amounted on average to 3.78 USD/PLN and was lower by 4.2% than the rate in 2016 (3.94 USD/PLN).

Chart 15. USD/PLN exchange rate per the NBP



Both the Canadian dollar and the Chilean peso, in the first months of 2017, recorded a slow depreciation trend as compared to the USD, after which they strengthened dynamically on the wave of the general weakening of the USD.

in PLN millions, unless otherwise stated

The average USD/CAD exchange rate (per the Bank of Canada) in 2017 amounted to 1.30 and was 4.9% lower than the rate recorded in 2016 (1.32). The average annual USD/CLP exchange rate (per the Bank of Chile) in 2017 amounted to 649, meaning an appreciation of the local currency as compared to the USD by 4.1% (677 in 2016).

Chart 16. USD/CAD exchange rate per the Bank of Canada

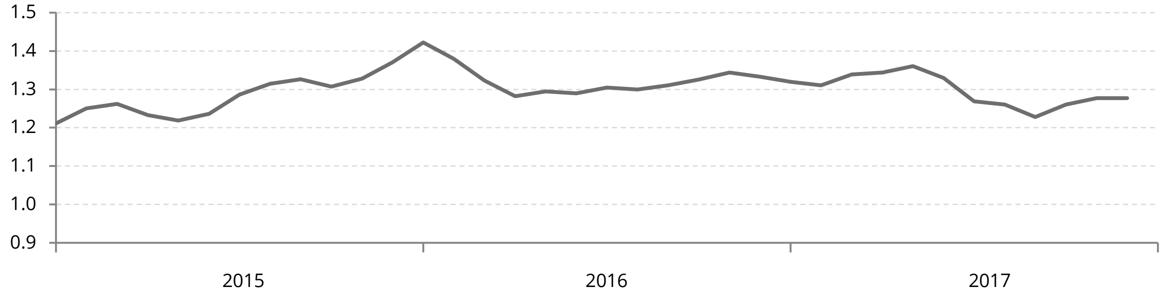
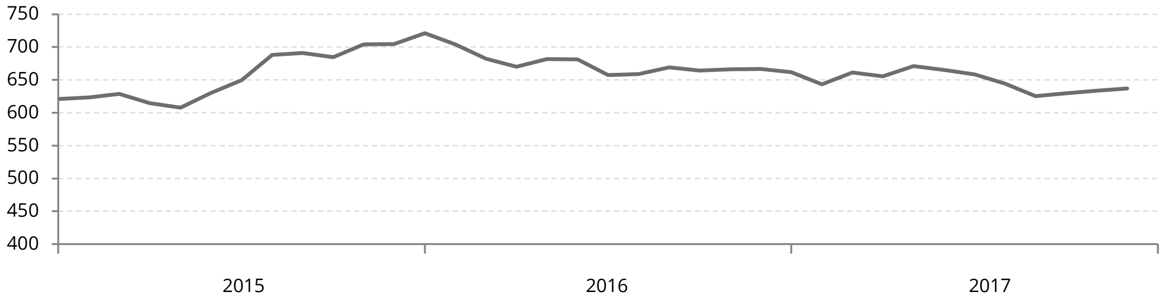


Chart 17. USD/CLP exchange rate per the Bank of Chile



The macroeconomic factors of the greatest significance for the operations of the Company are presented in the following table.

Table 2. Macroeconomic factors significant for the operations of the KGHM Polska Miedź S.A. Group – average prices

	Unit	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Copper price on the LME	USD/t	6 166	4 863	+26.8	6 808	6 349	5 662	5 831
Copper price on the LME in PLN	PLN/t	23 212	19 205	+20.9	24 482	23 021	21 685	23 660
Silver price per the LBMA	USD/oz t	17.05	17.14	(0.5)	16.73	16.84	17.21	17.42
Nickel price on the LME	USD/t	10 411	9 609	+8.3	11 584	10 528	9 225	10 271
Molybdenum price per the CRU	USD/lb	8.22	6.52	+26.1	8.72	8.19	8.33	7.66
USD/PLN exchange rate per the NBP		3.78	3.94	(4.1)	3.60	3.63	3.83	4.06
USD/CAD exchange rate per the Bank of Canada		1.30	1.32	(1.5)	1.27	1.25	1.34	1.32
USD/CLP exchange rate per the Bank of Chile		649	677	(4.1)	633	643	665	656

5. Details of the Strategy of KGHM Polska Miedź S.A.

5.1. Strategy for the years 2017-2021

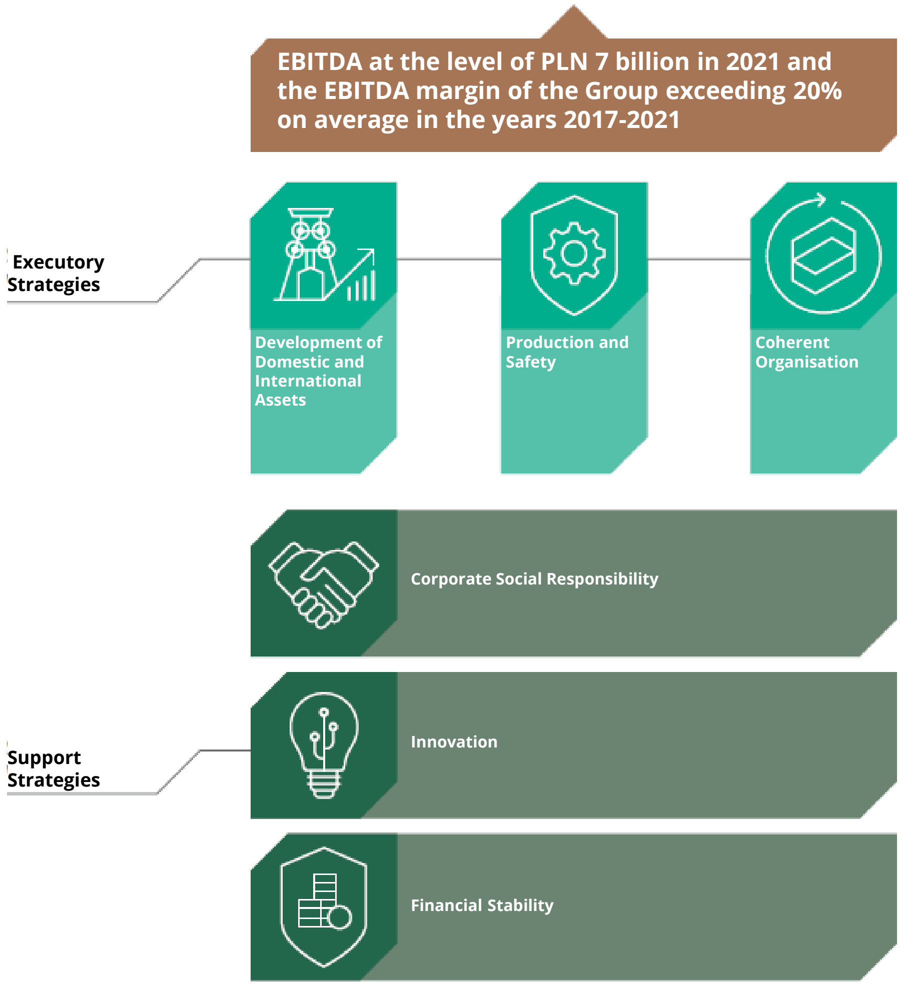
In May 2017, KGHM Polska Miedź S.A. approved the new Company Strategy for the years 2017-2021 with an outlook to 2040, with the following main goal: EBITDA at the level of PLN 7 billion in 2021 and an EBITDA margin for the Group on average above 20% in the years 2017 – 2021. The mission of the Company is based on the slogan „To always have copper", and it's vision is „To use our resources efficiently to become a leader in sustainable development". The Company's Strategy is being advanced by:

3 executory strategies

- Development of Domestic and International Assets
- Production and Safety
- Coherent Organisation

3 support strategies

- Corporate Social Responsibility
- Innovation
- Financial Stability



A separate primary goal was defined for each of the aforementioned strategies:

Development of Domestic and International Assets

The Strategy aims to ensure the efficient management of investments and resource-related projects. The equity investment and capital expenditures of the KGHM Polska Miedź S.A. Group for 2017-2021 have been estimated at the level of PLN 15 billion, of which over PLN 9.7 billion relates to KGHM Polska Miedź S.A. itself.

Production and Safety

The Strategy assumes an average annual production volume (of copper in ore) in Poland at the level of approximately 470 thousand tonnes of copper, and an average annual production volume abroad of approximately 145 thousand tonnes of payable copper in the years 2017-2021. One of the main priorities is providing safety in the broad sense in the following areas: work, environment and energy.

Coherent Organisation

The Strategy aims at implementing systemic solutions oriented towards growth in the value of the KGHM Polska Miedź S.A. Group by working out tailor-made organisational processes aimed at improving the efficiency and effectiveness of the supply chain.

Corporate Social Responsibility

The Strategy aims to further strengthen the positive image of the KGHM Polska Miedź S.A. Group with regard to shaping appropriate relations with its surroundings (stakeholders).

Innovation

The Strategy is oriented towards improving productivity in the KGHM Polska Miedź S.A. Group. It will enable long-term continuation of economic efficiency of the Company's business operations.

Financial Stability

The Strategy assumes ensuring financial stability, supporting development and efficiency, and ensuring resilience to difficult market conditions. The Strategy aims to provide financial security to the KGHM Polska Miedź S.A. Group.

All of the mutually-complementary executory and support strategies are aimed at jointly achieving strategic priorities. The strategic priorities of KGHM Polska Miedź S.A. are:

- EBITDA at the level of PLN 7 billion in 2021 and the EBITDA margin of the Group exceeding 20% on average in 2017-2021.
- CAPEX at the level of PLN 15 billion in 2017-2021 – total equity investment and capital expenditures in the Group, both locally and abroad.
- Stable average annual production from domestic and international assets at a cost guaranteeing financial security.
- Functioning in accordance with the concept of sustainable development in order to harmonise the common expectations of stakeholders with regard to economic, social and pro-environmental objectives.
- Financial stability in order to implement the assumed investment program on time and within budget.
- Focusing on innovative solutions in order to improve productivity.
- Readiness to bring international assets to their production maturity in order to maximise revenue and international ROI.
- Using the potential of companies from the KGHM Polska Miedź S.A. Group.

The long term goal of the Company is to maintain a stable level of production from its domestic and international assets while ensuring safe working conditions and minimising its impact on the natural environment and surroundings. In contrast to trends in prior years, the paradigm of continuous economic growth has been superseded by sustainable development. For this reason, over the long term the Company will aim at creating a sustainable system, understood as conserving natural resources through their optimum and efficient utilisation, in a rational manner, in such a way as to pass them on to future generations. The actions of KGHM Polska Miedź S.A. are grounded in proven business practices, which ensure an increase in the Company’s value and at the same time reflect social needs. In addition, the Company will continually identify potential opportunities for investment, which as financing allows, will enable the diversification of activities.

5.2. Directions regarding equity investments

Intentions regarding equity investments with respect to domestic companies are part of the strategy of KGHM Polska Miedź S.A. by the planned advancement of projects related to the core business. They are aimed at ensuring production continuity and the safe operation of the core business of KGHM Polska Miedź S.A. Among them, investments in environmental protection hold an important place.

Directions regarding equity investments with respect to the international assets are determined by the readiness of the KGHM Polska Miedź S.A. Group to bring these assets to production maturity in order to maximise revenues and rates of return on the international investments.

5.3. Policy regarding the development directions of the KGHM Polska Miedź S.A. Group

Policy regarding the development directions of the KGHM Group with respect to domestic companies was aimed at cooperation between entities and elimination of overlapping activities. In the case of the international assets of the KGHM Group, development policy was determined by the previously-begun process of reorganising the assets structure. In 2018 it is planned to continue this restructurisation, including further simplification of the structure of the KGHM Group’s international assets.

in PLN millions, unless otherwise stated

5.4. Directions regarding capital investments

The Company's investment activities will be aimed primarily at projects related to the core business, while at the same time limiting expenditures on the least effective projects.

Of primary importance to the investment policy of KGHM Polska Miedź S.A. is advancement of the Company's five-year investment plan in such a way as to conform to the Strategy of KGHM as well as advancement of the long-term production plan.

The investment policy of KGHM Polska Miedź S.A. is determined by the Company's financial condition and by the nature of its macroeconomic environment (copper price and USD exchange rate).

Decisions involving the assessment and selection of investment projects are among the most important from the point of view of the Company's finances, and have a key impact on the Company's results and value in the long term.

In subsequent years we will concentrate on projects aimed at ensuring achievement of the Company's production plan. When allocating financial resources to advance investments, the Company follows the principle of optimising the economic effect of invested capital. The Company is improving the tools which support decision-making processes, such as comprehensive financing models for assessing the economic effectiveness and impact of investments on the Company's entire production line.

Capital expenditures in Poland in 2018 will mainly focus on projects which are key, from the point of view of the advancement of the Company's Strategy. Pursuant to the assumptions adopted in the Strategy, these are:

- The Deposit Access Program (Deep Głogów along with access and development tunnels),
- Development of the Żelazny Most Tailings Storage Facility,
- The Metallurgy Development Program (MDP),
- Increasing production capacity to 160 thousand tonnes of copper cathode annually at the Legnica Copper Smelter and Refinery (TCR).

In terms of basic exploration activities, aimed at increasing natural resource assets, geological work will be continued under the concessions held for the exploration and documentation of copper ore deposits in areas directly adjacent to those deposits currently being mined.

In the years 2018-2022, KGHM Polska Miedź S.A. will undertake actions in the area of closed-circuit production management, under which a variety of actions are planned related to management of the waste and tailings arising from the core production of KGHM. Legislative changes, both in Poland and the EU, have a direct impact on industrial operations, including in particular on the economic effectiveness of companies.

Moreover, in the years 2018-2022 the Company will undertake actions with respect to new, „intelligent" technologies and production management systems based on online communication between elements of the production process and advanced data analysis pursuant to the KGHM 4.0 concept.

The breakdown of investments in the core business by category assumes a balanced allocation of funds between the following types of investments:

- replacement of equipment, aimed at maintaining production equipment in an undeteriorated condition, guaranteeing the achievement of current production tasks,
- maintaining mine production, aimed at ensuring required infrastructure to match mine advancement and metallurgical maintenance as well as continuous offtake of waste, to ensure mine production at the level set forth in the production and metallurgical maintenance plan,
- development, aimed at increasing production volume of the core business and controlling production costs, as well as conformatory projects aimed at adapting the company's operations to changes in environmental standards, laws and regulations (including related to adapting the integrated permits held to BAT requirements).

5.5. Execution of the main strategic projects in 2017

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:

Radwanice- Gaworzyce	- In February 2017, the Company received a concession to extract copper ore from the Radwanice-Gaworzyce deposit in the area of Gaworzyce, and also signed an agreement setting mining usufruct. In response to the request of the Company to terminate the concession to evaluate the copper deposit Radwanice-Gaworzyce in the Dankowice area, the Minister of the Environment, in a decision dated 19 July 2017, confirmed the termination of the concession.
Synklina Grodziecka and Konrad	- Technical and economic analyses carried out which were reviewed by independent experts indicated lack of justification for advancing this investment. Given the fact that the costs associated with dewatering the projected mine play a critical role in determining the economic feasibility of the project, it was decided that additional hydrogeological research would be conducted. Towards this end, at the end of the second quarter of 2017, applications were submitted to extend the validity of the concessions for Synklina Grodziecka and Konrad to 2020. In the third quarter of 2017, a decision was obtained which extends the Konrad concession by 3 years.

		Administrative proceedings concerning extending the life of the Synklina Grodziecka concession remains in progress.
Retków-Ścinawa and Głogów	-	In April 2017, the Company received a decision altering the conditions of the concession for the exploration and evaluation of the copper ore deposit within the Retków-Ścinawa concession, which enables the commencement of work under stage 2, i.e. the execution among others of surface-based drill holes as well as underground mining areas representing a significant enhancement of knowledge about geological and mining conditions. As part of the work on advancing stage 2, three exploratory drillholes were sunk.
	-	On 20 March 2017, the Minister of the Environment issued a decision altering the conditions of the concession for the exploration and evaluation of the copper ore deposit within the Głogów area, which enables the commencement of the next stage of geological work.

Exploration projects in the preparatory phase:

Bytom Odrzański Kulów-Luboszyce	-	On 30 November 2017, hearings were held before the Supreme Administrative Court at which cassation appeals regarding the decisions on the Bytom Odrzański and Kulów-Luboszyce concessions were dismissed. The dismissal of these claims by the SAC means that in 2018 the request for concessions in these areas may once again be reviewed by the Minister of the Environment.

Other concessions:

Puck region	-	Based on collected data, including the results of chemical laboratory analyses received at the beginning of 2017, in the first half of 2017 the geological profile of the region was reinterpreted and the economic and technical feasibility of the potassium-magnesium salt deposits was evaluated, reflecting the mine model and processing technology. These efforts showed justification for conducting further geological work. In the fourth quarter of 2017 a second drillhole (Parszkowo IG-2) was sunk and preparations were commenced to sink the third drillhole (Mieroszyno IG-11). Full results from both drillings will be known at the latest in the second quarter of 2018.

Key development projects of the Core Business in Poland

Program to access the Deep Głogów Deposit	-	Work continued on the sinking of the GG-1 shaft (the shaft's target depth is 1 350 meters with a diameter of 7.5 meters). At the end of 2017, 1 070 meters of rough shaft had been excavated. Completion of the shaft's construction, after reflecting a change in function to that of transport-material shaft, together with infrastructure (social buildings, parking lots and lift machinery) is planned for the start of 2024.
	-	With respect to the Construction of a Central Air Conditioning System (CAS) at the GG-1 Shaft, contracts were signed with a contractor for the following: Construction of a tri-generation Surface-based Central Air Conditioning System (SAS) and Construction of an Ice Water Transportation System for the CAS. As at 31 December 2017, the following design work was carried out by KGHM Cuprum Sp. z o.o. (Sub-contractor of PeBeKa S.A. for design work): a) A design concept for the Ice Water Transportation System of up to 2x 700 m^3/h for two three-chambered feeders (one for the Polkowice–Sieroszowice mine and one for the Rudna mine) using piping in the drillholes (4 drillholes from the surface to the mine at the depth of 1250 meters), b) A design concept for stage 1 of the SAS air conditioning station capable of 30 MWt in tri-generation mode with recovery of heat from the ice water recycled from the mines and recovery of heat from the cooling of natural gas engines and exhaust cooling with a total heating capacity of approx. 23 MWt (total coverage of the heating needs of the GG-1 shaft).
	-	During the reporting period, preparatory work continued related to obtaining construction permits for facilities required to sink the GG-2 („Odra") shaft. Work continues on the next stage of design work on the project concept for the „Odra" shaft.
	-	In 2017, a total of 46.5 km of access and preparatory tunneling were built to advance the project using EM (explosive material) technology (in 2016, 32.8 km of tunneling) or an increase of 42%.
Pyrometallurgy Modernisation Program at the Głogów Copper Smelter and Refinery	-	Work was carried out related to the review and approval of sub-contractor documentation together with documents for obtaining operating permits. The completion of work was reported to the appropriate government authorities (such as the State Sanitary Inspection, State Fire Service, Voivodeship Building Control Inspector, County Building Control Inspector) aimed at obtaining operating permits. Nearing completion were settlement procedures and the final handovers of contracts and orders.
Metallurgy Development Program (MDP)	-	Construction and assembly work was carried out on technological links under the program's key investment tasks, i.e. construction of a Steam Drier at the Głogów II Copper Smelter and Refinery and a copper concentrate roasting installation. Due to the failure to commence operations by the roasting installation within the contractual timeframe, i.e. the fourth quarter of 2017, for technological reasons for which the Contractor is responsible, the deadline announced by the Contractor for handing over the roasting installation for start-up is the third quarter of 2018. With respect to the start-up of the steam drier at the Głogów II Copper Smelter and Refinery, the planned start-up date is the second quarter of 2018, and depends on the maintenance shutdown dates of Głogów II.

	- In terms of the MDP, work also continues to advance projects related to adapting technical infrastructure to changes in the metallurgical technology at Głogów I. With respect to conformatory projects, basic work was completed, while work continued related to eliminating the effects of the shutdown of the recovery boiler at Głogów I as well as supplementary work. The process of reporting the completion of work to government authorities and obtaining operating permits continues. Nearing completion are settlements and the final handovers of contracts and orders. The receipt of fixed assets continues.
Development of the Żelazny Most Tailings Storage Facility	- Based on the permit received in 2016 to develop the Main Facility to a crown height of 195 meters a.s.l. and a permit to further operate the Tailings Storage Facility, the dam is being built up successively as part of the on-going operations of the Parent Entity. - Formal actions are underway aimed at further development of the Żelazny Most tailings storage facility, to ensure the possibility of depositing tailings in coming years – construction of the Southern Quarter. In 2017, KGHM Polska Miedź S.A. obtained a decision on the environmental impact of its investments, based on construction of the Southern Quarter to enable the additional deposition of waste tailings in the amount of 170 million m^3.

Development of international assets

Victoria Project (Sudbury Basin, Canada) *KGHM Polska Miedź S.A. Group 100%*	- With respect to design work, the project team continued work related to securing existing infrastructure and project terrain. In addition, in 2017 work comprised the development of an optimum path to advance the investment.
Sierra Gorda Oxide (Chile) *KGHM INTERNATIONAL LTD. Group 100%. Sumitomo Metal Mining and Sumitomo Corporation hold an option to jointly acquire a 45% stake in the project.*	- In 2017, work continued related to evaluating alternative scenarios to develop the project which will enable limitation of the level of required capital.
Ajax Project (British Columbia, Canada) *KGHM Polska Miedź S.A. Group 80%, Abacus Mining and Exploration Corp. 20%*	- In December 2017, the Ministries of Environment and of Energy, Mines and Petroleum Resources of British Columbia (provincial authorities) decided against the granting of an Environmental Assessment Certificate for the Ajax project. The Federal Minister of Environment and Climate Change Strategy expressed the opinion that the project would have significant adverse effects, and forwarded the project to the Canadian Ministry of Fisheries, Oceans and the Ministry of Natural Resources. Once KGHM Ajax Mining Ltd. has reviewed the arguments behind the decisions of the provincial authorities, it will consider further steps, which may include judicial review.

Production

Sierra Gorda mine in Chile – Phase 1 *KGHM INTERNATIONAL LTD. Group 55%, Sumitomo Metal Mining and Sumitomo Corporation 45%*	- Production of copper in concentrate in the fourth quarter of 2017 amounted to 24.3 thousand tonnes (altogether during the four quarters of 2017: 97.1 kt), while production of molybdenum in concentrate amounted to 6.0 million pounds (altogether 35.7 million pounds during the four quarters of 2017). These amounts are on a 100% basis. - Work was carried out related to optimising the processing of the sulphide ore. The actions taken were aimed at stabilising the volume and technological parameters of the ore processing process. The tasks undertaken concentrated on stabilising the processing installation and increasing metal recovery. - At present work is aimed at developing the mine based on phase I of the investment along with actions aimed at optimising the production line, which should lead to increased production capacity.
Maintaining production from own concentrate	- In 2017, preparatory work continued on commencing mining in new areas of the deposits as part of the Deposit Access Program (previously the Deep Głogów Project), and a concession to mine the copper ore from the Radwanice-Gaworzyce deposit in the Gaworzyce mining area was obtained. - Under the Deposit Access Program, work continued on sinking the GG-1 ventilation (material-transport) shaft, to a depth of 1070 meters. Preparatory work continued related to obtaining construction permits for facilities required to sink the GG-2 („Odra") shaft. - Construction began on the Air Conditioning Station at the GG-1 shaft with a cooling capacity of 30 MW with recovery of heat for social and technical needs. Mining areas in the Rudna and Polkowice-Sieroszowice mines were developed together with required technical infrastructure. Their main goal is to provide access and to prepare new mining fields and to connect the GG-1 shaft to the ventilation network, which will significantly improve operating conditions from the 1 200 meter level and below. - With respect to accessing work, mining fields for section G-28 in the Rudna mine below the 1200 meter level were prepared, which came into operation in January 2018.

in PLN millions, unless otherwise stated

Improving efficiency in the core business in Poland	- Initiatives aimed at improving resource management effectiveness in the mines and metallurgical plants of KGHM Polska Miedź S.A. were continued, at the same time enabling limitation of cost increases by: - more efficient utilisation of resources (3D deposit modeling), - increasing extraction and the production of copper in concentrate, - optimising management of underground machines, - advancing the energy savings program, and - optimising the level of employment. - The initiatives are being carried out in accordance with adopted assumptions, with the exception of optimising management of underground machines, which was interrupted by limiting expenditures on the purchase of mining vehicles in 2016 by 40% and extending their useful lives. The result was an increase in repair and maintenance costs for underground machines by approx. PLN 20 million.
Improvement in occupational health and safety	- In 2017, the Company recorded a decrease in the total number of workplace accidents (as defined by the Act dated 30 October 2002 on social insurance due to workplace accidents and occupational illnesses), with a year-on-year decrease from 370 to 300 injured (-70). The significant decrease in the number of accidents was due in particular to the Company's mining divisions. The number of workplace accidents in the mines of KGHM Polska Miedź S.A. in 2017 amounted to 235 injured, as compared to 318 events in 2016. Most of the accidents (approx. 98%) involved light injuries, mainly caused by loss of balance by employees, contact (striking) by or through moveable/immovable objects, falling rocks, and injuries caused by the use of workplace tools. - In 2017, there was a decided drop in the number of accidents related to major threats from the rockmass, which accompanies the mining of copper ore in the mines of KGHM Polska Miedź S.A. As compared to 2016, the number of those injured in this regard was lower by 60 % than the previous year. The ratio $LTIRF_{KGHM}$ (Lost Time Injury Frequency Rate KGHM), or the total number of workplace accidents (as defined by the Act dated 30 October 2002 on social insurance due to workplace accidents and occupational illnesses) being the number of accidents per million hours worked for the entire core business of KGHM Polska Miedź S.A., in 2017 was significantly lower and amounted to 10.40 (2016 = 12.7). - In 2017, the Company continued work involving implementation of the multi-year Occupational Health and Safety Program in KGHM Polska Miedź S.A. to the year 2020, enriching it with new, valuable initiatives. This program is an element of the strategy of KGHM Polska Miedź S.A. for the years 2017 – 2021 with an outlook to 2040. The Company intends to continue its efforts to achieve the vision of „Zero accidents due to human and technical reasons, zero occupational illnesses among our employees and contractors".

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

Main R&D initiatives	- New regulations were introduced in the Company with respect to principles for the planning and execution of R&D activities as well as uniform contract models related to innovation activities. The new principles have also been implemented in the Group's companies. - Work continues on R&D projects focused on developing and executing innovative technological and organisational solutions enabling an improvement in efficiency, workplace safety and ensuring uninterrupted production. Work is currently underway on analysing production line units, including with respect to R&D needs. - KGHM Polska Miedź S.A. together with CUPRUM Sp. z o.o. – CBR participates in the governmental acceleration program Start-In Poland - project Scale UP. The goal of the project is to develop start-ups in KGHM Polska Miedź S.A. and in the Group's companies. Currently there is ongoing cooperation with start-ups selected in two acceleration rounds, aimed at reviewing and developing the proposed technology. At the same time, in cooperation with KGHM CUPRUM Sp. z o.o. – CBR, a Corporate Acceleration Program is being developed for the Group. - Under the Horizon 2020 Program, the Company participated in three research projects (DISIRE – completed on 31 December 2017). In addition, in September 2017 an Agreement was signed with the National Contact Point aimed at strengthening cooperation between KGHM, companies of the Group and cooperating scientific institutions as well as the mutual advancement of H2020 projects in the years 2018-2020. - The AMCO project continues under the auspices of EIT KIC RawMaterials, aimed at producing and introducing to the market an innovative, cheap and user-friendly automated microscope system for analysing ore, to improve geometallurgical productivity.
CuBR Program	- 21 R&D projects having a total value of around PLN 150 million are being advanced under the CuBR Joint Venture, co-financed by the National Centre for Research and Development. - Work is underway aimed at commencing the fourth CuBR competition. The subject of the competition will be Closed-Circuit Management (CCM). The rules of the competition and its substantive scope are being prepared.
Information technology necessary to gather and transfer knowledge within the Group	- Reactivation of the Central R&D Work Repository and expert studies with respect to science and techniques, together with expansion of CRPBR II to the companies of the Group involved in R&D. - Development of the information search system – SEARCH KGHM – together with expansion of the application to the companies of the Group involved in R&D. - Establishment and implementation of the CRPR (Central R&D Projects Repository) archiving R&D projects advanced in KGHM. - Implementation of the IT platform WIEDZA (knowledge), comprising the areas of R&D, innovation and intellectual property rights, as well as Knowledge Management.

6. Economic performance of the Group

6.1. Production

The decrease in production of payable copper in 2017 as compared to 2016 was due to the lower production of cathodes by KGHM Polska Miedź S.A. due to breakdowns in the second half of 2017 at the Głogów Copper Smelter and Refinery and lower production in KGHM INTERNATIONAL LTD. mainly due to lower processing of ore by the Robinson mine and Sudbury mines, which also resulted in lower production of precious metals compared to the prior year.

Detailed information on production results may be found in the sections dedicated to individual segments. The Group's production is shown below.

Table 3. Production in the Group

	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Payable copper (kt)							
Group	**656.4**	**677.0**	**(3.0)**	**155.9**	**170.4**	**168.2**	**161.8**
- KGHM Polska Miedź S.A.	522.0	535.6	(2.5)	122.2	135.6	133.6	130.6
- KGHM INTERNATIONAL LTD.	81.0	89.8	(9.8)	20.4	21.9	21.5	17.2
- Sierra Gorda S.C.M.*	53.4	51.5	+3.7	13.4	12.9	13.1	14.0
TPM – precious metals (koz t)							
Group	**219.4**	**228.8**	**(4.1)**	**55.5**	**59.1**	**50.4**	**54.3**
- KGHM Polska Miedź S.A.	117.3	113.8	+3.1	30.6	31.3	21.9	33.5
- KGHM INTERNATIONAL LTD.	74.0	92.1	(19.7)	18.7	19.5	21.3	14.5
- Sierra Gorda S.C.M.*	28.0	22.9	+22.3	6.1	8.4	7.2	6.3
Silver (t)							
Group	**1 234.1**	**1 207.0**	**+2.2**	**306.1**	**327.7**	**302.5**	**297.8**
- KGHM Polska Miedź S.A.	1 218.1	1 191.1	+2.3	302.5	323.8	298.4	293.5
- KGHM INTERNATIONAL LTD.	1.6	1.7	(5.9)	0.4	0.4	0.4	0.4
- Sierra Gorda S.C.M.*	14.4	14.1	+2.1	3.3	3.5	3.7	4.0
Molybdenum (million pounds)							
Group	**20.3**	**13.0**	**+56.2**	**3.4**	**3.5**	**8.5**	**4.9**
- KGHM Polska Miedź S.A.	-	-	×	-	-	-	-
- KGHM INTERNATIONAL LTD.	0.7	0.8	(12.5)	0.1	0.1	0.3	0.1
- Sierra Gorda S.C.M.*	19.7	12.2	+61.5	3.3	3.4	8.2	4.8

** 55% share of the Group*

6.2. Structure of consolidated sales revenue

The geographic and product structure of the consolidated sales revenue of the Group are presented in the following charts. In accordance with the adopted principle of consolidation by the equity method, sales revenue do not include revenues of the segment Sierra Gorda S.C.M. Detailed information on segment sales is presented in the sections devoted to the results of individual segments.

Chart 18. Geographic structure of Group sales

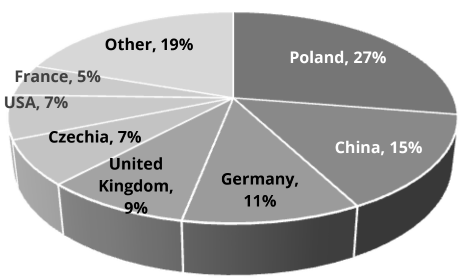
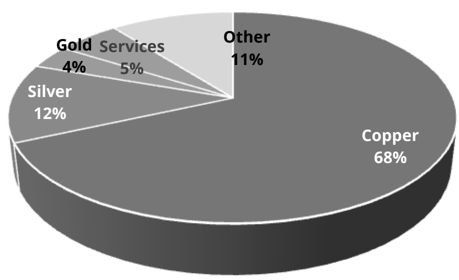


Chart 19. Product structure of Group sales



6.3. C1 cost in the Group

Unit costs by Group segments are presented in the table below. Detailed descriptions of individual items are presented in the sections devoted to individual segments.

Table 4. C1 cost of producing copper in concentrate* in the Group (USD/lb)

	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Group	1.59	1.41	+12.8	1.79	1.65	1.43	1.53
- KGHM Polska Miedź S.A.	1.52	1.30	+16.9	1.84	1.62	1.34	1.33
- KGHM INTERNATIONAL LTD.	1.92	1.63	+17.8	1.81	1.90	1.72	2.35
- Sierra Gorda S.C.M.	1.67	1.96	(14.8)	1.44	1.62	1.66	1.94

***** *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 expenses during the mining stage, and smelter treatment and refining charges (TC/RC), less the value of by-products)*

In the fourth quarter of 2017, Sierra Gorda S.C.M. changed the method of calculating the C1 cost by including materials used in the enrichment of molybdenum concentrate by an external counterparty in the calculations of changes in inventories and work in progress. Due to the above, the C1 cost of Sierra Gorda S.C.M. and of the Group, which was presented in the consolidated half-year report and the report for the third quarter of 2017, has changed. The scope of changes is presented in section 9.3.

6.4. Financial results

Statement of profit or loss

Table 5. Financial results of the Group (PLN million)

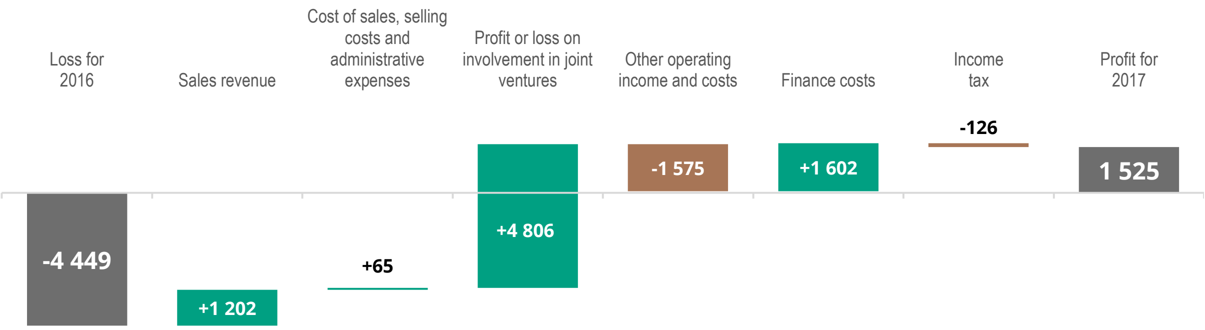
	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Sales revenue	20 358	19 156	+6.3	5 871	4 774	4 802	4 911
Cost of sales, selling costs and administrative expenses	(16 547)	(16 612)	(0.4)	(4 801)	(3 910)	(3 999)	(3 837)
Profit on sales	**3 811**	**2 544**	**+49.8**	**1 070**	**864**	**803**	**1 074**
Profit or loss on involvement in joint ventures	(155)	(4 961)	(96.9)	(180)	79	(136)	82
Other operating income and (costs)	(2 377)	(802)	×3.0	(1 315)	(204)	(432)	(426)
Finance income / (costs)	1 020	(582)	×	288	48	383	301
Profit/(loss) before income tax	**2 299**	**(3 801)**	**×**	**(137)**	**787**	**618**	**1 031**
Income tax expense	(774)	(648)	+19.4	3	(182)	(274)	(321)
Profit/(loss) for the period	**1 525**	**(4 449)**	**×**	**(134)**	**605**	**344**	**710**
Adjusted EBITDA*	**5 753**	**4 666**	**+23.3**	**1 476**	**1 414**	**1 282**	**1 581**
EBITDA margin**	**26%**	**23%**	**+13.0**	**23%**	**26%**	**25%**	**29%**

** Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets recognised in cost of sales, selling costs and administrative expenses) according to part 2 of the consolidated financial statements – together with Sierra Gorda S.C.M.*

*** Adjusted EBITDA to sales revenue. In calculating the Group's EBITDA margin, consolidated sales revenue was increased by sales revenue of the segment Sierra Gorda S.C.M.*

Item	Impact on change of profit or loss (in PLN million)	Description
Sales revenue	+1 202	The increase in sales revenue mainly relates to: - KGHM Polska Miedź S.A.: + PLN 912 million, - KGHM INTERNATIONAL LTD. + PLN 67 million. Detailed reasons for the increase in revenues in the aforementioned segments are described in sections 7 and 8 of this report.
Cost of sales, selling costs and administrative expenses	+65	The Group's cost of sales, selling costs and administrative expenses remained at a virtually unchanged level (a decrease by 0.4%)
Profit or loss on involvement in joint ventures	+4 806	The decrease in the loss on involvement in joint ventures from PLN 4 961 million to PLN 155 million was due to: - a lower share of losses of joint ventures accounted for using the equity method by PLN 726 million, - no impairment allowance on loans of PLN 4 394 million, - lower interest income on loans granted to a joint venture by PLN 314 million.
Other operating income and costs	(1 575)	The increase in the loss on other operating activities was mainly due to: a decrease in result on foreign exchange differences by PLN 1 977 million, a decrease in impairment losses by PLN 493 million, an increase in the loss on measurement and realisation of derivatives by PLN 57 million, an increase in income from the release of unused provisions by PLN 89 million and lack of income on write-off of tax liability in the amount of PLN 185 million.
Finance income / (costs)	+1 602	The increase in finance income by PLN 1 602 million was mainly due to an increase in the result on foreign exchange differences by PLN 1 652 million.

Chart 20. Change in profit/loss for the period of the Group in 2017 (PLN million)



Cash flow

Table 6. Cash flow of the Group (PLN million)

	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Profit or loss before income tax	2 299	(3 801)	×	(137)	787	618	1 031
Depreciation/amortisation recognised in profit or loss	1 609	1 698	(5.2)	454	383	401	371
Share of losses of joint ventures accounted for using the equity method	474	1 200	(60.5)	259	-	215	-
Impairment allowance on loans granted to joint ventures	-	4 394	×	-	-	-	-
Interest on loans granted to joint ventures	(319)	(633)	(49.6)	(79)	(79)	(79)	(82)
Interest and other costs of borrowings	148	152	(2.6)	35	35	34	44
Impairment losses/(reversal of impairment losses) on non-current assets	503	1 532	(67.2)	502	-	1	-
Exchange differences	210	(138)	×	24	13	41	132
Write-off of unmatured tax liabilities	-	(185)	×	-	-	-	-
Change in provisions	(25)	69	×	(24)	(20)	19	-
Change in derivatives	202	(6)	×	225	63	6	(92)
Other adjustments	(68)	55	×	72	88	(195)	(33)
Exclusions of income and costs, total	2 734	8 138	(66.4)	1 468	483	443	340
Income tax paid	(983)	(451)	×2.2	(165)	(115)	(287)	(416)
Change in working capital	(996)	326	×	150	(609)	(40)	(497)
Net cash generated from operating activities	**3 054**	**4 212**	**(27.5)**	**1 316**	**546**	**734**	**458**
Expenditures on mining and metallurgical assets	(2 527)	(3 032)	(16.7)	(884)	(532)	(549)	(562)
Expenditures on other property, plant and equipment and intangible assets	(269)	(219)	+22.8	(108)	(64)	(44)	(53)
Acquisition of newly – issued shares of joint ventures	(461)	(671)	(31.3)	(255)	-	(206)	-
Other expenses	(123)	(72)	+70.8	(31)	(37)	(11)	(44)
Total expenses	(3 380)	(3 994)	(15.4)	(1 278)	(633)	(810)	(659)
Proceeds	40	46	(13.0)	14	4	13	9
Net cash used in investing activities	**(3 340)**	**(3 948)**	**(15.4)**	**(1 264)**	**(629)**	**(797)**	**(650)**
Proceeds from borrowings	2 442	3 266	(25.2)	797	198	685	762
Other proceeds	6	21	(71.4)	2	2	2	-
Total proceeds	2 448	3 287	(25.5)	799	200	687	762
Repayments of borrowings	(2 072)	(2 701)	(23.3)	(534)	(6)	(786)	(746)
Dividends paid to shareholders of the Parent Entity	(200)	(300)	(33.3)	(100)	(100)	-	-
Interest paid and other costs of borrowings	(157)	(144)	+9.0	(39)	(37)	(39)	(42)
Other expenses	(1)	(9)	(88.9)	-	(1)	-	-
Total expenses	(2 430)	(3 154)	(23.0)	(673)	(144)	(825)	(788)
Net cash generated from/(used in) financing activities	**18**	**133**	**(86.5)**	**126**	**56**	**(138)**	**(26)**
Total net cash flow	**(268)**	**397**	**×**	**178**	**(27)**	**(201)**	**(218)**
Exchange gains/(losses) on cash and cash equivalents	(6)	2	×	1	(12)	23	(18)
Cash and cash equivalents at beginning of the period	860	461	+86.6	407	446	624	860
Cash and cash equivalents at end of the period	**586**	**860**	**(31.9)**	**586**	**407**	**446**	**624**

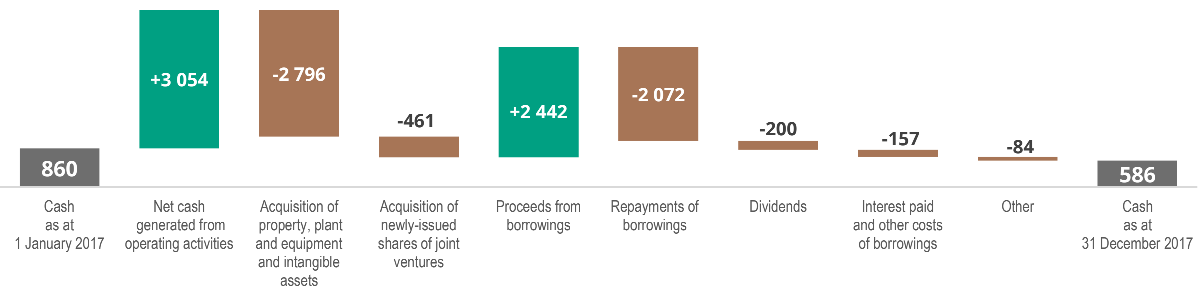
Net cash generated from operating activities in 2017 amounted to PLN 3 054 million and mainly comprised profit before income tax in the amount of PLN 2 299 million adjusted by depreciation/amortisation in the amount of PLN 1 609 million, income tax paid in the amount of PLN 983 million and expenditures to increase working capital in the amount of PLN 996 million.

Net cash used in investing activities in 2017 amounted to PLN 3 340 million and mainly comprised expenditures on property, plant and equipment and intangible assets in the amount of PLN 2 796 million and expenditures on the acquisition of newly-issued shares of joint ventures in the amount of PLN 461 million.

Net cash generated from financing activities in 2017 amounted to PLN 18 million and mainly comprised proceeds from borrowings in the amount of PLN 2 442 million and repayments of borrowings in the amount of PLN 2 072 million, dividends paid to shareholders of the Parent Entity in the amount of PLN 200 million and interest paid and other costs of borrowings in the amount of PLN 157 million.

After reflecting exchange gains/losses on cash and cash equivalents, at the end of 2017 cash and cash equivalents decreased by PLN 274 million and amounts to PLN 586 million.

Chart 21. Cash flow of the Group in 2017 (PLN million)



Assets, equity and liabilities

Table 7. Consolidated assets (PLN million)

	31.12.2017	31.12.2016	Change (%)	30.09.2017	30.06.2017	31.03.2017
Mining and metallurgical property, plant and equipment	16 296	15 217	+7.1	15 571	15 359	15 301
Mining and metallurgical intangible assets	1 447	2 474	(41.5)	2 325	2 309	2 395
Other property, plant and equipment	2 679	2 591	+3.4	2 632	2 599	2 543
Other intangible assets	209	208	+0.5	201	202	222
Joint ventures accounted for using the equity method	8	27	(70.4)	26	26	27
Loans granted to joint ventures	3 889	4 313	(9.8)	3 999	3 978	4 152
Derivatives	110	237	(53.6)	183	137	162
Other financial instruments measured at fair value	614	577	+6.4	742	712	677
Other financial assets	762	930	(18.1)	940	916	929
Deferred tax assets	389	511	(23.9)	340	372	456
Other assets	112	117	(4.3)	113	118	117
Non-current assets	**26 515**	**27 202**	**(2.5)**	**27 072**	**26 728**	**26 981**
Inventories	4 562	3 497	+30.5	4 931	4 512	4 154
Trade receivables	1 522	1 292	+17.8	1 127	1 097	1 206
Tax assets	277	267	+3.7	224	228	233
Derivatives	196	72	×2.7	110	101	78
Other assets	464	252	+84.1	435	389	353
Cash and cash equivalents	586	860	(31.9)	407	446	624
Current assets	**7 607**	**6 240**	**+21.9**	**7 234**	**6 773**	**6 648**
Total assets	**34 122**	**33 442**	**+2.0**	**34 306**	**33 501**	**33 629**

As at 31 December 2017, assets in the consolidated statement of financial position amounted to PLN 34 122 million and were higher as compared to 31 December 2016 by PLN 680 million.

The decrease in non-current assets by PLN 687 million was mainly due to a decrease in the value of loans granted to joint ventures by PLN 424 million, a decrease in the value of other financial assets by PLN 168 million, a decrease in the value of derivatives by PLN 127 million and a decrease in the value of deferred tax assets by PLN 122 million, alongside an increase in property, plant and equipment and intangible assets by PLN 141 million.

The increase in current assets by PLN 1 367 million was mainly related to inventories by PLN 1 065 million, trade receivables by PLN 230 million, other assets by PLN 212 million and derivatives by PLN 124 million alongside a simultaneous decrease in cash and cash equivalents by PLN 274 million.

Chart 22. Change in assets of the Group in 2017 (PLN million)

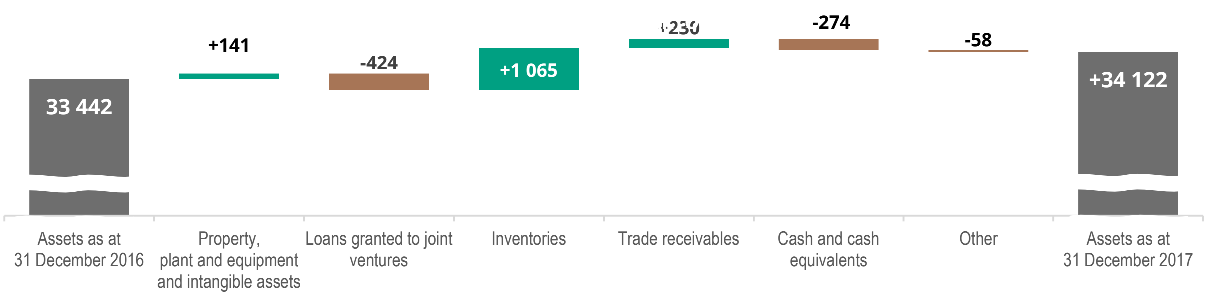


Table 8. Consolidated equity and liabilities (PLN million)

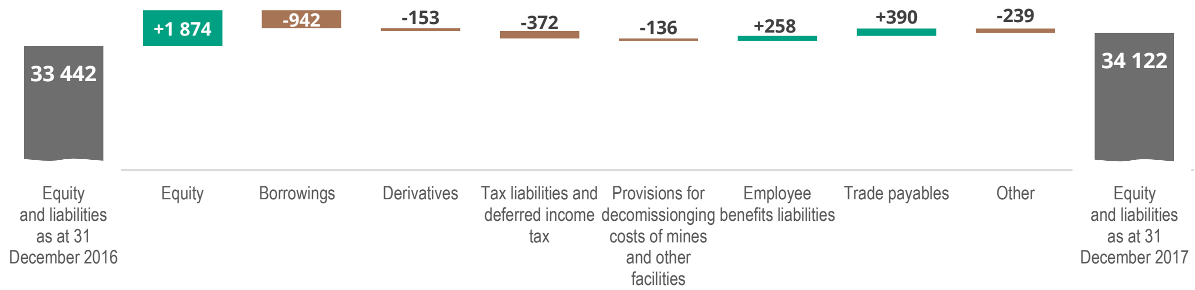
	31.12.2017	31.12.2016	Change (%)	30.09.2017	30.06.2017	31.03.2017
Share capital	2 000	2 000	-	2 000	2 000	2 000
Other reserves from measurement of financial instruments	158	(183)	×	170	100	26
Accumulated other comprehensive income	2 427	2 216	+9.5	2 341	2 272	2 160
Retained earnings	13 109	11 739	+11.7	13 195	12 591	12 449
Equity attributable to shareholders of the Parent Entity	**17 694**	**15 772**	**+12.2**	**17 706**	**16 963**	**16 635**
Equity attributable to non-controlling interest	**91**	**139**	**(34.5)**	**144**	**136**	**136**
Equity	**17 785**	**15 911**	**+11.8**	**17 850**	**17 099**	**16 771**
Borrowings	6 191	6 539	(5.3)	5 790	5 493	5 587
Derivatives	208	256	(18.8)	169	118	153
Employee benefits liabilities	2 063	1 860	+10.9	2 063	2 071	2 061
Provisions for decommissioning costs of mines and other facilities	1 351	1 487	(9.1)	1 403	1 474	1 502
Deferred tax liabilities	347	563	(38.4)	568	540	516
Other liabilities	718	960	(25.2)	761	787	906
Non-current liabilities	**10 878**	**11 665**	**(6.7)**	**10 754**	**10 483**	**10 725**
Borrowings	965	1 559	(38.1)	1 435	1 641	2 087
Derivatives	110	215	(48.8)	51	35	73
Trade payables	1 823	1 433	+27.2	1 587	1 613	1 354
Employee benefits liabilities	842	787	+7.0	865	754	917
Tax liabilities	630	786	(19.8)	457	605	595
Other liabilities	1 089	1 086	+0.3	1 307	1 271	1 107
Current liabilities	**5 459**	**5 866**	**(6.9)**	**5 702**	**5 919**	**6 133**
Non-current and current liabilities	**16 337**	**17 531**	**(6.8)**	**16 456**	**16 402**	**16 858**
Total equity and liabilities	**34 122**	**33 442**	**+2.0**	**34 306**	**33 501**	**33 629**

Equity as at 31 December 2017 amounted to PLN 17 785 million and was higher by PLN 1 874 million than at the end of 2016, mainly due to an increase in retained earnings by PLN 1 370 million, an increase in other reserves from measurement of financial instruments by PLN 341 million and an increase in accumulated other comprehensive income by PLN 211 million.

Non-current liabilities of the KGHM Polska Miedź S.A. Group as at 31 December 2017 amounted to PLN 10 878 million and were lower by PLN 787 million mainly due to: a decrease in borrowings by PLN 348 million, a decrease in deferred tax liabilities by PLN 216 million and a decrease in provisions for decommissioning costs of mines and other facilities by PLN 136 million, alongside an increase in employee benefits liabilities by PLN 203 million.

Current liabilities of the KGHM Polska Miedź S.A. Group as at 31 December 2017 amounted to PLN 5 459 million and were lower by PLN 407 million mainly due to: a decrease in borrowings by PLN 594 million and a decrease in tax liabilities by PLN 156 million, alongside a simultaneous increase in trade payables by PLN 390 million.

Chart 23. Change in equity and liabilities of the Group in 2017 (PLN million)



Contingent assets and liabilities

At the end of 2017, contingent assets amounted to PLN 529 million and related mainly to guarantees received by the Group with respect to the proper performance of agreements in the amount of PLN 215 million and promissory notes receivables in the amount of PLN 121 million.

At the end of 2017, contingent liabilities amounted to PLN 2 798 million and mainly concerned:

– guarantees in the amount of PLN 2 325 million, including:

  – a letter of credit in the amount of PLN 479 million, granted to secure the obligations due to a long-term contract for the off-take of electricity to Sierra Gorda S.C.M.,
  – corporate guarantees in the amount of PLN 174 million, granted to secure the payments from lease agreements entered into by Sierra Gorda S.C.M.,

  - a guarantee in the amount of PLN 160 million, securing the proper performance of future environmental obligations of the Parent Entity to restore the area, following the conclusion of operations of the Żelazny Most tailings storage facility,
  - letters of credit in the amount of PLN 380 million, securing the proper performance of future environmental obligations of KGHM INTERNATIONAL LTD. to restore the area following the conclusion of operations of the Robinson mine, Podolsky mine and the Victoria project, and liabilities related to the proper performance of the signed contracts/agreements,
  - corporate guarantees in the amount of PLN 460 million, securing the repayment of short term working capital facilities of Sierra Gorda S.C.M.,
  - a corporate guarantee in the amount of PLN 627 million, securing repayment of a specified part of payment to guarantees set by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation, securing repayment of a corporate loan drawn by the joint venture Sierra Gorda S.C.M.,

- a promissory note granted, securing the proper performance of future environmental obligations of KGHM Polska Miedź S.A. to restore the area, following the conclusion of operations of the Żelazny Most tailings storage facility in the amount of PLN 160 million,
- liabilities due to implementation of projects and inventions in the amount of PLN 95 million,
- other contingent liabilities in the amount of PLN 196 million.

Other liabilities not recognised in the statement of financial position in the amount of PLN 124 million, comprised of:

- liabilities towards local government entities due to expansion of the tailings storage facility by KGHM Polska Miedź S.A. in the amount of PLN 117 million, and
- liabilities due to operating leases in the amount of PLN 7 million.

6.5. Financing in the Group

The Parent Entity manages financial resources based on the approved "Financial Liquidity Management Policy". Its primary goal is to ensure continuous operations by securing the availability of funds required to achieve the Group's business goals, while optimising incurred costs. Financial liquidity management involves securing an appropriate amount of cash and available lines of credit in the short, medium and long term. The Financial Liquidity Committee supports the Management Board of the Parent Entity in carrying out this Policy.

Net debt in the Group

Total debt of the Group due to borrowings at the end of 2017 amounted to PLN 7 156 million and decreased as compared to the end of 2016 by PLN 942 million (11.6%) mainly due to a decrease in the USD/PLN exchange rate.

The Group's cash and cash equivalents are of a short term nature. In 2017 these resources were held primarily in overdraft facilities under the Cash Pool services, which enables the Group to optimise interest income and costs.

As at 31 December 2017, out of total cash and cash equivalents in the amount of PLN 586 million, companies of the Group held PLN 577 million in bank accounts and as short term bank deposits, which were classified as free cash and cash equivalents and with restricted disposability. The detailed structure of cash and cash equivalents is presented in notes 8.5 of the separate and consolidated financial statements.

Table 9. Net debt structure of the Group (PLN million)

	31.12.2017	31.12.2016	Change (%)	30.09.2017	30.06.2017	31.03.2017
Liabilities due to:	**7 156**	**8 098**	**(11.6)**	**7 225**	**7 134**	**7 674**
Bank loans*	5 179	6 391	(19.0)	5 133	5 008	6 065
Other loans	1 967	1 684	+16.8	2 079	2 110	1 590
Other	10	23	(56.5)	13	16	19
Free cash and cash equivalents	579	836	(30.7)	400	428	618
Net debt	**6 577**	**7 262**	**(9.4)**	**6 825**	**6 706**	**7 056**

** presented amounts include the preparation fee paid, which decreases financial liabilities due to bank loans received*

Table 10. Net debt structure of the Company (PLN million)

	31.12.2017	31.12.2016	Change (%)	30.09.2017	30.06.2017	31.03.2017
Liabilities due to:	**7 168**	**7 932**	**(9.6)**	**7 242**	**7 211**	**7 521**
Bank loans*	5 067	6 253	(19.0)	5 017	4 888	5 936
Other loans	1 941	1 679	+15.6	2 065	2 096	1 585
Cash pool	160	-	×	160	227	-
Free cash and cash equivalents	231	481	(52.0)	122	105	344
Net debt	**6 937**	**7 451**	**(6.9)**	**7 120**	**7 106**	**7 177**

** presented amounts include the preparation fee paid, which decreases financial liabilities due to bank loans received*

Sources of financing in the Group

As at 31 December 2017, the Group held open lines of credit and loans with a total available amount of PLN 15 009 million, out of which PLN 7 177 million had been drawn.

Unsecured, revolving syndicated credit facility in the amount of USD 2.5 billion with maturity of 9 July 2021	This financing agreement was signed by the Parent Entity with a syndicate banks group in 2014 in the amount of USD 2.5 billion. The final repayment deadline is 9 July 2021. The funds drawn were used to finance general corporate goals, including the continuation of investment projects and to refinance the debt of KGHM INTERNATIONAL LTD in 2015.
Investment loans from the European Investment Bank in the total amount of PLN 2.9 billion with a financing period of 12 years	Financing agreement signed by the Parent Entity with the European Investment Bank: - in August 2014 in the amount of PLN 2 billion, which was drawn in the form of three instalments to the full available amount. The deadlines for repaying the instalments drawn are 30 October 2026, 30 August 2028 and 23 May 2029. The funds acquired through this loan are being used to finance the Parent Entity's investment projects related to modernisation of metallurgy and development of the Żelazny Most tailings storage facility, - in December 2017 in the amount of PLN 0.9 billion, with availability of 22 months from the date the agreement was signed. The funds acquired through this loan are being used to finance the Parent Entity's development and replacement projects at various stages of the production line. Detailed information on the agreement signed is presented in Section 14 of this report.
Bilateral bank loans in the amount of up to PLN 3.4 billion	The Group has open lines of credit in the form of bilateral agreements in the total amount of PLN 3.4 billion. These are working capital facilities and overdraft facilities with availability of up to 2 years, the maturities of which are successively extended for subsequent periods, as well as long-term investment bank loans. The funds obtained under the aforementioned bank loan agreements are used to finance working capital, are a tool supporting the management of current financial liquidity and support the financing of investments advanced by the Group's companies.

Detailed information on the above loans is presented in notes 8.4.3 of the financial statements.

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

In 2017, the Group made use of borrowings which were available from all of the above pillars.

In addition, as part of its efforts aimed at optimising the effectiveness of the process of managing working capital, the Parent Entity continued the process of extending its payment periods for supplies or services rendered, at the same time offering suppliers the opportunity to join the Supplier Financing Program, which is aimed at ensuring that suppliers receive payment prior to the contractual deadlines.

Debt position as at 31 December 2017

The following table presents a structure of borrowings used by the KGHM Polska Miedź S.A. Group and the extent to which they were utilised.

Table 11. Amount available and drawn by the Group (PLN million)

	Amount drawn as at 31.12.2017	Amount drawn as at 31.12.2016	Change (%)	Amount available as at 31.12.2017	Utilisation (%)
Unsecured, revolving syndicated credit facility	**3 483**	**4 809**	**(27.6)**	**8 703**	**40.0**
Loans	1 967	1 684	+16.8	2 906	67.7
Bilateral bank loans	1 727	1 609	+7.3	3 400	50.8
Total	**7 177**	**8 102**	**(11.4)**	**15 009**	**47.8**

** amount drawn includes accrued interest, unpaid as at the reporting date and excludes costs related to entering a syndicated credit facility agreement, which decrease the initial value of liabilities due to the bank loan.*

As at 31 December 2017, 97% of the Group's debt came from loans drawn in USD, 2% in EUR and 1% in PLN.

Evaluation of financial resources management

In 2017, the KGHM Polska Miedź S.A. Group was fully capable of meeting its obligations with respect to liabilities drawn from other entities. The cash and cash equivalents held by the Group along with the external financing obtained ensure that liquidity will be maintained and enables the achievement of investment goals.

As at 31 December 2017, the Group held PLN 579 million of free cash and cash equivalents and had open credit lines for total available financing of PLN 15 009 million, out of which PLN 7 177 million had been drawn. In 2017, the Group engaged in bank loans in the form of overdraft facilities, working capital facilities and investment loans.

With respect to the unsecured syndicated credit facility and the investment loans from the European Investment Bank, the Group is obliged to maintain financial covenants on determined levels.

in PLN millions, unless otherwise stated

Moreover, in order to maintain financial liquidity and the ability to borrow at an optimum cost, the Group aims to maintain the net debt/EBITDA ratio at a level of up to 2.0 in the long term.

Table 12. Net debt / EBITDA of the Group

	31.12.2017	31.12.2016	Change (%)	30.09.2017	30.06.2017	31.03.2017
Net debt / EBITDA*	**1.3**	**1.6**	**(18.8)**	**1.3**	**1.3**	**1.4**

** adjusted EBITDA for the year, excluding EBITDA of the joint venture Sierra Gorda S.C.M.*

Loans granted by Group companies

In 2017, KGHM Polska Miedź S.A. granted the following loans:

- to the company Quadra FNX Holdings Chile Limitada in the total amount of USD 127 million (PLN 443 million at the average exchange rate announced by the NBP as at 29 December 2017),
- to the company KGHM INTERNATIONAL LTD. in the total amount of USD 7 million (PLN 23 million at the average exchange rate announced by the NBP as at 29 December 2017),
- to the company Future 1 Sp. z o.o. in the total amount of PLN 9 million,
- to the company Quadra FNX FFI S.à r.l. in the amount of USD 547 million (PLN 1 904 million at the average exchange rate announced by the NBP as at 29 December 2017),
- to the company PGE EJ1 in the amount of PLN 3 million.

The loans granted to the companies Quadra FNX Holdings Chile Limitada and KGHM INTERNATIONAL LTD. are designated for the financing of the international production and development assets of Sierra Gorda S.C.M. and the projects: Sierra Gorda Oxide, Victoria and Ajax. Interest on the loans granted is based on a fixed interest rate, with maturities of 31 December 2024 and 31 December 2027. The amount of financing for individual projects in 2017 is presented in Section 2.5.

Moreover, in 2017, KGHM Polska Miedź S.A. granted loans to the company Future 1 Sp. z o.o. in the total amount of PLN 9.4 million with maturities of 31 December 2018 and 31 August 2019 and to the company Quadra FNX FFI S.à r.l. in the amount of USD 546.8 million with maturity of 15 December 2024 – this loan was granted as part of the reorganisation of financing flows to the international investments of the KGHM Polska Miedź S.A. Group to perform a non-cash transfer of financing flows from the international part of the assets of KGHM Polska Miedź S.A. to Poland.

Moreover, in 2017, KGHM Polska Miedź S.A. granted a loan to the company PGE EJ1 in the amount of PLN 3 million with maturity of 6 November 2020. Interest on the loan is based on a fixed interest rate.

The below table presents the major loans granted between Group companies together with balance of liabilities as at the end of 2017 (including accrued interest, write-offs and impairment allowances).

in PLN millions, unless otherwise stated

Table 13. Loans granted by companies of the Group as at 31 December 2017

Borrower	Year granted	Total loans granted	Total balance as at 31.12.2017		Maturity
Loans granted within the Group					
Loans granted by KGHM Polska Miedź S.A.					
„Energetyka" sp. z o.o.	2009	PLN 50 mn		PLN 11 mn	31.12.2019
Zagłębie Lubin S.A.	2014-2016	PLN 19 mn		PLN 17 mn	31.12.2026
KGHM INTERNATIONAL LTD.*	2014-2017	USD 669 mn	USD 453 mn	PLN 1 578 mn	31.12.2024 31.12.2027
Future 1 Sp. z o.o.	2013-2016	USD 874 mn	USD 1 004 mn	PLN 3 496 mn	31.12.2024
	2017	PLN 9 mn		PLN 9 mn	31.12.2018 31.08.2019
Quadra FNX Holdings Chile Limitada	2015-2017	USD 442 mn	USD 0 mn	PLN 0 mn	31.12.2024
KGHM Chile SpA	2015	USD 3 mn	USD 4 mn	PLN 13 mn	31.12.2024
Quadra FNX FFI S.à r.l.**	2017	USD 547 mn	USD 26 mn	PLN 90 mn	15.12.2024
PGE EJ1	2017	PLN 3 mn		PLN 3 mn	06.11.2020
Loans granted by Future 1 Sp. z o.o.					
KGHM INTERNATIONAL LTD.*	2012	USD 1 873 mn	USD 1 263 mn	PLN 4 396 mn	5.03.2020
Quadra FNX FFI S.à r.l.***	2017	USD 1 419 mn	USD 77 mn	PLN 267 mn	15.12.2024
Loans granted by KGHM INTERNATIONAL LTD.					
Sociedad Contractual Minera Franke	2010	USD 100 mn	USD 92 mn	PLN 319 mn	on demand
Malmbjerg Molybdenum A/S in liquidation	2011	USD 20 mn	USD 5 mn	PLN 18 mn	on demand
Quadra FNX FFI S.à r.l. *	2012-2016	USD 1 790 mn	USD 1 789 mn	PLN 6 229 mn	on demand 29.11.2020
FNX Mining Company Inc.	2015	USD 140 mn	USD 81 mn	PLN 282 mn	on demand
Loans granted by FNX Mining Company Inc.					
KGHM Chile SpA	2012	USD 55 mn	USD 64 mn	PLN 224 mn	on demand
KGHM INTERNATIONAL LTD.	2014	USD 200 mn	USD 115 mn	PLN 401 mn	on demand, no later than to 30.06.2025
Quadra FNX Holdings Chile Limitada	2015	USD 3 mn	USD 3 mn	PLN 9 mn	on demand
Loans granted by KGHM AJAX MINING INC.					
Sugarloaf Ranches Ltd.	2012	CAD 6 mn	CAD 4 mn	PLN 11 mn	on demand
Loans granted by ROBINSON HOLDINGS USA LTD.					
Carlota Copper Company	2016	USD 10 mn	USD 2 mn	PLN 8 mn	on demand
Robinson Nevada Mining Company	2016	USD 200 mn	USD 139 mn	PLN 483 mn	on demand
Wendover Bulk Transhipment Company	2016	USD 10 mn	USD 2 mn	PLN 6 mn	on demand
Loans granted by QUADRA FNX HOLDINGS CHILE LIMITADA					
KGHM Chile SpA	2016-2017	USD 5 mn	USD 6 mn	PLN 20 mn	2024
Loans granted by Sociedad Contractual Minera Franke					
KGHM Chile SpA	2017	USD 14 mn	USD 1 mn	PLN 3 mn	on demand
Loans granted to other entities					
Loans granted by Quadra FNX FFI S.à r.l.					
Sierra Gorda S.C.M.	2012	USD 1 700 mn	USD 2 159 mn	PLN 7 518 mn	2024
Loans granted by KGHM INTERNATIONAL LTD.					
Abacus Mining & Exploration Corporation	2015	CAD 12 mn	CAD 14 mn	PLN 40 mn	31.12.2020

** interest written off as part of the reorganisation of financing flows to the international investments of the KGHM Polska Miedź S.A. Group*

***on 29 December 2017, as part of the reorganisation of financing flows to the international investments of the KGHM Polska Miedź S.A. Group, KGHM Polska Miedź S.A. entered into a loan agreement with an indirect subsidiary - Quadra FNX FFI S.à r.l. – for the amount of USD 547 million (of which to the end of 2017 only the first loan instalment had been granted in the amount of USD 41 million). The transaction was of a non-cash nature – through a direction payment and set-off agreement institution between the companies KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD., Quadra FNX FFI S.à r.l. and Future 1 Sp. z o.o., certain existing intra-Group balances were paid.*

****on 29 December 2017, as part of the reorganisation of financing flows to the international investments of the KGHM Polska Miedź S.A. Group, a direct subsidiary of KGHM Polska Miedź S.A. – Future 1 Sp. z o.o. – entered into a loan agreement with an indirect subsidiary of KGHM Polska Miedź S.A. - Quadra FNX FFI S.à r.l. – for the amount of USD 1 419 million (of which to the end of 2017 only the first loan instalment had been granted in the amount of USD 135 million). The transaction was of a non-cash nature – through a direction payment and set-off agreement institution between the companies KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD., Quadra FNX FFI S.à r.l. and Future 1 Sp. z o.o., certain existing intra-Group balances were paid.*

The above table presents loans granted by the Company as well as by the Group. As at 31 December 2017, the balance of loans granted by the Company, after recognition of an impairment allowance, amounted to PLN 4 992 million, while the balance of loans granted by the Group, after recognition of an impairment allowance, amounted to PLN 3 909 million.

Cash pool in the Group

In managing its financial liquidity, the Group utilises tools which support its efficiency. One of the basic instruments used by the Group is the cash pool management system - domestically in PLN, USD and EUR and abroad in USD, while services in CAD were commenced in the KGHM INTERNATIONAL LTD. Group. The cash pool system is aimed at optimising cash management, limiting interest costs, the effective financing of current needs in terms of working capital and supporting short term financial liquidity in the Group.

in PLN millions, unless otherwise stated

7. Economic results of KGHM Polska Miedź S.A.

7.1. Production

The main goals set by the Management Board in terms of production and occupational health and safety for 2017 were:

- optimal utilisation of the resource base and of the production capacity of the Company, and
- optimisation of Cu content in ore and concentrate.

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 technology, 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
	  - proper 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 this threat,
	- opening of the new G-51 mining section in the Polkowice-Sieroszowice mine, organised on the basis of employees transferred from the Lubin mine,
	- work aimed at achieving a ventilation connection between the near-shaft zone of the SW-4 shaft and the E declines T/W-359 drifts as well as a ventilation connection between the SG-2 shaft and the T/W-145 drifts in the salt deposit of the Polkowice-Sieroszowice mine,
	- sinking of the GG-1 shaft, at the end of 2017, 1 070 meters had been excavated, and
	- realisation of the planned scope of mine development and access work using the commissioning system at the level of 58.5 thousand meters, or an increase by 23% as compared to 47.5 thousand meters excavated in 2016.

in ore processing	- adapting the production capacity of individual Concentrators Division Areas 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 and refineries, and, - continuation at the Rudna Concentrator Division of separating the concentrate produced into two concentrates with varied organic carbon content.

in metallurgy	- under the Pyrometallurgy Modernisation Program, assembly and start-up work was completed, and final handover of orders and contracts is underway. Post-construction documentation was completed and handed over along with documentation needed to obtain operating permits. The process continues of reporting the completion of work to the authorities and of obtaining operating permits,
	- advancement of the Metallurgy Development Program (MDP), with respect to:
	  - construction and assembly work on key technological links under the program's component investment tasks, such as construction of a Steam Drier at the Głogów II Copper Smelter and Refinery as well as the copper concentrate roasting installation,
	  - continued advancement of projects related to adapting technical infrastructure to the change in metallurgical technology at the Głogów I Copper Smelter and Refinery, involving the implementation of technical-technological solutions aimed at optimising utilisation of the modernised metallurgical infrastructure in terms of the investment projects at the Głogów Copper Smelter and Refinery currently being advanced, including: replacement of non-current assets, ensuring that European Union regulations and other legal requirements are met, adapting power, roadway and other infrastructure at the Głogów I Copper Smelter and Refinery and providing electrical power, control and lighting of existing facilities and equipment at the Głogów I Copper Smelter and Refinery,
	- increasing copper recovery in the flash furnace production line by implementing new technological solutions, such as improving the process of decopperising convertor slag,
	- increasing the availability of revolving–reverberatory furnaces at the Lead Section, resulting in high lead recovery alongside lower Pb content in charge materials,
	- commencing sales of rhenium from production by the Legnica Copper Smelter and Refinery,
	- improving the energy efficiency of the machinery park (ventilators at the Shaft Furnace Gases Deduster at the Legnica Copper Smelter and Refinery).

in occupational health and safety	- advancement of the adopted Program to improve occupational health and safety in KGHM Polska Miedź S.A. to the year 2020, - constant monitoring of occupational hazards and achievement of organisational and technical goals aimed at limiting occupational risks and accidents, - continuous improvement of the occupational safety and hygiene management system by the Divisions of KGHM Polska Miedź S.A., and - commencing new organisational and research initiatives aimed at improving occupational health and safety, in particular in the Company's mines.

in PLN millions, unless otherwise stated

Mine production

In 2017 extraction of ore (dry weight) amounted to 31.2 million tonnes, which was 0.8 million tonnes less than in 2016. The decrease in extraction in 2017 was due to limitation of work on statutorily free days due to the lower-than-planned processing of concentrates at the Głogów I Copper Smelter and Refinery and optimisation of concentrates inventories in the metallurgical plants.

Average copper content in extracted ore amounted to 1.50% and was at a level similar to that of 2016. In the case of silver in ore, content was higher by 3% and amounted to 47.8 g/t.

As a result the amount of copper in extracted ore was lower than in 2016 by 13.2 thousand tonnes of Cu and amounted to 466.8 thousand tonnes. The volume of silver in ore increased by 8 tonnes and amounted to 1 490 tonnes.

In 2017, 31.5 million tonnes of ore (dry weight) were processed (or 246 thousand tonnes less than in 2016). The lower amount of ore extracted by the mines directly affected the amount of copper in concentrate, which amounted to 419.3 thousand tonnes.

The production of concentrate (dry weight) decreased as compared to 2016 by 33 thousand tonnes (a decrease from 1 866 thousand tonnes to 1 833 thousand tonnes). The amount of silver in concentrate was higher than the amount produced in 2016 by 25 tonnes (an increase from 1 265 t to 1 290 t).

Table 14. Mine production of KGHM Polska Miedź S.A.

	Unit	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Mined ore (wet weight)	mn t	32.8	32.6	+0.6	7.6	8.4	8.4	8.4
Mined ore (dry weight)	mn t	31.2	32.0	(2.5)	7.3	8.0	8.0	8.0
Copper grade	%	1.50	1.50	-	1.50	1.48	1.49	1.51
Copper in ore	kt	466.8	480.0	(2.8)	109.0	118.1	118.8	120.9
Silver grade	g/t	47.8	46.3	+3.1	47.3	46.9	48.3	48.5
Silver in ore	t	1 490	1 482	+0.5	344	374	385	387
Production of concentrate (dry weight)	kt	1 833	1 866	(1.8)	431	473	457	472
Copper in concentrate	kt	419.3	424.3	(1.2)	99.5	107.7	104.3	107.7
Silver in concentrate	t	1 290	1 265	+2.0	302	328	327	332

Metallurgical production

The production of electrolytic copper as compared to 2016 decreased by 13.6 thousand tonnes, or by 2.5%. The lower production of electrolytic copper was the result of bringing the Głogów I Copper Smelter and Refinery to full production capacity and to the breakdown in the recovery boiler which occurred on 3 October 2017 (on 30 October 2017 production commenced at the Głogów I Copper Smelter and Refinery). By supplementing own concentrate with purchased metal-bearing materials in the form of scrap, copper blister and imported concentrate, existing technological capacity was effectively used.

The production of other metallurgical products (silver, wire rod, OFE rod and round billets) derives from the level of electrolytic copper production and depends on the type of raw material used, and above all on market demand.

In comparison to 2016, the production of metallic gold increased by 3.5 thousand troy ounces, or 3%, and for the first time in the history of KGHM Polska Miedź S.A. reached the level of 117.3 thousand troy ounces. Metallic silver production was higher by 27 tonnes, closing the year at 1 218 tonnes.

Table 15. Metallurgical production of KGHM Polska Miedź S.A.

	Unit	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Electrolytic copper, including:	kt	522.0	535.6	(2.5)	122.2	135.6	133.6	130.6
- from own concentrates	kt	358.9	376.0	(4.5)	86.2	88.9	90.8	93.1
- from purchased metal-bearing materials	kt	148.0	159.6	(7.3)	34.5	42.2	38.3	33.0
- from third party processing	kt	15.1	-	×	1.5	4.5	4.5	4.5
Wire rod, OFE and CuAg rod	kt	257.9	267.4	(3.6)	47.3	73.6	67.3	69.7
Round billets	kt	13.7	13.0	+5.4	1.6	4.1	3.7	4.3
Metallic silver	t	1 218	1 191	+2.3	302	324	298	294
Metallic gold	koz t	117.3	113.8	+3.1	30.6	31.3	21.9	33.5
Refined lead	kt	30.0	30.1	(0.3)	8.2	6.3	7.7	7.8

Main production goals

The main goals set by the Management Board in terms of production and occupational health and safety for 2018 are a continuation of actions taken in 2017, i.e.:

– optimal utilisation of the resource base and of the production capacity of the Company, and
– optimisation of Cu content in ore and concentrate.

Key actions in 2018 are:

in mining	– intensification of 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, – continuing work related to prevention of gas-related threats (hydrogen sulphide and methane) and the use of new technical solutions and means of prevention to counteract this threat, – continuing work related to utilising the capacity of the input and output ventilation shafts in the interconnected mine ventilation system, – limiting dilution of extracted ore, – continued sinking of the GG-1 shaft, – commencement of construction of the central air conditioning system at the GG-1 shaft, and – advancing the planned scope of mine development and access work using the commissioning system in 2018, set at 59 thousand meters.
in ore processing	– modernising the classification systems, – improving the energy performance of the machinery park at the Concentrators Division, – optimising the concentration process in terms of decreasing the impact of changes in quantity-quality parameters by applying the FloVis system, – testing and application of new flotation reagent mixtures, – continued separation of concentrate produced into two products with varied calorific values at the Rudna Concentrator Division, – optimising control of the milling units based on visual product parameters and a mill's sound and vibration characteristics at the Concentrators Division (using the MillVis and ConVis systems), – modernising the carbonate removal installation in the flotation process of the Polkowice Concentrator Division, and – optimising the milling, classification and flotation process.
in metallurgy	– achieving of 80% of primary copper production based on copper concentrate smelting using flash furnace technology, – minimising environmental impact – commencing actions directed towards improving the effectiveness of dedusting and deciding on means to hermetically seal the processes to decrease fugitive emissions, – improving recoveries and the availability of metallurgical equipment, – executing tasks of the Metallurgy Development Program (MDP) associated with the construction of a steam drier at the Głogów II Copper Smelter and Refinery, a concentrate roasting installation and modernising the Tank and Electrolite Decopperisation Hall at the Legnica Copper Smelter and Refinery, – continued work on the PMP Project related to the review and approval of post-construction documentation together with documents for obtaining operating permits. The process of reporting the completion of work to government authorities and obtaining operating permits is underway. Nearing completion are settlement procedures and the final handovers of contracts and orders. The handover of fixed assets is underway, – construction of a revolving-casting-refining (RCR) furnace for processing copper scrap at the Legnica Copper Smelter and Refinery,
in occupational health and safety	– monitoring occupational hazards and achieving organisational, technical and investment goals aimed at limiting occupational risks and accidents, – advancing the adopted training program to optimise the knowledge and skills of KGHM Polska Miedź S.A.'s employees, – continued advancement of the adopted Program to improve occupational safety, – assessing the current state of occupational safety culture in the Divisions of KGHM Polska Miedź S.A. and developing solutions to achieve further improvement in this regard, – implementing new organisational and technical solutions to achieve a high level of safety for the employees of the Company's Divisions, and – optimising health care for KGHM Polska Miedź S.A.'s employees, in particular after accidents at work.

7.2. Sales

In 2017, as compared to 2016, KGHM Polska Miedź S.A. recorded a decrease in the sales volume of copper products by 53.8 thousand tonnes (10%), as a result of lower electrolytic copper production. Sales of cathodes were lower by 12.9 thousand tonnes (5%) as well as of copper wire rod and OFE rod by 5.2 thousand tonnes (2%).

Sales of metallic silver in KGHM Polska Miedź S.A. in 2017 amounted to 1 185 tonnes and were similar to the level of sales in 2016 (1 189 t), although in 2016 there additionally occurred a sale of silver in concentrate (91 t). The volume of gold sales in 2016 amounted to 117.1 thousand troy ounces, or an increase by 4% as compared to 2016 (112.5 thousand troy ounces).

Table 16. Sales volume of basic products of KGHM Polska Miedź S.A.

	Unit	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Cathodes and cathode parts	kt	233.5	246.4	(5.2)	73.9	53.2	55.4	51.0
Copper wire rod and OFE rod	kt	259.9	265.1	(2.0)	63.2	64.3	66.8	65.6
Payable copper in concentrate*	kt	(0.3)	35.2	×	-	-	-	(0.3)
Other copper products	kt	12.9	13.1	(1.5)	3.4	3.2	3.3	3.0
Total copper and copper products	**kt**	**506.0**	**559.8**	**(9.6)**	**140.5**	**120.7**	**125.5**	**119.3**
Metallic silver	t	1 185	1 189	(0.3)	372	258	308	247
Payable silver in concentrate	t	-	91	×	-	-	-	-
Metallic gold	koz t	117.1	112.5	+4.1	29.2	29.2	27.8	30.9
Refined lead	kt	29.6	29.7	(0.3)	7.5	7.5	7.0	7.6

**negative values result from settlement of prior-year contracts*

Total sales revenue of KGHM Polska Miedź S.A. in 2017 amounted to PLN 16 024 million and were higher by 6% than revenues achieved in 2016 (PLN 15 112 million), mainly due to the increase in copper prices expressed in the Polish zloty.

Revenues from copper sales in 2017 amounted to PLN 12 213 million and were higher than sales in the prior year by 10% (PLN 11 064 million in 2016). Revenues from silver sales in 2017 amounted to PLN 2 447 million and were lower by 6% as compared to the level of sales in 2016. Revenues from gold sales were at the same level as in 2016 (PLN 556 million). The decrease in revenues from silver sales was mainly due to the decrease in the price of this metal expressed in the Polish zloty as compared to 2016.

Table 17. Sales revenue of KGHM Polska Miedź S.A. (PLN million)

	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Cathodes and cathode parts	5 541	4 937	+12.2	1 836	1 259	1 217	1 229
Copper wire rod and OFE rod	6 276	5 293	+18.6	1 603	1 545	1 514	1 614
Payable copper in concentrate*	86	574	(85.0)	15	18	11	42
Other copper products	310	260	+19.2	86	78	73	73
Total copper and copper products	**12 213**	**11 064**	**+10.4**	**3 540**	**2 900**	**2 815**	**2 958**
Metallic silver	2 447	2 596	(5.7)	720	507	660	560
Payable silver in concentrate**	(6)	202	×	-	(1)	(1)	(4)
Metallic gold	556	556	-	134	134	135	153
Refined lead	273	230	+18.7	71	66	62	74
Other goods and services	356	316	+12.7	89	86	84	97
Merchandise and materials	185	148	+25.0	37	40	50	58
Total sales revenue	**16 024**	**15 112**	**+6.0**	**4 591**	**3 732**	**3 805**	**3 896**

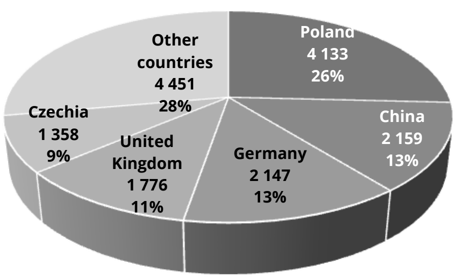
** value of payable copper less treatment charges (TC), Cu refining charges (RcCu) and other deductions impacting the value of Cu concentrate (apart from the Ag refining premium)*
*** value of payable silver less the Ag refining premium (RcAg), negative values result from settlement of prior-year contracts*

Geographical breakdown of sales

The largest proportion, i.e. 26%, of KGHM Polska Miedź S.A.'s sales revenue in 2017 was from the Polish market. The largest remaining recipients of the products, merchandise and services offered by the Company were: China, Germany, the United Kingdom and Czechia.

The Company's revenues from sales to external customers is broken down geographically in the following table. Sales revenue includes the result from the settlement of hedging instruments.

Chart 24. Sales revenue of KGHM Polska Miedź S.A. by market (PLN million)



7.3. Costs

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 2017 amounted to PLN 12 889 million and was 3% higher as compared to 2016, mainly due to a higher minerals extraction tax and a higher value of consumed metal-bearing materials purchased.

In 2017, the amount of -PLN 1 097 million was recognised in cost of sales, selling costs and administrative expenses due to changes in inventories of finished goods and work in progress (lower costs) as compared to -PLN 286 million recognised in 2016, which is mainly the result of an increase in inventories of own concentrates (-PLN 907 million) in 2017, caused primarily by the shutdowns at the Głogów Copper Smelter and Refinery.

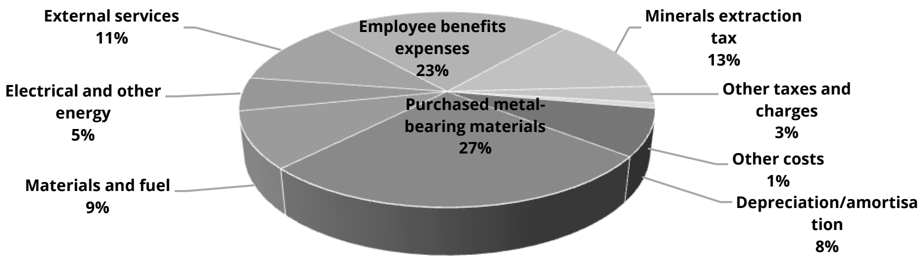
Total expenses by nature in 2017 were higher by 9% as compared to 2016.

Table 18. Expenses by nature of KGHM Polska Miedź S.A. (PLN million)

	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Depreciation of property, plant and equipment and amortisation of intangible assets	1 072	993	+8.0	280	261	262	269
Employee benefits expenses	3 210	3 023	+6.2	864	782	813	751
Materials and energy, including:	5 831	5 482	+6.4	1 447	1 596	1 417	1 371
- purchased metal-bearing materials	3 750	3 469	+8.1	932	1 059	906	853
- electrical and other energy	775	745	+4.0	196	222	190	167
External services	1 531	1 392	+10.0	456	362	360	353
Taxes and charges, including:	2 154	1 725	+24.9	535	540	506	573
- minerals extraction tax	1 765	1 338	+31.9	456	438	405	466
Other costs	126	161	(21.7)	37	29	40	20
Total expenses by nature	**13 924**	**12 776**	**+9.0**	**3 619**	**3 570**	**3 398**	**3 337**

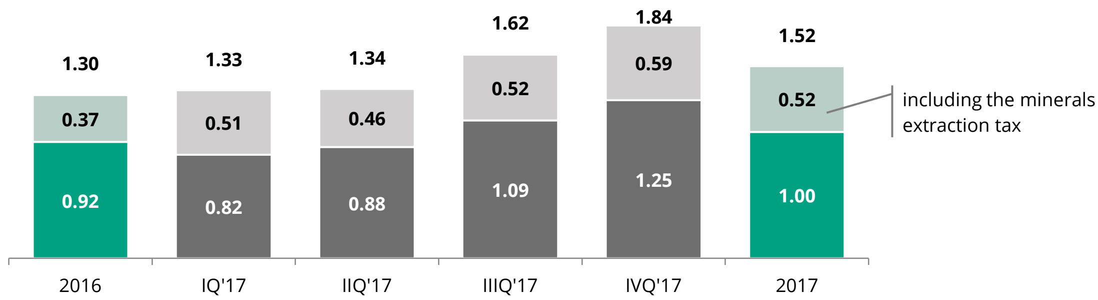
The structure of expenses by nature in 2017 is presented below. As compared to the prior year, they were at a very similar level.

Chart 25. Structure of expenses by nature in 2017



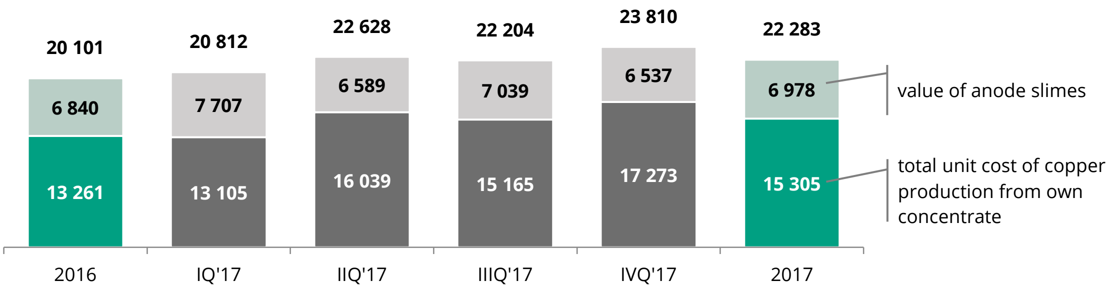
The Company's operating costs are decisively impacted by the costs of electrolytic copper production (prior to decrease by the value of by-products), whose share is about 94%.

Chart 26. 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 2016: 1.30 USD/lb and in 2017: 1.52 USD/lb. The cost was impacted by a strengthening in the PLN as compared to the USD, a higher minerals extraction tax and lower production of own concentrate.

Chart 27. 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 higher than that recorded in 2016 by 2 182 PLN/t (11%), mainly due to a higher minerals extraction tax (+1 122 PLN/t) and lower production of own concentrate by 17 thousand tonnes of Cu (-4.5%).

7.4. Financial results

Statement of profit or loss

The Company recorded a profit for 2017 in the amount of PLN 1 323 million, which resulted among others from impairment losses on assets in the amount of PLN 966 million.

Table 19. Basic items of the statement of profit or loss of KGHM Polska Miedź S.A. (PLN million)

	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Sales revenue	16 024	15 112	+6.0	4 591	3 732	3 805	3 896
- adjustment to revenues due to hedging transactions	16	3	×5.3	5	7	8	(4)
Cost of sales, selling costs and administrative expenses	(12 899)	(12 517)	+3.1	(3 913)	(3 020)	(3 135)	(2 831)
- including the minerals extraction tax	(1 488)	(1 325)	+12.3	(426)	(342)	(353)	(366)
Profit on sales (EBIT)	**3 125**	**2 595**	**+20.4**	**678**	**712**	**670**	**1 065**
Other operating income / (costs)	**(2 004)**	**(5 429)**	**(63.1)**	**(1 315)**	**(92)**	**(327)**	**(270)**
- impairment losses on assets	(936)	(6 179)	(84.9)	(936)	-	-	-
- foreign exchange gains/(losses) on assets and liabilities other than borrowings	(1 179)	482	×	(280)	(64)	(410)	(425)
- interest on loans granted	300	376	(20.2)	55	64	85	96
- measurement and realisation of derivatives	(213)	(76)	×2.8	(171)	(110)	(2)	70
- other	24	(32)	×	17	18	-	(11)
Finance income / (costs)	**1 033**	**(541)**	**×**	**289**	**53**	**382**	**309**
- foreign exchange differences on borrowings	1 247	(398)	×	334	101	443	369
- interest on borrowings	(113)	(76)	+48.7	(27)	(28)	(29)	(29)
- fees and commissions on bank and other loans drawn	(28)	(45)	(37.8)	(8)	(6)	(7)	(7)
- measurement and realisation of derivatives	(30)	17	×	-	(3)	(14)	(13)
- other	(43)	(39)	+10.3	(10)	(11)	(11)	(11)
Profit / (loss) before income tax	**2 154**	**(3 375)**	**×**	**(348)**	**673**	**725**	**1 104**
Income tax expense	(831)	(710)	+17.0	(179)	(133)	(220)	(299)
Profit / (loss) for the period	**1 323**	**(4 085)**	**×**	**(527)**	**540**	**505**	**805**
Depreciation/amortisation recognised in profit or loss	(1 035)	(956)	+8.3	(283)	(256)	(257)	(239)
EBITDA*	4 160	3 551	+17.2	961	968	927	1 304
Adjusted EBITDA*	**4 160**	**3 551**	**+17.2**	**961**	**968**	**927**	**1 304**
EBITDA margin (%)	**26**	**23**	**+13.0**	**21**	**26**	**24**	**33**

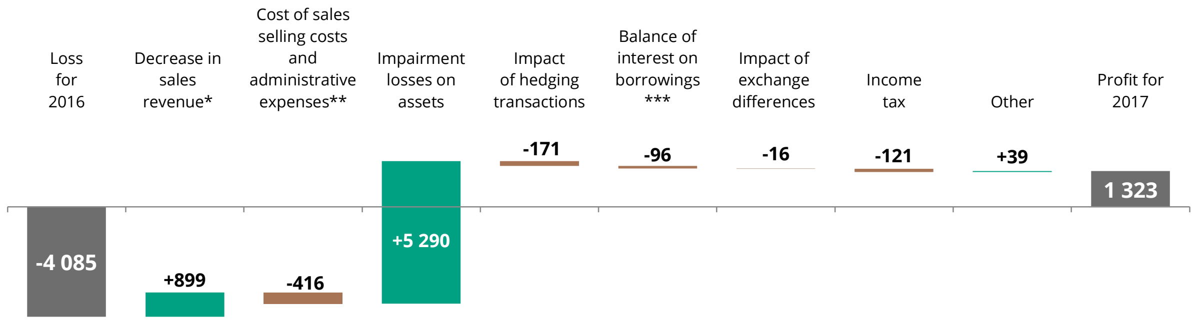
** EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)*
*** Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)*

Table 20. Key factors for the change in financial result of KGHM Polska Miedź S.A.

Item	Impact on profit or loss (PLN million)	Description
Increase in sales revenue by PLN 899 million (excluding the impact of hedging transactions + PLN 13 million)	+2 395	An increase in revenues due to higher copper prices (+1 303 USD/t, +27%) and gold prices (+8 USD/oz t, +1%) alongside lower silver prices (-9 USc/oz t, -1%).
	(696)	A decrease in revenues due to the sale of copper concentrate from PLN 776 million to PLN 80 million. In 2016 there was a sale of copper concentrate (169 thousand tonnes of dry weight) from inventories created due to the shutdown at the Głogów I Copper Smelter and Refinery related to a change in production technology. Although there was no sale of copper concentrate in 2017, sales revenue included PLN 80 million related to the settlement of prior-year contracts.
	(565)	A decrease in revenues from the sale of basic products (Cu, Ag, Au) due to a less favourable average annual USD/PLN exchange rate (from 3.94 to 3.78 USD/PLN).
	(354)	A decrease in revenues due to lower volumes of copper sales (-18.4 kt, -4%) and silver sales (-4 t, -0.3%) alongside a higher volume of gold sales (+4.6 koz t, +4%).
	+119	An increase in revenues from the sale of merchandise and other goods and services, including the value of third party processing of concentrate into cathodes (+PLN 59 million) and higher sales of refined lead (+PLN 43 million).
An increase in cost of sales, selling costs and administrative expenses* by PLN 416 million (excluding impairment losses of +PLN 34 million)	(163)	An increase in the minerals extraction tax from PLN 1 325 million in 2016 to PLN 1 488 million in 2017, due to higher copper prices expressed in PLN.
	(253)	An increase in other costs, due to an increase in expenses by nature, mainly in the costs of labour (+PLN 187 million), external services (+PLN 139 million) and depreciation/amortisation (+PLN 79 million), alongside an increase in half-finished products and work in progress.
Impairment losses on assets (+PLN 5 290 million) Detailed information on recognised impairment losses is presented in part 3 of the financial statements.	+4 526	A decrease in impairment losses on shares in subsidiaries from PLN 4 856 million in 2016 to PLN 330 million in 2017.
	+524	A decrease in the impairment allowance on loans granted to subsidiaries from PLN 1 130 million to PLN 606 million.
	+136	Lack in 2017 of impairment losses on mining and evaluation assets – in 2016: PLN 136 million.
	+57	Lack in 2017 of impairment losses on available-for-sale assets – in 2016: PLN 57 million.
	+34	A decrease in the impairment loss on inventories and receivables
	+13	Other impairment losses
Impact of hedging transactions (-PLN 171 million)	+13	A change in adjustments to sales revenue due to the settlement of hedging transactions from PLN 3 million to PLN 16 million.
	(192)	A change in the result due to the measurement of derivatives from -PLN 41 million to -PLN 233 million.
	+8	A change in the result due to the realisation of derivatives from -PLN 18 million to -PLN 10 million.
A change in the balance of income and costs due to interest on borrowings, including fees and commissions (-PLN 96 million)	(76)	A decrease in income due to interest on loans granted.
	(37)	Higher interest costs on borrowings.
	+17	A decrease in costs of fees and commissions on bank loans drawn.
Impact of exchange differences (-PLN 16 million)	(1 661)	A change in the result due to exchange differences from measurement of assets and liabilities other than borrowings - in other operating activities.
	+1 645	A change in the result due to exchange differences on measurement of borrowings (presented in finance costs).
Decrease in income tax	(121)	The higher tax results from the higher tax base.

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

Chart 28. Change in profit or loss for the period of KGHM Polska Miedź S.A. (PLN million)



** excluding adjustments due to hedging transactions*
*** excluding impairment losses recognised in cost of sales, selling costs and administrative expenses*
**** including fees and commissions*

Cash flows

Table 21. Statement of cash flows of KGHM Polska Miedź S.A. (PLN million)

	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Profit / (loss) before income tax	2 154	(3 375)	×	(348)	673	725	1 104
Depreciation/amortisation recognised in profit or loss	1 035	956	+8.3	283	256	257	239
Interest on investment activities	(299)	(374)	(20.1)	(54)	(65)	(180)	-
Impairment losses on non-current assets	940	6 197	(84.8)	939	-	1	-
Other adjustments	304	309	(1.6)	76	245	(233)	216
Exclusions of income and costs, total	1 980	7 088	(72.1)	1 244	436	(155)	455
Income tax paid	(934)	(468)	+99.6	(139)	(111)	(270)	(414)
Change in working capital	(1 120)	352	×	116	(591)	(47)	(598)
Net cash generated from operating activities	**2 080**	**3 597**	**(42.2)**	**873**	**407**	**253**	**547**
Expenditures on mining and metallurgical assets	(1 970)	(2 585)	(23.8)	(623)	(373)	(371)	(603)
Expenditures on other property, plant and equipment and intangible assets	(21)	(19)	+10.5	(8)	(4)	(1)	(8)
Loans granted	(490)	(834)	(41.2)	(271)	-	(219)	-
Other expenses	(83)	(85)	(2.4)	(8)	(25)	(6)	(44)
Proceeds	52	33	+57.6	22	4	22	4
Net cash used in investing activities	**(2 512)**	**(3 490)**	**(28.0)**	**(888)**	**(398)**	**(575)**	**(651)**
Proceeds from borrowings	2 416	3 198	(24.5)	781	198	676	761
Repayments of borrowings	(2 030)	(2 601)	(22.0)	(523)	-	(774)	(733)
Proceeds from cash pool	160	-	×	-	(67)	227	-
Dividends paid	(200)	(300)	(33.3)	(100)	(100)	-	-
Interest paid and other costs of borrowings	(138)	(119)	+16.0	(34)	(34)	(34)	(36)
Other	-	8	×	-	-	-	-
Net cash generated from/(used in) financing activities	**208**	**186**	**+11.8**	**124**	**(3)**	**95**	**(8)**
Total net cash flows	**(224)**	**293**	**×**	**109**	**6**	**(227)**	**(112)**
Exchange gains/(losses) on cash and cash equivalents	(24)	31	×	1	-	-	(25)
Cash and cash equivalents at beginning of the period	482	158	×3.1	124	118	345	482
Cash and cash equivalents at end of the period	**234**	**482**	**(51.5)**	**234**	**124**	**118**	**345**

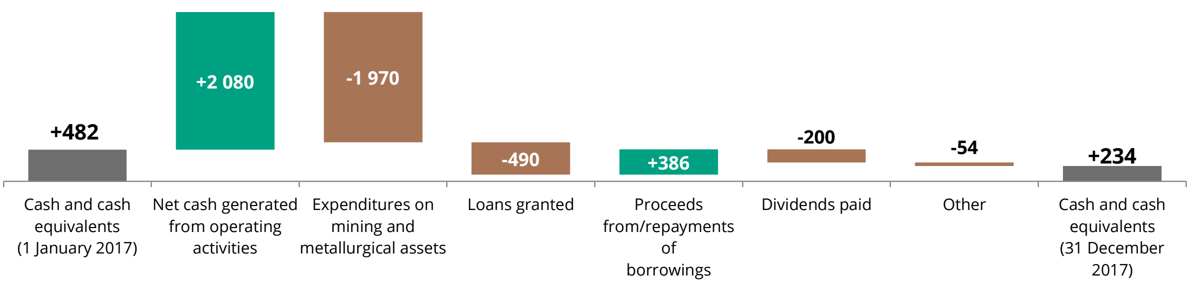
Net cash generated from operating activities in 2017 amounted to +PLN 2 080 million and mainly comprised profit before income tax in the amount of PLN 2 154 million adjusted by depreciation/amortisation in the amount of +PLN 1 035 million, impairment losses on non-current assets of +PLN 940 million and decreased by income tax paid in the amount of -PLN 934 million and a change in working capital in the amount of -PLN 1 120 million.

Net cash used in investing activities in 2017 amounted to -PLN 2 512 million and mainly comprised net expenditures on mining and metallurgical property, plant and equipment and intangible assets in the amount of -PLN 1 970 million and loans granted of -PLN 490 million.

Net cash generated from financing activities in 2017 amounted to +PLN 208 million and mainly comprised proceeds from borrowings and from the cash pool in the amounts respectively of +PLN 2 416 million and +PLN 160 million, as well as repayments of borrowings in the amount of -PLN 2 030 million, dividends paid to shareholders in the amount of -PLN 200 million and interest paid and other costs of borrowings in the amount of -PLN 138 million.

After reflecting exchange gains/(losses) on cash, the balance of cash and cash equivalents in 2017 decreased by PLN 248 million and amounted to PLN 234 million.

Chart 29. Statement of cash flows of KGHM Polska Miedź S.A. (PLN million)



Assets, equity and liabilities

Table 22. Assets of KGHM Polska Miedź S.A. (PLN million)

	31.12.2017	31.12.2016	Change (%)	30.09.2017	30.06.2017	31.03.2017
Mining and metallurgical property, plant and equipment	15 355	14 379	+6.8	14 857	14 676	14 542
Mining and metallurgical intangible assets	507	507	-	547	531	526
Other property, plant and equipment	75	77	(2.6)	67	69	72
Other intangible assets	34	24	+41.7	22	22	23
Investments in subsidiaries and joint ventures	3 013	2 002	+50.5	3 361	3 370	2 002
Financial instruments, total, including:	6 031	8 443	(28.6)	6 776	6 706	8 180
- Loans granted	4 972	7 310	(32.0)	5 505	5 511	6 996
- Derivatives	109	237	(54.0)	182	137	162
- Other financial instruments measured at fair value	613	576	+6.4	741	712	676
- Other financial assets	337	320	+5.3	348	346	346
Other non-financial assets	25	22	+13.6	24	27	25
Deferred tax assets	31	140	(77.9)	30	57	129
Non-current assets	**25 071**	**25 594**	**(2.0)**	**25 684**	**25 458**	**25 499**
Inventories	3 857	2 726	+41.5	4 154	3 783	3 472
Trade receivables	1 034	676	+53.0	700	665	750
Tax assets	214	188	+13.8	162	166	148
Derivatives	195	72	×2.7	109	99	76
Other assets	342	362	(5.5)	399	439	258
Cash and cash equivalents	234	482	(51.5)	124	118	345
Current assets	**5 876**	**4 506**	**+30.4**	**5 648**	**5 270**	**5 049**
Total assets	**30 947**	**30 100**	**+2.8**	**31 332**	**30 728**	**30 548**

As at 31 December 2017, total assets amounted to PLN 30 947 million, or an increase as compared to the end of 2016 by PLN 847 million, or by 3%, mainly due to:

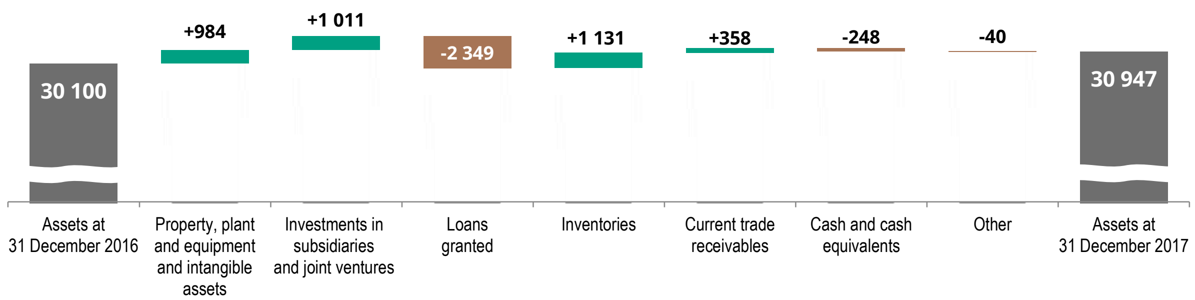
– a decrease in **receivables due to loans granted** by PLN 2 349 million, mainly due to:

- reallocation (described below) of an impairment loss on assets (-PLN 1 368 million),
- exchange differences (-PLN 1 153 million),
- recognition of an impairment loss (-PLN 606 million),
- loans granted (+PLN 499 million),
- accrued interest (+PLN 298 million),

– an increase in **investments in subsidiaries and joint ventures** (+PLN 1 011 million), mainly due to reallocation of an impairment loss (+PLN 1 368 million) due to impairment of the value of the investment in KGHM INTERNATIONAL LTD. understood as the total value of shares in the company Future 1 Sp. z o.o. and the value of loans granted to Future 1 Sp. z o.o. and KGHM INTERNATIONAL LTD. Detailed information on the reallocation may be found in note 6.1 of the financial statements.

– an increase in inventories (+PLN 1 131 million), mainly half-finished products and work in progress (+PLN 1 136 million).

Chart 30. Change in assets of KGHM Polska Miedź S.A. in 2017 (PLN million)



The carrying amounts of equity and liabilities as at 31 December 2017 are presented below.

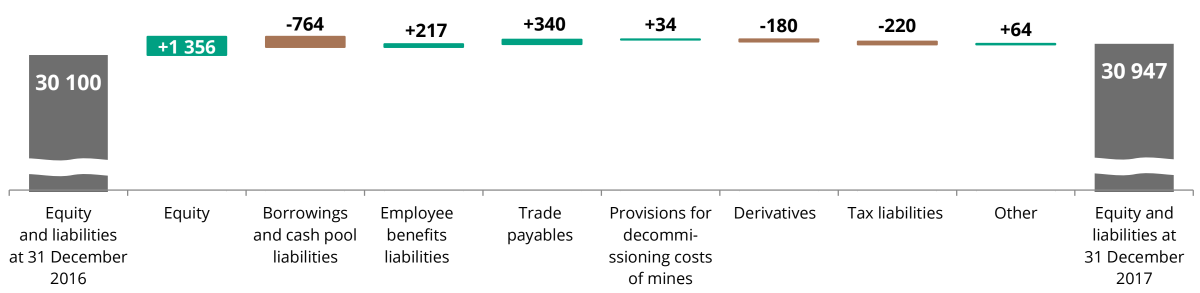
Table 23. Equity and liabilities of KGHM Polska Miedź S.A. (PLN million)

	31.12.2017	31.12.2016	Change (%)	30.09.2017	30.06.2017	31.03.2017
Share capital	2 000	2 000	-	2 000	2 000	2 000
Other reserves from measurement of financial instruments	142	(196)	×	144	87	8
Accumulated other comprehensive income	(348)	(243)	+43.2	(364)	(386)	(407)
Retained earnings	15 462	14 339	+7.8	15 989	15 449	15 144
Equity	**17 256**	**15 900**	**+8.5**	**17 769**	**17 150**	**16 745**
Borrowings	6 085	6 423	(5.3)	5 684	5 382	5 480
Derivatives	84	149	(43.6)	76	28	51
Employee benefits liabilities	1 879	1 683	+11.6	1 877	1 884	1 877
Provisions for decommissioning costs of mines and other technological facilities	797	761	+4.7	792	855	845
Other liabilities	207	229	(9.6)	209	209	219
Non-current liabilities	**9 052**	**9 245**	**(2.1)**	**8 638**	**8 358**	**8 472**
Borrowings	923	1 509	(38.8)	1 398	1 601	2 041
Cash pool liabilities	160	-	×	160	227	-
Derivatives	74	189	(60.8)	20	9	46
Trade payables	1 719	1 372	+25.3	1 446	1 506	1 298
Employee benefits liabilities	649	628	+3.3	655	560	736
Tax liabilities	416	636	(34.6)	331	473	452
Other liabilities	698	621	+12.4	915	844	758
Current liabilities	**4 639**	**4 955**	**(6.4)**	**4 925**	**5 220**	**5 331**
Non-current and current liabilities	**13 691**	**14 200**	**(3.6)**	**13 563**	**13 578**	**13 803**
Total equity and liabilities	**30 947**	**30 100**	**+2.8**	**31 332**	**30 728**	**30 548**

There was a decrease in equity and liabilities mainly due to:

– an increase in **equity** by PLN 1 356 million, including with respect to the profit for 2017 in the amount of PLN 1 323 million,
– a decrease in **borrowings and cash pool liabilities** by PLN 764 million, due to exchange rate differences (-PLN 1 316 million), cash flows (+PLN 352 million) and accrued interest (+PLN 194 million),
– an increase in **employee benefits liabilities** by PLN 217 million and **trade payables** by PLN 340 million,
– alongside a decrease in **tax liabilities** by PLN 220 million and **derivatives** by PLN 180 million.

Chart 31. Change in equity and liabilities of KGHM Polska Miedź S.A. in 2017 (PLN million)



Contingent assets and liabilities

At the end of 2017, contingent assets amounted to PLN 490 million and related mainly to promissory notes receivables (PLN 180 million), guarantees received by the Company with respect to the proper performance of agreements (PLN 150 million), the tax on underground mines (PLN 92 million) and the implementation of projects and inventions (PLN 68 million).

At the end of 2017, contingent liabilities amounted to PLN 2 704 million and mainly concerned:

– guarantees in the amount of PLN 2 280 million, including:

  – a corporate guarantee securing repayment of a specified part of payment to guarantees set by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation, securing repayment of a corporate loan drawn by the joint venture Sierra Gorda S.C.M. in the amount of PLN 627 million,
  – a letter of credit granted to secure the obligations due to a long-term contract for the off-take of electricity to the joint venture Sierra Gorda S.C.M in the amount of PLN 479 million,

- guarantees securing the repayment of short term working capital facilities drawn by the joint venture Sierra Gorda S.C.M. in the amount of PLN 460 million,
- a guarantee securing the costs of restoring the areas of the Robinson mine, Podolsky mine and the Victoria project, and obligations related to the proper performance of the agreements signed in the amount of PLN 380 million (as at 31 December 2016 in the amount of PLN 387 million),
- guarantees granted to secure the proper performance of leasing agreements entered into by the joint venture Sierra Gorda S.C.M. in the amount of PLN 174 million,
- a guarantee 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 in the amount of PLN 160 million,

– a promissory note, 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 in the amount of PLN 160 million,
– liabilities due to the implementation of projects and inventions in the amount of PLN 94 million,
– other contingent liabilities in the amount of PLN 170 million.

Other liabilities not recognised in the statement of financial position in the amount of PLN 120 million, comprised of:

– liabilities towards local government entities due to expansion of the tailings storage facility by KGHM Polska Miedź S.A. in the amount of PLN 117 million, and
– liabilities due to operating leases in the amount of PLN 3 million.

7.5. 2017 targets versus achievements

KGHM Polska Miedź S.A. did not publish a forecast of financial results for 2017. In its annual report for 2016 the Company announced its targets in the 2017 Budget. Achievement of the aforementioned targets is presented in the table below.

Table 24. 2017 targets versus achievements

	Unit	2017	Budget 2017	Execution (%)
Production of copper in concentrate	kt	419.3	425.3	(1.4)
Production of silver in concentrate	t	1 290	1 221	+5.7
Electrolytic copper production, including:	kt	522.0	549.2	(5.0)
- from own concentrate	kt	358.9	400.9	(10.5)
- from purchased metal-bearing materials (incl. processing)	kt	163.1	148.3	+10.0
Metallic silver production	t	1 218	1 203	+1.2
Copper products sales volume*	kt	506.0	535.7	(5.5)
Silver products sales volume*	t	1 185	1 155	+2.6
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate	PLN/t	22 283	21 269	+4.8
Total unit cost of electrolytic copper production from own concentrate	PLN/t	15 305	14 590	+4.9
C1 cash cost of producing copper in concentrate	USD/lb	1.52	1.37	+10.9
Capital expenditures**	PLN mn	2 053	2 090	(1.8)
Equity investments***	PLN mn	490	1 022	(52.1)

** Together with the sale of copper and silver in concentrate*
*** Excluding expenditures on development work - uncompleted*
**** Acquisition of shares and investment certificates of subsidiaries and loans granted and acquisition of available-for-sale financial assets*

In 2017, the production of electrolytic copper achieved by the Company was lower by 27 thousand tonnes Cu (-5%) than the target in the 2017 Budget. The decrease was mainly in respect of production from own concentrate, and was due to a breakdown in, and the ramp-up to full production capacity of, the Głogów I Copper Smelter and Refinery. Silver production was however higher by 15 tonnes (+1%), mainly due to silver content in ore being 7% higher than planned.

Achievement of the planned sales volume to a large extent reflects the production results – copper sales were lower by 6% than planned, while silver sales were higher by 3%.

The unit cost of electrolytic copper production from own concentrate (both the total cost and the pre-precious metals credit unit cost) was higher by 5% than planned, mainly due to an increase in the minerals extraction tax. This factor, together with the strengthening of the PLN versus the USD, led to an increase in the C1 cash cost of producing copper in concentrate by 11%.

Equity investments carried out by the Company in 2017 were at a substantially lower level than assumed in the Budget (-52%), mainly due to a lower level of support for the operations of the Sierra Gorda S.C.M. mine, while capital expenditures were close to the planned level.

7.6. Capital expenditures

In 2017, capital expenditures amounted to PLN 2 053 million and were lower than in the previous year by 22%. Together with expenditures incurred on uncompleted development work, capital expenditures amounted to PLN 2 057 million.

Table 25. Structure of expenditures on property, plant and equipment and intangible assets of KGHM Polska Miedź S.A. (PLN million)

	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Mining	1 286	1 164	+10.5	486	353	244	203
Metallurgy	735	1 435	(48.8)	248	165	167	155
Other activities	32	25	+28.0	21	3	4	4
Development work - uncompleted	4	6	(33.3)		1	3	
Total	**2 057**	**2 630**	**(21.8)**	**755**	**522**	**418**	**362**
including borrowing cost	61	90	(32.2)	26	11	14	10

Investment activities comprised projects related to the replacement of equipment and maintaining mine production, as well as development projects:

Projects related to the replacement of equipment – aimed at maintaining production equipment in an undeteriorated condition, represent 29% of total expenditures incurred.

Projects related to maintaining mine production – aimed at maintaining mine production on the level set in approved Production Plan (development of infrastructure to match mine advancement) represent 25% of total expenditures incurred.

Development projects – aimed at increasing production volume of the core business, implementation of technical and technological activities optimising use of existing infrastructure, maintaining production costs and adaptation of the company's operations to changes in standards, laws and regulations (conformatory projects and those related to environmental protection) represent 46% of total expenditures incurred.

Table 26. Major tasks and facilities advanced by KGHM Polska Miedź S.A. in 2017

Replacement (PLN 594 million)	
Mining machinery replacement	With respect to modernisation and replacement of mining machinery, 207 pieces of mining equipment were purchased. Expenditures incurred in 2017: PLN 230 million.
Infrastructure replacement - other	Investments aimed at the replacement of infrastructure in the Divisions in order to maintain it in an undeteriorated condition. Expenditures incurred in 2017: PLN 364 million.
Maintaining mine production (PLN 509 million)	
Mine infrastructure development	Investments were made in the mines related to developing mine infrastructure, ventilation and air cooling equipment, conveyor belts and piping. Expenditures incurred in 2017: PLN 220 million.
Purchase of machines for VCP Program	Establishment of additional mining section G-51 (Polkowice-Sieroszowice mine). As at 31 December 2017, 36 machines had been purchased. Total expenditures incurred on this type of machinery amounted to PLN 41 million, including PLN 7 million in 2017.
Construction of the SW-4 shaft	Work continued on target infrastructure: the administration-social building (prepared for outfitting), squares and roads. Assembly of shaft infrastructure and construction of an electric switching station continues. Construction work was carried out on a freezing basement for cable chambers as well as work on a new target cable trestle bridge at the shaft. As at 31 December 2017, expenditures were incurred in the amount of: PLN 855 million, including PLN 10 million in 2017.
Żelazny Most project ensuring the ability to store flotation tailings after 2016	The Main Facility is currently being developed to a crown height of 195m a.s.l. together with adaptation of operations with the Southern Quarter. A decision was received: „Environmental impact of the project to build a Southern Quarter for the Żelazny Most Tailings Storage Facility". The process of receiving a decision on a building permit is underway. As at 31 December 2017 expenditures were incurred in the amount of PLN 319 million, including PLN 246 million in 2017.
Mining Development (PLN 395 million)	
The Deposit Access Program	Work continued on the sinking of the GG-1 shaft. The shaft reached a depth of 1 070 meters. By the end of 2017, 100 kilometers of primary tunnelling, which were financed by investment funds, have been excavated together with necessary technical infrastructure (water pipes, power cables, electrical switching stations, conveyor belts, retention dams, pipes, air cooling equipment and communications equipment). In 2017, 12 kilometers of primary tunneling in the Rudna and Polkowice–Sieroszowice Mines were excavated. Design work continues with respect to Construction of a Central Air Conditioning System (CAS) at the GG-1 shaft (i.e. Construction of a tri-generation Surface-based Central Air Conditioning System and Construction of an Ice Water Transportation System for the CAS). As at 31 December 2017 expenditures were incurred in the amount of PLN 2 597 million, including PLN 311 million in 2017.

in PLN millions, unless otherwise stated

Change in the L-VI shaft's function to a material – transport shaft	In 2017, work on the project included construction of the following: cable channels, container stations ST-1 and ST-2 and a 110 kV power line. Demolition of existing facilities within the region of the L-VI shaft was performed and the framework of the L-VI shaft's hoisting tower was disassembled. Foundations for the exchanging of lines were laid. At the L-VI foreshaft, the shaft sump of the L-VI shaft was cleaned and a technological basement was built. Stations and waiting rooms for the mine's employees were built. Construction of the building for the shaft top of the L-VI shaft is currently underway for the target period as well as construction of the administration-social building. As at 31 December 2017 expenditures were incurred in the amount of PLN 115 million, including PLN 71 million up to December 2017.
Drilling of drift tunnels using a combines team	In 2017, based on the knowledge and experience gained, the results of the researched technology were summarised, presenting variants and directions of future work with respect to the industrial implementation of technology for mechanically excavating drifts using a combines team in the mines of KGHM Polska Miedź S.A. A decision as to the eventual continuation of the industrial implementation of the developed technology will be made in 2018. As at 31 December 2017, expenditures were incurred in the amount of PLN 59 million, including PLN 0.8 million in 2017.
Modernisation of classification systems in the Concentrators Division	In 2017, 9 hydrocyclone batteries were built and brought on line. Work continues as regards the construction of classification systems, and design work was completed. As at 31 December 2017 expenditures were incurred in the amount of PLN 96 million, including PLN 35 million in 2017.
Metallurgy Development (PLN 516 million)	
Pyrometallurgy Modernisation Program (PMP)	Work is underway related to the review and approval of post-construction documentation together with documents for obtaining operating permits. The process of reporting the completion of work to government authorities and obtaining operating permits is underway. Nearing completion are settlement procedures and the final handovers of contracts and orders. The handover of fixed assets is underway. As at 31 December 2017, expenditures were incurred in the amount of PLN 2 274 million, including PLN 73 million in 2017.
Metallurgy Development Program	The Program was commenced in 2015 under which the following projects were advanced: – Modernisation of the Electrorefining installation at the Głogów I Copper Smelter and Refinery, – The steam drier at the Głogów II Copper Smelter and Refinery, – The Cu concentrate roasting installation, – Adaptation of existing infrastructure with respect to replacing fixed assets, – Adaptation of existing facilities to EU laws and other legal requirements, – Adaptation of power, roadway and other infrastructure at Głogów I, – Adaptation of infrastructure with respect to power, control and lighting systems of existing facilities and equipment at Głogów I, – Development of various documentation for the melting of scrap using the flash furnace technology of Głogów I and II, – Investments associated with the Głogów Copper Smelter and Refinery – Modernisation of the Tank and Electrolite Decopperisation Hall at the Legnica Copper Smelter and Refinery. Projects related to adapting technical infrastructure to the changes in metallurgical technology at the Głogów I Copper Smelter and Refinery were continued, based on implementing technical-technological changes aimed at optimising the utilisation of the modernised metallurgical infrastructure in terms of investment projects at the Głogów Copper Smelter and Refinery currently being advanced. As at 31 December 2017, expenditures were incurred in the amount of PLN 1 140 million, including PLN 311 million in 2017.
Increasing production capacity to 160 thousand tonnes of copper cathode annually at the Legnica Copper Smelter and Refinery (HML160)	The project comprises the following two tasks: – The Reverberatory-Melting-Refining Furnace (RMR), – Modernisation of the Copper Electrorefining Unit. In 2017, work mainly involved the holding of tenders for the supply of technology and equipment as well as obtaining permits to build the furnace. As at 31 December 2017, expenditures were incurred in the amount of PLN 13 million.
Other Development (PLN 11 million)	
Exploration Development (PLN 28 million)	
Exploration projects	**Gaworzyce-Radwanice** – in February 2017 a mining usufruct agreement was signed for the extraction of copper ore from the Radwanice-Gaworzyce deposit in the Gaworzyce region, and a concession was obtained for the extraction of copper ore from this region. **Synklina Grodziecka, Konrad** – in August 2017 a decision was obtained extending the Konrad concession until the year 2020. The process of extending the Synklina Grodziecka concession is underway. Further hydrogeological research is being conducted. At the end of the fourth quarter of 2017, supplements to the geological documentation for the Wartowice and Niecka Grodziecka deposits were prepared and obtained, which will be updated with the results of research carried out up to 2020.

Retków-Ścinawa and Głogów – in April 2017, a decision was issued by the Ministry of Environment on the Retków-Ścinawa concession, amending the concession and granting the right to begin work on stage II, comprising such work as surface-based drillholes and underground mine chambers/tunnels, representing a significant supplement to the knowledge of the geological-mining conditions. With respect to advancement of this stage, in 2017 three exploratory drillholes were sunk.

With respect to the Głogów concession, geological and engineering laboratory work was continued on the core samples taken. In addition, on 20 March 2017 the Minister of the Environment issued a decision amending the conditions of the concession to explore and document the Głogów copper ore deposit, which will enable commencement of stage II of the geological work.

Bytom Odrzański, Kulów–Luboszyce – Court and administrative proceedings concluded with the dismissal by the Supreme Administrative Court of the claims of KGHM against the judgment of the Regional Administrative Court regarding the concessions, meaning that the concessions applications submitted by the applicants will be referred back to the Minister of the Environment.

Puck region – sinking of the Parszkowo IG-2 drillhole within the concession was completed and preparations were commenced to sink the next drillhole - Mieroszyno IG-11. Detailed analysis and interpretation of the data was carried out.

In the years 2010-2017, PLN 351 million, including PLN 28 million in 2017, was incurred on exploration projects.

8. Economic results of KGHM INTERNATIONAL LTD.

8.1. Production

Table 27. Production of KGHM INTERNATIONAL LTD.

	Unit	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Payable copper, including:	**kt**	**81.0**	**89.8**	**(9.8)**	**20.4**	**21.9**	**21.5**	**17.2**
- Robinson mine (USA)	kt	48.8	53.7	(9.1)	11.3	13.8	13.7	10.0
- Sudbury Basin mines (CANADA) *	kt	9.4	14.4	(34.7)	2.9	2.2	2.4	1.9
Payable nickel	**kt**	**1.1**	**2.1**	**(47.6)**	**0.2**	**0.3**	**0.3**	**0.3**
Precious metals (TPM), including:	**koz t**	**74.0**	**92.1**	**(19.7)**	**18.8**	**19.4**	**21.3**	**14.5**
- Robinson mine (USA)	koz t	35.2	46.2	(23.8)	8.8	10.9	9.0	6.5
- Sudbury Basin mines (CANADA) *	koz t	38.8	46.0	(15.7)	10.0	8.5	12.3	8.0

** Mines: Morrison and McCreedy West in the Sudbury Basin*
*** TPM – precious metals (gold, platinum, palladium)*

Copper production in the segment KGHM INTERNATIONAL LTD. in 2017 amounted to 81 thousand tonnes, or a decrease by 8.8 thousand tonnes (-10%) as compared to 2016.

The Robinson mine recorded a decrease in copper production by 4.9 thousand tonnes (-9%), which was the result of processing lower quality ore extracted from the higher levels of the Ruth West pit (in 2016 the ore extracted came from the Ruth East pit). There was a decrease in the content of this metal in ore (-4%) as well as in its recovery through processing (-8%), which was partially offset by growth in the volume of ore processed (+4%). In addition, the ore processed had lower gold content (-30%), which was reflected in a decrease in precious metals production by 11 thousand troy ounces (-24%).

Despite the small increase in the volume of ore extracted from the Sudbury Basin mines (+1%), due to the decrease in metals content in ore (including copper by 36%) copper production decreased by 4.9 thousand tonnes (-34%) and precious metals by 7.2 thousand troy ounces (-16%).

8.2. Sales revenue

Table 28. Volume and sales revenue of KGHM INTERNATIONAL LTD. (USD million)

	Unit	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Sales revenue*, including:	**USD mn**	**695**	**639**	**+8.8**	**224**	**168**	**159**	**144**
- copper	USD mn	454	381	+19.2	160	107	94	93
- nickel	USD mn	12	21	(42.9)	3	3	3	3
- TPM – precious metals	USD mn	99	103	(3.9)	29	25	29	16
Copper sales volume	kt	80.0	90.2	(11.3)	25.4	18.2	19.2	17.2
Nickel sales volume	kt	1.1	2.1	(47.6)	0.3	0.2	0.3	0.3
TPM sales volume	koz t	72.6	94.3	(23.0)	21.8	17.1	19.9	13.8

** reflects processing premium*

Table 29. Volume and sales revenue of KGHM INTERNATIONAL LTD. (PLN million)

	Unit	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Sales revenue *, including:	**PLN mn**	2 602	2 535	+2.6	809	612	601	580
- copper	PLN mn	1 702	1 510	+12.7	583	390	355	374
- nickel	PLN mn	46	83	(44.6)	12	11	11	12
- TPM – precious metals	PLN mn	371	409	(9.3)	105	91	111	64

** reflects processing premium*

The sales revenue of the segment KGHM INTERNATIONAL LTD. in 2017 amounted to USD 695 million, and increased by USD 56 million (+9%) as compared to 2016 due to more favourable macroeconomic conditions, whose positive impact was partially limited by a decrease in metals sales volumes.

Revenues from the sale of copper increased by USD 73 million (+19%) due to a higher achieved copper sales price, which in 2017 amounted to 6 315 USD/t (as compared to 5 004 USD/t in 2016), which was partially limited by a decrease in the sales volume of this metal by 10.2 thousand tonnes (-11%).

Due to a decrease in the volume of precious metals sales by 21.7 thousand troy ounces (-23%) revenues from their sales decreased by USD 4 million (-4%).

8.3. Costs

Table 30. C1 unit cost of KGHM INTERNATIONAL LTD.

	Unit	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
C1 unit cost*	USD/lb	1.92	1.63	+17.8	1.81	1.90	1.72	2.35

** C1 unit production cost of copper - cash cost of payable copper production, reflecting costs of ore extraction and processing, the minerals extraction tax, transport costs, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value*

The weighted average unit cash cost of copper production for all operations in the segment KGHM INTERNATIONAL LTD. in 2017 amounted to 1.92 USD/lb, or an increase by 18% as compared to 2016. The increase in C1 cost was due to the decrease in copper sales volume as well as lower revenues from the sale of by-products (which they decrease).

8.4. Financial results

Table 31. Financial results of KGHM INTERNATIONAL LTD. (USD million)

	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Sales revenue	695	639	+8.8	224	168	159	144
Cost of sales, selling costs and administrative expenses, including:*	(526)	(678)	(22.4)	(112)	(137)	(133)	(144)
- recognition/reversal of impairment losses on non-current assets	74	(64)	x	74	-	-	-
Profit/(loss) on sales (EBIT)	**169**	**(39)**	**x**	**112**	**31**	**26**	**(0)**
Profit/(loss) before income tax, including:	**(336)**	**(1 682)**	**(80.0)**	**(221)**	**(11)**	**(66)**	**(38)**
- share of losses, impairment loss on investments accounted for using the equity method	(127)	(302)	(57.9)	(72)	-	(55)	-
Income tax expense	179	32	x5.6	200	(5)	(14)	(2)
Profit/(loss) for the period	**(157)**	**(1 650)**	**(90.5)**	**(21)**	**(16)**	**(80)**	**(40)**
Depreciation/amortisation recognised in profit or loss	(94)	(130)	(27.7)	(31)	(21)	(23)	(19)
EBITDA**	263	91	x2.9	143	52	49	19
Adjusted EBITDA* **	**189**	**155**	**+21.9**	**69**	**52**	**49**	**19**
EBITDA margin (%)	**27**	**24**	**+12.5**	**31**	**31**	**31**	**13**

Table 32. Financial results of KGHM INTERNATIONAL LTD. (PLN million)

	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Sales revenue	2 602	2 535	+2.6	809	612	601	580
Cost of sales, selling costs and administrative expenses, including:*	(1 989)	(2 706)	(26.5)	(413)	(496)	(499)	(581)
- recognition/reversal of impairment losses on non-current assets	257	(268)	x	257	-	-	-
Profit/(loss) on sales (EBIT)	**613**	**(171)**	**x**	**396**	**116**	**102**	**(1)**
Profit/(loss) before taxation, including:	**(1 231)**	**(6 965)**	**(82.3)**	**(788)**	**(39)**	**(252)**	**(152)**
- share of losses, impairment loss on investments accounted for using the equity method	(474)	(1 199)	(60.5)	(260)	-	(214)	-
Income tax expense	670	137	x4.9	748	(15)	(55)	(8)
Profit/(loss) for the period	**(561)**	**(6 828)**	**(91.8)**	**(40)**	**(54)**	**(307)**	**(160)**
Depreciation/amortisation recognised in profit or loss	(351)	(517)	(32.1)	(113)	(75)	(87)	(76)
EBITDA**	964	346	x2.8	509	191	189	75
Adjusted EBITDA* **	**707**	**614**	**+15.1**	**252**	**191**	**189**	**75**
EBITDA margin (%)	**27**	**24**	**+12.5**	**31**	**31**	**31**	**13**

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

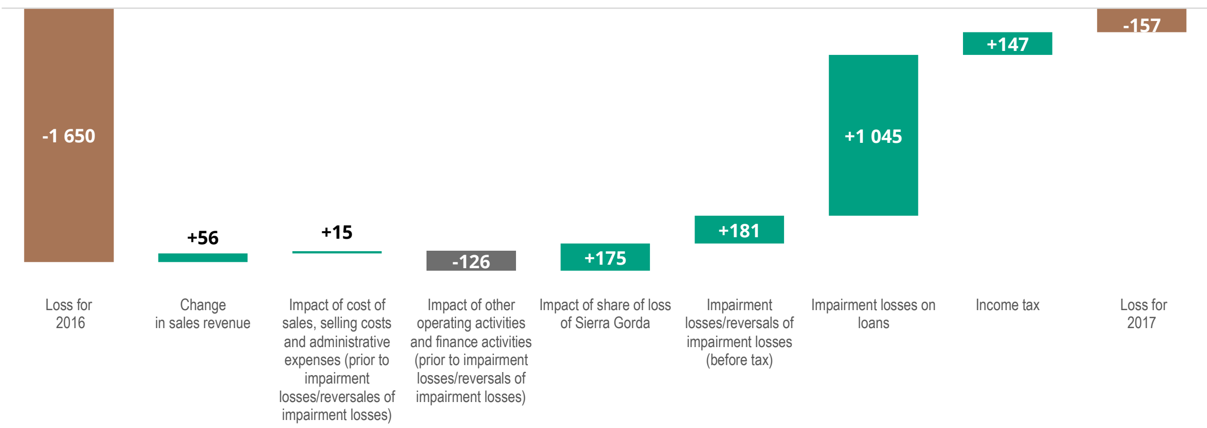
*** EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)*

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

Table 33. Key factors impacting the change in financial result of KGHM INTERNATIONAL LTD.

Item	Impact on change of profit or loss (USD million)	Description
Increase in sales revenue by USD 56 million, including:	+129	Higher revenues due to higher prices of basic products, mainly copper (+USD 118 million), TPM (+USD 7 million) and nickel (+USD 2 million).
	+19	Higher revenues due lower processing premium due to lower sales volumes.
	(102)	Lower revenues due to lower sales volumes, including copper (-USD 64 million), TPM (-USD 11 million) and nickel (-USD 10 million).
Lower cost of sales, selling costs and administrative expenses by USD 152 million, including:	+21	Lower level of depreciation/amortisation due to impairment losses on assets recognised at the end of 2016 and lower production volumes in the Robinson mine and in the Sudbury Basin mines (depreciation/amortisation by the unit of production method).
	+13	A change in inventories.
	+138	Recognition/reversal of impairment loss on assets in 2017 (+USD 74 million), Impairment loss in 2016 (-USD 64 million).
	(11)	Higher external services costs, including USD 5 million related to the Robinson mine and USD 3 million due to an increased scope of work carried out by subcontractors of DMC.
Impact of other operating activities and finance activities (+USD 963 million), including:	+1 045	Impairment allowance on loans, mainly due to lack of an impairment allowance on the loan granted to Sierra Gorda S.C.M., which in 2016 amounted to -USD 1 051 million.
	(84)	Higher financing costs – higher interest on loans.
	(75)	Lower income due to interest on loans granted to Sierra Gorda S.C.M. due to impairment allowance recognised at the end of 2016 on loans granted to this company.
Share of losses of entities accounted for using the equity method (+USD 175 million)	+175	Share of the loss of Sierra Gorda S.C.M. recognised in 2017 in the amount of the financing granted, i.e. in the amount of USD 127 million (the carrying amount of the shares of Sierra Gorda S.C.M. as at 31 December 2017 amounted to USD 0 million) as compared to the loss recognised in the comparable period of the prior year amounting to USD 302 million.
Income tax	147	Changes mainly due to deferred income tax, of which mainly due to write-off of interest on loans.

Chart 32. Change in profit or loss of KGHM INTERNATIONAL LTD. (USD million)



8.5. Cash expenditures

Table 34. Cash expenditures of KGHM INTERNATIONAL LTD. (USD million)

	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Victoria project	5	21	(76.2)	1	1	1	2
Sierra Gorda Oxide project	2	8	(75.0)	0	1	0	1
Pre-stripping and other	136	72	+88.9	48	34	37	17
Ajax project	3	8	(62.5)	0	1	1	1
Total	**147**	**108**	**+36.1**	**50**	**37**	**39**	**21**
Financing for Sierra Gorda S.C.M.	127	165	(23.0)	72	-	55	-

Table 35. Cash expenditures of KGHM INTERNATIONAL LTD. (PLN million)

	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Victoria project	19	84	(77.4)	4	4	3	8
Sierra Gorda Oxide project	8	30	(73.3)	0	4	2	2
Pre-stripping and other	511	284	+79.9	177	124	142	68
Ajax project	11	31	(64.5)	0	3	3	5
Total	**549**	**430**	**+27.7**	**181**	**135**	**150**	**83**
Financing for Sierra Gorda S.C.M.	474	655	(27.6)	260	-	214	-

Cash expenditures by the segment KGHM INTERNATIONAL LTD. in 2017 amounted to USD 147 million, or an increase by USD 39 million (+36%) as compared to 2016.

Nearly 80% of cash expenditures were incurred by the Robinson mine and were mainly due to pre-stripping work. The higher cash expenditures as compared to 2016 involved work comprising pre-stripping as well as dewatering in the Robinson mine.

Cash expenditures by the segment KGHM INTERNATIONAL LTD. related to projects in 2017 amounted to USD 10 million, including USD 5 million related to the Victoria project (work related to securing existing infrastructure), USD 3 million incurred on the Ajax project and USD 2 million on the Sierra Gorda Oxide project.

In the second and fourth quarters KGHM INTERNATIONAL LTD. financed the Sierra Gorda mine in the total amount of USD 127 million to cover the repayment of a bank loan drawn to build the mine.

9. Economic results of Sierra Gorda S.C.M.

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

The following production and financial data are presented on a 100% basis for the joint venture and proportionally to the interest in the company Sierra Gorda S.C.M. (55%), pursuant to the methodology of presentation of data in note 2.2 of the consolidated financial statements.

9.1. Production

In 2017, Sierra Gorda S.C.M. improved its production results in terms of copper as well as molybdenum. Production as compared to the volumes recorded in 2016 increased respectively by 4% (Cu) and 62% (Mo).

Table 36. Production* of copper, molybdenum and precious metals in Sierra Gorda S.C.M.

		2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Copper production	kt	97.1	93.7	+3.6	24.3	23.4	23.9	25.5
Copper production – segment (55%)	kt	53.4	51.5	+3.6	13.4	12.8	13.2	14.0
Molybdenum production	mn lbs	35.7	22.1	+61.5	5.9	6.2	14.8	8.8
Molybdenum production – segment (55%)	mn lbs	19.7	12.2	+61.5	3.3	3.4	8.2	4.8
TPM production – gold	koz t	50.9	41.7	+22.1	11.2	15.2	13.1	11.4
TPM production – gold – segment (55%)	koz t	28.0	22.9	+22.1	6.1	8.4	7.2	6.3

** Payable metal in concentrate.*

In the fourth quarter of 2017, copper production amounted to 24.3 thousand tonnes and was at the average level for the year (average for the four quarters: 24.3 thousand tonnes Cu). There was a deterioration in terms of molybdenum, production of which in the fourth quarter of 2017 was lower as compared to the other quarters of 2017 due to advancement of the extraction plan, reflecting a lower content of this metal in extracted resources at year's end.

There was improvement in the efficiency of utilisation of production assets as compared to 2016, and as a result there were fewer breakdowns and unplanned stoppages, and consequently a higher capacity to process ore. In 2017 tests were conducted involving controlled amounts of new reagents, the results of which had a positive impact on concentrate quality and Cu recovery. Production of payable copper in the period January-December 2017 amounted to 97.1 thousand tonnes, or an improvement as compared to the amount recovered in 2016 by 4%. The increase in the production result was due to the higher amount of ore processed (+1%) and higher copper recovery (+7%), alongside a lower Cu content in ore (-4%).

In addition, as a result of the technological solutions applied, substantial progress with respect to molybdenum flotation recovery was achieved – an increase of 66% as compared to the amount achieved in 2016. At the same time, production of payable molybdenum increased during the year by 62%.

9.2. Sales

In 2017, sales revenues less treatment and refining charges (TC/RC) amounted to USD 968 million, of which 59% represented copper sales revenue, and 33% molybdenum sales revenue. Sales revenue of the segment, pursuant to the interest of KGHM Polska Miedź S.A. (55%), amounted to PLN 1 993 million.

Table 37. Sales volume and revenue* of Sierra Gorda S.C.M.

		2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Sales revenue, of which:	**USD mn**	**968**	**639**	**+51.5**	**282**	**281**	**197**	**208**
- copper	USD mn	574	410	+40.0	156	156	120	142
- molybdenum	USD mn	315	159	+98.1	108	101	58	48
Copper sales volume	kt	98.4	94.6	+4.0	23.7	24.7	23.5	26.5
Molybdenum sales volume	mn lbs	35.3	24.2	+45.9	11.2	11.0	8.5	4.6
Sales revenue – segment (55% share)	PLN mn	**1 993**	**1 394**	**+43.0**	**557**	**568**	**409**	**459**

**Revenues from metals sales reflecting treatment/refining and other charges*

The market situation at the end of 2017 remained favourable for producers of copper and molybdenum, enabling Sierra Gorda S.C.M. to achieve revenues from the sale of copper in the fourth quarter at the level recorded in the third quarter of 2017 and to increase revenues from the sale of molybdenum by 7%.

The relatively higher prices of copper and molybdenum were also one of the main reasons for the increase in sales revenue for all of 2017 – an increase by 52% as compared to 2016. In addition, the increase in the amount of Cu (+4%) and Mo (+46%) sold had a positive impact. The increase in the volume of molybdenum sales is the direct result of the aforementioned improvement in efficiency in the production of this metal.

The impact of the main factors responsible for the increase in sales revenue during the year is described below in the part describing the segment's financial results.

9.3. Costs

The cost of sales, selling costs and administrative expenses in 2017 amounted to USD 898 million, of which USD 61 million were selling costs, and USD 49 million administrative expenses.

Table 38. Costs (prior to the impairment loss on non-current assets) and unit production cost of copper (C1) of Sierra Gorda S.C.M.

		2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Cost of sales, selling costs and administrative expenses	USD mn	898	938	(4.3)	226	266	214	192
Cost of sales, selling costs and administrative expenses – segment (55% share)	PLN mn	1 849	2 048	(9.7)	443	535	446	425
C1 unit cost*	**USD/lb**	**1.67**	**1.96**	**(14.8)**	**1.44**	**1.62**	**1.66**	**1.94**

** C1 unit production cost of copper - cash cost of payable copper production, reflecting costs of ore extraction and processing, the minerals extraction tax, transport costs, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value*

In the fourth quarter of 2017, Sierra Gorda S.C.M. achieved a cost of sales, selling costs and administrative expenses in the amount of USD 226 million, or slightly above the average level, which amounted to USD 225 million (average for the four quarters of 2017). Meanwhile, as compared to the prior, third quarter of 2017, there was a decrease by 15%, resulting mainly from advancement of the planned, increased scope of mine development work to access future ore, and at the same time higher capitalisation of pre-stripping costs at the end of 2017 and lower depreciation/amortisation costs.

There was also an improvement on a yearly basis – as compared to 2016, cost of sales, selling costs and administrative expenses were lower by 4%, mainly with respect to depreciation/amortisation costs (-42%) due to the impairment loss on non-current assets recognised at the end of 2016. Amongst the remaining expenses by nature, the largest changes were with respect to:

- depreciation/amortisation costs – a decrease by 42% due to the impairment loss on non-current assets recognised at the end of 2016.
- external services costs – an increase by 14% due to a higher scope of roadway transport (longer travel routes and a higher number of vehicles as compared to 2016), the planned shutdown of the ore processing plant in May and also a conveyor belt breakdown. The aforementioned factors led to higher maintenance costs, which are executed by contracts.
- energy costs – an increase by 46% mainly due to higher production, an increase in coal prices, the tax on carbon dioxide emissions and higher fixed costs associated with energy transmission,
- fuel and oil costs – an increase by 43% due to higher fuel prices and higher consumption due to the lengthening of ore transport roads,
- costs of external molybdenum concentrate processing – a more than doubled increase in costs due to higher molybdenum production by 62%,

The aforementioned factors had a significant impact on the increase in unit costs in the mine (per tonne of extracted ore) and processing costs (per tonne of processed ore) as compared to 2016. At the same time, the increase in prices and in molybdenum sales led to a lower cash cost of copper production (C1) by 15% (revenues from the sale of Mo together with other associated metals are deducted in the calculation of C1). The increase in copper sales volume by 4% also had a positive impact.

In the fourth quarter of 2017, Sierra Gorda S.C.M. made a change to the method of calculating C1 cost by including in the calculations changes in inventories and work in progress of materials used by an external contractor in the molybdenum concentrate enrichment process. In light of the above, there was a change to the C1 cost presented in the consolidated half-year report and in the report for the third quarter of 2017. The scope of changes is shown in the following table.

Table 39. Change in C1 cost presented in the consolidated half-year report and the report for the third quarter of 2017.

	Unit	3 quarters 2017 accrued	3Q'17	1st half 2017	2Q'17	1Q'17
Presented in previous reports	USD/lb	1.68	1.56	1.74	1.53	1.94
Reflecting change in methodology	**USD/lb**	**1.74**	**1.62**	**1.81**	**1.66**	**1.94**

Inclusion of the changes in inventories and work in progress does not have a significant impact on average costs over the long term, but does result in a change in C1 in individual quarters.

9.4. Financial results

Statement of profit or loss

In 2017, adjusted EBITDA amounted to USD 296 million, of which proportionally to the interest held (55%) PLN 609 million relates to the KGHM Group.

Table 40. Results of Sierra Gorda S.C.M. in USD million (on a 100% basis)

	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Sales revenue	968	639	+51.5	282	281	197	208
Cost of sales, selling costs and administrative expenses, including:	(898)	(3 836)	(76.6)	(226)	(266)	(214)	(192)
impairment loss on non-current assets	-	(2 898)	x	-	-	-	-
Profit/(loss) on sales (EBIT)	**70**	**(3 198)**	**-**	**56**	**15**	**(17)**	**16**
Profit/(loss) for the period	**(255)**	**(2 643)**	**(90.4)**	**(37)**	**(69)**	**(84)**	**(65)**
Depreciation/amortisation recognised in profit or loss	(226)	(386)	(41.5)	(60)	(73)	(53)	(40)
EBITDA*	296	(2 811)	-	116	89	36	55
Adjusted EBITDA **	**296**	**87**	**× 3.4**	**116**	**89**	**36**	**55**

Table 41. Results of the segment Sierra Gorda S.C.M. proportionally to the interest held (55%) in PLN million

	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Sales revenue	1 993	1 394	+43.0	557	568	409	459
Cost of sales, selling costs and administrative expenses, including:	(1 849)	(8 710)	(78.8)	(443)	(535)	(446)	(425)
impairment loss on non-current assets	-	(6 662)	-	-	-	-	-
Profit/(loss) on sales (EBIT)	**144**	**(7 316)**	**-**	**114**	**33**	**(37)**	**34**
Profit/(loss) for the period	**(525)**	**(6 015)**	**(91.3)**	**(69)**	**(136)**	**(177)**	**(143)**
Depreciation/amortisation recognised in profit or loss	(465)	(843)	(44.8)	(117)	(150)	(110)	(88)
EBITDA*	609	(6 473)	-	231	183	73	122
Adjusted EBITDA **	**609**	**189**	**× 3.2**	**231**	**183**	**73**	**122**
EBITDA margin (%)	**31**	**14**	**× 2.2**	**41**	**32**	**18**	**27**

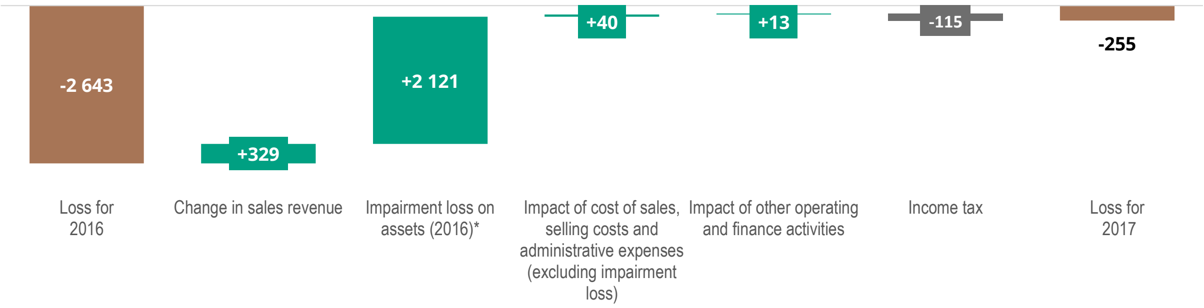
** EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)*
*** Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)*

In the fourth quarter of 2017, Sierra Gorda S.C.M. improved EBITDA by 30% (fourth quarter versus third quarter of 2017), due to the aforementioned decrease in costs, alongside a similar level of sales revenue. There was however a decided improvement in full-year adjusted EBITDA (a more than tripled increase as compared to 2016) which was mainly due to higher sales revenue by 52% due to higher prices and to an increase in the volumes of Mo and Cu sales. The following table, which shows the change in profit or loss, summarises the most important factors affecting revenues and costs, and therefore EBITDA.

Main factors responsible for the change in profit or loss:

Item	Impact on change of profit or loss (in USD million)	Description
Higher sales revenue by USD 329 million, including:	+136	Higher revenues due to higher copper prices
	+100	Higher revenues due to a higher molybdenum sales volume
	+55	Higher revenues due to higher molybdenum prices
	+24	Higher revenues due to higher copper sales volume
	+15	Other factors, mainly higher revenues from gold sales and lower processing premium
Lower cost of sales, selling costs and administrative expenses by USD 2 939 million, including:	+2 898	Impairment loss on non-current assets at the end of 2016 (in 2017 there were no indicators of impairment)
	+161	Lower depreciation/amortisation due to impairment loss on non-current assets as at 31 December 2016
	(65)	Higher costs of energy, fuel and oil
	(26)	Higher costs of enriching Mo concentrate by the external contractor due to higher molybdenum production in Sierra Gorda S.C.M.
	+8	Lower costs of materials and spare parts
	(26)	Change in inventories
	(11)	Lower costs of pre-stripping, subject to capitalisation
Impact of other operating activities – an increase in the result by USD 52 million	+52	Mainly due to lack of an impairment loss (in 2016 the impairment loss in other operating costs amounted to USD 29 million) and lower penalties by USD 17 million due to substantial improvement in molybdenum concentrate quality in 2017
A decrease in the result on finance activities by USD 10 million	(10)	Above all higher accrued interest on Owner loans for mine construction
Income tax – a decrease in the result by USD 921 million	(921)	Lower loss before taxation

Chart 33. Change in profit/loss for the period of Sierra Gorda S.C.M. (USD million)



**net impairment loss on non-current assets at the end of 2016, increasing costs of sales, selling costs and administrative expenses and of other operating costs, and reflecting taxation.*

In 2017, Sierra Gorda S.C.M. had a positive result on operating activities, with a loss for the period of USD 255 million which was primarily due to accrued interest on Owner loans for mine construction.

Sierra Gorda S.C.M. evaluated those indicators which have a significant impact on the value of the company's non-current assets, including the technological parameters of the mine and ore processing plant, the levels of production and metals sales, and also forecasted metals prices and production costs during the life of the mine. As a result of this analysis it was determined that, as at 31 December 2017, there were no indicators to conduct testing of the value of property, plant and equipment. There were also no indicators permitting a reversal of impairment losses recognised in prior years.

Cash expenditures

In 2017, cash expenditures on property, plant and equipment and intangible assets amounted to USD 274 million, of which 72% were cash expenditures incurred on pre-stripping to gain access to further areas of the deposit. The increase in cash expenditures by 2% as compared to 2016 was mainly due to the mine's higher unit cost, representing the basis for evaluating capitalised pre-stripping costs to gain access to deposit for future extraction.

Table 42. Cash expenditures of Sierra Gorda S.C.M.

		2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Cash expenditures on property, plant and equipment	USD mn		268	+2,2	91	52	65	66
Cash expenditures on property, plant and equipment	PLN mn	1 026	1 065	(3,7)	331	183	245	267
Cash expenditures on property, plant and equipment – segment (55% share)	PLN mn	564	586	(3,8)	182	100	135	147

The main source of financing investments was the inflow from operating activities. Due to the schedule for repaying the loan drawn to build the mine (Project Finance) and other financial expenses, Sierra Gorda S.C.M. required financing in the form of an increase in share capital in the amount of USD 230 million, of which USD 127 million came from the KGHM Polska Miedź S.A. Group (in 2016 respectively USD 300 million and USD 165 million). The decrease in financing was made possible by the increase in metals prices as well as by the higher volumes of Cu and Mo sales, as well as by a substantial improvement in operating inflows as compared to 2016.

In 2017, similarly as in 2016, there was no financing in the form of an owner loan. As at 31 December 2017, the carrying amount of the loan amounted to USD 4 092 million, while its increase by USD 312 million as compared to the end of 2016 was mainly due to accrued interest.

There was a change in the nature of the bank loan granted by Japanese banks under the financing to build the mine. In accordance with the new terms, as at 30 June 2017, the existing obligations and limitations of Sierra Gorda S.C.M. were reduced. As at 31 December 2017, the amount of USD 710 million remained to be paid under the bank loan agreement.

10. Financial results of other segments

Companies in the remaining segments are very diversified in their operations. Among others they are of an equity investment nature, as well as playing an important role in fulfilling the policy of corporate social responsibility. This segment also includes companies which are to be restructured and divested. The segment in addition includes closed-end non-public investment funds and their portfolio companies (including those forming the Polska Grupa Uzdrowisk (Polish Spa Group)).

Table 43. Financial results of other segments (prior to consolidation adjustments)

	2017	2016	Change (%)	4Q'17	3Q'17	2Q'17	1Q'17
Sales revenue	6 476	6 409	+1.0	1 752	1 631	1 485	1 608
- including from external clients	2 012	1 744	+15.4	529	491	459	533
Profit/(loss) on sales (EBIT)	55	77	(28.6)	(16)	17	32	22
Profit/(loss) for the period	**51**	**(235)**	×	**(35)**	**(11)**	**51**	**46**
Depreciation/amortisation recognised in profit or loss	(234)	(236)	(0.8)	(60)	(55)	(61)	(58)
EBITDA*	**289**	**313**	**(7.7)**	**44**	**72**	**93**	**80**
Adjusted EBITDA ***	**289**	**312**	**(7.4)**	**44**	**72**	**93**	**80**

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

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

In 2017, other segments earned a profit on sales, prior to recognition of consolidation adjustments, in the amount of PLN 55 million, which was an improvement as compared to 2016 by PLN 22 million. At the level of profit or loss for the period, a profit for the period was recorded in the amount of PLN 51 million, versus a loss of -PLN 235 million in 2016.

11. Ownership structure and share price of the Company KGHM Polska Miedź S.A. on the Stock Exchange

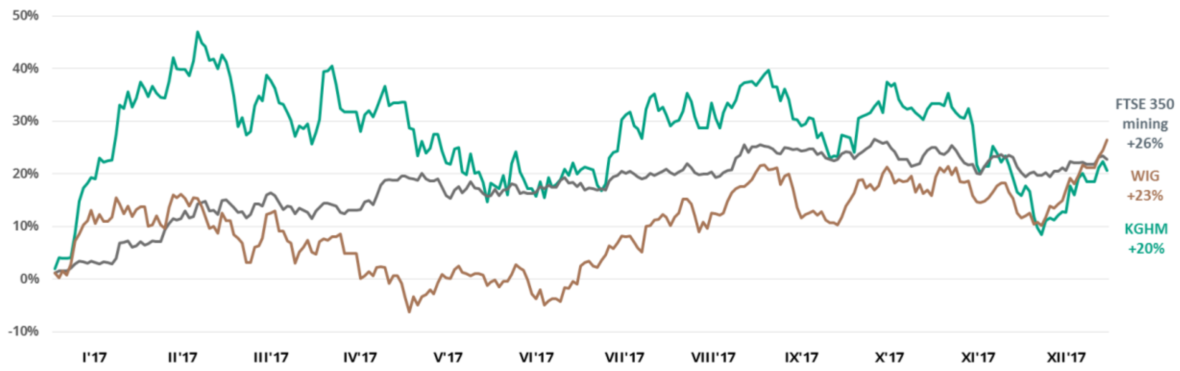
11.1. The Company on the stock exchange

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 of the WSE in the continuous trading system and are a component of the WIG, WIG20 and WIG30 indices. Continuously since 2009, the Company has participated in the group of socially responsible companies, quoted within the RESPECT Index. The Company's shares are included in the WIG-mining ("WIG-GÓRNICTWO") sector index and the WIGdiv index.

2017 was a successful year for the shares of KGHM Polska Miedź S.A. on the WSE. During the year the price of the Company's shares rose by 20%, from PLN 92.48 on 30 December 2016 to PLN 111.20 at the end of 2017. During the same period the price of copper – the Company's main product – increased by 30%, alongside depreciation of the USD to the PLN by 17%. At the same time the WSE's main indices rose: the WIG by 23%, the WIG20 by 26%, and the WIG30 by 26%, while the percentage change in the FTSE 350 Mining index - comprised of companies from the mining sector, listed on the London Stock Exchange - amounted to 26%.

On 21 February 2017, the Company's shares reached their yearly maximum closing price of PLN 135.50. The minimum closing price of PLN 92.17 was recorded on 2 January 2017.

Chart 34. 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 2016-2017 are presented in the following table:

Table 44. Key share price data of the Company on Warsaw Stock Exchange

Symbol: KGH, ISIN: PLKGHM000017	Unit	2017	2016
Number of shares issued	million	200	200
Market capitalisation of the Company at year's end	PLN billion	22.2	18.5
Average trading volume per session	units	790 249	1 089 209
Turnover value	PLN million	23 251.15	19 662.30
Change in share price from the end of the prior year	%	+20.24	+45.66
Highest closing price during the year	PLN	135.50	97.95
Lowest closing price during the year	PLN	92.17	52.29
Closing price from the last day of trading in the year	PLN	111.20	92.48

Source: Own work based on WSE Statistic Bulletin for 2016 and 2017

11.2. 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 Polska Miedź S.A., 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 Polska Miedź S.A.'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.

The Company fulfils its disclosure obligations by publishing regulatory filings and periodic reports via the official reporting system (ESPI). The Company's representatives communicate with investors by regular participation in investor conferences and meetings with investors and analysts both in Poland and abroad. Another form of communication by the Company with the market are conference calls and video conferences organised in response to stakeholder needs.

Publication of the Company's 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 reports, information on the shareholder structure, documents related to general meetings and corporate governance, as well as presentations and videos for investors.

Sell-side reports on KGHM Polska Miedź S.A. were published by 12 analysts based in Poland and 9 based abroad.

Table 45. Financial institutions which prepare reports on KGHM Polska Miedź S.A.

Poland		
Dom Maklerski Banku Handlowego	Dom Maklerski BOŚ	Dom Maklerski BZ WBK
Dom Maklerski mBanku	Erste Group	IPOPEMA Securities
JP Morgan	Pekao Investment Banking	PKO Dom Maklerski
Societe Generale	Trigon Dom Maklerski	Vestor Dom Maklerski S.A.
Abroad		
Bank of America Merrill Lynch	BMO	EVA Dimensions
Global Mining Research	Goldman Sachs	Morgan Stanley
Raiffeisen	UBS	WOOD & Company

11.3. Dividend

In accordance with the Resolution of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 21 June 2017 regarding the dividend payout from prior years' profits, setting the dividend date and the dividend payment date, the amount of PLN 200 million was allocated as a shareholder dividend, amounting to PLN 1.00 PLN per share. The dividend date (the day on which the right to dividend is set) was set at 14 July 2017 with the dividend being paid in two instalments: 17 August 2017 – the amount of PLN 100 million (or PLN 0.50 per share) and 16 November 2017 – the amount of PLN 100 million (or PLN 0.50 per share).

Table 46. Dividend paid in the years 2016 – 2017

	Unit	2017	2016
Dividend paid in the financial year from prior years' profit	PLN million	200	300
	PLN/share	1.00	1.50
Dividend yield*	%	0.9	1.6

** dividend per share paid in the given financial year divided by the closing price in the last trading day in the given financial year*

The final decision regarding the amount of dividends paid is made by the General Meeting of KGHM Polska Miedź S.A.

11.4. Ownership structure and the Company's outstanding shares

As at 31 December 2017, 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, fully paid, 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 2017, 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 Company's shareholder structure as at 31 December 2017 and at the date this report was signed was as follows:

Table 47. Shareholder structure as at 31 December 2017 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%
Nationale-Nederlanden Otwarty Fundusz Emerytalny (managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.)**	10 104 354	5.05%
Other shareholders	126 305 746	63.16%
Total	**200 000 000**	**100.00%**

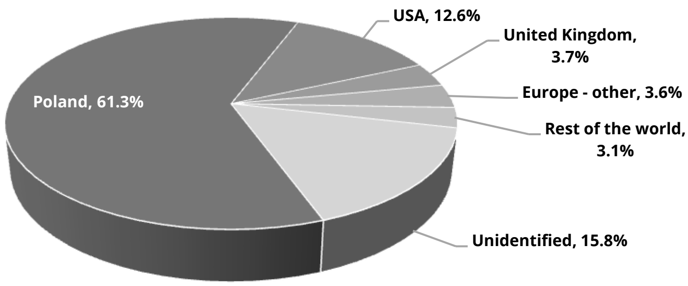
** based on a notification received by the Company dated 12 January 2010*
*** based on a notification received by the Company dated 18 August 2016*

Other shareholders, whose total ownership of the share capital and share in the total number of votes amounts to 63.16%, are mainly institutional investors, both international and domestic.

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 October 2017.

in PLN millions, unless otherwise stated

Chart 35. Geographic shareholder structure of KGHM Polska Miedź S.A. (%)



Source: CMi2i, October 2017

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 the Company's shares held by present shareholders in the future.

Based on information held by KGHM Polska Miedź S.A., as at 31 December 2017 and at the date this report was signed, no Member of the Management Board of the Company held shares of KGHM Polska Miedź S.A. or rights to them.

The number of KGHM Polska Miedź S.A.'s shares or rights to them held by the Company's Members of the Supervisory Board as at 31 December 2017 and as at the date of signing this report was as follows:

Table 48. Shares of KGHM Polska Miedź S.A. held by Members of the Supervisory Board of KGHM Polska Miedź S.A. as at 31 December 2017 and at the date this report was signed

position/function	name and surname	number of shares as at 31 December 2017 and at the date this report was signed	nominal value of shares (PLN)
Member of the Supervisory Board	Józef Czyczerski	10	100
Member of the Supervisory Board	Leszek Hajdacki	1	10

Based on information held by KGHM Polska Miedź S.A., other Members of the Supervisory Board of the Company did not hold at this time shares of KGHM Polska Miedź S.A. or rights to them.

As far as the Company is aware, Members of the Management Board and Supervisory Board did not hold shares of the related entities of KGHM Polska Miedź S.A. as at 31 December 2017 and at the date this report was signed. The Company did not have an employee share incentive program in 2017.

12. Risk management in the Group

12.1. 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 KGHM Polska Miedź S.A. Group's activities is assessed. Based on this assessment, management practices are reviewed and adjusted in terms of responses to individual risk factors.

Under the Corporate Risk Management Policy and Procedure updated in 2017 and the Rules of the Corporate Risk and Compliance Committee, the process of corporate risk management in the Group is consistently performed. In 2017, the companies of the Group updated rules and procedures regulating the management of corporate risk which are consistent with those of the Parent Entity. KGHM Polska Miedź S.A. oversees the process of managing corporate risk in the Group. Each year, the process of managing corporate risk is subjected to an efficiency audit (compliant with the guidelines of Best Practice for WSE Listed Companies 2016).

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

This comprehensive approach to analysing risk factors also comprises the identification of risk factors related to achieving the strategic goals. In 2017, risks were reviewed related to achievement of the strategic goals contained in the Main Strategy and in the Executory and Support Strategies.

Presented below is the organisational structure of risk management in the Parent Entity. The breakdown of rights and responsibilities applies best practice principles for Corporate Governance and the generally recognised model of three lines of defense.

Diagram 6. Organisational structure of risk management in KGHM Polska Miedź S.A

<table>
<tr><th colspan="6">Supervisory Board (Audit Committee)</th></tr>
<tr><td colspan="6">Performs annual assessment of the effectiveness of the risk management process and monitors the level of key risk factors and ways to address them.</td></tr>
<tr><th colspan="6">Management Board</th></tr>
<tr><td colspan="6">Has ultimate responsibility for the risk management system and supervision of its individual elements.</td></tr>
<tr><th>1st line of defense</th><th colspan="4">2nd line of defense</th><th>3rd line of defense</th></tr>
<tr><th>Management</th><th colspan="4">Risk Committees</th><th>Audit</th></tr>
<tr><td rowspan="6">Managers are 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.</td><td colspan="4">Support effective risk management and ongoing supervision of key risk factors.</td><td rowspan="3">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.</td></tr>
<tr><th>Corporate Risk and Compliance Committee</th><th>Market Risk Committee</th><th>Credit Risk Committee</th><th>Financial Liquidity Committee</th></tr>
<tr><td>Manages corporate risk and continuously monitors key risk factors</td><td>Manages risk of changes in metals prices (e.g.: copper and silver) as well as exchange and interest rates</td><td>Manages risk of failure of debtors to meet their obligations</td><td>Manages risk of loss of liquidity, understood as the ability to pay financial liabilities on time and to obtain financing for operations</td></tr>
<tr><td>Corporate Risk Management Policy</td><td>Market Risk Management Policy</td><td>Credit Risk Management Policy</td><td>Liquidity Management Policy</td><td>Internal Audit Rules</td></tr>
<tr><td>Department of Corporate Risk Management, Compliance and Continuity of Operations</td><td colspan="3">Executive Director, Finance and Risk Management</td><td>Internal Audit Department</td></tr>
<tr><td>Reports to the President of the Management Board</td><td colspan="3">Reports to the Vice President of the Management Board (Finance)</td><td>Reports to the President of the Management Board</td></tr>
</table>

12.2. Corporate risk – key risk factors and their mitigation

A tool used in identifying risk in the KGHM Polska Miedź S.A. Group is the Risk Model. Its structure 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 risks in the KGHM Polska Miedź S.A. Group, including identification of specific risks for the Parent Entity and the KGHM INTERNATIONAL LTD. Group.

The list below uses the following abbreviations: for the KGHM Polska Miedź S.A. Group – the KGHM Group, for the KGHM INTERNATIONAL LTD. Group – the KGHM INTERNATIONAL Group.

Risk factor	Risk - description	Mitigation
Technology		
Technology	(Parent Entity) 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. More in Section 5
	(Parent Entity) 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. (Parent Entity) Risk related to implementing new concentrates smelting technology and achieving full production capacity.	Construction of a concentrate roasting installation at the Głogów smelter and refinery, and appropriate management of charge materials to optimise the pyrometallurgy process.
Value chain		
Planning	(KGHM Group) Risk related to using inappropriate economic parameters related to production, investments, macroeconomics and finance, for forecasts of company results.	Forecasts related to specific areas of the operations are prepared by appropriate specialised units.
	(KGHM INTERNATIONAL Group) Risk related to the accuracy of estimating decommissioning costs of certain mines.	
Resources and reserves	(KGHM Group) 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 estimating 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 5
Waste management	(Parent Entity) Risk of the inability to store mine tailings.	Operation, construction and development of the tailings storage facility pursuant to the operating instructions. Cooperation 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 behaviour of the constructed/operated facility. More in Sections 5 and 7.6
Availability of materials and utilities	(KGHM Group) Risk related to the lack of availability of utilities (electricity, gas, water).	Ensure back-up systems for key utilities and on-going evaluation of the security of power systems. Conduct a variety of investments aimed at strengthening energy security. Agreement with the company Polskie Górnictwo Naftowe i Gazownictwo S.A. for the sale of natural gas, increasing the security of natural gas supply. More in Section 14
Production and infrastructure	(KGHM Group) Risk related to infrastructure emergencies resulting in a shut-down of production lines, both as a result of natural hazards as well as internal factors related to the applied technology (as well as the pyrometallurgical process).	Preventative management of key elements of infrastructure which impact the smooth flow of operations. On-going analysis of geotechnical risks and reviews of planned recoveries. Appointment of special-purpose and expert teams on preventing emergencies in metallurgical infrastructure.
	(KGHM INTERNATIONAL Group) Geotechnical risks in open-pit mines (wall stability) and in underground mines.	

Efficiency and costs	(KGHM Group) Risk related to the cost effectiveness of the production process, mining projects and the processing of copper-bearing materials, including the risk of significant increases in the prices of materials, services and utilities and of restoration costs.	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.
Market		
Market Risk	(KGHM Group) Risk related to volatility in commodity prices (copper, silver and other metals), exchange rates and interest rates.	This risk is actively managed (in the Parent Entity, in accordance with the Market Risk Management Policy currently in force). A basic technique for managing market risk in the company are hedging strategies utilising derivative instruments. Natural hedging is also applied. More in Section 12.4.
Credit Risk	(KGHM Group) Risk related to the lack of paid receivables by commercial customers or financial institutions.	This risk is actively managed (in the Parent Entity, in accordance with the Credit Risk Management Policy currently in force). Exposure to credit risk is limited by evaluating and monitoring the financial condition of customers, setting credit limits and applying creditor security. More in Section 12.4
Liquidity Risk	(KGHM Group) 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 the Parent Entity, in accordance with the updated Financial Liquidity Management Policy). More in Section 12.4
Equity investments and divestments	(KGHM Group) The risk of not receiving the expected return or expected effects on an equity investment. Risk of loss of company value, the failure to achieve assumed synergies, the loss of alternative profits, a fall in the price of shares of listed companies.	Detailed 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.
External		
Administrative proceedings	(KGHM Group) The risk of restricting or suspending 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.
Natural hazards	(KGHM Group) 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 occurrence of uncontrolled rock bursts.	A wide variety of technological and organisational solutions and other active and passive methods are applied 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 in the orebody which could handle reduced production. More in Section 13.4
	(Parent Entity) Risk related to gas hazards (methane and hydrogen sulphide).	The risk of gas hazards occurring 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 odours.
	(Parent Entity) 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	(KGHM Group) 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. (In the Parent Entity a CO_2 Emissions Management System has been implemented as well as environmental management standard ISO 14001). More in Section 16.
	(Parent Entity) 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	(KGHM Group) The risk of changes in the regulatory environment in areas such as geological-mining law, environmental protection, energy and corporate law.	Monitoring of legal changes in individual jurisdictions and active participation in legislative processes. Taking pre-emptive actions to adapt to organisational, infrastructural and technological changes. An ISO 50001-compliant energy management system was implemented in the Parent Entity and a certificate of compliance with this standard was received.
Taxation	(Parent Entity) The risk of there being no change in the royalty formula (the minerals extraction tax) and the risk of taxation arising from other regulations.	
	(KGHM INTERNATIONAL Group) Taxation risks arising from operating in numerous jurisdictions.	
Internal		
Occupational health and safety	(KGHM Group) 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 production stoppages caused by serious accidents.	In the Parent Entity, occupational health and safety standards are in force (18001/OHSAS); regular training in occupational health and safety standards, programs to identify potentially dangerous events. More in Section 13.4
Stakeholders	(KGHM Group) 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.
Human resources	(KGHM Group) 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 13
Security, IT and data protection	(KGHM Group) 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 adherence to and application of the principles, among others, of the Information Security Policy and Facility Protection Plans. Undertaking actions aimed at bringing the KGHM Group into compliance with the general decree on personal data protection.
Project management	(KGHM Group) 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 Methodology as well as on-going monitoring and updating of schedules. On-going evaluation of the economic effectiveness of existing and anticipated development projects.
	(KGHM INTERNATIONAL Group) Risk related to the operational management and development of key mining projects, including issues related to costs incurred, permitting and infrastructural requirements.	

in PLN millions, unless otherwise stated

12.3. Market, credit and liquidity risk

The goal of market, credit and liquidity risk management in the KGHM Polska Miedź S.A. Group is to restrict the undesired impact of financial factors on cash flow and financial results in the short and medium terms and to enhance the Group's value over the long term. The management of these risks includes both the processes of risk identification and measurement as well as its restriction to acceptable levels. The process of risk management is supported by an appropriate policy, organisational structure and procedures. In the Parent Entity these issues are covered in the following documents:

- Market Risk Management Policy and the Rules of the Market Risk Committee,
- Credit Risk Management Policy and the Rules of the Credit Risk Committee, and
- Financial Liquidity Management Policy and the Rules of the Financial Liquidity Committee.

The „Market Risk Management Policy in the KGHM Polska Miedź S.A. Group" covers selected mining companies in the Group (KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD., FNX Mining Company Inc., Robinson Nevada Mining Company, KGHM AJAX MINING Inc. and Sociedad Contractual Minera Franke), with representatives of the Parent Entity and KGHM INTERNATIONAL LTD. serving as members of the Market Risk Committee.

Financial liquidity management in the Parent Entity is carried out in accordance with the Management Board-approved „Financial Liquidity Management Policy". In KGHM INTERNATIONAL LTD. the principles of liquidity management have been set forth in the "Investment Policy". The Parent Entity oversees the process of liquidity management and borrowing in the Group.

Credit risk management in the Parent Entity is carried out in accordance with the Management Board-approved Credit Risk Management Policy. The Parent Entity serves as an advisor to the Group's companies with respect to managing credit risk. In 2015, a „Credit Risk Management Policy in the KGHM Polska Miedź S.A. Group" was adopted, the goal of which is to introduce a comprehensive, joint approach and the most important elements of the credit risk management process in selected Group companies.

12.4. Market risk management

Market risk is understood as the possible negative impact on the Group's results arising from changes in the market prices of commodities, exchange rates and interest rates, as well as from changes in the value of debt securities and share prices of listed companies.

In terms of market risk management (in particular the risk of changes in metals prices and exchange rates) of greatest significance and impact on the results of the Group are the scale and nature of the activities of the Parent Entity and the mining companies of KGHM INTERNATIONAL LTD.

The Parent Entity actively manages market risk, undertaking actions and decisions in this regard within the context of the global exposure throughout the KGHM Polska Miedź S.A. Group.

The Management Board is responsible for market risk management in the Parent Entity 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.

Commodity risk, currency risk	In 2017, the Group was mainly exposed to the risk of the changes in the prices of metals it sells: copper and silver. Of major significance for the Parent Entity was the risk of changes in currency rates, in particular the USD/PLN exchange rate. The Group's companies are additionally exposed to the risk of volatility in the prices of lead, gold, molybdenum, platinum and palladium. Market risk related to changes in metals prices arises from the formula for setting prices in physical metals sales contracts, which are usually based on the average monthly market prices for the relevant future month. In accordance with the Market Risk Management Policy, in 2017 the Parent Entity 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 Parent Entity's activities – profit or loss, statement of financial position, statement of cash flows), and also analysed the metals and currencies markets. These analyses, along with assessment of the internal situation of the Parent Entity and Group, represented the basis for taking decisions on the application of hedging strategies on the metals, currency and interest rates markets. With respect to managing risk in 2017, the Parent Entity implemented copper price hedging transactions with a total notional amount of 126 thousand tonnes and a hedging horizon falling from April 2017 to December 2019 (including 84 thousand tonnes in the period from January 2018 to December 2019). The Parent Entity did not implement derivatives transactions on the silver market. As a result, the Parent Entity held open derivatives positions on the copper market for 126 thousand tonnes of copper in the years 2018-2019. Moreover, in 2017 the Parent Entity, as part of restructuring an open position hedging against the USD/PLN exchange rate, implemented transactions on the currency market. Written call options were repurchased for the period from May to December 2017 with a total notional amount of USD 360 million (concluded in 2014 under purchased collar options structures). Repurchase of the call options was financed by the sale of put options with strike prices of around USD/PLN 3.24 for the period from January 2018 to June 2019, i.e. for the period for which the Parent Entity held open collar option strategies for the total notional amount of USD 780 million. Because of this, collar option strategies hedging revenues from sales in the period from January 2018 to June 2019 were restructured into seagull strategies.

in PLN millions, unless otherwise stated

	As for managing currency risk which may arise from bank loans, the Parent Entity applies natural hedging by borrowing in currencies in which it has revenues. As at 31 December 2017, following their translation by PLN, the Parent Entity's balance of bank loans and a loan which were drawn in USD amounted to PLN 6 935 million. As at 31 December 2017, the Parent Entity held an open hedging position in derivatives for USD 780 million of planned revenues from sales of metals. Moreover, on 31 March 2017, the Company terminated a hedging relationship for the first instalment of the loan from the European Investment Bank (USD 300 million) written in 2014 as a hedge of revenues from sales against a change in the USD/PLN exchange rate for the period from October 2017 to October 2026. As at 31 December 2017, KGHM INTERNATIONAL LTD. did not hold open derivative positions on the metals and currency markets. Some of the Group's Polish companies managed the currency risk related to their core businesses by opening derivative transactions on the EUR/PLN and USD/PLN markets.
Interest rate risk	Interest rate risk is the possibility of the negative impact of changes in interest rates on the Group's position and results. In 2017, the Group was exposed to such risk due to loans granted, free cash invested on deposits and borrowings. As at 31 December 2017, the following positions were exposed to interest rate risk by impacting the amount of interest costs and income: - cash and cash equivalents: PLN 923 million, including the deposits of special purpose funds: the Mine Closure Fund and the Tailings Storage Facility Restoration Fund, - liabilities due to bank loans drawn: PLN 5 179 million. As at 31 December 2017, the following positions were exposed to interest rate risk due to changes in the fair value of instruments with fixed interest rates: - receivables due to loans granted by the Group: PLN 3 909 million, - liabilities due to loans drawn with fixed interest rates: PLN 1 967 million. Financial liabilities denominated in USD and EUR, based on LIBOR or EURIBOR, expose the Group to the risk of higher interest rates which would result in higher interest costs. As a result, taking into consideration the global exposure of the Group to interest rate risk, the Parent Entity decided to exercise its right to draw loans from the European Investment Bank based on a fixed interest rate. Moreover, the Parent Entity remains hedged against an interest rate increase (LIBOR USD) through the aid of a call option (CAP) with an interest rate of 2.50% in the years 2018-2020.
Price risk related to the change in share prices of listed companies	Price risk related to the shares of listed companies held by the Group is understood as the change in their fair value due to changes in their quoted share prices. As at 31 December 2017, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Venture Exchange was PLN 617 million.
Result on derivatives and hedging transactions	The total impact of derivatives and hedging (transactions on the copper, silver, currency and interest rate markets as well as embedded derivatives and a loan in USD designated as a hedge against a change in the exchange rate) on the Group's profit or loss for 2017 amounted to -PLN 275 million, of which: - PLN 16 million was recognised in sales revenue, - PLN 261 million decreased the result on other operating activities (wherein: the loss from the realisation of derivatives amounted to PLN 8 million, and the loss from the measurement of derivatives amounted to PLN 253 million), - PLN 30 million decreased the result on financing activities (net costs and income on the measurement and realisation of derivatives on the interest rate market). Moreover, in 2017, other comprehensive income increased by PLN 381 million (impact of hedging instruments). As at 31 December 2017, the negative fair value of open positions in derivatives of the Group (on the metals, currency, interest rate and embedded derivatives markets) amounted to PLN 12 million.

in PLN millions, unless otherwise stated

Credit risk management

Credit risk is defined as the risk that counterparties will not be able to meet their contractual obligations.

The Management Board is responsible for credit risk management in the Parent Entity and for compliance with policy in this regard. The main body involved in actions in this area is the Credit Risk Committee.

In 2017, the KGHM Polska Miedź S.A. Group was exposed to this risk, mainly in four areas:

Credit risk related to trade receivables	The Group's companies have been cooperating for many years with a large number of customers, which affects the geographical diversification of trade receivables. The Parent Entity 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 debtor security. An inseparable element of the credit risk management process realised by the Parent Entity is the on-going 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 commercial financing instruments which transfer all of the credit risk to financial institutions. In 2017, the Parent Entity secured the majority of its receivables by promissory notes, registered pledges, bank guarantees, corporate guarantees, mortgages and documentary collection. Moreover, 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 Parent Entity has 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 2017 the Parent Entity had secured 95% of its trade receivables (as at 31 December 2016: 92%). The concentration of credit risk in the Group is related to the terms of payment granted to key clients. Consequently, as at 31 December 2017 the balance of receivables from 7 of the Group's largest clients, in terms of trade receivables at the end of the reporting period, represented 63% of the trade receivables balance (as at 31 December 2016: 45%). Despite the concentration of this type of risk, it is considered that due to the availability of historical data and the many years of experience cooperating with clients, as well as above all due to the security used, the level of credit risk is low.
Credit risk related to cash and cash equivalents and bank deposits	The Group allocates periodically 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 deposit transactions is continuously monitored by the on-going review of the credit ratings of those financial institutions with which the Group cooperates, and by limitation of the level of concentration in individual institutions.
Credit risk related to derivatives transactions	All of the entities with which the Group enters into derivative transactions (with the exception of embedded derivatives) operate in the financial sector. These are mainly financial institutions, with a medium-high rating. According to fair value as at 31 December 2017, the maximum share of a single entity with respect to credit risk arising from open derivative transactions entered into by the Group and from unsettled derivatives amounted to 47%. 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 fair value of assets and liabilities arising from derivative transactions, the Group 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 2017, the balance of loans granted by the Group amounted to PLN 3 909 million. The most important of these are long-term loans in the total amount of PLN 3 869 million, or USD 1 111 million, granted by the KGHM INTERNATIONAL LTD. Group for the financing of a mining joint venture in Chile. Credit risk related to the loans granted is dependent on the risk related to mine project advancement.

Financial liquidity risk and management of capital

The management of capital in the Group aims at securing finds for development and at securing relevant liquidity.

Financial liquidity management	Financial liquidity is managed in the Parent Entity in accordance with the Management Board-approved „Financial Liquidity Management Policy". In KGHM INTERNATIONAL LTD., the principles of liquidity management have been set forth in the Investment Policy. These documents describe the process of financial liquidity management considering the nature of the Group's companies, indicating best practice procedures and instruments. The basic principles resulting from these documents are: - the need to ensure stable and effective financing for the Group's operations, - placement of surplus cash in safe instruments, - limits for individual financial investment categories,

	- limits for the concentration of resources held in financial institutions, and - effective management of working capital. Borrowing by the Group is based on three pillars: - an unsecured, revolving syndicated credit facility, obtained by the Parent Entity and which is for the amount of USD 2 500 million with a maturity of 9 July 2021, - two investment loans granted to the Parent Entity by the European Investment Bank in the amount of PLN 2 000 million and PLN 900 million with a financing period of 12 years from the dates the instalments are drawn, and - bilateral bank loans in the amount of PLN 3 400 million, to support the management of current liquidity in companies and the financing of working capital as well as to finance the continued advancement of investments. Detailed information regarding available sources of financing and their utilisation in 2017 may be found in Section 6.4 of this report. These sources of financing fully cover the Group's liquidity needs. During 2017, the Group made use of borrowing which was available from all of the above pillars. As at 31 December 2017, liabilities of the Group due to bank and other loans drawn amounted to PLN 7 156 million.
Management of capital	In order to maintain the ability to operate, taking into consideration the execution of planned investments, the Group manages capital so as to be able to generate returns for shareholders and provide benefits for other stakeholders. The Group aims to maintain the equity ratio, in the long-term, at a level of not less than 0.5, and the ratio of Net Debt/EBITDA at a level of up to 2.0.

13. Human resources in the Company and Group

13.1. Employment and remuneration

Group

In 2017, the companies of the Group employed 33 935 people, or a decrease by 0.4% as compared to the prior year.

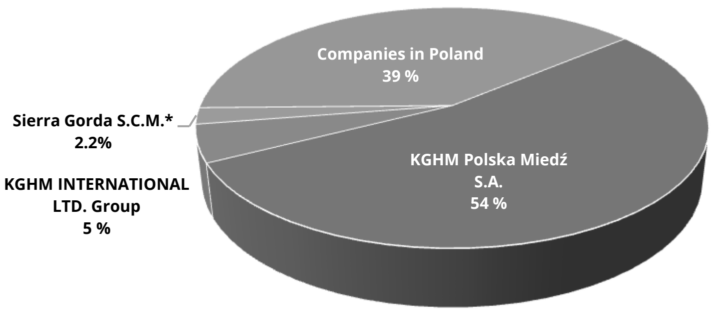
The employment structure is shown in the following table and chart.

Table 49. Average employment in the Group

	2017	2016	Change (%)
KGHM Polska Miedź S.A.	18 198	18 176	+0.1
KGHM International LTD.	1 695	1 795	(5.6)
Sierra Gorda S.C.M.*	748	694	+7.8
Group companies in Poland	13 294	13 388	(0.7)
Total	**33 935**	**34 053**	**(0.3)**

** Sierra Gorda S.C.M. – employment proportional to share in the company (55%)*

Chart 36. Employment structure in the Group in 2017



** Sierra Gorda S.C.M. – employment proportional to share in the company (55%)*

Companies in Poland

In 2017, average employment in the companies of the KGHM Polska Miedź S.A. Group in Poland decreased as compared to 2016 by 94 positions (or by 0.7%). This decrease in employment was mainly the result of:

– sale of the company WFP HEFRA S.A. and its removal from the Group
– the voluntary departure of employees from KGHM ZANAM S.A.

in PLN millions, unless otherwise stated

Companies abroad

KGHM INTERNATIONAL LTD. recorded a decrease in average employment as compared to 2016 due to actions aimed at reducing costs and adapting the size and structure of employment to the scope and schedule of work on the projects underway.

The increase in employment in Sierra Gorda S.C.M. in 2017 was due among others to internalising some external services and augmenting the structure of employment by filling empty positions.

KGHM Polska Miedź S.A.

Employment in KGHM Polska Miedź S.A. at the end of 2017 amounted to 18 356 people, and was 0.5% higher than at the end of the prior year. Average annual employment in KGHM Polska Miedź S.A. amounted to 18 198 and was higher than the level of employment in 2016 by 22 people. The change in employment was due to natural movements in staff.

Table 50. Average employment in KGHM Polska Miedź S.A.

	2017	2016	Change (%)
Mines	12 413	12 397	+0.1
Metallurgical plants	3 529	3 530	(0.0)
Other divisions	2 256	2 249	+0.3
KGHM Polska Miedź S.A.	**18 198**	**18 176**	**+0.1**

13.2. Human Resources projects

In 2017, work was performed to update the International Mobility Policy for the employees of KGHM Polska Miedź S.A. Based on challenges to date and experiences related to employee mobility, an interdisciplinary team developed an updated International Mobility Policy, focusing on increasing the effectiveness of the process. The new principles are to be implemented in 2018.

In 2017, work began on an IT system aimed at managing internships and work training and at providing access to materials used in writing academic papers in KGHM Polska Miedź S.A.

A business concept was developed and work began on IT solutions for the target e-Kariera system, which will be made available to internal users through the KGHM Polska Miedź S.A. intranet portal and through the KGHM.com website for those applying from outside the company.

The e-Kariera system will be comprised of 4 modules:

- e-Rekrutacja module (in place)
- e-Praktyki module
- e-Staże module
- e-Pracedyplomowe module

Completion of this work is expected in the first half of 2018.

Group

In 2017 the companies of the Group continued the process of implementing the recruiting principles developed by the Parent Entity in 2016.

In addition, the companies of the Group advanced projects involving: employee evaluations, enhancing employee qualifications and motivational programs.

13.3. Relations with the trade unions

KGHM Polska Miedź S.A.

In 2017, the following trade union-related events occurred in KGHM Polska Miedź S.A.:

21 February 2017	Additional Protocol No. 20 was signed to the Collective Labour Agreement (CLA) for the Employees of KGHM Polska Miedź S.A., amending annex No. 2, i.e. the table of monthly basic wage rates.
11 April 2017	The trade union Związek Zawodowy Pracowników Przemysłu Miedziowego initiated a collective dispute involving questions related to remuneration, social issues and improving occupational health and safety. As a result of negotiations and mediation conducted as part of the collective dispute, on 17 August 2017, an agreement was signed ending the collective dispute.
10 August 2017	Additional Protocol No. 21 to the CLA was signed, based on which all of the positions set forth in the tariff chart representing annex No. 1 to the collective agreement were raised by one category.
5 February 2018	Additional Protocol No. 22 to the CLA was signed. With effect from 1 January 2018, it introduces an increase in basic wages by 6.1%.

Group

In 2017, the domestic companies of the Group engaged in negotiations with the trade unions regarding questions of remuneration, employment conditions and social matters. In most cases they concluded with the signing of additional protocols to the collective labour agreements and other agreements. In entities engaged in therapeutic and spa activities, agreements were concluded involving assuring employees of higher basic wages, pursuant to the *„act dated 8 June 2017 on setting the lowest basic wage of employees practicing medicine employed in therapeutic entities".*

In 2017, two of the Group's companies remained in collective disputes initiated and suspended in prior years: „MCZ" S.A. and PeBeKa S.A., of which during the year one of them, PeBeKa S.A., concluded its dispute.

In one of the companies – PMT Linie Kolejowe 2 Sp. z o.o. – a collective dispute was initiated in 2017 over wages.

„MCZ" S.A. – this company remains in four collective disputes announced in 2007 mainly involving the question of wage raises. At present these disputes have been suspended, with the company's Management Board and the trade unions basing their relations on annual protocols of settlements or agreements reached. In 2017, in contrast to the past several years, questions of wage raises in this company were dealt with by adhering to general existing laws on remuneration in the health services, and not through the fulfilment of agreements with the trade unions.

Since 1 July 2017, there were wage raises for certain employees, as a result of the coming into force of the „Act dated 8 June 2017 on setting the lowest basic wage of employees practicing medicine employed in therapeutic entities". As a result of talks held with the trade unions operating in „MCZ" S.A. and as a result of the Decree of the Minister of Health dated 14 October 2015 amending a decree on the general terms of agreements with respect to granting health benefits, since 1 September 2017, basic wages were raised and the question of principles and payment of other additions to wages for particular professional groups paid to the end of 2017 were regulated.

PeBeKa S.A. – since March 2010 the company has been in a collective dispute with the trade union Związek Zawodowy Pracowników Dołowych, which since August 2010 has been suspended for an indefinite period of time. In May 2017, based on an Agreement concluded for a raise in basic wages an addition to the social fund, the dispute was concluded.

PMT Linie Kolejowe 2 Sp. z o.o. – in November 2017, a letter was received by the Company from the trade union Międzyzakładowa Organizacja Związkowa operating at the Głogów Copper Smelter and Refinery, announcing the initiation of a collective dispute, which involved demands for an increase in wages from 1 January 2018. The Company reported the collective dispute to the District Work Inspectorate (Okręgowy inspektorat Pracy) and provided the trade unions with the requested data concerning the company's technical and economic indicators as well as data on planned wages and employment in the company in 2018. The collective dispute has not yet been resolved.

In the company **WPEC S.A.,** the trade union Zakładowe Organizacje Związkowe submitted demands to the company's management board in 2017 for higher wages, based on the manner of acting referred to in the act on resolving collective disputes. The company's management board holds the position that there is no basis to initiate a collective dispute and reported this to the District Work Inspectorate. This matter has not yet been concluded and discussions are underway between the company's management board and the trade unions.

13.4. Occupational health and safety

In 2017, the Company continued work involving implementation of the multi-year Program to Improve Occupational Health and Safety in KGHM Polska Miedź S.A., adding new initiatives. The program is an element of the updated strategy of KGHM Polska Miedź S.A. for the years 2017 – 2021 with an outlook to 2040. The Company intends to continue its efforts to achieve the long-term vision of „Zero accidents due to personal and technical reasons, zero occupational illnesses among our employees and contractors".

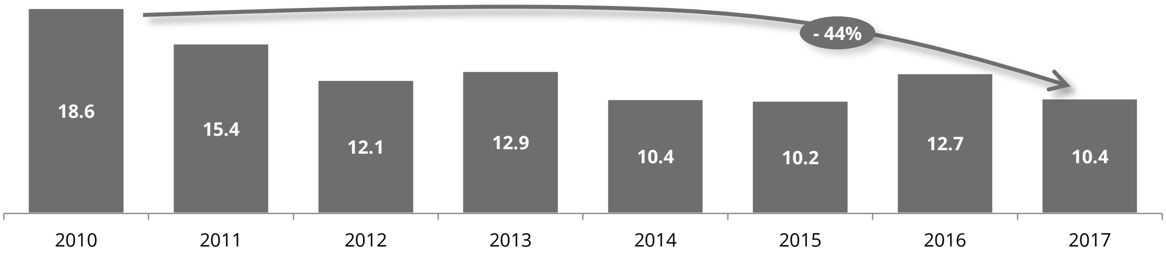
The life and health of employees and workplace safety in general is the chief priority in the hierarchy of values of the KGHM Polska Miedź S.A. Group. The Company applies high OHS standards, both towards its own employees as well as towards those providing services on the grounds of KGHM Polska Miedź S.A. Each of the Company's Divisions has implemented a safety management system which is compliant with standards in force. All work stations have identified threats. The Company has assessed occupational risks and updates them continually. Working environments are continually monitored and periodic reviews and potential threat assessments are conducted, as well as reviews of equipment and required technical checks and approvals. Employees undergo systematic training and continually enhance their qualifications.

In 2017, the Company recorded a decrease in the total number of workplace accidents (as defined by the ACT dated 30 October 2002 on social insurance due to workplace accidents and occupational illnesses), with a year-on-year decrease from 370 to 300 injured (-70). In particular, there was a significant drop in the number of accidents in the Company's mining divisions. The number of workplace accidents in the mines of KGHM Polska Miedź S.A. in 2017 amounted to 235 injured, as compared to 318 events in 2016 (-83). Most of the accidents (approx. 98%) involved light injuries, mainly caused by loss of balance by employees, contact (striking) by or through moveable/immovable objects, falling rocks, and injuries caused by the use of workplace tools.

In 2017, there was a decided drop in the number of accidents related to major threats from the rockmass. As compared to 2016, the number of those injured in this regard was lower by 60%. Natural hazards associated with the underground mining of copper ore deposits, in particular hazards related to mining tremors and their potential effects in the form of roof and wall collapses are considered as particularly important from the safety point of view, as their occurrence can lead to serious or even fatal injuries as well as damage to underground machinery, equipment and infrastructure, along with production downtimes. KGHM Polska Miedź S.A. carries out a variety of preventive actions in its mines involving the intentional provoking of roof collapses and rock falls, comprising systematic seismological observations, on-going assessment of the rock mass and the marking off of areas of particular threat of roof collapse. The size, shape and number of chambers and inter-chamber pillars is selected, as well as the most advantageous direction of mine work advance and the optimum order of ore selection to minimise local concentrations of stress in the rock mass. So-called active methods of preventing uncontrolled roof collapses and rock falls are also applied, based on provoking dynamic events through mass blasting of mining faces and through blasting to release stress in the orebody or its roof. The Company is continually improving in terms of the safe mining of the copper ore deposit. Following the tragic mass accident which occurred on 29 November 2016 in fields XXI/1 and XXI/2 of section G-23 of the Rudna mine and in KMC C-23, in accordance with requests of the Commission appointed by Decree No. 36 of the President of the State Mining Authority dated 7 December 2016 to assess the causes of this catastrophe, the Company undertook among others intensive work on developing uniform principles for designing and maintaining operating chambers in the mines, including heavy machinery chambers.

The ratio $LTIRF_{KGHM}$ (Lost Time Injury Frequency Rate KGHM) in 2017, or the total number of workplace accidents (as defined by the ACT dated 30 October 2002 on social insurance due to workplace accidents and occupational illnesses) being the number of accidents per million hours worked for the entire core business of KGHM Polska Miedź S.A., decreased by approx. 18% as compared to 2016, and amounted to 10.4 (2016 = 12.7) and at the same time was lower by 44% than the amount recorded in 2010.

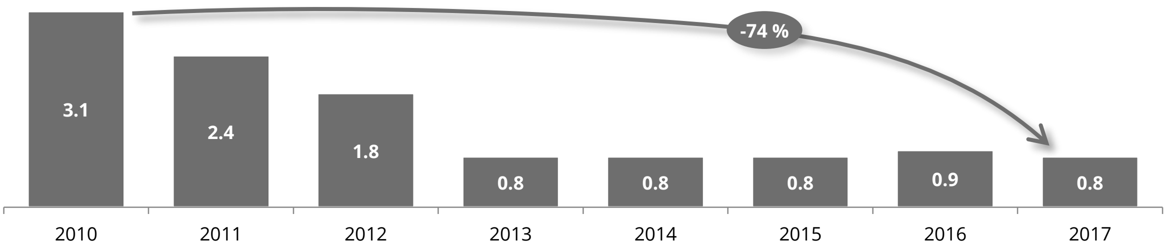
Chart 37. LTIFR in the Parent Entity



In the KGHM INTERNATIONAL LTD. Group, the management of occupational health and safety is based on the identification, assessment, elimination and/or control of hazards and risks related to advancing and continuously improving the organisational culture of Zero Harm, which at the same time represents one of the company's values. Management comprises all of the companies which are fully owned by KGHM INTERNATIONAL LTD. or in which KGHM INTERNATIONAL LTD. is a managing partner. The policy of Zero Harm encompasses employees, contractors and local communities, and is identified as an on-going tool in preventing OHS hazards as well as in terms of environmental protection. In 2017, KGHM INTERNATIONAL LTD. began work on the implementation of a „Corporate Risk Management Standard in the areas of Health, Safety and the Environment". It is expected that implementation of this solution, comprised of 14 pillars, will begin in 2018 and will last several years.

In 2017, in the mines belonging to KGHM INTERNATIONAL LTD., a total of 57 workplace accidents were recorded. In the end the TRIR (Total Recordable Incident Rate) reached the level of 0.8, and was lower by 0.1 as compared to 2016 and at the same time was 74% lower than the amount recorded in 2010.

Chart 38. TRIR in KGHM INTERNATIONAL LTD.



**TRIR (Total Recordable Incident Rate) calculated using accepted methodology as the number of accidents at work meeting the conditions of registration as defined in the ICMM (International Council on Mining & Metals) standard, in total for the employees of KGHM INTERNATIONAL LTD. and sub-contractors, per 200 000 worked hours.*

in PLN millions, unless otherwise stated

14. Significant contracts for the Company and Group

In 2017, Group companies entered into the following significant contracts:

Date	Description
30 June 2017	On 30 June 2017 the Management Board of KGHM Polska Miedź S.A. decided to express agreement to the changes to the conditions of the loan agreement signed by Sierra Gorda S.C.M. on 8 March 2012, the signing of which was announced by the Company in regulatory filing no. 13/2012. The nature of the financing changed from project finance to corporate credit, which significantly decreased the limitations and duties of Sierra Gorda S.C.M., and in particular it enhanced the flexibility of the operating and financial activities of Sierra Gorda S.C.M. Moreover, the documentation related to financing was modified, including guarantees issued by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation, and their term of validity was maintained up to the end of the financing period, that is to 15 June 2021, since the Sierra Gorda S.C.M. mine did not achieve on-time part of the parameters specified in the original financing agreement. These changes came into force on 30 June 2017. The condition precedent to the issuance of the aforementioned guarantees was the granting of a re-guarantee of repayment of a specified part of payment by KGHM towards Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation. On 30 June 2017, the Management Board of KGHM granted permission to issue a re-guarantee of repayment of a specified part of payment, if it is made by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation towards the financing banks, in the amount equal to the pro rata share of KGHM, but no more than the amount of USD 180 million. As at 31 December 2017, the value of the financing from the loan agreement amounts to around USD 710 million.
27 July 2017	On 27 July 2017, a Framework Agreement for the comprehensive sale of fuel gas as well as bilateral Individual Contracts were concluded with the company Polskie Górnictwo Naftowe i Gazownictwo S.A. („PGNiG", „Seller"). The agreement in question along with the contracts replace the existing five individual long-term contracts between the parties, which were announced by the Company in the following regulatory filings: no. 26/2010 dated 30 July 2010 and no. 6/2014 dated 30 January 2014. The Framework Agreement along with the Individual Contracts unify the previously varied terms and conditions for the purchase of fuel gas for all offtake points. The Framework Agreement was entered into for the period from 1 July 2017 to 1 October 2033. It regulates the manner in which Individual Contracts are entered into and terminated, as well as common terms and conditions for placing orders for fuel gas supply, settling deliveries and renegotiating gas prices. Moreover, the agreement provides for the possibility to change the type of fuel gas from nitrogen-rich gas to high-methane gas, and provides a mechanism enhancing the energy security of the Company, in which the Seller guarantees the fuel gas supplies, in the quantities required by KGHM. The Individual Contracts represent executory agreements to the Framework Agreement. They set the volumes of fuel gas, common price formulas for all of the contracts – based on market gas price indices, as well as other important technical and commercial parameters regulating the supply of gas to the Company. All of the Individual Contracts were concluded for the period to 1 October 2033, with some of the contracts having a date for the commencement of deliveries set at 1 July 2017, and others with a date of 1 October 2017. The estimated total value of the Framework Agreement together with Individual Contracts during the entire period they will be in force is approx. PLN 4.8 billion.
11 December 2017	On 11 December 2017 an unsecured loan agreement was signed for a loan in the amount of PLN 900 million with the European Investment Bank. The funds acquired through this loan will be used to finance the investment projects being advanced by the Company, which are aimed at modernising the production line as well as at adapting current processes to variable mining conditions, increasing effectiveness, maintaining production continuity and implementing solutions concerning environmental issues. The Agreement was entered into for a period of 12 years. The loan will be available for a period of 22 months from the date of signing. The loan will be utilised to a maximum of 4 instalments, each of which in the minimum amount of PLN 225 million. The Company has the option of drawing each of these loan instalments in PLN, USD or EUR, with either a fixed or variable interest rate. The remaining terms of the Agreement are standards terms for this type of transaction.

14.1. Related party transactions under other than arm's length conditions

In 2017, neither the Parent Entity nor its subsidiaries entered into related party transactions under other than arm's length conditions.

14.2. Information on contracts for the audit or review of the financial statements

The entity entitled to audit the separate financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the KGHM Polska Miedź S.A. Group is Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered head office in Warsaw, al. Jana Pawła II 22.

On 7 April 2016, KGHM Polska Miedź S.A. signed a contract with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. for the review of the half-year financial statements and for the audit of the annual financial statements for the years 2016, 2017 and 2018.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. was also selected to audit the financial statements of twenty-four subsidiaries of the KGHM Polska Miedź S.A. Group.

Detailed information on remuneration of the entity entitled to audit the financial statements for the review and audit of financial statements and other remuneration is presented in notes 12.11 of the separate and consolidated financial statements.

14.3. Information about suppliers and customers

The copper smelters/refineries of KGHM Polska Miedź S.A. produce electrolytic copper from its own concentrates as well as from purchased copper-bearing material (concentrates, copper scrap and blister copper). In 2017, the production of electrolytic copper from purchased copper-bearing material amounted to 148.0 thousand tonnes, and represented 28.3% of total electrolytic copper production.

For the most part, this production came from copper scrap (74.3 thousand tonnes of copper; 14.2% of total electrolytic copper production), which is supplied to KGHM's metallurgical plants by KGHM Metraco S.A. – a 100%-owned subsidiary of KGHM Polska Miedź S.A.

KGHM Metraco S.A., due to its specialisation and familiarity with the scrap market, as well as to its equity relationship with KGHM Polska Miedź S.A., supplies scrap to the metallurgical plants of KGHM based on exclusivity and as a result revenues from the sales of this company to KGHM Polska Miedź S.A. are significant and represent 11% of KGHM Polska Miedź S.A.'s sales revenue.

Apart from KGHM Metraco S.A., the only counterparty whose turnover with the Company exceeds 10% of the sales revenue of KGHM Polska Miedź S.A. (KGHM) is China Minmetals Corporation (Minmetals). Copper cathodes are sold to Minmetals based both on a framework contract as well as spot-type contracts. Total sales to Minmetals in 2017 accounted for 13% of the Company's sales revenue and 10% of the Group's sales revenue.

In 2017, as in the previous years, there were no significant changes in the sources of supply of materials, merchandise and services to KGHM Polska Miedź S.A. There was no recorded dependence on a single or multiple customers or suppliers.

15. Litigation and claims

At the end of 2017, the total value of on-going disputed claims both by and against KGHM Polska Miedź S.A. and its subsidiaries amounted to PLN 332 million, including receivables of PLN 137 million and liabilities of PLN 195 million. The total value of the above claims did not exceed 10% of the equity of the Parent Entity.

Value of proceedings involving receivables at the end of 2017:

- proceedings by KGHM Polska Miedź S.A. amounted to PLN 50 million,
- proceedings by subsidiaries amounted to PLN 87 million.

Value of proceedings involving liabilities at the end of 2017:

- proceedings against KGHM Polska Miedź S.A. amounted to PLN 80 million,
- proceedings against subsidiaries amounted to PLN 115 million.

16. Environmental protection

16.1. KGHM Polska Miedź S.A.

Activities of the Company related to environmental protection

KGHM Polska Miedź S.A. as one of the largest, socially responsible companies in Lower Silesia, cannot and does not want to avoid its responsibility for the environment in which we live. The idea of sustainable growth, and in particular respect for the natural environment, is one of the most important values of the Company. 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 2017, the Company spent nearly PLN 369 million on investments to protect the natural environment, of which the largest expenditure, in the amount of over PLN 72 million, was incurred on the Pyrometallurgy Modernisation Program at the Głogów I Copper Smelter and Refinery.

In accordance with the agreement on sustainable development signed in 2013 between the management of Głogów County (Powiat Głogowski) and the Management Board of KGHM Polska Miedź S.A., in 2017 the liming of soil was performed on terrain belonging to the municipality (gmina) of Pęcław. By a resolution of the Management Board of KGHM Polska Miedź S.A., funds were provided to the municipality of Pęcław, which enabled the liming of agricultural soil over an area of 1 370 ha, wherever, in the opinion of soil experts, it was necessary and required.

Environmental fees

Environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2017 amounted to PLN 14 million. The amount of fees paid was over PLN 10 million lower than in 2016. This large decrease in fees in 2017 was achieved thanks to the system in the copper ore mines for monitoring chlorides and sulphides volumes, which enables calculation of the fee for the emission of excess water from the Żelazny Most tailings storage facility less the measured amount of chlorides and sulphides in the water pumped from the mines. In 2017, in the structure of fees, the highest amount incurred was the waste storage fee: PLN 7 million. Another item of costs, over PLN 4 million, is the fee for atmospheric emissions of dusts and gases.

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. As a result of the coming into force of Implementing Decision 2016/1032 of the European Commission establishing best available techniques (BAT) conclusions for the non-ferrous metals industries, we reviewed the integrated permits held in terms of their compliance with existing law and submitted applications to change these decisions.

In addition, the Tailings Division holds permits for the operation of the Żelazny Most tailings storage facility, and sector permits required by law. In December 2017, the head of the Rudna Municipality issued an environmental impact permit for the construction of the southern quarter of the Żelazny Most tailings storage facility. The remaining Divisions of the Company possess environmental sector administrative permits.

Metallurgical installations at the Głogów and Legnica Copper Smelters and 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 (EU ETS).

In 2017, emissions in the previous year in the amount of 767 thousand tonnes of CO_2 were settled by freely-acquired rights (597 thousand tonnes of CO_2) supplemented by purchases of rights (EUAs or European Emission Allowances and CERs - certified emission reduction).

It is expected that 2017 emissions at the level of approx. 1.1 million tonnes of CO_2 will be settled thanks to freely-acquired rights for the Głogów and Legnica Copper Smelters and Refineries as well as additional rights received for the Głogów gas-steam block for 2016 and 2017 (altogether 580 thousand tonnes of CO_2) as well as purchases of rights (EUAs and CERs) in the amount of over PLN 15 million.

The most important planned undertakings related to environmental protection in the near term are as follows:

- construction of a concentrate roasting installation at the Głogów Copper Smelter and Refinery,
- updating of the integrated permit for the planned construction of the RCR furnace at the Legnica Copper Smelter and Refinery.
- 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 the nearest proximity to our metallurgical facilities, and
- construction of the southern quarter of the Żelazny Most tailings storage facility.

Activities to meet REACH Regulation requirements

KGHM is a member of six international consortia created to meet the requirements of EC Regulation No. 1907/2006, the so-called REACH Regulation. In 2017, 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 2017, costs incurred by KGHM due to cooperation with the consortia amounted to EUR 129.1 thousand and GBP 5.7 thousand. The main item was the fee paid to the Copper Consortium and the Precious Metals and Rhenium Consortium related to performance of additional research and the updating of registration documentation. It is expected that the costs of participating in the REACH consortia will be at the level of EUR 100 thousand annually.

Updating of BREF documentation

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 use by 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 Technical Working Groups (TWGs), composed of representatives of Member States, organisations and industry (including KGHM).

Since 2013 work has been conducted on the BREF update dealing with mining tailings and waste, the MWEI BREF document. In 2017, the TWGs held a concluding meeting, at which the wording of the document was decided. Final confirmation and publication of the MWEI BREF document will take place in the first half of 2018.

16.2. The KGHM INTERNATIONAL LTD. Group

In 2017, entities of the KGHM INTERNATIONAL LTD. Group also engaged in activities related to environmental protection.

In the case of the Robinson mine (USA), activities were aimed at monitoring air and water quality, waste management and the restoration of mining areas - total expenditures amounted to approx. PLN 32 million, including PLN 3 million due to environmental permits held, of which PLN 0.01 million were in the form of an emission fee.

At the Carlota mine in the USA, activities were mainly related to closure of the mine and environmental monitoring - total expenditures for this purpose amounted to approx. PLN 6 million, including PLN 0.2 million in the form of an emission fee.

In addition, actions are underway at the Franke mine in Chile with respect to controlling dust, managing waste and monitoring environmental impact - total expenditures amounted to approx. PLN 3 million. In Chile there is no system of fees for environmental emissions.

Expenditures on remaining operations amounted to approx. PLN 1 million.

Financial resources for mine decommissioning and restoration of mining areas

Pursuant to laws in force in the United States and Canada, the KGHM INTERNATIONAL LTD. Group is obligated to purchase government environmental bonds at the amount of the estimated provision for decommissioning of mines and technological facilities.

As at 31 December 2017, the value of assets for decommissioning the mines of KGHM INTERNATIONAL LTD. (cash) amounted to PLN 117 million (as at 31 December 2016: PLN 150 million – cash; PLN 189 million – cash and debt instruments). In addition, as at 31 December 2017, KGHM Polska Miedź S.A. had issued letters of credit to secure obligations related to covering the costs of decommissioning mines and restoring terrain in the amount of PLN 345 million (as at 31 December 2016 – PLN 348 million).

16.3. Other Group companies in Poland

The domestic companies of the Group operate in compliance with environmental laws. Companies which are required to do so hold valid environmental permits. Amongst the Polish companies of the Group, the largest environmental impact comes from the activities of the company „Energetyka" sp. z o.o. In 2017, this company incurred the highest environmental fees. They amounted to over PLN 3 million and were mainly comprised of payments for water intake and waste discharge (over PLN 2 million) and for emission of contaminants to the atmosphere (PLN 1 million). In 2017, this company advanced, and will continue over the next several years, the modernisation of four power plants: E-1 Lubin, E-2 Polkowice, E-3 Głogów and E-4 Legnica, comprising the adaptation of these installations to standards arising from Commission Implementing Decision (EU) 2017/1442 of 31 July 2017 establishing best available techniques (BAT) for large combustion plants pursuant to Directive 2010/75/EU of the European Parliament and of the Council.

17. The Management Board and the Supervisory Board of the Parent Entity

17.1. Bios and responsibilities of members of the Management Board

Radosław Domagalski-Łabędzki – President of the Management Board

Graduate of the University of Łódź (master of law). He graduated Executive MBA studies at Rutgers University in New Jersey. He studied under a scholarship at the University of Műnster and in Mannheim, Germany.

A manager with extensive experience in managing complex international business projects. He prepared and successfully implemented a development strategy for one of Poland's largest capital groups in Asia.

In the years 2006 – 2013 he was President of the Management Board of Magellan Trading Shanghai Co. Ltd in China. Earlier he worked as a lawyer in GSP Group Sp. z o.o. in Łódź and also in the American Enterprise Institute in Washington, one of America's largest think tanks.

From December 2015 to October 2016 he was Undersecretary of State in the Ministry of Development, responsible among others for promoting the Polish economy, and was a Member of the Polish Financial Supervision Authority.

Co-founder of the Polish – Chinese Chamber of Commerce in Shanghai. Author of numerous publications on business.

The President of the Management Board is responsible for:

- activities related to overall risk management at the corporate level as well as internal auditing and controlling within the Group;
- corporate supervision standards and the Company's compliance with corporate governance standards;

- overall corporate oversight over the Group's Polish subsidiaries;
- the development, updating and monitoring of the Group's equity investment plan;
- compliance with formal reporting and publishing obligations within the scope required by law;
- activities related to creating, updating and maintaining the uniformity of internal provisions regulating fixed organisational operating principles;
- organisational and legal servicing of the Company's bodies;
- activities related to communications and corporate image-building within the Group;
- the shaping of relations with the Company's external business environment;
- the work of the Central Procurement Office;
- on the Founder's behalf - the functioning of the Fundacja KGHM Polska Miedź (KGHM Polish Copper Foundation) as well as other organisations serving the public, which support achievement of the Group's business goals;
- activities related to human resources management.

Ryszard Jaśkowski - Vice President of the Management Board (Production)

A graduate of the High School of Engineering in Zielona Góra (Industry Organisation Engineer) and Economic Academy in Wroclaw (M.Sc. in economy). He also completed post-graduate studies in the field of organisation and management.

Has many years of experience in management. Associated with the KGHM Group, with breaks, since the mid-1980s. He gained his professional experience in the Legnica Copper Smelter and Refinery (1985-1991). Vice-President of the Management Board of KGHM (1999-2002) and also managed the following companies: POL-MIEDŹ TRANS sp. z o.o., Energetyka sp. z o.o., Centrum Badań Jakości sp. z o.o. in Lubin. President of the Management Board of the Miejskie Przedsiębiorstwo Komunikacyjne sp. z o.o. in Wroclaw (Municipal Transport Company) and Vice-President of the City of Legnica in 1991-1994.

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

- the integrated planning and optimisation of the Company's production;
- planning the long-term development of the core production business in a technically and economically optimal manner;
- occupational health and safety and control of environmental risks;
- 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;
- activities with respect to manufacturing products and services and development of the primary mine and metallurgical production.

Michał Jezioro – Vice President of the Management Board (International Assets)

Graduate of the University of Wrocław (Faculty of Law and Administration, major: Management, and Faculty of Philology, major: German studies). He graduated from the National School of Public Administration in Warsaw majoring in Public Administration.

A manager with practical experience in managing on international markets, he has been associated with the KGHM Polska Miedź S.A. Group for years.

In the years 2010-2016, he was the President of the Management Board of KGHM Shanghai Copper Trading Co., Ltd. Earlier, he was President of the Management Board of KGHM Kupferhandelsges.m.b.H. In the years 2000-2006, he was posted as the Vice Consul at the Consulate General of the Republic of Poland in Cologne.

The Vice President of the Management Board (International Assets) is responsible for:

- the preparation and implementation of strategy for international assets;
- activities related to obtaining and developing the International resource base;
- analysis, assessment and preparation of new international exploration projects;
- preparation of studies and expert opinions concerning international resource base projects;
- corporate governance over international companies, and coordination of tasks with respect to the plan of the Company's equity investments in international subsidiaries;
- substantive oversight over the Group's international production subsidiaries, including the creation and execution of their production plans.

Rafał Pawełczak – Vice President of the Management Board (Development)

Graduate of the Faculty of Chemistry at the University of Opole and Internal Audit, Oversight and Management Control post-graduate studies at the Faculty of Computer Science and Management of Wrocław University of Science and Technology. Certified Project Manager (CSM , PRINCE).

He has many years of experience in management. From 2007 to 2008 he was Director of the R&D Department in KGHM Polska Miedź S.A. In the years 2008-2016 he was the head of the key projects management department of Wrocław University of Science and Technology (acquisition and settlement of investment, infrastructure and research and development projects).

Since 2009, he has served as an expert in bodies supporting Ministries in the process of coordinating the use of EU funds.

From May 2016, he served as an Executive Director for Research and Innovation in KGHM Polska Miedź S.A. Since 2017 a member of EIP on RawMaterials.

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

- advancement of the Company's R&D policy;
- advancement of the Company's innovation and intellectual property protection policy;
- implementation and advancement of the Company's Strategy and Sustainable Management policy;
- management of real estate;
- coordination of the Company's investments and development projects;
- shaping of the Company's trade and logistics policy;
- shaping of the Company's products portfolio;
- initiation, development and implementation of management standards in the process of managing projects and programs.

Stefan Świątkowski – Vice President of the Management Board (Finance)

Graduate of Łódź University of Technology (Master's Degree in mathematics), the University of Leeds in the United Kingdom (Master of Science in mathematics), and INSEAD in France (MBA).

He has many years of experience in financial management, risk management, and strategic management. Most recently he was a co-founder of Bizon Capital sp. z o.o. Earlier he served as a Vice President of the Management Board of FM Bank/Polski Bank Przedsiębiorczości and the bank Powszechna Kasa Oszczędności Bank Polski S.A. responsible for risk management. He was also the Finance Director at Europejski Fundusz Leasingowy S.A. and the ALCO Director at Lukas Bank S.A. He also worked in Bank Handlowy S.A. and in McKinsey & Company Poland sp. z o.o. as a consultant.

Author of articles on economic issues and a novel about Polish privatisation.

He was awarded the Złoty Krzyż Zasługi (Gold Cross of Merit) in March 2010.

The Vice President of the Management Board (Finance) is responsible for:

- the shaping of the Group's financial policy;
- review of the Main Strategy's projects in terms of their financial feasibility;
- finances in all of the Group's operations and activities;
- the creation of Group tax policy;
- the Company's accounting services.

On 10 March 2018, the Supervisory Board of the Company dismissed Radosław Domagalski-Łabędzki, President of the Management Board, and Michał Jezioro, Vice President of the Management Board, from the Management Board of KGHM Polska Miedź S.A. At the same time, the Supervisory Board set the number of 9th-term Management Board members at 3 Members of the Management Board and assigned:

- the duties of President of the Management Board – to Rafał Pawełczak, Vice President of the Management Board (Development), until the appointment of a President of the Management Board following qualification proceedings;
- the duties of Vice president of the Management Board (International Assets) – to Stefan Świątkowski, Vice President of the Management Board (Finance), until the appointment of a Vice President of the Management Board (International Assets) following qualification proceedings.

Members of the Management Board - Rafał Pawełczak and Stefan Świątkowski – will continue to fulfil the functions assigned to them to date on the Management Board of KGHM Polska Miedź S.A.

in PLN millions, unless otherwise stated

17.2. Biographies of Supervisory Board members

Dominik Hunek – Chairman of the Supervisory Board

Education and professional qualifications:

1996-2002	University of Wrocław, Faculty of Law, Administration and Economy, major: law, master degree under supervision of Supreme Court judge prof. dr hab. (full professor) Herbert Szurgacz,
2003-2007	attorney apprenticeship in the Wałbrzych-Jelenia Góra Bar Council, and since 2005 in the Bar Council in Wrocław,
2007	passed attorney exam.

Positions held and professional career:

1998	Biuro Badań Biznesowych (business research office) SYNERGIA – assistant,
1999-2000	S.S.A - „Górnik Wałbrzych" – proxy of the management,
2002	Ernst & Young Wrocław/Warszawa (D. Janczak i Wspólnicy) – assistant,
2002-2005	Kancelaria Prawna PRETOR – lawyer, apprentice lawyer,
2005-2007	Kancelaria Lis i Partnerzy – apprentice lawyer,
2007-2008	Kancelaria Budnik Posnow i Partnerzy – partner, lawyer,
2008	a partner in Lis i Partnerzy, mainly involved in – apart from acting as a defense attorney in cases involving commercial and other crimes – mainly strategic consulting for large industrial and energy companies.

During his legal profession, he has worked or is working - as proxy or adviser of a commercial bank, industrial companies, the rail carrier, a manufacturer of automation systems of large energy industry, companies of one of the largest energy groups, including advisor of the management board of a company of the managing group. As part of this engagement and beyond it – proxy or attorney in hundreds of court cases.

Moreover:

since 2016	Member of the Supervisory Board of Polske Linie Lotnicze LOT SA,
since 2017	Arbiter of the Court of Arbitration at the General Counsel of the Republic of Poland,
2010-2014	Chairman of the Board of Centralna Szkoła Szybowcowa Aeroklubu Polskiego in Leszno,
since 2005	Chairman of the Supervisory Board of Fundacja Dzieci i Młodzieży Niepełnosprawnej „Krzyś" with its registered head office in Wrocław,
since 2016	Chairman of the Supervisory Board of KGHM Polska Miedź S.A.

Michał Czarnik – Deputy Chairman of the Supervisory Board, Chairman of the Audit Committee

Education and professional qualifications:

2003-2007	Legal adviser apprenticeship in the District Chamber of Legal Advisers in Warsaw,
2000-2001	Center of American Law, University of Florida,
1996-2001	Warsaw University, Faculty of Law and Administration, field: law,
2007	legal adviser,
2004	tax adviser,

Positions held and professional career:

since 2016	Deputy Chairman of the Supervisory Board
since 2014	Czarnik i Wspólnicy Spółka Partnerska Radców Prawnych (Warsaw),
2007-2014	Czarnik Porębski i Wspólnicy Spółka Partnerska Radców Prawnych (Warsaw) – Partner, Member of the Management Board,
since 08.2005	MMO Services - own business activity (Warsaw),
2004-2005	Agora S.A. (Warsaw) – Deputy Head of Tax Supervision,
2003-2004	Deloitte Sp. z o.o. (Warsaw) – Senior consultant,
2002-2003	Ernst & Young Doradztwo Podatkowe Sp. z o.o. (Warsaw) – Consultant,
2001-2002	Arthur Andersen Sp. z o.o. (Warsaw) – Consultant.

Józef Czyczerski – member of the Supervisory Board

Education and professional qualifications:

- Secondary technical education

Positions held and professional career:

	Chairman of the trade union Sekcja Krajowa Górnictwa Rud Miedzi NSZZ Solidarność
since 2016	Employee-elected member of the Supervisory Board of KGHM Polska Miedź S.A.
1999-2011	Employee-elected member of the Supervisory Board of KGHM Polska Miedź S.A.
since 1979	employed in the Rudna Mine of KGHM Polska Miedź S.A. as an electromechanic for mining machinery and equipment

in PLN millions, unless otherwise stated

Leszek Hajdacki – member of the Supervisory Board

Education and professional qualifications:

- Higher technical – University of Zielona Góra, Strategic management and finance
- Graduate of the Polish Open University in Warsaw, with a major in Business Management
- Post-graduate studies at the Faculty of Geoengineering, Mining and Geology at Wrocław University of Technology with respect to Occupational Work and Safety
- Post-graduate studies in economic and commercial law at the University of Wrocław's Faculty of Law, Administration and Economics,
- Passed exam for candidates for members on supervisory boards of State Treasury Companies

Positions held and professional career:

since January 2001	Chairman of the trade union Związek Zawodowy Pracowników Przemysłu Miedziowego in the Rudna Mine.
since 2016	Employee-elected member of the Supervisory Board of KGHM Polska Miedź S.A.
2002-2011	Employee-elected member of the Supervisory Board of KGHM Polska Miedź S.A.
2004-2006	President of Fundacja Polska Miedź
since 1978	employed in the Rudna Mine of KGHM Polska Miedź S.A., starting in the position of wireman, senior specialist for the settlement of electrical energy costs, presently senior inspector for standardisation – deputy for the chief engineer

Janusz Marcin Kowalski – member of the Supervisory Board

Education and professional qualifications:

- Master's degree in Law, Faculty of Law and Administration at Łódź University
- Master's degree in Administration, Faculty of Law and Administration at Łódź University
- Post-graduate studies in Company Law, Faculty of Law and Administration at Warsaw University

Positions held and professional career:

since 2017	Member of the Supervisory Board of Poczta Polska S.A,,
since 2017	Member of the Supervisory Board of KGHM Polska Miedź S.A,,
2015-2016	Vice President of the Management Board of PGNiG S.A., proxy,
2015-2016	Member of the Board of Directors of PGNiG Upstream International AS with its head office in Stavanger (Norway),
2015	Chairman of the Supervisory Board of Gas-Trading S.A. and member of the following Supervisory Boards: EuRoPol Gaz S.A., Polski Gaz TUW, PGNiG Supply & Trading GmbH and ZWUG Intergaz Sp. z o.o.,
2015	Member of the Supervisory Board of Energetyka Cieplna Opolszczyzny S.A.,
2014-2015	Vice president of Opole city,
2014	Member of the Supervisory Board of TBS sp. z o.o. in Ostrołęka,
2008-2010	Member of the Team for Energy Security in the Chancellery of Professor Lech Kaczyński – the late President of the Republic of Poland,
2008	energy security analyst in the National Security Bureau,
2007-2008	Member of the following Supervisory Boards: Operator Logistyczny Paliw Płynnych sp. z o.o. and Investgas S.A. (PGNiG S.A. Group),
2007-2008	Analyst in the Department of Energy Carriers Diversification in the Ministry of Economy of the Republic of Poland
2006	Director in the Association "Stop Korupcji" (Stop Corruption),
2004-2005	Manager in the insurance company Eurostrada,

Columnist, co-author of the book titled "Lech Kaczyński. Biografia polityczna 1949-2005" (Lech Kaczyński. Political biography 1949-2005)

Wojciech Andrzej Myślecki – member of the Supervisory Board

Education and professional qualifications:

1991-1993	American Studies "Management in Free Market Economy"
1978	awarded title of dr inż. nauk technicznych (doctor of engineering in technical studies)
1965-1970	studies at Wrocław University of Science and Technology – Master's Degree in Engineering (Telecommunications)

Positions held and professional career:

since 2002	Global Investment Corporation Sp. z o.o. – President of the Management Board,
since 2016	Member of the Supervisory Board of KGHM Polska Miedź S.A,,
since 2009	Bank Zachodni WBK S.A. – Adviser,
2009	Ministry of the State Treasury – Adviser to the Minister,
2006	Wałbrzyskie Zakłady Koksownicze „Victoria" S.A. – President of the Management Board (delegated from the Supervisory Board),
2004-2006	Winuel S.A. – Head of the Management Board's Advisors Team,
2000-2002	Polskie Sieci Elektroenergetyczne S.A. – Adviser to the Management Board,
1999-2003	Polish-French Centre for Industrial Systems Engineering at Wrocław University of Science and Technology – Director,
1998	Polskie Sieci Elektroenergetyczne S.A. – President of the Management Board (delegated from the Supervisory Board),

1997	Winuel S.A. - President of the Management Board,
1991-1999	French post-graduate Studies „Ecole Francaise de Genie des Systemes Industrieles" – Manager,
1991-1993	Wrocław University of Science and Technology – Proxy to the Dean for Organisational Changes,
1991	Studies-Design Unit of Wrocław University of Science and Technology – Survey Director,
1981-1982	Wrocław University of Science and Technology – Director of the Dean's Office,
1978-2008	Wrocław University of Science and Technology – appointed academic employee in the Electronics Department,
1971-1978	Wrocław University of Science and Technology – assistant/senior assistant in the Electronics Department.

Member of the Supervisory Boards of the following companies: KGHM Polska Miedź S.A. in Lubin (2016-present), Generali PTE in Warsaw (2014–present); Procom System S.A. in Wrocław (2011-present); Tauron Polska Energia SA (XII.2015–XI.2016); Energa Wytwarzanie S.A. in Gdańsk (Secretary to the Supervisory Board - 2013-2015); Brzeskie Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. (Chairman of the Supervisory Board – 2011-2015); Polskie Sieci Elektroenergetyczne – Operator SA (2009-2010); Park Przemysłowy w Piekarach Śląskich Sp. z o.o. (2007-2012); WZK „Victoria" SA (Chairman of the Supervisory Board- 2006-2008); Zakład Usług Wielobranżowych Sp. z o.o. in Lubin (2000-2002); Wrocławski Park Technologiczny S.A. (1999-2003); Polskie Sieci Elektroenergetyczne S.A. (1998-2000); Telefonia Lokalna DIALOG S.A. (1997-2000); WINUEL S.A. (Chairman - 1996-1999); Centrum OPHTA LAB Sp. z o.o. (Secretary to the Supervisory Board - 1994-1998).

In addition he served in the following advisory functions: Member of the Honorary Convent of Wrocław University of Science and Technology and of Wrocław University of Environmental and Life Sciences (2017–present) , Member of the Scientific Council of the Industrial Chemistry Research Institute and the Economic Condition and Prices Research Institute (2017- present), a Member of the Program Council of the Syndicate SmartPowerGrid Polska (2010–present); an Advisor to the Management Board of KGHM Polska Miedź S.A. for energy policy (2012); a Member of the Budget and Finance Committee of the Town Council of Wrocław (1999-2001); a Member of the Scientific Council of Wrocław Center for Technology Transfer (1997-2003); a Member of the Council of the Development Foundation of Wrocław University of Science and Technology (1996-2003); an Advisor to the director of the enterprise DOLPASZ in Wrocław (1992-1993); a Head of the Advisory Team of the Voivode of Wrocław (1992); an Associate in the international consulting firm AT Kearney (1991-1997); an Advisor to the Management Board of KGHM Polska Miedź S.A. (1991-1993); an Advisor for economic policy of the Prime Minister of the Polish Government (1991-1992); a Member of the Advisory Team of the Minister of Communications (1976-1990).

Marek Pietrzak – member of the Supervisory Board, Chairman of the Remuneration Committee

Education and professional qualifications:

2015-2016	Apsley Business School of London and Warsaw Management University – executive master of business administration
2009-2013	legal adviser apprenticeship in the District Chamber of Legal Advisers in Warsaw – legal adviser,
2001-2006	studies at the Higher School of Commerce and Law in Warsaw in the Faculty of Law – Master's Degree in Law,
2000-2004	studies at the Private Higher School of Business and Administration in Warsaw in the Faculty of Economics – Master's Degree in Economics

Positions held and professional career:

since 2016	Member of the Supervisory Board of KGHM Polska Miedź S.A,,
since 2014	Law Office – Marek Pietrzak – Owner,
since 2016	Polskie Radio Regionalna Rozgłośnia w Warszawie Radio dla Ciebie S.A. – Chairman of the Supervisory Board,
2015-2016	Bialskie Wodociągi i Kanalizacja „Wod-Kan" Sp. z o.o. – Member of the Supervisory Board,
2011-2014	Wodociąg Marecki Sp. z o.o. - Legal adviser to the project team,
2010	Office of the President of the Republic of Poland – Specialist in the Legal and Legislative Office,
2007-2008	Mazowiecki Urząd Wojewódzki (Mazowiecki Provincial Office) - Legal officer in the Law Department.

In his professional practice he concentrates on providing legal services to corporate entities. His chief specialisations are civil and economic law, in particular corporate and labour law. He also specialises in pursuing compensation and reparations in the case of medical malpractice as well as vehicular and workplace accidents.

Bogusław Szarek – Secretary of the Supervisory Board

Education and professional qualifications:

- Technical secondary

Positions held and professional career:

	Chairman of the trade union Komisja Zakładowa NSZZ „Solidarność" in the Polkowice-Sieroszowice Mine,
since 2012	Employee-elected member of the Supervisory Board of KGHM Polska Miedź S.A.
since 1982	employed at the Sieroszowice Mine of KGHM Polska Miedź S.A. as a mining machinery and tools mechanic,

in PLN millions, unless otherwise stated

Agnieszka Winnik-Kalemba – member of the Supervisory Board

Education and professional qualifications:	
since 2016	Member of the Supervisory Board of KGHM Polska Miedź S.A,,
1999-2003	Attorney apprenticeship at the District Bar Council in Wrocław; Legal Bar exam in 2003,
1995-1997	Scholarship from the American Government at Georgetown University in Washington D.C. and The James W. Martin School of Policy and Administration at the University of Kentucky, major: Business Law and Public Administration,
1990-1995	Studies at the University of Wrocław, Faculty of Law and Administration – Master's Degree in Law.
Positions held and professional career:	
since 2003	Owner of a Law Office - Agnieszka Winnik-Kalemba,
2016 (March-June)	PKO BP S.A. – Deputy Chairwoman of the Supervisory Board,
2006-2010	Advisor and regular associate of the late Member of Parliament Aleksandra Natalii-Świat,
2006-2008	PKO BP S.A. – Member of the Supervisory Board,
1998-2000	Lower Silesia Marshal's Office in Wrocław – Manager of the Legal Services Office,
1997-1998	Legal Assistant to the Chairman of the Chamber of Regions of the European Council in Strasbourg, Parliament of the Voivodeship of Wrocław,
1997	Legal Assistant in the Law Offices of Bowles, Keating, Matuszewich & Fiordalisi Chicago-Milan-Rome, A Partnership of Professional Corporation, Chicago, USA,
1989-1991	Head Office of the trade union NSZZ Solidarność, Lower Silesia Region
1987-1989	Associate of the Commission for Intervention and Law and Order of the trade union NSZZ Solidarność, managed by Zofia and Zbigniew Romaszewscy,
1986-1989	Associate of the Regional Executive Committee of the trade union NSZZ Solidarność, Lower Silesia Region.

Jarosław Witkowski – member of the Supervisory Board, Chairman of the Strategy Committee

Education and professional qualifications:	
2004	Professor of economic studies,
1996	Doctor habilitatus of economic studies (Academy of Economics in Wrocław),
1991	Doctor of economic studies (Academy of Economics in Katowice),
1986	Master of economics (Academy of Economics in Katowice).
Positions held and professional career:	
since 2016	Member of the Supervisory Board of KGHM Polska Miedź S.A.,
since 2018	Member of the Supervisory Board of Trans.eu Group S.A.,
since 2016	Chairman of the Senate Commission for Cooperation with Business, University of Economics in Wrocław,
since 1998	Head of the Strategic Management and Logistics Department in the Economics, Management and Tourism Faculty in Jelenia Góra, University of Economics in Wrocław,
2012-2016	Chairman of the Senate Commission for International Cooperation, University of Economics in Wrocław,
2012-2016	Professor in the Logistics Faculty of the University of Zielona Góra,
2005-2012	Vice dean for international cooperation, University of Economics in Wrocław,
1988-1998	Assistant, then adjunct in the Institute of Production Economics (later the Faculty of Strategic Industrial Development) in Academy of Economics in Wrocław,
1986-1987	Trainee in the company Przedsiębiorstwo Spedycji Międzynarodowej C. Hartwig in Katowice,
1986-1988	Assistant in the Institute of Transport Economics in the Academy of Economics in Katowice.

Scholarships and foreign internships: in 1993 graduate of the European Doctoral Programme In Entrepreneurship and Small Business Management, conducted by Copenhagen Business School and Rosklide University in Denmark as well as Lund University and Vaxjo University in Sweden. In the years 1995 - 1997 a student trainee under a scholarship in the Japanese government of Monbusho at the University of Foreign Studies in Tokyo and at Hitotsubashi University in Tokyo.

17.3. Changes in the Parent Entity's bodies

Management Board of the Company

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 2017, the composition of the 9th-term Management Board of KGHM Polska Miedź S.A. was as follows:

- Radosław Domagalski-Łabędzki – President of the Management Board,
- Jacek Rawecki – 1st Vice President of the Management Board (Supply Chain Management)
- Michał Jezioro – Vice President of the Management Board (Development)
- Stefan Świątkowski – Vice President of the Management Board (Finance)
- Piotr Walczak – Vice President of the Management Board (Production),

in PLN millions, unless otherwise stated

Changes in the composition and division of duties of the Management Board in 2017:

Date	Description of changes
3 February 2017	- Jacek Rawecki resigned from the function of 1st Vice President of the Management Board of KGHM Polska Miedź S.A., - The Supervisory Board passed a resolution to appoint Rafał Pawełczak to the function of Vice President of the Management Board of KGHM Polska Miedź S.A.
31 May 2017	- Piotr Walczak resigned from the function of Vice President of the Management Board (Production) with effect as at 13 June 2017.
24 July 2017	- On 24 July 2017, the Supervisory Board adopted a resolution to appoint Ryszard Jaśkowski as a Member of the Management Board of KGHM Polska Miedź S.A.
8 November 2017	- The Supervisory Board of KGHM Polska Miedź S.A. appointed Ryszard Jaśkowski to the position of Vice President of the Management Board (Production)

As at 31 December 2017, the composition of the Management Board was as follows:

- Radosław Domagalski-Łabędzki President of the Management Board,
- Stefan Świątkowski Vice President of the Management Board (Finance),
- Michał Jezioro Vice President of the Management Board (International Assets),
- Rafał Pawełczak Vice President of the Management Board (Development),
- Ryszard Jaśkowski Vice President of the Management Board (Production).

Moreover, on 10 March 2018 the Supervisory Board of the Company dismissed Radosław Domagalski-Łabędzki, President of the Management Board and Michał Jezioro, Vice President of the Management Board, from the Management Board of KGHM Polska Miedź S.A.

Supervisory Board of the Company

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 2017, the composition of the 9th-term Supervisory Board of KGHM Polska Miedź S.A. was as follows:

- Dominik Hunek Chairman
- Michał Czarnik Deputy Chairman
- Wojciech Andrzej Myślecki
- Marek Pietrzak
- Agnieszka Winnik-Kalemba
- Jarosław Witkowski
- and elected by employees
- Bogusław Szarek Secretary
- Józef Czyczerski
- Leszek Hajdacki

On 21 June 2017, the Ordinary General Meeting of KGHM Polska Miedź S.A. appointed Janusz Marcin Kowalski to the Supervisory Board of the Company.

The composition of the Supervisory Board from 21 June 2017 to 31 December 2017 was as follows:

- Dominik Hunek Chairman
- Michał Czarnik Deputy Chairman
- Janusz Marcin Kowalski
- Wojciech Andrzej Myślecki
- Marek Pietrzak
- Agnieszka Winnik-Kalemba
- Jarosław Witkowski
- and elected by employees
- Bogusław Szarek Secretary
- Józef Czyczerski
- Leszek Hajdacki

17.4. Remuneration of the Parent Entity's bodies and of other key managers of the Group

Information on management services contracts, remuneration and the forbidding of competitive activities following the cessation of functioning as a member of the Management Board of KGHM Polska Miedź S.A.

As a result of the coming into force of the Act dated 9 June 2016 on the terms of setting the remuneration of individuals managing certain companies, the Supervisory Board – acting under the authority granted by the Extraordinary General Meeting of the Company KGHM Polska Miedź S.A., setting the principles of employment and remuneration of Management Board Members – established templates for the management services contracts covering the time period in which the President and Vice President of the Management Board of the Company serve in those functions.

Based on the aforementioned contract templates, as at 1 June 2017, management services contracts were signed with individual members of the Management Board which replaced the existing employment contracts.

The total remuneration received on the basis of these contracts is comprised of a fixed part, representing basic monthly remuneration, and a variable part, representing supplementary remuneration for the Company's financial year.

Pursuant to a decision of the EGM, the amount of fixed monthly remuneration for individual members of the Company's Management Board is within a range of seven- to fifteen times the average monthly remuneration in the corporate sector, exclusive of the annual bonus paid in the fourth quarter of the prior year, announced by the President of the Central Statistical Office.

Variable remuneration depends on the level of achievement of the management goals set by the Supervisory Board and may not exceed 90% or 100% (depending on the function served in the Management Board) of the fixed remuneration for the time during which the subject of a given contract is performed (with the proviso that it is longer than three months).

Based on the Statutes of KGHM Polska Miedź S.A., the Bylaws of the Supervisory Board, the management services contracts and resolutions of the Ordinary and Extraordinary General Meetings, the Supervisory Board confirmed the Management Goals (key performance indicators – KPI) for the Management Board of KGHM Polska Miedź S.A. for 2017.

The Management Goals to be achieved, stipulating the conditions under which variable remuneration for the Company's financial year may be received, were as follows:

- implementation of the principles of remunerating members of management and supervisory bodies, pursuant to the act dated 9 June 2016 on the terms of setting the remuneration of individuals managing certain companies, in all of the Group's companies by 31 December 2017,
- establishing the compositions of supervisory boards in all of the Group's companies such that their members are entitled to serve on supervisory boards, as confirmed by the positive result of the examination for candidates of supervisory boards, or hold statutory exemptions from the requirement to pass such an examination, in particular being in possession of a doctorate in economics or law, or being a registered legal counsel, barrister, certified accountant or investment advisor, by 31 December 2017,
- execution of the duties described in art. 17-20, art. 22 and art. 23 of the act dated 16 December 2016 on the principles of state assets management, by 31 December 2017.

The Supervisory Board also set additional management goals: collective KPIs (obligatory for all of the Management Board's Members) and individual KPIs/goals.

The collective KPIs comprise:

- Adjusted EBITDA for the KGHM Polska Miedź S.A. Group,
- EBITDA margin for the KGHM Polska Miedź S.A. Group

Individual KPIs/goals assigned to individual Members of the Management Board derive from the Company's adopted strategy and are critical from the organisational point of view.

Payment of variable remuneration is made if a Management Board Member's management goals are achieved, the Management Board's Report on the activities of the Company and the Company's financial statements for the prior year are approved, the Management Board Member's performance of duties is approved by the General Meeting, and the Management Board presents the Supervisory Board with a report on the achievement of the management goals. The Supervisory Board evaluates the execution of the aforementioned goals and sets the amount of the variable remuneration due.

Total annual remuneration for a given Management Board Member, as described above, may not exceed a multiple of the amount of PLN 100 000 and the number of calendar months during which the Member served in the function.

in PLN millions, unless otherwise stated

Table 51. Potentially-due remuneration of Members of the Management Board of KGHM Polska Miedź S.A. for 2017

First, last name	Position	Potentially-due variable remuneration for 2017 based on employment contract (with bonus*)	Potentially-due variable remuneration for 2017 based on management services contract
Radosław Domagalski-Łabędzki	Member of the Management Board - President of the Management Board	286 245.70	237 603.10
Stefan Świątkowski	Member of the Management Board - Vice President of the Management Board	253 217.35	237 603.10
Rafał Pawełczak	Member of the Management Board - Vice President of the Management Board	197 509.56	237 603.10
Michał Jezioro	Member of the Management Board - Vice President of the Management Board	253 217.35	237 603.10
Ryszard Jaśkowski	Member of the Management Board - Vice President of the Management Board	0.00	178 101.38
Jacek Rawecki	Member of the Management Board – 1st Vice President of the Management Board	274 921.70	0.00
Piotr Walczak	Member of the Management Board - Vice President of the Management Board	60 772.17	0.00
TOTAL		**1 325 883.83**	**1 128 513.78**

**Potentially-due remuneration concerning variable remuneration for 2017 paid on the basis of an employment contract (with 20% bonus), the payment of which is determined by the Supervisory Board.*

The aforementioned contract also regulates the following matters:

- utilisation – during the period when the contractual duties are performed – of office space together with technical equipment and infrastructure, including a personal computer with wireless Internet access, means of communication, including a mobile phone,
- participation in conferences, seminaries or business meetings related to the Company's operations and, if necessary to carry out these obligations, business trips in Poland and abroad,
- the incurring by the Company of costs related to services performed outside of the Head Office which must be incurred to properly perform the services, in particular such as travel costs and quartering in a standard appropriate to the function performed,
- use of a company car for business purposes,
- housing allowances in the amount of PLN 2 500 if the Company's Head Office is located more than 100 km from the Management Board Member's home,
- civil liability insurance related to serving in the function;
- incurring or refinancing costs of individual training for the Management Board Member related to the Contract in question and contractual obligations up to the net amount of PLN 15 000 within a calendar year (if the Supervisory Board expresses consent).

The Contracts also provide that if the Management Board Member serves as a member of a body in a subsidiary of the Company within the Group, the Management Board Member will not receive additional remuneration for this function, apart from the remuneration provided for in the management services contract.
The contracts signed with the Members of the Management Board regulate the question of compensation in the case of termination, with or without notice, of the management services contract for reasons other than breach of the contract's basic obligations. The contracts foresee that the Company will pay severance pay in of three times the amount of the fixed part of remuneration (if employed in the position for at least 12 months).
The contracts with the Members of the Management Board – both during the period of employment as well as following the period of employment – deal with the question of forbidding any activities which would represent a conflict of interest. In particular, they establish that for a period of six months from the date when employment in the function ceases, the Management Board Member is not allowed to engage in any activities which would represent a conflict of interest. For adherence to the clause on forbidding competitive activities, KGHM pays the Management Board Member compensation in a total amount calculated as a multiple of 0.5 times the monthly fixed remuneration and the 6-month period of the forbidding of competitive activities. The payment of compensation is conditional on the Management Board Member's having served in the function for at least 6 months. If a Member of the Management Board breaches this clause in the contract, he or she will be required to pay a contractual penalty in the entire amount of the compensation received. Payment of the contractual penalty does not deprive the Company of the right to seek compensation in an amount exceeding that amount under general rules.

Information on the Supervisory Board Members' remuneration

The remuneration of members of supervisory boards was set on 21 June 2017 by the General Meeting based on the w Act dated 9 June 2016 on the terms of setting the remuneration of individuals managing certain companies. 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 corporate sector excluding payments from profit in the fourth quarter of the previous year, announced by the President of the Central Statistical Office.
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 Board or Management Board members may be found in note 12.10 of the separate and consolidated financial statements.

in PLN millions, unless otherwise stated

Information on remuneration systems of key managers

Key managers receive remuneration based on employment contracts. During the lives of these contracts employees receive:

- basic monthly remuneration, which amounts – depending on the function served – from 4.5- to 12-times 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 Central Statistical Office.
- an annual bonus, paid in accordance with the principles for bonuses set by the Management Board, based on a system of business measures (KPIs) and individual goals (MBO).
- Principles for setting and granting annual bonuses (STIP - Short-Term Incentive Plan) in KGHM Polska Miedź S.A. functioning since 2013. This system is based on collective, individual and task-related KPIs which were derived from the key performance indicators for the Management Board as well as on goals arising from the Company's strategy. Presently the STIP system comprises a group of 109 managers in the Company.
- additional benefits, such as life insurance, the Employee Pension Program, Health Care Package, company car.

18. Ethics and Corporate Governance

The Code of Ethics of the KGHM Polska Miedź S.A. Group is the main tool, in the corporate Group culture, which assists in defining priorities and in establishing a collection of principles which are binding for all employees in their daily work.

The objective of the Code of Ethics is to ensure that the behaviour of employees conforms to the highest standards based on the values which guide the KGHM Polska Miedź S.A. Group's employees: zero harm, teamwork, results-driven, accountability and courage.

Additionally, in order to enable effective implementation of the principles and values set forth in the Code of Ethics across the KGHM Polska Miedź S.A. Group other appropriate policies and procedures are in force. Their implementation meets world corporate governance standards as well as the increasing demands of stakeholders, including above all customers and financial institutions.

Based on best practices in corporate governance, the following policies are in force, introducing global, unified standards which have been adapted to the laws applicable in all of the jurisdictions in which the KGHM Polska Miedź S.A. 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 framework for a system that will enable the KGHM Polska Miedź S.A. Group to remain in conformity with the competition laws which are applicable in all of the countries in which the KGHM Polska Miedź S.A. 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 Polska Miedź S.A. Group operates. The Group applies a zero tolerance policy towards corruption and bribery.
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, tin, wolframite and tantalum) and at ensuring that the merchandise and services purchased by the KGHM Polska Miedź S.A. 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 2017, the Company operated an internal system for managing a responsible gold supply chain, comprised of a Responsible Supply Chain Policy in the KGHM Group and a Procedure for Assessing a Responsible Supply Chain for Gold in KGHM Polska Miedź S.A. This system is subject to an independent, external audit to ensure compliance with the guidelines of the LBMA's Responsible Gold Guidance as well as to obtain certification by the LBMA (The London Bullion Market Association). In 2018, it is planned to expand the system by additional mechanisms ensuring compliance with the LBMA's Responsible Silver Guidance guidelines published in 2017.

In 2017, to comply with the most important principles related to counteracting corruption, KGHM Polska Miedź S.A. and the domestic companies of the KGHM Polska Miedź S.A. Group implemented „Instructions for counteracting the threat of corruption". In 2018, it is planned to update the Code of Ethics of the KGHM Group. In addition, work supporting and raising ethical standards and corporate governance will be continued in 2018.

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.

in PLN millions, unless otherwise stated

19. Regulatory filings published after the balance sheet date

Date of report		Section
19 January 2018	**Identification of indications to verify the recoverable amount of international mining assets** As a result of reviewing the technical and economic assumptions of key international mining assets belonging to the KGHM Polska Miedź S.A. Group, there has been a significant change in the parameters for a part of these assets as regards mine lives, metals production volumes, assumed operating costs and the level of capital expenditures during the life of individual mines. In accordance with IAS 36, a significant change in the aforementioned assumptions is the indication of a possible change in the recoverable amount of the assets, and obliges the Company to conduct tests for impairment as at the end of the last reporting period, i.e. 31 December 2017 in order to verify the recoverable amount with respect to the Robinson mine, mining assets of the Sudbury Basin (i.e. the Morrison mine and the Victoria project), the Franke mine and the KGHM Ajax project. With respect to assets due to involvement in the joint venture Sierra Gorda S.C.M., including the value of the Sierra Gorda S.C.M. investment and loans granted to Sierra Gorda S.C.M., indications to conduct tests have not been identified.	6 and 7
21 February 2018	**Information on the results of the conducted tests for impairment** Detailed information on the results of the conducted tests for impairment may be found in Part 3 of the Separate and Consolidated Financial Statements.	6 and 7
10 March 2018	**Information on changes to the composition of the Management Board** The Supervisory Board dismissed Radosław Domagalski-Łabędzki, President of the Management Board, and Michał Jezioro, Vice President of the Management Board, from the Management Board of KGHM Polska Miedź S.A. Detailed information on changes to the division of duties of members of the Management Board are presented in section 17.1 of this report.	17

In addition, in 2018 regulatory filings were published concerning:

- publication dates for periodic reports in 2018 (19 January 2018),
- convening of an Extraordinary General Meeting of KGHM Polska Miedź S.A. (14 February 2018),
- proposed resolutions for the Extraordinary General Meeting (14 February 2018),
- change in the agenda of the Extraordinary General Meeting of KGHM Polska Miedź S.A. convened for 15 March 2018 (15 February 2018),
- change in the publication date of periodic reports for 2017 (7 March 2018).

Appendix 1 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 2017.

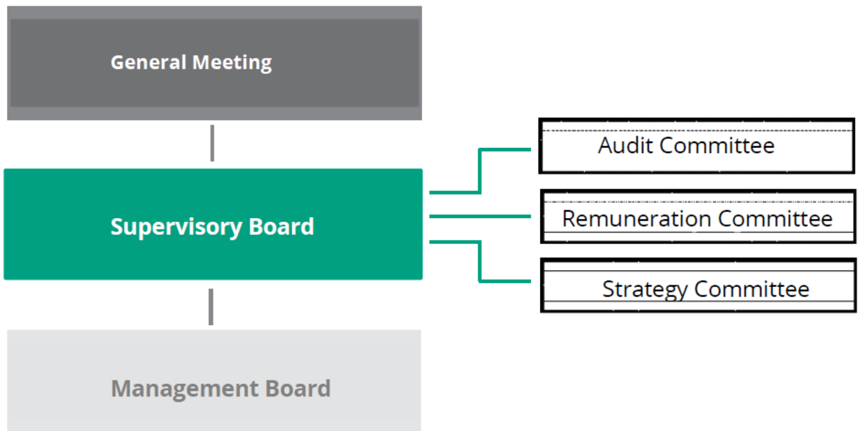
KGHM Polska Miedź S.A., whose shares are listed on the Warsaw Stock Exchange, in 2017 was subject to the corporate governance principles described in the document „Code of Best Practice for WSE Listed Companies 2016" which was adopted by Resolution No. 26/1413/2015 of the Warsaw Stock Exchange Supervisory Board on 13 October 2015. These principles are available at the official website of the Warsaw Stock Exchange devoted to this subject (https://www.gpw.pl/best-practice) 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.

KGHM Polska Miedź S.A. has endeavoured at every stage of its operations to carry out the recommendations and principles respecting "Best Practice" for listed companies.

In 2017, KGHM Polska Miedź S.A. did not comply with recommendation IV.R.2 from „Best Practice...", according to which, if justified, a company should enable its shareholders to participate in general meetings using electronic means of communication, in particular through the real–time broadcast of general meetings, real-time bilateral communication whereby shareholders may take the floor during a general meeting from a location other than the general meeting, and also exercise the right to vote during a general meeting either in person or through a proxy.

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 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. Since 2016 KGHM Polska Miedź S.A. has been providing real-time streaming webcasts of its General Meetings.

Diagram 7. Corporate governance structure in KGHM Polska Miedź S.A.



General Meeting

The General Meeting (GM) 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. with its registered head office in Lubin". GMs 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 GM. The GM 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 GM 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 GM are set forth by the Commercial Partnerships and Companies Code and the Company's Statutes. Additional issues related to the functioning of the GM are regulated by the "Bylaws of the General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin" adopted by the GM on 17 May 2010, which are available on the Company's website, www.kghm.com.

The duties of the General Meeting include in particular:

1. examining and approving the report of the Management Board on the Company's activity and the financial statements, including the financial statements of the Group, for the past financial year,
2. adopting resolutions on the distribution of profits or coverage of losses,
3. acknowledging the fulfilment of duties performed by members of the bodies of the Company,
4. changing the subject of the Company's activity,
5. changes in the Company Statutes,
6. increasing or decreasing the share capital,
7. the manner and conditions for retiring shares,
8. merging, splitting and transforming the Company,
9. dissolving and liquidating the Company,
10. issuing convertible bonds or senior bonds,
11. 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,
12. all decisions relating to claims for redress of damage suffered during the foundation of the Company, or from management or supervisory activities,
13. 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,
14. establishing principles of the remuneration of members of the Supervisory Board, and
15. establishing principles of the remuneration of members of the Management 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

Detailed information on the ownership structure is presented in Section 11.4 of this report.

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.

Shareholders are entitled to exercise their 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:

1. 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,
2. to announce draft resolutions during a General Meeting which are in regard to matters introduced to the agenda,
3. 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,
4. to request that a matter included in the agenda be removed or not considered,
5. 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
6. 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, if needed, 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:

1. 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,
2. evaluating the proposals of the Management Board with respect to the distribution of profits or coverage of losses,
3. submitting to the General Meeting an annual written report on the results of the evaluations of the documents referred to in the first two points above,
4. submitting to the General Meeting annual requests for granting approval of the Management Board's members with respect to their activities,
5. 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,
6. choosing an auditor to audit the statements referred to in point 1,
7. suspending from their duties for important reasons some or all of the members of the Management Board,
8. 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,
9. establishing the remuneration of members of the Management Board, as well as the other conditions of management services contracts, based on principles for setting the remuneration of Members of the Management Board adopted by the General Meeting, with due regard to the Act of 9 June 2016 on the terms of setting the remuneration of individuals managing certain companies,
10. approving the Bylaws of the Management Board of the Company,
11. approving the Company's annual and multi-year operating plans,
12. stating its opinion on any request of the Management Board addressed to the General Meeting,
13. at the request of the Management Board, expressing its consent to:
    a. 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);
    b. 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;
    c. establishing and acceding to commercial partnerships and companies;
    d. disposing of shares in subsidiaries of the Company;
    e. establishing branches, companies, representative offices and other organisational or economic entities abroad;
    f. obtaining or acquiring shares of another Company, and
    g. the establishment and liquidation of foundations;
14. appointing and recalling members of the Management Board, with due regard being given to § 12 of the Statutes of the Company,
15. expressing an opinion on investments by the Company in fixed assets, which meet one of the following conditions: a) 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; b) 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.
16. determining the manner of voting by a representative of KGHM Polska Miedź S.A. at the General Meetings of companies in respect of which the Company is a parent entity pursuant to art. 4 point 3 of the Act of 16 February 2007 on competition and consumer protection, regarding: a) the founding by a Company of another company; b) amendments in the statutes or articles of association and in the subject of a company's activities; c) the merger, transformation, splitting, dissolution and liquidation of a company; d) increasing or decreasing a company's share capital; e) the disposal and lease of an enterprise or of an organised part thereof, as well as the attachment of limited property rights to same; f) the retirement of shares; g) setting the remuneration of members of the management boards and supervisory boards; h) decisions relating to claims for redress of damage suffered during the founding of the company, or from management or supervisory activities; i) regarding issues referred to in art. 17 of the Act of 16 December 2016 on the principles of state assets management, with due regard to § 34 sec. 4 of the Statutes.
17. providing an opinion on reports prepared by the Management Board on representative expenses, expenses for legal services, marketing services, public relations services and social communication services and advisory services associated with management,
18. providing an opinion on the principles of sponsoring activities and assessing the effectiveness of the sponsoring activities conducted by the Company,
19. providing an opinion on changes to the principles for the disposal of non-current assets, set forth in § 33^1 of the Statutes,
20. confirmation of remuneration policy for the Group.

The Supervisory Board is also obligated to provide consent to the Management Board for the following:

1. agreements for legal services, marketing services, public relations services and social communication services, and advisory services associated with management, if the total expected remuneration for providing such services exceeds the net amount of PLN 500 000 per year,
2. changes in agreements for legal services, marketing services, public relations services and social communication services, and advisory services associated with management which increase the amount of remuneration above the amount referred to in point 1,
3. agreements for legal services, marketing services, public relations services and social communication services, and advisory services associated with management, in which the maximum amount of remuneration is not determined,
4. donations or other agreements with similar implications, with a value exceeding PLN 20 000 or 0.1% of total assets pursuant to the Act of 29 September 1994 on accounting, determined based on the most recently approved financial statements,
5. discharge of debt or other agreements with similar implications with a value exceeding PLN 50 000 or 0.1% of total assets pursuant to the Act of 29 September 1994 on accounting, determined based on the most recently approved financial statements.

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.

The composition of the Supervisory Board and its changes in 2017 are presented in the Section 17 of this report.

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, Michał Czarnik, Wojciech Andrzej Myślecki, Marek Pietrzak, Agnieszka Winnik – Kalemba and Janusz Kowalski.

Supervisory Board Committees

Within the structure of the Supervisory Board are three committees which 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.

Audit Committee

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:

- monitoring of:
  - the financial reporting process,
  - the effectiveness of internal control systems and risk management systems as well as internal auditing, including financial reporting,
  - the conduct of financial review, in particular carrying out auditing research, reflecting all of the conclusions of the Auditing Oversight Committee resulting from audits carried out within an auditing firm,
- conducting reviews of transactions carried out by the Company, which the Audit Committee considers as significant for the Company,
- providing an opinion on the Company's internal audit plan and the internal audit bylaws, as well as changes in the position of Internal Audit Director,
- analysis of the conclusions and recommendations of the Company's internal audit, including monitoring of the degree of implementation of recommendations made by the Company's Management Board,
- auditing and monitoring the independence of the certified auditor and the auditing firm, in particular if the auditing firm provides services to the Company apart from auditing,
- informing the Supervisory Board of audit results and explaining to what degree such audits have resulted in the transparency of financial reporting in the Company, and also the role of the Audit Committee in this process,
- assessing the independence of the certified auditor and expressing consent for the certified auditor to provide permitted non-auditing services in the Company,
- developing a policy to select the auditing firm for conducting audits,
- developing a policy for the auditing firm conducting audits, through entities related to the said auditing firm and by a member of the auditing firm's network, to provide permitted non-auditing services,
- setting forth the Company's procedures for selecting an auditing firm,
- presenting the Supervisory Board with the recommendations referred to in art. 16 section 2 of Decree no. 537/2014 (i.e. recommendations regarding the appointment of a certified auditor or auditing firms), in accordance with those policies referred to in points 5 and 6 above,
- submitting recommendations aimed at ensuring the transparency of the Company's financial reporting process.

in PLN millions, unless otherwise stated

The composition of the Audit Committee in 2017:

	1 January – 21 September	22 September- 31 December
Michał Czarnik	x (Chairman)	x (Chairman)
Leszek Hajdacki	x	x
Dominik Hunek	x	x
Wojciech Myślecki	x	x
Marek Pietrzak	x	x
Bogusław Szarek	x	x
Agnieszka Winnik-Kalemba	x	x
Jarosław Witkowski	x	x
Janusz Kowalski		x

Remuneration Committee

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:

- the management of issues related to the recruitment and employment of members of the Management Board by preparing and arranging draft documents and processes to be submitted for the acceptance of the Supervisory Board,
- the preparation of draft contracts/agreements and other sample documents related to the establishment of an employment relationship with members of the Management Board and oversight of the execution of the contractual obligations of the parties,
- oversight of the execution of the Management Board remuneration system, in particular the preparation of settlement documents with respect to variable elements and bonus-based remuneration in order to submit recommendations to the Supervisory Board,
- monitoring and periodic assessment of the remuneration system for the Company's senior management and, if necessary, the preparation of recommendations for the Supervisory Board,
- oversight of the proper execution of additional benefits for the Management Board resulting from employment contracts, such as insurance, company cars, housing, etc., and
- other tasks ordered by the Supervisory Board.

The composition of the Remuneration Committee in 2017:

	1 January – 21 September	22 September- 31 December
Leszek Hajdacki	x	x
Dominik Hunek	x	x
Józef Czyczerski	x	x
Marek Pietrzak		x (Chairman)
Bogusław Szarek	x	x

Strategy Committee

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:

- execution on behalf of the Company's Supervisory Board of tasks in the area of oversight of issues associated with the Company's strategy and the annual and long-term operating plans of the Company,
- monitoring execution 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 execution of the annual and long-term operating plans of the Company by the Management Board, and assessment of whether these plans need to be modified,
- assessment of the consistency of the annual and long-term operating plans of the Company with the Company's strategy as executed 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 of the annual and long-term operating plans of the Company, as presented by the Company's Management Board; and
- other tasks ordered by the Supervisory Board.

The composition of the Strategy Committee in 2017:

	1 January – 21 September	22 September- 31 December
Michał Czarnik	x	x
Józef Czyczerski	x	x
Leszek Hajdacki	x	x
Wojciech Myślecki	x	x
Marek Pietrzak		x
Bogusław Szarek	x	x
Agnieszka Winnik-Kalemba	x	x
Jarosław Witkowski	x (Chairman)	x (Chairman)

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 Bylaws of the Management Board.

According to the Statutes of KGHM Polska Miedź S.A., the Company's Management Board 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 the Vice Presidents. The Supervisory Board appoints the members of the Management Board following the conduct of qualification proceedings, the goal of which is to review and evaluate the qualifications of candidates and to select the best candidate for Member of the Management Board, with due regard being given to sec. 5 and sections 7 to 12 concerning the appointment or recall of an employee-elected member of the Management Board. The members of the Management Board, including any such chosen by the employees, may be recalled by the Supervisory Board prior to the expiration of their term, which in no way shall interfere with their rights arising from their employment contract or other legal relationship relating to their functioning as a member of the Management Board. The result of elections of an employee-elected member of the Management Board, or the result of voting for their recalling, shall be binding upon the Supervisory Board, as long as in the said voting for either their appointment or recalling at least 50% of the Company's employees have participated. The election and recall 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 Bylaws 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 approved by a simple majority of the votes cast. In the case of a tie vote being cast either for or against a given resolution, 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 Bylaws 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 preceded 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 delegation of duties, the composition of the Management Board and its changes in 2017 and up to the date of preparation of this report are presented in Section 17 of this report.

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 in KGHM Polska Miedź S.A., and the management of risk 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. Further actions are systematically 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 sub-ledgers. 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 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. 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 electronic system for transmitting 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 and Procedures updated in 2017 and the Corporate Risk and Compliance 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 limitation. The Department of Corporate Risk Management, Compliance and Continuity of Operations 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, as well as for risk monitoring and escalation, and for reporting incidents. These activities also comprise risk management with respect to the process of preparing the consolidated financial statements of the Group. This comprehensive approach to analysing risk factors also comprises the identification of risk factors related to achieving the strategic goals. In 2017, the risks associated with advancement of the strategic goals contained in the Main Strategy and in Executory and Supporting Strategies were revised. The efficiency of the process of corporate risk management is audited annually (in compliance with the guidelines of Best Practice of GPW Listed Companies 2016).
Internal audit	A fundamental element of risk management with respect to the functioning of control mechanisms and the existence of risks in the operations of KGHM Polska Miedź S.A. is the work carried out by the Internal Audit Department. This work also indirectly augments the process of preparing financial statements as well as their accuracy. The Internal Audit Department carries out its tasks based on the "Integrated Audit Plan" for the given calendar year approved by the Management Board of KGHM Polska Miedź S.A. 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 which received the positive opinion of the Audit Committee of KGHM Polska Miedź S.A. The goal of the audit 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. and in the Group's companies. Independently from internal audit and institutional control, the obligation fully remains in KGHM Polska Miedź S.A. for each employee to exercise self-control 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 consolidated financial statements for half-year review and annual 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 financial statements of KGHM Polska Miedź S.A. for the years 2016-2018 is Deloitte Polska 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 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 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 11 May 2017 on certified auditors, auditing firms and public oversight (Journal of Laws from 2017, item 1089), 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 Parent Entity to provide a recommendation 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 consolidated financial statements of KGHM Polska Miedź S.A.

Proper management of the process of keeping records and preparing financial statements ensures the security and the high quality of the information.

Appendix 2 Structure of the KGHM Polska Miedź S.A. Group

KGHM Polska Miedź S.A.

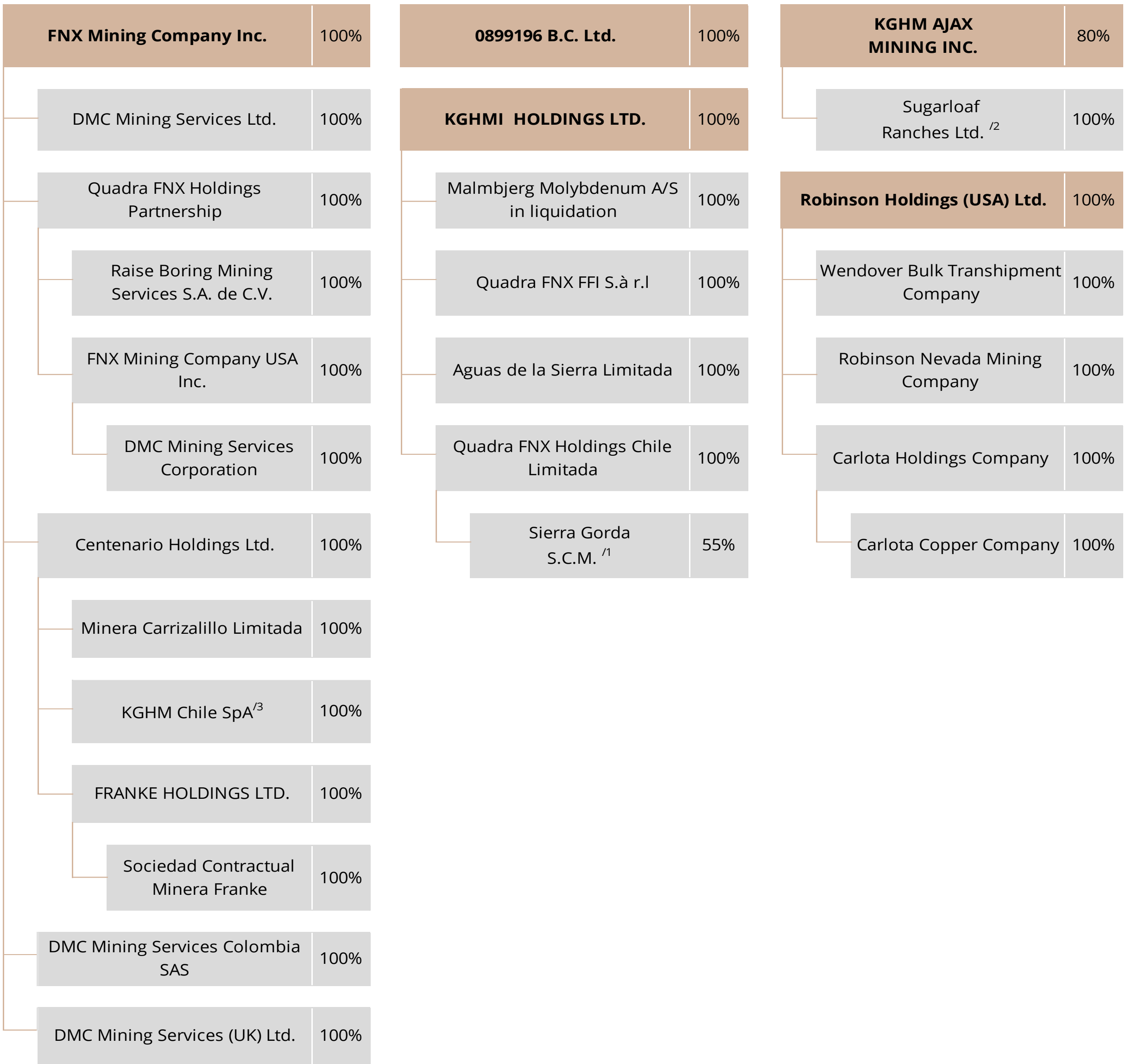
- **KGHM V FIZAN** 100%
- **KGHM I FIZAN** 100%
  - Polska Grupa Uzdrowisk Sp. z o.o. 100%
  - Fundusz Hotele 01 Sp. z o.o. 100%
  - Uzdrowiska Kłodzkie S.A. - Grupa PGU 100%
  - Uzdrowisko Połczyn Grupa PGU S.A. 100%
  - Staropolanka Spółka z o.o. 100%
  - Uzdrowisko Świeradów -Czerniawa Sp. z o.o. - Grupa PGU 99%
  - Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU 99%
  - Interferie Medical SPA Sp. z o.o. 90%
  - Fundusz Hotele 01 Sp. z o.o. S.K.A. 100%
    - INTERFERIE S.A. 70%
  - NANO CARBON Sp. z o.o. /1 49%
- **Cuprum Nieruchomości sp. z o.o.** 100%
  - KGHM IV FIZAN 100%
    - Cuprum Development sp. z o.o. 100%
- **KGHM TFI S.A.** 100%
- **CBJ sp. z o.o.** 100%
- **INOVA Spółka z o.o.** 100%
- **BIPROMET S.A.** 100%
- **POL-MIEDŹ TRANS Sp. z o.o.** 100%
- **PMT Linie Kolejowe 2 Sp. z o.o.** 100%
  - PMT Linie Kolejowe Sp. z o.o. 100%
- **KGHM ZANAM S.A.** 100%
  - OOO ZANAM VOSTOK 100%
- **„Energetyka" sp. z o.o.** 100%
  - WPEC w Legnicy S.A. 100%
- **KGHM Metraco S.A.** 100%
  - CENTROZŁOM WROCŁAW S.A. 100%
  - Walcownia Metali Nieżelaznych „ŁABĘDY" S.A. 85%
- **Future 1 Sp. z o.o.** 100%
  - KGHM Kupfer AG 100%
  - **KGHM INTERNATIONAL LTD. Group** 100%
- **KGHM (SHANGHAI) COPPER TRADING CO., LTD.** 100%
- **KGHM CUPRUM sp. z o.o. – CBR** 100%
- **Zagłębie Lubin S.A.** 100%
- **„MCZ" S.A.** 100%
- **TUW-CUPRUM /2** 100%
- **Future 2 Sp. z o.o.** 100%
- **Future 3 Sp. z o.o.** 100%
- **Future 4 Sp. z o.o.** 100%
- **Future 5 Sp. z o.o.** 100%
- **Future 6 Sp. z o.o.** 100%
- **Future 7 Sp. z o.o.** 100%
- **PeBeKa S.A.** 100%
  - PeBeKa Canada Inc. 100%
- **MERCUS Logistyka sp. z o.o.** 100%
  - PHU „Lubinpex" Sp. z o.o. 100%
- **NITROERG S.A.** 87%
  - NITROERG SERWIS Sp. z o.o. 87%
- **„Elektrownia Blachownia Nowa" Sp. z o.o. in liquidation /1** 50%

Group structure presented in Appendix 3

1/ *joint venture accounted for using the equity method*
2/ *unconsolidated subsidiary*

Appendix 3 Structure of the KGHM INTERNATIONAL LTD. Group

KGHM INTERNATIONAL LTD.



1/ joint venture accounted for using the equity method
2/ actual Group share 80%
3/ name change - formerly Mineria y Exploraciones KGHM International SpA

Appendix 4 Activities of subsidiaries and joint ventures of KGHM Polska Miedź S.A.

Companies in Poland

Entity	Head Office	Activities
KGHM Polska Miedź S.A.	Poland	mining of copper ore, excavation of salt, production of copper and precious metals
„Energetyka" sp. z o.o.	Poland	generation, transmission and distribution of electrical and heating energy, water-sewage management; trade in oil-based products
PeBeKa S.A.	Poland	mine construction (construction of shafts and drifts), construction of roadway/railway tunnels; specialist construction, drilling services (geological/exploration drilling)
KGHM ZANAM S.A.	Poland	production of mining machinery and equipment, construction machinery; machinery repairs; production maintenance services; steel construction services; roadway cargo transport
KGHM CUPRUM sp. z o.o. - CBR	Poland	design and R&D activities
CBJ sp. z o.o.	Poland	research and chemical-physical analysis; measurement of imissions and emissions; industrial research
INOVA Spółka z o.o.	Poland	design and production – innovative solutions in electrical engineering, control engineering and communication systems; certification and attestation of machinery and equipment
KGHM Metraco S.A.	Poland	trade and processing of non-ferrous metals scrap; rhenium recovery from acidic industrial waste; processing of shaft slag into road-building material and sale of such; trading in salt; recovery of copper and silver from smelter tiles; trading in chemical factors
POL-MIEDŹ TRANS Sp. z o.o.	Poland	railway cargo transport
NITROERG S.A.	Poland	production of explosives, Nitrocet 50 and initiating systems
MERCUS Logistyka sp. z o.o.	Poland	materials logistics; trade in consumer goods; production of bundled electrical cables and hydraulic cables; passenger roadway transport
NITROERG SERWIS Sp. z o.o.	Poland	complex drilling and blasting work for the mines, sale of explosives and initiating systems
CENTROZŁOM WROCŁAW S.A.	Poland	recovery of raw materials from segregated materials – purchase and sale of metal scrap, waste recycling, sale of steel and aluminium and production of reinforcing building materials
Walcownia Metali Nieżelaznych „ŁABĘDY" S.A.	Poland	production of pressed goods from copper and its alloys; rolling services
PHU „Lubinpex" Sp. z o.o.	Poland	gastronomic, commercial and catering services
PMT Linie Kolejowe Sp. z o.o.	Poland	maintenance of railway infrastructure, repair services, management of railways
PMT Linie Kolejowe 2 Sp. z o.o.	Poland	management of railway industrial spurs
KGHM TFI S.A.	Poland	creation and management of investment funds
INTERFERIE S.A.	Poland	hotel services combining active recreation with sanatorium-healing, rehabilitation, SPA and wellness services
Interferie Medical SPA Sp. z o.o.	Poland	hotel, recreation, rehabilitation, health tourism and wellness services
WPEC w Legnicy S.A.	Poland	production of heat from its own sources, transmission and distribution of heat, servicing
Uzdrowiska Kłodzkie S.A. - Grupa PGU	Poland	services in the following areas: spa-healing, sanatorium, preventative medicine, rehabilitation, biological renewal, recreation based on natural healing materials bioclimatic conditions
Uzdrowisko Połczyn Grupa PGU S.A.		
Uzdrowisko Cieplice sp. z o.o. – Grupa PGU		
Uzdrowisko Świeradów -Czerniawa Sp. z o.o. - Grupa PGU		
Staropolanka Spółka z o.o.	Poland	production and sale of mineral water (*the company has not commenced operations*)
Fundusz Hotele 01 Sp. z o.o.	Poland	special-purpose companies operating within the structures of the KGHM I FIZAN investment fund
Fundusz Hotele 01 Sp. z o.o. S.K.A.		
Polska Grupa Uzdrowisk Sp. z o.o.		
KGHM I FIZAN	Poland	closed-end, non-public investment funds - investing cash
KGHM IV FIZAN		
KGHM V FIZAN		
„MCZ" S.A.	Poland	hospital services; medical practice; activities related to protecting human health; occupational medicine
Zagłębie Lubin S.A.	Poland	management of a football club, organisation of professional sporting events
BIPROMET S.A.	Poland	design services, consulting, technical conceptual work; general realisation of investments
Cuprum Nieruchomości sp. z o.o.	Poland	activities related to real estate market services, construction services, design work and financing
Cuprum Development sp. z o.o.	Poland	
„Elektrownia Blachownia Nowa" sp. z o.o. in liquidation	Poland	special purpose company founded to advance a project to build and operate a gas-steam power block
Future 2 Sp. z o.o.	Poland	

Entity	Head Office	Activities
Future 3 Sp. z o.o.		special purpose companies founded due to the creation of the KGHM Polska Miedź S.A. Tax Group (in 2017 these companies were not in active operation)
Future 4 Sp. z o.o.		
Future 5 Sp. z o.o.		
Future 6 Sp. z o.o.		
Future 7 Sp. z o.o.		
NANO CARBON Sp. z o.o.	Poland	production of epitaxial graphene

International companies (and Future 1 Sp. z o.o.)

Entity	Head Office	Activities
DIRECT SUBSIDIARIES		
Future 1 Sp. z o.o.	Poland	management and control of other companies, including the KGHM INTERNATIONAL LTD. Group
KGHM (SHANGHAI) COPPER TRADING CO. LTD.	China	commercial activities involving copper/silicon merchandise
INDIRECT SUBSIDIARIES		
COMPANIES BELONGING TO Future 1 Sp. z o.o.		
KGHM INTERNATIONAL LTD.	Canada	the founding, development, management or control of companies in the KGHM INTERNATIONAL LTD. Group
KGHM Kupfer AG	Germany	exploration for and assessment of deposits of copper and other minerals
COMPANIES BELONGING TO KGHM INTERNATIONAL LTD.		
KGHM Ajax Mining Inc.	Canada	exploration for and assessment of mineral deposits
Sugarloaf Ranches Ltd.	Canada	agricultural activities (this company owns assets in the form of land designated for future mining activities related to the Ajax project)
Robinson Nevada Mining Company	USA	copper ore mining, production and sale of copper
Carlota Copper Company	USA	copper ore leaching, production and sale of copper
FNX Mining Company Inc.	Canada	mining of copper and nickel ore, production and sale of copper and nickel
Sociedad Contractual Minera Franke	Chile	copper ore leaching, production and sale of copper
Aguas de la Sierra Limitada	Chile	the ownership and exercise of water rights in Chile
Robinson Holdings (USA) Ltd.	USA	technical and management services
DMC Mining Services Corporation	USA	contract mining services
KGHM Chile SpA (previously Mineria y Exploraciones KGHM International SpA)	Chile	management and exploration services
Minera Carrizalillo Limitada	Chile	the ownership of water and deposits rights
Wendover Bulk Transhipment Company	USA	shipment services
Malmbjerg Molybdenum A/S in liquidation	Greenland	exploration and mining in Greenland; company in liquidation
Raise Boring Mining Services, S.A. de C.V.	Mexico	mine drilling services
KGHMI Holdings Ltd.	Canada	the management and control of other companies
Carlota Holdings Company	USA	the management and control of other companies
Quadra FNX FFI S.à r.l.	Luxembourg	financial services
Centenario Holdings Ltd.	Canada	the management and control of other companies
Franke Holdings Ltd.	Canada	the management and control of other companies
Quadra FNX Holdings Chile Limitada	Chile	the management and control of other companies
FNX Mining Company USA Inc.	USA	the management and control of other companies
Quadra FNX Holdings Partnership	Canada	the management and control of other companies
0899196 B.C. Ltd.	Canada	the management and control of other companies
DMC Mining Services Ltd.	Canada	contract mining services
Sierra Gorda S.C.M.	Chile	the construction and operation of an open-pit copper and molybdenum mine
DMC Mining Services Colombia SAS	Columbia	contract mining services
DMC Mining Services (UK) Ltd.	United Kingdom	contract mining services
COMPANY BELONGING TO Przedsiębiorstwo Budowy Kopalń PeBeKa Spółka Akcyjna		
PEBEKA CANADA INC.	Canada	the realisation of mining projects in Canada area, including support of the Victoria project advanced by KGHM INTERNATIONAL LTD.
COMPANY BELONGING TO KGHM ZANAM S.A. (99%) and Przedsiębiorstwo Budowy Kopalń PeBeKa S.A. (1%)		
Obszczestwo s ogranicziennoj otwietstwiennostju ZANAM VOSTOK	Russian Federation	sale and after-sales service of mining machinery produced by KGHM ZANAM S.A.

List of tables, charts and diagrams

Tables

Charts

Diagrams

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY			
Date	**First, Last Name**	**Position/Function**	**Signature**
13 March 2018	Rafał Pawełczak	President of the Management Board	
13 March 2018	Ryszard Jaśkowski	Vice President of the Management Board	
13 March 2018	Stefan Świątkowski	Vice President of the Management Board	