

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated quarterly report QSr 1 / 2016

(In accordance with § 82, section 2 and § 83, section 1 of the Decree of the Minister of Finance dated 19 February 2009 – Journal of Laws No. 33, point 259, with subsequent amendments)

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

For the first quarter of the financial year **2016** from **1 January 2016** to **31 March 2016** containing the interim condensed consolidated financial statements prepared under International Accounting Standard 34 in PLN, and interim condensed financial statements prepared under IAS 34 in PLN.

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(name of the issuer)

KGHM Polska Miedź S.A.

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**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.**

SELECTED FINANCIAL DATA
data concerning the interim condensed consolidated financial statements of KGHM Polska Miedź S.A.

	in PLN mn		in EUR mn	
	1st quarter of 2016	1st quarter of 2015	1st quarter of 2016	1st quarter of 2015
I. Sales revenue	3 912	4 731	898	1 140
II. Profit on sales	490	723	112	174
III. Profit before income tax	343	577	79	139
IV. Profit for the period	163	398	37	96
V. Profit for the period attributable to shareholders of the Parent Entity	161	397	37	96
VI. Profit for the period attributable to non-controlling interests	2	1	-	-
VII. Other comprehensive income	(43)	475	(10)	114
VIII. Total comprehensive income	120	873	27	210
IX. Total comprehensive income attributable to the shareholders of the Parent Entity	109	873	25	210
X. Total comprehensive income attributable to non-controlling interest	11	-	2	-
XI. Number of shares issued (million)	200	200	200	200
XII. Earnings per ordinary share (in PLN/EUR) attributable to the shareholders of the Parent Entity	0.81	1.99	0.19	0.48
XIII. Net cash generated from operating activities	584	1 208	134	291
XIV. Net cash used in investing activities	(1 178)	(1 111)	(270)	(268)
XV. Net cash generated from financing activities	682	377	157	91
XVI. Total net cash flow	88	474	21	114
	1st quarter of 2016	2015	1st quarter of 2016	2015
XVII. Non-current assets	30 680	30 448	7 187	7 145
XVIII. Current assets	6 418	6 316	1 504	1 482
XIX. Total assets	37 098	36 764	8 691	8 627
XX. Non-current liabilities	9 792	10 153	2 294	2 382
XXI. Current liabilities	6 767	6 197	1 585	1 454
XXII. Equity	20 539	20 414	4 812	4 791
XXIII. Equity attributable to shareholders of the Parent Entity	20 321	20 211	4 761	4 743
XXIV. Non-controlling interest	218	203	51	48

data concerning the quarterly financial information of KGHM Polska Miedź S.A.

	in PLN mn		in EUR mn	
	1st quarter of 2016	1st quarter of 2015	1st quarter of 2016	1st quarter of 2015
I. Sales revenue	2 979	3 767	684	908
II. Profit on sales	459	869	105	209
III. Profit before income tax	532	705	122	170
IV. Profit for the period	370	497	85	120
V. Other comprehensive income	72	(294)	17	(71)
VI. Total comprehensive income	442	203	102	49
VII. Number of shares issued (million)	200	200	200	200
VIII. Earnings per ordinary share (in PLN/EUR)	1.85	2.49	0.43	0.60
IX. Net cash generated from operating activities	438	1 157	101	279
X. Net cash used in investing activities	(1 053)	(1 884)	(242)	(454)
XI. Net cash generated from financing activities	697	1 124	160	271
XII. Total net cash flow	82	397	19	96
	1st quarter of 2016	2015	1st quarter of 2016	2015
XIII. Non-current assets	28 872	28 406	6 764	6 666
XIV. Current assets	4 952	4 714	1 160	1 106
XV. Total assets	33 824	33 120	7 924	7 772
XVI. Non-current liabilities	7 339	7 756	1 719	1 821
XVII. Current liabilities	5 764	5 085	1 350	1 193
XVIII. Equity	20 721	20 279	4 855	4 758

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Part 1 – Interim condensed consolidated financial statements

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		1st quarter of 2016	1st quarter of 2015
Note 3.3	Sales revenue	3 912	4 731
Note 4.2	Cost of sales	(3 138)	(3 709)
	Gross profit	774	1 022
Note 4.2	Selling costs and administrative expenses	(284)	(299)
	Profit on sales	490	723
Note 3.2	Share of losses of joint ventures accounted for using the equity method	(221)	-
	Interest income on a loan granted to joint ventures	153	82
	Profit or loss on involvement in joint ventures	(68)	82
Note 4.3	Other operating income/(costs)	(309)	(92)
Note 4.4	Finance income/(costs)	230	(136)
	Profit before income tax	343	577
	Income tax expense	(180)	(179)
	PROFIT FOR THE PERIOD	163	398
	Profit for the period attributable to:		
	Shareholders of the Parent Entity	161	397
	Non-controlling interest	2	1
	Weighted average number of ordinary shares (million)	200	200
	Basic/diluted earnings per share (in PLN)	0.81	1.99

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		1st quarter of 2016	1st quarter of 2015
	Profit for the period	163	398
	Measurement of hedging instruments net of the tax effect	48	(107)
	Measurement of available-for-sale financial assets net of the tax effect	64	(79)
	Exchange differences from translation of foreign operations statements	(108)	756
	Other comprehensive income (net of the tax effect) which will be reclassified to profit or loss	4	570
	Actuarial losses net of the tax effect	(47)	(95)
	Other comprehensive income, which will not be reclassified to profit or loss	(47)	(95)
	Total other comprehensive net income	(43)	475
	TOTAL COMPREHENSIVE INCOME	120	873
	Total comprehensive income attributable to:		
	Shareholders of the Parent Entity	109	873
	Non-controlling interest	11	-

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	1st quarter of 2016	1st quarter of 2015
Cash flow from operating activities		
Profit before income tax	343	577
Depreciation/amortisation recognised in profit or loss	397	564
Share of losses of joint ventures accounted for using the equity method	221	-
Interest on a loan granted to joint ventures	(153)	(82)
Interest and commissions on borrowings	29	53
Impairment losses on non-current assets	57	-
Other adjustments to profit before income tax	(254)	240
Exclusions of income and costs, total	297	775
Income tax paid	(62)	(237)
Changes in working capital	6	93
Net cash generated from operating activities	584	1 208
Cash flow from investing activities		
Expenditures on mining and metallurgical assets	(878)	(801)
Expenditures on other property, plant and equipment and intangible assets	(92)	(89)
Acquisition of newly-issued shares of a joint venture	(173)	(206)
Other expenses	(42)	(43)
Total expenses	(1 185)	(1 139)
Proceeds	7	28
Net cash used in investing activities	(1 178)	(1 111)
Cash flow from financing activities		
Proceeds from borrowings	1 048	1 147
Other proceeds	-	17
Total proceeds	1 048	1 164
Repayments of borrowings	(335)	(760)
Interest paid	(28)	(17)
Other payments	(3)	(10)
Total expenses	(366)	(787)
Net cash generated from financing activities	682	377
TOTAL NET CASH FLOW	88	474
Cash and cash equivalents at beginning of the period	461	475
Exchange gains/(losses) on cash and cash equivalents	40	(73)
Cash and cash equivalents at end of the period	589	876

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	1st quarter of 2016	2015
ASSETS		
Mining and metallurgical property, plant and equipment	14 421	14 273
Mining and metallurgical intangible assets	3 199	3 130
Mining and metallurgical property, plant and equipment and intangible assets	17 620	17 403
Other property, plant and equipment	2 776	2 653
Other intangible assets	202	241
Other property, plant and equipment and intangible assets	2 978	2 894
Note 3.2 Joint ventures accounted for using the equity method	498	562
Loans granted to joint ventures	7 377	7 504
Total involvement in joint ventures	7 875	8 066
Derivatives	133	117
Other financial instruments measured at fair value	602	579
Other financial assets	787	735
Financial instruments, total	1 522	1 431
Deferred tax assets	562	557
Other assets	123	97
Non-current assets	30 680	30 448
Inventories	3 935	3 382
Trade receivables	1 077	1 541
Tax assets	334	542
Derivatives	80	7
Other assets	403	383
Cash and cash equivalents	589	461
Current assets	6 418	6 316
	37 098	36 764
EQUITY AND LIABILITIES		
Share capital	2 000	2 000
Other reserves from measurement of financial instruments	48	(64)
Accumulated other comprehensive income	1 704	1 868
Retained earnings	16 569	16 407
Equity attributable to shareholders of the Parent Entity	20 321	20 211
Equity attributable to non-controlling interest	218	203
Equity	20 539	20 414
Note 4.6 Borrowings	4 412	4 870
Derivatives	154	159
Employee benefits liabilities	2 033	1 979
Provisions for decommissioning costs of mines and other facilities	1 585	1 466
Deferred tax liabilities	689	714
Other liabilities	919	965
Non-current liabilities	9 792	10 153
Note 4.6 Borrowings	3 006	2 145
Derivatives	34	48
Trade payables	1 265	1 418
Employee benefits liabilities	817	760
Tax liabilities	626	762
Other liabilities	1 019	1 064
Current liabilities	6 767	6 197
Non-current and current liabilities	16 559	16 350
	37 098	36 764

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to shareholders of the Parent Entity				Total	Equity attributable to non-controlling interest	Total equity
	Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings			
As at 1 January 2015	2 000	377	741	22 184	25 302	228	25 530
Transactions with non-controlling interest	-	-	-	3	3	(4)	(1)
Transactions with owners	-	-	-	3	3	(4)	(1)
Profit for the period	-	-	-	397	397	1	398
Other comprehensive income	-	(186)	662	-	476	(1)	475
Total comprehensive income	-	(186)	662	397	873	-	873
As at 31 March 2015	2 000	191	1 403	22 584	26 178	224	26 402
As at 1 January 2016	2 000	(64)	1 868	16 407	20 211	203	20 414
Transactions with non-controlling interest	-	-	-	1	1	4	5
Transactions with owners	-	-	-	1	1	4	5
Profit for the period	-	-	-	161	161	2	163
Other comprehensive income	-	112	(164)	-	(52)	9	(43)
Total comprehensive income	-	112	(164)	161	109	11	120
As at 31 March 2016	2 000	48	1 704	16 569	20 321	218	20 539

1 – General information

Note 1.1 Corporate information

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

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

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

The 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.

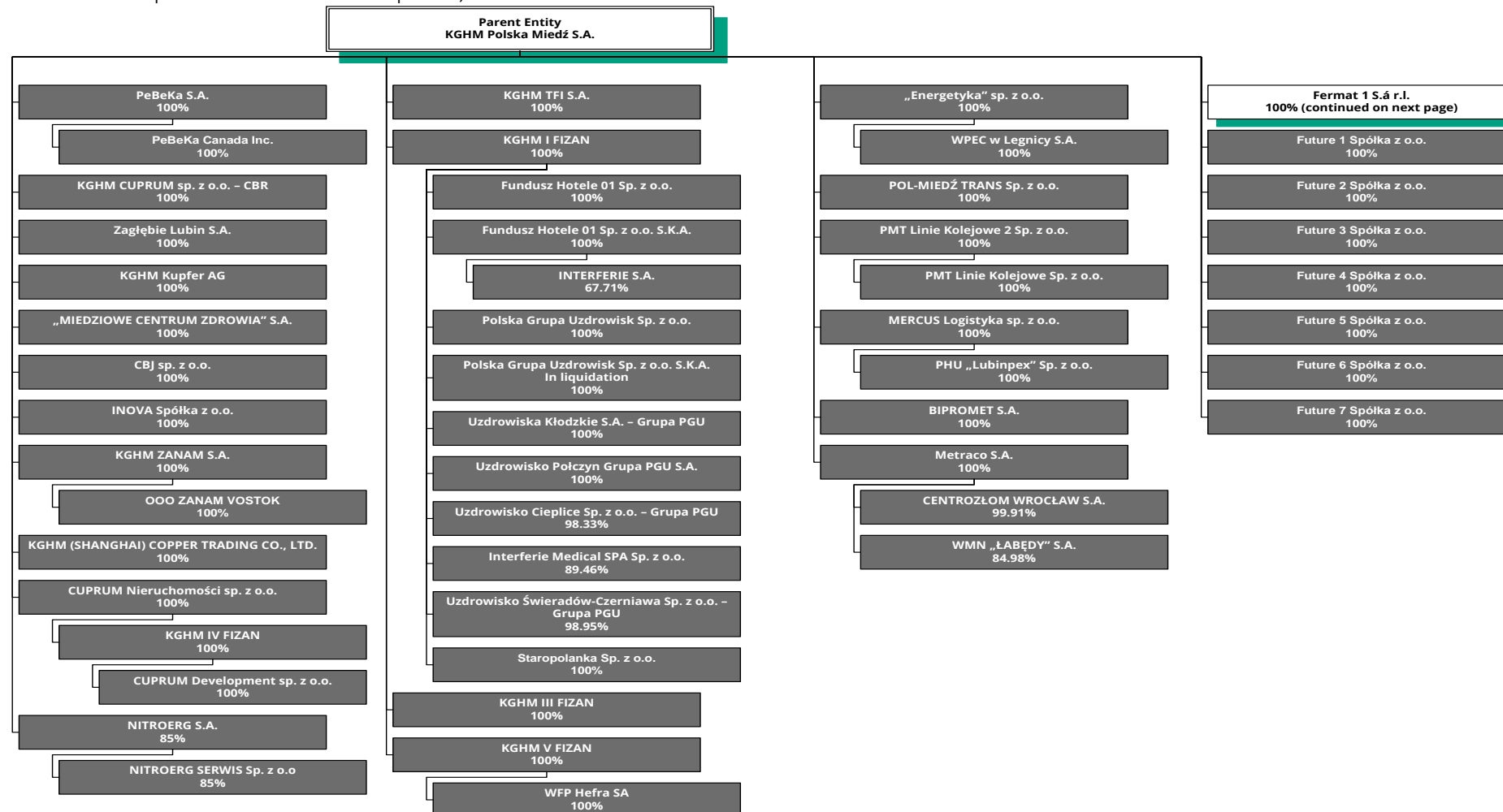
The business activities of the Group include:

- the mining of copper and non-ferrous metals ores;
- the mined production of metals, including copper, nickel, gold, platinum, palladium;
- the production of goods from copper and precious metals;
- underground construction services;
- the production of machinery and mining equipment;
- transport services;
- services in the areas of research, analysis and design;
- the production of road-building materials; and
- the recovery of associated metals from copper ore.

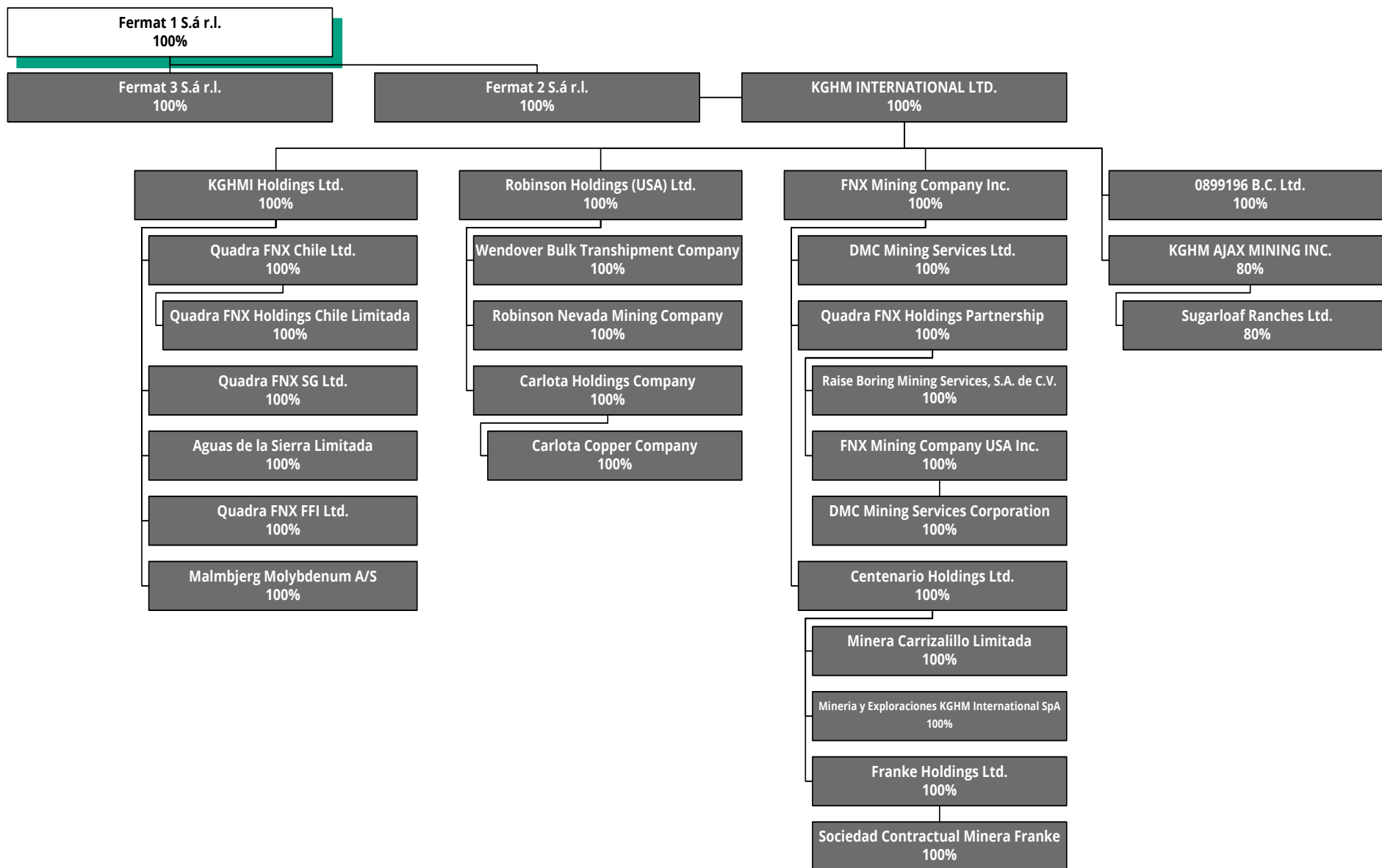
The KGHM Polska Miedź S.A. Group carries out exploration and mining of copper, nickel and precious metals based on concessions given for Polish deposits to KGHM Polska Miedź S.A., and also based on legal titles held by KGHM INTERNATIONAL LTD. and KGHM AJAX MINING INC. for the exploration for and mining of these resources in the USA, Canada, and Chile.

Note 1.2 Structure of the KGHM Polska Miedź S.A. Group as at 31 March 2016

In the current quarter KGHM Polska Miedź S.A. consolidated 80 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. and NANO CARBON Sp. z o.o.).



The percentage share represents the total share of the Group.



Note 1.3 Exchange rates applied

The following exchange rates were applied in the conversion of selected financial data in EUR:

- for the conversion of turnover, profit or loss and cash flow for the current period, the rate of **4.3559 PLNEUR***,
- for the conversion of turnover, profit or loss and cash flow for the comparable period, the rate of **4.1489 PLNEUR***,
- for the conversion of assets, equity and liabilities at 31 March 2016, applying the current average exchange rate announced by the National Bank of Poland (NBP) as at 31 March 2016, the rate of **4.2684 PLNEUR**,
- for the conversion of assets, equity and liabilities at 31 December 2015, applying the current average exchange rate announced by the NBP as at 31 December 2015, the rate of **4.2615 PLNEUR**.

**the rates represent the arithmetic average of current average exchange rates announced by the NBP on the last day of each month during the period from January to March respectively of 2016 and 2015.*

Note 1.4 Accounting policies and the impact of new and amended standards and interpretations

The following quarterly report includes:

1. the interim condensed consolidated financial statements of the KGHM Polska Miedź S.A. Group for the period from 1 January to 31 March 2016 and the comparable period from 1 January to 31 March 2015, together with selected explanatory information (**Part 1**);
2. the quarterly financial information of KGHM Polska Miedź S.A. for the period from 1 January to 31 March 2016 and the comparable period from 1 January to 31 March 2015 (**Part 2**).

Neither the interim consolidated financial statements as at 31 March 2016 nor the interim separate financial statements as at 31 March 2016 were audited by a certified auditor.

The condensed consolidated financial report for the period from 1 January 2016 to 31 March 2016 was prepared in accordance with IAS 34 Interim Financial Reporting and for a full understanding of the financial position and operating results of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group, should be read jointly with the Annual report R 2015 and the Consolidated annual report RS 2015.

These financial statements were prepared using the same accounting policies for the current and comparable periods.

The fair value hierarchy of financial instruments

Investments in listed companies (classified as available-for-sale financial assets) are classified under level 1 of the fair value hierarchy. All other financial instruments of the Group are classified under level 2 of the fair value hierarchy. The manner and technique for measuring financial instruments to fair value have not changed in comparison to the manner and technique for measurement as at 31 December 2015.

There was no transfer in the Group of financial instruments between individual levels of the fair value hierarchy, in either the reporting or the comparable periods, nor was there any change in the classification of instruments as a result of a change in the purpose or use of these instruments.

Impact of new and amended standards and interpretations

From 1 January 2016, the following amendments to standards are binding for the Group:

- Amendments to IAS 1 Presentation of Financial Statements – the disclosure initiative;
- Defined benefit plans: Employee contributions – amendments to IAS 19;
- Amendments to IFRS 11 with respect to acquisitions of interest in joint operations;
- Amendments to IAS 16 and IAS 38 with respect to amortisation/depreciation;
- Amendments to IAS 16 and IAS 41 with respect to bearer plants;
- Amendments to IAS 27 with respect to the equity method in separate financial statements;
- Annual improvements to IFRS, 2012-2014 Cycle;
- Annual improvements to IFRS, 2010-2012 Cycle.

In order to prepare the consolidated financial statements for the year ended 31 December 2015, the Group applied the following amendments before their effective date:

- IAS 1 *Presentation of Financial Statements* – the disclosure initiative;
- IFRS 8 *Operating segments* (Annual improvements to IFRS, 2010-2012 Cycle)- with respect to disclosing information on judgments made by management when combining the operating segments.

Application of other changes to standards did not have an impact on the Group's accounting policy with respect to the Group's assets and liabilities at the end of the reporting and comparable periods, transactions realised by the Group during the reporting and comparable periods or to these financial statements.

Up to the date of publication of these financial statements, the above changes to standards were adopted for use by the European Union.

Note 1.5 Selected significant events covered by the regulatory filings of the Parent Entity

Results of the Feasibility Study update on the Ajax project in Canada

On 13 January 2016, the Parent Entity announced the completion of work on the updated Feasibility Study for the Ajax project, owned by the company KGHM AJAX MINING INC. The updated Feasibility Study replaced the earlier version dated 6 January 2012.

Changes in the composition of the Parent Entity's bodies

On 18 January 2016, the Extraordinary General Meeting of KGHM Polska Miedź S.A. dismissed the following persons from the composition of the Supervisory Board of KGHM Polska Miedź S.A.: Tomasz Cyran, Bogusław Fiedor, Andrzej Kidyba, Marcin Moryń, Jacek Poświata and Barbara Wertelecka – Kwater.

At the same time, the Extraordinary General Meeting of KGHM Polska Miedź S.A. appointed the following persons to the composition of the Supervisory Board of KGHM Polska Miedź S.A.: Radosław Barszcz, Michał Czarnik, Cezary Godziuk, Dominik Hunek, Miłosz Stanisławski and Jarosław Witkowski.

On 3 February 2016, the Supervisory Board of KGHM Polska Miedź S.A. dismissed the following persons from the composition of the Management Board of KGHM Polska Miedź S.A.: President of the Management Board – Herbert Wirth, First Vice President of the Management Board – Jarosław Romanowski, Vice President of the Management Board – Marcin Chmielewski and Vice President of the Management Board – Jacek Kardela.

At the same time, the Supervisory Board of KGHM Polska Miedź S.A. appointed the following persons to the composition of the Management Board of KGHM Polska Miedź S.A.:

- as a President of the Management Board – Krzysztof Skóra;
- as a Vice President of the Management Board (Development) – Mirosław Biliński;
- as a Vice President of the Management Board (Corporate Affairs) – Jacek Rawecki.

On 23 February 2016, the Supervisory Board of KGHM Polska Miedź S.A. appointed Stefan Świątkowski to the composition of the Management Board of KGHM Polska Miedź S.A. as a Vice President (Finance). In addition, the Supervisory Board changed the area of responsibility of Jacek Rawecki, who was appointed on 3 February 2016 as a Vice President of KGHM Polska Miedź S.A. (Corporate Affairs), from "Corporate Affairs" to "Supply Chain Management".

On 15 March 2016, the Supervisory Board of KGHM Polska Miedź S.A. dismissed Vice President of the Management Board Mirosław Laskowski from the composition of the Management Board of KGHM Polska Miedź S.A. and, at the same time, appointed Piotr Walczak to the composition of the Management Board of KGHM Polska Miedź S.A. as a Vice President of the Management Board (Production).

Information on the results and the update of the conducted tests for impairment

On 8 February 2016, the Parent Entity announced that primary work related to testing for impairment of the carrying amount of assets in accordance with IAS 36 has been completed, and subsequently, on 2 March 2016, on the update of the conducted tests.

The final results of the testing were presented in the separate and consolidated financial statements for 2015 which were published on 17 March 2016.

Significant commercial contract

On 11 March 2016, an annex to the contract dated 28 April 2014 for the sale of copper wire rod was entered into between the Parent Entity and nkt cables group GmbH. The signed annex relates to the sale of copper wire rod in 2016.

As a result of signing the aforementioned annex, the total estimated value of contract for the sale of copper wire rod in years 2014 – 2016 exceeded 10% of the Parent Entity's equity and amounted from PLN 3 342 million to PLN 3 441 million, depending on the usage of quantitative option. The contract's value was calculated based on the actual realisation of supplies in 2014 and 2015, and on the forward copper prices curve from 10 March 2016 and the average USD/PLN and EUR/USD exchange rates according to NBP from 10 March 2016 in relation to supplies for 2016. The contract provides the possibility of prolonging it for 2017.

Selection of the entity entitled to audit the financial statements

On 15 March 2016, the Supervisory Board of KGHM Polska Miedź S.A., acting in accordance with its rights arising from the Statutes of KGHM Polska Miedź Spółka Akcyjna, has selected the firm Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered head office in Warsaw as the entity with which a contract will be entered into for the review and audit of the separate and consolidated statements of the Parent Entity for the years 2016-2018.

2 – Implementation of strategy

Implementation of strategy of the Parent Entity in the first quarter of 2016

The medium-term goal of the Strategy for the years 2015-2020 with an outlook to 2040, which was adopted by the Parent Entity's Supervisory Board, was for KGHM Polska Miedź S.A. to achieve annual production capacity of 1 million tonnes of copper equivalent. The main factors determining the realisation of the medium-term goal was the planned portfolio of investment projects increasing the production capacities of KGHM Polska Miedź S.A. Realisation of the investment assumptions of KGHM Polska Miedź S.A.'s Strategy involved the advancement of investment projects whose total value amounted to PLN 27 billion. This investment program was to be financed by KGHM Polska Miedź S.A.'s internal funds and borrowings.

Information on the planned revision of the Strategy of KGHM Polska Miedź S.A.

The Management Board of KGHM Polska Miedź S.A. has decided to undertake work on a fundamental revision of the Company's strategy. The existing „Strategy for the years 2015-2020 with an outlook „2040” announced on 26 January 2015 must be changed due to the facts set forth below, in the Justification.

The Management Board plans to conduct its strategy revision over the next 9 months. It is expected that the results of this work will be announced together with the annual results for 2016 (February – March).

During the process of strategy revision, the Management Board will focus in particular on adapting the company's investment plans to its anticipated financial capabilities, taking into consideration market conditions and the need to optimise costs.

Justification of the necessity to revise the Strategy:

- 1) The actual and expected medium-term prices of key commodities for the Parent Entity are below the levels assumed in the long-term strategic plans.
- 2) Expenditures incurred to-date on investment projects substantially exceed the amounts assumed in initial plans. In particular this means the actual expenditures incurred on the Sierra Gorda project as compared to the amounts foreseen in the Technical Report. This fact necessitates a review of the anticipated expenditures for all of the planned investment projects.
- 3) During the course of operations, Sierra Gorda operation identified significantly higher-than-initially-planned levels of partially oxidised ASCu as well as clay and pyrite in the deposit's transition zone. This fact directly limits the efficiency of processing the ore, reduces the recovery rates for copper and molybdenum during the operation period sourced from transition zone. Possible impact on the future recovery rate is being assessed.
- 4) To date, the Sierra Gorda project has not yet achieved a portion of the operating and efficiency parameters set forth in the key contracts related to the project (comprising in particular debt financing and electricity supply) to be achieved by the end of 2016. In addition to the challenges with achieving efficiency parameters current low metal prices are also influencing the level of generating cash flows. Therefore, the following actions have been taken:
 - a) A review of the Life of Mine operating plan has started; and
 - b) A more robust plan is being implemented to reduce costs and to enhance operational efficiency; and
 - c) Discussions have been initiated to renegotiate the terms of key contracts.
- 5) Taking into consideration actual molybdenum and copper price levels and the current level of Sierra Gorda's operational efficiency, it is not possible at the present time to make a decision as to the commencement of Phase 2.
- 6) While the financial and economic situation of KGHM International remains stable, the actual level of operating cash flow is insufficient to enable it to independently (without the support of KGHM Polska Miedź S.A.) advance the projects Ajax, Victoria and Oxide. KGHM International is also unable to independently acquire external financing from the market. Moreover, it has become necessary to review the profitability of individual projects given current market conditions:
 - a) Determination of the optimal life-of-mine for the Robinson mine.
 - b) Review of the technical assumptions and risks related to the Victoria project due to the low level of recognition of the orebody (in the category Inferred).
 - c) Analysis of the risk of substantially higher capital expenditures in respect of the Ajax project as compared to the amounts initially anticipated, given the review of the feasibility study which is currently underway on this project.

Resource Base Development

Regional exploration program of KGHM Polska Miedź S.A. regarding the exploration and documentation of copper deposits in the Lower Zechstein formation located in south-western Poland and Lusatia (Saxony in Germany)

Advanced exploration projects, with defined copper mineralisation, for which geological exploration is underway throughout or in part of the given concession area

Radwanice - Gaworzyce	- Exploration work was completed and the Radwanice-Gaworzyce deposit was documented. In 2016 the Company will apply for a concession to extract copper ore from the Radwanice-Gaworzyce deposit in the area of Gaworzyce.
Synklina Grodziecka and Konrad	- In the first quarter of 2016, surface-based geophysical surveys were completed in both of the concessioned areas. Their results provided more detailed knowledge on the geological structure. Moreover, the drilling of 5 holes has commenced in order to evaluate in detail the hydrogeological conditions. In the first quarter, 1 drillhole was completed and a further 3 were being drilled.
Retków - Ścinawa and Głogów	- In the first quarter of 2016, geological work under the first stage was continued in the Retków - Ścinawa area. 4 holes were drilled in the Głogów concession area. - The first stage of work on this project involves the sinking of 15 drillholes in both concessioned areas.

Projects at the early exploration stage, without defined copper mineralisation

Weisswasser (Saxony in Germany)	- In 2015, a geological report was prepared on the transborder exploration for zechstein-type copper ore deposits in the concessioned areas Weisswasser and Weisswasser II in Germany and in the Stojanów concession on the Polish side. The results of the report showed there was no geological justification to continue exploration. KGHM Kupfer AG, which was advancing the project, decided to end the exploratory work. - In the first quarter of 2016, KGHM Kupfer AG filed a petition to revoke permits related to Weisswasser and Weisswasser II with the Saxon Mining Office.
Stojanów	- Based on the geological report prepared at the end of 2015 on the transborder exploration for zechstein-type copper ore deposits in the concessioned areas Weisswasser and Weisswasser II in Germany and in the Stojanów concession on the Polish side, it was determined that there was no justification to continue exploration in this area, and the decision was made to end the exploratory work in the concessioned area. - In the first quarter of 2016, the project was formally discontinued.

Exploration projects in the preparatory phase

Bytom Odrzański Kulów-Luboszyce	- In July 2015 a hearing was conducted with regard to the disputed concessions: Bytom Odrzański, Kulów-Luboszyce, Bytom Odrzański (Leszno Copper), Kotla and Niechlów. The Regional Administrative Court in Warsaw overturned, based on formal reasons, the decision of the Minister of the Environment from 29 July 2014 regarding overturning of the decision dated 28 January 2014. At the turn of October and November 2015, the Parent Entity filed cassation appeals with the Supreme Administrative Court regarding Bytom Odrzański and Kulów-Luboszyce. A hearing date has not yet been determined.
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Other concessions

Zatoka Pucka	- In 2015, surface-based geophysical surveys in the concessioned area were completed. The reinterpretation of archival data and the analysis of newly-performed geophysical research was completed, thanks to which more detailed data on the geological structure of the concessioned area was obtained and siting of planned drilling was verified. - In the first quarter of 2016, a contractor selection procedure for drilling was initiated.
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Production Assets Development

Key development projects in terms of the Core Business in Poland

Accessing the Deep Głogów Deposit

	- Work continued on the sinking of the GG-1 ventilation (input) shaft using concrete lining. As at 31 March 2016 the shaft was 748 meters deep in concrete lining (the shaft's target depth of 1 340 meters with a diameter of 7.5 meters). A cascade drainage system, together with research holes, was completed. - Since 2006, 74 311 meters of primary tunneling which were financed by investment funds
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	<p>have been excavated along with 23 780 meters of primary tunneling financed by operating funds (in total – 98 091 meters) together with necessary technical infrastructure (water pipes, power cables, electrical switching stations, conveyor belts, retention reservoirs, pipes and climate control equipment and communications equipment).</p> <ul style="list-style-type: none"> - Work continued on the second stage of the construction of the Surface-based Ventilation Station at the R-XI shaft, which will enable an increase in the production of cooled air to the mine below the level of 1200 meters to 25 MW. The planned date of completion of this work is the second half of 2016.
<p>Pyrometallurgy Modernisation Program at the Głogów smelter/refinery</p>	<ul style="list-style-type: none"> - Assembly of equipment and installations continued with respect to the Flash Furnace, Electrical Furnace, Power Building and elements of the Charge Preparation Section at the Głogów I smelter/refinery. - The current state of technical agreements and building permits allows the on-going work to be continued. Due to the specific nature of work in an operating plant, the process of obtaining building permits and substitute building permits will continue until completion of the investment. - Start-up of the Flash Furnace installation at the Głogów I smelter/refinery is planned in the fourth quarter of 2016.
<p>Metallurgy Development Program (MDP)</p>	<ul style="list-style-type: none"> - The Program's definition was developed, which foresees the realisation of projects aimed at adapting the metallurgical production infrastructure to the change in smelting technology at the Głogów I smelter/refinery and the modernisation of selected elements of the metallurgical production line of KGHM Polska Miedź S.A. The Metallurgy Development Program is aimed at being able to process all of the company's own concentrates in installations at the Głogów I smelter/refinery, the Głogów II smelter/refinery and the Legnica smelter/refinery after 2017, and offers the potential for higher copper production from imported concentrates. - As part of this program work has commenced on the following projects: <ul style="list-style-type: none"> - Construction of a steam drier at the Głogów II smelter/refinery, - Construction of a concentrate roasting installation at the Głogów I smelter/refinery, and - Modernisation of the Tank and Electrolite Decopperisation Hall at the Legnica smelter/refinery, <p>Additional projects of the MDP are currently at the stage of preparing documentation aimed at obtaining decisions as to their execution.</p>
<p>Development of the Żelazny Most tailings storage facility</p>	<ul style="list-style-type: none"> - Work was carried out on obtaining an environmental decision in order to obtain a permit to develop the entire Żelazny Most tailings storage facility to a crown height of 195 m a.s.l. - On 4 February 2016, the State District Sanitary Inspectorate in Lubin (Państwowy Powiatowy Inspektor Sanitarny) issued a positive opinion on the environmental impact of the project, and on 29 February 2016 the Regional Director for Environmental Protection in Wrocław agreed to the advancement of the project. - Public participation was engaged while preparing the draft Environmental Decision, which will be forwarded for consultation with the municipalities of Grębocice and Polkowice. - On 5 April 2016 the Construction Project for developing the Żelazny Most tailings storage facility to the crown height of 195 m a.s.l. was presented to the Evaluation Team appointed by the Minister of Infrastructure. Once a positive opinion regarding the Construction Project is issued by the Evaluation Team, and the Environmental Decision is received, an application for a Construction Permit will be filed. The application for granting the right to operate the Żelazny Most tailings storage facility, with a crown height of 195 m a.s.l., will be submitted after receiving the Environmental Decision. The estimated date of receiving all of the permits is the second half of 2016; - On 6 April 2016, by a decision of the Marshal of the Lower Silesia Voivodeship, the Program to Manage the Tailings of the Żelazny Most tailings storage facility was approved.

Development of international assets

Projects aimed at developing the international assets are advanced by the company KGHM INTERNATIONAL LTD. While the financial and economic situation of KGHM INTERNATIONAL LTD. remains stable, the Management Board of KGHM Polska Miedź S.A. is aware that the actual level of operating cash flow is insufficient to enable it to independently (without the support of KGHM Polska Miedź S.A.) advance the projects Ajax, Victoria and Sierra Gorda Oxide.

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- Victoria project (Sudbury Basin, Canada)**
- A review of technical assumptions and risks associated with the realisation of the project was initiated due to the low level of recognition of the orebody (in the category Inferred).
 - Moreover, the Management Board of the Parent Entity decided to modify the adopted schedule for the Victoria project and to optimise the organisational structure of the project.

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- Development of the Sierra Gorda project (Chile)**
- Phase 2 (KGHM INTERNATIONAL LTD. 55%, Sumitomo Metal Mining and Sumitomo Corporation 45%) - in the first quarter of 2016 work was completed on preparing the Basic Engineering technical document. The process of reviewing and optimising technical assumptions is underway.
 - Taking into consideration actual molybdenum and copper price levels and the current level of Sierra Gorda's operational efficiency, it is not possible at the present time to make a decision as to the commencement of Phase 2.
 - Sierra Gorda Oxide (project for processing of the oxide ore) - advanced engineering work was carried out aimed at preparing a feasibility study for the project. Engineering and design work continued on selecting a project concept which will maximise its economic value.
 - In the first quarter of 2016 it was determined that the oxide ore processing project requires further studies and strategic analyses as to the feasibility of its realisation. Work is underway on reviewing and optimising the project's technical and economic assumptions; this work includes, among others, the analysis of alternative project scenarios.

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- Ajax project (British Columbia, Canada)**
KGHM Polska Miedź S.A. Group 80%,
Abacus Mining and Exploration Corp. 20%
- In January 2016, work on a NI 43-101 compliant technical report was completed, which updated the assumptions of the feasibility study from December 2011. The report presents the results of over 3 years of work by the Team, comprising the completion of basic engineering work and optimisation of the operations of the future Mine. In accordance with the published regulatory filing, the Project is characterised by a positive NPV at the level of USD 429 million (pre-tax) and a return on investment period of 6 and a half years. Average unit C1 cost over the 18 year life-of-mine is estimated to be at 1.37 USD/lb. The current estimated initial capital expenditures amount to USD 1.307 billion.
 - On 18 January 2016 the updated application was submitted to the appropriate administrative body, which commenced a 75-day social consultation period. At the same time, during the period 15,16 and 17 February an „open house” was held for the citizens of the town of Kamloops, during which the most important aspects of the construction of the Ajax open-pit mine were presented.
 - Negotiations are underway with First Nations regarding establishing final financing terms related to the construction and operation of the mine under the customary laws of British Columbia. The signing of an agreement would be associated with the withdrawal of a claim in which First Nations demand the return of rights to the terrain on which the Ajax plant is to be located. The claim was directed at 3 entities: Canada, the province of British Columbia and KGHM AJAX MINING INC.
 - An additional review will be performed, aimed at analysing the risk of substantially higher capital expenditures in respect of the Ajax project as compared to the amounts initially anticipated, given the review of the feasibility study which is currently underway on this project.

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

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- Main R&D initiatives**
- The main R&D projects are concentrated on developing innovative solutions aimed at achieving the vision of an Intelligent Production Line, as well as on seeking innovative technical and organisational solutions enabling an improvement in efficiency and safety and ensuring production continuity.
 - Work continued on the realisation of R&D projects in the form of joint ventures with industry partners and scientific and R&D institutions as well as R&D projects co-financed by domestic and international public funds.

<i>CuBR Program</i>	<ul style="list-style-type: none"> - With respect to the Joint Venture with the National Centre for Research and Development, which involves the support of scientific research and development work for the non-ferrous metals industry, the third edition of the competition is being advanced, under which 45 applications were submitted, in 20 subjects related to the core business. The budget allocated to pursue the projects from the third edition of the competition amounts to PLN 108 million.
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Production

Sierra Gorda mine in Chile – Phase 1

KGHM INTERNATIONAL LTD. 55%
Sumitomo Metal Mining and Sumitomo Corporation 45%

- Work continued to increase processing capacity under Phase 1 of the Sierra Gorda project.
- With respect to the process of achieving target production capacity, technical assumptions for the existing infrastructure are being optimised and reviewed.
- The production of copper in concentrate from the Sierra Gorda mine in the first quarter of 2016 amounted to around 26 thousand tonnes. The production of molybdenum in concentrate from the Sierra Gorda mine in the first quarter of 2016 amounted to around 4 thousand tonnes.
- Due to the macroeconomic situation and to the lower than expected production results, work continued on implementing savings initiatives, such as renegotiating contracts to reduce contracted prices, optimising inventories levels and reducing employment.
- On 8 March 2016, the Chilean Environmental Enforcement Agency, in a public announcement, indicated areas in which there may have occurred breaches in the scope of the environmental permit issued to the Sierra Gorda mine. A response to the Agency's concerns was submitted on 5 April 2016. The cost of adapting the mine's operations to the requirements of the Agency is estimated at approx. USD 16 million. A reply to the position taken by Sierra Gorda is expected in June 2016.
- During the course of operations, Sierra Gorda operation identified significantly higher-than-initially-planned levels of partially oxidised ASCu as well as clay and pyrite in the deposit's transition zone. This fact directly limits the efficiency of processing the ore, reduces the recovery rates for copper and molybdenum during the operation period sourced from the transition zone. Possible impact on the future recovery rate is being assessed.
- To date, the Sierra Gorda project has not yet achieved a portion of the operating and efficiency parameters set forth in the key contracts related to the project (comprising in particular debt financing and electricity supply) to be achieved by the end of 2016. In addition to the challenges with achieving efficiency parameters current low metal prices are also influencing the level of generating cash flows. Therefore, the following actions have been taken: a review of the Life of Mine operating plan has started, a more robust plan is being implemented to reduce costs and to enhance operational efficiency and discussions have been initiated to renegotiate the terms of key contracts.

Maintaining production from own concentrate

- Preparatory work was carried out on commencing mining in new areas of the deposits as part of the Deep Głogów project as well as actions related to gaining a concession to mine the copper ore from the Radwanice-Gaworzyce deposit in the Gaworzyce mining area

Improving efficiency in the core business in Poland

- With respect to the mining and metallurgical activities of KGHM Polska Miedź S.A., among others those related to the VCP (*Value Creation Plan*) Program, initiatives aimed at improving resource management effectiveness were continued, at the same time enabling limitation of cost increases by:
 - more efficient utilisation of resources (3D deposit modeling),
 - optimising management of underground machines (purchasing and servicing, availability),
 - automation of production lines in the mines and concentrators,
 - more efficient management of production infrastructure,
 - implementation of an energy savings program, and
 - optimising employment levels.

3 – Information on segments and revenues

Note 3.1 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.

As a result of 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. Moreover, it receives and analyses reports of the whole KGHM INTERNATIONAL LTD. Group. Operating segments are engaged in exploration and assessment of deposits of copper, molybdenum, silver, gold and nickel. 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 project (a 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.

Information on the activities of individual companies included in the aforementioned operating segments is presented in Appendix no. 3 to the Management Board's report on the activities of the Group in 2015 (Consolidated annual report RS 2015).

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

- Fermat 1 S. á r. l., Fermat 2 S. á r. l. and Fermat 3 S. á r. l., which operate in the holding structure founded to acquire KGHM INTERNATIONAL LTD.,
- Future 1 Sp. z o.o., Future 2 Sp. z o.o., Future 3 Sp. z o.o., Future 4 Sp. z o.o., Future 5 Sp. z o.o., Future 6 Sp. z o.o., Future 7 Sp. z o.o., 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 Boards, which report 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 Sierra Gorda project (a joint venture). 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 Transshipment Company
Chile	Aguas de la Sierra Limitada
	Minera Carrizalillo Limitada
	Minera y Exploraciones KGHM International 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 Chile Ltd.
	Quadra FNX Holdings Partnership
	Quadra FNX SG Ltd.
Sugarloaf Ranches Ltd.	
Greenland	Malmbjerg Molybdenum A/S
Mexico	Raise Boring Mining Services S.A. de C.V.
Barbados	Quadra FNX FFI Ltd.

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.
	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 III FIZAN
	KGHM IV FIZAN
	KGHM V FIZAN
	Polska Grupa Uzdrowisk Sp. z o.o.
Polska Grupa Uzdrowisk Sp. z o.o. S.K.A. in liquidation	
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.
	WFP Hefra SA
	WMN "ŁABĘDY" S.A.
	Zagłębie Lubin S.A.
OOO ZANAM VOSTOK	

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 to 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 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 and including fair value adjustments from the accounting for the acquisition of this Group by KGHM Polska Miedź S.A. in 2012. 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. after fair value adjustments of assets and liabilities of this venture, determined when accounting for the acquisition of the KGHM INTERNATIONAL LTD. Group in 2012.
- Other segments – comprises aggregated data of individual subsidiaries before 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 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, impairment losses on property, plant and equipment included in the cost of sales, selling costs and administrative expenses. Adjusted EBITDA is not a measure defined by IFRS. As adjusted EBITDA is not a standardised measure, the calculation of adjusted EBITDA 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.

Assets which have not been allocated to the segments comprise cash and trade receivables. Liabilities which have not been allocated to the segments comprise trade payables and current tax liabilities.

Note 3.2 Financial results of reporting segments

		1st quarter of 2016						
		KGHM		Sierra Gorda	Other	Reconciliation items to consolidated data		Consolidated
		Polska Miedź S.A.	INTERNATIONAL LTD.	S.C.M.*	segments	Elimination of data of the segment Sierra Gorda S.C.M.	Consolidation adjustments	financial statements
Note 3.3	Sales revenue	2 979	588	316	1 541	(316)	(1 196)	3 912
	Inter-segment sales revenue	67	-	29	1 126	(29)	(1 193)	-
	External sales revenue	2 912	588	287	415	(287)	(3)	3 912
	Segment result	370	(277)	(224)	23	224	47	163
Additional information on significant costs/revenue items of the segment								
	Depreciation/amortisation recognised in profit or loss	(214)	(128)	(169)	(58)	169	3	(397)
	Share of losses of joint ventures accounted for using the equity method	-	(221)	-	-	-	-	(221)
		1st quarter of 2016						
	Assets, including:	33 824	13 869	12 619	5 351	(12 619)	(15 946)	37 098
	Segment assets	33 824	13 399	12 619	5 351	(12 619)	(15 975)	36 599
	Joint ventures accounted for using the equity method	-	470	-	-	-	28	498
	Assets unallocated to segments							1
	Liabilities, including:	13 103	14 553	11 146	1 814	(11 146)	(12 911)	16 559
	Segment liabilities	13 103	14 553	11 146	1 814	(11 146)	(13 049)	16 421
	Liabilities unallocated to segments							138
		1st quarter of 2016						
	Other information							
	Cash expenditures on property, plant and equipment and intangible assets	820	176	246	55	(246)	(116)	935
		1st quarter of 2016						
	Production and cost data							
	Payable copper (kt)	128.1	23.7	14.5				
	Silver (t)	294.9	0.3	3.8				
	TPM (koz t)	26.2	22.4	7.1				
	C1 cash cost of producing copper in concentrate (USD/lb)**	1.33	1.48	1.73				
	Adjusted EBITDA	673	139	84	91	-	-	987

* 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.

Consolidation eliminations arise from consolidation adjustments, from the financial data of companies not assigned to any segment and from the financial data of the Sierra Gorda S.C.M. joint venture, which is consolidated using the equity method, and as a result the assets, liabilities and results of the joint venture are not recognised in the statement of financial position or in the statement of profit or loss of the Group, except for the items "joint ventures accounted for using the equity method" and "Profit or loss on involvement in joint ventures".

Reconciliation of Adjusted EBITDA

1st quarter of 2016

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.	Other segments
Profit/(loss) for the period	370	(277)	(224)	23
[-] Share of losses of joint ventures accounted for using the equity method	-	(221)	-	-
[-] Current and deferred income tax	(162)	2	78	(15)
[-] Depreciation/amortisation recognised in profit or loss	(214)	(128)	(169)	(58)
[-] Finance income/(costs)	235	(154)	(191)	(2)
[-] Other operating income and (costs)	(162)	85	(26)	7
[=] EBITDA	673	139	84	91
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
Adjusted EBITDA	673	139	84	91

1st quarter of 2016

Profit/(loss) on sales (EBIT)	459	11	(85)	33
[-] Depreciation/amortisation recognised in profit or loss	(214)	(128)	(169)	(58)
[=] EBITDA	673	139	84	91
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
[=] Adjusted EBITDA	673	139	84	91

Financial results of reporting segments for the comparable period

		1st quarter of 2015						
		KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data		Consolidated financial statements
						Elimination of data of the segment Sierra Gorda S.C.M.	Consolidation adjustments	
Note 3.3	Sales revenue	3 767	619	-	1 591	-	(1 246)	4 731
	Inter-segment sales revenue	79	-	-	1 157	-	(1 236)	-
	External sales revenue	3 688	619	-	434	-	(10)	4 731
	Segment result	497	(180)	-	51	-	30	398
	Additional information on significant costs/revenue items of the segment							
	Depreciation/amortisation recognised in profit or loss	(226)	(282)	-	(59)	-	3	(564)
					2015			
	Assets, including:	33 120	14 071	12 568	5 327	(12 568)	(15 754)	36 764
	Segment assets	33 120	14 071	12 568	5 327	(12 568)	(15 754)	36 764
	Joint ventures accounted for using the equity method	-	534	-	-	-	28	562
	Assets unallocated to segments							1
	Liabilities, including:	12 841	14 937	11 253	1 825	(11 253)	(13 253)	16 350
	Segment liabilities	12 841	14 937	11 253	1 825	(11 253)	(13 253)	16 350
	Liabilities unallocated to segments							134
	Other information				1st quarter of 2015			
	Cash expenditures on property, plant and equipment and intangible assets	659	226	443	86	(443)	(81)	890
	Production and cost data				1st quarter of 2015			
	Payable copper (kt)	142.4	21.6					
	Silver (t)	298.0	0.4					
	TPM (koz t)	18.0	20.2					
	C1 cash cost of producing copper in concentrate (USD/lb)**	1.46	2.21					
	Adjusted EBITDA	1 095	118	-	68	-	-	1 281

*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, minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value.

Reconciliation of adjusted EBITDA	1st quarter of 2015			
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.	Other segments
Profit/(loss) for the period	497	(180)	-	51
[-] Current and deferred income tax	(208)	55	-	(12)
[-] Depreciation/amortisation recognised in profit or loss	(226)	(282)	-	(59)
[-] Finance costs	(85)	(153)	-	(1)
[-] Other operating income and (costs)	(79)	82	-	55
[=] EBITDA	1 095	118	-	68
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
Adjusted EBITDA	1 095	118	-	68
	1st quarter of 2015			
Profit/(loss) on sales (EBIT)	869	(164)	-	9
[-] Depreciation/amortisation recognised in profit or loss	(226)	(282)	-	(59)
[=] EBITDA	1 095	118	-	68
[-] Recognition/reversal of impairment losses on non-current assets recognised in cost of sales, selling costs and administrative expenses	-	-	-	-
[=] Adjusted EBITDA	1 095	118	-	68

Note 3.3 External sales revenue of the Group – breakdown by products

1st quarter of 2016								
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data		Consolidated data	
					Elimination of data of the segment Sierra Gorda S.C.M.	Consolidation adjustments		
Copper	2 280	420	247	2	(247)	(21)	2 681	
Silver	410	6	6	-	(6)	-	416	
Gold	127	77	31	-	(31)	-	204	
Services	23	113	-	512	-	(401)	247	
Other	139	40	65	1 027	(65)	(774)	432	
TC/RC**	-	(68)	(33)	-	33	-	(68)	
TOTAL	2 979	588	316	1 541	(316)	(1 196)	3 912	

1st quarter of 2015								
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M.*	Other segments	Reconciliation items to consolidated data		Consolidated data	
					Elimination of data of the segment Sierra Gorda S.C.M.	Consolidation adjustments		
Copper	2 994	481	-	1	-	(26)	3 450	
Silver	501	1	-	-	-	-	502	
Gold	90	50	-	-	-	-	140	
Services	21	92	-	399	-	(314)	198	
Other	161	57	-	1 191	-	(906)	503	
TC/RC**	-	(62)	-	-	-	-	(62)	
TOTAL	3 767	619	-	1 591	-	(1 246)	4 731	

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

** Smelter treatment and refining charges.

Note 3.4 External sales revenue of the Group – geographical breakdown reflecting the location of end clients

	1st quarter of 2016	1st quarter of 2015
Europe		
Poland	1 120	1 159
Germany	491	726
The Czech Republic	299	376
The United Kingdom	235	333
Italy	108	204
Hungary	141	177
France	168	144
Switzerland	150	127
Austria	48	71
Belgium	15	59
Slovakia	23	24
Romania	17	38
Other countries (dispersed sale)	61	89
North and South America		
The United States of America	442	379
Canada	151	154
Chile	26	-
Other countries (dispersed sale)	2	-
Australia		
Australia	1	-
Asia		
China	333	571
Turkey	30	50
Japan	3	49
India	36	-
Other countries (dispersed sale)	8	1
Africa	4	-
TOTAL	3 912	4 731

Note 3.5 Main customers

In the period from 1 January 2016 to 31 March 2016 and in the comparable period the revenues from no single contractor exceeded 10% of sales revenue of the Group.

Note 3.6 Non-current assets – geographical breakdown

	1st quarter of 2016	2015
	Property, plant and equipment, intangible assets and investment properties	
Poland	16 508	16 154
Canada	3 150	3 210
The United States of America	594	557
Chile	434	437
TOTAL	20 686	20 358

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

Note 3.7 Information on segment results

3.7.1 The segment KGHM Polska Miedź S.A.

Production results

	Unit	1st quarter of 2016	1st quarter of 2015	Change Q1 2015=100
Ore extraction (dry weight)	mn t	8.0	7.9	101.3
Copper content in ore	%	1.50	1.54	97.4
Copper production in concentrate	kt	104.8	107.2	97.8
Silver production in concentrate	t	307.1	304.8	100.8
Production of copper equivalent*	kt	128.8	139.2	92.5
Production of electrolytic copper	kt	128.1	142.4	90.0
including from own concentrate	kt	89.1	105.5	84.5
Production of metallic silver	t	294.9	298.0	99.0

* from own concentrate

Both the decrease in production of electrolytic copper as well as that of copper equivalent, despite the increased ore mining, is the result of setting aside half-finished products as inventory (23 thousand tonnes of Cu), which will be used in the second half of 2016 during the four-month shutdown of the Głogów I smelter/refinery.

Sales revenue

	Unit	1st quarter of 2016	1st quarter of 2015	Change Q1 2015=100
Sales revenue, including:	PLN mn	2 979	3 767	79.1
copper	PLN mn	2 280	2 994	76.2
silver	PLN mn	410	501	81.8
Volume of copper sales	kt	119.6	132.1	90.5
Volume of silver sales	t	216.4	245.4	88.2
Copper price	USD/t	4 672	5 818	80.3
Silver price	USD/oz t	14.85	16.71	88.9
Exchange rate	USD/PLN	3.96	3.73	106.2

In the first 3 months of 2016, sales revenue amounted to PLN 2 979 million and was lower by PLN 788 million, or 21%, as compared to the same period in 2015. The decrease in revenues was due to:

- lower metal prices, among others copper by 20%, silver by 11% and gold by 3% - they are KGHM Polska Miedź S.A.'s main products;
- lower volume of copper and silver sales, respectively by 9% and 12%;
- less favourable adjustment of revenues due to settlement of hedging instruments;
- lower revenues from sales of other products, services and merchandise.

The decrease in revenues was limited thanks to:

- a more favourable by 6% USD/PLN exchange rate; and
- an increase in the volume of gold sales.

Costs

	Unit	1st quarter of 2016	1st quarter of 2015	Change Q1 2015=100
Cost of sales, selling costs and administrative expenses	PLN mn	2 520	2 897	87.0
Expenses by nature	PLN mn	3 079	3 117	98.8
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate*	PLN/t	19 671	19 725	99.7
Total unit cost of electrolytic copper production from own concentrate	PLN/t	13 590	13 532	100.4
- including the mineral extraction tax	PLN/t	2 916	3 442	84.7
C1 cost**	USD/lb	1.33	1.46	91.1

* Unit cost prior to decrease by the value of anode slimes containing, among others, silver and gold.

** Cash cost of concentrate production reflecting the minerals extraction tax, plus administrative expenses and smelter treatment and refining charges (TC/RC), less depreciation/amortisation cost and the value of by-product premiums, calculated for payable copper in concentrate.

The Parent Entity's cost of sales, selling costs and administrative expenses (total cost of products, merchandise and materials sold, selling costs and administrative expenses) in the first quarter of 2016 amounted to PLN 2 520 million and were lower by PLN 378 million as compared to the same period in 2015 due to a lower volume of copper and silver sales as well as 1% lower expenses by nature.

In the first 3 months of 2016, expenses by nature were lower by PLN 38 million as compared to the first 3 months of 2015, alongside higher costs of consumption of purchased metal-bearing materials by PLN 85 million (volume of consumption was lower by 8 thousand tonnes of Cu, while the purchase price was lower by 10%) and a lower, by PLN 100 million, minerals extraction tax.

After excluding the value of purchased metal-bearing materials and the minerals extraction tax, expenses by nature were similar to those recorded in the comparable period of 2015 and were lower by 1%, or by PLN 23 million.

C1 cost amounted to 1.46 USD/lb for the first quarter of 2015 and 1.33 USD/lb for the first quarter of 2016. The decrease in C1 cost (by 0.13 USD/lb) was mainly caused by the weakening of the Polish zloty (by 6%) as compared to the US dollar. C1 cost for the first 3 months of 2016, calculated using the prices of associated metals and exchange rates for the first quarter of 2015, amounted to 1.45 USD/lb and is at the same level as in the previous year.

The pre-precious metals credit unit cost of electrolytic copper production from own concentrate (unit cost prior to decrease by the value of anode slimes containing, among others, silver and gold) amounted to 19 671 PLN/t (in the comparable period of 2015: 19 725 PLN/t). The cost's decrease was mainly due to a lower, by 526 PLN/t, minerals extraction tax alongside the unfavourable impact of a decrease in production from own concentrate by 16%. The total unit cost of electrolytic copper production from own concentrate amounted to 13 590 PLN/t (in the comparable period of 2015: 13 532 PLN/t).

Financial results

	1st quarter of 2016	1st quarter of 2015	Change Q1 2015=100
Sales revenue	2 979	3 767	79.1
including adjustment of revenues due to hedging transactions	(4)	118	×
Cost of sales, selling costs and administrative expenses	(2 520)	(2 898)	87.0
including the minerals extraction tax	(276)	(372)	74.2
Profit on sales (EBIT)	459	869	52.8
Loss on other operating activities, including:	(162)	(79)	×2.1
measurement and realisation of derivatives	130	(252)	×
interest on loan granted	79	33	×2.4
exchange rate differences	(306)	148	×
impairment losses on available-for-sale assets	(57)	-	×
other	(8)	(8)	100.0
Net finance income/(costs), including:	235	(85)	×
foreign exchange gains/(losses)	276	(62)	×
interest costs on borrowings	(13)	(3)	×4.3
charges and commissions on borrowings	(10)	(11)	90.9
measurement of derivatives	(8)	-	×
other	(10)	(9)	111.1
Profit before income tax	532	705	75.5
Income tax expense	(162)	(208)	77.9
Profit for the period	370	497	74.4
Depreciation/amortisation recognised in profit for the period	214	226	94.7
EBITDA* (EBIT + depreciation/amortisation)	673	1 095	61.5
Adjusted EBITDA**	673	1 095	61.5

* EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)

**Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment losses (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)

After the first 3 months of 2016, the Parent Entity achieved a profit in the amount of PLN 370 million, which (apart from the profit on sales of PLN 459 million) was mainly impacted by the following:

- income tax expense: -PLN 162 million;
- result of measurement and realisation of derivatives: PLN 122 million;
- impairment loss on available-for-sale assets: -PLN 57 million;

- foreign exchange losses: -PLN 30 million.

Profit for the period is lower, by PLN 127 million or 26%, as compared to the corresponding period of 2015, mainly due to the deterioration in macroeconomic conditions and the resulting decrease in revenues which was described above.

Detailed information on the main reasons for the change in the profit or loss is presented in the table below:

Item	Impact on change of profit or loss (PLN mn)	Description
Decrease in sales revenue (excluding the impact of hedging transactions) by PLN 666 million	196	Increase in revenues from sales of the basic products (Cu, Ag, Au) due to a more favourable average USD/PLN exchange rate (change from 3.73 to 3.96 USD/PLN)
	(548)	Decrease in revenues due to lower prices of basic products – copper by 20%, silver by 11% and gold by 3%
	(295)	Decrease in revenues due to lower sales volumes: of silver by 12% and copper by 9%, alongside an increase in the volume of gold sales by 40%
	(19)	Decrease in revenues from sales of merchandise, other products and services, including of sulphuric acid by PLN 8 million and rock salt by PLN 5 million
Decrease in cost of sales, selling costs and administrative expenses by PLN 378 million	96	Decrease in the minerals extraction tax from PLN 372 million in the first quarter of 2015 to PLN 276 million in the first quarter of 2016 due to the lower metals prices expressed in PLN
	282	Decrease in other costs, mainly due to the lower volume of copper and silver sales (due to the increase in the inventories of half-finished products related to the planned shut-down of the Głogów I smelter/refinery)
Impact of hedging transactions PLN 252 million	(122)	Change in the adjustment of revenues due to the settlement of hedging transactions
	1	Change in the result due to the realisation of derivatives
	373	Change in the result due to the measurement of derivatives from -PLN 252 million to PLN 121 million
Impact of exchange rate differences PLN (116) million	(454)	Change in the result due to exchange rate differences presented in other operating activities
	338	Change in the result due to net exchange rate differences on borrowings (presented in finance costs)
Change in the balance of income and costs due to interest on bank and other loans PLN 36 million	46	Increase in interest income due to loans granted
	(10)	Higher interest costs on borrowings
Impairment losses on assets	(57)	Impairment losses on available-for-sale assets, mainly on Tauron Polska Energia S.A.
Income tax decrease	46	Lower income tax due to the decrease in the tax base

Cash expenditures

In the first quarter of 2016, cash expenditures on intangible and tangible investments amounted to PLN 820 million and were higher than in the corresponding period in 2015 by 24%. Meanwhile, capital expenditures on intangible and tangible investments amounted to PLN 550 million and were higher by 32% than expenditures incurred in the corresponding period in 2015, and comprised:

- Replacement projects – investments aimed at replacing the Divisions' infrastructure in order to maintain it in an unchanged condition. Capital expenditures incurred in the first quarter of 2016 amounted to PLN 69 million and were lower by 38% than expenditures incurred in the corresponding period in 2015.
- Maintenance projects - aimed at maintaining mining production at the level stated in the approved Production Plan (infrastructure development at the same pace as the advancement of mining operations) for the first quarter of 2016 amounted to PLN 99 million and were higher by 102% as compared to expenditures incurred in the corresponding period in 2015.
- Development projects – in the first quarter of 2016 they amounted to PLN 382 million and were higher by 49% as compared to expenditures incurred in the corresponding period in 2015.

The higher level of cash expenditures incurred as compared to capital expenditures in the first quarter of 2016 was due to cash spending being deferred as compared to capital expenditures pursuant to contractual payment dates as well as to prepayments and expenditures related to mining fees which were not recognised in the capital expenditures of the period. Information on the advancement of key investment projects may be found in the part of the report dedicated to the Implementation of Strategy.

Payables due to the purchase of property, plant and equipment and intangible assets

	1st quarter of 2016	2015
Payables due to the purchase of property, plant and equipment and intangible assets	545	903

Capital commitments not recognised in the statement of financial position

	1st quarter of 2016	2015
Purchase of property, plant and equipment	5 363	4 036
Purchase of intangible assets	137	58

3.7.2 The segment KGHM INTERNATIONAL LTD.

The following information concerning the financial results of KGHM INTERNATIONAL LTD. for the first quarter of 2015 was adjusted to the comparable period of 2016 and includes the effects of the combination of KGHM INTERNATIONAL LTD. with the company 0929260 B.C U.L.C. which took place on 31 December 2015. As a result of this combination, data for the first quarter of 2015 includes the Ajax project, which has been in the segment KGHM INTERNATIONAL LTD. since the beginning of 2016.

Production

Mines	Unit	1st quarter of 2016	1st quarter of 2015	Change Q1 2015=100
Payable copper , including:	kt	23.7	21.6	109.7
Robinson mine (USA)	kt	14.7	12.2	120.5
Sudbury Basin mines (CANADA)*	kt	3.2	3.0	106.7
Payable nickel	kt	0.5	0.5	100.0
Precious metals (TPM)** , including:	koz t	22.4	20.2	110.9
Robinson mine (USA)	koz t	12.8	10.2	125.5
Sudbury Basin mines (CANADA)*	koz t	9.5	10.0	95.0

* Morrison mine in the Sudbury Basin and, up to the fourth quarter of 2015, McCreedy West mine in the Sudbury Basin

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

In the first quarter of 2016, copper production in the segment KGHM INTERNATIONAL LTD. amounted to 23.7 thousand tonnes and was higher by 2.1 thousand tonnes as compared to the same period of 2015. The increase in volume was mainly influenced by the Robinson mine, whose copper production increased by 2.5 thousand tonnes, or by 21%. This mine's increase in production was a result of extracting higher quality ore from the lower levels of the Ruth East pit and therefore an improvement in technological parameters. In March 2016, the Robinson mine achieved a record level of copper recovery of 91.6%. The Morrison mine also contributed to the increase in the volume of copper production, in which ore with higher copper content was extracted in the first quarter of 2016.

The increase in the production of precious metals by 2.2 thousand troy ounces, or by 11%, was mainly due to the higher production of gold in the Robinson mine which was a result of mining ore with higher gold content and increased recovery of this metal. There was a decrease in the production of precious metals by the Sudbury Basin mines (by 0.5 koz t) due to the suspension of mining operations by the McCreedy mine starting from the fourth quarter of 2015 due to the continuing unfavourable macroeconomic situation.

Sales revenue

Sales revenue	Unit	1st quarter of 2016	1st quarter of 2015	Change Q1 2015=100
Copper	USD mn	107	129	82.9
Nickel	USD mn	4	6	66.7
Precious metals	USD mn	25	20	125.0
Other*	USD mn	13	10	118.2
Total	USD mn	149	165	90.3

* including revenues from sales of other metals, revenues from services provided by DMC, TC/RC (treatment and refining charges) and income from a service fee for operator services rendered by KGHM INTERNATIONAL LTD. over the Sierra Gorda mine

Sales revenue	Unit	1st quarter of 2016	1st quarter of 2015	Change Q1 2015=100
Copper	PLN mn	420	479	87.7
Nickel	PLN mn	17	22	77.3
Precious metals	PLN mn	99	75	132.0
Other*	PLN mn	52	43	120.9
Total	PLN mn	588	619	95.0

* including revenues from sales of other metals, revenues from services provided by DMC, TC/RC (treatment and refining charges) and income from a service fee for operator services rendered by KGHM INTERNATIONAL LTD. over the Sierra Gorda mine

Sales volume	Unit	1st quarter of 2016	1st quarter of 2015	Change Q1 2015=100
Copper	kt	22.6	23.1	97.8
Nickel	kt	0.5	0.5	100.0
Precious metals (gold, platinum, palladium)	koz t	23.0	20.8	110.6

KGHM INTERNATIONAL LTD.'s copper sales decreased by 0.5 thousand tonnes (-2%) in the first quarter of 2016 as compared to the first three months of 2015. In contrast to production, the lower sales volume was due to the sales schedule of this metal. The deterioration in macroeconomic conditions had a significant impact on the amount of revenues from sales of copper; this was reflected in the lower selling price of copper, which amounted to 4 718 USD/t as compared to 5 556 USD/t in the first quarter of 2015 (-15%).

The increase in revenues from sales of precious metals by USD 5 million (+25%) was due to the higher level of production, and therefore to gold sales, by the Robinson mine (+ 2.2 koz t).

C1 cost

Sales revenue	Unit	1st quarter of 2016	1st quarter of 2015	Change Q1 2015=100
Cash cost of producing copper – C1*	USD/lb	1.48	2.21	67.0

* 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 first quarter of 2016, the unit cash cost of copper production for all operations in the segment KGHM INTERNATIONAL LTD. amounted to 1.48 USD/lb, or a decrease by 33% as compared to the first three months of 2015. This decrease was mainly due to the Robinson mine, in which this cost in the first three months of 2016 was at the level of 1.12 USD/lb (in comparison to 1.91 USD/lb in the comparable period in 2015). This reduction of the C1 cost is a result of decreasing costs by savings initiatives undertaken and achieving economies of scale related to the increase in copper and precious metals production. Revenues from sales of precious metals decrease the C1 cost.

Financial information

	Unit	1st quarter of 2016	1st quarter of 2015	Change Q1 2015=100
Sales revenue	USD mn	149	165	90.3
Cost of sales, selling costs and administrative expenses	USD mn	(146)	(209)	69.9
Profit/(loss) on sales (EBIT)	USD mn	3	(44)	x
Loss before taxation	USD mn	(71)	(63)	x
including share of losses of joint ventures accounted for using the equity method	USD mn	(56)	-	x
Tax	USD mn	0	14	x
Loss for the period	USD mn	(70)	(48)	x
Depreciation/amortisation recognised in profit or loss	USD mn	(32)	(75)	42.7
EBITDA*	USD mn	35	31	112.9
Adjusted EBITDA**	USD mn	35	31	112.9

* EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)

** Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment losses (- reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)

	Unit	1st quarter of 2016	1st quarter of 2015	Change Q1 2015=100
Sales revenue	PLN mn	588	619	95.0
Cost of sales, selling costs and administrative expenses	PLN mn	(577)	(783)	73.7
Profit/(loss) on sales (EBIT)	PLN mn	11	(164)	x
Loss before taxation	PLN mn	(279)	(235)	x
including share of losses of joint ventures accounted for using the equity method	PLN mn	(221)	-	x
Tax	PLN mn	2	55	3.6
Loss for the period	PLN mn	(277)	(180)	x
Depreciation/amortisation recognised in profit or loss	PLN mn	(128)	(282)	45.4
EBITDA*	PLN mn	139	118	117.8
Adjusted EBITDA**	PLN mn	139	118	117.8

* EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)

** Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment losses (- reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)

In the first quarter of 2016, the cost of sales, selling costs and administrative expenses decreased by USD 63 million, or by 30%, compared to the first three months of 2015. This cost reduction was a result of lower depreciation/amortisation (by USD 43 million, or 57%) which resulted from the impairment losses in the fourth quarter of 2015. Moreover, the costs in the first quarter of 2015 were increased by the higher depreciation/amortisation, which was a result of the settlement of capitalised costs associated with pre-stripping in the Robinson mine in an earlier period.

Cost of sales, selling costs and administrative expenses (excluding depreciation/amortisation) decreased by USD 20 million, or 15%, as a result of continued implementation of savings initiatives. The Robinson mine contributed the most to decreasing the cost of sales, selling costs and administrative expenses, as the mine's cost of sales (excluding depreciation/amortisation) was reduced by USD 15 million, or 25%, mainly due to lower remuneration costs as a result of employment reductions, lower consumption of spare parts (monitoring the consumption of components of the fleet of transport vehicles), reduction of costs of external services (leases, consulting services, repairs) and due to lower fuel prices.

Despite the unfavourable macroeconomic conditions, reflected in a decrease of achieved sales prices for copper by 15% and nickel by 33%, as a result of a decrease in the cost of sales, selling costs and administrative expenses, in the first quarter of 2016 the segment KGHM INTERNATIONAL LTD recorded a profit on sales of USD 3 million (as compared to a loss of USD 44 million in the corresponding period in 2015).

In the first quarter of 2016 the segment KGHM INTERNATIONAL LTD. recorded a loss for the period of USD 70 million (as compared to a loss of USD 48 million incurred in the corresponding period in 2015). Profit/loss for the period was negatively impacted by the share of losses of Sierra Gorda S.C.M in the amount of USD 56 million. Excluding the result of Sierra Gorda, the segment KGHM INTERNATIONAL LTD.'s loss for the period would amount to approximately USD 14 million – which would be a decrease by USD 34 million as compared to the first quarter of 2015.

Continued cost discipline, under unfavourable metals prices, led to a higher adjusted EBITDA, from USD 31 million in the first quarter of 2015 to USD 35 million in the first quarter of 2016 (+13%).

Capital expenditures*

	Unit	1st quarter of 2016	1st quarter of 2015	Change Q1 2015=100
Victoria Project	USD mn	16	12	133.3
Sierra Gorda Oxide Project	USD mn	5	3	166.7
Pre-stripping and other	USD mn	21	38	55.3
Ajax	USD mn	3	7	42.9
Total	USD mn	45	60	75.0
Financing for Sierra Gorda S.C.M.	USD mn	44	55	80.0

* cash expenditures

	Unit	1st quarter of 2016	1st quarter of 2015	Change Q1 2015=100
Victoria Project	PLN mn	63	45	140.0
Sierra Gorda Oxide Project	PLN mn	18	11	163.6
Pre-stripping and other	PLN mn	83	142	58.5
Ajax	PLN mn	12	28	42.9
Total	PLN mn	176	226	77.9
Financing for Sierra Gorda S.C.M.	PLN mn	173	206	84.0

*cash expenditures

Capital expenditures of the segment KGHM INTERNATIONAL LTD. in the first quarter of 2016 amounted to USD 45 million, which means a decrease by USD 15 million (-25%) as compared to the analogous prior year period.

Around 40% of the expenditures were incurred by the Robinson mine and were mainly due to pre-stripping work. This level decreased as compared to the first quarter of 2015 as a result of limiting the scope of work related to the pre-stripping of areas under current operation. Work is underway on optimising the mine's long-term development scenario.

Expenditures related to the Victoria project in the amount of USD 16 million concerned the construction of infrastructure, including a power substation and a drilling program. As a result of the presentation of expenditures based on cash flow, cash expenditures in the amount of USD 5 million were in respect of work carried out in 2015.

With respect to the Sierra Gorda Oxide project, work in the first quarter of 2016 concentrated on analysing the project's possible development concepts.

Capital expenditures related to the Ajax project amounted to USD 3 million and were incurred to prepare an application for an environmental permit as well as the review of basic technical documentation by independent consultants.

In the first quarter of 2016 the segment KGHM INTERNATIONAL LTD. continued to finance the Sierra Gorda mine in the amount of USD 44 million, which was related to continuation of the ramp-up phase to achieve target production capacity.

3.7.3 The segment Sierra Gorda S.C.M.

The segment Sierra Gorda 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 was presented on a 100% basis for the joint venture, unless otherwise indicated.

Production results

	Unit	1st quarter of 2016	1st quarter of 2015	Change Q1 2015=100
Copper*	kt	26	17	152.9
Molybdenum*	kt	4	x	x

* Payable metal in concentrate. Apart from copper and molybdenum the mine also produces gold and silver – metals of less significance (12% of revenues from sales)

In the first quarter of 2016 copper production amounted to 26 thousand tonnes, which means an increase of 53% as compared to the analogous period of 2015 and 8% as compared to the fourth quarter of 2015. It should be noted that in the first half of 2015 the mine was still in the construction stage.

Molybdenum production began on 14 April 2015, and since then production efficiency has improved, as demonstrated by the systematic increase in technological parameters. As a result, molybdenum production in the first quarter of 2016 amounted to 4 thousand tonnes, which is over 40% of the volume produced since the start of commercial production (i.e. from July 2015 to the end of the first quarter of 2016).

In the first quarter of 2016 the mine's processing capacity was above the average level of 100 thousand tonnes per day, and in many instances the projected level (110 thousand tonnes) was significantly exceeded. The company's next objective in the coming months is to further improve and optimise technological parameters, and therefore to ensure stable production levels in the long-term.

Revenues

	1st quarter of 2016	
	USD mn	PLN mn
Sales revenue	146	575
- copper*	114	449
- molybdenum	30	118

* excluding the smelter treatment and refining charges (TC/RC)

In the first quarter of 2016 sales revenue amounted to USD 146 million (PLN 575 million), while sales volumes were respectively: 23 thousand tonnes of copper and 2.6 thousand tonnes of molybdenum.

As compared to the previous, last quarter of 2015, revenues decreased by 8%, mainly due to further deterioration of copper prices and to lower sales volumes: copper by 13% and molybdenum by 24%. It should be noted that during the same period the production of both metals did not decrease, while the increase in inventories of finished products was due to delays in the shipment schedule.

Costs

	Unit	1st quarter of 2016
Cost of sales, selling costs and administrative expenses	USD mn	185
Cost of sales, selling costs and administrative expenses	PLN mn	730
C1 unit cost*	USD/lb	1.73

* 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.

Cost of sales, selling costs and administrative expenses incurred by Sierra Gorda S.C.M. amounted to USD 185 million (PLN 730 million), including cost of sales of USD 12 million (PLN 48 million), and administrative expenses of USD 21 million (PLN 82 million). The following expenses by nature were significant:

- cost of external services, mainly contracts related to providing services for the mine and ore processing facility (machinery and equipment repairs, providing social services for the mine's employees, transport, lease of auxiliary equipment),
- depreciation/amortisation, including amortisation of expenditures on accessing the deposit,
- cost of materials, energy and fuel, and
- remuneration costs.

The aforementioned costs categories represented in total nearly 80% of total costs prior to decrease by capitalised costs related to accessing the deposit for future mining as well as to the change in inventories.

During the quarter, cost of sales, selling costs and administrative expenses decreased from USD 257 million in the fourth quarter of 2015 (excluding impairment loss at the level of Sierra Gorda S.C.M.) to USD 185 million after the first three months of 2016. Apart from the lower sales volume, costs were also lower due to initiatives being implemented to improve production efficiency, with the ultimate goal of achieving positive operating cash flow by the company. This decrease mainly concerned:

- cost of external services – renegotiation of contracts,
- cost of spare parts – improvement in efficiency of the use of production assets (limiting the number of emergencies and unplanned maintenance shutdowns),
- cost of flotation reagents – lower consumption,
- cost of fuels – lower prices.

In the first quarter of 2016 the unit cash cost of copper production (C1) amounted to 1.73 USD/lb, which is a significant decrease as compared to the level reached in the last quarter of 2015 (2.56 USD/lb). This improvement is mainly due to the aforementioned decrease in operating costs.

Operating results of the segment Sierra Gorda S.C.M.

Apart from the results of the segment reflecting data respective to the interest of the Group in the joint venture (55%), the following table also presents the results of the company Sierra Gorda S.C.M. on a 100% basis. Sierra Gorda S.C.M. has prepared a statement of profit or loss since the start of commercial production, i.e. from 1 July 2015, and therefore data for the first quarter of 2015 is not presented.

	1st quarter of 2016			
	USD mn*	USD mn**	PLN mn*	PLN mn**
Sales revenue	80	146	316	575
Cost of sales, selling costs and administrative expenses	(102)	(185)	(401)	(730)
Loss on sales (EBIT)	(22)	(39)	(85)	(154)
Loss for the period	(57)	(103)	(224)	(407)
Depreciation/amortisation <i>(recognised in profit or loss)</i>	43	78	169	307
EBITDA***	21	39	84	153
Adjusted EBITDA ****	21	39	84	153

* segment results, reflecting the operating results of Sierra Gorda S.C.M. proportionally to the interest held (55%),

** results of Sierra Gorda S.C.M. (100%) based on the company's statutory financial statements

*** EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss)

**** Adjusted EBITDA = EBIT + depreciation/amortisation (recognised in profit or loss) + impairment losses (- reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)

In the first quarter of 2016, EBITDA amounted to USD 39 million, or PLN 153 million, while in previous quarters, since the start of commercial production, adjusted EBITDA was negative. The improvement in this ratio was mainly due to the aforementioned increase in production results and to the decrease in unit operating costs.

Capital expenditures

In the first quarter of 2016, expenditures on property, plant and equipment and intangible assets recognised in the statement of cash flows amounted to USD 113 million (PLN 447 million), of which 41% were expenditures incurred on pre-stripping to gain access to further areas of the deposit.

In the first quarter of 2016, the main source of financing investments were the short-term loan (USD 113 million) and increases in share capital in the amount of USD 80 million, of which USD 44 million was provided by the KGHM Polska Miedź S.A. Group. As at 31 March 2016, the carrying amount of the owner loan amounted to USD 3 559 million, while the increase of USD 69 million as compared to the level at the end of 2015 was mainly due to accrued interest (in the first quarter there was no owner loan financing).

4 – Selected additional explanatory notes

Note 4.1 Information on property, plant and equipment and intangible assets

Purchase of property, plant and equipment and intangible assets

	1st quarter of 2016	1st quarter of 2015
Purchase of property, plant and equipment	646	586
Purchase of intangible assets	76	100

Payables due to the purchase of property, plant and equipment and intangible assets

	1st quarter of 2016	2015
Payables due to the purchase of property, plant and equipment and intangible assets	361	693

Capital commitments not recognised in the consolidated statement of financial position

	1st quarter of 2016	2015
Purchase of property, plant and equipment	2 630	2 111
Purchase of intangible assets	96	29
Total capital commitments	2 726	2 140

Note 4.2 Expenses by nature

	1st quarter of 2016	1st quarter of 2015
Depreciation of property, plant and equipment and amortisation of intangible assets	404	564
Employee benefits expenses	1 128	1 179
Materials and energy	1 780	1 755
External services	479	418
Minerals extraction tax	293	393
Other taxes and charges	128	140
Other costs	43	50
Total expenses by nature	4 255	4 499
Cost of merchandise and materials sold (+)	90	117
Change in inventories of finished goods and work in progress (+/-)	(573)	(253)
Cost of manufacturing products for internal use (-)	(350)	(355)
Total cost of sales, selling costs and administrative expenses, including:	3 422	4 008
Cost of sales	3 138	3 709
Selling costs	98	93
Administrative expenses	186	206

Note 4.3 Other operating income/(costs)

	1st quarter of 2016	1st quarter of 2015
Gains on the measurement and realisation of derivatives	145	61
Foreign exchange gains on liabilities other than borrowings	-	134
Other	55	53
Total other income	200	248
Losses on the measurement and realisation of derivatives	(93)	(294)
Impairment loss on available-for-sale assets	(57)	-
Foreign exchange losses on liabilities other than borrowings	(298)	-
Other	(61)	(46)
Total other costs	(509)	(340)
Other operating income/(costs)	(309)	(92)

Note 4.4 Finance income/(costs)

	1st quarter of 2016	1st quarter of 2015
Interest on borrowings	(15)	(49)
Exchange differences on borrowings	276	(59)
Other	(31)	(28)
Total finance income/(costs)	230	(136)

Note 4.5 Commodity, currency and interest rate risk management

In management of commodity, currency and interest rate risk, the scale and profile of activities of the Parent Entity and of mining companies of the KGHM INTERNATIONAL LTD. Group 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 whole KGHM Polska Miedź S.A. Group's global exposure.

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

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

	Impact of derivatives and hedging transactions	
	1st quarter of 2016	1st quarter of 2015
Statement of profit or loss		
Sales revenue	(4)	118
Other operating and finance income/costs:	44	(233)
On realisation of derivatives	1	-
On measurement of derivatives	43	(233)
Impact of derivatives on financial result	40	(115)
Statement of comprehensive income in the part concerning other comprehensive income		
Impact of hedging transactions	58	(133)
Impact of measurement of hedging transactions (effective portion)	54	(15)
Reclassification to sales revenues due to realisation of a hedged item	4	(118)
TOTAL COMPREHENSIVE INCOME	98	(248)

The management of market risk in the Parent Entity, and especially the management of the risk of changes in metals prices, exchange rates and interest rates, should be considered through the analysis of the hedging position together with the position being hedged (hedged position). A hedging position is understood as the Parent Entity's position in derivatives. A hedged position is comprised of highly probable, future cash flows (revenues from the physical sale of products).

The notional amount of copper price hedging strategies settled in the first quarter of 2016 represented approx. 3% of the total sales of this metal realised by the Parent Entity. In the case of currency transactions, approx. 48% of total revenues from metals sales realised by the Parent Entity during the period were hedged.

In the first quarter of 2016 the Parent Entity implemented copper price hedging transactions with a total notional amount of 35 thousand tonnes and a hedging horizon falling from March to September 2016. Put options were purchased (Asian options). In the reporting period, there were no hedging transactions implemented for the silver market.

However, on the currency market in the first quarter of 2016, the Parent Entity implemented transactions hedging against a change in the USD/PLN exchange rate for the total notional amount of USD 360 million. Put options were purchased (European options) with maturity dates falling from January to December 2016.

With respect to managing currency risk, which arises from borrowing, the Parent Entity uses natural hedging by borrowing in currencies in which it has revenues.

As at 31 March 2016, following their translation to PLN, the bank loans and the investment loan which were drawn in USD amounted to PLN 7 031 million.

As a result, as at 31 March 2016, the Parent Entity held a hedging position in derivatives for 31.5 thousand tonnes of copper (for the period from April to September 2016) and for the planned revenues from sales of metals in the amount of USD 2 250 million, including: USD 990 million for the period from April to December 2016, USD 1 020 million for 2017 and USD 240 million for 2018. The Parent Entity held also open derivatives' transactions on the interest rate market for the second, third and fourth quarters of 2016 (average quarterly notional amount of USD 600 million), for 2017 (average quarterly notional amount of USD 700 million) and for 2018 (average quarterly notional amount of USD 900 million). In addition, the first instalment of the loan granted by the European Investment Bank (in the amount of USD 300 million) hedges revenues from sales against the risk of changes in foreign exchange rates for the period from October 2017 to October 2026.

Some of the Group's Polish companies managed the currency risk related to their core business by opening transactions in derivatives on the currency market. The table of open transactions as at 31 March 2016 is not presented, due to its low significance for the Group.

The condensed tables of open transactions in derivatives owned by the Parent Entity on the copper, currency and interest rate markets are presented below:

COPPER MARKET

	Instrument	Notional [tonnes]	Option strike price Purchased put option [USD/t]	Average weighted premium [USD/t]	Effective hedge price [USD/t]	Participation limited to [USD/t]
2nd quarter	Purchased put option	10 500	4 700	-199	4 501	
	Purchased put option	6 000	4 900	-200	4 700	
	Purchased put option	4 500	5 000	-200	4 800	
	Total	21 000				
3rd quarter	Purchased put option	6 000	4 900	-200	4 700	
	Purchased put option	4 500	5 000	-200	4 800	
	Total	10 500				
TOTAL IV-IX 2016		31 500				

CURRENCY MARKET

	Instrument	Notional [million USD]	Option strike price		Average weighted premium [PLN for USD 1]	Effective hedge price [USD/PLN]	Participation limited to [USD/PLN]
			Sold call option [USD/PLN]	Purchased put option [USD/PLN]			
2nd quarter	Collar	90	4.0000	3.2000	-0.0529	3.1471	4.0000
	Collar	90	4.2000	3.3000	-0.0462	3.2538	4.2000
	Collar	60	4.4000	3.5500	-0.0440	3.5060	4.4000
	Purchased call option	90		3.8000	-0.0401	3.7599	
	Total	330					
2nd half	Collar	180	4.0000	3.2000	-0.0553	3.1447	4.0000
	Collar	180	4.2000	3.3000	-0.0473	3.2527	4.2000
	Collar	120	4.4000	3.5500	-0.0468	3.5032	4.4000
	Purchased call option	180		3.8000	-0.0656	3.7344	
	Total	660					
TOTAL IV-XII 2016		990					
1st half	Collar	270	4.0000	3.3500	-0.0523	3.2977	4.0000
	Collar	180	4.4000	3.5500	-0.0477	3.5023	4.4000
	Collar	60	4.5000	3.7500	-0.0300	3.7200	4.5000
	Total	510					
2nd half	Collar	270	4.0000	3.3500	-0.0524	3.2976	4.0000
	Collar	180	4.4000	3.5500	-0.0487	3.5013	4.4000
	Collar	60	4.5000	3.7500	-0.0330	3.7170	4.5000
	Total	510					
TOTAL 2017		1 020					
1st half	Collar	120	4.5000	3.7500	-0.0375	3.7125	4.5000
	Total	120					
2nd half	Collar	120	4.5000	3.7500	-0.0342	3.7158	4.5000
TOTAL 2018		240					

INTEREST RATE MARKET

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

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

As at 31 March 2016, the net fair value of open positions in derivatives of the Group (hedging, trade and embedded transactions) amounted to PLN 25 million.

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

Type of derivative	I quarter of 2016				Net total
	Financial assets		Financial liabilities		
	Current	Non-current	Current	Non-current	
Derivatives – Commodity contracts - Copper					
Options					
Purchased put options	24	-	-	-	24
TOTAL	24	-	-	-	24
Derivatives – Currency contracts					
Options USD					
Purchased put options	33	-	-	-	33
Collars	23	129	(25)	(88)	39
TOTAL	56	129	(25)	(88)	72
TOTAL HEDGING INSTRUMENTS	80	129	(25)	(88)	96

Hedging derivatives	Notional	Avg. weighted exchange rate [USD/PLN]	Maturity/ settlement period		Period of profit/loss impact	
			From	Till	From	Till
Copper – purchased put options	35 000	4 846	Mar 16	Sep 16	Apr 16	Oct 16
Currency – purchased put options	270	3.8000	Apr 16	Dec 16	Apr 16	Dec 16
Currency - collars	1 980	3.4500-4.2273	Apr 16	Dec 18	Apr 16	Dec 18

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 the end of the reporting period):

Rating level		1st quarter of 2016	2015
Medium-high	from A+ to A- according to S&P and Fitch, and from A1 to A3 according to Moody's	94%	97%
Medium	from BBB+ to BBB- according to S&P and Fitch, and from Baa1 to Baa3 according to Moody's	6%	3%

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

Taking into consideration the fair value of open derivatives' transactions entered into by the Group and the fair value of unsettled derivatives, as at 31 March 2016 the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 30% (as at 31 December 2015: 58%).

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

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.

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.

Note 4.6 Liquidity risk and capital management

Liquidity and capital 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 an entity 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.

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 management service, locally in PLN, USD and EUR and internationally in USD.

Capital management in the Group is aimed at securing funds for business development and maintaining the appropriate level of liquidity.

In order to maintain financial liquidity and the creditworthiness to acquire external financing at an optimum cost, the Group assumes that the equity ratio shall be maintained 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.

Ratio	Calculation	1st quarter of 2016	2015
Net Debt/EBITDA *	Relation of net debt to EBITDA	1.5	1.4
Equity ratio	Relation of equity less intangible assets to total assets	0.5	0.5

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

Net debt

	1st quarter of 2016	2015
Total debt - Borrowings and other financing sources	7 418	7 015
Free cash and cash equivalents	589	461
Net debt	6 829	6 554

Open credit lines and loans and liabilities of the Group drawn under these borrowings

Type of bank and other loans	1st quarter of 2016			2015
	Available currency	Amount available, in PLN	Amount drawn, in PLN	Amount drawn, in PLN
Bilateral bank loans	USD, EUR, PLN	3 889	2 895	2 713
Unsecured revolving syndicated credit facility	USD	9 397	3 390	3 126
Investment loan	USD, EUR, PLN	2 000	1 133	1 176
Total		15 286	7 418	7 015

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 companies of the Group do not have to use their cash in order to secure their liabilities towards other entities.

As at 31 March 2016, the Group held contingent liabilities due to guarantees and letters of credit granted in the total amount of PLN 1 511 million and due to promissory notes liabilities in the amount of PLN 225 million.

The most significant items are contingent liabilities of the Parent Entity aimed at:

Securing the performance of agreements concluded by Sierra Gorda S.C.M. in the amount of PLN 1 057 million:

- a letter of credit of PLN 517 million granted as security for the proper performance of a long-term contract for the supply of electricity;
- PLN 302 million as corporate guarantees set as security on the payment of concluded lease agreements;
- PLN 238 million as a corporate guarantee securing the repayment of a short-term working capital facility granted to Sierra Gorda S.C.M. by Banco de Chile;

Securing by the Group restoration costs of the Robinson mine, the Podolsky mine and the Victoria project in the amount of PLN 314 million and the guarantees of proper performance of agreements entered into by the KGHM INTERNATIONAL LTD. Group in the amount of PLN 36 million.

Securing the proper execution of future environmental obligations of the Parent Entity related to the obligation to restore terrain around the Żelazny Most tailings storage facility following the conclusion of its operations in the total amount of PLN 320 million:

- bank guarantee of PLN 96 million and an own promissory note of PLN 224 million;

Based on analysis and forecasts, at the end of the reporting period the Group assessed the probability of paying the amounts resulting from contingent liabilities as moderate.

Note 4.7 Related party transactions**Operating income from related parties**

	1st quarter of 2016	1st quarter of 2015
Revenues from sales of products, merchandise and materials	25	15
Interest income on a loan granted to a joint venture	153	82
Revenues from other transactions	15	14
	193	111

Purchases from related parties	1st quarter of 2016	1st quarter of 2015
Purchase of services, merchandise and materials	64	11
Other purchase transactions	1	1
	65	12

Trade and other receivables from related parties	1st quarter of 2016	2015
From the joint venture Sierra Gorda S.C.M. (loans)	7 377	7 504
From the joint venture Sierra Gorda S.C.M. (other)	333	312
From other related parties	17	2
	7 727	7 818

Trade and other payables towards related parties	1st quarter of 2016	2015
Towards joint ventures	48	75
Towards other related parties	9	1
	57	76

In the current quarter, no individual transactions were identified between the Group and the Polish Government and entities controlled or jointly controlled by the Polish Government, or over which the government has significant influence, which would be considered as significant in terms of unusual scope and amount.

The remaining transactions, which were collectively significant, between the 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 materials and services to meet the needs of current operating activities (fuel, energy, transport services). In the period from 1 January 2016 to 31 March 2016, the turnover from these transactions amounted to PLN 190 million (from 1 January 2015 to 31 March 2015: PLN 172 million), and, as at 31 March 2016, the unsettled balance of liabilities from these transactions amounted to PLN 211 million (as at 31 December 2015: PLN 241 million),
- sales to Polish State Treasury Companies. In the period from 1 January 2016 to 31 March 2016, the turnover from these sales amounted to PLN 18 million (from 1 January 2015 to 31 March 2015: PLN 27 million), and as at 31 March 2016, the unsettled balance of receivables from these transactions amounted to PLN 31 million (as at 31 December 2015: PLN 8 million).

Remuneration of the Supervisory Board of the Parent Entity (in PLN thousands)	1st quarter of 2016	1st quarter of 2015
Remuneration due to service in the SB, salaries and other current employee benefits	469	471

Remuneration of the Management Board of the Parent Entity (in PLN thousands)	1st quarter of 2016	1st quarter of 2015
Salaries and other current employee benefits, of which:	2 670	1 826
Members of the Management Board serving in the function as at 31 March 2016	810	-
other Members of the Management Board*	1 860	1 826
Benefits due to termination of employment relationship	-	248
Total	2 670	2 074

* includes remuneration during the period of employment termination with respect to the amount for the first quarter of 2016

Remuneration of other key managers (in PLN thousands)	1st quarter of 2016	1st quarter of 2015
Salaries and other current employee benefits	1 054	1 716

Note 4.8 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.

	1st quarter of 2016	Increase/(decrease) since the end of the last financial year
Contingent assets		
Guarantees received	315	5
Promissory notes receivables	157	(11)
Other	189	32
Total contingent assets	661	26
Contingent liabilities		
Guarantees, including:	1 511	230
a letter of credit granted to secure the proper performance of a long-term contract for the supply of electricity for the joint venture Sierra Gorda S.C.M.	517	(19)
guarantees granted to additionally secure the proper performance of lease agreements entered into by the joint venture Sierra Gorda S.C.M.	302	(17)
a corporate guarantee to secure repayment of a loan drawn by the joint venture Sierra Gorda S.C.M.	238	238
letters of credit granted to secure the proper performance of future environmental obligations by KGHM INTERNATIONAL LTD. to restore the area following the conclusion of operations of the Robinson mine, Podolsky mine and the Victoria project and obligations related to the proper performance of agreements entered into	350	(3)
a guarantee granted to secure 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	96	32
A promissory note liability 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	224	(32)
Liabilities due to implementation of projects and inventions	91	-
Other	174	22
Other contingent liabilities	2 000	220
Other liabilities not recognised in the statement of financial position		
Liabilities towards local government entities due to expansion of the tailings storage facility	119	1
Liabilities due to operating leases	56	2
Total other liabilities not recognised in the statement of financial position	175	3

5 – Additional information to the consolidated quarterly report

Note 5.1 Effects of changes in the economic structure of the KGHM Polska Miedź S.A. Group

There were no significant changes in the Group's structure in the first quarter of 2016.

Note 5.2 Seasonal or cyclical activities

The Group is not affected by seasonal or cyclical activities.

Note 5.3 Information on the issuance, redemption and repayment of debt and equity securities

There was no issuance, redemption or repayment of debt and equity securities in the Group in the current quarter.

Note 5.4 Information related to paid (declared) dividend, total and per share

As at the date of preparation of these consolidated financial statements, the Management Board of the Parent Entity has not made decision regarding the recommendation of payment of dividend for 2015.

Note 5.5 Other information to the consolidated quarterly report

Position of the Management Board with respect to the possibility of achieving previously-published forecasts of results for 2016, in the light of results presented in this consolidated quarterly report relative to forecasted results

KGHM Polska Miedź S.A. has not published a forecast of financial results for 2016.

Shareholders holding at least 5% of the total number of votes at the General Meeting of KGHM Polska Miedź S.A. as at the date of publication of this consolidated quarterly report, changes in the ownership structure of significant blocks of shares of KGHM Polska Miedź S.A. in the period since publication of the separate and consolidated annual reports for 2015

As at the date of publication of the separate and consolidated annual reports for 2015, i.e. at 17 March 2016, based on the knowledge of the Parent Entity's Management Board, the only shareholder owning at least 5% of the total number of votes at the General Meeting of KGHM Polska Miedź S.A. was the State Treasury – which owned 63 589 900 shares of KGHM Polska Miedź S.A., representing 31.79% of the share capital and the same number of votes at the General Meeting of KGHM Polska Miedź S.A. (based on a notification dated 12 January 2010).

Following publication of the separate and consolidated annual reports for 2015, KGHM Polska Miedź S.A. was not notified by any shareholder of any change in the ownership structure of a significant block of shares.

As at the date of preparation of this report, based on information held by KGHM Polska Miedź S.A., the State Treasury remains the only shareholder owning at least 5% of the total number of votes at the General Meeting of KGHM Polska Miedź S.A., and holds 63 589 900 shares of KGHM Polska Miedź S.A. representing 31.79% of the share capital and the same number of votes at the General Meeting of KGHM Polska Miedź S.A.

Ownership of KGHM Polska Miedź S.A.'s shares or of rights to them by members of the management and supervisory board of KGHM Polska Miedź S.A., as at the date of publication of the consolidated quarterly report. Changes in ownership during the period following publication of the separate and consolidated annual reports for 2015

Members of the Parent Entity's Management Board

Based on the information held by KGHM Polska Miedź S.A., the number of KGHM Polska Miedź S.A.'s shares or rights to them owned by the Members of the Management Board as at the date of preparation of this report was as follows:

function	name	number of shares as at the date of preparation of the report for the first quarter of 2016
President of the Management Board	Krzysztof Skóra	5

Based on information held by KGHM Polska Miedź S.A., as at the date of preparation of this report other Members of the Management Board of the Parent Entity did not hold shares of KGHM Polska Miedź S.A. or rights to them.

As far as the Parent Entity is aware, the number of shares of KGHM Polska Miedź S.A. or rights to them, owned by Members of the Management Board of KGHM Polska Miedź S.A., did not change since the date of publication of the separate and consolidated annual reports for 2015.

Members of the Parent Entity's Supervisory Board

Based on the information held by KGHM Polska Miedź S.A., the number of KGHM Polska Miedź S.A.'s shares or rights to them owned by the Members of the Supervisory Board as at the date of preparation of this report was as follows:

function	name	number of shares as at the date of preparation of the report for the first quarter of 2016
Member of the Supervisory Board	Józef Czyczerski	10
Member of the Supervisory Board	Leszek Hajdacki	1

Based on information held by KGHM Polska Miedź S.A., as at the date of preparation of this report other Members of the Supervisory Board of the Parent Entity did not hold shares of KGHM Polska Miedź S.A. or rights to them.

As far as the Parent Entity is aware, the above ownership structure did not change since the date of publication of the separate and consolidated annual reports for 2015.

List of proceedings before courts, arbitration authorities or public administration authorities

As at 31 March 2016, the total value of on-going proceedings before courts, arbitration authorities or public administration authorities respecting liabilities and debt of KGHM Polska Miedź S.A. and its subsidiaries did not represent at least 10% of the equity value of KGHM Polska Miedź S.A.

Information on single or multiple transactions entered into with related entities by KGHM Polska Miedź S.A. or a subsidiary thereof, if separately or jointly they are significant and were entered into under other than arm's length conditions

During the period from 1 January 2016 to 31 March 2016, neither KGHM Polska Miedź S.A. nor its subsidiaries entered into significant transactions with related entities under other than arm's length conditions.

Information on guarantees or collateral on bank and other loans granted by KGHM Polska Miedź S.A. or its subsidiaries – jointly to a single entity or subsidiary thereof, if the total amount of existing guarantees or collaterals amounts to at least 10% of the equity value of KGHM Polska Miedź S.A.

During the period from 1 January 2016 to 31 March 2016, neither KGHM Polska Miedź S.A. nor its subsidiaries granted guarantees or collateral on bank and other loans to any single entity or subsidiary thereof with a total value representing at least 10% of the equity value of KGHM Polska Miedź S.A.

Other information which in the opinion of KGHM Polska Miedź S.A. is significant for the assessment of its employment, assets, financial position and financial result and any changes thereto, and information which is significant for assessing the ability to pay its liabilities

In the first quarter of 2016 there were no other significant events, apart from those mentioned in the commentaries to the report, which could have a significant impact on the assessment of assets, financial position and financial result of the Group and any changes thereto, or any events significant for the assessment of the employment situation and the ability to pay its liabilities.

Factors which will impact the results of the Group, over at least the following quarter

The main impact on the KGHM Polska Miedź S.A. Group's results is from the Parent Entity and, to a lesser extent, the KGHM INTERNATIONAL LTD. Group.

As a result, through the Parent Entity, the most significant factors influencing the Group's results over at least the following quarter are:

- copper, silver and molybdenum market prices;
- the USD/PLN exchange rate;
- electrolytic copper production costs, in particular due to the minerals extraction tax and the value of purchased copper-bearing materials used; and
- effects of the implemented hedging policy.

The most significant factors influencing the results of the KGHM Polska Miedź S.A. Group, through the KGHM INTERNATIONAL LTD. Group, particularly in the following quarter, are:

- metal prices;
- the CLP/USD, CAD/USD and USD/PLN exchange rates; and
- mined copper production costs.

Note 5.6 Subsequent events after the reporting period

An instalment drawn under revolving syndicate credit facility

On 22 April 2016, the Parent Entity drawn an instalment under revolving syndicate credit facility in the amount of USD 100 million with maturity date of 23 May 2016.

Extension of credit maturity

On 22 April 2016, the Parent Entity extended the maturity date for repayment of credit resulting from agreement with BNP Paribas S.A. Branch in Poland in the amount of PLN 400 million to the date of 31 December 2016.

Corporate guarantee issued

On 26 April 2016, the Parent Entity issued a corporate guarantee on behalf of Banco del Estado de Chile up to the amount of USD 41 million. The guarantee secures the repayment of a short-term working capital facility granted by Banco del Estado de Chile to Sierra Gorda S.C.M.

Signing of an Annex to the loan with the European Investment Bank

On 12 May 2016, the Parent Entity signed an annex to the agreement for an unsecured loan in the amount of PLN 2 000 million, which was signed on 1 August 2014 with the European Investment Bank.

The annex extends the loan's period availability by 12 months. After signing the annex, the loan's period of availability is 34 months long, counting from 1 August 2014, which is the date on which the loan agreement was signed.

Part 2 – Quarterly financial information of KGHM Polska Miedź S.A.

INTERIM STATEMENT OF PROFIT OR LOSS

	1st quarter of 2016	1st quarter of 2015
Sales revenue	2 979	3 767
Cost of sales	(2 355)	(2 732)
Gross profit	624	1 035
Selling costs and administrative expenses	(165)	(166)
Profit on sales	459	869
Other operating income/(costs)	(162)	(79)
Finance income/(costs)	235	(85)
Profit before income tax	532	705
Income tax expense	(162)	(208)
PROFIT FOR THE PERIOD	370	497
Weighted average number of ordinary shares (million)	200	200
Basic/diluted earnings per share (in PLN)	1.85	2.49

INTERIM STATEMENT OF COMPREHENSIVE INCOME

	1st quarter of 2016	1st quarter of 2015
Profit for the period	370	497
Measurement of hedging instruments net of the tax effect	47	(108)
Measurement of available-for-sale financial assets net of the tax effect	65	(94)
Other comprehensive income, which will be reclassified to profit or loss	112	(202)
Actuarial losses net of the tax effect	(40)	(92)
Other comprehensive income, which will not be reclassified to profit or loss	(40)	(92)
Total other comprehensive net income	72	(294)
TOTAL COMPREHENSIVE INCOME	442	203

INTERIM STATEMENT OF CASH FLOWS

	1st quarter of 2016	1st quarter of 2015
Cash flow from operating activities		
Profit before income tax	532	705
Depreciation/amortisation recognised in profit or loss	214	226
Interest and commissions on borrowings	23	14
Impairment loss on non-current assets	57	-
Other adjustments to profit before income tax	(440)	219
Exclusions of incomes and costs, total	(146)	459
Income tax paid	(75)	(225)
Changes in working capital	127	218
Net cash generated from operating activities	438	1 157
Cash flow from investing activities		
Expenditures on mining and metallurgical assets	(812)	(648)
Expenditures on other property, plant and equipment and intangible assets	(8)	(11)
Loans granted	(198)	(1 155)
Other expenses	(39)	(74)
Total expenses	(1 057)	(1 888)
Proceeds	4	4
Net cash used in investing activities	(1 053)	(1 884)
Cash flow from financing activities		
Proceeds from borrowings	1 044	1 137
Repayments of borrowings	(325)	-
Interest paid	(22)	(13)
Total expenses	(347)	(13)
Net cash generated from financing activities	697	1 124
TOTAL NET CASH FLOW	82	397
Cash and cash equivalents at beginning of the period	158	85
Exchange gains/(losses) on cash and cash equivalents	21	(16)
Cash and cash equivalents at end of the period	261	466

INTERIM STATEMENT OF FINANCIAL POSITION

	1st quarter of 2016	2015
ASSETS		
Mining and metallurgical property, plant and equipment	13 219	12 845
Mining and metallurgical intangible assets	563	541
Mining and metallurgical property, plant and equipment and intangible assets	13 782	13 386
Other property, plant and equipment	228	233
Other intangible assets	22	24
Other property, plant and equipment and intangible assets	250	257
Investments in subsidiaries	6 859	6 858
Loans granted	6 766	6 750
Derivatives	132	117
Other financial instruments measured at fair value	602	579
Other financial assets	317	291
Financial instruments, total	7 817	7 737
Other non-financial assets	19	27
Deferred tax assets	145	141
Non-current assets	28 872	28 406
Inventories	3 156	2 601
Trade receivables	511	1 000
Tax assets	264	412
Derivatives	80	6
Other assets	680	537
Cash and cash equivalents	261	158
Current assets	4 952	4 714
	33 824	33 120
EQUITY AND LIABILITIES		
Share capital	2 000	2 000
Other reserves from measurement of financial instruments	9	(103)
Accumulated other comprehensive income	(382)	(342)
Retained earnings	19 094	18 724
Equity	20 721	20 279
Borrowings	4 268	4 724
Derivatives	88	158
Employee benefits liabilities	1 840	1 803
Provisions for decommissioning costs of mines and other facilities	951	873
Other liabilities	192	198
Non-current liabilities	7 339	7 756
Borrowings	2 962	2 098
Derivatives	25	48
Trade payables	1 192	1 318
Employee benefits liabilities	640	577
Tax liabilities	341	450
Other liabilities	604	594
Current liabilities	5 764	5 085
Non-current and current liabilities	13 103	12 841
	33 824	33 120

INTERIM STATEMENT OF CHANGES IN EQUITY

	Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings	Total equity
As at 1 January 2015	2 000	366	(401)	22 312	24 277
Profit for the period	-	-	-	497	497
Other comprehensive income	-	(202)	(92)	-	(294)
Total comprehensive income	-	(202)	(92)	497	203
As at 31 March 2015	2 000	164	(493)	22 809	24 480
As at 1 January 2016	2 000	(103)	(342)	18 724	20 279
Profit for the period	-	-	-	370	370
Other comprehensive income	-	112	(40)	-	72
Total comprehensive income	-	112	(40)	370	442
As at 31 March 2016	2 000	9	(382)	19 094	20 721

Lubin, 13 May 2016